

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

**REGIONAL
COSTA RICA, EL SALVADOR, GUATEMALA, HONDURAS,
NICARAGUA**

**ENHANCING THE PERFORMANCE OF CENTRAL AMERICAN
SMEs THROUGH THE IMPLEMENTATION OF RESPONSIBLE
CORPORATE PRACTICES**

(RG-M1139)

DONORS MEMORANDUM

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ACRONYMS AND ABBREVIATIONS

AWP	Annual work plan
CentraRSE	Asociación Civil Centro para la Acción de la Responsabilidad Social Empresarial en Guatemala [Corporate Social Responsibility Action Center, a Guatemalan Civil Association]
CSR	Corporate Social Responsibility
ESR	Environmental and Social Review Secretariat
FundahRSE	Fundación Hondureña de Responsabilidad Social Empresarial [Honduran Corporate Social Responsibility Foundation]
FUNDEMAS	Fundación Empresarial para la Acción Social [Social Action Business Foundation]
NGOs	Nongovernmental organizations
PMU	Project Management Unit
SMEs	Small and medium-sized enterprises
UniRSE	Unión Nicaragüense para la Responsabilidad Social Empresarial [Nicaraguan Corporate Social Responsibility Union]

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I. EXECUTIVE SUMMARY

Country:	Regional (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua).			
Executing agencies:	Asociación Empresarial para el Desarrollo [Business Association for Development] (Costa Rica); FUNDEMAS (El Salvador); CentraRSE (Guatemala); FundahRSE (Honduras); and UniRSE (Nicaragua).			
Beneficiaries:	Project beneficiaries will include: (i) at least 114 Central American small and medium-sized enterprises (SMEs) belonging to the value chains of at least 17 large enterprises; and (ii) 500 representatives of the private sector, civil society, NGOs, universities, and the public sector trained in corporate social responsibility (CSR).			
Objectives:	The project’s goal is to enhance the performance of SMEs and expand their market opportunities. Its purpose is to encourage the implementation of CSR practices at SMEs, particularly SMEs in the value chains of large enterprises.			
Financing:	MIF (nonreimbursable):	US\$	1,000,000	(57%)
	Local contribution:	US\$	<u>767,879</u>	(43%)
	Total:	US\$	1,767,879	
Terms:	Execution period:	36 months		
	Disbursement period:	42 months		
Exceptions to Bank policies:	None.			
Special contractual conditions:	For each of the projects, as conditions precedent to the first disbursement: (i) the Project Coordinator will be appointed; and (ii) the project’s Operating Regulations will be in effect. Eligible expenses of up to US\$25,000 per country may be recognized as counterpart resources, if they are incurred after 1 September 2010 until the date the agreement is signed and are directly related to the early execution of certain activities, provided that requirements and procedures substantially similar to the Bank’s and/or the MIF’s have been met and that such activities are consistent with the operation’s purpose (see paragraph 4.3).			

**Social and
environmental impact:**

Each operation has been classified as category “C” and cleared by the Environmental and Social Review Secretariat (ESR) on 14 September 2009.

**Coordination with
other official
development
institutions:**

In August 2010, the Central American organizations signed an agreement with Internationale Weiterbildung und Entwicklung GmbH (InWent), as it was then known. In January 2011, InWent merged with the German cooperation agencies DED and GTZ, giving rise to Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ). This project will be supported by GIZ.

II. BACKGROUND

A. Corporate social responsibility

- 2.1 Corporate social responsibility (CSR) can be understood as a corporate management model aimed at reconciling profitability with the application of ethical principles, good governance, and environmental and social standards. Organizations operate responsibly in social and environmental terms, aware of their impact on their stakeholders (shareholders, customers, employees, suppliers, environment, and community) and mindful of stakeholder expectations of the decision-making and management processes. CSR includes human resource management, health and safety in the workplace, and—in terms of a company’s external stakeholders—relations with suppliers, distributors, consumers, and local communities.
- 2.2 By implementing socially and environmentally responsible measures, a company can achieve specific benefits, such as using resources more efficiently, increasing productivity, and improving relations with stakeholders (communities, local government, etc.), while burnishing its own image and reputation.
- 2.3 Accordingly, CSR is defined as a strategic element that encourages enterprises to introduce policies and practices that contribute to improving relations with shareholders, employees, the community, and the environment, positioning the corporate sector as an agent of change on the road to equitable economic and social development.

B. CSR in Central America

- 2.4 The concept of responsible corporate practices has arrived in Central America, as evidenced by the existence of organizations aimed at promoting its implementation in the region. These organizations include Asociación Empresarial para el Desarrollo in Costa Rica, FUNDEMÁS in El Salvador, CentraRSE in Guatemala, FundaHRSE in Honduras, and UniRSE in Nicaragua. They are for the most part no more than 10 years old but have succeeded in spreading the message in their respective countries. They are now in the initial stages of facilitating social responsibility adoption processes in enterprises of various sizes. In addition, these five CSR advocacy organizations collaborate through the Central American Network for CSR Promotion (INTEGRARSE).¹ The network is not currently legally incorporated (see paragraph 2.12), but rather a group of collaborating organizations with a common interest in CSR. Through their joint work, they have developed a set of common indicators to measure the application of CSR policies and practices in Central America.²

¹ The INTEGRARSE network took its first steps in institutional collaboration as a result of a parallel meeting held during the First Inter-American Conference on CSR, organized in Panama by the IDB in October 2003. The network is comprised of six countries: Nicaragua, El Salvador, Honduras, Costa Rica, Guatemala, and Panama.

² www.indicarse.org.

C. CSR and value chains

- 2.5 The influence of large enterprises on their suppliers and customers, which are small and medium-sized enterprises (SMEs), can serve as an effective means for motivating these SMEs to implement socially and environmentally responsible measures. The large enterprises are interested in showing consumers and their customers that they act responsibly on social and environmental issues and that this sense of responsibility also extends to the enterprises in their value chain. To ensure that the products they sell are handled responsibly throughout the production cycle, these enterprises need to buy materials that have in turn been responsibly produced. Thus, they are beginning to apply responsible management systems more comprehensively along the entire value chain rather than on an isolated basis within the enterprises themselves.
- 2.6 Most minimum standards require responsible management of relations with other enterprises throughout the value chain as well as the implementation of supplier evaluation and selection systems based on social and environmental criteria. Therefore, SMEs need to incorporate these elements in order to meet customer requirements on these issues or risk being excluded from local or global supply chains mandating higher social and environmental standards.
- 2.7 In Central America there is a gap between the responsible practices required by the large enterprises and the actual ability of local SMEs to meet the required standards. This gap will continue to exist without support for specific efforts aimed at helping SMEs incorporate the use of CSR as a management tool.
- 2.8 Through CSR implementation projects at SMEs in countries such as Mexico, Brazil, Chile, and Colombia, the MIF developed a training guide based on lessons learned and methods used. However, local professional capacity requires a certain amount of adaptation and strengthening to implement the methodologies included in this guide.

D. Problem to be addressed

- 2.9 Corporate social responsibility practices in Central America are very limited for a number of reasons:
- (i) Lack of awareness of the benefits of CSR and how to make it a part of corporate practices. While some Central American business leaders are aware of the CSR concept, many enterprises confuse socially and environmentally responsible corporate practices with philanthropic activities, which are not strategic in nature, have no connection with business activities, and therefore have less of an impact within and outside the company.
 - (ii) Lack of technical capacity to undertake CSR programs. Trained local professionals are needed who are able to provide technical assistance to enterprises to improve their corporate practices, both internally (working conditions, terms with suppliers and contractors, etc.) and

externally (community and local government relations and environmental impact).

E. Proposed project

- 2.10 The project aims to enhance the performance of SMEs in Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, maximizing the enterprises' economic productivity and taking into account their social and environmental impact. Linking large enterprises to their SME suppliers/business partners and adopting CSR best practices throughout the value chain is considered a strategic method designed to ensure that corporate performance results in benefits for all stakeholders. The project seeks to strengthen the connections among these Central American countries with regard to such issues through the INTEGRARSE network, which could become a model of integration for other subregions. Strengthening the network could create benefits beyond the project itself, setting in motion a powerful vehicle for collaboration among stakeholders, including SMEs and large enterprises, in the area of CSR. This type of collaboration can serve as an example or benchmark for other countries and/or regions interested in supporting the use of CSR practices.
- 2.11 Performance will be strengthened when market opportunities are expanded in at least 17 value chains of leading Central American enterprises (see list of enterprises in paragraph 2.13). In addition, the CSR advocacy organizations taking part in the project (Asociación Empresarial para el Desarrollo in Costa Rica, FUNDEMAS in El Salvador, CentraRSE in Guatemala, FundahRSE in Honduras, and UniRSE in Nicaragua) have experience in regional collaboration through the INTEGRARSE network. Although the joint effort is only now beginning, the Central American organizations have already developed certain CSR measurement indicators, reflecting their recognition of the advantages of collaboration and regional integration.
- 2.12 Under a collaboration agreement signed by the INTEGRARSE network and GIZ (formerly known as InWent) in August 2010, activities are executed in coordination with the proposed project, including training consultants on CSR and formally establishing the network as legal entity.
- 2.13 The participating Central American CSR organizations have the necessary connections with large enterprises to allow them to carry out the project and influence the private sector beyond the project's scope. To date, commitment letters received from large enterprises including: CESSA and Exportadora (El Salvador); TAHSA and Grupo Terra (Honduras); Banco Nacional, Grupo Nación, and Bridgestone-Firestone (Costa Rica); Grupo Agroindustrial Occidente, Pantaleón, and Arrocera Los Corrales, S.A. (Guatemala); and OCAL, RAMAC, and Agropecuaria Lafise (Nicaragua).

III. PROJECT OBJECTIVES AND COMPONENTS

A. Objectives

- 3.1 The project's goal is to enhance the performance of SMEs and expand their market opportunities through the acknowledgment and implementation of responsible practices. The project's purpose is to encourage the implementation of CSR practices at SMEs, particularly SMEs in the value chains of large enterprises.
- 3.2 The project has the following components: (i) local CSR capacity-building and promotion; (ii) adoption of CSR in Central American SMEs; and (iii) strengthening of the Central American CSR network and dissemination of project outcomes.

B. Components and activities

Component I: Local CSR capacity-building and promotion (MIF: US\$400; Counterpart: US\$142,481)

- 3.3 The purpose of this component is to develop local CSR capacity in the countries through the development of materials available for professionals so they can successfully facilitate the introduction of a CSR strategy in Central American SMEs. It will include the following activities: (i) adapting CSR consulting materials based on the CSR training guide for SMEs developed by the MIF; (ii) adapting CSR training materials; (iii) developing a governance and communications strategy for the INTEGRARSE network; and (iv) training key personnel at additional large enterprises.
- 3.4 Activities (i) and (ii) will be executed by FUNDEMAS (El Salvador) and funded with local counterpart resources; activity (iii) will be executed by Asociación Empresarial para el Desarrollo (Costa Rica) and also funded with local counterpart resources; and activity (iv) will be carried out by each of the national organizations in each of the five countries.
- 3.5 The expected outputs of these activities include: (i) a consultant's manual to be used in applying the training guide; (ii) training materials; (iii) a Central America annex for the training guide; and (iv) a governance and communications strategy for the INTEGRARSE network.
- 3.6 The project's efforts will be coordinated with the activities to be carried out until 2012 under the agreement between INTEGRARSE and GIZ. The objective³ and activities under this agreement supplement those of the project. For example, GIZ is financing the training of local consultants and the legal incorporation of the

³ To contribute to enhancing the competitiveness of Central American SMEs by sustainably providing CSR services, implementing specific improvements, and fostering a favorable environment for responsible business practices with the coordinated participation of the public sector, the private sector, and programs to promote the competitiveness of the region's SMEs.

network, supplementing this component's activities. Part of the local counterpart resources come from the organizations' project with GIZ.

Component II: Adoption of CSR in Central American SMEs (MIF: US\$501,209; Counterpart: US\$333,025)

- 3.7 This component consists of incorporating responsible practices into the strategic planning of participating SMEs. The participating large enterprises have been identified based on their interest in ensuring responsible conduct throughout the value chain. These are publicly recognized, environmentally responsible enterprises operating in accordance with the law and with environmental and social standards. In addition, they are predisposed to invest in implementing CSR in SMEs belonging to their respective value chains. During implementation, the large enterprises involved will be expected to contribute by transferring knowledge to the SMEs in their value chain and financial resources to each participating SME, thus assuming at least 23% of the project cost for the technical assistance provided to each SME. Each participating large enterprise will sign a commitment letter with the executing agency in the applicable country as well as commitment letters with the participating SMEs in its own value chain.
- 3.8 The SMEs will be selected based on the following criteria. They must: (i) be small or medium-sized enterprises according to each country's definition; (ii) have legal status; (iii) be part of the value chain of one of the participating large enterprises; (iv) demonstrate interest in complying with environmental and labor standards; (v) sign a commitment letter with the relevant large enterprise, accepting the project's terms, which are as follows: (a) be willing to pay for at least a portion of the services to implement CSR in their company; and (b) be willing to share their experience with other enterprises.
- 3.9 As a result of this component, CSR practices are expected to be adopted by at least 114 Central American SMEs (a minimum of 10 per country). The following activities are planned for this component: (i) raising awareness of key personnel at participating large enterprises, and selecting participating SMEs; (ii) performing a self-diagnostic CSR assessment for SMEs; and (iii) implementing CSR practices at SMEs as part of their strategic planning, incorporating (in some cases) sustainability indicators and reports. Each of these activities will be executed by the Project Management Unit in each of the five countries.
- 3.10 The expected outputs of these activities include: (i) self-diagnostic assessment reports from participating SMEs; and (ii) CSR action plans for participating SMEs.

Component III: Strengthening of the Central American CSR network and dissemination of project outcomes (MIF: US\$154,870; Counterpart: US\$86,235)

- 3.11 This component will contribute to promoting CSR, primarily by facilitating an exchange of experiences among countries and enterprises and generating

knowledge based on the reality in the Central American countries. The component includes the following activities: (i) strengthening of the INTEGRARSE network (website creation); (ii) exchange of institutional experiences regarding the project; (iii) dissemination of project outcomes among audiences that can help mainstream CSR; and (iv) documentation and publication of case studies.

- 3.12 This activity (i) will be led by CentraRSE (Guatemala) and funded with local counterpart contributions; activities (ii), (iii), and (iv) will be carried out in all five countries; activity (v) will be led by Asociación Empresarial para el Desarrollo (Costa Rica), FundahRSE (Honduras), and UniRSE (Nicaragua).
- 3.13 The planned development of a CSR virtual network will include building a website and launching it in each participating country. At the project's conclusion, the network is expected to have 40 member enterprises and publish regional CSR statistics and practices, including videos and testimonials. The most outstanding participating enterprises will receive awards at an event organized as a way to encourage the network and share its results.
- 3.14 An event will be organized to disseminate outcomes by presenting case studies. Institutional strengthening will involve an exchange of experiences and knowledge conducted both virtually and on-site through Executive Committee meetings and technical meetings.

IV. PROJECT COST AND FINANCING

- 4.1 The project's total budget is US\$1,767,879, with the MIF providing US\$1,000,000 in nonreimbursable resources and the balance of US\$767,879 being funded through counterpart contributions. A significant portion of these counterpart resources is expected to come from participating large enterprises. Each project will be executed within a period of 36 months.

Components	MIF	Local Contribution	Total
Component 1: Local CSR capacity-building and promotion	400	142,481	142,881
Component 2: Adoption of CSR in Central American SMEs	501,209	333,025	834,234
Component 3: Strengthening of the Central American CSR network and dissemination of project outcomes	154,870	86,235	241,105
Project Management Units (PMUs)	194,920	203,338	398,258
Evaluations (midterm and final)	60,000	0	60,000
Audits	23,500	0	23,500
Contingencies	51,000	2,800	53,800
SUBTOTAL	985,899	767,879	1,753,778

Impact evaluation account	14,101	0	14,101
TOTAL	1,000,000⁴	767,879	1,767,879

- 4.2 Total MIF resources include US\$122,179 for Asociación Empresarial para el Desarrollo (Costa Rica); US\$403,529 for FUNDEMAS (El Salvador); US\$182,518 for CentraRSE (Guatemala); US\$117,616 for FundahRSE (Honduras); and US\$174,158 for UniRSE (Nicaragua). Counterpart resources include US\$147,262 from Asociación Empresarial para el Desarrollo (Costa Rica); US\$234,335 from FUNDEMAS (El Salvador); US\$165,706 from CentraRSE (Guatemala); US\$56,090 from FundahRSE (Honduras); and US\$164,486 from UniRSE (Nicaragua). The distribution by country is as follows:

Country	Total MIF contribution	Total local contribution	TOTALS
Costa Rica	122,179	147,262	269,441
El Salvador	403,529	234,335	637,864
Guatemala	182,518	165,706	348,224
Honduras	117,616	56,090	173,706
Nicaragua	174,158	164,486	338,644
TOTAL	1,000,000	767,879	1,767,879

- 4.3 Eligible expenses of up to US\$25,000 per country (incurred between 1 September 2010 and the date the agreement is signed) that are directly related to the advanced execution of project activities may be recognized as counterpart funds, provided they meet requirements and procedures essentially analogous to those of the Bank and/or the MIF, and such activities are consistent with the purpose of the operation. The INTEGRARSE network has conducted certain activities under the agreement in effect with GIZ (see paragraph 2.12), including consulting projects necessary to systematize the method to be used and validated in this project, as well as adaptation of materials, procurement, and services to strengthen the network's communications and identity. Recognition of these expenses is considered necessary, but they will only be recognized if the aforementioned preconditions are met.
- 4.4 **Sustainability.** The project's sustainability depends on promoting and disseminating the benefits of CSR, specifically the benefits derived by the participating stakeholders (large enterprises, SMEs, CSR advocacy organizations). Accordingly, demand for and future supply of CSR-related services are expected to be strengthened during the project through the INTEGRARSE network and its members, ensuring the sustainability of the

⁴ See Annex II for the itemized breakdown of the MIF contribution.

project's activities. The executing agencies will charge for their services (such as registration, sale of materials, technical assistance, etc.). Revenues from these services will be used to finance activities contributing to the project's sustainability once the project has ended. Therefore, at the conclusion of the project, these organizations will be expected to have the institutional capacity and revenue flow required to continue to engage in training and consulting activities. In addition, the group of locally trained consultants is expected to be ready to offer training and consulting services to other enterprises interested in implementing CSR practices.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

A. Executing agency

5.1 There will be a total of five executing agencies, one in each of the participating countries. Each of these executing agencies will sign a technical-cooperation agreement with the Bank. The executing agencies are: FUNDEMAS in El Salvador, Asociación Empresarial para el Desarrollo in Costa Rica, CentraRSE in Guatemala, FundahRSE in Honduras, and UniRSE in Nicaragua. Below is a description of each:

- (i) Fundación Empresarial para la Acción Social (FUNDEMAS) is a nonprofit organization founded in El Salvador on 25 May 2000. It currently has 115 members, including enterprises, trade unions, foundations, institutions of higher learning, and individuals.⁵
- (ii) Asociación Empresarial para el Desarrollo⁶ is a nonprofit organization established in Costa Rica in 1997. Its main purpose is “to promote an ongoing culture of corporate social responsibility that contributes to the equitable, sustainable development of Costa Rican society.” Asociación Empresarial para el Desarrollo currently has 77 member enterprises.
- (iii) Asociación Civil Centro para la Acción de la Responsabilidad Social Empresarial en Guatemala (CentraRSE) was established in 1998 under a joint World Bank and Guatemalan Private Foundations Council initiative to be the leading institution promoting the development of a culture of excellence in corporate social responsibility policies and practices in Guatemala.⁷ CentraRSE currently has 83 member enterprises.
- (iv) Fundación Hondureña de Responsabilidad Social Empresarial (FundahRSE) is a nonprofit institution devoted to promoting corporate social responsibility in Honduras. Its mission is to be an agent of

⁵ <http://www.fundemas.org>

⁶ <http://www.aedcr.com>

⁷ <http://www.centrase.org>

change in the business environment, committed to systematically promoting corporate social responsibility as a strategic management tool that achieves two essential objectives: ensuring sustainable corporate growth and consolidating peace among nations by promoting economic prosperity, community welfare, labor equity, and respect for the environment.⁸ FundahRSE currently has 53 member enterprises.

- (v) Fundación Unión Nicaragüense para la Responsabilidad Social Empresarial (UniRSE) is an institution specifically devoted on CSR issues in Nicaragua, offering services to private-sector enterprises, trade unions, civil society, domestic and international agencies, and the government. UniRSE⁹ currently has 24 founding members, all of which are enterprises operating in Nicaragua.

B. Execution mechanism

- 5.2 For project management, each of the organizations will sign a technical-cooperation agreement with the Bank, for a total of five technical-cooperation agreements. The MIF Offices in each country will be responsible for supervising the execution of each operation. The team at Headquarters will be available to support the teams in the MIF Offices in the countries to ensure proper coordination among the operations in coordination with GIZ.
- 5.3 There will be a Project Management Unit (PMU) in each of the five countries. Each unit will have a basic management structure, with a Project Coordinator, an Administrative and Finance Manager (part-time), and an Administrative Assistant, as the case may be, responsible for all project management, administration, monitoring, and accounting activities. The Technical Assistant under component II will also report to the Project Coordinator.
- 5.4 The PMU in each of the five countries will be responsible for maintaining coordination among the various organizations throughout project execution. The five members of the IntegraRSE network are already collaborating and in August 2010 signed a collaboration agreement with GIZ. Each executing agency's agreement with the Bank will include a specific clause regarding coordination.
- 5.5 Each executing agency will be responsible for: (i) ensuring compliance with the project's contractual conditions and Operating Regulations; (ii) managing project activities in accordance with the annual work plan (AWP); (iii) supervising contracted consultants; (iv) overseeing the management and handling of the budget pursuant to established procedures; (v) carrying out Bank-approved procurement pursuant to Bank-validated procedures; (vi) processing requests for disbursement of Bank contributions; (vii) submitting administrative and technical reports in a format to be determined by the Bank; and (viii) coordinating any necessary actions with the institutional partners and other entities working in the

⁸ <http://www.fundahrse.org>

⁹ <http://www.unirse.org>

field. In each participating country, the PMU will be supervised by the Executive Director of each institution (executing agency) or a designee appointed by the applicable legal representative.

- 5.6 **Project Executive Committee.** There will be a Project Executive Committee comprised of one or two representatives of each project partner. The Executive Committee will have decision-making authority and determine the project's strategy, and will be comprised of each participating country's executing agency (Asociación Empresarial para el Desarrollo in Costa Rica, FUNDEMAS in El Salvador, CentraRSE in Guatemala, FundahRSE in Honduras, and UniRSE in Nicaragua). This committee will meet, either virtually or in person, at least every three months. The duties of the Project Executive Committee are described in each country's Operating Regulations.
- 5.7 **Results-based disbursement.** The Bank will provide an advance not to exceed 20% of the total amount approved by the Bank, according to a disbursement schedule (milestones) to be included in each country's Operating Regulations (see Annex VII) and reviewed along with the semiannual report and AWP updates. Commencing with the second disbursement request, resources will be disbursed based on the achievement of milestones previously included in the disbursement schedule, which the executing agencies will submit to the Bank (see the Operating Regulations in Annex VII for an initial list of milestones).
- 5.8 **Procurement.** The procedures to be followed by each executing agency in procuring goods and services will comply with the Bank's policies on the procurement of goods and services and the contracting of consultants (documents GN-2349-7 and GN-2350-7). In El Salvador and Costa Rica, where the institutional risk is rated as low, the first three consulting and procurement contracts will be subject to ex ante review by the Bank. Subsequent consulting and procurement contracts will be reviewed ex post on an annual basis. In Guatemala and Honduras, where the institutional risk rating is medium, procurement of goods and consulting services will be subject to ex ante review by the Bank, unless the Bank determines otherwise. Lastly, in Nicaragua, due to the country's high institutional risk rating, all consulting and procurement contracts will be subject to the Bank's ex ante review. Moreover, the executing agencies will facilitate periodic reviews (by the Bank, or the Bank's designee) of expense receipts and procurement procedures for goods and consulting services undertaken with project resources, as well as a list of procurements made with counterpart resources. In addition, the executing agencies will be responsible for updating the procurement plans at least once per year. A first draft of each procurement plan is available in Annex V.
- 5.9 **Coordination with other projects.** Each project in each country will coordinate actions and seek synergies with other MIF projects under way. In the case of El Salvador, FUNDEMAS will coordinate with the Supplier Development Program (ATN/ME-12116-ES), which is currently being implemented by the

Chamber of Commerce and Industry of El Salvador, with support from the United Nations Development Programme.

VI. MONITORING AND EVALUATION

- 6.1 **Financial monitoring:** The executing agencies will establish and be responsible for maintaining proper financial accounting, internal controls, and record-keeping systems for each portion of the project in accordance with the Bank's accounting and auditing rules and policies. Project financial statements will be audited at the end of execution, and supporting documentation for disbursements will be reviewed on an ex post basis every six months. The frequency and methodology of the ex post reviews of disbursement support documentation, as well as the frequency of audits, may be modified by the Bank based on the results of reviews and/or subsequent institutional assessments performed during project execution. Using MIF funds, the Bank will contract independent auditors both to audit the financial statements and to perform the ex post review of the procurement and disbursement processes.
- 6.2 **Project Status Reports:** Each executing agency will prepare and submit an electronic project status report (PSR) within 30 days after the end of each six-month period. These reports will follow a previously agreed-upon format of milestones, outcomes, and their contribution to the achievement of project objectives. Likewise, each executing agency will submit a final PSR within 60 days after the end of the project execution period, emphasizing the outcomes achieved, the sustainability plan, and the lessons learned.
- 6.3 Using technical cooperation funds, the executing agency¹⁰ will contract consulting services to develop a baseline for the project at the outset, including the fine-tuning of indicators and the establishment of midterm indicators. This contracting will be done with Bank support, based on the agreed upon terms of reference. The Bank will also contract consulting services to conduct two regional evaluations: midterm and final. Evaluations will be performed jointly for all five countries rather than individually for each. The midterm evaluation will be carried out, in each case, when 50% of project disbursements have been made, or when half the execution period has elapsed, whichever occurs first. At a minimum, the midterm evaluations will address the following issues: (i) the degree of fulfillment of the planned activities and the scope of the quantitative and qualitative indicators described in the logical framework; (ii) the need for retargeting, or substantial changes in relevance; (iii) the efficiency of actions carried out to implement CSR; and (iv) the satisfaction of SMEs and stakeholders. Based on the evaluator's recommendations, the Bank and the executing agencies will agree on the corrective action required for proper project execution.

¹⁰ The project's executing agency in El Salvador, FUNDEMAS, will contract for a region-wide baseline.

- 6.4 The final evaluation will be performed at the end of the project or when 95% of the funds have been disbursed, and will address the following issues in addition to the quantitative and qualitative indicators used in the midterm evaluation: (i) the project's sustainability; (ii) the results indicators described in the logical framework; (iii) the satisfaction of participating SMEs; and (iv) the project's potential impact. Emphasis will be placed on identifying best practices and lessons learned so they may be shared with other stakeholders capable of having an impact.

VII. BENEFITS AND RISKS

A. Benefits

- 7.1 The project's main benefit is improved SME performance through more responsible corporate practices, allowing SMEs to continue to participate in the value chains of large enterprises that sponsor and require the implementation of such practices. This new situation will encourage public and private organizations to persuade other enterprises to follow this example by underscoring the corporate, social, and environmental benefits of CSR. These benefits will tangibly improve working conditions of employees and likewise extend to business partners, neighboring communities, and the environment, enhancing corporate ethics and transparency.

B. Risks

- 7.2 The project involves two major risks: (i) Central America has few CSR specialists, making it enormously difficult to guide and train SMEs in this area. Mitigating factor: The project plans to adapt CSR training materials for consultants and facilitators; moreover, one of the activities being carried out by GIZ (in coordination with this project) is the training of consultants on CSR issues; (ii) participating large enterprises may not assign priority status to the project. Mitigating factor: The process of selecting large enterprises that are committed to implementing CSR practices in their value chains, the assignment of an employee who will serve as a liaison with the project, and their cofinancing of the consulting services required to implement CSR practices at the SMEs. The incentive for SME participation lies in ensuring their continuity in their client's value chain by meeting the requirements that their client (the large enterprise that invites them to participate) is requesting of them. This is the reason why the large enterprise is asking the SME to participate in the project.

VIII. SOCIAL AND ENVIRONMENTAL IMPACTS

- 8.1 These operations are expected to have positive, rather than adverse social and environmental impacts. By definition, CSR actions are associated with worker health and safety, environmental pollution prevention measures, community welfare, and other social and environmental goals. Therefore, through the

execution of these operations, enterprises are expected to increase implementation of these types of actions and thereby enhance their environmental and social performance, optimizing the use of resources and improving working conditions for their employees.

- 8.2 Each project was classified by ESR as category “C” on 14 September 2009.

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LOGICAL FRAMEWORK

Narrative summary	Indicators	Means of verification	Assumptions
GOAL			
To enhance the performance of SMEs and expand their market opportunities .	<u>Two years after project completion:</u> <ul style="list-style-type: none"> - At least 50% of participating SMEs achieve a 10% improvement in one of the following areas: (a) operating cost savings; (b) energy consumption; (c) labor costs; and (d) increased sales to the respective large enterprise. - At least 17 more large enterprises helping their value chain SMEs implement CSR practices (2 in Costa Rica, 4 in El Salvador, 3 in Guatemala, 4 in Honduras, and 4 in Nicaragua). - At least 18 participating SMEs have implemented CSR practices with other enterprises in their own value chain (4 in Costa Rica, 4 in El Salvador, 2 in Guatemala, 4 in Honduras, and 4 in Nicaragua). 	<ul style="list-style-type: none"> - Baseline developed as an initial diagnostic assessment of each participating SME. - Final reports from each participating SME. - Ex post evaluation two years after project completion. 	The economic situation does not become considerably worse.
PURPOSE			
To implement CSR practices at SMEs, particularly SMEs in the value chains of large enterprises.	<u>At the end of the project:</u> <ul style="list-style-type: none"> - At least 98 SMEs show a 10% improvement in CSR indicators (INDICARSE)¹ with respect to the agreed upon goals under each SME's Action Plan (10 in Costa Rica, 32 in El Salvador, 24 in Guatemala, 8 in Honduras, and 24 in Nicaragua). - At least 70% of SMEs directly benefiting from the project report an improved business relationship with their large enterprises and a positive degree of satisfaction with the assistance received. - At least 17 large enterprises implementing CSR best practices with SMEs in their value chain (4 in Costa Rica, 4 in El Salvador, 3 in Guatemala, 2 in Honduras, and 4 in Nicaragua). 	<ul style="list-style-type: none"> - Midterm and final project evaluations. - Semiannual project reports prepared by the executing agency. - Final project status report (PSR). - Data on progress compared to baseline for each SME. 	SMEs in the value chains of large enterprises are identified.

¹ <http://www.indicarse.org/>

Narrative summary	Indicators	Means of verification	Assumptions
COMPONENTS			
<p>Component I: Local CSR capacity-building and promotion.</p>	<p><u>At the end of year one:</u></p> <ul style="list-style-type: none"> - Consultant's manual for using the MIF's CSR training guide (El Salvador). <p><u>At the end of year two:</u></p> <ul style="list-style-type: none"> - At least 500 private and public-sector representatives more aware of CSR practices (50 in Costa Rica, 75 in El Salvador, 100 in Guatemala, 75 in Honduras, and 200 in Nicaragua). - At least 110 representatives of large enterprises trained in the use of practical CSR tools (20 in Costa Rica, 25 in El Salvador, 20 in Guatemala, 25 in Honduras, and 20 in Nicaragua). <p><u>At the end of the project:</u></p> <ul style="list-style-type: none"> - At least 230 representatives (cumulatively) of large enterprises trained in the use of practical CSR tools (50 in Costa Rica, 50 in El Salvador, 40 in Guatemala, 50 in Honduras, and 40 in Nicaragua). - At least ten (10) additional large enterprises (other than project participants) are committed to implementing CSR practices at SMEs in their value chain (2 in Costa Rica, 2 in El Salvador, 2 in Guatemala, 2 in Honduras, and 2 in Nicaragua). 	<ul style="list-style-type: none"> - Midterm and final project evaluations. - Semiannual project reports prepared by the executing agency. - Final project status report (PSR). 	<p>Qualified local consultants willing to work on CSR issues are available.</p>
<p>Component II: Adoption of CSR practices in Central American SMEs</p>	<p><u>At the end of year one:</u></p> <ul style="list-style-type: none"> - The operation's monitoring and management system is implemented at SMEs. <p><u>At the end year two:</u></p> <ul style="list-style-type: none"> - At least 51 SMEs have implemented CSR practices (5 in Costa Rica, 16 in El Salvador, 12 in Guatemala, 6 in Honduras, and 12 in Nicaragua). <p><u>At the end of the project:</u></p> <ul style="list-style-type: none"> - At least 114 SMEs (cumulatively) have implemented CSR practices (12 in Costa Rica, 40 in El Salvador, 28 in Guatemala, 10 in Honduras, and 24 in Nicaragua). - There are 114 final reports from beneficiary SMEs (12 in Costa Rica, 40 in El Salvador, 28 in Guatemala, 10 in Honduras, and 24 in Nicaragua). 	<ul style="list-style-type: none"> - Midterm and final project evaluations. - Semiannual project reports prepared by the executing agency. - Final project status report (PSR). - Semiannual project reports prepared by the executing agency. - Status information compared to baseline for each SME. 	<p>The large enterprises maintain their commitment to participate in the project.</p> <p>Large enterprise action proposals are consistent with project eligibility criteria.</p> <p>Beneficiary SMEs continue to actively participate in the project, applying the CSR tools and techniques they learned to use.</p>

Narrative summary	Indicators	Means of verification	Assumptions
<p>Component III: Strengthening of the Central American CSR network and dissemination of project outcomes.</p>	<p><u>At the end of year one of execution:</u></p> <ul style="list-style-type: none"> - Plan for virtual CSR network validated. <p><u>At the end of year two of execution:</u></p> <ul style="list-style-type: none"> - Virtual network operating with at least 12 enterprises (in the five countries) sharing information on practices based on the seven CSR core principles. - At least four articles in the regional media regarding the Central American network and the project's outcomes (3 in Costa Rica, 1 in Honduras). <p><u>At the end of the project:</u></p> <ul style="list-style-type: none"> - At least 1,600 private and public-sector representatives with knowledge of project results (200 in Costa Rica, 500 in El Salvador, 200 in Guatemala, 500 in Honduras, and 200 in Nicaragua). - Virtual network operating with at least 25 enterprises (cumulatively in all five countries) sharing information on practices based on the seven core principles of CSR. 	<ul style="list-style-type: none"> - Virtual network's strategic plan document. - Midterm and final project evaluations. - Semiannual project reports prepared by the executing agency. - Final project status report (PSR). 	<p>There is interest in CSR on the part of large enterprises and the general public.</p>

ACTIVITIES			
1.1 Adapting CSR consulting materials.	<ul style="list-style-type: none"> Consultant's manual before month 7 (El Salvador). 	<ul style="list-style-type: none"> Consultant's manual for using the guide Document on Central America attached to the training guide. 	Regional activity led by FUNDEMAS El Salvador.
1.2 Adapting CSR training materials.	<ul style="list-style-type: none"> Facilitators' manual adapted before month 12 (El Salvador). Central America annex to the training guide developed before month 8 (El Salvador). 	<ul style="list-style-type: none"> Training and consulting material. 	Regional activity led by FUNDEMAS El Salvador.
1.3 Developing a governance and communications strategy for the INTEGRARSE network.	<ul style="list-style-type: none"> Network communications strategy started by month 6 (Costa Rica). A document outlining the structure and governance of the INTEGRARSE network before month 6 (Costa Rica). At least 3 articles in regional media (cumulatively) before month 36 (3 in Costa Rica, 1 in Honduras). 	<ul style="list-style-type: none"> Communications strategy completed. Document finalized. Articles published. 	Regional activity led by AED Costa Rica.
1.4 Training key personnel at additional large enterprises.	<ul style="list-style-type: none"> At least nine CSR awareness events (cumulatively) held for target audiences before month 32 (2 in El Salvador, 2 in Guatemala, 2 in Honduras, 3 in Nicaragua). At least two workshops on practical tools conducted before month 32 (2 in Costa Rica). 	<ul style="list-style-type: none"> Record of participants in the events and workshops. 	
2.1 Raising awareness of key personnel at participating large enterprises and selecting the participating SMEs.	<ul style="list-style-type: none"> At least nine awareness events for two large enterprises and their SMEs before month 14 (1 in Costa Rica, 2 in El Salvador, 2 in Guatemala, 2 in Honduras, and 2 in Nicaragua). At least 18 awareness events (cumulatively) for two large enterprises and their SMEs before month 19 (2 in Costa Rica, 4 in El Salvador, 4 in Guatemala, 4 in Honduras, and 4 in Nicaragua). At least 58 SMEs selected before month 12 (8 in Costa Rica, 20 in El Salvador, 12 in Guatemala, 6 in Honduras, and 12 in Nicaragua). At least 116 (cumulatively) SMEs selected before month 18 (12 in Costa Rica, 40 in El Salvador, 28 in Guatemala, 10 in Honduras, and 24 in Nicaragua). 	<ul style="list-style-type: none"> List of attendees at awareness and training events. 	

<p>2.2 Performing a self-diagnostic CSR assessment for SMEs</p>	<ul style="list-style-type: none"> At least 20 SME self-diagnostic assessment workshops before month 19 (2 in Costa Rica, 16 in Honduras). At least 61 self-diagnostic assessments performed before month 17 (5 in Costa Rica, 20 in El Salvador, 14 in Guatemala, 10 in Honduras, and 12 in Nicaragua). At least 104 (cumulatively) self-diagnostic assessments performed before month 23 (12 in Costa Rica, 40 in El Salvador, 28 in Guatemala, 24 in Nicaragua). 	<ul style="list-style-type: none"> Self-diagnostic assessment reports. 	
<p>2.3 Implementing CSR practices at SMEs.</p>	<ul style="list-style-type: none"> At least 54 CSR action plans (one per SME) prepared before month 19 (5 in Costa Rica, 20 in El Salvador, 12 in Guatemala, 5 in Honduras, and 12 in Nicaragua). At least 110 (cumulatively) CSR action plans (one per SME) prepared before month 25 (12 in Costa Rica, 40 in El Salvador, 28 in Guatemala, 10 in Honduras, and 24 in Nicaragua). 	<ul style="list-style-type: none"> SME Action Plans. 	
<p>3.1 Strengthening the INTEGRARSE network.</p> <p>3.2 Exchanging institutional experiences regarding the project.</p> <p>3.3 Disseminating project outcomes to audiences that can help to mainstream CSR practices.</p> <p>3.4 Documenting and publishing case studies.</p> <p>3.5 Conducting a sustainability workshop.</p>	<ul style="list-style-type: none"> Website proposal validated before month 16 (Guatemala). Website developed and operating before month 24 (Guatemala). Toolbox (at least two practical CSR tools for SMEs) available on the website before month 30 (Guatemala). At least six Project Executive Committee meetings held before the end of the project (with all five countries participating). At least two work meetings of the technical or financial team before month 20 (El Salvador). At least three presentations on outcomes at events (with all five countries participating), by the end of the project. At least 44 case studies prepared and reproduced (3000 copies in total) at month 33 (8 in Costa Rica, 20 in El Salvador, 4 in Guatemala, 8 in Honduras, 4 in Nicaragua). At least three workshops conducted before month 30 (1 in Costa Rica, 1 in Honduras, 1 in Nicaragua). 	<ul style="list-style-type: none"> Record of website visits. Electronic promotion files. Record of toolbox use. Minutes of Project Executive Committee meetings. Reports on exchange of experiences. Event reports and presentations made. Cases available on the website and in print. Workshop reports and record of attendees. 	<p>Activity led by CentraRSE Guatemala.</p>

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SUMMARY BUDGET

CATEGORIES	MIF	Local Contribution			Total
		Cash	In kind	Total	
Component I: Local CSR capacity-building and promotion	400	127,994	14,487	142,481	142,881
Adapting CSR consulting materials (El Salvador only)	0	15,000	2,000		17,000
Adapting CSR training materials (El Salvador only)	0	10,000	2,000		12,000
Developing a governance and communications strategy for the INTEGRARSE network (Costa Rica only)	0	35,000	0		35,000
Training key personnel at additional large enterprises	400	67,994	10,487		78,881
Component II: Adoption of CSR in Central American SMEs	501,209	232,181	100,844	333,025	834,234
Educating key personnel at participating large enterprises and selecting participating SMEs	42,120	30,304	10,220		82,644
Developing a self-diagnostic CSR assessment for SMEs	9,700	21,024	16,548		47,272
Implementing CSR practices at SMEs	449,389	180,853	74,076		704,318
Component III: Strengthening of the Central American CSR network and dissemination of project outcomes	154,870	69,668	16,567	86,235	241,105
Strengthening of the INTEGRARSE network (Guatemala only)	0	47,500	0		47,500
Exchanging institutional experiences regarding the project	3,334	20,668	0		24,002
Disseminating project outcomes at conferences	29,400	0	15,600		45,000
Documenting and publishing case studies	119,136	1,500	967		121,603
Project Management Units	194,920	19,260	184,078	203,338	398,258
Staff	194,920	0	126,000		320,920
Overhead	0	19,260	58,078		77,338
Project evaluations	60,000	0	0	0	60,000
Financial audit	23,500	0	0	0	23,500
Contingencies	51,000	2,800	0	2,800	53,800
SUBTOTAL	985,899	451,903	315,976	767,879	1,753,778
Impact Evaluation Account	14,101	0	0	0	14,101
GRAND TOTAL	1,000,000	451,903	315,976	767,879	1,767,879