

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

COLOMBIA

**SUPPORT FOR BUSINESS PERFORMANCE THROUGH THE USE OF
INFORMATION AND COMMUNICATION TECHNOLOGIES**

(TC-01-06-01-0)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Juan Belt (RE3/FI3), Team Leader; Masami Yamamori (MIF); Elena Heredero (MIF); Carlos Novoa (COF/CCO); Juan Carlos Pérez Segnini (LEG/OP3); Claudia Stevenson (Consultant) and María R. Sosa (RE3/FI3), who was in charge of document production.

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Annex I Logical Framework

ABBREVIATIONS

ACOPI	Asociación Colombiana de Pequeñas y Medianas Industrias [Colombian Association of Small and Medium-Sized Enterprises]
B2B	Business to Business Electronic Commerce
CARCE	Comités Asesores Regionales de Comercio Exterior [Regional Foreign Trade Consulting Committees]
CCB	Cámara de Comercio de Bogotá [Bogota Chamber of Commerce]
CDE	Programa de Centros de Desarrollo Empresarial [Program to Establish Business Development Centers]
CESI	Committee on Environment and Social Impact
CONFECÁMARAS	Confederación Colombiana de Cámaras de Comercio [Confederation of Colombian Chambers of Commerce]
CRT	Comisión de Regulación de Telecomunicaciones [Telecommunications Regulatory Commission]
FOMIPYME	Fondo Colombiano de Modernización y Desarrollo Tecnológico de las Medianas, Pequeñas y Micro Empresas [Colombian Fund for the Modernization and Technological Development of Micro, Small and Medium-Sized Enterprises]
ICT	Information and Communication Technologies
ISP	Internet Service Provider
MIF	Multilateral Investment Fund
PROEXPORT	Export Promotion Fund
SENA	Servicio Nacional de Aprendizaje [National Training Service]
SME	Small and Medium-Sized Enterprises

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EXECUTIVE SUMMARY

Executing agency:	Confederación Colombiana de Cámaras de Comercio [Confederation of Colombian Chambers of Commerce] (CONFECÁMARAS)	
Amount and source:	Modality:	Nonreimbursable
	MIF (Window III-A):	US\$1,000,000
	Local counterpart:	US\$ 970,000
	Total:	US\$1,970,000
Execution Schedule:	Execution period:	36 months
	Disbursement period:	42 months
Beneficiaries:	<p>The project seeks to achieve the following results, among others:</p> <ul style="list-style-type: none"> (i) 1,500 SMEs with an increased awareness of the opportunities and advantages associated with using information and communication technologies (ICT) in their businesses; (ii) 10 business communities using new technological tools; (iii) 750 SMEs with individual and group assessments of their potential to use ICT, with prepared action plans; (iv) 150 SMEs using ICT tools in their operations in order to improve the performance of their businesses and access new markets; (v) 20 trained local consultants with experience in providing ICT consulting services to SMEs; (vi) 10 chamber of commerce employees trained in ICT; and (vii) an established “market” for providing ICT consulting services to SMEs. 	
Objectives:	<p>The overall objective of the project is to help make Colombian SMEs more competitive through the use of ICT. The specific objective is to increase the performance of Colombian SMEs by encouraging the formation of business communities through the use of information technologies and electronic commerce, particularly business-to-business electronic commerce (B2B).</p>	
Description:	<p>The project consists of the following components: (i) developing the action methodology; (ii) raising awareness among businesses in priority sectors; (iii) conducting diagnostic assessments and</p>	

implementing technological services in business communities, and (iv) disseminating the results and lessons learned from the project.

With component I resources, the action instruments and methodology for applying ICT in individual businesses and business communities will be developed and tested, and the sectors and business communities with high potential for taking advantage of these tools will be identified.

In component II, CONFECÁMARAS, with the active participation of seven local chambers of commerce (Bogota, Cali, Medellín, Barranquilla, Bucaramanga, Manizales, and Cartagena), will prepare and organize awareness-building workshops for specific sectors previously identified in component I.

In component III, the project will offer diagnostic assessment services to approximately 750 businesses in the 15 priority sectors identified by the project (with an average of 50 businesses per sector). In addition, funding will be provided for a certain number of ICT solutions to 10 business communities and 150 businesses.

In component IV, CONFECÁMARAS will identify and contact other professional organizations and institutions associated with ICT development for SMEs in order to increase the use of ICT among Colombian SMEs as fundamental tools for improving competitiveness.

Special contractual clauses:

As conditions precedent to the first contribution disbursement, CONFECÁMARAS will provide, to the Bank's satisfaction, evidence that: (i) it has established the Project Executing Unit (see paragraph 4.2); (ii) it has established the Project Management Committee (see paragraph 4.4), and (iii) it has signed the inter-institutional agreement, the contents of which will have been approved by the Bank (see paragraph 4.4).

Exceptions to Bank policy:

None.

CESI:

The CESI reviewed the document on 22 March 2002, and recommended that gender equity criteria be included in the beneficiary selection process. To this end, an information system will be developed in order to monitor and quantify program benefits, including monitoring of the gender variable (see paragraph 3.16). Another recommendation was that companies have the necessary environmental permits for operation in order to be eligible for participation in the project, among other criteria. This recommendation was included in the Operating Regulations (Annex IV).

I. COUNTRY AND PROGRAM ELIGIBILITY

- 1.1 Colombia was declared eligible for all forms of financing from the Multilateral Investment Fund (MIF) on 29 October 1993. This project satisfies the requirements for financing through the Small Business Promotion Facility, given that it seeks to make small and medium-sized enterprises (SMEs) in Colombia more competitive through the use of information and communication technologies (ICT). The proposed project is also consistent with MIF priorities, as detailed in the Working Group Report on MIF Strategy,¹ in that it fosters the use of ICT by SMEs in order to increase their efficiency, productivity, and ultimately their competitiveness.

II. BACKGROUND

A. Information technologies and the local context

- 2.1 Internet use in Colombia has risen sharply in recent years, increasing from 433,000 users in 1998 to approximately 1.5 million users in 2002. As of December 1999, Colombia had 80 to 100 Internet service providers (ISPs) providing connections to 650,000 user accounts. Of these accounts, 22% belonged to the dial-up access sector that comprises SMEs and private and residential users. Between 1997 and 1999, the number of Internet users increased 220%.²
- 2.2 Internet-based sales have also seen rapid growth. All companies in Colombia with more than 100 employees are connected to the Internet, 87% have a website, and 36% of Colombian companies are working on electronic commerce solutions through websites and extranets. This situation is reflected in electronic commerce figures, which went from US\$7.7 million in 1998 to US\$125 million in 2001. They are expected to reach US\$445 million in 2003.³
- 2.3 It is worth noting that, of all of the possible electronic commerce combinations,⁴ the model that has achieved the greatest global acceptance and profitability is business-to-business electronic commerce (B2B). This is because companies understand that performing transactions over the Internet reduces their transaction costs and increases efficiency. In fact, there are already several department store chains in Colombia that allow customers and suppliers to make purchases and perform transactions online.

¹ MIF, Working Group Strategy Document (MIF/GN-56).

² International Data Corporation, taken from the Telecommunications Regulatory Commission (CRT), 2001.

³ International Data Corporation, taken from the CRT.

⁴ Namely, business-to-consumer commerce (B2C), business-to-business commerce (B2B), and business-to-government commerce (B2G).

- 2.4 With regard to the climate for promoting rapid development of electronic commerce in Colombia, several significant measures have already been taken, such as (i) approval of Law 529 on Electronic Commerce, which gives legal recognition to data messages by granting them probative value, regulates the use of electronic commerce, establishes regulatory entities, and introduces the digital signature; (ii) establishment of a flat rate for connecting to the Internet, and (iii) establishment of an official regulatory entity for digital transaction security.
- 2.5 Colombian banks are active on the Internet, with Bancolombia, which began offering online services in 1996, leading the way. In 1999, 3% of all Bancolombia transactions were performed via the Internet. By the year 2000, nearly all Colombian banks had an Internet portal through which they offered some type of online service.
- 2.6 Despite the considerable progress of the last several years, Colombia's electronic commerce market is still in its infancy. A survey carried out by the chambers of commerce showed that of 2,500 companies with some type of business activities, 75% of which had Internet access, only 20% used the Internet for business-related activities and barely 9% used it for electronic commerce.
- 2.7 It is even more difficult for SMEs to benefit from ICT in their businesses. The main factor that prevents most SMEs from using ICT continues to be insufficient manager and employee knowledge about how to use computers and software. Even SMEs that are already connected are unaware of specific actions and solutions that would enable them to use ICT as a tool to make their businesses more efficient. Thus, such companies find it difficult to benefit from the emerging electronic commerce market.

B. Policies regarding competitiveness and information technology

- 2.8 The policy of the Government of Colombia is based on the National Development Plan 1998-2002, which sets forth the primary action strategies for the period. The National Development Plan includes the most important policies pertaining to the program, including the National Productivity and Competitiveness Policy, the Strategic Export Plan, and the Connectivity Agenda.
- 2.9 The Connectivity Agenda is one of the central elements of the policy for promoting competitiveness through improvements in telecommunications and information technology. The agenda consists of a group of strategies to be implemented through a series of coordinated programs and projects aimed at increasing the use of ICT. These measures are expected to make businesses more competitive, modernize public and government institutions, and increase public access to information and education throughout the country.

- 2.10 Another important element of Colombia's pro-competitiveness policies is to strengthen productive sectors and clusters by applying the principles of association, cooperation, and business leadership with the participation of regional and local governments, as well as the academic sector. Under the leadership of the Ministry of Foreign Trade, Comités Asesores Regionales de Comercio Exterior [Regional Foreign Trade Consulting Committees] (CARCES) have been established in every department. In the private sector, the chambers of commerce have led the way in identifying and invigorating productive clusters.

C. Project and participating institutions

- 2.11 This project, within the framework of the pro-competitiveness policies described above, seeks to make Colombian SMEs more competitive by using information and communication technologies (ICT). The project is based on the following assumptions: (i) the most efficient and profitable form of electronic commerce is B2B; indeed, ICT is the ideal tool for strengthening SME business networks, enabling them to make connections with large companies and enter local and international markets; (ii) in Colombia, significant progress has been made in identifying regional strategic projects based on productive cluster economies, and (iii) successful and profitable examples of ICT projects in selected groups of companies will serve as an important model for the rest of the business sector, especially SMEs, by encouraging them to use ICT to improve their business performance.
- 2.12 In view of the above, the project will focus primarily on “business communities” in sectors or subsectors with a high potential for using ICT to achieve greater efficiency and profitability in the short term. In the context of this project, the term “business communities” refers to a group of small businesses that wish to cooperate with one another or establish ties with large companies through the use of ICT in order to enter and/or improve their presence in local and international markets. To ensure that the experience gained from this project can be applied in other countries or regions, a significant portion of the resources will be devoted to developing the methodology and necessary instruments for ICT training and implementation of technological assistance.
- 2.13 For execution, the project will rely on three of the main entities responsible for promoting ICT and national competitiveness programs: the Confederación de Cámaras de Comercio [Confederation of Colombian Chambers of Commerce] (CONFECÁMARAS), the Connectivity Agenda, and the Bogota Chamber of Commerce (CCB). The project's executing agency, CONFECÁMARAS, brings together Colombia's 57 chambers of commerce and favors greater use of technology in the services it offers, as well as increased efficiency and adaptability. CONFECÁMARAS has carried out numerous projects that support business in Colombia, focusing on improving productivity and competitiveness, particularly in SMEs. One of the most successful of these programs was the Program to Establish

Business Development Centers (CDEs), which was financed by the MIF (ATN/ME-4911-CO)⁵ and which has become sustainable by selling nonfinancial services to businesses. As a result of MIF financing, the CDEs currently have a roster of 675 Colombian consultants specializing in SMEs, of whom 130 are specialists in strategic planning and 40 are specialists in computer systems.

- 2.14 The project will involve proactive participation by the Connectivity Agenda and the Bogota Chamber of Commerce (CCB). The participation of the Connectivity Agenda will ensure that project activities are carried out within the framework of pro-competitiveness policies. The CCB, for its part, will provide additional financial and technical support, as well as its coordinating capabilities, to ensure business sector participation in all phases of the project. The remaining six major Colombian chambers of commerce (Cali, Medellín, Barranquilla, Manizales, Cartagena, and Bucaramanga) will serve as regional coordination points so as to achieve greater national coverage.
- 2.15 In addition, it will be important to maintain close cooperation with the Program in Support of Productive Associations, funded by the MIF (ATN/ME-7856-CO) and implemented by Asociación Colombiana de Pequeñas y Medianas Empresas [Colombian Association of Small and Medium-Sized Enterprises] (ACOPI). This program seeks to increase business productivity by facilitating cooperation between small and medium-sized enterprises through horizontal links in business networks or vertical links in productive clusters. Both projects will be mutually beneficial and complementary: the proposed project will be able to take advantage of ACOPI's experience in establishing alliances between small and medium-sized enterprises, while the ACOPI program will be able to take advantage of new technologies for strengthening business networks, thereby increasing SME efficiency and productivity.
- 2.16 In the context of the criteria established under the MIF strategy, the proposed project is clearly **innovative** insofar as it seeks to introduce and apply new technological tools in SMEs that will assist businesses in improving performance and accessing new markets. The successful implementation of this project should also serve as an important model for Colombian SMEs by **demonstrating** the benefits of ICT. The project also seeks to support the development and **sustainability** of a local ICT technical assistance market for SMEs. Moreover, MIF involvement will provide **additionality** by catalyzing both the private and the public sectors to finance the development of innovative ways to use ICT and its

⁵ This project was completed in April 2001. Currently, the CDE coordinates and implements business development programs, such as ISO 9000 certification programs, programs sponsored by the Colombian Fund for the Modernization and Technological Development of Micro, Small and Medium-Sized Enterprises (FOMIPYME), and the Competitiveness and Productivity Fund, which produces sufficient revenue to cover its own operating costs.

specific application in the small and medium-sized business sector in order to improve the competitiveness of Colombian SMEs.

III. BASIC PROGRAM OBJECTIVES AND COMPONENTS

- 3.1 The overall objective of the project is to help make Colombian SMEs more competitive through the use of information and communication technologies.
- 3.2 The specific objective is to increase the performance of Colombian SMEs and to encourage the formation of business communities through the use of information and electronic commerce technologies, especially B2B.

Component I: Development of the intervention methodology (MIF US\$99,600/Local Counterpart US\$156,600)

- 3.3 With funds from this component, intervention instruments and methodology will be developed and validated in individual companies and business communities for the application of ICT. In order for the results of this component to serve as the basis for executing the remaining components, implementation of the following activities will be considered: (i) designing a conceptual model for the application of ICT for Colombian SMEs; (ii) developing, applying and validating the ITC intervention methodology instruments, and (iii) training consultants specialized in ITC diagnostics and applications advising for individual companies and business communities.
- 3.4 In March 2002, the Connectivity Agenda and the Bogota Chamber of Commerce (CCB) contracted a consulting firm at their expense, to design and develop the instruments and methodology. This firm is responsible for completing the following tasks: (i) design of a conceptual model for the application of ITC for Colombian SMEs, (ii) final selection of 15 strategic production sectors and business communities likely to benefit from the project's technical assistance⁶, (iii) design of information workshops for companies and business communities, and (iv) design of a self-diagnostic instrument to evaluate whether a company meets the minimum requirements to join a business community. Given the importance of this consulting project to executing the remaining project components, up to US\$100,000 of the expenses associated with the contracted firm will be able to be retroactively covered by funds from the Connectivity Agenda and the CCB, charged against local counterpart funds, provided that such expenses were incurred within 18 months before the approval date of this document.

⁶ The following have already been identified: (i) textiles, (ii) cosmetics, (iii) bakeries, (iv) leather and footwear, (v) auto parts, (vi) household appliances, (vii) electrical and electronic equipment, (viii) dairy products, (ix) graphics industry, (x) software, and (xi) health services.

- 3.5 Another consulting firm is also expected to be engaged with MIF financing, which will be responsible for the following: (i) designing diagnostic instruments and providing technical advice for applying ITC in business communities, and (ii) training at least 20 local consultants in the use of such instruments to offer ITC consulting services to both the selected business communities and individual companies. In selecting the participants, the existing CDE consulting registry will be taken into consideration. In addition, 10 chamber of commerce employees will participate in the training course with a view to strengthening their technical capacity to supervise the quality of the consulting services. CONFECÁMARAS is in the process of identifying candidate consulting companies for this consulting project.
- 3.6 Under the supervision of CONFECÁMARAS, both firms will jointly engage in activities relating to the methodology and instruments that each will develop. CDE's experience in business consulting for SMEs, as well as ACOPI's experience in setting up productive clusters, will be carefully reviewed and incorporated into the development of these instruments.
- 3.7 The intervention methodology and instruments will be validated upon application in at least two business communities consisting of a minimum of 15 companies each, in the Bogota and Cundinamarca regions, which have the largest concentrations of business groupings. This validation exercise with groups of companies will also be an opportunity for participants undergoing training to apply the new techniques.

Component II: Building awareness among companies in the priority sectors (MIF US\$123,000/ Local Counterpart US\$175,000)

- 3.8 In this component, CONFECÁMARAS, with the participation of seven local chambers (Bogota, Cali, Medellín, Barranquilla, Bucaramanga, Manizales, and Cartagena), will prepare and organize awareness-building workshops for specific sectors previously identified in component I. At least 1,500 SMEs in the selected sectors are expected to be invited and informed of the benefits of using ITC to strengthen business networks and thus better position themselves in the globalized market. At these workshops, the companies, both individually and collectively, will complete self-diagnostic forms that will facilitate identification of those companies and business communities with the greatest potential to benefit from the application of ITC. The data compiled will serve as a line of reference to measure the impact on the companies of participation in the project.

Component III: Diagnostic assessments and implementation of technology services in business communities (MIF US\$405,000 / Local Counterpart US\$505,000)

- 3.9 In this component, the project will offer diagnostic assessment services to approximately 750 companies belonging to the 15 priority sectors identified by the

- project (an average of 50 companies per sector). These services will be implemented as follows: teams of consultants—one specializing in ITC and another specializing in consulting, to form productive business networks—will work together and in parallel to offer individual and group diagnostic assessments with a view to designing the structure of services for monitoring the business communities. In the diagnostic assessment process, the consultants will determine which participating companies are capable of absorbing the information provided by the technical assistance and then taking specific measures. At least 15 companies from each sector are expected to commit to forming a business community to implement the technology services action plan (150 companies in total). The average diagnostic assessment cost per business community is estimated at US\$6,000, of which the project will finance up to US\$4,000. The project will also finance up to US\$250 or 50% of the diagnostic assessment cost for each company.
- 3.10 Once the participating companies decide to acquire the technology services, they will sign a letter of intent with CONFECÁMARAS consistent with the format developed in the methodology, in which the requester accepts the consultant and the conditions for access to MIF benefits. These conditions must include the following: acceptance of the terms of reference for the processes to be undertaken, the support the project will offer to the business owner, and the agreement that will govern project development (for details, see Annex IV, the Operating Regulations).
- 3.11 The technology services proposals prepared by the consulting teams will be evaluated and approved by the project management committee (see paragraph 4.5) in accordance with the following criteria: (i) commercial viability (whether there is high potential for connecting with the market) and financial viability (installation and maintenance costs); (ii) availability of the required technology services; and (iii) the ability of participating companies to make use of the technology consulting services.
- 3.12 Implementation of the proposal also consists of two parts. At the individual business level, it will consist of performing a follow-up of the recommendations to each company in the business community or network. At the group level, it will consist of implementing the ITC (technology services) solution in the business community. Ten of the 15 business communities receiving assessments are expected to opt for actual implementation of the ITC solution.
- 3.13 The technology services required for each proposal will be acquired in the market in accordance with the service contracting rules established by the Bank. The project will finance up to 50% of the total cost of the technology services budgeted for the proposals at the business community level, to a maximum of US\$50,000, and 50% of the total cost of the technology services for each participating company, up to US\$1,000. Participating companies will assume the remaining cost of the services, as well as the cost of maintaining the systems that allow them to be connected to the electronic commerce market.

- 3.14 Chamber of Commerce personnel will be responsible for monitoring and coordinating development of the diagnostic assessment consulting services and implementing the action plans at the group and individual levels.

Component IV: Dissemination of the results and lessons learned from the project. (MIF US\$209,400 / Local Counterpart US\$68,800)

- 3.15 Since the intervention methodology and instruments for optimizing the use of ITC among SMEs in a business community are innovative, a special effort will be made to analyze and disseminate the accumulated results and lessons learned during project execution. CONFECÁMARAS will identify and contact other professional organizations and institutions involved in ITC development for SMEs in order to encourage Colombian SMEs to use ITC as a basic tool to improve their competitiveness.
- 3.16 Specifically, an information system will be developed that will allow all activities carried out in the various business communities to be monitored and coordinated. In addition, the system will monitor and quantify all program benefits within the business communities and individual companies, including the gender variable. The project also includes the design and maintenance of a project web site to inform the public of its existence, progress, and results. In the third year of execution, a consultant will be contracted to analyze and consolidate the accumulated project experience to prepare a methodology package and technical assistance instruments for using ITC to strengthen SME business communities. Additional materials for reporting project results will also be developed, such as case studies, videos, and other types of information.
- 3.17 Once the project has acquired the products described in the preceding paragraph, a national seminar will be organized to present the results and lessons learned to representatives of the country's business sector.

IV. EXECUTING AGENCY AND EXECUTION MECHANISM

- 4.1 The project executing agency will be CONFECÁMARAS, which has successfully undertaken large-scale programs on behalf of its members. CONFECÁMARAS is the most appropriate entity for executing this project, given its national scope and relationship with all the country's chambers of commerce, as well as its knowledge of the problems SMEs face in making use of the development potential ITC offers. CONFECÁMARAS will seek to expand the use of ITC throughout Colombia, based on the criteria of business capacity, existing infrastructure, and the management capacity of the chambers. To that end, the six major chambers of commerce will be used as regional nodes for coordinating the activities. For execution purposes, CONFECÁMARAS will set up **the project executing unit**.

- 4.2 **The executing unit** will be responsible for coordinating actions, managing project activities, management control, and budget management through established procedures, including the use of gender equity as a criterion in beneficiary selection. It will consist of a project coordinator, an operations assistant, and another administrative assistant. The executing unit will receive technical advice from the national CDE-CONFECÁMARAS director on issues relating both to business services for SMEs, and the administrative handling of projects financed with MIF resources. The project coordinator will also maintain periodic contact with entities such as ACOPI and the Ministry of Foreign Trade in order to promote synergies between the various national programs involved in the issues of ITC and SME competitiveness.
- 4.3 It should be noted that, of the participating chambers, the Bogota Chamber of Commerce (CCB) has assumed leadership in analyzing the productivity of Bogota companies and has identified the sectors and clusters most relevant to implementation of the ITC program for SMEs. The CCB will contribute US\$278,000 to component I and III activities. The CCB will also actively participate in project management, guidance, and general evaluation, offering support and special advice to the other chambers of commerce in Colombia, as needed. In the public sector, the project has the proactive participation of the Connectivity Agenda. The Connectivity Agenda will allocate US\$500,000 for project preparation and execution, design of implementation methodology, and project startup in component I. To ensure proper coordination between the entities involved, a **project management committee** will be formed.
- 4.4 **The management committee** will consist of a legal representative or delegate from CONFECÁMARAS, the Connectivity Agenda, and the seven chambers participating in the project: Bogota, Cali, Medellín, Bucaramanga, Manizales, Barranquilla, and Cartagena. The Bank will participate in the management committee as an observer. The project coordinator will participate in the committee as a nonvoting secretary. The committee will monitor work plan implementation, advise on strategy, and approve the project's operating regulations, budget disbursement schedules, and technology service proposals for the business communities. The committee will also approve the hiring of key personnel for the executing unit, and monitor fulfillment of the project objectives and various action areas, as set forth in the respective agreements. The committee will meet every quarter or whenever deemed necessary at the request of one of the parties. The commitments and responsibilities of the committee members and institutions will be summarized in the inter-institutional agreement and are set forth in detail in the project operating regulations.
- 4.5 **Accounting and audits.** CONFECÁMARAS will maintain suitable project accounting, financial, and internal control systems. The accounting system will be organized to provide the necessary documents, allow verification of transactions, and facilitate the timely preparation of financial statements and reports. The project

files will be made available in such a way as to identify the amounts received from the various existing sources; report on project expenses in accordance with an account structure approved by the Bank, distinguishing between MIF contributions and funds from other sources; and include the details necessary to identify the goods acquired and services contracted, as well as the use of such goods and services. CONFECÁMARAS will also open separate and specific bank accounts for managing MIF and local counterpart funds; process requests for disbursement and their respective expense justification, in accordance with the Bank's disbursement procedures; and submit to the Bank semiannual reports on the current status of the revolving fund. Within ninety (90) days after the final project disbursement, CONFECÁMARAS will prepare and submit to the Bank the final financial statements covering the Bank's contribution and local counterpart funds. An independent auditing firm acceptable to the Bank will audit these financial statements. The costs of the audits will be financed by funds from the MIF contribution in accordance with Bank procedure.

- 4.6 **Reports:** CONFECÁMARAS will be responsible for preparing semiannual progress reports documenting activities carried out over the preceding six months, and will prepare a work plan and disbursement schedule for the next period in accordance with the indicators in the program's logical framework. These reports will be submitted to the Bank's Country Office in Colombia for approval within 60 days after completing each six-month period. The Colombia Country Office will also be responsible for providing the MIF with a report three months after project completion, indicating its results. All these reports will include information on gender.
- 4.7 **Supervision.** The Bank's Country Office in Colombia will be responsible for supervising this program. CONFECÁMARAS will be responsible for compiling and analyzing the relevant information to perform ongoing monitoring of the major indicators set forth in the logical framework in Annex I of this document. CONFECÁMARAS and the Bank will use these indicators for the supervision and evaluation of the program, which must be considered both in preparing the semiannual progress reports, and in intermediate and final evaluation reports.
- 4.8 **Procurement.** CONFECÁMARAS will undertake the procurement of goods and services and engage the necessary consulting services for project execution, in accordance with the Bank's and the MIF's procedures and policies in this area.
- 4.9 **Level of preparation.** As part of the project preparation, CONFECÁMARAS is in the advanced stages of implementing consulting services with a view to establishing the conceptual framework and strategic project guidelines (see paragraph 3.4). With the support of the Bank's team, CONFECÁMARAS has prepared drafts of the terms of reference for the primary consultants, as well as for the operating regulations for financing the implementation of technology services in business communities, which includes a detailed list of activities. CONFECÁMARAS is

also in the final phase of signing the inter-institutional agreement with the participating institutions.

- 4.10 **Relationship of the project to environmental issues:** CESI (TRG 12-02) reviewed the document on 22 March 2002 and recommended that the eligibility criteria for companies participating in the project include a requirement that these companies have the appropriate environmental permits to operate.

V. COST, FINANCING SOURCE, AND COST RECOVERY

- 5.1 The total project cost has been estimated at US\$1,970,000, divided as follows: (i) US\$1,000,000 provided by the Bank with MIF funds (Small Enterprise Development Facility: III-A), nonreimbursable; and (ii) US\$970,000 in counterpart funds to be contributed by local entities. Local counterpart funds will be provided through budgetary contributions from the Connectivity Agenda⁷ and through contributions from CONFECÁMARAS. The remaining counterpart funds will be contributed directly by the chambers of commerce participating in this project. A summary of the principal project costs and financing items is presented below. A detailed budget may be found in the project technical file.

Preliminary Costs (US\$000)

Budget items	MIF	Local funds	Total	%
Component I: Development and validation of the intervention methodology	99,600	156,600	256,200	13%
Component II: Awareness-building workshops for businesses	123,000	175,000	298,000	15%
Component III: Diagnostic assessment and implementation of technology services in business communities	405,000	505,000	910,000	46%
Component IV: Dissemination of lessons learned	65,000	60,000	125,000	6%
Project management	209,400	68,800	278,200	14%
Evaluations and audits	68,000	0	68,000	3%
Contingencies	30,000	4,600	44,600	2%
TOTAL	1,000,000	970,000	1,970,000	100%
%	51%	49%	100%	

- 5.2 To ensure the availability of the local contribution, before submitting this project to the MIF Donors Committee, CONFECÁMARAS will sign agreements with both

⁷ The funds are included in the agreement signed between the Connectivity Agenda and the United Nations Development Programme (UNDP), and are available for disbursement.

the Connectivity Agenda and the participating chambers. In the agreements, each institution will confirm the availability of its financial contribution.

- 5.3 **Execution and disbursement period:** The project execution period will be 36 months and the disbursement period 42 months.
- 5.4 **Sustainability:** The project is based on the assumption that a significant demonstration effect will be generated in the business sector, particularly among SMEs, encouraging greater demand for ITC tools. Therefore, no financing whatsoever is anticipated for implementing technology services in business communities after project completion. In terms of the continuity of project activities, it is hoped that once Colombia's business sector clearly understands the benefits of ITC, CONFECÁMARAS will have no difficulty in continuing to offer diagnostics assessments for applying ITC to SMEs as part of the CDEs' business services.

VI. BENEFITS AND RISKS

D. Benefits

- 6.1 The project hopes to achieve the following results, among others: (i) 1,500 SMEs informed of the opportunities and advantages of using information and communication technology (ITC) in their companies; (ii) 10 business communities using ITC to reduce their transaction costs; (iii) 750 SMEs receiving diagnostic assessments at the individual and group levels with respect to their potential for applying ITC and with action plans formulated; (iv) 150 SMEs using ITC tools in their operations to improve communications with customers and suppliers at the individual and group levels; (v) 20 local consultants trained and experienced in providing ITC consulting services to SMEs, (vi) 10 chamber of commerce employees trained in ITC, and (vii) a “market” for ITC advisory services.
- 6.2 The project will promote the creation of business networks or business communities in which companies will benefit collectively and individually from using ITC for their transactions, reducing their costs and expanding their market potential. This is expected to increase online transactions nationally and internationally, reduce transaction costs in a significant number of companies that will benefit collectively from the introduction of ITC, and improve the competitiveness of Colombian companies abroad.

E. Risks

- 6.3 To date, the official policies of the new Colombian authorities with respect to promoting information and communication technologies for SMEs are not known. However, given the extreme importance of using ITC to make businesses more

competitive in the globalized market, it is highly likely that the next government will maintain a policy of promoting expanded use of ITC among SMEs.

- 6.4 Owners of SMEs must be willing to use ITC tools in their transactions and have the technical capacity to use the required hardware and software. Therefore, the project is considering an incentive mechanism and rigorous selection process to identify companies and/or groups of companies capable of participating in each project stage.
- 6.5 Companies are not always willing to cooperate with each other: there is a cultural and trust barrier that needs to be overcome. To that end, the project will work with companies with successful prior experience in teamwork, or that have a leader company that can unite the business community. It is also hoped that both the information provided and the matching funds plan will serve as an incentive for strengthening the business community.

VII. PERFORMANCE INDICATORS AND EVALUATION

- 7.1 The Bank will contract external consultants to perform two evaluations: one intermediate evaluation, approximately 18 months after the program has been declared eligible for disbursements or when 50% of funds have been disbursed; and a final evaluation three months after completing the execution period. The terms of reference for performing these evaluations will be prepared by the Bank in collaboration with CONFECÁMARAS.
- 7.2 The intermediate evaluation will analyze the program's level of progress and general performance, with particular emphasis on: (i) the effect of using ITC in daily business; (ii) the level of integration achieved by business communities using ITC, and (iii) the replicability of project experiences in other industrial sectors. Based on the results of the analysis, recommendations will be made concerning necessary adjustments for use of the remaining funds.
- 7.3 For the final evaluation, outside consultants will evaluate the program's impact on workshops and users, as well as the global results. Consultants will use the logical framework in Annex I or a logical framework as amended by joint agreement of the Bank and the executing agency. CONFECÁMARAS and its collaborators will provide access to all necessary information and documentation to perform the evaluations.

VIII. EXCEPTION TO BANK POLICIES AND PROCEDURES

- 8.1 No exceptions to Bank or MIF policy are called for under this project.

IX. SPECIAL CONTRACTUAL CLAUSES

- 9.1 As conditions precedent to the first disbursement of the contribution, CONFECÁMARAS must submit evidence of the following, to the Bank's satisfaction: (i) that it has formed the project executing unit (see paragraph 4.2); (ii) that it has formed the project management committee (see paragraph 4.4), and (iii) that it has signed the inter-institutional agreement approved by the Bank (see paragraph 4.4).

LOGICAL FRAMEWORK MATRIX
(TC-01-06-01-0)
SUPPORT FOR BUSINESS PERFORMANCE THROUGH THE USE OF INFORMATION AND COMMUNICATION TECHNOLOGIES

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
PURPOSE			
Foster an increase in the competitiveness of Colombian SMEs through the use of technologies.	<ul style="list-style-type: none"> • Greater investment in information technologies • Greater investment by large companies in the SME sector • More business-to-business electronic commerce transactions and increased sales revenue • More electronic transactions for foreign trade 	<ul style="list-style-type: none"> • National statistics from the National Statistics Department (DANE). • National statistics from the Telecommunications Regulatory Commission (CRT) 	<ul style="list-style-type: none"> • The government continues to support implementation of the Connectivity Agenda • Colombia's business sector does not undergo a sharp economic recession
OBJECTIVE			
Increase the performance of Colombian SMEs by encouraging the formation of business communities through the use of information technologies and electronic commerce	<ul style="list-style-type: none"> • At least 50% of businesses participating in component III are reporting benefits in terms of increased sales and/or reduced costs • At least 50% of business communities participating in component III are operational, contributing to increased business sales and/or reduced costs • At least 50% of the business communities enter into contracts with large companies or sign agreements in order to enter new markets • Each business community is maintaining or increasing its number of participants • Representatives of other sectors, professional organizations, and associations are interested in using information technologies 	<ul style="list-style-type: none"> • Reports from consultants • Follow-up reports by the participating chambers of commerce • Evaluation reports halfway through the execution period and at the end of the project • A survey of each company upon joining the project and a survey of each company after one year 	<ul style="list-style-type: none"> • Economies of scale are achieved when businesses work in business networks • Colombian SMEs recognize the usefulness of ICT with respect to conducting business in business communities

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENTS			
1. Component I: Development of the action methodology	<ul style="list-style-type: none"> The action methodology is applied to at least two business networks consisting of at least 15 businesses each and produces specific benefits for the participants. 	<ul style="list-style-type: none"> A document that details and analyzes the results of implementing the methodology A list of affiliated companies 	<ul style="list-style-type: none"> The methodology is applicable to different sectors
2. Component II: Building awareness among businesses in priority sectors	<ul style="list-style-type: none"> At least 1500 companies convened for awareness-building activities After the awareness-building activities, 50 companies are identified in each of the 15 priority sectors 	<ul style="list-style-type: none"> A list of companies that participated in the awareness-building activities Report by the project coordinator on the results of the awareness-building activities 	<ul style="list-style-type: none"> The companies respond to the invitations issued by CONFECÁMARAS and the chambers of commerce 50% of the companies that participated in the awareness-building activities are willing to evaluate themselves The SMEs chosen to form business communities are willing to contribute 50% of the cost of the diagnostic assessment and 75% of the cost of the group consulting services
3. Component III: Diagnostic assessments and implementation of technological services in business communities	<ul style="list-style-type: none"> Diagnostic assessments performed on 750 companies in 15 priority sectors At least 15 companies in each sector commit to forming a business community in order to implement the action plan At least 150 companies participate in the ICT consulting process The technological services have been implemented in at least 10 business communities 	<ul style="list-style-type: none"> Completed diagnostic assessments of how the businesses use ICT Visits to companies A survey of each company upon joining the project and a survey of each company after one year Consulting contracts drawn up Report on the formation and functioning of the business communities 	<ul style="list-style-type: none"> The companies affiliated with businesses communities will achieve better performance by making extensive use of ICT The consultants offer services that meet SME needs Large companies are strongly motivated or interested in doing business directly with the business community

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
4. Component IV: Dissemination of lessons learned from the project and promoting its results	<ul style="list-style-type: none"> Representatives of other sectors, professional organizations, and associations are interested in applying the experience 	<ul style="list-style-type: none"> The number of requests sent to CONFECAMARAS (the executing agency) 	<ul style="list-style-type: none"> The experience was sufficiently successful to stimulate interest in various business sectors
ACTIVITIES			
1.1. Identification of a conceptual Internet and electronic commerce model 1.2. Identification of strategic productive sectors and business communities that could benefit from ICT 1.3. Design of awareness-building workshops for businesses and business communities 1.4. Design of diagnostic self-assessment tools for businesses 1.5. Design of diagnostic assessment tools for business communities 1.6. Design of ICT diagnostic assessment tools for business 1.7. Holding of workshops to evaluate the tools 1.8. Design of methodology for training consultants 1.9. Training of specialized consultants 1.10. Identification of strategic business communities in order to test the methodologies 1.11. Implementation and monitoring of action plans in two selected business communities 1.12. Validation or adjustment of methodology	Budget for Component I MIF: US\$ 99,600 <u>Local:</u> US\$156,600 Total US\$256,200	<ul style="list-style-type: none"> Consultant reports List of participants and evaluation format Diagnostic self-assessment format Evaluation recommendations report 	<ul style="list-style-type: none"> The proposed methodologies are approved and applied by Confecámaras, the chambers of commerce, and the Connectivity Agenda The consultants deliver products on time Business communities are interested in participating in the programs The businesses are willing to cover at least half of the training and technical assistance costs

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
2.1 Inaugural event to promote the program 2.2. Holding of 15 workshops to build awareness among businesses and business communities 2.3. Promotion of SME participation in the program 2.4. Selection of sectors and business communities	Budget for Component II MIF: US\$123,000 <u>Local:</u> US\$175,000 Total US\$298,000	<ul style="list-style-type: none"> List of participants List of participants, evaluation form, and diagnostic self-assessment format for participants Promotional flyers, website, and CDs 	<ul style="list-style-type: none"> The business communities are interested in participating in the programs
3.1. Consultants perform the diagnostic assessments in order to become familiar with the situations of individual businesses 3.2. Diagnostic assessments for business communities 3.3. Development of the action plans 3.4. Implementation of the action plans for individual businesses and business communities 3.5. Monitoring of action plans	Budget for Component III MIF: US\$405,000 <u>Local:</u> US\$505,000 Total US\$910,000	<ul style="list-style-type: none"> List of consultants trained List of chamber of commerce professionals trained List of individual businesses and business communities Copies of contracts and agreements 	<ul style="list-style-type: none"> Qualified personnel is available to provide training and manage the project Expert trainers are available in the market A sufficient volume of ICT transactions exists within the business community to justify implementing the action plan
4.1 Creation of a management information system 4.2 Design and maintenance of a web site that includes a database of consultants and businesses 4.3 Analysis and consolidation of accumulated experience 4.4 Dissemination of information about the benefits of the program	Budget for Component III MIF: US\$ 65,000 <u>Local:</u> US\$ 60,000 Total US\$ 125,000	<ul style="list-style-type: none"> Periodic reports on the development of ICT action plans A survey of each company upon joining the project and a survey of each company after one year List of participants 	<ul style="list-style-type: none"> The information is provided in a timely and dependable manner