

Building a framework for Corporate Social Responsibility as a development tool

El Salvador

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At the request of the Minister of the Economy of El Salvador, the Foreign Investment Advisory Service, FIAS, a joint facility of the International Finance Corporation (IFC) and the World Bank, undertook an advisory project based on CSR experience from around the world. This project was designed to build on a 2004 FIAS report on the possibilities of El Salvador using CSR as a development tool and a medium to attract foreign investment and mobilize domestic capital in El Salvador. It also aimed to learn from previous and ongoing work by Business for Social Responsibility(BSR) and by FUNDEMAS.

The objective was to improve the competitiveness of the Salvadoran economy by integrating corporate social responsibility more successfully into the policies and practices of key industries, focused in this pilot stage on coffee, sugar and apparel sectors. The project began in March 2005, and concludes with a national workshop in San Salvador on January 17th, 2006. This report will be finalized with input from that workshop and then submitted to the Minister of the Economy.

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Executive Summary

The government of El Salvador is committed to free trade, to the promotion of foreign investment in key sectors, to tight fiscal policies, a tax regime that promotes corporate investment, and to economic stability. The real growth estimate for 2005 is 2.8%, still low in global terms, but is the highest for six years, and the Government is projecting 3%-3.5% growth in 2006.

Continued economic growth will remain challenging, and will depend to a significant extent in the short- to medium-term on improved competitiveness in key industry sectors: sugar, apparel and coffee. All three sectors have been facing severe competition in recent years. One part of this challenge has related to stakeholders' views on labor and environment standards in markets that are important to El Salvador, and the relative failure of industry and Government to design a sustained strategy that can take advantage of this market opportunity.

A growing number of national governments now recognize two things. First, that the market-based drivers behind CSR systems can help them get their own labor and environment laws enforced in workplaces. Secondly, that guarantees of good labor and environment standards can help national economic competitiveness strategies, since evidence of good standards is increasingly required by buyers, investors and project financiers, and is increasingly included in free trade agreements or systems of trade preferences.

The objective of this advisory project was to improve the competitiveness of the Salvadoran economy by integrating corporate social responsibility more successfully into the policies and practices of key industries. In this pilot stage, the project focused on the sugar, apparel and coffee sectors, focusing on the CSR systems around specific standards: monitoring, reporting, verification and capacity-building. The project was intended as a complement to other efforts aimed at strengthening market fundamentals of the economy generally and these key sectors specifically.

The project was designed with three phases: awareness and consensus-building (February – March); research (April-June); and implementation of industry pilots (July – December). This schedule was maintained. Across the three sectors, the project has involved structured consultations, surveys / assessments and the design / application of new tools designed to enhance the ability of Salvadoran firms to integrate CSR into their core business practices. Each sector took the lead in piloting improvements to one or more key aspects of CSR systems; when aggregated across the three sectors, they give a compelling picture of how current systems could be improved in a sustained manner.

The 2004 FIAS report for the Minister of the Economy¹ noted that attention to social and environmental issues is becoming an essential element of success in the global economy. These findings were established in a survey of more than 100 multinational companies. Roughly 60% of respondents considered CSR to be at least as important as traditional considerations such as price, quality, and delivery when making new

¹ El Salvador, Corporate Social Responsibility, Competitiveness and Foreign Direct Investment, FIAS, Washington DC, February 2004

investment and/or sourcing decisions with countries or individual enterprises. Observers both inside and outside El Salvador consider social and environmental performance to be of particular importance for middle income nations such as El Salvador that rely on exports of apparel and agricultural commodities such as sugar and coffee.

While each of the three industry sectors has different priorities and market conditions, there are numerous similarities. This project has sought to address each industry on its own terms, while also focusing on the matters of greatest national significance.

To that end, we have worked with industry leaders to develop pilots that harmonize expectations between local producers and the international marketplace; leverage the limited public and private resources available to address CSR issues for maximum benefit; enhance capacity to address social and environmental issues effectively; address the key issues of labor rights, environmental standards and community engagement and provide credible means of verification of Salvadoran practices. In each sector, we aimed to design projects that would complement the industry's broader efforts to improve competitiveness in the global marketplace.

The context for this work is relatively clear. International experience shows that increased CSR-related investments will do nothing to save an industry where the fundamental economics are unsound. But that same international experience shows that when an industry is economically competitive, CSR can be part of a successful competitiveness strategy, targeting markets that are concerned about the labor and environmental conditions.

Apparel sector

The Multi Fiber Arrangement, or MFA, governed world trade in the apparel and textile sector for thirty years. This quota system artificially inflated the number of countries manufacturing garments for export by restricting the output of the most competitive countries, and importers sourced from one country or another primarily because of quota availability. This led to the development of garment industries in comparatively uncompetitive countries, sheltering them from the rigors of global competition. The consequence for the industry has been global over-capacity and inefficiency. The MFA came to an end on January 1, 2005, eliminating all textile and garment import quotas for WTO member countries. Investors' and buyers' decisions no longer need be based on quota availability. They can now source from any country or factory based on its competitiveness, market access, tariff and trade preferences, and the Salvadoran industry has been rightly concerned about losing business to competitors in other countries.

Fear of post-quota losses has been reinforced by lingering reports in the international press about unfair labor practices in Salvadoran factories a number of years ago. Some individual buyers made negative sourcing decisions based on these concerns, placing their orders elsewhere. In contrast, some Salvadoran factories have proven that strong CSR practices – when building on more fundamental competitiveness in price, quality, delivery, and innovation – can improve their access to new markets and international buyers.

These two market-based drivers for performance improvement are now reinforced by the labor provisions in CAFTA. Each country pledges to “not fail to effectively enforce” its own labor laws, to strive to ensure that both ILO core labor principles and internationally recognized worker rights are recognized and protected by domestic law. Sustained failure to enforce labor laws is subject to binding dispute settlement and ultimately to fines or sanctions.

In this pilot, the project team worked with a volunteer group of manufacturers to develop a pilot designed to address these drivers. Key activities were:

- (1) A CSR Assessment and Measurement Tool for use by factory management in ensuring their CSR performance and tracking the business implications;
- (2) A Buyers’ Forum in which local industry could participate alongside international buyers and Salvadoran government representatives. The forum was structured for participants to work collaboratively on the CSR assessment and measurement tool, strengthen relationships between the groups, and identify other external stakeholders with whom to engage.
- (3) An assessment of the plethora of capacity building initiatives currently underway in the industry, to determine the best capacity-building framework moving forward.

The Assessment and Measurement Tool is the primary output, based on best practice experience with such measurement tools around the world. To date, few Salvadoran manufacturers or producers have done any meaningful cost-benefit analysis of their CSR-related investments. This version of the tool is intended as a starting point for discussion about how to map and track these investments most efficiently, integrating them alongside the wider range of business concerns.

Sugar sector

In recent years, the Salvadoran sugar industry has come to understand and address social and environmental issues of interest to the industry, key customers and external stakeholders. The issues that have received the greatest attention are child labor (the subject of a series of reports on the sector by Human Rights Watch); community engagement and investment; and environmental, health and safety issues.

There are four sets of drivers for improved social and environmental performance in the Salvadoran sugar sector:

Those international buyers /traders – or their local subsidiaries - who require producers to demonstrate attention to international labor and environmental principles, and who will limit their purchases from countries considered to have poor working conditions and enforcement of labor and environmental laws;

Access to markets that demand evidence of higher standards to gain trade preferences;

Access to project finance from institutions that increasingly require credible evidence of social and environmental standards;

Avoiding the reputational damage arising from complaints raised by credible civil society groups.

Building on prior work undertaken by the industry, a Working Group was established to oversee the pilot project. The Group agreed on four key activities:

- (1) Public-private training of industry managers and employees on labor and environmental laws;
- (2) Development of environmental guidelines for the industry;
- (3) Development of a community engagement strategy; and
- (4) Development of key performance indicators, self-assessment tools, and a verification system.

These activities have begun to provide the Salvadoran Sugar Association and individual mills with increased capacity and tools to improve social and environmental performance and to demonstrate compliance with Salvadoran law and international principles. They have also expanded cooperation between the public and private sectors on labor, environmental, and community issues. Many of the activities have focused on the mills, and it will be advantageous to extend these activities to the farms and cooperatives where sugarcane is grown.

Coffee sector

The 2004 FIAS report² established the CSR issues that matter most for Salvadoran coffee production by surveying international buyers: child labor, insufficient health and safety measures, unpaid or forced overtime, use of chemical pesticides, threats to endangered species and habitat, toxic effluents and emissions. These are all issues relevant to the Salvadoran coffee sector's global image and performance.

There are three interlinked drivers pushing the sector towards a more systematic approach to corporate social and environmental responsibility: the need to differentiate Salvadoran coffees in an over-supplied marketplace, capturing market segments with a price premium³; the need to address the challenge of image more systematically; the need for improved good practice today to ensure prospects for the future.

The project team held consultations with more than 70 representatives of the coffee sector, through a public workshop and six consultation sessions with smaller groups of

² El Salvador, Corporate Social Responsibility, Competitiveness and Foreign Direct Investment, FIAS, Washington DC, February 2004

³ For example see Standards as a new form of social contract?, Ponte, Giovannucci, Food Policy vol30, no.1, 2005.

exporters, producers, cooperatives, processors, and Apex groups. A Coffee Working Group was established to oversee activities, and determined the priority was to develop more formal methods of measuring the industry's commitment to and performance on social and environmental issues. To this end, the group created a self-reporting industry survey, conducted by Centro de Investigación de la Opinión Pública Salvadoreña (CIOPS), from the Technological University of El Salvador, covering small, medium and large producers, processors and exporters, located throughout the coffee growing regions of the country. The survey covered the key CSR issues facing the industry.

The survey results enable the industry to assess its current practices, as its members report them, provide a baseline against which subsequent progress can be measured, and provide valuable insights on priority challenges facing the industry. Going forward, the intention is to verify the data by third parties, to report aggregated information in a first national report on social and environmental responsibility in the sector, to use the data as a basis for further engagement with international buyers, and to raise more awareness locally about CSR as a tool to improve sector competitiveness.

Conclusions

Improved CSR systems will not save any factory or industry where the fundamental economics are unsound. Buyers are attracted by core considerations like price, quality and speed to market. It is only when an industry can compete on this basis that CSR issues can become part of a competitiveness strategy, as a differentiator and as a niche marketing mechanism, targeting those markets (mostly in the US and Europe) where consumers, buyers and project financiers are increasingly concerned about the conditions under which goods and services have been produced.

Few Salvadoran manufacturers or producers have done any meaningful cost-benefit analysis of their CSR-related investments. These are the 'right thing to do', but are often seen as an additional cost rather than a sensible investment. Returns on the investments are rarely mapped out and are never systematically tracked.

A credible verification system is needed to achieve global competitiveness through CSR-related investments, where the costs of the exercise are outstripped by the economic benefits.

These are shared tasks, where engagement of the government is necessary for sustained success. Renewed attention to CSR is not without its risks: measuring CSR investments will not in all cases point to long-term cost savings; expanded stakeholder engagement could reopen old wounds, or open doors to interactions that create further acrimony. But key industries are at a crossroads, needing to satisfy international buyers who are increasingly demanding in what they expect from their sourcing partners.

There is a 'moment in time' when CSR can make a substantial contribution to El Salvador's competitiveness. Trade agreements, for example CAFTA and GSP Plus, continue to be debated with reference to social and environmental issues. The government of El Salvador and other CAFTA signatories made commitments on labor

issues in the 2005 ‘White Paper’⁴. The improvements piloted by these three industry sectors can be aggregated into one sustained CSR system that will help El Salvador capture market opportunities, make good on public commitments and make productive use of CAFTA-related funds⁵.

This project and report can be used as a springboard for further progress. The work undertaken by Salvadoran firms to date, with Government support, can now be taken further through one of three routes:

- The activities can continue to be implemented by the participating firms themselves.
- The activities can be implemented by their industry associations with some support from the government.
- The activities can be implemented and spread by the industry associations in coordination with the government, with a view to maximizing efficiency gains and developing a sustained national strategy.

Any one of these three routes is viable, but it is the project team’s view that El Salvador can capture most competitive advantage by following the third of these routes, with some form of national CSR framework that can be developed over time. Individual firm activity may not reap the private gains they would expect (e.g. increased orders from international buyers) unless there is some greater effort by the government to address reputational risk proactively at the national level. Government participation may help avoid the potential that some sectors lose momentum and can help promote efforts that are industry-wide in nature rather than focused on a small group of pilot companies. Finally, Government engagement can help to establish a verification system that establishes “Made in El Salvador” as a sign of product quality, and social and environmental excellence. This Government engagement would involve a number of Ministries – notably Economy, Labor and Environment – as well as PROESA / EXPORTA.

All three sectors are grappling with the same CSR-related issues: lack of awareness of social and environmental laws as well as CSR practices; insufficient cost-benefit analysis; insufficient understanding of credible verification processes. It is this cross-sectoral opportunity in the third route that offers the potential for El Salvador to demonstrate visionary leadership and to gain efficiencies of scale.

Whichever of these three routes the Government selects, we have presented our recommendations on a consolidated national basis first, followed by specific recommendations for each of the three industries. Approaches developed in each of the three sectors have the potential for application in the other two, and more broadly in the country. One example is the assessment and measurement tool developed with the apparel sector that has potential application in coffee and sugar, with minimal adaptation. A second example is the participatory approach developed in the sugar and coffee sector pilots that can be seen as an example for other industry sectors seeking to develop coherent and efficient community engagement strategies.

These conclusions combine with the timeline proposed in the recommendations below into the following possible 2006-08 CSR roadmap for El Salvador and its key industries:

⁴ *The Labor Dimensions of Central America and Dominican Republic: Strengthening Compliance and Enhancing Capacity*, IDB, 2005

⁵ The U.S. Government has allocated \$20m for 2005, and \$180m is expected to be allocated during the next five years to improve workers’ rights and environmental protection in the CAFTA countries. \$7m of the 2005 funds will be spent on modernizing the labor justice systems in CAFTA countries; \$7m on enhancing labor inspection capabilities; \$3m on supporting ILO monitoring.

2006-08 Roadmap

2006: Progress on discrete areas on which work has begun; completion of benchmarking with KPIs for the three industry sectors; development of a public-private plan for verification.

2007: Initial implementation of a public-private verification plan, reporting on progress against Key Performance Indicators; development of action plans to address identified concerns and opportunities.

2008: Further implementation of CSR projects in the three sectors; expansion of the verification plan; sectoral and national reporting on progress.

This will require additional work, resources and the political will to proceed. But the same point applies to any of the three routes: timeliness will be essential to retain the interest of international buyers in progress to date.

Our recommendations are grouped according to the proposed timeline. Their content clusters around addressing the core needs that have systematically appeared throughout this project: clarifying and elaborating on applicable standards; capacity building; credible verification; and ensuring market benefit for any CSR-related investments.

Recommendations

To Government:

These recommendations outline a path that aims to maximize benefit to industry sectors engaged in this work, as well as to the workers and communities that are central to the industries' success. The recommendations envision a role for the government that draws on its ability to convene, coordinate and maximize the activities recommended by the project team.

By March 2006, MINEC should arrange an inter-Ministry discussion on this report. These discussions should focus on our conclusions and recommendations and, if accepted, how best to link them with existing competitiveness strategies. The inter-Ministry discussion could also consider opportunities for greater clarity on standards, measurement and reporting, and improvements in capacity-building provision. Relevant government institutions include the Ministries of Agriculture, Labor, Environment, and Economy, Comisión Nacional de Promoción de Exportaciones e Inversiones (CONADEI), and the Presidential Commissioners for Coffee and Agriculture.

By April 2006, the Government should identify possible limited incentives to encourage firms to adopt the medium-term perspective that is required for this work, leveraging CAFTA-related funding. In particular, the government should explore ways in which to leverage CAFTA-related funding. We recommend:

A two year time-bound public subsidy for qualifying CSR training. The government's existing mechanisms for certifying training could be used for CSR programs. FUNDEMÁS and/or other local organizations could serve as a clearing house for information on available training, and FUNDEMÁS' experience providing subsidized training with INSAFORP might be sensibly extended to CSR training.

- The subsidy provision could be linked to use of the Assessment and Measurement Tool, and participation in sector initiatives to document and raise standards.
- Information provision, on a website linked to industry, on capacity-building opportunities as well as user reports on productivity impacts and market gain.

By April 2006, the Government should identify possible limited incentives to encourage. By July 2006, the Government should explore options for a verification system that leverages existing public and private efforts to assess and communicate about social and environmental performance in key industries. This could draw on resources made available during the CAFTA process. The process should result in a model or models that could be implemented beginning early in 2007.

By July 2006, the Government should develop a three-year plan for El Salvador to communicate credibly and proactively on progress in labor and environmental efforts, with a particular focus on its CAFTA obligations.

This should be tied directly to competitiveness and innovation.

This should be based in part on the collaborative verification model(s) recommended immediately above. It could also include efforts to take facilitate learning across the sectors, including exploring the potential to adapt the tools used in particular sectors during the pilot phase to other sectors.

On an ongoing basis, MINEC should actively facilitate contacts between international buyers and Salvadoran companies to discuss their mutual commitment to partnerships raising social and environmental standards and to credible verification and reporting mechanisms. International buyers' involvement with verification and reporting can both achieve efficiency gains, by reducing duplication, and also increase credibility.

Key recommendations for each sector.

Apparel sector:

The apparel sector has the opportunity to solidify its market position by improving, measuring and demonstrating attention to labor and environmental issues. The Assessment and Measurement Tool developed for this project presents an opportunity for the industry to create a 'homegrown', industry-wide approach that allows the industry to address buyers' requirements without being subject to duplicative and/or conflicting standards developed outside the country.

By March 2006, MINEC should hire, in coordination with CAMTEX and other partners, a dedicated consultant to carry forward the work on the Assessment and Measurement Tool for one year. The consultant will be responsible for implementing the tool in 10-12 factories over one-year, including collecting baseline data and training factory personnel. The consultant could also coordinate events and seek opportunities to share the findings of the tool and engage more firms in its use, as well

as work with various stakeholders to develop a coordinated approach to verification of the data collected.

By April 2006, 10-12 factories will have been selected for testing the measurement and assessment tool. In exchange for receiving the tool and full implementation support and training by the consultant for a one year period, participating factories will agree to a set of conditions. The particular balance between incentives and responsibilities should be negotiated between MINEC, CAMTEX, and the participating factories and established in a contract signed between the parties. Possible obligations of participating factories include agreement to remain engaged to the pilot for a full 12 months, allow some data to be shared publicly, possibly only in aggregate form, participate in a verification process, and/or share experience with the tool with 2-3 additional firms in the industry.

By April 2007, there should be an industry-wide meeting, hosted jointly by CAMTEX and the Government, in which achievements can be shared with a wider audience. The objective of the meeting will be to encourage greater involvement of the industry in CSR initiatives including the compliance tool and public reporting. In consultation with industry, the government could consider the possibility of obliging factories receiving certain tax and other incentives to use the tool and publicly report on compliance initiatives.

By April 2007, the firms that are piloting the tool should have developed and begun to implement a credible verification process for testing the information they are gathering. Discussions of how to structure this verification should begin in March 2006 at the start of the testing. This verification should include the participation of factory worker committees and/or unions representing workers at the factory and other relevant stakeholders. Participating factories should hold at least two meetings between March 2006 – March 2007 with external stakeholders, as part of a facilitated process aimed at increasing trust and competitiveness.

The Ministry of Labor could play an active role in CSR work in the apparel sector, including technical capacity-building, and public reporting on aggregate violations. Increased collaboration between the MOL and firms active in CSR initiatives could potentially allow for greater enforcement and training efforts to be spent on the more serious violations and those firms most likely to not be in compliance. The Government should work alongside ASIC to ensure general information is shared throughout the industry.

Sugar sector:

These recommendations outline a strategy that will allow the sugar sector to address issues of importance to its customers and consumers; to develop an integrated community engagement strategy that improves the well-being of the communities in which it operates; and to strengthen environmental performance in a manner that delivers economic benefit.

By April 2006, the sugar industry should complete development of key performance indicators (KPIs) on important social and environmental issues.

By July 2006, the sugar industry, in consultation with the Ministries of Labor and Environment, should develop practical guidelines to enable industry to understand and implement existing social and environmental standards, based on Salvadoran law and internationally-accepted principles. This would provide an easily implemented set of guidance allowing all firms to operationalize key social and environmental principles.

By July 2006, the sugar industry should complete its coordinated community engagement strategy, and complete a practical guide to community engagement that reflects this strategy. By the same date, the sugar industry should complete work on a tool that will guide engagement with local communities, create ongoing participation mechanisms for relevant stakeholder groups, and ensure regular measurement for assessing progress on action plans.

By July 2006, officials of the Ministries of Labor and the Environment, the sugar industry and community organizations should further develop the program to educate management and workers on the environmental and labor dimensions of their work.

By January 2007, the sugar industry should suggest an annual assessment of performance against the KPIs. Industry associations should require their members to engage in such annual reviews, and associated educational efforts, to remain members of good standing. This assessment should serve as the basis for an annual social and environmental report.

By January 2007, third parties should conduct verification of all data before it is made publicly available with an agreed procedure and schedule for ongoing data verification, consistent with the national approach recommended to the Government above.

By 2010, the sugar industry should complete its efforts towards the elimination of child labor, as intended in the ‘White Paper’ issued in 2005.

Coffee sector:

The coffee sector knows it has an opportunity to increase its share of niche markets for premium, certified and/or organic coffee that brings a price premium. In addition, the information already gathered on conditions in the sector can be used to craft a targeted verification effort that supports achievement of an increased share of economically advantageous markets.

By April 2006, the coffee industry should contract a facilitator to prepare short subject-specific briefings based on data from the initial survey, on Salvadoran law and internationally-accepted principles. These briefings should cover key CSR issues in the sector such as: coffee and forest conservation, child labor, challenges and a vision of an integrated CSR approach to coffee production and marketing. Briefings should suggest potential roles for both producers and buyers in addressing the issues.

By April 2006, copies of these briefings and the first national survey on CSR in the coffee sector with an accompanying explanatory text should be downloadable from the MINEC, Consejo Salvadoreño de Café (CSC), FIAS/WB websites and made available

to all engaged companies, buyers and stakeholders. This should stimulate feedback, new dialogue and partnerships.

From May 2006, a MINEC consultant working with the presiding ministry of the coffee authority, the Salvadoran Coffee Council (CSC), which brings together all key stakeholders of the private and public sector, and all interested coffee associations, interest groups and government ministries should finalize a verification methodology consistent with approaches in other sectors.

From May 2006 CSC, the Commissioner for Coffee, representatives of the coffee industry with the support of the Government should distribute the briefings, the first national CSR survey report and the verification methodology for discussion and awareness-raising to all stakeholders, especially companies and producers who were not included in or did not come forward for the first national survey, to be in a position to learn about the issues.

By October 2007 CSC, the Commissioner for Coffee, representatives of the coffee industry with the support of the Government and CSR training and leadership in the country should develop and have distributed practical guidelines, based on Salvadoran law and internationally-accepted principles, to enable industry to understand and implement existing social and environmental standards.

By December 2007, a second national CSR coffee survey should be undertaken.

By April 2008 a second national CSR Survey should be produced with verification by third parties of all data that is made publicly available. This could serve as the basis for a biennial (every two years) social and environmental coffee report.

Introduction

The government of El Salvador is committed to free trade, to the promotion of foreign investment in key sectors, to tight fiscal policies and to a tax regime that promotes corporate investment. The government continues to emphasize the benefits to investors of economic stability, particularly the elimination of exchange-rate risk since the formal adoption of the US dollar in 2001.

The real growth estimate for 2005 is 2.8%, compared to 1.5% in 2004. This is still low in global terms, but is the highest growth for the last six years. It has been primarily driven by the agriculture and tourism sectors, with increases in bank credit to the industrial sector, higher investment levels in the public and private sectors, growing remittances that reached 17% of GDP, and a 4.7% increase in exports. Inflation declined to 4.5%.

El Salvador's positive performance occurred despite the negative impact of external and domestic shocks, notably high oil prices which increased the 2005 oil import bill by almost 40%, and damage caused by Hurricane Stan and the volcano eruption. Based on the growth outcome of 2005, the Government is projecting real GDP will grow between 3%-3.5% in 2006, supported by the implementation of CAFTA, higher investment levels and the reduction of oil prices.

Continued economic growth will remain challenging, and will depend to a significant extent in the short- to medium-term on improved competitiveness in key industry sectors: sugar, apparel and coffee. All three sectors have been facing severe competition in recent years, derived from a rapidly changing global environment: oversupply in some commodity markets, demands for innovation and full-service capabilities, an end to quota-derived protection, the emergence of multiple niche markets. One part of this challenge has related to stakeholders' views on labor and environment standards in markets that are important to El Salvador, and the relative failure of industry and Government to design a sustained strategy that can take advantage of this market opportunity.

Corporate social responsibility, or CSR, covers a wide range of business activity, focused on voluntary efforts to improve firms' social and environmental performance that also bring competitive advantage. Fifteen years ago, the global apparel and footwear industries were among the first to take the lead on CSR, focusing initially on a mitigation strategy against negative publicity around sweatshop scandals associated with internationally outsourced manufacturing. These activities have gained momentum over the intervening years, in these and other sectors, with the goal of ensuring that international commerce is conducted in a manner consistent with globally-accepted social and environmental principles.

Private inspection industries, labeling programs and multi-stakeholder initiatives have multiplied. CSR practices and compliance with codes of conduct – of varying standards – are now seen as a prerequisite to doing business with most major international buyers across a growing number of industries. The consequence is that costs can be higher, for both buyers and suppliers. Benefits are still too often assumed rather than measured; duplication and inefficiencies are considered by many to be widespread, since many producers / manufacturers sell to multiple buyers, each

requiring their individual code to be implemented, monitored and inspected. And all of this monitoring activity happens alongside the inspection regime of host government Ministries of Labor and Environment.

A growing number of national governments now recognize two things. First, that the market-based drivers behind CSR systems can help them get their own labor and environment laws enforced in workplaces; hard-pressed public-sector inspectorates, knowing these parallel systems are being credibly implemented, can focus their limited inspection resources on those workplaces without such schemes where standards are typically much lower. Secondly, national governments are realizing that guarantees of good labor and environment standards can help national economic competitiveness strategies, since evidence of good standards is increasingly required by buyers, investors and project financiers, and is increasingly included in free trade agreements or systems of trade preferences.

These market-based drivers are reinforced in the case of Central America by CAFTA obligations:

Labor Provisions under DR-CAFTA

Each country pledges: (1) to “not fail to effectively enforce” its own labor laws in a manner affecting trade; (2) to strive to ensure that both ILO core labor principles and internationally recognized worker rights are recognized and protected by domestic law; (3) to strive to “not waive” or “derogate from” its own labor laws to encourage trade or investment; (4) to respect the sovereignty of the other countries; and (5) to establish mechanisms for cooperative activities and labor-related trade capacity building with the other countries. Of these shared commitments, only sustained failure to enforce one’s own labor laws is subject to binding dispute settlement and ultimately to fines or sanctions. The maximum fine in a particular dispute is set at \$15 million per year per violation, a sum of which may be directed towards remedying the labor violation.⁶

These obligations create an opportunity to reinforce innovative public-private collaboration strategies that a number of governments have been pursuing, all presenting opportunities for achieving improved enforcement by capitalizing on private sector incentives. In each successful case, the firm’s motivation is the anticipation of market reward, since CSR systems are increasingly required or appreciated by international buyers. FIAS’ experience with emerging good practice around the world has involved the following eight characteristics:

⁶ Excerpted from DR_CAFTA Labor Rights Issues, Congressional Research Services Report for Congress, July 28, 2005, <http://fpc.state.gov/documents/organization/50152.pdf> accessed December 18, 2005.

Box 1: Good practice characteristics in national-level CSR standards systems:
Designed to
1. be sector-wide (aiming for 100% of firms in the sector)
2. be transparent
3. have a shared governance structure, including appropriate stakeholders;
4. involve international buyers;
5. reduce inefficiencies (duplication of monitoring) among both public and private inspections;
6. measure productivity gains systematically, including firm-level baselines;
7. achieve market-based incentives.
8. maximize the impact of capacity-building provision

Apparel Sector

Profile of the sector

The apparel sector has been one of the biggest and most dynamic sectors of the economy of El Salvador for the past 15 years. Representing more than half the total exports of the country, the industry is composed of roughly 130 enterprises that employ around 68,000 people.

This growth has been firmly in the context of the Multi Fiber Arrangement, or MFA, that governed world trade in the apparel and textile sector from 1974 – 2004. The quota system artificially inflated the number of countries manufacturing garments for export by restricting the output of the most competitive countries, and importers sourced from one country or another primarily because of quota availability. This led to the development of garment industries in comparatively uncompetitive countries, sheltering them from the rigors of global competition. The consequence for the industry has been global over-capacity and inefficiency.

The Uruguay Round agreement set a ten year phase-out for the MFA, which came to an end on January 1, 2005, eliminating all textile and garment import quotas for WTO member countries. Investors' and buyers' decisions no longer need be based on quota availability. They can now source from any country or factory based on its competitiveness, market access, tariff and trade preferences.⁷

It is still too early to be sure about the consequences for the Salvadoran apparel industry. After different predictions, the Salvadoran industry only experienced a mild reduction in exports of approximately 5% in 2005 (\$1,763 million projected) compared to 2004. Most recent data (July 2005) suggest that El Salvador has retained the same 3% participation in total US garment imports that it held in 2004. But with the continuing safeguard mechanisms permitted against Chinese exports, it will not be until 2009 that final market consequences are revealed. CAFTA may help the sector reduce negative cost differences against Asian competitor countries with specific garments, mostly with synthetic garments that have higher import taxes.

CSR drivers in the apparel sector

The Salvadoran industry's fear of post-quota losses has been reinforced by lingering reports in the international press about unfair labor practices in Salvadoran factories. Some leading international brands have made sourcing decisions based on these

⁷ There is one important temporary exception. When China accessed the WTO in 2001, the WTO established a safeguard mechanism permitting Member Governments to take action to curb imports in case of market disruptions caused by Chinese textile exports. The mechanism is in effect until the end of 2008. In May 2005, the US imposed temporary quotas on certain cotton shirts, cotton trousers and underwear from China; in June 2005, EU and China agreed a deal limiting the rate of import on 10 product categories. <http://usinfo.state.gov/usinfo/Archive/2005/May/16-571640.html>. <http://europa.eu.int/rapid/pressReleasesAction.do?reference=MEMO/05/201&format=HTML&aged=0&language=EN&guiLanguage=en>

concerns: a few pulled out of Salvadoran factories because of CSR violations; others reduced orders because of these reputation issues.

In contrast, other Salvadoran factories have proven that strong CSR practices – when building on more fundamental competitiveness in price, quality, delivery, and innovation – can improve their access to new markets and their orders from international buyers.

This market-based driver for performance improvement is now reinforced by the labor provisions in CAFTA. Each country pledges to “not fail to effectively enforce” its own labor laws, and to strive to ensure that both ILO core labor principles and internationally recognized worker rights are recognized and protected by domestic law. Sustained failure to enforce labor laws is subject to binding dispute settlement and ultimately to fines or sanctions.

The apparel sector in El Salvador has had a long engagement with CSR issues, and has been confronted with a plethora of both internal and externally inspired initiatives. These have been largely sparked by NGO allegations and exposes of labor rights abuses in the international press in the 1990s. The industry association, ASIC, initiated its own code of conduct based on existing buyer codes and later, actively promoted the Worldwide Responsible Apparel Production (WRAP) initiative among its members. However, despite this early attention, the industry as a whole has been unable to demonstrate the sustained credibility of its CSR implementation mechanisms to international audiences.

In consequence, most firms that are CSR leaders today are acting individually, most often responding to their own international buyers’ codes of conduct. These factories have established working relationships with buyers, who have at times helped with additional investments in capacity building to further integrate CSR into these supplier facilities. However, CSR has not been an area of key focus for the majority of manufacturers, nor is it largely considered to be an area of strategic priority.

With the end of the Multi-Fiber Arrangement on January 1, 2005, the Salvadoran industry has been highly concerned about losing its business to competitors in other countries, principally those in Asia. Manufacturers committed to CSR approaches continue to improve and innovate in their efforts, while the industry association and most firms focused on developing full package capabilities and new business processes without fully integrating CSR into these efforts. International concerns about working conditions remain – and were particularly highlighted during the CAFTA negotiations – but to date, the majority of Salvadoran firms have not found a way to integrate the various external pressures into a coherent strategy that allows them to focus on CSR alongside their other business concerns.

There is evidence to suggest that CSR will continue to be a competitiveness criterion for the Salvadoran apparel industry. The drivers that compelled the industry to take up CSR concerns a number of years ago remain relevant in a post-quota environment. These drivers are:

Trade agreements with labor and environmental provisions. Both CAFTA and new European Union trade policies have provisions related to labor standards (See Box 1). The focus is on government enforcement of labor law, but global experience

shows that private sector initiatives can vitally contribute to improved compliance. It is the private sector that will suffer if problems with compliance create interruptions with key trading partners. A credible system of promoting and verifying compliance within the industry would create an advantage in opening or expanding markets.

Reputation risk. El Salvador has suffered from a great degree of negative international publicity regarding labor practices in the apparel industry⁸. It is at risk for continued criticism, as it is “on the radar screen” of a number of press outlets and NGOs. Buyers also note that fair labor practices continue to be of paramount concern for them in El Salvador. A FIAS survey of international buyers in June 2003 found that “potential criticism of labor practices” outranked every issue except cost in buyer’s sourcing and investment decisions⁹.

Enhanced competitiveness. Firms that adopt CSR practices as a component of management systems and production processes report enhanced competitiveness. Microeconomic evidence of the effect of CSR practices on firm productivity is notoriously difficult to demonstrate, especially because outcomes are often the product of several parallel investments that include, but are not limited to, CSR. Some industry experts argue that new business processes - such as lean manufacturing - both require and facilitate CSR compliance. They stress the complementarities of flexible production systems with good working conditions, environmental management, and improved communication with workers. Given the relatively high wages in the Salvadoran industry compared to its regional and international competitors, innovation is key to cost competitiveness. One of the main outputs of the apparel sector pilot is a tool to more precisely measure the costs and benefits of CSR investments.

What we know

The project team devoted the first few months of work to developing a thorough understanding of the key barriers to greater implementation of CSR across the industry. The goal was to isolate these issues and then develop project deliverables that would most directly meet these challenges and thus stand the greatest chance for making significant advancement

The team met with a range of stakeholders during various missions to El Salvador. These stakeholders included the industry association (Asociación Salvadoreña de la Industria Confección, or ASIC), individuals and groups of managers from apparel factories, trade unions, local NGOs, international organizations with activities in El Salvador, and international buyers. Based on this feedback, the team determined the following areas to be of greatest importance in understanding and addressing CSR in the industry:

⁸ FIAS, *Corporate Social Responsibility, Competitiveness and Foreign Direct Investment in El Salvador*, February, 2004.

⁹ Ibid.

Lack of a Clear Business Case: The Salvadoran maquila sector faces a number of key challenges, most of which were apparent prior to the end of MFA, which have been exacerbated by increased competition. International buyers are looking for suppliers who can provide heightened productivity levels, improved speed of delivery, lower costs and, increasingly, manufacturers who offer differentiated services such as full package services or use of coordinated management systems such as lean manufacturing.

The multitude of pressures has created an environment in El Salvador in which some manufacturers question the relative importance of corporate social responsibility. Manufacturers know that most international buyers require compliance with a basic set of CSR standards, but their attention to the issue is often confined to compliance at the most minimal level, spending the majority of their time working to meet other requirements. Most anticipate medium- to long-term benefits of integrating CSR into management practices, but are focused on short-term outputs. They note that buyers press them to adhere to CSR standards, but that final sourcing decisions are weighted most heavily on speed, price, and quality of the product. Major CSR infractions would disqualify them as a supplier, but many manufacturers say that in their experience, superior CSR performance does not necessarily lead to increased loyalty on the part of most of their current international buyers.

This struggle is not unique to the Salvadoran environment. Apparel manufacturers worldwide are wrestling with the same issues, looking for ways to raise productivity, and decrease delivery times and costs in the short term, while at the same time looking for innovative approaches to medium-term market gains from CSR innovation.

Lack of Social Capital: A history of social conflict and antagonism between civil society actors has led to a general sense of mistrust and suspicion of ‘outsiders’ by some in the Salvadoran apparel industry. There have been several incidents in which external stakeholders, including NGOs and the media, have exposed working condition issues within the sector. These issues have related specifically to hours and wages infractions, underage workers, discrimination, and failure to respect workers’ right to organize. Some within the industry have questioned the validity of claims and taken issue with the tactics of these groups, which they say have been based on gaining access to information by misrepresentation of affiliation or goals.

Given this antagonism, it is difficult for dispersed actors to work collaboratively to improve workplace conditions. There is a general fear of sharing information and suspicion that groups’ stated objectives are different than their true intentions. This makes multi-stakeholder dialogue, workplace cooperation, and advancement of mutual goals significantly more challenging.

Multitude of Initiatives: Many actors have initiated projects over the years targeted at improving workplace conditions in Salvadoran apparel factories. These have no doubt resulted in some improvements on the ground, but they have also left a feeling of over-saturation within the local industry and a perception that externally-driven (and funded) initiatives are short-lived and not committed to long-term sustainability.

This ‘project fatigue’ means that the local apparel industry is skeptical of any new CSR projects. They worry that new initiatives will repeat earlier efforts and are wary to commit time, resources, or general support to them.

Project deliverables in the apparel sector

The apparel sector project team developed a set of deliverables intended to address the three barriers to greater CSR implementation described above. The assumption was that it would be possible to expect greater uptake of CSR policies and practices within the industry if these issues could be properly addressed. The primary project deliverables were the following:

CSR Assessment and Measurement Tool: The largest project deliverable of the apparel team is an extensive tool for use by factory management in assessing their CSR performance and carefully tracking the business implications of implementing CSR practices (see ANNEX I). Over time, the tool will create cost savings for firms: it will reduce the time spent on collecting data for reporting to different buyers on compliance; and tracking expenditures typically leads to reducing expenditures. A long-term goal is for the tool to be accepted by a range of buyers so as to reduce the duplication and resource burden of time spent on actual audit visits (leading to cost savings for both factories and buyers).

The key components of the tool are basic at this juncture. This version is intended to be a catalyst for continued dialogue, and exploration of how CSR assessment and measurement can be integrated with other business objectives into a single set of instruments. The tool has the following functionalities:

Detailed questions on key areas of CSR that factories answer to assess their current level of compliance with Salvadoran laws, specific buyers' codes of conduct, their own code of conduct (if applicable) and international standards.

Quantitative and qualitative measures that allow factory management to track implementation of CSR-related initiatives in the factory, including the date, training or implementation process, associated costs of initiation, and perceived benefits.

Myriad reporting possibilities that allow companies to track their performance over time and according to various standards/certifications, eventually contributing to industry-wide reporting.

The tool has gone through several rounds of testing by Salvadoran manufacturers. International buyers and experts in CSR measurement and reporting have also reviewed and commented on drafts of the tool. Much of the feedback has already been incorporated into the current draft, but this version should be used as a starting point for discussion about how to more fully incorporate CSR assessment and measurement into a comprehensive instrument that addresses the wider range of business concerns. (For instance, in its present state, many of the assessment questions are quite general in nature. Results from initial testing point to a need to ask for more detailed and complex data – such as methods for calculating wage or piece rates – that will allow for a more accurate picture of company practice and help identify true costs). The recommendation is to use a phased approach, based on continuous improvement. (See Recommendations below for more discussion on potential next steps for further iterations of the tool).

Stakeholder Engagement: The level of trust between stakeholders in the apparel industry has been considerably compromised over the years. To help efforts to rebuild this trust, the project team arranged a buyers' forum in which local industry could participate alongside international buyers and Salvadoran government representatives. The meeting was structured for participants to work collaboratively on the CSR assessment and measurement tool, and to identify other external stakeholders with whom to engage during the remainder of the project. In addition, members of the project team have consulted throughout the project with other key actors (local and international NGOs, key labor union representatives, international donors, and others) to solicit their input and build a project that would have the support of a wide range of actors.

The project team determined that it would not be advisable at this stage to convene all stakeholders into a single event. The process of building trust takes time and is best achieved through actions that show an interest in and commitment to collaboration. Over time, as the assessment and measurement tool takes hold and if project moves into stages of verification and greater expansion, it might be appropriate to arrange for this more direct multi-stakeholder engagement and cooperation.

Capacity Building: In order to avoid the duplication of past CSR initiatives that was cited by industry representatives, the project team focused capacity building efforts on examining current initiatives that are underway in the apparel industry, both related to CSR specifically and on a broader set of issues (see ANNEX II). Key findings are:

- There is currently no training offered in El Salvador that incorporates CSR alongside other business priorities;
- Trainings devoted to CSR specifically are limited in scope and appear not to be offered on an ongoing basis to the public;
- The majority of current training efforts are focused on factory management, with few initiatives intended specifically for workers or other stakeholder groups;
- Most trainings are offered by private institutions, paid for by individual factories.

Given this landscape, and the underlying proposition that CSR has the best chance of being robustly incorporated into apparel factories if it is understood and implemented alongside and in a complementary nature to advances along other business fronts, there is a need for capacity building based on this integrated framework.

Apparel sector recommendations

Much of the apparel sector work has focused on developing a baseline of tools and information upon which future efforts can be built. Creating trust within the apparel industry to the point at which producers were willing to be active participants in designing a project took time and patience. A core group of companies is now involved in the project and consider it to be an important resource to them as they work to differentiate themselves and the Salvadoran industry in the ever-increasingly competitive marketplace.

The recommendations below focus on how to move this initial stage of work forward, emphasizing continuous improvement and innovation.

Assessment/Measurement Tool: The CSR assessment and measurement tool was developed in close collaboration with local and international firms and has undergone two sets of reviews by local manufacturers, as well as by buyers and international experts. The tool will, however, require further testing to ensure that it is capturing what it aims to measure and keeps pace with international demands. Implementation in a set of firms with varying output volumes, work processes, and buyers over the next 12 months is necessary to determine what data is most important to track and how best to measure the relative impacts of these investments on business success.

The Government should hire, in coordination with CAMTEX and other partners (e.g. FUNDEMAS or interested international institutions) a dedicated consultant to carry forward the work on the Assessment and Measurement Tool for at least one year. This person could possibly work out of the ASIC or CAMTEX office in order to strengthen the link with the industry. The terms of reference for the consultant can be developed jointly between MINEC and CAMTEX, but may include the following responsibilities:

- Assist in recruiting applicants and selecting 10-12 factories to participate in piloting the tool for at least one year.
- Work within each factory to implement the tool, inputting data or ensuring the input of data at least quarterly at every factory.
- Provide training to participating factory management on the aims, methodology, and practical use of the tool and ensure ongoing use of the tool by those who are trained
- Collect baseline data for the subset of participating companies
- Continue and expand engagement with stakeholders (key international buyers, worker representatives, international CSR experts, others) to ensure the tool provides reliable and actionable information
- Work to develop credible verification mechanisms for the information collected, outreach to those stakeholders whose participation is necessary to perform the verification, and help launch this verification process
- Aggregate the information collected and produce an initial and verified report of CSR performance by the participating subset of companies
- Make continual changes to the tool in response to experiences in the subset of factories and ongoing stakeholder engagement, producing a final revised tool by the end of one year.
- Seek opportunities to showcase the tool and share information within and outside the local industry; minimally organizing an event at the end of the pilot phase to discuss results.

The consultant would aim to turn full responsibility over to the factories within 12 months. This transfer of responsibility would include determining who could act as an ongoing and sustainable overseer of the tool and process moving forward (likely to be either the Government or potentially an industry association such as ASIC or CAMTEX).

Expanding engagement within industry: After developing a more detailed understanding of the barriers to enhanced CSR activity in the apparel sector, the project team decided to focus work on a core group of firms who were predisposed to acting as engaged partners. The team hoped that working with this core set of companies would allow the project to make significant strides that could then be expanded to a wider audience once deliverables and advances were more concrete.

At present, roughly six companies are active users of the tool. The goal is to test the tool in 10-12 companies over the next year and more fully engage CAMTEX in promoting implementation of the tool among its members, for example by including regular updates about the pilot phase of the tool at their regular meetings.

Factories participating in the pilot project are expected to play a critical role in expanding engagement of other apparel manufacturers. These factories will have voluntarily applied to become pilot factories. In exchange for receiving the tool and full implementation support and training by the consultant for a one year period, participating factories will agree to a set of conditions. The particular balance between incentives and responsibilities should be negotiated between MINEC, CAMTEX, and the participating factories and established in a contract signed between the parties. Possible obligations of participating factories could include the following:

- (a) Participate in the pilot project for one year, subject to certain unforeseen conditions which can be negotiated. Participation means allowing the consultant access to factory premises and data as agreed by both parties.
- (b) Publicly report on a set of indicators which will be agreed to between MINEC and the participating factories.
- (c) Participate in CSR training offered by INSAFORP.
- (d) Share their experience with the tool directly with at least 2 other factories and participate in a final event to showcase results.

Government should also play a role in promoting use of the tool within the industry. At the end of the pilot phase around April 2007, there should be an industry-wide meeting, hosted jointly by CAMTEX and the Government, in which achievements can be shared with a wider audience. The objective of the meeting will be to encourage greater involvement of the industry in CSR initiatives including the compliance tool and public reporting. In consultation with industry, the government could consider the possibility of obliging factories receiving certain tax and other incentives to use the tool and publicly report on compliance initiatives.

Verification/Stakeholder Engagement: Developing a system of credible data collection on CSR compliance has reputational benefits, particularly if the industry can be transparent with the results, even if the results show areas in need of improvement. Transparency and credibility are key; performance follows. If work to date is to continue to be successful, it must include more active and direct participation of a wider range of stakeholders, not just in design of the work but also in verification of self-assessed information. This point was one of significant emphasis for international experts who reviewed the work to date, and noted the particularly difficult situation in which El Salvador finds itself. External verification is considered international good

practice in all such schemes, but any industry that has previously suffered reputational setbacks needs verification by external parties to continue rebuilding its international credibility.

The subset of companies that has been engaged with testing the tool should focus on verification mechanisms. Key commitments of these companies to work toward meaningful verification mechanisms could be included in the contract pilot factories sign and should include:

- Collaboration with factory worker committees and/or unions (new or those already in
- place) to:
 - a) help report on issues in the self assessment tool;
 - b) offer suggestions on design and implementation of subsequent versions of the tool, especially in the context of thinking about how to integrate CSR measurement with indicators and goals related to other key business priorities;
 - c) actively participate in verification of collected information.
- These committees will not only give additional voice to workers, but will also help management to get the most accurate picture of the true practices in their factories. All participating companies should make the commitment to have an initial meeting with factory worker committees to explain the project and hear feedback and have meetings to share advances and solicit input on a regular basis.
- Commitment to meet on a quarterly basis with an extended group of external
- stakeholders including unions, NGOs, and others. These gatherings will be part of a facilitated process aimed at increasing general trust and creating an environment in which various stakeholders can begin to work together toward increasing the competitiveness of the Salvadoran apparel industry.

Ministry of Labor: A number of important international buyers from El Salvador have participated in the project to date, and have offered ongoing support, but they stress the pivotal and complementary role of the Ministry of Labor in efforts moving forward. International buyers are wary of taking on what they see to be the public sector role of labor standards enforcement. At the same time, they are eager to engage in countries where they see the national government taking a proactive and innovative approach to labor standards improvement. Governments that show their commitment to being active partners in creating new models for addressing issues are appreciated by international brands who themselves are rethinking their own models of ensuring labor standards compliance in their supply chains.

The Ministry of Labor should consider playing a more active role in future CSR work, including:

- Assist in further integrating Salvadoran law into the assessment and measurement tool;
- Publicly reporting aggregate violations in the apparel sector;
- Focus on technical capacity building;
- Place a higher priority on the most serious violations and those firms most likely to not be in compliance (i.e. those producing for the domestic market, and subcontractors to bigger firms);

- Collaborate in developing capacity building programs that link CSR with other emerging business goals of apparel companies.
- Consider a direct role in verification mechanism, possibly through a monitoring commission with a tripartite structure .

The Ministry of Labor should consider making a public commitment to this role with a clear action plan and timeline within three months of this report. This timeliness is essential in order to retain the strong interest of international buyers and ensure ongoing advances of the project. The potential public benefits include increased employment; improved health, safety, and standard of living for workers; increased exports; improved efficiency in the labor inspectorate; and significantly enhanced reputation domestically and internationally.

Capacity Building: There are some existing opportunities for firms and workers to learn more about implementing CSR practices, but few in the industry take advantage of them. In addition, there is no training at present that looks at CSR as a key component of an increasingly complex set of new pressures to which the industry must equip itself to respond.

The government should be an active partner in integrating CSR into the competitiveness strategy for the industry and encouraging the creation of a capacity building program for the apparel sector that helps companies tailor their range of business policies and practices to the evolving marketplace. Any capacity building programs that help companies in areas such as productivity, management skills, development of new capabilities, or industry reorganization should closely integrate CSR considerations. The curriculum of INSAFORP-supported training ought take greater account of the role of CSR in the modern apparel industry and current political and economic realities.

The government could consider offering hard-pressed factories the initial incentive they need to focus on medium- to long-term goals rather than solely on short-term returns by providing them with financial incentives to attend qualifying CSR training, possibly from CAFTA-related funds. Any financial incentives should be offered for only two-years.

FUNDEMAS and/or other local organizations could serve as a clearing house for information on available training. The government's existing mechanisms for certifying training could be used for CSR programs. Note the recommendation above that the subsidy provision could be linked to use of the measurement and assessment tool.

Finally, one of the most important government roles in stimulating a robust training market is to provide information on (a) the productivity impacts of training generally; (b) role of CSR in firm competitiveness; and (c) quality of training offered by particular providers (e.g. graduate placement rates for training of students; productivity implications of in-service training, etc.). Information can be available on a website, in a periodic industry newsletter, or, again, with the help of local organizations such as FUNDEMAS or other training-oriented organizations.

A capacity building plan should be developed within the next six months and should be closely linked to any efforts to secure international funding for capacity building activities. Specifically, as the Government develops proposals with outside entities such as the ILO, these should include helping to provide the above-mentioned incentives. A strong case should also be made in all proposals for this integrated approach to increasing industry competitiveness.

Comprehensive training would stand the best chance of success if delivered by several entities working in partnership with one another. It is essential to have training partners with extensive knowledge of the characteristics of the Salvadoran apparel industry, but it is also necessary to have the input of international trainers with detailed knowledge of what the international buying community will be demanding from local sourcing partners in the future.

Sugar Sector

Profile of the sector

The sugar sector is one of the most important economic sectors in El Salvador, in terms of employment (47,000 directly and 180,000 indirectly) and the number of indirect beneficiaries, with 400,000 individuals dependent on generated income. The sector makes up 2.4% of GDP and 20% of agricultural GDP. Output increased by almost 4% during the 2004-2005 harvest compared to the previous year and is expected to increase further. Raw sugar and molass, represent the bulk of the export materials, rather than refined sugar. Since 1996, only the *Central Izalco* and *El Ángel* sugar mills produce refined sugar¹⁰ which qualifies for the 6% rebate on F.O.B. value to exporters of non-traditional goods.¹¹ The industry exports 57% of its production (5% to the US, an amount based on quota, with a minor increase expected under CAFTA). Russia and Canada are the largest external buyers of Salvadoran sugar, via major traders in the US and Canada.¹² Some of the 43% sold in the internal market goes to local subsidiaries /franchisees of global firms.

The industry consists of seven operating mills and over 7,000 cane growers and producers. Sixty percent of these are organized in cooperatives created by the agrarian reform during the 1980s and 1990s. Eighty percent own land plots of less than 25 hectares, which are small compared to typical sugar producing landholdings in the region. A unique income distribution system, granted in the early 90's, after the sugar mills privatization, that guarantees 54.5% of the income to producers, produced almos \$260 millions in economic activity during 2004.

The Salvadoran Sugar Association, *Asociación Azucarera de El Salvador*, represents the sugar mills and their relationship with the international markets, other parties and the government. Fundazucar is the private foundation of the mills that executes projects for community development in zones where sugar cane is cultivated.

CSR drivers in the sugar sector

The main CSR issues in sugar production are (1) *environmental impacts* of mills (use of water, effluents, and emissions) and plantations (use of water, pesticides, burning of fields, and loss of natural habitat), (2) *labor conditions* in the plantations and to a lesser extent in the mills, and (3) *community engagement*. All of these issues are receiving increasing international attention from buyers and civil society¹³.

However, in contrast to apparel and coffee, market-based mechanisms such as certification programs with the potential for establishing price premiums for sugar produced under socially and environmentally sound conditions have not yet been established. Consumer demand for socially responsible goods, including Fair Trade

¹⁰ Department of Agriculture, "Azúcar," p. 25.

¹¹ Law for the Reactivation of Exports (Legislative Decree No. 460 of 15 March 1990)

¹² Ministry of Economy, 2005

¹³ Better Sugar Cane Initiative, WWF

Certified sugar products, is rising,¹⁴ but the markets for fair trade sugar in Europe and the U.S. are very limited.¹⁵

In addition, despite recent World Trade Organization (WTO) discussions of removal of export subsidies in the EU by 2013, sugar prices continue to be heavily distorted by developed country subsidies. El Salvador also has created a heavily protected market for sugar.

In the near term, therefore, there are four sets of drivers for improved social and environmental performance in the Salvadoran sugar sector:

Those international buyers /traders – or their local subsidiaries - who require producers to demonstrate attention to international labor and environmental principles, and who will limit their purchases from countries considered to have poor working conditions and enforcement of labor and environmental laws.

Access to markets that demand evidence of specified higher standards to gain trade preferences (e.g., European Union’s GSP Plus, CAFTA).

Access to project finance from institutions that increasingly require credible evidence of social and environmental standards (Equator Principles¹⁶).

Avoiding the reputational damage arising from complaints raised by credible civil society groups.

A recent example of the reputational damage driver was a report by Human Rights Watch in 2004.¹⁷ According to this report,¹⁸ the use of child labor is common on the plantations, which is prohibited by Salvadoran law and international agreements.¹⁹ Major international buyers were also identified in the report. The Association intensified its efforts to eliminate child labor, along with the ILO, in part by hiring a private consulting firm, CSCC, to audit conditions in sugarcane production and processing. By the end of the harvest season 2004-2005, the number of children working in the fields had been cut by 50%.²⁰ The Government has publicly committed to eradicate child labor in the industry by 2010 in the CAFTA ‘White Paper’²¹.

¹⁴ An all-time high of 91% of Americans say they are likely to switch sugar brands to help support a cause, but still only if price and quality are equal, see http://www.transfairusa.org/content/certification/sugar_program.php (viewed December 27 2005)

¹⁵ In Europe, demand for Fair Trade Certified sugar expanded by roughly 220% in 2003, but still only from 650 tons to 1430 tons. Fair Trade Certified sugar was launched in the US in March 2005.

¹⁶ Launched in June 2003 by the IFC and ten leading project finance banks, the Equator Principles is a voluntary set of environmental and social guidelines for project finance lending

¹⁷ *Turning a Blind Eye: Hazardous conditions in the Salvadoran sugarcane cultivation* (HRW, 2004)

¹⁸ Lawrence Pratt and José Manuel Pérez, “Industria azucarera en El Salvador: Análisis de sostenibilidad,” September 1997,

<http://www.incae.ac.cr/ES/clacds/investigacion/articulos/cen731.shtml>, p. 13.

¹⁹ ILO Minimum Age Convention, ILO Worst Form of Child Labor Convention, Protocol of San Salvador.

²⁰ Benjamin Smith, ILO representative, San Salvador, April, 2005.

²¹ *The Labor Dimensions of Central America and Dominican Republic: Strengthening Compliance and Enhancing Capacity*, IDB, 2005

Other initiatives taken by the industry to improve social and environmental performance include the establishment of *Fundazúcar* in 1998, a non-profit foundation created to improve the lives of communities surrounding the sugar mills and plantations. It has implemented programs in cooperation with public and international agencies that have improved the school system in areas dominated by sugar industry, strengthened the healthcare system in these areas, and raised awareness and mobilized local communities. The Association has also worked with FUNDEMAS on creating awareness of CSR in the mills, performing a CSR diagnostic with FUNDEMAS indicators, and assisting the mills in documenting social and environmental experiences.

Sugar Sector project activities

The four objectives of the project's work in the sugar sector were:

- (1) To assess current social and environmental conditions;
- (2) To develop operational principles guiding and strengthening industry practice;
- (3) To build towards the creation of credible and efficient verification through public-private partnerships; and
- (4) To understand and strengthen incentives for participation in programs to improve social and environmental aspects of sugar production.

This work built on efforts already underway by the Association and the Foundation to improve social and environmental performance, in collaboration with the ILO.²² It also sought to enhance contacts previously established between the public and private sectors and civil society. A Working Group was established, consisting of 20 members, representing the Association, the Foundation, the mills, the International Labor Organization (ILO), FUNDEMAS, and the Government.

Four sets of activities were undertaken: (1) public-private training programs on labor and environmental laws, (2) development of environmental guidelines, (3) development of community strategy, and (4) development of Key Performance Indicators, or KPIs, self-assessment tools, and a credible verification system. The four activities were determined through a consultative process, but were chosen in large part because the Sugar Association viewed them as being the most critical. All were designed to improve sector competitiveness by addressing priority labor and environmental issues; to enhance industry efforts to improve community well-being; and to work towards the creation of a credible and efficient system for verifying working conditions in the industry. They have provided the Association and individual mills with increased capacity and tools to improve social and environmental performance and to demonstrate compliance. They have also expanded cooperation between public and private sector on labor, environmental, and community issues.

Public-private training program on labor and environmental laws: Poor awareness of core labor and environmental legislation amongst employees and some employers in the sector is a fundamental barrier to the improvement of working conditions, and this project activity aimed to make initial headway. Specific areas of focus in strengthening awareness of relevant legal provisions includes labor law

²² See above and www.asociacionazucarera.com

(notably the Salvadoran Labor Code and its surrounding child labor norms, based on ILO Agreement 182); occupational health and safety laws; the law of cooperatives, and the environmental law among individual producers, cooperatives and staff at the sugar mills.²³

Some relevant Salvadoran laws were created very recently, such as the Environment Law of 1998 which is currently being modified to apply to the sugar sector, and other regulations concerning gender and labor rights. Lack of awareness of these laws and worker rights is mentioned in the CAFTA ‘White Paper’ as one of the main obstacles to ensuring compliance with the labor provisions in the treaty. The Working Group worked closely with several Ministries, including Labor, Environment and Natural Resources, and Agriculture²⁴, which committed staff time and resources to develop information materials about the laws and policies as they concern the environment and labor in the sugar sector.

The Association, in cooperation with the Ministry of Labor, also designed a training program using these materials, initially aimed at 54 cooperatives. The first training event on environmental laws and regulations took place on January 6, 2006, with an estimated 20 participants from the mills. Training of sector leaders and cooperatives will continue during the harvest season and post-harvest 2005-2006. Monitoring will take place during and post harvest, and evaluations are planned for April and November, under the coordination of the Association and the Foundation.

This activity was valuable both because of the direct educational value, and also because it represented a shift toward more cooperative and efficient public-private relations. Experience from many countries reveals that both the sugar sector and the Ministries will gain efficiency by conducting common trainings. This training activity can also provide a foundation for more efficient targeting of government inspections, and future training programs, in the most critical areas.

Development of environmental guidelines: The Working Group determined that attention to environmental issues, which have received less local or international attention to date than labor issues, was of considerable importance in ensuring the sustainability of the industry.

The main environmental issues in the sector are biodiversity loss, processing of waste, soil erosion, and water conservation and effluents. Environmental performance varies significantly between well-performing larger mills and poorly performing smaller mills. The project team commissioned a study in late 2005 which concludes that the larger mills are not far from complying with international guidelines issued by the World Bank, and required for projects financed by banks endorsing the Equator Principles. But the study shows that smaller mills require significant investment to comply with these guidelines.²⁵

²³ Working Group meeting protocol, December 26, 2005

²⁴ Ministerio de Trabajo y Prevision Social, Ministerio de Medio Ambiente y Recursos Naturales, Ministerio de Agricultura y Ganaderia

²⁵ *Framework for CSR in El Salvador: Development of Environmental Guidelines*, FIAS, 2005 (Annex III)

Weak infrastructure and scarce resources appear to be hampering attention to Salvadoran environmental requirements. The Ministry of the Environment, which was established in 1998, issued largely qualitative or process-based environmental legislation in 2000, in contrast to World Bank guidelines that provide quantitative targets for emissions. It provides that all mills have to develop an environmental diagnostic report and corrective action plan, including detailed implementation schedules and estimated compliance costs. Mills were given three years to close their compliance gaps, but by 2003 no mill had done so; they requested – and received – a three year extension. The Ministry only has 14 compliance staff for the entire country, and only has the capacity to respond to urgent complaints. No regular audits are performed.

The context, then, is one of a generally small gap from standards compliance, limited government resources, and an industry with market-based incentives to demonstrate improvements in standards. This is an excellent context for CSR-based systems as a complement to state action. To address these issues, the project team’s environmental consultant assessed environmental conditions in the Salvadoran sugar sector, trained representatives from the mills and environmental personnel in international standards and good-practice, and developed environmental indicators and self-assessment tools.

Based on the preliminary assessment, potential performance indicators have been identified for three operating areas: environmental management indicators, operational indicators, and plantation indicators.²⁶ The Association and the mills should now develop environmental strategies and institutionalize these indicators. Each mill, in cooperation with the Association, should devise a self-assessment tool, such as an integrated monitoring program. Based on these monitoring results, corrective action plans should be developed for each mill, including implementation costs in order to meet the strategies and indicators established by the sector. Independent verification of these results should also be considered (see more on these issues in the recommendations below).

The development of environmental guidelines and indicators constitutes an important step in further developing a credible overall verification system for the industry. This second set of activities in the sugar pilot has also helped facilitate communication between mills, enabling the sharing of information and know-how. Contacts have also been made for the first time between the public and the private sector on this issue, resulting in increased awareness, vision, and efficiency for both. In combination with the training component, a strong foundation for future cooperation has been established between the sugar industry and the Ministry of Environment and Mineral Resources, with the potential to result in improved performance.

Creating a comprehensive community engagement strategy: The Salvadoran sugar mills are traditionally closely linked with their surrounding communities, as an employer and in many cases as a crucial source of healthcare, infrastructure and education provision. It is estimated that the seven mills provide community support of up to \$200,000 every year. The selection of community engagement as one of the

²⁶ *Framework for CSR in El Salvador: Development of Environmental Guidelines*, FIAS, 2005 (Annex III)

four project activities reflected a strategy to maximizing the economic benefit and community relations of the industry.

Until now, the mills have had no coordinated community engagement strategy to promote synergies within and between mills, no system by which to measure the impact of these extensive activities, and no ability to communicate benefits to external and internal stakeholders. The communities themselves have also not participated in the development of these activities. Experience from around the world indicates that with further coordination, measurement, and community involvement, the impact of these efforts will grow.

To that end, the Working Group decided to focus this third set of activities in the sugar pilot on developing a participatory community strategy for the mills. In addition to a preliminary assessment by the project team in April 2005, and the regular work of the Working Group, a two-day workshop was conducted in October 2005, with 20 people trained in participatory methodology.

Fundazúcar was appointed by the Working Group to learn the methodology and to support implementation in the mills. The main activities included identification of best-practice, methodology sharing, and pilot implementation of the methodology at one mill, *El Angel*, with a clear commitment and strategy to continue implementation at the other mills.

Identification of good-practice: The experience of Central Izalco (CASSA) was presented as a good-practice case, and BSR presented three different models for working with communities. The Working Group chose to develop and use the ‘action plan model for community support’.

Transfer of methodology: At the outset, *El Angel* sugar mill was chosen to pilot the methodology in its surrounding communities. 1 ½ days were spent implementing the methodology at this mill. Representatives at the other mills, of the Association and the Foundation spent half a day in a training session led by BSR.

Implementation: During November and December, the *El Angel* mill has implemented the methodology and developed a community strategy. In a three week process a local consultant for this advisory project has worked with two *Fundazúcar* employees and interviewed more than 25 people, including cooperatives, cane cutters, unions, independent producers, community counsels, buyers, government offices, truck drivers, etc. Final feedback to management of the mill and these stakeholders will take place January 16-17. *Fundazúcar* is committed to continuing implementation of the methodology in the other sugar mills with the support of Sugar Association.

The participatory nature of the community engagement strategy that the mills are implementing represents a significant change. Sugar mills that use this process will engage together with their stakeholders in identifying priorities and will then determine roles and responsibilities of both the mills and the stakeholders themselves. This is a switch from a philanthropic model to one of joint responsibility and action, and global experience shows that coordination *inside* companies using this model also brings improvements.

This participatory approach can also be seen as an example for other industry sectors struggling to develop coherent, efficient, and participatory community engagement strategies, and making the shift from a philanthropic model to a CSR model, such as the coffee sector. The methodology can also be used in the development of key performance indicators, and in the verification process.

Indicators, self-assessment and independent verification: To achieve marketplace benefits for these industry activities, it is necessary to assess, verify and communicate credibly about performance. FIAS' 2004 study, as well as a wealth of additional information gathered inside and outside of this project, demonstrate the need to achieve expected performance and to demonstrate it credibly.

Indicators: Several efforts to develop indicators have been underway, both before and during this project. The Association had begun work to develop Key Performance Indicators (KPIs) on social and environmental issues. The third-party firm CSCC also developed indicators on labor issues, through its auditing work. The environmental consultant on this project team assisted in further developing the environmental performance indicators.²⁷ Preliminary impact indicators for community engagement have also been set through the community engagement activities of this project.²⁸ These materials can now be pulled together to create a set of KPIs that guide the industry's efforts; serve as the basis for an operational guide to social and environmental performance for all enterprises in the industry; and also guide the self-assessment and verification efforts described below.

Self-assessment: This project aimed to facilitate the extension of self-assessment efforts by mills and cooperatives. Self-assessment is an important means of improving conditions consistent with existing business operations, and of reducing the costly need for external assessment, whether by public or private entities. To this end, the Association and the mills worked together to develop a system of 'social promoters' at the mills, through which individuals are made responsible for assessing labor conditions at the mills and in the surrounding cooperatives. The cooperatives receive an audit from the 'social promoters' every two weeks during harvest season to follow up on the corrective action plan. This process gives important feedback to the Association, and provides specific input on how to make improvements at each cooperative. It will continue during this year's harvest, including more cooperatives. This method has been implemented both in the case of the ILO/Association/Government child labor campaign and as part of the CSCC assessments. The process has proven efficient in reaching cooperatives and plantations that were not otherwise audited.

The project team's environment consultant applied this self-assessment model to environmental self-assessments, recommending that each mill employ an Environmental Affairs Manager responsible for assessing the environmental conditions at the mills and surrounding cooperatives.²⁹

²⁷ *Framework for Corporate Social Responsibility in El Salvador: Development of Environmental Guidelines in the Sugar Sector*, World Bank, 2005. Annex III

²⁸ See forthcoming sector report on Community Engagement

²⁹ *Ibid.*, p. 26.

In coordination with FUNDEMAS, the Association has started an assessment of the seven mills using the FUNDEMAS CSR indicators.³⁰ This self-assessment is intended to provide the sugar mills with a guide of how sugar mills are performing on social and environmental standards compared to other industries and companies in El Salvador.

Verification: As noted in the introduction to this report, establishing a credible and efficient public-private means of verifying social and environmental performance is essential to achieving marketplace benefits from CSR investments (see ANNEX IV). El Salvador, and the Salvadoran sugar sector, are not alone in the need to navigate the welter of international principles and processes, and establish a rational and credible means to demonstrate good performance. This project has sought to catalyze thinking about how to develop national and industry-wide verification efforts, and also to undertake discrete efforts aimed at specific questions.

One example of a more focused verification effort is the initiative, started during the harvest season 2004-2005, to conduct assessment and third-party verification of labor conditions at the cooperatives, including child labor. The Association engaged private firm CSCC to audit six cooperatives the first year. Another 25 audits are expected to be performed during this year's harvest.

This set of activities represents a strong beginning that has the potential to provide useful benchmarks and improve performance. It will be necessary to ensure that subsequent activities are sufficiently participatory and transparent to provide credible assurance to buyers and interested stakeholder groups. Verification in the sugar industry would be substantially strengthened by integration into a national effort, building systematic public-private partnerships to enhance the efficiency with which national enforcement agencies, industry entities, and third-parties each contribute to an overall verification effort.

Sugar sector recommendations

The Sugar Association, individual sugar mills, and other elements of the Salvadoran sugar industry, have undertaken valuable activities during this project. As outlined above, the industry was well served by engagement on a number of issues before this project began, and this will continue to serve the industry following this project's completion.

The recommendations are designed to accomplish three main goals: (1) maximize positive economic development generated by and around the industry; (2) address concerns that interfere with the industry's further development, and (3) create the framework for efficient and credible verification of and communication about social and environmental performance.

On an ongoing basis, the industry should continue the initiatives begun during this advisory project, in partnership with the government and key stakeholders. This work

³⁰ FUNDEMAS Performance Indicators, adapted for El Salvador

will serve employers, employees and communities well, and will enhance the industry's competitive position internationally.

By June, 2006, the sugar industry should complete development of key performance indicators (KPIs) on important social and environmental issues. These KPIs will serve as a roadmap for improving industry performance, and also serve as the basis for measuring and communicating progress on social and environmental goals.

By June, 2006, the sugar industry, in consultation with the Government, should develop practical guidelines, based on Salvadoran law and internationally-accepted principles, to provide guidance on key labor and environmental principles. This should be a practical guide to Salvadoran law, to enable industry to understand and implement existing social and environmental standards. This will have three important advantages: (1) it will create a single set of guidance that would erase current or potential confusion over proliferating standards from a variety of sources; (2) it will enable verification to be undertaken by numerous parties with a single benchmark³¹, and (3) it will provide the basis for needed dialogue between the industry, workers, buyers and other stakeholders.

Beginning in 2006, the sugar industry should conduct an annual assessment of performance against the KPIs. Mills and cane farms should use baseline assessment tools to conduct quarterly diagnostics and a thorough annual review. Industry associations should require their members to engage in such annual reviews, and associated educational efforts, to remain members of good standing. This assessment should serve as the basis for an annual social and environmental report, which will position the industry as a global leader.

On an ongoing basis, Government officials, the sugar industry and community organizations should further develop the program to educate workers on the environmental and labor dimensions of their work. This should be maintained as an ongoing effort. This effort, when combined with community engagement strategies described above, will integrate efforts to maximize the economic benefits of the industry.

On an ongoing basis, the sugar industry should continue its efforts towards the elimination of child labor, in collaboration with the ILO, so that child labor is ultimately removed from the industry, as intended in the 'White Paper' issued in 2005 by the government of El Salvador and other Central American nations.

By May, 2006, the sugar industry should complete work on a tool that will guide engagement with local communities, and the creation of an industry-wide strategy for investing effectively in community economic development. Some industry representatives have piloted tools for implementation. This will help maximize the positive economic impacts of the industry's work, strengthen relationships with the communities that depend on the industry's success, and also serve as an important element of any industry report.

³¹ See FIAS papers on CSR and inspections: <http://www.ifc.org/ifcext/economics.nsf/Content/CSR-ConferencePublicSectorInspections>

Beginning immediately, and on an ongoing periodic basis, third parties should conduct verification according to the following guidelines:

- a. *Process:* The verification process should be based on a set of actions to be agreed via consultation between Salvadoran government, Salvadoran and selected multinational enterprises, expert agencies such as the ILO, and other appropriate stakeholders, such as multi-stakeholder initiatives. Core actions will include records review, confidential employee discussions, visual observation, and production process review. The Association should begin dialogue in the first quarter of 2006 with the government, international buyers, and the ILO to establish a process for review by a combination of government, ILO, and third-party entities (such as those which have been engaging in such activities over the past year), to conduct periodic verification. Such activities have been discussed as part of the CAFTA deliberations.

- b. *Information Flow:* Reports from these verification efforts should be provided to individual enterprises being reviewed, industry association, and government officials. This verification will provide critical information to four key constituencies: (a) enterprises, providing a basis for checking and improving internal assessments, and a means by which the number and consistency of external monitoring visits can be rationalized; (b) multinational buyers, providing assurances that enterprises are meeting their expectations concerning social and environmental performance; (c) public officials, allowing them to determine legal compliance and how to deploy scarce enforcement resources; (d) the public, helping demonstrate transparency. The Association should produce a verified annual performance report. This will give the industry an opportunity to measure its progress and engage with stakeholders in new and more valuable ways. It will also enable the industry and the country as a whole to address the diverse interests reflected in the international marketplace more effectively.

- c. *Public-Private Verification Partnerships:* The sugar industry would benefit from further development of a public-private collaboration to enhance verification of social and environmental conditions in the industry. These efforts coincide well with the directional goals of the ‘White Paper’. Collaborative efforts such as those described here can enhance the government’s efforts, by expanding available verification resources, creating a common frame of reference, and bringing industry and other efforts into a framework shared by the government.

Coffee sector

Profile of the sector

El Salvador is a small player in the global coffee market (14th position, with less than 2% of global production), but nationally, coffee is, and has long been, a driver of the economy. Coffee represents about 1.4% of GDP and employs about 80,000 people. However, coffee production has been declining (from 3.7m quintals in 2000 to 1.7m in 2004) and with this decline comes a direct threat to rural development and the environment. Extreme poverty is still mainly a rural phenomenon (43% of the rural population) and about 77% of all coffee farmers are small scale with less than 10 manzanas (one manzana = 0.71 hectares). Just 2% of coffee producers in El Salvador farm more than 100 manzanas (71 hectares). Furthermore, El Salvador is the most deforested country in Central America. Only 12 % of the territory is forested, and less than 2% is primary rainforest. The fate of the forests and their species, and national water sources are virtually synonymous with the fate of coffee (98% overlap).

The international coffee ‘crisis’ has led to efforts by many coffee producing countries – including El Salvador – to develop new methods of differentiating themselves in the global marketplace. Coffee exports from El Salvador have been shifting steadily away from ‘conventional’ or bulk coffees towards “differentiated” coffees, which include specialty and gourmet, as well as certified coffees such as organic, Fair Trade, sustainable (mainly Rainforest Alliance Certified) and buyer controlled supplier systems (e.g. Starbucks Preferred Supplier Program).

Over the 2002/03-2004/05 period, the total volume of commercial coffee (CS, HG and SHG) exports from El Salvador fell from 1,402,207 quintals (market value US\$83.7 million) to 1,201,413 quintals (market value US\$ 112.6 million, market prices rose in the same period). Low grade, low revenue coffee exports dropped by more than 6%. In the same time frame, differentiated coffee exports rose from 146,268 quintals (worth US\$13.3 million) to 302,094 quintals (worth more than US\$ 34.5 million). Exports of coffee into differentiated markets reached 18% in 2004/5³². The USA and Germany remain El Salvador’s most important markets (39.8% and 27.6% by volume, respectively), both consuming countries where these differentiated markets have expanded and are set to grow further, with many major coffee trading companies simultaneously developing their own practices around responsible sourcing and supply chain management³³. Although overall smaller markets, considerable growth for El Salvador’s differentiated coffees has occurred in Finland, Norway, Sweden, Denmark, The Netherlands and South Africa.

CSR Drivers in the coffee sector

A 2004 FIAS survey of international buyers found that the CSR issues of greatest concern for those purchasing coffee from El Salvador were: child labor, insufficient

³² Consejo Salvadoreño de Café, December 2005

³³ e.g. Neumann Kaffee Gruppe (the largest coffee trading company in the world), Starbucks (one of the most visible) both with ongoing projects in El Salvador.

health and safety measures, unpaid or forced overtime, use of chemical pesticides, threats to endangered species and habitat, toxic effluents and emissions³⁴. The FIAS report also suggested that, given the stiff competition in the world coffee market, any association of Salvadoran coffee with socially or environmentally unacceptable or unsustainable practices could jeopardize efforts to reach higher value market segments, despite the high and improving quality of the country's coffee. Consumer perception that coffee workers worldwide are underpaid and that production involves the harmful physical labor of children can easily translate into a resistance to purchase Salvadoran coffee³⁵.

Three CSR drivers were identified during stakeholder consultations in the first half of 2005 which are pushing the sector towards a conscious role for corporate social and environmental responsibility.

First, small coffee producing countries like El Salvador cannot compete easily with large low cost producers and need to differentiate their coffees to survive in an over supplied marketplace. Rising consumer awareness and demand for defined origins, supply chain auditing and traceability is being demanded. 'Sustainable coffee' (e.g. Rainforest Alliance certified) sales are growing, mainly through their adoption by major corporations such as Kraft, Nespresso. In the USA Fair Trade Certified coffees have grown rapidly, with large brands such as Starbucks, Dunkin Donuts, Costo and Macdonalds joining the schemes in 2005³⁶. El Salvador has been rising to this challenge. Coffee exports have shifted steadily away from "conventional" or bulk coffees towards "differentiated" coffees

Production of 'Sustainable Coffee' – 2002-2003 (in 60kg bags)

Country	Organic	Fair Trade	Rainforest Alliance	Bird friendly	Total Sustainable Coffee	% National Production
Guatemala	67,400	206,100	28,000	8,900	310,400	9.88
Nicaragua	47,500	64,500	4,000	-	116,000	14.20
Honduras	26,500	69,700	-	-	96,200	3.85
Costa Rica	17,400	56,200	9,300	200	83,100	3.90
El Salvador	9,800	10,100	45,000	-	64,900	4.84
Dominican Rep	7,350	11,200	-	-	18,550	2.85

Source: CIMS

Secondly, there is a consensus in the Salvadoran industry on the need to combat lingering reputational concerns. This would involve a more formal approach nationally to address the challenge of image, to document CSR, and advance the achievements in the coffee sector as a whole, both nationally and internationally. Some CSR market leaders in the country note that historical problems in the industry – a poor image dating from the period of civil war and consumer boycotts of Salvadoran coffee -

³⁴ Corporate Social Responsibility, Competitiveness and Foreign Direct Investment in El Salvador, FIAS, February 2004, Washington DC.

³⁵ Ibid

³⁶ The total **volume of coffee** certified by TransFair USA, TransFair Canada and TransFair Japan in 2003 increased by 89% to 20.16 million lbs. From: 2005 Report on Fair Trade Trends in North America & the Pacific Rim published by The Fair Trade Federation, www.fairtradefederation.org

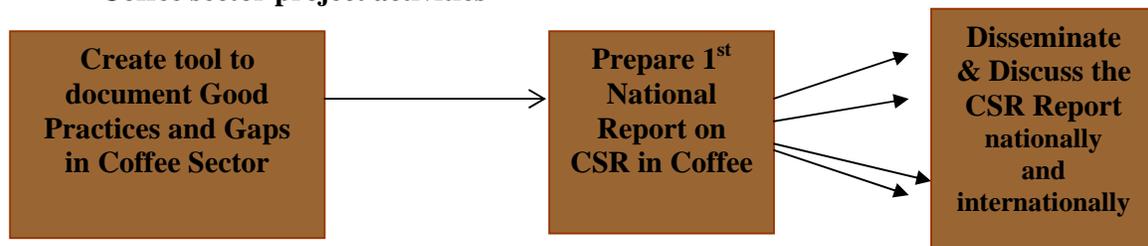
continue to affect the sector and may in some cases overshadow current efforts. Furthermore, heightened consumer awareness of child labor issues in the EU and the USA lends pressure to the sector to address the nature and scope of child labor being used on coffee farms. While this practice is not generally thought one of the “worst” types of child labor and is a culturally and socially accepted practice it currently falls outside many national efforts. These reputational concerns also extend to environmental issues: El Salvador has the reputation among certifiers and environmental conservation organizations as one of the most deforested country in Central America, and poor recent prices and market conditions have taken a toll on the remaining forest and animal populations whose sustainability is closely connected with the coffee industry.

Thirdly, coffee suffers from occasional labor shortages, after years of poor prices and conditions, and a rise in employment opportunities in other sectors. The hope is that improved labor and environmental standards could help attract and retain a qualified and committed workforce in the sector.

Project deliverables in the coffee sector

The project team consulted stakeholders to isolate a single activity that could address as many of the CSR challenges facing the industry as possible. Consensus was reached on the need to develop more formal methods of articulating the coffee sector’s commitments to social and environmental issues, including forest protection, water management, child labor practices, and decent conditions and earnings for coffee farmers and workers. To this end, the pilot project activities are a simple linear exercise which aims to build momentum for a wider, repeated exercise in the future.

Coffee sector project activities



The objectives of these activities in the coffee sector were to:

- Assess current practices and develop a baseline;
- Produce a first national report on social and environmental responsibility;
- Launch the report in public to a) engage with international buyers and b) provide local incentives to learn and participate in the future through gaining a new tool with which to engage in dialogue with international buyers, to benefit from market promotions and local exchanges with other CSR practitioners in the sector;

- Raise awareness locally about CSR practices as a tool to improve sector competitiveness and the wellbeing of coffee communities and the environment.

Participation in the project activities

In April 2005 the team held consultations with more than 70 representatives of the coffee sector in two forms: a general, public workshop and six consultation sessions with smaller groups of exporters, producers, cooperatives, processors, and Apex groups. Stakeholder representation was wide (see breakdown). Following this, a Coffee Working Group was established to lead the project with participation from all parts of the sector, with MINEC and FIAS coordination and input. The survey launch in September 2005 was well attended by a similarly wide-ranging group of stakeholders. Farmers and businesses represented almost 30% of national production. The survey was a self-reporting exercise, conducted by The Center for Public Opinion Research (CIOPS) at the Technological University of El Salvador. It covered small, medium and large producers, processors, exporters located throughout all coffee growing regions of the country (see breakdown below). All of these efforts, with the exception of the professional survey team, were strictly voluntary and undertaken on an unpaid basis.

Consulted	#
Reform Coops	17
Private Coops	14
Producers	7
Exporters	9
Ministries	2
Mills (processors)	4
Apex Groups (Industry wide)	23
Other (NGO, civil society)	2

What we know

There has been a plethora of marketing initiatives, independent certifications, USAID and other donor funded projects, strong individual farmer performances in the Cup of Excellence and the emergence of many local specialty coffee and producer associations in El Salvador. The country played an important role in the region developing some of the technical criteria and fundamental characteristics of biodiversity friendly coffee³⁷. Some of this pioneering activity is reflected in the survey results. Commercially, El Salvador is now one of the main suppliers of ‘sustainable coffee’ to Europe, with the largest share of Rain Forest Alliance certified coffees coming from El Salvador (64% in 2002/2003), increasing the number of certified coffee farms in the last two years by 500%. Several large international consumer coffee brand holders, including Nespresso and Partnership Blend (Nestlé) and Millstone (Kraft), have invested in developing sustainable and fair trade coffee product lines with Salvadoran content.³⁸

There are also valued and important traditions of social support and responsibility among both companies and farm owners, but there has to date been no formal documentation of these practices and as such, considerable outside scepticism towards

³⁷ Under the El Salvador “Promotion of Biodiversity Conservation within Coffee Landscapes” Project supported by the World Bank and the Global Environmental Facility, a workshop in 1997 of key stakeholders (including biologists, coffee growers, coffee importers, environmentalists, and others) produced technical criteria for the certification of biodiversity-friendly coffee production

³⁸ Fuente: Diplomado en Comercio de Café, 22-27 de agosto 2004, por USAID EXPRO

El Salvador's social practices remains. Some serious 'blind spots' also emerged. Many stakeholders seemed unaware of some consumer concern over economic inequities and certain social practices in the supply chain, such as not paying the 'minimum wage' or the use of child labor, although some stakeholders knew such problems had been reported internationally in the Salvadoran sugar sector³⁹. Child labor, and a definition of "harmful child labor" presents a specific challenge to the coffee sector in El Salvador and to most coffee producing countries because it is often a culturally and socially accepted practice that children accompany their parents during harvest time to participate in the work⁴⁰. An earlier (2000) report on El Salvador found child labor in about 50% of cases, and concluded that many children do not go to school or miss the beginning of the school year due to the overlap with the harvest period. A more recent ILO report showed 2,186 children rehabilitated and withdrawn from coffee work and a further 2,437 prevented from working from 1999-2005.

Survey Results - Summary of Findings by Subject

The survey was not intended to be a comprehensive research tool, but rather, to tackle some of the key CSR related questions. It was designed and organized around four categories: social and labor conditions, environment, trade and community development and public policy. (The survey tool itself can be downloaded from the MINEC website: www.minec.gob.sv). The results of the 468 surveys gathered are representative of just over 15% of national production and 34% of processed and exported coffee (the breakdown by type and location of respondents is in the table below. The main findings are summarized below and some of the critical or 'hot' issues or subjects requiring more investigation are outlined in the following section.

³⁹ Human Rights Watch June 2004 Vol. 16, No. 2 (B), EL SALVADOR - TURNING A BLIND EYE: Hazardous Child Labor in El Salvador's Sugarcane Cultivation.

⁴⁰ There is a growing literature on harmful and abusive child labor, but see for example: IFC, Good Practice Note, *June 2002 Number 1 - In the Workplace and Supply Chain - Addressing Child Labor*. (See section 2. What Constitutes Harmful Child Labor?).

Survey Sample for the 1st National Report on Corporate Social Responsibility

DEPARTAMENTO	Total Productor	menos de 10	de 10 a 100 mz	de 100 a 150 mz.	más de 150 mz	No Respondió	Benef. Expor
Santa Ana	38	12	14	1	11		9
Ahuachapán	14	3	4	3	4		7
Sonsonate	82	53	19	4	5	1	4
La Libertad	44	12	17	9	6		9
San Miguel	43	24	14	2	2	1	1
San Salvador	29	6	12	3	8		9
La Paz	4		2	1	1		
Cuscatlán	42	21	17	2	1	1	2
Chalatenango	1		1				
San Vicene	1		1				
Usulután	27	7	14	3	3		
Cabañas	1	1					
Morazán	23	13	9			1	2
S. O.	70	29	30	2	8	1	3
Total	419	181	154	30	49	5	46

Social and labor conditions: Processors and exporters cited education (54%), health services (52%) and accommodation (46%) as priorities for the coming two years. Producers also highlighted health services (47%) as a priority. However satisfying workers' health and educational needs is perceived as difficult for all producers and businesses. Few cited any major achievements in social areas for the last few years. Processors and exporters noted improvement in living conditions in the last few years (48%).

Most workers, whether permanent or seasonal, working for producers, processors or exporters, tend to be paid twice a month in cash, and are contracted based on the number of hours per day to be worked – with some exceptions for producers contracting help with harvesting (29%) and some farm tasks (24%). Monthly salaries were mostly (59%) in the \$81-150 range for workers for processors and exporters and less than \$80 for producers' employees (44%) (above the minimum wage required by law). Overtime for extra hours worked was reported to be paid by all employers, although producers are less likely to keep formal records of hours or overtime worked than processors and exporters. Producers are mostly unlikely (72%) to make (optional) deductions from salaries e.g. for Social Security or other such payments, not being required to do so by law in rural areas, with the exception of the largest producers (more than 101 manzanas) where an average of 40% make such deductions for social security and pensions. In contrast, processors and exporters say they do make deductions for social security and pensions (72%) and tax to personal incomes (70%).

Permanent workers are more likely to be contracted formally, with a written contract, especially by processors and exporters (52%). Most farm workers (between 51-73% depending on the type of work) employed by producers however, are contracted informally as written contracts are not legal requirements. Verbal employment

agreements are offered, rather than written contracts whether permanent or seasonal, being verbal contracts accepted by law as a mutual agreement between employer and worker. Moreover, permanent workers are offered considerably more services and support than seasonal or temporary workers by processors and exporters. Noticeably different terms of employment exist in a number of areas such as life insurance, training, provision of equipment, payment for public holidays and support for education of workers' children. The levels of support offered to both permanent and temporary employees of producers are closer.

On workers' health and safety, survey data indicate that many processors and exporters offer transport for emergencies (80%), have first aid and care facilities (68%), trained personnel for minor accidents (46%) or on site clinics or nursing facility (15%). 11% of respondents say they have no such resources on site.

The health and safety panorama for accidents looks different on the coffee farms. Almost 38% said they have no resources to deal with working accidents and only 37% have first aid facilities. Emergency transportation is also limited (37%) as is the availability of people trained to take care of minor accidents (16%). Interestingly, though, alliances with local health posts and NGOs means 10% have access to personnel capable of treating serious injuries in the vicinity.

A high proportion of all types of respondents show provision of protective clothing, training in use of dangerous materials and chemicals, and machinery is the norm, but only a small percentages of respondents say they regularly document incidents (39% processors and exporters and 16.5% producers). Also noteworthy is a high level (35%) of producer uncertainty or ignorance of the prevailing laws on health, safety and minimum safe working conditions although processors and exporters rated better (only 9% said they did not know). Very few producers said they had received direct inspections or other visits from Government institutions and officials on this issue (28%); processors and exporters reported a much higher rate (72%).

Child labor: In the processors and exporter interviews, 93.5% responded that no children or minors were working in any capacity or task in their companies. 4.3 % said they were employing children, and 2.2% expressed no opinion. Of producers interviewed, 69% said there were no children working in their farms and 24% said there were children working, around 11% accompanying their parents on their rosters. There were slightly fewer instances (23%) of children working on larger farms (or more than 101 manzanas) and more on family farms of less than 10 manzanas (26%) with 62% being their own children. Around 23% are assigned specific duties (and contracts are offered by 10% of employers to children of 14 years or more.) Most children on coffee farms (54%) are not subject to any formal work conditions or requirements. Paid-for work includes a variety of duties including coffee picking (67%), weed control (37%), planting (27%) and fumigation (11%). Most children do not work the same hours as adults but half days (22%), or other hours as agreed (39%).

Roughly 16% of the respondents who answered affirmatively about the presence of minors consider this an important family tradition which has some positive cultural impacts such as preventing juvenile delinquency (26%), learning a skill or trade (26%), making a contribution to the household income (17%) and other reasons (13%, unspecified). But 73% of respondents consider it inappropriate for children to be given

the same work as adults. Respondents identified the precautions they take: ensuring physical safety of the child (70%), assigning tasks appropriate to the age (53%) or scheduling work to avoid absence from school (49%). Special areas or services for children accompanying their parents are rare: only 17.5% of respondents indicated they had such facilities and what they had was reported as follows: child care facilities (27%), playgrounds (60%), medical clinics (16%), sports fields (46%).

Environment: More than 64% of respondents stated they were already engaged in environmental and social certification processes. All of the interviewed coffee sector stakeholders reported their most important achievements of the last few years to be in conservation (processors and exporters 48% and producers 59%) and reduction of pollution (processors and exporters 39%).

Reforestation featured impressively on producers' aims for investment in the coming two years (more than 71% of respondents said this was one of the most important areas) followed by reduction in chemical inputs (35%). More than half of all producers reported recently supporting environmental projects in their area: 90% reforestation projects, 49% pollution reduction and 46% environmental education. Of producers interviewed 63% reported 40% or more shade cover, more than half (51%) reported some virgin or primary forest on their farm or surroundings yet only 25% indicated that trees are felled in a planned manner.

Many producers expressed awareness of wild animals and birds on their farms (84%), but a rather large share were unsure or did not know whether or not there were any endangered species (35% said there were none, 34% said they did not know). Similarly 57% of producer respondents did not know with certainty about native tree species, 31% reported that their farms were home to less than 10 native tree species, and very few (18%), actually document the presence of important or native species on their farms.

A reported 67% of producers avoid highly toxic chemicals like DDT, paraquat and others. Most producers do use fertilizers (70%), and natural fertilizer (60%), and reported low overall use of insecticides (33%), fungicides (29%), herbicides (20.5%) and pesticides (8%). 4.5% of producers reported no use of any inputs at all and 13% report using integrated pest management techniques. Producers also stressed their efforts in trying to conserve soils (23%). And more than half (53%) consider that erosion has been contained or is managed on their farms. More than half of all producers interviewed (56%) stated they had not received information on these issues from the Ministry of Environment but 83% said they would welcome assistance.

Processors and exporters named water and waste management as the most pressing priority (46%) and also emphasized this as one of their main current practices (38.5%)

A further priority was environmental education for employees (32%). While more than 71% of respondents stressed their support for environmental projects in their area including reforestation (76%), pollution reduction (67%), and environmental education (46%), a relatively large proportion of respondents could not name, or, had no opinion on, the specific environmental practices in their businesses (a total of 25.6%). Only a minority reported receiving information from the Ministry of Environment on clean

production (39%), solid waste management (41%), pollution management (37%). However, 87% stated that they would like to receive such information and assistance.

Trade: The survey follows a number of difficult seasons, marked by price declines, price volatility and indebtedness. Many have had to make significant adjustments to their trading practices. Processors and exporters cited production improvements (41%), price and cost improvements (24%) and viable investments (24%) as significant achievements of the last few years. Producers fared less well. In fact almost 20% of respondents showed the last few years as marked by losses, and without any real achievement save survival (11.5%) although more than 18% also stated they had managed to improve costs.

Unlike the broadly informal nature of employment in coffee production, sales and marketing agreements are mostly written contracts between producers and processors or exporters (more than 73%). Processors assume a number of roles and functions for producers in the marketing chain including provision of market price information (56.5%), harvest credit (28%), and transportation of coffee (22%). However, quality is valued the most highly (52%) by processors in purchasing decisions followed by trust in the producer (39%), and far more highly than other factors such as supply chain and certification partnerships (rated as very important by only 19% of respondents). Good prices, trust (a long-term relationship) and a written contract were the key important factors cited by producers.

Awareness of the potential benefits of certification and the markets they bring is higher among processors and exporters, some of whom rated it as one of their key achievements for the preceding years (13%) and many more noted an important area for short term future investment (43%). Producers were less clear on certification as a short term priority (25%) and less than 4% listed certification as a recent achievement.

Community development and public policy: All interviewees reported contributions (in funds, time, materials etc.) to local social projects in recent times (61% of processors and exporters, and 41% of producers). Projects vary in scale, from just a few to several hundred beneficiaries. The preferred partners and counterparts for social projects are significant: a large share being for projects designed and implemented by the respondent themselves (67% for processors and exporters and 34% of producers' projects). Other favored counterparts cited by both groups include: local and international NGOs, the local mayor/municipal government, and churches. There is little evidence of government-private sector/producer partnerships (just 13% for processors and exporters and 11% for producers).

Many respondents stated that they have played an active role in the last two years in developing public policy, contributing to coffee sector policy and attending events in industry bodies and participating in coffee sector working groups (59% of processors and exporters and 50-58% of producers). Only 28.5% of processors and exporters and 17% of producers had participated in CSR related events in the last two years.

Key issues from the survey data: The smallest farmers have the most difficulty organizing their efforts with respect to both social and environmental responsibility,

such as attending workshops and training activities, although these producers had clearly stated environmentally responsible aspirations and goals for their farms (40% had not been able to attend any environmental training activities). The low levels of awareness and relatively few incentives to care for native species and especially endangered species or find alternative strategies also requires consideration and attention.

The survey shows that very few companies engage minors, and that child labor is farm based and almost exclusively a family-based practice on small farms. While minors are present throughout production areas their employment is not a widespread practice on large farms. Employers expressed strong and clear views on the necessary precautions and the efforts they make to avoid development problems, exploitation and mistreatment. More work could be done to ensure that there is more systematic checking of the ages of all new employees (e.g. use of IDs) and that there are stronger social or legal sanctions for not taking the appropriate measures and the means or conduit to report abuse or suspected are available and accessible. Farms should also be provided with assistance in (1) finding alternative day care opportunities for their children while their families are working and (2) ensuring their children can participate in the formal educational system.

Much coffee production and harvesting is conducted in an informal manner. Seasonal and temporary workers get fewer services, and permanent employees, as indicated above, frequently do not receive written contracts. In general, employment norms in the coffee sector are less formal and written records, excepting sales contracts, are rare. Historically, there has not been a culture of reporting. Producers expressed concern, for example, over the need to undertake paperwork with regard to certification, while recognizing the benefits that these controls provide. As supply chain requirements tighten on issues of accounting and traceability back down the chain, many producers and processors could benefit if a simple, preferably unified, accounting and reporting system – for example to deal with a variety of producer reporting and tracking needs e.g. credit, hedging, loans, certifications, employment and other practices and activities - can gradually be developed and introduced to satisfy the variety of demands for information.

Less than one fifth of all processors and exporters reported undertaking no particular pro-environmental practices within their businesses (18%). Only 3% of producers reported no environmentally friendly practices, despite far lower levels of Government inspection and information provision. Processors and exporters (85%) were more aware of certification options than producers (62%). Producers cited high costs (27%), high level of paperwork (16%), costs greater than perceived benefits (3%) as reasons. It is possible that producers are simply not getting sufficient assistance on technical aspects or financing (most charges fall on the producers) and so the barriers to entry are too high. Despite high levels of processor/exporter awareness of certification programs, such business partnerships, and continuity (i.e. long-term approach which most certifications require) are nevertheless not highly valued factors in processor/exporter purchasing decisions.

Recommendations for the coffee sector

There are growing levels of interest in corporate social responsibility in the coffee sector. In general, the sector speaks with one voice on the need to find a way to make coffee a viable and attractive source of employment. Yet it is not yet clear whether CSR offers this outcome for coffee producers, farm owners, processors and exporters. There is still confusion over the meaning of CSR and how it will be demonstrated and verified nationally. There are some 'holes' in stakeholders' awareness of international perceptions of CSR and social and environmental issues. Stakeholders also have concerns about a lack of dialogue or balance between local organizations and international buyers and consumers on these issues, fearing that the market does not truly value CSR effort over price and quality factors.

The project activities were a voluntary exercise, based on self-reporting techniques. Support with information on good practice and competitiveness achievements, opportunities for learning and capacity building from others, and market promotions, and access to buyers interested in new types of supply partnerships and CSR issues might increase the level of participation in the future. Differentiated markets provide price incentives for investment, but market penetration is competitive (they are still dwarfed by the conventional coffee market).

General Recommendations for the coffee sector: CSC, private sector and APEX bodies: The surveys offer new insights into some key issues including forest conservation and child labor (on family farms). Follow up work is needed to prepare a number of short subject-specific briefings based on the data including references to national law, for all stakeholders in the sector to be in a position to address directly consumer perceptions and concerns on social and environmental issues at a national level as well as from their own experience.

A verification methodology needs to be finalized and to be run in line with other sectors engaged in pilots and promoting a more comprehensive CSR approach. Recommendations are based on this self assessed data, and could be altered in future phases of verification. Learning from this verification, a review and follow up could be incorporated into a new survey instrument before a repeat exercise in late 2007. A new instrument might want the views of workers and to assess whether there is convergence between the priorities and aspirations expressed by farm and business owners and their workers.

The concept, the information obtained from the survey and examples of good practice and challenges need to be part of the ongoing marketing plan for Salvadoran coffee and national discussion throughout 2006. Internally it is important to raise awareness of a national competitiveness strategy and sector identity based on an integrated CSR approach to coffee production and marketing across the whole country and each producer and company's role in this. Externally, the distribution of the report through embassies and export promotion initiatives should compliment existing plans to invest in advertisement and development of the "El Salvador" image in consuming countries and to ensure that the national image is based on solid, substantiated "information pillars".

El Salvador continues to be the recipient of major investments and development project finance for improving the competitiveness and performance of the coffee sector specifically and agriculture generally (e.g. USAID)⁴¹. The sector's efforts, through this pilot, to develop a CSR baseline which can be continuously improved on and expanded throughout the coffee industry and across agriculture generally, should be incorporated into the planning for these types of assistance programs.

Future prospects and coffee sector vision: The coffee sector in El Salvador is relatively small but has established industry bodies, well positioned to take a lead in formalizing a basic, national concept of CSR and set of good standards across the sector. Gaining the endorsement of industry bodies, leaders in the field and pioneering companies and cooperatives could be the trigger to generate the positive recognition, greater market success and financial results that would encourage others to follow in due course. During stakeholder consultations, a quite strategic and coherent vision for the sector was offered by participants in the workshops. This vision offers a distinctive set of priorities with a clear CSR framework and so is reproduced here as a point of reference and to guide next steps.

Coffee Sector Vision – Articulated at CSR Breakout Workshop, 12th April 2005

- Base work now within a strategic vision of where the sector could be in ten years
- Achieve greater institutional unity around this goal and work more closely together
- Overcome the negative perceptions and poor international image
- Penetrate differentiated markets to a level sufficient to maintain coffee production at current levels i.e. stop the decline
- Gain more knowledge of the market and consumer perceptions and concerns
- Be better prepared as companies to take advantage of the opportunities and experiments in SUSTAINABLE sourcing by multinational companies
- Make coffee an attractive and dignified business in El Salvador, passing on assets not debts to future generations
- Be ready and better prepared for the next coffee crisis, knowing how to manage price risk, whether the price is high or low
- Expand the many pilot projects to widespread and larger scale efforts
- Be organized to guarantee and demonstrate, with confidence, the social and environment requirements of international clients (good national data, certification systems, verification processes and wide participation)
- Get forest cover back up to where it was ten years ago (i.e. to 9.3% from 5.8% in 2004)
- Ensure all coffee farm workers have proper IDs and are integrated into the formal economy.

⁴¹ For example, US AID's new 2006-2009 program RAISE PLUS aimed at increasing jobs and rural incomes through working with farmers and agribusinesses, the Ministry of Agriculture and Livestock (MAG) of the Government of El Salvador, and private businesses associations and/or foundations, in order to strengthen their technical, marketing, production, and processing capacities, including special reference to coffee sector

Recommendations for Government: MINEC, as the presiding ministry of the Salvadoran Coffee Council (CSC) which brings together all key stakeholders of the private and public sector, should arrange for an inter-ministry discussion on the report, the data generated and its implications for each government institution with a role in supporting the coffee sector. . Participating bodies should be the Presidential Commissioner for Coffee and the Ministers of Agriculture, Labor, Environment, Economy, and Women.

MINEC should enable each ministry to play a specific role in dissemination of the ideas behind the report and the information generated by the survey both internally and externally with appropriate materials for distribution to different audiences. For example, MINEC can ensure that the International Affairs Ministry assists with distributing the information in key importing countries – in appropriate languages – notably El Salvador’s fastest growing differentiated markets indicated above and not just the largest overall consuming countries.

Local companies fear their effort and investment will be in vain. MINEC and CSC can actively facilitate the sort of contacts between international buyers and El Salvadoran coffee companies to discuss and test their mutual commitment and willingness to create partnerships based on observing and raising social and environmental standards. Strategies should also focus on medium companies who are often the most innovative and willing to engage.

MINEC, through the CSC, should try to achieve the best coordination and leadership at the national level and build consensus and unity around some strategic plans of the sector, including the ongoing marketing plan for Salvadoran coffee, so that the efforts of a few are not isolated, but can accelerate and achieve more cumulative impact in a shorter time frame.

Review financial and other economic incentives to underpin CSR efforts e.g. tax credits and non-traditional export rebates, prioritizing new credit for renovating coffee farms to advance CSR by allocating resources for clients who have demonstrated CSR practices in the past, or by making new credits conditional on adopting such measures.

ANNEX I: Self-Assessment and measurement tool

Project Description

The apparel sector in El Salvador, as in the rest of the region, faces major challenges in the post-quota era. Improving the capacity of the Salvadoran maquila industry to assure buyers that their products are made in safe and fair work environments has the potential to be a key competitive advantage for the industry. While this in of itself will not be sufficient to maintain and grow the industry, considerable evidence shows that providing such assurance is a necessary condition for the industry to compete at all. A recent survey of international buyers provides evidence that that El Salvador actually has the potential to distinguish itself from nearby competitors in demonstrating corporate social responsibility.

This project seeks to promote the competitiveness of the Salvadoran apparel industry by developing a credible system for improving and demonstrating good practice in labor and environmental compliance.

Tool Objectives and overview

This tool has been developed to assist apparel factories in assessing their performance in the wide range of corporate social responsibility areas and to measure the associated costs and benefits for the factory, employees, communities, and other relevant stakeholders. The tool is meant to be used as a self-assessment mechanism that measures the impacts of CSR investments through indicator comparisons over time.

The apparel industry works under national, international, and buyer-specific standards of quality and social and environmental performance. In order to remain competitive, producers must comply both with high quality and productivity goals established by the market as well as with the range of other standards. In the area of CSR, factory-level standards are often broken down into the categories of social and environmental policies and procedures. Mandated practices are described in buyers' codes, international standards, industry certifications, and local laws. Many factories have also created their own codes of conduct to which they commit to adhere.

The goal of the tool is to allow factory management one tool that they can use to measure their level of compliance against this range of different standards and to begin to understand the associated investments and benefits of CSR practices over

time. The aim is to save time and resources while also serving as an internal decision-making tool.

Tool components

This section provides a step-by-step overview of each component of the tool.

Figure 1 shows the main menu of the tool, into which the factory will input general information about the facility and the assessment. The date of the evaluation will be used as a reference point for changes in industry performance. The first information that is inputted will serve as BASELINE data against which all future assessments can be compared.

Fig. 1

The screenshot shows a software window titled "Empresa" with a blue border. The main content area has a teal background and displays the title "HERRAMIENTA DE EVALUACIÓN DE RESPONSABILIDAD SOCIAL EMPRESARIAL" in large white letters. Below the title is a grey instruction box: "Seleccione una empresa para empezar o continuar la evaluación, o ingrese una nueva:". There are four input fields with labels: "Nombre de la Empresa:" (value: EUROLINK S.A DE C.V.), "Propietario:" (value: Anthony de Caluwe), "Encargado:" (value: -), and "País de operación:" (value: El Salvador). A large button at the bottom of the form reads "Crear o Ver las Evaluaciones de Esta Empresa". At the very bottom, a status bar shows "Registro:" followed by navigation icons and "1 de 10".

The main menu will then allow the factory to choose among the following tasks (See Figure 2):

1. *Areas de Evaluacion* (Areas for Evaluation): These buttons allow the factory access to detailed questions regarding their CSR practices in the areas of labor, environment, and other general practices.

2. *Medidas Implementadas* (CSR Implementation Measures and Associated Costs): Three buttons allow the factory to access forms into which they can input the measures they have taken to ensure compliance with each of the CSR practices included in the auto evaluation. Factories will include costs of implementation on a level aggregated to a specific issue area within the general category (e.g. costs associated with measures to ensure adequate wages and hours, prohibit discrimination, or ensure proper health and safety practices)
3. *Monitoreo de Indicadores* (Indicator Monitoring): Three buttons in the areas of quality, productivity, and OSH allow the factory to enter information relating to specific measurement indicators. Over time, factories will be able to assess the results of their investments by monitoring changes in these indicators.
4. *Reportes* (Reports). This section will allow factories to print reports that take the inputted information and convey it in terms of (a) Overall benefits of their investments, (b) inspection reports, and (c) compliance with individual codes of conduct.

Fig.2

Evaluacion

Datos Generales de la Evaluación

Fecha: 12/01/2005

Nombre de la empresa: EUROLINK S.A DE C.V.

Propietario: Anthony de Caluwe

Encargado: -

País: El Salvador

Número de mujeres: 100 Número de hombres: 100 Total empleados: 200

Detalle de Evaluación

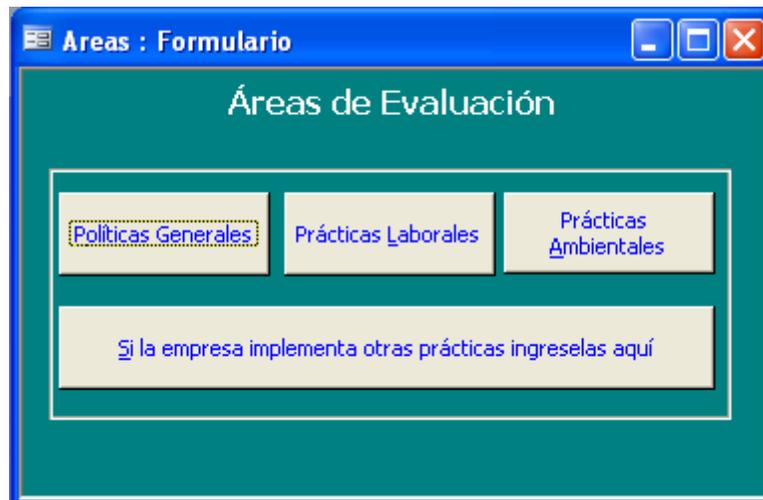
Registro: 1 de 36

Section 1: CSR PRACTICES AUTO EVALUATION

General Evaluation

Factories will have the opportunity to make a self assessment of their performance in each of the following areas (Figure 3):

Fig.3



LABOR PRACTICES (Figure 4)

- Forced Labor
- Child Labor
- Wages, Benefits and Terms of Employment
- Hours of Work
- Discrimination
- Harassment, Abuse, and Disciplinary Action
- Freedom of Association and Collective Bargaining
- Health and Safety Policies

Fig. 4

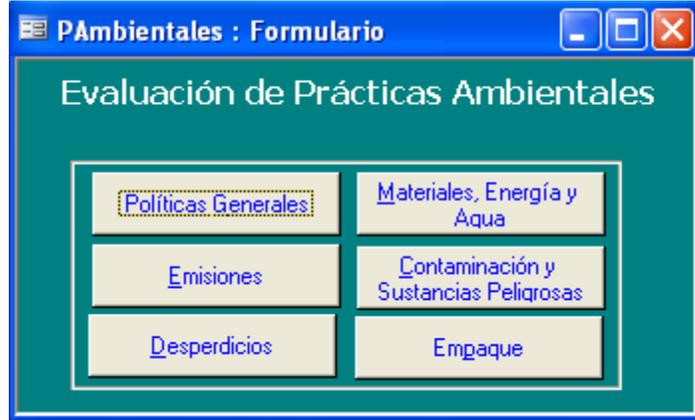
The image shows a screenshot of a software window titled "PLaborales : Formulario". The window has a blue title bar with standard Windows window controls (minimize, maximize, close). The main content area has a green background and is titled "Evaluación de Prácticas Laborales". Inside this area, there is a grid of eight light-colored rectangular buttons arranged in two columns and four rows. The buttons contain the following text: "Trabajo Infantil", "Trabajo Forzado", "Salud y Seguridad", "Salarios y Beneficios", "Disciplinarias, Acoso y Abuso", "Libertad de Asociación", "Horas de Trabajo", and "Discriminación". The "Trabajo Infantil" button is highlighted with a dashed border.

There is an additional field for adding other CSR practices outside these main areas, such as community investment, governance and accountability, business ethics, marketplace, mission/vision/values.

ENVIRONMENTAL PRACTICES (Figure 5)

- General Policy Statement
- Materials
- Emissions
- Pollution Control and Hazardous Substances
- Waste Management
- Packaging and Transport

Fig.5



For each practice, there is a list of specific questions that will help the factory to determine if they are in compliance with various requirements. For each question, the factory can respond in the following manner:

Yes

No

Does not apply

The factory also has the option to enter in commentary regarding the specific practice and to fill out an action plan table. This table includes columns for the planned activity, date of planned activity, and person responsible. See Figure 6 below.

Fig. 6

TRABAJO FORZADO

NÚMERO: 1

PRÁCTICAS EN TRABAJO FORZADO: El contratista no utiliza ninguna forma de trabajo forzado, sea forma de prisión, trabajo forzado por entidades publicas, bajo pago de deuda ni ninguna otra. Se pide realizar solo trabajo voluntario a los empleados.

COMENTARIO

Resultado

- SI CUMPLE
- NO CUMPLE
- N/A

	ACTIVIDAD	RESPONSABLE	FECHA_INICIO	FECHA_FIN	MONTO
▶					\$0.00
*					\$0.00

Registro: 1 de 10

Section 2: MEASURING INVESTMENTS

Once a factory has determined its level of compliance (or as a parallel process), the tool asks for information relating to investments that were made by the factory in each of the areas of social and environmental practices. Investments need to be inputted for each period of evaluation so as to provide a good picture of overall costs and benefits of given actions.

Measures taken to ensure compliance can be inputted as specifics for each question (e.g. buying emergency equipment or hanging security signs) or on a more aggregated level for a more broad topic (e.g. development of a training program or the establishment of a clinic). The one requirement is that the factory be able to link the measures implemented to specific investment costs. See Figure 7 for an example of how the screen would look for inputting measures taken and associated costs in the area of forced labor. (Note that screens would also be available for more specific questions about forced labor practices).

Fig.7

TRABAJO FORZADO

MEDIDAS IMPLEMENTADAS

El contratista no utiliza ninguna forma de trabajo forzado, sea forma de prisión, trabajo forzado por entidades publicas, bajo pago de deuda ni ninguna otra. Se pide realizar solo trabajo voluntario a los empleados.

	MEDIDA	MONTO
	MEDIDA 1	\$220.00
	MEDIDA 2	\$120.00
	MEDIDA 3	\$30.00
		\$0.00
*		\$0.00

Registro: 1 de 10

The report gathers all the measures taken and summarizes them along with total investments for each category. See Figure 8 for an example of the final report.

<i>Medida</i>	<i>Costo</i>
MEDIDA 1 TRABAJO FORZADO	\$100.00
MEDIDA 2 TRABAJO FORZADO	\$230.00
Suma de Costos:	\$330.00

Fig.8

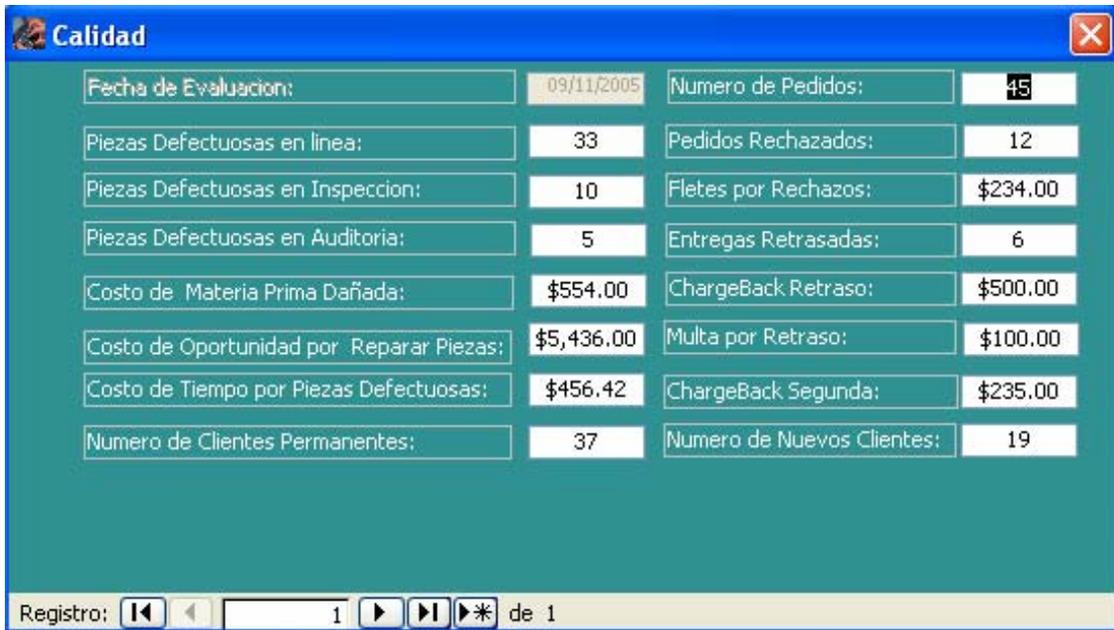
Section 3: MEASURING THE BENEFITS

Basic factory statistics, such as productivity numbers or number of accidents, are indicators that can be monitored by the tool and tied to CSR investments and compliance. Changes in the indicators will show the impact of measures over time, observing the trends in specific trimesters when the CSR actions were focused or implemented. Figure 9 shows an example of the types of productivity indicators that would be tracked and figure 10 shows specific quality indicators that could be used.

Fig.9



Fig. 10



Some indicators (e.g. percentage of productivity, percentage of efficiency, percentage of overtime payment, percentage of absenteeism) should only be measured in short periods of roughly 14 days and for the factory as a whole. This will ensure that the data can be compared in different moments of the year, avoiding the influence of seasonal trends and focusing on the real change of certain indicators.

Figure 11 shows an example of how a company could begin to measure the economic benefits of various CSR investments. This example shows specific indicators in the area of operational safety and health.

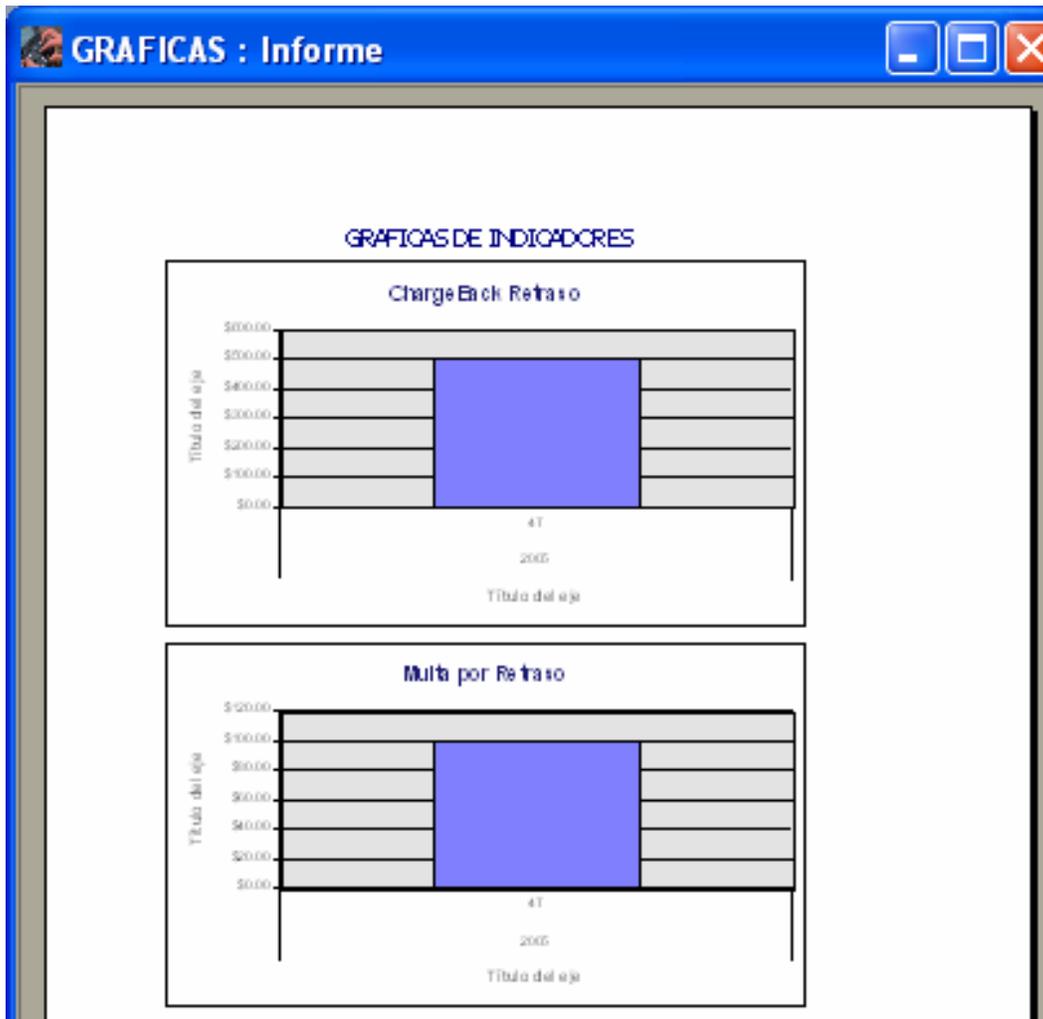
Fig.11

Indicador	Valor
Fecha:	09/11/2005
Numero de Accidentes:	1
Horas de Ausencia por Herida/Golpe:	
Costo de Prevencion de Accidentes:	\$154.00
Numero de Visitas Clinicas:	65
Horas de Ausencia por Enfermedad/Visita a Clinica:	7
Monto de Gastos Medicos:	\$1,213.00
Costo de contratacion por Sustitucion:	\$1,467.00
Monto de Materia Prima Dañada:	\$554.00
Costo de Maquinaria:	\$213.00

Analyzing both the implemented measures and the indicator trends in the same period of evaluation may link specific CSR practices to specific benefits. External and internal industry events during those periods of evaluation, such a rise in the cost of raw materials or any other non-CSR related event must be taken into consideration during the analysis.

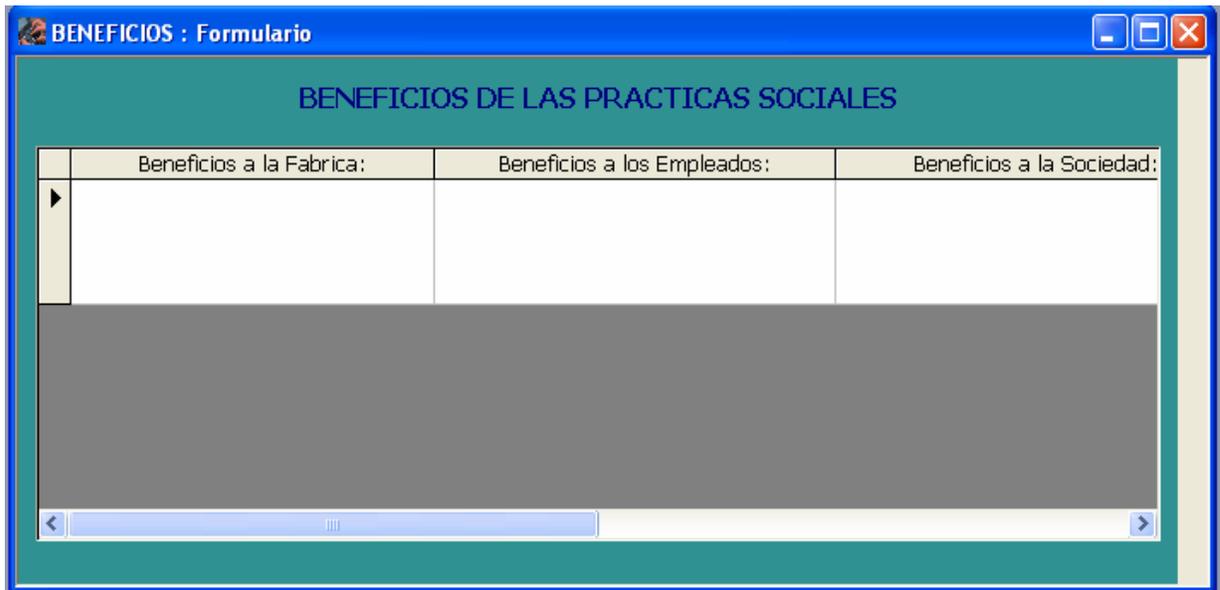
Figure 12 shows an example of the type of report that can be generated showing the change in an indicator over time.

Fig. 12



In addition to the “hard” benefits that can be measured in monetary terms, the factory will also be encouraged to input information relating to “soft” benefits that are not as quantifiable. These two types of benefits should be reviewed together and verified simultaneously. Causal hypothesis can be tested through focus groups or interviews of community members or employees and led by independent third parties. Figure 13 shows a table where these less quantifiable benefits can be inputted into the tool.

Fig.13



Section 3: REPORT GENERATION

For each section, factories will have the option of generating several types of reports. These include:

- (1) General practices
- (2) Action plan
- (3) Compliance
- (4) Overall investments
- (5) Indicator tracking

See menu on figure 14 below.

Fig. 14



Fig.15

	SI	NO	N/A
<i>Cada empleado tiene la libertad de salir de la fabrica por motivos de justificada razonabilidad.</i>	1		
<i>El contratista evita la intimidacion a los empleados para que realicen su trabajo.</i>		1	
<i>El contratista no utiliza ninguna forma de trabajo forzado, sea en forma de prision, trabajo forzado por entidades publicas, bajo pago de deuda u otra. Se pide realizar solo trabajo voluntario a los empleados.</i>		1	
<i>La fabrica no compra materiales producidos bajo alguna forma trabajo forzado.</i>			1
<i>Las horas de extras de trabajo son voluntarias.</i>			1
<i>Libertad para los trabajadores en aceptar el empleo, asimismo darlo por terminado. La fabrica mantiene registros de contrataciones y despidos.</i>			1
<i>Si la fabrica contrata personal extranjero, paga comisiones a la agencia de contratacion y no exige a ningun empleado permanecer en el puesto mas alla del tiempo voluntariamente pactado.</i>		1	
Suma total	1	3	3

Practicas Aplicadas: 4
Cumplimiento: 25.00%

The reports can also be printed so as to give a general summary of overall compliance. See figure 15 above.

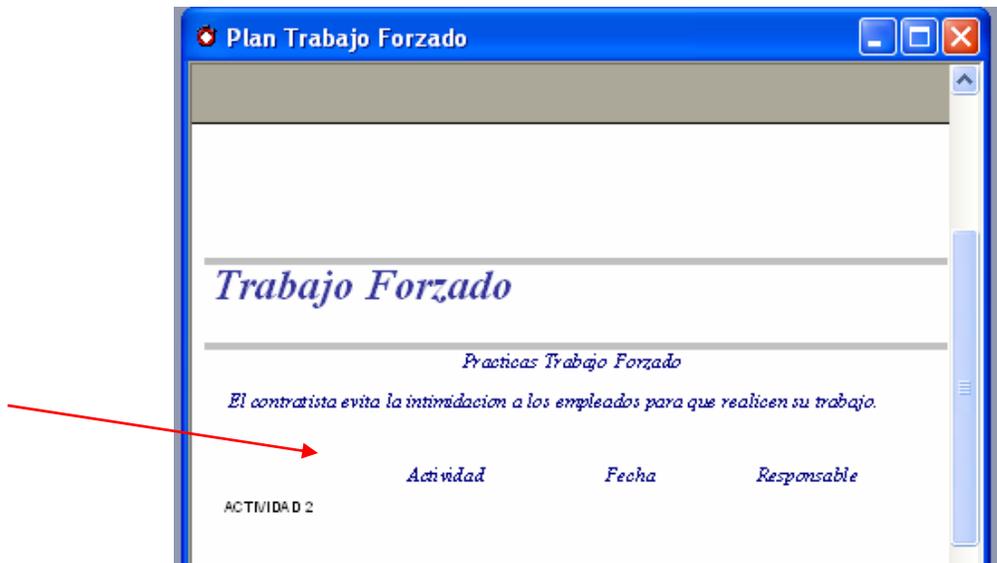
For an example in the area of labor practices see figure 16 below.

Fig. 16



Figure 17 provides an example of the action plan that the tool would generate by combining the specific activities inputted in each area of compliance.

Fig. 17



In addition, after completing the general self assessment, factories can print reports that outline compliance with one specific set of requirements or buyer code of conduct. This will be of particular use in saving time and resources in preparation for specific audits.

(See Figure 18 and 19 for an example of the report menu screen that a factory might use)

Fig. 18

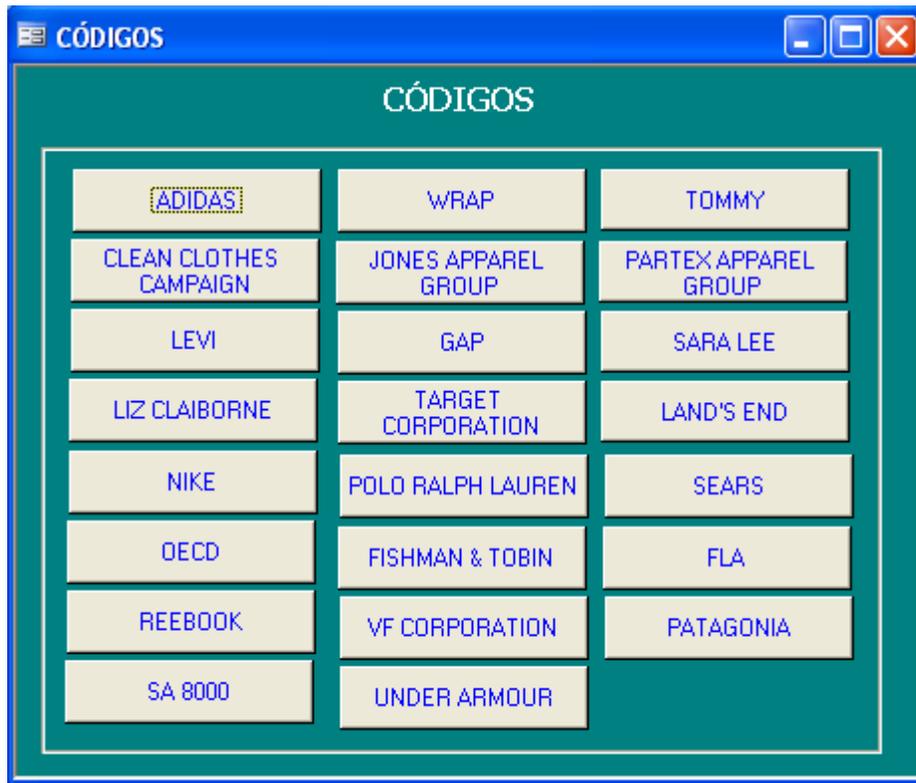


Fig.19

Informe de Cumplimiento de Prácticas de ADIDAS

Políticas Generales

Políticas Generales

La empresa no recurre a prácticas engañosas para mentir intencionalmente sobre el país de origen de un producto que venderán sus compradores con el fin de evadir la cuota u otras restricciones o impuestos de importación.

Los contratistas deben de cumplir con todos los requerimientos locales, federales, leyes nacionales e internacionales, reglas y regulaciones. Pero no limitando a todo lo referente al trabajo infantil, salarios, horas, trabajo, salud y seguridad, e inmigración.

ANNEX II: Capacity Building Inventory

Executive Summary

Although there are a significant number of consulting and training companies in El Salvador, however, very few of them have training programs specifically designed for the apparel industry.

The apparel industry has a clear need of turning its *maquila* production system into a full package system, however, very few companies have been able to find a methodology that would allow each work area to respond to specific requirements it entails, and much less, to be able to create synergies among them.

Careers Provided

There is one institution in the country that offers a technical career oriented to the industry, and it is the Central American Technical Institute (ITCA, Spanish acronym); it is aimed at middle management such as Quality Auditors, supervisors, sewing machine instructors, junior engineers (basic knowledge of industrial engineering), cutting staff, and computer area; however, this area faces a serious problem. This program faces the risk of being cancelled just as it happened at the time with the program offered as evening program.

Training provided by the Ministry of Labor

The Ministry of Labor has several training programs on occupational health and safety, in coordination with the Ministry of Health and the Social Security Institute, ISSS (Spanish acronym). A large number of training has taken place in companies around the country, with good results and acceptance. Fundacersso is an non-profit organization that provides supports to the Ministry of Labor, and which operates in all of the Central American countries and the Dominican Republic. This institution pursues the coordination, management, and development of regional strategies and programs on Occupational Safety and Health through tripartite consensus. The FORSSO Project, “Strengthening Occupational Safety and Health in Central America, Belize, and the Dominican Republic”, managed by this same organization, is being financed by the Canadian Department of Labor.

Ministry of Education

It has no program aimed at the industry. Neither it is aware of, endorses or supports the topics or contents being imparted by ITCA (the only institution with a technical training program oriented to this sector). The same happens with the

training companies, none of which is registered at the Ministry or supervision over their methodology, contents, and materials offered in programs imparted by such companies or independent consultants takes place.

FUNDEMAS

The Business Foundation for Social Action, FUNDEMAS (Spanish acronym), started operations on the 25th of May 2000, with the purpose of contributing to El Salvador's economic and social development, by strengthening Corporate Social Responsibility, promoting Corporate Philanthropy, and fostering Entrepreneurial Behaviors. Currently it lacks a training program.

Training companies

Regarding training companies, most of them manage general topics on human resources, such as: leadership development, teamwork, change management, time management, self-esteem, emotional intelligence, etc. These topics coincide on managing human resources and developing competitiveness by raising self-esteem. By imparting these training to workers, these have been able to gain a greater sense of belonging towards the company, however, this is not a lasting effect because of the short-term training format (eight hours), separate from other training, and not constant or ongoing.

There are consultant and training companies that work on focused issues such as: strategic planning, preventive machine maintenance, guideline display, lean management, lean manufacturing, industrial management, industrial process accounting, finances, costs systems, tax laws, tax audits, fiscal control at free zones. The common factor among these companies is that they have specialized in just one topic, giving them great strength. Furthermore, they all agree that for a training to be totally effective, a diagnostic of the company must be performed in order to reveal its actual needs. Many of the topics mentioned have produced a sustained positive impact among the businesses, in some greater than in others, but they all are of interest and importance to the industry.

Training provided by Unions

The country's unions lack a training plan. There are several initiatives to support workers, some of them confuse their work misinforming about their rights, obligations, and responsibilities, causing irreparable damages both to company owners as well as to the same workers. However, other initiatives work a lot training, informally, employees with better guidance and gaining a lot for both parties, company owners and employees. Several union leaders share the idea that a training school or program on labor and union education is very important; a plan has been created, but not yet implemented due to lack of funds.

Government/Private Sector Support

INSAFORP is the Salvadoran Institute for Professional Training, and is the largest organization providing economic support for training to the *maquila* sector. Most companies seek its support to train their staff. There are several modalities on the general procedure to request training services to this institution:

1. The company identifies a training need based on a previous diagnostic.
2. The company determines if the training need requires a closed course (to be imparted only to its staff) or if the staff is sent to open courses.
3. The company determines if the training need can be met with own resources or if it shall request financial support from INSAFORP.

www.insaforp.org.sv has a section that handles Training Requests, where files containing request forms for open or closed courses, training policies, and a Letter of Commitment can be downloaded. All support requests are channeled through the unit called Corporate Advise Management. After the necessary time to get the funds, the company is notified on the decision made by the institution's council. In case of a positive response, the company is also advised on the percentage of the total value it will receive support for.

There are many other organizations that support training in the country; they only provide economic support to micro, small, and medium size enterprises, excluding large enterprises of industrial size.

Gap analysis and recommendations

Supply issues

Taking in consideration the dramatic turn taken by the apparel industry around the world, and the way it has impacted the local industry, the suggestion is to prepare a comprehensive training program to instruct those responsible of different work areas under the current business model used by the apparel industry, with all its implications: production systems that respond to market demands; corporate social responsibility standards and practices that comply with international standards and which will facilitate entrance to new markets which require their compliance; flexible management systems that include vast logistics and marketing knowledge. Further, this program must train participants to become inside trainers able of training their own company staff. This can be achieved by coordinating several training modules from different training programs already existing, and structuring them into a formal training certificate program that guarantees a comprehensive training approach.

Although there is a demand for training middle management technicians, the formal program imparted by ITCA is considered by industry people as inadequate for current needs. A revision of such program is suggested, being performed by FEPADE, currently responsible for managing ITCA, ITCA itself, and industry businesses.

As of today, there are serious problems between business management and employees, due to misinformation provided to employees by union members who belong to political parties. Further, commercial treaties signed by El Salvador include important components regarding labor issues. Employees seek a training center capable of educating them on their rights and responsibilities. Therefore, a Labor and Union Training Center shall be established with well-structured programs, totally apolitical, and real focus.

Demand Issues

There are practical and short-term courses aimed at owners, managers, presidents or heads of companies, to aid them in establishing their long-term strategy and on its deployment. Taking control of the issues requiring immediate action and empowering previously trained staff. However, there is scarce demand for such courses, due mainly to business people complaints of lack of time to attend such training, nonetheless, when their managers make decisions using new techniques learned, they restrain such initiatives. Therefore, an information and advertising plan is recommended to let business people become aware of the benefits and the existence of such courses.

There is a program aimed at middle management and supervisors specifically oriented to the industry. With the urgent need to train staff, most business people are not aware of it, and the very few that do know about it consider it too expensive investment to be made on their staff. It is important to publicize the course benefits and to form groups of employees from several companies that, without overcrowding the courses, could reduce their costs. Also, an alliance could be established with ITCA in order to use their facilities.

Training programs designed for the industry could be financed in a tripartite way, namely INSAFORP, International Agency supporting Development, and the same sector businesses.

Recommendations on a possible plan to promote training programs on Corporate Social Responsibility

There is a lot of skepticism among industry business people toward the term Corporate Social Responsibility. There is a lack of proper information regarding

the implications of such topic. Close to this fact, some training has been imparted to the sector; many companies have offered their services without completely knowing the industry and hence, the expected results have not been achieved.

Taking in consideration that, as part of the project, an industry oriented training program will be prepared based on its needs, we recommend a short term but effective communication strategy of the plan be implemented prior to presenting the training program to participating business people. Industry members are very sensitive and prone to saying no to participate in activities when they lack the necessary information before the event takes place.

It is essential that the information reach all business people country wide, and its most important executives. In order to achieve this, a series of briefs can be prepared with the purpose of motivating and getting readers interested, which can be sent as emails or direct physical mailings.

Publicity shall be used for an effective, massive and impacting communication. Interviews in the country's most important media with the main parties involved knowledgeable on the topic, shall take place in order to generate more interest. Participating and co-sponsoring organizations must be mentioned to gain content and credibility for the message.

Once the target audience's attention is gained, summoning all country business people would be well accepted by them. Such meeting could be used to present a training strategy for the sector. It is essential that all companies become aware of the programs that will be available, starting dates, and the registration process. Such summoning shall be carried out by entities that endorse and support the initiative, which will be the same co-sponsors, such as prestigious foreign companies that place production orders with El Salvador's industry. Local associations shall be an strategic ally in this summoning, however, not all companies established in the country are members.

It is important to distribute information and support material among business people at the meeting, containing complete and detailed information on the training programs in order to clarify any doubts that may arise, including of course, program contents.

A series of criteria shall be respected for the promotion effort to be effective and to add value to the programs, such as:

- Lasting commitment to training program to be imparted
- Incorporation of program to overall strategy of support organizations
- Affinity between the cause and the values of the entities responsible for the organization and the industry
- Ongoing communication of programs.

- In general terms, the fundamental principles that all promotional campaign shall respect, and that involves several entities with a high corporate social component, in order to maximize its likelihood for success are:
- Integrity: abide by an ethics code based on honesty and the respect of every human being's dignity.
- Transparency: good communication among all parties involved
- Sincerity / truthfulness: clear motivations and risks with collaborative spirit
- Mutual benefit: clear objectives and criteria for measuring results. All parties must benefit.

Support organizations must be sure that their image is compatible with the sector they support and that such causes are important for the target industry they aim at. In general, business people show a favorable attitude towards organizations that support their cause, but may become suspicious of their cause being exploited for selfish interest, if there is no positive relationship between these and the company that supports them. In other words, to set out a delicate topic such as CSR among sensitive sectors such as the apparel industry, requires a frank cooperative attitude toward the companies from the organization that supports the program, thus reducing suspiciousness or distrust with which it will initially be judged by.

ANNEX III: Development of Environmental Guidelines

Introduction

This report presents the results of the environmental assessment and benchmarking exercise for the sugar sector in El Salvador carried out by Environmental Resources Management (ERM) per the contractual agreement with the World Bank for consulting services dated 30 November 2005.

Background

The Government and the Minister of Economy of El Salvador have asked the Foreign Investment Advisory Service (FIAS) and Business for Social Responsibility (BSR) units of the World Bank to assist them in designing and implementing a coherent Corporate Social Responsibility (CSR) strategy for the country. The mandate is to integrate CSR into the country's overall development and competitiveness strategy and to develop a framework for public-private partnerships in a range of social and environmental areas of concern.

This CSR project involved a four stage process: collecting and assessing environmental, health, and safety data related to El Salvador's sugar sector, identifying local and international regulations that apply to the sector; devising a performance measurement and verification system appropriate for the sugar sector; developing self-assessment diagnostic tools; developing guidelines for transparent reporting; and applying lessons for remediation and capacity-building.

Mission Objectives

There is great interest among Salvadorian sugar producers and international buyers to improve labor and environmental standards for El Salvador's sugar industry. In 2005, the World Bank established a working group with the National Sugar Association and Foundation, government agencies, the International Labor Organization (ILO), Non-Governmental Organization (NGOs), and individual mills and producers. The mission of the working group is to define environmental standards and mechanisms to measure, assess, and verify environmental performance within El Salvador's sugar industry. The World Bank enlisted ERM to help achieve this mission.

Specifically, the objectives of this project were to:

Building a CSR framework
As a development tool

Annex III

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- Determine the environmental conditions related to the sugar sector in El Salvador;
- Gather information on Salvadorian environmental standards for the sugar sector;
- Interview the environmental staff of each sugar mill, with representatives of the Sugar Association and staff from the Ministry of the Environment;
- Share international environmental best practices with each of the sugar mills; and
- Develop environmental indicators and self-assessment tools for the sugar sector.

Report Organization

This report is organized in the following manner:

- *Section 2* presents the methodology used to develop this assessment and benchmarking exercise;
- *Section 3* presents background and history of the sugar sector in El Salvador;
- *Section 4* presents the environmental management conditions of the sugar sector in El Salvador;
- *Section 5* presents the pertinent local and international environmental guidelines relative to the sugar sector in El Salvador;
- *Section 6* presents environmental indicators for the sugar sector in El Salvador;
- *Section 7* presents the steps for moving forward and self assessment tools for the sector ; and
- *Annex 1* presents a photographic gallery of the sugar sector in El Salvador.

Methodology

ERM conducted this assessment in three phases:

- Phase 1: Desk-Study Review of Existing Documents;
- Phase 2: Site Visits; and
- Phase 3: Reporting.

These phases are described in detail in the following sections.

Phase 1: Desk-Study Review of Existing Documents

ERM conducted a desktop review of available environmental documents related to El Salvador's sugar sector, including pertinent international and national environmental laws and legal requirements.

Phase 2: Site Visits

There are seven operating sugar mills in El Salvador. ERM conducted site visits to four of these mills from 7-9 December 2005: Central Izalco, La Cabaña, El Angel, and Chanmico. The site visits included meetings with environmental staff from each sugar mill and representatives of the National Sugar Association and the Ministry of the Environment. During these meetings, ERM shared international environmental best practices with each mill and gathered information on the challenges facing the sugar sector in El Salvador. For the three mills that were not visited, ERM developed a questionnaire to gather information from environmental staff. The information collected from the seven operating mills is presented and analyzed in this report.

After the information from the seven sites was collated and analyzed, ERM developed a set of draft environmental indicators and self assessment tools aimed at measuring performance at meeting environmental standards and regulations. ERM presented these indicators and self assessment tools in a workshop, which was attended by the environmental staff from some of the sugar mills and representatives of the National Sugar Association. Workshop attendees provided feedback on the draft indicators and assessment tools, which was used to develop the indicators and assessment tools presented in this report.

Phase 3: Reporting

ERM developed this report to summarize the results of the assessment and to present the list of environmental indicators and self assessment mechanisms. The report also includes suggestions for capacity building and remediation and prioritizes capacity building needs.

Background: The Sugar sector in el Salvador

Seven sugar mills are currently operating in El Salvador for the 2005-2006 zafra (harvesting season). All of the mills are privately owned, although some have partial Government ownership. The sugar industry represents 2.5% of in El Salvador's gross domestic product (GDP) and sugar cane cultivation represents the 5.83% of the Agricultural gross domestic Product (PIBA).

During the last zafra ('04 - '05), the seven mills produced approximately 559,390 tons and 40 million gallons of molasses. Forty percent of the sugar production was

consumed locally and the remainder was exported ⁽¹⁾. With regards to molasses, 60% of the annual production was exported. The mills have an installed milling capacity ranging between 3,500 to 10,500 tons of cane per day. The following table presents each mill's specific installed milling capacity and estimated sugar production for the 2005-2006 zafra.

Table Error! No text of specified style in document..1 Milling Capacity and Estimated Sugar Production in El Salvador (2005-2006)

Sugar Mills Zafra 2005-2006	Year Founded	Installed Capacity (MT/day)	Production (MT)
Central Izalco	1964	10,500	193,328
El Angel	1882	8,000	101,916
Chaparrastique	1982	6,726	83,033
La Cabaña	1945	6,000	79,372
Jiboa	1975	4,100	61,254
Chanmico	1945	3,500	30,009
La Magdalena	1942	3,628	32,385

The mills range in age, with some dating back more than one hundred years. As a result, the sector is technologically varied: some mills are relatively new and automated while others are very old and manually operated. The sugar sector in El Salvador has had a bumpy path throughout its existence. The mills were nationalized in 1980 and the agrarian reform expropriated the land from all the mills. In 1990, the mills were re-privatized. Many mills closed during this 10 year period and many have subsequently closed because of the lack of proper investments and maintenance during this period (e.g. San Francisco mill in 2005, Colima mill in 2003, El Carmen mill in 1999, and Ahuachapán mill in 1994). *Table 3.2* presents each mill's operating characteristics and *Figure 3.1* presents the market share of the seven operating sugar mills in El Salvador.

(1) In the last years, the main importing countries of Salvadorian sugar have been USA, Canada and Russia.

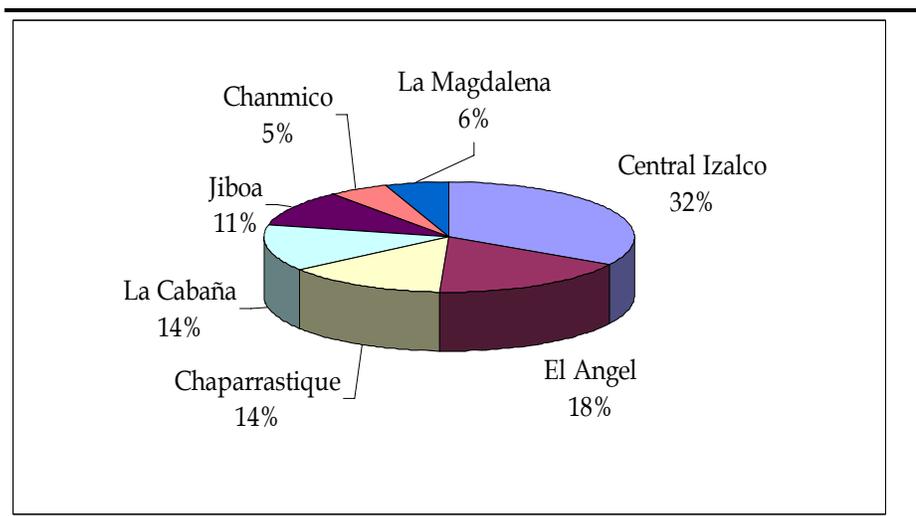
Table Error! No text of specified style in document..2

Milling Operation Characteristics

Mills	Cane processing	Milling Tandem	Boilers	Energy Generation Capacity	Production	Efficiency	Alcohol Production
X	Cane processed dry.	One milling tandem with 7 rollers, installed milling capacity of 10,500 tons of cane/day. All rollers are electric.	3 boilers: 1. 227,000 Lbs/hr 2. 333,000 Lbs/hr 3. 145,000 Lbs/hr Burn 100% bagasse, boilers #1 and #2 have wet scrubbers, boiler #3 is on standby and has a multicyclone.	4 turbo generators, 2 on standby: • 20 MWh • 25 MWh 25 MWh are sold to the grid while 20 MWh are consumed internally.	Produce white, refined, and raw sugar.	95% efficiency, 90% automated	No alcohol distillery plant.
X	Cane processed dry.	One milling tandem, 5 rollers, installed milling capacity of 8,000 tons of cane/day, running at 7,700 tons of cane/day.	3 boilers: 1. 160,000 Lbs/hr 2. 110,000 Lbs/hr 3. 95,000 Lbs/hr Boiler #3 has wet scrubber, the rest have no emission control systems. Burn 100% bagasse. Developing project to install a 180 ton boiler and 35 MWh turbogenerator	5 turbo generators: • 2 of 1.5 MWh • 2.5 MWh • 10 MWh • 12.5 MWh Total installed capacity of 17 MWh, 7 MWh consumed internally, 10 MWh sold to the grid.	Produce white and raw sugar.	89% efficiency, 60% automated	No alcohol distillery plant.
X	Cane processed dry.	One milling tandem, 5 rollers, installed milling capacity of 6,700 tons of cane/day, running at 5,600 tons of cane/day.	3 boilers: 1. 105,000 Lbs/hr 2. 110,000 Lbs/hr 3. 100,000 Lbs/hr Boilers #1 and #2 have multicyclones and #3 has a wt scrubber. Burn 100% bagasse.	3 turbo generators: • 2 MWh • 2.5 MWh • 1.5 MWh Total installed capacity of 6 MWh, producing 3.3 MWh, all consumed internally.	Produce white and raw sugar.	92% efficiency, 50% automated	Have an alcohol distillery plant installed. Not operating at the moment.

Mills	Cane processing	Milling Tandem	Boilers	Energy Generation Capacity	Production	Efficiency	Alcohol Production
X	Cane processed dry.	One milling tandem with 5 rollers, installed milling capacity of 6,000 tons of cane/day. 4 rollers run on turbines, 1 is electric.	5 boilers: 1. 80,000 Lbs/hr 2. 60,000 Lbs/hr 3. 40,000 Lbs/hr 4. 110,000 Lbs/hr 5. 150,000 Lbs/hr Boilers #1, #4, and #5 are in operation, the rest serve as backup. One boiler has an experimental wet scrubber in place (local design, working improperly). Boiler #5 has burned 21,000 gal of diesel during this zafra.	4 turbogenerators: • 10 MWh • 7.5 MWh • 2 MWh • 1 MWh Only the first generator is operating. 4.4 MWh consumed internally, 4 MWh sold to the grid.	Produce white and raw sugar.	92% efficiency, 60% automated.	Have an alcohol distillery plant installed. Not operating at the moment Installed capacity of 120,000 liters. Will restart in march 2006, producing 80,000 liters.
X	Cane processed wet.	One milling tandem, 5 rollers, installed milling capacity of 4,100 tons of cane/day.	2 boilers: 1. 45 tons/hr 2. 45 tons/hr The boilers have no emission control systems. Burn 100% bagasse.	2 turbo generators: • 1.75 MWh • 1.75 MWh 3 MWh consumed internally.	Produce white and raw sugar.	92% efficiency, 5% automated	No alcohol distillery plant.
X	Cane processed dry.	One milling tandem with 5 rollers, installed milling capacity of 3,500 tons of cane/day.	3 boilers: 1. 40 ton/hr 2. 20 ton/hr 3. 13 ton/hr Project to install a new boiler and a 20 MWh turbogenerator. One boiler has a cyclone.	3 turbo generators: • 0.8 MWh • 1 MWh • 0.72 MWh Have a total installed capacity of 2.5 MWh, use 2 MWh for internal use.	Produce white and raw sugar.	80-85% efficiency, 20% automated.	Have an alcohol distillery plant installed. Not operating at the moment
X	Cane processed dry.	One milling tandem with 5 rollers, installed milling capacity of 3,628 tons of cane/day, milling 3,175 tons of cane/day.	3 boilers: 1. 125,000 lbs/hr 2. 60,000 lbs/hr 3. 35,000 lbs /hr (back-up)	2 turbo generators: • 1.6 MWh • 1 MWh Have a total installed capacity of 2.6 MWh, use 1.1 MWh for internal use.	Produce white and raw sugar.	90.5% efficiency, 60% of mill automated,	No alcohol distillery plant.

Figure Error! No text of specified style in document.1 Market Share of the Seven Operating Sugar Mills



The sector is heavily regulated. Prices are set by the government, and the mills and growers share the generated income (54.5% of earnings to growers, 45.5% to mills) and sugar is sold locally under one brand by one distribution company. Production quotas are assigned for each mill.

The sugar sector in El Salvador is well organized. Since 1950 it has been organized through its industry association, the National Sugar Association (Association). This not-for-profit entity is in charge of all the industry’s sugar and molasses exports as well as some product purchases (e.g. fuel, sacs, agrochemicals, etc). Each mill pays a membership fee that is proportional to their size. The Association has a social foundation, “Fundazucar”, which develops rural development projects (e.g. education related projects) throughout the area of direct influence of the mills. Three mills possess alcohol distillery plants, although these have been out of operation for almost 15 years. These plants were built in 1991 when the Government promoted the use of alcohol. However, this effort was short lasting when the then newly elected Government changed the existing policies; some plants only operated for months before being closed down.

The zafra in El Salvador has a duration of 5 months, from November to April. For the 2005-2006 zafra, the harvested sugar cane area amounts to 62,000 hectares, which are owned by approximately 7,000 third party farmers. As a result of the agrarian reform, a private land owner in El Salvador can only possess a maximum of 250 hectares. As a result, mills have a minimal role in cane rearing, although some mills do manage or lease some fields. Overall, approximately 97% of sugar cane production is in the hands of the farmers and only the 3% is under the direct responsibility of the sugar mills. The following table and figure shows the plantation operation characteristics and the location of the seven mills and the cane fields that source them. *Table 3.3* below

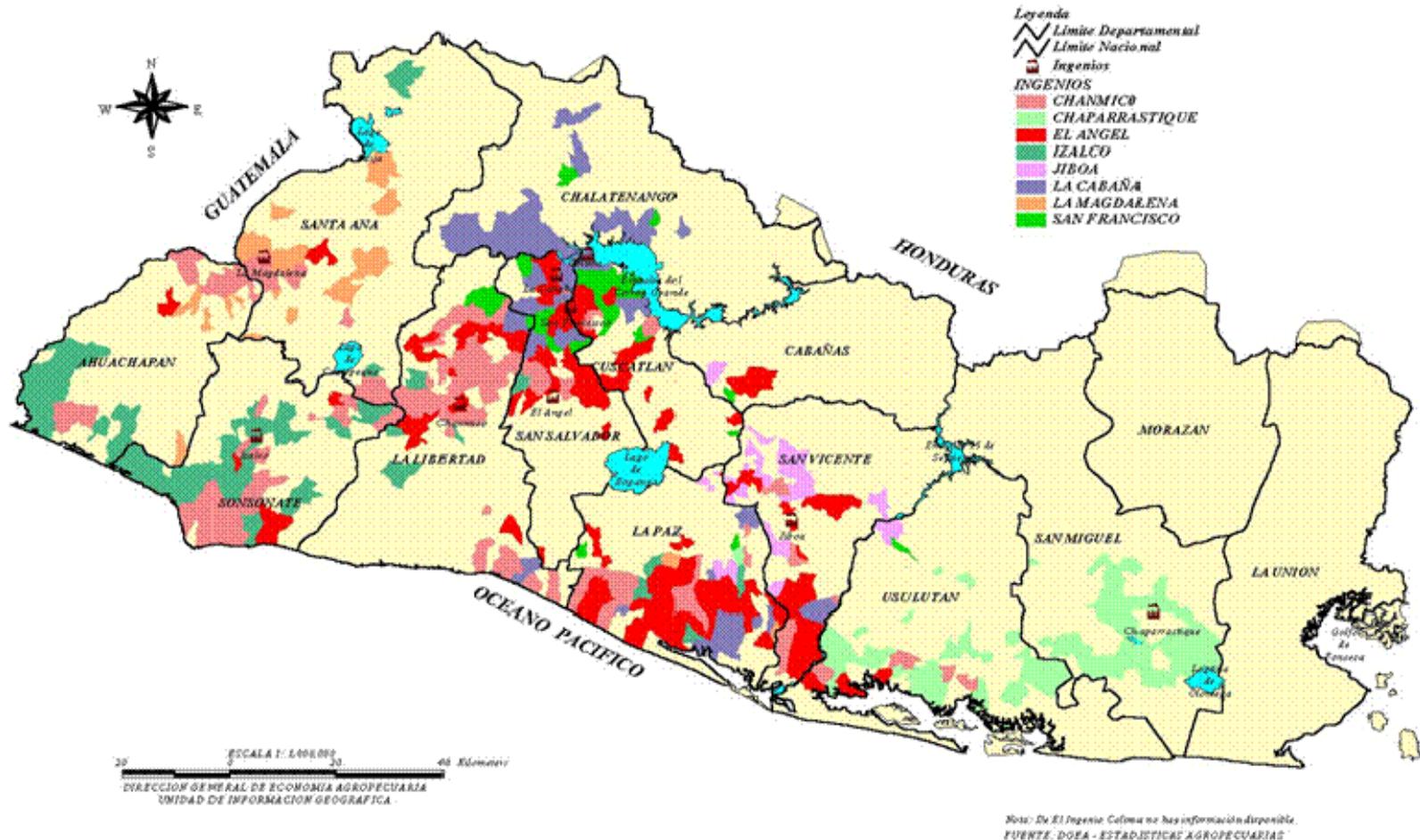
presents the sugar cane plantation operational characteristics and *Figure 3.2* presents the location of sugar cane fields and sugar mills in El Salvador.

Table Error! No text of specified style in document..3 Sugar Cane Plantation Operation Characteristics

Mill	Land	Pest Management	Agrochemicals	Irrigation	Technical Assistance to Farmers
X	Mill sourced by 18,846 hectares of cane crops, 50% owned by third parties, 50% owned/managed/leased by mill. 100% cane burned.	<p>Possess integrative pest management plan.</p> <ul style="list-style-type: none"> ▪ 1/3 of pest control by biological control methods ▪ 2/3 with agrochemicals. <p>Use metharizium as a biological control.</p>	Use only commercially commonly available agrochemicals	10% of land irrigated, all by gravity.	Give technical assistance to farmers
X	Mill sourced by 9,846 hectares of cane crops, 269 hectares are owned by mill, 846 hectares managed, and the remaining is owned by third parties. 100% cane manually cut, 100% cane burned.	Developed integrative pest management plan 3 years ago.	Use only commercially commonly available agrochemicals	None	Give technical assistance to farmers.
X	Mill sourced by 7,527 hectares of cane crops, all run by third parties. Plantations produce 760,000 tons of cane/year.	No integrative pest management plan.	Use only commercially commonly available agrochemicals	NA	Give technical assistance to farmers.

Mill	Land	Pest Management	Agrochemicals	Irrigation	Technical Assistance to Farmers
X	Mill sourced by 9000 hectares of cane crops, 400 hectares are owned by the mill, 1350 hectares managed by the mill, the remainder in hand of third parties. Plantations produce 780,000 tons of cane/year, 7.5% is mechanically cut, 100% cane burned.	Starting to implement integrated pest management. Use metharizium as a biological control.	Use only commercially commonly available agrochemicals. Have developed program to wash, collect, and safely dispose agrochemical containers. Using precision agriculture techniques to 70% of the land, Have mapped 60% of the crops sourcing the mill. Developing a GIS tool; this will include soil quality maps.	Less than 100 hectares.	Provide training, supervision, and financing to farmers.
X	Mill sourced by 7,500 hectares of cane crops, all run by third parties. Plantations produce 5000,000 tons of cane/year.	No integrated pest management system.	Use only commercially commonly available agrochemicals.	NA	Give technical assistance to farmers.
X	Mill sourced by 4,230 hectares of cane crops, 15% is managed by the mill. 20% of cane is mechanically cut, 100% cane burned.	No integrated pest management system.	Use only commercially commonly available agrochemicals.	Less than 230 hectares.	Provide training, supervision to associated farmers.
X	Mill sourced by 3,228 hectares of cane crops, 5% is managed by the mill (157.5 hectares). 100% of cane is burned and cut manually. Plantations produce 259,434 tons of cane/year.	No integrated pest management system.	Use only commercially commonly available agrochemicals.	NA	Provide training, supervision to associated farmers.

Figure Error! No text of specified style in document..2 Location of Sugar Cane Fields and Sugar Mills in El Salvador



Environmental management in El Salvador's sugar sector

Background

Sugar mills in El Salvador initiated environmental management efforts in 1998, when the country's environmental law came into effect. In 2001, following the newly established laws, all mills conducted environmental assessments of their operations and developed corrective action plans to reach compliance with the laws, including detailed implementation time schedules and estimated costs for compliance. The Ministry of the Environment required each mill to deposit 13 percent of the total estimated cost of their corrective action plans.

All mills were given three years to close their compliance gaps. Once each mill conducted their assessments and implemented the corrective plans, they were granted operational licenses. By 2003, no mills had concluded their corrective measures and each mill requested and received an extension of the three year timeframe. Today, only one mill has successfully finalized their corrective action plan and their deposit has been returned.

Environmental State of the Mills

With regards to environmental management, some mills follow international best practices although fall short of meeting international standards, while others have little or no environmental management systems in place and would require significant investments to comply with international standards.

The primary environmental issues in the sugar sector are:

- Environmental management;
- Air emissions management;
- Liquid effluent management;
- Solid waste management;
- Plantation management; and
- Land encroachment.

These issues are described in the following sections.

Environmental management

Environmental management throughout the sugar sector is varied. Some mills have permanent environmental staff, while others have part-time personnel that address

environmental issues. All mills that ERM visited during this project have mission and/or vision statements, although none are integrated in nature and none include environmental, health and safety, quality, or social commitments. No mill has developed integrated management systems or thorough monitoring programs.

Two mills have been certified with ISO 9001. None of the mills hold ISO 14000 (environmental) or OHSAS 18000 (occupational, health and safety) certifications.

Air emissions management

Air emission control systems in the mills are varied: some have installed wet scrubbers, others have dry cyclones, and some have no air emission controls at all. All the mills fail to meet World Bank air emissions guidelines.

Water and liquid effluent management

In general, water management is good: most mills manage water in closed circuit systems. Only one of the mills washes cane. Most of the mills have spray ponds to recycle process waters. In addition, some mills have settling/oxidation lagoons.

All the mills discard some liquid effluents, which vary in characterization. Some mills use portions of their effluents for irrigation, others discard the effluents into bodies of water (e.g. rivers) with no treatment at all. All of the mills' liquid effluents fail to meet World Bank guidelines.

Several mills are conducting cleaner production (CP) assessments and are in the process of minimizing water use.

Non-hazardous and hazardous solid waste management

In general, solid waste management in the mills is good: cachaza is typically applied to cane crops. Ash application is varied: some mills compost ash and cachaza and apply it to the land while others store it on site or spread it on their roads. None of the mills have solid waste management programs.

With regards to hazardous waste management, no mills have PCB's and CFC's are used only in office air conditioning units. Also, most of the mills collect their used oils and sell it to recycling companies. Some of the mills contain asbestos.

When the alcohol distillery plants come back into line, mills will have to devise proper vinaze management systems. Vinaze is a highly toxic fluid which requires proper disposal.

Plantation management

Mills have very little control over sugarcane plantations. This has considerably limited their say in the cane rearing techniques utilized by the farmers. All of the mills provide some sort of technical assistance to the third party cane farmers and this assistance has helped to increase productivity; however, these efforts are limited in nature.

Some mills have developed integrated pest management systems while others continue to solely use agrochemicals. All of the mills utilize commercially

available agrochemicals. Almost no crops are irrigated. With regards to use of cachaza and ash as fertilizers, some farmers use it widely, others do not.

Land Encroachment

El Salvador has serious land encroachment problems and most sugar mills are surrounded by dwellings. However, the sugar sector has not caused any major land conversions, as most plantation areas have undergone agricultural use for a considerable time.

Benchmarking

The following bullets present generalized comparisons between the sugar sector in El Salvador and that of the rest of Latin America:

- Some mills are not far from meeting the World Bank environmental policies and guidelines and these guidelines are not unreachable standards;
- The small mills would require significant investments to comply with the World Bank guidelines.
- The main environmental issue is related to boiler air emissions. Not a single mill meets World Bank point source emission standards. Some use wet scrubbers but still don't comply with the standards. Other mills have no emissions control systems, so they are far from meeting World Bank standards. This is fairly typical for the region.
- The management of water and liquid effluents is generally good compared to the regional sector average. All of the mills have implemented, to some degree or another, closed water circuit systems. All mills should install end-of-pipe treatment systems for those effluents being discharged to bodies of water (e.g. rivers). Water management in most cases is above regional standards.
- The management of solid wastes (ash and cachaza) is generally good, although some mills still have to consolidate their efforts in this area. The existing practices are generally good compared to other operations in the region.
- No mill has developed an environmental, social, health and safety, and quality management system or integrated monitoring programs. This is fairly typical for the region.
- In general, the mills are in the early stages of implementing integrated pest management systems. El Salvador has been slow in this area.

The following tables present the environmental conditions at each mill and the liquid, air, and solid waste management procedures at each mill.

Table 4.1 Environmental Conditions at Each Mill

Mills	Environmental Compliance	Environmental Team	Mission and Vision Statement	Management Systems
X	<p>Developed an Environmental Diagnostic and corrective plan in 2001. In the '04-'05 zafra they successfully finalized their corrective plan.</p> <p>They are in the process of developing a new corrective action plan (will take 2-3 years for implementing).</p>	Environmental team in place. Conduct some monthly monitoring.	Have Mission and Vision statement which mentions social responsibility, which in hand specifies commitment to environmental protection.	They have written procedures. No integrated management systems. Do not hold any international certification.
X	Developed an Environmental Diagnostic and corrective plan in 2002. Have implemented all measures except irrigation of effluent discharges.	Environmental team in place. Conduct some monthly monitoring.	Have Mission statement which mentions social responsibility. No mention of environmental commitments. No Vision statement.	They have no written procedures nor integrated management systems. Posses ISO 9001:2000. Will soon conduct a cleaner production assessment.
X	<p>Developed an Environmental Diagnostic and corrective plan in 2001.</p> <p>They have also developed a corrective action plan to improve boiler operations, including purchasing emission abatement equipment.</p>	Environmental team in place. Conduct some monthly monitoring.	Have a Mission and Vision statement which mentions social responsibility. No mention of environmental commitments.	They have no written procedures nor integrated management systems.
X	Developed an Environmental Diagnostic and corrective plan in 2001. Have completed 20% of action plan. In January 2006 will present revised corrective action plan.	Environmental team in place. Conduct some monthly monitoring.	Have Mission and Vision statement which specifically mentioned commitment towards environmental protection.	They have no written procedures nor integrated management systems. Posses ISO 9001:2000. Conducted cleaner production assessment.

Mills	Environmental Compliance	Environmental Team	Mission and Vision Statement	Management Systems
X	Developed an Environmental Diagnostic and corrective plan in 2001. Have not completed corrective plan.	Assigned an environmental manager. No team in place.	Have Mission statement which specifically mentioned commitment towards environmental protection. No Vision statement.	They have no written procedures nor integrated management systems.
X	Developed an Environmental Diagnostic and corrective plan in 1999. Have completed corrective plan by 80%.	Assigned an environmental manager. No team in place.	Have a Mission statement which mentions the company's commitment towards environmental protection. No Vision statement.	They have no written procedures nor integrated management systems. Conducted cleaner production assessment with the aid of GTZ.
X	Developed an Environmental Diagnostic in 2001 and corrective plan in 2005. Have completed 50% of action plan, having worked most in the recycling of effluents.	Assigned an environmental manager. No team in place.	Have a Mission and Vision statement which mentions social responsibility. No mention of environmental commitments.	They have no written procedures nor integrated management systems.

Table 4.2 Liquid, Air, and Solid Waste Management Procedures at Each Mill

Mills	Liquid effluent management	Air emissions management	Solid waste management
X	<p>Water is sourced from wells and from a river.</p> <ul style="list-style-type: none"> ▪ Water condensates are recycled using a spray pond. Pond exceedances are discharged untreated to a river. ▪ Cleaning water is collected in a sedimentation tank, it is neutralized (lime), and used for irrigation. ▪ Ash waters are collected in sedimentation tanks, flocculants are added, ash is collected, water recycled back to the scrubbers. ▪ Cooling water from turbogenerators in closed circuit, use cooling towers. 	<p>Each boiler has a wet scrubber. Trying to eliminate sulfitation process by using a specialized clay product.</p>	<p>Ash and cachaza are composted together. Compost is either used by the company or given to farmers at no cost.</p> <p>Used oils are sold to recyclers. Plastic containers are given back to the providers.</p>
X	<p>Water is sourced from a lake, 246 m³/hr, mill consumes 0.7 m³ of water per ton of cane processed.</p> <ul style="list-style-type: none"> ▪ Water condensates are recycled using a spray pond. Pond exceedances are discharged untreated to a river. Total effluent amount to residue is 290m³/hr. ▪ Cleaning water is collected in a sedimentation tank, it is neutralized (lime), and used for irrigation. ▪ Ash waters are treated in sedimentation tanks, water is recycled back into the scrubbers ▪ Cooling water from turbogenerators in closed circuit, use cooling towers. <p>Final discharge exceeds World Bank standards (COD of 3,800 mg/L, BOD of 800 mg/L).</p>	<p>The three boilers have wet scrubber, the rest have no emission control systems. The mill uses sulfitation processes.</p>	<p>Compost project will commence this zafra (purchased composting machinery).</p>

Mills	Liquid effluent management	Air emissions management	Solid waste management
X	<p>Water is sourced from two wells, 5,000 m³/day; mill consumes 0.83 m³ of water per ton of cane processed.</p> <ul style="list-style-type: none"> ▪ Water condensates are either recycled to the boilers or to the production process. No spray ponds. ▪ Cleaning water is collected in sedimentation/oxidation lagoons. ▪ Ash waters are treated in sedimentation/oxidation lagoons. Ash is subsequently removed and applied on crops. The water is not recycled back to the ash collection systems. ▪ Cooling water from turbogenerators in closed circuit, use cooling towers. <p>Final discharge exceeds World Bank standards (COD of 3,824.20 mg/L, BOD of 800 mg/L, TSS of 266 mg/L).</p>	<p>Boilers #1 and #2 have multicyclones and boiler #3 has a wet scrubber. They will all continue to exceed World Bank standards. The mill uses sulfitation processes.</p>	<p>Ash and cachaza stored on site. Some cachaza is applied on crops. No composting.</p>
X	<p>Water is sourced from 3 wells: 400 gal/min on average. Also from river: 600 gal/min.</p> <ul style="list-style-type: none"> ▪ Water condensates are recycled using a spray pond. Pond exceedances are discharged untreated to a river. ▪ Water used to evacuate ash from boilers and from experimental scrubber will be managed in closed circuit, today it is discharged without treatment. ▪ Cleaning water discharged into river together with spray pond overflows. ▪ Cooling water from turbogenerators in closed circuit, use cooling towers. 	<p>One boiler has an experimental wet scrubber in place; the other boiler stacks have no emissions systems. They all exceed World Bank standards. The mill uses sulfitation processes.</p>	<p>Ash and cachaza managed separately. Ash is dumped on roadways, cachaza used on crops.</p> <p>Hazardous materials are properly disposed or recycled by authorized companies.</p>
X	<p>Water is sourced from two wells, 2.67 m³/minute each one. Mill consumes 0.5 m³ of water per ton of cane processed.</p> <ul style="list-style-type: none"> ▪ Water condensates, ash water (from boiler ash removal, not scrubbers), and cleaning waters are collected and discharged into settling/oxidation lagoon system. ▪ Cooling water from turbo generators in closed circuit, use cooling towers. <p>Final discharge exceed World Bank standards</p>	<p>Boilers have no air emission control systems.</p>	<p>Cachaza is applied on land, ash is stored on site. No composting.</p>

Mills	Liquid effluent management	Air emissions management	Solid waste management
X	<p>Water is sourced from 2 wells: 200 m³/day.</p> <ul style="list-style-type: none"> ▪ Water condensates are recycled using a spray pond (1,500 m³ in volume). The pond overflow is discharged into 5 unlined ponds located off site (total capacity of 5,000 m³). These ponds are being decommissioned and replaced by 3 unlined new ponds (7,500 m³). Total discharge amount to 50m³/day during zafra. These ponds are small in size and serve mostly as storage tanks. Residence time is minimal. Residual water is treated in adjacent condominium complex treatment plant. This plant appears to be too small. ▪ Cleaning water discharged into river together with spray pond overflows. ▪ Cooling water from turbo generators are also recycled using the spray ponds. ▪ Vinaze will be treated on site and applied on land. 	<p>One boiler has dry cyclones, while the rest have nothing. Ash is collected dry. In the process of transporting the ash and cachaza to a composting facility.</p>	<p>Cachaza and ash used sometimes on crops. Most of the time stored on a company's lot.</p>

Mills	Liquid effluent management	Air emissions management	Solid waste management
X	<p>Water is sourced from 1 well: 2,180 m³/day and from a natural spring (as backup). Mill consumes 0.69 m³ of water per ton of cane processed.</p> <ul style="list-style-type: none"> ▪ Water condensates are recycled using a spray pond. The pond overflow is discharged into a centralized collection tank. ▪ Cleaning water is discharged into the centralized collection tank. Cleaning waters with chemicals (NaOH or HCl) are collected in a separated compartment of the centralized tank and discharged into a closed lagoon. Enzymes are added to promote organic material degradation. Effluent is left to evaporate. ▪ Cooling water from turbo generators are recycled in a tank using fresh water. The overflow is discharged into the centralized collection tank. <p>The commingled effluents are first passed through a screen (to remove large solids) and then stored in the centralized collection tank. This tank is divided in two, one compartment receiving all the overflows and cleaning waters, the other receiving those discharges with chemical content. The tank effluents (with no chemicals) are then discharged into a 3-stage sedimentation tank. The treated effluent is then used for irrigation. In case of emergencies or maintenance stops, the effluents from both tank compartments are discharged into a second lagoon, where enzymes are added to increase organic material breakdown. This lagoon effluent is then used for irrigation.</p>	Boilers have no air emission control systems.	Some ash (precipitated upon exiting the boiler) and cachaza are stored onsite and applied to crops after harvest.

Environmental regulations

Local Regulations

The Ministry of the Environment (MARN) was founded in 1998. MARN employs 225 skilled professionals and has an annual budget of US\$ 3 million. Much of this budget goes towards paying staff. MARN established the Environmental Laws (LMA) in 2000. For the most part, the LMA is a qualitative law; there are only quantitative limits for ambient air. Additionally, El Salvador holds three environmental norms, although these have not yet been approved by the government. These norms include guidelines for point source air emissions, liquid effluents, and noise levels. The National Commission for Science and Technology (CONACYT) is currently in the process of revising and approving these norms.

As discussed in Section 4.1 of this report, the LMA required that all existing companies develop an environmental diagnostic report and corrective action plan to reach compliance with environmental laws. The LMA requires full environmental impact assessments for all new development projects.

National Salvadorian laws allow cane burning; however, there is discussion under way to start controlling cane burning activities.

The Ministry has limited capacity to audit companies for compliance with the LMA, having only 14 compliance staff for the entire country. Ministry staff typically only respond to complaints or conduct compliance audits when requested by the mills. Also, staff typically focus their compliance efforts on high-risk industries and the sugar sector is not considered such.

International Regulations

Most multilateral/bilateral organizations require their projects to meet World Bank Group's⁽⁴³⁾ (World Bank) environmental, health and safety, and social policies and guidelines. Also, most of the large international banks, such as Citigroup, ABN Amro, Barclays, HSBC, BBVA, Credit Suisse, Rabobank, etc., have signed the "Equator Principles" where they have committed to comply with World Bank's policies and guidelines. As a result, World Bank's guidelines have become the industry norm. The policies and guidelines that are pertinent to the sugar industry are as follows:

World Bank's Environmental and Social Policies

- OP 4.01 on Environmental Assessment, October 1998
- OP 4.04 on Natural Habitats, November 1998

⁽⁴³⁾ Includes the World Bank and the International Finance Corporation (IFC).

- OP 4.09 Pest Management, November 1998
- OP 4.30 Involuntary Resettlement, June 1990
- OPN 11.03 on Cultural Property, September 1986
- Policy Statement on Forced Labor and Harmful Child Labor, March 1998

World Bank Environmental and Social Guidelines

- General Environmental Guidelines, July 1998
- Sugar Manufacturing Guidelines, July 1998
- Plantations Guidelines; July 1998
- Pesticide Handling and Application, July 1998
- Hazardous waste management guidelines, December 2001
- Thermal Power: Guidelines for New Plants, July 1998
- Occupational Health and safety Guidelines, June 2003

There are no guidelines prohibiting cane burning activities.

The international institutions that could potentially finance a sugar project in El Salvador include:

- Multi-laterals and Bi-laterals: International Finance Corporation (IFC), Corporación Interamericana de Financiamiento (IIC), Corporación Andina de Fomento (CAF), Overseas Private Investment Corporation (OPIC), US Export Import Bank (EXIM); and
- Private Funds: KfW and DEG from Germany, Netherlands Development Finance Company (FMO), Corporación de Inversión en Infraestructura (CIFI)

To this date, no sugar mill in El Salvador has ever received money from one of these organizations. They have only accessed local and some regional private banks ⁽⁴⁴⁾.

Local and International Guideline Comparison

The following tables present a comparison of Salvadorian and World Bank environmental standards for liquid effluents, point source air emissions, ambient air, and noise levels.

(44) IFC's agribusiness portfolio in Latin America includes the following sugar projects: Laredo, Grupo Manuelita, Perú; Paramonga, Perú; Cosan, Brasil; Pantaleon, Guatemala. Salvadorian firms which have obtained IFC loans include: IMACASA, SEF Baterías, Cementos de El Salvador, Metrocentro, and Telemovil El Salvador.

Table 5.3 Liquid Effluents Quality Comparison

Parameters	El Salvador	World Bank
pH	5.5-9	6-9
BOD (mg/L)	400	50
COD (mg/L)	600	250
TSS (mg/L)	150	50
Oil and Grease (mg/L)	30	10
Total Nitrogen (mg/L)	50	10
Total Phosphorus (mg/L)	15	2
Temperature Increase (°C)	±5	≤3

Source: World Bank's Sugar Manufacturing Guidelines, July 1998; Norma Salvadoreña NSO 13.49.01:05.

Table 5.4 Point Source Air Emissions Quality

Parameters	El Salvador	World Bank
Particulate Matter (PM10) (mg/Nm ³)	Functioning operations Fuel Oil: 350 Bagasse: 350	<100
	New operations: Fuel Oil: - Bagasse: 150	150 for small mills with less than 8.7MWh heat input to the boiler
NO ₂ (mg/Nm ³)	Functioning operations: Fuel Oil: 2,350 Bagasse: 1,000	750 for solid fuels
	New operations: Fuel Oil: 460 Bagasse: 750	460 for liquid fuels
SO ₂ (mg/Nm ³)	Functioning operations: Fuel Oil: 3,800 Bagasse: -	<100
	New operations: Fuel Oil: 2,500 Bagasse: -	

Source: World Bank's Sugar Manufacturing Guidelines, July 1998; Norma Salvadoreña NSO 13.01.01:00.

Table 5.5 Ambient Air Quality

Parameters	El Salvador	World Bank
Particulate Matter (PM10) ($\mu\text{g}/\text{Nm}^3$)	Annual: 50	Annual: 50
	24 hours: 150	24 hours: 70
NO ₂ ($\mu\text{g}/\text{Nm}^3$)	Annual: 100	24 hours: 150
	24 hours: 150	
SO ₂ ($\mu\text{g}/\text{Nm}^3$)	Annual: 80	Annual: 50
	24 hours: 365	24 hours: 125

Source: World Bank's General Environmental Guidelines, July 1998; LMA.

Table 5.6 Ambient and Workplace Noise Levels

Parameters	El Salvador	World Bank
Ambient noise levels in: Houses, institutional, educational dB(A)	Day:55	Day:55
	Night: 45	Night: 45
Ambient noise levels in: Industrial, Commercial dB(A)	Day: 75	Day: 70
	Night: 70	Night: 70
Workplace noise dB(A)	80-85	≤ 85

Source: World Bank's Sugar Manufacturing Guidelines, July 1998; World Bank's Occupational Health and safety Guidelines, June 2003; LMA.

The only area where there is significant discrepancy between local and international regulations is liquid effluent quality. The World Bank guidelines are much more stringent than the El Salvador LMA.

Operational indicators

This assessment has identified three categories of potential performance indicators for the sugar sector of El Salvador:

- Environmental Management Indicators (e.g. possess a company-wide statements of vision and mission for environmental affairs, possess integrated environmental management systems, possess an environmental affairs manager, install air emission abatement equipment, etc.);
- Sugar mill operational indicators (e.g. install air emission abatement equipment, manage all water in closed-circuit systems, limit product losses to less than 10%, etc.); and
- Plantation operational indicators (e.g. conduct adequate land conversion practices, implement international agriculture best practices, develop and implement integrated pest management systems, etc.)..

Environmental Management Indicators

The following bullets present environmental management indicators for the sugar sector in El Salvador:

Sugar mills should possess company-wide statements of vision and mission for social (including labor practices) and environmental affairs, quality, and occupational health and safety management ⁽⁴⁵⁾;

- Posses an integrated management system for social and environmental affairs, quality, and occupational health and safety management. Sugar mills should develop an integrated management system based upon internationally recognized management systems (e.g. ISO 9001-2000, ISO 14000, and OHSAS 18000). The systems should be designed to ensure compliance with Salvadorian regulations and World Bank policies and guidelines. The management systems should be developed by qualified firms with adequate understanding of international trends in environmental management and implementation;
- Posses an environmental affairs manager. Sugar mills should hire or assign a full-time, qualified environmental and social affairs, quality, and occupational health and safety manager for operations;
- Comply with local and international regulations. Sugar mills should comply with local regulations and work towards meeting World Bank guidelines;

(45) This assessment only analyzed environmental issues in El Salvador's sugar sector. Social and health and safety issues were analyzed by another consulting company.

- Sought international certifications. Sugar mills should consider obtaining international certifications for their operations, such as ISO 9001, ISO 14000, or OHSAS 18000;
- Implemented Cleaner Production (CP) programs. CP involves the modification of industrial processes to increase the efficiency of conversion of manufacturing resources (e.g. raw materials, energy, and/or water consumption) to useful, saleable products, therefore reducing the cost of these resources per unit of output. Improved efficiency of conversion of raw materials to saleable products also reduces the production of waste, and hence reduces the environmental impact of manufacturing operations. These process changes reduce environmental impact at the source, and are often found to be much more cost-effective (actually saving money rather than imposing additional cost) than traditional end-of-pipe environmental mitigation techniques; and
- Implement good house-keeping practices. This is the best indicators to demonstrate the successful implementation of the indicators presented above.

Sugar Mill Operational Indicators

Mills should strive to follow the operational indicators listed below:

- Account for 90% of saccharose in the final product, 85% sucrose recovery;
- Limit product losses to less than 10%;
- Eliminate sulfitation processes;
- Install air emission abatement equipment (a combination of venturi scrubbers and wet scrubbers is the most cost-effective system to meet World Bank's particulate guidelines);
- Manage all water in closed-circuit systems (use of spray ponds, cooling towers);
- Reduce water use to 1.3m³ per ton of cane processed and over time set a goal to reach 0.9 m³/ton of cane processed;
- Install wastewater treatment systems for the effluents being discharged;
- Reduce Biological Oxygen Demand (BOD) levels in liquid effluents by 95%; and
- Minimize noise generation (see World Bank's World Bank's General Environmental Guidelines).

Plantation Operational Indicators

Sugar cane plantations should strive to follow the indicators below:

- Conduct adequate land conversion practices (no deforestation);

- Implement international agriculture best practices, including “precision agriculture” practices;
- Develop and implement integrated pest management systems, including procedures to reduce use of agrochemicals (maximize use of biological controls, use of compost, crop rotations, etc.);
- Develop procedures to manage hazardous and non-hazardous solid wastes;
- Implement sound agrochemical application procedures (see Figure 6.1 and 6.2 for banned and suggested banned agrochemicals);
- Conduct training and share know-how with farmers; and
- Manage irrigation waters frugally.

Figure 6.3 Banned Pesticides by the World Bank

<i>Pesticide/Chemical Compound</i>
2,4,5-T (2,4,5-trichlorophenoxyacetic acid)
Aldrin
Arsenic compounds
Chlordane
DBCP (dibromochloro propane)
DDT
Dieldrin
EBDC (ethylenebisdithiocarbamate)
Heptachlor
Mercury compounds
MIREX (dechlorane)
Phosvel (leptophos)

Source: World Bank’s Pesticide Handling and Application, July 1998

Figure 6.4 World Bank's Suggestions for Pesticides Phase Out

<i>Pesticide/Chemical Compound</i>	
Aramite	Kepone
Benomyl	Lindane
BHC	Merphos
Cadmium compounds	Monourea
Carbaryl	PCP
Chloranil	Piperonyl butoxide
Chlorobenzilate	Promide
Chloroform	Rotenone
Creosote	Safrole
DDVP	(SST) DFF
DECP	Strobane
Diallates	Strychnine
Dimethoate	Toxaphene
Endrin	Triallates
EPN	1080
Ethylene oxide	

Source: World Bank's Pesticide Handling and Application, July 1998

Moving forward

There is great interest among Salvadorian sugar producers and international buyers to improve environmental standards within El Salvador's sugar sector.

In order for the sector to become an environmentally responsible sector, the following steps, should be taken:

- The sugar sector, with the support of the Sugar Association, should develop environmental strategies and institutionalize the indicators presented in this report;
- The mills should devise self assessment tools, such as integrated monitoring programs;
- Based on the monitoring results, each mill should develop a corrective action plan, including a detailed implementation schedule and estimated implementation costs in order to meet the strategies and indicators established by the sector;
- The mills should take advantage of the communication channels established by the Association. Mills should exchange information and know-how, including both positive and negative experiences; and

- The mills, through the Association, should provide training on environmental issues and compliance to their environmental managers.

ANNEX IV: Verification of Social and Environmental Practices

Verification of Social & Environmental Practices in Key Salvadoran Export Sectors

Background: The success of the work conducted to date as part of the FIAS project with the national government and the coffee, sugar and apparel sectors is to a significant degree dependent on the ultimate creation of effective, efficient and credible means of verifying good social and environmental practices in these industries.

Building such a framework for verification will allow Salvadoran government and business to demonstrate that practices in the country are consistent with the evolving expectations of the global marketplace. Indeed, throughout this project, local business and government officials have consistently stated their desire to achieve these goals, and multinational buyers and investors in El Salvador have clearly and consistently stated the same points.

It is hoped that this memo serves to begin discussion with essential government officials, business representatives, and other appropriate parties concerning the most effective way to make progress on this topic.

Objectives: Any system that is developed should be designed to reach the following goals:

- Establish El Salvador as a trusted and reliable source of key agricultural commodities and light industrial products for external investors and business partners
- Make efficient use of available public resources
- Create and/or ratify a consistent and credible set of labor and environmental standards and practices
- Rationalize current practices, which often rely on duplicative and/or inconsistent monitoring practices
- Build management capacity to achieve desired commercial goals consistent with social and environmental objectives
- Emphasize learning and improvement along with enforcement
- Contribute to increased transparency and social dialogue in El Salvador

A National Verification System: Each of the three industry sector projects is considering the best ways to address particular verification needs in their industries. This reflects each industry's unique production processes used in each industry, as well as the unique verification questions arising in each industry.

While some flexibility is beneficial to address unique features of these industries, as well as others that could participate in an overall verification system in the future, there are common principles that can and should be brought together in a unified national approach. Most of the elements of the approach that is described below could be tailored to the specific needs and/or priorities of an individual industry.

A national approach to verification would be based on:

- **Standards and Guidelines:** Salvadoran law and internationally-accepted principles, where available, would be used to guide the verification plan. Labor and environmental issues would form the basis of the standards. If done properly, this would transcend the current system under which multinational buyers apply similar but different standards that lead to confusion and inconsistency. Standards would be applied nationally, with implementation guides that would incorporate the circumstances present in specific industries. For example, a broad commitment to safe workplaces would be established, with specific guidance applicable to *ingenios*, cane fields, coffee plantations, or cut and sew apparel operations.
- **Training and Education:** The standards and guidelines would form the basis for industry-wide educational efforts that would make this information available to enterprise owners, workers, government officials, and as appropriate others. Multinational buyers would also be engaged in this process. The verification process would explicitly include a review of efforts to educate management and workers on standards and practices.
- **Self-Assessment:** Enterprises would be provided with baseline assessment tools that would enable them to conduct a thorough annual review, as well as quarterly diagnostics. Industry associations would require that its members engage in such annual reviews, and associated educational efforts, to remain members of good standing. It should be noted that self-assessments have been part of the three industry sector projects currently in process, suggesting that this process has the support of the sectors in question.
- **External Verification:** Third parties would conduct verification on a periodic basis.
 - Standards: The standards against which performance would be measured are as described above.
 - Process: The verification process would be based on a set of actions to be agreed via consultation between Salvadoran government, Salvadoran and selected multinational enterprises, expert agencies such as the ILO, and other appropriate stakeholders, such as multi-stakeholder initiatives. Core actions will include records review, confidential employee discussions, visual observation, and production process review.
 - Information Flow: Reporting would be provided to individual enterprises being reviewed, industry association, and

government officials. This verification would provide critical information to four key constituencies: (a) for enterprises, a basis for checking and improving internal assessments, and a means by which the number and consistency of external monitoring visits can be rationalized; (b) for multinational buyers, information to provide assurances that enterprises are meeting their expectations concerning social and environmental performance; (c) for public officials, information officials allowing them to determine legal compliance and determining how to deploy scarce enforcement resources; (d) for the public, provision of aggregated information helping to demonstrate transparency. To meet the final objective, we recommend that each industry provide an annual performance report that includes aggregated information, and an assessment of progress.

- Timing: As the starting point for discussion, we propose annual verifications for enterprises in the top half of enterprises, based either on number of employees or annual turnover. Smaller enterprises, and those which employ fewer persons, would be conducted on a less frequent basis.
- **Government Enforcement**: This system would also include targeted government enforcement. Government efforts would achieve greater impact through being defined and implemented based on the substantial flow of information generated through the self-assessment and verification process. Government enforcement agencies such as the Ministry of Labor also would be at the center of a learning process that would (a) deliver training to enterprises wishing to improve performance, and (b) collaborative efforts with enterprises and third party verifiers to improve verification processes.



ANNEX V: Interview for Coffee Sector Producers, Processors and Exporters



Objective: Diagnose the coffee sector's current situation in terms of their social and environmental practices to identify a baseline indicator to support Corporate Social Responsibility.

Important Note:

The information gathered during this research will be strictly confidential.

In the statistical presentation of the results, no individual or company name will be used, and no data will be published in individual amounts.

Exemplary experiences and practices will be published eventually only prior to consultation and approval of the individuals and companies that contributed to this activity.

General Information:

Sector:

1. Mill / Processor- Exporter

2. Producer

If Producer, what is the size of your plantation?

1. Over 261 acres

2. Between 175 to 261 acres

3. Between 17 to 174 acres

4. Less than 17 acres

Name of Company or Plantation: _____

Name of Owner: _____

Person responsible for completing survey: _____

Title of individual: _____

Telephone: _____

Fax: _____

E-Mail: _____

Address: _____

QUESTIONS

1. What has been the volume of coffee produced or processed at your company or plantation last year?

Produced _____ hundredweight Green cherry
 Processed _____ hundredweight Green cherry

2. Of the following, which does your company already have?
 1. Verbally 2. Written 3. Don't have it

- a. Mission
- b. Vision
- c. Internal Regulations
- d. Values or Principles

3. What aspects do you consider most important for your company or plantation to invest in during the next two years. Highlight the two most relevant in each area indicated:
 (show card)

A. SOCIAL AREA	B. ENVIRONMENTAL AREA	C. OTHER ASPECTS
<ul style="list-style-type: none"> • Improve health services • Improve education services • Improve access to public utilities (water, power) • Improve transportation services • Improve employee housing infrastructure • None • No comment 	<ul style="list-style-type: none"> • Reforestation • Reduction of chemical product use • Improvement of solid waste treatment system • Worker environmental education • Reduction of pollution during processing • Recycling • None • No comment 	<ul style="list-style-type: none"> • Technical training • Management training • Investment in technology • Investment in machinery and equipment • Certification • None • No comment

_____ has achieved in the last few years.

Economic Area 1. _____

2. _____

3. _____

Social Area 1. _____

2. _____

3. _____

Environmental Area 1. _____

2. _____

3. _____

PART II. Employment and labor conditions

5. How many people did you employ during last year (harvest/2004-2005)?
 (Write the quantity and percentages of males and females.)

EMPLOYEES	TOTAL/ QUANTITY	MEN %	WOMEN %
a. Permanent			
b. Seasonal			
c. Agricultural work			
d. Coffee picking			

1. Hourly 2. Task 3. Both

- a. Permanent
- b. Seasonal
- c. Agricultural work
- d. Coffee picking

If you answered hourly, how many hours is your shift?

- a. Permanent
- b. Seasonal
- c. Agricultural work
- d. Coffee picking

8. What type of payment method do you use most frequently with employees?
 Mention the two most frequent in order of importance

- 1. Cash
- 2. Check
- 3. Bank transfer
- 4. In kind

Other: _____

9. How frequently do you pay employees?

- 1. Daily
- 2. Weekly
- 3. Every fourteen days
- 4. Every fifteen days
- 5. Monthly
- 6. Other: _____

10. What is the monthly salary range of your operations and agriculture workers?

- 1. Less than \$80
- 2. From \$81.00 to \$100.00
- 3. From \$101.00 to \$150.00
- 4. Over \$150.00

5. Other: _____

6. Do not employ operations workers

11. Of the following benefits, which do you offer permanent employees?

- 1. Benefits required by law
- 2. Transportation
- 3. Temporary housing
- 4. Housing
- 5. Meals
- 6. Training
- 7. Medical/hospital services
- 8. Life insurance
- 9. Work equipment and tools
- 10. Holiday pay
- 11. Childcare
- 12. Education for employees' children

13. All of the above

14. None

Others: _____

12. Of the following benefits, which do you offer seasonal, agricultural, and coffee picking workers?

- 1. Benefits required by law
- 2. Transportation
- 3. Temporary housing
- 4. Housing
- 5. Meals
- 6. Training
- 7. Medical/hospital services
- 8. Life insurance
- 9. Work equipment and tools
- 10. Holiday pay
- 11. Childcare
- 12. Education for employees' children

13. All of the above

14. None

Other: _____

13. Do you provide scheduled breaks other than lunch?

- 1. Yes
- 2. No
- 3. No comment

If yes, how long? _____

Are these breaks compensated by the employee during another shift?

- 1. Yes
- 2. No
- 3. No comment

14. What do you do when an employee works more than the regular shift?

- 1. Pay overtime
- 2. Pay bonus
- 3. Compensate time
- 4. Provide meals or goods
- 5. None
- 6. Other: _____

15. How do you keep track of employee overtime?

- 1. Use of time card
- 2. Sign-in sheets
- 3. Don't keep track of overtime
- Other: _____

16. What type of deductions do you make?

- 1. Social Security (ISSS)
- 2. Pension fund (AFP)
- 3. Income tax
- 4. Co-op Savings
- 5. None

Other: _____

<p>17. How do you document employee payroll?</p> <ol style="list-style-type: none"> 1. Formal computerized accounting system 2. Formal manual accounting system 3. Informal records 4. Do not keep records • Other _____ 	<p>29. Do you take special precautions for children and minors to carry out their activities on your plantation or company?</p> <p>1. Yes 2. No 3. No comment</p> <p>If yes, state the precautions taken:</p> <ol style="list-style-type: none"> 1. Physical safety precautions 2. Special work shifts to prevent children and minors from missing school 3. Assigned tasks according to age
<p>18. Of the following resources, which does your company or plantation have available for emergencies and work accidents? (highlight the most important)</p> <ol style="list-style-type: none"> 1. Personnel trained for serious accidents 2. Personnel trained for minor accidents 3. First aid kit and medication 4. Clinic or infirmary 5. Emergency transportation access 6. All of the above 7. None Other _____ <p>19. Do you provide training or information to employees on the use, handling manipulation, storage and application of chemicals and dangerous equipment?</p> <p>1. Yes 2. No 3. No comment</p> <p>If yes, what type of training or information do you provide?</p> <ol style="list-style-type: none"> 1. Written guides 2. Pamphlets and informational material 3. Training by experts 4. All of the above 5. Other _____ 	<p>30. Do you consider it appropriate for children to carry out the same labor activities as adults?</p> <p>1. Yes 2. No 3. No comment</p> <p>If yes, why?</p> <ol style="list-style-type: none"> 1. It is a Family tradition 2. It prevents children from becoming juvenile criminals 3. It is an opportunity to learn a trade 4. It contributes to the family income 5. Other: _____ <p>If no, why?</p> <ol style="list-style-type: none"> 1. These are dangerous tasks 2. Interrupts schooling 3. Dangerous to their health 4. Interrupts normal development 5. Other: _____ <p>31. Do you require ID/proof of age for new employees?</p> <p>1. Yes 2. No 3. No comment</p> <p>If yes, what type of ID do you require?</p> <ol style="list-style-type: none"> 1. Birth certificate 2. Identification Document (DUI) 3. Other _____
<p>20. What type of equipment or measures are used to guarantee employee safety?</p> <ol style="list-style-type: none"> 1. Protective eye wear 2. Gloves 3. Rubber boots 4. Breathing equipment/masks 5. Aprons/overcoats 6. Emergency showers 7. Avoid water sources during applications 8. Chemicals and dangerous materials are kept in secure place 9. Have an Industrial Safety Committee in place 10. All of the above <p>Other PPE: _____</p> <p>21. Do you keep a record of work related accidents?</p> <p>1. Yes 2. No 3. No comment</p> <p>22. Are you aware of minimum health and safety laws and conditions to guarantee a safe work environment?</p> <p>1. Yes 2. No 3. No comment</p> <p>23. Have you been inspected by a state institution with regards to minimum safety and health conditions?</p> <p>1. Yes 2. No 3. No comment</p>	<p>32. Does your plantation or company provide recreational facilities or childcare for employees during their work shift who have children and minors?</p> <p>1. Yes 2. No 3. No comment</p> <p>If yes, what do you provide?</p> <ol style="list-style-type: none"> 1. Childcare 2. Recreational areas 3. Cafeteria 4. Medical Clinics 5. Courts and Fields for sports Other: _____
<p>Child Labor</p> <p>24. Have you had any children or minors doing any sort of work for your company or plantation during the last year?</p> <p>1. Yes 2. No 3. No comment</p> <p>If no, then skip to question number 30</p> <p>25. Are these children part of your family? (plantation or company owner)</p> <p>1. Yes 2. No 3. No comment</p> <p>26. What are the labor conditions of the children working on your plantation or company?</p> <ol style="list-style-type: none"> 1. They are under contract 2. They are on payroll 3. None 4. Other: _____ <p>27. State those activities required by minors in return for payment:</p> <ol style="list-style-type: none"> 1. Coffee picking 2. Clearing 3. Planting 4. Fumigation 5. Picking good beans 6. Odd jobs 7. All of the above 8. None Other _____ 	<p>PARTE III. Environmental</p> <p>33. Of the following products, which do you use during coffee production?</p> <ol style="list-style-type: none"> 1. Fertilizers 2. Natural fertilizer 3. Insecticides 4. Fungicides: 5. Herbicides: 6. Pesticides: 7. All of the above 8. None Other _____ <p>34. Are you aware of private certifications and initiatives offered to the coffee sector?</p> <p>1. Yes 2. No 3. No comment</p> <p>(If no, then jump to question Number 36)</p> <p>If yes, state if you are aware of the certification offered by the following organizations:</p> <ol style="list-style-type: none"> 1. Rainforest Alliance 2. Fair Trade 3. Organic Certification 4. Starbucks, 5. Bird Friendly/Smithsonian 6. None Other _____ <p>Is your plantation already certified?</p> <p>1. Yes 2. No 3. In the certification process 4. Not interested</p> <p>If yes or in process, state what type of certification?</p> <ol style="list-style-type: none"> 1. _____ 2. _____ 3. _____ <p>If not interested, Why?</p> <ol style="list-style-type: none"> 1. Too expensive (too high a cost) 2. Too complicated (complicated administrative processes) 3. Do not pay enough (little economic retribution) 4. Other _____
<p>28. What type of work schedule do you have for children and minors on your plantation or company?</p> <ol style="list-style-type: none"> 1. The same as adults 2. Part time 3. Special schedules 4. Other: _____ 	<p>35. What environmental methods do you practice?</p> <ol style="list-style-type: none"> 1. Integrated management of plagues 2. Soil Conservation (erosion) 3. Water conservation and decontamination 4. Flora and Fauna Protection 5. Reforestation 6. None 7. Other _____

<p>36. The Ministry of the Environment and Natural Resources has provided you support and information for which of the following?</p> <p>1. Clean production 2. Solid and Liquid Waste Management 3. Pollution Management Other: _____</p>		<p>Questions 47 and 48 are strictly for processors</p> <p>47. What types of services do you offer producers? Check all that apply.</p> <p>1. Market price information 2. Agriculture Loan (Pre-harvest work) 3. Investment or loans 4. Plantation management 5. Coverage opportunities (Hedging, BMI) 6. Training and support to acquire certifications 7. Harvest transportation 8. Sale of agricultural raw materials at lower cost Other: _____</p>	
<p>37. Would you be interested in receiving assistance from the Ministry of the Environment and Natural Resources to handle conservation practices, natural resource management, and use of dangerous and hazardous materials?</p> <p>1. Yes 2. No 3. Do not know 4. No comment</p>			
<p>38. What do you do with the following?</p> <p>1. Recycle 2. Reuse 3. Discard 4. Sell 5. No comment</p> <p>a. Office and paper waste b. Pulp c. Honey water d. Plastics e. Unused chemicals f. Wood g. Skin h. Aluminum</p> <p>39. Do you support environmental projects in communities surrounding your company or plantation?</p> <p>1. Yes 2. No 3. No comment</p>	<p>a b c d e f g h</p>	<p>48. What value do you give each of the items below when purchasing coffee?</p> <p>1. Very high 2. High 3. Medium 4. Low 5. No comment</p> <p>a. Quality of coffee delivered b. Continued relations c. Trust d. Alliances in certifications e. Coffee contract f. Trade association g. Compliance h. Good trade relations history</p>	<p>a b c d e f g h</p>
<p>If yes, which of the following do your support?</p> <p>1. Reforestation 2. Reduction of environmental pollution 3. Environmental education Other: _____</p> <p>40. Have you participated in workshops, training seminars or discussions regarding environmental topics?</p> <p>1. Yes 2. No 3. No comment</p>		<p>Question 49 and 50 are strictly for producers (plantation owners)</p> <p>49. What services, information or support do you consider most useful as a means to improve social and environmental conditions on your plantation?</p> <p>1. Maintain flora and fauna in harmony with coffee crop. 2. Improve health services and access to education for tenant farmers. 3. Other _____</p>	
<p>41. Have you trained your employees on environmental aspects?</p> <p>1. Yes 2. No 3. No comment</p> <p>42. Of the following, which can you find on your plantation?</p> <p>1. Yes 2. No 3. No comment</p>		<p>50. What other factors provide you greater trust or value the most during the sale?</p> <p>1. Trade relation history with the processor/mill 2. Formal sale contract 3. Better prices 4. Information and updates provided by the processor 5. Incentives or awards based on the quality of the coffee delivered</p>	
<p>1. Wild native animals and birds: describe: _____</p> <p>2. Endangered species: describe: _____</p> <p>3. Presence of diverse varieties of native shade trees Other: _____</p>		<p>6. Exporter prestige and standing 7. Technical assistance to improve productivity 8. Exporter contact and international alliances Other: _____</p>	
<p>43. Do you keep any records of the above stated?</p> <p>1. Yes 2. No 3. No comment</p> <p>44. In your opinion, which of the following characteristics applies to your plantation? Check only those that apply:</p>		<p>PART V. Community and Public Policy</p> <p>51. Have you recently participated or supported local social projects that do not belong to your plantation or firm?</p> <p>1. Yes 2. No 3. No comment</p>	
<p>1. Existence of primary (virgin) forest within your plantation or surroundings. 2. Highly toxic agrochemicals such as DDT, Paraquat and others are avoided. 3. Soil erosion is reduced or actively managed in steep hillsides. 4. There is shade in over 40% of your plantation. 5. The majority of trees are less than 15 meters high. 6. All fallen trees are treated in a planned manner. 7. All rivers, creeks, lakes, etc. are used to discard solid and liquid waste of workers and agricultural activities. 8. There are rivers, creeks, lakes and lagoons near your plantation that are surrounded by trees. 9. Your plantation has at least 10 different species of trees native to the area 10. None Other: _____</p>		<p>If yes, what type of donation or social contribution have you made locally in the last few years? Check the three most important</p> <p>1. Products 2. Services 3. Installations (offices, rooms, etc.) 4. Transportation 5. Cash 6. Personal support 7. Equipment 8. Time Other: _____</p> <p>How many people do you estimate were benefited by these contributions?</p> <p>1. From 1 – 20 people 2. From 20-50 people 3. From 50-100 4. From 100-300 5. Over 300 6. Do not know</p>	
<p style="text-align: center;">PART IV. TRADE</p>		<p>52. What types of activities or organizations do you like to support? Check the three most important</p> <p>1. Your own projects 2. Local NGOs 3. International NGO's 4. International Cooperation 5. Government Institutions 6. City Halls 7. Organizations with a proven record for service 8. Churches 9. Other _____</p>	
<p>45. Which of the following characteristics best describe the terms used by your plantation or company to sell and purchase coffee?</p> <p>1. Previously agreed deductions 2. Producer decides when to sell 3. The sale is agreed upon mutually 4. The sale is done through a committee 5. The sale is done using processors' price sheets 6. There is written evidence of the sale and prices agreed 7. Other: _____</p>		<p>53. State what other activities you have participated in the last two years. Check the three most important</p> <p>1. Sector associations 2. Government commissions 3. Work groups for coffee sector 4. Other municipal and government forums 5. Academic seminars 6. CSR events Other: _____</p>	
<p>46. How do you insure the coffee sale or purchase?</p> <p>1. Written contract 2. Verbal contract 3. Other _____</p>			