

DONORS PROJECT MEMORANDUM
COUNTRY: COLOMBIA

BUSINESS DEVELOPMENT CENTERS PROGRAM

(TC-93-07-04-3)

EXECUTIVE SUMMARY

EXECUTING AGENCY: CONFEDERACIÓN DE LAS CÁMARAS DE COMERCIO DE COLOMBIA
[Colombian Federation of Chambers of Commerce]
(CONFECAMARAS)

The Chambers of Commerce and sectional offices of the Colombian Association of Small Industries (ACOPI) in Bogota, Medellín, Cali, Bucaramanga, and Barranquilla, together with other private entities, will form five regional executing units which, with CONFECAMARAS and the national office of ACOPI will constitute a national executing unit.

BENEFICIARIES: Small businesses of Colombia

FINANCING:	MIF:	US\$ 5,966,641 (MIF Window III-A)
	Local counterpart	US\$ 1,227,906
	Income generated:	US\$ 3,120,000
	Total:	US\$10,314,547

TERMS:	Execution period:	36 months
	Disbursement period:	42 months

ENVIRONMENTAL CLASSIFICATION: The Environment Committee, at its meeting of November 16, 1994, classified this as a Category II operation.

OBJECTIVE: To promote growth in the market for services for small businesses, based on the stimulation of demand and the adaptation of supply to this business group, so as to improve its competitiveness in the country's current liberalized economic framework.

DESCRIPTION: The Chambers of Commerce and the sectional offices of ACOPI of Bogota, Medellín, Cali, Bucaramanga, and Barranquilla, together with other private institutions in each locality, will create five business development centers (BDC) in the capitals of the most industrialized regions in the country. The BDCs will be autonomous, and their management will be coordinated by a national unit. Their objective will be to

facilitate access for small businesses to the external technical assistance services they require to improve their competitiveness. The BDCs will provide the following services: (a) business promotion and expansion; (b) business information; (c) competitiveness diagnostics; (d) preparation of projects to improve production and innovation, quality control, marketing and access to markets, and management and finance; (e) shared cost projects for small business groups; and (f) business management training. The BDCs will provide their services to small enterprises directly or under subcontract to specialized companies, and will charge the companies an increasing percentage of the cost of the service, with the aim of becoming self-sustainable by their fourth year of operation.

**EVALUATION
CRITERIA:**

To evaluate the project, administration of the BDCs will be analyzed 9, 18, and 30 months after startup to monitor fulfillment of the objectives. The following quantitative and qualitative parameters, among others, will be considered: (a) number of services for which demand exists and has been satisfied; (b) percentage of companies visited that have requested diagnostic services; (c) percentage of companies diagnosed that initiate improvement projects; (d) companies requesting new services within a period of two years; (e) increases in productivity in the companies served; and (f) billing level and self-financing of the BDCs.

BENEFITS:

The project will benefit approximately 2,200 small businesses, accounting for 10 percent of all small business in the country, and will generate an increase in demand for specialized technical assistance services that should result in an improved capacity to supply such services, better methodologies for analyzing small business management practices, and an expansion of the market for the most essential services for business modernization. All this should improve the competitiveness of the companies benefitting from the program. The project will also strengthen private institutions providing support for small business, and will be an important reference for the reproduction of similar projects in other regions of the country. Most of the MIF contribution constitutes a veritable investment in human capital, and will thus help develop the capacity to meet the challenges of competition.

RISKS:

The project is the first experiment in joint, long-term work between business organizations and private

institutions, which entails a certain risk that corporate distrust may arise. However, the climate for renewal and change in Colombia and the widespread commitment to undertake joint efforts to improve business competitiveness make it likely that potential institutional confrontations can be overcome. In addition, the project could be carried out even if only one institution gives support to the BDC in each region. Other project risks may arise from difficulties greater than anticipated in generating demand for services among small businesses, or from their inability to pay the fees to be charged, especially after the MIF contribution is discontinued. However, these risks can be contained by regulation of disbursements as the basis of mid-term evaluations, since disbursements will be made only to the extent that effective demand among small businesses is generated. In addition, even in the case that growth in the market for services is less than anticipated, the BDCs can always adapt their size to current market conditions.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

In addition to the general contractual conditions applicable to this operation, the following special conditions will be included:

- (a) As a general condition precedent to the first disbursement of the MIF contribution, the executing agency must submit to the Bank for approval:
 - (i) evidence that the National Project Executing Unit has been established, in accordance with the functions, terms, and conditions previously agreed upon with the Bank (paragraph 2.18);
 - (ii) evidence that a special account has been opened to handle program resources (paragraph 2.20);
 - (iii) the operating regulations of the program previously agreed upon with the Bank (paragraph 2.20); and
 - (iv) a short list of candidates for the National Project Director to be hired in accordance with the terms and conditions previously agreed upon with the Bank (paragraph 2.18).
- (b) As a special condition precedent to the first disbursement of resources for the creation of

each of the Business Development Centers, the executing agency must present to the Bank:

- (i) the signed agreement between the executing agency and the entities participating in the creation of the respective center, establishing: (a) the designation of the party responsible for executing the project in the region concerned; (b) the counterpart resources that each of the entities undertakes to contribute to project execution; and (c) the terms, rights, and responsibilities of the parties in executing the project (paragraphs 2.18 and 2.19); and
 - (ii) evidence that the Regional Project Director has been hired in accordance with the terms and conditions previously agreed upon with the Bank (paragraph 2.20).
- (c) The executing agency and the managers of the BDCs will agree to deposit the income from services provided by each business development center in a separate account for the purpose of covering part of the project costs and creating a reserve fund to guarantee maintenance of the centers.
- (d) The executing agency will undertake to perform, and present to the Bank, 9, 18, and 30 months after the first disbursement, the evaluations and project monitoring exercises referred to in paragraphs 2.26, 2.27, and 2.28 of this document, to make a specific proposal to continue the project as from the fourth year of activities, and to present the semiannual reports referred to in paragraph 2.29.

EXCEPTION:

In view of the nature of the many consulting services to be hired, and their brief duration, and to allow the BDCs to operate expeditiously, it is proposed that the selection and hiring of consulting services costing less than US\$20,000 be monitored by the Bank ex post (paragraph 2.22).

**PROJECT
ELIGIBILITY:**

The project meets all of the conditions for eligibility established by the MIF in that it contributes to institutional strengthening, and market growth and is an innovative experiment, and should provide a significant demonstration effect. In addition, the project is consistent with the Bank's strategy for Colombia and complements other operations planned and

in progress. It is eligible to receive nonreimbursable funds under the agreement establishing the MIF on the grounds of the promotional character of the program, its limited duration, and its strong support for market mechanisms.

**USE OF MIF
FUNDS:**

The purpose of the MIF funds will be to contribute decisively to covering the costs of investment and startup required to establish an integrated system of business services and to cover part of the system's operating expenses for three years. By the fourth year of operation, the income generated by the system is expected to exceed its operating costs.

I. FRAME OF REFERENCE

A. General framework

- 1.1 The increasing economic liberalization in Colombia has been accompanied by a growth rate of over five percent and declining inflation. However, in addition to the new opportunities offered by economic and trade liberalization there have also been the challenges of responding to increased competition for access to external markets, while maintaining domestic market position in the face of products and services from other countries. Furthermore, upward pressure on the exchange rate could intensify the challenge of international competitiveness for Colombian businesses.
- 1.2 Maintaining economic dynamism over the medium and long terms will depend on the continuity of the market reform and liberalization programs, but also on the improvement of production efficiency and competitiveness. It is therefore necessary to supplement the activities being conducted at the macroeconomic level with programs to address the microeconomic problems and with activities to promote productive and organizational innovation in the business community. In this regard, the main focus must be the private business sector, which plays the central role in producing goods and services.

B. The competitiveness of small business in Colombia

- 1.3 For the purposes of this project, a small business is defined as one that employs between 5 and 99 persons. The total number of such business units is estimated at more than 22,000, accounting for 23.3 percent of all enterprises and providing employment to 38 percent of the formally employed labor force in Colombia. Despite its importance, it should be noted that the structure of production in Colombia is highly polarized between a small number of large establishments — only 1.5 percent of all companies have more than 100 employees — and an extremely large microenterprise and family business sector, accounting for 72.9 percent of the total 1/. Thus, one of the problems of the Colombian economy lies in the underdevelopment of its intermediate business sector composed of small companies, which are more specialized and flexible and therefore less vulnerable at a time of changing international market conditions. The underdevelopment of small businesses in Colombia is reflected in the enormous difference in their productivity as compared with large business. This affects the competitiveness of small businesses, but also makes coordination of production between companies of different sizes and wide disparities in efficiency difficult.

1/ See Annex 8, Table 1.

- 1.4 According to various diagnostic studies on business competitiveness in Colombia, and in particular the situation of small businesses, 2/ there are many small companies, poorly integrated and with limited access to international markets. These companies generally do not have qualified management teams to design and implement new strategies and are characterized by their technological obsolescence, inadequate quality control, insufficient capacity to design products and processes and apply international standards, limited exposure to competition in international markets, lack of proper distribution channels, limited use of subcontracting, lack of associations to pursue common objectives, and inadequate financial administration. Furthermore, small businesses have difficulties in identifying the nature of their problems and prioritizing their most immediate needs. Companies express their needs easily in the form of demand for financing, but devote less attention to management issues that relate to efficient use of their resources.
- 1.5 Because of these deficiencies, there are no medium- and long-term competitive strategies. Past protectionism has blocked greater awareness of the technology and organization necessary to meet the challenges of an open economy, and as a result, a network of effective business services has not been developed. The economic transformations occurring in the country must be accompanied by a change in business mentality, and by the parallel development of a market for management services accessible to small businesses expressing their needs in the form of effective demand. A fluid market for services is of crucial importance for the modernization of Colombian small business, since it will enable companies to avoid internalizing costs that are excessive in relation to their size. A dynamic market also reduces transaction costs insofar as service products are diversified, supply is specialized, and suitable methodologies for management analysis are disseminated throughout the sector.
- 1.6 Because of the territorial characteristics of Colombia, business activity is largely concentrated around the major cities. Bogota, Medellin, Cali, Barranquilla, and Bucaramanga account for approximately 60 percent of Colombia's GDP and nearly 90 percent of its industrial product 3/. However, business services tend to be concentrated in the capital and have had more difficulty developing in other regions of the country, where the needs indicated above are relatively greater.

2/ Most noteworthy are the studies on the situation of small business in Colombia conducted by ACOPI, the study "Colombia, small enterprise, and environment", published jointly by CINSET and FUNDES, and the recent diagnostic study of the competitiveness of Colombian business conducted by Monitor Company, directed by M. Porter.

3/ The specific information on each area is provided in Annex 2.

- 1.7 Small businesses in Colombia are to a large extent grouped in guilds and associations of various kinds, traditionally to advocate group rights and defend group interests, but increasingly to provide services to their members. Hence, national as well as departmental or regional business organizations are adapting their objectives to the new liberalized economic climate, which they regard as irreversible, and are attempting to transform their protectionist strategies into competitive strategies. In addition, new private institutions are emerging that are prepared to take on the role of business promotion and regional development, whereas others, like universities, are increasingly linked to the small business sector.
- 1.8 Clearly, Colombia must meet the challenge of international competition, and this challenge applies particularly to the basic business building block: small enterprises. Development of the specialized business service market is crucial for small businesses to improve their competitiveness and develop a smoother operating, more modern system of production in Colombia. With assistance from the MIF, the Chambers of Commerce, ACOPI, and other private institutions intend to create five business development centers in Bogota, Medellín, Cali, Bucaramanga, and Barranquilla to facilitate the access of small businesses to technical assistance services that will improve their efficiency.

C. The market for small business services

- 1.9 The specialized small businesses services market has still not developed throughout Colombia; it is focused almost exclusively in Bogota. Demand is still incipient, although the need derived from competition represents an enormous potential for growth. Trade liberalization has initiated a process of industrial and business restructuring in which a portion of the small business sector can only survive by modernizing its management and production systems. Current demand is centered on financial consulting services and vocational training and is beginning to appear in the field of quality control management as well and, more tentatively, in technology and production consulting services. Demand for and use of basic business information systems is also beginning to emerge.
- 1.10 There are four factors that limit the expansion of demand: (a) limited awareness of the need for services (because of the low level of training, the lack of prior exposure to the level of competition now being confronted, and the lack of individualized identification of need); (b) the difficulty of identifying service providers that are reliable and respond to specific needs; (c) the cost of available services, only accessible to the large companies

that use them 4/; and (d) limited negotiating capacity, specification in contracting, assessment of results, and implementation of consultants' proposals. These constraints on the development of demand would be alleviated by this project through promotion, information, and comprehensive diagnostic activities, and assistance in the preparation of improvement and general training projects.

- 1.11 The supply of services in Colombia is not structured and still lacks the professionalism and specialization found in the industrialized countries. In the private sector, the only consulting services that have developed to any degree are those for large companies, which can also resort to international consulting firms and service companies. Noteworthy in the public sector are: the National Training Service [Servicio Nacional de Aprendizaje] (SENA) and its network of technology centers, with a sectoral and largely vocational training focus; financial advisory services such as the Industrial Development Institute [Instituto de Fomento Industrial] (IFI); and the trade information services of Proexpor. Another public initiative has been to create a number of semipublic corporations concerned with specific problems such as quality control. The Colombian Institute of Technical Standards [Instituto Colombiano de Normas Técnicas] (INCOTEC), formally private but also financed by the public sector, mainly serves large companies. There are also NGOs which, having operated in the field of financial consulting services for microenterprise, have expanded their activities to technical assistance not only to microenterprises but also to medium-sized companies. FUNDESCOL is an example of penetration in the emerging market of small enterprise. Others, such as FIGITEC, CINSET, PROPEL, or university foundations, have also undertaken such activities. Finally, private sector organizations themselves, Chambers of Commerce, trade unions, and ACOPI also provide services such as commercial and legal information, technical information and subcontracting references, or training. The project is designed to promote the development of the private sector supply of specialized services for small business, expanding the market on the demand side by promoting effective demand, helping to get the maximum results from technical assistance, and disseminating innovative methodologies for the analysis of small businesses management.

D. Justification of the project

- 1.12 There is a series of obstacles to the growth and vitality of the small business services market in Colombia, which will be difficult

4/ Net income varies widely depending on the size of the business (see Annex 8, Table 1) in the range from 9 to 100 employees, which must be taken into account as a limiting factor, with respect to the design of technical assistance methodologies.

to eliminate through spontaneous, profit-seeking initiatives. The period of time required to realize a return on the investment exceeds that normally considered acceptable for individual initiatives. The demonstrator effect inherent in this type of activity yields a benefit that is not easily enjoyed by individual investors. The necessary assimilation of technologies by the suppliers and customers and the learning costs implicit in widening the limits of the market are additional disincentives to potential operators. Consequently there is justification for collective activities that treat business information as a public good generating positive externalities and permitting the future development of market forces.

- 1.13 The project is consistent with the Bank's strategy in Colombia and addresses the priority programming objectives for 1994-97. Furthermore, the Eighth Replenishment agreements call for the modernization of production structures and an environment favorable to small business. The project also meets MIF eligibility requirements, by helping to strengthen and expand the private sector, small business, institutional development, and the market economy, by means of an innovative experiment with a significant demonstrator effect.
- 1.14 The MIF contribution will take the form of nonreimbursable technical cooperation financing for the following reasons: (a) it is an investment in the training of human resources and the establishment of business development centers, which would otherwise not be possible; (b) most of the BDC activities during the project execution period will target the promotion and development of specific demand on the part of small businesses, which are nonremunerative activities that could not be financed without MIF assistance; (c) the project is designed to finance the operating budget of the BDCs so that small business can benefit from more accessible rates for services and eventually cover the entire cost; (d) the MIF contribution is temporary and upon project completion, the BDCs must be self-sustainable; and (e) the MIF shares the risk of its contribution with private entities that are also contributing.

II. THE PROJECT AND ITS EXECUTION

A. Objectives of the project

- 2.1 The main objective of the project is to develop the market for specialized services and technical assistance for small business with the aim of improving their competitiveness and helping to modernize the production system of Colombia.
- 2.2 The specific objectives of the project are as follows:

- (i) the establishment, by the Chambers of Commerce, ACOPI, and other private-sector institutions, of five business development centers to help small businesses identify and diagnose their management problems, and arrange the hiring of specialized technical assistance services, charging a fee which would make them self-financing within a period of three years;
- (ii) the structuring and development of effective demand for technical assistance services to help small business overcome the barriers they encounter in expressing it creating a demonstrator effect that will lead to greater use of management consulting services;
- (iii) based on this demand, the development of the private-sector supply of technical assistance, product design, and management consulting methodologies adapted to the needs of small business at reduced transaction costs; and
- (iv) the strengthening of private business organizations' capacity to design and implement activities to develop small business and a market economy.

B. Description and activities of the project

- 2.3 Agreements to set up the BDCs will be signed by the Chambers of Commerce, the sectional offices of ACOPI, and other private institutions selected in each department, for which purpose the regional executing units (REU) will be established. These REUs will delegate members to manage the BDCs and represent each REU in the national executing unit (NEU), and may constitute a nonprofit legal entity if its members so wish. 5/
- 2.4 The BDCs will consist of small teams of specialized professionals to be assigned to offices provided by the REUs and who, in pursuit of project objectives, will carry out the following activities:
 - (i) **Business promotion and extension.** The personnel of the BDCs will visit the small businesses in their respective areas, establishing direct contact with the owners or managers, in order to assist them in identifying their needs, detecting possible areas of inefficiency, and offering the services of the BDC to address them. This promotional activity, of particular interest during the initial years of the centers' operations,

5/ On the establishment and functions of the Regional and National Executing Units, see Annex 1. On the entities comprising each UER, see Annex 2.

will address the various sectors and distinctive features of small business in each region. A program of priorities will be established to attend to the particular needs of each area and the cases that can most easily generate a positive demonstrator effect, also taking into account the sector agreements reached in the framework of the National Commission on Competitiveness. These promotion programs do not involve remuneration of any kind, and will be financed by the MIF during the life of the project. The objective is to visit 4,000 companies during the centers' first three years of operation.

- (ii) **Information for small business.** The BDCs will offer two types of information to small businesses: basic referrals and information on the supply of technical assistance available. In the first case, assistance will be provided to identify and formulate the information needs of the companies, referring them to appropriate specialized organizations or centers. In the second case, the BDCs will keep an inventory of qualified services in each region and keep it up to date with information received during project execution. This activity would not entail any remuneration during the life of the project, although might conceivably be charged in the future.
- (iii) **Comprehensive diagnostic of competitiveness.** The BDCs will hire diagnostic service firms to address the full range of management issues: business strategy, marketing, product design, procurement of inputs, production, human resources, and financial management. The BDCs will provide this service with their own personnel or persons hired externally when justified by demand. They will adapt existing methodologies to the individual conditions of Colombian small businesses and will gradually improve this methodology on the basis of practical experience. The service should enable small businesses to undertake specific projects to improve their management. The diagnostic services are estimated to be of short duration (30 to 40 consultant-hours), and must be paid for by the companies. Given the promotional character of the program, the rates to be charged to small business have been set so as to cover an increasing portion of their cost (20 percent the first year, 50 percent the second year, and 80 percent the third year), covering the entire market cost as of the fourth year. The MIF contribution will help to cover the operating loss incurred during the first three years as a result of this activity, with the expectation that diagnostics will be performed for a

total of 1,000 companies during the life of the project.

- (iv) **Preparation of specific improvement projects.** The BDCs will hire specialized technical assistance services in the fields of: (a) production and technological innovation; (b) quality control and compliance with standards; (c) financial advice and the preparation of investment projects; (d) training under an improvement project; and (e) market information and access. The activities of the BDCs will include assistance to companies in devising projects, identifying the most appropriate centers or consultants, preparing the terms of the contract, and implementing and evaluating the projects. The companies will enter into contracts with the BDCs which, in turn, will subcontract with centers or private consulting firms. The duration of these services will be highly variable, ranging from approximately 70 to 100 consultant/hours. The rates to be charged small business will increase (50 percent, 60 percent, and 80 percent of cost, not to exceed S\$4,000, during the first, second and third year, respectively), and must cover the total cost as of the fourth year of financing. The MIF resources will be used to cover the deficit generated by the application of promotional fees during the life of the project. The objective of the program is to act as intermediary in 300 such improvement projects.

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- (v) **Support for small business groups in shared cost activities.** The BDCs will engage technical assistance to improve the competitiveness of groups of companies confronting a common problem, pooling the costs in order to achieve economies of scale and sharing the results of collective activities. Such activities may result from many causes, normally external, such as new requirements imposed by large subcontracting firms, requirements in the target markets, or the appearance of new processing technologies. These activities, normally of a sectoral nature, will require on average 25 consultant hours, and will be paid for by the companies at a rate of 50 percent, 60 percent, and 80 percent of their cost during the life of the project. The objective is to carry out at least 15 collective activities in groups of 20 enterprises each.

- (vi) **Management training.** The BDCs will design training courses adapted to the competitive development needs of small businesses in each region, and will arrange with specialized institutions for the courses to be given.

The training will address business management, management technology, foreign trade, and the establishment of industrial consulting services, and will have a highly practical orientation. The average course will last 25 hours and the entrepreneurs must pay a fee covering at least 30 percent of its cost.

- 2.5 Dissemination of the project among the economic agents and the enterprises of each region will be the responsibility of the business associations and institutions involved, and will include encounters, fora, and seminars. The MIF will contribute to the cost of preparing the information and audiovisual materials.
 - 2.6 In order to make the BDCs operational, the project would select and train the human resources assigned to it, including the extension workers, experts in business diagnostics, and specialized technical teams. The MIF will also finance the sharing of experiences of each BDC and the continued training of their teams.
- C. Expected outcome of the project
- 2.7 It is expected that the project will create and consolidate a network of private Business Development Centers that will act efficiently to increase the dynamism of demand among small businesses for technical assistance in five regions of Colombia, and that will be self-sustainable after the MIF assistance is terminated. This will contribute to institutional strengthening of the small business organizations and will help them to adapt their corporative strategies to the new competitive environment. This pilot experiment will facilitate initiation of similar activities in other regions of the country. The private sector will thus take on responsibilities in development policies previously limited to the public sector.
 - 2.8 Another aim is to increase the awareness of Colombian small business of the specific challenges they must confront within the new context of liberalized trade, improving their access to external management consulting resources. Under the program, 4,000 companies will be visited, 1,000 management diagnostics conducted, 300 projects to improve competitiveness coordinated, 300 companies assisted in collective, shared-cost activities, and another 600 companies given management training, which is expected to result in a new vitality in a considerable segment of the Colombian business community. The program goals will be quantified, based on a reasonable estimate of the potential market rate, in the annual business plan of each BDC.
 - 2.9 As a result of the BDCs activities, at least a part of Colombian small businesses are expected to improve their business performance, increase their competitiveness, and lay a solid foundation for growth, with a view to increasing stable employment,

expanding export capacity, improving conditions for supplying large subcontracting firms, promoting inter-company cooperation and, ultimately, modernizing the productive capacity of Colombia.

- 2.10 In response to the expansion of demand, the supply of specialized technical assistance is expected to increase, adapting its products, methodologies, and costs to the needs of small business, and filling new market niches. The increased use of business diagnostics and better structured service providers will also encourage companies to refer directly to the providers of these services, generating their own market dynamics.
- 2.11 The funds earmarked for training and technical assistance for companies and BDC staff training constitute a veritable investment in human capital, which will have an impact both on private institutions involved in the project and on private consulting firms that may be generated in the years ahead. The project is also to serve as a seed investment in human capital, which will generate its own effects independently of the other project components.

D. Cost and financing of the project

- 2.12 The total cost of the project amounts to US\$10,314,547, of which the MIF will contribute US\$5,966,641 and the Colombian counterpart US\$1,227,906, with US\$3,120,000 generated by the collection of fees for services. The MIF contribution will be used primarily for qualified human resources for the project, whereas the local counterpart contribution is basically intended for general support and the physical facilities of the BDCs. 6/
- 2.13 In the following source and application of funds table, the financing scheme for the project is summarized, showing a decreasing contribution from the MIF, compensated by increasing income until, as of the fourth year, with no MIF contribution, surplus is generated.

6/ See tables in Annex 4 A on: consolidated income and expenditures, consolidated source and application of funds, consolidated budget according to IDB accounting standards, income and expenditure of the BDCs, and source and application of funds of each BDC. Annex 4 B shows the data used to prepare the budgets and contains detailed tables for each BDC.

I. FRAME OF REFERENCE

A. General framework

- 1.1 The increasing economic liberalization in Colombia has been accompanied by a growth rate of over five percent and declining inflation. However, in addition to the new opportunities offered by economic and trade liberalization there have also been the challenges of responding to increased competition for access to external markets, while maintaining domestic market position in the face of products and services from other countries. Furthermore, upward pressure on the exchange rate could intensify the challenge of international competitiveness for Colombian businesses.
- 1.2 Maintaining economic dynamism over the medium and long terms will depend on the continuity of the market reform and liberalization programs, but also on the improvement of production efficiency and competitiveness. It is therefore necessary to supplement the activities being conducted at the macroeconomic level with programs to address the microeconomic problems and with activities to promote productive and organizational innovation in the business community. In this regard, the main focus must be the private business sector, which plays the central role in producing goods and services.

B. The competitiveness of small business in Colombia

- 1.3 For the purposes of this project, a small business is defined as one that employs between 5 and 99 persons. The total number of such business units is estimated at more than 22,000, accounting for 23.3 percent of all enterprises and providing employment to 38 percent of the formally employed labor force in Colombia. Despite its importance, it should be noted that the structure of production in Colombia is highly polarized between a small number of large establishments - only 1.5 percent of all companies have more than 100 employees - and an extremely large microenterprise and family business sector, accounting for 72.9 percent of the total ^{1/}. Thus, one of the problems of the Colombian economy lies in the underdevelopment of its intermediate business sector composed of small companies, which are more specialized and flexible and therefore less vulnerable at a time of changing international market conditions. The underdevelopment of small businesses in Colombia is reflected in the enormous difference in their productivity as compared with large business. This affects the competitiveness of small businesses, but also makes coordination of production between companies of different sizes and wide disparities in efficiency difficult.

^{1/} See Annex 8, Table 1.

- 1.4 According to various diagnostic studies on business competitiveness in Colombia, and in particular the situation of small businesses, 2/ there are many small companies, poorly integrated and with limited access to international markets. These companies generally do not have qualified management teams to design and implement new strategies and are characterized by their technological obsolescence, inadequate quality control, insufficient capacity to design products and processes and apply international standards, limited exposure to competition in international markets, lack of proper distribution channels, limited use of subcontracting, lack of associations to pursue common objectives, and inadequate financial administration. Furthermore, small businesses have difficulties in identifying the nature of their problems and prioritizing their most immediate needs. Companies express their needs easily in the form of demand for financing, but devote less attention to management issues that relate to efficient use of their resources.
- 1.5 Because of these deficiencies, there are no medium- and long-term competitive strategies. Past protectionism has blocked greater awareness of the technology and organization necessary to meet the challenges of an open economy, and as a result, a network of effective business services has not been developed. The economic transformations occurring in the country must be accompanied by a change in business mentality, and by the parallel development of a market for management services accessible to small businesses expressing their needs in the form of effective demand. A fluid market for services is of crucial importance for the modernization of Colombian small business, since it will enable companies to avoid internalizing costs that are excessive in relation to their size. A dynamic market also reduces transaction costs insofar as service products are diversified, supply is specialized, and suitable methodologies for management analysis are disseminated throughout the sector.
- 1.6 Because of the territorial characteristics of Colombia, business activity is largely concentrated around the major cities. Bogota, Medellín, Cali, Barranquilla, and Bucaramanga account for approximately 60 percent of Colombia's GDP and nearly 90 percent of its industrial product 3/. However, business services tend to be concentrated in the capital and have had more difficulty developing in other regions of the country, where the needs indicated above are relatively greater.

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- 1.7 Small businesses in Colombia are to a large extent grouped in guilds and associations of various kinds, traditionally to advocate group rights and defend group interests, but increasingly to provide services to their members. Hence, national as well as departmental or regional business organizations are adapting their objectives to the new liberalized economic climate, which they regard as irreversible, and are attempting to transform their protectionist strategies into competitive strategies. In addition, new private institutions are emerging that are prepared to take on the role of business promotion and regional development, whereas others, like universities, are increasingly linked to the small business sector.
- 1.8 Clearly, Colombia must meet the challenge of international competition, and this challenge applies particularly to the basic business building block: small enterprises. Development of the specialized business service market is crucial for small businesses to improve their competitiveness and develop a smoother operating, more modern system of production in Colombia. With assistance from the MIF, the Chambers of Commerce, ACOPI, and other private institutions intend to create five business development centers in Bogota, Medellín, Cali, Bucaramanga, and Barranquilla to facilitate the access of small businesses to technical assistance services that will improve their efficiency.

C. The market for small business services

- 1.9 The specialized small businesses services market has still not developed throughout Colombia; it is focused almost exclusively in Bogota. Demand is still incipient, although the need derived from competition represents an enormous potential for growth. Trade liberalization has initiated a process of industrial and business restructuring in which a portion of the small business sector can only survive by modernizing its management and production systems. Current demand is centered on financial consulting services and vocational training and is beginning to appear in the field of quality control management as well and, more tentatively, in technology and production consulting services. Demand for and use of basic business information systems is also beginning to emerge.
- 1.10 There are four factors that limit the expansion of demand: (a) limited awareness of the need for services (because of the low level of training, the lack of prior exposure to the level of competition now being confronted, and the lack of individualized identification of need); (b) the difficulty of identifying service providers that are reliable and respond to specific needs; (c) the cost of available services, only accessible to the large companies

that use them 4/; and (d) limited negotiating capacity, specification in contracting, assessment of results, and implementation of consultants' proposals. These constraints on the development of demand would be alleviated by this project through promotion, information, and comprehensive diagnostic activities, and assistance in the preparation of improvement and general training projects.

- 1.11 The supply of services in Colombia is not structured and still lacks the professionalism and specialization found in the industrialized countries. In the private sector, the only consulting services that have developed to any degree are those for large companies, which can also resort to international consulting firms and service companies. Noteworthy in the public sector are: the National Training Service [Servicio Nacional de Aprendizaje] (SENA) and its network of technology centers, with a sectoral and largely vocational training focus; financial advisory services such as the Industrial Development Institute [Instituto de Fomento Industrial] (IFI); and the trade information services of Proexpor. Another public initiative has been to create a number of semipublic corporations concerned with specific problems such as quality control. The Colombian Institute of Technical Standards [Instituto Colombiano de Normas Técnicas] (INCOTEC), formally private but also financed by the public sector, mainly serves large companies. There are also NGOs which, having operated in the field of financial consulting services for microenterprise, have expanded their activities to technical assistance not only to microenterprises but also to medium-sized companies. FUNDESCOL is an example of penetration in the emerging market of small enterprise. Others, such as FICITEC, CINSET, PROPEL, or university foundations, have also undertaken such activities. Finally, private sector organizations themselves, Chambers of Commerce, trade unions, and ACOPI also provide services such as commercial and legal information, technical information and subcontracting references, or training. The project is designed to promote the development of the private sector supply of specialized services for small business, expanding the market on the demand side by promoting effective demand, helping to get the maximum results from technical assistance, and disseminating innovative methodologies for the analysis of small businesses management.

D. Justification of the project

- 1.12 There is a series of obstacles to the growth and vitality of the small business services market in Colombia, which will be difficult

4/ Net income varies widely depending on the size of the business (see Annex 8, Table 1) in the range from 9 to 100 employees, which must be taken into account as a limiting factor, with respect to the design of technical assistance methodologies.

to eliminate through spontaneous, profit-seeking initiatives. The period of time required to realize a return on the investment exceeds that normally considered acceptable for individual initiatives. The demonstrator effect inherent in this type of activity yields a benefit that is not easily enjoyed by individual investors. The necessary assimilation of technologies by the suppliers and customers and the learning costs implicit in widening the limits of the market are additional disincentives to potential operators. Consequently there is justification for collective activities that treat business information as a public good generating positive externalities and permitting the future development of market forces.

- 1.13 The project is consistent with the Bank's strategy in Colombia and addresses the priority programming objectives for 1994-97. Furthermore, the Eighth Replenishment agreements call for the modernization of production structures and an environment favorable to small business. The project also meets MIF eligibility requirements, by helping to strengthen and expand the private sector, small business, institutional development, and the market economy, by means of an innovative experiment with a significant demonstrator effect.
- 1.14 The MIF contribution will take the form of nonreimbursable technical cooperation financing for the following reasons: (a) it is an investment in the training of human resources and the establishment of business development centers, which would otherwise not be possible; (b) most of the BDC activities during the project execution period will target the promotion and development of specific demand on the part of small businesses, which are nonremunerative activities that could not be financed without MIF assistance; (c) the project is designed to finance the operating budget of the BDCs so that small business can benefit from more accessible rates for services and eventually cover the entire cost; (d) the MIF contribution is temporary and upon project completion, the BDCs must be self-sustainable; and (e) the MIF shares the risk of its contribution with private entities that are also contributing.

II. THE PROJECT AND ITS EXECUTION

A. Objectives of the project

- 2.1 The main objective of the project is to develop the market for specialized services and technical assistance for small business with the aim of improving their competitiveness and helping to modernize the production system of Colombia.
- 2.2 The specific objectives of the project are as follows:

- (i) the establishment, by the Chambers of Commerce, ACOPI, and other private-sector institutions, of five business development centers to help small businesses identify and diagnose their management problems, and arrange the hiring of specialized technical assistance services, charging a fee which would make them self-financing within a period of three years;
- (ii) the structuring and development of effective demand for technical assistance services to help small business overcome the barriers they encounter in expressing it creating a demonstrator effect that will lead to greater use of management consulting services;
- (iii) based on this demand, the development of the private-sector supply of technical assistance, product design, and management consulting methodologies adapted to the needs of small business at reduced transaction costs; and
- (iv) the strengthening of private business organizations' capacity to design and implement activities to develop small business and a market economy.

B. Description and activities of the project

- 2.3 Agreements to set up the BDCs will be signed by the Chambers of Commerce, the sectional offices of ACOPI, and other private institutions selected in each department, for which purpose the regional executing units (REU) will be established. These REUs will delegate members to manage the BDCs and represent each REU in the national executing unit (NEU), and may constitute a nonprofit legal entity if its members so wish. 5/
- 2.4 The BDCs will consist of small teams of specialized professionals to be assigned to offices provided by the REUs and who, in pursuit of project objectives, will carry out the following activities:
 - (1) **Business promotion and extension.** The personnel of the BDCs will visit the small businesses in their respective areas, establishing direct contact with the owners or managers, in order to assist them in identifying their needs, detecting possible areas of inefficiency, and offering the services of the BDC to address them. This promotional activity, of particular interest during the initial years of the centers' operations,

5/ On the establishment and functions of the Regional and National Executing Units, see Annex 1. On the entities comprising each UER, see Annex 2.

will address the various sectors and distinctive features of small business in each region. A program of priorities will be established to attend to the particular needs of each area and the cases that can most easily generate a positive demonstrator effect, also taking into account the sector agreements reached in the framework of the National Commission on Competitiveness. These promotion programs do not involve remuneration of any kind, and will be financed by the MIF during the life of the project. The objective is to visit 4,000 companies during the centers' first three years of operation.

- (ii) **Information for small business.** The BDCs will offer two types of information to small businesses: basic referrals and information on the supply of technical assistance available. In the first case, assistance will be provided to identify and formulate the information needs of the companies, referring them to appropriate specialized organizations or centers. In the second case, the BDCs will keep an inventory of qualified services in each region and keep it up to date with information received during project execution. This activity would not entail any remuneration during the life of the project, although might conceivably be charged in the future.
- (iii) **Comprehensive diagnostic of competitiveness.** The BDCs will hire diagnostic service firms to address the full range of management issues: business strategy, marketing, product design, procurement of inputs, production, human resources, and financial management. The BDCs will provide this service with their own personnel or persons hired externally when justified by demand. They will adapt existing methodologies to the individual conditions of Colombian small businesses and will gradually improve this methodology on the basis of practical experience. The service should enable small businesses to undertake specific projects to improve their management. The diagnostic services are estimated to be of short duration (30 to 40 consultant-hours), and must be paid for by the companies. Given the promotional character of the program, the rates to be charged to small business have been set so as to cover an increasing portion of their cost (20 percent the first year, 50 percent the second year, and 80 percent the third year), covering the entire market cost as of the fourth year. The MIF contribution will help to cover the operating loss incurred during the first three years as a result of this activity, with the expectation that diagnostics will be performed for a

total of 1,000 companies during the life of the project.

- (iv) **Preparation of specific improvement projects.** The BDCs will hire specialized technical assistance services in the fields of: (a) production and technological innovation; (b) quality control and compliance with standards; (c) financial advice and the preparation of investment projects; (d) training under an improvement project; and (e) market information and access. The activities of the BDCs will include assistance to companies in devising projects, identifying the most appropriate centers or consultants, preparing the terms of the contract, and implementing and evaluating the projects. The companies will enter into contracts with the BDCs which, in turn, will subcontract with centers or private consulting firms. The duration of these services will be highly variable, ranging from approximately 70 to 100 consultant/hours. The rates to be charged small business will increase (50 percent, 60 percent, and 80 percent of cost, not to exceed S\$4,000, during the first, second and third year, respectively), and must cover the total cost as of the fourth year of financing. The MIF resources will be used to cover the deficit generated by the application of promotional fees during the life of the project. The objective of the program is to act as intermediary in 300 such improvement projects.

o

- (v) **Support for small business groups in shared cost activities.** The BDCs will engage technical assistance to improve the competitiveness of groups of companies confronting a common problem, pooling the costs in order to achieve economies of scale and sharing the results of collective activities. Such activities may result from many causes, normally external, such as new requirements imposed by large subcontracting firms, requirements in the target markets, or the appearance of new processing technologies. These activities, normally of a sectoral nature, will require on average 25 consultant hours, and will be paid for by the companies at a rate of 50 percent, 60 percent, and 80 percent of their cost during the life of the project. The objective is to carry out at least 15 collective activities in groups of 20 enterprises each.

- (vi) **Management training.** The BDCs will design training courses adapted to the competitive development needs of small businesses in each region, and will arrange with specialized institutions for the courses to be given.

The training will address business management, management technology, foreign trade, and the establishment of industrial consulting services, and will have a highly practical orientation. The average course will last 25 hours and the entrepreneurs must pay a fee covering at least 30 percent of its cost.

- 2.5 Dissemination of the project among the economic agents and the enterprises of each region will be the responsibility of the business associations and institutions involved, and will include encounters, fora, and seminars. The MIF will contribute to the cost of preparing the information and audiovisual materials.
- 2.6 In order to make the BDCs operational, the project would **select and train the human resources** assigned to it, including the extension workers, experts in business diagnostics, and specialized technical teams. The MIF will also finance the sharing of experiences of each BDC and the continued training of their teams.
- C. Expected outcome of the project
 - 2.7 It is expected that the project will create and **consolidate a network of private Business Development Centers** that will act efficiently to increase the dynamism of demand among small businesses for technical assistance in five regions of Colombia, and that will be **self-sustainable** after the MIF assistance is terminated. This will contribute to **institutional strengthening** of the small business organizations and will help them to adapt their corporative strategies to the new competitive environment. This pilot experiment will facilitate initiation of similar activities in other regions of the country. The private sector will thus take on responsibilities in development policies previously limited to the public sector.
 - 2.8 Another aim is to **increase the awareness of Colombian small business** of the specific challenges they must confront within the new context of liberalized trade, improving their access to external management consulting resources. Under the program, 4,000 companies will be visited, 1,000 management diagnostics conducted, 300 projects to improve competitiveness coordinated, 300 companies assisted in collective, shared-cost activities, and another 600 companies given management training, which is expected to result in a new vitality in a considerable segment of the Colombian business community. The program goals will be quantified, based on a reasonable estimate of the potential market rate, in the annual business plan of each BDC.
 - 2.9 As a result of the BDCs activities, at least a part of Colombian small businesses are expected to improve their business performance, **increase their competitiveness**, and lay a solid foundation for growth, with a view to increasing stable employment,

expanding export capacity, improving conditions for supplying large subcontracting firms, promoting inter-company cooperation and, ultimately, modernizing the productive capacity of Colombia.

- 2.10 In response to the expansion of demand, the supply of specialized technical assistance is expected to increase, adapting its products, methodologies, and costs to the needs of small business, and filling new market niches. The increased use of business diagnostics and better structured service providers will also encourage companies to refer directly to the providers of these services, generating their own market dynamics.
- 2.11 The funds earmarked for training and technical assistance for companies and BDC staff training constitute a veritable investment in human capital, which will have an impact both on private institutions involved in the project and on private consulting firms that may be generated in the years ahead. The project is also to serve as a seed investment in human capital, which will generate its own effects independently of the other project components.

D. Cost and financing of the project

- 2.12 The total cost of the project amounts to US\$10,314,547, of which the MIF will contribute US\$5,966,641 and the Colombian counterpart US\$1,227,906, with US\$3,120,000 generated by the collection of fees for services. The MIF contribution will be used primarily for qualified human resources for the project, whereas the local counterpart contribution is basically intended for general support and the physical facilities of the BDCs. 6/
- 2.13 In the following source and application of funds table, the financing scheme for the project is summarized, showing a decreasing contribution from the MIF, compensated by increasing income until, as of the fourth year, with no MIF contribution, surplus is generated.

6/ See tables in Annex 4 A on: consolidated income and expenditures, consolidated source and application of funds, consolidated budget according to IDB accounting standards, income and expenditure of the BDCs, and source and application of funds of each BDC. Annex 4 B shows the data used to prepare the budgets and contains detailed tables for each BDC.

ESTIMATED SOURCE AND APPLICATION OF FUNDS: CONSOLIDATED						
	MIF CONTRIBUTION PERIOD				POST MIF	
SOURCE	Year 1	Year 2	Year 3	SUBTOTAL	Year 4	TOTAL
I. MIF	2,237,048	2,018,922	1,710,671	5,966,641	0	5,966,641
II. NATIONAL COUNTERPART	719,850	248,693	259,363	1,227,906	0	1,227,906
III. OPERATING INCOME	680,000	980,000	1,460,000	3,120,000	1,870,000	4,990,000
TOTAL SOURCES	3,636,898	3,247,615	3,430,034	10,314,547	1,870,000	12,184,547
APPLICATION						
I. FIXED INVESTMENT	809,000	300,300	315,315	1,424,615	0	1,424,615
II. OPERATING EXPENSES	2,623,898	2,653,315	2,676,719	7,953,932	1,667,724	9,621,655
1. FIXED	684,180	712,509	735,277	2,131,966	418,243	2,550,209
2. BDC VARIABLE	1,939,718	1,940,806	1,941,443	5,821,966	1,249,481	7,071,447
III. RESERVE FUND	204,000	294,000	438,000	936,000		
TOTAL APPLICATION	3,636,898	3,247,615	3,430,034	10,314,547	1,667,724	11,982,270
SURPLUS	0	0	0	0	202,276	202,276

The MIF and counterpart contributions will finance the creation and startup of the five BDCs and the national executing unit and will cover the operating deficit of the BDCs for the first three years.

- 2.14 The allocation of resources to the BDCs in each region for the first year is proportionate to the number of small companies in that area. However, for the second and third year of the project, the MIF contributions will be proportionate to the BDCs' capacity to generate resources by charging fees during the previous period. This will help to promote positive competition among the BDCs, ensure that the MIF contribution will be proportionate to demand, and provide incentives for efficient management of the BDCs.
- 2.15 The fees indicated in paragraphs 2.4 and Annex 4 are estimated minimums, and the resources so generated may only be used to cover project costs or to expand into other similar activities. The BDCs in each region will allocate approximately 30 percent of their effective income to the constitution of a **reserve fund**, whose sole purpose will be to ensure the continuity of the BDCs once the MIF contributions have been discontinued.
- 2.16 The national executing unit will receive the MIF contributions and distribute them in semiannual advances to each of the BDCs once it has reviewed its annual budget, projected cash flow, and business plan, containing the specific goals to be achieved and confirming

the local counterpart contributions. The BDCs will use the advances to pay fixed costs and make investments, and to pay for technical assistance engaged on behalf of the small business clients of the centers. They, in turn, will collect user fees, 30 percent of which will be deposited in the reserve fund in a separate account. Semiannually, the BDCs will submit their accounts to the national executing unit so that they can collect the contribution for the following period.

- 2.17 The self-sustainability of the BDCs is based on the idea that as of the fourth year, market rate fees will be charged and a discount will be obtained from service providers (see Annex 4, Baseline for Calculation of the Budget). In addition, the fixed costs will have been reduced by eliminating the promotion activities, which are not remunerated, and the national executing unit will have been drastically reduced as unnecessary for the administration of MIF resources. Plans also call for a reduction in effective demand of 25 percent as a possible impact of the increase in real fees, which is why variable costs are in part reduced. Full fees and provider discounts will more than offset the temporary drop in demand. Based on these relatively conservative assumptions, a consolidated surplus of US\$202,276 will be generated, as well as surpluses in each of the centers.

E. Project organization and execution

- 2.18 The project executing agency will be the Confederation of Chambers of Commerce of Colombia [Confederación de Cámaras de Comercio de Colombia] (CONFECAMARAS), which will be responsible to the Bank for managing MIF resources. For these purposes, prior to the first disbursement of the technical-cooperation financing, a **national executing unit (NEU)** and five **regional executing units (REU)** will be created, one for each of the cities in which the centers will be located. The NEU will be composed of the presidents of the national office of ACOPI-Nacional and CONFECAMARAS 7/, together with the managing institutions of the BDCs. The NEU will be constituted by means of an agreement between the parties. Prior to the first disbursement, a national project director will be designated, also to serve on the NEU, and will be selected by the Bank from a list of candidates presented by CONFECAMARAS and ACOPI-Nacional 8/.
- 2.19 The REUs will be constituted by means of an agreement to be signed by the participating private entities in each region, which are as follows: **Bogota:** local Chamber of Commerce and sectional office of ACOPI in Bogota; **Medellín:** ACOPI-Antioquía and Universidad

7/ The two national counterpart entities are described in Annex 3.

8/ Annex 5 contains a proposed set of Terms of Reference for the National Director.

EAFIT; Cali: local Chamber of Commerce and ACOPI-Valle, Fundación para el Desarrollo Integral del Valle, and Fundación Universidad del Valle; Barranquilla: local Chamber of Commerce, ACOPI-Atlántico, and CORPES-Costa Atlántica; Bucaramanga: local Chamber of Commerce and ACOPI-Santander ^{9/}. Each REU will delegate to one of its members the management functions of the BDC, and may also endow it with legal personality if the members so wish.

- 2.20 The relations between the NEU and the REUs will be governed by Operating Regulations that must be approved by the Bank prior to the first disbursement. The regulations will stipulate the obligations of each party, the conditions for the allocation of resources, and the criteria for evaluating the activities of the BDCs. The responsible institutions of each REU and CONFECAMARAS will hire the directors and the personnel of each BDC and the NEU, respectively. They will also be entrusted with the processing and managing of the MIF resources, administering the counterpart resources, and setting up the BDCs' operations, including office facilities, equipment, budgets, business plans for each center, and the initial promotion of the program. Annex 1 contains a proposed set of Operating Regulations.
- 2.21 Small companies with up to 99 employees, from any sector of activity, will be eligible to receive the services of the BDCs provided that they are not more than 30 percent owned by other larger companies. Such companies will be considered eligible on the sole basis of their size, to the extent that they request the activities contemplated in the program and are prepared to pay the fee established for each service.
- 2.22 Consultants will be selected and hired in accordance with Bank procedures. However, it is recommended that the normal procedure be waived for the selection and hiring of short-term consulting services costing less than US\$20,000, and that the Bank perform ex-post evaluation, by sample, of the consultants hired in accordance with the customary selection and hiring criteria. The grounds for such a waiver are that: the number of the contractors provided for will be high and their services very diverse; the contract periods will be very brief; and the BDCs will be private institutions and must function with the agility required by the customers for its services.

F. Requirements of sustainable development

- 2.23 The processes to improve the competitiveness of small business need a focus consistent with the requirements of sustainable development and must include effective measures for correcting and mitigating

^{9/} A detailed description of each participating institution is provided in Annex 2.

any adverse environmental impact the companies may have. Means will be provided under the project to ensure that this occurs: (a) during the process of promoting services, one of the lines of activity will be geared toward the sectors producing the greatest environmental impact (such as tanning, metal processing, food production, etc.), in cooperation with the authorities and agencies that issue and enforce environmental protection regulations; (b) an environmental assessment component will be incorporated in the comprehensive diagnosis conducted prior to any improvement project; (c) the performance of specific environmental impact assessments for companies or sectors, and individual or collective adjustment projects will be promoted; (d) companies that have a major adverse environmental impact will be excluded from the project if their improvement plans do not include measures to eliminate such impact.

G. Promotion of women

- 2.24 The project helps to promote women by fostering the development and establishment of small businesses. In addition, the consolidation of small businesses through improvements in their competitiveness in the market place will have a corrective effect on more unfair labor situations, which affect in particular women and young people.
- 2.25 Furthermore, the dynamics in some sectors, such as garment-making, which have a strong impact on the national economy and certain regions, has been particularly beneficial for the promotion of women as managers of small businesses. Finally, the growing presence of women in universities and their rising level of specialization means that any development project will facilitate the inclusion of women in greater numbers, under better conditions, and at a higher level of responsibility in the production system, which is particularly true in the case of Colombia. In this project, the promotion of women will be taken into consideration in designing the campaigns to disseminate the activities of the BDCs, avoiding any discriminatory practices and facilitating access by women to the services proposed.

H. Evaluation and monitoring of the project

- 2.26 The executing agency will hire an external consulting firm to conduct the mid-term evaluations of the project in order to assess the quality of its results and the degree to which the project objectives have been accomplished, and recommend any necessary corrective measures in its execution. The first evaluation, which will be conducted with the executing agency nine months after the first disbursement, will review all of the activities implemented by the BDCs: selection, hiring, and training of personnel, appropriate physical facilities, and investment spending, counterpart contributions, preparation of the business plan and the establishment of specific objectives, and the effective startup of activities. The second evaluation, 18 months after project

startup, will focus on assessing the effectiveness with which the means have been used by the BDCs and the NEU; the quantified objectives of the project must be revised accordingly. The third evaluation, 30 months after project startup, will focus on the self-sustainability of the BDCs after the MIF contribution has been discontinued, and will make recommendations on the specific use of the Reserve Fund to ensure the continuity of the program as from its fourth year.

- 2.27 The evaluation will be conducted based on the programs planned for the constitution and launching of the BDCs and the activity plans and budgets which, at the national level and in each region, have been prepared by the entities connected with the project and agreed upon with the IDB/MIF. The evaluation criteria must take into account the degree of satisfaction of the companies, and specifically may include the following indicators: (a) the number of services demanded and satisfied; (b) the percentage of companies visited requesting diagnostic services; (c) percentage of companies diagnosed that undertake an improvement project; (d) companies requesting new services within a period of two years; (e) productivity improvements in the companies served; (f) billing level and self-financing of the BDCs.
- 2.28 If the results of these evaluations are satisfactory, the NEU can continue to provide MIF resources to the BDCs. If the results are not satisfactory, adjustments will be proposed to allow new commitments to be resumed. Unsatisfactory results in a given BDC will in no way impede the provision of resources to other BDCs found to be satisfactory.
- 2.29 Irrespective of the external evaluations, the NEU, through the national project director, will submit semiannual progress reports to the Bank on the activities of the project overall and within each BDC, indicating the degree to which the objectives of self-sustainability have been accomplished, and assessing the impact of the center's activities on employment, participation by women, and environmental protection activities. The NEU must agree, following the third evaluation, on the specific uses to be made of the Reserve Fund to continue the program once the MIF contribution has been discontinued, for approval by the Bank. Beginning in the fourth year, the Reserve Fund must be administered in accordance with criteria similar to those established for the administration of the project. The NEU, or the executing agency as the case may be, must report to the Bank on the use of the Reserve Fund upon the completion of the fourth and fifth year from program startup (paragraph 4.6 of the Regulations).

I. Project feasibility and risks

- 2.30 The feasibility of the project is based on the fact that the MIF contribution will be used to finance services that will improve the competitiveness of small businesses and therefore increase their

efficiency and help generate income above the cost of the services. The activities to be promoted under the project will thus produce an added value which constitutes the basis for the economic feasibility of the BDCs in the medium term, as explained in paragraphs 2.16 and 2.17.

- 2.31 The feasibility of the project is also supported by the private institutional backing it has obtained and the solidity and solvency of the national and regional counterparts. Aside from the business organizations most representative of small business, the project is supported by universities and foundations of recognized social and professional prestige.
- 2.32 The project is the first experiment in joint, long-term work between business organizations and private institutions, which entails a certain risk that corporate distrust may arise. However, the climate of renewal and change in Colombia today and the widespread commitment to undertake joint efforts to improve business competitiveness make it likely that potential institutional confrontations can be overcome. In addition, the project could still be executed even if only one institution provides support to the BDC in each region.
- 2.33 Other project risks may arise from difficulties greater than anticipated in generating demand for services among small businesses, or from their inability to pay the fees to be charged, especially after the MIF contribution is discontinued. However, these risks can be contained by regulation of disbursements, on the basis of the mid-term evaluations, since disbursements will be made only to the extent that effective demand is generated by small businesses. In addition, even if the growth in the market for services is less than anticipated, the BDCs can always adapt their size to current market conditions.

III. COORDINATION WITH OTHER ACTIVITIES

A. Consistency with other Bank activities

- 3.1 The programs being conducted by the IDB in Colombia that would complement the present project to create BDCs are as follows:
 - (i) National scientific and technological research program - stage III. This program provides for the financing of research and development projects, the establishment of a national system of scientific and technological information, and support for sector technology centers to provide services to business. The latter will constitute an important complement to the proposed program by expanding capacity and infrastructure for

technological supply and testing laboratories, whereas the BDCs are geared towards the demand side of enterprises for, among other things, those same services. The BDCs will therefore generate clients for the various components of the science and technology program, assisting the small businesses in effectively using the infrastructure created and helping them to formulate projects eligible for the research plan.

- (ii) Productive development centers for microenterprise. These centers will supplement the activity of the BDCs when the enterprises request services connected with a given sector or the use of equipment. The sector orientation of the microenterprise centers and the horizontal projection of the BDCs also is based on an element of complementarity.
- (iii) Comprehensive credit programs, both multisector and for microenterprise. The proposed project would supplement credit program by improving the efficiency of small businesses and their performance as borrowers. In addition, the BDCs will help companies to formulate investment projects, which will facilitate the processing of the financing requests.
- (iv) The Bolívar Program also complements this project because of the cooperative relationships that can be established between the BDCs and the liaison office in cases of business requests for international technological cooperation.

B. Other complementary activities

- 3.2 The complementarity and coordination with other national programs is ensured by the involvement of the National Planning Department in the national executing unit of the project. It should also be mentioned that the Industrial Development Institute [Instituto de Fomento Industrial] (IFI) is cooperating in obtaining credits for the small businesses; the SENA and its technology centers with regard to training services and sector advisory services; the ICONTEC in regard to coordination of standardization, certification, and quality control services; and FUNDESCOL, FICITEC, and CINSET for the use of their services and experience in conducting diagnostics and projects to improve the competitiveness of small businesses 10/.

10/ The references and fields of cooperation and coordination with the main programs and institutions in Colombia at the current time are described in Annex 6.

OPERATING REGULATIONS

PROGRAM TO ESTABLISH BUSINESS DEVELOPMENT CENTERS IN COLOMBIA

I. PURPOSE AND DEFINITIONS

A. Purpose

- 1.1 The purpose of these regulations is to establish the terms and conditions that will govern the program to establish business development centers, to be executed by the Confederación de Cámaras de Comercio de Colombia, a non-profit business labor association, with legal personality, representing the breadth of business activity.

B. Names and acronyms

- 1.2 The terms listed below should be understood, in the context of these regulations, to designate the following:

EXECUTING AGENCY	La Confederación de Cámaras de Comercio de Colombia (CONFECAMARAS).
BANK or ADMINISTRATOR	Inter-American Development Bank.
BDC	Business Development Centers.
NATIONAL EXECUTING UNIT	National Coordinator of the Program composed of CONFECAMARAS, ACOPI National, a representative of each Regional Executing Unit, the National Program Director, and a representative of the National Planning Department.
REGIONAL EXECUTING UNIT	Regional Program Coordinator, composed of the managing agencies and the Director of the BDCs in each region.
MANAGING OFFICES	Private sector entities contributing to the establishment of the BDCs.
PROGRAM or PROJECT	Program of support for small business development and competitiveness.
SB	Small businesses

CONTRIBUTION

Resources provided by the Bank to the executing agency for the execution of the program.

II. OBJECTIVES AND DESCRIPTION OF THE PROGRAM

A. Objective

- 2.1 The objective of the program is to promote growth in the market for services for small businesses, based on the stimulation of demand and the adaptation of supply to this business group, so as to improve its competitiveness in the country's current liberalized economic framework.

B. Description

1. General aspects

- 2.2 The Chambers of Commerce and the sectional offices of ACOPI of Bogota, Medellin, Cali, Bucaramanga, and Barranquilla, together with other private institutions in each locality, will create five business development centers (BDC) in the capitals of the most industrialized regions in the country. The BDCs will be autonomous, and their management will be coordinated by a national unit. Their objective will be to facilitate access for small businesses to the external technical assistance services they require to improve their competitiveness.

2. Program activities

- 2.3 The BDCs will consist of small teams of specialized professionals to be assigned to offices provided by the REUs, and who, in pursuit of project objectives, will carry out the following activities:

- (i) **Business promotion and extension.** The personnel of the BDCs will visit the small businesses in their respective areas, establishing direct contact with the owners or managers, in order to assist them in identifying their needs, detecting possible areas of inefficiency, and offering the services of the BDC to address them. This promotional activity, of particular interest during the initial years of the centers' operations, will address the various sectors and distinctive features of small business in each region. A program of priorities will be established to attend to the particular needs of each area and the cases that can most easily generate a positive demonstrator effect, also taking into account the sector agreements reached

in the framework of the National Commission on Competitiveness. These promotion programs do not involve remuneration of any kind, and will be financed by the MIF during the life of the project. The objective is to visit 4,000 companies during the centers' first three years of operation.

- (ii) **Information for small business.** The BDCs will offer two types of information to small businesses. basic referrals and information on the supply of technical assistance available. In the first case, assistance will be provided to identify and formulate the information needs of the companies, referring them to appropriate specialized organizations or centers. In the second case, the BDCs will keep an inventory of qualified services in each region and keep it up to date with information received during project execution. This activity would not entail any remuneration during the life of the project, although might conceivably be charged in the future.
- (iii) **Comprehensive diagnostic of competitiveness.** The BDCs will hire diagnostic service firms to address the full range of management issues. business strategy, marketing, product design, procurement of inputs, production, human resources, and financial management. The BDCs will provide this service with their own personnel or persons hired externally when justified by demand. They will adapt existing methodologies to the individual conditions of Colombian small businesses and will gradually improve this methodology on the basis of practical experience. The service should enable small businesses to undertake specific projects to improve their management. The diagnostic services are estimated to be of short duration (30 to 40 consultant-hours), and must be paid for by the companies. Given the promotional character of the program, the rates to be charged to small business have been set so as to cover an increasing portion of their cost (20 percent the first year, 50 percent the second year, and 80 percent the third year), covering the entire market cost as of the fourth year. The MIF contribution will help to cover the operating loss incurred during the first three years as a result of this activity, with the expectation that diagnostics will be performed for a total of 1,000 companies during the life of the project.
- (iv) **Preparation of specific improvement projects.** The BDCs will hire specialized technical assistance services in

the fields of. (a) production and technological innovation; (b) quality control and compliance with standards; (c) financial advice and the preparation of investment projects; (d) training under an improvement project; and (e) market information and access. The activities of the BDCs will include assistance to companies in devising projects, identifying the most appropriate centers or consultants, preparing the terms of the contract, and implementing and evaluating the projects. The companies will enter into contracts with the BDCs which, in turn, will subcontract with centers or private consulting firms. The duration of these services will be highly variable, ranging from approximately 70 to 100 consultant/hours. The rates to be charged small business will increase (50 percent, 60 percent, and 80 percent of cost, not to exceed S\$4,000, during the first, second and third year, respectively), and must cover the total cost as of the fourth year of financing. The MIF resources will be used to cover the deficit generated by the application of promotional fees during the life of the project. The objective of the program is to act as intermediary in 300 such improvement projects.

- (v) **Support for small business groups in shared cost activities.** The BDCs will engage technical assistance to improve the competitiveness of groups of companies confronting a common problem, pooling the costs in order to achieve economies of scale and sharing the results of collective activities. Such activities may result from many causes, normally external, such as new requirements imposed by large subcontracting firms, requirements in the target markets, or the appearance of new processing technologies. These activities, normally of a sectoral nature, will require on average 25 consultant hours, and will be paid for by the companies at a rate of 50 percent, 60 percent, and 80 percent of their cost during the life of the project. The objective is to carry out at least 15 collective activities in groups of 20 enterprises each.
- (vi) **Management training.** The BDCs will design training courses adapted to the competitive development needs of small businesses in each region, and will arrange with specialized institutions for the courses to be given. The training will address business management, management technology, foreign trade, and the establishment of industrial consulting services, and will have a highly practical orientation. The average course will

last 25 hours and the entrepreneurs must pay a fee covering at least 30 percent of its cost.

III. ORGANIZATION

A. Executing agency

- 3.1 The project executing agency will be the Confederation of Chambers of Commerce of Colombia [Confederación de Cámaras de Comercio de Colombia] (CONFECAMARAS), which will be responsible both for execution and for managing the program resources, with the participation of managing offices in the regions where the BDEs are located. For these purposes, prior to the first disbursement of the technical-cooperation financing, a national executing unit (NEU) and five regional executing units (REU) will be created, one for each of the cities in which the centers are established.

B. The managing offices

- 3.2 The managing offices that will participate in the execution, establish business development centers in each of the localities, and contribute to the financing of their operations are as follows:
- (i) Bogota. local Chamber of Commerce and sectional office of ACOPI in Bogota;
 - (ii) Medellín. ACOPI-Antioquía and Universidad EAFIT;
 - (iii) Cali. local Chamber of Commerce and ACOPI-Valle, Fundación para el Desarrollo Integral del Valle, and Fundación Universidad del Valle;
 - (iv) Barranquilla. local Chamber of Commerce, ACOPI-Atlántico, and CORPES-Costa Atlántica;
 - (v) Bucaramanga. local Chamber of Commerce and ACOPI-Santander

C. National Executing Unit

- 3.3 The National Executing Unit (NEU) will be constituted by the Presidents of ACOPI-National and CONFECAMARAS, in addition to a representative of each REU and the National Program Director. The NEU will be constituted by means of an agreement between the parties, to be expanded by means of subsequent agreements with each REU. To ensure coordination of the Program with the various plans and programs of the Colombian government, the NEU's membership will include a representative of the Department of National Planning.

- 3.4 The NEU will have a Program Management and Coordination Unit, composed of a National Director, a management assistant, an accountant and a personal assistant. The National Program Director will be selected by the Bank after presentation of a list of candidates by CONFECAMARAS together with ACOPI-National, and will form part of the NEU.
- 3.5 The functions of the NEU will be. (a) to analyze and approve the annual plan of activities for all of the BDCs and the project management unit; (b) to consider the semiannual activity reports from the BDCs, analyze them and make pertinent recommendations, disseminating information on the developments of greatest interest; (c) to take responsibility for and analyze the evaluations planned by the Bank; (d) to program national activities in support of all BDCs, benefitting from economies of scale; (e) to promote contact with institutions performing similar functions at international level; (f) to decide on the annual allocation of resources provided by the Bank to the various BDCs and the management unit; (g) to accept new entities wishing to enter the program and to enter into specific co-operation agreements; (h) to control and guarantee the contributions and counterpart provided for in the project.
- 3.6 The functions of the National Program Director will be, *inter alia*. (a) to prepare the proposed annual budget and business plan for the program; (b) to make arrangements, in agreement with the Bank, to hire consulting services for external evaluation of the program; (c) to assist the executing agency in preparing the reports to present to the Bank; (d) to develop a plan of activities for the managing office, manage its resources, and select and supervise its personnel; (e) to propose candidates for directors of the BDCs to the REU; (f) to advise the REU on the performance of its duties; (g) to supervise the work of the BDCs and of their managers and technical personnel; (h) to promote homogeneous quality in the services provided by the BDCs and take advantage of the instruments, methodologies, and experiences they offer.

D. Regional Executing Unit

- 3.7 The REUs will be constituted by means of an agreement to be signed by the participating private entities in each region. Each REU will delegate to one of its members the management functions of the BDC, and may also endow it with legal personality if the members so wish.
- 3.8 The entity that is delegated to manage each BDC, will hire the respective regional program director, who will be the director of the center, and the rest of the technical and auxiliary personnel, taking responsibility for the contributions of the counterpart envisaged. The REU will establish priorities in each region, analyze and approve the annual operating plan and budget, assume responsibility vis-à-vis the national directorate for execution,

make the counterpart contributions for which it is responsible, and constitute the formal link with the NEU. They will also prepare follow-up activity reports required by the Bank.

- 3.9 The BDC directors will report to the REU and operate under the supervision of the national program director, and will have as specific functions: the development of the operational strategy for the BDCs; the preparation of promotion and priority definition plans for the center services; the preparation of activity plans and annual budgets; the specific plan for fees to charge to businesses; the formation, management, and supervision of BDC personnel and other functions specific to the management of each center.

IV. EXECUTION AND ADMINISTRATION OF PROGRAM RESOURCES

A. Eligibility of beneficiary companies and processing of applications

- 4.1 Small companies with up to 99 employees, from any sector of activity, will be eligible to receive the services of the BDCs provided that they are not more than 30 percent owned by other larger companies. Such companies will be considered eligible on the sole basis of their size, to the extent that they request the activities contemplated in the program and are prepared to pay the fee established for each service.
- 4.2 In order to avail itself of the services partially financed by the Bank contribution, the applicant must provide the BDCs with sufficient information to enable the technical staff of the BDCs to verify the eligibility of the applicant and of the service requested. Once this has been verified, the BDCs will dispose of the application after the number of hours/days of work required has been estimated, and the applicant has agreed to pay the established fee.
- 4.3 In cases where the service must be provided by a third party, the staff of the BDCs must:
- a. Review the information submitted by the applicant and, if necessary, prepare terms of reference for the engagement of external consulting services.
 - b. Ensure that the consultant proposed is qualified, or prepare a list of consultants eligible to provide the service proposed, from which the applicant will make his selection.
 - c. Prepare a draft letter of request in which the applicant accepts the consultant selected and the conditions for access

to MIF benefits, including. agreement to the terms of reference for the consulting services; offer of support to the consultants in performing their work; and agreement to pay the corresponding fee.

- d. Hire the consultant once the applicant has submitted a letter of request whose content is acceptable to the BDC, which may require negotiations as to the terms of reference and other relevant aspects of the contract.
- e. Monitor the work of the consultant, agree to or request expansion of the final service, and administer pending payments.

B. Cost of the services

- 4.4 The NEU and the respective managing units or business development centers will establish the fees that will ensure a system of promotions and gradual increases, permitting the gradual substitution of the resources invested and further the sustainability of the centers after the program has been concluded. The MIF contribution will not apply to service contracts in excess of US \$4,000, which must be paid in full by the companies.

C. Collection of fees for services and the Reserve Fund

- 4.5 Each BDC or managing unit will be responsible for collecting fees from the companies that use the services financed by the MIF in accordance with the criteria established by the NEU and/or REU, and for depositing them, within a period of no more than 30 days as from the provision of service, in the single results account of the project for each BDC.
- 4.6 The program provides for the establishment of a reserve fund in each of the business development centers, which will be constituted by payments of 30% of the resources obtained from the sale of program services. The sole purpose of this fund is to ensure the continuity and consolidation of the centers, and it cannot be used for any other purpose. The NEU must agree, following the third evaluation, on the specific uses to be made of the Reserve Fund to continue the program once the MIF contribution has been discontinued, for approval by the Bank. Beginning in the fourth year, the Reserve Fund must be administered in accordance with criteria similar to those established for the administration of the project. The NEU, or the executing agency as the case may be, must report to the Bank on the use of the Reserve Fund upon the completion of the fourth and fifth year from program startup (paragraph 2.29 of the document).

D. Selection of consultants

- 4.7 The BDCs will be provided with a list of consultants who are eligible and sufficiently qualified in the specific fields needed for the application of the contribution. The consultants must be selected after their experience, capacities, and professional competence have been found to be commensurate with the services they must provide, in accordance with the Bank's rules of procedure.

E. Disbursement of resources

- 4.8 Program resources will be disbursed to the executing agency through the procedure of fund advances established in the agreement to be signed between the executing agency and the Bank. These resources will be deposited in a special account opened by the executing agency for that purpose.
- 4.9 The executing agency, as and to the extent that it receives Bank resources, will transfer them to the management units entrusted with the management and administration of the BDCs of each region, once the following information has been presented:
- (i) the signed agreement between the executing agency and the entities participating in the creation of the respective center, establishing. (a) the designation of the party responsible for executing the program in the region concerned; (b) the counterpart resources that each of the entities undertakes to contribute to program execution; and (c) the terms, rights, and responsibilities of the parties in executing the program
 - (ii) the signed agreement between the managing unit for the REU and the NEU.
 - (iii) evidence that the Regional Program Director has been hired in accordance with the terms and conditions previously agreed upon with the Bank (paragraph 2.20).

F. Distribution of resources

- 4.10 The resources of the contribution will be initially distributed among the business development centers, during the first year of execution of the program, in proportion to their relative scope of activities, in accordance with the budget provided by the Bank for that year.
- 4.11 For the second year and subsequent years of program execution, the resources of the contribution will be distributed so that incentives are provided for the development of the most efficient

center operations. For this purpose, the NEU must agree to a distribution mechanism for distributing the resources that will maintain some level of proportionality with the income generated in each center, and must submit it to the Bank for approval.

- 4.12 For these purposes, the national project director may propose to the NEU and the Bank, the variation in distribution of the resources among the BDCs, in order to adjust them to effective demand, taking into account the recommendations of the evaluation reports and the specific reports that the centers used to justify budgetary variation. In all cases it must obtain the written agreement of the Bank to modify the distribution of resources among various BDC projects.

V. MONITORING REPORTS

- 5.1 The NEU will submit semiannual progress reports to the Bank on the program as a whole and on each BDC. These reports will cover the work of the NEU in coordinating with the BDCs and its activities vis-à-vis the entities participating in the program at national level. In regard to the BDCs, the report will take into account internal aspects of human resources and organization. With regard to its external activity, it will report on progress in carrying out the plans and accomplishing the objectives; with regard to cash-flow and the results of the fee policy, indicating the degree of self-sufficiency; and the data necessary to assess the Center's impact on employment, the participation of women, and environmental protection activities.

VI. EVALUATION

- 6.1 A portion of the contribution will be used to hire the consulting services necessary to conduct mid-term evaluations of the program, both nationally and for each BDC, and with the participation of the NEU through the national program directorate.
- 6.2 The first evaluation, which will be conducted with the executing agency nine months after the first disbursement, will review all of the activities implemented by the BDCs. selection, hiring, and training of personnel, appropriate physical facilities, and investment spending, counterpart contributions, preparation of the business plan and the establishment of specific objectives, and the effective startup of activities. The second evaluation, 18 months after project startup, will focus on assessing the effectiveness with which the means have been used by the BDCs and the NEU; the quantified objectives of the project must be revised accordingly.

The third evaluation, 30 months after project startup, will focus on the self-sustainability of the BDCs after the program contribution has been discontinued.

- 6.3 The evaluation will be conducted based on the programs planned for the constitution and launching of the BDCs and the activity plans and budgets which, at the national level and in each region, have been prepared by the entities connected with the project and agreed upon with the IDB/MIF. The evaluation criteria must take into account the degree of satisfaction of the companies, and specifically may include the following indicators. the number of services demanded and satisfied; the percentage of companies visited requesting diagnostic services; percentage of companies diagnosed that undertake an improvement project; companies requesting new services within a period of two years; productivity improvements in the companies served; billing level and self-financing of the BDCs.
- 6.4 If the results of these evaluations are satisfactory, the NEU can continue to provide MIF resources to the BDCs. If the results are not satisfactory, adjustments will be proposed to allow new commitments to be resumed. Unsatisfactory results in a given BDC will in no way impede the provision of resources to other BDCs found to be satisfactory.

VII. AMENDMENTS TO THE OPERATING REGULATIONS

- 7.1 The executing agency, on behalf of the NEU, may suggest modifications to these regulations to adapt it to new conditions or circumstances that may arise in the execution of the program. They would enter into force once they have been approved by the Bank.

VIII. PRECEDENCE OF THE TECHNICAL COOPERATION AGREEMENT

- 8.1 The terms and conditions established in the technical cooperation agreement will take precedence over these regulations.

**BUDGET OF THE
BUSINESS DEVELOPMENT CENTERS**

Annex 4, section A, provides summary tables on the project as a whole, whereas section B provides details on the baseline and assumptions used in preparing the budget, and itemizes income and expenses planned for each BDC year to year.

TABLE 1. INCOME AND EXPENSES: CONSOLIDATED

This table shows the operating results of the five BDCs and the National Direction and Coordination Unit of the Program during the three years in which the MIF and the local counterpart will be contributing to the project and the results for the fourth year, when these resources are no longer available are projected.

The income anticipated will be generated by the sale of services to businesses. It has been projected that income will increase over time since the companies must pay an increasing percentage of the cost of the services they receive, paying 100% as of the fourth year.

Thirty percent of income would be deducted to set up a Reserve Fund which will permit deviations from the forecasts and ensure the continuity of program activities.

Expenditure is considered in terms of its various components:

Investment spending includes certain initial equipment as well as training for the BDCs on personnel, assigned to the National Directorate, and the promotion of BDCs which includes expenses for extension of the program and promotion of demand among small business.

Fixed operating expenses represent the cost of maintenance of the structure of the BDCs and the National Directorate. During the first three years, a lean structure is planned, but one which must undertake a significant promotional effort in generating demand among small businesses, and which will be compensated to a lesser degree than direct services. As of the fourth year, the National Directorate will reduce its structure to 25% (50% in the case of the Director), since the Bank's contribution will have been discontinued. If the parties consider the National Directorate sufficiently useful, they must cover its cost with any surpluses generated by the project or out of their own resources.

Similarly, the fixed operating expenses of the BDCs in the fourth year maintain the salaries of the Center Directors, but their structure is adjusted to demand as measured by the number of activities.

Variable costs of the BDC will also be reduced slightly during the fourth year because of an estimated reduction in demand resulting from the increase in the fees charged to the companies.

The program will incur losses during the first three years of operation, which will be offset by the MIF contributions and the counterpart. Cash flow will become positive and the self-financing phase of the program will begin as of the fourth year, strengthened by the Reserve Fund accumulated during the first three years.

CUADRO No 1
ESTIMACION DE INGRESOS Y EGRESOS: CONSOLIDADO

INGRESOS	PERIODO CON APOORTE FOMIN				POST FOMIN	
	Año 1	Año 2	Año 3	SUBTOTAL	Año 4	TOTAL
I. VENTA DE SERVICIOS	680,000	980,000	1,460,000	3,120,000	1,870,000	4,990,000
1. Consultorias Integrales	80,000	200,000	320,000	600,000	330,000	930,000
2. Consultorias Especializadas	150,000	180,000	240,000	570,000	247,500	817,500
3. Consultorias Colectivas	250,000	300,000	400,000	950,000	412,500	1,362,500
4. Capacitacion	200,000	300,000	500,000	1,000,000	880,000	1,880,000
II. FONDO DE RESERVA	(204,000)	(294,000)	(438,000)	(936,000)	0	(936,000)
TOTAL	476,000	686,000	1,022,000	2,184,000	1,870,000	4,054,000
EGRESOS						
I. INVERSION	809,000	300,300	315,315	1,424,615	0	1,424,615
- DIRECCION NACIONAL	304,500	224,700	235,935	765,135	0	765,135
1. Equipo	35,500	0	0	35,500	0	35,500
2. Muebles y Enseres	15,000	0	0	15,000	0	15,000
3. Publicaciones	80,000	84,000	88,200	252,200	0	252,200
4. Evaluaciones	82,000	44,100	46,305	152,405	0	152,405
5. Cursos y Entrenamiento	82,000	96,600	101,430	290,030	0	290,030
6. Vehiculo	20,000			20,000		20,000
- CDE'S	504,500	75,600	79,380	659,480	0	659,480
1. Equipo	357,500	0	0	357,500	0	357,500
2. Muebles y Enseres	75,000	0	0	75,000	0	75,000
3. Promocion	72,000	75,600	79,380	226,980	0	226,980
II. GASTOS DE FUNCIONAMIENTO	2,623,898	2,653,315	2,676,719	7,953,932	1,667,724	9,621,655
1. FIJOS	684,180	712,509	735,277	2,131,966	418,243	2,550,209
- DIRECCION NACIONAL	193,830	200,398	210,418	604,645	65,834	670,480
1. Director Nacional	48,000	50,400	52,920	151,320	26,460	177,780
2. Administrativos y de servicios	60,600	63,630	66,812	191,042	16,703	207,744
3. Viaticos y Gastos de Viaje	13,000	10,675	11,209	34,884	2,802	37,686
4. Gastos Generales	27,000	28,350	29,768	85,118	7,442	92,559
5. Suministros	18,000	18,900	19,845	56,745	4,961	61,706
6. Alquiler de Oficinas	18,000	18,900	19,845	56,745	4,961	61,706
7. Imprevistos	9,230	9,543	10,020	28,793	2,505	31,298
- CDE'S	490,350	512,111	524,859	1,527,320	352,409	1,879,729
1. Honorarios	318,600	334,530	349,493	1,002,623	237,125	1,239,748
1.1 Director y Tecnicos CDE'S	240,000	252,000	264,600	756,600	198,450	955,050
1.2 Directivos UEN y UER'S	33,600	35,280	35,280	104,160	5,600	109,760
1.3 Administrativo y Servicios	45,000	47,250	49,613	141,863	33,075	174,938
2. Viaticos y Gastos de Viaje	45,750	45,281	36,451	127,483	9,113	136,596
3. Auditorias	15,000	15,750	16,538	47,288	17,364	64,652
4. Gastos Generales	30,000	31,500	33,075	94,575	8,269	102,844
5. Uso de Oficinas	66,000	69,300	72,765	208,065	76,403	284,468
6. Suministros	15,000	15,750	16,538	47,288	4,134	51,422
2. VARIABLES CDE'S	1,939,718	1,940,806	1,941,443	5,821,966	1,249,481	7,071,447
2.1. Consultorias Integrales	224,000	224,000	224,000	672,000	178,000	850,000
2.2 Consultorias Especializadas	300,000	300,000	300,000	900,000	180,000	1,080,000
2.3. Acciones Colectivas	500,000	500,000	500,000	1,500,000	262,500	1,762,500
2.4 Capacitacion	800,000	800,000	800,000	2,400,000	560,000	2,960,000
2.5 Imprevistos	115,718	116,806	117,443	349,966	68,981	418,947
TOTAL	3,432,898	2,953,615	2,992,034	9,378,547	1,667,724	11,046,270
RESULTADO	(2,956,898)	(2,267,615)	(1,970,034)	(7,194,547)	202,276	(6,992,270)

TABLE 2. ESTIMATED SOURCES AND USES: CONSOLIDATED

This table shows the flow of program financing with regard to its origin and its application each year.

With respect to sources, it should be noted that MIF contributions and the counterpart resources are concentrated in the first year and are reduced as operating income increases. The accumulated total for three years represents the total cost of the program.

The uses of the project financing are the same as project expenses, as shown in the breakdown in Table 1, and the Reserve Fund used to ensure program continuity.

TABLE NO. 2
ESTIMATED SOURCES and USES: CONSOLIDATED

	MIF CONTRIBUTION PERIOD				POST MIF	
SOURCES	Year 1	Year 2	Year 3	SUBTOTAL	Year 4	TOTAL
I. MIF	2,237,048	2,018,922	1,710,671	5,966,641	0	5,966,641
II. NATIONAL COUNTERPART	719,850	248,693	259,363	1,227,906	0	1,227,906
III. OPERATING INCOME	680,000	980,000	1,460,000	3,120,000	1,870,000	4,990,000
TOTAL SOURCES	3,636,898	3,247,615	3,430,034	10,314,547	1,870,000	12,184,547
USES						
I. FIXED INVESTMENT	809,000	300,300	315,315	1,424,615	0	1,424,615
II. OPERATING EXPENSES	2,623,898	2,653,315	2,676,719	7,953,932	1,667,724	9,621,655
1. FIXED	684,180	712,509	735,277	2,131,966	418,243	2,550,209
2. BDC VARIABLES	1,939,718	1,940,806	1,941,443	5,821,966	1,249,481	
III. RESERVE FUND	204,000	294,000	438,000	936,000	0	7,071,447
TOTAL USES	3,636,898	3,247,615	3,430,034	10,314,547	1,667,724	11,982,270
AVAILABILITY	0	0	0	0	202,276	202,276

TABLE 3. CONSOLIDATED BUDGET IN ACCORDANCE WITH BANK ACCOUNTING STANDARDS

What is significant in this table is how the MIF contributions are concentrated upon the financing of qualified project personnel, both with respect to fees and the technical personnel of the BDC and National Unit as well specialized consulting services, indicated in category 2, whereas the counterpart contribution is focused more on general support and other administrative expenses.

TABLE NO. 3
CONSOLIDATED BUDGET IN ACCORDANCE WITH IDB ACCOUNTING STANDARDS

CATEGORIES	CONTRIBUTIONS		SALE OF SERVICES	TOTAL
	MIF	LOCAL		
2. INDIVIDUAL CONSULTANTS	4,854,371	44,923	3,120,000	8,019,294
2.1 Fees	4,736,928	0	3,120,000	7,856,928
2.2 Travel expenses	117,443			162,366
3. COURSES AND TRAINING	290,030	0		290,030
6. GENERAL SUPPORT	388,843	889,673		1,278,515
6.3 Equipment	20,000	483,000		503,000
6.4 Supplies	56,745	47,288		104,033
6.8 Communications	85,118	94,575		179,693
- Use of offices	0	264,810		264,810
- Promotion	226,980	0		226,980
7. PUBLICATIONS	252,200	0		252,200
7.1 Printing	31,525	0		31,525
7.5 Distribution and other expenses	220,675	0		220,675
8. INDIVIDUAL CONSULTANTS FOR EVALUATION OF THE BDCs	152,405	0		152,405
8.2 Fees	152,405	0		152,405
98. Contingencies	28,793	0		28,793
OTHER ADMINISTRATIVE EXPENSES	0	293,310		293,310
- Salaries and benefits	0	141,863		141,863
- Audits	0	47,288		
- Honoraria for the Coordination Committee	0	104,160		104,160
TOTAL	5,966,641	1,227,906	3,120,000	10,214,547

TABLE 4. ESTIMATED INCOME AND EXPENSES: BDC

The distribution of income from each center has been estimated on the basis of the number of small businesses existing in each zone, in accordance with the breakdown in Table 2 in Annex 8.

Investment spending has been estimated as equal for all the centers. However, the fixed operating expenses represent an equal share for each center (honoraria for the Director, auxiliary personnel, travel expenses for coordination, and audits), whereas the remaining share is proportional to the number of companies in each zone (fees for technical personnel, administrative expenses and overhead, use of offices and supplies). Finally, the variable expenses of each center are considered proportional to the number of companies in the zone.

The negative result of each of the centers is precisely the sum of MIF and counterpart contributions, as shown in Table 5.

CUADRO No 4
ESTIMACION DE INGRESOS Y EGRESOS: CDE'S
(PERIODO CON APORTES FOMIN)

INGRESOS	SANTAFE BOGOTA	ANTIOQUIA	COSTA ATLANTICA	SANTANDER	VALLE	DIRECCION NACIONAL	TOTAL
I. VENTA DE SERVICIOS	1,311,024	601,224	316,368	282,048	609,336		3,120,000
1. Consultorias Integrales	252,120	115,620	60,840	54,240	117,180		600,000
2. Consultorias Especializadas	239,514	109,839	57,798	51,528	111,321		570,000
3. Consultorias Colectivas	399,190	183,065	96,330	85,880	185,535		950,000
4. Capacitacion	420,200	192,700	101,400	90,400	195,300		1,000,000
II. FONDO DE RESERVA	(393,307)	(180,367)	(94,910)	(84,614)	(182,801)		(936,000)
TOTAL	917,717	420,857	221,458	197,434	426,535		2,184,000
EGRESOS							
I. INVERSION	131,896	131,896	131,896	131,896	131,896	765,135	1,424,615
1. Equipo	71,500	71,500	71,500	71,500	71,500		357,500
2. Muebles y Enseres	15,000	15,000	15,000	15,000	15,000		75,000
3. Promocion	45,396	45,396	45,396	45,396	45,396		226,980
II. GASTOS DE FUNCIONAMIENTO	2,943,448	1,421,005	810,021	736,408	1,438,405	604,645	7,953,932
1. FIJOS	497,058	299,112	219,673	210,102	301,375	604,645	2,131,966
1. Honorarios	315,064	196,727	149,236	143,515	198,080		1,002,623
1.1 Director y Tecnicos CDE	234,622	148,558	114,020	109,858	149,542		756,600
1.2 Directivos UER	20,832	20,832	20,832	20,832	20,832		104,160
1.3 Administrativo y Servicios	59,611	27,337	14,385	12,824	27,706		141,863
2. Viaticos y Gastos de Viaje	25,497	25,497	25,497	25,497	25,497		127,483
3. Auditorias	9,458	9,458	9,458	9,458	9,458		47,288
4. Gastos Generales	39,740	18,225	9,590	8,550	18,470		94,575
5. Uso de Oficinas	87,429	40,094	21,098	18,809	40,635		208,065
6. Suministros	19,870	9,112	4,795	4,275	9,235		47,288
2. VARIABLES CDE'S	2,446,390	1,121,893	590,347	526,306	1,137,030		5,821,966
2.1. Consultorias Integrales	282,374	129,494	68,141	60,749	131,242		672,000
2.2 Consultorias Especializadas	378,180	173,430	91,260	81,360	175,770		900,000
2.3. Acciones Colectivas	630,300	289,050	152,100	135,600	292,950		1,500,000
2.4 Capacitacion	1,008,480	462,480	243,360	216,960	468,720		2,400,000
2.5 Imprevistos	147,056	67,438	35,487	31,637	68,348		349,966
TOTAL	3,075,344	1,552,901	941,917	868,304	1,570,301	1,369,780	9,378,547
RESULTADO	(2,157,627)	(1,132,044)	(720,459)	(670,870)	(1,143,765)	(1,369,780)	(7,194,547)

TABLE 5. ESTIMATED SOURCES AND USES BY CENTER

This table shows the commitments from the counterpart contribution of each region in comparison with the MIF contribution, the total spending of the operation and the Reserve Fund.

The MIF contribution to the national unit and to each BDC is calculated by deducting the counterpart contribution from the operating laws shown in Table 4.

TABLE NO. 5
ESTIMATED SOURCES AND USES BY CENTER
(WITH MIF CONTRIBUTIONS)

SOURCES	NATIONAL DIRECTORATE	BUSINESS DEVELOPMENT CENTERS					TOTAL
		BOGOTA	ANTIOQUIA	ATLANTIC COAST	SANTANDER	VALLE	
I. MIF	1,262,535	1,825,203	911,502	544,817	500,638	921,945	5,966,641
II. NATIONAL COUNTERPART	107,245	332,424	220,542	175,642	170,232	221,821	1,227,906
III. OPERATING INCOME	0	1,311,024	601,224	316,368	282,048	609,336	3,120,000
TOTAL SOURCES	1,369,789	3,468,651	1,733,268	1,036,827	952,918	1,753,101	10,314,547
USES							
I. FIXED INVESTMENT	765,135	131,896	131,896	131,896	131,896	131,896	1,424,615
II. OPERATING EXPENSES	604,645	2,943,448	1,421,005	810,021	736,408	1,438,405	7,953,932
1. FIXED	604,645	497,058	299,112	219,673	210,102	301,375	2,131,966
2. BDC VARIABLES		2,446,390	1,121,893	590,347	526,306	1,137,030	5,821,966
III. RESERVE FUND		393,307	180,367	94,910	84,614	182,801	936,000
TOTAL USES	1,369,780	3,468,651	1,733,268	1,036,827	952,918	1,753,101	10,314,547
AVAILABILITY	(0)	(0)	0	0	0	0	(0)

PROPOSED RESOLUTION

COLOMBIA. NON REIMBURSABLE TECHNICAL COOPERATION FOR THE REALIZATION
OF THE PROGRAM TO ESTABLISH PRIVATE ENTERPRISE DEVELOPMENT CENTERS

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 and to take such additional measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT- with respect to a non reimbursable technical cooperation with the Confederación de Cámaras de Comercio de Colombia, for the realization of the Program to Establish Private Enterprise Development Centers.
2. That up to the sum of US\$5,966,641, is authorized for the purpose of this resolution, chargeable to the resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a non reimbursable basis.