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REGIONAL

**CATALYZING BUSINESSES' SOCIAL IMPACT BY EXPANDING EMPRESAS B IN LATIN
AMERICA AND THE CARIBBEAN
(RG-M1237)**

DONORS MEMORANDUM

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TABLE OF CONTENTS

PROJECT SUMMARY

1.	BACKGROUND AND JUSTIFICATION	2
2.	PROJECT DESCRIPTION	4
3.	MONITORING AND EVALUATION STRATEGY	10
4.	COST AND FINANCING	11
5.	EXECUTING AGENCY	12
6.	PROJECT RISKS.....	13
7.	ENVIRONMENTAL AND SOCIAL EFFECTS	14
8.	COMPLIANCE WITH MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS.....	14
9.	INFORMATION DISCLOSURE AND INTELLECTUAL PROPERTY	14

PROJECT SUMMARY

CATALYZING BUSINESSES' SOCIAL IMPACT BY EXPANDING EMPRESAS B IN LATIN AMERICA AND THE CARIBBEAN

(RG-M1237)

Double/Triple-bottom-line businesses or more commonly called “social businesses” are generally defined as profit-motivated companies with a parallel mission to achieve positive social or environmental impacts. However, local economic conditions and rigid legal business frameworks often inhibit their development and inclusion in mainstream markets. While the governments and civil society of Latin America and the Caribbean (LAC) continue to address broader economic, environmental, and social challenges, additional efforts are required to promote the expansion of social businesses that have the potential to make a systemic impact.

To overcome the barriers facing social businesses in LAC, Sistema B was established in 2012 based on the model developed in the United States by B Lab, a not-for-profit organization that aims to harness the power of business to solve social and environmental problems. B Lab, while working with the Impact Investing community to elaborate a ratings tool and stimulate investment in double/triple-bottom-line businesses, has developed a certification system so that a company can become a “Certified B Corporation” (Empresa B in Latin America). Moreover, B Lab has successfully influenced in passing legislation in 20 US states to create a new corporate form (“Benefit Corporation” or B Corporation), which is characterized by higher standards of corporate purpose, accountability, and transparency. Certified B Corporations, as part of compliance with a list of strict standards, must include language in their governing documents that commits the company to being attentive to multiple stakeholders’ interests, instead of the traditional focus exclusively on shareholders’ profits, and to meeting high standards of transparency, accountability, thus achieving social and economic performance simultaneously.

This project aims to expand the number (up to 500) of businesses in the LAC region that become Empresas B, demonstrating their capacity to play a transformational role in solving social and environmental problems while keeping a solid economic return. To achieve this goal, the project will leverage value chains linkages that would have commercial transactions with those double/triple-bottom-line (mostly startup) businesses, exploring the existing opportunities for expanding markets with growth potential. Ultimately, the project will contribute to supporting a burgeoning ecosystem comprised of social entrepreneurs, impact investors, policy makers, academic institutions, and others, by using the Empresas B community as a vehicle to promote more impactful and accountable social investment.

ANNEXES

ANNEX I	Logical Framework
ANNEX II	Budget Summary
ANNEX III	Quality for Effectiveness in Development (QED)

APPENDICES

Draft Resolution

INFORMATION AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF MIF PROJECT INFORMATION SYSTEM

ANNEX IV	Detailed Budget
ANNEX V	Preliminary List of Milestones
ANNEX VI	Diagnostic of Needs of the Executing Agency (DNA)
ANNEX VII	Project Status Reports (PSR), Compliance with Milestones, Fiduciary Arrangements and Integrity Due Diligence
ANNEX VIII	Procurement and Contracting Plan
ANNEX IX	Project Activities Schedule
ANNEX X	Operating Regulations
ANNEX XI	Terms of Reference of the Project Coordinator
ANNEX XII	Monitoring and Evaluation Plan for Impact Evaluations

ACRONYMS AND ABBREVIATIONS

AOP	Annual Operating Plan
DNA	Diagnostic of Executing Agency Needs
IADB	Inter-American Development Bank
MIF	Multilateral Investment Fund
OR	Operating Regulations
PCU	Project Coordination Unit
QED	Quality for Effectiveness in Development
TOR	Terms of Reference

PROJECT INFORMATION

CATALYZING BUSINESSES' SOCIAL IMPACT BY EXPANDING EMPRESAS B IN LATIN AMERICA AND THE CARIBBEAN

(RG-M1237)

Country and Geographic Location:	Regional. Supervision from Chile Country Office.	
Executing Agency:	Fundación impulsora de un nuevo sector de la economía Sistema B	
Access Area:	Access to Markets and Capabilities	
Agenda:	Value Chain Topic	
Direct Beneficiaries:	500 Businesses.	
Indirect Beneficiaries:	Beneficiaries/clients of the services and products provided by the Empresas B. Different entities (universities, social businesses, NGOs, among others) linked with the innovation and entrepreneurship ecosystem in Latin America.	
Financing:	Technical Cooperation:	US\$ 1,150,000
	Investment:	
	Loan:	
	TOTAL MIF FUNDING:	US\$ 1,150,000
	Counterpart:	US\$ 1,115,000
	TOTAL PROJECT BUDGET:	US\$ 2,265,000
Execution and Disbursement Period:	36 months of execution and 42 months of disbursement.	
Conditions prior:	As a condition prior to first disbursement in Chile, an annual plan will need to be approved by the Bank/MIF. For other countries, a signed agreement between Sistema B and the sub-executing agency will need to be approved by Bank/MIF as a condition prior to the beginning of the project's disbursements in such country.	
Special Contractual Conditions:	None.	
Environmental and Social Impact Review:	This operation was screened and classified as required by the IDB's safeguard policy (OP-703). Given the limited impacts and risks, the proposed category for the project is C.	
Unit with Disbursement Responsibility:	COF/CCH	

1. BACKGROUND AND JUSTIFICATION

A. Diagnosis of the Problem to be addressed by the Project

- 1.1. There are a growing number of entrepreneurs and existing companies that seek to have real positive social and environmental impacts in addition to financial growth. Alas, they are often faced with the challenges of insufficient recognition from buyers and investors, and operate in business environments that do not necessarily value their double/triple bottom-line philosophies. Consumers are increasingly demanding more transparent and socially responsible brands¹, although in LAC, this group is still only a small minority of the consumer market. Some larger companies with recognized brand names are anticipating the growing numbers of socially-conscious consumers and are responding to additional pressures to go beyond traditional corporate social responsibility (CSR) practices or philanthropy. Some of these companies have re-evaluated their supply chains and made decisions to source from certified sustainable products, but in many cases these certifications are limited to a narrow range of goods and do not adequately respond to a company's larger aspirations to truly be socially responsible. While opportunities are growing for double/triple-bottom-line businesses to integrate into sustainable value chains, the challenges in seizing them remain, particularly since these usually smaller enterprises have difficulty in marketing themselves to potential buyers, while traditional NGOs can hardly meet the standards to become suppliers for large corporations due to legal constraints, access investment capital; accordingly an opportunity to expand positive impact is often lost.
- 1.2. The B Lab model in the US. In addressing the barriers facing social businesses, B Lab was created in the United States in 2008 as a nonprofit organization that aims to harness the power of business to solve social and environmental problems. B Lab has developed a certification system so that a company can become a "Certified B Corporation," and has worked to pass legislation in 20 US states to create a new corporate form ("Benefit Corporations"), which is characterized by higher standards of corporate purpose, accountability, and transparency. As part of compliance to a list of strict standards, Certified B Corporations must include language in their governing documents that commits the company to protecting multiple stakeholders' interests, instead of the traditional focus exclusively on shareholders' profits, and to meeting high standards of transparency, accountability, achieving social and economic performance simultaneously.
- 1.3. Additionally, Certified B Corporations need to be assessed using the "B Impact Assessment"² and verified through scoring above an ambitious threshold. B Lab has also worked with the Impact Investing community to develop a ratings tool known as "Global Impact Investing Reporting System" (GIIRS) to stimulate investment in double/triple-bottom-line

¹ <http://www.trendwatching.com/trends/10trends2013/?demandingbrands>

² The B Impact Assessment (BIA) is a commonly used tool to assess a company's overall social and environmental performance. It does so by measuring the overall impact of a business on all stakeholders (workers, suppliers, customers, community, and environment) through an online, easy to use platform. For further references please see <http://www.bcorporation.net/b-impact-assessment-101>

businesses³. This movement has quickly expanded globally for the three years, and currently there are nearly 1,000 companies in 30 countries that have become Certified B Corporations. With respect to the impact of the B Corporations, B Lab has collected data on 15,000 companies that have accessed the B Impact Assessment. Performance trends between the B Corporations and other sustainable businesses show that B Corporations (including Empresas B) outperform their peers as measured according with the B Impact Assessment data. In addition, it is worth mentioning that according to the data of the B Impact Assessment, B Corporations are 18% more likely to supply from low income communities and 28% more likely to have women and minorities in management.⁴

- 1.4. Looking to expand its operations under a decentralized model, in 2011 B Lab partnered with a group of well-known social entrepreneurs in South America who created la Fundación impulsora de un nuevo sector de la economía Sistema B ('Sistema B'). To date, Sistema B has certified 85 companies in Argentina, Brazil, Chile and Colombia as Empresas B, and 174 businesses are presently in the certification process while about 3,000 companies in total have been identified as potential *Empresas B* throughout South America. In spite of these early accomplishments, Sistema B is still in the process of adjusting its model to the regional context of each country. Furthermore, the potential to become a catalyst for social entrepreneurs who are willing to start an endeavor to generate social impact is limited, as they do not fit in traditional legal classifications (neither in the business sector nor in the social sector), while there is only a few partnerships established with organizations that promote the Empresa B philosophy⁵, resulting in a lack of solutions for scale-up in the social entrepreneurship arena in the region.
- 1.5. In 2013, the MIF commissioned a research study⁶, whose goal was to identify growth opportunities for social businesses as well as concrete ways in which these businesses, with certifications that indicate their commitments to positive social and environmental impacts, could access secure markets. The mentioned study found that while there are profitable businesses emerging with parallel aspirations to generate positive social impacts, they face different challenges that limit their expansion potential such as: (i) a regulatory framework favors shareholders' financial return above social or environmental stewardship; (ii) their current client base is limited to only a limited number of socially-conscious consumers and have trouble identifying and connecting with socially-conscious larger buyers; (iii) they have insufficient working capital (or insufficiently patient capital) needed for growth; and (iv) they act in isolation from other similar social businesses with which they could generate collaborative synergies.

³ Note that the MIF and the IDB are part of the Global Impact Investment Network (GIIN) and committed to applying GIIRS to their investment portfolio.

⁴ <http://www.bcorporation.net/community>

⁵ <http://www.sistemab.org/espanol/comunidad-empresas-b/companeros-de-ruta>

⁶ The needs assessments and landscape of social businesses - potential 'benefit corporations' in LAC are mostly derived from a MIF-commissioned study "Nuevas Empresas, Nuevas Economías: Empresas B en Sur America". 2013. Gatica et al.

B. Project Beneficiaries

- 1.6. The project's principal group of beneficiaries will be 500 businesses who aspire to gain certification as Empresas B. With a specific focus on social entrepreneurs, these businesses will include startups, small and medium enterprises, and nongovernmental organizations (NGOs) that are committed to positive social and environmental impacts in addition to profitability. These direct beneficiaries can be categorized into three general profiles: (i) innovation pioneers who are startup firms created by social entrepreneurs whose original objective is to create for-profit enterprises that solve a social or environmental problem; (ii) traditional enterprises, that are existing small and medium companies that operate under a traditional business scheme focused mainly on profit generation and growth, but desire to transform their operations to enhance their social and environmental impact; and (iii) NGOs or third sector entities, which are organizations that have started as non-profits, but have found that operating as for-profit entities provides them with flexibility to scale up their businesses in addition to their maintaining their original social or environmental missions⁷.
- 1.7. Other beneficiaries of the project include approximately 40 corporations (anchor firms), 20 universities, and 10 impact investment funds. Since the incipient demand for purchasing products and services from social enterprises lies mostly in sustainable value chains rather than the general consumer market, the project will focus on beneficiary firms with the potential to link to value chains of large corporations and other like-minded businesses. (The B Lab experience in the United States has shown that large corporations who can be certified as B Corporations such as Patagonia or Ben and Jerry's, have a large potential for attracting smaller firms towards certification. The market study commissioned by the MIF shows this would also be the case in Latin America).

C. Contribution to the MIF Mandate, Access Framework and IDB Strategy

- 1.8. The project contributes to achieving the MIF's objectives of economic growth through private sector development and increased private investment since it is designed to strengthen social enterprises and will likely mobilize impact investments. It is expected that the knowledge generated by the project will be used for the development of future projects and strategies in working with linking smaller businesses to value chains. This project should also generate knowledge for future MIF projects related to recycling, green growth, access to basic services for the poor and vulnerable and access to finance for early stage social enterprises.

2. PROJECT DESCRIPTION

A. Objectives

- 2.1. The intended impact of the project is for firms to improve their financial performance and competitiveness while preserving their commitments to positive social and environmental impacts. The intended results of the project are for businesses to apply practices allowing them to reach minimum standards of transparency, accountability, and commitments to

⁷ As a general estimate, the 500 Empresas B might be distributed as follows: 300 innovation pioneers, 100 traditional businesses, and 100 NGOs.

positive social or environmental impacts, and to seek linkages with other socially or environmentally conscious enterprises.

B. Description of Model/Solution/Intervention

- 2.2. This project will expand and mainstream the model developed (Certified Empresa B) that promotes mission-driven, accountable and transparent businesses, helping consolidate socially and environmentally responsible business practices. More broadly, the project intends to support an ecosystem comprised of social entrepreneurs, impact investors, policy makers, academic institutions, and others. In order to achieve these objectives, the project will deploy interventions targeting both companies (those already at least minimally certified as Empresas B) and the supporting ecosystem.
- 2.3. The activities of the project will start by recruiting existing businesses with interest in strong corporate responsibility practices, as well as entrepreneurs who are willing to consolidate a business endeavor that espouses a double/triple bottom line philosophy. The recruitment process will include workshops and education activities for organizations across various sectors to help them better understand Empresa B certification standards and benefits. Once the companies have become *Empresas B complying with the minimum certification standards*⁸, Sistema B will provide them with technical assistance and training (reviewing internal sustainability policies, training employees in responsible practices, double-bottom-line training for managers, among others) to help the Empresas B to achieve even higher social and environmental performance.
- 2.4. As a key component in the project, Sistema B and B Lab will work on leveraging commercial linkages and value chains that support double/triple-bottom-line businesses, exploring market opportunities that would help Empresas B to grow.⁹ For this purpose, Sistema B will first design and implement an informational campaign targeting both large firms and public institutions in order to demonstrate the benefits of incorporating Empresas B into supply chains. Secondly, Sistema B will also develop an online “B Marketplace” that will facilitate access to reliable and useful information for large corporations willing to have Empresas B as suppliers or partners and to provide preferential consideration of Empresas B for public procurement bidding.
- 2.5. Regarding the ecosystem, Sistema B will first analyze the existing legal framework in the LAC countries targeted through this project, exploring how the concept of the Empresa B can be legally recognized. Sistema B will also develop “Communities of Practice” for exchanging best practices among Empresas B in order to address issues of common interest. Additionally, the project will strengthen the institutional capacity of *Sistema B* to assure that it has the capacity to actively and sustainably promote a vibrant regional network of Empresas B (including a potential franchise model). Lastly, the project will help to develop and disseminate quality knowledge products, which will enable the Empresa B

⁸ For a company to be certified as Empresa B, it is necessary to obtain at least 80 out of 200 in the B Impact Assessment score (See the Problem Diagnosis Section).

⁹ One example is Triciclos in Chile (a recycling Empresa B), which has become a supplier of large corporations for Pepsi Co, Walmart, Aramark, Coca Cola and Unilever. Those companies are satisfied with the services of Triciclos and, based on their experiences, are willing to incorporate in the base of suppliers additional Empresas B that feed their sustainability reporting.

community to engage key stakeholders and may also serve to promote public sector reforms intended to encourage higher standards of social and environmental responsibility in the private sector.

C. Components

Component I: Building demand and development of a robust group of Empresas B (MIF: US\$144,400; Counterpart: US\$438,600).

- 2.6. The objective of this component is to support the consolidation of a robust community of Empresas B in the LAC region, helping the Empresas B to improve their social and environmental impact through the B Impact Assessment. For this purpose, partnerships with different organizations (universities training centers, etc.), as well as specific direct services from Sistema B (including courses and specific trainings) will be developed.
- 2.7. The activities and products of this component are the following: (i) awareness building and recruitment of companies in the LAC region who are interested in joining the Empresa B community through informational webinars, interactive workshops, and seminars; (ii) strengthening the “Communities of Practice “of Empresas B, developing new tools in four communities of interest: access to investors, market opportunities, communications, and better practices and policies; (iii) training and capacity building for Empresas B in order to adapt internal policies and practices and to achieve higher standards in social and environmental performance; and (iv) translation into Spanish and Portuguese of the most relevant resources of the B community worldwide. This component incorporates a specialist in training and capacity building of Empresas B, that will be co-financed by the MIF and Sistema B, and that is expected to be a current staff of Sistema B.

Component II: Improve Access to Markets and Value Chains for Empresas B (MIF: US\$427,000; Counterpart: US\$69,000).

- 2.8. The objective of this component is to help Empresas B to obtain a larger and more sustainable client portfolio and thus to grow through the value created by B Certifications. In this respect, one of the main messages of being a Empresa B versus different social business figures, is their capacity to grow and scale while protecting its social mission, and the integration in value chains is a key tool to achieve such sustainable growth.
- 2.9. The activities and the products of this component are the following: (i) development of an online “B Marketplace” that will facilitate reliable and useful information for large corporations willing to have Empresas B as suppliers or partners; (ii) implementation of a B2B (Empresa B buying from another Empresa B) initiative will also be promoted through the marketplace; and (iii) design and implementation of a campaign showing the benefits of incorporating Empresas B into supply chains - oriented towards both public institutions (promoting preferential access of Empresas B for public procurement) and executives of large corporations.

Component III: Institutional strengthening of Sistema B and refinement and expansion of the model (MIF: US\$179,000; Counterpart: US\$324,500).

- 2.10. The objective of this component is to consolidate the Sistema B model, to generate a sustainable institutional business model, and to replicate in other countries of the LAC

region¹⁰. For this purpose, the component will support the design and implementation of a Sistema B network, based on franchise agreements, divided in three levels: (i) Sistema B international, (ii) Sistema B National (each country), and (iii) Sistema B Nodes (cities within a country).

- 2.11. The activities and products of this component are the following: (i) elaboration of Sistema B's strategic plan, service provision menu and financial model (including a potential franchise model); (ii) design and implement a Sistema B expansion model through different national and regional offices; (iii) strengthening the capacity of new offices; and (vi) enhancement of the B Impact Assessment system to recalibrate and include more granular, sector-specific, and thematic indicators to further enable companies, investors, and business networks in the LAC to evaluate and benchmark specific impact outcomes. Impact and performance indicators will be disseminated to potential Empresas B in each country as well as by industry and reported on in aggregate for the region.

Component IV: Knowledge Management and Communications Strategy (MIF US\$162,000; Counterpart US\$83,000).

- 2.12. The objective of this component is to systematize, document, and disseminate the experience and knowledge generated in this project, with the objective to have a better and broader recognition of Empresas B and the value of the B certification in the region as a tool to generate positive social and environmental value. This component will contribute to reducing the knowledge gap of how certifications for socially and environmentally sustainable businesses can facilitate their integration into a productive value chain.
- 2.13. The activities and products of this component are the following: (i) design and implementation of a plan to engage key stakeholders, in particular with the focus on influencing in public policies surrounding Empresas B¹¹; (ii) conferences – including a regional conference on social enterprises-, workshops, forums, and informational seminars to foster connections with strategic partners – especially in the public sector – and disseminate the case studies, and other publications related to the impact of the Empresa B community; and (iii) a case study consisting of three firms describing how different types of businesses have transformed into Empresas B (3 types as defined in the Beneficiaries section), and how this helped them to become integrated in the productive value chain.
- 2.14. The audiences that have been identified as key to promote the expansion of the Empresas B in the region are: (i) social entrepreneurs and startups/small corporations interested in becoming Empresas B (as well as representative bodies such as chambers of commerce and associations of entrepreneurs); (ii) large and medium-sized companies with interest in expanding their portfolio of suppliers through Empresas B; (iii) impact Investors and

¹⁰ 12 countries are expected to be part of the Sistema B network in the region at the end of the project. Both countries with a more developed social enterprise ecosystem, as well as countries with a nascent social enterprise ecosystem, will form part of the Latin America and Caribbean expansion. However, Sistema B will develop a specific engagement strategy for countries – such as Central America – were additional efforts might be needed to generate a significant present of Empresas B.

¹¹ As part of this component a regional group of B Lawyers will be developed to advocate for the model and provide legal support to the regional expansion. B lawyers will mostly be pro bono lawyers committed to the field of social innovation and social enterprise in the region.

financial institutions interested in expanding/diversifying their asset class; and (iv) decision makers and government officials that can promote legislative agenda for the Empresa B.

D. Project Governance and Execution Mechanism

- 2.15. Sistema B will be the executing agency of the project from its headquarters in Chile. B Lab will be supporting Sistema B in the certification process and providing expertise and complementary funding to the project. For this purpose, Sistema B and B Lab will sign a specific agreement for the project execution. Additionally, Sistema B will sign agreements with the different local entities in the regional countries where the Project will implement its activities¹². The project supervision will be centralized in the MIF country office in Chile

E. Sustainability

- 2.16. The project will prove that B Corporation Certification is a valuable tool for access to high value markets, social marketing and improving competitiveness, thus generating a positive model for other companies willing to become Empresas B. Therefore, long-term sustainability of the project will be attained through the development of a proven profitable business model for Sistema B, which will ensure that it continues to support the social business movement well into the future. Specifically, *Sistema B* operations are expected to generate revenue by charging Empresa B certification fees and certain royalty fees for use of its GIIRS and B Impact Assessment. As the Sistema B ecosystem incorporates more and more certified Empresas B, its revenue streams would become sufficient to maintain operations that are independent from MIF support¹³. Finally and to complement the main revenue from the certification, Sistema B will generate a very concrete pool of additional paid services that it will provide to the Empresas B such as: design impact metrics, workshops to educate workers and training to managers to develop sustainable and responsible growth strategies.
- 2.17. One year before the project ends, a sustainability workshop will be held with all key stakeholders to identify specific actions needed to ensure the continuity of the project's activities act the project funding has been expended.

F. Experience and Lessons Learned from MIF or other Institutions

- 2.18. The MIF has financed a number of inclusive value chain projects in/for a variety of sectors/stakeholders (agriculture, recycling, handicapped workforces, etc.) and accumulated experiences and expertise. Many cases have confirmed that anchor firms' commitments to engaging in responsible supply chain management need to be based on a strong business case, and the collected information so far has proven that these inclusive business initiatives could lead to improvement of business performance for both large corporate buyers and suppliers (who are often from the low income populations).

¹² In some countries where Sistema B has already preliminary operations like Colombia, a local subsidiary of Sistema B will be incorporated. In other countries like Brazil, a partnership with a local institution (CDI in Brazil) will be the structure to operate in the country.

¹³ It is expected that Sistema B will reach financial sustainability by 2017 with a break even around 400 Empresas B, but it will continue to receive grant support from other external donors over the next three years to strengthen the capacities of the Empresas B and develop a solid community of practice. Some existing donors that are expected to continue their support Sistema B efforts are Halloran Philanthropies, Ford Foundation, BMW Foundation, CORFO Chile, among others,

- 2.19. Through the project of Social Innovation in Chile (CH-M1046) the importance of legal framework for innovators and entrepreneurs was recognized as it allowed them to guide their decision on social and business aspects. In this regard it is worth noting that several winners of the competition conducted by the project decided to convert themselves into Empresas B, whose growth turned into positive, confirming its effects of institutionality. Another lesson learned from the project of Social Innovation in Colombia (CO-M1091) is that entrepreneurs need to have organized corporate governance in order to access medium-to long term funding from impact investment community, thus business development services should be focused on improving organizational efficiency to generate sufficient margins allowing the early-stage firm to rapidly scale by external resources.

G. MIF Additionality

- 2.20. Non-Financial Additionality. MIF's reputation and partner network will enable the model to expand by connecting Empresas B with relevant MIF initiatives (in areas such as impact investing, green growth, etc). MIF may also use the standards and assessment mechanisms established by Sistema B to direct its own impact investment funds, which would provide additional credibility to the B Impact Assessment system and encourage its partner networks and/or other impact investment funds to use these systems in evaluating new investment opportunities in the region.¹⁴ Experiences from MIF projects in social entrepreneurship/innovation such as Chile or Colombia will be incorporated to support the project implementation and execution (particularly in terms of providing innovators with a legal form to scale their businesses).
- 2.21. Financial Additionality. While potential anchor companies may contribute counterpart funding, MIF financial support is key for: (i) developing a solid methodological basis to help Empresas B improve business performance; (ii) ensuring that the expansion of Empresas B will increase the likelihood of achieving both economic and social results and impact desired and be measured; and (iii) attracting additional support and resources from other partners who may become interested in joining the Empresa B movement later on. Finally and in collaboration with other IDB private sector windows (IIC, SCF or OMJ), the MIF will explore the opportunities for Empresas B to receive investments from such windows.

H. Project Results

- 2.22. The project expects to see a number of changes in behavior for social enterprises and other supporting institutions. Through the certification process, it is expected that most candidate Empresas B will immediately adopt best practices in accountability, transparency, governance, employee relations, community engagement, and management of social and environmental impacts, namely to successfully cross the 80 score threshold required in the B Impact Assessment and also in order to successfully pass the Sistema B validation process. The project expects about 350 Empresas B will required training to strengthen their businesses and provisions of goods and services. Additionally, the project expects Empresas B to access new financing from impact investors or donors.

¹⁴ As mentioned before, MIF is already applying GIIRS to rate its investment portfolio.

I. Project Impact

- 2.23. Through Empresa B certification and the de facto induction into a community of Empresas B, the project expects social enterprises to fare better financially as well as in their objectives to have positive social and environmental impacts. The project will track several of certified Empresas B's financial indicators, including sales and operating costs (and will calculate annual percent changes). Additionally, it will track other indicators of firm performance and competitiveness, including time in operation and number of employees (net jobs created annually). Because of the wide range of positive impacts the firms may have on society, their communities, their employees, and the environment, the project will assess improvements in social and environmental impacts through the B Impact Assessment scores. And since the scores are also based on the same online assessment instrument, subsequent analyses will be possible to describe what types of social and environmental impacts these firms will have had.

J. Systemic Impact

- 2.24. The project expects to have an impact in the broader ecosystem supporting social enterprises by instigating behavioral changes from key actors and institutions. For example, universities throughout South America, facilitated by knowledge products and knowledge transfer activities of the project, are expected to incorporate B Corporation-related concepts into their academic curricula. Impact investors are also likely to focus their investments in certified Empresas B through the region. Also, the experience and knowledge generated through the project, in conjunction with Sistema B and B Lab's advocacy efforts, may influence policies and regulations that support social entrepreneurs as well as established or potential social enterprises.

3. MONITORING AND EVALUATION STRATEGY

- 3.1. Needs Assessment and Landscape Study: In 2013, the MIF commissioned a needs assessment and broad diagnostic of the landscape of social businesses in the four countries where the project will take place. This assessment was a significant input for designing this project and highlighted several recommendations for intervention, such as describing profiles of candidate Empresas B, categorizing these enterprises into types for purposes of adjusting potential services offered by Sistema B, and highlighting market opportunities, such as in forging value chains among Empresas B.
- 3.2. Baselines and Data Collection: Regarding gathering and tracking metrics for the project, the B Impact Assessment can be thought of as a backbone for gathering data on candidate and existing Empresas B and B Corporations. The Empresa B or B Corporation certification and the Global Impact Investment Rating System (GIIRS) scores are, after all, fruit of this standardized questionnaire and diagnostic tool. In the context of the project, enterprises' expressed interests in becoming Empresas B will be manifested by taking the assessment online. This will serve as the baseline data for each participating company. Since the assessment comes built-in with instant feedback such as guidelines and best practices in order to score higher no particular indicators, enterprises may undergo immediate internal changes in order to increase their scores. The assessment will also be used to check

businesses’ advances following targeted support, and is a requirement for re-certification after two years. In the case where the project may need to collect some additional data on participating businesses, short surveys will be used and may be attached to the B Impact Assessment platform.

- 3.3. **Evaluations:** The project will undergo at least two and possibly three external evaluations. The first evaluation will be a mid-term, formative evaluation, to be conducted half-way through the project execution period or once approximately 50% of project funds are disbursed. This evaluation will focus on assessing project implementation and will be used to recommend any modifications to the project during execution. It will, to the extent possible, assess any observable outcomes on businesses, but its focus will be in finding efficiency in the project’s administration – whether the project is being administered on time, on budget, providing deliverables of acceptable quality, and whether it is on course for delivering on its development impacts to Empresas B. While a mixture of methods is encouraged for the mid-term evaluation, qualitative analyses may be favored.
- 3.4. Upon completion of the executing period, a final evaluation will be conducted. This evaluation will focus on assessing project outcomes – the results and impacts observed in Empresas B. Additionally, the evaluation will highlight any lessons derived from the project that may be of use to Sistema B and the development of other projects that support social enterprises, as well as recommendations for Sistema B’s growth and sustainability in the region. The evaluation report should also address issues on how to reach broader systemic impact, meaning how to strengthen a supporting ecosystem involving policy-makers, regulators, academics, impact investors, social entrepreneurs, business associations, business leaders, etc.
- 3.5. In addition to the mid-term and final evaluations, it is possible that an impact evaluation will be conducted. Several questions persist about the measurable extent to which the certification or the process of certification benefits social enterprises. Relying on the database of companies who have taken the B Impact Assessment as well as on any additional surveys, an impact evaluation would compare the performance of certified Empresas B against other social businesses in aspects such as: (i) raising capital or attracting investment; (ii) accessing new markets; (iii) forging supplier relationships; (iv) brand value; (v) service or product value (pricing); (vi) financial sustainability; and (vii) providing benefits to the community, society, or the environment, etc. The viability of an impact evaluation is being assessed and any additional funding for this evaluation will be provided externally from project funds and likely from the MIF’s Impact Evaluation Account.

4. COST AND FINANCING

- 4.1. The project has a total cost of 2,265,000 of which US\$1,150,000 will be provided by the MIF, and US\$1,115,000 the counterpart. The execution period will be of 36 months and the disbursement period will be of 42 months.

Components	FOMIN	COUNTERPART	TOTAL
Component I: Building demand and development of a robust group of Empresas B	144,400	438,600	583,000

Component II: Improve Access to markets and value chains for Empresas B	427,000	69,000	496,000
Component III: Institutional strengthening of Sistema B and refinement and expansion of the model	179,000	324,500	503,500
Component IV: Knowledge management and strategic communication	162,000	83,000	245,000
Executing agency / Administrative	109,500	199,900	309,400
Ex post reviews	15,000		15,000
Base line, monitoring and evaluation	40,000		40,000
Sub-Total	1,076,900	1,115,000	2,191,900
% of Financing	49.13%	50.87%	100%
Agenda account	18,338		18,338
Impact evaluation account (5%)	54,762		54,762
Grand Total	1,150,000	1,115,000	2,265,000

5. EXECUTING AGENCY

- 5.1. Fundación impulsora de un nuevo sector de la economía Sistema B ('Sistema B'), a private sector foundation established 2012, and since then has built an incipient community of certified Empresas B in Argentina, Chile, Colombia, and Brazil, articulating a supporting ecosystem, and generating awareness. To date Sistema B has certified 85 companies in the four countries as Empresas B. 174 businesses are currently engaged in the certification process and 3,000 companies in total have been identified as potential Empresas B in the region. The achievements across these areas positioned Sistema B as a pioneering and well-recognized organization among key strategic actors in regional and each local ecosystem. Sistema B's operation has been supported by the grants from prestigious public and private funders such as the Ford Foundation, BMW Foundation, Halloran Philanthropies, Innpulsa in Colombia and CORFO in Chile.
- 5.2. For the implementation of the project, Sistema B will sign a collaboration agreement with B Lab¹⁵. The agreement will detail the specific contributions that B Lab will provide to the project. Since 2008, B Lab, a US 501(c) 3 nonprofit organization, has provided over 15,000 companies the use of the B Impact Assessment. Over 1,200 companies have been rated using the Global Impact Investing Rating System (GIIRS) to attract financing from impact investors, over 500 companies have legally incorporated as benefit corporations in 20 US states using this new corporate form and over 1,000 B corporations worldwide (in Australia, Europe, South America mainly). This represents a new community of empowered entrepreneurs attracting over 100 institutional investors and fund managers.
- 5.3. For the implementation of the activities 2.1 and 2.4 of the project, Sistema B will hire B Lab as a consulting firm for an amount of 250,000 US\$ from MIF contribution. In accordance with the Bank's Policies for the Selection and Contracting of Consultants (GN-2350-9), such hiring will be considered a single source selection covered under paragraph 3.10.d) of the policies, which mentions an experience of exceptional value for the services as a reason for the direct contracting. To this end, there is a specific need and exceptional value in the

¹⁵ The Bank will need to approve the collaboration agreement between Sistema B and B Lab.

knowledge and expertise that B Lab demonstrated through its creation of the B Corporations model with a worldwide network of 1,000 B Corporations. Thus, B Lab provides to the project exceptional value from the services provided that cannot be supplied by any other entity.

- 5.4. The majority of the activities will be implemented from Chile, where the project execution unit will be based. In order to develop the project's activities in other countries of the region out of Chile¹⁶, Sistema B will partner with local entities to execute project activities and manage project resources in those countries. Sistema B will retain responsibility for providing comprehensive progress reports on Project implementation and Project resources to MIF, but it will be able to channel resources and implement activities through the local partners. MIF will need to approve the agreements between Sistema B and the local entities as a condition prior to the effective starting of the project operations in a given country (not including preliminary visits of Sistema B in the concept of scoping the market).
- 5.5. Sistema B will establish an executing unit centralized in Chile and the necessary structure to effectively and efficiently execute project activities and manage project resources. Sistema B will also be responsible for providing progress reports on project implementation.

6. PROJECT RISKS

- 6.1. The first risk identified is that there is an insufficient number of commercial linkages between Empresas B and corporations, in particular for those Empresas B that are innovation pioneers, which limits the growth of such Empresas B. As mitigation measures, specific capacity building activities will be developed to facilitate Empresas B access to value chains, and the B Market Place is expected to leverage the recognition of well-known Empresas B benefiting smaller Empresas B. A second risk is a potentially insufficient number of impact investors and other financial actors supporting the growth of the Empresas B. Although the group of socially-motivated investors is growing in the LAC region, it may still be too small to meet the diverse needs of the Empresa B community. MIF experience and contacts in the impact investment industry, as well as those of other private sector windows of the IDB, will help to generate key contacts and channel funding for the community of Empresas B to mitigate this risk.
- 6.2. A final risk is that Sistema B not meets the targets for certification, generating a sustainability hazard for the model. Even though there is a large critical mass of businesses willing to go through the certification process, the standards are quite high. To mitigate this risk, the project will selectively look for forging partnerships with prominent institutions in LAC with a strong network of partners and capacity to recruit a sufficient number of potentially good performing companies.

¹⁶ It is expected that the bulk of the activities outside of Chile will be implemented in Brazil, Colombia and Argentina. A non-objection letter will be requested from the government as a condition prior in any country which is expected to receive more than 50,000 US\$ from MIF funding.

7. ENVIRONMENTAL AND SOCIAL EFFECTS

- 7.1. The essence of the Empresas B is to generate positive social and environmental impact. Different examples (such as TriCiclos already mentioned) show how the interaction between social and environmental impact can be effectively delivered in a sustainable and profitable manner using Empresa B as a vehicle. Accordingly, it is expected that the project will have positive social and environmental effects through the expansion of a solid community of Empresas B in the region.

8. COMPLIANCE WITH MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 8.1. **Disbursement by Results and Fiduciary Arrangements.** The Executing Agency will adhere to the standard MIF disbursement by results, procurement and financial management arrangements.

9. INFORMATION DISCLOSURE AND INTELLECTUAL PROPERTY

- 9.1. **Information Disclosure.** The information included in this document is classified as public in accordance with the Bank's Access to Information Policy (GN-1831-33). The project will seek to make public as much information as possibly to facilitate transparency in the market and promote the expansion of Empresa B in the region.
- 9.2. **Intellectual Property.** The project was originated on the basis of different technology platforms and methodologies developed by B Lab, such as, among others, B Corporation, B Impact Assessment and B Analytics. In this respect, the refinement and replication of such methodologies and platforms for Latin America and the Caribbean (specifically under activities 1.5, 2.1, 2.4 and 3.4), that will be developed by this project must be understood as a consubstantial part of such broader methodologies and platforms, particularly in terms of technical components, IT platforms, brand, and manuals, and therefore property of B Lab. However, B lab and Sistema B hereby commit to provide to the Bank/MIF with access to the information in the platforms and with any other information that may contribute to the dissemination of best practices in promoting and measuring social enterprises in the Latin America and the Caribbean region, as well as the required information for the elaboration of the case studies as well as the results/impact of the value chain integration of Empresas B with large corporations.