

**MULTILATERAL INVESTMENT FUND  
PROJECT ABSTRACT**

**I. BASIC PROJECT DATA**

**Project title:** Expanding opportunities for corporate social responsibility among small and medium enterprises in Brazil

**Project number:** BR-M1023

**Country:** Brazil

**Beneficiaries:** Private sector companies, especially SMEs

**Project team:** Daniel Shepherd (MIF), Team Leader; Nybia Laguarda (RE1/SC1); Antonio Gaspar (MIF); Gerardo Martinez (COF/CBR)

**Executing Agency:** Instituto Ethos de Empresas e Responsabilidade Social (Instituto Ethos)

**Financing plan:** MIF: Facility III-A: US\$ 1.2 million  
Counterpart: US\$ 1.2 million  
Total: US\$ 2.4 million

**Tentative dates:** CRG – April 2005  
Donors Committee – June 2005

**MIF Classification:** CSR

**II. BACKGROUND AND PROBLEM STATEMENT**

**A. Corporate social responsibility (CSR)**

- 2.1 Corporate social responsibility (CSR) is characterized as business practices that are based on ethical values and principles of transparency, which include an approach of continuous improvement for the relationship between the company and its stakeholders such as customers, suppliers, partners, clients, environment, communities, government and society as a whole. It is a business strategy aimed at increasing profitability, competitiveness and sustainability, serving as a base for the new economic model of sustainable development. The concept of CSR may encompass workers' rights, human rights, anti-corruption measures, environmental concerns, and promotion of community health and education, sometimes through partnerships with civil society organizations (CSO). With the latter, companies are increasingly becoming interested in partnering with CSOs to utilize their expertise related to local economic development, training and other areas of common interest. In turn, some companies are helping CSOs become more self-sustainable by training them on how to do fundraising, preparing and presenting projects, using communications tools and other market instruments. Often times companies are promoting volunteerism among their employees to help CSOs in these areas. Thus, these CSO-company partnerships are often times seen as win-win opportunities from both sides.

**B. CSR in Brazil**

- 2.2 In 1998, a group of prominent Brazilian businesspeople came together to form Instituto Ethos de Empresas e Responsabilidade Social, as a non-profit organization intended to assist companies with understanding and incorporating the concept of social responsibility in the everyday operations of the company. Ethos was a pioneer in this area, not only in Brazil, but also in Latin America in general. Starting with 11 founding large company members, Ethos now has over 800 company members, representing more than 30% of the Brazilian GDP and approximately 1.3 million workers. Moreover, Ethos membership also includes eight industry federations, 33 associations and NGOs, seven media entities and 45 institutions of higher education.
- 2.3 The growth of Ethos reflects to a large extent the expansion of CSR in Brazil, which has intensified and become more apparent over the last five years. Consumer consciousness regarding CSR has also increased dramatically, especially through the efforts of the Instituto Akatu, which is a separate

entity created by Ethos to educate consumers and promote socially responsible purchasing of products and services. According to the results of an annual survey supported by Akatu through an independent market research institute, the consumer consciousness and support of CSR in the country has increased about 30% over the last four years, while almost 50% of the Brazilians interviewed expressed their increasing interest regarding socially responsible business practices.

- 2.4 Other related initiatives in Brazil include the development of general CSR indicators for SMEs developed by the Ethos partnership with SEBRAE (Brazilian SME Development Agency), the social accountability reporting model from Ibase (Brazilian Institute for Socio-Economic Analysis), various CSR surveys and publications, and CSR events organized by other entities and the “Novo Mercado” initiative through BOVESPA (Sao Paulo Stock Exchange). As mentioned, Ethos has developed general CSR indicators for companies, including specific ones for SMEs, but the growth and expansion of CSR in Brazil needs specific sectorial indicators or benchmarks that can assist companies with measuring their progress and areas of weakness related to CSR.
- 2.5 The “Novo Mercado” initiative builds on the idea that corporate governance is a crucial element for leveraging business practices toward compliance with minimum labor, environmental and accounting standards. It was established in December 2000 through the development of specific criteria for listing of companies on the Brazilian stock exchange designed to improve corporate governance practices (among companies). Companies that voluntarily comply with Novo Mercado requirements of corporate governance practices and disclosure requisites (which go beyond those requirements already established by Brazilian legislation) are listed in the Novo Mercado stock exchange segment. These companies benefit from getting market exposure as responsible and solid companies. Moreover, the government is supporting the initiative by allowing pension funds to invest a higher percentage of assets in domestic equities, as long as they are listed in the Novo Mercado.
- 2.6 In the case of the tourist sector, for example, Brazil is among the countries leading the effort to work with hotels and tourist operators to reduce rampant problems and abuses stemming from sex-based tourism. Hotels and tour operators that adhere to responsible code of ethics against such activities are expected to be attractive to concerned clients, especially those tourists on family vacation.

### **C. Problem**

- 2.7 With the increasing demand and competition in the market, companies are increasing their interest in being perceived by consumers as socially responsible. This interest is beginning to extend to their SME suppliers and clients in their value chains. Moreover, increasing consumer consciousness regarding socially responsible practices will undoubtedly raise the bar of expected business practices, including those of SMEs. Despite these advances, small and medium enterprises in Brazil that are not being incorporated within these CSR efforts may not remain competitive. The current context for CSR in Brazil reveals an enormous gap between the CSR requirements from large companies and the actual capacity of local SMEs suppliers to achieve these requirements. This gap will exist as long as these CSR requirements are imposed on SMEs, without specific efforts to help SMEs incorporate the required measures. At risk is that SMEs face the potential of being excluded from market access and opportunities. This problem is exacerbated by the absence of suitable CSR instruments for specific sectors (e.g. indicators for self-evaluation and practical tool kits for CSR implementation) and lack of support to SMEs interested in implementing CSR measures.

### **D. Proposed program**

- 2.8 The proposed program aims to support SMEs respond to the current market requirements for CSR in Brazil. The design of this program includes the establishment and coordination of strategic partnerships with large corporations interested in incorporating CSR practices in their supply chains. Through partnerships with large domestic and multinational companies operating in the country, the program will structure specific interventions to effectively reach and support their SMEs suppliers to adopt pertinent CSR measures.

- 2.9 The project also aims to design sectorial tools and specific methodologies to help SMEs with implementing CSR measures. The key sectors being considered are: mining, paper and pulp, civil construction, transport, petroleum and gas, timber, sugar and alcohol, chemicals, textile and electricity. Similarly, the project will disseminate best practices and “models of excellence”, especially at the SME level, which would provide a tremendous boost to CSR efforts in the country.
- 2.10 This program is part of the MIF Cluster on CSR and it aims to complement the regional “Promoting Corporate Social Responsibility” project, which includes Brazil as participating country and Ethos as co-executor. This regional project is mainly focused on generating CSR awareness and training local service providers, both important efforts that will contribute to the implementation of the proposed program.

### **III. PROGRAM OBJECTIVE AND DESCRIPTION**

#### **A. Objectives**

- 3.1 The general objective of the program is to increase the competitiveness and market opportunities of Brazilian companies operating under principles of corporate social responsibility (CSR), especially small and medium enterprises. The purpose of the program is to support the implementation of CSR measures among Brazilian SMEs that are part of the value chain of large corporations.
- 3.2 To achieve these objectives, the following three components are expected to be included: (i) Development of methodologies and materials; (ii) Implement CSR measures among SMEs in value chains; and (iii) Dissemination of the results.

#### **B. Components**

##### **1. Component I: Development of methodologies and materials**

- 3.3 This first component is intended to develop the methods and materials to be utilized in the project. For this, the following activities are expected: (i) development of self-guide of CSR methods based on principles utilized by key actors in the market; (ii) development of sectorial indicators for the different sectors to be included in the project; and (iii) identification and documentation of best practices.

##### **2. Component II: Implement CSR measures among SMEs in value chains**

- 3.4 This component is intended to support the implementation of specific CSR measures across the value chains of large company participants. With the collaboration and inputs of large companies and their smaller suppliers and clients, CSR interventions will be identified considering both the specific market / sectorial requirements and the smaller enterprises’ capabilities. Then, consultants will be contracted to help implement these measures in the SMEs beneficiaries. Specific activities in this component include: (i) identification of key and relevant CSR interventions for each supported sector and value chains; (ii) development of strategic CSR action plans for groups of SMEs involved in each value chain; (iii) development of indicators, baselines and methodologies for monitoring and measuring impact of CSR implementation among smaller enterprises; (iv) implementation of the action plans; and (v) ongoing monitoring and supervision of progress.
- 3.5 The expected outcomes of this program include over 200 SMEs suppliers and clients of larger companies from at least six different economic sectors with specific CSR measures implemented, along with more than 30 successful business cases available in the program database and disseminated across the country.

### **3. Component III: Dissemination of the results**

- 3.6 This component is intended to support the dissemination of the individual cases in which CSR measures improved market opportunities and business competitiveness of SMEs. By specifying concrete business benefits and lessons learned resulting from the implementation of CSR measures in the value chains, it is expected that those cases will contribute to increasing CSR understanding and adoption in Brazil. To this end, the following activities will be carried out: (i) monitor and evaluate the results of the supported CSR interventions in each SME and groups of SMEs beneficiaries; (ii) design brochures and presentations highlighting successful strategies and lessons learned from the specific sectors included in the program; (iii) implement targeted seminars and workshops for representatives of SMEs and larger companies; (iv) structuring of a database of case studies; and (v) support marketing efforts to publish successful cases in local media and web-sites.

## **IV. COST, FINANCING AND EXECUTION TIME**

- 4.1 The total program cost is expected to be US\$2.4 million, of which MIF would contribute US\$1.2 million in non-reimbursable funds through Facility III-A, and the remainder of US\$1.2 million would be expected from counterpart resources. The program would be implemented in 36 months.

## **V. EXECUTING AGENCY (AND FACILITY STRUCTURE)**

- 5.1 The Instituto Ethos will be the executing agency for this project and responsible for the counterpart resources, although it is expected that a significant part of the counterpart contributions would come from the large participating companies. The mission of Ethos is to create awareness, mobilize and help companies direct their business in a socially responsible manner, developing partnerships to construct a more sustainable and fair society in Brazil. As part of this strategy, Ethos develops and supports actions focused on private sector companies in order to: (i) articulate the CSR movement; (ii) disseminate and encourage socially responsible management practices; (iii) develop a favorable environment for CSR; and (iv) promote the social and environmental sustainability of businesses. As a non-profit NGO, Ethos budget comes principally from its members and associates and their contributions, along with sponsorships from private companies, donations from domestic and international foundations, and the revenues from its annual conference.
- 5.2 The organization structure of Ethos includes a Decision Council (Conselho Deliberativo), an Executive Board (Diretoria), a Consultative Council (Conselho Consultivo), and a Fiscal Council (Conselho Fiscal). The Decision Council elects the Executive Board and provides guidance and organizational supervision. The Executive Board is responsible for conducting the activities and managing administrative and technical staff. The Consultative Counsel supports the elaboration of policies and institutional strategies, while the Fiscal Council is responsible for supervising Ethos accounting and financial performance.
- 5.3 Ethos is involved in the regional CSR project “Promoting Corporate Social Responsibility” (ATN/ME-8381-RG), which recently received an unsatisfactory classification due to delays in implementation. Nevertheless, it is worth mentioning that the management team of the executing agency in Chile has been restructured and the project has positive perspectives to achieve its developmental objectives.

## **VI. ENVIRONMENTAL AND SOCIAL IMPACTS (AND PROPOSED ACTIONS)**

- 6.1 Given the nature of the proposed program, adverse environmental and social impacts are not expected. The program expects to contribute to positive social and environmental performance of participating companies by assisting in the implementation of socially and environmentally

responsible practices in companies, including those related to improved environmental management, workplace health and safety, among other areas.

## **VII. MAJOR ISSUES**

- 7.1 The following aspects warrant further consideration during the design and preparation of this proposed (project) program: (i) coordination with other organizations (e.g. industry associations, other CSR groups, etc.) in the execution of this program; (ii) link and coordination with MIF supported regional program that includes Ethos; (iii) expected sectors to be included and geographic reach of program activities; and (iv) level of commitment of large private sector companies to participate in the program and provide financial resources.

## **VIII. ACTION PLAN**

- 8.1 If the project were determined eligible by the POC, the project team would continue forward with the design and preparation of the program, which is expected to take at least five months followed by submission to the MIF Donor Committee for approval.