

Mexico Program for MSME Competitiveness through the Implementation of Sustainable Practices

by

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1- Background and Context

SMEs, Anchor Companies, and Sustainability. Small and medium-sized enterprises are key contributors to the emission of greenhouse gases (GHG). Siemens, Mars, and Calvert worldwide. Anchor companies recognize that most emissions occur at the first and last parts of the value chain. According to Siemens, only 6% of the total emissions of their products are under the control of the anchor company; 80% of the product value chain's emissions come from the first SMEs in the chain.ⁱ The cumulative effects of poor environmental management and the importance of SMEs in the Mexican economyⁱⁱ suggest a huge environmental impact from SMEs in Mexico. Notwithstanding, there is very little information available about environmental management for SMEs in the country, nor is there available baseline information sector-wide.

Under shareholder and management pressure, large corporations in Mexico, such as Walmart and Femsa, are increasingly analyzing not only the sustainability of their core operations, but also that of their SME supply chains. For example, Walmart requires its suppliers to complete a Sustainability Assessment, ranking firms based on their scores, which is one input into their buying process. SMEs without any environmental management systems receive low scores, and are thus less competitive than peer suppliers. Other large firms in Mexico, such as FEMSA, are recognizing the value of working with their suppliers in order to green their supply-chain and reduce their ecological footprint, including their GHG emissions.

Context in Mexico. Like many other countries, Mexico is instituting policies to promote sustainable consumption and production practices. Many of these actions have been undertaken under the Marrakech Process, an action campaign that began in 2003 to encourage production and consumption patterns that help decouple economic growth from environmental degradation. Mexico has already defined a preliminary version of the National Strategy of Sustainable Production and Consumption that

aims at improving the efficient use of resources and toxic materials as well as the reduction of waste and carbon emissions.ⁱⁱⁱ Other government efforts that are more specifically oriented to improve the energy efficiency of SMEs include the joint program of NAFINSA and the Ministry of Energy, which offers credits up to 20,000 US dollars for substituting light-bulbs or refrigeration and air-conditioning equipment with more efficient ones.^{iv}

In spite of these and other government efforts, one of the major challenges facing countries like Mexico is to find effective ways to train smaller companies in the adoption of sustainable practices. In contrast with the situation facing large companies, micro, small and medium-sized enterprises (MSMEs) not only have limited resources but they tend not to be aware of the linkages that increasingly exist between environmental management and economic competitiveness. Programs that can effectively respond to the specific needs and peculiarities of smaller companies are scarce, and the adoption of environmental management systems or certification programs, such as ISO 14000, can be financially burdensome for MSMEs.

Training companies on energy efficiency, water usage and waste management has been identified by the Mexican government as a means to enhance economic competitiveness of the country while attaining environmental performance goals. Working with large companies, such as Alpura, Jumex, Nestle, Vitro, Johnson Controls, Colgate Palmolive and BASF, and their suppliers has become a priority for the Ministry of the Environment. Through 40-hour face-to-face workshops organized with local universities, the Environmental Leadership for Competitiveness Program of the Procuraduría Federal para la Protección Ambiental (PROFEPA) has trained around 3000 companies throughout Mexico. However, the program, which was launched in 2007, tackles enterprises of more than 25 employees that account for only 5% of a total of 370,000 existing manufacturing establishments in Mexico. The program is limited in its scope, as it became evident in its failure to reach its goal of training 5,000 SMEs by 2012.

The challenge is to develop a low-cost, educational tool that is both accessible for a high-volume of MSMEs, particularly for those who have less than 30 employees and comprise 98 per cent of all companies in Mexico, and can, in a short period of time, effectively reach a large number of the universe of MSMEs in Mexico. Such a tool should help: 1) increase the awareness of MSMEs about the increasing importance of environmental sustainable practices for their competitiveness and survival; 2) enable them to easily and in a cost-effective way implement environmental practices that make them competitive and attractive as sustainable suppliers; 3) improve the competitiveness of the supply chain of large companies for which they provide products and / or services; 4) and generate information about the current state of sustainability and MSMEs, which to date is quite limited and prevents both large companies and the government from defining sustainability standards that are appropriate and specifically designed specifically for small businesses, without jeopardizing their economic viability.

2- Partnership, Structure and Processes

The Global Institute for Sustainability (GIS) is part of EGADE Business School, the graduate business school of the Tecnológico de Monterrey, recognized in Mexico and Latin America for educating entrepreneurial, innovative and ethical leaders with a global vision and a humanistic outlook capable of reinventing their environment and creating sustainable value. The GIS leads EGADE's strategy to develop sustainability contents as a pillar of excellence in its academic and executive education programs.

The GIS was established with the objective of training a new generation of entrepreneurs who integrate a rational use of natural resources as part of their business models.

This 4-year pilot project is jointly funded by the Multilateral Investment Fund, of the Inter-American Development Bank, and the Tecnológico de Monterrey, and is associated with the Mexican government through a partnership promoted by the Special Program on Sustainable Production and Consumption, led by the Ministry for the Environment and Natural Resources. Other public associations are being constructed with the Mexican Commission for the Efficient Use of Energy (CONUUE), NAFIN and the Mexican Ministry for the Economy.

For the project implementation, the GIS has a full-time staff of 12 who work on five teams/areas: training and online training, communication, research and management. In addition, a team of 5 to 7 consultants and academic experts support research and provide technical expertise and knowledge on eco-efficiency practices and other specialized aspects of the project. To organize workshops, events and remote meetings, the GIS counts with a physical infrastructure that is considerable, as it has at its disposal not only its own facilities (office space, including meeting rooms for 30 to 50 people), but also those of EGADE (with offices in all major cities in Mexico, auditoriums, meeting rooms, support staff) and of Tecnológico de Monterrey (30 campi around Mexico, with meeting rooms of all sizes, videoconference rooms and equipment, Congress rooms for up to 3,000 people, etc.). The GIS has the capacity to easily and effectively disseminate results, given its robust communications infrastructure, with a dedicated team of communication experts, three websites (www.igs.org.mx, www.negociosverdes.mx and www.cadenasecoeficientes.org) focused on sustainability, green economy, green supply chains and green business, very dynamic and well-developed social networks and very strong relations with all relevant, traditional media outlets in Mexico.

3- Results so far

The GIS has already: a) developed a web portal and a virtual community to transmit the best available practices of SMEs who have undertaken eco-efficiency practices. The portal also hosts a very innovative training program that combines mentoring and online training, with high multimedia and pedagogical content; b) a data-base of more than 2,000 SMEs; and c) a good working and trust-relationship with 26 SMEs who have developed eco-efficiency practices in their operations and which have been documented for the GIS program as success stories. These cases have been posted in the program's website: www.cadenasecoeficientes.org; d) an advisory service program (an online course with mentoring; a group of 30 initial mentors/advisors trained) with the goal of raising awareness and training 3,000 SMEs and developing at least 1,000 eco-efficiency projects by SMEs, which in turn can promote green markets.

4- Expected Results

The adoption of sustainability practices and evaluation tools will help MSMEs cut costs for energy, water, and materials; reduce their risk of litigation due to noncompliance with national and local regulations; educate them in the marketing benefits of environmental management systems, and in

business-to-business and business-to-customer brand value. The project will attempt to achieve this by training MSMEs, developing financial instruments for new energy efficiency and clean energy technology implementation, and designing a virtual center for the provision of advisory services to MSMEs that are interested in adopting both environmental practices and evaluation tools. Beyond improving efficiency and environmental management, this project will allow anchor companies to verify that their suppliers are meeting sustainability requirements, improving MSME competitiveness.

Once the project is complete, the MIF will share results with other local financial institutions to enhance the impact of the project and to provide those who need it with knowledge of what works, in order to catalyze behavioral changes among a broader number of MSMEs in Mexico. The Ministry of the Environment and Natural Resources in Mexico will work with the Ministry of the Economy to broaden the program, through the MSME Fund, and include MSMEs from different sectors and who participate in the supply chain of other large corporations in Mexico. The GIS will disseminate knowledge on best practices and regarding the relationship between sustainability and competitiveness of SMEs in the supply chain of anchor companies.

4- Private Sector Growth Component

The sustainability of this project is based on the intrinsic pressures for anchor companies operating in Mexico to work with their suppliers, an important component of which tend to be SMEs, to introduce environmental practices as a way to improve their overall competitiveness. The demand for the introduction of such practices will be also germane to governmental policies at the local and national level that will be adopted as a result of global pressures that address environmental sustainability challenges. Given the large number of SMEs, their aggregate impact on the Mexican economy and their limited financial capacity, in particular of the smallest companies, a demand for training and advisory services on sustainable practices will be guaranteed.

GIS will seek additional funding from governmental and private sources to cover, at least partially, for the training and advisory service fees. Through the Green Business Initiative and the Agreement for a Sustainable Mexico (www.negociosverdes.mx), the GIS has established a permanent space for dialogue to develop innovative ideas and proposals with a group of over 50 large enterprises and business associations, sharing experiences with the successful adoption of sustainability practices among leading companies in Mexico. The goal is to expand the MSMEs eco-efficiency project to more of the partnering companies of GIS.



Biographies of Authors:

Isabel Studer holds a MA and Ph.D. in International Relations from Johns Hopkins University-School of Advanced International Studies and a degree in International Relations from El Colegio de Mexico. Dr. Studer has held a number of public policy positions in the Mexican government, including as Director General for the U.S. and Canada at the Ministry of Environment and Natural Resources (SEMARNAT) and Alternate Representative of the Minister to the Commission for Environmental Cooperation of North America (CEC). She is member of the Council of Climate Change, an entity created by the Mexican Law on Climate Change to advise in the design and implementation of federal climate policies, the Scientific Council of the Institute for Sustainable Development and International Relations (IDDRI), the Board of Directors of the World Environment Center (WEC), the Advisory Council of the Notre Dame Global Adaptation Index (ND GAIN), the Advisory Board of the Center for the Study of Sustainable Development of the Private Sector in Mexico (CESPEDES). In 2013, the magazine *Petróleo & Energía* recognized Dr. Studer for her academic and scientific accomplishments and listed her in 2012, 2013 and 2014 as one of the 100 most influential leaders in the Mexican energy sector, in 2014 CNN Expansión nominated her as one of the most Successful Mexican Women. Member of the Mexican National Research System (Level II), Dr. Studer has written widely on climate change and environmental standards, trade and the environment and regional economic integration. Her publications include three books, *Designing Integration: Regional Governance on Climate Change in North America* (coedited with Neil Craick and Debora Van Njnatten, Toronto University Press, 2013); *Requiem or Revival? The Promise of North American Integration* (coedited with Carol Wise, Brookings Institute, 2007), and *Ford Global Strategies and the North American Auto Industry* (International Business and World Affaris Series from Routledge, 2002).



ⁱ Figures from speeches at the Corporate Sustainability Forum, June 17th, Rio+20.

ⁱⁱ According to the Ministry of the Economy, while the MSMEs represent 99 per cent of all businesses in Mexico, they account for 80 per cent of all employment in the country and about 35 per cent of GDP (<http://www.economia.gob.mx/mexico-emprende/empresas>).

ⁱⁱⁱ <http://www.semarnat.gob.mx/temas/pycs/Paginas/borrador.aspx>

^{iv} According for the Federal Commission of Electricity (CFE), there are about 3.5 million the micro, small and medium-sized enterprises (MPYMEs) whose electricity consumption represents half of all their energy consumption <http://www.eluniversal.com.mx/finanzas/88917.html>