

PROMOTING FOREIGN INVESTMENT IN COLOMBIAN ENTERPRISES

(TC-00-06-00-3)

EXECUTIVE SUMMARY

Executing agency:	Corporación Invertir en Colombia [Invest in Colombia Corporation] (Coinvertir)	
Beneficiaries:	The direct beneficiaries of the program are small and medium-sized Colombian enterprises (across the country) that may be attractive for foreign investment but cannot readily access traditional means of identifying investors and organizing and promoting projects (such as investment banks) in order to find foreign partners.	
Objectives and specific components:	<p>The general objective of the program is to increase the level of foreign direct investment (FDI) in Colombia particularly investment leading to a transfer of technology and market expansion. The specific purpose of the program is to put in place a mechanism to attract foreign investment that is sustainable over time.</p> <p>The project is organized into four components as follows: (i) design of the investment project methodology, which will aim to develop a methodology in keeping with international best practices in investment project preparation; (ii) training and investment project organization, which will promote the creation of a critical mass of FDI projects; (iii) dissemination of investment projects, to facilitate the establishment of direct relationships between Colombian enterprises and foreign investors, and to help transfer the executing agency's activity to other Latin American countries; and (iv) strengthening of the executing agency to increase the efficiency and effectiveness of Coinvertir as an agency that promotes FDI.</p>	
Financing:	Local counterpart:	US\$ 600,000 (40%)
	MIF (Window I):	US\$ 900,000 (60%)
	Total:	US\$1,500,000 (100%)
Terms:	Execution period:	36 months
	Disbursement period:	42 months
Exceptions:	None.	

Special conditions:

As conditions precedent to the first disbursement, Coinvertir shall demonstrate to the Bank's satisfaction that: (i) the program director has been appointed, and (ii) a coordinator has been selected.

The program will be executed in two stages. The funding for the first stage will be disbursed once the conditions precedent to the first disbursement specified in the preceding paragraph have been fulfilled. Two activities will be carried out in stage one: (i) preparation of an investment project methodology (that also includes a user manual, a curriculum with the corresponding multiplier/consultant training materials and selection criteria) and (ii) preparation of regulations governing cofinancing for project organization. As a condition precedent to disbursement for stage two, the executing agency must submit, for the Bank's nonobjection, the reports setting out the aforesaid methodology and cofinancing regulations.

Socio-environmental impact:

The CESI approved the program on 9 March 2001, with the recommendation that it be specified that participating companies will be required to comply with national environmental protection standards as a condition for cofinancing of its investment projects and that the environmental management plans and the potentially adverse environmental effects be included as part of the project formulation methodology.

I. COUNTRY AND PROGRAM ELIGIBILITY

- 1.1 On 29 October 1993 the Donors Committee declared Colombia eligible for all forms of MIF financing. On 18 July 2000 the Office of the MIF declared this program eligible for MIF financing under the Technical Cooperation Facility (Window I) because it will create conditions that facilitate the work of the agency entrusted by the Government of Colombia to promote foreign investment in the industrial sector, particularly investment that generates exports, creates jobs, and promotes technology transfer. The program will benefit small and medium-sized enterprises wishing to have access to mechanisms for organizing projects and attracting strategic foreign partners.

II. BACKGROUND

- 2.1 Support for foreign investment, particularly investment that generates exports, creates jobs, and promotes technology transfer, is a pivotal part of the Colombian government's development strategy. The country's productive structure, which has the most diversified industrial sector and the most highly qualified human resources in the Andean region, holds great potential for multinational enterprises interested in manufacturing and exporting, not only to the Andean market but to other markets in the Americas and Europe, taking full advantage of the position that Colombia has attained in those markets.
- 2.2 In 1999, the Colombian economy experienced its first recession, after more than six decades of sustained growth, contracting by 4.5%. The deep recession caused a crisis for many businesses, and several tottered on the brink of bankruptcy. The drop in domestic demand was exacerbated by a sharp credit crunch, which affected solvent and insolvent debtors alike. Nearly all enterprises found it impossible to make investments or even to finance working capital. Private investment collapsed, falling by nearly two thirds in 1999; its recovery in 2000 can be qualified only as moderate. To counteract this situation, the government enacted Law 550 of 1999 concerning economic intervention for business recovery.
- 2.3 Although beneficial for entrepreneurs, the legislation has not been enough to alleviate all the effects of the recent recession in Colombia's private sector. The increasing globalization of the world economy has placed new demands on Colombian business, mainly requiring them to seek new ways of penetrating world markets. Among other actions, Colombian entrepreneurs are compelled to find foreign strategic partners in order to obtain capital through direct investment. In many cases, these partnerships provide them with technology and access to new markets for their products.
- 2.4 However, as a result of the country's deep economic recession, a lowered risk rating, and erosion of its image abroad, Colombia's appeal as a place for direct investment has been drastically reduced in the estimation of investors. In 1999,

foreign direct investment (FDI) in the manufacturing sector fell by nearly 40% with respect to the previous year, totaling scarcely US\$500 million (or the equivalent of 0.6% of GDP). That level is some 25% less than the average for 1995 through 1998. Figures for the first half of 2000 show that recent economic recovery has not resulted in a broad increase in direct investment. To the contrary: while FDI (excluding the hydrocarbon sector) grew by 11% over the same period in 1999, the increase was concentrated in a few large-scale investments, particularly in telecommunications. In nearly all other sectors, investment levels fell. One particularly dramatic example is the manufacturing industry, which in the first half of 2000 received only 15% of the amount of FDI that it received in the first half of 1999, a year in which there was already a substantial decrease with respect to previous years. In summary, FDI has decreased at a time when it is particularly necessary for the country.

- 2.5 In October 2000 an international investment law was enacted to make new investment in Colombia easier. The present legal framework is modern and simple: foreign investors receive the same treatment as Colombian investors, and there are no restrictions on repatriation of capital. However, given the high cost of organizing projects and the difficulty of gaining access to foreign markets, which is aggravated by the economic situation and the unfavorable image created by a steady stream of news reports on drug trafficking and the armed conflict, few Colombian businesses are successful in establishing alliances with foreign partners. Most recent examples of FDI involve enterprises that are part of major Colombian economic groups and that have, therefore, sufficient assets to organize and promote their projects abroad directly.
- 2.6 Clearly, it seems the country's economic problems and its unfavorable image abroad has compelled Colombia to adopt a more proactive strategy to attract investors to small and medium-sized countries. The present operation seeks to carry out a strategy that addresses the unique characteristics described in this chapter. The program includes, as will be seen later, direct promotion activities that will help overcome the reluctance of potential foreign investors, create more attractive opportunities for business in the country, polish the country's tarnished image, and emphasize the competitive advantages of Colombian companies.
- 2.7 It should be noted that Coinvertir, the program executing agency, possesses some unique qualities as an institution that make it particularly suited to this operation. In fact, since it was established in 1992, Coinvertir has been responsible for facilitating foreign investment in Colombia. Its traditional activities include disseminating objective, updated information on the Colombian economy, identifying investment opportunities for foreign economic agents, seeking out potential foreign partners, and promoting investment opportunities in Colombia abroad (match-making), providing legal and economic advisory assistance to existing and potential foreign investors, and coordinating investment promotion activities developed by other public and private agencies.

- 2.8 Given its characteristics, the present program supplements the MIF's activity in the country by directing and implementing its promotion and dissemination activities to companies benefiting from other programs now under way in Colombia such as business development centers (ATN/ME-4911-CO); SME quality improvement (ATN/MH-6752-CO); special training for the paper industry (ATN/MH-6002-CO); and SME management training (ATN/MH-5418-RG (CO)). Assuming that the companies benefiting from the operations are able to satisfy the minimum conditions for taking part in the program (willingness to receive foreign investment and viable financial conditions that are attractive to foreign investors), the program activities can be expected to reach a potential market of nearly 3,500 SMEs. Moreover, this operation takes into account the guidelines and experiences the MIF has had with similar operations in other countries in the region.

III. PROGRAM OBJECTIVES, COMPONENTS, AND ACTIVITIES

A. Objectives

- 3.1 The general objective of the program is to increase the level of foreign direct investment in Colombia particularly investment leading to a transfer of technology and market expansion. The specific purpose of the program will be to put in place a mechanism that attracts foreign investment to the country.

B. Program components and activities

1. Component 1: Design of investment project methodology (US\$157,890 or 11% of the program)

- 3.2 The purpose of this component is to develop a standard methodology in keeping with international best practices in investment project preparation. Such a methodology should include the activities involved in the design of a business plan and its basic constituents (business products and services, the market, customers and competitors, business organization and operations, procedures for identifying project risks, amongst others) and the necessary activities and documentation for its implementation.
- 3.3 The standard methodology for preparing investment projects will be designed taking into consideration experiences successfully tested in other countries (with a focus on other countries in the region). The methodology must be sufficiently flexible to be adaptable to the specific characteristics of Colombian sectors and companies. In addition, where applicable, the methodology should provide for the inclusion of management plans that ensure the environmental viability of the projects, including identifying potentially adverse environmental effects and steps to mitigate them. The methodology will be tested in a feedback workshop in which a significant sample group of associations and companies will participate. This

event will help to demonstrate whether the methodology can be applied, and its successful completion will be indicative of the success of this activity. The definitive standard methodology will include a user manual and a curriculum with the corresponding training materials. These two products will provide guidance for consultants/multipliers in their support for small and medium-sized Colombian companies in designing investment projects. A corporate/financial consulting firm will need to be hired to implement this component.

2. Component 2: Training and project organization (US\$339,770 or 23% of the program)

- 3.4 The purpose of this component is to promote a critical mass of projects for FDI through the use of the methodology prepared under the previous component by entrepreneurs assisted by multipliers/consultants previously trained under the program and selected for that purpose by the executing agency. This objective will be achieved by means of: (i) training multipliers/consultants and disseminating the methodology among Colombian entrepreneurs, and (ii) support for enterprises benefiting from the program in organizing their investment projects.
- 3.5 **Training.** This subcomponent consists of three activities. First, the financial/corporate consulting firm will provide instruction in the definitive methodology (developed in component 1) to 120 multipliers/consultants who will be in charge of disseminating the methodology to entrepreneurs across the country and to assist them in preparing investment projects using the program's methodology. These multipliers/consultants will be selected by the executing agency using the selection criteria prepared by the corporate/financial consulting firm (see paragraph 3.3). The multiplier/consultant training will be provided through four workshops of two kinds depending on the target beneficiaries. The first type of event will be aimed at individuals from the associations and chambers of commerce who will be responsible for disseminating the basic guidelines of the methodology amongst entrepreneurs. The other type of workshop will be organized to meet the needs of entities or professional staff with expertise in investment project preparation who are interested in taking part in the program by offering their services.
- 3.6 Another activity to be included in this subcomponent is the dissemination of the program through four conferences to launch the program in the country's main regions. These conferences will be headed by the management of the executing agency, associations, and other stakeholders concerned. Subsequently, using the first group of professionals trained in the workshops described in paragraph 3.5, the executing agency will coordinate 60 workshops for entrepreneurs in different parts of the country with a view to disseminating the guidelines of the methodology and to present a list of professionals trained in investment project development.

- 3.7 Lastly, the subcomponent will assist with the establishment of a university course on the importance of FDI to the Colombian economy (and investment project preparation) in various academic institutions of recognized standing in order to ensure that expertise in this area is constantly renewed. The executing agency will enter into agreements with different academic institutions to establish the course content and its placement within undergraduate or postgraduate curriculum. This course could be included in majors relating to social sciences (business, economics, law, finance, and international relations). The program's contribution would be to hire a consultant with recognized academic experience to design the course and help launch it through presentations at participating universities.
- 3.8 **Support for the investment project organization.** This entails cofinancing the costs of investment project preparation. Such financial assistance would be governed by regulations drawn up for this purpose setting out the criteria for eligible sectors, characteristics of the companies, cofinancing plan, and procedures for administering the resources during the project cycle (identification, use, selection, implementation, and monitoring).
- 3.9 In order to qualify for this assistance, companies must fit into one of the categories specified in the Colombian small and medium-sized enterprise development promotion act. In all cases, the program assistance will be allowed only for businesses certifying that they are current with their obligations in accordance with national environmental protection legislation. As to the cofinancing plan, the assistance will gradually decrease in percentage terms depending on the size of the beneficiary company as follows: up to a maximum of 50% of the cofinancing for small companies, and a maximum of 33% for medium-sized companies. These percentages will apply to the first US\$4,000 of the cost of project preparation (as a benchmark, investment banks charge between US\$7,000 and US\$8,000 for preparing a business plan and asset appraisal).
- 3.10 To optimize the allocation of scant resources, semiannual competitions will be organized to disseminate the selection of proposals as widely as possible and to make the process more transparent. The selection criteria will include the percentage of cofinancing that the beneficiary companies are prepared to contribute and the degree of innovation in their proposals. These factors together with others to be determined will form a point system for use by an ad hoc committee (consisting of the program director, a representative of the executing agency, and a representative of ANDI) in the final selection of proposals.
- 3.11 For this subcomponent, a consultant will be hired to prepare the regulations described above, and the executing agency will be in charge of administering the cofinancing resources.

3. Component 3: Dissemination of investment projects (US\$533,858 or 36% of the program)

- 3.12 This component is intended to make it easier for different stakeholders in the Colombian economy to establish business relations with foreign investors, thus contributing to projecting the activities of the executing agency in other parts of the region. This objective will be achieved through the following subcomponents: (i) project direct dissemination plan; (ii) creation of an on-line investor/project database; (iii) establishment of a regional FDI promoter agency network; and (iv) increase in the number of foreign users availing themselves of executing agency services.
- 3.13 **Project direct dissemination plan.** This subcomponent will pursue a strategy of direct promotion and of attracting potential investors in other countries previously identified as suitable for the promotion. This will involve, first, conducting a study to select those countries that are the most promising candidates as recipients of the investment project promotion. Once this has been determined, the executing agency will send consultants (hired especially for this purpose) on official visits to the headquarters of potential investors, within the region and outside of it, who will have been contacted in advance and have expressed interest in at least once specific project. This process of actively attracting potential foreign partners is expected to go hand in hand with the regular task of promotion carried out by the executing agency. As part of this subcomponent, consultants will need to be hired for activities concerned with identifying countries and directly promoting investment projects. For its promotion activities, the executing agency may agree with the consultants on a performance bonus for successfully promotion efforts in addition to the remuneration covered in the budget. All expenses incurred in paying this bonus will be borne by the executing agency.
- 3.14 **Creation of an on-line investor/project database.** This subcomponent will assist with the design of a database that includes as a list of potential investors and presentation of projects prepared through an online catalogue. The design of the database will call for the preparation of input and maintenance manuals for the database and catalogue. Personnel from the executing agency will help carry out these activities.
- 3.15 **Establishment of a regional FDI promoter agency network.** This subcomponent will make it possible for the executing agency to create a forum for exchanging institutional experiences with other agencies in the region having similar functions, so as to establish an institutional apprenticeship as the output of comparing cases and methodologies. The activities of this subcomponent will include the preparation of an institutional logistics plan of the network through preparatory subregional meetings and organization of a workshop for its establishment. Taking part in these activities will be the staff of the executing agency, outside expositors, and international assistants.

- 3.16 **Attracting foreign users.** This subcomponent will seek to carry out activities for attracting entrepreneurs and other foreign users interested in investment project dissemination and promotion activities of the executing agency. To accomplish this aim, a database of companies in other parts of the region will be prepared and maintained, and at least six events to attract potential foreign users will be organized. These activities will call for the participation of staff of the executing agency and multipliers.

4. Component 4: Strengthening of the executing agency (US\$107,060 or 7% of the program)

- 3.17 The purpose of this component is to increase the efficiency and effectiveness of the services delivered by the executing agency. This objective will be achieved by means of the following subcomponents: (i) training for Coinvertir staff, (ii) continued improvements in the quality of service, and (iii) modernization of technology infrastructure.
- 3.18 **Training for Coinvertir staff.** This will be achieved through various courses and seminars will be held on such topics as promoting FDI, software applications, negotiation and management, and project organization.
- 3.19 **Continued improvement in the quality of service** will ensure that services provided by the executing agency satisfy international service quality standards (ISO 9000-2000) and compliance is duly certified periodically. A firm specializing in systems and service improvement will need to be hired to accomplish this aim.
- 3.20 **Modernization of technology infrastructure.** Financing will be provided for an evaluation of computer infrastructure needs, the modernization of the executing agency's telephone system, and procurement of computer hardware, software, specialized software, subscriptions, and commercial database services. In addition, support will be provided for the upgrading and supply of the work sites that will be needed to accommodate the long-term consultants concerned with the program. Of the investment categories comprising this subcomponent, those having to do with the evaluation of infrastructure needs, modernization of the telephone system, and upgrading of work sites will be fully covered by the local counterpart funding. The remaining categories will be funded from the MIF contribution and the local counterpart.

IV. EXECUTION

A. Executing agency

- 4.1 Coinvertir is a semipublic, not-for-profit organization founded in 1992 with the participation of the State and 93 Colombian and multinational private enterprises. It enjoys a high degree of operational independence. The board of directors is

composed of 14 members, seven from the public sector and seven from the private sector. Its objective is to promote and facilitate the development and consolidation of foreign investment initiatives in Colombia. To that end, Coinvertir provides legal assistance, economic information and, in some instances, direct support to potential investors for project promotion.

- 4.2 Given its structure and the public and private support it receives, Coinvertir has the credibility, experience, and drawing power necessary to serve as the strongest interlocutor for the international entrepreneurial community interested in setting up investment projects in Colombia, and for the local entrepreneur interested in finding partners abroad. The public/private nature of the corporation has allowed it to maintain an independent and objective stance in providing information about the actual situation in Colombia. It is also known for its highly qualified professionals. Coinvertir is financed by government budget allocations through the National Planning Office (approximately 60%), contributions from members, and other income such as fees for successful outcomes. The government recently increased its budget allocations for Coinvertir, which took place in a context of acute fiscal austerity, underscoring the high priority that the government is placing on the activities to promote FDI that the agency undertakes.
- 4.3 From the time of its founding, Coinvertir has focused its activities on three main fronts: improvements in the investment climate, investment promotion, and information and publications. Improvements in the investment climate have been oriented primarily toward eliminating legislative barriers to FDI, an effort that has been particularly successful as recent changes in the legal framework have shown (see paragraph 2.5). Promotional activities have included support for specific sectors and projects. During its first years (1993-1997), Coinvertir engaged in sector promotion efforts in such areas as software, clothing industry, and plastics. Starting in 1997, its efforts focused on specific large-scale strategic projects for the country. In terms of information activities, Coinvertir has managed to gain a reputation as a source for straightforward and timely information for investors. This has been achieved through publications and, particularly, through its website (<http://www.coinvertir.org.co>), which receives on average 40,000 visits each month. In June 2000, the periodical *Corporate Location*, a subsidiary of Euromoney Plc, chose the Coinvertir website as the seventh best in the world among the 100 top sites dedicated to promoting FDI.
- 4.4 To organize the execution of the program, Coinvertir will designate a director who will be in charge of making the necessary decisions for implementing the various components and activities planned. His appointment will be a condition precedent to the first disbursement. The director will have the following duties: (i) ensure that the program goals and targets established in the logical framework are attained, (ii) approve the annual work plans, (iii) approve the rules for investment project cofinancing and any modifications, and (iv) select a program coordinator.

- 4.5 A coordinator will be hired to help the director implement the program. His duties will be as follows: (i) ensure that all program administration and implementation mechanisms are established and adhered to, (ii) ensure that operation funds are properly used in order to fulfill program goals, (iii) coordinate the dissemination and monitoring of program services, and (iv) prepare and implement definitive terms of reference for selection and hiring of consultants and program evaluators.

B. Execution and disbursement periods

- 4.6 Program execution will take place over a 36-month period, while disbursements will be made over a 42-month period. Disbursements of technical cooperation resources will be made through a revolving fund equal to 10% of the overall MIF contribution, as established by Bank procedures. The MIF contribution will be disbursed *pari passu* with local contributions.

C. Stages

- 4.7 To achieve this objective, the program will be carried out in two stages. In stage one, two consultancies will be engaged. The first will prepare a standard methodology for preparing investment projects (to include in addition a user manual and a curriculum with the corresponding training materials) and to identify the selection criteria used by the multiplier/consultants (paragraphs 3.3 and 3.4). The second will draft regulations to govern the cofinancing for investment project organization (paragraph 3.8). This stage is expected to be completed within a six-month timeframe commencing from the first disbursement. This first stage involves financing of approximately US\$170,000 from the MIF to fund two consultancies and the hiring of the program coordinator, once the executing agency has received the draft final report from the consultants.
- 4.8 The second stage will include training as well as activities to prepare and subsequently disseminate investment projects and projects to strengthen the executing agency as an institution. In order to have disbursements authorized for stage two, the executing agency will be required to submit to the Bank, for the latter's nonobjection, the consultant's report containing the standard methodology for investment project preparation (and the multiplier/consultant selection criteria) satisfactorily tested in the feedback workshop (paragraph 3.3) and the standards governing the investment project cofinancing.

D. Beneficiaries

- 4.9 The direct beneficiaries of the program are small and medium-sized Colombian enterprises (across the country) that may be attractive for foreign investment but cannot readily access traditional means of identifying investors and organizing and promoting projects (such as investment banks) in order to find foreign partners.

E. Preparedness of the program

- 4.10 The program is in an advanced state of preparation. This memorandum, the logical framework, the itemized budget, an analysis of the financial sustainability of the program after the MIF contribution is complete, terms of reference for the hiring of consultants for stage one of the operation and the plan of operations for year one of the program have been prepared and agreed on jointly with Coinvertir. During the identification mission, this program was discussed and agreed upon with the private sector and governmental leaders in Colombia. Moreover, Convertir has submitted a letter of undertaking in which it assumes responsibility for the local contribution for the program.

F. Social and environmental considerations

- 4.11 The Committee on Environment and Social Impact (CESI) approved the program on 9 March 2001, with recommendations to ensure that program activities promote environmentally sustainable social investment projects. Amongst the recommendations are (i) participating companies will be required to comply with national environmental protection standards as a condition for receiving financial assistance under the program (paragraph 3.9); and environmental management plans that identify potentially adverse environmental effects (and measures for alleviating such effects) must be adopted as part of the investment project formulation methodology (paragraph 3.3).

V. PROGRAM COSTS, FINANCING, AND SUSTAINABILITY

A. Cost and financing

- 5.1 The estimated cost of the program is US\$1,500,000, of which US\$900,000 (or 60%), consists of the MIF technical cooperation and US\$600,000 (or 40%) is the counterpart to be provided by Coinvertir. Sixty-one percent of the local counterpart (US\$368,130) will be contributed in cash. The following table summarizes the program's budget:

**Table 1. Summary budget
(in US\$)**

Investment	MIF	Local	Total	%
1. Administration	127,040	82,150	209,190	14
2. Components				
2.1. Design of the investment project methodology	151,890	6,000	157,890	11
2.2. Project organization and training	283,500	56,270	339,770	23
2.3. Dissemination of investment projects	149,538	384,320	533,858	36
2.4. Institutional strengthening of the executing agency	37,800	69,260	107,060	7
3. Evaluations	50,000	0	50,000	3
4. Audits	20,000	0	20,000	1
5. Contingencies	80,232	2,000	82,232	5
TOTAL	900,000	600,000	1,500,000	100
% BY SOURCE	60	40	100	

5.2 The MIF contributions will be used to provide international consulting services (development of the methodology, project coordination, investment program organization, direct dissemination of projects in countries throughout Latin America and the Caribbean), and hardware (technology infrastructure), among others. The local counterpart resources will be used for the required consulting services (including direct dissemination of projects outside Latin America and the Caribbean), training of multipliers and entrepreneurs, the creation of a Latin American network of FDI promotion agencies, project management, and training of Coinvertir staff.

5.3 The procurement of goods and the consulting services needed to carry out the program's activities will be handled in accordance with Bank procedures and policies in this regard. Services and hardware may be obtained only from firms or consultants from MIF member countries. Preparation of the schedule of conditions for bidding or invitations to submit statements of qualifications will be done with the approval of the technical and administrative personnel associated with or assigned to the program, who will also rate the proposals.

B. Accounting and audits

5.4 Coinvertir will have the following duties:

- (a) Establishing and maintaining proper audit, financial, and internal accounting records, as well as files that indicate in detail the source and use

of program funds. The program records will contain the following information: (i) amounts received from different sources; (ii) program expenses, segregating MIF funding and funding from other sources; and (ii) details of procurement and services engaged.

- (b) Opening separate and special bank accounts for administration of the MIF contribution and the local counterpart funding. This will be a condition precedent to the first disbursement.
- (c) Processing of the Bank's disbursement requests.
- (d) Preparing and submitting to the Bank of audits of the annual financial statements of the program and the semiannual reports of the revolving fund.

C. Sustainability

- 5.5 To determine the financial sustainability of the program after the MIF funding has been fully disbursed, a recurrent income and expense structure was identified. Potential revenue was considered to come from the following activities: (i) sale of banners for the Coinvertir Web site, (ii) marketing fees for targeted email contacts, (iii) direct marketing fees, (iv) project catalogue listing fee, (v) success fee, (vi) rights to participate in training events, (vii) sale of technical cooperation services to other FDI promotion agencies in the region.
- 5.6 The most important source of income is the success fee which in the base line case accounts for 32% of income. For income from this source the base line scenario assumes that 15% of all projects listed (120 projects per year) are sold, that the average size of the project investment is US\$350,000 and the Coinvertir's success fee is 0.75%. The Project marketing consultancy accounts for 85% of all expenses.
- 5.7 Given these parameters, for the baseline scenario, annual income is considered to be US\$149,000 and recurrent expenses US\$134,000, a level that would generate a surplus to gradually expand the program. Taking the base scenario case, a sensitivity analysis was conducted of variables that are relevant in determining income. From this analysis, it can be concluded that the break even point can be achieved with 100 of the companies listed in the catalogue, a success rate of 10%, an average investment size of US\$250,000, or a Coinvertir fee of 0.51%.
- 5.8 As a frame of reference for verifying the accuracy of these parameters, the data contributed by the investment banks were taken as a benchmark: in general, the project success rate is 40%, the size of the average investment project submitted by small and medium-sized enterprises to the investment banks ranges from US\$300,000 to US\$2 million and the fee charged by these banks is from US\$30,000 to US\$50,000, for a minimum success rate of 2.5%. Considering that the parameters of the base scenario are conservative in terms of success rate,

average investment size, and the fee charged, and taking into account the results of the sensitivity analysis, the program has been found to be financially sustainable.

VI. PROGRAM RATIONALE AND RISKS

A. Rationale

- 6.1 The aim of this program is to create, and to make available to Coinvertir, mechanisms that make it possible to identify and promote projects for a large number of enterprises that do not now have easy access to foreign investment. The program takes into account the conclusions and recommendations of a major study by the World Bank and the International Finance Corporation (IFC) through their joint service, Foreign Investment Advisory Service (FIAS). This detailed study (submitted in two stages in 1998 and 2000) on potential strategies for attracting FDI to Colombia emphasizes the advisability of having Coinvertir continue to acting as the lead agency, focusing on specific activities to attract investors to export-oriented sectors, particularly manufacturing and services, and providing services for investors already active in Colombia.
- 6.2 Of course, the proposed program will not be able to reverse the negative trend in FDI in Colombia by itself. For a more sustained and long-term recovery, factors that affect perceptions about the competitiveness of Colombian industry, i.e. violence and political instability, must improve. The government is working seriously to restore the country's political reputation. To that end, it has launched "*Plan Colombia*", a comprehensive effort to eradicate the problems affecting the peace and development of the country. In order to restore its economic credibility, in December 1999 the government agreed on an extended fund facility with the International Monetary Fund and is in full compliance with the targets set.

B. Risks

- 6.3 One risk of a political nature to be considered is the potential loss of commitment to Coinvertir on the part of the Government of Colombia. However, the fact that the government recently increased the budgetary allocations of the executing agency at time of fiscal austerity indicates that this risk has been mitigated and that the government is committed to the goals pursued. Moreover, the public/private nature of Coinvertir makes it less vulnerable to a loss of interest on the part of the government than other entirely public institutions.
- 6.4 Another risk that should be considered is the possible lack of demand for Coinvertir services by small and medium-sized companies in Colombia given the innovative nature of this facility within its regular business activities. This risk will be diminished by the dissemination activities incorporated into the program. Designing the operation in stages will also minimize this risk since activities to ensure that the

methodology can be adapted to the needs and requirements of potential beneficiaries were carried out before investment projects were promoted and developed.

- 6.5 Lastly, the recent increase in the country risk rating that international investors set for Colombia poses a risk for the program. These actions are largely the result of: (i) deteriorating relations and more confrontation between the constitutional powers (the executive, legislative, and judicial branches, particularly the Constitutional Court), and (ii) a process of negotiation with the armed groups, which is proceeding very slowly as the perception of violence increases. With respect to the first issue, recent developments indicate that conflict among the branches of government is moderating and legislative paralysis is being overcome. Violence is certainly a significant issue for any foreign investor. In a series of in-depth interviews by Coinvertir/DNP in 1999, 85% of the 121 international enterprises contacted mentioned this issue as a significant concern. While the future remains unclear, implementation of *Plan Colombia* and a decrease in the homicide rate are positive signs. However, these political risks clearly fall outside the scope of this project and cannot be mitigated through the planned activities.

VII. MONITORING AND EVALUATION

A. Monitoring

- 7.1 The logical framework attached as an annex to this document describes the basic components of execution, monitoring, and evaluation of the program.
- 7.2 Coinvertir will be responsible for monitoring and preparing the appropriate reports, and will be required to prepare every six months a progress report describing the activities completed during the period. Also, a work plan and a disbursement schedule is to be prepared for the following period. The progress report is to be submitted to the Bank's Country Office for approval within 30 days after the end of the six months period. The Country Office will use these reports to monitor the progress of the program and to prepare a report of compliance within three months after the final disbursement.

B. Evaluations

- 7.3 As part of the program, two evaluations will be performed by consultants to be selected and hired by the Bank. The first evaluation will take place 18 months after the first disbursement or when 50% of the MIF funding has been disbursed, and will cover the following aspects: (i) Coinvertir's institutional capacity, (ii) a review of the rate schedule for generating funds used by the executing agency, (iii) the implementation of the activities planned under the program, and the extent to which the indicators have been fulfilled, (iv) the need for new activities, (v) the number of

program beneficiaries and their type, (vi) the quality of the services offered, and (vii) the degree to which the methodology satisfies the needs of the beneficiaries.

- 7.4 The final evaluation, which will be conducted within 60 days after completion of the activities specified in the program logical framework, will examine: (i) the extent to which specific objectives have been attained, (ii) the number of beneficiaries under the program and their type, (iii) the quality of the services offered, (iv) the degree of user satisfaction, to be determined by means of a survey of a statistically representative sample of participating entrepreneurs to be selected randomly, and (v) the sustainability of the program after the MIF contribution has been disbursed.

VIII. EXCEPTIONS TO BANK POLICY

- 8.1 No exceptions to Bank policy are planned.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 As conditions precedent to the first disbursement, Coinvertir shall demonstrate to the Bank's satisfaction that: (i) the program director has been appointed, and (ii) a coordinator has been selected.
- 9.2 As a condition precedent to disbursement of funding for stage two, the executing agency must submit to the Bank for its nonobjection the consultants' report setting out the investment project methodology (including the user manual and training curriculum with the corresponding materials) and the criteria for selecting multipliers/consultants and the regulations governing investment project cofinancing.

ANNEX 1: LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Goal: Increase foreign direct investment (FDI).			
	<ul style="list-style-type: none"> Increase in FDI flows to Colombian enterprises by 10% (2002) and 15% (2003). 	<ul style="list-style-type: none"> DNP statistics. Signed investment contracts. 	<ul style="list-style-type: none"> Economic recovery in line with the targets of the IMF program. No escalation in the internal conflict.
Purpose: Put in place a mechanism for attracting foreign direct investment			
	<ul style="list-style-type: none"> Successful search for investors for 10 (2002) and 15 (2003) of the projects publicized by the project. 	<ul style="list-style-type: none"> Midterm and final evaluations. Semiannual progress report. 	<ul style="list-style-type: none"> No negative changes in the relevant legal framework. The emerging change in corporate culture will be maintained despite the economic recovery.
Component 1. Design of the investment project methodology			
Develop a sustainable methodology in keeping with international best practices	1. Technical methodology developed with the involvement of the private sector.	<ul style="list-style-type: none"> Consultants' reports. Midterm and final evaluations. 	<ul style="list-style-type: none"> Existence of consulting firms with international experience in this area. Willingness to implement a technically and financially sustainable solution.
1. Development of the methodology	<ul style="list-style-type: none"> Study on a standardized and simple methodology for organizing investment projects, the standard costs of those projects, and the inputs required. 500 project preparation manuals printed and published on line. Feedback workshops with business associations in at least two cities. 	<ul style="list-style-type: none"> Report of consulting firm specializing in FDI in emerging economies. Semiannual progress report Midterm and final evaluations. List of feedback workshop participants. Printed manuals. www.coinvertir.org.co. 	<ul style="list-style-type: none"> The cooperative climate between the executing agency and the business associations is maintained.
Component 2. Project organization and training			
Promote the creation of a critical mass of FDI projects	<ol style="list-style-type: none"> Technical training provided to at least 600 Colombian entrepreneurs by the end of the project. Support provided to prepare at least 100 SME investment projects by the end of the second year. 	<ul style="list-style-type: none"> Midterm and final evaluations. Semiannual execution report. 	<ul style="list-style-type: none"> Colombian entrepreneurs remain interested in opening up to foreign capital. Existence of sufficient numbers of multipliers/consultants.
1. Technical training	<ul style="list-style-type: none"> 30 multipliers/consultants trained (training the trainers). 60 meetings to raise awareness and train entrepreneurs, and other events, in 10 different departments. Attendance of 10 enterprises per event. Preparation of the curriculum for an academic course. 	<ul style="list-style-type: none"> Semiannual progress report. Midterm and final evaluations. List of participants and agendas for the meetings and workshops. Report from the university. Report of the consultant on academic curriculum. 	<ul style="list-style-type: none"> The cooperative climate between the executing agency and the business associations and universities is maintained. Entrepreneurs' interest is maintained. Sufficient demand for the university course offered.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> Study to establish a university course curriculum. Academic offering in at least two different cities by the end of 2003. 20 students enrolled by the end of 2003. 	<ul style="list-style-type: none"> University enrollments. 	<ul style="list-style-type: none"> The spirit of cooperation between Coinvertir and Colombian universities is maintained.
2. Support for organizing SME investment projects	<ul style="list-style-type: none"> Cofinancing for approximately 100 SME projects during the first two years of execution. 	<ul style="list-style-type: none"> Semiannual progress report. 100 projects prepared according to the methodology developed. Midterm and final evaluations. www.coinvertir.org.co 	<ul style="list-style-type: none"> Demand on the part of SME entrepreneurs.
Component 3. Dissemination of investment projects			
Facilitate the establishment of relationships between Colombian enterprises and foreign investors, and emulation of the system in other countries	<ol style="list-style-type: none"> Implementation of a direct dissemination plan. Creation and use of a database of projects and potential investors. Formation of a regional network of FDI promotion agencies. Attraction of foreign users. 	<ul style="list-style-type: none"> Midterm and final evaluations. Semiannual progress report. 	<ul style="list-style-type: none"> Existence of potential interest abroad. Existence of consultants with the profile needed for direct dissemination.
1. Plan for direct dissemination of projects	<ul style="list-style-type: none"> 100 (150) visits to foreign enterprises by Coinvertir consultants, to increase interest in the projects prepared in 2002 (2003). Online marketing of the project, and use of physical materials, to 1,000 (1,500) enterprises in selected sectors/regions that have received FDI in the past, during 2002 (2003). Cumulative online publication of 50 (100) projects by the end of 2002 (2003). Details of each project sent by e-mail to at least 40 potential foreign investors or business associations. 	<ul style="list-style-type: none"> Semiannual progress report. Midterm and final evaluations. Mission reports and consultant memoranda. Domestic marketing materials. Webmaster's report. E-mail. www.coinvertir.org.co 	<ul style="list-style-type: none"> Entrepreneur interest. Support from local business associations.
2. Creation of an online database of projects and investors	<ul style="list-style-type: none"> Minimum of 500 hits per six-month period by entrepreneurial users of a project database with a search engine for contacts and links enabling the entrepreneurs to contact potential partners directly. Manual for maintaining and supplying information to the database. 	<ul style="list-style-type: none"> Semiannual progress report. Midterm and final evaluations. Webmaster's report. Manual prepared. 	
3. Creation of a regional network of agencies promoting FDI	<ul style="list-style-type: none"> Regional introductory workshop with the participation of 10 international attendees from at least five countries in the region. Consolidation of a regional committee of FDI promotion agencies by mid-2004. Agreements to exchange information and make technology platforms compatible with at least two agencies in Latin America by mid-2004. 	<ul style="list-style-type: none"> Semiannual progress report. List of participants and agenda of the workshop. Consultants' report on event preparation. Minutes of the founding meeting of the regional network. Signed agreements. 	<ul style="list-style-type: none"> The agencies promoting direct investment in other countries in the region remain interested.
4. Attraction of foreign users	<ul style="list-style-type: none"> Dissemination campaign in at least two countries in the region, through four meetings abroad during 2003 and 2004. Attendance at the meetings of entrepreneurs representing 60 companies. Register of 10 projects from foreign companies, and its publication online by mid-2004. 	<ul style="list-style-type: none"> International expansion plan. Semiannual progress report. List of participants and agenda of the meetings. www.coinvertir.org.co Project register. 	<ul style="list-style-type: none"> Interest among entrepreneurs in other countries in the region.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Component 4: Institutional strengthening of the executing agency			
Increase the efficiency and effectiveness of Coinvertir	<ol style="list-style-type: none"> 1. Institutional analysis of Coinvertir. 2. Continued improvement in quality of services. 3. Training of Coinvertir personnel. 4. Modernization of technology infrastructure. 5. Furnishing and adaptation of work sites. 	<ul style="list-style-type: none"> • Midterm and final evaluations. • Semiannual progress report. 	<ul style="list-style-type: none"> • The political support for and confidence of the private sector in Coinvertir are maintained.
1. Training of Coinvertir personnel	<ul style="list-style-type: none"> • Participation of 50% of Coinvertir's professional staff in national and international conferences on project organization and international best practices regarding strategies to attract FDI, by the end of 2002. • Courses in negotiation and management methods for all Coinvertir professional staff. • Courses in the new software acquired, for all Coinvertir personnel. 	<ul style="list-style-type: none"> • Semiannual progress report. • Midterm and final evaluations. • Strategic training plan. • Annual training report. • List of participants signed by instructors. 	<ul style="list-style-type: none"> • Stability in Coinvertir staffing. • Courses are offered that meet Coinvertir's needs.
2. Continued improvement in quality of services	<ul style="list-style-type: none"> • Study on quality of systems and services of the executing agency performed to obtain proper certification. 	<ul style="list-style-type: none"> • ISO 9000-2000 certification by an accredited firm. • Periodic renewal of certification. • Public opinion surveys. 	<ul style="list-style-type: none"> • Willingness to implement process adjustments in order to comply with standards. • Willingness on part of users to take part in short surveys.
3. Modernization of the technology infrastructure	<ul style="list-style-type: none"> • Report on technology requirements. • Procurement and installation of a computer network (5 units) with the relevant MS Windows-based software. • Installation of a modern interconnected telecommunications system. 	<ul style="list-style-type: none"> • Strategic computer system plan. 	
4. Furnishing and adaptation of work sites	<ul style="list-style-type: none"> • Creation of work sites for the two long-term consultants hired for direct dissemination, and for their assistant. 	<ul style="list-style-type: none"> • Semiannual progress report. • Midterm evaluations. 	

PROPOSED RESOLUTION

COLOMBIA. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE
PROMOTION OF FOREIGN INVESTMENT IN COLOMBIAN ENTERPRISES

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 Multilateral Investment Fund, to enter into such agreements as may be necessary with the Corporación Invertir en Colombia (Coinvertir), and to take such additional measures as may be pertinent for the execution of the project proposal contained in Document MIF/AT-____ with respect to a technical cooperation for the Promotion of Foreign Investment in Colombian Enterprises.
2. That up to the amount of US\$900,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.