

**MULTILATERAL INVESTMENT FUND
PROJECT ABSTRACT**

I. BASIC PROJECT DATA

Project title: Implementing Corporate Social Responsibility Measures in Small and Medium Enterprises in the Supply Chain

Project number: ME-M1003

Country: México

Beneficiaries: At least 100 SMEs through the implementation of CSR measures; local service providers trained in providing CSR-related assistance to enterprises; and representatives of private sector groups, public agencies, academia and civil society made aware as to the benefits of CSR.

Project team: Daniel Shepherd (MIF), Team Leader; Alberto Bucardo (COF/CME); Maria Elena Nawar (MIF)

Executing Agency: Universidad Anahuac through its Anahuac Business Development Institute (IDEA)

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

Tentative dates: CRG – May 2004
Donors Committee –June/July 2004

MIF Classification: CSR

II. BACKGROUND AND PROBLEM STATEMENT

A. Corporate social responsibility (CSR)

- 2.1 Corporate social responsibility (CSR) is the continuing commitment and action by businesses to improve the lives of stakeholders beyond management and shareholders, including employees and their families, the communities affected by their operations – local and global, customers and suppliers. While CSR may include philanthropic activities, more critical are the directly business-related activities. The foci of CSR encompass workers' rights, human rights, anti-corruption matters, environmental concerns, and community health and education.
- 2.2 CSR activities may concentrate on processes and outcomes. Key process activities include: (i) at least ensuring, and preferably even going beyond, compliance with domestic laws on such areas as working conditions, corruption and environmental impact; (ii) internal processes and practices which ensure compliance with codes of conduct, established by industry groups or external interest groups, usually including systems and standards to monitor continuing compliance; and, (iii) reporting and auditing systems, carried out either with internal or external resources, which improve transparency and, hence, accountability, focusing on CSR metrics which may be company-specific, industry-specified or more generically centered on the "triple bottom-line" approach of assessing concurrently financial, social and environmental results.
- 2.3 CSR activities which focus more on outcomes include: (i) direct investments in productive processes which advance CSR objectives, such as reducing environmental impact; (ii) collateral investments in support of primary business activities, such as enhanced worker and community health; (iii) development of products and services which cater to underserved poor clienteles; and, (iv) development of stronger supply chains, working with suppliers and customers to foster CSR goals.

B. CSR in the supply chain

- 2.4 Implementation of CSR measures is still incipient in the region, especially among small and medium enterprises. Responsible supply chain management (RSCM) refers to company's efforts to manage

CSR throughout the chain of suppliers and customers. RSCM initiatives are driven by the business-related benefits derived from enhanced performance and better relationship with suppliers, improved public reputation and a stronger risk management policy. Large company influence over SME suppliers and clients can be the effective means to motivate SMEs to implement CSR initially, then through the benefits received, more small enterprises may become convinced of the business case.

C. Current problem in Mexico

- 2.5 The demand for CSR is coming from consumers more critically concerned with responsible behavior from the producers of the products they buy, corporate suppliers and customers acting as consumers and avoiding adverse associations with irresponsible supply chain partners, investors similarly concerned and seeking to avoid investment risk, as well as direct pressures from employees, communities, governments and NGO groups.
- 2.6 For the businesses themselves, the benefits of enhanced competitiveness through CSR may include increased revenues, including improved market access and pricing premiums, as well as reduced costs, from lower direct production costs in labor, material and energy, as well as lower marketing, compliance and financing costs. In the region, companies attach particular value to preserving and enhancing access to primary global markets, improving workers' conditions and community support, and strengthening broader developmental impacts.
- 2.7 In November 2003, MIF sent out an invitation to solicit proposals from eleven different organizations in Mexico that are known to have experience and interest in CSR. Many of the eleven organizations decided to join forces and respond jointly, resulting in three different proposals. Of these, the combination of the Universidad Anáhuac along with FUNTEC was ultimately selected for its solid record of performance. Anahuac, for instance, has experience related to CSR and supply chain management, having taught diverse advanced training courses as well as the development of productive chain projects.
- 2.8 For the last few years, the Universidad Anáhuac, along with other Mexican organizations, has collaborated in the development of a methodology for private companies that can assist them in developing policies, procedures and systems that encompass its mission and values; along with its responsibility to its employees, clients, suppliers, investors, social and environmental surroundings. The methodology serves as the basis for the establishment of models of management based on socially responsible principles, including the implementation of codes of conduct. This effort fed into the development of the Mexican Norm for Social Responsibility and Integrity (which is still in draft form), and in the organization of the First International Congress on Social Responsibility and Integrity in Mexico: "Social Responsibility as a Generator of Trust and Enterprise Competitiveness," that took place in Mexico City in June of 2003.

D. Proposed program

- 2.9 The present opportunity is to foster and accelerate the adoption of CSR processes and investments. The key starting point is working with and through large companies, domestic and multinational, who have relationships with small and medium enterprises (SMEs) as suppliers and customers. These supply chain dealings encompass primary direct suppliers and customers, as well as secondary associations – the suppliers of one's suppliers, etc. Typically, these large companies, who are referred to as "keystone companies" for their central role, have strong relationships with their supply chain partners, with strong mutual understanding of each other's businesses and processes, and strong leverage to motivate aligned activities in pursuit of mutual benefit. Responsive "keystones" will likely understand CSR initiatives, be willing to undertake and invest in these initiatives, but lack appropriate expertise and processes to begin and to succeed. Mexico offers a large number of potential "keystone" companies, both domestic and multinational, operating within supply chains with many SMEs, providing a good environment to begin and develop CSR initiatives.

- 2.10 MIF's contribution to this process is to initiate and help structure productive collaboration among the "keystone" large companies, their SME supply chain partners and the developing sources of CSR expertise, with catalytic funding, complementary to that provided by local institutions and the "keystone" companies themselves. In addition to the more responsible behaviors engendered, a key output of a project will be continuing development of appropriate and realistic expectations, methods and metrics for further development of CSR. The continuing participation by highly-visible large "keystone" companies will greatly enhance demonstration effects, setting the stage for replication and extension of similar efforts in Mexico and within the entire region.
- 2.11 Universidad Anáhuac has already received interest from numerous large companies including Novartis, Sensient, PEMEX and the Ford distributors in Mexico. This last one is supporting a Chair in Social Responsibility at the university within the Faculty of Economy and Business as a means to strengthen qualification of future executives and industrialists in the country in this subject. Similarly, IDEA is soliciting additional letters of interest from other large companies.
- 2.12 Implementing CSR through corporate supply chains builds directly on previous MIF focus on SME development, and is an early effort in the new CSR Cluster Action Plan.

III. PROGRAM OBJECTIVE AND DESCRIPTION

A. Objectives

- 3.1 The general objective of the program is to improve the competitiveness and market opportunities for small and medium enterprises (SMEs). The purpose of the program is to support the implementation of CSR measures among SMES that are in the supply chain of larger enterprises.
- 3.2 To achieve these objectives, the program will include the following three components: (i) Promotion of CSR and development of local CSR service providers; (ii) Financing of CSR implementation in SMEs; and (iii) Dissemination of the results.

B. Components

1. Component I: Promotion of CSR and development of local CSR service providers

- 3.3 The purpose of this component is to develop the capacity of local CSR service providers and to raise awareness as to the benefits of implementing CSR measures, especially among small and medium enterprises. This component will include activities such as (i) a promotional campaign specifically targeting smaller enterprises; (ii) targeted seminars to raise awareness as to the benefits of CSR implementation for representatives of SMEs; and (iii) CSR training courses to raise the capacity of local service providers.

2. Component II: Financing of CSR implementation in SMEs

- 3.4 The purpose of this component is to utilize the link between large companies and their suppliers and clients to implement CSR measures in SMEs. The focus will be on implementing CSR measures across the complete productive chain associated with a large keystone company, including first- and second-tier suppliers, distributors and the final sale. As a first step, the project will deliver preliminary training sessions on CSR implementation among participating SMEs. The next part will include pulling together SME suppliers and clients into similar groups as a means to achieve economies of scale. Each participating SME will receive support for the following specific activities or services: (i) analysis to understand strengths, weaknesses and key business drivers; (ii) development of a strategic CSR plan; (iii) implementing the plan with targeted assistance when needed; and (iv) ongoing monitoring and supervision of progress.
- 3.5 This component also includes the development of a methodology for monitoring and measuring impact of CSR implementation among smaller enterprises.

3. Component III: Dissemination of the results

- 3.6 The purpose of this component to disseminate the results to the Mexican business community and society as a whole, especially related to the successful experiences achieved by the participating smaller enterprises. To this end, the following activities are expected: (i) development and installation of database as a means to track results and monitor the performance of the participating companies in Component II; (ii) dissemination will include special publications (case studies, fact sheets, etc.) and press releases; (iii) information will be published on the Internet, which will include links with other relevant sites; and (iv) organize and facilitate a final international conference on CSR to disseminate the lessons learned and experiences resulting from the program.

IV. COST, FINANCING AND EXECUTION TIME

- 4.1 The total project 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 come from counterpart resources raised by the Universidad Anáhuac. The project would be implemented over a 36-month period of time.

V. EXECUTING AGENCY AND EXECUTING MECHANISM

- 5.1 The Universidad Anáhuac in Mexico City will be the executing agency for this project and responsible for the counterpart resources. The university was founded in 1964, as a private university in Mexico focused on providing education predicated on fostering integrity among its students, with a strong sense of responsibility to society in general. In 1996, the university established the Anahuac Business Development Institute (IDEA), within the Department of Economics and Business, as a means to further solidify the connection to the business community, providing assistance with business plan development, targeted entrepreneurial training and general business administration courses. In implementing this proposed project, Universidad Anáhuac will also have the institutional support of the Fundación Mexicana para la Innovación y Transferencia de Tecnología, A.C. (FUNTEC).
- 5.2 Universidad Anáhuac, through its IDEA, has experience as an executing agency for a MIF project through the Regional Management Training Program (ATN/MH-5418-RG). This project was successfully completed in 2001. Among the significant products in this initiative was a new methodology for the development of case studies for Mexican SMEs, which resulted in 15 separate business cases that are still in use today. This new proposed project expects to benefit from this same methodology in terms of case studies that will be developed and used for disseminating the results (see Component III).
- 5.3 FUNTEC is the technical arm of the Confederación de Cámaras Industriales de los Estados Unidos Mexicanos (CONCAMIN) created to support efforts to improve the competitiveness of SMEs in México. In the area of CSR, CONCAMIN offers the award "Ethics and Values in Industry" each year in recognition of the top companies, chambers or other organizations in the area of social responsibility and ethics. In addition, through MIF and other support, FUNTEC is currently implementing a project to improve the productivity and competitiveness of SMEs by better integrating them into productive chains (ATN/MT-7139-ME). This proposed project expects to build upon these experiences, though differs in terms of approach in that it is focused on involving the keystone companies in the design and decision-making part of the project, specifically in the area of CSR.

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 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: (i) confirm sufficient demand exists among large companies and their suppliers to justify the amount and size of the program; (ii) define the governance structure for the program, including defining the exact role of FUNTEC and the keystone companies; (iii) ensure the participation of the large companies in the design and preparation phase; (iv) development of clear guidelines for CSR implementation among smaller enterprises; and (v) explore the possibility of tranching the disbursements based on certain predetermined deliverables.

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 will be done in collaboration with the Universidad Anáhuac and the keystone companies. It is expected that the project will be submitted to the MIF Donors Committee in June or July of this year.