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TECHNICAL COOPERATION FACILITY
SYNERGY: PROMOTION OF CORPORATE SOCIAL RESPONSIBILITY THROUGH SMALL-SCALE PRODUCER DEVELOPMENT

(TC-02-11-02-2-ES)

This document was prepared by the project team consisting of: María Teresa Villanueva (SDS/MSM), Project Team Leader; Rafael Rivera (COF/CES); Miguel Coronado (LEG/OPR); Eduardo Cucinelli and María Jesús Pérez (consultants).

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PREPARATION:

Information and consultations held during the project preparation and design process.
Expressions of interest by firms in participating in the project.
Summary of preliminary exploration conducted for the IDB/Synergy Project.

EXECUTION:

Project operating guidelines.
Format for presentation of subproject proposals.
Documents on "Improving the Effectiveness of the Social Entrepreneurship Program," July 2003.
Guidelines for evaluating and monitoring Social Entrepreneurship Program projects. Glenn Westley, SDS/MSM 2002.
Corporate Social Responsibility and Productive Development.

ABBREVIATIONS

COF/CES	IDB Country Office in El Salvador
CSR	Corporate Social Responsibility
IDB	Inter-American Development Bank
SCF	Subproject cofinancing firm
SDS/MSM	Micro, Small and Medium Enterprise Division (Sustainable Development Department)
SEP	Social Entrepreneurship Program

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Executing agency:

The Inter-American Development Bank (IDB), will supervise the Technical Cooperation Facility (hereinafter referred to as the project) through its Country Office in El Salvador (COF/CES).

The corresponding subprojects will be implemented by executing entities to be chosen under criteria established in the Social Entrepreneurship Program policy.[1]

Financing:

	IDB (US$)	Local (US$)	Total (US$)
Non-reimbursable technical cooperation:	650,000	500,000	1,150,000

The funds are drawn from the net revenues of the Fund for Special Operations (FSO).

Terms:

Commitment period: 24 months
Disbursement period 48 months

Opportunity that justifies the operation:

The first Americas Conference on Corporate Social Responsibility (CSR), organized by the Bank in Miami in September 2002, addressed issues that aimed to build awareness of the importance of CSR measures and the social, environmental and financial benefits to be gained by adopting them. In addition, it was concluded that the objectives of CSR coincide with the development goals of the IDB Group, by promoting improvements in the quality of life of communities. Accordingly, the IDB Group decided to develop this *pilot project* through which it uses its capacity to convene the various sectors, complementing this with the flexibility that the Social Entrepreneurship Program (SEP) provides to establish partnerships with the private business sector and work together on behalf of the

[1] The subprojects will be governed by the same regulations as SEP projects (OP-706, OA-320, PR-601 and their appendices).

economic and social development of poor and excluded groups in Latin America and the Caribbean.

El Salvador has a strong business sector, coordinated in its relations and with the potential to understand and become involved in a strategic economic development action among the most neglected sectors, but which have productive potential. *The aim of this project is to support and motivate enterprises, as part of their CSR actions, to find a way to channel contributions towards poor and excluded productive groups by cofinancing SEP projects*. This CSR-SEP combination is proposed as a strategy for multiplying the effects through a synergy that aims to: (i) make the most of the impact of the SEP in addressing the needs of small-scale projects which normally cannot be funded by the Bank, because of the transaction costs involved; (ii) increase the volume of funds for El Salvador; and (iii) involve the medium and large firm sector in social entrepreneurship development, while at the same time fostering a culture of responsibility.

Objectives: The project's general objective is to promote economic development and social equity among poor and excluded groups in El Salvador, by financing subprojects that deliver financial, social and/or community development services to the target population in an efficient and sustainable manner.

The specific objectives are: (i) to develop a joint working strategy with the private business sector to leverage resources to support the funding of SEP projects; (ii) to cofinance small-scale economic and productive projects that are strategic for the development of poor and excluded sectors; and (iii) to strengthen organizations that support those sectors, in order to enhance their efficiency, sustainability and self-management at the institutional and final beneficiary levels.

Description: This project will give Salvadoran enterprises the opportunity to directly cofinance productive subprojects with the Bank which benefit groups of small-scale producers and/or microentrepreneurs that the firms have a strategic interest in supporting as part of their CSR activities.

Component I: Subproject cofinancing (IDB US$500,000; Cofinancing firms US$500,000). The Bank will contribute up to US$500,000 in the form of non-reimbursable technical cooperation to finance subprojects. The minimum amount per subproject will be US$50,000, and the maximum US$200,000. The Bank will finance up to 50% of the total amount of each subproject that the cofinancing firms (SCFs) present, always provided the SCF contributes the other

half. Up to 25% of the total amount of the SCF contribution can be made in kind.

Activities to be financed in the subprojects may include: (i) technical assistance and direct training for producers and/or the organizations they support; (ii) dissemination and diversification of production and service alternatives; (iii) fostering of competitiveness and productivity among small-scale producers or microenterprises; (iv) support for the identification and development of marketing channels; (v) promotion of productive and entrepreneurial partnership; and (vi) mitigation of the environmental impact of productive activities undertaken. This list is merely indicative, so any kind of activity envisaged in the framework of the SEP policy could be funded.

The activities financed through each subproject will need to clearly demonstrate value added to the activities that both the executing agency and the beneficiaries are already undertaking without the support of such funds. In addition, the proceeds of Bank cofinancing may not be used to fund staffing for the subproject executing agency; this category can be considered as local counterpart funding in kind.

Component II: Management and execution (IDB: US$150,000). The Bank will contribute up to US$150,000 in the form of non-reimbursable technical cooperation for the following: (i) project coordination and assistance; (ii) subproject identification, preparation and monitoring; (iii) subproject impact evaluation and audit.

Environmental and social review: The Committee on Environment and Social Impact (CESI) considered this operation at its meeting of 28 February 2003. The following criteria have been added to the eligibility conditions established for each subproject in the project Operating Guidelines: (i) Funding may not be provided to productive activities which, under National Environmental Legislation, are deemed harmful to the environment; and (ii) any economic activities promoted that have a controllable environmental impact should include financing for the corresponding mitigation measures. Activities eligible for subproject funding include those related to mitigation of any environmental impacts caused by the productive activity being engaged in by the beneficiaries. In addition, the selection process will prioritize subprojects that encourage participation by women and indigenous sectors.

Beneficiaries: The final beneficiaries of this project are: (i) small-scale producers or microentrepreneurs with productive potential located in the area of influence of the firm that cofinances each subproject; (ii) small-scale producers or microentrepreneurs that have potential to become suppliers of inputs or services to the sponsoring firms or else be their clients; (iii) microenterprises set up by former employees of firms

participating in the project, which require support to create economic opportunities; and (iv) other poor or excluded groups that have productive potential and which the firms have a strategic interest in supporting, in order to contribute to the country's economic and social development.

The main problems of this target sector can be summarized as follows: (i) low productivity; (ii) weak competitiveness; (iii) low level of organization and insufficient associativity to generate scale economies; (iv) lack of information and access to appropriate technologies and innovation to promote non-traditional products of higher value-added; and (v) weak capacity for marketing their products, among other problems.

Coordination with other donors: The main project donors are firms that have already expressed their support, and others that are still in the process of reviewing and/or negotiating the proposal. The project operating guidelines set out clear mechanisms for coordination with such enterprises. In addition, the analysis and project design stage received logistic support from the CODESPA Foundation, which has participated in CSR projects in other countries; and it is possible that during the implementation of the Synergy Project, it may persuade other firms that have investments in Central America to participate.

The Bank's country and sector strategy: The proposal is consistent with the Bank's strategy in El Salvador, as set out in the Country Paper, because: (i) it focuses on rural and suburban areas; (ii) it supports vulnerable sectors; (iii) it promotes partnerships and participation by the private sector in human capital development; and (iv) it promotes projects that support productivity increase, competitiveness, the search for new markets and partnership among small-scale producers with productive potential.

The Bank's Social Entrepreneurship Program Operations Policy (OP-706) allows technical-cooperation loans to be financed that benefit multiple intermediary institutions as an integral part of a project facility. Such technical cooperation may be used to support the organization and operation of the overall mechanism, including the identification, preparation and supervision of individual projects.

Risks: Although the project has received commitments from five firms to participate as subproject cofinanciers, the Bank's lack of background or previous experience of cofinancing with the private business sector in a similar initiative is the main risk for the success of this project. Nonetheless, the Bank should be willing to assume this risk, in order to gain the potential benefits of an experience of collaborating with firms in support of the economic and social development of poor and

excluded groups in Latin America and the Caribbean, through the Social Entrepreneurship Program (SEP).

Other project risks include the following: (i) the Bank's internal processes and mechanisms for subproject evaluation and approval may prove too cumbersome and thus discourage participation by the firms; and (ii) the management costs of the project may prove too high and/or complex for the proposal to deliver a viable solution to the difficulties posed.

To mitigate the first risk, for this project it is proposed to: (i) use simplified Bank procedures for approving the subprojects; (ii) include Technical-cooperation funds to support the process of identification, analysis, preparation, execution and monitoring of subprojects; (iii) start providing support for entrepreneurs in the identification and adaptation of subprojects to be presented to the Bank for its approval.

To mitigate the second risk, the project proposes: (i) a minimal management structure with a project coordinator; (ii) efficient mechanisms for coordination with the firms and collaborative work that eliminates bureaucratic and costly procedures; and (iii) hiring a part-time project adviser with experience in the Social Entrepreneurship Program, who is familiar with the design of the project strategy and can support its launch during the first year. This will facilitate an efficient startup process and lay foundations for coordination and execution of the strategy, with a view to expansion of the project in the future.

Special contractual clauses:

None.

Reports, evaluations and audit:

Reports: COF/CES and SDS/MSM will receive a quarterly report from the project coordinator on the state of progress of the project. This will also contain a consolidated summary of progress made in each of the subprojects being cofinanced. The report will highlight the following: (i) degree of fulfillment of commitments assumed by the firms, especially financial ones; (ii) state of progress in the execution of subprojects; (iii) difficulties encountered and measures adopted to overcome them; and (iv) recommendations and actions that need to be implemented to make the project more effective.

The project adviser will file four progress reports and a final report. The progress reports will be submitted to the Bank within 10 days following the end of the respective mission. These will contain a summary of the status of project execution, covering the following aspects: (i) relation with the firms; (ii) identification of proposals;

(iii) performance of the coordinator; (iv) SCF perceptions of the benefits they are obtaining from participation in the project; and (v) achievements, difficulties encountered, solutions implemented and recommendations. Within 15 days following the end of his/her contract, the adviser will submit a final report to the Bank analyzing the same aspects as the progress reports, but in greater depth. This will provide the Bank with information on the following: (i) a balance sheet of actions carried out during the first year of project execution; (ii) the viability of replicating this pilot project in other countries, with recommendations to be borne in mind; (iii) the appropriateness of a second phase of the project to cofinance additional initiatives; and (iv) aspects to take into account for a second phase.

Evaluation. A *midterm evaluation* will be carried out after 24 months of project execution, which will analyze the set of subprojects whatever their stage of implementation. The evaluation will make an appraisal of each subproject, focusing on the following: (i) the performance of the executing agency and/or the SCF as the case may be, paying special attention to the use of total funds and implementation of subproject activities; (ii) achievements in fulfilling the subproject performance indicators at the evaluation cutoff date; (iii) effectiveness of SCF participation in the subproject and cofinancing in cash and in kind; and (iv) progress in knowledge acquired on the strategic points and organizations that support rural and urban productive development, and where investments could best be made in view of their development and impact potential.

This evaluation will collect and systemize SCF opinions on the experience of working with the Bank. To address this important aspect, the consultant will hold individual interviews with each firm, preferably with participation by a member of the firm's board of directors, in addition to the SCF representative, and someone who has participated in negotiations with the Bank. Neither the project coordinator nor the adviser should participate in the interview.

The process of gathering entrepreneurs' opinions will focus on the following aspects: (i) the firms' perceptions as regards the benefits obtained from participating in this project, compared to their original expectations; (ii) efficiency in management processes, negotiation of the project and disbursement of funds; (iii) support received in subproject formulation and executing agencies; (iv) support received during execution of the subproject, if this had been requested by the firm; and (v) general comments, expectations and suggestions in relation to the experience of working with the Bank.

The evaluation is expected to cover sufficient aspects to assess the general performance of the project and take decisions on the strategy

for collaborating with the private business sector in El Salvador, its continuity and scale. The evaluation report will provide the Bank with inputs for decision-making in this area. If the result shows that the firms are interested in continuing to cofinance initiatives of this type, the Bank could begin making the necessary arrangements to request financing for a second phase of the project.

Audits. Within 90 days following expiry of the deadline for the last disbursement of cofinancing for each subproject, the executing agency will submit a financial report certified by independent auditors showing how the Bank's contribution was used, and verifying the contribution of counterpart funds. Each subproject will include a financial item to cover these individual audits, which will be funded out of the Bank grant.

Exceptions to Bank policy: None.

I. FRAMEWORK OF REFERENCE

A. Social, economic and productive context

1. The scenario of the country

1.1 El Salvador has a population of 6.2 million inhabitants, of whom 47.9% were living in poverty in 2001.[1] The aggressive economic reform policy implemented by El Salvador has made it one of the leading countries in Latin American and the Caribbean in terms of economic freedoms.[2] While the reforms have expanded the field of action of certain private sectors, disparities exist in their growth rates, in addition to declining competitiveness and situations of inequity that hinder the formation of social capital. One example of this is the situation of poverty linked to the agricultural sector. As many as 67% of the working population of El Salvador are distributed in three sectors of activity: agriculture-livestock; manufacturing industry; and commerce, hotels and restaurants. Among these, the agriculture-livestock sector employs the largest proportion (26%), absorbing 60% of the rural economically active population (EAP), and accounting for 21% of the country's entire economic activity. Nonetheless, 61.2% of the rural population lives in poverty.

1.2 The persistence and growth of these disparities impairs social harmony in several ways: (i) it generates subhuman living conditions among the worst affected sectors; (ii) it undermines consumption capacity in the domestic market for goods and services, thereby affecting the country's domestic economic growth; (iii) it wastes creative, entrepreneurial and working potential among the most vulnerable sectors; and (iv) it heightens tensions and increases social divisions, fostering unfavorable conditions for political governance, democratic processes, social integration and human development. These aspects generate social, political and economic phenomena that undermine the country's development, with causes, effects and costs that are similar to those seen in other countries of the region.

1.3 El Salvador has a strong business sector, coordinated in its relations and with potential to understand and become involved in a strategic action to support development among the most deprived sectors, but which have productive potential. El Salvador can also boast major initiatives in promoting Corporate Social Responsibility (CSR).[3] Examples of CSR activities aimed at projecting

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[1] Human Development Report. United Nations Development Programme. El Salvador 2001.

[2] The Index of Economic Freedom is constructed from a number of different variables including tax burden, regulatory framework for foreign investment, tariff structure, financial system regulations, monetary policy and the existence of black markets. The lower the index, the higher is the level of economic freedom. El Salvador has an IEF of 1.25, the lowest in Latin America and the Caribbean.

[3] Several concepts have been developed to define what is meant by Corporate Social Responsibility (CSR); paragraph 1.7 describes the CSR concept used for the purposes of this project.

Salvadoran businesses towards their community include the following: (i) ADOC, one of the region's largest footwear factories, financially supports technical education centers to train young people from deprived social backgrounds with a view to future labor market participation; (ii) BON APPETIT, a well-known food company, promotes organization and efficiency among its sales and distribution service providers, by extending finance for the purchase of vehicles and transport, and thereby increasing competitiveness among over 100 microenterprises related to the firm's logistics; (iii) CESSA, the largest cement factory in Central America, acting through its foundation, promotes diversification and productive innovation in crops, testing product varieties whose results are then made available to small-scale agricultural producers in the Metapán area where the cement factory is located; and (iv) LABORATORIOS LÓPEZ promotes competitiveness among manufacturing microenterprises run by women in communities close to its plant.

1.4 In view of these activities, in April this year the Bank held a series of consultations with the large and medium-sized enterprise sector in El Salvador, in order to explore the viability of their forging a partnership with the Bank to implement a project aimed at promoting the economic development of the country's poorest sectors. The strategy proposed for this project combines two lines of action: (i) the Social Entrepreneurship Program (SEP); and (ii) actions in the Corporate Social Responsibility framework.

2. The Bank and the Social Entrepreneurship Program (SEP)

1.5 The SEP is a Bank program that has accumulated 25 years of experience in the execution and financing of projects in the microenterprise and small-scale rural producer sector. SEP aims to support projects that promote social equity and economic development among poor and excluded groups, and which at the same time provide financial, social and/or community development services to this target population on a sustainable and efficient basis.

1.6 Investments in productive development in these sectors that show growth potential, help to: (i) reduce poverty by creating income-generating opportunities; (ii) create employment; (iii) promote national income and economic growth; (iv) improve income distribution; (v) develop the private sector at the local level; and (vi) promote a spirit of entrepreneurship. From its inception in 1978[4] until December 2002, SEP had financed 556 operations totaling in excess of US$290 million. These operations have benefited more than one million microentrepreneurs and small-scale urban and rural producers, and have created and/or consolidated

[4] Between 1978 and 1998, SEP projects were referred to as Small Projects.

over 3 million jobs in Latin America and the Caribbean. In the case of El Salvador, during this period 24 projects have been approved totaling over US$11 million.[5]

3. Corporate Social Responsibility (CSR)

1.7 CSR is a line of action being promoted by the Bank through various programs. The benefits of promotion and adoption of social responsibility practices among firms is a two-way street. Firstly, the implementation of CSR practices within the firm enhances its competitiveness in relation to other firms in the region and worldwide, has a direct effect on productivity and creates a positive image of such firms in the eyes of consumers, potential investors, partners, employees and society at large. Secondly, CSR has a positive effect in terms of improving the quality of life among the local community.

1.8 CSR is not merely business philanthropy, which encompasses all business practices involving financial support and donations aimed at tackling various important social issues (health, education, etc.), national emergencies and other factors affecting specific groups. CSR, on the other hand, refers to the set of policies and practices forming an integral part of the firm's strategy, which give orientation on ethical values, compliance with the law (fiscal, environmental, labor, human rights, etc.), and respect for their workers, consumers, suppliers and the wider community. It also includes active participation by the firm in forging alliances with civil society organizations, local governments and multilateral agencies to address the challenges facing society in successfully integrating into the globalization process.

1.9 Private enterprise contributions on behalf of social causes are nothing new, and are channeled through a wide range of activities both within enterprises and outside them. Most firms feel an obligation to donate, but few of them have managed to do so well.[6] Nonetheless, a more recent idea that is increasingly gaining acceptance is that a firm's interventions in its surrounding community yield greater benefits to society and the firm alike if they are carried out with strategic involvement. In other words, the firm decides what, why and how to invest, and can do so drawing on its experience and knowledge acquired in managing its business. Social investment conceived on this basis achieves a greater impact because it opens the doors of the firm not only to funding for social causes but also to knowledge, time and tools known to the firm, which can be very useful to the underprivileged sectors in its neighborhood.

1.10 The key is to find interventions that make it possible for the firm to contribute its know-how and channel it appropriately. Bearing in mind that firms do not operate

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[5] SDS/MSM statistics used in preparation of the book *Macroimpacto con microdinero* [Macroimpact with Microfinance] to be published in 2004.

[6] See *"¿Vale la pena la generosidad corporativa?,"* by Michael Porter and Mark Kramer, Revista Summa, April 2003, taken from an article published in the Harvard Business Review.

in isolation from the rest of society, helping to improve the social and economic conditions of developing countries could give rise to new productive areas and even a new market for their products. In addition to promoting development among the communities concerned, this type of intervention usually also involves an enrichment of the firm in the domains of corporate values, staff motivation and consumers; and it may even lead to an expansion of market segments.

1.11 To achieve such strategic involvement, the firm needs to choose its area of intervention and how to generate synergy. In other words, it needs to discover the community's priority needs and those which best match the competencies and interests of the firm. *The aim of this project is to support and motivate firms to find a way to channel their contributions–not only financial ones, but also technology, knowledge, markets and opportunities – towards poor and excluded productive groups, by cofinancing SEP projects.*

B. The sector

1. Participation by the private business sector in cofinancing Social Entrepreneurship Program projects

1.12 In the context of this project, the private business sector is understood as encompassing Salvadoran medium and large enterprises. The size of these firms, measured in terms of labor force, varies approximately between 200 and 5,500 employees. Although enterprise size is important, the most relevant aspects in designing this project were the following: (i) the willingness of these firms to become involved in CSR practices centered on economic development of the most poor; and (ii) possibilities for cofinancing initiatives.

1.13 Preliminary soundings conducted with the local private sector before and during the project analysis phase, revealed three important facts: (i) the business sector in El Salvador is willing to cofinance small-scale projects with the Bank; (ii) several firms are promoting social development projects in the CSR framework; and (iii) several of the firms contacted lack SEP experience, and see the program as an opportunity to sign up to its goals, targeting its own resources towards productive development among the most deprived sectors. The confluence of these three elements represents an opportunity to develop synergy between the Bank, the firms and the SEP target sector, and to practice strategic involvement in keeping with the CSR concepts on which the project is founded.

1.14 Several entrepreneurs interested in the project lack concrete proposals and have little experience in identifying the type of projects financed by the SEP. They are willing to commit funds, but as they do not have specific projects they are unable to decide on the contribution for cofinancing with the Bank. Such entrepreneurs need guidance and technical support in identifying subprojects.

1.15 Accordingly, the project needs preliminary support from the Bank to enable it to move forward on the following actions: (i) support for cofinancing firms (SCFs) in the identification and formulation of specific subprojects to be cofinanced with the Bank; (ii) evaluation and approval of those subprojects by the Bank; and (iii) joint financing of the subprojects.

1.16 The project needs Bank administrative processes to be streamlined for various reasons: (i) the amounts involved in the subprojects are very small and do not justify individual management processes at the Bank level; (ii) entrepreneurs prefer an individual cofinancing relationship with the Bank rather than forming a local counterpart business group, so agreements need to be negotiated and reached individually with each firm; (iii) preliminary support needs to be developed with each firm in identifying and/or adapting their proposals in line with SEP guidelines; and (iv) to take advantage of the opportunity and benefits of collaboration with the private business sector, which is accustomed to efficient management and execution processes.

1.17 It is also inadvisable to proceed with negotiations and actions that gain entrepreneurial support for the project, or build up expectations, unless the Bank allocates resources to finance viable small-scale subprojects (SEP-CSR) that arise from technical support to the private business sector.

1.18 The project generates benefits in several directions: (i) it leverages SEP funds through a cofinancing mechanism with the private business sector; (ii) it encourages one of the Corporate Social Responsibility areas; (iii) it targets cofinancing on poor social sectors with productive capacity, which need support in improving their productivity; and (iv) it offers the private business sector the chance to benefit from lessons learned and experiences gained in the Social Entrepreneurship Program, which is an innovative aspect of this proposal.

2. Project beneficiaries

1.19 The final beneficiaries of this project are: (i) small-scale producers or microentrepreneurs with productive potential located in the area of influence of the firm that cofinances each subproject; (ii) small-scale producers or microentrepreneurs that have potential to become suppliers of inputs or services to the sponsoring firms, or else be their customers; (iii) microenterprises set up by former employees of the firms participating in the project, which need support in generating economic opportunities; and (iv) other poor or excluded groups that have productive potential, which the firms have a strategic interest in supporting in order to contribute to the country's economic and social development.

1.20 The Bank's experiences in El Salvador, together with those of nongovernmental organizations (NGOs) that support small-scale producers, confirm that **the main problems of the target sector** can be summarized as follows: (i) low productivity;

(ii) low competitiveness; (iii) weak organization and insufficient associativity to generate scale economies; (iv) lack of information and access to appropriate technologies and innovation to promote non-traditional products of higher value added; and (v) weak capacity for marketing their products, among other problems.

3. Intermediary entities

1.21 For the Bank and the private business sector to be able to channel project resources effectively, there are organizations in El Salvador that work directly with the project's target sector. These include NGOs, enterprise foundations themselves, cooperatives, associations and producer groups, small-scale foundations, trade associations and city halls that implement local development plans in conjunction with enterprise foundations and/or producer groups.

1.22 These intermediary organizations have direct contact with the project's intended beneficiary groups, and are therefore better placed and have the experience needed to help identify and solve the problems that they face. This reality was confirmed by the founder of the World Business Council for Sustainable Development, Stephan Schmidheiny: "I am talking of something much more radical than philanthropy. I'm calling for companies to seek out opportunities to bring the poorest sectors into the market, in such a way as to benefit both the poor and the company itself. This will largely mean that business people will need to work with NGOs and their leaders. The NGOs know the poor, their possibilities and needs; the companies know how to innovate and bring their innovations to the market. Together they can forge powerful and mutually beneficial partnerships which will achieve results that even the politicians will be forced to recognize sooner or later."[7]

C. Background to the operation

1.23 The first Americas Conference on Corporate Social Responsibility, organized by the Bank in Miami in September 2002, addressed issues that aimed at creating awareness of the importance of CSR measures, and the social, environmental and financial benefits to be gained by adopting them. In addition, it was concluded that the objectives of CSR coincide with the development goals of the IDB Group, by promoting improvement in the quality of life of communities. Accordingly, the IDB Group decided to develop this *pilot project* through which it uses its capacity to convene the various sectors, complementing this with the flexibility that the Social Entrepreneurship Program (SEP) provides to establish partnerships with the private business sector, and work together on behalf of the economic and social development of poor and excluded groups in Latin America and the Caribbean.

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[7] Further information on CSR concepts and cases can be found in the document *Responsabilidad social empresarial y desarrollo productivo* [Corporate Social Responsibility and Productive Development], which is included in the project's technical files.

1.24 Accordingly, on 14 February 2003, SDS/PEF approved the profile for preparation of the Synergy Project: Promotion of Corporate Social Responsibility through Small-Scale Producer Development (TC-02-11-02-2), in the framework of the Social Entrepreneurship Program. During April and June, consultations for the design of the project were held with 25 different entrepreneurs and six Salvadoran development organizations. Information on the activities carried out and the firms contacted is available in the project's technical files.

1.25 By 26 September 2003, the following five firms had written to express interest in participating in the project: (i) Amanco El Salvador, (ii) Banco Cuscatlán, (iii) Adoc, (iv) Bon Appetit, and (v) BBVA Crecer. The respective letters are included in the project's technical files. In addition, the Bank is waiting to receive replies from another five firms that have also indicated an interest in participating.

1.26 For its part, the Government of El Salvador, acting through the Technical Secretariat of the Office of the President of the Republic gave its nonobjection to the proposed project in memorandum ST/CRA/127/2003, dated 12 September 2003.

D. Project strategy

1.27 This CSR-SEP combination is proposed as a strategy for multiplying effects through a synergy that aims to: (i) enhance the impact of the SEP in addressing the demands for small-scale projects that normally cannot be financed by the Bank because of transaction costs; (ii) increase the volume of funds for El Salvador; and (iii) involve the medium and large firm sector in developing social entrepreneurship, while simultaneously fostering a culture of responsibility.

1.28 The Bank's Social Entrepreneurship Program Operations Policy (OP-706) allows it to finance operations of technical cooperation that benefit multiple intermediary institutions as an integral part of a project facility. Such cooperation can be used to support the organization and operation of the overall mechanism, including the identification, preparation and supervision of individual projects.

1.29 This suggests the implementation of a *pilot project* based on the SEP policy, complemented with mechanisms combining: (i) rigorous identification and evaluation of proposals; (ii) speedy approval of subprojects and disbursement of funding; and (iii) immediate availability of technical-cooperation funds to support the process of identification and preparation of cofinancing proposals. Approval of this project will make it possible to: (i) sign a letter of participation intent with each firm within a short timeframe; (ii) hire a consultant to take on the role of project coordinator and start providing support to entrepreneurs in the identification and formulation of subprojects; and (iii) identify and approve the initial subprojects to be cofinanced by the project.

E. The Bank's strategy with the country

1.30 The proposal is consistent with the Bank's strategy with El Salvador, as set out in the country paper, because: (i) it focuses on rural and suburban areas; (ii) it supports vulnerable sectors; (iii) it promotes partnerships and private sector participation in human capital development; and (iv) it promotes projects that support productivity increase, competitiveness, the search for new markets and partnership among small-scale producers with productive potential.

1.31 **Coordination with other donors.** The main project donors are the firms themselves that have expressed their support, and others that are still in the process of reviewing and/or negotiating the proposal. The project's operating guidelines contain clear mechanisms for coordination with such firms. In addition, the project analysis and design stage received logistic support from the CODESPA Foundation, which has participated in CSR projects in other countries; and it is possible that during the implementation of the Synergy Project, it may persuade other firms that have investments in Central America to participate.

II. THE PROJECT

A. Objectives

2.1 The project's general objective is to promote economic development and social equity among poor and excluded groups in El Salvador, by financing subprojects that provide financial, social and/or community development services to the target population on an efficient and sustainable basis.

2.2 The specific objectives are as follows: (i) to develop a joint working strategy with the private business sector to leverage resources that support financing for SEP projects; (ii) to cofinance small-scale economic and productive projects that are strategic for the development of poor and excluded sectors; and (iii) to strengthen organizations that support those sectors, in order to enhance their efficiency, sustainability and self-management at the institutional and final beneficiary levels.

B. Description and components

2.3 The project will provide Salvadoran firms with the opportunity to cofinance productive subprojects directly with the Bank, that benefit small-scale producer groups and/or microentrepreneurs which the firms have a strategic interest in supporting as part of their CSR activities.

1. Component I: Subproject cofinancing (IDB US$500,000; Cofinancing firms US$500,000)

2.4 The Bank will contribute up to US$500,000 in the form of nonreimbursable technical cooperation to finance subprojects. The minimum amount of each subproject will be US$50,000 and the maximum US$200,000. The Bank will finance up to 50% of the total amount of each subproject submitted by the cofinancing firms (SCFs), provided the SCF puts up the other half. Up to 25% of the firm's total contribution can be made in kind.

2.5 Activities to be financed in the subprojects may include the following: (i) technical assistance and direct training for producers and/or the organizations they support; (ii) dissemination and diversification of production and service alternatives; (iii) promotion of competitiveness and productivity among small-scale producers or microentrepreneurs; (iv) support for identification and development of marketing channels; (v) promotion of productive and entrepreneurial partnerships; (vi) mitigation of environmental impacts caused by the productive activities carried out. This list is merely indicative, for any type of activity envisaged in the SEP policy framework may be eligible for financing.[8]

2.6 The activities financed through each subproject will need to clearly demonstrate value added to activities that both the executing agency and the beneficiaries are already carrying out without support from these funds. In addition, the Bank's cofinancing funds may not be used to defray staff expenses in the subproject executing agency; this category can be considered as a local counterpart contribution in kind.

2. Component II: Management and execution (IDB: US$150,000)

2.7 The Bank will contribute up to US$150,000 in the form of nonreimbursable technical cooperation for the following: (i) project coordination and assistance; (ii) identification, preparation and monitoring of subprojects; and (iii) subproject impact evaluation and audit.

2.8 **Project coordination and assistance:** The Bank will hire a consultant to act as *project coordinator*, with responsibility for the following activities: (i) guiding the cofinancing firms (SCFs) in identifying subprojects; (ii) supporting the process of feasibility analysis and adjustment of proposals in line with SEP formats, guidelines and facilities, ensuring that the subprojects presented to the Bank satisfy all SEP requirements; (iii) processing disbursements of Bank funding for each subproject; (iv) monitoring and overseeing execution of the subprojects; and (v) preparing project execution progress reports. The coordinator will work on the project full-

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[8] The subprojects will be governed by the same regulations as SEP projects (OP-706, OA-320, PR-601 and their appendices).

time for 24 months, and will be hired part-time for the remaining 24 months, according to project execution and monitoring needs.

2.9 In order to support project execution processes and help consolidate the operating framework during the first year, the Bank will hire a part-time consultant with international experience in the design and execution of SEP projects and in forging strategic alliances with the private sector. The person hired will act as *project adviser* with the following responsibilities: (i) to support the project startup process; (ii) to guide and advise the coordinator in the planning and execution of his/her responsibilities; (iii) to support the coordinator in the identification and analysis of proposals in accordance with SEP policy; (iv) to make visits to firms interested in presenting proposals, and assist the coordinator in developing effective links with the SCFs; (v) to support the process of presentation and approval of subprojects submitted for Bank consideration; (vi) to prepare a baseline against which to measure project results and impacts and a benchmark for adapting to each subproject; (vii) to prepare a project promotion and dissemination plan including the SCFs; and (viii) to propose alterations and adjustments as appropriate to make project management and execution processes more effective. The adviser will be hired for a total of 50 days distributed over the first 18 months of project execution.

2.10 **Subproject identification, preparation and monitoring.** The Bank will finance the following activities to provide technical support to the SCFs and the subproject executing entities: (i) project launch and coordination workshops to explain to the SCFs the essential procedures and actions in identifying, formulating and preparing proposals, in addition to project eligibility criteria and the project work plan; (ii) technical assistance for identification, formulation and presentation of subprojects; and (iii) activities to monitor the implementation of subprojects approved by the Bank.

2.11 The project's technical files include operating guidelines containing detailed explanations of the profile, responsibilities and aspects to be taken into account when recruiting and hiring the project coordinator and adviser, in addition to suggested mechanisms for holding the coordination and launch workshops.

C. Cost and financing

2.12 The project is expected to cost a total of US$1.15 million. The Bank will contribute US$650,000 in the form of nonreimbursable technical cooperation, of which US$500,000 will be to cofinance subprojects and US$150,000 to finance project management and execution. The SCFs will contribute up to US$500,000 on a nonreimbursable basis for subproject cofinancing.

Components (US$)	IDB	SCF	Total
Component I: Subproject cofinancing	**500,000**	**500,000**	**1,000,000**
Component II: Management and execution	**150,000**		**150,000**
Project coordination and assistance	107,000		
Project identification, preparation and monitoring	30,000		
Evaluation	13,000		
Total	**650,000**	**500,000**	**1,150,000**

III. PROGRAM EXECUTION

A. Executing agency

3.1 The Bank will be responsible for *supervising project execution*. The Bank's Country Office in El Salvador (COF/CES) will have basic responsibility for the project, in coordination with the Micro, Small and Medium Enterprise Division (SDS/MSM), which will have technical responsibility.

3.2 Subprojects may be implemented by the following entities: (i) SCFs that wish to and have the capacity to directly implement the social entrepreneurship subproject which they are cofinancing; (ii) SCF foundations; (iii) NGOs, cooperatives, associations, producer groups, small-scale foundations, associations that work with or represent small-scale producer communities or sectors, and/or urban and rural microentrepreneurs that require financial and technical support to better develop their productive initiatives; and (iv) town halls executing local development plans in conjunction with enterprise foundations and/or producer groups. In any of these cases, the Bank will apply the eligibility criteria set out in the Social Entrepreneurship Program policy, and/or any others determined by the Bank at the time of project approval.

B. Project execution and management

1. Project coordination and assistance

3.3 Considering that COF/CES will be in charge of project execution, that this *pilot* project is innovative for the Bank, and that management costs need to be kept to a minimum, COF/CES will hire a consultant to act as ***project coordinator***, with responsibility for project execution and management.

3.4 Before receiving support from the project coordinator, the Bank will ask each participating firm (SCF) to appoint a representative. This person will be the manager and coordinator of the firm's SEP subprojects in dealings with the Bank, and will have at least the following functions: (i) to act as the official interlocutor between the firm and the Bank with regard to the management and execution of small-scale subprojects; (ii) to facilitate the information and means needed to

achieve viable formulation of the subprojects; (iii) to make arrangements within the SCF to secure the resources and cofinancing contributions to be specified in the agreement the firm will sign with the Bank; and (iv) to coordinate with the project coordinator all activities necessary for efficient subproject management and implementation, including monitoring and impact-assessment activities. The coordinator will establish a work agenda with each SCF in order to support it effectively, and it will monitor subprojects, agreeing the timeframe and format of this activity with the firms in question. In addition, the project coordinator, in conjunction with SCF representatives, will make field visits to directly observe the progress and status of the actions being financed.

3.5 In order to support a smooth project launch, and help consolidate the operating framework and key processes during the initial months of project execution, the Bank will also hire a consultant to serve as ***project adviser***. The person chosen will have broad experience, preferably at international level, in the preparation and execution of SEP projects; in addition to experience in forging strategic private-public sector alliances for project development.

3.6 Both the project coordinator and the adviser will report directly to the Bank. The latter officially notify the SCFs of the appointment of the project coordinator and adviser.

2. Identification and preparation of subprojects

3.7 ***Launch and coordination workshops:*** Before starting to provide support for the firms, and once these have appointed their corresponding project representatives, a coordination and launch workshop will be held in two phases: (i) an internal workshop with the Bank project team, which will aim to achieve a shared vision on processes and execution criteria; and (ii) a launch workshop with representatives from all SCFs, with the aim of providing them with a clear vision of project processes and criteria, and encouraging favorable prior conditions for implementing the subprojects. Both workshops will take account of the Project Operating Guidelines and materials studied during the Social Entrepreneurship Program Effectiveness Workshop, held in Washington in July 2003, which form part of the project's technical files.

3.8 ***Identification of subprojects.*** The SCFs, through their representatives, will be responsible for identifying the initiatives they are interested in cofinancing. Each SCF will decide on a timely basis and in accordance with their interest, what type of action or activity they wish to cofinance, and will submit a proposal to the Bank for its consideration and approval. Should the SCF decide to delegate execution of the subproject to a third party, the coordinator will need to consult the Bank's Legal Department on the eligibility of the entity in question, before presenting the subproject proposal for consideration by the Bank.

3.9 The project coordinator and the adviser will *support* the SCF representatives and the professionals in their team in the following activities: (i) identification of ideas for subprojects and intermediary entities capable of implementing them, should the SCF wish to delegate execution to a third party; and (ii) analysis of subproject ideas, including field visits to determine their eligibility for project funding.

3.10 For the process of identifying proposals, the SCF and the coordinator will take into account the eligibility criteria described in the Operating Guidelines contained in the project's technical files. Subject to prior authorization from the COF/CES specialist responsible for SEP execution, the coordinator may request project funds to hire specialized consultants to support the SCFs whenever the project identification and formulation process so requires.

3.11 The SCF will be responsible for related expenses, such as: (i) travel and/or accommodation for its representative in visits to localities, producer groups or organizations of interest to the firm; (ii) communications and procedures aimed at obtaining information of interest for the SCF; (iii) additional activities that the SCF may require, involving participatory diagnostic studies, awareness building and/or dissemination work with the beneficiary sectors. In addition, the SCFs will provide their representative with the resources and equipment needed to identify and formulate their proposals, such as: (i) technical specialists according to the economic and productive activity that the firm wishes to promote with the project; (ii) basic information technology equipment and systems; (iii) a place of work for back-office tasks; and (iv) basic office supplies.

3.12 ***Preparation and presentation of proposals.*** The SCF and the entity proposed as subproject executor will formulate their proposal, taking as a reference the format contained in the project's technical files. The main information the proposal should contain is the following: (i) the problems it is desired to resolve with the project, and the objectives and activities to be financed; (ii) responsibility for execution; (iii) beneficiaries; (iv) detailed description of the activities to be funded with subproject resources, hiring needs, procurement and technical assistance; (v) expected outcomes, performance indicators and evaluations; (vi) detailed budget; (vii) duration, disbursements and contractual conditions; (viii) environmental and social aspects; and (ix) a letter from the SCF stating its commitment to pay its cofinancing contribution to the subproject.

3.13 The coordinator will have the following responsibilities: (i) to give guidance to the SCF and the executing agency in formulating the subproject proposal; (ii) to hold internal consultations with the Bank to facilitate formulation of a viable proposal, in terms of both content and format; (iii) to review the subproject proposals presented, and suggest changes and adjustments to satisfy SEP eligibility criteria; and (iv) to review the proposal to certify his/her technical approval.

3. The Bank's internal subproject approval mechanism

3.14 The Bank will evaluate and approve subprojects using the following simplified mechanism: (i) once the project coordinator certifies his/her technical agreement with the proposal, the SCF will formally present it through the Country Office's SEP project specialist, for consideration and approval by the Bank; (ii) the COF/CES specialist, in coordination with SDS/MSM, will review the proposal and send it to the representative with a recommendation that it be approved; (iii) the COF/CES representative will be responsible for approving each subproject; (iv) the Bank's Legal Department will draw up the technical-cooperation agreement for the approved subproject; (v) technical-cooperation agreements will be signed by the parties involved in the subproject: namely the Bank, which will delegate signing to its Country Office in El Salvador; the SCF legal representative, and the legal representative of the intermediary organization responsible for project execution, where appropriate; (vi) the COF/CES representative will issue the order for funding disbursement. Annex II of the project contains a diagram showing the subproject formulation and approval cycle.

4. Monitoring of subproject execution

3.15 The coordinator will monitor execution of the subprojects in order to observe and support their effective development. Subproject monitoring will be coordinated with the SCFs. Field visits by the coordinator will make it possible to directly observe progress and judge the status of the actions being financed.

3.16 The coordinator will make at least two field visits per year to each subproject. Travel and per diem expenses will be financed out of technical-cooperation funds. The coordinator will present a work agenda to his/her direct superior in the Bank's Country Office, in order to authorize expenditure on this item for project management.

3.17 During the monitoring visits, the coordinator will focus on the following: (i) the state of progress of actions in relation to the subproject operating plan; (ii) performance of the executing institution; (iii) participation by beneficiaries and their opinion regarding implementation of the activities; and (iv) difficulties encountered and achievements realized. If the coordinator identifies problems in subproject execution that need support from a specialist, he/she may use funds assigned for project monitoring to hire specific technical assistance as necessary. For this purpose, the coordinator will prepare a report describing the implementation problems identified and the solutions proposed, and send this for approval to the COF/CES specialist responsible for the SEP.

3.18 The coordinator, in conjunction with the SCF representative, will propose activities to promote involvement by the staff, management team and board of directors of the SCF in the subprojects and with their beneficiaries.

C. Procurement of goods and services

3.19 The procurement of goods and related services, and the selection and hiring of consulting services financed with technical-cooperation funds will be carried out in accordance with Bank procurement procedures.

D. Periods of commitment and disbursement of Bank funds

3.20 **Commitment period.** All funds provided by the Bank for Component I will be committed within 24 months following the date of the first disbursement of Component II resources. Any funds that have not been effectively committed to subproject cofinancing by this deadline will be cancelled.

3.21 **Disbursement period.** The project disbursement period will last 48 months. Subprojects whose total values do not exceed US$70,000 (IDB US$35,000) may receive disbursement in a single lump sum. Subprojects between this amount and the maximum envisaged of US$200,000 (US$100,000 provided by the Bank) will submit justified disbursement timetables. Each subproject will be executed within a 24-month period, with disbursements over a maximum of 30 months, in no case surpassing the maximum disbursement period of 48 months.

E. Performance indicators

3.22 Each subproject will include suitable indicators for the type of activity being carried out; fulfillment thereof will be verified in the respective evaluations. The indicators will vary according to the specific characteristics of each subproject and will be included in the design phase. Indicators to be taken into account include: (i) increased productivity; (ii) scope: number and characteristics of beneficiaries and changes in their income; (iii) sustainability and/or profitability; (iv) increased efficiency; and (iv) increased competitiveness measured by weighted volumes of sales and degree of production diversification and/or value added to the goods produced or services, among others.[9]

3.23 In terms of overall project execution, fulfillment of the terms and deadlines agreed upon for each subproject and cofinancing agreement with the SCFs will be verified. The table below establishes additional indicators to those set forth in the logical framework attached as Annex I; they will be used as references for project execution and evaluation.

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[9] Appropriate indicators for each subproject can be established based on the Guidelines for Evaluation and Monitoring of SEP projects, prepared by SDS/MSM, which are available in the project's technical files.

Specific objectives	Indicators, by specific objective
To develop a strategy for working with the private business sector to leverage resources to support the financing of SEP projects.	1. At the end of the project, at least seven subproject cofinancing firms are participating and at least four other firms have expressed interest in working with the Bank in an additional phase. 2. During project execution, SCFs demonstrate interest in continuing to cofinance subprojects with the Bank.
To cofinance small-scale economic and production projects that are strategic to the development of poor and excluded sectors.	1. At the end of the project, at least seven subprojects have been cofinanced. 2. The beneficiaries and cofinanced activities are consistent with SEP objectives. 3. Some of the activities promoted or cofinanced are in strategic sectors for the SCFs. 4. The firms receive social and/or economic benefits from participating in the project.
To strengthen the organizations supporting those sectors, to boost their efficiency, sustainability, and self-management at the institutional and final beneficiary levels.	1. During project execution, all approved subprojects have a perspective of financial and environmental sustainability. 2. The subproject executing units, i.e. firms or NGOs, are strengthened and build on the lessons learned, for themselves and for the subproject beneficiaries.

F. Monitoring and evaluation

3.24 **Reports.** COF/CES and SDS/MSM will receive a quarterly report from the coordinator on the status of project progress. This will include a consolidated summary of the progress made by each of the subprojects being cofinanced. The report will highlight the following: (i) degree of compliance with commitments assumed by the firms, especially financial ones; (ii) state of progress of subproject execution; (iii) difficulties encountered and steps taken to overcome them; and (iv) recommendations and actions to be implemented to make the project more effective.

3.25 The project adviser will file four progress reports and a final report. The progress reports will be submitted to the Bank within 10 days following the end of the respective mission. These will contain a summary of the status of project execution, covering the following aspects: (i) relationship with the firms; (ii) identification of proposals; (iii) performance of the coordinator; (iv) perception among the SCFs of the benefits they are obtaining from project participation; and (v) achievements realized, difficulties encountered, solutions implemented and recommendations. Within 15 days following the end of his/her contract the adviser will submit a final report to the Bank analyzing the same aspects as the progress reports, but in greater depth. This will provide the Bank with the following information: (i) a balance

sheet of actions carried out during the first year of project execution; (ii) the viability of replicating this pilot project in other countries, and recommendations to bear in mind; (iii) the relevance of carrying out a second phase of the project to cofinance additional initiatives; and (iv) aspects to take into account for a second phase.

3.26 **Evaluation.** A *midterm evaluation* will be performed on completion of 24 months of project execution; and the set of subprojects will be analyzed in whatever stage of execution they are in. The evaluation will appraise each subproject, focusing on: (i) the performance of the executor and/or SCF, as appropriate, paying particular attention to the use of total funds and the execution of subproject activities; (ii) achievements in fulfilling the subproject performance indicators at the evaluation cutoff point; (iii) effectiveness of SCF participation in the subproject and cofinancing in cash and in kind; and (iv) progress in knowledge acquired on the strategic points and organizations that support rural and urban productive development, and where investments could best be made in view of their development and impact potential.

3.27 This evaluation will collect and systemize SCF opinions on the experience of working with the Bank. To address this important aspect, the consultant will hold individual interviews with each firm, preferably with participation by a member of the firm's board of directors, in addition to the SCF representative, and someone who has participated in negotiations with the Bank. Neither the project coordinator nor the adviser should participate in the interview.

3.28 The survey of entrepreneurial opinions will focus on the following aspects: (i) the firms' perceptions of the benefits obtained from participating in this project, compared to their original expectations; (ii) efficiency in management processes, negotiation of the project and disbursement of funding; (iii) support received for subproject formulation and executing agencies; (iv) support received during execution of the subproject, if this had been requested by the firm; and (v) general comments, expectations and suggestions in relation to the experience of working with the Bank.

3.29 The evaluation is expected to cover sufficient aspects to assess the general performance of the project and take decisions on the strategy for collaborating with the private business sector in El Salvador, including its continuity and scale. The evaluation report will provide the Bank with inputs for decision-making in this area. If the result shows that the firms are interested in continuing to cofinance initiatives of this type, the Bank could make a start on arrangements to request financing for a second phase of the project.

G. Audit

3.30 Within 90 days following the expiry of the deadline for the last disbursement of cofinancing for each subproject, the executing agency will present a financial report certified by independent auditors showing how the Bank's grant was used and verifying the contribution of counterpart funds. Each subproject will include an item for financing these individual audits, which will be paid out of the Bank funding.

IV. VIABILITY AND RISKS

A. Institutional viability

4.1 In general, the SCFs will choose the organization and/or structure to be used in executing the subprojects. All proposals will have an executing agency. In situations where an SCF does not have an executing agency available, the firms will be supported in identifying and evaluating an intermediary organization to work with the direct beneficiaries of the actions to be financed.

B. Socioeconomic viability

4.2 The socioeconomic viability of this project is based on the following: (i) the existence of intermediate organizations that work with small-scale producers; and the demand for support for the country's poor sectors; (ii) transfer of knowledge and experience from the private sector and SEP to beneficiary small-scale producers; and (iii) existing experiences and the willingness of the private business sector to develop CSR in El Salvador.

C. Financial viability

4.3 The project's financial viability is based on the following: (i) willingness expressed by various firms to participate in cofinancing actions with the Bank; (ii) rigorous evaluation of the subprojects to be cofinanced, including the economic feasibility of their business plans; and (iii) application of sustainability criteria used by the SEP for the analysis of financing proposals.

D. Environmental and social considerations

4.4 The Committee on Environment and Social Impact (CESI) considered this operation at its meeting of 28 February 2003. The following criteria have been added to the eligibility conditions established for each subproject in the project Operating Guidelines: (i) funding may not be provided to productive activities which, under National Environmental Legislation, are deemed harmful to the environment; and (ii) any economic activities promoted that have a controllable environmental impact should include financing for the corresponding mitigation

measures. Activities eligible for subproject funding include those related to mitigation of any environmental impacts caused by the productive activity being engaged in by the beneficiaries. In addition, the selection process will prioritize subprojects that encourage participation by women and indigenous sectors.

E. Risks

4.5 Although the project has received commitments from five firms to participate as subproject cofinanciers, the Bank's lack of background or previous experience of cofinancing with the private business sector in a similar initiative is the main risk for the success of this project. Nonetheless, the Bank should be willing to assume this risk, in order to gain the potential benefits of an experience of collaborating with firms in support of the economic and social development of poor and excluded groups in Latin America and the Caribbean, through the Social Entrepreneurship Program (SEP).

4.6 Other project risks include the following: (i) the Bank's internal processes and mechanisms for subproject evaluation and approval may prove too cumbersome and thus discourage participation by the firms; and (ii) the management costs of the project may prove too high and/or complex for the proposal to deliver a viable solution to the problems posed.

4.7 To mitigate the first risk, for this project it is proposed to: (i) use simplified Bank procedures for approving the subprojects;; (ii) include Technical-cooperation funds to support the process of identification, analysis, preparation, execution and monitoring of subprojects; (iii) start providing support for entrepreneurs in the identification and adaptation of subprojects to be presented to the Bank for its approval.

4.8 To mitigate the second risk, the project proposes: (i) a minimal management structure with a project coordinator; (ii) efficient mechanisms for coordination with the firms and collaborative work that eliminates bureaucratic and costly procedures; and (iii) hiring a part-time project adviser with experience in the Social Entrepreneurship Program, who is familiar with the design of the project strategy and can support its launch during the first year. This will facilitate an efficient startup process and lay foundations for coordination and execution of the strategy, with a view to expansion of the project in the future.

F. Justification

4.9 This project represents an interesting opportunity for joint action between the Bank and the private business sector in El Salvador. It also represents an initial phase of approximation and stimulation of the private business sector vis-à-vis the SEP. In this instance, the size of the operation is not the most important issue, but the

quality of the operating mechanisms and experience of collaboration with the private business sector, on behalf of the most poor.

4.10 The project is justified because: (i) it expands development opportunities among the country's most neglected sectors; (ii) it encourages participation by firms promoting an approximation between two sectors that are poles apart in El Salvador;[10] (iii) it brings the Bank closer to the SEP target sector; (iv) it has dual value-added in terms of achieving a multiplier effect for SEP funds, while at the same time encouraging corporate social responsibility; and (v) it provides the Bank with additional knowledge of the strategic points and organizations that support rural and urban productive development, and where investments could best be made in view of their development and impact potential.

[10] This refers to the gap between economic and power groups and the country's poor sectors, which form the majority. The social divide between the sectors, both in El Salvador and another small countries of the region, has generated a variety of social phenomena that tend to undermine governance and produce high social and institutional costs.

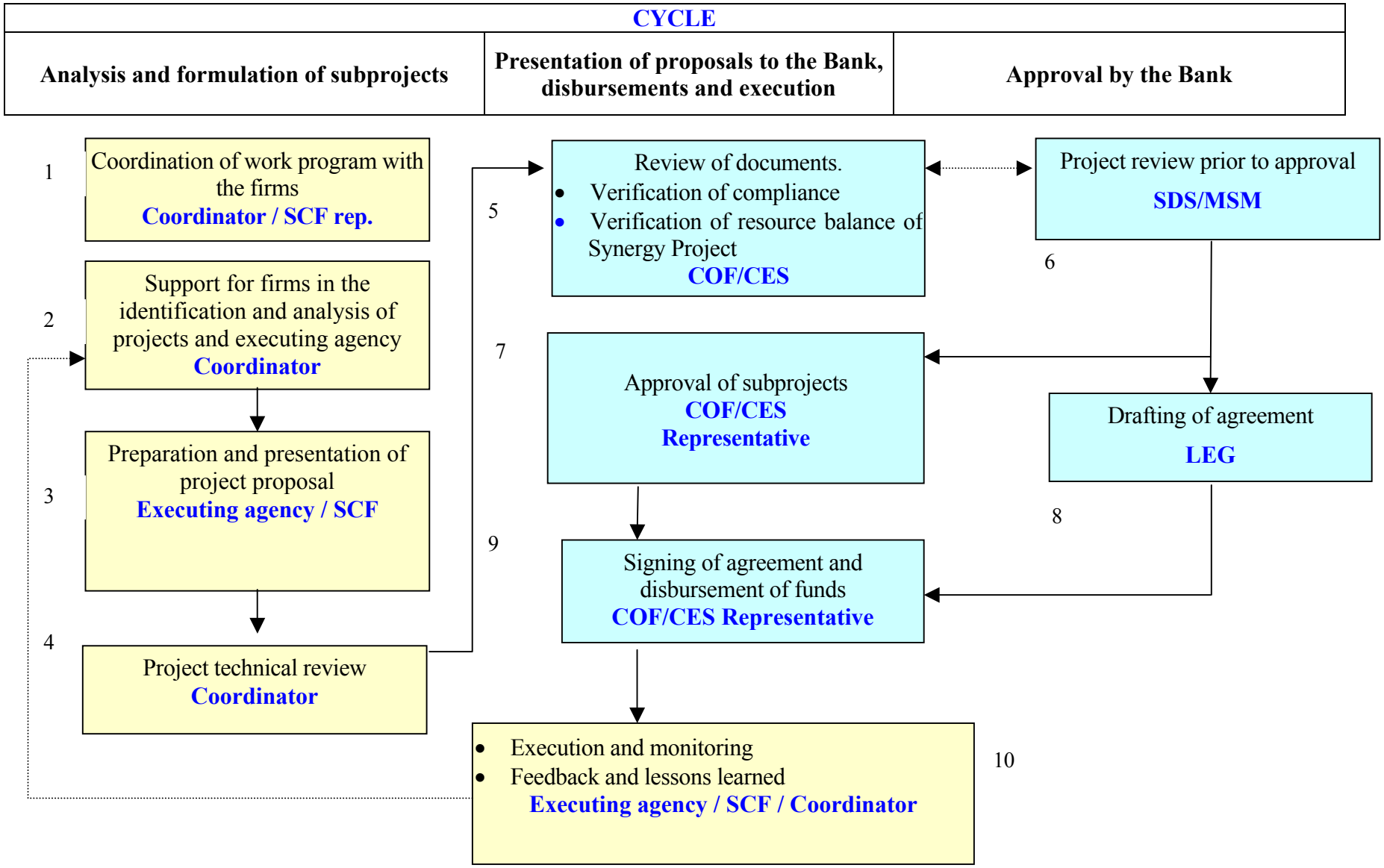
LOGICAL FRAMEWORK

PROMOTION OF CORPORATE SOCIAL RESPONSIBILITY THROUGH SMALL-SCALE PRODUCER DEVELOPMENT
TC-02-11-02-2-ES

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
To promote economic development and social equity among poor and excluded groups in El Salvador, by cofinancing subprojects to provide financial, social and/or community development services to the target population on an efficient and sustainable basis.	SEP subprojects cofinanced through the Synergy Project help to improve the economic and social situation of its beneficiaries.	• Project evaluation report. • Reports and evaluations by the project coordinator and adviser.	• The Salvadoran economy maintains a certain degree of stability. • The firms effectively fulfill their contribution commitments.
PURPOSE			
To create a mechanism whereby Salvadoran enterprises have the chance to directly cofinance productive subprojects with the Bank, which benefit small-scale producer groups and/or microentrepreneurs that the firms have a strategic interest in supporting, as part of their CSR activities.	By the end of the project: A joint work strategy to have been developed with the private business sector to leverage resources that provide financial support to SEP projects. At least seven cofinancing firms (SCFs) to have participated in the Synergy Project. At least nine small-scale economic and productive projects that are strategic for the development of poor and excluded sectors are cofinanced through the Synergy Project. At least nine organizations that support the SEP target sector are strengthened to increase their efficiency, sustainability and self-management at the institutional and final beneficiary levels. SCFs perceive economic and/or social benefits from their participation in the project.	• Execution reports from the coordinator. • Reports from the adviser. • Project evaluation and audit reports. • Subproject progress reports.	• The Salvadoran economy maintains a certain degree of stability. • The Bank shows its commitment to support a financial leveraging mechanism with the private sector. • The firms effectively fulfill their contribution commitments. • Internal Bank processes and mechanisms for evaluating and approving subprojects are rapid and encourage participation by the firms.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENTS AND ACTIVITIES			
Component I: Subproject cofinancing Subproject activities eligible for funding may include: (i) direct technical assistance and training for producers and/or the organizations they support; (ii) dissemination and diversification of production and service alternatives; (iii) promotion of competitiveness and productivity among small-scale producers or microentrepreneurs; (iv) support for the identification and development of marketing channels; (v) promotion of productive and entrepreneurial partnership; and (vi) mitigation of the environmental impact of productive activities undertaken. This list is only indicative, and any type of activity envisaged within the SEP policy framework can be financed. **Component II: Project management and execution** (i) Project coordination and assistance; (ii) Subproject identification, preparation and monitoring; (iii) Subproject impact evaluation and audit.	• The Bank contributes up to US$500,000 in the form of non-reimbursable technical cooperation to finance subprojects. • The minimum amount per subproject is US$50,000 and the maximum amount is US$200,000. • The Bank finances up to 50% of the total value of each subproject which the cofinancing firms (SCFs) submit; the latter contribute at least 50% of the total subproject amount. • Up to 25% of the total contribution by the firms can be made in kind. • The activities financed through each subproject demonstrably add value to those that the executing agency and the beneficiaries are already carrying out without the support of these funds. • The Bank contributes US$150,000 in the form of non-reimbursable technical cooperation for project management and execution. • The Coordinator and the Advisor to be hired and fulfilling their responsibilities satisfactorily. • Project launch and coordination workshops give satisfactory guidance to the SCFs and project team. • Technical assistance available for identification, formulation and presentation of subprojects being used by the SCFs. • Monitoring of project execution rated as satisfactory by the SCFs.	• Execution reports from the coordinator • Reports from the adviser. • Project evaluation and audit reports. • Subproject progress reports. • Reports from COF/CES and SDS/MSM specialists on project progress. • Performance appraisals of the coordinator and adviser. • Evaluation and outcomes of launch workshops. • Interviews with SCFs and executing agencies.	

SYNERGY PROJECT: SUBPROJECT FORMULATION AND APPROVAL PROCESS
TC-02-11-02-2-ES



RGII-ES439T
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Original: Spanish

PROPOSED RESOLUTION

El Salvador. Nonreimbursable Technical Cooperation Facility for Sinergy: Promoting Corporate Social Responsibility through the Development of Small Producers

The Board of Executive Directors

RESOLVES:

1. That up to the sum of US$650,000, or its equivalent in other convertible currencies, is authorized for the purposes of financing a Nonreimbursable Technical Cooperation Facility for Sinergy: Promoting Corporate Social Responsibility through the Development of Small Producers, hereinafter referred to as the ¨Facility,¨ chargeable to the net income of the Fund for Special Operations.

2. That the Representative of the Bank in El Salvador is authorized, in the name and on behalf of the Bank, to approve individual operation of nonreimbursable technical cooperation and to enter into such agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of the Facility, within the Social Entrepreneurship Program approved by Resolution DE-183/98, pursuant to the provisions contained in Document ___.