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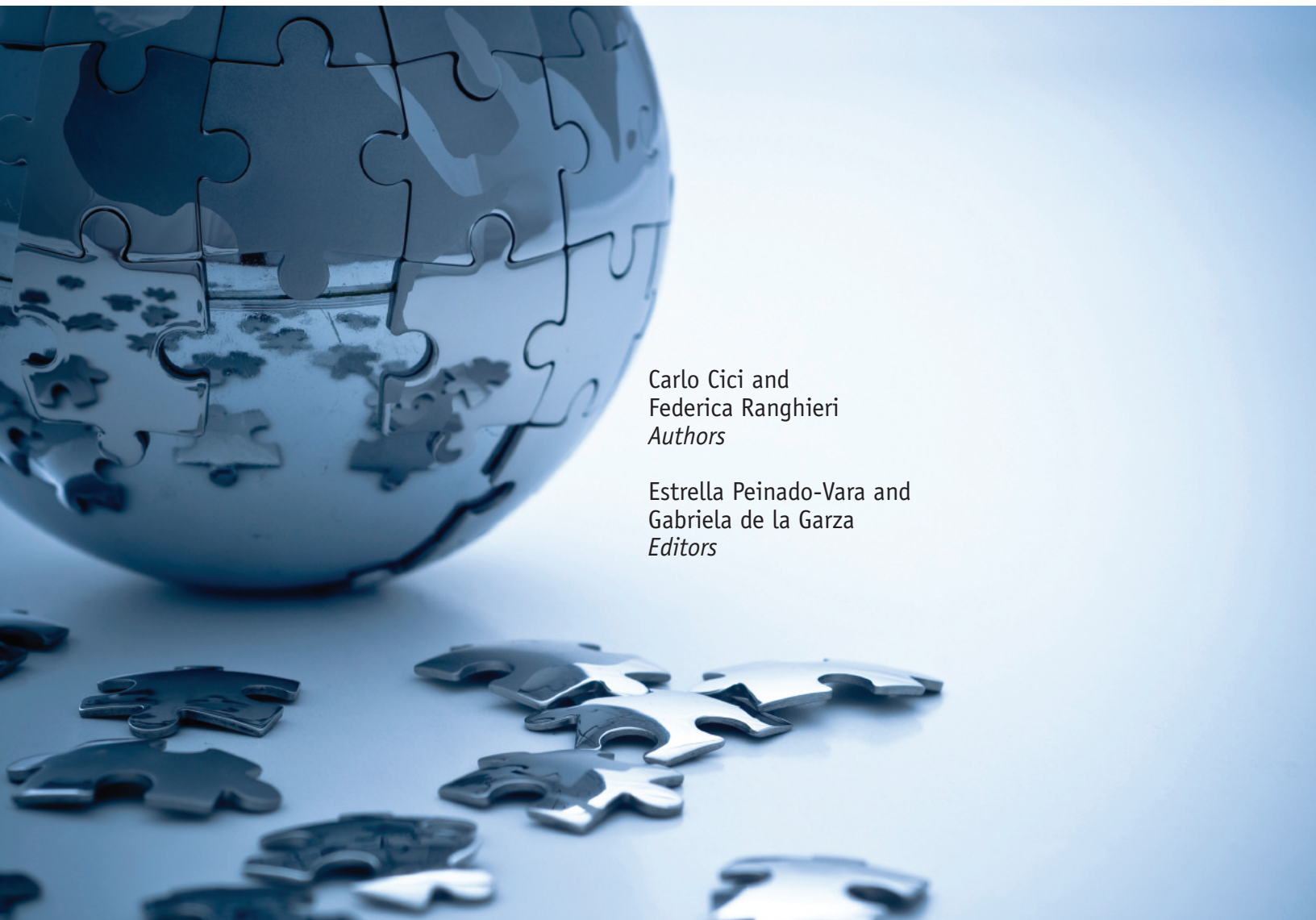
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Recommended actions to foster the adoption of Corporate Social Responsibility (CSR) practices in Small and Medium Enterprises (SMEs)



**Inter-American
Development Bank**



Carlo Cici and
Federica Ranghieri
Authors

Estrella Peinado-Vara and
Gabriela de la Garza
Editors

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Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577USA

Email: csramericas@iadb.org

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acknowledgements

Main authors: **Carlo Cici** (Team Leader) from RGA and **Federica Ranghieri** from Università degli Studi Milano.

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Main editors: **Estrella Peinado-Vara** and **Gabriela de la Garza** from the Inter-American Development Bank.

Secondary editors: **Jessica Vexler** and **Alice Ishikawa Lariú** from the Inter-American Development Bank.

The team in charge of the field work and country data collection is:

Country experts coordination	Paula Aczel	ICF
IDB country experts interviews	Bjorn Fruchtman	ICF
Argentina	Maria Ana Gonzalez	ICF
Brazil	Christianne Maroun	ICF
Chile	Sandra Bustos	Institutional Development at AccionRSE
Colombia	Carlos Forero	Ingeominas
El Salvador	Estela Canas	Universidad Centro Americana
Mexico	María del Rocío Moro López	Universidad Iberoamericana
	Lourdes Linares	Universidad Iberoamericana
	Georgina Reyes Esparza	Davero Consultores
Peru	Camilo Leon	Social Capital Group
Venezuela	Carmen Cecilia Mayz	ICF

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acronyms

CDM	Clean Development Mechanism
CSR	Corporate Social Responsibility
EC	European Commission
FLA	Fair Labor Association
FSC	Forest Stewardship Council
GDP	Gross Domestic Product
GHG	Green House Gas
GRI	Global Reporting Initiative
HRW	Human Rights Watch
IDB	Inter-American Development Bank
IEA	International Energy Agency
ISO	International Organization for Standardization
MDIs	Multilateral Development Institutions
MIF	Multilateral Investment Fund
NGOs	Nongovernmental Organizations
OH SAS	Occupation Health and Safety Assessment Series
SAI	Social Accountability International
SMEs	Small and Medium Enterprises
TNCs	Transnational Corporations
UNESCO	United Nation Educational Scientific and Cultural Organization
UNDP	United Nations Development Program
UNFCCC	United Nations Framework Convention on Climate Change
UNGC	United Nations Global Compact
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNRISD	United Nations Research Institute for Social Development
WBCSD	World Business Council for Sustainable Development
WEF	World Economic Forum
WHO	World Health Organization
WRI	World Research Institute

executive summary

“In Latin America, 95 percent of firms are Small and Medium Enterprises (SMEs), and account for between 40 and 60 percent of jobs, depending on the country, and contribute 30 to 50 percent of GDP”
—(Vives, Corral and Isusi, 2005)

In developing countries, private enterprises have a history of contributing to social development through paternalistic social welfare, healthcare, housing and educational programs. These contributions have been mainly fulfilled through charitable and religious groups. However, in recent years the concept of Corporate Social Responsibility (CSR) has transitioned from mere philanthropy to a more systematic corporate response.

It is important to recognize that approaches to CSR created for or by large companies, cannot be simply transferred to small and medium sized enterprises (SMEs), as SMEs lack the power to influence governments, dictate standards or move across national boundaries in search of lighter regulation. Many SMEs already practice a “silent” type of social responsibility, which refers to social and environmental practices that SMEs are already implementing, but they do not categorize them as CSR because they do not have access to much information on the topic. SMEs generally have a greater understanding of local culture and politics, they have more links with local civil society and a greater commitment to operating in a specific geographic area. This report also aims to help SMEs give a voice to their “silent” social and environmental responsibility.

It is easier for large companies to generate commercial gains from CSR activities than it is for SMEs. For example, large companies and global brands can:

- Develop systems and economies of scale to deal with the demands for formal monitoring and standards.
- Allocate financial and human resources to develop relationships and partnerships with

nongovernmental organizations (NGOs) and governments.

- Outsource production and pass the costs of improvements down the supply chain, while gaining a better reputation for these improvements.
- Use CSR as the ‘human face of globalization’ to ease market entry into sectors where SMEs have dominated.

However, CSR can produce competitive benefits for SMEs as well. For example, CSR can help SMEs:

- Gain trading relationships with Transnational Corporations (TNCs) or companies in North American and European markets. It is important to point out that export-oriented CSR can only succeed when products and services also meet international standards.
- Establish closer links with entities with which they share values, such as business associations and multilateral organizations.
- Communicate directly with consumers through environmental and social labels.
- Decrease operational costs through environmental efficiency measures and improve productivity and quality through better management encouraged by CSR.
- Enhance relationships with their staff, suppliers, customers and government.
- Find new ways to develop skills, manage risks, seize opportunities and solve problems.

SMEs also have the advantage to implement certain CSR practices more easily than other enterprises, because they are generally closer to the community in which they operate. Frequently SMEs are family owned enterprises, so they are characterized by a

strong internal relationship, in other words they have a simple decision-making mechanism that allows for faster CSR implementation.

This report includes country specific research for eight Latin American countries, which are: *Argentina, Brazil, Chile, Colombia, El Salvador, Mexico, Peru and Venezuela*. Each chapter includes a description of the current state of CSR in the country and some recommended actions to foster CSR within the marketplace, workplace, community and environmental areas, as well as which actors should lead each action item. Actors include multilateral development institutions (MDIs), national governments and local authorities, business associations and civil society. All actors need to cooperate in order to improve the state of CSR in the aforementioned countries. Historically, business associations have been less involved in fostering CSR in the considered Latin American countries, except in Brazil, where there has been more CSR involvement by SMEs. Government and civil society (mainly academia, NGOs and local communities) have been the major players in fostering CSR in SMEs, with MDIs usually supporting, financing and disseminating information and results.

Overview of the current state of CSR in SMEs

The research conducted in the eight Latin American countries: Argentina, Brazil, Chile, Colombia, El Salvador, Mexico, Peru and Venezuela, demonstrates that even though many SMEs are already socially and environmentally responsible, there is still a long way to go before CSR becomes a widespread business practice among SMEs in each country. The following paragraphs provide an overview of the main findings per country:

In **Argentina** most SMEs are unfamiliar with the concept of CSR, they believe they need to solve their structural problems before focusing on social

and environmental issues. Nonetheless, research supports a positive perspective on CSR in the long-term because of a clear willingness to improve and be competitive. Many stakeholders interviewed think that the attention given to CSR in the last few years was a way to overcome aspects of the 2001 economic crisis, and therefore it now needs to be refocused. Argentine civil society was identified as the primary actor for fostering CSR among SMEs, however government, MDIs and business associations also have important roles to play. Regarding the areas of CSR, SMEs perceive the marketplace, workplace and community as very important for their economic development, while environment is not considered very relevant.

In **Brazil** the concept of CSR is fairly well developed among large companies, and a large number of SMEs already implement some kind of CSR. There are several tools and training programs on CSR available for companies, as well as networks and awards. Research shows that CSR internal activities are more frequently implemented than CSR external activities by Brazilian SMEs. Experts believe that CSR is likely to grow, as a range of actors and institutions are actively engaged in promoting CSR. Business associations were identified as the main actors in fostering CSR, however government, MDIs and civil society have also crucial roles to play. Additionally, the administration of President Lula da Silva, has made social programs and inequity a priority. Regarding the areas of CSR, SMEs perceive all areas - marketplace, workplace, community and environment- as important for their economic development.

Most SMEs in **Chile** are unfamiliar with the concept of CSR and therefore do not consider it a way towards progress. There are, however, an important number of publications, manuals and indicators for SMEs to help them understand and implement CSR, developed by civil society. Furthermore many CSR areas are already covered by laws prescribing

ethical behavior or the application of international standards, but they have not been broadly disseminated. All actors –government, MDIs, civil society and business associations- have been identified as major players in the development of CSR. Regarding the CSR areas, SMEs perceive the marketplace, workplace, and environment as important factors for their economic development, whereas community is not seen as an essential factor.

The majority of SMEs in **Colombia** do not perceive CSR as a competitiveness tool for their company. There are, however, a number of SMEs that act as suppliers for larger domestic and international firms which have already recognized CSR as providing a competitive edge in the market. IDB experts feel that SMEs are not likely to become more engaged in CSR in the near future, because SME productivity is quite low and most of them are merely surviving. MDIs were identified as the main actor for furthering CSR in the country, however governments, business associations and MDIs can also play important roles. Regarding the areas of CSR, SMEs perceive the marketplace and environment as very important for improving their economic development, while workplace and community are not considered very relevant.

In **El Salvador** only a few exporting SMEs, acting as suppliers for larger firms, have recognized CSR as an important factor for competitiveness in the market. The majority of SMEs in the country still do not perceive CSR as a tool to improve their business competitiveness. However approximately half of the enterprises interviewed for this research perceive CSR as a priority and most of them are conscious that society is demanding more socially and environmentally responsible behavior. The main reasons why SMEs do not practice CSR are, lack of financial resources and lack of information. MDIs were identified as the main actor for furthering CSR in the country, while government, civil society and business associations should get more involved as

they can also play a vital role. Regarding the areas of CSR, SMEs in El Salvador perceive the environment as the only important factor for improving their economic development, while marketplace, workplace and community are not considered very relevant.

In **Mexico**, the concept of CSR is quite new and there is no knowledge about CSR among the majority of SMEs, which often confuse the concept with the terms philanthropy and ethics. Some exporting SMEs already recognize CSR as an important factor to improve their competitiveness. There is, little integration of CSR activities between large companies and SMEs. MDIs and business associations were identified as the main actors for fostering CSR among SMEs, however government and civil society also have important roles to play. Regarding the areas of CSR, SMEs in Mexico perceive the marketplace, community and environment as very important for improving their economic development, while only the workplace is not considered very relevant.

SMEs in **Peru** show mixed behaviors, while medium enterprises highly implement CSR activities regarding environment and workplace areas, micro and small enterprises are more involved at the community level. MDIs together with local public authorities and civil society, were identified as the main actors in fostering CSR among SMEs, however the role of business associations is also very important to further its development. Regarding the areas of CSR, SMEs in Peru perceive the marketplace and community as very important for improving their economic development, while the workplace and environment are not considered very relevant.

The new constitution in **Venezuela**, which emphasizes social inclusion and access to education, may lead to an increase in responsible practices among SMEs. The administration of President Chavez has prioritized social policies and

programs that affect the private sector. The main actors currently furthering CSR are the government and MDIs, however business associations and civil society have vital roles and could greatly support the efforts. Regarding the CSR areas, SMEs in Venezuela perceive the marketplace, community and environment as very important for improving their economic development, while only the workplace is not considered an essential factor.

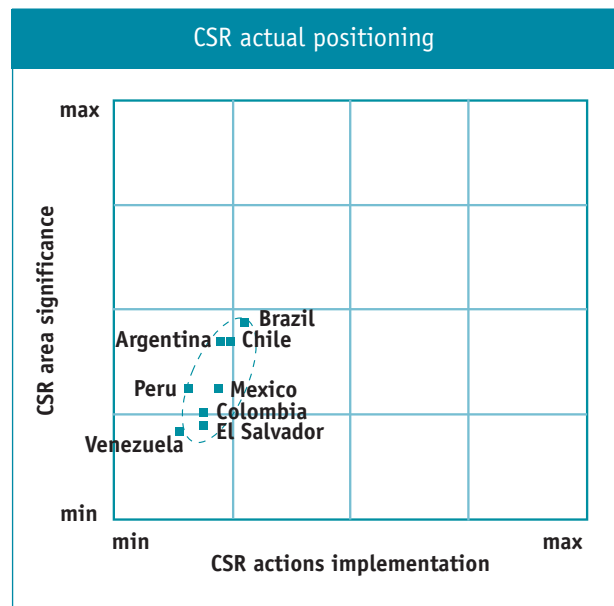
The following figure illustrates an estimated CSR positioning of each of the countries in regards to the significance of CSR for SMEs (vertical axis) and CSR actions implemented by SMEs (horizontal axis). This positioning is an approximation, developed by the authors, and it is based solely on the information utilized for the writing of this report (interviews, panel discussions and literature review).

The following country specific chapters examine the particular needs of SMEs and characteristics of CSR in each country. They present the state of CSR as well as actions that could be taken to improve it, at the country level, involving different stakeholders. Each chapter takes into consideration country specific characteristics, such as the economic and social framework, to develop recommended actions. The purpose of these recommended actions is to avoid the imposition of inappropriate standards or rigidities into the countries' economies and to avoid turning CSR into empty public relations strategies. The actions propose win-win strategies, for both enterprises and society related to the following topics:

- Actions to foster CSR practices in SMEs, and goals to reach, within the marketplace, workplace, community and environmental areas;
- Roles of multilateral, public and private institutions, and civil society organizations in promoting CSR in SMEs;

Where possible, the actions also identify:

- Clusters of SMEs that can form broader socially responsible initiatives and/or supply chain agreements to enhance CSR performances;
- Alliances among public and private institutions and civil society organizations.



1 Reader's Guide

This report is comprised of eight chapters, one for each of the eight countries that were researched: Argentina, Brazil, Chile, Colombia, El Salvador, Mexico, Peru and Venezuela. Each of the chapters has four sections, which are described below.

Section One – Executive Summary: Describes the key findings of the report for each country and highlights how the actors (national governments and local authorities, civil society, Multilateral Development Institutions – MDIs, and business associations) can foster CSR in SMEs.

Section Two – Country Economic and Social Framework: Uses data collected for this report and third party data to describe the country's macro economic factors such as the gross national product, unemployment rate and social environment through factors such as the level of female employment or human rights conditions.

Section Three – Current State of CSR: Academics and researchers have identified five CSR areas where CSR strategies and actions are applicable, which are Governance, Marketplace, Workplace, Community and Environment. This project selected four of the five areas, excluding Governance because not all SMEs, in particular small-enterprises, set corporate governance rules in their companies. Unfortunately, an internationally recognized description of each area does not exist. For the purpose of this investigation, we define each of the CSR areas as follows:

- **Marketplace:** Refers to issues such as compliance, quality, competitiveness, reputation, fairness, etc. It includes actors involved in the market (customers, suppliers, competitors, investors, etc.) and actors involved directly or indirectly in defining and implementing market policies (governmental organizations, business associations, customer associations, etc.). It also

includes shareholders and entrepreneurs that integrate social responsibility into core business strategies, making profitability an element of corporate social responsibility.

- **Workplace:** Refers to issues related to compliance, human rights, health and safety, etc. It includes employees, their families and parties involved directly or indirectly in defining and implementing labor policies (governmental organizations, business associations, unions, etc.).
- **Community:** Refers to issues such as poverty, diversity, consensus, medical assistance, education, etc. It includes civil society and parties involved directly or indirectly in defining and implementing social and aid policies (governmental organizations, local authorities, NGOs, etc.). This area also includes academia and the media for their role in building community awareness about social themes.
- **Environment:** Refers to issues related to compliance, climate change, biodiversity, local environmental impacts, etc. Includes present and future generations as well as parties involved directly or indirectly in defining and implementing environmental policies (governmental organizations, local authorities, NGOs, etc.).

Additionally a graph was prepared, for each country, with an estimated positioning of the CSR areas – marketplace, workplace, community and environment. The graph shows the significance of CSR for SMEs and the CSR actions implemented by SMEs. The objective of this figure is to visualize the situation and relevance of each of the CSR areas for SMEs in a specific country. The positioning is an approximation, developed by the authors, and it is based solely on the information utilized for the writing of this report, which includes interviews, panel discussions and literature review.

Section Four – Recommended Actions to Foster CSR:

This section proposes several actions to further the implementation of CSR in SMEs, organized by main actors, which are intended to be implemented in the mid-term (3-5 years). For the purpose of this study, there are four categories of main actors:

- *Multilateral Development Institutions (MDIs)*: May play a broad role in fostering CSR for all four areas of significance: marketplace, workplace, community and environment. “Their independent position, relationship with all parties involved in the CSR market, and their ability to provide financial and technical support, indicate that not only do MDIs have a role to play in fostering CSR, but also given the common objective of CSR and MDIs (i.e. development) they have the obligation to do it” (Vives, 2004).
- *National Governments and Local Authorities*: May implement policies for all CSR areas. The drivers for Government to promote CSR are globalization and the new economy; new models of governance and the welfare state crisis; national competitiveness and innovation; sustainable development; and the partnership approach (ESADE, SDA Bocconi, and Norwegian School of Management, 2006). Business may support the public sector, when developing countries lack the capacity to establish a functioning legal and regulatory structure for CSR. To allow this, the government should set clear policy objectives and then encourage business to contribute to those objectives (Petkoski, D. and N. Twose, 2003).
- *Business associations*: May operate in all CSR areas. By definition, business associations are close to companies and are especially relevant, through their work, to enhance the business environment. They are usually aware of the difficulties for companies to implement CSR

activities. Thus, business associations should be leading stakeholders in policy design, that can facilitate the implementation of CSR.

- *Civil Society*: May operate in all CSR areas and may be able to act as a 'bridge' between companies and government. They can also provide information on enterprises' activities to the public, as well as to convey society's expectations to the private sector.

The actors in these four categories may use all or some of the following six strategies to implement a range of initiatives:

- *Mandating*: To define minimum standards, authorization procedures or best available techniques or technology for business performances embedded within the legal framework.
- *Ensuring transparency*: To identify voluntary programs to certify processes or products, and ensure transparency in the processes in which SMEs are involved.
- *Facilitating*: To enable or increase the adoption of management tools such as voluntary product labeling schemes and guidelines for company management systems or reporting. It may include fiscal incentives or specific procurement procedures.
- *Improving Promotion and Advocacy*: To enhance CSR awareness through conferences, workshops, training programs, baseline indices, etc.
- *Partnering*: To tackle complex social issues by initiating and managing public and private stakeholder partnerships that combine complementary skills.

- *Endorsing*: To include CSR in the political agenda and demonstrate the success of CSR management by recognizing the efforts of companies, for instance, through awarding schemes.

2 Methodological Approach

2.1 CSR Defined

The definition of CSR adopted for this project is “practices of the corporation that, as part of the corporate strategy, complementary and in support of the main business activities, explicitly seek to avoid damage and promote the well-being of stakeholders (clients, suppliers, employers, financial resource providers, community, government and environment) by complying with current rules and regulations and voluntary going beyond those requirements” (Vives, 2004).

This definition is also consistent with the following main features largely recognized in social responsibility, identified by the European Commission:

- CSR is business behavior over and above legal requirements, voluntarily adopted because businesses deem it to be in their long-term interest;
- CSR is intrinsically linked to the concept of sustainable development: businesses need to integrate the economic, social and environmental impact in their operations;
- CSR is not an optional "add-on" to business core activities - but about the way in which businesses are managed.

Traditionally, large companies have driven corporate social responsibility, even though socially responsible

practices exist in all types of enterprises, public and private, including SMEs and cooperatives.

SMEs vary widely in their form of operation; however, they generally have unclear separation of roles between ownership and management, they have close relations with suppliers, clients and the community, and they interact frequently with their immediate surroundings, where they are frequently local activists or benefactors. In addition, SMEs are often focused on the day-to-day business operations, dependent on informal communication and subject to market dynamics generated by large corporations, which they often supply.

2.2 Literature Review and Stakeholder Mapping

Section three of each chapter; “Current State of CSR” includes input from stakeholders, which was collected through interviews and panel discussions as well as literature review. The following paragraphs describe who was considered as a stakeholder and which types of documents were consulted.

For the literature review, the majority of documents fell into the four CSR areas: Marketplace, Workplace, Community and Environment. Some documents, however, covered information in all four CSR areas. For example, reports from the Inter-American Development Bank, other multilateral development institutions and local institutions covered all four CSR areas. Below is a list of publications and indices from research institutes, academia and international organizations that were used in this report.

- *Marketplace Literature Review*: Several Indices were used in researching each country’s marketplace. The World Economic Forum (WEF) has published several indices for approximately two decades. Specifically, *the Global Competitiveness Index*, *the Growth Competitiveness Index*¹ with its sub-indices

1 The Growth Competitiveness Index uses a combination of hard data—e.g., university enrollment rates, inflation performance, the state of the public finances, level of penetration of new technologies, such as mobile telephones and the Internet—and data drawn from the World Economic Forum’s Executive Opinion Survey. The latter helps to capture concepts for which hard data are typically unavailable, but which are, nevertheless, central to an appropriate understanding of the factors fuelling economic growth.

(*Technology Index*, *Public Institution Index* and *Macroeconomic Index*), the *Reliability of Police Services* and the *Public Trust of Politicians* rankings. Other WEF indices provide data on market efficiency² that was useful for the definition of organizations' performances.³ In addition, Transparency International's *Corruption Perception Index* was used, as well as several surveys conducted by Proetica on the perception of national problems, in particular corruption, and Government priorities. Lastly, Vives, Antonio, A. Corral, and I. Isusi (2005) provided information regarding the contributions of SMEs to national economies.

- *Workplace Literature Review*: Several sources were used in researching each country's workplace. The International Labor Organization (ILO) provides national unemployment and informal employment data, as well as the *Child Labor Index*. WEF's *Strength of Auditing and Accounting Standards* indicate the level of compliance with business registration and certification, as well as information on labor-employer relations. The *Private Sector Employment of Women Index* and the Gender Gap Index show the level of gender discrimination. Additionally, valuable information comes from health and security certifications, such as *OHSAS 18000*, and *WEF Health and Safety Index* at the national level.
- *Community Literature Review*: The countries' community scenarios were developed using the United Nations Educational, Scientific and Cultural Organization's (UNESCO) *Educational Attainment Index*, United Nations Development Program (UNDP) *Human Development Index*, *HRI Intrinsic Human Rights Index* and the United Nations Children's Fund (UNICEF) *Child Rights Risk Index*. Also, information on CSR in Latin America from Vives, Corral and Isusi (2005) was used. Lastly, WEF has a research and

development sub-index and university-industry research collaboration sub-index which quantify interactions among stakeholders.

- *Environmental Literature Review*: In the definition of the Environment area, many figures have been quoted. Among them, the number of Clean Development Mechanism (CDM) projects in each country reveals their engagement in the Kyoto Protocol Program. In addition, the number of enterprises certified by ISO14000 (environmental management system) was used and the country's rating on the *Renewable Energy Index*. Lastly, the *World Research Institute index* named the Number of Formally Committed Municipalities to the United Nations' Local Agenda 21, which measures the commitment of the community and the local government to both environmental protection and economic prosperity.

In addition, a stakeholder map was used in each country to ensure a balanced representation of actors in all four CSR areas for the individual and panel stakeholder interviews. Stakeholders were identified across a number of different dimensions, including: international organizations, governmental organizations, associations, financial institutions, multinational companies, the media, NGOs, academia and CSR consulting firms. Local actors answered three questions: (1) What has been done on CSR?, (2) what is going to be done in terms of programs and policies?, and (3) what could be useful to strengthen the path? The interview results were used as inputs to develop the recommended actions to foster CSR in each country.⁴

In the last few years, Stakeholder Engagement has been considered the foundation of effective corporate social responsibility. Dialogue with stakeholders is increasingly becoming a part of mainstream business practice as a way of gathering input and ideas, anticipating and managing

2 Number of procedures required to start a business, Time required to start a business and Extent and effect of taxation; as for the level of innovation and technology development, Quality of scientific research institutions, Government procurement of advanced technology products, Capacity for innovation, Technological readiness, Production process sophistication, Local availability of specialized research and training activities were considered characterizing each country's Market

3 Business Competitiveness Index (BCI) , which shows competitiveness situation at microeconomic level, and the sub index Ethical behavior of Firms. Moreover, valuable information comes from third party organization about companies certified against ISO standards.

4 All detailed results of the Stakeholder Engagement phase are collected into the Progress Report delivered in May 2006.

conflicts, improving decision-making, building consensus among different views, strengthening relationships and enhancing corporate reputation.

2.3 CSR and Compliance

In this report, according with the adopted definition of CSR, compliance is considered the first step of corporate social responsibility. This starting point is distinct from an alternative CSR view defined as “the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life” (WBCSD, 2002). Even if it is hard to strike the fine balance needed between voluntary and regulated actions, all companies should comply with the law for at least the following two reasons. First, because to be responsible one needs to respect all rules approved by institutions as representatives of the interests of the main stakeholders. Secondly, because “responsible” companies by not complying even with the law will destroy the credibility of CSR.

In the globalization era, voluntary approaches to business regulation in the areas of sustainable development and human rights are increasing. They are designed by TNCs, business associations, governmental and intergovernmental organizations, civil society and NGOs. According to Utting (2005), some examples of these initiatives include:

- Certification schemes such as the ISO 14001 regarding environmental management standards; the Fair Labor Association (FLA) and Social Accountability International's (SAI) SA8000 regarding labor standards; Forest Stewardship Council regarding sustainable forest management.
- Global framework agreements between international trade unions and global corporations that agree to apply certain standards throughout their global structure (e.g. agreements between the International Union of Food and Allied Workers/IUF and Chiquita and Danone).
- Standard-setting and monitoring schemes associated with anti-sweatshop initiatives such as the Clean Clothes Campaigns, the Global Alliance for Workers and Communities and Worker Rights Consortium.
- Initiatives that emphasize stakeholder dialogue and the sharing of best practices such as the United Nations Global Compact (promoting ten principles derived from international labor, environment, human rights and anti-corruption laws), the Global Reporting Initiative (promoting triple bottom-line reporting), the Ethical Trading Initiative (promoting social standards throughout supply chain), AccountAbility (promoting social and ethical accounting) and Transparency International (promoting good governance and encouraging the fight against corruption).

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Chapter 1: Argentina

1 Executive Summary

In Argentina, CSR development should be led by NGOs and academic institutions, which are already engaged in the promotion of CSR, in partnership with enterprises, business associations and governmental organizations. Local actors, such as the community and civil society, which had prominent roles during the 2001 economic crisis, should promote CSR in Argentina at the sub-national level.

There are several variables that may be holding back the advancement of CSR in Argentinean SMEs. The most evident obstacles are the effects of the 2001 economic crisis, including: lack of employment, corruption, absence of an effective regulation framework and ineffective compliance control systems. Many stakeholders think that the attention given to CSR in the last few years was an approach to help overcome aspects of the economic crisis. Since the crisis is now arguably over, CSR needs to find a different way to draw attention to its potential not only as a recovery remedy, but also as a way to increase competitiveness, access new and global markets, enhance supply chains, and support local economic development.

NGOs, as a part of Argentinean civil society, have a valuable role in fostering CSR among SMEs.⁵ Civil society should educate SMEs, engage stakeholders, and conduct awareness campaigns and feasibility studies. Civil society could also contribute to the creation of codes of conduct and ethical behavior, the improvement of monitoring systems and environmental assessment, the launch of a center for environmental technology transfer and the creation of CSR awards and labels.

Given the shortcomings of existing regulations and the lag in the adoption of internationally accepted norms in Argentina, MDIs have a strong role in raising awareness of CSR, engaging the parties in negotiation and cooperation, financing pilot

activities and providing technical assistance. MDIs may provide financial support through Multilateral Financial Institutions, which are part of MDIs. MDIs should also encourage the involvement of public authorities, promote public-private partnerships and support transparency campaigns.

The Argentinean national and local governments can have an important role in facilitating CSR. This analysis, however, discourages Argentina's public authorities from imposing CSR regulations, due to the low level of public trust in politicians and administrators.

Business associations can also play an important role in promoting CSR, as they have successfully taken a leading role on several pilot projects aimed at enhancing compliance in the marketplace, applying environmental management systems, and implementing gender policies among SMEs. They also have leading roles in facilitating an approach to compliance, improving monitoring systems, promoting environmental assessments and training SME managers.

2 Economic and Social Framework

Most of the documents reviewed for this analysis highlight the exceptionality of Argentina, due to the unique macroeconomic figures resulting from the 2001 economic crisis. After the economic crisis, approximately 40 percent of SMEs could not continue operations. This was mainly because they were faced with having to pay similar levels of taxes and penalties as they had before the crisis, but now with considerably less income. According to the World Economic Forum (WEF) in 2005, Argentina's unemployment rate was 13.6 percent of the total labor force. SMEs in Argentina employ 78 percent of the labor force and contribute with 61 percent of the domestic product.

5 The civil society role, as known, was mainly in raising attention to ethical conduct and responsible behaviors as a way to overtake the crisis and the impasse.

The following chart shows competitiveness indicators supplied by the WEF. All data is from 2005 and the chart is sorted by indicator ranking. The five indices below reveal a positive state for Argentina's competitiveness and market development.

Organization	Index	Number of Countries in the Index	Argentina's Ranking
WEF	Local availability of specialized research and training services	117	33
WEF	Production process sophistication	117	46
WEF	Technological readiness	117	45
WEF	Quality of scientific research institutions	117	44
WEF	Global competitiveness	117	54 (2 out of 21 in Latin America)

However, Argentina does not rank high in all categories. The country faces problems to achieve economic growth including, a high level of corruption, lack of security and a high level of financial access risk. In addition, the political parties have been identified as the most corrupt national institution (Transparency International). All data is from 2005.

Organization	Index	Number of Countries in the Index	Argentina's Ranking
WEF	Ethical behavior of firms	117	80
WEF	Value chain presence	117	84
WEF	Number of procedures needed to start a business	117	97
WEF	Efficiency of legal framework	117	98
WEF	Business costs of crime and violence	117	102
WEF	Judicial independence	117	105
WEF	Public trust of politicians	117	107
WEF	Credit availability	117	111
Transparency International	Corruption Perception	159	97
World Bank ⁶	Financial inclusion	177	70

Investigation of Argentina's equity and gender policies exposes poor to average conditions in comparison to other countries in the index. The index also reveals poor human rights conditions in Argentina. Again, all data is from 2005.

6 www.maplecroft.com

Organization	Index	Number of Countries in the Index	Argentina's Ranking
WEF	Private sector employment of women	117	88
UNICEF	Child rights risk	192	58
Amnesty International and Human Research Watch ⁷	Intrinsic human rights risk	194	110
International Labor Organization ⁸	Child labor	191	107

3 Current state of CSR

Most Argentinean SMEs are unfamiliar with the concept of CSR and therefore do not consider it an essential factor toward progress. They believe they need to solve their structural problems before focusing on social and environmental issues. Nonetheless, research supports a positive perspective on CSR in the long-term, because of a clear willingness to improve and be competitive. Regarding the meaning of CSR in Argentina, 86 percent of the people interviewed answered that CSR means “to guarantee safe and healthy products,” 84 percent think that CSR means “to not damage the environment,” and 81 percent believe that it means “to treat workers equitably” (Anselmi, 2005). In the stakeholder interviews, a distinction was made between primary and secondary responsibilities for SMEs. There was a general consensus that the marketplace, workplace and environment were primary responsibilities, while the community was a secondary responsibility.⁹

In 2005, Argentina held the 58th position out of 83 in AccountAbility's *National Corporate Responsibility Index*. However, in the CSR Monitor survey for 2005, distributed by *Canadian GlobeScan Institute*, Argentina shows a positive inclination for CSR development. This survey consists of 1000 interviews conducted in each of the 19 participating countries. Argentina ranked 8

out of 19 (54 percent agreed) in the potential for laws to effectively support the implementation of CSR. Impressively, in the category on the perception of businesses as actors that care about societal improvement, Argentina ranked 18th out of 19.

Casali (2004) identifies several characteristics of Argentinean SMEs that support the effective implementation of CSR in their operations: i) SMEs are usually family run companies with loose management structures, which gives them a more flexible decision making processes and therefore it may be easier to introduce changes and strategy innovations through employer motivated efforts; ii) SMEs usually have close relationships with the community, their suppliers and their clients; iii) nearly all SMEs already implement aspects of CSR in their activities, but not in a conscious and systematic way – if they can develop deliberate CSR practices the effects will be far more noticeable.

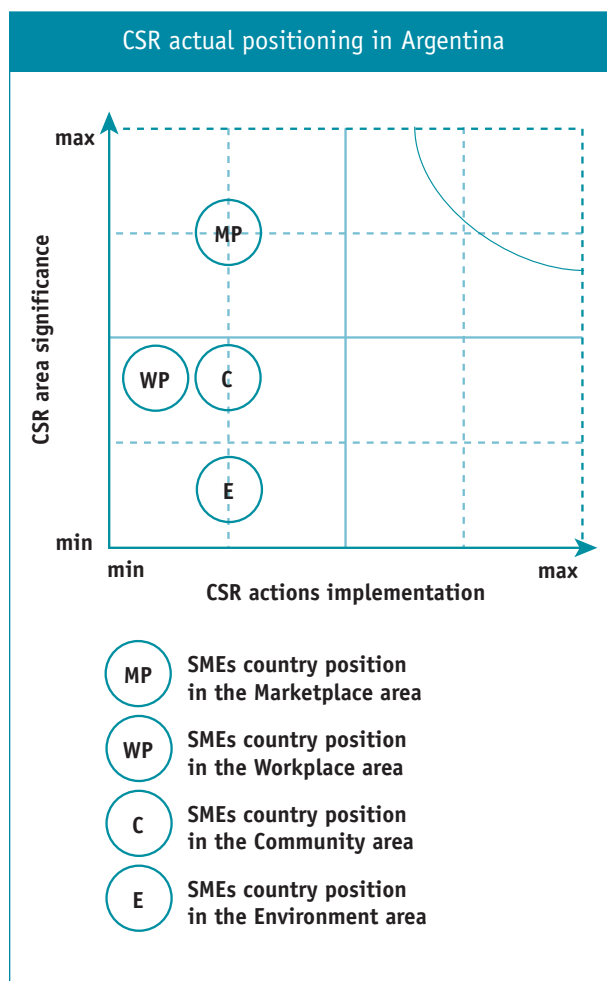
Concerning the actors, the stakeholders interviewed recognized civil society as the **first mover** during the 2001 crisis, and also recognized the role of public authorities in fostering CSR. In regards to public authorities, Argentina is one of two federations in South America (Brazil is the other). As a result, there is a high degree of decentralization, allowing provinces to be important players in the promotion of CSR.

⁷ www.maplecroft.com

⁸ "The end of child labor: Within reach", 2005, shows that the actual number of child laborers worldwide fell by 11 percent between 2000 and 2004, that is from 246 million to 218 million. www.maplecroft.com

⁹ It was decided that there were other entities that had a stronger responsibility for social and community issues. Therefore, SMEs should have a policy on not damaging the community rather than on helping it.

The following figure illustrates an estimated positioning of each one of the CSR areas – marketplace, workplace, community and environment. The graph shows the significance of CSR for SMEs (vertical axis) and the CSR actions implemented by SMEs (horizontal axis) in Argentina. This positioning is an approximation, developed by the authors, and it is based solely on the information utilized for the writing of this report (interviews, panel discussions and literature review).



3.1 Marketplace

In Argentina, the marketplace area is perceived, by SMEs, as very important for their business. Their general view is that marketplace issues such as customer relationship, supply chain management, quality and compliance may affect their competitiveness in the mid- and long-term. In particular, SMEs believe that CSR issues can increase their competitiveness. Specifically when small and micro enterprises foster relationships with medium and large compliant companies (as well as domestic ones) and become part of a large supply chain, thus promoting investment and credit trust through transparency. Unfortunately, cooperation within the supply chain is infrequent in Argentina and cooperation within the business community, regarding CSR, is almost non-existent.

The biggest challenge to advancing CSR in Argentina is the lack of clear roles among the three sectors of society. As a result, no sector has assumed a sense of ownership, and the business community has not been strategically integrated in the public sector's efforts to advance a social agenda. The international community can have an important role in facilitating this process.

The 2001 economic crisis is perceived as a major issue, and still affecting corporate behavior, resulting in short-term planning, low levels of investment and permanent fiscal and supplier debts. A number of SMEs, as in many other Latin American countries, lack access to credit. Additionally, Argentinean SMEs still have fiscal and supplier debts from the crisis. Consequently, the level of SME investment comes mostly from reinvestment of profits. Main disadvantages seem to be connected to government or public authority's activities, as SMEs face challenges in the public system that negatively affect their efforts toward registration and compliance.

According to the ISO Survey (2004)¹⁰, 4,149 enterprises in Argentina are certified against ISO 9000:2001 quality management system. This can be interpreted as a valuable indicator of the tendency of larger companies to use management system applications and of the wider attention paid to quality processes and products in the country.

The following factors could allow SMEs to create relationships with other large and/or international certified companies in the mid-term:

- Capacity to respond quickly to the market requirements
- Strong entrepreneurial culture
- High technological readiness
- Export capacity
- Voluntary management systems on quality, health and safety, and environmental issues

3.2 Workplace

In the short-term, Argentinean SMEs do not perceive the workplace area as relevant for their competitiveness. This is mainly because of the high level of unemployment and the lack of regulation and enforcement on work related issues. However, in the long-term, SMEs recognize the workplace area as valuable for their operations. Their view is that workplace issues such as health and safety norms, employment policies, equal opportunities and compliance may affect Argentina's economic growth and SME profitability. Currently, CSR workplace actions are determined by an interest in equitable economic growth.

SMEs in Argentina are generally not compliant with labor laws, health and safety regulations. With regard to the specific issue of informal employment, some argue that managers keep workers in that condition because their company would not be able to survive otherwise, as taxes and payments can be quite high. Hiring and firing practices are poorly

perceived in Argentinean companies, demonstrated by its rank of 107 out of 117 (WEF). The same situation exists for cooperation in labor-employer relationships where it ranks 87 out of 117 (WEF). Argentina historically has been a provider of qualified workforce to other countries, yet it is likely that the most qualified individuals left the country during the economic crisis. These problems seem to be the consequence of two main issues: i) managers' tendencies to focus solely on the survival of the company, thereby neglecting to pay attention to the conditions of their workplace; and ii) confusion with regulations as well as lack of enforcement and control.

Approximately 60 companies in Argentina are certified against Occupation Health and Safety Assessment Series (OH SAS) 18001 or IRAM¹¹ 3800:1998, which are international health and safety management systems¹² and may indicate a positive trend towards voluntary management systems.

3.3 Community

The community area is not perceived as valuable by SMEs. Their opinion is that community issues, such as consensus building, participation and public-private partnership may affect the overall Argentinean economic growth in the mid- and long-term, but not necessarily SMEs competitiveness. However according to the research on CSR in Latin American SMEs (Vives, Corral and Isusi, 2005), they show deep interest in the well being of the community, where they develop strong relationships and their leaders are widely known and trusted.

Many existing surveys and reports describe the interaction between SMEs and their local communities. These reports stress the importance of effective community links, which are not generally used to enhance competitiveness, but could be shaped to do so in the near future (Vives, Corral and Isusi, 2005). Most SMEs have non-

¹⁰ Also available on www.iram.com.ar

¹¹ Argentinean Institute of Normalization and Certification (*Instituto Argentino de Normalización y Certificación*)

¹² www.iram.com.ar

structured philanthropic policies, and the business-community interaction is dominated by philanthropic activities. Furthermore in the community area, there are not many partnerships among the public, private and non-profit sectors.

3.4 Environment

SMEs do not perceive the environment area as a priority to improve their performance. Their view is that issues such as environmental management, compliance, monitoring and climate change may affect Argentina's sustainable development in the mid- and long-term, but not necessarily SMEs competitiveness. Increasing attention and a "sense of environmental responsibility", however, makes civil society more aware and demanding of environmental stewardship.

More than 408 Argentinean companies are certified according to ISO 14000 requirements (ISO 2004)¹³, which is a valuable indicator of the spread of environmental management systems, even though the certified companies are mainly large firms.

Argentina was the first country in Latin America to set up Carbon Facilities, driving local companies towards the Kyoto Protocol requirements. Argentina already has three registered Clean Development Mechanism (CDM) projects¹⁴ and many other projects in the pipeline, and is currently waiting for the United Nations Framework Convention on Climate Change CDM, Executive Board decisions.

4 Recommended Actions

The main actors able to strengthen CSR in Argentina have been classified in the following four categories: a) Multilateral Development Institutions (MDIs), b) national governments and local authorities, c) business associations, and d) civil society. These four categories of actors may act via

all or some of the following strategies, as defined in the Introductory Chapter: *Mandating, Ensuring transparency, Facilitating, Improving Promotion and Advocacy, Partnering, and Endorsing*. The proposed actions are by no means exhaustive and only illustrate the types of involvement, which can be easily modified to meet local needs.

4.1 Multilateral Development Institutions

Given the shortcomings of existing regulations and the lag in the adoption of internationally accepted norms, MDIs have an important role to play in fostering responsible practices in Argentinean SMEs (Vives, 2004). MDIs may play many roles¹⁵, such as raising awareness, engaging various stakeholders, promoting discussion and multi-sector collaboration, financing pilot projects, providing technical assistance and providing financial support for some of these activities through Multilateral Financial Institutions, which are part of MDIs.

- a. *Ensuring transparency*, recommended actions for MDIs:
 - Take the lead in ensuring transparency policies, such as the "transparency in credit through participation" project, which is an innovative analysis of credit access procedures applied to two or three selected localities.
 - Lead the effort to educate SMEs on accountability and reporting standards such as the Global Reporting Initiative, as well as other international guidelines and principles such as the Global Compact and the International Labor Organization.
 - Work with academia and public authorities to educate SMEs on best practices and internationally accepted standards and techniques. Brochures, leaflets, reports, workshops and conferences can be useful tools for this purpose.

¹³ Also available on www.iram.com.ar

¹⁴ www.unfccc.int

¹⁵ Promotion and advocacy, development of a conducive policy environment, financial support and promotion of compliance, reporting and accounting (Vives, 2004).

b. *Facilitating*, recommended actions for MDIs:

- Fund, supervise and support initiatives aiming to enhance the policy environment, which in turn can facilitate private sector initiatives and support voluntary efforts toward responsible behaviors.
- Support long-term, voluntary approaches for compliance, which represent an important step for participation in the supply chain and allows SMEs to compete in global markets. For example, MDIs could work with business associations to conduct a noncompliance assessment study, including a risk analysis that identifies the direct and indirect costs of noncompliance. In addition, assistance should be given to a pilot group of SMEs to draft a compliance program specifying timing, resources and expected results. Compliance issues may also be addressed through training programs on issues such as taxes and administrative costs, transparency, accounting, and health and safety management to create awareness of labor rights. Lastly, to increase compliance, the informal labor pool in SMEs must be reduced and mandating policies increased, without weakening enterprises by increasing costs.
- Fund pilot projects for quality management systems implementation into local supply chains. In the short- and mid-term, SMEs should implement these systems for processes, products and services, aiming to widen the use of having a business plan culture in Argentina. Quality can be a major driver for innovation and change in SMEs. A proactive approach, not only driven by Transnational Companies' requests, may enhance compliance and increase competitiveness in the mid-term. MDIs should work with business associations to develop guides for companies according to their size, integration and certification status.

- Help spread the implementation of the environmental management systems within SMEs. This will increase awareness about the possibilities that responsible management practices represent in reducing costs and decreasing environmentally negative impacts and, where applicable, bolstering the reputation of the company.
- Partner with business associations, academia and NGOs to stimulate pilot projects using clusters to implement environmental management systems according to ISO 14001 at the district level.
- Work together with all sectors to enhance responsibility through transparency and promote the application of codes of conduct in SMEs.

c. *Improving Promotion and Advocacy*, recommended actions for MDIs:

- Formulate the business case for CSR practices in a language that SMEs can understand.¹⁶ Embedding CSR in Argentina's culture is not a matter of social values, but rather the need to demonstrate the business case.
- Sponsor voluntary agreement feasibility studies to enhance management practices and promote pilot projects to develop Carbon Pooling among SME sellers. Before voluntary agreements are implemented community-wide, the method and guidelines should be tested on at least two or three cases. In addition, Carbon Pooling pilot projects that enhance the capacity of SMEs to profit from the Kyoto Protocol CDM could be sponsored by a national bank, MDIs, business associations and/ or academia.

d. *Partnering*, recommended actions for MDIs:

- Lead an effort in partnership with other actors, to establish an association dedicated to the dissemination of gender policies among

16 Vives, 2004, pag. 46.

the private sector and to develop gender policies applicable to SMEs to support young women.

- e. *Endorsing*, recommended actions for MDIs:
- Help launch a responsible product label aimed at promoting responsible Argentinean SMEs in international markets.

4.2 Government and Local Authorities

Argentina's government and local authorities have an important role in ensuring transparency, facilitating, improving promotion and advocacy and endorsing policies. This analysis does not promote any mandating roles for Argentinean public authorities. In fact, given the low level of businesses that have obtained operating licenses combined with the low level of public trust in politicians and administrators, fostering CSR through regulations is perceived as ineffective.

- a. *Ensuring Transparency*, recommended actions for government and local authorities include:
- Facilitate, monitor and legitimize corporate accounting, governance and transparency standards. Transparency policies may include issues such as compliance, fair trade, employment relations, taxation, bribery and contractual conditions.
 - Work with local banks and MDIs to enhance access to credit for SMEs and to increase investments and reputation in specific territories. Specific actions may include an awareness campaign to address transparency, internationally accepted rules and proper bank-SMEs relationships or a pilot project to test the feasibility of a new model for credit, debit and loans.
 - Lead the effort to educate SMEs on accountability and reporting standards such as the Global Reporting Initiative, as well as other international guidelines and principles

such as the Global Compact and the International Labor Organization.

- Work in collaboration with academia and MDIs, to educate SMEs on best practices through brochures, leaflets, detailed reports, workshops and conferences.

- b. *Facilitating*, recommended actions for government and local authorities include:
- Foster CSR among SMEs by supporting the definition of guidelines for codes of conduct and ethical behavior, for improving monitoring systems and environmental assessment procedures and practices, as well as supporting an approach to compliance, possibly adding incentives or reducing penalties for cooperative companies.
 - Work with business associations, academia and MDIs to develop a step-by-step voluntary approach to SME compliance. Issues to be addressed could include taxes and administrative costs, transparency or accounting.

- c. *Improving Promotion and Advocacy*, recommended actions for government and local authorities include:
- Raise awareness, disseminate information and spread best practices among SMEs to indirectly foster their involvement in CSR practices.
 - Launch an Environmental Technology Expo that would enhance the application of best available technologies in the industrial sector and praise environmental innovation in technologies.
 - Work in partnership with academia, business associations, NGOs, public authorities and MDIs, to promote stakeholder engagement through training and the dissemination of best practices.
 - Promote business registration through simplification of administrative and bureaucratic procedures.

- d. *Endorsing*, recommended actions for government and local authorities include:
- Help launch a responsible label aimed at promoting responsible Argentinean SMEs in international markets and create an award to support the adoption of new practices or new technologies (i.e. utilizing byproducts as inputs in the production process).

4.3 Business Associations

Business associations include trade associations, territorial associations, Chambers of Commerce and SME associations. Business associations play an important role in *Facilitating, Improving Promotion and Advocacy, Partnering and Endorsing*. Business associations may support SMEs' efforts towards CSR through their capacity building programs based on the experiences of pilot projects; raising awareness; developing new tools and promoting them with SMEs.

- a. *Improving Promotion and Advocacy*, recommended actions for business associations include:
- Engage managers of large companies to enhance the participation of clients in SME governance activities. The aim would be to pursue a client/customer partnership approach to the decision-making process on the development of new products and/or services.
 - Work together with MDIs and unions to enhance compliance and disseminate best practices about health and safety in the workplace.
 - Promote voluntary agreements and partnering aimed at the launch of pilot projects and the dissemination of best practices.
 - Partner with academia, NGOs and MDIs to raise awareness among SME managers regarding international gender and child labor

policies. Women should be supported at work through direct experience sharing and workshops with women who are leading managers, politicians or entrepreneurs.

- Raise awareness among SMEs of the Kyoto Protocol, and Argentina being the host country of the first Latin American Carbon Facility. This may facilitate the Best Available Technology transfer, improve and renew environmental performances, widen the international network, and increase CSR practices among Argentinean companies that desire participation in the supply chain of the new plants and activities.
- Promote the organization of an Environmental Technology Expo to enhance the application of best available technologies in the industrial sector and to praise environmental innovation in technologies.

- b. *Partnering*, recommended actions for business associations include:

- Conduct a noncompliance assessment study for the marketplace and the workplace areas, including a risk analysis that identifies the direct and indirect costs of noncompliance, in partnership with MDIs. In addition, assistance should be given to SME participants to draft a compliance program specifying timing, resources and expected results.
- Collaborate with MDIs and academia to develop gender policies that support young women and that are applicable in the SME context.
- Form alliances with MDIs, academia and NGOs to launch pilot projects for using clusters to implement environmental management system according to ISO 14001 at the district level.

- c. *Facilitating*, recommended actions for business associations include:
- Create voluntary compliance programs for issues such as taxes and administrative costs, transparency or accounting.
 - Collaborate with MDIs and NGOs to improve monitoring systems and environmental assessments in SME procedures.
 - Support CSR training for SME managers as well as the creation of guidelines for codes of conduct and ethical behavior among SMEs.
- d. *Endorsing*, recommended actions for business associations include:
- Facilitate cooperation among market players through the use of clusters and the enhancement of sector-based approaches, aimed at: i) facilitating the development of economies of scale, ii) promoting linkages among firms, and iii) strengthening the local position of SMEs within the value chain to develop an economy of scale.
 - Pilot CSR cluster projects and develop guidelines for developing linkages in local supply chains with regards to specific CSR areas and benchmarking processes among Argentinean SMEs. For example, the definition and application of a new territorial approach – a pilot project on the implementation of quality management systems to local supply chains.
 - Endorse the launch of a responsible product label and promote environmentally friendly SME start-ups.
 - Partner with MDIs and academia to help SMEs find the proper technology for their business, and facilitating the transfer, application, and reduction of costs and bureaucratic executions.

4.4 Civil Society

Argentina's civil society comprises academia, media, NGOs, and the people interested, involved or affected by SMEs' activities. In the past years, academia and NGOs have been the most active participants of civil society in Argentina.

- a. *Improving Promotion and Advocacy*, recommended actions for civil society include:
- Take the leading role in activities such as: providing CSR training to SME managers, facilitating stakeholder engagement, starting an NGO awareness campaign on responsible practices, promoting CSR benchmarking techniques and best practices and issuing CSR publications that focus on Argentina and other Latin American countries.
 - Facilitate a participatory decision-making process by linking SMEs to their customers or pilot alliances among SMEs, public sector and NGOs, with the direct engagement of stakeholders in the design and monitoring phases.
 - Collaborate with business associations, district municipalities, and MDIs to evaluate the feasibility of voluntary environmental agreements. Before agreements are implemented community-wide, the method and guidelines should be developed and tested in selected municipalities.
 - Take a supporting role on the promotion of business registration through simplification of administrative and bureaucratic procedures and training activities on health & safety.
 - Support counseling on gender and child labor rights, in which women are supported at work through direct experience sharing and workshops with women who are leading managers, politicians or entrepreneurs.

- In partnership with national banks, MDIs and business associations could sponsor Carbon Pooling pilot projects that enhance the capacity of SMEs to profit by the Kyoto Protocol CDM.
- b. *Facilitating*, recommended actions for civil society include:
- Lead the development of guidelines for codes of conduct and ethical behavior, that can support other actions such as, creating a voluntary approach to compliance, the improvement of monitoring systems and environmental assessment and the launch of a center for environmental technology transfer.
- c. *Endorsing*, recommended actions for civil society include:
- Endorsing policies such as the creation of an award for environmental technology innovation, the launch of a responsible product label to promote Argentine products sold internationally and the promotion of environmentally friendly SMEs that use new practices or technologies to integrate byproducts into their production.
- d. *Partnering*, recommended actions for civil society include:
- Take supporting roles in partnering policies such as pilot projects, activities to promote workplace compliance and activities to promote the dissemination of gender policies among SMEs.
 - Contribute to training activities for health and safety and engage managers of large companies to enhance the participation of clients in governance activities of SMEs with the aim of pursuing a client/customer partnership approach to the decision-making process on the developments of new products and/or services.
 - Partner with business associations and MDIs to launch pilot projects for using clusters to implement environmental management system according to ISO 14001 at the district level.

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	www.unfccc.int

Appendix

The following stakeholder map has been used to verify that all eight defined stakeholder categories and all four CRS areas are represented. Stakeholders that were chosen for interviews or as panel participants either had relevant expertise in the issue or may influence awareness, interests and implementation instruments relevant to the issue.

APPENDIX 1 – ARGENTINA'S STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
1. International organizations			— Inter-American Development Bank (IDB) — United Nations Development Programme (UNDP) — Pacto Global — Project PAI/CIPRA-GTZ	— Inter-American Development Bank (IDB) — United Nations Development Programme (UNDP) — Pacto Global — Project PAI/CIPRA-GTZ
2. Government organizations and institutions	— Programa de Desarrollo para personas con discapacidad del Ministerio de Educación, Ciencia y Tecnología de la Nación — Confederación General del Trabajo (CGT)	— Subsecretaría de la Pequeña y Mediana Empresa y Desarrollo Regional — Secretaría de Políticas Sociales y Transformación Social — Responsable de la Oficina de Empleo para personas con discapacidad y grupos vulnerables		— Secretaría de Ambiente y Desarrollo Sustentable
3. Associations (national, sectoral, business)	— Cámara de Comercio de los Estados Unidos en Argentina (AMCHAM) — Asamblea de Pequeños y Medianos Empresarios de la República Argentina (ApyMe) — Intersindical			
4. Multinational companies	— Manpower	— Kodak — Unilever	— Coca-Cola — Total Austral — Pan American Energy	

APPENDIX 1 – ARGENTINA'S STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
5. Media			— Comunicación de la Responsabilidad Social de la Empresa (ComunicaRSE)	— Asociación Argentina de Periodistas Ambientales (AAPA)
6. NGOs	— Asociación Cristiana de Dirigentes de Empresas — Fundación ARCOR — Fundación Diario La Nación — Fundación Noble — Instituto Argentino de RSE (IARSE) — Instituto para el desarrollo empresarial de la Argentina (IDEA)	— Instituto Argentino de RSE (IARSE) — Red Argentina de Comercio Justo — Fundación Centro de Derechos Humanos y ambientales (CEDHA)	— Centro de Estudios de Estado y Sociedad (CEDES) — Asociación Cristiana de Dirigentes de Empresas — Centro para la Responsabilidad Social (Interruption) — Grupo de Fundaciones (GdeF) — Foro Ecueménico Social — Foro del Sector Social — Fundación Bunge y Born — Fundación El Otro — Fundación GEOS — Fundación Poder Ciudadano — Fundación Solidaridad, Educación Sustentabilidad — Fundación del Tucumán — Consejo Nacional para la Etica Publica (Proética) — Fundación Centro de Derechos Humanos y Ambiente (CEDHA)	— Fundación Pro Desarrollo Ambiental Sustentable (PRODIS) — Consejo Empresario Argentino para el Desarrollo Sostenible (CEADS) — Fundación Vida Silvestre Argentina — Fundación Ambiente y Recursos Naturales (FARN) — Greenpeace Argentina — Fundación Centro de Derechos Humanos y ambientales (CEDHA)

APPENDIX 1 – ARGENTINA'S STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
7. Academia	— Centro de Estudios Macroeconómicos (CEMA) — Centro de Estudios Nueva Mayoría		— Social Enterprise Knowledge Network (SEKN) — Universidad de San Andrés (UdESA) — Universidad Católica de Córdoba — Universidad Torcuato Di Tella — Universidad Austral (IAE) — Universidad Católica Argentina (UCA) — Universidad de San Andrés — Universidad Nacional San Martín — Universidad Nacional de la Plata	— Instituto de Estudios para la Sustentabilidad Corporativa (IESC)
8. National companies	— Arcor — Cosméticos Avon — Respsol YPF — TGN — Argentina María — Amelia Videla			

Chapter 2: Brazil

1 Executive Summary

The interest in improving the social performance of Brazilian firms increased significantly in the 1980s, and was driven to a large extent by domestic concerns and actors. A crucial element was the diffusion of values and ethics related to democratization and progressive religious thinking. Democratization also paved the way for the expansion of civil society and social movements concerned with the social and environmental impacts of business. During the 1990s, political parties, NGOs, trade unions, media, local government, consumers and shareholders became involved in promoting CSR, along with some business associations and pro-active managers and firms. The momentum behind the social efforts has been reinforced by pressures associated with cross-border management of transnational corporations (TNC), global civil society activism, environmental certification, and international social, environmental and human rights norms and laws.

Brazilian business associations seem to have the strongest potential role in fostering CSR due to their positive influence on SMEs, a high level of recognition by employers and civil society and the promotion of voluntary approaches to CSR that go beyond current regulations. Therefore, business associations lead most of the projects proposed in the recommended actions such as facilitating compliance, promoting CSR awareness, developing programs on gender rights, counseling on labor rights and promoting improved labor–employer relations. Business associations should propose a territorial approach on the implementation of quality management systems in local supply chains and should drive the creation of product labels that certify CSR management practices.

Brazil's civil society could take a leading role in increasing awareness on accounting and reporting standards, developing training courses for SME

managers on strategic planning and how to write a business plan as well as developing guidelines for codes of conduct and ethical behavior. In addition, Brazilian civil society may be a leader in the promotion of environmental compliance, in stakeholder engagement policies and in sponsoring pilot projects.

MDIs are an important resource for Brazilian institutions and companies. In recent years, several programs and partnerships with Brazilian business associations and other institutions (i.e. SENAI¹⁷, National Confederation of Industries, Ethos Institute) have been launched to build CSR awareness and develop an understanding of the drivers and key players. In addition, MDIs have helped conduct a country specific impact assessment of the CSR agenda for Brazilian development. Due to this past success, proposed activities for MDIs include promoting new partnerships aimed at issues such as encouraging compliance, enhancing sustainable practices, responsible planning, stakeholder engagement, sustainable tourism and transparency. MDIs should be involved in funding most of the proposed actions, including those actions that are led by other actors.

The Brazilian Government and local authorities could enable CSR without imposing mandatory policies or rules on SMEs. Public sector bodies should be aware of the potential for promoting CSR among enterprises that support national policy priorities¹⁸. According to the panelists and many of the stakeholder interviews, Brazilian public authorities seem to lack awareness of CSR policies, promotion and stimulation. Therefore, this report recommends CSR training for public employees. Public authorities, especially at the state level, may lead campaigns aimed at promoting voluntary behaviors and sustainable practices among SMEs, such as promoting pilot projects to implement quality management systems in local supply chains. To ensure transparency, Brazilian public authorities can support new forms of voluntary auditing and promote awareness of accounting and reporting standards.

¹⁷ National Industrial Training Service (*Serviço Nacional de Aprendizagem Industrial*)

¹⁸ According to Fox, Ward, Bruce (2002) good examples may be the following: the existence of opportunities to integrate business linkages programs into national poverty eradication strategies or the development of public sector advisory services in these areas which may require external support.

2 Economic and Social Framework

Brazil faced an economic crisis in 1997-98. One result of this crisis has been a heightened focus on the human aspects of economic policies. While this shift took place only academically at the beginning, a growing number of NGOs and socially committed corporations began to recognize the positive implications of CSR (Sussdorff, 2003).

As companies sought to restructure and become more competitive internationally, some managers recognized the potential for using social and environmental initiatives as a way of reducing costs, increasing competitive advantage and managing risks and reputation (Cappellin and Giuliani, 2004). The international repercussions of Brazil's unfavorable business image pushed them to prioritize issues such as poverty, violence, child labor, education and environmental protection. In particular, the largest firms assumed leadership, seeking to fill some of the gaps that resulted from the perception of a weak public sector.

As the CSR agenda broadened in the 1990s and with corporate restructuring intensifying, companies directed more attention inwards, and toward social investments aimed at improving workers' skills, particularly in the metallurgical, chemical, building and textile sectors. Social investments related to employees had the primary goal of increasing productivity. At the same time, such actions had the potential to reduce problems on the shop floor such as safety, illiteracy, poor health, absenteeism and weak identification with company goals.

The level of unemployment in Brazil according to the World Economic Forum (2005) is 11.5 percent of the total labor force, and the level of informal economy is at 39.8 percent of the GNP (Schneider, 2002). Since Brazil is a Federation of States, the states have the potential to be powerful CSR policy makers.

The following chart shows competitiveness indicators supplied by the WEF. All data is from 2005 and the chart is sorted by indicator ranking. The indices below reveal a fair state for Brazil's competitiveness and market development.

Organization	Index	Number of Countries in the Index	Brazil's Ranking
WEF	Local supplier quantity ¹⁹	117	27
WEF	Company spending on research and development	117	29
WEF	Capacity for innovation	117	32
WEF	Local supplier quality	117	36
WEF	Quality of scientific research institutions	117	39
WEF	University/industry research collaboration	117	40
WEF	Ethical behavior of firms	117	51
WEF	Strength of auditing and accounting standards	117	62
WEF	Global Competitiveness Index	117	65 (4 out of 21 in Latin America)

¹⁹ Indicates that Brazilian suppliers are ready to be an important part of larger firm (multinational and transnational companies included) supply chains.

However, Brazil does not rank high in all categories. Like many other Latin American countries, Brazil suffers from various forms of corruption and unethical behaviors in both public and private institutions. Even though the level of corruption is perceived as unsustainable by civil society²⁰, it has been evaluated at more favorable levels than many other Latin American countries by several research institutes. Additional rankings illustrate a lack of security and market efficiency.

In Brazil, the equal opportunities situation is divided. Educational development and reduction of child labor has been successful. However, other factors such as employment of women and health and safety must be improved.

Organization	Index	Number of Countries in the Index	Brazil's Ranking
WEF	Favoritism in decisions of government officials	117	69
WEF	Judicial independence	117	72
WEF	Efficiency of legal framework	117	74
WEF	Hiring and firing practices	117	89
WEF	Extent and effect of taxation	117	90
WEF	Public trust of politicians	117	93
WEF	Organized crime	117	99
WEF	Number of procedures required to start a business	117	102
WEF	Time required to start a business	117	104
WEF	Business costs of crime and violence	117	107
Transparency International	Corruption Perception	158	62

Organization	Index	Number of Countries in the Index	Brazil's Ranking
International Labor Organization (ILO) ²¹	Child labor	191	28
UNESCO 2005 AND UNDP 2005 ²²	Educational attainment index	166	55
WEF	Private sector employment of women	117	85
ILO ²³	Health and safety	187	148

20 For example, on the 16th of August 2005 some 10,000 to 15,000 Brazilian students and trade union members marched against corruption (BBC News).

21 "The end of child labor: Within reach", 2005, shows that the actual number of child laborers worldwide fell by 11 percent between 2000 and 2004, that is from 246 million to 218 million. www.maplecroft.com

22 Idem

23 Available on www.maplecroft.com

3 Current State of CSR

The concept of CSR in Brazil is fairly well developed among large companies. Led by the public sector, the administration of President Lula da Silva has made creating social programs and addressing the vast social inequities a priority.²⁴ Brazil has one of the highest disparities in the distribution of wealth. Therefore, the private sector feels pressure to demonstrate social awareness.²⁵

A recent survey on CSR in Latin American SMEs, (Vives, Corral and Isusi, 2005) reveals that a large number of SMEs in Brazil implement CSR activities (93 percent), among which 53.6 percent claim to implement CSR activities extensively. Furthermore, among those enterprises 26.1 percent consider the implementation of CSR in their activities a priority, 46.2 percent declare that their customers demand socially responsible performances and ethical behaviors, and 67.3 percent affirm that Brazilian society needs socially responsible companies. The knowledge, expertise and pressure capacities of Brazilian civil society are recognized as highly valuable and strong when compared to other Latin American countries.

The CSR organizational structure is already present and used by some SMEs. For example, Ethos and the Brazilian agency for the support of micro and small enterprises (*Serviço de Apoio às Micro e Pequenas Empresas de São Paulo - Sebrae*) provide SMEs with a management tool that explains that CSR is not just philanthropy, but a way to administrate business with real positive results. In addition, the National Industry Association (CNI) promoted a Social Responsibility Council, formed by several entrepreneurs with the objective of discussing ways to improve CSR in their businesses. Lastly, the Federation of Industries of the State of Rio de Janeiro developed 46 seminars for capacity building on the Ethos and Sebrae indicators for SMEs, with the participation of 1,430 people.

Most of the experts pointed out the importance of prizes and awards already present in the country as awareness raisers, best practices disseminators and network builders. These include: National Prizes for CSR good practices of SMEs, *Premio Eco, Ethos Awards*, Social Audit Stamp by the Brazilian Institute of Social and Economic Analyses -IBASE, Citizen Company Stamp (*Selo Empresa Cidadã Prize*), Sustainable Enterprise Prize (*Empresa Sustentável prize*), and Social Report National Award among others.

CSR internal activities are more frequently implemented than CSR external activities mostly by Brazilian SMEs, and they generally address employee participation, health, training, equal opportunities and job-family conciliation. Brazilian SMEs also carry out external activities in the form of philanthropy –donations and sponsorships- as well as manager participation, mainly in the areas of education and support for underprivileged and neglected people. Environmental activities are also carried out and directed at waste reduction, recycling, and environmental impact monitoring systems (Vives, Corral and Isusi, 2005).

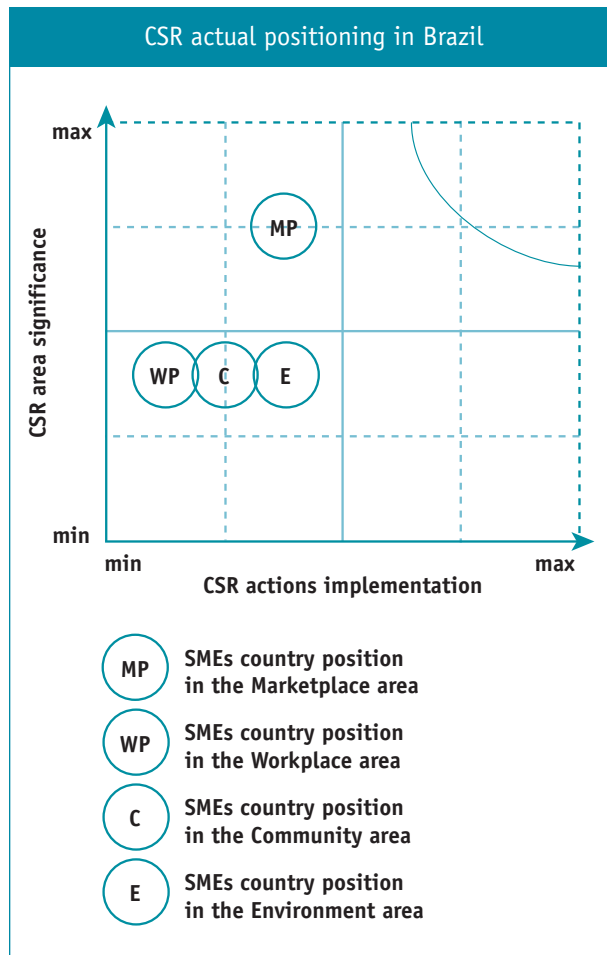
According to Cappelin and Giuliani (2004), the prospects for CSR depend on an institutional context that combines regulatory, political, and business dimensions. There are signs that such a context may be developing in Brazil. The momentum behind CSR is likely to grow, as a range of actors and institutions — old and new, domestic and international — are actively engaged in promoting CSR. Markets for environmental goods and services continue to expand and recent political developments suggest that the state will assume a more proactive role in economic and social development.

The following figure illustrates an estimated positioning of each one of the CSR areas – marketplace, workplace, community and environment. The graph shows the significance of

24 Examples of this include Bolsa Familia (Family Fund) as a means of assisting poor families. In an effort to both combat hunger and address inequities in access to education, a requisite of eligibility in Bolsa Familia is that families keep their children in school.

25 Brazil is a Federation of 26 states and the country is highly decentralized; the State Governors are given a significant degree of autonomy. This is reflected in varying degrees of corporate social responsibility being exhibited between states.

CSR for SMEs (vertical axis) and the CSR actions implemented by SMEs (horizontal axis) in Brazil. This positioning is an approximation, developed by the authors, and it is based solely on the information utilized for the writing of this report (interviews, panel discussions and literature review).



3.1 Marketplace

In Brazil, SMEs perceive the marketplace area as highly valuable for their operations. They think that marketplace issues, such as customer relationships, supply chain management, quality and compliance may affect their competitiveness in the mid- to long-term. In particular, SMEs perceive CSR issues as important factors to increase competitiveness. Specially when small and micro enterprises foster relationships with medium and large compliant companies (even domestically) and become part of a large supply chains, thus strengthening their export quota and fostering better management capacities.

From 2000 to 2003, many corporations published social reports. According to current data, 300 corporations published their social audit (98 of those registered by the IBASE). In 2005, IBASE registered 976 reports and 305 different companies. This progress is significant, considering that in 1998 only four companies published figures based on CSR models. Several managerial instruments aimed at monitoring, measuring, evaluating and re-organizing social and environmental performances have been developed and applied in the country, i.e. *Ethos indicators*, *IBASE models*, *Akatu indicators*, etc. Additionally, 7,378 companies are certified against ISO 9001²⁶.

There are several marketplace issues that positively influence SMEs management capacities, exports and cooperation with large domestic and international companies in the mid term, such as SMEs' capacity of innovation, strong links with large companies, the entrepreneurs' adaptability, practical skills, high technological readiness, a local availability of suppliers and positive trends towards voluntary management systems on quality, health and safety and the environment.

The *Ethos Institute* emphasizes the need to establish effective partnerships between large companies and

26 www.inmetro.gov.br

micro and small companies based on confidence and sustainability, “in such a way that all can earn and grow” (Alli and Sauaya, 2004). These partnerships can be facilitated through activities and tools that can enhance the application of CSR in the country. For example NBR 16001 (*Brazilian standard from ABNT – Brazilian Technical Standardization Association*) could be a strong tool for improving the requirements made by large companies to their suppliers for value chain integration.

CSR can also promote international trade, although caution should be exercised to prevent it from turning into a non-tariff barrier. Furthermore, the Brazilian private sector needs to commit itself to the Millennium Development Goals (MDGs), which are essential for development and can only be achieved through collaboration between the government and private sector.

3.2 Workplace

SMEs in Brazil perceive the workplace area as valuable for their competitiveness, in the mid- to long-term. Workplace issues, such as health and safety norms, employment policies, equal opportunities and compliance are perceived as influencing economic growth. However, in the short-term, CSR workplace issues are not perceived by SMEs as very relevant for their competitiveness, due to the high level of unemployment and informal employment (the latter reaching 39.8 percent of GDP) in the country. Many of the social actions made by Brazilian SMEs are addressed to external (17 percent) and internal (25 percent) health and safety programs as well as to education and training (46 percent) activities according to IPEA (2002).²⁷

Certain practices could derail CSR in Brazil, for instance hiring and firing practices, lack of cooperation in labor-employer relations, the low

availability of scientists and engineers and the poor quality of the educational system. Moreover, weak policies perpetuate the gender gap and health and safety conditions. However, even though the quality of the educational system receives poor evaluations, Brazil has the highest primary school enrollment (WEF rank 1) and excellent rankings in higher education and training in Latin America. Additionally, the 88.4 percent adult literacy rate may lead to an enhancement of workforce capacities in the future.

It is important to add that approximately 400 companies in Brazil are certified against Occupation Health and Safety Assessment Series (OH SAS) 18001²⁸, which may indicate a positive trend towards voluntary management systems, beyond regulation.

3.3 Community

SMEs in Brazil perceive the community area as valuable for their operations. The general view is that community issues, such as participation and public-private partnerships may influence economic growth at the country and firm level. In the research on CSR in Latin American SMEs (Vives, Corral and Isusi, 2005) and according to the panel, Brazilian SMEs show a strong interest in the community area, they have good relationships with their neighbors, they are well known and trusted, and they often act in ways that benefit the local community. Many surveys and reports that have examined the interaction between SMEs and their local communities stress the existing strong links, the ability to shape new forms of businesses, and even the creation of new jobs.

The role of NGOs is changing in Brazil. Before democratization, NGOs were focused on increasing human rights in the country. In the 1990s, NGOs

²⁷ Institute of Applied Economic Research (Instituto de Pesquisa Econômica Aplicada)

²⁸ www.rma.org.br

turned to trying to reduce the policy making power of the state and business lobbyists. A realistic view of Brazilian NGOs must recognize that their influence on social policies is limited and that their role is more in social services delivery than in shaping social policy itself (Foweraker, 2001).

In the community, Brazilian SMEs lack partnerships with public, private and non-governmental organizations. This situation may be due to SMEs' lack of long-term horizons, which detracts from progress in cooperation and partnerships.

3.4 Environment

In Brazil, SMEs perceive the environment area as valuable for their competitiveness. Their opinion is that CSR issues, such as environmental management, compliance, monitoring, climate change, etc. may affect Brazilian sustainable growth and development in the long-term.

Environmental stewardship is supported by regulatory systems defined by national laws, international agreements, civil society pressures and certain business opportunities. However, any conclusion about the "greening of business" could be an oversimplification of a complex process that involves various actors and dynamics. Concern for environmental issues is a relatively recent development in the social conscience and has increased significantly in many sectors of society, including business. Still, there are few signs of a truly new culture characterized by a critical and self-critical dialogue between the economy and society on environmental issues (Cappellin and Giuliani, 2004). Gains in relation to environmental responsibilities are fragile. Relations between businesses and environmental NGOs remain tenuous and some business groups continue to push for the relaxation of environmental regulation,

particularly when it is related to forest conservation and restrictions on the production and marketing of genetically modified products.

According to data from the *National Institute for Metrology, Standardization and Industrial Quality*²⁹, 667 ISO 14000 certificates have been issued to Brazilian companies. Moreover, a total of 95 companies possess Forest Stewardship Council (FSC) certification³⁰ for their products, including timber components for the construction and furniture industry, cellulose and paper, charcoal, tools, decorative objects, household products, and food. According to an FSC report in 2006, Brazil has the largest number of *Forest Management Certificates* out of all Latin America countries – 67 certificates covering 3,560,008 hectares.

Recent research from the Federation of Industries of the State of Rio de Janeiro shows that 72.4 percent of the companies in Rio de Janeiro have activities in the environmental area as a result of legislation. Those results include both SMEs and large corporations.

Special credit must go to the SENAI, which has an ambitious project, at a national scale: the SENAI's program for Environmental Quality and Sustainable Development (*Programa SENAI de Qualidade Ambiental e Desenvolvimento Sustentável - PSQA*). The objective of PSQA is to build skills and transfer technological solutions to the private sector through the development of training programs and planning and advisory actions to create environmental management systems adapted to the conditions of each area. In 1995, SENAI created the *National Clean Technology Centre (CNTL)* to disseminate information, train professionals and support the implementation of cleaner production systems in industry.³¹

²⁹ www.inmetro.gov.br

³⁰ The Forest Stewardship Council was created to change the dialogue about and the practice of sustainable forestry worldwide. Its purpose is to coordinate the development of forest management standards throughout the different biogeographic regions of the U.S., to provide public information about certification and FSC, and to work with certification organizations to promote FSC certification in the U.S. FSC-US has a national presence through the work of its Board of Directors, members, staff, and regional standards coordinators (www.fscus.org)

³¹ The CNTL is part of the network created by UNIDO and the United Nation's Environmental Program (UNEP) to stimulate the adoption of production processes in developing countries based on clean technology. The experience of the CNTL is being reproduced in different regions of Brazil through the creation of the six Clean Technology Centres which include several activities such as in-plant demonstrations, training, information dissemination, and policy assessment and advice. Results include 76 trained consultants from a six-month pilot project that involved forty small industries. The network involves more than 100 Brazilian companies, and is being expanded to other South American countries. Moreover, BCSD-Brazil has signed an agreement with the Northeastern Development Bank and two more Centers were implemented in the poorest region of Brazil – the northeastern region – in August/September 2001.

Brazil ratified the Kyoto Protocol and already has 63 registered Clean Development Mechanism (CDM) projects and many other projects in the pipeline for which is currently awaiting decisions from the United Nation Framework Convention on Climate Change (UNFCCC) CDM Executive Board. According to estimates from Institute of Environmental Research in the Amazonian (*Instituto de Pesquisa Ambiental da Amazônia - IPAM*), deforestation is responsible for emissions of an estimated 200 million tons of carbon annually (Næss and Schjolden, 2002). This represents two-thirds of Brazil's emissions of greenhouse gases and about 2.5 percent of the global carbon emissions.

While the Brazilian government opposed forest protection as an option to reduce CO₂ emissions in the climate negotiations, many Brazilian NGOs see forest protection measures as an important opportunity not only to reduce greenhouse gas emissions but also to attract resources to promote sustainable forest management and benefits for local communities (see, e.g., the Belém manifesto)³².

In the 90s there has been little interaction between the government and civil society regarding Brazil's position in the international climate negotiations. Hence, Brazilian NGOs have had little influence over their government's climate policies. Key constraints have been low professional capacity, lack of commitment, weak organization and limited financial resources, as well as skepticism towards NGOs from parts of the Brazilian bureaucracy. However, this situation is now changing. The interest in climate change is growing among the Brazilian NGOs, and in 2002, 26 organizations jointly established a network – the *Climate Observatory* – to promote civil society participation on climate change issues. The goal of the network is to become a vehicle for influencing government views and policies on climate change and to direct more attention to deforestation.

4 Recommended Actions

The main actors capable of strengthening CSR in Brazil have been classified in the following four categories: a) Multilateral Development Institutions (MDIs), b) national governments and local authorities, c) business associations, and d) civil society. These four categories of actors may act via all or some of the following strategies, as defined in the Introductory Chapter: *Mandating, Ensuring transparency, Facilitating, Improving Promotion and Advocacy, Partnering, and Endorsing*. The proposed actions are by no means exhaustive and only illustrate the types of involvement, which can be easily modified to meet local needs.

The cooperation among domestic market players can be assured through the establishment of clusters and by stressing the cooperation of provinces in order to: (i) promote cooperation among firms within the same sector, cluster, or supply chain, (ii) strengthen the local position within the value chain to develop an economy of scale and (iii) enhance partnerships among public, private and non-governmental organizations. To this extent, the development and application of guidelines for linkages in local supply chains -in specific CSR areas- and benchmarking processes among Brazilian SMEs should be commended. Moreover, the high quantity and quality of local suppliers should be used to develop stronger supply chain partnerships, enhancing the quality of products made by Brazilian SMEs.

4.1 Multilateral Development Institutions

MDIs, mainly because of their strong expertise and reliability, should promote partnerships among MDIs, civil society and SMEs, encourage stakeholder engagement, launch a benchmarking effort and prepare feasibility studies.

³² Available on www.ipam.org.br

- a. *Endorsing*, recommended actions for MDIs include:
- Write generic guidelines for a code of conduct and ethical behavior.
 - Support the creation of a responsible Brazilian supply chain label that would certify companies that use CSR management practices. Thus helping enhance their competitive positions in the international markets.
- b. *Partnering*, recommended actions for MDIs include:
- Launch a women's association that could educate SMEs on gender policies, disseminate best practices and provide scholarships for young women in the field of business administration and/or CSR.
- c. *Improving Promotion and Advocacy*, recommended actions for MDIs include:
- Improve environmental compliance through simplification of environmental regulation by identifying priorities and milestones.
 - Start a pilot project to enhance the capacity of SMEs to profit from the Kyoto Protocol CDM by encouraging Carbon Pooling among SME sellers.
 - Assist sustainable tourism by fostering planning, management and communication activities for SMEs.
- d. *Ensuring transparency*, recommended actions for MDIs include:
- Promote awareness of accountability and reporting standards such as the Global Reporting Initiative, as well as other international guidelines and principles such as the Global Compact, the International Labor Organization and the OECD principles to be implemented with the contribution of TNCs and/or large domestic companies which are able to share experiences and perhaps support or finance the effort.
- e. *Facilitating*, MDIs should be involved in funding efforts, led by other actors, that may:
- Facilitate workshops on compliance issues such as taxes and administrative costs, transparency and accounting.
 - Develop an SME culture of transparency and communication by sharing domestic and international best practices and tools.
 - Support voluntary third party auditing to provide CSR accreditation for SMEs. Responsible SMEs should be recognized by their stakeholders (in particular by customers and competitors) for their efforts to comply with tailored ethical protocols.
 - Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they have in the supply chain.
 - Train SME managers on CSR best practices. For example, provide classes on strategic planning and how to write a responsible business plan.
 - Conduct a risk analysis to identify the direct and indirect costs of non-compliance based on case studies. Then, form a pilot group of SMEs to draft a compliance program specifying timing, resources and expected results.
 - Provide gender rights counseling by supporting women at work through direct experience sharing. Arrange workshops with women who are leading managers, politicians and entrepreneurs, as guest speakers.
 - Raise awareness of good labor practices through voluntary programs. Involve managers and union representatives.
 - Launch an NGO engagement awareness campaign to raise awareness about stakeholder engagement. Start a pilot engagement awareness campaign with at least five local NGOs and five local SMEs.
 - Start a pilot project for a chosen sector on environmental management systems according to ISO 14001 at the district level.

- Improve monitoring systems and environmental assessments in SMEs through the development of the Life Cycle Assessment approach in a specific sector.

4.2 Government and Local Authorities

Brazilian government and local authorities could have a positive role in enabling CSR without imposing mandatory policies or rules on SMEs. Brazilian public authorities are perceived as lacking awareness on CSR policy definition, promotion and stimulation. Therefore, the first step proposed is to work with MDIs to train local public authorities and national representatives on CSR.

a. *Endorsing*, recommended actions for government and local authorities include:

- Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
- Create a responsible Brazilian supply chain label that would certify companies that use CSR management practices. Thus enhancing the competitive positions of these companies in international markets.
- Create a Safe Workplace Label to award to companies that voluntarily adhere to stricter health and safety procedures. Guidelines may be drafted by sector.

b. *Partnering*, recommended actions for government and local authorities include:

- Develop a SME culture of transparency and communication by sharing domestic and international best practices in partnership with MDIs.
- Start a pilot project for a chosen sector on environmental management systems according to ISO 14001 at the district level, and in partnership with other actors.

c. *Improving Promotion and Advocacy*, recommended actions for government and local authorities include:

- Work with MDIs and civil society to train local public authorities and national representatives on CSR.
- Facilitate workshops on compliance issues such as taxes and administrative costs, transparency and accounting.
- Promote stakeholder engagement through training programs and dissemination of best practices.
- Improve environmental compliance through simplification of environmental regulation by identifying priorities and milestones.
- Start a pilot project to enhance the capacity of SMEs to profit from the Kyoto Protocol CDM by encouraging Carbon Pooling among SME sellers.
- Enhance the application of Best Available Technologies and praise environmentally friendly technologies through an Environmental Technology Expo.

d. *Facilitating*, recommended actions for government and local authorities include:

- Define guidelines for a code of conduct and ethical behavior.
- Improve monitoring systems and environmental assessments in SMEs through the development of the Life Cycle Assessment approach in a specific sector (through the supply chain).

e. *Ensuring transparency*, recommended actions for government and local authorities include:

- Support voluntary third party auditing to provide CSR accreditation for SMEs. Responsible SMEs should be recognized by their stakeholders (in particular by customers and competitors) for their efforts to comply with tailored ethical protocols.
- Promote awareness of accountability and reporting standards such as the Global Reporting Initiative, as well as other

international guidelines and principles such as the Global Compact and the International Labor Organization.

4.3 Business Associations

Business associations include trade associations, territorial associations and associations for service delivery and support to SMEs activities. The “S System” (Brazilian Service to Support SMEs - SEBRAE; Social Service of Industries - SESI³³; Social Service of Commerce - SESC; National Rural Training Centre - SENAR), is the social service network to which all Brazilian companies contribute. The “S System” has been considered in this analysis and included in the recommended actions as project developers. Brazilian business associations seem to have the strongest potential role in fostering CSR, therefore, they are encouraged to lead most of the actions proposed below.

a. *Ensuring transparency*, recommended actions for business associations include:

- Encourage and support voluntary third party auditing to provide CSR accreditation for SMEs. Responsible SMEs should be recognized by their stakeholders (in particular by customers and competitors) for their efforts to comply with tailored ethical protocols.

b. *Facilitating*, recommended actions for business associations include:

- Facilitate workshops on compliance issues such as taxes and administrative costs, transparency and accounting.
- Improve monitoring systems and environmental assessments in SMEs through the development of the Life Cycle Assessment approach in a specific sector (through the supply chain).
- Train SME managers on CSR best practices. For example, provide classes on strategic planning and on how to write a responsible business plan.
- Participate in the definition of guidelines for codes of conduct and ethical behavior.

c. *Improving Promotion and Advocacy*, recommended actions for business associations include:

- Provide gender rights counseling by supporting women at work through experience sharing and workshops with women who are leading managers, politicians or entrepreneurs.
- Raise awareness of good labor practices through voluntary programs.
- Enhance the application of best available technologies and praise environmentally friendly technologies through an Environmental Technology Expo.
- Promote stakeholder engagement through training and dissemination of best practices such as benchmarking techniques.
- Promote sustainable tourism practices among related SMEs. Foster planning, management and communication activities for SMEs in the tourism industry.

d. *Partnering*, recommended actions for business associations include:

- Develop an SME culture of transparency and communication by sharing domestic and international best practices and tools.
- Conduct a risk analysis to identify the direct and indirect costs of non-compliance based on case studies. Then, form a pilot group of SMEs to draft a compliance program specifying timing, resources and expected results.
- Start a pilot project for a chosen sector on environmental management systems according to ISO 14001 at the district level. Local banks and financial institutions can support this project with their knowledge of local SMEs, including the financial and industrial situation as well as the risk involved³⁴, they can also help finance the project.

33 SESI promotes workers' quality of life. Its objective is to stimulate the sustainable growth of the country with services in the health care, safety, environment, sport, leisure, culture and basic education. Besides stimulating the companies to be socially responsible, the SESI promotes activities that help change the life of thousands of people. Together with Global Action, the System carries out other activities on a regional level, in partnership with local associations to diminish misery and assist the excluded portion of the population in the generation of sufficient income.

34 Clients privacy policy should be applied

e. *Endorsing*, recommended actions for business associations include:

- Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
- Create a responsible Brazilian supply chain label that would certify companies that use CSR management practices. Thus, enhancing the competitive positions of these companies in international markets.
- Create a Safe Workplace Label to award to companies that voluntarily adhere to stricter health and safety procedures. Guidelines may be drafted by sector.

4.4 Civil Society

Brazilian civil society has a high level of education. NGOs have a strong awareness of negotiating and campaigning tools, as well as a history of demanding human rights and resource preservation. They have participated in policy making and, more recently, have had a positive and effective role in service delivery. The latter role is the function relied on most in the following recommended actions. Academia and research institutes are considered within the civil society and act as content providers and drivers of CSR innovative management tools.

a. *Facilitating*, recommended actions for civil society include:

- Drive the development of CSR training courses for SME managers on strategic planning and responsible business plan development.
- Provide content for the development of a code of conduct and ethical behavior, which may have a strong impact on knowledge, awareness and best practices and foster a wider implementation of ethical behaviors among responsible SMEs (and their suppliers).

b. *Improving Promotion and Advocacy*, recommended actions for civil society include:

- Lead the improvement of environmental compliance through simplification of environmental regulation by identifying priorities and milestones.
- Provide gender rights counseling by supporting women at work through experience sharing and workshops with women who are leading managers, politicians or entrepreneurs.
- Work on the enhancement of labor practices through voluntary programs and promote new partnerships among MDIs, civil society and SMEs.
- Assist sustainable tourism and other activities by fostering planning, management and communication efforts within SMEs.

c. *Partnering*, recommended actions for civil society include:

- Conduct a risk analysis to identify the direct and indirect costs of non-compliance based on case studies. Then, form a pilot group of SMEs to draft a compliance program specifying timing, resources and expected results.
- Launch a women's association that could educate SMEs on gender policies, disseminate best practices and provide scholarships for young women in the field of business administration and/or CSR.
- Partner with other actors, to create a Brazilian supply chain label that would certify companies that use CSR management practices. Thus enhancing the competitive positions of these companies in international markets.
- Create a Safe Workplace Label to award to companies that voluntarily adhere to stricter health and safety procedures. Guidelines may be drafted by sector.
- Act as a leader in stakeholder engagement and in promoting awareness campaigns and sponsoring pilot projects in specific states.

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Appendix

The following stakeholder map has been used to verify that all eight defined stakeholder categories and all four CRS areas are represented. Stakeholders that were chosen for interviews or as panel participants either had relevant expertise in the issue or may influence awareness, interests and implementation instruments relevant to the issue.

APPENDIX 1 – BRAZIL'S STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
1.International organizations	— The international Council for Local Environmental Initiatives (ICLEI)	— The international Council for Local Environmental Initiatives (ICLEI)	— Inter-American Development Bank (IDB) — The international Council for Local Environmental Initiatives (ICLEI) — United Nations Development Programme (UNDP)	— Inter-American Development Bank (IDB) — The international Council for Local Environmental Initiatives (ICLEI) — United Nations Development Programme (UNDP)
2.Government organizations and institutions	— Brazilian Institute of Geography and Statistics (IBGE) — National Institute of Metric, Normalization and Industrial Quality (INMETRO) — Instituto de Pesquisa Econômica Aplicada (IPEA) — Annual relation of Social Information (RAIS)	— Brazilian Institute of Geography and Statistics (IBGE) — National Institute of Metric, Normalization and Industrial Quality (INMETRO) — Instituto de Pesquisa Econômica Aplicada (IPEA) — Annual relation of Social Information (RAIS)	— Brazilian Institute of Geography and Statistics (IBGE) — Instituto de Pesquisa Econômica Aplicada (IPEA) — Annual relation of Social Information (RAIS)	— Brazilian institute of environmental and the natural renewable resources (IBAMA) — Brazilian Institute of Geography and Statistics (IBGE) — National Institute of Metric, Normalization and Industrial Quality (INMETRO) — Instituto de Pesquisa Econômica Aplicada (IPEA) — Annual relation of Social Information (RAIS) — National Clean Technology Centre (CNTL)
3. Associations (national, sectoral, business)	— Association of the controllers of sales and marketing of Brazil (ADVB) — International Confederation of Industry (CNI) — Federation of the industries of the State of Rio de Janeiro (FIRJAN) — Brazilian Petroleum Institute (IBP)	— Association of Human Resources of Brazil (ABHR) — Association of the controllers of sales and marketing of Brazil (ADVB) — Federation of the industries of the State of Rio de Janeiro (FIRJAN)	— Association of the controllers of sales and marketing of Brazil (ADVB) — International Confederation of Industry (CNI) — Federation of the industries of the State of Rio de Janeiro (FIRJAN) — Brazilian Petroleum Institute (IBP)	— Association of the controllers of sales and marketing of Brazil (ADVB) — Brazilian Climate Change Forum — International Confederation of Industry (CNI) — Federation of the industries of the State of Rio de Janeiro (FIRJAN)

APPENDIX 1 – BRAZIL'S STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
3. Associations (national, sectoral, business)	— Brazilian Steel Institute (IBS) — National Confederation of Industry (CNI) — Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (SEBRAE)	— Brazilian Steel Institute (IBS) — Brazilian Petroleum Institute (IBP) — National Confederation of Industry (CNI) — Social service of the Commerce (SESC) — Social service of the Industry (SESI) — National service of Commercial Learning (SENAC) — National service of Agricultural Learning (SENAR)	— Brazilian Steel Institute (IBS) — Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (SEBRAE) — National service of Commercial Learning (SENAC) — National service of Agricultural Learning (SENAR) — Social service of the Commerce (SESC) — Social service of the Industry (SESI)	— Brazilian Petroleum Institute (IBP) — Brazilian Steel Institute (IBS) — Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (SEBRAE) — National service of Commercial Learning (SENAC) — National service of Agricultural Learning (SENAR)
4. Financial institutions	— ABN AMRO REAL Bank — Bovespa Bank — Rabobank — Rural Bank — Unibanco		— ABN AMRO REAL Bank — Bovespa Bank — Rabobank — Rural Bank — Unibanco	— ABN AMRO REAL Bank — Bovespa Bank — Rural Bank — Unibanco
5. Multinational companies				
6. Media	— Canal Futura — Globo News — Globo Journal — TV Educativa — Valor Journal	— Canal Futura — Globo News — Industrial Environment Magazine — Globo Journal — TV Educativa — Valor Journal	— Canal Futura — Globo News — Industrial Environment Magazine — Globo Journal — TV Educativa — Valor Journal	— Canal Futura — Globo News — Industrial Environment Magazine — Globo Journal — TV Educativa — Valor Journal
7. NGOs	— World Business Council for Sustainable Development – WBCSD Brazil (CEBDS) — Group of Institutes, Foundations and Companies (GIFE) — Forum Empresa — Brazilian institute of Social and Economic Analyses (IBASE) — Instituto de Pesquisas Ecológicas (IPE) — Instituto Euvaldo Lodi (IEL)	— ETHOS Institute — Group of Institutes, Foundations and Companies (GIFE) — Brazilian institute of Social and Economic Analyses (IBASE)	— Abrinq Foundation — Agenda Institute — Ayrton Senna Foundation Akatu Institute — Brazilian Forum of NGOs and Social Movements — Centro de Estudos do Terceiro setor (CETS) — World Business Council for Sustainable Development – WBCSD Brazil (CEBDS)	— World Business Council for Sustainable Development – WBCSD Brazil (CEBDS) — Chico Mendez Sustainable Rainforest Campaign — Eco-Development Fund — EcoFuturo Institute — ETHOS Institute — Ford Foundation — Group of Institutes, Foundations and Companies (GIFE)

APPENDIX 1 – BRAZIL'S STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
7. NGOs			— Conselho Indigenista Missionario – (Missionary Indigenous Council works on indigenous rights issues in Brazil) — CSN Foundation — Foundation Institute of Enterprise and Social Development (FIDES) — Ford Foundation — FRM — Group of Institutes, Foundations and Companies(GIFE) — Brazilian institute of Social and Economic Analyses (IBASE) — Instituto Socioambiental — Kellogg Foundation — Landless Workers Movement -MST (Largest social movement in Latin America, aims to carry out land reform in Brazil on a grassroots basis) — Nativus (network of Brazilian NGOs on indigenous rights and environmental protection) — Razão Social Institute — Roberto Marinho Foundation — Semear Institute — Souza Cruz Institute — Telemar Institute — Vale do Rio Doce Foundation — Vitae Civilis (on development and environment) — Votorantim Institute	— Brazilian institute of Social and Economic Analyses (IBASE) — Instituto Nacional de Pesquisa Ambiental da Amazonia (IPAM- <i>NGO composed of scientists and educators dedicated to sustainable management of the Brazilian Amazon</i>) — Instituto Socioambiental — The Climate Observatory — Vitae Civilis (on development and environment)

APPENDIX 1 – BRAZIL’S STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
8. Academia	— Getúlio Vargas Foundation (FGV) — Catholic University (PUC) — Fluminense Federal University (UFF)	— Getúlio Vargas Foundation (FGV) — Catholic University (PUC) — Fluminense Federal University (UFF)	— Getúlio Vargas Foundation (FGV) — Catholic University (PUC) — Fluminense Federal University (UFF) — Pontificia Universidade Catolica de Minas Gerais (dr. Teodosio) — Universidade de Brasília (prof. Viola)	— Getúlio Vargas Foundation (FGV) — Catholic University (PUC) — Fluminense Federal University (UFF) — Pontificia Universidade Catolica de Minas Gerais (dr. Teodosio) — Universidade de Brasília (prof. Viola)

Chapter 3: Chile

1 Executive Summary

This analysis shows that Multilateral Development Institutions (MDIs) could play several important roles in Chile to support CSR. For example, developing a conducive policy environment, promoting compliance with existing laws, starting pilot projects to educate SMEs on reporting and accountability, and disseminating best practices by promoting new tools - such as environmental benchmarking to enhance competitiveness. MDIs could also take the lead on ensuring transparency in credit by helping SMEs overcome the obstacles to accessing capital markets and therefore increasing SMEs' penetration of banks.

In addition, MDIs could support pilot projects to develop Carbon Pooling among SME sellers to gain the best profit from the application of the Kyoto Protocol mechanisms, as a hosting project country. MDIs should have a prominent role in the definition of gender policies and child labor rights in SMEs, which may contribute to the foundation of an association dedicated to gender policies among SMEs. MDIs should provide financial support through Multilateral Financial Institutions, which are part of MDIs.

The Chilean government and local authorities have an active role as regulators, enforcers and controllers. Many CSR areas are already covered by laws prescribing ethical behavior or the application of international standards. This analysis does not promote mandating roles for Chilean public authorities, because of the large number of laws already in place. Government may encourage transparency on issues such as corporate governance, fair trade, employment relations, taxation and contractual conditions. Public authorities may raise awareness, distribute information and spread best practices among SMEs to indirectly foster CSR. Chilean public authorities can have an important role in stakeholder engagement training programs. They can also participate with local authorities in the launch of innovative activities such as giving awards

for innovation, creating CSR labels and launching technology expos.

The leading role of business associations is prominent in building capacity. This can be done through pilot projects aimed at enhancing compliance and responsible behaviors in the marketplace, workplace and environmental arenas of CSR, as well as by raising awareness, increasing training programs and developing new tools for SMEs.

Chilean civil society should not only help enable an environment for CSR, but should also foster ethical behaviors among SMEs. Chilean civil society has leading roles including building capacity through training programs, applying benchmarking techniques, increasing awareness and editing CSR publications. Academic institutions may drive CSR by providing content, educational materials and training programs and may help write guidelines for ethical conduct among SME managers. Civil society may also contribute to a stakeholder engagement and NGOs awareness campaign for local communities.

2 Economic and Social Framework

Chilean economic growth has been among the highest in the world, with an average of 6.8 percent per year between the years 1990 and 2000, in spite of a downturn of 1.1 percent in 1999. Poverty declined from 44.8 percent of the total population in 1987 to 22.2 percent in 1998, while extreme poverty was reduced from 16.5 percent to 5.6 percent in the same period. Infant mortality rates declined from 32 per thousand in 1980 to 20 per thousand in 1990, and to 10 per thousand in 1998. The country's sovereign debt is classified as A- by Standard & Poor's, the highest rating for any Latin American country. Chile's level of unemployment calculated by the World Economic Forum (WEF) was 8.8 percent of the total labor force in 2005.

A stable macroeconomic framework, strong public institutions, high investment in human capital and continuity in development policies explain Chile's strong economic and social performance over the past years.³⁵ The Central Bank has conducted monetary policy with prudence and persistent trade liberalization has helped achieve an efficient resource allocation. According to rating organizations and think tanks, Chile ranks high with respect to law and order, quality of its civil service, management of public institutions, and transparency (low levels of corruption). Public expenditures in education, health, housing, social security and other social services have increased over recent years, reaching 71 percent of total government spending in 1999. Reforms introduced in the 1980s to promote efficient delivery of social services have been improved and are monitored for effectiveness.

Concerning the access to credit and loans, a World Bank study (Sirtaine, 2006) stated that only large firms have access to the entire range of financial instruments available in Chile and abroad (capital market or off-shore banks). Small size firms, on the other hand, face financing constraints and SMEs have no access to capital market financing. While in the mid 80s and early 90s some smaller firms did manage to issue equity, this channel has dried out due to their depressed performance. In addition, the under-development of private equity in Chile only allows a fraction of these firms to access private equity. As for access to bank loans, banks are rapidly expanding their leasing and factoring lines of business, nearly exclusively devoted to medium and small firms. However, both industries are still in their infancy in terms of volumes lent.

There are various obstacles to downsizing access to capital markets and increasing the penetration of banks in smaller segments. The key obstacles for enabling more small and micro enterprises to access bank financing are: (i) the legal difficulties in using and executing movable pledges, (ii) the low quality and trustworthiness of the financial statements of smaller firms, (iii) the imposition of the stamp tax on the renewal of small value loans, and (iv) the cap on interest rates on small loans (*tasa maxima convencional*) (Sirtaine, 2006). On the other hand, some institutions (i.e. *United Nations Research Institute for Social Development -UNRISD*) claim that economic policies in Chile have been "fiscally permissive" in some sectors, such as the mining industry³⁶ (Riesco, 2005).

The following chart shows competitiveness indicators supplied by the World Economic Forum (WEF). All data is from 2005 and the chart is sorted by indicator ranking. As for the general level of competitiveness, Chile is in a very good condition. The three main obstacles for the country's competitiveness development are: the restrictive labor regulations, the government bureaucracy and the inadequately educated workforce. On the other hand, other WEF sub-index rankings show a good situation in Chile for the development of its competitiveness.

35 Although since 1817, Chile's war of independence from Spain brought into place a system of representative democracy, the country's political history has not always been smooth. In 1970, a Marxist government under Salvador Allende came to power in response to the perceived failure of the established liberal party. Allende's attempts to radically change the structure and direction of the country brought about a second political crisis, and in 1973 a right-wing government under General Augusto Pinochet Ugarte seized power with assistance from the United States Central Intelligence Agency. Allende was killed in the coup, and Pinochet's government maintained power for the next decade and a half, frequently resorting to terror in order to stifle discontent. In 1990, having failed in his bid to gain popular ratification for his rule, Pinochet handed over the presidency to the rightfully-elected Patricio Aylwin Azocar. Chile's political climate has since remained stable, although there is still considerable tension between the military and the government concerning the human rights violations of the Pinochet era (wikipedia 2006). The last presidential and congressional elections were held in December 2005 and January 2006. Michelle Bachelet won that presidential election and took office on March 11, 2006.

36 As a result overproduction has been encouraged (almost 40 percent of the world copper production is from Chile) and world copper prices remained low, damaging employment in the mining sector locally and internationally and harming government revenues. Some mining companies in Chile claim to act responsibly

Organization	Index	Number of Countries in the Index	Chile's Ranking
WEF	Intensity of local competition	117	7
WEF	Technological readiness	117	26
WEF	Global Competitiveness	117	27 (1 out of 21 in Latin America)
WEF	Time required to start a business	117	31
WEF	Local equity market access	117	33
WEF	Efficiency of legal framework	117	35
WEF	Number of procedures required to start a business	117	37
WEF	Capacity for innovation	117	40
WEF	University/industry research collaboration	117	45
WEF	Company spending on research and development	117	47

Also, the institutional framework in Chile appears to be stable and trustworthy.

Organization	Index	Number of Countries in the Index	Chile's Ranking
WEF	Favoritism in decisions of government officials	117	20
WEF	Public trust of politicians	117	23
WEF	Reliability of police services	117	27
WEF	Judicial independence	117	47
Transparency International	Corruption Perception	159	21

An investigation of Chile's equity and gender policies exposes poor to average conditions. A report from the Women National Service (*Servicio Nacional de la Mujer*- SERNAM, 2006) shows the gender specific initiatives that have been carried out in Chile between 2005 and 2006. Highlights include the government's commitment to improve women's participation in employment and in public office, both in local government and at the parliamentary level. In addition, six new centers for women victims of domestic violence were opened and the government made a commitment to deal with human trafficking at a legislative level and by guaranteeing protection and assistance to its victims. The Chilean national machinery for the advancement of women also started the process of developing codes of conduct for the public sector in order to ensure that women enjoy equal opportunities and are not discriminated against. Other gender specific initiatives on social protection, childcare, health (including reproductive rights), education and HIV/AIDS are also described in the report.

3 Current State of CSR

Most Chilean SMEs are unfamiliar with the concept of CSR and therefore do not consider it a way towards progress. They believe they first need to solve their structural problems before focusing on becoming socially and environmentally responsible.

The results of the *CSR Monitor* survey for 2005, distributed by the *Canadian GlobeScan Institute*, indicates that 53 percent of people interviewed think that companies do not commit themselves to building a better society for all, and another 54 percent believe that it is necessary to introduce laws to force companies to go beyond their traditional economic role (Anselmi, 2005).

In 2004, *Prohumana*⁴⁰ conducted a survey in which CEOs and managers of large and small enterprises, members of the Federation of Chilean Industry (*Federación Gremial de la Industria* - SOFOFA), were interviewed to determine their CSR management. This study found that of the 160 companies surveyed, 67

Organization	Index	Number of Countries in the Index	Chile's Ranking
WEF	Educational Attainment	117	48
WEF	Quality of Educational System ³⁷	117	73
WEF	Hiring and firing practices	117	82
WEF	Private sector employment	117	101
ILO	Child Labor ³⁸	191	143
ILO	Health and Safety ³⁹	187	119
Amnesty International and Human Rights Watch	Intrinsic Country Human Rights Risk	194	55

³⁷ www.maplecroft.com

³⁸ Idem

³⁹ Idem

⁴⁰ Prohumana is a non-profit organization whose aim is to build a culture of Citizen and Corporate Social Responsibility in Chile, promoting a proactive attitude in peoples, institutions, and enterprises.

percent said they were actively pursuing CSR initiatives. Of those companies, 52 percent said these initiatives were a response to a moral imperative, while 31 percent saw a clear financial benefit and 17 percent felt they were responding to community needs. The results of this survey also revealed differences in CSR management between large and small enterprises. Large enterprises tend to implement CSR management tools, whereas small and micro enterprises prefer flexible mechanisms. The main system adopted to evaluate CSR performances is ISO9000 certification. Moreover, small and micro enterprises do not consider transparent policies in the workplace important, but a large number of them do consider internal discrimination an important problem. Few SMEs consider a strong commitment to customers as important (Prohumana, 2004).

The Chilean literature on CSR is rich with publications (mostly edited by AccionRSE)⁴¹ providing information on diverse issues, such as facilitating a high quality work environment, environmental responsibility and community relationships. In addition, in 2005, *Foro Empresa*⁴² published a manual focused on CSR implementation in SMEs titled “*Manual RSE: una nueva mirada empresarial*”. Lastly, AccionRSE created indicators that allow enterprises to self-evaluate their strategies, policies and practices in the areas of enterprise ethics, quality of work environment, relationship with the community, and responsible marketing (AccionRSE, 2002).

Chile has adhered to a number of international principles and has undertaken commitments that foster corporate social responsibility. One example is the *Guidelines for Multinational Enterprises*, drawn up by the Organization for Economic Cooperation and Development (OECD), which Chile signed and ratified in the year 2000.⁴³ Additionally, leading firms in Chile⁴⁴ have adhered to

the *Global Compact*, a United Nations initiative that focuses on human rights, labor regulation and the environment. In recent years, several prizes have been developed, including AmCham’s Good Corporate Citizen Prize for Chilean companies. In 2006, an SME was awarded this prize for the first time.⁴⁵

At the end of the 1980s, there was an evolution of legislation that stimulated private donations for universities and professional institutes (Law 18.681), as well as for the improvement of educational quality (Law 19.247).

The public sector has not promoted CSR issues, even though it has instituted a number of regulations, largely focused on environmental conservation. One of the reasons for this low level of CSR awareness is a strong economic tie to the United States, which has a corporate culture narrowly focused on profit generation.

In Chile, CSR implementation could be managed in two phases. In the first phase, the concept of CSR is introduced in medium and large enterprises through pilot projects financed by the government. In this phase international organizations bring resources and instruments to build CSR awareness. In the second phase, public organizations then introduce the concept to SMEs through pilot projects for methodology development.

Interesting and valuable activities on CSR run by MDIs have already been carried out in Chile. The IDB has provided US 1.25 million dollars for a project to support the adoption of CSR by SMEs, particularly with the intention of creating access to export markets. Sector-specific issues regarding CSR have been discussed in several studies (Blanco, 2003) and there is still a need to further comprehend similarities and differences to develop the right path for each sector.

41 AccionRSE is a non-profit organization that arises from Chilean enterprise sector, with the goal of improving Corporate Social Responsibility in the country’s enterprises. One sign of the growth of CSR in Chile is the membership of some sixty companies in AccionRSE that, drawn from across different economic sectors, represent just over 25 percent of the country’s GDP.

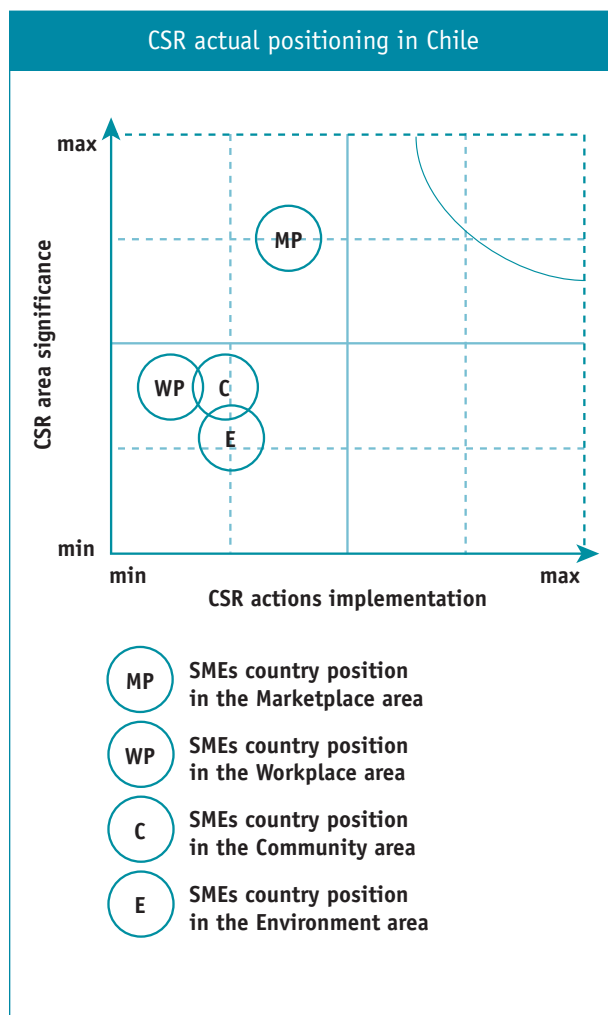
42 Foro Empresa is a is an American alliance of CSR-based business organizations that promotes corporate social responsibility (CSR) throughout the Americas. More information available at: www.empresa.org

43 which comprise recommendations addressed by governments to multinational enterprises in a bid to ensure socially responsible business conduct in line with the applicable legislation

44 Such as Banco Santander Santiago, Compañía Cervecerías Unidas, Asociación Chilena de Seguridad and Terranova

45 The prize went to a program of workshops for prison inmates, run by Target-DDI, a human resources consultancy firm. Through these workshops, led by the company’s own employees, Target-DDI seeks to provide prisoners with skills that will facilitate their reinsertion in society and the labor market, once they are released.

The following figure illustrates an estimated positioning of each one of the CSR areas – marketplace, workplace, community and environment. The graph shows the significance of CSR for SMEs (vertical axis) and the CSR actions implemented by SMEs (horizontal axis) in Chile. This positioning is an approximation, developed by the authors, and it is based solely on the information utilized for the writing of this report (interviews, panel discussions and literature review).



3.1 Marketplace

In the Chilean case, the marketplace area is perceived as highly valuable for SMEs. They think that marketplace issues such as customer relationships, supply chain management, ethical behaviors, quality and compliance may affect competitiveness in the mid- and long-term. Competitiveness is the main objective of Chilean SMEs and CSR becomes relevant to this goal when specific actions can be linked to the enhancement of competitiveness, i.e. through financial benefits, gains in image, and reputation (SOFOFA, 2004). In particular, SMEs believe that CSR issues affect their competitiveness when it helps them become part of large firm supply chains, and therefore promoting investment and credit trust through the development of new management tools and strengthening the export quota of Chilean SMEs. In some cases, the survival of SMEs can be directly connected to their participation in a large supply chain, in terms of their export quota and their access to credit.

In Chile, “dependent CSR” (Prohumana, 2004), or the supply chain requirements of large companies, is the most common entry point to CSR, particularly in export sectors where approaches to ethical trade have been pioneered. Moreover, some sectors, such as food and wine, have pioneered similar responsible behaviors when requested by international buyers from North America or Europe.

The regulatory framework on marketplace issues is well diversified and organized:

- Several laws and regulations have been launched and enforced.
- Most of the international accountability and reporting standards i.e. Global Reporting Initiative and Accountability’s AA1000 standards; as well as international guidelines and principles such as the UN Global Compact, and the OECD corporate governance principles, have been introduced in the country.

- Many CSR tools aiming to measure, evaluate, relate and benchmark SMEs' activities have been developed and applied.
- Several prizes and awards have been launched, i.e. National Quality Prize (*Premio Nacional de Calidad*).

According to the 2005 ISO Survey, 4,149 enterprises in Chile are certified against ISO 9000:2001, quality management system⁴⁶, which is a valuable indicator of the tendency of companies towards management systems application and of the attention paid to quality processes and products in the country.

3.2 Workplace

SMEs in Chile perceive the workplace area as valuable for their competitiveness in the mid- and long-term. The general view is that workplace issues such as health and safety norms, employment policies, equal opportunities and compliance may affect the Chilean economic growth. A growing number of cases demonstrate that the workplace area has directly affected SME competitiveness. Lack of workplace procedures and responsible behaviors have been seen as a main constraint for competitiveness and development of Chilean SMEs. While informal employment in Chile is widespread, it is also at the lowest rate in Latin America, and the unemployment rate is only 8.8 percent of the total labor force, which is one the lowest in the region. The regulatory framework in Chile is well developed and enforced in the workplace area.

Chile also has several weaknesses in the workplace. Income inequality is relatively high⁴⁷ and the labor force is low in skills. In addition, many youths do not graduate from secondary school, resulting in severe youth employment problems. Most studies indicate that Chilean social capital is weak and that there is lack of trust in others. There is a widespread perception that the legal system is unfair, access to justice is biased in favor of rich

people, and changes are being implemented at a slow pace (World Bank, 2002).

3.3 Community

Chilean SMEs do not perceive the community area as critical for their operations. They think that community issues, such as consensus building, participation and public-private partnerships may affect the overall Chilean economic growth in the long-term, but not necessarily SME competitiveness. According to the research on CSR in Latin American SMEs (Vives, Corral and Isusi, 2005) and the panel, Chilean SMEs do not show deep interest in the community area of CSR, even when their leaders are widely known, and trusted in the community and often give donations.

Since the 1980s, municipalities have had the responsibility of managing public schools and hospitals, although they cannot determine salaries or make other fundamental decisions.

Municipalities have been supportive in expanding access to education and improving its quality. The central government on the other hand, has funded special programs to aid schools in the poorest regions and in rural areas. Municipal governments also have a leading role in the implementation of temporary employment programs. Within the limited scope of their influence, municipalities have contributed to implementing the development agenda (World Bank, 2002).

In general, civil society organizations in Chile are weak, fragmented, and have limited influence. Several of them depend on funding from the public sector, but the government has no active policy to promote and strengthen these institutions. The most active civil society organizations are those involved with environmental matters, for which Chile has established an advanced and modern system of environmental assessments and consultations. Trade unions and professional groups are still

46 www.inn.cl

47 The Gini coefficient—which in 1998 was 0.547—has not changed significantly in the last ten years.

powerful, but are mainly involved in protecting the direct interests of their members, and are not concerned with strategic development issues.

The Government has proposed the creation of a *Civil Society Forum*, but the idea is only in the very early stages of discussion. Government, political parties and the private sector dominate the Chilean scene and civil society institutions have little influence on the strategic development agenda. The weakness of social capital in Chile is an area that merits further efforts and activities (World Bank, 2002).

3.4 Environment

In the Chilean case, the environmental area is perceived as valuable by SMEs. They believe that environmental issues such as environmental management, compliance, monitoring and climate change may affect the overall Chilean sustainable and equitable growth as well as SME economic growth in the mid- and long-term.

Chile has compulsory environment management instruments such as the *System of Environmental Impact Evaluation* (Law 19.300), laws on environmental quality and recommendations, such as international agreements. Moreover, there are also voluntary environment management instruments for the implementation of environment management systems such as ISO 14001, whose certification was obtained by 312 Chilean enterprises in 2004 (in 2001 there were only 9). In 2005 the certified Chilean companies, surprisingly, decreased to 277 (ISO Survey, 2005), which can be attributed to one of the following two explanations: (i) the companies cannot maintain their ISO 14001 certification because it is too costly, too time consuming or too difficult; or (ii) Chilean companies are not interested in those type of systems, i.e. they are not linked to the bottom lines, not recognized by the local consumers, not demanded by local purchasers, etc. and are therefore progressively abandoning certifications.

Other voluntary instruments are certifications for forest enterprises, such as the *Forest Stewardship Council (FSC)*, Chilean System for Sustainable Forest Management Certification (*Sistema Chileno de Certificación de Manejo Forestal Sustentable - Certfor*), Ecotourism Certification, and the Code of Good Environmental Practices. These instruments provide environmental standards showing waste material reduction, energy conservation and resource optimization. Voluntary instruments include *Biologic Agriculture Eco-labels*, *Clean Production agreement*, and *Ethics Codes* (Red Puentes Chile, 2004).

Environmental concerns and related activities are highly developed among Chilean enterprises, which are compliant, proactive in implementing management systems, applying label standards, and able to set up voluntary agreements and develop activities beyond the law requirements. The *Renewable Energy Index* ranks Chile 24 out of 109 countries, which means that there is a high level of attention to renewable energy production and procurement.

An active engagement in the implementation of Clean Development Mechanism (CDM) projects for the Kyoto Protocol is another positive environmental indicator, as there are 13 registered CDM projects in Chile⁴⁸

4 Recommended Actions

The main actors that are able to strengthen CSR in Chile have been classified in the following four categories: a) Multilateral Development Institutions (MDIs), b) national governments and local authorities, c) business associations, and d) civil society. These four categories of actors may act via all or some the following strategies, as defined in the Introductory Chapter, which are: *Mandating, Ensuring transparency, Facilitating, Improving Promotion and Advocacy, Partnering, and Endorsing*. The proposed

48 The Kyoto Protocol launched three main flexible mechanisms - International Emissions Trading, Joint Implementation, and Clean Development Mechanisms. CDM have been designed to contribute to achieving the Climate Change Convention goal, to avert the threat of dangerous global climate change while promoting sustainable development in the South, with priority given to the world's poor. Per article 12 of the Kyoto Protocol, the purpose of the CDM shall be to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments. Available on www.unfccc.int

actions are by no means exhaustive and only illustrate the types of involvement, which can be easily modified to meet local needs.

4.1 Multilateral Development Institutions

This analysis shows that MDIs can have a strong role in Chile through facilitation, promotion and advocacy, ensuring transparency and encouraging partnerships. MDIs may play many roles,⁴⁹ such as raising awareness; promoting discussion, negotiation and cooperation; providing technical assistance and supervision; and providing financial support for some of these activities through Multilateral Financial Institutions, which are part of MDIs.

- a. *Ensuring transparency*, some recommended actions for MDIs are:
 - Help SMEs overcome the obstacles to the downsizing access to capital markets and further increase SMEs penetration of banks through a program called “**transparency in credit through participation**”. **This program is an innovative analysis of credit access rules and procedures applied to two or three sectors, aimed at improving SMEs access to finance.**
- b. *Facilitating*, some recommended actions for MDIs are:
 - Develop a conducive policy environment, which may facilitate private sector initiatives and support voluntary efforts towards responsible behaviors.
 - Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
 - Train SME managers on CSR best practices. For example, by providing classes on strategic planning and on how to write a responsible business plan.

- Create toolkits and guidelines for codes of conduct and ethical behavior within a company.

- c. *Improving Promotion and Advocacy*, some recommended actions for MDIs are:
 - Apply benchmarking techniques in a specific sector to evaluate actual environmental efforts and activities and to identify best practices.
 - Start a pilot project to enhance the capacity of SMEs to profit from the Kyoto Protocol CDM by encouraging Carbon Pooling among SME sellers.
- d. *Partnering*, some recommended actions for MDIs are:
 - Launch a women’s association that could educate SMEs on gender policies, disseminate best practices and provide scholarships for young women in the field of business administration and/or CSR.
 - Provide gender rights counseling by supporting women at work through direct experience sharing. Arrange guest speakers such as leading female managers, politicians and entrepreneurs.

4.2 Government and Local Authorities

The Chilean government and local authorities have active roles as regulators, enforcers and controllers. Many CSR areas are already covered by regulations prescribing ethical behavior or the application of international standards. This analysis does not promote mandating roles for Chilean public authorities, because of the large amount of laws already in place.

Not only the government and its ministries are involved in CSR policies, but also other organizations such as, the National Center for Productivity and Quality (*Chile Calidad*), the Fund for the Promotion of Cientific and Technologic Development (*Fondo de*

49 Promotion and advocacy, development of a conducive policy environment, financial support and promotion of compliance, reporting, and accounting (Vives, 2004).

Fomento al Desarrollo Científico y Tecnológico - FONDEF), and the Technical Cooperation Service (*Servicio de Cooperación Técnica* -SERCOTEC) in the marketplace arena; the National Service for Training and Employment (*Servicio Nacional de Capacitación y Empleo* -SENCE) for workplace issues; the Association of Municipalities (*Asociación de Municipalidades*), and the Fund for Solidarity and Social Investment (*Fondo de Solidaridad e Inversión Social* -FOSIS) for the community area; and the National Commission for the Environment (*Comisión Nacional del Medio Ambiente* -CONAMA) in the environmental area.

a. *Mandating*, some recommended actions for government and local authorities are:

- Support the definition of codes of conduct and ethical behavior.
- Facilitate the training of employees.
- Improve local monitoring systems and environmental assessment procedures.

b. *Transparency*, some recommended actions for government and local authorities are:

- Encourage the responsible behaviors of private firms on issues such as corporate governance, fair trade, employment relations, taxation, bribery and contractual conditions.
- Contribute to CSR by participating in innovative programs such as 1) transparency in credit, an innovative analysis of credit access rules and procedures applied to two or three sectors, aiming to improve access to finance for SMEs and 2) promoting awareness on accountability and reporting standards such as the Global Reporting Initiative; as well as other international guidelines and principles such as the UN Global Compact and the International Labor Organization.

c. *Improving Promotion and Advocacy*, some recommended actions for government and local authorities are:

- Raise awareness, disseminate information and spread best practices among SMEs to indirectly foster CSR.
- Facilitate stakeholder engagement as well as training programs.
- Enhance the application of best available technologies, and praise environmentally friendly technologies through an Environmental Technology Expo.
- Take a leading role in the launch of a Civil Society Forum, which could be a multi-stakeholder initiative for the promotion of CSR awareness and actions in civil society.

d. *Endorsing*, some recommended actions for government and local authorities are:

- Endorse the launch of a Responsible Chilean Product Label aimed at supporting responsible Chilean SMEs in the international markets.
- Launch local environmental reporting initiatives to foster environmental reporting practices.

4.3 Business Associations

Business associations include trade associations i.e. the Chilean Association of Metallurgy Industries (*Asociación Chilena de Industrias Metalúrgicas y Metalmecánicas* –ASIMET), the Chilean Wine Corporation (*Corporación Chilena del Vino* –CCV), the National Corporation of Wood (*Corporación Nacional de la Madera* –CORMA), the Federation of Fruit Producers (*Federación de Productores de Frutas de Chile* –FEDEFruta), and the Association of Salmon Industries (*Asociación de la Industria del Salmón* -Salmon Chile); territorial associations and chambers of commerce, including local Chambers of Commerce, the National Chamber of Commerce (*Cámara Nacional del Comercio* –CNC) and the American Chamber of Commerce (*Cámara Chileno Norteamericana de Comercio* -AmCham); as well as SME Associations, such as exporters i.e. the Association of Exporting Industrialists

(ASEXMA), and the Association of Chilean Exporters (*Asociación de Exportadores de Chile - ASOEX*); or representatives such as the National Confederation of Micro and Small Enterprises (*Confederación Nacional de la Micro Pequeña y Mediana Empresa -CONAMYPE*), and the Corporation of Training and Employment (*Corporacion de Capacitacion y Empleo SOFOFA*).

a. *Improving Promotion and Advocacy*, some recommended actions for business associations are:

- Lead training activities targeted to managers in the area of workplace. For example, pilot projects on employee participation in decision making, employees' role in corporate governance, and promote innovative services for gender and child labor rights counseling to reduce prejudice among workers and increase the respect for human rights.
- Enhance the application of Best Available Technologies and praise environmentally friendly technologies through an Environmental Technology Expo.

b. *Partnering*, some recommended actions for business associations are:

- Take a leading role on several pilot projects aimed at enhancing compliance in the marketplace such as: increasing the application of environmental management systems in specific territories, and supporting the definition and application of gender policies among associated SMEs.
- Provide gender rights counseling by supporting women at work through direct experience sharing, and workshops with women who are leading female managers, politicians and entrepreneurs.

c. *Facilitating*, some recommended actions for business associations are:

- Improve local monitoring systems and environmental assessments.
- Support training programs on CSR for SME managers, with the aim of developing a business plan culture through appropriate education and assistance in the definition of codes of conduct and ethical behavior among member SMEs.

d. *Endorsing*, some recommended actions for business associations are:

- Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
- Support the launch of a Responsible Chilean Product Label aimed at supporting responsible Chilean SMEs enter the international markets.

4.4 Civil Society

The Chilean civil society has a strong role in all the policies except mandating. For the purposes of this study civil society refers to academia, media, NGOs, and people interested, involved or affected by SMEs' activities. In the past five years, academia and NGOs have been the most active participants of civil society in Chile (and in general the CSR drivers in the country) and have driven most of the actions in this area. The following recommendations include activities led by academic institutions and NGOs, and at the same time they intend to increase the number of civil society representatives involved.

- a. *Improving Promotion and Advocacy*, some recommended actions for civil society are:
- Training SME managers on CSR best practices, for example by providing classes on strategic planning and on how to write a responsible business plan.
 - Launch an NGO campaign to raise awareness about stakeholder engagement that may include an awareness campaign with at least five local NGOs and five local SMEs.
 - Start a voluntary agreements feasibility study that applies benchmarking techniques in a specific sector to evaluate actual environmental efforts and activities and can help identify best practices.
 - Develop CSR publications to disseminate the CSR culture as well as best practices in Latin American countries, focusing on Chile.
 - Promote best practices among SMEs, utilizing benchmarking techniques.
- b. *Facilitating*, some recommended actions for civil society are:
- Promote, through a multi-stakeholders approach, the creation of guidelines for ethical conduct among SME managers.
 - Support stakeholder engagement, for instance: through an NGO awareness campaign, the promotion of pilot projects, and the dissemination of gender policies among SMEs.
- c. *Ensuring transparency*, some recommended actions for civil society are:
- Educate employees to facilitate employee participation in the decision-making processes and promote awareness on accountability and reporting standards such as the Global Reporting Initiative; as well as other international guidelines and principles such as the UN Global Compact and the International Labor Organization.
- d. *Endorsing*, some recommended actions for civil society are:
- Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
 - Support the launch of a Responsible Chilean Product Label aimed at supporting responsible Chilean SMEs in the international markets.

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Appendix

The following stakeholder map has been used to verify that all nine defined stakeholder categories and all four CRS areas are represented. Stakeholders that were chosen for interviews or as panel participants either had relevant expertise in the issue or may influence awareness, interests and implementation instruments relevant to the issue.

APPENDIX 1 – CHILEAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
1. International organizations	— Inter-American Development Bank (IDB)	— Organization International del Trabajo (OIT)	— Inter-American Development Bank (IDB) — United Nations Development Program (UNDP)	— CEPAL (Comisión económica para América Latina) — Inter-American Development Bank (IDB)
2. Government organizations and institutions	— Chile Calidad (Centro Nacional de la Productividad y Calidad) — Fondo de Fomento al Desarrollo Científico y Tecnológico (FORNDEF) — Instituto Nacional de Normalización (INN) — Servicio Nacional del Consumidor (SENAC) — Servicio de Cooperación Técnica (SERCOTEC)	— Instituto Nacional de Normalización (INN) — Ministry of Health — Ministry of Labour SERNAM (Servicio Nacional de la Mujer) — Public Welfare Institute — Servicio Nacional de Capacitación y Empleo (SENCE)	— Asociación de Municipalidades (local government) — Fondo de Solidariedad y Inversión Social (FOSIS) — Fondo de Fomento al Desarrollo Científico y Tecnológico (FONDEF)	— Comisión Nacional del Medio Ambiente (CONAMA) — Instituto Nacional de Normalización (INN)
3. Associations (national, trade and business)	— Cámara Chileno Norteamericana de Comercio (Amcham) — Association of manufacturing exporters (ASEXMA) — Asociación Chilena de Industrias Metalúrgicas y Metalmecánica (ASIMET) — Asociación de Exportadores de Chile (ASIMEX) — Corporación Chilena del Vino (CCV)	— Asociación Chilena de Industrias Metalúrgicas y Metalmecánica (ASIMET) — Cámara Nacional de Comercio (CNC) — Confederación Nacional de la Micro Pequeña y Mediana Empresa (CONAPYME) — Federación de productores de Frutas de Chile (FEDEFruta)	— Corporación Nacional de Consumidores y Usuarios de Chile (CONADECUS) — SOFOFA (Corporación de Capacitación y Empleo) — Unión social de empresarios y ejecutivos cristianos (USEC)	— Asociación Chilena de Industrias Metalúrgicas y Metalmecánica (ASIMET) — Corporación Chilena del Vino (CCV) — Corporación Nacional del Cobre de Chile (CODELCO) — Confederación Nacional de la Micro Pequeña y Mediana Empresa (CONAPYME) — Corporación Chilena de la Madera (CORMA)

APPENDIX 1 – CHILEAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
3. Associations (national, trade and business)	— Cámara Nacional de Comercio (CNC) — Corporación Nacional de Consumidores y Usuarios de Chile (CONADECUS) — Confederación Nacional de la Micro Pequeña y Mediana Empresa (CONAPYME) — Corporación Chilena de la Madera (CORMA) — Confederación de la Producción y del Comercio (CPC) — Federación de productores de Frutas de Chile (FEDEFruta) — Salmón Chile (Asociación de la Industria del Salmón de Chile) — SOFOFA (Corporación de Capacitación y Empleo) — Unión social de empresarios y ejecutivos cristianos (USEC)	— SOFOFA (Corporación de Capacitación y Empleo) — Unión Nacional de Trabajadores (UNT) — Unión social de empresarios y ejecutivos cristianos (USEC)		— Federación de productores de Frutas de Chile (FEDEFruta) — SOFOFA (Corporación de Capacitación y Empleo)
4. Financial institutions	— Banco del Desarrollo — Banco Estado — Banco Santander Santiago — CORFO (Corporación de Fomento de la Producción) — BCI (Banco dedicado a la banca personal y de empresas)	— Transbank	— Transbank	— Banco del Desarrollo — Banco Estado — Banco Santander Santiago — CORFO (Corporación de Fomento de la Producción) — BCI (Banco dedicado a la banca personal y de empresas)

APPENDIX 1 – CHILEAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
5. Multinational companies	— Aguas Andinas — Anglo American — Antofagasta minerals — BHP Billiton — CMCP — Chilectra — Gerdau Aza — Grupo Nueva — Grupo Polpaico — Indumac — Minera Escondida — Polpaico (Holcim) — Shell Chile	— Indumac — Grupo Polpaico	— Indumac — Grupo Polpaico	— Aguas Andinas — Anglo American — Antofagasta minerals — BHP Billiton — CMCP — Chilectra — Gerdau Aza — Grupo Nueva — Grupo Polpaico — Indumac — Minera Escondida — Polpaico (Holcim) — Shell Chile
6. Media	— America — EconomíaDiario — Pyme.cl — Ediciones Financieras — El Mercurio	— Revista Capital		— Induambiente
7. NGOs	— Accion RSE — Forum Empresa — Fundes — Organización de de Consumidores y Usuarios de Chile (ODECU) — Regional and international working group (RING)	— Siyanda — Prohumana — Regional and international working group (RING)	— Avina Foundation — AccionRSE — Maitenes Foundation — MORI Chile — Prohumana Foundation — Red Puentes RSE — Regional and international working group (RING) — Sociedad Activa	— Greenpeace — Defensores del Bosque — CODEFF — Consejo de todas la terra — Regional and international working group (RING) — The Nature Conservancy
8. Academia	— Escuela de ingeniería PUC — Universidad Católica de Chile — Universidad Católica de Valparaíso — Universidad de Chile — Vincular (organization created by the Catholic University of Valparaíso with the aim of developing and implementing CSR).	— Universidad Católica de Chile — Universidad Católica de Valparaíso	— Universidad Católica de Chile — Universidad Católica de Valparaíso	— Programa de Estudios e Investigaciones en Energía (PRIEN) — Universidad Católica de Chile — Universidad Católica de Valparaíso
9. CSR consulting firms	— ABSG Consulting — Axis RSE — Concordia — Pricewaterhousecoopers	— Quinta Era	— ABSG Consulting — Gestión social	— ABSG Consulting — Casa de la Paz

Chapter 4: Colombia

1 Executive Summary

In Colombia the need for private sector participation in development issues is evident by the high levels of poverty and violence. Lack of employment is one of the main factors causing these problems; therefore as SMEs represent 90 percent of the country's economy they can contribute to the solution. SMEs that act as suppliers for large domestic and international firms have already recognized CSR as providing a competitive edge in the market. However, the majority of Colombian SMEs still think of CSR as a way to enhance the economic growth of the country, not as a business management technique that can affect their profits.

Multilateral Development Institutions (MDIs) have the strongest role in fostering CSR, as MDIs already raise CSR awareness, finance pilot activities and provide technical assistance to SMEs. MDIs also support the public authorities' roles by encouraging public-private partnerships and providing basic and technical education. MDIs could lead the development of a conducive policy environment, which may facilitate private sector initiatives and support voluntary efforts. MDIs may consider financing pilot projects on quality management systems and publishing the results of health and safety programs and of environmental management systems. MDIs should also encourage partnerships between large and small enterprises.

The Colombian government and local authorities have a fundamental role in most of the recommended actions, since they were perceived as the most reliable institutions by the stakeholders interviewed. Public authorities should define standards, establish targets, enforce compliance and monitor activities for business performance embedded within the legal framework. Public institutions should promote information campaigns, conduct training programs and support pilot projects in order to help SMEs reach compliance. Public authorities can also facilitate, monitor and legitimize corporate accounting, governance and transparency standards. Finally, ensuring transparency through voluntary programs may strengthen firms' responsible behavior in regards to issues such as compliance, fair trade, employment relations, taxation, bribery and contractual conditions.

Colombian business associations can also play an important role through capacity building, raising awareness and creating incentives. In particular, business associations should finance actions that improve compliance, develop responsible brands and labels and finance training programs on CSR management and planning for SMEs.

The role of civil society in enabling an environment for CSR is frequently emphasized. For the purpose of this report, civil society includes academia, media, NGOs and the local communities. In Colombia, academia and NGOs are the most effective and active actors within civil society. These two groups will likely implement most of the proposed actions. NGOs and academia can act as the link between companies and government, translate the terminology of social development into a language comprehensible to business and provide information on SME activities to the public (Petkoski and Nigel, 2003).

Colombian civil society has supporting roles in promoting environmental assessments, supporting an NGO engagement awareness campaign, promoting pilot projects and participating in innovative activities such as, ethical behavior evaluation procedures and educational programs. Civil society may take a prominent role in stakeholder engagement programs and networking with market players to develop a more conscious application of CSR in SMEs. A leading role can also be taken in rewarding corporate responsibility in the marketplace and workplace.

2 Economic and Social Framework

Colombia is a country with 43 million inhabitants⁵⁰ and a territory of 1.1 million km.² it has a Gross Domestic Product (GDP) of USD 82.4 billion and a per capita GDP of USD 1,890.⁵¹ After several decades of an average growth rate of 5 percent, the Colombian economy lost some of its dynamism towards the end of the 1990s, and growth has remained moderate in the first few years of the twenty-first century (FTAA 2003). Agriculture accounts for 13 percent of GDP, while

⁵⁰ 2002 projections based on the census of 1993.

⁵¹ World Bank figures, 2001.

industry accounts for 30 percent and services account for 57 percent.⁵² Unemployment in Colombia is 13.6 percent of the total labor force.

Inflation has been falling notably since 1991, from 26.8 percent in that year to single digit rates since 1999. It fell to 6 percent in 2002. This drop was achieved thanks to policies instigated by the Bank of the Republic in coordination with the national government and was also boosted by low levels of internal demand (FTAA, 2003).

In 2005, a survey on SME behaviors and employers' opinions in Colombia, conducted by the Corporation for Technological and Socioeconomic Investigation in Colombia (*Corporacion para la Investigación Socioeconómica y Tecnológica de Colombia*⁵³), shows

that SME economic conditions are improving: 38 percent of them increased exports, 35 percent hired new employers and 66 percent created (indirectly) employment in the last year.

The following chart shows competitiveness indicators supplied by the World Economic Forum (WEF). All data is from 2005 and the chart is sorted by indicator ranking. The chart shows that tax rates, the business costs of crime and violence, bureaucratic regulation, the low quality of scientific research institutions and technological readiness are the main obstacles to Colombia's competitiveness. In contrast, research and development capabilities, innovation and the employment of women are contributing to improve Colombia's competitiveness.

Organization	Index	Number of Countries in the Index	Colombia's Ranking
WEF	University/industry research collaboration	117	30
WEF	Private sector employment of women	117	36
WEF	Company spending on research and development	117	39
WEF	Capacity for innovation	117	49
WEF	Reliability of police services	117	52
WEF	Hiring and firing practices	117	52
WEF	Efficiency of legal framework	117	58
WEF	Local equity market access	117	58
WEF	Global Competitiveness	117	58 (5 out of 21 in Latin America)
WEF	Time required to start a business	117	61
WEF	Technological readiness	117	70
WEF	Quality of scientific research institutions	117	76
WEF	Number of procedures required to start a business	117	92
WEF	Business costs of violence	117	97
WEF	Extent and effect of taxation	117	100
WEF	Business costs of organized crime	117	115

52 Colombian agricultural activity suffered a serious decline due to security problems and the revaluation of the exchange rate to real levels which continued into 1998. From then on, the correction of the exchange rate, the creation of credit instruments for the agricultural sector, and the current security policy have revitalized the sector without, however, solving the problems of rural poverty that accumulated during the 1990s. (FTTA, 2003)

53 Corporacion para la Investigacion Socioeconomica y Tecnológica de Colombia is a non-profit organization that implements projects in environmental, social, technological and economic areas with the aim to promote SMEs.

In addition, corruption is a widely spread phenomenon in Colombia, as evident from the following WEF and Transparency International indices.

Organization	Index	Number of Countries in the Index	Colombia's Ranking
WEF	Judicial independence	117	66
WEF	Public trust of politicians	117	77
WEF	Favoritism in decisions of government officials	117	80
Transparency International	Corruption Perception	159	56

In 2004, the Confederation of Colombian Chambers of Commerce (*Confederación de Cámaras de Cámaras de Comercio e Industria-CONFECAMARA*) conducted the 'Probidad III' survey (Gomez, 2004) on corruption practices in interactions with the government. The survey revealed that:

- 34.2 percent of enterprises have a low level of trust toward public institutions, in particular toward public institutions in their city (40.3 percent), and 50 percent of enterprises think that negotiations with public institutions are not transparent.
- 62 percent of entrepreneurs interviewed said that corruption practices had increased since 2003, including frequent corruption through the subdivision of contracts (22.7 percent), favoring contractors' monopolies (37.5 percent) and adjustment of conditions (33 percent).
- 40 percent of interviewed entrepreneurs believed that the economic sector has a high capability of influencing governmental decisions.
- 30 percent of them think that the use of a political contact for the advancement of objectives is frequent and only 11.8 percent denounce irregularities.

- 72.3 percent of the interviewees think that the public sector and private sector should jointly create a program against corruption.

Colombia is seriously distressed by an armed conflict that has deterred investments and reduced the GDP; in fact, it is estimated that between 1.5 percent and 4.5 percent of GDP is lost due to the conflict. The lack of respect for human rights and the levels of poverty in Colombia are alarmingly high. Although Colombia's child labor index is excellent, according to United Nations Children's Fund (UNICEF), as many as 14,000 children in the country are members of illegal armed groups.

Organization	Index	Number of Countries in the Index	Colombia's Ranking
(ILO 2005) ⁵⁴	Child Labor	191	28
UNDP ⁵⁵	Human Development Index	117	69
UNICEF	Child Rights Risk	192	113
ILO ⁵⁶	Health and Safety	187	139
Human Resource Institute, Amnesty International, US Dept of State	Human Rights Risk	194	192
World Bank Institute (2004)	Political Risk	209	136

There are few countries in the world with the ethnic, linguistic and cultural wealth of Colombia. The country is home to more than 80 different indigenous groups that represent over 700,000 people (1.5 percent of the total population) and actively use 67 native languages.⁵⁷ The National Development Plan "*Towards a Community State*"

⁵⁴ www.maplecroft.com

⁵⁵ Idem

⁵⁶ Idem

⁵⁷ The Afro-Colombian population consists of 12 million people (26 percent of the population), and there are also between 5,000 and 8,000 gypsies in the country as well as various groups of immigrants, who have made significant contributions to the country's regional cultures.

2002-2006 points out that Colombian ethnic groups have been marginalized socially, politically, economically and culturally. It also stresses that, even today, these communities are not able to reap the benefits of development and that they are in a far less favorable situation than the rest of the Colombian population. They have far higher rates of poverty, illiteracy, mortality, displacement and violence than the rest of the population. In addition, their social fabric is suffering fragmentation and the development of human capital amongst these groups is weak.

Colombia is divided into two vastly different regions: (i) one is represented by the rural areas where armed conflicts, drug traffic, displaced people, and consequent self regulation prevent forms of responsible behavior beyond those directed towards survival; (ii) the other region is geographically connected to cities and industrial districts, where CSR is best known and many pilot projects have been run. The latter is confirming the strong efforts of educated civil society, large and medium enterprises, SMEs in exporting sectors, business associations and governmental institutions.

3 Current State of CSR

Colombia is a very open country economically, focused on free trade and promotion of the private sector. The current administration has improved macroeconomic indicators, increased private investment and, at the same time, challenged terrorism and enhanced public security.

In the short-term Colombian SMEs are not likely to become more actively involved in CSR or to lead the country on its path toward social responsibility because SME productivity is quite low and as a result, SMEs cannot reach their potential. Most of the Colombian SMEs are merely surviving and are unable to grow to the point of wealth generation. However, some local experts say that a primary

ground for CSR among small businesses already exists. For example, the Corporate Social Responsibility School for SMEs⁵⁸ was created by an SME to promote a CSR culture among other SMEs, improve their competitiveness and the quality of life through private sector initiatives.

Colombian public authorities are working to improve the business environment, which helps improve the legal framework. In 2002, a law was passed to promote micro and SME development. This law may contribute to CSR promotion among SMEs, since the five aspects of SME development in this law may be considered preconditions of responsible behaviors.

Gutierrez, Avella, and Villar (2005) point out that the private sector⁵⁹ has an important role in Colombia because it could finance private programs to foster social responsibility and channel investments toward CSR through the activities of non-profit organizations. The authors claim that in recent years many private sector voluntary programs have become regulations and thus (i) corporate activity has been praised and (ii) their voluntary actions and tools became required by the law. Moreover, private financing of non-governmental organizations was increased.

The following figure illustrates an estimated positioning of each one of the CSR areas – marketplace, workplace, community and environment. The graph shows the significance of CSR for SMEs (vertical axis) and the CSR actions implemented by SMEs (horizontal axis) in Colombia. This positioning is an approximation, developed by the authors, and it is based solely on the information utilized for the writing of this report (interviews, panel discussions and literature review).

3.1 Marketplace

In Colombia, the marketplace area of CSR is perceived by SMEs as valuable for their business. Their perception is that marketplace issues, such as

58 The school received academic support from Universidad de los Andes, Universidad Externado de Colombia, Pontificia Universidad Javeriana, La Universidad del Rosario and Centro Colombiano para la Responsabilidad Empresarial-CCRE (*Colombian Center for Corporate Responsibility*) and is part of a strategy called “benefit redistribution based upon minimal ethics.”

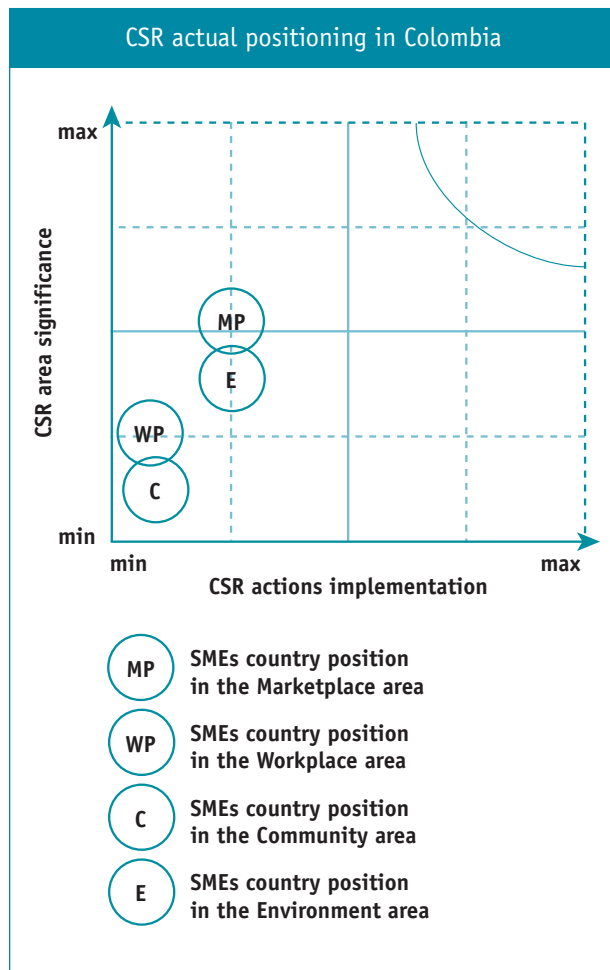
59 According to the Confederation of Colombian Chambers of Commerce (CONFERCAMARA) there are 431,000 micro-enterprises and 47,000 small and medium-sized companies in Colombia; they contribute 38 percent of industrial production and between 56 percent and 70 percent of sales in the service and retail sectors, employing 70 percent and 75 percent of the labor force in these sectors respectively.

supply chain management, compliance, quality assurance, good corporate governance, and management capacities may affect their competitiveness in the mid- to long-term. However, many SMEs still believe that ethical behaviors are not linked to profitability. In general, most of the SMEs that embrace CSR are in exporting sectors. In particular they think that CSR issues affect SMEs' competitiveness when SMEs are part of a supply chain, which fosters better management capacities and may lead to increased exports if the supply chain is international.

According to Vives, Corral and Isusi, (2005) Colombian SMEs, in contrast with large firms, lack economic resources, governance capacity, management culture, expertise and awareness about managerial tools (i.e. social balances, CSR indicators, voluntary management systems and ISO standards). On the other hand, foreign enterprises and investors operating in Colombia demand CSR activities and assurances as prerequisites for the formation of alliances. The *2005 ISO Survey* shows that there are 4,926 ISO 9001 certified enterprises in the country.

Several entities have created programs for fighting corruption in the marketplace. Among these are: (i) the Presidential program for the fight against corruption, which is made up of four sectors – Inter-institutional Coordination, Legality Culture, Social and Citizen control, and Regional strategy, (ii) the Chambers of Commerce, which promote items of business ethics and anti-corruption, and provide training services to associated enterprises, (iii) Universities, which have created departments of Corporate Social Responsibility and business ethics - in particular Javeriana University created ethics indicators for the implementation of CSR in SMEs, (iv) the Transparency International chapter in Colombia (*Transparencia por Colombia*), which implemented a program for Business Ethics in SMEs, titled *Towards Integral and Transparent SMEs*⁶⁰ (*Rumbo Pymes Integrales y Transparentes*) has been implemented through participative actions and has about 140 SMEs involved.

Colombia has an important number of CSR best practices. For example, in the coffee industry, coffee growers have united for purposes of exporting goods, consequently, the state created the *National Coffee Fund*, by which all members contribute to the development of infrastructure in the coffee region. In addition, the ice cream company *Meals de Colombia* promotes an extensive scholastic program that includes public institutions in rural areas with high rates of indigenous and Afro-Colombian population. Its aim is to match businesses with schools.



60 The program presents 10 modules: Guide to the program implementation, Measurement of internal ethic environment (through the use of a specific software), ethic compromise, principles for the prevention of bribe, ethic leadership, training in business ethic, Strengthening of communication channel, administration of family companies, ethic solution of conflict, and Decision taking through an ethic sense.

3.2 Workplace

The CSR workplace area is not perceived, by SMEs, as relevant for the survival and competitiveness of their business in the short term, mainly because of the high level of unemployment and informal employment. However, they think that in the long-term workplace issues, such as employment policies, child labor rights, health and safety norms, gender policies and compliance may affect both SME competitiveness and Colombian economic growth.

While the development of activities in the workplace area, aimed at improving conditions for employees, has not yet begun in Colombian SMEs, it has begun in other types of organizations such as large companies, financial institutions and state organizations that are already engaged in human rights campaigns and in better workplace practices. The efforts of these organizations serve as an example for society and the organizations often try to engage SMEs in their programs.

Since November 2004, the Government of Colombia has continued to advance the social and labor agendas. In addition to carrying out actions supported by the Labor Reform and a Social Development Policy Loan (World Bank, 2006), new initiatives have been undertaken in several sectors, most notably in the education sector with greater emphasis on pre-school and post-secondary (non-professional) education. The government continues to experiment with employment programs to support hard-to-employ workers, and a renewed initiative to identify and correct the structural constraints.

There are only 50 companies in Colombia whose health and safety management systems are certified against OHSAS 18001 (Colombian Security Council, 2006).

3.3 Community

In Colombia, the community area of CSR is not perceived as valuable, by SMEs. Their opinion is that community issues such as public-private partnerships are not widespread and are perceived as affecting only the overall sustainable development and not SME development at present, or in the mid- to long-term.

The research on CSR in Latin American SMEs (Vives, Corral and Isusi, 2005) emphasizes that Colombian CSR activities directed towards local communities is low compared to those in other Latin American countries. For example, educational activities (run outside the enterprises) are backed by 9.7 percent of interviewed Colombian companies, compared to 23.6 percent overall in Latin America; actions directed towards disabled and poor people account for 9.6 percent in Colombia compared to 26.7 percent in the region; and participation in public activities accounts only for 5.5 percent in Colombia compared to 18 percent in Latin America.

3.4 Environment

In Colombia, SMEs perceive the environment area of CSR as valuable for their operations. They think that environment issues such as environmental management, regulation⁶¹ and compliance, monitoring and climate change may affect their economic development in the mid- to long-term.

In a recent survey of the Andean region, which compares Colombia to Ecuador, the researchers claim that Colombia is by far the country with the strongest and best-developed environmental regulatory institutions. The results of regression analysis⁶² and qualitative responses from firms confirm that government regulatory pressure is the most important influence on firm behavior.

61 For a complete overview of the environmental regulatory system, see Blackman, A., Hoffmann, S., Morgenstern, R., and Topping, E., 2005.

62 www.cid.harvard.edu/esd/programs/urbanmgt/envcost.html

However, market pressures, primarily export markets, persist as a significant determinant of environmental behavior, despite the strong role of the state. In this sense, trade is good for the environment. Those firms with a greater participation in export markets rely more on innovative solutions to pollution reduction rather than end-of-the-pipe technologies, which treat pollution at the end of the production process.⁶³ Moreover, considerable public and private resources have been committed to the reduction of pollution, resulting in improvements in water quality.⁶⁴

The *Renewable Energy index* ranks Colombia 23 out of 109 countries (World Health Organization; World Resource Institute, 2005; and International Energy Agency, 2001)⁶⁵. Moreover, there are only 275 ISO 14001 certified enterprises in Colombia (ISO 2005). As for Colombia's engagement in the Kyoto Protocol, there are three registered Clean Development Mechanism projects in the country⁶⁶.

Colombia's emissions of Greenhouse Gas (GHGs) are very modest (0.2 percent of global emissions, with 0.6 percent of the global population). With these low intensity emissions, opportunities exist to mitigate emissions in key sectors. Opportunities for GHG mitigation are being pursued in renewable energy, wastewater treatment and energy efficiency (*Jepirachi*, *Amoya*, *Rio Frio* and *Furatena* projects). Adaptation measures are also being explored and implemented through the Amoya region and the recently approved Integrated National Adaptation Project. Still, the National Strategic Study and the first National Communication estimated that 21 percent of GHG emissions in the country are due to land use change and that over 40 percent of the opportunities for GHG mitigation in the country are related to reforestation. Yet, so far, only one carbon sink project for the Kyoto Protocol is in the portfolio (World Bank, 2006).

Even in Colombia's delicate environment, environmentally responsible activities are perceived by companies as related not to preservation or conservation, but to the improvement of competitiveness because of their ability to reduce costs and promote efficient consumption (Gutierrez, 2004). On the other hand, Colombian NGOs are particularly active on environmental preservation campaigns.⁶⁷

The Colombian Council for Sustainable Development defines Environmental responsibility as 'Eco-efficiency,' described as "*the continuous process of maximization of productivity of resources minimizing waste and emissions, and generating value for the company, for its customers, shareholders and others stakeholders*". Environmental activities include, among others, minimization of waste generation, control and integrity of the process, the control and mitigation through secondary reductions, adequate monitoring system and waste management, impact assessment, and reclamations.

The results of a study in Colombia⁶⁸ confirm the effectiveness of using information as a tool for promoting pollution abatement. The simple act of granting the public access to pollution monitoring information of industrial firms proved to be a significant factor in encouraging environmental activities. This is a low cost and easily replicated strategy that should be followed in other CSR areas as well.

4 Recommended Actions

The main actors able to strengthen CSR in Colombia have been classified in the following four categories: a) Multilateral Development Institutions (MDIs), b) national governments and local authorities, c) business associations, and d) civil society. These four categories of actors may act via all or some the following strategies, as defined in the Introductory

63 The survey shows also that in Colombia well over half of the firms that engaged in pollution reduction activities did so with some kind of change in the production process. Water pollution reduction entailed more end-of-the-pipe technology while air pollution was more frequently accomplished through change in processes. Almost 2 out of 3 firms that reduced water pollution improved their long-term competitiveness in doing so. For air, the prospects are even more positive, with 4 out of 5 firms improving their long-term profitability.

64 For a complete analysis, see the valuable Project Enhancing Competitiveness While Protecting the Environment, run by **Universidad de los Andes** in Bogotá, Colombia; **Escuela Superior Politécnica del Litoral (ESPOL)** in Guayaquil, Ecuador; and **Universidad del Pacífico** in Lima, Colombia and sponsored by **Corporación Andino de Fomento**, visit: www.cid.harvard.edu/esd/programs/urbanmgt/envcost.html

65 www.maplecroft.com

66 www.unfccc.int

67 NGOs are also active in areas of conflict, generally where there is an internal armed conflict, i.e. Peace Brigades International (PBI), Consultancy for Human Rights and Displacement (CODEHES),

68 www.cid.harvard.edu/esd/programs/urbanmgt/envcost.html

Chapter, which are: *Mandating, Ensuring transparency, Facilitating, Improving Promotion and Advocacy, Partnering and Endorsing*. The proposed actions are by no means exhaustive and only illustrate the types of involvement, which can be easily modified to meet local needs.

The best tool to stimulate CSR in Colombia would be a concerted effort to advance educational opportunities within the country, making education not the privilege of a few, but the right of all. As a result, SMEs would have access to a more skilled workforce, allowing for enhanced wealth generation and the ability to become more involved in CSR. Additionally, leveraging education as a means of achieving social equity would serve as a factor for cohesion and for a better alignment of common interest within the community, allowing SMEs to lead a united effort to address targeted social issues within the communities.

Vergara (2005) shows that to enhance the competitiveness of SMEs and assure development in the mid- and long-term, it is necessary to create the framework and adequate conditions through (i) a financial sector that is sensitive to the benefits of CSR, (ii) a conscious government that recognizes CSR as an opportunity for the improvement of an enterprise's management, and (iii) the use of larger enterprises' supply chains and networks. The country's textile, flower and coffee export industries have incentives to adopt socially responsible policies due to the demand from their destination markets.

4.1 Multilateral Development Institutions

MDIs are already playing a crucial role in Colombia. For example, MDIs defined a series of three programmatic loans⁶⁹ designed to support the Government of Colombia, aimed to: (a) strengthen social protection; (b) raise human capital formation; (c) increase employability; and (d) enhance monitoring and evaluation systems for better

transparency, social oversight and results management in the social sectors. World Bank loans have supported a sustained effort by the Colombian Government to implement the social and labor strategies defined in the 2002-2006 National Development Plan.

- a. *Facilitating*, recommended actions for MDIs include:
 - Develop a conducive policy environment, which may facilitate private sector initiatives and support voluntary efforts towards responsible behavior.
 - Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
 - Promote, finance and disseminate results of training activities on health and safety measures in the workplace to SME managers and employees.
 - Promote, finance and disseminate results of training activities on environmental management system applications. Start a pilot project for a chosen sector on environmental management systems according to ISO 14001 at the district level.
 - Improve monitoring systems and environmental assessments in SMEs through the development of the Life Cycle Assessment approach in a specific sector (through the supply chain).
- b. *Improving Promotion and Advocacy*, recommended actions for MDIs include:
 - Engage with SMEs, public authorities and civil society in addressing and disseminating CSR best practices.
 - Apply benchmarking techniques in a specific sector to evaluate environmental efforts and define best practices.

⁶⁹ The loan in this series were referred to as Programmatic Labor Reform and Social Structural Adjustment Loans, which is the Labor Reform and Social Development Policy Loan (formerly known as the PLaRSSAL III).

- Sponsor a human rights campaign that raises awareness about child labor in SMEs by using multimedia sources to present international and national figures addressing child labor issues.
 - Facilitate employee participation in decision-making processes and promote awareness on accountability and reporting standards such as the Global Reporting Initiative, as well as international guidelines and principles such as those of the UN Global Compact and the International Labor Organization.
- c. *Partnering*, recommended actions for MDIs include:
- Facilitate the development of partnerships between large and small sustainable enterprises and at the same time increase capacity building for SMEs.
 - Form networks among SMEs to develop CSR marketing strategies, including brands and labels, to widen markets and increase exports.
 - Fund programs addressed to different ethnic groups, which can enhance their interactions, and grouping capacity, developing a common corporate ethical behavior.

4.2 Government and Local Authorities

Colombian Government and local authorities have a fundamental role in most of the actions proposed, since the majority perceives them as the most reliable stakeholder.

- a. *Mandating*, recommended actions for government and local authorities include:
- Define standards, establish targets, enforce compliance and monitor activities for business performance embedded within the legal framework.
 - Promote business registration through simplification of administrative and bureaucratic procedures.
- b. *Ensuring transparency*, recommended actions for government and local authorities include:
- Provide gender rights counseling by supporting women at work through direct experience sharing. Arrange guest speakers such as leading female managers, politicians and entrepreneurs.
 - Promote information campaigns and training activities on CSR and supervise pilot projects in the field and endorse compliance programs.
 - Facilitate, monitor and legitimize corporate accounting, governance and transparency standards.
- c. *Facilitating*, recommended actions for government and local authorities include:
- Promote awareness of accountability and reporting standards such as the Global Reporting Initiative and international guidelines and principles such as those of the UN Global Compact and the International Labor Organization, through campaigns, conferences, workshops and publications.
 - Improve energy efficiency in SMEs by working with district municipalities to design an awareness campaign on waste and energy management.
 - Develop team-building initiatives across ethnic groups through municipalities or provinces that aim to develop a common cultural ground among different ethnic groups working for SMEs in certain territories.
- d. *Endorsing*, recommended actions for government and local authorities include:
- Recognize the efforts of enterprises and reward companies' participation in CSR activities.
 - Promote voluntary agreements on health and safety procedures in industrial sectors.
 - Promote environmental monitoring, management and communication among SMEs through voluntary agreements between SMEs and local public authorities.

4.3 Business Associations

Business associations include trade associations, territorial associations, chambers of commerce and SME associations. Colombian business associations play an important role in Facilitating, Improving, Promotion and Advocacy, Partnering and Endorsing.

- a. *Facilitating*, recommended actions for business associations:
 - Conduct a risk analysis to identify the direct and indirect costs of non-compliance based on case studies. Then, form a pilot group of SMEs to draft a compliance program specifying timing, resources and expected results.
 - Form networks among SMEs to develop CSR marketing strategies, including brands and labels, to enter international markets and increase exports.
 - Finance training programs on CSR in management and planning for SMEs.
- b. *Improving Promotion and Advocacy*, recommended actions for business associations:
 - Create CSR training programs for SME managers in rural areas.
 - Apply benchmarking techniques in a specific sector to evaluate environmental efforts and define best practices.
 - Publish results of training activities on health and safety measures in the workplace for SME managers and employees aimed at demonstrating the benefits.
- c. *Partnering*, recommended actions for business associations:
 - Help build partnerships between large and small sustainable enterprises and facilitate capacity building in SMEs.

d. *Endorsing*, recommended actions for business associations:

- Promote voluntary agreements on health and safety procedures in industrial sectors for SMEs.
- Promote environmental monitoring, management and communication among SMEs through voluntary agreements between SMEs and local public authorities.
- Cooperate in the publication of CSR materials, aimed at disseminating the CSR culture and practices in Latin American countries, focusing on Colombia.

4.4 Civil Society

In Colombia, academia and NGOs are the most effective and active proponents of civil society. These two groups will likely implement most of the proposed actions. These two groups can also act as a bridge between companies and government, translate the terminology of social development into a language that businesses understand, and provide information on enterprises' activities to the public (Petkoski and Nigel, 2003).

- a. *Facilitating*, recommended actions for civil society include:
 - Promote, finance and disseminate results of training activities on environmental management system applications.
 - Start a pilot project for a chosen sector on environmental management systems according to ISO 14001 at the district level.
 - Promote business registration and compliance through the simplification of administrative and bureaucratic procedures.

- b. *Improving Promotion and Advocacy*, recommended actions for civil society include:
- Sponsor a human rights campaign that raises awareness about child labor in SMEs using the media to present international and national figures addressing child labor issues.
 - Improve monitoring systems and environmental assessments in SMEs through the development of the Life Cycle Assessment approach in a specific sector (through the supply chain).
 - Launch an NGO engagement awareness campaign to raise awareness about stakeholder engagement. Start a pilot engagement awareness campaign with at least five local NGOs and five local SMEs.
- c. *Partnering*, recommended actions for civil society include:
- Promote stakeholder engagement through training programs and dissemination of best practices such as benchmarking techniques.
- d. *Endorsing*, recommended actions for civil society include:
- Reward responsible market behaviors in certain sectors at a CSR conference.
 - Promote voluntary agreements on health and safety procedures in SMEs in industrial sectors.
 - Provide introductory seminars on CSR to future SME managers.
 - Cooperate in the publication of CSR materials aimed at disseminating the CSR culture and practices in Latin American countries, focusing on Colombia.

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Appendix

The following stakeholder map has been used to verify that all nine defined stakeholder categories and all four CRS areas are represented. Stakeholders that were chosen for interviews or as panel participants either had relevant expertise in the issue or may influence awareness, interests and implementation instruments relevant to the issue.

APPENDIX 1 – COLOMBIAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
1. International Organizations		— International Labour Organization (ILO)	— United Nations Development Programme- Global Compact (UNDP) — United States Agency For International Development (US AID) — United Nations World Food Program (UN – WFP) — Governance and Local Development (UNDP-GOLD)	— World Bank — Corporación Andina de Fomento (CAF) — Inter American Development Bank (IDB)
2. Government Organizations and Institutions	— Ministerio de Comercio Exterior — Ministerio de Comercio, Industria y Turismo — National Planning Department — Departments Municipalities	— Ministerio de Protección Social — Departments Municipalities	— Ministerio del Interior y Justicia — Departments Municipalities — Agencia Presidencial para la Acción Social y la Cooperación Internacional — Derechos de los Niños y las Niñas	— Ministerio de Ambiente, Vivienda y Desarrollo Territorial — National Institute of Natural Renewable Resources, — Ministry of Agriculture — National Environmental Council — National Technical Advisory Council — Assessment of Colombia's National Environmental System (SINA) — Centro Internacional de Agricultura Orgánica — Comisión de Regulación de Agua Potable y Saneamiento Básico — Corporación Autónoma Regional Cuencas de los Ríos Corporación Autónoma Regional de Boyacá Negro y Nare — Corporación Autónoma Regional de Caldas — Corporación Autónoma Regional de Chivor — Corporación Autónoma Regional de Cundinamarca

APPENDIX 1 – COLOMBIAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
3. Associations (national, trade, business)	— Asociación Nacional de Empresarios de Colombia (ANDI) — Asociación Colombiana de Pequeñas y Medianas Empresas (ACOPI) — Asociación Colombiana del Petróleo (ACP) — Asociación de Cultivadores de Caña (ASOCAÑA) — Asociación Colombiana de Floricultores (ASOCOLFLORES) — Asociación de Bananeros de Colombia (AUGURA) — Asociación Colombiana de Productores de Agregados (ASOGRAVAS) — Cámara de Comercio de Bogotá CCB – Foro de Presidentes — Foro de Presidentes — Confederación de Cámaras de Comercio de Colombia (CONFECAMARAS)	— Asociación Nacional de Empresarios de Colombia (ANDI) — Asociación Colombiana de Pequeñas y Medianas Empresas (ACOPI) — Asociación Colombiana del Petróleo (ACP) — Asociación de Cultivadores de Caña (ASOCAÑA) — Asociación Colombiana de Floricultores (ASOCOLFLORES) — Asociación de Bananeros de Colombia (AUGURA) — Asociación Colombiana de Productores de Agregados (ASOGRAVAS) — Cámara de Comercio de Bogotá CCB – Foro de Presidentes — Foro de Presidentes — Confederación de Cámaras de Comercio de Colombia (CONFECAMARAS)		— Consejo Empresarial Colombiano para el Desarrollo Sostenible (CECODES) — Centro Nacional de Producción Más Limpia (CNPML) — Cámara de Comercio de Bogotá CCB – Foro de Presidentes — Foro de Presidentes — Confederación de Cámaras de Comercio de Colombia (CONFECAMARAS)
4. Financial Institutions	— CITIGROUP — CORFINSURA — Banco Bilbao Vizcaya Argentaria (BBVA)		— ACTUAR — Famiempresas — Banco de la Mujer	— Banco Agrario de Colombia S.A.
5. Multinational and Local Large Companies	— Cemex Colombia — Holcim Colombia — British Petroleum — Cerromatoso- BHP Billiton — Cerrejon- Angloamerican — Colgate Palmolive — Nestlé Colombia — Carrefour — Empresa Colombiana de Petróleos			

APPENDIX 1 – COLOMBIAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
5. Multinational and Local Large Companies	— ECOPETROL S.A. — Empresa de Telecomunicaciones de Bogotá (ETB) — Exxon Mobil — PETROBRAS Colombia Limited — Hewlett Packard — Gas Natural — HENKEL			
6. Media	— Casa Editorial EL Tiempo — Publicaciones Semana - Revista Dinero — Radio Cadena Nacional - RCN — Revista Misión PYME — CARACOL – Grupo Prisa		— Conexión Colombia	
7. NGOs	— Ashoka Colombia Emprendimientos Sociales — Fundepublico — Tejido Social	— Tejido Social — Fundacion Antonio Restrepo Barco — Fundación FES — Transparencia per Colombia	— Amnesty Int.l — Colombia INSISTE en los derechos humanos — Fundación Éxito — Fundación Corona — Fundación Carvajal — Fundación FES — Fundación Amanecer — Fundación Social — Dividendo Por Colombia — Fundación Empresarios por la Educación — Fundación Ideas para la Paz — Fundación Restrepo Barco — Fundación Saldarriaga Concha — Fundación Sudamericana — Fundación Mamonal — Fundación Social FUNDAUNIBAN — Fundación Compartir — Fundepublico — Peace Brigade Int.l — Transparencia por Colombia	— Al Verde Vivo — Ecofondo (groups 130 environmental NGOs) — Asociación por la Minería Responsable (AMR) — Fundación Natura Colombia — WWF

APPENDIX 1 – COLOMBIAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
8. Academia	— Universidad de los Andes - Facultad de Administración - Iniciativa para el Emprendimiento Social (IESO) — Pontificia Universidad Javeriana - Instituto de Estudios Sociales y Culturales — Universidad Externado de Colombia – Facultad de Administración — Universidad Colegio Mayor de Nuestra Señora del Rosario — Politecnico Isaza Cadavid	— Universidad de los Andes - Facultad de Administración - Iniciativa para el Emprendimiento Social (IESO) — Pontificia Universidad Javeriana - Instituto de Estudios Sociales y Culturales	— Universidad de los Andes - Facultad de Administración - Iniciativa para el Emprendimiento Social (IESO) — Pontificia Universidad Javeriana - Instituto de Estudios Sociales y Culturales	— Universidad de los Andes - Facultad de Administración - Iniciativa para el Emprendimiento Social (IESO) — Pontificia Universidad Javeriana - Instituto de Estudios Sociales y Culturales — Politecnico Isaza Cadavid
9. CSR Consulting Organizaitons	— Centro Colombiano para la Responsabilidad Empresarial (CCRE) — Comportamos con Colombia (CCC) — Instituto Colombiano de Normas Técnicas (ICONTEC)			— Corporación para la Investigación Socioeconomica y Tecnológica (CINSET)

Chapter 5: El Salvador

1 Executive Summary

Corporate Social Responsibility (CSR) efforts should be enhanced in El Salvador since only a few exporting SMEs, that act as suppliers for larger firms have recognized CSR as an important factor for competitiveness in the market. The majority of Salvadoran SMEs perceive CSR as an important way to enhance the overall economic growth and benefit society at large. However, they do not see CSR as a management strategy that can affect their own business profitability.

This analysis shows that Multilateral Development Institutions (MDIs) in El Salvador have a strong role in CSR development, since they already finance and monitor development policies in several sectors, such as infrastructure, telecommunications and education. Since CSR is still a new concept, among SMEs in El Salvador, MDIs have been proposing new development policies or including CSR issues in traditional development policies that affect SMEs. MDIs are trying to raise awareness of CSR, finance pilot projects and provide technical assistance to SMEs. MDIs can support the public authorities' roles by encouraging the application of international standards and promoting public-private partnerships. Multilateral Financial Institutions, which are part of MDIs, can also provide financial support for some of these activities. MDIs could lead one of the most important roles in CSR development, which is the development of a "conducive policy environment", which involves facilitating private sector initiatives, encouraging compliance, supporting partnerships and linking SMEs to larger domestic and international companies. MDIs should have a prominent role in innovative actions aimed at supporting SMEs, through pilot programs designed to help SMEs implement more strategic management approaches.

The central Government has not created incentives to foster CSR in its own ministries because they have

other critical priorities to address. The public sector typically plays a catalytic, secondary or supporting role in CSR (Fox, Ward and Howard, 2002). The Salvadoran public authorities should be involved in most of the education and awareness campaigns that promote CSR. They may also design awareness campaigns on waste and energy management and innovative education campaigns for NGOs, aimed at increasing business development services. Finally, the government and local authorities may reward voluntary agreements on health and safety procedures and working conditions in industrial sectors.

Salvadoran business associations do not seem to be deeply involved in CSR and their role in administrative and business activities seems quite limited, since they have been quoted neither by interviewees nor by panelists as a reference for SMEs. They rarely play a leading role, but can make important contributions when involved.

In the Salvadoran case, academia and NGOs are the only active components of civil society. Civil society has a supporting role in promoting compliance, for example, through simplification of processes. Civil society can lead human rights and working conditions campaigns, promote monitoring systems and environmental assessment campaigns and design an NGO-business educational campaign to increase collaboration and business development services. The Salvadoran civil society may participate in SMEs' or business associations' stakeholder engagement programs. A leading role can be taken in rewarding responsible market behaviors of SMEs in certain sectors, which would contribute to the dissemination of best practices among SMEs.

2 Economic and Social Framework

El Salvador has the smallest area of land and the most densely populated land in Latin America, with

approximately 6.9 million inhabitants (World Development Indicators, 2005). With a limited natural resource base and no remaining agricultural frontier, the country has recently experienced major economic disruptions as a result of natural disasters (hurricane Mitch in 1998 and earthquakes in 1986 and 2001). Between 1978 and 1990 the country was also torn by a devastating civil war that resulted in approximately 80,000 deaths, a half-million people displaced, and another million fleeing to the United States.⁷⁰

After a 12-year civil conflict that ended in 1991, El Salvador undertook significant modernization efforts including trade liberalization, financial sector strengthening, privatizations of banks and other state enterprises, tax reform, pension reform, and improvements in the environment for private investment. However, while GDP growth averaged 5.9 per year between 1990 and 1995, it slowed down to 3.2 percent per year in the second half of the decade and dropped to less than 1.9 percent between 2000 and 2004 (World Bank, 2006). As a result of this slowdown, impressive social achievements during the 1990s – e.g. poverty declined from 64.4 percent in 1991 to 37.2 percent in 2000, while extreme poverty declined from 31.2 percent to 15.4 percent – were followed by much lower rates of poverty reduction in the present decade. According to the Research Center on National Economics (*Centro de Investigaciones Económicas Nacionales*), 55.1 percent of the Salvadorian economy is informal (Dardón and Bolaños, 2006). Additionally unemployment represents 6.3 percent of total labor force (World Economic Forum -WEF, 2005).

The National Directorate for Statistics and Census estimated that 41.3 percent of households are still living in poverty, while 16.7 percent live in extreme poverty. In rural areas extreme poverty reached 27.4 percent and overall poverty 55.4 percent. The decrease in poverty during the period from 1991 to 1999 was substantial, reaching 18 percent. These

favorable results are explained by the steady pace of economic growth and the new opportunities for formal employment that were created in the maquila industries, the increases in social spending, and the high levels of migration and foreign remittances. In spite of the reductions in poverty, El Salvador remains a country with high inequality. The Gini coefficient of income distribution is estimated at about 0.50⁷¹. In 2003, the richest twenty percent of the population received 56 percent of the country's income, while the poorest twenty percent received only 3 percent (World Development Indicators, 2003).

On the external front, since the late 1990s the country has been hit by a series of negative shocks, including earthquakes and droughts, declining terms of trade and the slowdown of the U.S. economy (El Salvador's main trading partner). On the internal side, the *2004 Country Economic Memorandum* highlighted the following priority areas to reignite growth: furthering the expansion of trade, improving the investment climate, removing infrastructure bottlenecks, increasing the level of education of the population, and fostering innovation and technology adoption. Local and foreign analysts have emphasized the latter factor, arguing that the country's inability to promote innovation has been one of the main factors driving its lackluster growth performance and the limited growth and diversification of exports. This diagnostic is consistent with the World Bank Investment Climate Assessment 2005 for El Salvador, which found that improvements in the areas of skills, quality and technology should be a priority for promoting productivity and export growth. The assessment also showed that SMEs face worse investment climate conditions than large firms, with hefty disadvantages in quality and innovation.

The following chart shows competitiveness indicators supplied by the WEF. All data is from 2005 and the chart is sorted by indicator ranking. As can be seen, research capabilities, costs of crime and violence, and bureaucratic requirements are the main obstacles to

70 The transition to peace and economic reform started in 1989 when Alfredo Cristiani of the Republican Nationalistic Alliance (ARENA) party won the presidential elections. The Peace Accords were signed in Chapultepec, Mexico, on January 1992 and the Farabundo Martí Liberation Front (FMLN) agreed to lay down its arms in exchange for political, military, and judicial reforms, although a National Reconstruction Plan was also broadly defined. The administration of President Cristiani launched an economic program of fiscal austerity, stabilization, liberalization, and privatization, that has been continued by Presidents Armando Calderon Sol (1994- 1999) and Francisco Flores (elected in 1999), and all members of the ARENA party.

71 Data and figures from the World Bank country studies, see www.worldbank.org

El Salvador's competitiveness. Compared to countries of similar levels of income, El Salvador has underperformed both in its investments in research and development activities and innovation outcomes (e.g., patents, scientific publications). However, the Government - in close collaboration with the private sector - is developing a new policy framework to

reduce these gaps. In May 2005, the Ministry of Economy created the Innovation Promotion Group, in charge of coordinating all Government activities in the field of innovation.⁷² Lastly, even with the aforementioned challenges, the Heritage Foundation ranked El Salvador as the top free market economy in Latin America and one of the freest in the world.⁷³

Organization	Index	Number of Countries in the Index	El Salvador's Ranking
WEF	Capacity for innovation	117	57
WEF	Global Competitiveness	117	60 (7 out of 21 in Latin America)
WEF	Technological readiness index	117	63
WEF	Specialized research and training services	117	73
WEF	Number of procedures required to start a business	117	74
WEF	Company spending on research and development	117	75
WEF	Quality of the educational system	117	76
WEF	Efficiency of legal framework	117	78
WEF	Organized crime index	117	100
WEF	Time required to start a business	117	100
WEF	University/industry research collaboration	117	100
WEF	Business costs of crime and violence	117	105
WEF	Quality of scientific research institutions	117	110

72 The GPI (Innovation Promotion Group) includes representatives of several Ministries, the FDI promotion agency (PROESA), the National Science and Technology Council (CONACYT), the National Training Institute (INSAFORP), and several universities and private sector organizations. Some of the main innovation policy instruments that the government is contemplating include the creation of funding mechanisms to support private sector innovation and technology adoption projects, and the strengthening of metrology, standards, testing, and quality (MSTQ) systems. To complement these activities, the Government is also prioritizing investments and reform in secondary education, as a key input to preparing its labor market for the challenges of DR-CAFTA (World Bank 2006).

73 2001 Index of Economic Freedom, The Heritage Foundation, Washington, 2000.

According to the Swedish International Development Cooperation Agency (SIDA), the major problem for the population is the access to water, since 40 percent still lacks access. Additionally, 80 percent of ground water is contaminated due to lack of purification, which is a cause of infectious diseases. Moreover, gender equity policies are lacking, and 62 percent of illiterate people in El Salvador are women (SIDA, 2005).

Developing new growth sectors for a more diversified economy has been a challenge in El Salvador. Like many other former colonies, for many years El Salvador depended heavily on coffee as the main export. Since the cultivation of coffee required the highest lands in the country, many of these areas were expropriated from indigenous reserves and given or sold cheaply to coffee growers. For many decades, coffee was one of the only sources of foreign currency in the Salvadoran economy. The civil war in the 80's and the fall of international coffee prices in the 90's pressured the Salvadoran government to diversify the economy.

On the macroeconomic front,⁷⁴ a strong emphasis has been placed on trade integration.⁷⁵ El Salvador was the first country to ratify Dominican Republic-Central America Free Trade in December 2004, which was bilaterally implemented on January 1, 2006. While the treaty will eliminate almost all trade tariffs with participant countries, the World Bank suggested that increases in exports and foreign direct investment would depend on the ability of the country to implement a complementary policy agenda, with special emphasis on improvements in the investment climate, trade facilitation and innovation.

Recent measures aimed at improving the investment climate include a new Competition Law approved in December 2004 (expected to become effective in 2006), new legislation approved in August 2005 to modernize and streamline procedures in the area of consumer protection and the reduction in the time and cost needed for business registration. There are also efforts to modernize public registries, as well as the legal framework for facilitating bankruptcy, collateralization of movable assets and e-commerce.

In infrastructure, the Government is taking actions to return to higher levels of investment with new donor-financed programs in water, electricity, and roads (IDB), as well as ports (Japan). Key priorities in the Government's agenda include the port of Acajutla and cargo operations at Comalapa Airport, the development of a new deep-sea port (Cutuco) and empowerment of the newly created regulatory agencies for the maritime and aviation sectors (World Bank, 2006). The Government also intends to improve the main road network and develop a northern corridor for connecting rural communities to potential markets. Finally, the Government strategy assigns a central role to ensuring that the benefits of trade are accessible to SMEs, both directly through access to export markets and indirectly by developing strategic partnerships with large exporters.⁷⁶

Recent research on CSR in Latin American countries (Vives, Corral and Isusi, 2005) provides an overview on the evolution of the importance of SMEs in El Salvador. In 1992, they were considered an instrument for the reintegration of repatriated people after the peace agreement. In 1994, SME development helped the fight against poverty, with the support of cooperation agencies, and started to

74 El Salvador has one of the lowest tax burdens in the American continent (around 11percent of GDP). Many specialists claim that it is impossible to advance development programs with such a small public sector (the tax burden in the United States is around 25percent of the GDP and in other developed countries of the EU, such as Sweden, it can reach 50percent). The government has focused on improving the collection of its current **revenues** with a focus on indirect taxes. Leftist politicians criticize such a structure since indirect taxes (like the value added tax) affect everyone alike, whereas direct taxes can be weighed according to levels of income and are therefore fairer taxes. A 10percent **value-added tax** (VAT), implemented in September 1992, was raised to 13percent in July 1995. The VAT is the biggest source of revenue, accounting for about 52.3percent of total tax **revenues** in 2004. (World Development Indicators)

75 El Salvador is aware that its viability depends on its integration with other Central American countries. The Central American Common Market was initiated in the 1960's and has experienced ups and downs due to political differences and conflicts among member countries. In October 2000 the Secretariat of the Central American Integration System presented a document with the long-term vision of social integration in the region and a Consultative Group for the Transformation and Modernization of Central America was held in Madrid, Spain, in March 2001.

76 Some of the instruments for achieving those goals are already in place, including programs for facilitating access to market intelligence (Trade Point), developing and implementing export plans (FAT (Fondo de Asistencia Técnica) and FOEX (Fondo de Fomento a la Exportaciones)), and providing training and business development services to SMEs (BONOMYPE and FAT).

become key organizations in the battle against social instability. After the economic crisis of 1998, many unemployed people started business activities on their own, which were classified as micro enterprises, and now represent the most common form of business in El Salvador.

Preliminary estimates indicate that the augmentation of poverty levels due to the earthquakes of 2001 ranges between 2.6 and 3.6 percent points. While the most acute poverty was

previously concentrated in the northern and eastern areas, poverty has now worsened in the western and southern regions where the effects of the earthquake were greater. The earthquake forced the Government to refocus public expenditure towards reconstruction needs and reviving economic activity in the most affected areas of the country.

The following table shows governance and corruption rankings in public and private institutions in El Salvador.

Organization	Index	Number of Countries in the Index	El Salvador's Ranking
WEF	Favoritism in decisions of government officials	117	38
WEF	Diversion of public funds	117	42
WEF	Ethical behavior of firms	117	48
WEF	Reliability of police services	117	56
WEF	Public trust of politicians	117	60
WEF	Strength of auditing and accounting standards	117	61
WEF	Judicial independence	117	69
WEF	Private sector employment of women	117	75
Transparency International	Corruption Perception	159	51
UNICEF, ILO, US Department State 2005 ⁷⁷	Quality of hiring and firing practices	117	13
ILO 2005; World Bank 2001 ⁷⁸	Health and safety programs adoption	187	134

77 www.maplecroft.com

78 Idem

As illustrated in the next table, the situation is not much better in the human rights arena.

Organization	Index	Number of Countries in the Index	El Salvador's Ranking
Human Rights Watch (2004)	Child Labor	191	143
HRW, Amnesty International, US Department State	Child Rights risk	192	100
UNESCO, UNDP ⁷⁹	Educational Attainment	166	109
HRW, Amnesty International, US Department State	Human Rights respect	194	110

3 Current State of CSR

In 2005, the Business Foundation for Social Action (Fundemas)⁸⁰ started a program on the implementation of CSR in SMEs. The main results from the program include: (i) there is a clear knowledge of the meaning of CSR; and (ii) the concept of CSR is far from the concept of charity, because CSR is seen as entrepreneurs' voluntary actions that create a better internal quality of life in the enterprise and CSR refers to responsibility not only towards shareholders but towards employees and community.

As Fundemas (2004) emphasizes, the concept of CSR in El Salvador has passed through four historical stages: (1) libertarian thought, (2) the model of self-interest, (3) the focus on morality and (4) the focus

on stakeholders. The first kind of social responsibility was philanthropy. After that, CSR took part in a new trend directed toward modernization and improvement of business through the guarantee of sustainable development, and included new elements such as respect of ethical values, compliance with legal requirements, and respect towards people, communities and the environment.

Roberto Murray Meza, Fundemas's president, pointed out the important role of CSR implementation in the improvement of competitiveness in SMEs. According to Meza, El Salvador will have many difficulties in competing with other countries, such as China, on the basis of costs, but it could create a CSR mark to distinguish itself in the market and to attract foreign investments.

Vives, Corral and Isusi (2005) in their survey to 214 SMEs from different sectors, such as trade, manufacturing and services, reveal that 32.2 percent of SMEs develop **high grade** CSR activities, while the others practice **low grade** CSR activities. As for compliance with laws, only two out of three enterprises comply with social security laws and only one out of three enterprises complies with environmental laws. Moreover, only 6.6 percent of the enterprises interviewed have a social or environmental report. Regarding the SME perception of CSR, half of the enterprises interviewed declared that they consider the development of CSR activities a priority and most of them are conscious that society is demanding more socially and environmentally responsible behavior from companies. On the other hand, the main reasons why SMEs do not practice CSR are a lack of financial resources and because they do not consider CSR activities related to their core business. One of the main problems in CSR implementation is the lack of information on CSR issues. In fact, only 12.3 percent of the SMEs interviewed considered CSR awareness and public institutions' efforts adequate in El Salvador.

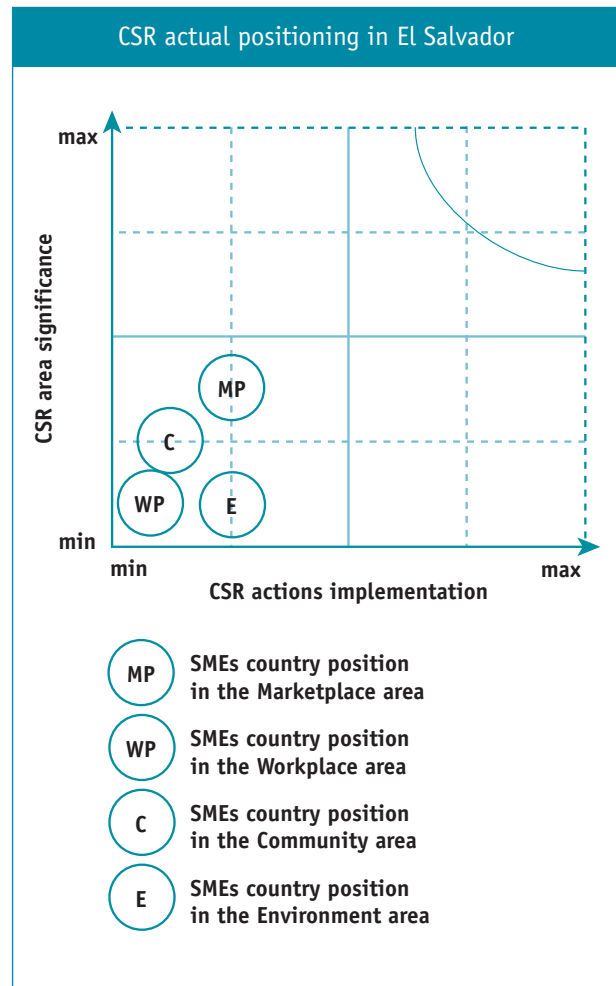
⁷⁹ www.maplecroft.com

⁸⁰ Fundemas (*Fundacion Empresarial para la Accion Social*) is an association whose aim is to contribute to the integral and sustainable human development, through areas of health, capability, professional training, environment, infrastructure, and culture.

According to Vives, Corral and Isusi (2005), CSR seems focalized in large enterprises.

ADOC, one of the region's largest footwear factories, financially supports a technical education center to train young people from deprived social backgrounds with the goal of increasing future participation in the labor market. Additionally, *Bon Appetit* promotes efficiency among its sales and distribution service providers by extending finance for the purchase of vehicles. Another example is *Cessa*, the largest cement factory in Central America, that acting through its foundation promotes diversification and production of crops, testing crop varieties and making the results available to small-scale agricultural producers in the area where the cement factory is located. Lastly, the IDB sponsored project *Sinergia* promotes CSR through the development of micro enterprises and small producers. The project's objective is to promote economic development and social equity among poor and excluded groups in El Salvador, by financing projects that deliver financial, social and community development services.

The following figure illustrates an estimated positioning of each one of the CSR areas – marketplace, workplace, community and environment. The graph shows the significance of CSR for SMEs (vertical axis) and the CSR actions implemented by SMEs (horizontal axis) in El Salvador. This positioning is an approximation, developed by the authors, and it is based solely on the information utilized for the writing of this report (interviews, panel discussions and literature review).



3.1 Marketplace

In El Salvador SMEs do not perceive the marketplace area as valuable for their business competitiveness. Their general view is that marketplace issues related to CSR, such as compliance, quality assurance, supply chain management, and management capacities may affect the overall economic growth, but not SME competitiveness in the mid- to long-term. Many SMEs still believe that ethical behaviors are philanthropic and not linked to the enterprise's profitability and growth. On the other hand, a few SMEs in exporting sectors (such as clothing and manufacturing) started including CSR in their competitiveness drivers because of customer demand, mainly the USA. In particular, CSR issues affect SMEs' competitiveness when SMEs are part of a supply chain, which fosters better management capacities and may increase exports if the supply chain is international.

The marketplace area offers several opportunities that may help SMEs grow, such as strong interest and investments from MDIs and valuable government efforts. Some of these opportunities are: the practical skills of SME owners and managers and the capability of formal SMEs to create jobs and income. CSR could start to be considered a more important issue that is able to affect SMEs competitiveness in the mid-term. It can assure ethical behavior and proper governance conditions - which are prerequisites for partnerships with large domestic and international companies, MDIs and governmental institutions- and can provide funds and additional incentives for responsible SMEs.

Salvadoran SMEs lack resources, governance capacity, management culture and implementation of voluntary management systems, such as ISO standards (Vives, Corral and Isusi, 2005). The ISO survey 2005 shows that there are only 49 enterprises ISO 9001 certified in El Salvador.

However, some interesting CSR initiatives are in place. Among those is the auto-evaluation questionnaire created by Fundemas to help SMEs monitoring their engagement in CSR implementation. The evaluation is structured in a way that allows SMEs to analyze activities in each CSR area. In addition, the Ministries of Economy, Labor and Environment are working on CSR with three key sectors in the country: apparel, coffee and sugar. For example, a CSR project with the sugar sector is working to develop new strategies with communities and stakeholders to produce sugar in a sustainable way.⁸¹

According to a survey implemented by Fundemas, 76 percent of enterprises interviewed choose suppliers on the basis of quality, price, terms of delivery and 96 percent demonstrated a preference to work with national suppliers. Most enterprises have programs to improve their products and services, particularly large and medium enterprises. Conversely, only 25 percent of enterprises, generally large enterprises, take care of customers' claims, and only 40 percent have a formal communication policy; 89 percent verify whether the communication campaign complies with legislation for customer protection (Fundemas, 2004).

3.2 Workplace

In El Salvador, SMEs do not perceive the workplace area as valuable for their operations. Their view is that CSR issues, such as employment policies, child labor rights, health and safety, gender policies, and compliance may affect the overall sustainable development, but not necessarily SME profitability.

To improve local employees' education and enhance their CSR expertise, some activities have been launched. The World Bank became involved with El Salvador when the local Ministry of Economy asked for help with CSR education, hoping to improve labor standards and environmental practices.⁸² A

81 The sugar cane, coffee, and corn industries in El Salvador provide the most important exports and involve almost 6percent of the national population. The sugar cane growers were trying to get higher prices and pay workers a lower wage. Arias says they now distribute the income on a better basis with 54.5percent of the total income going to the growers and the rest to the mills. The partnership has proved to be an excellent way for encouraging responsible business practices among the growers and mills (Roberts 2005).

82 As well as evaluating the coffee and apparel sectors of the business community there.

subsequent survey, by the World Bank⁸³, of international buyers revealed that labor standards in El Salvador were at the top of the list in importance to outside business interests, and many believe competitiveness in this country will continue to have something to do with labor standards and environmental practices highlighting the need for an industry-wide approach that involves the public sector (Roberts, 2005).

3.3 Community

In El Salvador, the community area of CSR is not perceived as valuable by SMEs. Their opinion is that CSR issues, such as community involvement and public-private partnerships are not widespread and affect only the country's overall sustainable development and not SME competitiveness.

The most important activities in the community area are related to educational programs. El Salvador's Education with Community Participation Program (EDUCO) began in 1991, from State and local communities' efforts to create pre-school and basic education services in rural areas. EDUCO became a key part of the strategy against an education crisis after the 12-year civil war.⁸⁴ Many SMEs participate in educational programs, mainly through NGOs activities.

In 1990, fieldwork by the Ministry of Education (MINED) found that many rural communities had taken the initiative and organized themselves to provide basic education for their children during the conflict. Their research generated several recommendations: promote linkages between schools and communities, teachers training, provide basic educational materials, eliminate all

requirements for uniforms and financial contributions from families and promote school feeding programs. Genuine MINED commitment, active community involvement and financial and technical support from the United Nations Children's Fund (UNICEF), World Bank and United States Agency for International Development (USAID) helped create EDUCO⁸⁵.

Salvadoran NGOs are educated and able to provide high quality service in traditional sectors, such as education, assistance to disabled people and peace keeping after the civil war, but most of them do not have expertise in negotiation, participation and engagement. Considering the low levels of attainment and quality in the educational system and the important implications they may have for El Salvador's business community, recent research articulates the link between enhanced productivity through technology and the educational level of employees (Tsukamoto and Twose, 2003). Therefore, Salvadoran NGOs may contribute not only to the enhancement of basic education (where they already play an important role), but also to promoting business education of responsible behaviors for SME managers and employees in certain sectors or territories.

According to a survey by Fundemas, in the community area, 59 percent of enterprises collaborate on social projects, a practice that grows proportionally with the size of an enterprise, and monetary aid (philanthropy) is the preferred type of help. The activities are programs of municipal support (13 percent), support for governmental organizations' social programs (50 percent), employment donations and support for educational programs. The SMEs claim that the most important

83 An earlier World Bank team (Tsukamoto and Twose, 2003) had suggested that CSR in education should focus on the twin themes of *enterprise and employability*. Based on this recommendation, several areas of possible involvement were identified including the following: (i) scholarships to promote the completion of secondary education and to connect secondary level graduates with choices in the world of work; (ii) support to strengthen monitoring and to disseminate information on how the system is performing in relation to specific performance indicators; (iii) support for strengthening English as a Second Language Programs through policy dialogue and the testing of incentives; (iv) support for technological skill development (based on a detailed understanding of the nature of technological skills that will be required by the private sector); (v) support for strengthening school leadership by creating or deepening connections between school administrators and private sector managers; (vi) support for creating curriculum and performance standards in areas closely associated with private sector requirements; (vii) support for efforts to achieve equity with respect to whatever performance standards are adopted.

84 In the context of increasing social consensus and economic recovery, public investment in education grew from 1.5 percent of GDP in 1992 to 3.0 percent in 2000 and innovative initiatives led to a nation-wide Educational Reform Process (www.mined.gob.sv)

85 EDUCO is based on creation, legalization, and provision of support to local organizations involving parents (Asociaciones Comunes para la Educación – ACE), which help develop new education services in their communities. MINED transfers financing to ACEs to hire teachers and purchase goods and services for their schools. In 1991, 263 ACEs participated, each hired a teacher, and 8,416 students benefited. In 2003, the program included over 2,000 ACEs and rural schools, 7,000 teachers, and 362,000 students. ACEs administered about US\$50 million dollars (approximately 12 percent of the national education budget).

internal benefit of these activities is the creation of a corporate identity, and the most evident external benefit is the improvement of the company's image. As for the public policy area, 33 percent of enterprises have internal anti-corruption programs and 44 percent of them participate in associations and forums. However, 90 percent of small enterprises do not participate, while medium enterprises tend to participate most frequently in social responsibility committees (Fundemas, 2004).

3.4 Environment

The environment is the only CSR area perceived as valuable by Salvadorian SMEs. Their view is that issues such as environmental management, regulation⁸⁶ and compliance, monitoring, climate change, etc. may affect the economic development of SMEs in the mid and long term.

A valuable activity recently undertaken in this area, is the guide on environmental legislation in El Salvador, edited by Fundemas, which describes the 2005 Environmental Law, including principles of the National Environmental Policy. It also describes environmental management systems, which allow the organization to reduce its impact on the environment through activities such as recycling and energy conservation, introduces environmental assessments, promotes environmental incentives and eco-labeling and presents the *National Environment Prize* (Fundemas, 2004).

Additionally, the country reveals a very good position in the Renewable Energy Index, where it ranks 9 out of 109. There are two registered Clean Development Mechanism (CDM) projects in El Salvador, but only four companies are certified against ISO (ISO, 2005).

In 2006, the Central American Bank for Economic Integration (*Banco Centroamericano de Integración Económica*), the Republic of Germany, and the Multi-

sectoral Investment Bank from El Salvador (*Banco Multisectorial de Inversiones*) signed two valuable treaties to provide funds to SME projects that may contribute to sustainability and biodiversity in the country. The treaties are called "Intra-governmental Agreement on Financial Cooperation" (*Convenio Intergubernamental sobre Cooperación Financiera*) and "Agreement on Environmental Credit Line for Small and Medium Enterprises" (*Convenio de Línea de Crédito Ambiental para Pequeñas y Medianas Empresas*). The effects of these treaties will be visible in the mid-term.

According to Fundemas (2004), most of the enterprises interviewed (87 percent) affirm that they know the impact of their activities on the environment, and SMEs declare that they do not have negative impacts on the environment. Sixty percent of SMEs have an emergency plan for environmental risks while only 36 percent inform customers of environmental damage that can result from the use of their products. Several activities for environmental protection are implemented, such as seminars on the environment (35 percent), sponsorship of projects directed towards the environment (14 percent), recycling programs (25 percent), environmental certifications such as ISO14000 (only 3 percent), environmental education (19 percent), and investment in environmental management improvement (0.9 percent). All these activities are more frequently implemented by larger enterprises.

4 Recommended Actions

The main actors able to strengthen CSR in Salvadorian SMEs have been classified in the following four categories: a) Multilateral Development Institutions (MDIs), b) national governments and local authorities, c) business associations, and d) civil society. These four categories of actors may act via all or some the

86 For a complete overview of the environmental regulatory system, see Blackman et al 2005.

following strategies, as defined in the Introductory Chapter, which are: *Mandating, Ensuring transparency, Facilitating, Improving Promotion and Advocacy, Partnering, and Endorsing*. The proposed actions are by no means exhaustive and only illustrate the types of involvement, which can be easily adapted to meet local needs.

4.1 Multilateral Development Institutions

This analysis shows that MDIs in El Salvador have a strong role in facilitating, improving promotion and advocacy and partnering strategies, since they are already financing and monitoring development policies in several sectors, such as infrastructure, telecommunications and education. Multilateral Financial Institutions (MFI), which are part of MDIs, can provide financial support for some of the activities below.

- a. *Facilitating* recommended actions for MDIs include:
 - Lead a “conducive policy environment” which may facilitate SME initiatives, enhance compliance and support networks.
 - Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector, and provide assistance to participants according to the specific role they play in the supply chain.
 - Promote, finance and disseminate results of training activities on health and safety measures in the workplace to SME managers and employees.
 - Improve environmental compliance through the simplification of environmental regulation by identifying priorities and milestones.
 - Improve monitoring systems and environmental assessments in SMEs through the development of the Life Cycle Assessment approach in a specific sector (through the supply chain).

- b. *Improving Promotion and Advocacy* recommended actions for MDIs include:
 - Lead the dissemination of CSR best practices.
 - Sponsor a Human Rights campaign that raises awareness about child labor in SMEs, using multimedia sources to present international and national figures about child labor.
 - Facilitate, monitor and enhance corporate accountability standards.

- c. *Partnering* recommended actions for MDIs include:
 - Enhance the support to micro enterprises to contribute to their survival, through pilot aggregation models that include micro, small, medium, and large companies, which may promote proactive management approaches.
 - Circulate CSR policies and develop a CSR culture to enhance the capability of Salvadoran SMEs to widen domestic and international markets, through trade or geographical networks.

4.2 Government and Local Authorities

Given that the central Government has not created incentives to foster CSR in its own ministries, because there are other priorities that have to be addressed, the Salvadoran Government and local authorities still have a fundamental role in most of the actions proposed.

- a. *Mandating* recommended actions for government and local authorities include:
 - Define standards, establish targets, enforce compliance and monitor activities for business performances embedded within the legal framework.
 - Promote business registration through simplification of administrative and bureaucratic procedures.
 - Provide gender rights counseling by supporting women at work through direct

experience sharing. Arrange guest speakers such as leading female managers, politicians and entrepreneurs; and promote information campaigns and training.

- b. *Facilitating* recommended actions for government and local authorities include:
 - Improve monitoring systems and environmental assessments in SMEs through the development of the Life Cycle Assessment approach in a specific sector (through the supply chain).
 - Start a pilot engagement awareness campaign aimed at developing the delivery of business educational services with at least five local NGOs and five local SMEs.
- c. *Endorsing* recommended actions for government and local authorities include:
 - Rewarding good health and safety behavior in micro enterprises at the local level by promoting voluntary agreements and rewarding schemes on health and safety procedures by industry.

4.3 Business Associations

Business associations include trade associations, territorial associations, chambers of commerce, and SME associations. Salvadoran business associations do not seem to be deeply involved in CSR and their role in administrative and business activities seems quite limited, since interviewees or panelists have not quoted them as a reference for SMEs. Business associations rarely play a leading role on CSR efforts, but often participate in facilitating, improving promotion and advocacy, partnering and endorsing policies.

- a. *Facilitating* recommended actions for business associations include:
 - Pilot a project on the implementation of quality management systems in the supply

chain using a specific area or sector identified and provide assistance to participants according to the specific role they play in the supply chain.

- Disseminate CSR policies and develop a CSR culture to enhance the capability of Salvadoran SMEs to widen domestic and international markets, through trade or geographical networks among SMEs.
- b. *Improving* Promotion and Advocacy recommended actions for business associations include:
 - Provide training programs on competitiveness and CSR for SMEs managers.
 - Promote, finance and implement training activities on health and safety measures in the workplace, and CSR related issues, directed to SMEs managers and employees.
- c. *Partnering* recommended actions for business associations include:
 - Contribute to support micro enterprises to enhance their survival capacities, through pilot aggregation models including micro, small, medium, and large companies, which may promote more proactive management approaches.
- d. *Endorsing* recommended actions for business associations include:
 - Reward good health and safety behavior in micro enterprises at the local level by promoting voluntary agreements and rewarding schemes on health and safety procedures by industry.
 - Promote environmentally responsible behaviors through an awareness campaign about strengths and opportunities in the environmental arena. Partner with other actors to disseminate CSR publications.

4.4 Civil Society

In this study, civil society includes academia, media, NGOs and local communities. In the Salvadoran case, academia and NGOs are the most effective and active components of civil society. These two groups will likely implement most of the proposed actions.

- a. *Facilitating* recommended actions for civil society include:
 - Improve environmental compliance through simplification of environmental regulation by identifying priorities and milestones.
 - Promote business registration and compliance through simplification of administrative and bureaucratic procedures.
- b. *Improving Promotion and Advocacy* recommended actions for civil society include:
 - Lead a human rights campaign that raises awareness about child labor in SMEs.
 - Start an engagement awareness campaign aimed at developing NGO's capacities in the delivery of business educational services with at least five local NGOs and five local SMEs.
 - Improve environmental compliance through simplification of environmental regulation by identifying priorities and milestones.
- c. *Partnering* recommended actions for civil society include:
 - Participate in SMEs' or business associations' stakeholder engagement programs.
- d. *Endorsing* recommended actions for civil society include:
 - Help other actors to disseminate CSR publications.
 - Reward good health and safety practices in SMEs at the local level by promoting voluntary agreements and rewarding schemes on health and safety procedures by industry.
 - Endorse the organization of a CSR course in a local business school.

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Appendix

The following stakeholder map has been used to verify that all eight defined stakeholder categories and all four CRS areas are represented. Stakeholders that were chosen for interviews or as panel participants either had relevant expertise in the issue or may influence awareness, interests and implementation instruments relevant to the issue.

APPENDIX 1 – EL SALVADOR’S STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
1.International Organizations		— United Nations Development Programme(UNDP)	— World Bank	— Inter-American Development Bank (IDB)
2.Government organizations and institutions	— Comisión Nacional de la Micro y Pequeña Empresa (CONAMYPE) — Ministerio de Economía (MINEC) — Defensoría del consumidor (DC)	— Ministerio del Trabajo y Previsión Social (MINTRAB) — Instituto Salvadoreño de Formación Profesional (INSAFORP)	— Ministerio de Educación (MINED)	— Ministerio del Ambiente y los Recursos Naturales (MARN)
3.Associations (national, sectoral/gremial, business)	— Cámara de Comercio e Industria de El Salvador (CAMARASAL) — Asociación Nacional de la Empresa Privada (ANEP)		— Cámara de Comercio e Industria de El Salvador (CAMARASAL) — American Chamber of Commerce (AMCHAM) — Asociación Nacional de la Empresa Privada (ANEP)	— Cámara de Comercio e Industria de El Salvador (CAMARASAL)
4.Financial institutions	— Banco Agrícola, S.A. - Agrícola Bank — Banco Cuscatlán, S.A. - Cuscatlan Bank — Asociación de Fondos de Pensión Confía		— Banco Agrícola, S.A. - Agrícola Bank — Banco Cuscatlán, S.A. - Cuscatlan Bank — Asociación de Fondos de Pensión Confía	— Banco Agrícola, S.A. - Agrícola Bank — Banco Cuscatlán, S.A. - Cuscatlan Bank
5.Multinational companies	— TABACALERA El Salvador (Philips Morris)		— AMANCO — Microsoft El Salvador — CESSA — TABACALERA El Salvador (Philips Morris) — Futurekids	— AMANCO — CESSA — TABACALERA El Salvador (Philips Morris)

APPENDIX 1 – EL SALVADOR'S STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
6. Media	— YSKL		— TCS — TV 12 — YSUCA — TELECOM — La Prensa Grafica — El diario de Hoy	
7. NGOs	— CDC Centro de Defensa del Consumidor — Fundación Empresarial para la Acción Social (FUNDEMAS)	— Amnesty Int.l — Fundación Empresarial para la Acción Social (FUNDEMAS) — Save the Children	— CARE El Salvador — Fundación Empresarial para la Acción Social (FUNDEMAS) — Fundación Salvadoreña de Apoyo Integral (FUSAI) — Fundación Empresarial para el Desarrollo Educativo (FEPADE) — Fundación Salvadoreña de Desarrollo Social (FUSADES) — Save the Children	— CARE El Salvador — Fundación Empresarial para la Acción Social (FUNDEMAS) — Fundación Salvadoreña de Apoyo Integral (FUSAI) — SalvaNATURA
8. Academia	— Universidad Centroamericana José Simeón Cañas (UCA) — Universidad Don Bosco (UDB)		— Universidad Centroamericana José Simeón Cañas (UCA) — Universidad Don Bosco (UDB) — Universidad Dr. José Matías Delgado (UJMD) — Universidad Francisco Gavidia (UFG) — Universidad Tecnológica (UTEC)	— Centro Salvadoreño de Tecnología Apropiable (CESTA) — Universidad Centroamericana José Simeón Cañas (UCA) — Universidad Don Bosco (UDB)

Chapter 6: Mexico

1 Executive Summary

In Mexico, to foster CSR among SMEs, the most important efforts should be made in the workplace and marketplace areas. Some exporting SMEs already recognize CSR as an important factor for their competitiveness in the market. Therefore, it can be expected that more SMEs will come to the same realization as labor conditions, employee education and respect for labor rights become necessary prerequisites for partnerships with large companies and to become part of supply chains.

In Mexico, Multilateral Development Institutions (MDIs) and business associations are the biggest players in fostering CSR. MDIs cannot interfere with laws and regulations, since only Mexican public authorities may apply mandatory policies. However, given the shortcomings of existing rules and regulations and the lag in the adoption of internationally accepted norms, MDIs have an important role to play in fostering CSR in Mexico. MDIs could lead efforts to start a CSR information desk in local Chambers of Commerce or similar business associations, to overcome the lack of awareness about CSR management tools, their implementation and potential results. MDIs should provide incentives for Mexican SMEs to engage with the CSR agenda by developing a policy environment that will facilitate private sector initiatives and support voluntary efforts towards responsible behaviors. MDIs should disseminate best practices and promote pilot projects to develop responsible management tools.

This analysis does not promote any mandating roles for Mexican public authorities. In fact, given the low level of formalization, compliance and transparency, as well as the low level of trust in politicians and administrators, fostering CSR through norms and regulations is perceived as ineffective. Public authorities can foster CSR among SMEs by helping to define a code of conduct and

ethical behavior, improving monitoring systems and environmental assessment procedures, and facilitating the implementation of gender and child labor policies. Public authorities may encourage transparency by addressing issues such as compliance, fair trade, employment relations, taxation, bribery and contractual conditions. Mexican public authorities may participate in two innovative actions, which are credit access through private guarantees and promotion of reporting standards such as the Global Reporting Initiative and international guidelines and principles such as the Global Compact and the International Labor Organization. Mexican public authorities may also simplify administrative and bureaucratic procedures to encourage compliance.

In the past five years, NGOs have been the most active participants of civil society on CSR issues. Currently academic involvement is weak, and the stakeholders interviewed suggested universities and research institutes to take a more supportive and proactive role in fostering CSR. Mexican civil society has leading roles in activities such as encouraging stakeholder engagement, facilitating NGO awareness campaigns and editing CSR publications. Civil society may take a leading role in the definition of guidelines for a code of conduct and ethical behavior and may support other actions such as compliance efforts, the improvement of environmental assessments and the launch of a center for environmental technology transfer.

Business associations play a prominent role in capacity building through pilot projects, training programs and promoting management tools to SMEs. Pilot projects may be aimed at fostering compliance in the marketplace, training activities in the workplace, promoting counseling on gender and child labor policies and enhancing the application of environmental management systems.

2 Social and Economic Framework

The Institutional Revolutionary Party (*Partido Revolucionario Institucional* - PRI), after its foundation in 1929, monopolized all the political branches. The PRI did not lose a senate seat until 1988 or a gubernatorial race until 1989. It was not until July 2, 2000, that Vicente Fox of the opposition "Alliance for Change" coalition, headed by the National Action Party (*Partido Accion Nacional* - PAN), was elected president (Riding, 1984/2000; Preston and Dillon, 2004). Although PRI regimes achieved economic growth and relative prosperity in the 1970s, the economy collapsed several times and political unrest grew in the late sixties, culminating in the Tlatelolco massacre in 1968. Economic crises affected the country in 1976 and 1982, after which the banks were nationalized, having been blamed for the economic problems.⁸⁷

For much of the 1950s-1970s, Mexico practiced an import-substitution industrialization policy in order to reduce dependence on foreign imports of technology and other goods and services and to create an indigenous industrialized state. In the 1980s two important changes occurred. First, a major shift to expand the role of the private sector began and, second, foreign investment and trade declined after the State's expropriation of foreign oil assets in 1983. Currently the state still plays an important role, particularly in sensitive economic sectors such as oil production.

Exports from Mexico increased from US\$26.8 billion in 1990 to US\$164.9 billion by the end of 2003; much of this increase is related to the signing of the North American Free Trade Agreement (NAFTA)⁸⁸ on January 1, 1994. Although, Mexico has 12 other free trade agreements with over 40 countries including, Guatemala, Honduras, El Salvador, the European Free Trade Area and Japan, almost 90 percent of its exports go to the United

States. According to the U.S. CIA Fact book for 2006, Mexico has a free market economy that recently entered the trillion-dollar class. It contains a mixture of modern and outmoded industry and agriculture, and it is increasingly dominated by the private sector. Per capita income is one-fourth that of the U.S. and income distribution remains highly unequal.

In addition, Mexico undertook a significant privatization program and the number of State-owned enterprises decreased from 1,155 in 1982 to 219 by the end of 1994 (Rogozinski, 1998). A survey conducted by the Centre of Economic Research on Private Sector (*Centro de Estudios Económicos del Sector Privado* - CEESP) revealed that 75 percent of enterprises interviewed declared that the informal economy damages their activities, above all the smuggling of goods.⁸⁹ According to the Mexican Secretary of Economy, 99.7 percent of enterprises in the country are SMEs and they employ 72 percent of the working population (Vives, Corral and Isusi, 2005). Mexico's unemployment is only 3.9 percent of the total labor force and the informal economy is quite high at 30.1 percent of GNP (Shneider, 2002).

The following chart shows competitiveness indicators supplied by the World Economic Forum (WEF). All data is from 2005 and the chart is sorted by indicator ranking. As can be seen in the chart below, the unreliability of police services, high business costs of crime and violence, and the small number of private sector employment of women are the main obstacles to Mexico's competitiveness. On the other hand, Mexico's small number of procedures to start a business, the financial market sophistication and the research collaboration has helped enhance the country's competitiveness.

87 On both occasions the Mexican peso was devalued, and until 2000, it had been normal to expect a big devaluation and a recessionary period after each presidential term ended every six years. The crisis that came after a devaluation of the peso in late 1994 threw Mexico into economic turmoil, triggering the worst recession in over half a century.

88 See www.inegi.gob.mx.

89 According to Bosch and Maloney (2006) informal and regulated workforces coexist in the Mexican labor market because they have different labor cycles and in downturns the informal sector is able to absorb more of the labor force.

Organization	Index	Number of Countries in the Index	Mexico's Ranking
WEF	Number of procedures required to start a business	117	27
WEF	Financial market sophistication	117	40
WEF	Research collaboration between industry and universities	117	50
WEF	Growth Competitiveness	117	55
WEF	Ethical behavior of firms	117	56
WEF	Quality of scientific research institutions	117	57
WEF	Technological readiness	117	58
WEF	Global competitiveness	117	59 (6 out of 21 in Latin America)
WEF	Judicial independence	117	60
WEF	Company spending on research and development	117	63
WEF	Favoritism in decisions of government officials	117	71
WEF	Extent and effect of taxation	117	80
WEF	Time required to start a business	117	81
WEF	Public trust of politicians	117	86
WEF	Quality of hiring and firing practices	117	97
WEF	Reliability of police services	117	102
WEF	Business costs of crime and violence	117	115
WEF	Private sector employment of women	117	108

Corruption is considered one of the main problems for SMEs' competitiveness. In fact, according to Luis Silva, officer of the Unit for Transparency of the Ministry of Public Administration (*Unidad de*

Vinculación para la Transparencia de la Secretaría de la Función Pública - SFP), 23 percent of Mexican SMEs have to close because of corruption and fraud (2006). A survey on business

development and governance conducted by CEESP in 2005 shows that 20 percent of enterprises pay bribes and 34 percent of them use approximately 6 percent of their resources for this purpose. On the other hand, from 2002 to 2005 these illegal practices decreased from 40 percent to 20 percent. Fifty-seven percent of enterprises interviewed justify bribery by declaring bureaucracy too burdensome as well as dishonesty of public officers. To prevent and reduce this problem, the Inter-sectoral Commission for Transparency and Fight Against Corruption activated about 240 projects in the same number of institutions (CEESP, 2005). In 2001 Transparencia Mexicana created the *National Corruption and Good Governance Index (Índice Nacional de Corrupción y Buen Gobierno - INCBG)*, which grades the corruption of public institutions.

The closure of Mexico's education gap in comparison with the rest of the world was hastened in part by the country's economic stagnation. Mexico's real GDP per capita in the mid-1990s was roughly the same as it had been in the first half of the 1980s. Nevertheless, this should not detract from the remarkable increase in schooling that occurred during the 1980s. While the average level of schooling in Mexico increased by roughly a year per decade during 1960–79 (from 2.76 to 4.77 years), it increased by two years during the 1980s. This acceleration was the result of concerted efforts to increase the coverage of basic education, combined with advances made in the reduction of primary school repetition and dropout rates (López-Acevedo, 2006). Educational shortcomings mainly affect rural indigenous children, who often cannot attend school and do not have enough teachers in their communities (Human Resource Watch, 2005).

Lastly, Mexico has a poor record regarding respect of human rights. As demonstrated in the chart below, Mexico ranked very poorly for the human rights risk as well as for health and safety.

Organization	Index	Number of Countries in the Index	Mexico's Ranking
UNDP ⁹⁰	Human Development	177	53
UNICEF	Child Rights Risk	192	74
UNESCO and UNDP	Education Attainment	166	77
ILO/UNICEF	Child Labor	191	125
WEF	Quality of the educational system	117	79
ILO/World Bank	Health and Safety Index	187	171
Human Right Watch, Amnesty International	Intrinsic Country Human Right Risk	194	183

Mexico is characterized by great social inequalities. In order to address social inequalities effectively, experts claim that access to education must be increased⁹¹ and the skills of the labor market must be improved. Mexico must address these economic and social issues to prevent them from exploding.

3 Current State of CSR

The concept of CSR is a relatively new concept in Mexico. The private sector has traditionally assumed a focus much more akin to that one found in the United States, with a narrow focus on the bottom-line. Recent research on CSR in Latin American SMEs edited by the IDB (Vives, Corral and Isusi, 2005) based on more than 250 interviews with Mexican SMEs presents valuable results. First,

⁹⁰ Dates available on www.maplecroft.com

⁹¹ A proposed recommendation is to create a clearinghouse for best practices (maybe launched by universities).

there is a general confusion about CSR. Specifically, there is no knowledge about CSR among Mexican SMEs, which often confuse the concept with philanthropy and/ or ethics. This deficiency is caused mainly by the lack of cooperation between public and private institutions that foster CSR. The main efforts come from private and third party sectors, while they are only beginning to develop in the public sector. Another obstacle is the lack of integration of CSR activities among large companies and SMEs. Institutions prefer to work with large enterprises because they have resources to implement CSR activities, as opposed to SMEs, which can barely face the heavy tax burden.

A survey conducted by the SMEs Observatory (CIPI, 2002) of approximately 1,000 Mexican SMEs provides a profile of a typical Mexican SME:

- SME managers are between 40 and 59 years old and a major portion of them have a high level of education.
- SMEs are primarily family oriented.
- Ninety percent of SMEs are not certified against international standards.
- A major portion of SMEs does not know about the Federal government or municipal programs for SME support – only 1.8 percent of them know of these programs and use them.

Since the year 2000, the Mexican Center for Philanthropy (*Centro Mexicano para la Filantropía* - CEMEFI) has organized –in partnership with other organizations i.e. business magazine Expansion and Social Union of Mexico's Entrepreneurs (*Unión Social de Emprendedores Mexicanos*)- a contest to acknowledge CSR best practices in the areas of quality of life in the workplace, environment, community development and business behavior. Such practices must have been applied continuously and must have assessment and monitoring mechanisms.⁹²

An important example of private-public cooperation, according to Agüero (2002) is provided by the Chihuahuan Enterprise Foundation (*Fundación del Empresariado Chihuahuense* -FECHAC). Business owners established it with support from the Mexican Government and the State Congress in order to create a vehicle for CSR. According to FECHAC, the activities are conducted through donations or directly by enterprises; the priority areas for these activities are education (52 percent), health and well being (42 percent), productive development (4 percent) and CSR (2 percent).

According to a survey conducted by the CSR Monitor in Mexico, 42 percent of the people interviewed think that CSR means to assure safe and reliable products, 67 percent think that CSR means to not damage the environment, and 57 percent think CSR means to treat workers properly. Only 12 percent of the people interviewed consider it necessary to introduce laws to ensure that enterprises go beyond their economic role, but on the other hand, only 32 percent think that enterprises commit themselves to building a better society for all (Anselmi, 2005).

In Mexico, there are several awards that encourage enterprises to implement CSR, such as the CEMEFI Prize for Socially Responsible Enterprises (*Premio Empresa Socialmente Responsable*), the Ethics and Values in the Industry Prize (*Premio Ética y Valores en la Industria*) awarded by the Confederation of Mexican Chambers of Industry (*Confederación de Camaras Industriales de los Estados Unidos Mexicanos* - CONCAMIN), and Aliarse's Prize for the Best Socially Responsible Practices (*Aliarse Premio de Mejores Prácticas de Responsabilidad Social*). Also, the Pollution Prevention Fund (*Fondo para proyectos de prevención de la contaminación* - FIPREV) is a fund created by the Mexican Foundation for Innovation and Technology Transfer in SMEs (*Fundación Mexicana para la Innovación y Transferencia de Tecnología en la Pequeña y*

92 www.cemefi.org

Mediana Empresa) and the Comisión for Environmental Cooperation in North America (*Comisión para la Cooperación Ambiental de Norte América*) to finance SME projects for environmental protection (Sosa-Reyes, 2000).⁹³

In Mexico, adhesion to the Global Compact is particularly important. This program is a network of enterprises from all over the world, and promotes ten principles of corporate responsibility, divided into four areas: human rights, workers conditions, environment and anti-corruption. From 2005 to 2006, about 420 enterprises in Mexico joined the Global Compact; from which 282 were SMEs.⁹⁴

In 2004, the Mexican chapter of Transparency International (*Transparencia Mexicana*) made the *Mexican Business Reputation Index*, which quantifies enterprises' reputation from different sectors and can be used by enterprises to improve their own reputation. The Index focuses on the preoccupation for shareholders, compliance with laws, attention to suppliers and customers, respect for the environment, workers' rights, relationship with the community and competition, as well as engagement in the country's development. The first implementation effort was conducted during November and December 2003 and involved 108 enterprises from 12 different sectors.⁹⁵

During the III Inter-American Conference on CSR - organized by the IDB and held in September 2004 in Mexico- Carlos Muñoz along with his colleagues Marisol Rivera and Vicente Ruiz of the National Ecology Institute (*Instituto Nacional de Ecología*), presented a program on classification of firms using a self-evaluation tool and the possession of three certifications: *Certificate of Clean Industry*, *Certificate of Environmental Compliance* and *Certificate of Environmental Excellence*. Between 1992 and 2004, the use of this categorization has increased rapidly, as some 3,250 firms have obtained one of these three certifications. The study

indicates firms' fondness for the program because of the advantages they obtain, such as the access to foreign investments, enhanced reputation and the positive effect on their value chain. The National Ecology Institute emphasized that voluntary audits are more common in large (34 percent) and medium-size enterprises (44 percent); the main reasons for taking part in this type of voluntary audit are savings in consumption of energy, water, and other resources, as well as the firm's preparedness for new regulations and the interests of customers (Peinado-Vara and Vives, 2004).

Finally, the Mexican case shows limited progress in CSR practices. Some hypotheses made by Cardozo Brum (2003) that may explain the slow expansion of CSR in the country include:

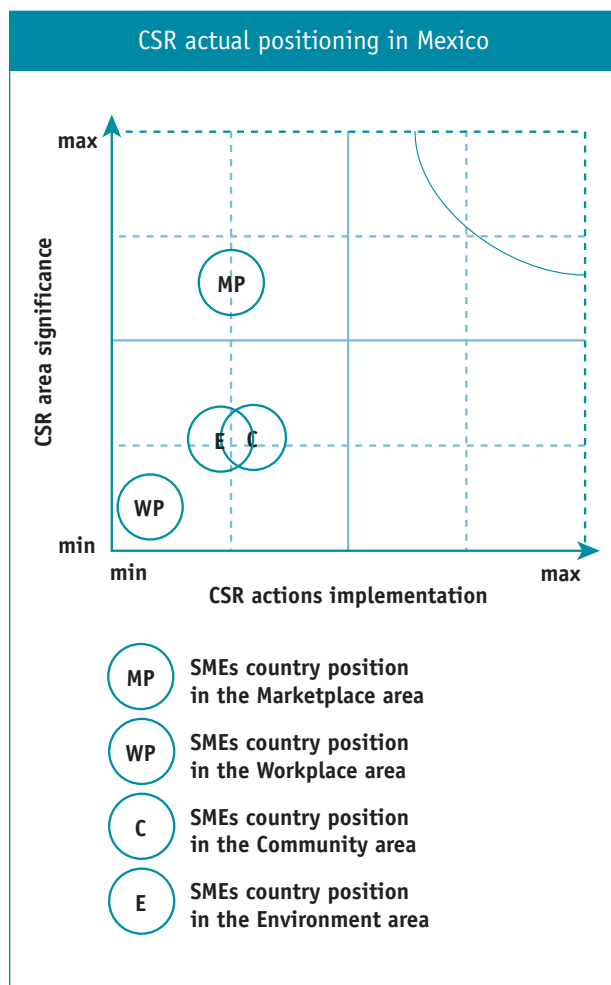
- Slow development of the business sector because of strong government protection.
- Company's belief that PR benefits and social prestige are the only economic contribution of CSR.
- Absence of deeply rooted links with the nation's social fabric in the business class.
- Limitations resulting from the small and medium size of most Mexican companies.
- Incentives for executive promotion in big companies are not conducive for CSR.

The following figure illustrates an estimated positioning of each one of the CSR areas – marketplace, workplace, community and environment. The graph shows the significance of CSR for SMEs (vertical axis) and the CSR actions implemented by SMEs (horizontal axis) in Mexico. This positioning is an approximation, developed by the authors, and it is based solely on the information utilized for the writing of this report (interviews, panel discussions and literature review).

93 It provided loans to approximately 40 SMEs. These companies have reduced the environmental impact of their operations and have improved their environmental performance.

94 www.pactomundialmexico.org.mx

95 Enterprises with the better Business Reputation Index were Industrial Group Bimbo (0.90), Instituto Tecnológico y de Estudios Superiores de Monterrey (0.88), Cemex (0.86), Nestlé (0.85) and Iberoamerican University (0.84) according to Transparencia Mexicana (2004).



3.1 Marketplace

In Mexico, the marketplace area is perceived as highly valuable by SMEs. They consider that marketplace issues, such as customer relationships, supply chain management, quality and compliance may affect their competitiveness in the mid- and long-term. In particular, CSR issues affect SMEs' competitiveness when SMEs are part of a supply chain, which fosters better management capacities

and may lead to an increase in exports if the supply chain is international.

Even if the value chain presence is quite good in Mexico ranking 50 out of 117 (WEF, 2005), many research institutes and experts emphasize the necessity to establish effective partnership between large companies and SMEs aimed at increasing the export quotas. This implies the necessity of increasing transparency in order to gain trust and develop effective partnerships between public and private companies and, where possible, NGOs to move towards sustainability.

COMPITE is a nonprofit association for the improvement of SMEs' production and quality standards. It organizes courses on the implementation of ISO9000 as well as on CSR. In 2002, an initial program was implemented in 50 enterprises, and the next year it was implemented in 500. Since 2004, COMPITE has given 7,339 courses, which were addressed to micro enterprises (68 percent), as well as to small (20.7 percent), medium (8.3 percent) and large enterprises (2.5 percent)⁹⁶. In Mexico there are 2,890 companies certified against the ISO9001 standard (ISO Survey, 2005), which is very low in comparison with other Latin Americans countries such as Brazil with 8,533 firms and Colombia with 4,926 firms (ISO, 2005).

CEMEFI also created a brand/label titled Social Responsible Value Chain, which is attributed to those enterprises who succeed in the application of CSR management systems: at least 10 SMEs have to participate, playing all the roles in the supply chain (suppliers, distributors, and customers) and they must be willing to obtain the *ESR mark*⁹⁷ in no more than two years. The ESR mark is awarded to those SMEs who lead CSR activities in areas such as the improvement of quality of life, protection of the

⁹⁶ www.compite.org.mx

⁹⁷ Socially Responsible Company Recognition (*Distintivo Empresa Socialmente Responsable*)

environment and ties with the community. Since 2006, CEMEFI has awarded the ESR mark to 125 enterprises. Moreover, CEMEFI organizes an event to recognize the best CSR activities every year⁹⁸.

Business elite Carlos Slim Helú, recognizing the potential social unrest, led the Chapultepec Accord (National Agreement for Unity, the State of Law, Development, Investment and Employment) to unite all sectors of society, including public, private, and civil sectors, to define the current challenges and a strategic response. The accord was signed on September 29, 2005 when a group of leading Mexican entrepreneurs convened with Slim in Chapultepec Castle to discuss the needs of the country's business community and the ways in which those needs coincided with the needs of the nation. The result was a brief document calling for: a private-public partnership in support of the rule of law, public security, greater private investment, accelerated economic growth, greater employment, and the development of the country's physical as well as social capital, including health, education and housing. The pact was at once a statement that profitable private investment must be the driving force of economic growth and a recognition that such growth has to be embedded in a legitimate social order, one thought of as “just,” in which a significant percentage of the population has their basic needs satisfied. This accord has received broad-based support and is a significant example of the growing role of the private sector in addressing social inequities.

3.2 Workplace

In Mexico, the workplace area is not perceived as valuable by SMEs. They think that workplace issues, such as health and safety norms, employment policies, equal opportunities and compliance may affect the overall Mexican sustainable development, but not the profitability of SMEs. However, in the research on CSR in Latin

American SMEs (Vives, Corral and Isusi, 2005) and according to the panel, Mexican SMEs show strong interest on the workplace area, where they develop most of their CSR activities and have positive, strong relationships.⁹⁹

Panelists and experts claim that labor regulations exists but are not often implemented, because SMEs are driven by short-term profits. Therefore, CSR workplace actions can be determined by a focus on sustainability and workplace equity rather than by their capacity to enhance SME development. However, since globalization requires competitiveness, and this requires productivity in continual progress, Cardoso Brum (2003) demonstrates that even in the Mexican case it is not possible to obtain the latter without the workers' loyalty to the enterprise, something that is accomplished when they are able to fulfill their welfare needs. The social situation is, thus, a consequence of economic development and, at the same time, a requirement for it. This appears to be understood at the macroeconomic level, but has gained little ground at the business level, which constitutes its basic unit.

3.3 Community

Mexican SMEs perceive the community area of CSR as valuable. SMEs perceive that community issues, such as participation and public-private partnership are well spread and may affect the Mexican economic growth, including efforts to gain and assure equity in the mid- to long-term.

Surveys and reports that have examined the interaction between SMEs and local communities stress the importance of the strong ties that are part of the Mexican culture and history and of its tradition of community help and solidarity. A key theme of Logsdon, Thomas, Van Buren (2006) is that, because Mexican culture expects business to work towards the achievement of public purposes

⁹⁸ www.cemefi.org

⁹⁹ Namely, cooperation in labor-employer relations (WEF rank 53 out of 117) is progressing positively.

and because of institutional voids that exist at various levels of government, CSR in Mexico tends to focus on meeting employee and direct community needs and facilitating economic development. In addition, particular types of philanthropy exist as alternatives to government-provided services. In short, CSR expectations faced by businesses in Mexico are formed through direct interactions with particular stakeholder groups, rather than being mediated by the government or civil-society sectors.

3.4 Environment

In Mexico, SMEs perceive the environment area as valuable for their operations. They consider environment issues, such as environmental management, compliance, monitoring and climate change as factors that may affect Mexican sustainable growth and development in the mid and long term.

Environmental issues are reinforced by regulatory systems defined by national laws and international agreements, as well as diverse civil society pressures and business opportunities. In Mexico, the major driver for environmental protection is the General Law of Ecological Balance and Environmental Protection adopted in 1998, which defines the criteria of decentralization for the active involvement of the three levels of government (federal, state and municipal) on environmental matters (Díaz, Quezada and de Waard, 1995).

Mexico shows a very good position by hosting a high number of international projects for emission reduction. Mexico was the first country ratified in the Kyoto Protocol among Non Annex 1 countries and it already hosts 21 CDM registered projects (UNFCCC, 2006). Recently, the Secretary of Environmental Affairs (*Secretaría de Medio Ambiente*) launched a proactive monitoring campaign on greenhouse gases (GHG) generated by industrial Mexican companies¹⁰⁰ (Semarnat, 2006). In the Renewable Energy Index, Mexico ranks 37

out of 109 (World Health Organization and World Resources Institute, 2005). Additionally, there are 422 ISO 14001 certificated enterprises (ISO, 2005) in the country.

CSR in Mexico is currently growing within the medium and large size firms, which have become increasingly interested in the business case for CSR rather than in philanthropic approaches. There is a growing level of environmental concern within Mexico, as Mexico City is highly contaminated. Additionally, erosion in the south of Mexico is a large concern, as is water and the contamination of watersheds.

4 Recommended Actions

The main actors able to strengthen CSR in Mexico have been classified in the following four categories: a) Multilateral Development Institutions (MDIs), b) national governments and local authorities, c) business associations, and d) civil society. These four categories of actors may act via all or some the following strategies, as defined in the Introductory Chapter, which are: *Mandating, Ensuring transparency, Facilitating, Improving Promotion and Advocacy, Partnering, and Endorsing*. The proposed actions are by no means exhaustive and only illustrate the types of involvement, which can be easily modified to meet local needs.

Most of the actions proposed are applicable to the best-developed parts of the country, while all the awareness, education and information activities could be implemented in the rural areas.

Logsdon, Thomas, and Van Buren (2006) propose that the standard for assessing CSR should be based in large part on consistency with local stakeholder expectations and political culture, and this approach is consistent with the recommended actions that follow.

¹⁰⁰ 15 enterprises participated to the voluntary inventory. The result of the research is that they are generating around 90 million of tons of GHG.

4.1 Multilateral Development Institutions

This analysis shows that MDIs in Mexico have a strong role in facilitating as well as in promotion and advocacy policies. MDIs cannot interfere on laws and regulations, since only Mexican public authorities may apply mandatory policies. However, given the shortcomings of existing regulations and the lag in the adoption of internationally accepted norms, MDIs have an important role to play in fostering CSR practices in Mexican SMEs (Vives, 2004).

a. Facilitating, recommended actions for MDIs include:

- Develop a conducive policy environment, which may facilitate private sector initiatives and support voluntary efforts towards responsible behaviors.
- Conduct a risk analysis to identify the direct and indirect costs of non-compliance in the marketplace and the workplace based on case studies. Subsequently draft a compliance program specifying timing, resources and expected results.
- Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
- Promote, finance and disseminate results of training activities on environmental management systems application. Start a pilot project for a chosen sector on environmental management systems according to ISO 14001 at the district level.
- Fund health and safety training programs targeted to both managers and employees in the workplace.
- Start an engagement awareness campaign aimed at developing the capacities of NGOs in the delivery of business educational services with at least five local NGOs and five local SMEs.

- Provide suggestions for the development of a code of conduct and ethical business behavior.
- Fund incentive programs for excellent SMEs, in which SME owners and employees receive education and training as a reward for their ethical behavior in conducting business.

b. Improving Promotion and Advocacy, recommended actions for MDIs include:

- Disseminate best practices on CSR, by making the business case for CSR in a language that SMEs can understand.
- Start a pilot project to enhance the capacity of SMEs to profit from the Kyoto Protocol CDM by encouraging Carbon Pooling among SME sellers.

c. Partnering, recommended actions for MDIs include:

- Launch a women's association that could educate SMEs on gender policies, disseminate best practices and provide scholarships for young women in the field of business administration and/or CSR.
- Women should be supported at work through experience sharing and workshops with women who are leading managers, politicians or entrepreneurs.

4.2 Government and Local Authorities

This analysis does not promote any mandating roles for Mexican public authorities. In fact, given the low level of formalization, compliance and transparency, and the even lower level of trust in politicians and administrators, fostering CSR through norms and regulations is perceived as ineffective.

a. Facilitating, recommended actions for government and local authorities include:

- Write guidelines for a code of conduct and ethical behavior in business.

- Improve monitoring systems and environmental assessment in SMEs through the development of the Life Cycle Assessment approach in a specific sector (through the supply chain).
 - Fund incentives for excellent SMEs, in which SME owners and employees receive education and training as a reward for their ethical behavior in business.
 - Facilitate gender and child labor rights counseling through the competent and efficient efforts of INMUJERES¹⁰¹, and organize workshops with women who are leading managers, politicians or entrepreneurs.
- b. *Ensuring Transparency, recommended actions for government and local authorities include:*
- Strengthen private firms' responsible behaviors by addressing issues such as compliance, fair trade, employment relations, taxation, bribery and contractual conditions.
 - Help SMEs access credit through private value chain guarantees.
 - Promote awareness on accountability and reporting standards such as the Global Reporting Initiative, as well as other international guidelines and principles such as the Global Compact and the International Labor Organization.
- c. *Improving Promotion and Advocacy, recommended actions for government and local authorities include:*
- Promote business registration and compliance through simplification of administrative and bureaucratic procedures.
 - Facilitate stakeholder engagement on education and training programs.
- d. *Endorsing, recommended actions for government and local authorities include:*
- Recognize the efforts of specific enterprises through award or labeling schemes.

- Participate in specific CSR activities with the government endorsing the outcomes.
- Lead the launch of a study about the Mexican CSR identity aimed at understanding how to develop more responsible behaviors among SMEs.

4.3 Business Associations

Throughout history the Mexican State has been simultaneously strong and weak, leading in some cases to an illegitimate state – particularly with regards to government regulation of business. Although a vocal anti-corruption movement has long existed, corruption still permeates Mexican life. Consequently, business leaders have assumed an increased responsibility to fill prominent social roles, such as providing for economic and social development.

Business associations include trade associations, territorial associations, chambers of commerce and SME associations. Their role is prominent in capacity building through piloting projects, raising awareness, developing new tools and promoting CSR to SMEs.

- a. *Improving Promotion and Advocacy, recommended actions for business associations include:*
- Support client participation projects, in which the client has input in the decision making process of the manufacturing of goods and/ or service delivery.
 - Fund health and safety training programs targeted to both managers and employees in the workplace.
 - Conduct a risk analysis to identify the direct and indirect costs of non-compliance in the marketplace and the workplace based on case studies. Then based on the results, form a pilot group of SMEs to draft a compliance program specifying timing, resources and expected results.

101 Mexican Institute of Women (Instituto Nacional de las Mujeres) www.inmujeres.gob.mx

- Facilitate gender and child labor rights counseling actions through the competent and efficient efforts of INMUJERES, and organize workshops with women who are leading managers, politicians or entrepreneurs.
 - Promote efforts to start a CSR information desk in local Chambers of Commerce or similar business associations, to overcome the lack of awareness, information and knowledge about CSR tools, their implementation and possible results.
- b. *Partnering, recommended actions for business associations include:*
- Conduct a risk analysis to identify the direct and indirect costs of non-compliance in the marketplace and the workplace based on case studies.
 - Promote, finance and disseminate results of training activities on environmental management systems application. Start a pilot project for a chosen sector on environmental management systems according to ISO 14001 at the district level.
 - Support a women's association that could educate SMEs on gender policies, disseminate best practices and provide scholarships for young women in the field of business administration and/or CSR.
- c. *Facilitating, recommended actions for business associations include:*
- Fund incentives for excellent SMEs, in which SME owners and employees receive education and training as a reward for their ethical behavior.
 - Lead the improvement of monitoring systems and environmental assessments in SMEs through the development of the Life Cycle Assessment approach in a specific sector (through the supply chain).
 - Lead the process of writing guidelines for a code of conduct and ethical behavior.
- d. *Endorsing, recommended actions for business associations include:*
- Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
 - Develop a help desk for environmental technology transfer to help SMEs find the proper technology for their business and learn the proper application.

4.4 Civil Society

Civil society, for the purpose of this study, includes academia, media, NGOs, and the people interested, involved, or affected by SMEs' activities. In the past five years, NGOs have been the most active participants of civil society in Mexico and have driven most of the CSR projects. The participation of academia is scarce, and some of the stakeholders interviewed asked for a more intense, supportive, and proactive role on CSR by universities and research institutes. One important issue is the role that advisors, researchers and consultants have in fostering CSR among SMEs. Unfortunately the cost of consultancy and advice are perceived as too high for small companies.

- a. *Improving Promotion and Advocacy, recommended actions for civil society include:*
- Fund training targeted to both managers and employees in the workplace, emphasizing health and safety issues.
 - Facilitate stakeholder engagement in education and training programs such as CSR benchmarking.
 - Start an engagement awareness campaign aimed at developing NGO capacities in the delivery of business educational services with at least five local NGOs and five local SMEs.

- Participate in the publication of CSR materials to disseminate the CSR culture and good practices in Latin American countries, focusing on Mexico.
 - Support the promotion of business registration and compliance through simplification of administrative and bureaucratic procedures.
 - Support gender and child labor rights counseling actions through the efforts of INMUJERES, and organize workshops with women who are leading managers, politicians or entrepreneurs.
 - Advance multi-stakeholder initiatives to explore the role of CSR in Mexican culture.
 - Pilot projects to enhance the capacity of SMEs to profit from the Kyoto Protocol CDM by encouraging Carbon Pooling among SME sellers, where civil society operates as the content provider and as a participating stakeholder.
- b. *Facilitating, recommended actions for civil society include:*
- Lead the definition of guidelines for codes of conduct and ethical behavior in business.
 - Fund incentives for excellent SMEs, in which SME owners and employees receive education and training as a reward for their ethical behavior in business.
 - Improve monitoring systems and environmental assessments in SMEs through the development of the Life Cycle Assessment approach in a specific sector (through the supply chain).
 - Launch a center for environmental technology transfer to help SMEs find the proper technology for their business and learn the proper application.
- c. *Endorsing, recommended actions for civil society include:*
- Create an award for environmental technology innovation to enhance the image and reputation of SMEs.
- d. *Partnering, recommended actions for civil society include:*
- Support client participation projects, in which the client has input in the decision making process of the manufacturing of goods and/ or service delivery.
 - Promote, finance and disseminate results of training activities on environmental management systems application. Start a pilot project for a chosen sector on environmental management systems according to ISO 14001 at the district level.
 - Promote workplace compliance, such as health and safety training programs targeted to both managers and employees in their workplace.
 - Support a women's association that could educate SMEs on gender policies, disseminate best practices and provide scholarships for young women in the field of business administration and/or CSR.
 - Support women at work through experience sharing and workshops with women who are leading managers, politicians or entrepreneurs.

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Appendix

The following stakeholder map has been used to verify that all eight defined stakeholder categories and all four CRS areas are represented. Stakeholders that were chosen for interviews or as panel participants either had relevant expertise in the issue or may influence awareness, interests and implementation instruments relevant to the issue.

APPENDIX 1 – MEXICAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
1. International organizations	— Inter-American Development Bank (IDB) — Centre for Latin American Monetary Studies Comisión Económica para América Latina (CEPAL) — Organization for Economic Co-operation and development (OECD)	— Inter-American Conference on Social Security United Nations Industrial Development Organization (UNIDO) — International Labor Organization (ILO)	— World Bank Pan America Health Organization (PAHO) — United Nations Development Program (UNDP) — Comisión Económica para América Latina (CEPAL) — United Nations Educational, Scientific, Cultural Organization (UNESCO) — Global Compact- UN	— United Nations Industrial Development Organization (UNIDO) — International Civil Aviation Organization (ICAO)
2. Governmental organizations and institutions	— Secretaría de Economía Comisión Nacional Bancaria y de Valores (CNBV) — Instituto Mexicano de Normalización y Certificación, A. C. Nacional Financiera (NAFINSA) — Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo (CONCANACO/SERVYTUR) — Consejo Coordinador Empresarial (CCE)	— Secretaría de la Función Pública Secretaría del Trabajo y Previsión Social Comisión Nacional del Sistema de Ahorro para el Retiro (CONSAR) — Instituto Federal de Acceso a la Información (INFONAVIT) — Instituto Nacional de las Mujeres (INMUJERES) — Procuraduría Federal de la Defensa del Trabajo — Secretaría de Desarrollo Social (SEDESOL)	— Instituto Federal de Acceso a la Información (IFAI) — Instituto Nacional de Desarrollo Social (INDESOL) — Secretaría de Desarrollo Social (SEDESOL) — Instituto Nacional de las Mujeres (INMUJERES)	— Secretaría de Medio Ambiente y Recursos Naturales Comisión Nacional del Agua (CNA) CONAE — Instituto Nacional de Ecología (INE) — Ministry for the Environment

APPENDIX 1 – MEXICAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
3. Associations (national, sectoral, business)	— Instituto Mexicano Ejecutivos de Finanzas (IMEF) — Fundación del Empresariado en México (FUNDEMEX) — Fundación Mexicana para la Innovación y Transferencia de Tecnología en la Pequeña y Mediana Empresa (FUNTEC) — Confederación Nacional (USEM)	— AMEDIRH	— Asociación Farmacéutica Mexicana, (ANAFAM) — Instituto Mexicano de Doctrina Social Cristiana (IMDOSOC) — Centro Mexicano para la Filantropía (CEMEFI) — Asociación Mexicana de Administradoras de Fondos para el Retiro (AMAFORE)	— Asociación Farmacéutica Mexicana, A.C. — Fundación del Empresariado en México (FUNDEMEX) Centro Mexicano para la Filantropía (CEMEFI)
4. Financial institutions	— Banco BX+ Grupo Financiero — Banamex Grupo Financiero — BBVA Bancomer Grupo Financiero — HSBC Grupo Financiero — Scotiabank Inverlat		— Afore Profuturo GNP — Afore XXI — Banobras	— Banobras — Grupo Financiero Banamex — Grupo Financiero BBVA Bancomer
5. Multinational companies	— Servicios Administrativos Wal-Mart, S.A. de C.V. — Colgate Palmolive, S.A. de C.V. — Procter & Gamble de México, S.A. de C.V. — Coca Cola - FEMSA, S.A. de C.V. — Grupo Bimbo, S.A. de C.V. — Nestlé México, S.A. de C.V. — Cementos Mexicanos S.A. de C.V. (CEMEX) — Industrias Peñoles, S.A. de C.V.		— Johnson & Johnson — Medical de México, S.A. de C.V. — Novartis Corporativo, S.A. de C.V. — Pfizer, S.A. de C.V. — Wyeth, S.A. de C.V.	— Agribands Purina — México, S.A. de C.V.
6. Media	- El Economista - El Financiero - El Mercado de Valores	- Diario Oficial de la Federación 5. Revista Ganar-Ganar Entrepreneur	- Revista Contacto de Unión Empresarial - Cuestión Social	- México Desconocido - Cuestión Social - Entrepreneur

APPENDIX 1 – MEXICAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
7. NGOs	Fundación Merced	Fundación Pro Empleo Productivo, A.C. Transparencia Mexicana (Transparencia Internacional IT)	Cáritas Mexicana, I.A.P. Fundación Azteca A.C. Fundación Coca – Cola Fundación León XIII, I.A.P. Fundación Vamos México, A.C.	ASUMPMATOMA Ecología y Compromiso Empresarial (ECOCE) Greenpeace México A.C.
8. Academia	International Center for Trade and Sustainable Development, (ICTSD) Universidad Panamericana (UP)	International Center for Trade and Sustainable Development, (ICTSD) Universidad Panamericana (UP)	International Center for Trade and Sustainable Development, (ICTSD) Instituto Tecnológico Autónomo de México (ITAM) Instituto Tecnológico y de Estudios Superiores de Monterrey – (ITESM) Universidad Anáhuac UIA Universidad Nacional Autónoma de México (UNAM) Universidad Panamericana (UP)	International Center for Trade and Sustainable Development, (ICTSD) Commission for Environmental Cooperation (CEC) Centro de Calidad Ambiental) of the Instituto Tecnológico y de Estudios Superiores de Monterrey – (ITESM)

Chapter 7: Peru

1 Executive Summary

Multilateral Development Institutions (MDIs) in Peru, together with local public authorities and civil society, have a strong role in fostering CSR among SMEs. Currently SMEs in Peru show mixed behaviors, while medium enterprises highly implement CSR actions regarding environment and workplace areas, micro and small enterprises are more involved at the community level.

MDIs could lead several strategies to encourage Peruvian SMEs to engage in CSR efforts and to drive social and environmental improvements. One of the most important roles of MDIs is to help create a policy environment that stimulates CSR drivers. Several actions can be promoted by MDIs, such as financing training programs on competitiveness and CSR, financing pilot projects on quality management systems and publishing results of workplace training activities to SME owners and employees. MDIs could convene conferences, workshops and other events to discuss best practices and exchange ideas and experiences of the different parties involved. MDIs in Peru may have a role in promoting reporting standards such as the Global Reporting Initiative and international guidelines and principles such as the Global Compact and the International Labor Organization. MDIs should have a prominent role in building partnerships between large and small enterprises in similar sectors or regions, thus increasing supply chain collaboration and enhancing SME managerial skills. Finally, MDIs may promote CSR through Alternative Dispute Resolution (ADR) centers throughout the country, which are often used by SMEs because they are faster, cheaper and helpful in finding compromises among parties.

Given the high rate of informal employment and non-compliance in the country, mandating policies are not suggested as the most effective policies for public authorities. Instead, authorities may foster CSR among SMEs through the simplification of procedures.

Public institutions should promote information campaigns and training activities, supervise pilot projects and endorse programs to reach compliance. Public authorities can also facilitate, monitor and legitimize corporate accounting, governance and transparency standards. Even without compulsory programs, public authorities may strengthen responsible behavior in firms on issues such as fair trade, employment relations, taxation, bribery and contractual conditions. Peruvian public authorities may promote awareness of reporting standards, participate in conferences and workshops and publicly praise the importance of SMEs' efforts on these issues. Peruvian public authorities may promote a feasibility study on financial incentives for CSR and design an awareness campaign on waste and energy management. Finally, public authorities may take a leading role in funding the Peruvian Carbon Facility, which may enhance clean investments and improve SMEs' environmental responsibility.

Business associations have leading roles through capacity building, raising awareness, engaging businesses in CSR related activities, funding projects and creating incentives. In particular, the following actions can be easily achieved by Peruvian business associations: supporting and financing efforts that improve compliance, training programs on CSR in management and planning for SMEs, training programs on competitiveness and CSR for SME managers, supporting CSR benchmarking techniques and disseminating best practices among SMEs. Business associations may also contribute to the promotion of voluntary agreements on health and safety procedures in industrial sectors, communication between SMEs and local public authorities, promotion of ADR utilization among SMEs and dissemination of CSR publications.

The role of civil society is frequently emphasized in enabling a favorable environment for CSR. In the Peruvian case, academia and NGOs are the most effective and active advocates of civil society. The

Peruvian civil society has a strong role in developing workplace human rights campaigns and environmental assessment campaigns and preparing evaluation procedures such as benchmarking and alternative dispute resolution techniques. Civil society may take a leading role in activities such as rewarding responsible market and workplace behaviors of SMEs in certain sectors, rewarding accurate environmental reporting, organizing CSR courses in a local business school as well as contributing to the development and publishing of CSR content.

2 Economic and Social Framework

The main macroeconomic indicators have been collected to understand the Peruvian scenario and its influence on SMEs. Among those, to be noticed is that 75.9 percent of workers in Peru are employed by SMEs, which account for about 43 percent of Peru's GDP. In particular, SMEs are relevant in the service sector, where 66 percent of businesses are small. In contrast, only 14 percent of the activities in the industrial sector are constituted by small businesses (Vives, Corral and Isusi, 2005).

Most of the Peruvian SMEs seem to be informal and do not follow a structured and convenient socially responsible behavior. According to Transparency International (2002) only 3 percent of small businesses effectively comply with the law, 62 percent are not compliant at all and 32 percent are compliant only in "some cases". Business registration and compliance are usually considered prerequisites for the development of a CSR culture. However, it is possible to explain the Peruvian informality following Villaran (1998) and De Soto (1986) who suggested two main causes. The first one is a structural interpretation, which claims that the non-traditional sector is unable to absorb all of the labor supply in the country, which induces people to set up their own (informal) businesses.

The second interpretation emphasizes the role of bureaucracy in the state and in legal institutions, which raises the cost of legalization to unaffordable levels for many small and micro entrepreneurs.

A Proetica survey (2004) shows that the most relevant issue affecting development in Peru is unemployment (97 percent), ranked also as the main issue to be addressed by the Government (47 percent). Other relevant issues are the economic situation (97 percent), criminality (96 percent), drug abuse (95 percent) and drug traffic (92 percent). Pollution is considered "serious" and "particularly serious" by 86 percent of the people interviewed. Most SMEs consider these issues as major barriers to business development, as they create a high level of insecurity and reduce foreign investment.

Moreover, the level of economic development and competitiveness is negatively influenced by the presence of corruption. Research conducted by Transparency International, indicates that Peru occupies the 65th position (out of 158 countries) in the Corruption Perception Index rank for 2005. The problem of corruption influences relationships between small businesses and the judicial system and is considered as one of the causes for the informality of small business. Perhaps, as a consequence, ADR mechanisms have been put in place across Peru. ADR are methods used to resolve disputes out of court, including negotiation, conciliation, mediation and the many types of arbitration. The common denominator of all ADR methods is that they are faster, less formal, cheaper and often less adversarial than a court trial. The wide use of ADR mechanisms in Peru is unique and above all is an expertise to leverage (Henderson and Herrero, 2004).

The following chart shows competitiveness indicators for Peru supplied by the WEF. All data is from 2005 and the chart is sorted by indicator ranking. The following indices reveal a positive state for Peru's competitiveness and market development.

Organization	Index	Number of Countries in the Index	Argentina's Ranking
WEF	Global competitiveness	117	68 (12 out of 21 in Latin America)
WEF	Growth competitiveness index	117	77
WEF	FDI and technology transfer	117	30
WEF	Quality of the educational system	117	110
WEF	Degree of customer orientation	110	47
WEF	Breadth of international markets	110	53
WEF	Financial market sophistication	110	49

However, Peru does not rank high in all categories. The country faces problems to achieve economic growth including political instability, inefficient government bureaucracy and a high level of corruption. The following indices show some of the main issues impeding competitiveness. All data is from 2005.

3 Current State of CSR

Research on CSR in Latin American SMEs (Vives, Corral and Isusi, 2005) reports wide differences in behaviors between micro, small and medium sized enterprises in Peru. Medium-sized Peruvian firms have good practices on internal CSR issues (i.e. workplace), they also monitor their emissions to the

Organization	Index	Number of Countries in the Index	Argentina's Ranking
WEF	Business competitiveness index	117	81
WEF	Informal sector	117	114
WEF	Burden of government regulations	117	114
WEF	Ethical behavior of firms	117	75
WEF	Efficiency of legal framework	117	107
WEF	Business costs of crime and violence	117	104
WEF	Judicial independence	117	110
WEF	Public trust of politicians	117	110
WEF	Access to credit	117	60
Transparency International	Corruption Perception	158	65
WEF	Company spending on research and development	110	89
WEF	Capacity for innovation	110	79
WEF	Technological readiness	117	62
WEF	University/industry research collaboration	117	89

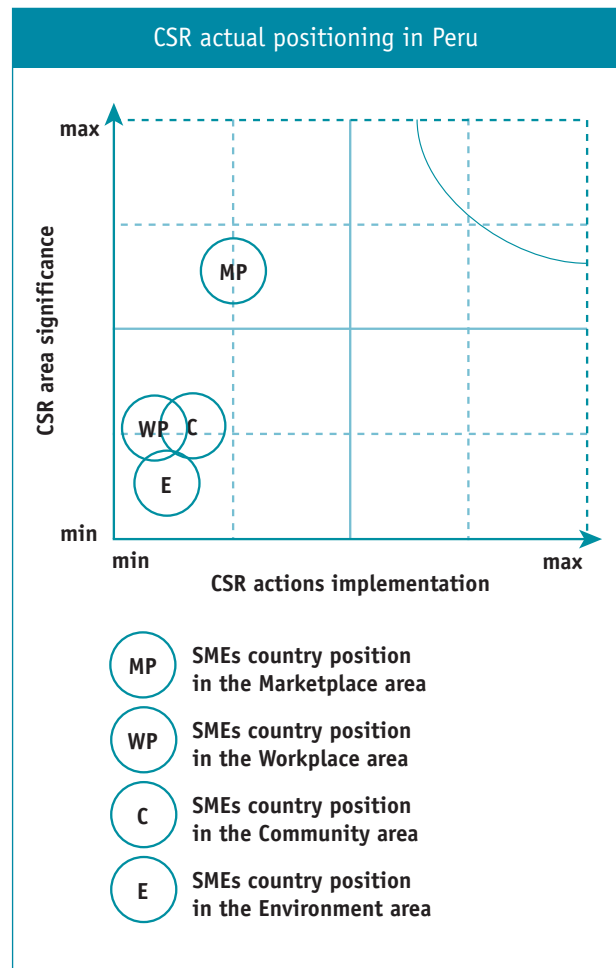
environment, and they have waste treatment processes in place and implement environmental management systems. On the other hand, micro and small enterprises show higher interest on community issues, it is common that owners and managers are well known and support their communities, but do not call this “social responsibility.”

The Universidad del Pacífico considers that the critical economic situation is unlikely to change significantly in the years to come. Hence, the degree of CSR implementation in SMEs looks stable and not promising. The most important weakness relates to profitability, which of course is the main explanation for lacking compliance. Besides the economic factors, the survey highlights the lack of CSR promotion efforts and the very little involvement of the media with only large companies benefiting from it.

There are however other more positive views, Benavides and de Gastelumendi (2001), in a survey about CSR awareness of executives and businessmen in Peru, indicate a positive trend towards progress in different aspects of CSR. It was observed that an increasing number of companies, 40 percent, understood that CSR is part of the managerial practice of the company and that internal and external policies need to be articulated. Only 5 percent of the interviewed executives considered that social policies and CSR activities are of no benefit to the company. As a main reason for not participating in CSR, 46 percent indicated the lack of vision of the company, i.e. the lack of decision of the executives rather than the lack of resources or difficulties with the legal framework of the country. Despite this, there is still a significant gap between the understanding of the concept and actual CSR practices. The majority (60 percent) of interviewed companies had a clear social concern but do not yet incorporate CSR to the management of its business.

The following figure illustrates an estimated positioning of each one of the CSR areas –

marketplace, workplace, community and environment. The graph shows the significance of CSR for SMEs (vertical axis) and the CSR actions implemented by SMEs (horizontal axis) in Peru. This positioning is an approximation, developed by the authors, and it is based solely on the information utilized for the writing of this report (interviews, panel discussions and literature review).



3.1 Marketplace

The marketplace area is perceived as highly valued by SMEs. Moreover marketplace issues, such as customer relationship, supply chain management, quality and compliance are seen as factors that affect SME survival and competitiveness in the mid- to long-term.

SMEs perceive criminality as a significant obstacle to doing business (Vives, Corral and Isusi, 2005) and approximately 40 percent of SMEs classify it as a major obstacle. Moreover, as already mentioned, many micro and small enterprises in Peru are not registered with the government, which is due to the excessive cost of compliance, including high administrative and bureaucratic costs (Villaran, 1998). Accordingly, CSR issues have been considered relevant not for their capability to influence the overall scenario, but for their ability to improve SMEs' capacity to reach their goals and priorities. CSR issues such as supply chain participation, market rules compliance, links with customers and quality management are perceived as factors that affect Peruvian SMEs survival and can enhance their competitiveness in the local and global markets. These issues would provide SMEs with opportunities to better their management capabilities, learn through cooperative approaches within integrated supply chains and enhance their reputation.

There are 352 Peruvian companies ISO 9000 certified out of a total of 17,154 in Latin America (ISO, 2005), a valuable regional figure that influences the trend towards quality in Peruvian companies.

3.2 Workplace

SMEs in Peru do not perceive CSR workplace issues as relevant for their survival and competitiveness, this is mainly due to a high supply of workforce, high unemployment rates, and lack of regulation and control. The general view is that workplace issues, such as health and safety norms, employment policies,

equal opportunities, human rights and compliance may affect the country's economic growth in the mid- to long-term, but not necessarily affect SMEs. Moreover, CSR actions are perceived as too costly compared to the benefits gained, yet, health and safety accidents have decreased in the last years.

In Peru the workplace area of CSR is affected by several issues, lack of employment was perceived as the major issue by 97 percent of the people interviewed (Proetica, 2004). Other issues are the limited local availability of specialized research and training services (ranked 84 by WEF), extent of staff training (ranked 75 by WEF) and quality of the educational system (ranked 110 by WEF). Other inputs come from Peruvian microeconomic figures, such as hiring and firing practices (WEF rank 85) and cooperation in labor-employer relations (WEF rank 89), which convey the perception of employers having a great deal of power when it comes to governance, decision making and control. The local documental analysis emphasized the need for regulation on labor rights and work conditions. Recently, Peru ratified the International Labor Organization (ILO) convention aimed at eradicating child labor. Still many SMEs are not compliant even with the basic policies for child labor eradication.

3.3 Community

The community area of CSR is perceived as valuable by Peruvian SMEs. Community issues, such as local development, consensus building and public-private partnership are considered as factors that may affect the Peruvian sustainable growth and development in the mid- and long-term. The panelists interviewed recognize that SMEs already show a strong interest on community issues. SMEs often support the local community without calling these activities social responsibility.

Local community pressure does not seem prominent and does not influence SME operations.

Not even the lack of relations and networks with the local community is considered relevant by SMEs. The document analysis and stakeholder interviews emphasized the lack of public-private partnerships, and in particular the lack of SMEs and associations created to solve community problems.

The low interest in cooperation with other entities, such as universities and civil society, is not considered an issue for SMEs survival or competitiveness, mainly because of the very low level of innovation and technological interests of Peruvian SMEs (World Economic Forum, 2006). Accordingly, WEF ranked university/industry research collaboration 89 out of 117.

Furthermore, SMEs cannot count on efficient, timely and accessible mechanisms to resolve their legal and commercial disputes. The negative perception of the judiciary's performance implicates that only 15 percent of SMEs use the courts to resolve disputes. ADRs are generally preferred by SMEs, which demonstrates a higher level of trust in civil society than in government.

3.4 Environment

Peruvian SMEs do not perceive the environmental area of CSR as relevant for their operations. They think that environmental issues, such as environmental management, compliance, monitoring and climate change may affect the country's sustainable growth and development in the mid- and long-term, but do not directly affect SMEs and their competitiveness. The earlier is mainly caused by the lack of environmental regulation and awareness.

CSR actions in the environment arena are mainly driven by the ethical personal attitudes of SME owners. Nevertheless, SME managers interviewed, claimed that medium sized Peruvian firms implement responsible environmental behavior,

monitoring their emissions, having waste treatments in place and implementing environmental management systems.

Environmental damage is considered a serious problem, but not a priority for government action. There are only 25 companies ISO 14001 certified in Peru (UNEP, 2003) out of 1,359 in Latin America; they increased to 78 in 2004 and then reduced to 36 in 2005 (ISO, 2005). Although several public bureaus have been created to protect the environment –Natural Resources Institute (*Instituto Nacional de Recursos Naturales*), National Council for the Environment (*Consejo Nacional del Ambiente*), Bureau of Environmental Affairs of the Ministry of Energy and Mines (*Oficina de Asuntos Ambientales del Ministerio de Energía y Minas*)- the Peruvian legal framework in relation to the environmental area of CSR is still in an early stage. NGOs seem to have strong familiarity with the main environmental issues and are the most advanced and educated organizations in relation to environmental programs, in comparison to any other Peruvian organization.

It is worth highlighting that the mainstreaming of CSR in the environment area comes from international conventions, above all from the Kyoto Protocol, which lists Peru among the Clean Development Mechanisms (CDM) project host countries. Adopting the Kyoto Protocol measures can contribute to Best Available Technology transfers, thus improving environmental performances, widening international networks and increasing environmental responsibility practices among SMEs that want to be part of national or global supply chains.

4 Recommended Actions

The main actors able to strengthen CSR in Peru have been classified in the following four categories:

- a) Multilateral Development Institutions (MDIs),
- b) national governments and local authorities,

c) business associations, and d) civil society. These four categories of actors may act via all or some the following strategies, as defined in the Introductory Chapter, which are: *Mandating, Ensuring transparency, Facilitating, Improving Promotion and Advocacy, Partnering, and Endorsing*. The proposed actions are by no means exhaustive and only illustrate the types of involvement, which can be easily modified to meet local needs.

Some interesting programs for SMEs recently launched were aimed at:

- Promoting best business practices and quality standards for local products
- Integrating SMEs into the production chains of large companies
- Improving education and awareness through training programs
- Strengthening local organizations and production conglomerates
- Financing building renovations and technological improvements
- Increasing the level of SME cooperation with institutions, NGOs, municipalities and local communities.¹⁰²

4.1 Multilateral Development Institutions

MDIs have an important role to play in fostering CSR practices in Peruvian SMEs (Vives, 2004), given the shortcomings of existing norms and regulations and the lag in the adoption of internationally accepted norms. This position allows MDIs to play many roles¹⁰³ such as exercise their ability to engage parties, raise awareness on CSR, partner and finance pilot activities and provide technical assistance and supervision. MDIs should support the public authorities' roles, encourage public-private partnerships, foster participation and support transparency campaigns. Moreover, Multilateral Financial Institutions (MFI), which are part of MDIs, can also provide financial support for some of these activities.

One of the most important roles of MDIs is through the development of a conducive policy environment, which may facilitate private sector initiatives and support voluntary efforts towards responsible behavior. In a policy environment that stimulates CSR drivers, such as competitiveness, transparency and accountability, stakeholders may express their preferences for responsible firms¹⁰⁴ and contribute to the enhancement of SMEs conditions.

a. *Facilitating, some recommended actions for MDIs include:*

- Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
- Finance training programs on competitiveness and CSR for SME managers.
- Publish the results of training activities on health and safety to SME managers and employees.
- Distribute results of training activities on environmental management systems. Start a pilot project for a chosen sector on environmental management systems.
- Fund monitoring systems and environmental assessment campaigns.

b. *Improving Promotion and Advocacy, some recommended actions for MDIs include:*

- Cooperate with SMEs, public authorities and civil society to disseminate CSR best practices, including CSR benchmarking.
- Convene conferences, workshops and other events to raise awareness and exchange ideas with the different parties involved.
- Sponsor a human rights campaign that raises awareness about child labor in SMEs by using multimedia sources that present international and national figures about child labor.

102 A good example of this kind of programs comes from Villa El Salvador, where the industrial association, together with the Municipality and with other Institutions, such as local NGOs, public authorities and MDI are cooperating for the improvement of products, sales and overall productive conditions in the area.

103 Promotion and advocacy, development of a conducive policy environment, financial support and promotion of compliance, reporting and accounting (Vives, 2004).

104 For example by supporting a competitive environment, MDIs are allowing consumers to have the choice and to express their preference towards responsible firms. MDIs can promote competition policies and institutions that can become drivers for CSR practices, because they can be used as a tool for product improvement, quality and differentiation. (Vives, 2004)

- Create awareness of accountability and reporting standards such as the Global Reporting Initiative and international guidelines and principles such as the Global Compact and the International Labor Organization.
- c. *Partnering, some recommended actions for MDIs include:*
 - Build partnerships between large and small enterprises in similar sectors or in the same region on CSR, with the purpose of developing SME managerial skills and potentially involve SMEs in the supply chain.
- d. *Endorsing, some recommended actions for MDIs include:*
 - Finance the development and strengthening of the networks of Alternative Dispute Resolution (ADR) centers, which have been considered an innovative way to overcome delays in the judicial system, find compromises among parties and solve issues.

4.2 Government and Local Authorities

This report does not recommend a mandating role for the government and local authorities in order to improve the level of CSR in SMEs. Instead, Peruvian Government and local authorities may have a positive role in Mandating, Ensuring Transparency, Facilitating and Endorsing. Authorities may foster CSR among SMEs through the simplification of procedures. Public institutions should promote information campaigns and training activities, supervise projects and endorse programs to reach compliance. Public authorities can also facilitate, monitor and legitimize corporate accounting, governance and transparency standards. Even without compulsory programs, public authorities may strengthen responsible firm behaviors on issues such as fair trade, employment relations, taxation, bribery and contractual conditions.

- a. *Mandating, some recommended actions for government and local authorities include:*
 - Define standards, establish targets, enforce compliance and monitor activities for business performance embedded within the legal framework.
 - Promote business registration through the simplification of administrative and bureaucratic procedures and, where possible, reduce delays in payments for administrative costs.
 - Facilitate, monitor and legitimize corporate accounting, governance and transparency standards.
- b. *Ensuring transparency, some recommended actions for government and local authorities include:*
 - Strengthen responsible behavior in firms on issues such as compliance, fair trade, employment relations, taxation, bribery and contractual conditions.
 - Promote awareness on accountability and reporting standards such as the Global Reporting Initiative and international guidelines and principles such as the Global Compact and the International Labor Organization.
 - Participate in conferences and workshops and publicly praise the importance of SMEs efforts on these issues.
 - Lead campaigns on issues such as the development of appropriate CSR management tools and guidelines for SMEs.
- c. *Facilitating, some recommended actions for government and local authorities include:*
 - Promote a feasibility study on financial incentives for CSR.

- Design, with district municipalities, an awareness campaign on waste and energy management in specific territories.
- Increase awareness about the different types of waste management and help SMEs choose the most suitable system for their needs.

d. *Improving Promotion and Advocacy, some recommended actions for government and local authorities include:*

- Take a leading role in funding the Peruvian Carbon Facility, which may enhance clean investments and improve SMEs' environmental responsibility.

e. *Endorsing, some recommended actions for government and local authorities include:*

- Recognize the efforts implemented by small and medium enterprises.
- Promote voluntary agreements with SMEs on health and safety procedures in industrial sectors.
- Promote voluntary agreements on environmental monitoring.

4.3 Business Associations

Business Associations include trade associations, territorial associations, chambers of commerce and SMEs associations. Peruvian business associations play an important role in Facilitating, Improving Promotion and Advocacy, Partnering and Endorsing.

a. *Facilitating, some recommended actions for business associations include:*

- Lead capacity building efforts, help raise awareness, engage businesses in CSR related activities, fund activities and create incentives.
- Support and finance actions that improve compliance.

- Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
- Finance training programs on CSR in management and planning for SMEs.

b. *Improving Promotion and Advocacy, some recommended actions for business associations include:*

- Train SMEs on competitiveness and CSR issues such as benchmarking support.
- Publish the results of training activities on health and safety to SMEs managers and employees.

c. *Partnering, some recommended actions for business associations include:*

- Support partnerships between large and small enterprises on CSR.

d. *Endorsing, some recommended actions for business associations include:*

- Reward good health and safety practices at the local level by promoting voluntary agreements and reward schemes on health and safety procedures by industry.
- Promote environmental monitoring and communication among Peruvian SMEs through voluntary agreements between SMEs and local public authorities.
- Promote ADR utilization among SMEs. Cooperate in the dissemination of CSR publications.

4.4 Civil Society

For the purpose of this report, civil society includes academia, media, NGOs and the local communities. In the Peruvian case, academia and NGOs are the most effective and active exponents of civil society.

These two groups will likely implement most of the proposed actions, and can act as a bridge between companies and the government. They could translate the terminology of social development into a language understandable to business and provide information on enterprises' activities to the public (Petkoski and Twose, 2003).

a. *Facilitating, some recommended actions for civil society include:*

- Publish results of training activities on environmental management system applications to SMEs employers and managers.
- Promote business registration and compliance through simplification of administrative and bureaucratic procedures.

b. *Improving Promotion and Advocacy, some recommended actions for civil society include:*

- Lead a human rights campaign that raises awareness about child labor in SMEs by using the media to present international and national figures addressing the negative consequences of the worst forms of child labor.
- Create and evaluate benchmarking procedures.
- Support the implementation of monitoring system and participate in environmental assessment campaigns.

c. *Partnering, some recommended actions for civil society include:*

- Participate in stakeholder engagement programs.

d. *Endorsing, some recommended actions for civil society include:*

- Reward responsible market behaviors (i.e. supply chain) of SMEs in certain sectors.
- Reward positive health and safety practices in SMEs at the local level.
- Reward accurate environmental reporting.
- Organize CSR courses in local business schools and provide content to create CSR awareness.

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Appendix

The following stakeholder map has been used to verify that all eight defined stakeholder categories and all four CRS areas are represented. Stakeholders that were chosen for interviews or as panel participants either had relevant expertise in the issue or may influence awareness, interests and implementation instruments relevant to the issue.

APPENDIX 1 – PERUVIAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
1. International organizations	— International Finance Corporation (IFC)	— International Labor Organization (ILO)	— International Finance Corporation (IFC) — United Nations Development Program (UNDP) — Swiss Foundation for Technical Cooperation (Swisscontact) — Swiss agency for development and cooperation (COSUDE) — Belgian technical cooperation — Inter-American Development Bank (IDB)	— Oxfam América — Inter-American Development Bank (IDB)
2. Government organizations and institutions	— Center of promotion of the small and micro-business (PROMPYME) — Commission for the promotion of exports (PROMPEX) — Ministry of the Production — Ministry of Foreign Trade and Tourism (MINCETUR)	— Ministry of Labor and Promotion of the Employment — Ministry of Health — Ministry of Energy and Mines	— Fund of Cooperation for the Social Development (FONCODES)	— National Counsel for the Environment (CONAM) — Ministry of Health — Bureau of Environmental Affairs of the Ministry of Energy and Mines (DGAA/MINEM) — National Service of Agrarian Health (SENASA) — The National Fund for the Environment (FONAM) — Natural Resource Institute (INRENA)

APPENDIX 1 – PERUVIAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
3. Associations (national, sectorial, business)	— National Confederation of Unions of the Micro and Small Business of Peru (CONAMYPE) — Chamber of Commerce of Lima — Committee of Small Industrial Business of the National Society of Industries (COPEI – SNI) — Area of small and micro-business of the association of exporters of Peru (PYMEADEx) — Federation of Businessmen of Gamarra (FEDEGA) — Association of Small Industrialists of Villa El Salvador (APIVES) — Association of footwear-makers, related and complementary articles (APEMEFAC) — National Camera of the Production and Entrepreneurship (CANPRODEM)			
4. Financial institutions	— Financial Corporation of Development (COFIDE) — Fund of Guarantee for the Small Industry (FOGAPI) — Mibanco Bank — Municipal Banks — Rural Banks			
5. Multinational companies			— Mining company Antamina — Mining company Yanacocha — Mining company BHP Billiton Tintaya	— Mining company Antamina — Mining company Yanacocha — Mining company BHP Billiton Tintaya

APPENDIX 1 – PERUVIAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
6. Media	— Newspaper “El Comercio” — Newspaper “Gestión” — Newspaper “Expreso” — Newspaper “La República” — Magazine “Business”	— Magazine “Ideele”	— Magazine “Ideele”	
7. NGOs	— COPEME — CEPEFODES	— Labor	— Oxfam América — PERU 2021 — Group of Analysis for the Development (GRADE) — Cooperación — Avina Foundation — Institute of Legal Defense (IDL) — Institute of Development of the Informal Sector (IDESI) — COPEME — Entorno — CARE PERU — Proetica — PRISMA	— CEAS — Oxfam América — Cooperación — Labor — PERU 2021 — ProNaturaleza — ITDG
8. Academics CSR experts	— Pacific University — ESAN University (Graduate School of Business Administration) — Center of Innovation and Development, Pontificia Universidad Católica del Perú (CIDE – PUCP)		— Pacific University	— Center of Innovation and Development, Pontificia Universidad Católica del Perú (CIDE – PUCP)

Chapter 8: Venezuela

1 Executive Summary

The concept of CSR is developing in Venezuela. The administration of President Chavez has been active in the advancement of social policies and programs that have affected the private sector in several ways. First, they have created the expectation that the private sector will support these efforts and, second, the private sector has made a concerted effort to promote its own social agenda.

The international community, in particular MDIs, has been taking an increasingly reduced role in Venezuela. However, when possible, MDIs should try to facilitate a dialogue between the public and private sectors by sponsoring forums and workshops to discuss and clearly define the rules governing the private sector.

The Government should focus on:

- (i) strengthening the regulatory and institutional framework and providing a safe and transparent judicial service for SME competitiveness;
- (ii) formulating and updating norms to improve entrepreneurial administration through technological modernization and promoting the development of productive value chains;
- (iii) supporting the development of financial mechanisms for SMEs (regarding terms and costs) and promoting their competitiveness improvement.

Business Associations' activities should continue to create a positive impact on enterprises by enhancing compliance with laws, increasing productivity, reducing costs and time of production and reducing absenteeism. In addition, business associations in partnership with government may be able to help develop the tourism sector.

The role of the civil society in enabling a positive environment for CSR is frequently emphasized. Civil society, for the purpose of this report, includes academia, media, NGOs and the local communities. In Venezuela, academia and NGOs are the most effective and active proponents of civil society. These two groups will likely implement most of the proposed actions. They can also act as a bridge between companies and government, translate the terminology of social development into a language understandable to business and provide information on the enterprises' activities to the public (Petkoski and Twose, 2003).

2 Economic and Social Framework

Oil is the lifeblood of the Venezuelan economy. It accounts for about half of the total government revenues and about one third of GDP. Venezuela produces about three million barrels of crude oil per day and exports about 75 percent of its total production. Of the country's \$3 to \$4 billion in annual foreign investment, almost all of it is channeled into the energy industry (Energy International Agency report, 2002). The oil sector operates through the government-owned corporation PDVSA (*Petróleos de Venezuela*). In recent years, Venezuela's oil output has begun to stutter, largely because of difficulties at PDVSA.¹⁰⁵

In Venezuela, the community expects a lot from the oil industry in terms of resources, assistance and employment. In addition to the genuine issue of a fair distribution of oil resources, which falls within the responsibility of the nation's administration, the key issue is the diversification of the economy and the ability to launch self-sustaining projects. Around the oil fields it is easy to find poor people, a damaged

¹⁰⁵ Of course SMEs are not oil producers, but some of them are in the oil supply chain and apply or should apply the larger companies' conditions to operate.

environment and conflicts in the local community. These conflicts usually relate to the community's frustrated expectations of employment, as the oil companies are unable to utilize local labor force due to the low levels of education. This could be overcome through dialogue, training and capacity building. For example, the VenAmCham's¹⁰⁶ Social Alliance Committee launched a corporate responsibility project directed at the people living around the Jusepin facilities. This project has the aim of creating sustainable agricultural activities in the community and restoring the agricultural tradition to alleviate the tense situation in the area.

Vives, Corral and Isusi (2005) illustrate that the informal economy is a major problem for micro enterprises, as only 4 percent of micro enterprises are registered with an official institution such as the National Integrated Service of Customs and Tax Administration (*Servicio Nacional Integrado de Administración Aduanera y Tributaria*) or the Venezuelan Institute of Social Security (*Instituto Venezolano de los Seguros Sociales*). Only 20 percent of registered Venezuelan enterprises are SMEs, and they employ 20 percent of the labor force. Most of these registered SMEs are in the trade and service sectors and only 2 percent of them are exporting companies. In Venezuela, unemployment counts for 15.1 percent of the total labor force and informal employment represents 36.6 percent of the GNP (Schneider, 2002).

*Observatorio Pyme*¹⁰⁷ estimated that there are about 480,000 enterprises in Venezuela of which 98 percent are micro enterprises and SMEs. It also pointed out that in the last few years SMEs have had to cope with a reduction of productivity, an increase of informality (the informal economy is approximately 55 percent of the total economy), and limited access to information and communication technologies – 88.4 percent of them are not connected to the internet (CEATPRO, 2004).

The difficult economic situation is perceived by SMEs as the major obstacle for CSR implementation. In 2004, Fundes¹⁰⁸ conducted a survey of Venezuelan SMEs and noted that only 36 percent of the interviewed SMEs comply with labor legislation, 26 percent comply with social security and 41 percent comply with workers' contract legislation. SMEs are also characterized by temporary employment.

The following chart shows competitiveness indicators, mostly supplied by the World Economic Forum (WEF). All data is from 2005 and the chart is sorted by indicator ranking. As can be seen in the chart below, Venezuela performs poorly regarding market efficiency. Policy instability is considered the greatest problem for Venezuela's competitiveness.

106 VenAmCham is the Venezuelan – American Chamber of Commerce and Industry

107 Observatorio PYME is a study of small and medium enterprises in Venezuela as well as the new Information and Communication Technologies developed by a group of professionals from the Central University of Venezuela. The study reaches the complete country.

108 FUNDES is a regional NGO with offices in different countries in Latin America that promotes the development of small and medium enterprises. www.fundes.org

Organization	Index	Number of Countries in the Index	Venezuela's Ranking
WEF	Private sector employment of women	117	20
WEF	Technological readiness	117	37
WEF	Extent and effect of taxation	117	55
WEF	University/industry research collaboration	117	63
WEF	Number of procedures required to start a business	117	84
WEF	Global Competitiveness index	117	84 (13 out of 21 in Latin America)
WEF	Quality local suppliers	117	92
WEF	Ethical behavior of firms	117	98
WEF	Time required to start a business	117	101
WEF	Capacity for innovation	117	102
WEF	Quantity of local suppliers	117	104
WEF	Organized crime	117	104
WEF	Educational system	117	105
WEF	Public institutions	117	106
WEF	Value chain presence	117	106
WEF	Labor-employer relations	117	110
WEF	Level of violence and crime	117	111
WEF	Public trust of politicians	117	112
WEF	Judicial independence	117	114
WEF	Inflation	117	115
WEF	Favoritism in decisions of government officials	117	116
WEF	Efficiency of legal framework	117	117
Transparency International	Corruption Perception Index	159	130
UNESCO	Education Attainment index	166	66
World Bank (2006)	Ease of doing business	175	164

In regards to human rights, Venezuela has performed well in the area of child labor. However, the country received a very poor rating from the Human Rights Watch for *Intrinsic Country Human Right Risk*.

Organization	Index	Number of Countries in the Index	Venezuela's Ranking
ILO and UNICEF	Child Labor Index	191	43
UNICEF	Child Rights Risk index	192	83
Maplecroft ¹⁰⁹	Political Risk index	209	183
ILO and World Bank	Health and Safety Index	187	123
Human Resource Watch	Intrinsic Country Human Right Risk	194	157

In a survey conducted by the VenAmCham on economic perspectives for 2006, enterprises interviewed indicated political uncertainty, judicial instability and judicial insecurity as the main obstacles for their business activities¹¹⁰.

Some intrinsic SME characteristics may inhibit their development for example: the family-owned SME structure limits the adoption of better managerial strategies; SMEs have limited investment funds, they experience slow growth in sales volume, they lack partnerships and networks in their local environment and they face strong local competition. Venezuela's SMEs are isolated and do not participate in international value chains, which is a weakness when trying to integrate into the global market.

To solve SMEs' competitiveness problems, the Ministry of Production and Commerce (*Ministerio de la Producción y el Comercio*) initiated a program

to support SMEs, titled "Endogenous Development Plan" (*Plan de Desarrollo Endógeno*), which defines three areas of implementation: (i) Industrial Reactivation, to increase, in a short time, the utilization of the country's industrial installed capacity; (ii) Industrial Re-conversion, to technologically modernize and actualize the Venezuelan industrial sector, and lastly (iii) the process of Reindustrialization, to increase the existing Venezuelan industrial weave.

Interesting insights about Venezuela come from understanding cooperatives, which is a distinctive form of doing business among Venezuelan SMEs. The first Venezuelan cooperatives were formed around the turn of the 20th century, however most disappeared during the Marcos Perez Jimenez dictatorship of the 1950s and the military junta that preceded it. With the fall of Jimenez in 1958, cooperatives in Venezuela once more began to gain strength and a new cooperative law was passed in 1966, which allowed for the creation of the Venezuelan National Cooperative Superintendence (SUNACOOOP). According to Fox (2006) a large impetus for the Venezuelan cooperative came in the 1960s from the U.S. initiative Alliance for Progress, which attempted to promote the alternative road of cooperatives in order to reduce the guerrilla and revolutionary movements taking place across Latin America. According to SUNACOOOP, there are currently 153,000 registered cooperatives in Venezuela – the largest number in any country in the world. Over 60 percent of Venezuela's registered co-ops are in the service sector, while around 20 percent are in manufacturing. The members of the traditional co-ops played a large role in the creation of the 1999 Venezuelan Constitution and the formation of the 2001 Cooperative Law, which eased the process of cooperative formation and allowed for greater sovereignty to be given to the cooperatives themselves (Fox, 2006).¹¹¹

¹⁰⁹ Available on www.maplecroft.com

¹¹⁰ www.amcham.org.ve

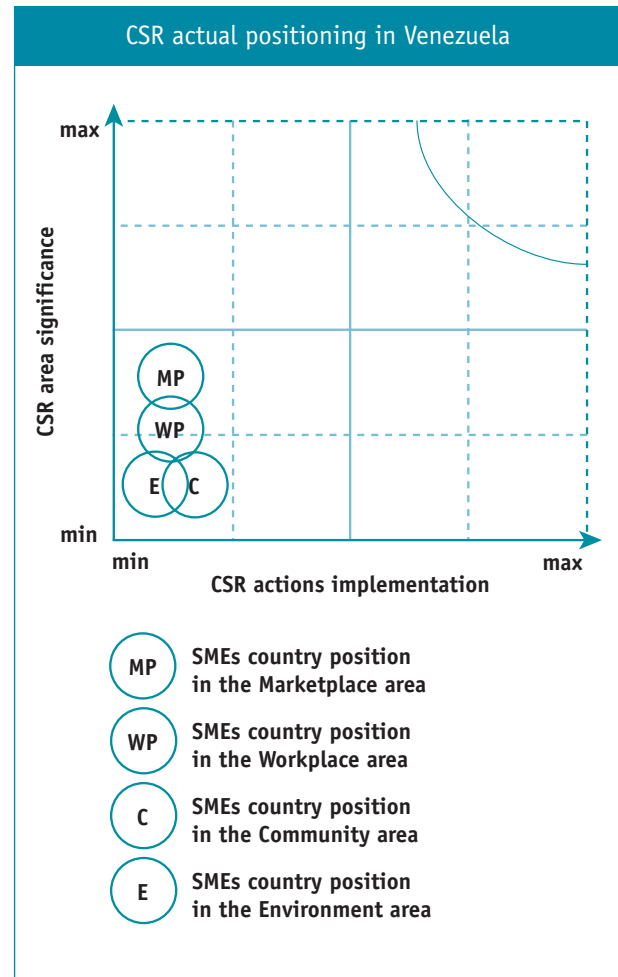
¹¹¹ Carlos Molina Graterol, President of SUNACOOOP, at the conference held in September 2006 declared that "1,634 accusations have been received against Venezuela's cooperatives and that not all of co-ops are legitimate, that some supposed co-ops only use the laws to evade social responsibility and taxes, and that cooperative members do not always understand the principles of cooperativism" (Fox 2006).

3 Current State of CSR

Venezuela has a new Constitution that emphasizes the concepts of social inclusion and access to education, which may lead to an increase in responsible practices in the private sector and in particular among SMEs. Some experts claim that one of the greatest obstacles for Venezuela is the significant polarization of its social classes and the resultant difficulties in reaching political and social consensus. The latter leads to instability and conflicts in some areas, mainly oil fields and rural areas.

VenAmCham's Social Alliance Committee, in its endeavor to promote CSR, has provided several strategies to make Venezuelan companies aware of the importance of incorporating CSR as a business strategy. The growing number of these actions as well as their variety and impact, encouraged Social Alliance to work on the first Directory of Socially Responsible Companies: a publication that lists over 70 CSR actions carried out by companies in Venezuela designed to provide practical guidance to those who would like to have an in-depth knowledge of this issue.¹¹²

The following figure illustrates an estimated positioning of each one of the CSR areas – marketplace, workplace, community and environment. The graph shows the significance of CSR for SMEs (vertical axis) and the CSR actions implemented by SMEs (horizontal axis) in Venezuela. This positioning is an approximation, developed by the authors, and it is based solely on the information utilized for the writing of this report (interviews, panel discussions and literature review).



¹¹² Besides this database, the publication offers views on CSR in Venezuela: visions, CSR inside the companies: human resources, environment, CSR outside: consumers and customers, suppliers, communities, government, and society as well as experiences in which CSR has meant an added value in economic, social, and environmental terms for the companies and society.

3.1 Marketplace

In Venezuela, the marketplace area of CSR is considered by SMEs as relevant for their operations, mainly for its ability to influence the overall SME scenario. Specifically, exporting and supply chain participating SMEs, are starting to apply CSR values and tools into their daily business. Not all SMEs show interest in CSR, although, most of them practice some form of philanthropy.

Many researchers show that the major problem for CSR implementation in SMEs is the absence of strategic planning, which is present only in 44.8 percent of Venezuelan SMEs (Castro, 2000). Additionally, Venezuela lacks CSR promotion policies, except for technological innovation, workers' training, and industrial security policies.

Notably, according to 2006 ISO data, around 437 companies in Venezuela are ISO 9000 certified, which can be interpreted as an indicator about the tendency of companies towards management systems applications and about the overall wider attention to quality processes and products in the country. Additionally, based on CONINDUSTRIA¹¹³ figures, 7.5 percent of SMEs are ISO 9000 certified.

3.2 Workplace

SMEs in Venezuela do not perceive CSR workplace issues as relevant for their survival and competitiveness. This is mainly because of high unemployment (15.1 percent of total labor force) and high level of informal employment (36.6 percent of the GNP). However, in the long-term, workplace issues, such as health and safety norms, employment policies, equal opportunities and compliance may affect Venezuelan economic growth and will become crucial to SME survival.

SMEs' CSR activities in the workplace area are rare. According to Armas (2002), only 20 percent of

SMEs actively train their employees and SME participation in external CSR activities is very low, and focus mainly in health and sports activities.

Even if many people in Venezuela perceive CSR as a "social industrial work, more strictly referred to the improvement of internal activities" (Mendez, 2003), SMEs in Venezuela are not the most socially responsible in the region, particularly in labor, health and safety regulation. In 2004, Fundes conducted a survey on Venezuelan SMEs and discovered that only one third comply with labor legislation, merely 26 percent comply with social security, 41 percent comply with workers' contract legislation and SMEs are prevalently characterized by temporary employment.

3.3 Community

In Venezuela, SMEs perceive the community area as valuable for their competitiveness. They believe that community issues, such as consensus building (mainly in conflicts areas such as oil fields and rural areas), participation, public-private partnership, among others, may affect the overall Venezuelan sustainable development and therefore SME competitiveness.

According to Vives, Corral, and Isusi (2005) Venezuelan SMEs show strong interest in the community area, where they have strong relationships and are well known and trusted. Many surveys and reports have studied the interaction between SMEs and their local community, stressing the importance of strong relationships. There is still a lack of structured and organized corporate giving policies among SMEs.

Community relations are pending issues in certain areas, such as oil fields where poor, uneducated and therefore unemployed people live, as well as in rural areas where the land reforms and their intrinsic conflicts prevail among large landowners,

113 COINDUSTRIA is the Venezuelan Confederation of Industries (*Confederación Venezolana de Industriales*)

cooperatives and farmers¹¹⁴ Unfortunately, the general predisposition for cooperation among the affected parties is undeveloped.

3.4 Environment

In Venezuela, the environment area is perceived as valuable by SMEs. They identify environmental issues, such as environmental management, compliance, monitoring and climate change as factors that might affect the overall Venezuelan sustainable growth and development in the mid- and long-term. In the view of local experts, Venezuela has one of the strongest policies in the region for the protection of the environment, but it is largely disregarded.

On the other hand, according to Fundes, there is a high level of ignorance about environmental responsibilities among SMEs: most of them do not know the meaning of waste management (74 percent), toxicity of products (72 percent), workers' risks and health issues (67 percent), environmental legislation (66 percent), or quality standards (59 percent). Moreover, 60 percent of SMEs do not attribute importance to management of environmental issues and 69 percent affirmed that their activities do not generate impact on the environment at all.

According to the National Inventory of Emissions¹¹⁵ in 1999 Venezuela represented around 0.48 percent of total CO₂ emissions. Regarding enterprise performance, there are only 27 ISO14001 enterprises certified in the country. On the other hand, Venezuela reveals a good use of renewable energy; in fact in the Renewable Energy Index it ranks 22 out of 109 (World Health Organization; World Resource Institute, 2005; and International Energy Agency, 2001).

Some important conservation and protection activities have been launched by the Ministry for

the Environment such as the "Tree Mission" (*Misión Arbol*) for forestry conservation, "Allow Grand Caracas to Shine" (*Que brille la Gran Caracas*) action plan to reduce waste in Caracas, and "Arrau Turtle" (*Tortuga Arrau*) for turtle protection, among others.

International conventions, mainly the Kyoto Protocol, list Venezuela among the Clean Development Mechanisms (CDM) project host countries. As of now, there are no CDM projects in the country (UNFCCC, 2006), but actions to foster their development may contribute to the Best Available Technology transfer, raising and renewing environmental performances, widening of the international network, and to the increase of CSR practices among Venezuelan companies that want to be part of the supply chain of those new plants and activities.

4 Recommended Actions

The main actors able to strengthen CSR in Venezuela have been classified in the following four categories: a) Multilateral Development Institutions (MDIs), b) national governments and local authorities, c) business associations, and d) civil society. These four categories of actors may act via all or some the following strategies, as defined in the Introductory Chapter, which are: *Mandating, Ensuring transparency, Facilitating, Improving Promotion and Advocacy, Partnering, and Endorsing*. The proposed actions are by no means exhaustive and only illustrate the types of involvement, which can be easily modified to meet local needs.

To overcome the existing difficulties, SMEs could organize networks based on horizontal co-operation with other organizations in the same situation. In Venezuela there are some examples of SME consortiums, such as in the plastic sector, which

114 In November 2001, Chavez launched a land reform plan called "Return to the Countryside", (*Vuelta al Campo*), under the Law on Land and Agricultural Development. The goals of this legislation were as follows (Delong 2005): (i) to set limits on the size of landholdings, (ii) tax unused property as an incentive to spur agricultural growth, (iii) redistribute unused, primarily government-owned land to peasant families and cooperatives and, lastly, (iv) expropriate uncultivated and fallow land from large, private estates for the purpose of redistribution. On the last and most controversial goal, the landowners would be compensated for their land at market value. The National Land Institute (INTI) was set up to facilitate these goals by establishing criteria to determine what land could be redistributed and the eligibility of those applying for new land deeds. According to Delong (2005), after a slow start, the Chavez government has redistributed about 2.2 million hectares of state owned land to more than 130,000 peasant families and cooperatives.

115 See www.marnr.gov.ve for more details.

have been formed to address the supply of raw materials. To reach this level of organization, SMEs have to overcome the lack of confidence and the strong individualism that characterizes them (ITC, 2003).

Regarding economic sectors, a valuable driver for fostering CSR in SMEs in Venezuela could be tourism. Tourism in rural areas, the promotion of micro and small tourist facilities, agritourism, and responsible tourism in certain low visibility areas could be a way to develop those poor territories, reduce conflicts (i.e. Land Reform conflicts), and enhance employment for local inhabitants. These private activities may also attract private investment and donors from other governments, MDIs and international NGOs.

4.1 Multilateral Development Institutions

MDIs are currently playing a marginal role in Venezuela. However, MDIs could still participate in helping define several strategies to encourage Venezuelan SMEs to engage in CSR activities and help drive social and environmental improvements.

a. *Facilitating, recommended actions for MDIs include:*

- Help develop a conducive policy environment, which may facilitate private sector initiatives and support voluntary efforts towards responsible behavior.
- Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
- Enhance compliance by showcasing the beneficial results of training activities on health and safety programs to SME managers and employees.
- Conduct an environmental regulation awareness campaign, to promote knowledge

about environmental norms and laws. Fund monitoring systems and environmental assessment campaigns.

b. *Improving Promotion and Advocacy, recommended actions for MDIs include:*

- Collaborate with SMEs, public authorities and civil society.
- Sponsor a human rights campaign that raises awareness about child labor in SMEs by using the media to present international and national figures addressing the negative consequences of the worst forms of child labor.

c. *Partnering, recommended actions for MDIs include:*

- Build partnerships among large and small enterprises that belong to similar sectors or to the same region with the goal of incorporating more SMEs in supply chains and increasing SMEs managerial skills.
- Facilitate tourism policies that can enhance the capability of Venezuelan micro and small enterprises to start new businesses in agritourism in rural areas.

4.2 Government and Local Authorities

The Venezuelan government and local authorities may have a role in some of the actions proposed, even though most of the interviewees and the panelists claim that the government and local authorities have a reduced role in the public sector and need improvement in their social policies.

Given the high rate of unemployment and informal employment, mandating policies are not suggested as the most effective policies. The public sector usually plays a catalytic, secondary or supporting role (Fox, Ward and Howard, 2002) and the Venezuelan public sector should work as promoters of the application of laws, drivers of CSR awareness and definers of rules.

- a. *Mandating, recommended actions for government and local authorities include:*
- Promote business registration and compliance through simplification of administrative and bureaucratic procedures.

- b. *Facilitating, recommended actions for government and local authorities include:*
- Design, together with district municipalities, an awareness campaign on waste and energy management in specific territories.
 - Enhance awareness about the different types of waste management and help SMEs choose the most suitable system for them.
 - Facilitate the development of an approach for workplace compliance, leveraging social help and solidarity, which are already part of the day-to-day activities.
 - Sponsor a human rights campaign that raises awareness about child labor in SMEs by using the media to present international and national figures addressing the negative consequences of the worst forms of child labor.

- c. *Endorsing, recommended actions for government and local authorities include:*
- Recognize efforts of specific enterprises and reward schemes for the participation in specific CSR activities by companies.

4.3 Business Associations

According to CONINDUSTRIA¹¹⁶ (2004), Venezuela has more than 50 business associations. CONINDUSTRIA supports companies and SMEs developing quality management systems, adopting the Best Available Technology, promoting innovation, facilitating the articulation of networks of suppliers, developing exports, and enhancing relationships and partnerships with other stakeholders. Since 2004, CONINDUSTRIA has supported 375 enterprises, formed 498 consultants and created an Export Consortia. Another

important association is the National Cooperative Superintendence (Superintendencia Nacional de Cooperativas - SUNACOOOP), which groups and supervises the 153,000 cooperatives active in the country.

- a. *Facilitating, recommended actions for business associations include:*
- Build capacity, raise awareness, engage businesses in CSR related activities, provide funding and create incentives for CSR efforts.
 - Pilot a project on the implementation of quality management systems in the supply chain using a chosen territory or sector. Provide assistance to participants according to the specific role they play in the supply chain.
 - Facilitate the development of agritourism and responsible tourism micro enterprises in specific rural areas.
 - Finance training programs on CSR in management and planning for SMEs.

- b. *Improving Promotion and Advocacy, recommended actions for business associations include:*
- Create training programs on competitiveness and CSR benchmarking for SME managers in rural areas.
 - Enhance compliance by showing the beneficial results of training activities of health and safety programs to SME managers and employees.

- c. *Partnering, recommended actions for business associations include:*
- Support partnerships between large and small enterprises on CSR.

- d. *Endorsing, recommended actions for business associations include:*
- Contribute to the application of environmental monitoring systems.

116 CONINDUSTRIA is the Venezuelan Confederation of Industries (Confederación Venezolana de Industrias)

- Launch conflict resolution guidelines.
- Promote Alternative Dispute Resolution (ADR)¹¹⁷ among SMEs. The common denominator of all ADR methods is that they are faster, less formal, cheaper, and often less adversarial than a court trial. ADR mechanisms are used in other Latin American countries, such as Peru (Henderson and Herrero, 2004). Venezuela should embrace this alternative form of conflict resolution because it involves private entities and not just public authorities, making it more efficient and trustworthy.

4.4 Civil Society

The Venezuelan civil society has a strong role in facilitating, partnering and endorsing policies.

- a. *Facilitating, recommended actions for civil society include:*
 - Promote, finance and disseminate results of training activities on environmental management systems and benchmarking to SME employees and managers.
 - Promote business registration and compliance through simplification of administrative and bureaucratic procedures.
 - Conduct an environmental regulation awareness campaign, to promote knowledge about environmental norms and laws.

- b. *Improving Promotion and Advocacy, recommended actions for civil society include:*
 - Lead a human rights campaign that raises awareness about child labor in SMEs by using the media to present international and national figures addressing the negative consequences of the worst forms of child labor.
 - Improve monitoring systems and environmental assessments in SMEs through the development of the Life Cycle Assessment approach in a specific sector (through the supply chain).
 - Launch an NGO engagement awareness pilot project to raise awareness about stakeholder engagement.

- c. *Partnering, recommended actions for civil society include:*
 - Participate in the development of conflict resolution guidelines – multi-stakeholder approach and the launch of ADR centers.

¹¹⁷ ADR is a term that describes a number of methods used to resolve disputes out of court, including negotiation, conciliation, **mediation** and the many types of **arbitration**.

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Appendix

The following stakeholder map has been used to verify that all eight defined stakeholder categories and all four CRS areas are represented. Stakeholders that were chosen for interviews or as panel participants either had relevant expertise in the issue or may influence awareness, interests and implementation instruments relevant to the issue.

APPENDIX 1 –VENEZUELAN STAKEHOLDER MAP

	Marketplace	Workplace	Community	Environment
1. International organizations	— United Nations Development Programme(UNDP)	— Inter-American Agency for Cooperation and Development (IACD)	— Inter-American Agency for Cooperation and Development (IACD)	— United Nations Development Programme(UNDP)
2. Government organizations and institutions	— Fondo Intergubernamental para la Descentralización — FIDES — FISCALIA — Ministerio de Energía y Petróleo — Ministerio de la Planificación y desarrollo	— Dirección de Asistencia Social — Ministerio Público — FISCALIA	— Consejo Nacional de la Cultura - CONAC — Dirección de Redes Sociales — Local Municipalities — Ministerio Público	— Local Municipalities — Ministerio de agricultura — Ministerio de Ambiente — Ministerio de Energía y Petróleo
3. Associations (national, sectoral, business)	— Confederación Venezolana de Industriales (CONINDUSTRIA) — FEDECAMARAS — SUNACOP — UNICAM	— Confederación Venezolana de Industriales (CONINDUSTRIA) — FEDECAMARAS — SUNACOP — UNICAM	— FEDECAMARAS — SUNACOP	— Confederación Venezolana de Industriales (CONINDUSTRIA) — FEDECAMARAS — SUNACOP
4. Financial institutions	— BANESCO		— Banco Provincial-BBVA	
5. Multinational companies	— ALCOA — PDVSA — PFIZER	— PDVSA	— ALCOA — PDVSA	— PDVSA — PROCTER AND GAMBLE
6. Media	— UNION RADIO Y VENEVISION (TV) — “LA RAZÓN” NEWSPAPER			
7. NGOs	— FUNDACION VENEZUELA SIN LIMITES — VENAMCHAM — Venezuelan Foundation for the Advancement of Science (Fundavac),	— Fundación Cisneros — VENAMCHAM	— Alcoa Foundation — DIVIDENDO VOLUNTARIO PARA LA COMUNIDAD — Fundación Cisneros — Humana Dignitas — RED DE APOYO — Special Operations Tactical Brigade (BTOE) — VENAMCHAM — Venezuela Awareness Foundation — Venezuelan Program of Action and Education in Human Rights (PROVEA) — UNITED WAY	— Alcoa Foundation — Heritage Foundation — VENAMCHAM — Venezuelan Foundation for the Advancement of Science (Fundavac)
8. Academia	— UNIMET	— IESA — UNIMET	— IESA — UNIMET	— UNIMET



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