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Multilateral Investment Fund

Mexico

Pilot Program for MSME Competitiveness through the Implementation of Sustainable Practices

Donors Memorandum

(ME-M1077)

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# Abbreviations

Whenever reference is made in the document to any of the terms mentioned below, the same will be understood to mean the following:

| **Term** | **Meaning** |
| --- | --- |
| **AOP** | Annual Operating Plan |
| **B2B** | Business to Business |
| **B2C** | Business to Consumer |
| **DNA** | Diagnostic of Executing Agency Needs |
| **EA** | Executing Agency |
| **EU** | Executing Unit |
| **EPP** | Executing Planning Project |
| **IDB** | Inter-American Development Bank |
| **ITESM** | Instituto Tecnológico y de Estudios Superiores de Monterrey (Tec de Monterrey) |
| **GHG** | Greenhouse Gases |
| **GIS** | Global Institute for Sustainability at ITESM |
| **MIF** | Multilateral Investment Fund |
| **MSME** | Micro, Small, and Medium Enterprise |
| **NAFIN** | Nacional Financiera |
| **PROFEPA** | Procuraduría Federal para la Protección Ambimental |
| **PSR** | Project Status Report |

**Pilot Program for MSME Competitiveness through the Implementation of Sustainable Practices[[1]](#footnote-2)**

(ME-M1077)

# Executive Summary

|  |  |  |
| --- | --- | --- |
| **Beneficiary Countries:** | Mexico | |
| **Executing Agency:** | Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) | |
| **Target Beneficiaries:** | The Project beneficiaries will be: 3,000 micro, small, and medium-sized enterprises (MSMEs) in the supply chains of two anchor companies in Mexico (FEMSA and Walmart)[[2]](#footnote-3). | |
| **Financing:** | **Modality:**  **MIF:**  **Counterpart**  **TOTAL:** | **Non-reimbursable**  **US$**  **2,282,666**  **US**  **2,189,051**  **[[3]](#footnote-4)**  **US$**  **4,471,717** |
| **Objectives** | The project’s general objective is to increase the competitiveness of MSMEs in the supply chains of major anchor companies through the implementation of sustainable practices. The specific objectives are to train MSMEs on the benefits of energy efficiency and environmental management, implement these factors in their businesses, develop financial instruments for new energy efficiency and clean energy technology implementation, and the design of a virtual center for the provision of advisory services to MSMEs that are suppliers of anchor companies and are interested in adopting both environmental practices and evaluation tools that allow anchor companies to verify that their suppliers are meeting sustainability requirements.[[4]](#footnote-5) | |
| **Execution Timetable** | 42 months for project execution and 48 months for disbursement. | |
| **Special Contractual Conditions** | As conditions precedent to the first disbursement of funds ITESM will submit, to the Bank’s satisfaction, evidence that: (i) operating guidelines for the project were approved; and (ii) a Project Director has been selected. | |
| **Exceptions to Bank Policies:** | None. | |
| **Environmental and Social Review** | The Environmental Safeguards Review reviewed the Project abstract on March 27, 2012, and assigned it classification C. | |
| **Coordination with other institutions:** | The following partners have confirmed their contribution to the project: FEMSA, Walmart Mexico, Banorte. Letters of commitment are included in the appendices. Ongoing negotiations are occurring with the government of Mexico City and with NAFIN, although letters are not yet available from either of these parties. Other anchor companies have expressed interest in joining the project when it is rolled out to other companies in the last stage of the project. | |

# Background And Justification

## MSMEs, Anchor Companies, and Sustainability

1. Small and medium-sized enterprises are key contributors to the emission of greenhouse gases (GHG). Indeed, at the recent Rio+20 event speakers from Siemens, Mars, and Calvert Investments all noted that MSMEs contribute approximately 60% of all GHG emissions worldwide. Anchor companies recognize that most emissions occur at the first and last parts of the value chain. According to Siemens, only 6% of the total emissions of their products are under the control of the anchor company; 80% of the product value chain’s emissions come from the first MSMEs in the chain.[[5]](#footnote-6)
2. The cumulative effects of poor environmental management and the importance of MSMEs in the Mexican economy[[6]](#footnote-7)suggest a huge environmental impact from MSMEs in Mexico. Notwithstanding, there is very little information available about environmental management for MSMEs in the country, nor is there available baseline information sector-wide.
3. Under shareholder and management pressure, large corporations in Mexico, such as Walmart and Femsa, are increasingly analyzing not only the sustainability of their core operations, but also that of their MSME supply chains. For example, Walmart requires its suppliers to complete a Sustainability Assessment, ranking firms based on their scores, which is one input into their buying process. MSMEs without any environmental management systems receive low scores, and are thus less competitive than peer suppliers. Other large firms in Mexico, such as FEMSA, are recognizing the value of working with their suppliers in order to green their supply-chain and reduce their ecological footprint, including their GHG emissions.

## Context in Mexico

1. Like many other countries, Mexico is instituting policies to promote sustainable consumption and production practices, some of which result from international commitments, such as the Marrakech Process, an action campaign that began in 2003 to encourage production and consumption patterns that help decouple economic growth from environmental degradation. Mexico has already defined a preliminary version of the National Strategy of Sustainable Production and Consumption that seeks to improve the efficient use of resources and toxic materials as well as the reduction of waste and carbon emissions.[[7]](#footnote-8) Other government actions targeted more specifically at MSMEs include the joint program of NAFINSA and the Ministry of Energy that offers credits up to 20,000 US dollars for the substitution of light bulbs as well as refrigeration and air-conditioning equipment with more efficient ones.[[8]](#footnote-9)
2. In spite of these efforts, one major challenge for Mexico is to find effective ways to train smaller companies in the adoption of sustainable practices. In contrast with the situation of large companies, micro, small and medium-sized enterprises (MSMEs) not only have limited resources but also tend not to be aware of the linkages that increasingly exist between environmental management and economic competitiveness. The adoption of environmental management systems or certification programs, such as ISO 14000, can be financially burdensome for MSMEs, and those that can effectively respond to the specific needs and peculiarities of smaller companies are scarce.
3. Training companies on energy efficiency, water usage and waste management has been identified by the Mexican government as a means to enhance economic competitiveness of the country while attaining the country’s environmental performance goals. Working with large companies, such as Alpura, Jumex, Nestle, Vitro, Johnson Controls, Colgate Palmolive and BASF, and their suppliers has become a priority for the Ministry of the Environment. Through 40-hour face-to-face workshops organized with local universities, the Environmental Leadership for Competitiveness Program of the Procuraduría Federal para la Protección Ambiental (PROFEPA) has trained around 3,000 companies throughout Mexico. However, the program, which was launched in 2007, tackles enterprises of more than 25 employees that only account for only 5% of a total of 370,000 existing manufacturing establishments in Mexico.
4. The challenge is to develop a low-cost, educational tool that is accessible for MSMEs, particularly for those who have less than 25 employees and comprise 95 % of all companies in Mexico, and can, in a short period of time, effectively reach a significant proportion of the universe of MSMEs in Mexico. Such a tool should help: 1) increase the awareness of MSMEs about the increasing importance of sustainable practices for their competitiveness and survival; 2) enable them to easily and in a cost-effective way implement environmental practices that make them competitive and attractive as sustainable suppliers; 3) improve the competitiveness of the supply chain of large companies for which they provide products and / or services; 4) and generate information about the current state of sustainability and MSMEs, which to date is quite limited and prevents both large companies and the government from defining sustainability standards that are appropriate and specifically designed specifically for small businesses, without jeopardizing their economic viability.

## The Problem

1. There is an impending demand from large firms, and potentially from regulators, for smaller companies in the anchor firms’ supply chains to improve their sustainability and lessen their environmental impacts. If MSMEs do not adapt and engage in sustainable practices they run the risk of losing their competitiveness, potentially leading to their expiry.
2. MSMEs in Mexico lack technical skills, finance, and information on the contribution of sustainability to competitiveness. Indeed, one study[[9]](#footnote-10) found that MSMEs are often unable to capitalize on the benefits of environmental management systems due to the following barriers :
   1. Lack of awareness or denial that MSME businesses cause significant environmental impacts;
   2. Lack of knowledge of resource usage/potential savings/potential increased profit;
   3. Financial constraints (cost of the process and equipment);
   4. Human resource constraints (time and personnel);
   5. Inappropriate technology;
   6. Lack of specialized knowledge and skills; and
   7. Lack of guidance and support.
3. To overcome these challenges, it is necessary to raise awareness of the economic benefits of sustainability, provide technical assistance for energy/water audits, provide high-quality guidance and support, and develop market finance mechanisms to allow MSMEs to implement greener/more sustainable production methods. This project seeks to address these four challenges.
4. In addition, the design and implementation of auto-evaluation tools for MSMEs who adopt good sustainability practices will help large anchor companies meet corporate sustainability requirements, thus making these MSMEs more competitive, vis-á-vis their peers, in their sales efforts. A side effect of this program will be the development of a database of information on MSME sustainability practices, which is expected to also assist in the development of public policies.

## Rationale for the Proposed Project

1. The project will increase the competitiveness of Mexican MSMEs, particularly those with less than 25 employees. The adoption of sustainability practices and evaluation tools will help MSMEs cut costs on energy, water, and materials; reduce their risk of litigation due to noncompliance with national and local regulations; educate them on the marketing benefits of environmental management systems, and on B2B[[10]](#footnote-11) and B2C[[11]](#footnote-12) brand value. Small businesses that are trained and adopt evaluation tools will increase their sustainability in the eyes of their anchors, Walmart and Femsa, and thus will be more likely to maintain strong relationships with these powerful clients as they can help the anchors meet their own sustainability metrics. New financial products will help MSMEs access clean and efficient technology at lower cost than they could have otherwise obtained it, thus increasing their profits.
2. This project falls under the “Clean and Efficient Energy” Agenda, as it will help “[create] a market for cleaner and more efficient energy for individuals and MSMEs” through educating MSMEs on energy efficiency technology to reduce electricity, water, and fuels use. The project will also help businesses increase their ability to invest in such technologies by creating appropriate financial products tailored to MSME needs. By increasing the number of MSMEs investing in clean and efficient technologies, the project will indirectly “[improve] the ability of [other] MSMEs to produce, distribute, or service these technologies” since the actual installation and servicing of the new technologies will be done by other local companies.

## Value Added

1. The MIF will support the production of the training materials and the course, the website, the training of the student experts, design of the financial products, and the knowledge and dissemination activities. These costs will be shared with the executing agency. MIF financing is necessary as it allows the executing agency to unlock their counterpart funds, and brings in the participation of NAFINSA and Banorte as financial partners.

# Objectives and Description

## Program Goal and Purpose

* 1. The project’s general objective is to increase the competitiveness of MSMEs in the supply chains of major anchor companies through the implementation of sustainable practices. The specific objectives are to train MSMEs on the benefits of energy efficiency and environmental management, implement these factors in their businesses, develop financial instruments for new energy efficiency and clean energy technology implementation, and the design of auto-evaluation tools tailored-made for MSMEs, thus allowing anchor companies to verify that their suppliers are meeting sustainability requirements.

3.2 To achieve this purpose, the Project will include the following seven key components: (i) Create a virtual community and perform technical-economic analyses of productive chains; (ii) Measurement of the state of sustainability of within each participating MSME; (iii) Implementation of pilot projects; (iv) Population of the portal with information on sustainability and competitiveness of MSMEs; (v) Creation of financial instruments (vi) Definition of standards and auto-evaluation tools and indicators (vii) Knowledge and Dissemination. A description of each component is provided in the following section.

## Description of Components

**Component 1: Create a virtual community and perform technical-economic analyses of productive chains**

3.3 Component 1 will create the virtual center for sustainable MSMEs. First, an online portal will be created which will serve as the platform for the management and operation of the sustainable MSME network, will be a one-stop-shop for the MSMEs to access training and evaluation tools, and will serve as the database of MSME sustainability initiatives. A plan for administration and management of the portal will be developed. The Project will also work with the anchor firms to identify and select MSMEs in their supply chain to be participants in the pilot project. Once selected, the participating MSMEs will be invited to join the website. The network of participants will be further solidified by both the constant sharing of information, posting of news, best practices and resources that are useful for MSMEs and help raise awareness about the increasing interest of both large companies and government to develop sustainability standards. The program will be constantly refined to better accommodate MSME needs.

3.4 Results of this component include: one virtual center for sustainable MSMEs created; one network of sustainable MSME candidates established; a database of MSME sustainability initiatives created; relationships established with anchor firms; 3,000 MSMEs selected to participate in the pilot projects.

**Component 2: Measurement of the sustainability of the participating MSMEs**

3.5 In Component 2, the ecological footprint measurement methodology will be designed and integrated into the website. This auto-evaluation will then be made available to the 3,000 selected participants, who will fill it out themselves as their baseline assessment. The assessment will include energy and water consumption, waste generation, and carbon footprint analysis. The data collected will be analyzed by ITSEM to determine areas of priority to focus on. ITESM will use the results to compile a report on MSME sustainability in Mexico.

3.6 Results of this component include: one ecological footprint measurement methodology developed; one sustainability auto-evaluation developed; 3,000 MSMEs complete the sustainability auto-evaluation; one report on MSME sustainability in Mexico completed.

**Component 3: Implementation of pilot projects and training**

3.7 In Component 3, the 3,000 selected MSMEs will be sub-grouped by productive sector and location based on the results of the auto-evaluation completed in Component 2. Training, a detailed ecologic footprint methodology, and data collection plans will then be designed and refined for each sub-group. 30 advanced university students and graduates in related fields[[12]](#footnote-13) will then be trained to provide technical assistance to the participating MSMEs through a train-the-trainers methodology. Each trainer will be responsible for serving as a tutor to and consulting for 100 businesses. A 40-hour training course will be developed for the MSMEs, which they will complete online. They will also receive one-on-one tutoring from their corresponding tutor. At the end of the training program, 1000 MSMEs will take the auto-evaluation again to determine if any energy savings and other environmental improvements were achieved.

3.8 Results of this component include: one 40-hour training course developed; 3000 MSMEs complete online training course on sustainability and environmental management systems; 30 trainers trained and provide advice to 3,000 businesses on their sustainability projects; auto-evaluations for 1000 MSMEs at the end of the training course to calculate any progress by specific sector.

**Component 4: Population of virtual community portal with information on sustainability and competitiveness of MSMEs**

3.9 In this component, the results of the pilot training program will be analyzed per sub-group (sector and/or location). Information on energy efficiency savings, water reductions, and waste reductions will be aggregated and analyzed per sector. The results of these studies will be presented on the online portal. Multimedia material will be developed to disseminate these results and best practices to multiple audiences including MSMEs, anchor companies, and the government. Sub-networks of actors across sectors achieving the best results in energy, water, and/or waste will be created to share best practices in these sustainability topics. Specialized guides will be developed by sector to share best practices.

3.10 Results of this component include: Multimedia material on results and best practices designed and disseminated; Virtual content on results and best practices designed and posted to the portal; five sector-specific guides designed and distributed;

**Component 5: Creation of Financial Instruments**

3.11 In this component, the EA will work with Banorte, Walmart and Femsa to identify common clients/supply chain members. A course will be created for credit officials of Banorte on how sustainability impacts competitiveness and business financials. Appropriate financial criteria will be discussed with the credit officials on the information required to assess a sustainable investment. Banorte will then create financial products taking into account the needs of small businesses by sector and type of business. The financial instruments will then be presented the 1500 small business participants to utilize for investments in sustainability initiatives. Banorte will track the number of businesses accessing the credit instruments. The results and methodology will be published on the project portal.

3.12 Results of this component include: 30 officials of Banorte attend a course on financial implications of business sustainability practices; five financial products designed and available for businesses to use; at least 300 businesses access a new financial product for sustainability investments.

**Component 6: Definition of standards and certification process**

3.13 In Component 6, progress on the auto-evaluation will be assessed for each participating business. Information will be collected and analyzed at the macro level and presented to the anchor firms. The results will be systematized to inform the development of sustainable MSME auto-evaluation tools, standards and certification processes that can be used by policy-makers and other anchor firms in training MSMEs.

3.14 Results from this component include: Report: “Validation of Progress by MSMEs in Sustainability”; Report: “Recommendations to anchor firms on sustainability standards”; Report: “MSME Sustainability and Competitiveness in Mexico: the Value of Chain”; Proposal for certification program; Report: “Recommendations on public policy”; and a closing workshop.

**Component 7: Knowledge and Dissemination**

3.15 In Component 7, results will be communicated to social networks, to the general public via radio, television, and written press advertisements, through dissemination workshops, and conferences. The goal of these interventions is to share lessons learned, involve more anchor companies and MSMES in the ongoing project, and to share best practices in MSME efficiency at large.

3.16 Results from this component include: 50 radio interviews generated and times played, 20 television interviews generated and times appeared, 40 pieces appearing in written press, 30 presentations at workshops and conferences, dissemination of the standards and reports developed in components 2 and 6, including the curricula, the financial product methodology and results reports, the results of the trainings, the virtual portal, the multimedia videos, and the standards and certification process reports.

# Cost, Financing and Sustainability

## Summary cost table

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **MIF**  **US$** | **Local Counterpart**  **ITESM**  **US$** | **TOTAL**  **US$** |
|
| Component 1 Create a virtual community and perform technical-economic analyses of productive chains | 268,107.77 | 325,615.69 | 593,723.46 |
| Component 2 Measurement of the state of sustainability of the MSMEs | 343,018.59 | 240,861.58 | 583.880,17 |
| Component 3 Implementation of pilot projects | 489,917.40 | 874.036,90[[13]](#footnote-14) | 1,363,954.30 |
| Component 4 Creation of a virtual advisory center for sustainability and competitiveness of MSMEs | 203.288,81 | 142.059,75 | 345.348,57 |
| Component 5 Creation of Financial Instruments | 40,531.15 | 87,740.29 | 128,271.44 |
| Component 6 Definition of autoevaluation tools, standards and certification process | 330.255,54 | 114.351,89 | 444.607.43 |
| Component 7 Knowledge and Dissemination | 88.936,93 | 55.585,57 | 144.522,50 |
| Project Administration | 210.298,77 | 348.799,51 | 559.098,28 |
| **Baseline, Monitoring and Evaluation** | 54.041,53 | 0 | 54.041,53 |
| Contingencies (3%) | 126.523,43 | 0 | 126.523,43 |
| **SUBTOTAL** | **2,154,919.93** | **2,189,051.18** | **4.343.971,11** |
| **% of Financing** | **49%** | **51%** |  |
| **Impact Evaluation Account (5%)** | 107,746.00 | 0 | 107,746.00 |
| **Agenda Account** | 20.000,00 | 0 | 20.000,00 |
| **GRAND TOTAL** | **2,282,666** | **2,189,051** | **4,471,717** |

* 1. **Sustainability:** The sustainability of this project is based on the intrinsic pressures for anchor companies operating in Mexico to work with their suppliers, an important component of which tend to be MSMEs, to introduce environmental practices as a way to improve their overall competitiveness. The demand for the introduction of such practices will be also germane to governmental policies at the local and national level that will be adopted as a result of global pressures that address environmental sustainability challenges. Given the large number of MSMEs, their aggregate impact on the Mexican economy and their limited financial capacity, in particular of the smallest companies, a demand for training and advisory services on sustainable practices will be guaranteed. ITESM will seek additional funding from governmental and private sources to cover, at least partially, the training and advisory service fees. Participating MSMEs will also pay a small fee to participate in the program, ofsetting some of the on-going costs. ITESM expects to bring other anchor companies and their supply chains into the project after the pilot is proven, and it is expected that these partners will contribute to long term sustainability.[[14]](#footnote-15)

## Executing Agency and Mechanism

## Executing Agency

* 1. The Project will be executed by the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM), a private educational institution founded in 1943, with 33 campus throughout Mexico and with more than 8.400 qualified professors. The ITESM has developed several social and entrepreneurship programs, through the Vicerectorship of Social Development and Vicerectorship of Entrepreneurship Development, jointly with the Virtual University. For more than 20 years, the ITESM has been pioneer in online education, offering a great number of courses for undergraduate and graduate programs as well as continuing education, servicing about 200,000 online students today. The physical, technical and human infrastructure of ITESM is adequate for the implementation of this Project, as was shown by the three other projects that MIF has already financed. Sustainable development has been identified in the institution‘s Mission 2015 plan as a strategic goal in educating and training citizens committed to the Mexico‘s economic, political, social and cultural development. The Global Institute for Sustainability (GIS) was established in Mexico City in October of 2011 as a joint venture between Tecnológico de Monterrey and Arizona State University, with the vision of training a new generation of entrepreneurs in Mexico who create businesses that combine a rational use of natural resources with environmental stewardship, thus aligning the entrepreneurial culture of both universities with their goal of promoting sustainability. The GIS is associated with the Sustainable Legacy of Tec de Monterrey, and through its strategic alliance with the Virtual University of Tec de Monterrey, it has developed projects to train online large numbers of State public officials, academics and NGO on climate change plans, emission inventories and modeling climate scenario.
  2. An Executing Unit (EU) will be created in the Global Institute for Sustainability, with the following responsibilities: a) approve the Executing Planning Project (EPP) and the Annual Operative Plan (AOP), both of which will be developed by the EU, the last one to be updated annually and approved by the MIF prior its implementation; and b) evaluate progress made in each component. The UE will be hosted at the Global Institute for Sustainability of ITESM and will be integrated by the Project Director, a Research Coordinator, a Training Coordinator, and an Administrative Coordinator, each of which will have an assistant. The Project Director will be responsible for the primary functions of a) coordinating the planning, executing and following-up on the progress achieved in the different components; b) prepare the PEP and the AOP; c) control all administrative and financial processes; and d) contract consulting and other supplier services. The Project Director will take advantage of the existing network of ITESM campus and other resources to coordinate contemplated activities and find synergies, where appropriate.

## Executing Mechanism

* 1. **Disbursement by Results.** Project disbursements will be contingent upon verification of the achievement of milestones. These milestones will be verified using their means of verification, which will be agreed upon between the Executing Agency and the MIF. Achievement of milestones does not exempt the Executing Agency from the responsibility of reaching the logical framework indicators and project’s objectives.
  2. According to the Performance and Risk-based Project Management approach, project disbursement amounts will be based on the project’s liquidity needs, for a maximum period of 6 months. These needs must be agreed upon between the MIF and the Executing Agency and will reflect the activities and costs scheduled in the annual planning exercise. The first disbursement will be contingent on reaching Milestone 0 (conditions prior). Subsequent disbursements will be issued as long as the following two conditions are met: i) MIF has verified that milestones have been achieved, as agreed to in the annual plan; and ii) that the Executing Agency has justified 80% of all cumulative advances.
  3. **Procurement and Contracting**. Procurement and contracting: For the procurement of goods and contracting of consulting services, the Executing Agency will apply the IDB Policies (GN-2349-9 y GN-2350-9). Given that the Diagnostic of Executing Agency Needs (DNA)[[15]](#footnote-16) generated a low level of need/risk classification, the project team has determined as stipulated in Appendix 4 of the IDB Policies, the Executing Agency which belongs to the private sector, will use their own procurement which have been deemed compatible with IDB Policies. In addition, the review of procurement and contracting processes for the project will be conducted ex-post­ and on an annual basis. Before project contracting and procurement begins, the Executing Agency must submit the project Procurement Plan for the IDB/MIFs approval which will be updated annually and when there are changes in the methods or goods or services to be procured.

# Monitoring, Evaluation, and Knowledge Return

## Monitoring and Evaluation

1. The MIF Country Specialist in Mexico will be responsible for technical supervision of the Project including processing of disbursements. ITESM will develop an Annual Operating Plan for each calendar year of Project execution, which will outline targeted results for the year derived from the Project logical framework, a schedule of planned activities including expected dates for achievement of the agreed milestones, and projected procurement and disbursements linked to the achievement of the Project’s milestones.
2. **Project Status Reports:** The Executing Agency will be responsible for presenting Project Status Reports (PSRs) to the MIF within thirty (30) days after the end of each semester, or more frequently as determined by the MIF by providing at least sixty (60) days advance notice to the Executing Agency. The PSR will contain information on the progress of project execution, achievement of milestones, and completion of project objectives as stated in the logical framework and other operational planning tools. The PSR will also describe issues encountered during execution and outline possible solutions. Within ninety (90) days after the end of the execution term, the Executing Agency will submit to the MIF a Final Project Status Report (Final PSR) which will highlight results achieved, project sustainability, evaluation findings, and lessons learned.
3. **Financial Management and Supervision:** The Executing Agency will establish and will be responsible for maintaining adequate accounts of its finances, internal controls, and project files according to the financial management policy of the IDB/MIF. Given that the Diagnostic of Executing Agency Needs (DNA)[[16]](#footnote-17)generated a **low level of need/risk** in financial management, the review of supporting documentation for disbursements will be conducted **ex-post­** and on an **annual** basis.
4. The Executing Agency will contract independent auditors to carry out the ex-post reviews of procurement processes and of supporting documentation for disbursements. Ex post reviews will include an analysis of the Financial Statements that the EA should prepare as part of its financial management. The costs associated with this contract will be financed with the MIF contribution resources according to IDB procedures.
5. During project execution, the frequency of ex post reviews for procurement processes and supporting documentation for disbursements as well as the need for additional financial reports can be modified by the MIF based on the results of the ex post review reports conducted by external auditors during the project execution.
6. **Evaluations**. The Bank will use resources from the MIF contribution to hire independent evaluators to conduct two project evaluations. A midterm evaluation will be conducted once 50% of the resources have been disbursed or half of the execution period has passed, whichever comes first. The midterm evaluation will consider the following aspects: (i) Project progress and overall performance, (ii) adequacy of the quantitative and qualitative indicators set in the logical framework and their positive evolution; (iii) status of implementation of cooperatives and agricultural practices; (iv) appropriate use of MIF funds; and (v) will include specific recommendations necessary to improve compliance with the program targets and objectives.
7. A final evaluation will be conducted within three months of the end of the execution period, or at 95% of the disbursement of resources. The final evaluation will review, among other aspects: (i) the extent to which activities were completed; (ii) level of achievement of Project objectives and corresponding indicators described in the logical framework, including the benefits achieved with the implementation of the project; (iii) executing agency performance; (iv) quality of consultations; (v) main obstacles encountered to increasing small farmer capacity to form cooperatives and adopt new agricultural practices and how obstacles were managed; (vi) level of satisfaction of final beneficiaries with the services received; and (vii) lessons learned and best practices identified.
8. ITESM will be responsible for developing a monitoring and evaluation system to capture progress with the logframe indicators. This system will also include the project’s baseline to assess the changes in target beneficiaries before, during, and after project execution. ITESM will also work with the MIF to develop an impact evaluation of the project, and will make available to the impact evaluator all materials and information necessary for the appropriate design and execution of the impact evaluation.
9. The results of each of the evaluations undertaken will be assessed by the Project team leader and ITESM, and relevant lessons learned with respect to the design of the Project and other factors impacting implementation will be extracted for dissemination.
10. **Closing Workshop.** At least four (4) months before the end of the execution period, a Closing Workshop will be organized with the participation of ITESM, the beneficiaries, IDB/MIF personnel, members of the Administrative Council, members of the Advisory Committee, sector representatives, and any other staff to be agreed upon by the IDB/MIF, to jointly evaluate Project outcomes, identify additional tasks to ensure the sustainability of actions initiated under the Project, and identify lessons learned.

## Knowledge and Communications (KSC) Strategy

1. Intellectual property developed through the project will be held by the MIF and shared with the Executing Agency. A full-time member of the ITESM team will be in charge of the knowledge and strategic communications plan, which will include the use of social networks, written press advertisements, interviews in radio, television and digital media, particularly when the project milestones are reached. Dissemination to the general public will be complemented with communication activities for specialized forums, through presentations in workshops, conferences and seminars. A database of contacts in Mexico and Latin American and information materials will be developed in the early stages of the project, and will be constantly updated for dissemination through the portal and other means of communication. The most important audiences for this project will be: anchor companies, MSMEs, government, sustainability NGOs, and supply chains of the participating anchor companies in other regions of the world.[[17]](#footnote-18)
2. Knowledge products to be completed include, among others: a virtual portal, the MSME sustainability auto-evaluation platform and methodology, the training curricula, sector-specific training materials, the macro-level aggregate reports on MSMEs, certification, and standards, the financial product methodology and results, and the project wrap-up reports.

# Program Benefits and Risks

## Program Benefits and Development Impact

1. **Target Beneficiaries**. The direct beneficiaries will be 3,000 MSMEs who are suppliers of anchor companies, such as Walmart and Femsa, and who will improve their environmental sustainability practices, through an amelioration of their energy and water efficiency indicators as well as their waste management systems. They will also benefit from the financial products developed to enable the adoption and implementation of such practices. Other direct beneficiaries include anchor companies, in particular Walmart and Femsa, and Banorte, for which MSMEs represent an important percentage of their business operations and clientele, respectively. Indirect beneficiares will include the Mexican government and ITESM, as the development of a database of information on MSME sustainability practices can assist the development of public policies specifically targeted to MSMEs and generate knowledge and research that can foster green markets and innovation in Mexico.

## Risks

1. The failure of anchor firms to recruit a total of 3,000 MSMEs that are less than 30 employees in their supply chain is a major risk. For this reason, ITESM will establish linkages with other anchor companies, such as Siemens, Nestlé, Jumex, which may be interested in participating in the project. ITESM will explore the possibility of conducting an independent and parallel research on the relevance of MSMEs in the supply chain of anchor companies, which are leaders in incorporating sustainability in their business models.
2. NAFINSA’s participation may be delayed to later stages of the project, due to the changes taking place in the Mexican government this year. ITESM is seeking to sign a Memorandum of Understanding with NAFIN, so as to increase the probabilities of their participation at the outset of the project.

# Environmental and Social Aspects

1. Based on the IDB Environment and Safeguards Compliance Policy, the relevant ESG classification for this Project is Category ‘C’. The Environmental Safeguards Unit reviewed the operation on March 27, 2012 and gave its approval without further review or action needed.

1. Sustainable practices include energy efficiency, renewable energy installation, improved water usage, improved waste management, reduced use of natural resources and reduced environmental impact. [↑](#footnote-ref-2)
2. MSMEs in this project will be firms with 25 employees or less. They will include a range of sectors, including agriculture, manufacturing, and services. [↑](#footnote-ref-3)
3. $1,589,051 from Tecnologico de Monterrey, $600,000 from participating MSMEs, [↑](#footnote-ref-4)
4. This project is aligned with two objectives of the country strategy i) assisting in the implementation of climate change adaptation and mitigation agendas in the federal and subnational levels, and ii) increasing access to finance for MSMEs. [↑](#footnote-ref-5)
5. Figures from speeches at the Corporate Sustainability Forum, June 17th, Rio+20. [↑](#footnote-ref-6)
6. According to the Ministry of the Economy, while the MSMEs represent 99% of all businesses in Mexico, they account for 80%of all employment in the country and about 35% of GDP (http://www.economia.gob.mx/mexico-emprende/empresas). [↑](#footnote-ref-7)
7. http://www.semarnat.gob.mx/temas/pycs/Paginas/borrador.aspx [↑](#footnote-ref-8)
8. According for the Federal Commission of Electricity (CFE), there are about 3.5 million the micro, small and medium-sized enterprises (MPYMEs) whose electricity consumption represents half of all their energy consumption http://www.eluniversal.com.mx/finanzas/88917.html [↑](#footnote-ref-9)
9. OECD, “”Issues Paper 3:SMEs and Green Growth: Promoting sustainable manufacturing and eco-innovation in small firms”, November 2010. [↑](#footnote-ref-10)
10. Business to Business [↑](#footnote-ref-11)
11. Business to Consumer [↑](#footnote-ref-12)
12. These advisors are expected, for the most part, to be PhD students or post-docs. [↑](#footnote-ref-13)
13. Incluye US$600.000 de contribuciones de las MiPyMES. [↑](#footnote-ref-14)
14. For example, the project has already begun discussions with Siemens, Nestlé, and Jumex and these companies have expressed interest in joining a next phase of the project. [↑](#footnote-ref-15)
15. http://mif.iadb.org/projects/prjrissummary.aspx?proj=ME-M1077. [↑](#footnote-ref-16)
16. http://mif.iadb.org/projects/prjrissummary.aspx?proj=ME-M1077. [↑](#footnote-ref-17)
17. Walmart, for example, has expressed interest in replicating this model in its supply chains in South Africa, once the model is proven. [↑](#footnote-ref-18)