



# Social Entrepreneurship Program

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**To:** The Board of Executive Directors  
**From:** The Secretary  
**Subject:** Colombia. Executive summary of a proposal for a nonreimbursable technical-cooperation funding for microentrepreneurs and the recycling of lubricating oils and their containers. Social Entrepreneurship Program

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**Remarks:** This operation is being presented in accordance with Resolution DE-183/98 entitled "Reform of the Small Projects Program and creation of a Social Entrepreneurship Program," and meets the criteria established in document GP-75-9.

On **16 September 2003**, the date on which the five-day circulation period required for this document expires, the President, or such officer as he may designate will approve this operation.

**Reference:** GP-75-9(11/98)

**Other distribution:** Representative in Colombia

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## **COLOMBIA**

### **PLAN OF OPERATIONS**

#### **MICROENTREPRENEURS AND THE RECYCLING OF LUBRICATING OILS AND THEIR CONTAINERS**

**(TC-03-03-02-2-CO)**

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## MICROENTREPRENEURS AND THE RECYCLING OF LUBRICATING OILS AND THEIR CONTAINERS

(TC-03-03-02-2-CO)

### EXECUTIVE SUMMARY

**Executing agency:** Fundación Proyectos Tecnovo

<b>Amount and source:</b>	<b>US\$</b>	<b>Euros*</b>
IDB:	250,000	220,125
Local contribution:	260,000	228,930
Total:	510,000	449,055

The resources will be charged against the European Fund for Microenterprises.

\* Exchange rate: US\$1 = €0.8805 (12 August 2003)

**Terms:**

Commitment period:	36 months
Disbursement period	42 months

**Problem to be resolved:** The very low-income population not part of the mainstream economy is frequently forced to earn its livelihood by engaging in informal microenterprise activities that require no investment or specialized training. For these subsistence microentrepreneurs, participation in activities involving the separation, collection, and sale of lubricants and their containers offers a viable solution in metropolitan Bogota's industrial zones with large numbers of machine shops.

With proper technology, organizational strengthening, and transfer of knowledge on the recycling of lubricants and their containers, these communities of recyclers could set up formal business groups that could become work cooperatives.

This proposal would address the three following problems of vulnerable communities with respect to the value-added chains in recycling: (i) the recyclers throw the plastic oil containers away because they have no way of making use of them; (ii) there is a lack of knowledge regarding technologies to manage used lubricants; and (iii) the recyclers lack the capacity to join the value-added chains in recycling.

This project will also help mitigate the environmental problem stemming from the inadequate disposal of used lubricating oils and their containers and to reduce the use of these containers to sell fake lubricants that do not meet the technical specifications for use in combustion engines.

**Objectives:**

The main objective of the project is to improve the socioeconomic conditions of the very low income population that is in part already involved in informal recycling, through sustainable activities related to the recycling of used lubricating oils and their plastic containers.

The specific objectives are to: (i) promote sustainable group business initiatives related to the recycling of lubricating oils and their containers; (ii) transfer technologies for the collection, storage, transportation, and processing of lubricating oils and their containers to group enterprises; (iii) provide support services for group recycling enterprises involved in the collection, transportation, storage, recycling, and marketing of products derived from used lubricating oils and their containers; and (iv) help mitigate the environmental problem arising from the lack of practical options for recycling in low-income neighborhoods.

**Beneficiaries:**

The Bank's proposal will directly benefit some 200 very low-income recyclers and their families. These direct beneficiaries will become working partners in the project's group enterprises as well as participants in these businesses and providers of recycling materials. The project will also benefit other recyclers indirectly linked to the project, primarily as independent microentrepreneurs in the collection, transportation, and marketing chain.

The beneficiaries will include people currently working in trash recycling and other very low-income communities. These individuals include soldier war victims, disabled young people, and other vulnerable groups such as women heads of household.

In addition, the project will lower the production costs of industrial SMEs that will use recycled fuel oil instead of the more expensive and pollution-causing heavy crudes currently in use, thereby improving the environmental conditions of the neighborhoods in which they operate.

**Description:** The project will be comprised of the following components:

**1. Selection of beneficiaries and consolidation of work cooperatives (Bank: US\$20,000)**

The objective of this component will be to consolidate the business activities of very low income communities that work—or have the potential to work—in recycling and to enable these groups to organize in such a way as to become sustainable and operationally independent entities that perform lubricating oil recycling activities. To this end, under this component, staff will be selected and groups will be formed for the collection, transportation and treatment, waste processing, and marketing of lubricating oils and their containers. Once the groups have been set up, the project will support them to develop simple business plans and to become business entities, primarily work cooperatives.

For this component, the project will have technical assistance from experts in the selection and training of staff, organization of group microenterprise initiatives, and the setup and operation of work cooperatives.

**2. Technology transfer to work cooperatives and other beneficiaries (Bank: US\$44,700)**

The objective of this component will be the transfer of know-how and technology to the recycling cooperatives and beneficiaries involved in five activities: (i) collection; (ii) transportation; (iii) storage and treatment; (iv) processing of waste; and (v) marketing.

Under the project, information on common topics such as environmental management, the use of forms, and rules of conduct for cooperatives will be provided to the various cooperatives. In addition, each of the work cooperatives will receive training specific to the different activities they each conduct.

**3. Construction of oil and container recycling plant and development of services for the recycling cooperatives (Bank: US\$165,300; local: US\$261,000)**

The objective of this component is to build a plant to remove contaminants from oil and recycle oil and oil containers and to offer services to support the cooperatives in their operations. Under this component, ownership and management of the equipment and activities will gradually be transferred to the beneficiaries. To this

end, a service unit will be set up which, in the course of project execution, will transfer assets and know-how to the beneficiaries and then become a business entity owned by them. This component will be comprised of two subcomponents: (i) establishment of the recycling services plant; and (ii) support services for beneficiaries and cooperatives.

The project will have a manager for the construction and management of the recycling services plant. Waste collection, treatment, and processing technicians, who will be part of the cooperatives involved in the respective activities, will report to the manager. The recycling services plant will be directly responsible for complying with the environmental guidelines issued by the Ministry of Environment and the rules that Fundación Tecnovo undertakes to follow when it signs the agreement with the Bank.

#### **4. Evaluations and audits (US\$20,000)**

The project will have resources for the evaluations detailed in the respective section below.

#### **Environmental and social review:**

The project includes the following actions that take into account the environment and social factors: (i) the use of production and processing technologies that are not harmful to the environment or workers' health; (ii) the promotion of increased participation by women in business and community decision-making; and (iii) compliance with the environmental requirements for the processing of industrial oils and plastics of Colombia's Ministry of the Environment.

The Committee on Environment and Social Impact (CESI) reviewed and approved the profile at its 4 April 2003 meeting and its recommendation concerning the socioeconomic profile of the microentrepreneurs has been incorporated into the project.

#### **Risks:**

One risk is that the technical assistance may not achieve the expected results since the project involves a type of plant that does not exist in Colombia. To offset this risk, Fundación Tecnovo will have support from staff with successful experience in recycling and in the area using technologies similar to those proposed and support from major Colombian experts in lubricating oils.

A second risk is that the prices of the end products (recycled fuel oil, ground plastic separated by color, bricks, and others) may drop if other companies copy the project's operating system. To mitigate this risk for ground plastic, Fundación Tecnovo has established close relationships with lubricating oil producers who are interested in buying plastic from the project since, if they buy the material recycled

from containers, there is less of a chance that used containers will be diverted for fraudulent use. The same argument can be used to find better marketing opportunities for the used lubricating oils.

A third risk is that efforts to build cooperatives focused on the various project-related recycling activities will fail. To mitigate this risk, the project will devote several activities under component 1 to selecting beneficiaries and training them in association-building. If any of the cooperatives fails as a business enterprise, the project will allow the use of contingency mechanisms such as working with teams of independent beneficiaries.

A fourth risk is that the beneficiaries or cooperatives will want to sell their shares in the plant to Tecnovo or to third parties once the plant is formalized. To offset this risk, the project will set up the following control mechanisms: (i) shares must remain in the hands of their owners for at least two years; and (ii) after the cooperatives and individual beneficiaries have held the shares for two years, they may sell or transfer them to other project beneficiaries but not to third parties.

#### **Reports and evaluations:**

**Reports.** Fundación Tecnovo will deliver semiannual reports to the Bank containing financial and narrative information, within 60 days of the close of each six-month period, starting with the period in which disbursements begin. As a minimum, the reports will include: (i) narrative and financial information on activities under way; (ii) information on progress made towards establishing the groups and on their activities; and (iii) achievement of project indicators and accomplishments. The Bank will review the results and recommendations contained in the reports. If significant deficiencies in project execution are found, the Bank will not authorize further disbursements until Fundación Tecnovo has taken satisfactory measures to correct them.

**Evaluations.** When 40% of the resources have been disbursed, Fundación Tecnovo will hire an outside evaluator to conduct a midterm evaluation of the project.

When 90% of the resources have been disbursed, the Bank will hire two outside evaluators to perform a final evaluation of the project, the cost of which will be charged to the technical-cooperation operation. The final evaluation will include an analysis of the following, among others: (i) efforts undertaken to publicize the project; (ii) effectiveness and efficiency of the executing agency in managing the Bank's resources; and (iii) the lessons learned from the project that could be applied to other Social Entrepreneurship Program (PES) operations.

**The Bank's strategy:**

The current IDB country paper for Colombia was approved by the Bank in July 1999. The last update of the strategy disseminated by the Bank indicates poverty reduction and inequality as priority strategic areas. This update also refers to the high level of informal economic activity (60% in 2000).

This project addresses the aforementioned priority strategic areas through the development of group business models that make it possible to involve vulnerable and marginalized communities in economic processes that can add value and revenues.

**Coordination with other multilateral institutions**

The Colombian Agency for International Cooperation, which coordinates and reports on the various activities of multilateral organizations and bilateral donors with microenterprise groups, has been made aware of the proposed project.

**Rationale:**

The operation is consistent with the policy underlying the Social Entrepreneurship Program, since it benefits groups that lack economic resources and opportunities to fulfill their economic potential.

The operation is justified from two complementary standpoints. With regard to the environment, the project addresses the problem of inadequate management of used lubricating oils and their containers and the fraudulent use of these containers to sell lubricants that do not meet the necessary technical specifications for use in combustion engines. The project will promote increased knowledge of proper technologies for the management of used lubricating oils and their containers in a context of marginality and poverty.

With regard to the socioeconomic situation of beneficiaries, the project develops a group business organization model that could be replicated, which addresses the lack of stable jobs for low-income groups at the margin of the mainstream economy involved in informal activities to recycle lubricating oils and their containers in Bogota and its surrounding area.

**Special contractual conditions:**

For the first disbursement of up to US\$5,000, Fundación Tecnovo will present, to the Bank's satisfaction, the terms of reference for an initial assessment of the project beneficiaries and a group of individuals in similar socioeconomic circumstances. The evaluation will establish an initial baseline with socioeconomic quantification of the income of potential project beneficiaries. In response to CESI recommendations, this baseline will establish an ethnic-cultural profile of the beneficiary population, in order to ensure equitable participation.

For the second disbursement, Fundación Tecnovo will present the following, to the Bank's satisfaction: (i) a work plan for the first few months of project execution; (ii) appointment of the project director;

(iii) terms of reference for all technical personnel to be hired; and  
(iv) the commitment of counterparts by the Department of the Environment of the city of Bogota.

In addition, for disbursements under component III—construction of the plant and development of recycling services—Fundación Tecnovo will present the following to the Bank's satisfaction: (i) evidence that it is in control of the pavilion where the plant will be set up; (ii) the pertinent permits for construction of the plant; and (iii) the plant's operating regulations.

**Exceptions to  
Bank policy:**

None