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MULTILATERAL INVESTMENT FUND

COLOMBIA

**PROGRAM TO INSTITUTE CORPORATE SOCIAL RESPONSIBILITY
PRACTICES IN COLOMBIAN SMALL AND MEDIUM-SIZED
ENTERPRISES**

(CO-M1003)

DONORS MEMORANDUM

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CONTENTS

I.	EXECUTIVE SUMMARY	1
II.	BACKGROUND.....	2
	A. Corporate social responsibility	2
	B. CSR in Colombia	3
	C. Current issues in Colombia.....	4
	D. The proposed program	4
III.	PROGRAM OBJECTIVES AND COMPONENTS	5
	A. Program objectives.....	5
	B. Program components	5
	Component I: CSR awareness raising and results dissemination	5
	Component II: Development and consolidation of a local CSR service provider pool	6
	Component III: Institution of CSR practices in SMEs	6
	Component IV: Development of a corporate risk monitoring and rating system for SMEs	8
IV.	EXECUTING AGENCY AND IMPLEMENTATION ARRANGEMENTS	8
	A. Executing agency	8
	B. Implementation arrangements	9
V.	COST AND FINANCING	10
VI.	BENEFITS AND RISKS	11
	A. Benefits	11
	B. Beneficiaries	12
	C. Risks	12
VII.	MONITORING AND EVALUATION	12
	A. Supervision and monitoring.....	12
	B. Midterm and final evaluations.....	12
VIII.	ENVIRONMENTAL AND SOCIAL IMPACT.....	13
IX.	SPECIAL CONTRACTUAL CONDITIONS	14

ANNEXES

Annex I	Program logical framework
Annex II	Summary of itemized budget
Annex III	Other MIF and Bank projects

APPENDICES

Proposed resolution

INFORMATION AVAILABLE IN THE PROGRAM FILES

Annex IV	Itemized program budget
Annex V	Program timetable
Annex VI	Operating Regulations and description of program activities
Annex VII	The program's organizational structure
Annex VIII	Program director's terms of reference
Annex IX	Terms of reference for development of a corporate risk monitoring and rating system for SMEs
Annex X	Detailed description of corporate social responsibility (CSR) for the program
Annex XI	Letters of interest from prospective program participants

ABBREVIATIONS

CIPE	Center for International Private Enterprise
Confecámaras	Confederación Colombiana de Cámaras de Comercio [Federation of Colombian Chambers of Commerce]
CSR	corporate social responsibility
MIF	Multilateral Investment Fund
NGO	nongovernmental organization
PCR	project completion report
PPMR	project performance monitoring report
SMEs	small and medium-sized enterprises

**PROGRAM TO INSTITUTE CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN
COLOMBIAN SMALL AND MEDIUM-SIZED ENTERPRISES**

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I. EXECUTIVE SUMMARY

Executing agency:	Confederación Colombiana de Cámaras de Comercio [Federation of Colombian Chambers of Commerce] (Confecámaras)		
Beneficiaries:	The program's chief beneficiaries will be 400 small and medium-sized enterprises in Colombia's five largest cities (Bogota, Medellín, Cali, Barranquilla, and Cartagena) in which corporate social responsibility practices will be instituted to help lower these businesses' operating costs and make them more competitive.		
Financing and source:	MIF grant (Small Enterprise Development Facility– Facility IIIA)	US\$1,160,000	
	Local counterpart:	<u>US\$ 740,000</u>	
	Total:	US\$1,900,000	
Objective and description:	<p>The program's overall objective is to enhance the competitiveness and sustainability of Colombian enterprises. Its purpose is to instill corporate social responsibility (CSR) practices in Colombian businesses, with a focus on small and medium-sized enterprises (SMEs), as a way of improving these companies' market access, finance avenues, and economic performance.</p> <p>The program has been structured in four components to pursue those goals: (i) CSR awareness raising and results dissemination; (ii) development and consolidation of a local CSR service provider pool; (iii) institution of CSR practices in SMEs, and (iv) development of a corporate risk monitoring and rating system for SMEs.</p>		
Execution timetable:	Execution: 48 months Disbursement: 54 months		
Environmental and social review:	The Committee on Environment and Social Impact (CESI) reviewed and approved the program summary on 3 September 2004 (CESI meeting 34-04), with the following recommendations: (i) define CSR practices more precisely; (ii) specify the CSR indicators for the risk management system (component IV); and (iii) ensure gender- and ethnically equitable participation opportunities in the program activities. The first of these recommendations is addressed in paragraph 2.4 of this memorandum, the second in paragraph 3.18, and the third in the program's Operating Regulations.		

Special contractual conditions:

As a condition precedent to the first disbursement the executing agency must have selected the program coordinator and the Technical Committee must have been formed.

In addition, Confecámaras must present, to the Bank's satisfaction, the cooperation agreements signed by Confecámaras and the regional chambers of commerce (see paragraph 4.4). It will be necessary to obtain the cooperation agreement of the pertinent chamber in each region in the country before program activities may be carried out in that region.

Relevant initiatives of other international agencies:

Confecámaras has been working with the Center for International Private Enterprise (CIPE) and the International Finance Corporation (IFC) in areas relating to corporate governance (see paragraph 2.5).

II. BACKGROUND

A. Corporate social responsibility

- 2.1 Corporate social responsibility (CSR)¹ is a business approach that views respect for ethics, people, communities, and the environment as a comprehensive strategy that increases corporate value-added and thereby improves a firm's competitive position. Companies that embrace CSR actively help further their countries' economic, social, and environmental development. Businesses adopt a CSR strategy voluntarily, primarily with their stakeholder groups, because they understand that, in the long run, good relations with the stakeholder universe will strengthen a company's growth prospects and market share. CSR diminishes the risk inherent in any form of business operation. As well as complying with local tax, corporate, and labor laws, companies thus must meet high international standards if they wish to succeed in the global marketplace.
- 2.2 CSR practices have been gaining importance in developing countries as private-sector agents have come to realize that socially responsible behavior is one way to distinguish themselves from the competition, as well as a competitiveness element that enhances their market access, productivity, and risk management. Although large corporations have been the prime focus of conceptual development work on corporate responsibility and associated management tools because of their greater visibility and accessibility CSR is fully applicable to, and beneficial for,

¹ Also known as corporate citizenship, corporate sustainability, and corporate ethics.

small and medium-sized enterprises as well, albeit with a different focus to take account of the typical features of these smaller operations.

B. CSR in Colombia

- 2.3 The development and institution of CSR practices is still an emerging process in Colombia. The country's textile, flower, and coffee export industries have incentives to adopt socially responsible policies. In response to the demand from their destination markets, all those sectors have instituted CSR management practices.
- 2.4 Since 2001 the Federation of Colombian Chambers of Commerce (Confecámaras) has been pursuing an array of activities specifically designed to disseminate the concept of corporate governance. The central focus of the program has been to familiarize the business community, the national government, and market players with a concept that was hitherto unknown in the local market. Though corporate governance initiatives or corporate social programs have done much to disseminate principles regarding shareholder rights and equitable treatment of shareholders, board of directors structure, membership, liability and accountability, financial and nonfinancial disclosure, and stakeholder relations, Colombia's business community has yet to adopt these practices on any wide scale.
- 2.5 Over the past three years Confecámaras and the Center for International Private Enterprise (CIPE) have been operating a program to increase awareness of and promote the concept of corporate governance in Colombia, with support from the World Bank's International Finance Corporation and the Organization for Economic Cooperation and Development. One of the program's highlights is its participation in Latin American Corporate Governance Roundtables, out of which came the White Paper on Corporate Governance in Latin America and framework codes of good corporate governance for securities issuers and SMEs.
- 2.6 Confecámaras has collaborated in structuring corporate governance guides that conform to international principles of corporate control and management. It has developed a corporate practices benchmark for securities issuers and another for SMEs and has run a series of training seminars to take these issues to the business community. For Confecámaras, the five pillars of CSR are: (i) legal compliance; (ii) workplace policies; (iii) corporate governance; (iv) stakeholder groups, and (v) environmental impact.
- 2.7 Thus far Colombia's financial sector has been on the sideline of moves to disseminate corporate governance and CSR practices, but Confecámaras has ascertained that there is concrete interest in the insurance and banking industries: (i) in insurance circles, with a view to lowering policy costs, particularly for director and officer (D&O) liability insurance for companies that have basic CSR practices in place, with a focus on corporate governance since this ensures

continuing scrutiny of directors and officers and averts the risk of losses ensuing from their acts or omissions, and (ii) in the banking industry, with the aim of lowering bank loss-provisioning rates for long-term loan disbursements to corporations that have adopted basic CSR practices, this being a tool to help manage risk.

C. Current issues in Colombia

- 2.8 Though Colombia has a long tradition of business-community engagement in matters of public interest with a social welfare and philanthropic bent, CSR activity has rarely been looked at from a competitiveness angle. The program with CIPE did not have the scope to address certain elements that are vital for Colombian businesses to truly build good governance and CSR principles into their day-to-day affairs. Today there is a collective awareness of the importance of adopting best practices and the benefits this can yield, but some serious constraints are holding up the mass dissemination and adoption of CSR systems in Colombia. Even though the importance of corporate responsibility practices is increasingly being recognized many businesses have been reticent to adopt CSR measures because of a number of barriers: (i) many companies do not understand what CSR is or appreciate how much CSR practices can do to improve their performance and reduce risks; (ii) there is a dearth of local experts to help companies implement CSR measures, and (iii) there has been a lack of will on the part of government and corporate administrators to require or implement corporate information disclosure and transparency policies.

D. The proposed program

- 2.9 The program described here proposes to instill a CSR vision in SME policies, objectives, and business strategies so that CSR considerations will inform companies' spending plans. The program will make it easier for Colombian SMEs to adopt CSR practices through a funding arrangement that would cover part of the implementation costs. Because CSR is still a new concept in Colombia, MIF support for this project is important to accelerate the use of CSR as a competitiveness-enhancing tool for SMEs. One novel feature of the proposed operation is that it makes CSR considerations an integral part of credit rating systems and of corporate risk rating that ties in to insurance costs. As a result of the program, participating banks and insurance companies will build nonfinancial CSR-related criteria into their credit risk management systems so the SMEs which adopt CSR practices can improve their credit ratings.
- 2.10 The proposed operation is the fourth program in the MIF's new cluster "Promoting Competitiveness through Corporate Social Responsibility" (MIF/GN-94). One innovation in this program relative to the rest of the cluster is the linking of CSR practices with credit and insurance risk ratings.

III. PROGRAM OBJECTIVES AND COMPONENTS

A. Program objectives

- 3.1 The program's overall objective is to enhance the competitiveness and sustainability of Colombian enterprises. Its purpose is to institute corporate social responsibility (CSR) practices in Colombian businesses as a way of improving their market access, finance avenues, economic performance, and competitiveness.
- 3.2 The program has been structured in four components to pursue those goals: (i) CSR awareness raising and results dissemination; (ii) development and consolidation of a pool of local CSR service providers; (iii) institution of CSR practices in SMEs, and (iv) development of a corporate risk monitoring and rating system for SMEs. With a few exceptions the program activities will take place in the five participating cities—Bogota, Medellín, Cali, Barranquilla, and Cartagena.

B. Program components

Component I: CSR awareness raising and results dissemination (MIF US\$72,400; local contribution US\$118,920)

- 3.3 The object of this component is to increase the business community's awareness of the importance of CSR and publicize the program's outcomes. The following activities are planned: (i) promotional activities (publicity materials and a Web page); (ii) a program launch event; (iii) working breakfasts; (iv) local CSR seminars; (v) CSR awareness raising visits to SMEs; (vi) two international conferences to disseminate CSR principles and practices and improve CSR awareness; and (vii) case studies.
- 3.4 The program launch event would spotlight what businesses stand to gain if they adopt CSR practices. The aim is to apprise the target audience (business owners and consultants), banks, insurance companies, institutions, trade associations, the media, and the academic community of the program's existence, components, and benefits, and explain how those stakeholders can participate.
- 3.5 Other planned events and avenues to promote CSR in Colombia are working breakfasts, local seminars, and CSR awareness raising visits to SMEs. The purpose of the working breakfasts is to bring the project to the attention of three groups: government agencies, business associations, and the media. Each group will receive information about the program and ways in which that particular group can participate, and the kind of support each group can furnish to the program will be determined. The local seminars will give participants a better understanding of the concept and importance of CSR and will publicize the program's outcomes to elicit the interest of Colombian business owners and encourage them to participate. The CSR awareness raising visits will target SMEs that have expressed interest in the

program, to establish personal contact with company executives and work out details of the SME's participation.

- 3.6 Two international conferences will be staged, one to increase CSR awareness and the other to publicize the outcomes of this program. The program's first international conference on CSR will be held at the end of year 2, with the participation of foreign organizations that are leaders in this field. The second gathering, slated for year 4, will disseminate the program outcomes. Three planned case studies to be reported on at that conference will look at SMEs in five production sectors which have adopted CSR practices and in which economic benefits have been quantified to demonstrate that embracing CSR principles and practices makes a business more competitive.

Component II: Development and consolidation of a local CSR service provider pool (MIF US\$22,440; local contribution US\$235,010)

- 3.7 The aim of this component is to develop local CSR service provider capacity and transfer CSR know-how to business owners and other agents associated with the program. The following activities are planned to that end: (i) consultant training by way of a diploma program; (ii) development of a consultant database; (iii) general CSR workshops, and (iv) workshops with SME employees to discuss specific CSR issues.
- 3.8 This activity would address the shortage of Colombian consultants with CSR expertise by developing a pool of trained local CSR service providers. To this end, CSR specialists will be hired to train local consultants in a diploma program how to implement CSR in businesses. Courses would cover such topics as the concept of CSR and the five program areas, the focus of CSR and main trends, CSR implementation methodology for consultants, and Colombian legislation and standards. After completing their training the consultants will be equipped to train new practitioners (trainer training) and provide technical assistance to SMEs. The program will create a database of CSR consultants to facilitate contact with interested business owners.
- 3.9 Workshops will be organized on CSR generally and on specific CSR features to train SME employees in these topics. The executing agency will engage experts and consultants who have extensive experience in the five core CSR topics to deliver the workshops. Seasoned experts will be hired to give training courses on specific CSR issues to interested SMEs.

Component III: Institution of CSR practices in SMEs (MIF US\$701,700; local contribution US\$313,660)

- 3.10 The purpose of this component is to instill CSR practices in the participating SMEs, creating incentives for their adoption. One piece of the process will be development

- of a methodology to incorporate CSR into business strategies as a management system, structuring it around the five core themes. This will be accomplished by way of three activities: (i) methodology development; (ii) development of indicators and evaluation in a pilot group of SMEs, and (iii) implementation of CSR practices in the participating SMEs.
- 3.11 For the first activity—develop a methodology for incorporating CSR into business management and strategy, built around the five central issues—the consulting firm will define core indicators addressing the five principal topics that are the object of corporate risk analysis. The methodology for evaluating outcomes in the CSR-adopting SMEs will set out the steps consultants should follow in an implementation guide and a corporate manual. A consultant also will be hired to develop indicators to measure impact and causality of competitiveness gains of SMEs that put CSR systems in place.
- 3.12 The core of the project will be the implementation of CSR practices in the participating SMEs, in four stages: (i) a diagnostic assessment of each SME; (ii) crafting of a CSR strategy plan for each SME; (iii) implementation of specific CSR practices, and (iv) monitoring and outcomes evaluations. The strategy aim is to tailor the proposed CSR implementation methodology to each company's needs and conditions at entry.
- 3.13 A senior consultant will be hired for each regional chamber of commerce to conduct the initial diagnostic assessment of each SME's CSR status, organizational processes and societal impacts. In stage two, following that initial diagnostic work, a CSR strategy plan will be devised for each participating SME by the CSR-trained consultant the SME has hired. Senior consultants working with the regional chambers of commerce will supervise and approve that work. Once a plan has been worked out with the enterprise the consultant will help put it into action. The final stage, monitoring and outcomes evaluation, will measure a set of key indicators such as workplace policies, environmental impact, governance structure, and stakeholder groups. (For details see the Operating Regulations in Annex VI.)
- 3.14 This component would involve three separate groups of SMEs. The aim for work with the first (pilot) group of 60 SMEs is to evaluate the methodology devised and give the consultants who received training in component II the opportunity to gain experience on the ground. As a participation incentive the program will defray 80% of the cost of consultant services in the pilot group enterprises. For the second group of 340 SMEs a more nimble arrangement is envisaged, as a matching grants scheme in which the program would pay 50% of consultant costs.
- 3.15 To be eligible for the program a business must: (i) be a small or medium-sized enterprise with annual sales of up to US\$5 million; (ii) be legally established; (iii) demonstrate that the company's entire management team is fully committed to participate in the program; (iv) complete an application form to join the program,

providing particulars of the company and information about its operating and administrative processes and procedures, documentation, and number of employees; (v) be prepared to sign an agreement with its local chamber of commerce; and (vi) be willing and able to pay its share of the consultant costs.

Component IV: Development of a corporate risk monitoring and rating system for SMEs (MIF US\$66,750; local contribution US\$10,500)

- 3.16 The purpose of this component is to devise a mechanism to give CSR-adopting SMEs better access to credit and insurance services. Specifically, the component proposes to help banks and insurance companies factor nonfinancial CSR-related criteria into their risk management systems so they can award higher credit and risk ratings to businesses that institute CSR practices. The component consists of the following activities: (i) create a corporate risk rating system and validate it in a pilot group of SMEs, and (ii) set up and implement the system in banks and insurance companies.
- 3.17 The object is to create a tool with which banks and insurance companies can measure risks associated with nonfinancial CSR-related management factors in SMEs and subsequently evaluate the system in a pilot implementation group. Two key facets in this system's development will be the hiring of: (i) a consultant to develop the system methodology and (ii) an information systems specialist to develop the system software. The methodology consultant will work with the participating banks and insurance companies to build in elements identified as important for the methodology guidelines.
- 3.18 The system thus developed will be tested in a pilot group of 15 SMEs (from the 30-enterprise component III group) to assess the tool's effectiveness and how readily it can be tailored to information supplied by an SME. Once the system has been validated in the pilot group the executing agency will work with at least two banks and two insurance companies to implement the system in their operations. One feature of the system will be a set of indicators depicting corporate responsibility practices relating, for instance, to workplace quality of life (occupational health and safety, etc.), environmental impact (environmental management and use of clean technologies), and corporate governance.

IV. EXECUTING AGENCY AND IMPLEMENTATION ARRANGEMENTS

A. Executing agency

- 4.1 The program's executing agency will be the nonprofit organization Confederación Colombiana de Cámaras de Comercio (Confecámaras), the federation of Colombian chambers of commerce, which will be responsible for the counterpart funding. As the umbrella organization for the country's 57 chambers of commerce,

Confecámaras' mission is to provide effective support for the Colombian business community and further its development.

- 4.2 In 2001 Confecámaras successfully completed implementation of the Business Development Centers program (ATN/ME-4911-CO), from which Colombia emerged as a model for SME-targeted activity and support in the areas of diagnostic services, action plans, and specialized training and advisory assistance. At this writing Confecámaras is the executing agency for the program "Use of Information and Communication Technologies in SMEs" (ATN/ME-7978-CO), on which implementation progress is satisfactory.

B. Implementation arrangements

- 4.3 **Program Executing Unit.** The Program Executing Unit will coordinate and manage the program activities, monitor administrative operations and manage the budget following the established procedures. This unit, to be staffed by a program director, an administrative coordinator, and an assistant, will be based at Confecámaras. Its personnel will report functionally and administratively to Confecámaras via its Chief Executive Officer and its board of directors, made up of the presidents of the country's chambers of commerce.
- 4.4 Confecámaras will be assisted by the Bogota, Medellín, Cali, Barranquilla, and Cartagena regional chambers of commerce which will oversee the program's operation in their region, adhering to the program guidelines. Confecámaras will coordinate decision-making on activities for the participating cities with the respective chambers of commerce, referencing the program's guidelines, objectives, and arranged activities.
- 4.5 **Technical Committee.** The planned Technical Committee for the program will consist of one representative each from Confecámaras, Colombia's Banking Superintendency, the bank industry association Asociación Bancaria de Entidades Financieras (Asobancaria), and the insurance industry's Federación de Aseguradores Colombianos (Fasecolda). The program director will be the committee's secretary. The purpose of this committee is to make recommendations for the program's strategy, particularly with regard to the CSR methodology developed and the risk management system, in components III and IV, respectively.
- 4.6 **Management of funds.** Confecámaras and the participating chambers of commerce will be required to operate sound accounting, financial, and internal control systems within the program. They are to open separate bank accounts specifically to administer the grant and local counterpart funds; they will process disbursement requests and subsequent accounting for expenditures following Bank disbursement procedures, and will provide the Bank with semiannual status reports on the revolving fund.

- 4.7 **Timetable.** The program will be implemented over a span of 48 months, with a 54-month disbursement period. The Bank will establish a revolving fund of up to 10% of the total program amount. The Bank's procurement and consultant service hiring policies and procedures must be followed. Confecámaras and the regional chambers of commerce will purchase goods and services and hire consultants needed to implement the program, adhering to Bank and MIF policies and procedures.
- 4.8 **Project readiness.** The proposed operation has been designed, its budget prepared, and its activities planned in concert with the executing agency. Letters of intent have been received from Asobancaria, Fasesolda, and a number of insurance companies and banks slated to take part in the program. There are drafts of the Operating Regulations, itemized budget and program timetable, and terms of reference for personnel to be hired for the Program Executing Unit and for the methodology-development consultant for components III and IV. The project team reviewed these documents and considers them suitable for program execution. The chambers of commerce have indicated their interest in taking part in this initiative.

V. COST AND FINANCING

- 5.1 The estimated total cost of the program is US\$1,900,000, to be funded with: (i) a US\$1,160,000 grant from the Small Enterprise Development Facility (MIF Facility IIIA) and (ii) US\$740,000 in counterpart funding which will be the executing agency's responsibility. The budget breakdown from the program summary is as follows:

Budget (in U.S. dollars)				
Components	MIF	Local contribution	Total	%
CSR awareness raising and results dissemination	72,400	118,920	191,320	10.2%
Development and consolidation of a local CSR service provider pool	22,400	235,010	257,450	13.8%
Institution of CSR practices in SMEs	701,700	313,660	1,015,360	54.3%
Development of a corporate risk monitoring and rating system for SMEs	66,750	10,500	77,250	4.1%
Program administration	147,200	38,800	186,000	9.9%
Evaluation	50,000	0	50,000	2.7%
Audits	16,000	0	16,000	0.9%
Contingency	53,510	23,110	76,620	4.1%
Subtotal	1,130,000	740,000	1,870,000	100.0%
Percentage	60%	39.6%	1	0.0%
Cluster activities	30,000	0	30,000	
Total	1,160,000	740,000	1,900,000	

- 5.2 The Bank will expend the US\$30,000-equivalent “Cluster activities” budget line on the cluster activities discussed in paragraph 7.2. That sum will be deducted from the grant amount on the effective date of the technical cooperation agreement for this operation, with no need for a disbursement request to the executing agency.
- 5.3 **Sustainability.** The program’s sustainability will hinge on the solidity of the institutional base constructed for development of concrete CSR initiatives in SMEs and on the achievement of real competitive advantages in the process. After the program ends, Confecámaras and the chambers of commerce will continue to help instill CSR principles in Colombian businesses as part of those organizations’ ongoing programs. Likewise, the consultant resources developed in the program will deliver services to companies in the market.

VI. BENEFITS AND RISKS

A. Benefits

- 6.1 Specific benefits: When the participating SMEs adopt CSR practices they will become more competitive by virtue of: (i) improved market access; (ii) prospective benefits from higher prices; and (iii) reductions in production, marketing, finance, and administrative costs. Instilling CSR practices tightens a business’s control over corporate risks by preventing potential sources of conflict and developing a range of potential problem scenarios. Society at large also gains when businesses are socially responsible, benefiting employees and their families, the environment, and other areas.

B. Beneficiaries

- 6.2 The program's chief beneficiaries will be 400 small and medium-sized enterprises in five targeted Colombian cities, which by adopting CSR practices will lower their operating costs and become more competitive.

C. Risks

- 6.3 One risk in the program is that Colombian banks and insurance companies might not be prepared to factor CSR considerations into their corporate risk appraisal and rating systems. Mitigant: The project team and the executing agency met and talked with banks, insurance companies, and bank and insurance industry associations right from the program's design stage. A group of those organizations will be represented on the Technical Committee and have indicated their interest in participating in the program (see letters of interest on file in Annex XI).

VII. MONITORING AND EVALUATION

A. Supervision and monitoring

- 7.1 The Bank's Colombia Country Office will be in charge of the program's supervision and monitoring, with technical support from the project team. It will be the executing agency's responsibility to submit semiannual reports, within 30 days after the end of each six-month period, describing activities of the preceding six months and submitting the work plan for the following six-month period. These semiannual reports are to contain: (i) a financial analysis of the program's implementation; (ii) a status review of the physical timetable and outcomes achieved; (iii) information on progress indicators and any difficulties or constraints encountered; and (iv) a revised work plan for the following phase. The Bank specialist will prepare the project completion report (PCR) within 90 days after the last disbursement.
- 7.2 The Office of the MIF will administer funds in the "Cluster activities" budget line to defray costs related to cluster workshops, pay expenses for executing agency staff to attend cluster events, hire a technical advisor, and carry out associated activities. The technical advisor is to provide assistance to all the executing agencies of the cluster operations and will likewise assist in monitoring work and data gathering for the MIF.

B. Midterm and final evaluations

- 7.3 Using program funds the Bank will hire consultants to conduct two evaluations: a midterm review approximately 24 months after the program is declared eligible for disbursement or when 50% of the funds have been disbursed, and a final evaluation following the end of the implementation period. The Bank and the executing

agency will together draw up terms of reference for this evaluation work. The midterm review will examine the program's status and overall performance, with special emphasis on: (i) effectiveness of the training and consolidation of specialized CSR consultants; (ii) effectiveness and impact of awareness raising events to boost the demand for CSR services, and (iii) level of interest and engagement of participating banks and insurance companies. Referencing the consultant's findings, recommendations will be made regarding any adjustments needed for use of the remaining funds.

- 7.4 The consultant hired for the final evaluation will assess: (i) concrete gains achieved by businesses that have a CSR system in place; (ii) geographic reach of the program activities; (iii) success in implementing the corporate risk monitoring and rating system in banks and insurance companies; and (iv) performance of the indicators addressed in the methodology.
- 7.5 Over the course of the project the executing agency and the regional chambers of commerce will compile the agreed evaluation and supervision indicators, which are set out in the logical framework (see Annex I). By reference to these indicators the Bank's Country Office and the executing agency will measure the project's overall impact and evaluate outcomes. The executing agency will facilitate access to all the information and documentation required to conduct these evaluations.

VIII. ENVIRONMENTAL AND SOCIAL IMPACT

- 8.1 This initiative is not expected to create any adverse environmental or social impacts. To the contrary, on the social front it will improve workplace quality of life in the participating businesses, including occupational health and safety measures. It will benefit the environment indirectly by promoting the use of corporate environmental management practices and clean technologies.
- 8.2 The Committee on Environment and Social Impact reviewed and approved the program summary on 3 September 2004 (CESI meeting 34-04) with the following recommendations: (i) define CSR practices more precisely; (ii) specify the CSR indicators for the risk management system (component IV); and (iii) ensure gender- and ethnically equitable participation opportunities in the program activities. The first of these recommendations is addressed in paragraph 2.4 of this memorandum, the second in paragraph 3.18, and the third in the program's Operating Regulations.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 As conditions precedent to the first disbursement the executing agency will have selected the program coordinator and the Technical Committee will have been formed.
- 9.2 In addition, Confecámaras must present, to the Bank's satisfaction, the cooperation agreements signed by Confecámaras and the regional chambers of commerce (see paragraph 4.4). It will be necessary to obtain the cooperation agreement of the pertinent chamber in each region in the country before program activities may be carried out in that region.

PROGRAM TO INSTITUTE CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN COLOMBIAN SMALL AND MEDIUM-SIZED ENTERPRISES

(CO-M1003)

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL: Improve competitiveness and sustainability of Colombian businesses.	By the end of the program there has been a 2% increase in competitiveness factors (productivity and sales) in at least 200 participating SMEs.	<ul style="list-style-type: none"> - Report comparing the final diagnostic assessment conducted in each SME against the original (baseline) diagnostic 	<ul style="list-style-type: none"> - Macroeconomic conditions do not deteriorate. - Regulations on stakeholder relations and legislation governing SMEs continue in force.
PURPOSE: Institute corporate social responsibility (CSR) practices in Colombian enterprises as a way of improving their market access, finance avenues, and economic performance.	<p>By the end of the program, 400 SMEs are using CSR practices.</p> <p>By the end of the program at least 200 participating SMEs (half the total) report the following results, on average, relative to their respective baselines:</p> <ul style="list-style-type: none"> - A 10% improvement, at least, in CSR indicators using the program's scorecard system (workplace policies, stakeholder groups, legal compliance, governance structure, environmental impact). - A 5% reduction in real insurance rates. - A 0.2% reduction, on average, in real interest rates on borrowings by businesses participating in the program or a 5% lengthening of repayment terms for the SMEs. - A 5% increase in the number of SMEs with access to insurance or credit through their participation in the program. 	<ul style="list-style-type: none"> - Report evaluating adoption of CSR practices in participating SMEs - Scorecard record for each SME participating in the program - Report comparing the final diagnostic assessment conducted in each SME against the original (baseline) diagnostic in terms of access and credit terms and conditions and insurance companies - Final evaluation reports on the project - PPMR for the project - PCR for the project 	<ul style="list-style-type: none"> - The SMEs wish to become more competitive and are prepared to apply the program's methodology to access markets, lower borrowing costs, and achieve sustainability. - The commercial banks and insurance companies are prepared to factor CSR assessment into their risk analysis work.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENTS			
Component 1 CSR awareness raising and results dissemination	<ul style="list-style-type: none"> - By the end of the program at least 2,000 individuals in the five participating cities have been familiarized with the merits of CSR and the program activities. 	<ul style="list-style-type: none"> - Aide-memoires of the events - Program Web page visitor counts - Report on statistics generated from surveys conducted at the awareness raising events 	<ul style="list-style-type: none"> - The promotion and dissemination strategy is adequate to elicit interest from SMEs and other stakeholder groups.
Component 2 Development and consolidation of a local CSR service provider pool	<p>12 months after the first disbursement:</p> <ul style="list-style-type: none"> - At least 20 consultants have been CSR-trained in Bogota and 10 in each of the other participating cities. <p>By the end of the program:</p> <ul style="list-style-type: none"> - At least 35 trained consultants have advised SMEs on CSR. 	<ul style="list-style-type: none"> - Consultants' contracts with SMEs - Web page link to index of trained consultants who have advised SMEs on CSR - Executing agency's semiannual reports on the project - Midterm review and final evaluation reports on the project - Executing agency's reports referencing the baselines - PPMR for the project - PCR for the project 	<ul style="list-style-type: none"> - There is a critical mass of professionals available to participate in the training and prepared to pay for it.
Component 3 Institution of corporate social responsibility practices in SMEs	<p>Within 18 months after the project begins, CSR practices have been instituted in a pilot group of at least three SMEs in each city.</p> <p>CSR practices have been adopted in:</p> <ul style="list-style-type: none"> -100 SMEs by the end of year 2 -200 SMEs by the end of year 3 -100 SMEs by the end of year 4 <p>By the end of the project at least 400 SMEs in the five participating cities have adopted CSR practices.</p>	<ul style="list-style-type: none"> - Evaluation report for each SME - Executing agency's semiannual reports on the project - Midterm review and final evaluation reports on the project - Executing agency's reports referencing the baselines - PPMR for the project - PCR for the project 	<ul style="list-style-type: none"> - The means pursued to improve CSR awareness and the understanding of CSR practices are suitable and work for SMEs. - The SMEs allocate resources to cofinance the technical assistance services delivered by the program. - The lowering of SME risk is an incentive for the financial sector to enhance conditions for SME borrowing and for insurers to lower policy costs.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Component 4 Development of a corporate risk monitoring and rating system for SMEs	Before the end of year 3 the system has been tested in at least 15 SMEs. By the end of the program at least two banks and two insurance companies are using the system. The banks and insurance companies have rated at least 100 participating SMEs using this tool (date and cities to be indicated).	- Narrative reports from banks and insurance companies participating in the program	- Banks and insurance companies are prepared to factor CSR assessment into their risk analysis work.
ACTIVITIES			
COMPONENTS	INDICATORS	MEANS OF VERIFICATION	
Component 1. CSR awareness raising and results dissemination			
1.1 Promotional activities (publicity materials and Web page)	- 10,000 publicity items produced (brochures, pennants, posters, folders) by the end of the project. - Web page developed.	- Copies of materials produced and distributed - Link and visitor count reports	
1.2 Program launch event	- An event assembling at least 150 private sector, government, NGO and academic community participants is staged in the first half of year 1.	- Event reports (program, information materials, list of participants, conclusions of the gathering)	
1.3 Working breakfasts	- Three working breakfasts organized each year in each city, each with 10 participants.	- Event reports (program, information materials, list of participants, conclusions of the gathering)	
1.4 Local CSR seminars	- One seminar held each year in each city during the first two years of the project, each with 80 participants.	- Event reports (program, information materials, list of participants, conclusions of the gathering)	
1.5 CSR awareness raising visits to SMEs	- At least 100 SMEs visited in each city annually during the first two years.	- Visit records	
1.6 Two international conferences to disseminate CSR principles and practices and improve CSR awareness	- An awareness-raising event organized at the end of year 2, with 250 participants. - A results-disseminating event held at the end of year 4, with 250 participants.	- Event reports (program, information materials, list of participants, conclusions of the gathering)	

COMPONENTS	INDICATORS	MEANS OF VERIFICATION
1.7 Case studies	- By the end of the program at least three case studies have been concluded in each of the five sectors.	- Web page
Component 2. Development and consolidation of a local CSR service provider pool		
2.1 Consultant training (diploma program)	<ul style="list-style-type: none"> - By the end of year 1 at least 20 consultants have been trained in Bogota and 10 in each of the program's other target cities. - At least 35 of the consultants trained have been engaged in the CSR-implementation activities. 	<ul style="list-style-type: none"> - Diploma program graduation records at the end of year 1 - Record of responsible consultants by SME - Executing agency's semiannual reports on the project
2.2 Development of a database of trained consultants	- List of consultants trained by the program and their résumés are posted on the program's Web page.	- Database link on the Web page
2.3 General CSR workshops	- One event held per year in each city during the four years of the project, each with at least 20 participants.	- Event reports (program, information materials, list of participants, conclusions of the gathering)
2.4 Workshops for SME employees on specific CSR issues	- Two workshops held in each city in the first two years and one workshop per city in the following two years, each with at least 20 participants.	- Event reports (program, information materials, list of participants, conclusions of the gathering)
Component 3. Institution of corporate social responsibility practices in SMEs		
3.1 Methodology and indicator development and evaluation of a pilot group of SMEs	<ul style="list-style-type: none"> - A methodology manual for CSR implementation in SMEs has been developed. - Report on the CSR indicators developed. - Evaluation done of each of the pilot group SMEs. 	<ul style="list-style-type: none"> - Document posted on Web page - Document posted on the Web page - Outcomes report on each SME
3.2 Diagnostic assessment of each participating SME (baseline)	<ul style="list-style-type: none"> - Baselines established in at least: <ul style="list-style-type: none"> - 100 SMEs by the start of year 2 - 200 SMEs by the start of year 3 - 100 SMEs by the start of year 4. 	- Diagnostic report for each SME

COMPONENTS	INDICATORS	MEANS OF VERIFICATION
3.3 Development of the CSR strategy plan and institution of CRS practices in each SME	<ul style="list-style-type: none"> - Strategic plan developed and practices implemented in at least: <ul style="list-style-type: none"> - 100 SMEs by the start of year 2 - 200 SMEs by the start of year 3 - 100 SMEs by the start of year 4. 	<ul style="list-style-type: none"> - Strategic Plan document for each SME
3.4 Monitoring and outcome evaluations	<ul style="list-style-type: none"> - 200 evaluations conducted at SMEs by the end of year 4. 	<ul style="list-style-type: none"> - Evaluation report for each SME
Component 4. <i>Development of a corporate risk monitoring and rating system for SMEs</i>		
4.1 Creation of a corporate risk rating system and rating of a pilot group of SMEs	<ul style="list-style-type: none"> - Methodology devised for operation of the corporate risk rating system and rating of a pilot group. - Manual written and system created. - Before the end of year 3 the system has been tested in at least 15 SMEs. 	
4.2 Setup and implementation of the rating system in banks and insurance companies	<ul style="list-style-type: none"> - By the end of the program at least two banks and two insurance companies are using the system. 	<ul style="list-style-type: none"> - Final evaluation of the project

**PROGRAM TO INSTITUTE CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN
COLOMBIAN SMALL AND MEDIUM-SIZED ENTERPRISES (CO-M1003)**

SUMMARY OF ITEMIZED BUDGET

Program activities	Total			
	MIF	Colombian Chamber of Commerce System		Total
		Cash	In kind	
Component I: CSR awareness raising and results dissemination	72,400	29,540	89,380	191,320
1.1 Promotional activities (publicity materials, Web page)	19,400	0	59,600	79,000
1.2 Program launch event	5,600	2,850	500	8,950
1.3 Working breakfasts (three with each chamber of commerce)	0	5,760	12,000	17,760
1.4 Local CSR seminars	7,300	7,680	13,780	28,760
1.5 CSR awareness raising visits to businesses	4,800	0	0	4,800
1.6 Two international conferences to improve CSR awareness and disseminate results	22,300	9,250	3,500	35,050
1.7 Case studies	13,000	4,000	0	17,000
Component II: Development and consolidation of a local CSR service provider pool	22,440	49,220	185,790	257,450
2.1. Consultant training (diploma program)	1,500	23,000	6,500	31,000
2.2. Development of a database of trained consultants	0	4,000	10,000	14,000
2.3 General CSR workshops	6,720	17,600	34,700	59,020
2.4 Workshops on CSR issues with SME employees	14,220	4,620	13,150	31,990
2.5 Regional coordination with activities	0	0	121,440	121,440
Component III: Institution of CSR practices in SMEs	701,700	236,260	77,400	1,015,360
3.1 Methodology and indicator development. Pilot group evaluation	127,200	223,660	2,400	353,260
3.2 Diagnostic assessment of each participating SME (baseline)	8,500	0	15,000	23,500
3.3 Crafting of a CSR strategy plan and institution of CSR practices in each SME	566,000	0	0	566,000
3.4 Monitoring and outcome evaluations	0	12,600	60,000	72,600
Component IV: Development of a corporate risk monitoring and rating system for SMEs	66,750	0	10,500	77,250
4.1 Creation of a corporate risk rating system. Rating of a pilot group of SMEs	45,750	0	0	45,750
4.2 System setup and implementation in banks and insurance companies	21,000	0	10,500	31,500

Program activities	Total			
	MIF	Colombian Chamber of Commerce System		Total
		Cash	In kind	
Project administration	147,200	0	38,800	186,000
6.1 Administrative personnel	139,200	0	14,400	153,600
6.2 Other	0	0	14,400	14,400
6.3 Equipment	8,000	0	10,000	18,000
Evaluations	50,000	0	0	50,000
Audits	16,000	0	0	16,000
Contingencies	53,510	23,110	0	76,620
Subtotals	1,130,000	338,130	401,870	1,870,000
Cluster activities	30,000	0	0	30,000
Total	1,160,000	338,130	401,870	1,900,000

COLOMBIA

**PROGRAM TO INSTITUTE CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN COLOMBIAN SMALL AND MEDIUM-SIZED ENTERPRISES
(CO-M1003)**

A. MIF projects similar or related to the proposed project

N/A

B. Similar or related Bank projects

N/A

C. MIF projects targeted to the same sector or beneficiaries

Project number and approval date	Project title, executing agency, amount	Signature date and disbursement period	Percent disbursed	Comments
ATN/ME-4911-CO 18 April 1995	Program to Establish Business Development Centers Confederación de Cámaras de Comercio (CONFECAMARAS) US\$7,194,547 (MIF: US\$5,966,641)	19 October 1995 66 months	100%	According to the ex post evaluation report, CONFECAMARAS fulfilled the program objectives, benefiting the participating SMEs.
ATN/ME-7978-CO 7 August 2002	Support Business Performance through the Use of Information and Communication Technology Confederación de Cámaras de Comercio (CONFECAMARAS) US\$1,970,000 (MIF: US\$1,000,000)	10 October 2002 23 months	18%	Implementation progress satisfactory (S/P). Very slightly behind schedule but substantial progress made on building the bases required in the project.

Project number and approval date	Project title, executing agency, amount	Signature date and disbursement period	Percent disbursed	Comments
ATN/ME-7856-CO 1 May 2002	Promotion of Cooperative Ventures among Firms Asociación Colombiana de Medianas y Pequeñas Industrias (ACOPI) US\$1,814,900 (MIF: US\$1,077,400)	7 June 2002 27 months	42%	Satisfactory implementation progress (S/HP). Activities accomplished satisfactorily. Component 1 and 2 targets surpassed.
ATN/ME-7855-CO 1 May 2002	Business Linkages in the Garment Industry Corporación Universitaria Minuto de Dios (UMD) US\$1,850,000 (MIF: US\$1,100,000)	26 July 2002 26 months	17%	Despite some delays in international consultant hiring the executing agency is implementing the project satisfactorily (S/P).

D. Corporate Social Responsibility Cluster projects

Project number and approval date	Project title, executing agency, amount	Signature date and disbursement period	Percent disbursed	Comments
ATN/ME-8381-RG 30 July 2003	Promoting Corporate Social Responsibility Acción Empresarial US\$1,820,000 (MIF: US\$1,100,000)	15 October 2003 11 months	10%	The project is in the early implementation stage, with good prospects (S/P).
ATN/ME-8529-CH 3 December 2003	Adoption of Corporate Social Responsibility Practices in SMEs Pontificia Universidad Católica de Valparaíso (Centro VINCULAR) US\$2,500,000 (MIF: US\$1,250,000)	1 March 2004 6 months	10%	The project is in the early implementation stage, with good prospects (S/P).

Project number and approval date	Project title, executing agency, amount	Signature date and disbursement period	Percent disbursed	Comments
ATN/ME-8864-ME 22 September 2004	Implementing Corporate Social Responsibility Measures in Small and Medium Enterprises in the Supply Chain Universidad Anáhuac US\$2,525,000 (MIF: US\$1,275,000)	28 September 2004	0%	Project signed on 28 September. The executing agency is fulfilling the conditions precedent.

MULTILATERAL INVESTMENT FUND	COLOMBIA MIF PORTFOLIO
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MULTILATERAL INVESTMENT FUND	COLOMBIA MIF PORTFOLIO
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	Memo #	Project #	ATN #	Name	Exec. Agency	FAC	Approval	Status	MIF Amount	% Disb
21	MIF/AT-216	TC9811013	ATN/MT-6279-CO	Strengthening of the Credit Union System	CONFECOOP	I	7-Dec-98	Completed	648,761	100.00
22	MIF/AT-246	TC9305261	ATN/MT-6498-CO	Private Enterprise in the Subsidized Health Programs	FCORONA	I	12-May-99	Completed	630,000	100.00
23	MIF/AT-284	TC9907024	ATN/ME-6658-CO	Accounting and financial information systems for Nonregulated Microfinance Institutions	EMPRENDER	IIla	17-Sep-99	Completed	330,000	100.00
24	MIF/AT-307	TC9904049	ATN/MH-6755-CO	Agricultural Technology Transfer Program	ACJ	II	10-Nov-99	In execution	640,000	94.09
25	MIF/AT-305	TC9906026	ATN/MH-6752-CO	Quality and Environmental Management Systems	ICONTEC	II	10-Nov-99	Completed	1,022,789	100.00
26	MIF/AT-332	TC9904001	ATN/ME-7006-CO	Marketing Company for Microenterprise Owners	FMARIO	IIla	14-Jun-00	In execution	850,000	92.41
27	MIF/AT-334	TC0003003	ATN/ME-7011-CO	Institutional Strengthening of Women's World Banking Affiliates	AWWB	IIla	15-Jun-00	Completed	500,000	100.00
28	MIF/AT-368	TC9905047	ATN/MT-7186-CO	Rationalization of Administrative Procedures	CCB	I	25-Oct-00	Completed	1,900,000	100.00
29	MIF/AT-371	TC9911104	ATN/ME-7203-CO	Isabella Grape Agribusiness Project	F. CARVAJAL	IIla	1-Nov-00	In execution	1,111,947	87.78
30	MIF/AT-374	TC0010027	ATC/MT-7239-CO	Bucaramanga Potable Water Project	MDE	I	29-Nov-00	Approved	480,000	0.00
31	MIF/AT-374	TC0010027	ATN/MT-7238-CO	Bucaramanga Potable Water Project	MDE	I	29-Nov-00	In execution	420,000	5.71
32	MIF/AT-374	TC0010027	ATC/MT-7239-CO	Bucaramanga Potable Water Project	MDE	I	29-Nov-00	Approved	480,000	0.00
33	MIF/AT-374	TC0010027	ATN/MT-7238-CO	Bucaramanga Potable Water Project	MDE	I	29-Nov-00	In execution	420,000	5.71
34	MIF/AT-380	TC0003033	ATN/MT-7253-CO	Internet Based Export Information System	PROEXPO	I	6-Dec-00	In execution	1,500,000	33.45
35	MIF/AT-385	TC0005006	ATN/MH-7269-CO	Environmental Management and Implementation of Cleaner Technologies for Colombian Enterprises	CINSET	II	13-Dec-00	In execution	1,423,000	91.81
36	MIF/AT-405	TC0006003	ATN/MT-7407-CO	Promoting Foreign Investment in Colombian Enterprises	COINVERTIR	I	25-Apr-01	In execution	900,000	54.10
37	MIF/AT-429	TC0103005	ATN/ME-7545-CO	Institutional Strengthening Compartir	FCOMPARTIR	IIla	9-Aug-01	In execution	210,000	73.52
38	MIF/AT-455	TC0103004	ATN/ME-7777-CO	Institutional Strengthening of Finamerica, S.A.	FINAMERICA	IIla	18-Jan-02	In execution	300,000	78.83
39	MIF/AT-457	TC0109022	ATN/MT-7793-CO	Strengthening Capital Markets in Colombia	BV	I	20-Feb-02	In execution	1,018,300	8.69
40	MIF/AT-467	TC0106004	ATN/ME-7855-CO	Skill Standards and Training of the Garment Industry in the Eje Cafetero	MINUTO DE DIOS	IIla	1-May-02	In execution	1,100,000	24.08
41	MIF/AT-469	TC0108007	ATN/ME-7856-CO	Supply Chain Development and Promotion of Cooperative Ventures	ACOI	IIla	1-May-02	In execution	1,092,400	49.68
42	MIF/AT-491-1	TC0106010	ATN/ME-7978-CO	Support for the Massive Use of It(smes)	CONFECAMARAS	IIla	7-Aug-02	In execution	1,000,000	18.48
43	MIF/AT-522	TC0210074	ATN/MT-8208-CO	Line of Activity for Airport Security	UAEAC	I	24-Jan-03	In execution	500,000	40.00
44	MIF/AT-524	TC0106021	ATN/ME-8204-CO	Technology Transfer and Quality Enhancement for the Jewelry Sector	CDP	IIla	21-Feb-03	In execution	375,000	19.02
45	MIF/AT-586	CO-M1001	ATN/MH-8618-CO	Promotion of Youth Entrepreneurship in Colombian	FCORONA	II	21-Jan-04	Approved	1,050,000	0.00
46	MIF/AT-601	CO-M1002	ATN/ME-8797-CO	Program to Support Clusters Competitiveness	UAN	IIla	4-Aug-04	Approved	3,450,000	0.00
47	MIF/AT-612	TC0305015	ATN/ME-8893-CO	SME's Integration in Public Procurement	ACIEM	IIla	13-Oct-04	Approved	720,000	0.00
							Total MIF Amount		45,901,747	