

COLOMBIA

**FINANCING LINE FOR INVESTMENT PROJECTS, PRODUCTIVE
RESTRUCTURING, AND EXPORT DEVELOPMENT**

(CO-X1007)

**FIRST PROGRAM UNDER THE FINANCING LINE FOR
INVESTMENT PROJECTS, PRODUCTIVE RESTRUCTURING, AND
EXPORT DEVELOPMENT**

(CO-L1078)

LOAN PROPOSAL

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ANNEXES AND ELECTRONIC LINKS		
Annex I – Results matrix		
Technical documents in electronic format	Subject	Hyperlinks/Preparation status
Required		
Annual work plan	N/A	
Monitoring and evaluation arrangements	N/A	
Safeguard Policy Filter	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1721497	
Environmental and Social Management Report (ESMR) ¹	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1721431	
Optional		
Link 1	Microfinance framework	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1442264
Link 2	Financial system	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1442234
Link 3	Bancóldex	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1442250
Link 4	National Guarantee Fund	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1693413
Link 5	Bancóldex characteristics for CCLIP eligibility	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1728799
Link 6	Framework for the CCLIP and the first program	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1681049
Link 7	Ex post information	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1720452
Link 8	Discount mechanism	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1687857
Link 9	Inverse onlending rate	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1720545
Link 10	“aProgresar” program	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1720689
Link 11	Execution	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1720625
Link 12	Procedure for allocating lines of credit	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1720482
Link 13	Bancóldex credit regulations	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=
Link 14	Technical assistance regulations	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1720610
Link 15	Estimated demand for program resources	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1720503
¹ If required and as specified in the guidelines for policy OP-703 and document GN-2208-25.		

ABBREVIATIONS

CCLIP	Conditional credit line for investment projects
IDB	Inter-American Development Bank
IFI	Intermediary financial institution
ESMR	Environmental and Social Management Report
MSMEs	Micro, small, and medium-sized enterprises

PROJECT SUMMARY

COLOMBIA

FINANCING LINE FOR INVESTMENT PROJECTS, PRODUCTIVE RESTRUCTURING, AND EXPORT DEVELOPMENT (CO-X1007)

FIRST PROGRAM UNDER THE FINANCING LINE FOR INVESTMENT PROJECTS, PRODUCTIVE RESTRUCTURING, AND EXPORT DEVELOPMENT (CO-L1078)

Financial Terms and Conditions				
Borrower and executing agency: Banco de Comercio Exterior de Colombia, S.A. (Bancóldex) Guarantor: Republic of Colombia			Amortization period:	25 years
			Grace period:	4 years
			Disbursement period:	4 years
Source	First program (US\$ million)	CCLIP (US\$ million)	Interest rate:	LIBOR-based option in U.S. dollars
IDB (OC)	100	650	Inspection and supervision fee:	*
Local	100	650	Credit fee:	*
Total	200	1,300	Guarantee fee:	0.25%
CCLIP eligible for cofinancing			Currency:	U.S. dollars from the Single Currency Facility
Conversion to Colombian pesos	No	Local Currency Facility		
Project at a glance				
Project objective/description:				
The objective of the conditional credit line for investment projects (CCLIP) and the first proposed program is to support the government's efforts to strengthen the competitiveness of the productive sector through the financing of investment projects, productive restructuring, and export development. (paragraph 1.13)				
Its purpose is to channel, through intermediary financial institutions (IFIs): (i) credit resources, to mitigate market deficiencies; and (ii) technical assistance resources, to finance the implementation of business ventures. (paragraph 1.13)				
Special contractual conditions:				
Entry into force of the program Regulations, with the Bank's no objection, is a condition precedent to the disbursement of the Bank's loan. (paragraph 3.3(b))				
Expansion of and exceptions to Bank policies:				
With regard to the programs to be executed under this CCLIP: (i) the Republic of Colombia will only guarantee payment of the debt service (paragraph 3.1); and (ii) the concept of the CCLIP, which applies exclusively to loans, will be expanded to include guarantees (paragraph 1.15(a)).				
Project consistent with country strategy: Yes [X] No []				
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []				
Verified by ESR on: 5 November 2008				
Procurement: N/A				

* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Frame of reference, problem to be addressed, and rationale for Bank support

1. Frame of reference

- 1.1 Colombia has shown solid economic performance in recent years. A series of structural reforms in the fiscal, financial, and commercial areas, combined with sound management of macroeconomic policy and the reestablishment of domestic security, helped reduce inflation, boost private investments, and spur economic growth. Propelled by strong growth of private investment, the gross domestic product growth rose from 2.5% in 2002 to 7.7% in 2007. [Link 1](#)
- 1.2 However, deteriorating external conditions and their impact on the domestic economy are expected to slow growth to 4% this year. In addition, the international economic crisis may weaken the current account of the balance of payments due to a foreseeable decline in demand for export goods and services and the international prices of Colombia's main export products, in an environment characterized by increasingly tight access to private international financing. Without corrective measures on both the demand and the supply sides, this could have an adverse effect on the country's economic performance in the medium term. Specifically:
 - a. On the demand side, without stable sources of domestic and external financing, the government could be obliged to step up its fiscal austerity measures as it attempts to maintain the social spending and key investments needed to address the challenges of poverty, inequality, and competitiveness;
 - b. On the supply side, productivity and competitiveness in the productive sectors need to be increased. In addition to reducing external vulnerability through the development of more attractive export products and penetrating new markets, this would help the country maintain its growth momentum. To move in this direction, it will be necessary to continue implementing the structural reform agenda and increase access to financing, especially medium- and long-term financing.
- 1.3 The financial system is well funded, solvent, profitable, and reasonably liquid; its operating efficiency is good; and the arrears rate is holding steady at historically low levels. The most significant figures for 2007 were as follows: (i) the earnings of lending institutions grew by 7.3% over 2006; (ii) the capital adequacy ratio improved (13.5%), surpassing the regulatory minimum by 4.5 percentage points; (iii) operating efficiency also improved, with the ratio of administrative expenses to assets at 3.17%; (iv) in January 2008, the real lending rate was 12.6%; (v) growth in lending activity slowed; (vi) the arrears rate rose (3.3% in December 2007, compared to 2.6% in December 2006); and (vii) return on assets (ROA) and return on equity (ROE) fell from 2.3% and 19% in 2006 to 2.2% and 17.8% in 2007, respectively. [Link 2](#)
- 1.4 Banco de Comercio Exterior de Colombia, S.A. (Bancóldex), is a semi-public corporation linked to the Ministry of Trade, Industry, and Tourism, and the

Government of Colombia is its largest shareholder. Bancóldex (i) is subject to the Banking Law and the Office of Financial System Oversight; and (ii) operates as a second-tier bank that uses the network of banks, financial corporations, and commercial lending firms, as well as credit unions, financial nongovernmental organizations, and employee funds with Bancóldex lines of credit (all financial intermediaries, regardless of whether they are subject to the Office of Financial System Oversight), to serve the credit needs of all economic sectors, both for domestic commerce and foreign trade. The Bank onlends its resources through direct and discount operations, through previously authorized intermediaries. [Link 3](#)

2. Problem to be addressed

- 1.5 In the current international economic environment, where aggregate demand is decelerating, competition to meet existing demand will be steep as countries try to mitigate their recessionary trends by exporting as much as possible. Against this backdrop, ensuring Colombia's international competitiveness will require that companies have continual access to financing, especially in the form of medium-and long-term loans.¹ In addition, the tendency to reduce exposure to credit risk in favor of cash in response to the recent global financial crisis could easily reverse the positive lending trend in recent years in terms of volume and terms, especially vis-à-vis international banks' lending facilities with local correspondent banks. More specifically:
- a. According to the Ministry of Trade, Industry, and Tourism, large companies represent 1% of the country's businesses and are responsible for 37% of jobs and 63% of output. Normally, these companies do not have a difficult time obtaining financing, either inside the country or abroad. However, in the current environment, it is becoming increasingly difficult for them to obtain loans, which will affect their operating and investment plans, as well as the employment outlook;
 - b. Micro, small, and medium-sized enterprises (MSMEs) also play an important role in the economy. According to the Ministry of Trade, Industry, and Tourism, they represent 99% of the businesses in the country and are responsible for 63% of jobs and 37% of output. The MSME sector has limited access to financing. The financing that is available is usually in the form of supplier credit and very short-term financing, which limits their opportunities for growth and expansion. Several factors have conspired to restrict MSME access to financing. On the demand side, these factors include their size, the absence or weakness of their guarantees, and/or their lack of technical and managerial capacity for formulating and/or executing sustainable investment projects, and/or adopting new technologies and innovative business models. On the supply side, these factors include lending institutions' limited

¹ This is especially important in an economic policy environment that is intensifying trade liberalization inasmuch as it will address the challenges of investing potential earnings from free trade agreements and require a more diversified export basket and pool of destination markets.

information on MSMEs and the preponderance of short-term deposits.² Under present conditions, intermediaries' growing aversion to risk will further restrict access to credit.

- 1.6 Viewed from this dual perspective, the supply of longer-term financing must be increased so that lending institutions can offer businesses an instrument that is better adapted to the maturation periods of their investment projects (business modernization, productive restructuring, industrial relocation, export development, etc.), in order to enhance their ability to compete and survive. Accordingly, the government offers two support instruments: (i) Bancóldex's second-tier lending facilities; and (ii) the guarantees offered by the National Guarantee Fund. These two instruments have significantly increased the amount of financing available to the sector.
- a. In the case of Bancóldex: (i) the composition of its portfolio has moved toward medium- and long-term loans, which grew from 43% of the total in 2002 to 58% in 2007; (ii) of the loans disbursed in 2007, 40% were for business modernization activities (compared to 14% in 2002); and (iii) loans to MSMEs grew from 8.2% of the total in 2002 to 68% in 2007. [Link 3](#)
- b. Similarly, the amount of credit backed through the National Guarantee Fund grew by 455% between 2002 and 2007, with the number of beneficiary MSMEs rising from 52,000 to 219,000 in that same period. [Link 4](#)

3. Rationale for Bank support

- 1.7 *Bank support.* The objective of the Bank's country strategy with Colombia for the period 2007-2010 is to support the efforts of the government's to achieve greater growth, promote job creation, reduce poverty, and improve equity. To achieve this objective, the Bank is channeling its support through three strategic areas: (i) competitiveness, (ii) social development, and (iii) governance and strengthening of the State. The conditional credit line for investment projects (CCLIP) and the proposed program are consistent with the objective of the strategy and the first strategic area.
- 1.8 In terms of additionality, the proposed operation will: (i) provide funding in order to finance investment plans for businesses to increase productivity, strengthen competitiveness, and penetrate new markets at a time when local and international banks are tightening credit; (ii) include a technical assistance component to help businesses access financing, when necessary; and (iii) help deepen the capital market by diversifying the supply of market instruments, lengthening loan terms, and extending the yield curve, to the extent that bonds backed by guarantees issued under the program produce funding.

² As of end-January 2008, 86.3% of the certificates of deposit and time deposits held by lending institutions were for terms of six months or less.

- 1.9 The Bank has provided extensive support to the country through initiatives to deepen the financial system and strengthen competitiveness, including: (i) the Financial Sector Reform Program (CO-0232) and the Competitiveness Enhancement Program (two loans: CO-L1007 and CO-L1027); (ii) peso-denominated loans made by the Inter-American Investment Corporation for financial leasing companies; (iii) Bancóldex's joining the IDB's Trade Finance Facilitation Program (TFFP) as a confirming bank; and (iv) more than 40 Multilateral Investment Fund operations to strengthen and professionalize the operational and administrative aspects of microcredit institutions, expand the credit coverage of unregulated institutions to microenterprises and small businesses, harness and bank remittances, and deepen the financial system.
- 1.10 *The country's sector strategy.* The 2006-2010 National Development Plan "Community-based Government: Development for All" offers a consistent and comprehensive public policy plan aimed at increasing and improving output through productive restructuring. The two-pronged strategy for the productive sector has both a cross-cutting component and a sector component involving high-impact programs. The cross-cutting component addresses needs that are shared by all production sectors and covers the strategic areas of: (i) business development; (ii) innovation and technology development; (iii) savings, investment, and financing; (iv) capital assets; (v) human capital; and (vi) institutions for productive development. The second component of the strategy focuses on the specific needs of priority items on the domestic agenda that are strongly positioned to create jobs and income, competitively penetrate global markets, and create demand with strong multiplier effects on the rest of the economy. In this context, the National Development Plan has identified financial deepening as a key objective of the economic growth agenda inasmuch as tight credit is a serious obstacle to development. In this connection, the government is preparing a reform that will deepen the financial system and increase transparency (for example, areas covered by the reform would include credit bureaus, credit access, and modernization of the payment system).
- 1.11 Accordingly, the Ministry of Trade, Industry, and Tourism has formulated and negotiated a 2007-2010 Sector Strategic Plan that proposes four objectives and strategies: (i) to strengthen the country's economic presence in the international marketplace; (ii) to develop and attract world-class sectors; (iii) to develop and attract new and emerging sectors; and (iv) to make Colombia a world-class tourist destination.
- 1.12 For its part, Bancóldex establishes in its Action Plan 2007-2010 that, without neglecting its responsibility to provide financial support to MSMEs and serve as Colombia's export-import bank, it will gradually move toward becoming a full-service development bank that acts as a development agency, provides business capitalization support, and offers services and activities that supplement lending operations. To bring this vision into line with the guidelines of the National Development Plan and the Ministry of Trade, Industry, and Tourism's strategic

plan, Bancóldex has an action plan based on five pillars of strategic action: (i) deepen its role as a development bank; (ii) develop new products; (iii) transition to become a full-service development bank; (iv) guarantee financial sustainability; and (v) improve organizational efficiency.

B. Objective, components, and characteristics

1. Objective, purpose, and components

- 1.13 The *objective* of the conditional credit line for investment projects (CCLIP) ([Link 5](#)) and the first proposed program is to support the government's efforts to strengthen the competitiveness of the productive sector through the financing of investment projects, productive restructuring, and export development. Its *purpose* is to channel, through intermediary financial institutions (IFIs): (i) credit resources, to mitigate market deficiencies; and (ii) technical assistance resources, to finance the implementation of business ventures.
- 1.14 The US\$650 million CCLIP will be for a term of 10 years and is eligible for cofinancing. It will finance three multisector credit programs, the first of which will be for US\$100 million. The programs may have three components: (i) funding for IFIs in local and foreign currency; (ii) technical assistance linked to credit operations for IFIs and businesses; and (iii) risk-sharing arrangements.

2. Characteristics of the CCLIP

- 1.15 This CCLIP will be based on the same rationale³ and will pursue the same general objective as the objective traditionally established by the Bank in its multisector credit programs. However, the proposed structure of this CCLIP will give it an incremental additionality. Multisector credit programs: (i) fund vehicles (usually second-tier banks), normally in hard currency; and (ii) only channel funds received from the Bank. The proposed CCLIP will:
- a. Be structured as a multisector credit program with alternative financing, allowing the borrower to select how it will fund itself with Bank resources taking into account: (i) the level of demand for funds from IFIs (in local currency or U.S. dollars); and (ii) the characteristics of its financing. Based on these two factors, the borrower could decide to finance itself through the traditional loan option or by issuing Bank-guaranteed financing instruments. In this way, effectively channeled/guaranteed domestic savings would leverage the public funds allocated, thereby enhancing productive development in the country;
 - b. Help develop the local financial market, to the degree that the Bank-guaranteed disbursement option is used;
 - c. For risk-sharing or cofinancing arrangements, serve as a catalyst for additional private funding, again helping develop the financial market. [Link 6](#)

³ The economic and financial rationale will be determined by the market, which will tap the funds only if it is economically and financially profitable.

- 1.16 The proposed CCLIP will also offer technical assistance to supplement loans; this technical assistance will be inextricably linked to the loan and managed by Bancóldex. Specific technical assistance arrangements will be based on identified needs and objectives (productive restructuring, industrial retrofitting, development or relocation of businesses in duty-free zones, etc.) so that: (i) priority is given to initiatives that address market deficiencies or externalities that justify government intervention (principle of subsidiarity); (ii) recipients are selected on the basis of incentive compatibility criteria (and, therefore, under a Pareto-superior model of technical assistance in which nobody who assumes risk may be involved in selecting recipients); (iii) it will spur the emergence of new borrowers interested in long-term IFI loans (thereby generating productive investments); and (iv) it will improve the borrowers' likelihood of economic/financial success.

3. Specific characteristics of the first program

- 1.17 The first program under the CCLIP, which is the only program being submitted for approval, will have the following specific characteristics: (i) the operation will be for US\$200 million, of which the Bank and the local counterpart will each contribute US\$100 million; (ii) it will have two components, one to finance IFIs and the other to provide technical assistance to the program's subborrowers; (iii) it will provide funding to Bancóldex solely through loans, i.e., the guarantee option will not be available; and (iv) the loan will be disbursed entirely in U.S. dollars.

C. Outcome indicators

- 1.18 *Financing.* – With respect to the first and third components of the programs under the CCLIP, as in any loan of this nature, the IFIs will select the most viable companies and projects. Accordingly, the impact of the projects will be determined by market conditions, assuming the economy's structural variables remain constant. In effect, IFIs will choose the best companies/projects, and to the extent that payment arrears remain sufficiently low, the market mechanism itself will: (i) ensure selection of the best companies/projects; and (ii) determine the level of the indicators. From this standpoint, any indicator, whether under the program "goal" or "purpose," can only be considered an *a priori* estimate of what the market might yield and, therefore, cannot be used to determine the success/failure of the operation.
- 1.19 Taking this into account, the main indicators for the first component of the first program under the CCLIP are set out in the results matrix: (i) at the level of output, the opening/maintenance of Bancóldex' second-tier lending facilities (the only element covered by the program); and (ii) depending on whether the basic assumptions for this type of program are met (mutual willingness of borrowers and IFIs to accept and extend credit), outside the operation: (a) at the intermediate outcome level, changes in the terms of the loans and cofinancing provided by the IFIs; and (b) at the final outcome level, the level of disbursements and portfolio quality.

- 1.20 Following Office of Evaluation and Oversight guidelines for evaluating multisector credit programs, and in order to increase the volume of information for quantifying the operation's impact, supplemental to the results matrix, information will be gathered ex post on program outcomes. This will be linked to a systematic strategy for monitoring and evaluating the impact of the program, carried out in coordination with the Public Policy Evaluation Bureau of the National Planning Department (table of indicators for program goal). [Link 7](#)
- 1.21 *Technical Assistance.* The indicators for the programs carried out under the CCLIP will reflect and align with the type of projects currently financed by Bancóldex, namely: (i) business modernization; (ii) productive restructuring, (iii) industrial retrofitting; (iv) business relocation and duty-free zone development; (v) increased productivity and business competitiveness; (vi) expansion of exports; (vii) diversification of production and exports towards products with greater value-added and new destination markets; (viii) promotion of production-related investment; (ix) innovation and use of new technologies; (x) logistics and hotel industry (public-private partnerships); (xi) adaptation and improvement of productive housing; and (xii) trade finance facilitation.
- 1.22 With regard to the first program under the CCLIP, the outcome indicators will be: (i) at the output level, the provision of program resources to Bancóldex to finance technical assistance for program subborrowers; (ii) as the intermediate outcome level, fulfillment of the targets set by program subborrowers when they applied for technical assistance; and (iii) at the final outcome level, the degree to which available resources were used. The table of indicators for the program goal (paragraph 1.20) will provide information on the productivity and competitiveness gains of program subborrowers.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

1. Source of financing

- 2.1 The *first type of financing* for programs under the CCLIP will be a multisector loan from the Single Currency Facility of the Ordinary Capital, with the option of using the Local Currency Facility. The *second type of financing* will be credit guarantees for bonds issued by Bancóldex or resulting from the securitization of the eligible portfolio, such that: (i) the proceeds will fund its operations; and (ii) if Bancóldex fails to meet its obligations vis-à-vis the bondholders, the latter will be entitled to claim the guaranteed amount from the Bank. During the disbursement period of each program, and prior to each disbursement, a decision will be made as to whether resources will be disbursed as a loan or a guarantee.

a. Specific characteristics of the second type of financing⁴

- 2.2 For each program under the CCLIP, the bonds issued will share certain characteristics related to their offering (public or private, national or international), approved by the Bank upon signature of the respective contract.
- 2.3 Each series of bonds under each program may: (i) be denominated in U.S. dollars or Colombian pesos; (ii) have a Bank guarantee in the respective currency; and (iii) have the level of guarantee coverage (full or partial) that Bancóldex deems appropriate for optimal placement, based on market conditions. However, each series: (a) will have an equivalent level of guarantee for each of the guaranteed bonds; and (b) will have the Bank's no objection to their issue with respect to using the *available amount of the guarantee* (based on the amount, term, interest, and level of guarantee);
- 2.4 The guarantees will be available for a maximum period equivalent to the period for the first type of financing. Thus: (i) during that period, Bancóldex may issues successive series of bonds provided that the sum of the periods for those issues does not exceed the original borrowing capacity authorized by the Bank for the first type of financing;
- 2.5 In order to grant guarantees in Colombian pesos, if the counter-guarantee is activated, the Bank can, in accordance with the Local Currency Facility and document GN-2311: (i) issue liabilities in pesos (either on the national or the international market); (ii) take loans in strong currencies and hedge the foreign exchange debt in the financial swaps market; or (iii) set the degree of risk and the levels guaranteed in U.S. dollars.
- 2.6 In the event Bancóldex does not meet its obligations to the bondholders, the Bank: (i) will assume responsibility for the amount due; and (ii) will assume all financial obligations corresponding to the issue through prepayment of the bonds or use of a vehicle that allows it to maintain the payment profile, as agreed to with the government. At the same time, as a consequence of the sovereign counter-guarantee, it will extend a loan to the government for the amount paid to the bondholders, including any fees due or to become due. The loan will have the same conditions as Ordinary Capital loans, with the following exceptions: (i) there will be no grace period; (ii) there will be no credit fee; and (iii) they will be for the total remaining amount of the bonds issued. For a period of 30 days after the cure period, Bancóldex may repay the Bank for the amount disbursed by the Bank before the aforementioned loan was issued;
- 2.7 If Bancóldex fails to fulfill its obligations vis-à-vis the Bank, the Bank will still honor the guarantees granted for outstanding bonds. However, after a period of 60 days of arrears, it will: (i) cancel the option of using the remaining amount available under the program's maximum guaranteed amount; (ii) annul the

⁴ The CCLIP will fall under the guidelines of the guarantee policy approved by the Board of Executive Directors in accordance with documents GN-1858-2 of 31 July 1995 and GN-2311 of 7 July 2004.

possibility of future program disbursements under the CCLIP in the form of guarantees; and (iii) activate the counter-guarantee for the outstanding issues.

2. Use of resources

a. First component

- 2.8 The resources allocated for the first component will be transferred by Bancóldex to the IFIs pursuant to the conditions established in the Credit Regulations for the corresponding program under the CCLIP. In general, the funds will allow Bancóldex to provide financing to IFIs, which, in turn, will be able to make loans to the productive sector for eligible projects and programs. The loans issued by the IFIs can be cofinanced.
- 2.9 The financing provided under the CCLIP programs will have the following characteristics: (i) it will have fixed/variable rates, determined as the program's lending rate plus Bancóldex's spread; (ii) it will be higher than the average rate of market financing (fixed-term deposit); (iii) Bancóldex will assume the risks of the IFIs; (iv) Bancóldex's spread will be set taking into account its status as a development agency, but with an objective of sustainability; and (v) the IFIs will assume end subborrower risk.
- 2.10 With regard to the first program, which will target MSMEs exclusively, Bancóldex will provide financing to IFIs under the following conditions ([Link 8](#)):
- a. Eligibility. Projects that target MSMEs and focus on the following will qualify for the program: (i) plans to boost competitiveness and productivity indicators; (ii) projects to foster innovation and technology development; (iii) plans for international expansion; and (iv) programs to monitor and improve environmental impact;
 - b. Financing. The financing characteristics will be the same as those of Bancóldex's "aProgresar" program. A special feature is that IFIs will be given an inverse onlending rate because of the term of the financing, to encourage them to assume certain term-related risks not desired by the market. This is considered acceptable in view of the fact that: (i) IFIs have surplus regulatory capital; (ii) the conditions are public and recognized by end borrowers who shop among different IFIs for the most favorable lending rate; (iii) the system's loan portfolio for this type of borrower is practically nonexistent although some shorter-term loans are starting to emerge (justifying the declining structure of the program's spreads); and (iv) it minimizes the opportunity cost of resources allocated for that purpose. In addition, there has been an increase in the average terms of operations. [Link 9](#)
 - c. Characteristics of subloans: (i) they will be denominated in Colombian pesos; (ii) they will be medium and long term; and (iii) the ceiling will be set in the program's Credit Regulations.

b. Second component

- 2.11 A portion of the resources of the CCLIP programs may be earmarked, in an amount set by Bancóldex, for technical assistance provided through technical assistance programs. Resources can only be allocated in accordance with the technical assistance regulations approved with the Bank's no objection: (i) to borrowers selected by IFIs; and (ii) with the ceiling set in those regulations. The technical assistance can take three different forms:
- a. *Group technical assistance.* This is designed to enable financial intermediaries (IFIs) to work with groups of new borrowers who were not previously eligible (because of their size, the weakness of possible guarantees, or because of uncertainty that loans could be collected). This type of technical assistance: (i) will allow for the creation of trusts that enable IFIs to freeze and use as collateral the cash flows generated by the investments financed with the loans; (ii) can cover the cost of creating the trusts and current expenditures, for a certain period of time (for example, the first year of operation); and (iii) should include some criterion of incentive compatibility (coparticipation, success in obtaining credit, etc.) to prevent the creation of spurious trusts;
 - b. *Ex ante technical assistance.* Through matching grants, this type of technical assistance will facilitate the preparation of loan portfolios and the implementation of medium- and long-term investments financed by Bancóldex through third parties contracted under market conditions. The basic requirements for this type of technical assistance will be the following: (i) eligibility will be limited to IFI borrowers; and (ii) a cofinancing arrangement will be required (to be set out in the technical assistance regulations);
 - c. *Ex post technical assistance.* This type of technical assistance will recognize, for IFI end borrowers, the out-of-pocket expenses they incur to implement Bancóldex-financed investments that require creating goodwill for the business. The requirements for this type of technical assistance will be: (i) *a priori* agreement on certain standard outcome indicators set by Bancóldex to judge the success of the investments; (ii) fulfillment of these indicators during the first few years; and (iii) a maximum timeframe for the type of investment.
- 2.12 The first program under the CCLIP will only receive the third type of technical assistance, as structured for the Bancóldex "aProgresar" program and financed entirely with local counterpart funds. [Link 10](#)

c. Third component

- 2.13 The resources earmarked for the third component may be directly allocated by Bancóldex to medium- and long-term structured projects (project finance), through cofinancing arrangements with private IFIs that have borrowed from Bancóldex, with the following limitations: (i) project support structures will be administered by private IFIs, which will serve as promoters or leaders, and whose risk will be

supported exclusively by the structures themselves; (ii) Bancóldex will never have a greater share in these arrangements than any of the other intermediaries; and (iii) CCLIP program funds can only be used for this type of structure in the amount to be set in the Credit Regulations. The first program under the CCLIP will not have cofinancing.

3. Cost of the first program

Program cost by source of financing
(US\$ million)

Investment component	IDB	Local contribution	Total
Credit	100	98	198
Technical assistance	0	2	2
Percentage	50%	50%	100%

- 2.14 The local counterpart (technical assistance) may be replaced by credit, with the Bank's agreement.

B. Main risks and mitigating factors

- 2.15 *Macroeconomic risks.* The performance of the programs under the CCLIP will depend on a macroeconomic framework associated with fiscal sustainability, reduced financial vulnerability, and an investment climate conducive to growth in private investment. Changes in these variables may affect outcome indicators but cannot be mitigated.
- 2.16 *Fiduciary risks.* The programs under the CCLIP are considered to have limited fiduciary risk. Bancóldex is a semi-public corporation linked to the Ministry of Trade, Industry, and Tourism, and the national government is its largest shareholder. It is governed by the Banking Law, overseen by the Office of Financial System Oversight, and monitored by the Office of the Comptroller General. Its board of directors consists of the Minister of Foreign Trade, the Minister of Finance, a representative of the stockholders' assembly, a representative of the private sector appointed by Colombia's President, and a representative of the private sector chosen by the exporters' associations registered with the Ministry of Foreign Trade. The Board appoints the president of Bancóldex. Labor, procedural, and contractual aspects are governed by private law, ensuring that it has a professional management and technical structure. Bancóldex has been certified in ISO-9000 standards. Its long-term debt has received a rating of "AAA" locally and "BB+" internationally (Standard & Poor's), the same as the country itself.
- 2.17 *Financial risks.* The CCLIP programs will not face financial risks other than those of any multisector credit program. Their financial viability and risks will be determined by: (i) Bancóldex's return on the loans made to IFIs which, in turn, will underwrite them based on the return they expect under market conditions; and (ii) the guarantees obtained from IFIs and their program-financed portfolios.

- 2.18 *Environmental risks.* Inasmuch as the first program under the CCLIP, as a multisector credit program, will enable Bancóldex to obtain funds for second-tier loans, there are no direct environmental impacts. Thus: (i) in accordance with the stipulations of directive B.13 of the Environment and Safeguards Compliance Policy (documents GN-2208-20 and OP-703), these operations do not require classification.⁵ Due to its nature, Bancóldex does not check each project; the task of enforcing legislation is the responsibility of first-tier entities. However: (i) Bancóldex has a list of products that cannot be financed without an environmental impact assessment; (ii) the Credit Regulations provide that violations of environmental legislation will result in early termination of the loan and will make companies ineligible for the program; and (iii) eligible loans include financing for programs to control and enhance environmental impact. See ESMR.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

1. Borrower and executing agency

- 3.1 The borrower and executing agency for the CCLIP programs will be Bancóldex, which has the necessary authority and technical and operating capacity. The guarantor will be the Republic of Colombia, which will only guarantee payment of the debt service.

2. Execution and administration

- 3.2 For the CCLIP programs, Bancóldex will be responsible for: (i) executing and supervising appropriate use of the loan proceeds or resources obtained from the issue of guaranteed bonds; (ii) providing in due time and form the necessary human, technological, and budgetary resources; and (iii) delivering to the Bank the required documentation to comply with the disbursement and other operating conditions required for execution. [Link 11](#)
- 3.3 For the execution of each CCLIP program, the only requirements are entry into force of Bancóldex' system for accrediting IFIs, and approval and entry into force of the corresponding regulations. In relation to the first program under the CCLIP:
- a. *IFI accreditation system.* First-tier financial intermediaries regulated by the Office of Financial System Oversight ([Link 8](#)) may participate as IFIs. They will be responsible for: (i) evaluating subborrower risk and making lending decisions in line with the Credit Regulations and Bancóldex' operating regulations; and (ii) assuming responsibility vis-à-vis Bancóldex for the servicing and repayment of subloans, regardless of whether subborrowers meet their obligations; [Link 12](#)

⁵ The requirements established in the CCLIP Environmental Procedures and SEA Guidance do not apply as they were not designed for multisector credit programs.

- b. *Credit Regulations.* The Credit Regulations: (i) will be consistent with the standards and policies of Bancóldex and the Bank, as well as with the country's financial laws and practices; (ii) will reflect the main characteristics of the program; (iii) will stipulate that noncompliance with provisions will bar access to financing; (iv) will be approved and implemented by Bancóldex to the Bank's satisfaction as a condition precedent to the disbursement of proceeds for the corresponding component; and (v) will require the Bank's no objection for future revisions. [Link 13](#) contains the draft Credit Regulations, which are being prepared;
- c. *Technical assistance regulations.* The program will adopt the regulations developed for "aProgresar"; future revisions will require the Bank's no objection; [Link 14](#)
- d. *Plan of operations.* From a financial standpoint, given that the output of the first CCLIP program is the opening of Bancóldex's second-tier lending facility, the program will not require a plan of operations (strictly speaking) or a procurement plan. From the standpoint of technical assistance: (i) the technical assistance regulations will govern the technical assistance without the need for a plan of operations (strictly speaking) (procurements will be governed by private-sector policies and allocation will depend on the demand for credit); and (ii) the structure makes a procurement plan unnecessary.

3. Disbursement conditions, execution period, and timetable

- 3.4 With regard to the first program under the CCLIP: (i) demand from IFIs will determine the disbursement timetable; (ii) disbursements will be made in U.S. dollars; (iii) the interest rate will be chosen by the borrower in accordance with the contractual conditions; (iv) eligible expenditures of up to 25% of the loan amount will be recognized retroactively; (v) the program will be disbursed through a revolving fund comprising 10% of the loan amount, based on an expenditure reimbursement model; and (vi) the execution and disbursement period will be 48 months. [Link 15](#)

B. Summary of arrangements for monitoring results

- 3.5 The Bank's general monitoring and evaluation procedures will apply to all programs under this CCLIP, meaning that a midterm review and a Project Performance Monitoring Report (PPMR) will be included. In this connection:
- a. Bancóldex will deliver to the Bank, at the Bank's request and until program completion, regular reports on the status of operations in progress. This monitoring system will facilitate interaction and feedback between the project team and Bancóldex when evaluating the success of the CCLIP;
 - b. Initially, disbursements will be reviewed ex post. However, ex ante reviews may be introduced based on program execution; and
 - c. External audits of Bancóldex will be performed by a firm of independent auditors acceptable to the Bank, in accordance with the applicable policy, and

will be financed by Bancóldex. The same applies for the audit of the first program, to be performed in accordance with terms of reference agreed on with the Bank.

- 3.6 In general, the technical assistance models linked to loans that have been proposed for the CCLIP could be associated with a systematic impact monitoring and evaluation strategy designed and implemented in coordination with the Department of Public Policy Assessment of the National Planning Department. In this case: (i) success will enable the CCLIP programs to serve as pilot experiences for other technical assistance funds managed by the Ministry of Trade, Industry, and Tourism, which could use a similar model; and (ii) the arrangement could also be used by Bancóldex to administer and channel resources toward the productive development of regional and local governments.
- 3.7 This type of program could: (i) open a window of innovation in public policy that would offer a higher degree of protection and independence from the political economy than what other programs must contend with; and (ii) provide an opportunity to demonstrate the effectiveness and returns of this type of instrument to the Ministry of Finance and the National Planning Department.

**FINANCING LINE FOR INVESTMENT PROJECTS, PRODUCTIVE RESTRUCTURING, AND EXPORT DEVELOPMENT
(CO-X1007)**
**FIRST PROGRAM UNDER THE FINANCING LINE FOR INVESTMENT PROJECTS, PRODUCTIVE RESTRUCTURING, AND EXPORT
DEVELOPMENT
(CO-L1078)**

Objective	To support efforts to gradually strengthen competitiveness in the Colombian productive sector through the financing of investment projects, productive restructuring, and export development.
Purpose	To channel funds to the Colombian productive sector with a view to mitigating market deficiencies.

Indicators¹							Description
	Base	Year 1	Year 2	Year 3	Year 4	Target	
Component 1: Bancóldex maintains/opens lending facilities for intermediary financial institutions (IFIs).							
Output							
IFIs can access lines of Bank-financed credit.	0	Up to 99%	Up to 99%	Up to 99%	Up to 99%	Up to 99%	This percentage indicates Bancóldex's capacity to place program funds (assuming the market is interested in taking the resources).
Purpose: The productive sector of Colombia obtains funds designed to mitigate existing market deficiencies.							
Intermediate outcome							
Changes in the terms of multisector credit program loans as compared to average terms of the financial system's commercial portfolio.	Better than system	Better than system	Better than system	Better than system	Better than system	Better than system	This index shows the relationship between the terms of loans made under the program and the terms of loans in the financial system, and thus demonstrates the need for the program. The cell will show the relationship between the average term of program loans in the given year, and the average term of the commercial portfolio of the system's financial intermediaries.
	Base	Year 1	Year 2	Year 3	Year 4	Target	
Cofinancing provided by the system's financial intermediaries relative to program subloans.	7%	8%	9%	10%	11%	11%	The funds that the program releases in the form of loans to intermediaries with own long-term funds will be a second measure of the need for equivalent additional credit lines. Thus, the greater the arithmetic mean of the percentages of said cofinancing to the program-financed investment projects, the lower the need for similar programs in the future.

¹ In this operation, as in any multisector credit program, IFIs will select the most viable projects, which means the impact will be determined by market conditions. Goal and purpose indicators will therefore only represent an estimate of what can be obtained on the market.

Indicators ¹							Description
							This percentage represents intermediaries' cofinancing as compared to the total of each loan.

Final outcome							
IFIs that access lines of credit for medium- and long-term financing with IDB resources obtain program funds.	0%	25%	50%	75%	100%	100%	Level of program resources that is absorbed by demand. This percentage represents cumulative placements made vis-à-vis the total amount of financing allocated by the IDB through the program.
Quality of the program's subloan portfolio with the IFIs vs. the rating structure of the system.	Same or better than system	Same or better than system	Same or better than system	Same or better than system	Same or better than system	Same or better than system	Given that the IFIs will select the most viable companies and projects, the impact of financed projects would be determined by the market. The IFIs will select the best companies and, to the degree that they repay at an arrears rate similar to the system's, the market itself will guarantee selection of the best projects. Therefore, the relationship between the quality of the market portfolio and that of the program portfolio is key for determining its success. This indicator shows the performance of program subborrowers to continue as clients of the IFIs. The cell will show the quality of the subloan portfolio as compared to the system's.

Indicators							Description
	Base	Year 1	Year 2	Year 3	Year 4	Target	
Component 2: Bancóldex makes technical assistance resources available to program subborrowers.							
Output							
Program subborrowers have access to program-financed technical assistance resources.	0	Up to 1%	Up to 1%	Up to 1%	Up to 1%	1%	Bancóldex will make up to 2% of program resources available for technical assistance to subborrowers.
Purpose: Colombia's productive sector obtains funds in the form of technical assistance to finance the implementation of business ventures.							
Intermediate outcome							
Degree of fulfillment of targets set by aProgresar subborrowers when applying for technical assistance resources.	0	60%	60%	60%	60%	60%	When the credit is disbursed, subborrowers set at least two targets related to: (i) increases in receipts; (ii) increases in operating margin; (iii) new export markets; and (iv) new products. They should demonstrate fulfillment of these targets and present the application for technical assistance one year after the subloan has been disbursed. This indicator shows the percentage of subborrowers who meet their proposed targets as compared to total subborrowers who received financing from aProgresar.
Final outcome							
Usage level of resources available from aProgresar for technical assistance	0	60%	60%	60%	60%	60%	This figure shows the percentage of aProgresar borrowers that request technical assistance funds, which is tied to fulfillment of the targets described in the intermediate outcome. The technical assistance funds are designed to recognize the expenses that subborrowers incurred, on their own, to implement program-financed investments and that required creation of goodwill for the business.

In addition to the table of indicators, information on the following indicators will be collected ex post in order to increase the volume of information available for quantifying the impact of the operation:

GOAL: To strengthen Colombia's productive and export sectors						
Indicator	Year 1	Year 2	Year 3	Year 4	Year 5	Description
Level of program activity: <ul style="list-style-type: none"> by geographic area by sector by size of company 						This indicator shows the level of program activity, such as the percentage of disbursements by: (i) region of the country; (ii) sector; and (iii) size of the subborrower companies.
System's participation in the program						This indicator shows the participation of the system's IFIs in the program. The cells will show the relationship between assets of participating IFIs and total assets in the system.
Average spread applied by IFIs by: <ul style="list-style-type: none"> size of company term of the loan 						This is a weighted average of the spread applied by the IFIs to program subborrowers. Given the nature of program objectives, it is worth mentioning that: (i) a general lengthening of the terms of loans could lead to an increase in the spread applied by IFIs; and (ii) to the extent that program subborrowers are smaller companies, the average spread will also exhibit a growth trend. This indicator will show the average spread applied by IFIs, broken down by size of company and term of the loan.
Program subborrowers that increased their annual gross receipts						This indicator will show increases in the number of companies with higher annual gross receipts, and the percentage they represent of total aProgresar subborrowers that set a target of higher receipts.
Program subborrowers that widened their operating margin						This indicator will measure the impact of aProgresar on the productivity of subborrower companies. The cell will show the number of companies that widened their operating margin, and the percentage they represent of total aProgresar subborrowers that set a target of a wider operating margin.
Program subborrowers that started exporting to new markets						This indicator will show the number of subborrower companies that expanded their markets, and the percentage they represent of total aProgresar subborrowers that set a target of new export markets.
Program subborrowers that generated new products						This indicator will measure the impact of aProgresar on companies' competitiveness through an expansion of their product portfolio. The cell will show the number of companies that generated new products, and the percentage they represent of total aProgresar subborrowers that set a target of new products.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/08

Colombia. Conditional Credit Line (CCLIP)
Conditional Credit Line for Investment Projects,
Productive Restructuring, and
Export Development

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreement or agreements as may be necessary with the Banco de Comercio Exterior de Colombia S.A. (Bancóldex), to establish a Conditional Credit Line (CCLIP) for a conditional credit line for investment projects, productive restructuring, and export development, hereinafter referred to as the "Credit Line", of up to the sum of US\$650,000,000, chargeable to the resources of the Single Currency Facility of the Ordinary Capital of the Bank.

2. That the establishment and utilization of the Credit Line shall be carried out in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects established by Resolution DE-58/03 adopted on 16 July 2003 and amended by Resolutions DE-10/07 and DE-164/07 adopted on 31 January and 19 December 2007, respectively; and (b) the specific provisions set forth in Document GN-2246-7.

3. That the approval of individual operations, chargeable to the Credit Line, shall be subject to, with the exception of the first of such operations, the satisfactory performance of the previous program or programs financed under the Credit Line.

4. That the amounts authorized to finance individual operations chargeable to the Credit Line shall be granted as individual loans subject to the usual financial terms and conditions applicable to individual loan operations financed with the resources of the Single Currency Facility of the Bank's Ordinary Capital, in force at the time that the individual operation is approved, which shall be specified in the executive summary of the corresponding loan proposal.

5. That the signature of the loan contract between the Bancóldex and the Bank for the financing of the first individual loan operation will be subject to the signature and enter into force of the agreement or agreements between the Bancóldex and the Bank to establish the Credit Line.

(Adopted on ____ 2008)

LEG/SGO/CO-1773570-08
CO-X1007

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/08

Colombia. Individual Loan ____/OC-CO to the Banco de Comercio Exterior de Colombia S.A. (Bancóldex). Utilization of the Resources of the Conditional Line of Credit for Investment Projects established by Resolution DE-____/08
Program to Provide Financing for Investment Projects, Productive Restructuring, and Export Development

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to utilize the resources of the Conditional Line of Credit for Investment Projects approved pursuant to Resolution DE-____/08, by entering into such contract or contracts as may be necessary with the Banco de Comercio Exterior de Colombia S.A. (Bancóldex), as Borrower, and the Republic of Colombia, as Guarantor, for the purpose of granting the former financing for an individual operation for cooperating in the execution of a program to provide financing for investment projects, productive restructuring, and export development. Such financing will be in the amount of up to US\$100,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____)

LEG/SGO/CO-1773587-09
CO-L1078