



# Short Procedure

Expires: 21 February 2003

MIF/AT-524  
6 February 2003  
Original: Spanish

**To:** The Donors Committee  
**From:** The Secretary  
**Subject:** Colombia. Nonreimbursable technical-cooperation funding for a jewelry sector competitiveness program

**Basic Information:** Executing agency ..... Centro de Desarrollo de la Joyería (CDP)  
Amount ..... up to US\$375,000 or its equivalent  
Source ..... Small Enterprise Development Facility

**Inquiries to:** Mr. Fernando Campero (extension 1512)

**Remarks:** The Representatives are requested to inform the Secretary, in writing, not later than **21 February 2003**, if they wish to interrupt this procedure. If no such communication is received by that date, the resolution will be considered adopted by the Donors Committee, and a record to that effect will be made in the minutes of a forthcoming meeting.

**Other distribution:** IDB Board of Executive Directors, IIC Board of Executive Directors, IDB Managers, IIC General Manager, IDB Representative in Colombia

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**COLOMBIA**

**JEWELRY SECTOR COMPETITIVENESS PROGRAM**

**(TC-01-06-02-1-CO)**

**DONORS MEMORANDUM**

This document was prepared by the project team consisting of: Fernando Campero, Team Leader (SDS/MSM); Masami Yamamori (MIF); Carlos Novoa, (COF/CCO); Valnora Leister (LEG/OPR); María Victoria Sáenz (SDS/MSM); and Mikel Marcilla (consultant).

## CONTENTS

### EXECUTIVE SUMMARY

I.	COUNTRY AND PROJECT ELIGIBILITY .....	1
II.	BACKGROUND .....	1
	A. The jewelry industry in Colombia .....	1
III.	THE PROJECT .....	5
	A. Objectives .....	5
	B. Components .....	5
	1. Model for delivery of services to develop skills to boost competitiveness .....	6
	2. Support for coordination among businesses .....	7
	C. Project status .....	8
IV.	COST AND FINANCING .....	8
	A. Costs .....	8
	B. Project sustainability .....	9
V.	PROJECT EXECUTION .....	10
	A. Executing agency .....	10
	B. Execution mechanism .....	11
	C. Execution and disbursement periods .....	12
	D. Procurement of goods and services .....	12
	E. Accounting and auditing .....	12
VI.	MONITORING AND EVALUATION .....	13
	A. Monitoring .....	13
	B. Evaluation .....	13
VII.	JUSTIFICATION AND RISKS .....	14
	A. Beneficiaries .....	15
	B. Environment .....	15
VIII.	SPECIAL CONTRACTUAL CONDITIONS .....	15

## **ANNEXES**

Annex I      Logical framework

## **APPENDICES**

Proposed resolution

## **INFORMATION AVAILABLE IN THE SDS/MSM TECHNICAL FILES**

### **Preparation**

1. Project performance monitoring report (MPPMR)
2. CDP financial reports
3. Reports and technical studies on the jewelry sector
4. Documentation on standardization procedures in Colombia

### **Execution**

1. Operating regulations
2. Draft of the terms of reference for the contracting of an international consulting service
3. Itemized budget
4. Definition of variables and components that come into play in the definition of the impact indicators.

## ABBREVIATIONS

ACNOR	Association Canadienne de Normalisation
ACOPI	Asociación Colombiana de Pequeñas Industrias [Colombian Association of Small and Medium-size Industries]
ACOLJOYAS	Agremiación Colombiana de Joyeros y Actividades Afines [Colombian Trade Association of Jewelers and Related Businesses]
CDMB	Corporación de Defensa de la Meseta de Bucaramanga [Bucaramanga Plateau Defense Corporation]
CDP	Centro de Desarrollo Productivo de la Joyería [Jewelry Business Productive Development Center]
CESI	Committee on Environment and Social Impact
CETO	Corporación Escuela Tecnológica de Oriente [Oriente Technological School Corporation]
COLCIENCIAS	Instituto Colombiano para el Desarrollo de la Ciencia y la Tecnología [Colombian Institute for Scientific and Technological Development]
CORPOMIXTA	Corporación Mixta para el Desarrollo de la Microempresa [Mixed Microenterprise Development Corporation]
CSA	Canadian Standards Association
CTS	Colombian technical standard
ICONTEC	Instituto Colombiano de Normas Técnicas [Colombian Institute of Technical Standards]
ISO	International Organization for Standardization
MIF	Multilateral Investment Fund
MINERCOL	Empresa Nacional Minera Ltda. [National Mineral Company, Ltd]
OEI	Organización de Estados Iberoamericanos [Organization of Ibero-American States]
SENA	Servicio Nacional de Aprendizaje [National Apprenticeship Service]
SSU	Sectoral standardization unit
STS	Sectoral technical standard
UIS	Universidad Industrial de Santander

## JEWELRY SECTOR COMPETITIVENESS PROGRAM

(TC-01-06-02-1-CO)

### EXECUTIVE SUMMARY

<b>Executing agency:</b>	Centro de Desarrollo Productivo de la Joyería [Jewelry Business Productive Development Center] (CDP)	
<b>Amount and source:</b>	MIF – Window III	US\$375,000
	Local contribution	<u>US\$342,000</u>
	Total:	US\$717,000
<b>Time periods:</b>	Execution period:	48 months
	Disbursement period:	54 months
<b>Objectives:</b>	<p>This project is intended to prepare the Santander (Colombia) jewelry industry for productive integration and competitiveness.</p> <p>The project's specific objective is to enhance the technical, organizational and labor-related aspects of the jewelry sector by developing job skills that will make microenterprise more competitive.</p>	
<b>Description:</b>	<p>The project will create an integrated system of support to micro and small-scale jewelers in Santander by developing a training model tailored to the sector's needs, devising technical standards that help the sector grow and, finally, encouraging peers to meet and cooperate with one another. Because the project is regional in nature, it is considered a pilot project whose results and method can eventually be applied on a broader scale at the national level.</p>	
<b>Environmental and social review:</b>	<p>The Committee on Environment and Social Impact (CESI) analyzed the operation on 17 July 2001. Its recommendations related to a national project and hence do not apply now that the operation has been scaled back to a pilot project.</p>	
<b>Beneficiaries:</b>	<p>The project's beneficiaries are nearly 200 practitioners/microentrepreneurs in the jewelry sector. Other beneficiaries include some 15 technicians who will be trained as instructors and some 12 "master craftsmen" who, being owners/practitioners, have the capacity to pass along their technical and artistic knowledge and know-how to their peers and employees.</p>	

**Special contractual conditions:**

As conditions precedent to the first disbursement, the following must be demonstrated to the Bank's satisfaction: (i) selection of the administrative coordinator via a competitive process (paragraph 5.6); and, (ii) delivery, to the Bank's satisfaction, of the operating regulations, made official by the signature of the institutions represented on the ad hoc project management committee indicating their consent to and pledge to abide by those rules (paragraph 5.8).

Under the terms of the contract, proof that the agreements regarding the participation and contributions of the institutions serving on the ad hoc committee have been renewed must be submitted to the Bank annually. The deadline for submitting that information to the Bank is 30 June of each year. Noncompliance will mean suspension of disbursements (paragraph 5.4).

**Exceptions to Bank policy:**

None.



## I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 The Republic of Colombia was declared eligible for all modalities of financing from the Multilateral Investment Fund (MIF) on 29 October 1993. The project presented here is eligible under the Small Enterprise Development Facility (III-A) and is consistent with MIF regulations inasmuch as its purpose is to improve the productive caliber of small businesses and microenterprises in the Department of Santander's jewelry sector.

## II. BACKGROUND

### A. The jewelry industry in Colombia

- 2.1 **Background.** There have been jewelry artisans in Colombia since the latter half of the XVI century. The industry was initially centered in Bogotá, which is where the commerce in metals, precious stones and jewels began. It was not until 1920 that the government enacted legislation to control the exploitation and marketing of precious stones and metals and clearance was given to import machinery in an effort to modernize the industry. Colombia is the world's major producer of emeralds and supplies 60% of the world market. It is the world's 6<sup>th</sup> largest producer and exporter of platinum and the 16<sup>th</sup> largest producer and exporter of gold.
- 2.2 **Raw materials.** Less than 1% of domestic gold production goes toward industrial uses (integrated circuits and semiconductors; solid lubricant for electrical contacts; orthodontics and others); 20% is used in making jewelry;<sup>1</sup> of the remaining 79%, one part is put into the vaults of the Banco de la República<sup>2</sup> and the other is exported in 12.5-kg ingots of 0.995 fine gold. Some 92% of Colombia's emeralds are exported; the remaining 8% are used for intermediate consumption by the jewelry industry.
- 2.3 **The jewelry industry.** Today, the centers of domestic jewelry production are, in order of importance, Bucaramanga (Santander), Medellín (Antioquia), Bogotá, Cali (Valle) and Barranquilla (Atlántico). Domestic production averages 359,502 grams/month.<sup>3</sup> Small business and microenterprises account for 60.7% of that production (182,149 gm/month). Low-tech processes cause wastage of 4.87%; losses run 2.91%, with a recovery rate of 1.95%. This loss percentage is high by

---

<sup>1</sup> The other gold-producing countries also produce jewels, and use up to 70% of the gold they produce in crafting jewelry and giving the mineral value added.

<sup>2</sup> Banco Central de Colombia.

<sup>3</sup> These statistics are from firms registered with the country's chambers of commerce and do not include the informal sector. Source: OEI-CDP-MINERCOL, "Selección de las tecnologías de punta aplicables a la cadena gema – joya."

international standards and causes large losses due to the cost and quality of the raw materials involved.

- 2.4 There is no precise figure on the number of businesses in the sector. The differences among the various sources are appreciable because jewelry entrepreneurs tend to be informal. This is because of the material they work with, which is susceptible to theft; it is also because of the country's problems with safety and security. There is safety in anonymity, hence the lack of official statistics.
- 2.5 The Chambers of Commerce estimate that there are around 380 formally registered jewelry businesses in the country. Data from the trade associations, surveys and data from the sector's support institutions indicate that the city of Bucaramanga alone has close to 1,000 establishments. Assuming the official figures are a representative sample, the businesses are very small. Those figures show that 58% of the jewelry businesses have fewer than 5 employees; 35% have between 6 and 10 employees; 6% have between 11 and 20; only the remaining 1% has more than 20 employees. This means that the sector consists mainly of microenterprises, due in part to the fact that there are no entry barriers and in part to the caliber of craftsmanship that the businesses practice.
- 2.6 Bucaramanga, capital of Santander Department, has been a jewelry industry development pole since the early twentieth century, largely because of its geographic proximity to the principal raw materials: vein gold from both sides of Colombia's eastern cordillera, and the Chivor and Muzo emerald mines. This region is home to over half the country's jewelers. The size of the businesses surveyed by the Centro de Desarrollo Productivo de Joyería [Jewelry Business Productive Development Center] (CDP) confirms the findings of the data from the Chambers of Commerce: one business has more than 120 employees; 2 businesses have 80 employees, and over 200 have fewer than 5 employees.
- 2.7 **Characteristics of small businesses and microenterprises in Santander's jewelry sector.** Some 25% of the entrepreneurs use standardized procedures, i.e., they have the precise measurement of the required amounts of raw materials and inputs, and the exact calculation of the proper time and temperature. As a rule, these businesses plan production on the basis of orders received. This is because the raw materials are so costly and it is financially impossible for the businesses to keep inventories on hand, although a few do have a limited supply in stock. Jewelry sales are highly seasonal, peaking in December, May and September. The workshops operate at full capacity around these times of the year, and devote the remainder of the year to repairs and small orders. With 69% of their sales going outside the region, only 31% are within the department of Santander. As for the productive aspects, 58% of the entrepreneurs subcontract the machinery and technological services needed for production. In general, these businesses are quite creative and come up with approximately 5 new designs per month.

- 2.8 On average, they employ 4.8 persons per workshop. Of these, 21% are women and 79% are men. In terms of occupation, 24% are owners/practitioners, 7% have administrative positions, and 69% are practitioners. Some 30% of the employment contracts are for temporary employment, and 59% of employees do not have access to social security. There are three forms of payment for the work performed: (1) owners/practitioners receive the profits from the business; (2) administrative staff are on salary; and (3) practitioners are paid by the piece or by the gram. Some 73% of the practitioners have a secondary education, 21% have only an elementary education; 4% have attended technical school and 2% have university studies. This is one business where the “master-apprentice” relationship still exists. Indeed, 45% of jewelers have learned their craft through family tradition, 42% learned in a jewelry workshop and 13% in some course. Finally, 77% of the jewelry workshops are on the premises of the jeweler’s home.
- 2.9 **The industry’s prospects.** Long term, Colombia’s jewelry industry has the potential to grow and to become an important source of foreign exchange earnings, due to comparative advantages like the low cost of labor by comparison to the cost of the labor factor in other jewel-exporting countries, the jewelry craftsmanship tradition in certain areas of the country, the concentration of a large number of businesses in one area and, basically, the natural advantages the country offers for the production of the industry’s raw materials. Because of these factors, the current President’s government program has made the jewelry sector a national interest; the 2002-2010 Strategic Export Plan for Santander ranks the jewelry sector as one of departmental interest.
- 2.10 These characteristics would be the basis for the formation of a cluster in the city of Bucaramanga.<sup>4</sup> However, for a cluster to materialize, in the near term the industry must work to build up its technical capacity. At the present time, the sector is not generating much value added due to competitive weaknesses associated with: (i) low productivity of labor; (ii) poor product design and quality; (iii) inefficiencies in the production processes; (iv) weak integration; and (v) an absence of standards.
- 2.11 **Low labor productivity.** There are technical and managerial gaps in the specialized training of the owners and practitioners. **Poor product design and quality, and inefficiencies in the production processes.** The sector does not have technical standards that would enable it to improve the quality of the product and make more efficient use of the talent for innovative design. Furthermore, production techniques are still being employed that rely on outdated technologies, causing higher unit costs, quality deficiencies and environmental problems. This is in part due to the absence of a basic set of standards to guarantee homogeneity,

---

<sup>4</sup> Examples of clusters: Barcelona, Spain. The cluster assembles 1,600 employees of 450 businesses; two thirds of those businesses are crafts workshops. Vicenza, Italy. This cluster consists of some of the country’s most competitive businesses, as well as marketing chains, banks, artisans’ associations, an art school and certifying agency.

quality, proper handling of materials and the conformity to international standards that, in the medium term, will eventually enable them to compete on more sophisticated markets. **Poor coordination and a lack of familiarity among the businesses in the sector.** Only 14% of the jewelry microentrepreneurs belong to a trade association or are affiliated with some association. The largest of these is the *Agremiación Colombiana de Joyeros y Actividades Afines* [Colombian Trade Associations of Jewelers and Related Businesses] (ASOCOLJOYAS), which is institutionally very weak. As a consequence, the jewelers do not know one another, thus weakening any opportunity the sector might have to find innovative ways to grow, produce, access markets and integrate both horizontally and vertically. **Absence of standards.** The sector does not have a set of basic standards on technical matters, quality, design and industrial safety. The lack of standards of this type makes it difficult for the private sector to expand.

- 2.12 The public sector's Servicio Nacional de Aprendizaje [National Apprenticeship Service] (SENA) and Universidad Industrial de Santander (UIS) and the private sector's Corporación Escuela Tecnológica de Oriente [Oriente Technological School Corporation] (CETO) have provided training so as to introduce various business development services and thus help the sector develop. Nevertheless, these random efforts have not been tailored to the demand and have basically lacked cutting edge technology suited to small business units. In other words, the supply of specialized training services has become a constraint for training in the sector, from the standpoint of both the number of teaching centers and instructors and curriculum development. The training services now available on the market need to be modernized so that they adequately address technical needs and the mechanisms to develop the skills that the sector demands. Cutting edge technologies are also needed, as is quality certification so that the entrepreneur is able to choose his/her supplier.
- 2.13 In 1999, as a result of the national policy of creating mixed entities (public and private capital) that support strategic sectors of microenterprise, the Jewelry Business Productive Development Center (CDP) was created in the Department of Santander. One of its objectives is to correct the shortcomings of the business development services catering to the sector. The CDP functions as an administrator of technical and technological services assisting the productive units in order to make them more competitive, train their human resources, promote industrial reconversion and encourage the use of design, continual improvement, use of clean technologies and quality standards.
- 2.14 Through the project described below, the CDP intends to institute a systematic elimination of some of the problems mentioned here, starting out on a pilot scale. Indeed, because their production and marketing procedures are so informal, the vast majority of the small local jewelers have not been able to exploit the comparative advantages that Colombia has. The proposed project intends **to demonstrate** that by increasing their productivity and making them more efficient, local micro- and

small jewelry businesses will be better able to compete and participate on the markets. In the process of raising these businesses' productivity, important experiences will be generated that can be **emulated** and **replicated** from Bucaramanga to the rest of the country.

- 2.15 The **additionality** of the MIF's participation in the proposed project will make the following possible: (i) the participation of high-level international consultants and experts, who will provide the CDP with technical support, drawing upon their advanced knowledge of technical standards for jewelry production, which do not now exist in the country; (ii) development of a set of competition skills in the jewelry sector, with the help of a world renowned institution selected on a competitive basis (list of candidates in the technical files), whose presence will enhance the sector's image and prestige; (iii) learn from international successes and best practices with upgrading the productivity of small businesses in the jewelry market; (iv) internalizing the experiences acquired with execution of the project and disseminating the lessons learned and potential benefits to the industrial sector elsewhere in the country; and (v) build up the technological and technical assistance services that the CDP provides. Given the foregoing, the view is that without the MIF's support, the CDP would be unable to achieve these results.
- 2.16 The following lessons can be learned from executing projects of this type: (i) training programs are difficult to sustain in the short term; (ii) offering different subsidies every year is not a workable solution, as it is easier and more effective to provide a uniform subsidy for the life of the project; and (iii) programs that feature "training vouchers" do much to support competition for excellence in the context of supply and are a transparent subsidy for the end beneficiary.

### **III. THE PROJECT**

#### **A. Objectives**

- 3.1 This project's goal is to prepare the jewelry industry in Santander (Colombia) for productive integration and competitiveness.
- 3.2 The project's specific objective is to enhance the technical, organizational and labor-related aspects of the jewelry sector, by developing job skills that will make microenterprise more competitive.

#### **B. Components**

- 3.3 The project has two components: (i) a model for delivery of services to develop skills to boost competitiveness; and (ii) support for coordination among businesses.

**1. Model for delivery of services to develop skills to boost competitiveness  
(MIF US\$244,000; counterpart US\$180,200)**

- 3.4 The purpose of this component is to devise a system for teaching management and work skills. It has two subcomponents: (i) development of a specialized training model, and (ii) monitoring and evaluation.
- 3.5 **Development of a specialized training model.** This subcomponent will support development of a model curriculum that includes direct technical training of labor and instruction in technical and managerial work skills. It will be organized into modules that are to cover such areas as required job competencies,<sup>5</sup> technical aspects of handling precious stones and metals (jewelry design, micro-welding, setting/mounting, finishing, gemology, metal casting, production control, metal analysis and marketing) and aspects of business management and marketing. The model will be developed by comparing existing information on the supply of business development services available on the market with the needs and demands of the small businessmen and microenterprises in the jewelry sector. This specialized training model will be provided to jewelry microentrepreneurs that meet the eligibility criteria set out in the operating regulations (see technical files). Under this subcomponent, support will be provided for technical modernization of the CDP's laboratories and workshops, which will be used for the practical training. Institutions and independent instructors will also be able to use this equipment to conduct their programs.
- 3.6 **Specialized training.** Through this subcomponent, high-caliber, prestigious national and international consultants will train both instructors/trainers as well as close to 200 jewelry microenterprises and small jewelry businesses and their practitioners. Some 12 artisans in the sector will be trained as expert instructors, as will close to 15 professionals knowledgeable in areas of direct application such as chemistry, metallurgy, design, and so on. The costs of the courses will be funded jointly by the MIF and the local counterpart through training vouchers. The beneficiary will pay 50% of the market cost of the training service. The cash from these payments will go into a reserve fund that the CDP can draw upon so as to continue subsidizing a steadily decreasing share of the cost of the training, while exercising control over the quality of the instruction of the training institutions. The cost-sharing system and the system for evaluating the training and the instructors are described in the operating regulations (see technical files).
- 3.7 Of the 200 entrepreneurs trained, the 25 best qualified and most willing to introduce changes will be selected once the first training module has been completed. The CDP will follow these microentrepreneurs in order to enroll them in the follow-up pilot program and together establish the minimum standards and goals possible for

---

<sup>5</sup> Competency is understood as applying skills, knowledge and attitudes to the functions, according to the level of competency required in a given work environment.

at least 5 indicators of productivity and competitiveness. These indicators are defined in the operating regulations.

- 3.8 The expected outputs of this component are: (i) a demand-driven jewelry training and instruction model supported by institutions of higher technical education; (ii) around 200 artisans and microenterprise workers trained; (iii) 25 microentrepreneurs in a pilot competitiveness plan, thus complying with the impact indicators listed in the operating regulations; (iv) around 15 technical instructors and 12 highly experienced artisans trained as technical instructors and as “masters” of the craft of jewelry making; and (v) formation of a reserve fund that will serve as the means to continue the project by providing steadily decreasing training subsidies.

## **2. Support for coordination among businesses (MIF US\$37,900; counterpart US\$56,100)**

- 3.9 The objective of this component is to encourage coordination within the sector through various measures: (i) creating a set of technical standards, which involves building a consensus around those standards with representatives of the sector and disseminating them on a large scale; (ii) developing short, joint activities, and (iii) devising a strategic plan for the sector.
- 3.10 **Normative base.** The Instituto Colombiano de Normas Técnicas [Colombian Institute of Technical Standards] (ICONTEC)<sup>6</sup> authorized and recognized the CDP as the sole institution, serving all Colombia, to develop standards for the jewelry sector, in other words, as the sectoral standardization unit (SSU). Therefore, the Center will be assisted in the preparation of norms and standards for the production of jewelry and handling of precious stones and metals. This process includes identification and selection of the international standards authority to follow (the International Organization for Standardization (ISO), the Canadian Standards Association (CSA)<sup>7</sup> and others); adoption and development of technical norms and standards, and the building of a consensus as to their status as sectoral technical standards (STS), their subsequent enactment and the certification of 5 technical standards as Colombian Technical Standards (CTS). Support will also be provided to the CDP in building the consensus that Colombian law requires for these standards.
- 3.11 **Joint activities.** Given the cultural characteristics of small businessmen and microenterprises in the sector, events and meetings are an important way to bring them together. To that end, the CDP will encourage the associations of jewelry entrepreneurs to organize short workshops on such topics as fashion, design, trends

---

<sup>6</sup> Certification 008 of May 29, 2002.

<sup>7</sup> Also known by its name in French, the Association Canadienne de Normalisation (ACNOR).

in the precious stones market, experiences of the clusters, the advantages of integration, and so on.

- 3.12 **The sector's strategic plan.** With the help of specialized international consultants, a plan will be devised for the sector's growth and its penetration of national and international markets. The plan will be the sector's guide for the pursuit and implementation of goals that make it more competitive. This strategic plan is the preliminary step leading up to the competition agreements.
- 3.13 The outputs expected of the first component are: (i) adoption of at least 20 sectoral technical standards and 5 national technical standards; (ii) around 25 jewelry businesses working in coordination on joint events; (iii) around 25 jewelry businesses with a project run by a trade association in progress; and (iv) a strategic plan for the sector's growth and development.

#### **C. Project status**

- 3.14 The CDP has already signed an agreement with ICONTEC wherein it is designated as SSU (June 2002). Matching funds have been approved by the Office of the Governor of Santander, the Bucaramanga Mayor's Office and the Mixed Microenterprise Development Corporation (CORPOMIXTA). Firms that might be interested have already been identified (listed in the technical files) as have international jewelry experts who could help develop the training model and train the instructors. The CETO and the UIS have signed participation agreements with the CDP. Finally, the CDP is working on the operating regulations of the Sectoral Standardization Unit.

### **IV. COST AND FINANCING**

#### **A. Costs**

- 4.1 The budget for the project is estimated at the equivalent of US\$717,000. Of that amount, the MIF will contribute the equivalent of US\$375,000; the CDP will contribute the balance of US\$342,000, at least 50% of which will be in cash. The itemized budget is in the technical files.



Category	MIF	CDP	Total	
<b>1. Model for delivery of training services in competition skills</b>	<b>244,000</b>	<b>180,200</b>	<b>424,200</b>	<b>59%</b>
a. Consulting services and technical assistance	41,000	53,200	94,200	
b. Equipment	33,000	49,000	82,000	
c. Training	170,000	78,000	282,000	
<b>2. Support for coordination of entrepreneurs</b>	<b>37,900</b>	<b>56,100</b>	<b>94,000</b>	<b>13%</b>
a. Consulting services and technical assistance	37,900	56,100	104,000	
<b>3. Evaluations and audits</b>	<b>19,000</b>		<b>19,000</b>	<b>3%</b>
<b>4. Administration of the project</b>	<b>62,500</b>	<b>96,500</b>	<b>159,000</b>	<b>22%</b>
<b>5. Contingencies</b>	<b>11,600</b>	<b>9,200</b>	<b>20,800</b>	<b>3%</b>
<b>TOTAL (US\$)</b>	<b>375,000</b>	<b>342,000</b>	<b>717,000</b>	<b>100%</b>
<i>Percentage</i>	<b>52%</b>	<b>48%</b>	<b>100%</b>	

- 4.2 The executing agency's counterpart is from cash contributions made by the Office of the Governor of Santander, the Bucaramanga Mayor's Office and CORPOMIXTA. Contributions in kind will be forthcoming from the UIS and the CETO. These institutions, together with two private-sector entities (two of the three largest businesses in the area) will form an Ad Hoc Project Committee. With the Bank's consent, up to the equivalent of US\$25,000 of the local counterpart resources may be used to reimburse equipment outlays under the project. Equipment expenditures made since November 12, 2002, will be recognized, provided requirements substantially the same as those set out in this agreement have been met.

## **B. Project sustainability**

- 4.3 The plan described in the operating regulations for recovery of costs (paragraphs 3.5 to 3.10 and Table No. 1 of the operating regulations) sets the project up for sustainability. A reserve fund will be created with the sums that microentrepreneurs pay for the training service, which will be 50% of the total cost of the training. This fund, in combination with other resources that the CDP secures, will be the seed money for continuing the project. The subsidies will not exceed 50%.

## V. PROJECT EXECUTION

### A. Executing agency

- 5.1 The CDP of Santander will be the executing agency. The CDP is a mixed,<sup>8</sup> nonprofit civil association registered with the Bucaramanga Chamber of Commerce in 1999. It has its own capital and receives support from the Colombian government through CORPOMIXTA. Its mission is to “help strengthen and increase the jewelry sector’s productivity and competitiveness by providing technical and technological services, training, conducting innovation programs, applied research and technological development, articulating efforts of public and private entities.”
- 5.2 The CDP is affiliated with the National Science and Technology Network, the National Association of CDP, the Departmental Council of Science and Technology, the Regional Employment Creation System, the network of consultants associated with the program to continually improve the SENA, the network of Technological Development Centers of the National Mining and Energy Program of the Instituto Colombiano para el Desarrollo de la Ciencia y la Tecnología [Colombian Institute for Scientific and Technological Development] (COLCIENCIAS) and the Oriente Regional Productivity and Competitiveness Center. It has recently added its name to the register of training institutions associated with the “Jóvenes en Acción” [Youth in Action] program of the Presidency’s Plan Colombia. Its operations and its alliance with various entities have produced important projects to consolidate the jewelry sector and lay the foundation for the formation of a jewelry cluster in the Department of Santander. These projects include, among others, implementation of a technology to reduce the pollution caused by the effluents from the jewelry industry (in partnership with the UIS and COLCIENCIAS); and development of a industrial safety handbook for the jewelry business, in conjunction with the Corporación de Defensa de la Meseta de Bucaramanga [Bucaramanga Plateau Defense Corporation] (CDMB). Its revenues come from public and private entities (10%), from services provided (30%), and from the execution of projects for the sector (60%).
- 5.3 For proper administration of the project and to be able to exploit economies of scale and draw upon experiences of various entities that have been supporting the jewelry sector, the CDP will form a strategic alliance with a number of entities in the sector. That alliance will materialize in the form of the ad hoc project management committee. Represented on this committee will be the CDP, the UIS, the CETO,

---

<sup>8</sup> The entities participating in the CDP are as follows: the Bucaramanga Mayor's Office; the Office of the Governor of Santander, the Colombian Association of Medium and Small Industries (ACOPI), the Colombian Trade Association of Jewelers and Related Businesses (ASOCOLJOYAS), the UIS, the CETO, and the Microenterprise Development Corporation, a mixed economy entity that receives 50% of its contributions from the national government and 50% from private entities executing programs to support the microenterprise sector.

contributing agencies (the Governor's Office and the Mayor's Office), and two jewelry firms that will represent the interests of the private sector in the project's administration. The functions of the ad hoc project management committee and the CDP's management are those associated with strategic supervision of the project, which will involve the following activities, among others: (i) approving the project's operating regulations and any amendments to them; (ii) inviting businesses in the sector to participate in the project; (iii) selecting the participating businesses; and (iv) maintaining relations with the Bank in matters related to project management, while coordinating with the coordination unit on preparation of the biannual progress reports, organizing project evaluation processes and being responsible for presenting the project's audited financial statements to the IDB/MIF.

- 5.4 One clause of the contract will stipulate that proof must be submitted to the Bank each year demonstrating that the agreements concerning the participation and contributions of the above-mentioned entities have been renewed. The deadline for submitting this information to the Bank will be June 30 each year. Failure to comply with this requirement will mean suspension of disbursements.

#### **B. Execution mechanism**

- 5.5 The director of the CDP will be responsible for the pertinent arrangements with the public and private entities in order to ensure that the project's proposed objectives are accomplished. The director's main functions include: (i) management of the project's activities; (ii) supervision of the contract consultants; (iii) submission of administrative and technical reports to the Bank; and (iv) coordination of necessary actions with the institutional partners and with other entities working in the sector.
- 5.6 To administer the project's activities, the CDP will set up a coordination unit (CU) within its administrative structure, headed by an administrative coordinator in charge of: (i) procuring goods and contracting services; (ii) controlling the administration and handling of the budget using established procedures; (iii) monitoring and evaluating the training impact indicators in 25 businesses in the sector; (iv) processing requests for disbursements from the Bank's contributions; and (v) preparing the accounting statements of the resources used. The administrative coordinator will be assisted by an accountant. There will also be two technicians who will coordinate the technical aspects of all components. A condition precedent to the first disbursement will be demonstration, to the Bank's satisfaction, that the administrative coordinator has been selected by open competition. Each unit's functions and its operating procedure are described in the operating regulations.
- 5.7 All activities planned under the two components of the project will be carried out by contracting specialized international and local consulting services and through procurement of technical equipment. The international consulting activities are

described in the terms of reference for contracting those services, which are appended to the operating regulations.

- 5.8 A set of operating regulations has been agreed upon with the CDP, containing, among other aspects, the following: (i) the criteria for selecting the participating businesses, both the beneficiaries of the training and the training entities; (ii) the institutional commitments and responsibilities of the participating organizations; (iii) the co-financing process; (iv) the terms of reference for the principal consultants to be contracted; (v) the use of the funds from the MIF contribution and from the local contribution; (vi) the functions of the CU and of the ad hoc committee; and (vii) the process of monitoring the 25 pilot businesses and the impact indicators to be measured in those businesses. A condition precedent to the first disbursement will be delivery, to the Bank's satisfaction, of the official operating regulations, endorsed with the signature of the institutions serving on the project's ad hoc committee indicating their acceptance of the operating regulations and commitment to abide by them.

**C. Execution and disbursement periods**

- 5.9 The project execution period will be 48 months, with a 54-month disbursement period. A revolving fund will be set up with 10% of the MIF contribution, which will be disbursed into and administered in a separate account. The CDP will submit biannual financial reports on the revolving fund's situation, to the Bank's country office in Bogotá.

**D. Procurement of goods and services**

- 5.10 The goods and the consulting services necessary for execution of the project will be procured according to the Bank's procedures for the private sector; the procurements and contracts will be open to all MIF member countries.

**E. Accounting and auditing**

- 5.11 The CDP will set up and be responsible for maintaining an adequate accounting system, internal controls and a filing system that will identify the sources and uses of the project's funds. The accounting system will be organized in such a way that it provides the necessary documents, facilitates verification of transactions, and makes it possible to prepare financial statements and reports on time. Project-related entries will be logged in such a way that: (i) the sums received from various sources can be identified; (ii) they report the project's expenditures according to a table of accounts previously cleared by the Bank, with the MIF contributions distinguished from the funds received from other sources; and (iii) details necessary to identify the goods procured, the services retained, and the use of those goods and services are included. The CDP will also open separate and specific accounts for administration of the MIF contribution and for the local

counterpart funds. Finally, the CDP will process the disbursement requests and their respective justifications of expenditures, in keeping with the Bank's norms on disbursement.

- 5.12 **Financial audit.** Within the 90 days following the last disbursement, the CDP will submit to the Bank the final financial statement for the Bank's contribution and the counterpart funds. A firm of independent auditors acceptable to the Bank will audit this financial statement. The cost of this audit will be financed with funds from the MIF contribution, in keeping with Bank procedure.

## **VI. MONITORING AND EVALUATION**

### **A. Monitoring**

- 6.1 Within 60 days following the close of each six-month period, the CDP will prepare the project's progress reports and submit them to the Bank. It will submit a final report within 60 days following the last disbursement. These reports will follow a format previously agreed upon with the Bank and will cover the project's activities and finances and the measurements of the indicators of execution identified in the logical framework that appears in Annex I. The Bank will use these reports to follow the progress of project implementation and to prepare a project completion report within the 3 months following the last disbursement.

### **B. Evaluation**

- 6.2 The Bank will contract individual consultants to conduct two evaluations of the project. A midterm evaluation will be done when 50% of the resources have been disbursed or when 24 months have passed since the first disbursement, whichever comes first. Based on the midterm evaluation, the Bank, together with the project team if necessary, will do annual performance evaluations to determine whether the project should continue, be suspended or be cancelled. A final evaluation will be done in the 3 months prior to the final scheduled disbursement.
- 6.3 During the project's execution, the CDP will compile indicators of project supervision and evaluation. These indicators are explained in the logical framework that appears in Annex I. The Bank and the CDP will use them to calibrate the general impact and assess the project's results.
- 6.4 The midterm evaluation will consider at least the following: (i) the number of STS and CTS achieved; (ii) the number of microenterprises involved in the project; (iii) formation of the reserve fund; (iv) administrative, financial and institutional management of the project; and (vi) the quantitative and qualitative evolution of the impact indicators defined in Appendix C of the operating regulations. This report is to spell out the corrective measures needed to guarantee efficient project execution, and suggest suspension of disbursements in the event structural flaws in the

project's execution are detected. The disbursements may be resumed once the executing agency shows that measures necessary to correct those flaws have been taken. Should structural flaws be detected in the execution of any component, the disbursements will be cancelled once and for all.

- 6.5 The second evaluation will be done three months prior to the last planned disbursement, and will examine the following: (i) the accomplishment of the objectives of all the components; (ii) the surveys, the microentrepreneurs' satisfaction with the training, and the number of employees trained; (iii) evolution of the impact indicators that the entrepreneur and the CDP agree upon; and (iv) the possibilities of creating a jewelry cluster in the Department of Santander.

## VII. JUSTIFICATION AND RISKS

- 7.1 **Justification.** Colombia is one of the world's largest producers of gold, platinum, and precious and semiprecious stones, material that it exports unprocessed. The product's value added is a national policy priority, not just for purposes of the local market, which currently supplies itself by means of imports, but also for purposes of the potential international market. This project will lay the foundation for the formation of a jewelry cluster.
- 7.2 The project can be duplicated elsewhere in the country wherever microentrepreneurs dedicated to the same trade or craft are clustered. This is because it addresses the individual elements necessary for the private sector's development, such as: (i) adoption and development of sectoral standards that facilitate integration, productivity, competitiveness and access to sophisticated markets, among others; (ii) while it does not aim to grow the supply of business development services, the project will help to increase, improve and modernize the existing services by involving them in the project and bringing them into contact with international technical and specialized entities; and (iii) the project involves activities that, in the medium term, will create the need for more training, thereby generating a demand for business development services.
- 7.3 **Risks.** The following are the risks in this project: (i) that players on the emerald market, which tends to be a monopoly with rigid structures, will not participate in the project, thereby making it impossible to lay the foundation of a true cluster; (ii) that because of the recession in the Colombian economy, entrepreneurs will decide not to invest in training; (iii) that the entrepreneurs who deliberately disregard the quality standards in order to keep costs down, will not comply with basic standards but will avail themselves of the training subsidy; and (iv) that because of the anonymity typical of entrepreneurs in the sector, they will not want to participate in the project and the efforts to form the jewelry cluster will fail.

- 7.4 To mitigate the first risk, the project's design includes a number of events to sensitize the various actors to the economic benefits to be gained by association. To mitigate the second risk, the project plans a significant subsidy that would induce the entrepreneur to participate in the project; furthermore, when the sector eventually begins to target the international market, it will have to comply with international standards and its labor force will need the minimum skills. The third risk is partially mitigated by the system devised for the delivery of the training vouchers and by the requirement that the entrepreneur and his/her business undergo an outside evaluation in order to qualify for subsequent training modules. Finally, under the component for coordination among businesses entrepreneurs will be instructed in and made aware of the benefits of training (access to loans, social security, etc.) and hence the benefits of participating in the project.

**A. Beneficiaries**

- 7.5 The project's direct beneficiaries are close to 200 practitioners/microentrepreneurs in the jewelry sector. Other beneficiaries will be around 15 technicians who will be trained as instructors, and about 12 "master craftsmen" who, being owners/practitioners, have the means to pass along their technical and artistic knowledge and know-how to their peers and employees.

**B. Environment**

- 7.6 The Committee on Environment and Social Impact (CESI) analyzed the operation on 17 July 2001. Its recommendations concerned a project at the national level and hence do not apply now that the operation has been scaled back to a pilot project.

## **VIII. SPECIAL CONTRACTUAL CONDITIONS**

- 8.1 As conditions precedent to the first disbursement, the following must be shown to the Bank's satisfaction: (i) selection of the administrative coordinator via a competitive process; and, (ii) delivery, to the Bank's satisfaction, of the operating regulations, made official with the signature of endorsement of the participating institutions. Under the terms of the contract, every year proof must be submitted to the Bank that the agreements on the participation and contributions of the institutions serving on the ad hoc committee have been renewed. The deadline for submitting that information to the Bank is June 30 of each year. Noncompliance will mean suspension of disbursements.

## LOGICAL FRAMEWORK

### *Jewelry Sector Competitiveness Program* *MIF-TC-01-06-02-1-CO*

NARRATIVE SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><b>Goal:</b> Prepare the jewelry industry for productive integration and competitiveness.</p>	<ul style="list-style-type: none"> <li>Within three years, at least 50% of the jewelry microentrepreneurs are organized into trade associations or conducting joint activities.</li> <li>25 microentrepreneurs show a net increase in the volume exported to other regions of the country and even to foreign markets.</li> <li>25 microentrepreneurs constitute a critical mass that can replicate a system for improving competitiveness.</li> </ul>	<ul style="list-style-type: none"> <li>Figures from the Colombian Trade Association of Jewelers and Related Businesses (ASOCOLJOYAS)</li> <li>Statistics from the jewelry businesses and from the CDP. Specifically, the increase in productivity (total production/productive resources used) and the increase in competitiveness (absolute and relative increase in local sales and sales to other regions) will be analyzed.</li> <li>Standards and documents of the Colombian Institute of Technical Standards.</li> </ul>	
<p><b>Purpose:</b> The specific objective is to enhance the technical, organizational and labor-related aspects of the jewelry sector by developing job skills that make microenterprise more competitive.</p>	<ul style="list-style-type: none"> <li>Within three years, some 200 small businesses and microenterprises in the jewelry sector have trained at least 80% of their staff.</li> <li>Of the 200 businesses participating, 25 are in a pilot competitiveness plan, with higher indices of overall productivity, a decrease in production wastage, and increased labor productivity (see attached table).</li> </ul>	<ul style="list-style-type: none"> <li>Evaluation reports.</li> <li>Final project report.</li> <li>ICONTEC reports.</li> </ul>	<ul style="list-style-type: none"> <li>The other actors in the sector, such as miners, marketers, members of the market in precious stones, universities and the like are interested in associating with one another and forming the nucleus of a cluster.</li> <li>Because of the market opportunities for the jewelry industry, the entrepreneurs are willing to invest in developing their employees' job skills and their own.</li> </ul>



NARRATIVE SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> <li>Within three years, the businesses in the sector have basic standards for the most important technical and labor-related matters; at least 20 STS have been issued and at least 5 CTS have been certified.</li> </ul>		
<p><b>Components:</b></p> <p><b>1. Model for delivery of services to develop skills to boost competitiveness</b></p>	<ul style="list-style-type: none"> <li>The supply of business development and technological services geared to the jewelry sector is qualified and modernized.</li> <li>A demand-driven training curriculum model has been developed that is easy for the informal training entities and institutions of higher and technical education to apply.</li> <li>15 technicians, either independent or affiliated with training institutions, have been trained as instructors.</li> <li>12 microentrepreneurs with outstanding talents have been trained as instructors of their peers and employees.</li> <li>200 employees and owners/ practitioners of micro- and small-scale jewelry businesses have been trained.</li> <li>A system for tracking 8 productivity indicators (see attached table) in 25 microenterprises has been introduced.</li> <li>Minimum goals are in place for each business in terms of reducing wastage (by at least 10%) and realizing a 10% increase in production and sales.</li> <li>A reserve fund is in place, fed by the microentrepreneurs' contributions.</li> </ul>	<ul style="list-style-type: none"> <li>Project execution reports.</li> <li>Consulting contract.</li> <li>Records of the meetings held to sensitize microentrepreneurs to the advantages of association.</li> <li>Mission and travel reports, accounting records, quotations and the project's accounting.</li> <li>Midterm evaluation.</li> <li>Evaluations.</li> <li>Project reports.</li> <li>Consulting contracts.</li> <li>CDP financial and treasury records.</li> <li>Statistics on the number of training institutions participating.</li> <li>Certificate attesting to the beneficiaries' qualification (in quality, quantity, design, industrial safety and environment), comparing the initial data on the beneficiaries with the results obtained after the first and second training cycle.</li> </ul>	<ul style="list-style-type: none"> <li>The micro and small entrepreneurs in the jewelry sector believe that the sector's positioning and, by extension, their own competitiveness and productivity are achieved through technical standards, quality, design, proper handling of materials and industrial safety.</li> </ul>

NARRATIVE SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><b>2. Support for coordination among businesses</b></p>	<ul style="list-style-type: none"> <li>• A technical plan of action is in place for developing technical standards for the sector, building a consensus around those standards and applying them.</li> <li>• 20 sectoral technical standards (STS) and 5 Colombian technical standards (CTS) have been adopted.</li> <li>• 200 businesses in the sector have pledged to apply technical standards and norms in their production, and 25 are already applying them.</li> <li>• A strategic plan for the microenterprise sector in Santander has been devised.</li> <li>• Among the entrepreneurs themselves, 3 strategic plans have been jointly developed for joint events like the Colombian jewel fair, the prize for creativity in design and for implementation of a virtual technical information system.</li> </ul>	<ul style="list-style-type: none"> <li>• Advisory services contracts.</li> <li>• Strategic plans.</li> <li>• Minutes of the meetings.</li> <li>• Midterm evaluation.</li> <li>• Project reports.</li> </ul>	
<p><b>Activities:</b></p> <p>1.1 Confirm the entrepreneurs' individual technical needs.</p> <p>1.2 Evaluate and review the courses, contents and methods of the various programs that offer services to the jewelry sector.</p> <p>1.3 Development of the curriculum for the training model.</p> <p>1.4 Announcements in the mass media encouraging microentrepreneurs to get involved in the project.</p>	<ul style="list-style-type: none"> <li>• Diagnostic study done of supply.</li> <li>• Training model developed.</li> <li>• Holding of training workshops.</li> <li>• Announcement made.</li> <li>• 200 microentrepreneurs participating in the project.</li> <li>• 15 technical instructors and 12 artisans trained as instructors.</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting records and financial statements.</li> <li>• Technical assistance and consulting contracts.</li> <li>• Invoices and payment vouchers.</li> <li>• Publication of teaching materials.</li> </ul>	<ul style="list-style-type: none"> <li>• There are at least 200 micro-entrepreneurs in Santander who meet the eligibility requirements.</li> <li>• The international standards can be easily adapted for application in the small business and microenterprise sector.</li> <li>• There are international consultants specializing in standards and in jewelry specifically who can carry out this work.</li> </ul>

NARRATIVE SUMMARY OF OBJECTIVES		VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
1.5	Printing of the training vouchers and their delivery to the beneficiaries.			<ul style="list-style-type: none"> <li>Santander's microentrepreneurs view training as a means to equip themselves with what they do not now have.</li> <li>The microentrepreneurs are willing to pay for the service they will receive.</li> </ul>
1.6	Training in progress.			
2.1	Identification and selection of the international standards to apply.	<ul style="list-style-type: none"> <li>Standards translated.</li> </ul>		
2.2	Compilation and translation of relevant standards.	<ul style="list-style-type: none"> <li>20 STS developed.</li> <li>20 STS published.</li> <li>5 CTS certified.</li> </ul>		
2.3	Adoption and development of standards as sectoral technical standards.	<ul style="list-style-type: none"> <li>3 regional seminars and 1 national seminar conducted</li> </ul>		
2.4	Publication of the standards	<ul style="list-style-type: none"> <li>At least 50 businesses in the sector working together on events for the sector.</li> </ul>		
2.5	Sensitizing seminars	<ul style="list-style-type: none"> <li>At least 50 businesses in the sector with a trade association project in progress.</li> </ul>		
2.6	Holding of 5 seminars led by international experts in fashion, design, quality, the environment and industrial safety, and international markets.	<ul style="list-style-type: none"> <li>At least 100 microentrepreneurs brought up to date on design, quality, environment, employee safety and international markets.</li> </ul>		
2.7	Design of the strategic plan	<ul style="list-style-type: none"> <li>Strategic plans ready to be jointly implemented.</li> </ul>		
2.8	Dissemination of the experience.			

## IMPACT INDICATORS

### A. Definition of Indicators:

The formulas to which each indicator makes reference are related to the variables (V) and components (C) of the cost of production. The definition of the indicators and the makeup of the matrix of costs appear in Appendix B of the operating regulations.

CODE	INDICATORS	DATES		
		DATE 1	DATE 2	DATE N
I-01	Content of the value added in the gross production (%)			
I-02	Operating earnings in the value added (%)			
I-03	Operating profit margin (%)			
I-04	Labor cost per employee (\$/employee-month)			
I-05	Labor productivity (\$)			
I-06	Gross processing wastage for gold (%)			
	Gross processing wastage for silver (%)			
I-07	Net processing wastage for gold (%)			
	Net processing wastage for silver (%)			
I-08	Productivity per operator (\$/operator-month)			

PROPOSED RESOLUTION

COLOMBIA. NONREIMBURSABLE TECHNICAL COOPERATION FOR  
THE JEWELRY SECTOR COMPETITIVENESS PROGRAM

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Centro de Desarrollo Productivo de Joyería de Santander (C.D.P. de Joyería), of the Republic of Colombia, and to take such additional measures as may be pertinent for the execution of the Donors Memorandum contained in Document MIF/AT-\_\_\_\_\_ with respect to a technical cooperation for the Jewelry Sector Competitiveness Program.

2. That up to the amount of US\$375,000, or its equivalent in other convertible currencies, is authorized for the purposes of this resolution, chargeable to the resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.