

MARKETING COMPANY FOR MICROENTERPRISE OWNERS IN THE ATLANTIC COAST REGION

(TC-99-04-00-1-CO)

EXECUTIVE SUMMARY

Requester:	Fundación Mario Santo Domingo (FMSD)		
Executing agency:	Fundación Mario Santo Domingo (FMSD)		
Amount and Source:	MIF Facility III-A		
	nonreimbursable:	US\$	850,000
	Local: FMSD and other partners:	US\$	720,000
	Total:	US\$	1,570,000
Terms:	Execution period:	48 months	
	Disbursement period:	54 months	
Objectives:	<p>The project objective is to strengthen the competitiveness of microenterprises in Colombia's Atlantic Coast region by giving them access to markets through the provision of specialized marketing services. The specific project objectives are to: (i) form a partnership as basis for the establishment of a specialized marketing company in the Atlantic Coast region (ECA) serving the microenterprise sector; (ii) lay the necessary foundation for the operation of the ECA along corporate lines, grounded in financial and institutional sustainability considerations; and (iii) help microenterprise owners market and tailor their products to meet demand.</p>		
Description:	<p>The project will be divided into two phases. Phase 1 will be devoted to the official incorporation of the ECA and to ensuring that it has an appropriate organizational structure, which will be accomplished through the following activities: (i) establishment of the ECA by the partners in this undertaking, culminating in its official incorporation and registration; and (ii) establishment of an administrative and management framework laying the necessary groundwork for the commencement of business by the ECA. This includes the design of a business plan, in-depth market studies to identify target subsectors, the framing of corporate policy, the design of services envisaged, the preparation of operating manuals and the drafting of necessary regulations. Only 42% of the US\$117,000 budget required for phase 1 of the project will be financed by the MIF.</p>		

Phase 2 of the project will be devoted to starting up the ECA's operations and financing the following three components: (i) development of ECA marketing tools and technical capacity; (ii) establishment of a production support fund to finance targeted, production-related advisory and technical assistance services provided by third parties; and (iii) establishment of a fund for discounting bills and making advances for the purchase of raw materials. The financing for phase 2 of the project is contingent upon the success of phase 1 and will be subject to a suspension, contingency or cancellation clause.

**Special
contractual
clauses:**

The FMSD will furnish terms of reference for the consultants in charge of the activities associated with phase 1 of the project to the Bank's satisfaction prior to the first disbursement of funding for this phase.

Disbursements for **phase 2** activities are subject to presentation of the following items by the FMSD to the Bank's satisfaction: (i) documentation attesting to the incorporation and registration of the new ECA following guidelines previously agreed upon with the Bank, providing evidence of the establishment of the ECA by the partners with authorized subscribed, and paid-in capital equivalent to US\$1,316,000, US\$658,000 and US\$104,000 respectively (see paragraphs 3.2, 5.1, and 7.2); (ii) evidence concerning the liquidation or disposition of FUNCAR and, as the case may be, concerning the transfer of FUNCAR assets and personnel to the ECA (see paragraph 4.3); (iii) a certified copy of the agreement under which the FMSD assigns to the ECA its responsibilities and rights associated with the implementation of phase 2 of the project (see paragraph 4.1); (iv) a business plan, market studies, corporate policies, operating manuals and internal regulations demonstrating the economic, financial and institutional capacity and feasibility of the ECA (see paragraphs 3.2 and 7.2); (v) evidence that the marketing services regulations have been put into practice by the ECA (see paragraph 4.7); and (vi) terms of reference for the four experts in charge of the activities associated with phase 2 of the project (see paragraphs 3.5 and 8.2). Failure by the FMSD to meet these requirements within a period of 12 months from the date of signature of the financing agreement will give the Bank the right to suspend, condition or cancel all undisbursed project funding. The Bank will hire a contractor to conduct a mid-term review verifying compliance with these conditions.

**Exceptions to
Bank policy:**

None.

I. COUNTRY ELIGIBILITY

- 1.1 The Donors Committee deemed Colombia eligible for all Multilateral Investment Fund (MIF) financing arrangements on October 29, 1993.
- 1.2 Given the innovative nature of a project for the establishment of a marketing company for products manufactured by microenterprise owners in Colombia's Atlantic Coast region designed to strengthen the competitiveness of these microenterprise owners, it was deemed eligible for financing by the MIF Small Enterprise Development Facility (Facility III-A).

II. BACKGROUND

A. The microenterprise sector in Colombia's Atlantic Coast region

- 2.1 There are over 8.5 million inhabitants in the Atlantic Coast region of Colombia,¹ which has a microenterprise sector consisting of some 525,000 microenterprises (known as "MES") with a work force of approximately 817,000 individuals, of which an estimated 63% are engaged in trade, 25% in manufacturing and 12% in the operation of services. There are 26 organizations in this area furnishing supporting services (financial and nonfinancial) to small- and microenterprises, the most prominent of which is the Fundación Mario Santo Domingo (FMSD) in terms of its coverage and impact on the lowest market niche. The number of microenterprises currently served by these organizations is estimated at just under 62,500, which are receiving primarily financial, technical assistance and training services, but no marketing services.

B. Access by microenterprises to formal markets

- 2.2 One of the major problems with microenterprises lies in the fact that the supply of products from such firms is seriously lacking from the standpoint of their quality, price, volume and on-time delivery, which explains why they have no access to formal or institutional markets. Thus, microenterprises require specialized assistance to successfully bring supply in line with market demand. These circumstances force microenterprises to limit their sales to small local markets generally driven by an informal demand generated by a poor local population. Moreover, the fact that microenterprises are physically isolated and have a limited production capacity suggests that their sales are made on an individual basis, without taking advantage of the economies of scale made possible by group sales. Microenterprises generally have problems meeting delivery deadlines due, in many cases, to constraints preventing them from purchasing needed inputs in due time. Furthermore, they lack market intelligence with respect to changes in consumption

¹ The Atlantic Coast region includes the departments of Atlántico, Bolívar, Cesar, Córdoba, La Guajira, Magdalena, Sucre, San Andrés and Providencia.

patterns and consumer trends, which explains why they oftentimes produce unmarketable items. Lastly, even those microenterprises with access to market information lack the technical capacity needed to design and manufacture the types of products which are in demand. The marketing problems faced by this sector are self-evident. Thus, a well-designed project in this area could help microenterprises gain access to formal markets, opening up new sales opportunities and promoting market sustainability.

C. Previous experiences in marketing

- 2.3 Project preparations included a study of different microenterprise product marketing models used in Colombia. The findings from this study suggest that the main success factors for the operation of effective, sustainable marketing services are as follows: (i) *A corporate vision*. The shareholders, board of directors and management must have a corporate vision and profile. Accordingly, it is important to include chain stores in the partnership for this undertaking and/or to ensure that they are represented on the corporation's board of directors; (ii) *Segmentation*. There needs to be clear-cut market segmentation, targeting only commercially viable market segments; (iii) *Supporting services*. The operation and assurance of effective marketing services require the furnishing of bill discounting services and advances for purchases of raw materials, as well as the provision of design- and production-related technical assistance services, preferably by outside contractors; (iv) *Demand-driven marketing methods*. The development of marketing methods grounded in actual market needs is a must. All supply-side assistance must be tailored to meet demand; (v) *Systems*. The efficient and effective transmittal of information to microenterprises is essential, as are bar code systems required for sales on formal markets and in commercial chains in particular.²

D. Features of and demand for marketing services in the Atlantic Coast region

- 2.4 Microenterprise owners qualifying as prospective project recipients were identified based on a number of sector assessments and on statistical and qualitative data furnished by the 15 organizations expressing a serious interest in becoming partners in this undertaking. According to information gathered to date, these organizations serving the microenterprise sector in different areas have records of some 13,300 small- and microenterprises engaged in manufacturing. This proposal is targeted specifically at a group of 600 enterprises representing 4.5% of the manufacturing firms identified by these organizations. Thus, there are no foreseeable constraints as far as the demand for marketing services is concerned.

² The Promotora de Comercio Social de Medellín (PCS) is an example of a successful marketing company which, utilizing these concepts, has built a marketing capacity of close to US\$4 million a year, with a 6.49% return on capital.

- 2.5 A more specific market study pinpointed three subsectors which could be initially approached by a marketing company, namely the food, craft and apparel subsectors. As far as the *food* industry is concerned, there is evidence that chain stores are attracting increasing numbers of consumers. In large cities, more and more people are eating out, with meal consumption outside the home doubling in the ten-year period between the 1980's and 1990's. Accordingly, there has been a sharp rise in the demand for prepared meals from establishments such as restaurants, hotels, chain stores, firms and supermarkets. The *craft* market is also strong, offering a number of opportunities on local markets and with these products well received on overseas markets as well. As far as *apparel* is concerned, according to the study findings, the only types of apparel with good market prospects are garments designed to be used as work uniforms required by a number of public and private institutions.
- 2.6 An estimated 12% of the potential market of 13,300 identified microenterprises in the manufacturing subsector is engaged in food production, 4% in craft production and 35% in garment manufacturing. Thus, there is a potential market of 6,800 enterprises in these three subsectors, along with another potential market consisting of some 6,500 enterprises in other subsectors such as lumber, footwear, metalworking, etc. A final decision on the market segments to be targeted by the marketing company will require more in-depth market research, which will need to be performed prior to commencing any type of marketing operations.

III. THE PROJECT

A. Objectives

- 3.1 The project objective is to strengthen the competitiveness of microenterprises in Colombia's Atlantic Coast region by giving them access to markets through the provision of specialized marketing services. The specific project objectives are to: (i) form a partnership as basis for the establishment of a specialized marketing company in the Atlantic Coast region (ECA) serving the microenterprise sector; (ii) lay the necessary foundation for the operation of the ECA along corporate lines, grounded in financial and institutional sustainability considerations; and (iii) help microenterprise owners market and tailor their products to meet demand.
- 3.2 The project will be divided into two phases. **Phase 1** will be devoted to the official incorporation of the ECA and to ensuring that it has an appropriate organizational structure, which will be accomplished through the following activities: (i) establishment of the ECA by the partners in this undertaking, culminating in its official incorporation and registration;³ and (ii) establishment of an administrative

³ This phase of the project also includes the framing of corporation bylaws and the furnishing of agreed-on minimum capital contributions by prospective shareholders, including NGOs, chain stores, chambers of commerce and other private investors.

and management framework laying the necessary groundwork for the commencement of business by the ECA. This includes the designing of a business plan, the conduct of more in-depth market studies to identify target subsectors, the framing of corporate policy, the designing of envisaged services, the preparation of operating manuals and the drafting of necessary regulations. These activities will be conducted by specialized consultants to be hired by the Fundación Mario Santo Domingo (FMSD), as the project executing agency. This phase of the project also includes the establishment of the ECA's organizational structure and basic infrastructure and manpower training activities. Only 42% of the US\$117,000 budget required for phase 1 of the project will be financed by the MIF.

- 3.3 **Phase 2** of the project will be devoted to starting up the ECA and financing the following three components: (i) strengthening of ECA marketing tools and technical capacity building; (ii) establishment of a production assistance fund for the furnishing of targeted, production-related outside advisory and technical assistance services; and (iii) establishment of a fund for discounting bills and making advances for purchases of raw materials. The financing of phase 2 of the project is contingent upon the success of phase 1 and will be subject to a suspension, contingency or cancellation clause. Moreover, it is proposed that MIF funding be used to finance two mid-term reviews and a final report with the elements described in paragraphs 7.2. and 7.3 below for project supervision purposes and to draw lessons from the experience.

B. Components of phase 2 of the project

1. Marketing tools and technical capacity

- 3.4 Envisaged tools to be used to ensure the effectiveness of marketing services include: (i) ongoing market research to keep the ECA abreast of market trends; (ii) the organization and attendance of different types of events such as trade fairs, business conferences and exhibitions (including trade shows and other promotional activities); and (iii) the development of information systems for the maintenance of current data bases on microenterprises, buyers and products, vesting the ECA with an efficient, rapid response capability to meet market needs. Envisioned systems include a bar code system, which is essential for sales promotion on formal and institutional markets.
- 3.5 Moreover, the services of a marketing expert, an expert in production assistance services and two product design and merchandising experts will be retained for a three-year period using MIF funding to help build the technical capacity of the ECA. This assistance is essential to the successful take-off and future sustainability of the ECA. These experts will be responsible for designing and implementing the ECA's marketing strategy, maximizing sales, identifying markets, heading up market studies and, in general, for strengthening and using the marketing tools described above. The expert in production assistance services will be in charge of

administering the production assistance fund and hiring organizations or individual consultants furnishing these types of services to provide any and all necessary targeted advisory, training and technical assistance services. These professional fees are expected to be covered by ECA earnings by the beginning of year 4. The ECA will use local counterpart funding to recruit a general manager, necessary sales personnel and support staff and an administrative and financial manager who, in addition to discharging ECA accounting and financial responsibilities, will be in charge of administering the fund for discounts and advances.

2. Production assistance fund

- 3.6 A production assistance fund designed to furnish microenterprises with access to targeted advisory, training and technical assistance services in areas such as production processes and methods, product development, design, packaging (bar codes), technology, merchandising, quality and compliance will be set up as part of the project to avoid potential problems with regard to product quality, design, production volume and delivery deadlines. Moreover, since the project implementation process involves a number of goods-producing activities with potential environmental effects and social ramifications, it was decided that this fund would also be used to finance training activities for microenterprise owners and workers in the environmental protection and occupational safety and health areas.
- 3.7 The fact that these services will not be furnished directly by the ECA per se is important. The plan is for the ECA to use this fund to contract out these services to specialized firms, organizations or individual consultants in a position to assist microenterprises throughout the course of the production period. Accordingly, the ECA will serve as a conduit for these services, ensuring their ultimate quality and establishing synergies with other technical assistance service providers in Colombia capable of bolstering the operations of the ECA. The projected cost recovery rate for the ECA as far as these activities are concerned is 25% for year 1, climbing to 80% by year 4.

3. Fund for discounts and advances

- 3.8 Given the well-known financial constraints imposed on microenterprises, it is important to make some sort of an arrangement to ensure that they have the necessary degree of liquidity to enable them to fill production orders. Accordingly, the project provides for the establishment of a fund for discounting bills and making advances for purchases of raw materials to ensure timely, efficient marketing operations. More specifically, the fund will be used to: (i) discount invoices presented by microenterprise owners, so that they are not forced to wait 30, 60 or as long as 90 days to receive payment. The ECA would pay off these bills immediately to ensure that manufacturers have sufficient working capital with which to operate their enterprises; and (ii) advance funds to meet the needs of

microenterprises to purchase raw materials to fill production orders, as they arise. These services will engender a financial cost to the microenterprises and buyers in question, payable at market rates.

IV. EXECUTING AGENCY, IMPLEMENTING ARRANGEMENTS AND RECIPIENTS

A. Executing agency

- 4.1 The agency in charge of project implementation will be the Fundación Mario Santo Domingo (FMSD). Once the first phase of the project is completed, the plan is for phase 2 activities to be conducted by the FMSD via the ECA under an implementing agreement assigning all responsibilities and rights associated with the implementation of phase 2 of the project to the ECA. Accordingly, the ECA will be responsible for the administration of envisaged marketing tools, as well as of the production assistance fund and the fund for discounts and advances. Disbursements of funding for the second phase of the project will be contingent upon presentation of the aforesaid implementing agreement to the Bank's satisfaction.
- 4.2 The FMSD is a private, nonprofit organization established by leaders of the business community in the city of Barranquilla back in April of 1960 for purposes of mounting social programs designed to improve living conditions for the nation's poor. As of December 31, 1999, the FMSD had total assets valued at the equivalent of US\$18.4 million and a net worth of close to US\$7.8 million. FMSD operations include, without being limited to: (i) microenterprise training and lending programs, furnishing close to US\$20 million in loans, including IDB Global Microenterprise Program funding (loans 800/SF, 848/SF and 791/OC-CO); (ii) self-help housing construction projects benefiting over 10,000 families in poor communities throughout the city of Barranquilla and in other cities and towns; and (iii) institutional strengthening and financial assistance programs for Atlantic Coast foundations. The FMSD currently has a main office in Barranquilla and a presence in 22 municipalities throughout the Department of Atlántico. Moreover, it gets advice and assistance from large, prestigious firms and regional business organizations, which is essential to the successful implementation of this project. Furthermore, the FMSD was granted a Bank loan under its Small Projects Program (SPP) back in 1983 for the mounting of a lending program for the informal sector (SD/SD8315-CO). The project was successfully completed in 1987. In 1994, in the wake of the waiver of a SPP loan for a small-scale fisheries program on Barú Island by the Fundación Corona, the Bank approved the assignment of all rights and responsibilities under the loan agreement to the FMSD (SP/SD9114-CO). Likewise, on March 24, 1999, following the refusal by the Fundación para la Educación y el Desarrollo Cooperativo (FUNDECOOP) [Cooperative Education and Development Foundation] to proceed with the implementation of Small Project SP/EP9606-CO for the development of small-scale fishing activities on Providencia Island, the

Bank, again, approved the assignment of all rights and responsibilities established under the loan agreement to the FMSD. Thus, the FMSD has proven itself, both as a major Bank partner on large-scale, ambitious socioeconomic development projects and as a lead agency in this sector in Colombia's Atlantic Coast region, with the capability and credibility needed to push this project forward. Accordingly, the general consensus is that the establishment of an ECA as proposed herein would be impossible without the commitment, leadership and active involvement of the FMSD.

- 4.3 The fact that the FMSD has extensive experience in product marketing for the microenterprise sector through the operations of FUNCAR, a nonprofit organization active in this sector for over 9 years, is equally noteworthy. FUNCAR has approximately US\$118,000 in assets and a marketing capacity of roughly US\$160,000 a year, specifically for products produced by microenterprises, serving close to 200 microenterprises operating primarily in the apparel, footwear and craft subsectors. However, while FUNCAR has assisted large numbers of microenterprises, it is based on a social services model and does not operate along corporate lines, grounded in financial sustainability considerations. In fact, FUNCAR is facing serious problems. Its operating margin and net margin (net profit divided by sales) for the year 1999 were -23% and -7% respectively. It has a net worth of US\$35,000, with cumulative losses valued at the equivalent of US\$65,000, which puts its future growth and financial sustainability in doubt. Thus, FUNCAR's future is clear, since it will no longer be furnishing marketing services once the project is started up. Thus, there are two possible options: one, given its insolvency, it can be completely dissolved or, alternatively, it can be totally restructured, with its efforts channeled into other areas such as training and technical assistance for example. In either case, any and all existing assets, client information, skilled personnel and other resources of potential value to the ECA would need to be recovered. However, any such assignments or contributions by FUNCAR to the ECA must be made prior to the restructuring of any and all associated tax and labor-related liabilities and contingent liabilities. To ensure that FUNCAR marketing services do not impact on the project, the commencement of necessary disbursements of funding for activities to be conducted under the second phase of the project will be subject to the presentation by the FMSD of evidence of the dissolution or assignment of FUNCAR to the Bank's satisfaction, where applicable, specifying the assets and personnel assigned by FUNCAR to the ECA.

B. Comercializadora del Atlántico

- 4.4 The Comercializadora del Atlántico is a business corporation in the **developmental stage**. In light of the success factors discussed in paragraph 2.3 above, it is proposed that the ECA take the form of a corporation, with its earnings and equity helping to create business dynamics grounded in basic concepts of financial sustainability. ECA shareholders may include public institutions serving the microenterprise sector, private organizations, chain stores looking to create business

opportunities for microenterprises and formal markets. In principle, 15 organizations have expressed a serious interest, in writing, in purchasing shares in the ECA. The majority of these organizations are NGOs affiliated with the Federación de Fundaciones de la Costa del Caribe Colombiana (FEDECARIBE) [Federation of Colombian Caribbean Coast Foundations]. The Barranquilla and Sincelejo chambers of commerce have also expressed an interest in becoming shareholders in the corporation. Moreover, the FMSD and participating NGOs will approach private enterprises and chains in an effort to boost the share of these types of organizations in the corporation's ownership structure.

C. ECA operations

- 4.5 The operations of the ECA are illustrated by the following examples of standard marketing procedures: (i) the ECA studies and establishes market needs; (ii) the ECA identifies and chooses its clients from among those microenterprise owners best able to satisfy market demand; (iii) the ECA negotiates with prospective buyers using different marketing tools (i.e. trade shows, exhibitions, business conferences, information, etc.); (iv) it establishes the type of product to be manufactured and the scope of production assistance services required by the microenterprises to fill the production order; (v) the buyer issues the ECA a purchase order describing the product ordered and establishing the standard of quality, volume, prices, discounts and place and date of delivery (the ECA is responsible to the buyer for product delivery); (vi) the ECA issues a production order to one or more microenterprises; (vii) upon request, the ECA makes advances to the microenterprises for purchases of raw materials, which funds are generally paid directly to the supplier, with which it will normally negotiate sizeable discounts; (viii) the microenterprises begin production and are provided with any technical assistance services required to fill the order by individual consultants or firms selected and hired as subcontractors by the ECA to furnish production assistance services; (ix) once the production process is completed, the microenterprises issue an invoice made out to the ECA upon delivery of the product (generally to the buyer); (x) at this juncture, the ECA holds temporary legal title to the goods in question and, accordingly, is responsible to the buyer for their delivery; (xi) the ECA discounts the invoices immediately, giving the microenterprises a certain degree of liquidity; (xii) the microenterprises are paid the discounted value of their invoices, from which the ECA also deducts its markup for marketing services, the value of advances and interest; (xiii) as soon as the bills fall due, the ECA collects the full amount of the discounted invoices from the buyers in question; and (xiv) the ECA follows up by polling buyers and microenterprises on their satisfaction with its services.
- 4.6 Both the ECA and the microenterprises assume certain risks during the course of the marketing process. The ECA runs the marketing risk of a buyer refusing delivery. Should it fail to receive payment for a given sale, the ECA will incur losses engendered by its assumption of corresponding operating costs and its

inability to collect the markup for marketing services. In certain cases, the ECA also runs the risk of being unable to recoup its advances for purchases of raw materials. If orders are not filled, the ECA risks losing credibility in the marketplace, which could impact on the fulfillment of its corporate purpose and, hence, on its sustainability. In failing to fill an order, microenterprises run the risk of exclusion, which could affect their continued access to markets. In cases where their bills are not discounted, microenterprises run the risk of not getting paid for their products, which could have a direct impact on their earnings.

D. Arrangements for project implementation

- 4.7 The FMSD will frame marketing services regulations (a draft version of these regulations was among the documents used in the project preparation process) governing the operation of all ECA marketing services and, more specifically, of the production assistance fund and the fund for discount and advances as part of the first phase of the project. These regulations must be consistent with Bank regulations and policy, as well as with current domestic banking and financial legislation and practices. The disbursement of necessary funding for the second phase of the project will be contingent upon the submission of evidence of the implementation of these regulations by the ECA. The regulations will, basically, establish selection criteria for microenterprises and operating procedures for the production assistance fund and the fund for discounts and advances.

1. Selection criteria for microenterprises

- 4.8 The following criteria will be used to select microenterprises as recipients of ECA services: (i) they must have no access to formal markets; (ii) they must have a certain experience and tradition in their field; (iii) they must have commercial potential; (iv) they must be willing to accept the production assistance services indicated by the ECA; (v) they may not be delinquent in their payments to the ECA or to any other organization; (vi) they must have established premises; (vii) they may not produce any products harmful to human health or the environment; and (viii) they must be interested in strengthening their environmental and ecological practices. Selected microenterprises may have a maximum of 15 employees. Joint applications by associations of up to 10 affiliated microenterprises may be considered for project purposes.

2. Operating procedures for the production assistance fund

- 4.9 Microenterprises meeting the aforesaid selection criteria will be eligible to receive production assistance services. The production assistance fund will be used by the ECA to retain specialized firms, organizations or individual consultants to furnish needed services to fill orders and complete production. The ECA will procure these services in accordance with Bank-established contracting policies and procedures. The ECA will be responsible for the selection of production assistance service

providers to ensure timely product delivery in the quantities and with the level of quality demanded by the market.

3. Operating procedures for the fund for discounts and advances

- 4.10 The fund for discounts and advances will be available to ECA client microenterprises meeting project selection criteria which have reached an agreement with the ECA with respect to required production assistance services for the filling of orders. The following is an outline of the general terms and conditions for the rendering of these services:
- a. **Terms:** Terms for advances and bill discounts will be set by the ECA according to the features of each order and, in all cases, will be short-term, running 30, 60, 90, up to a maximum of 120 days.
 - b. **Interest rates:** Interest rates payable on advances and discounts of invoices will be positive, in real terms, and will be set by the ECA at its discretion. Calculations of these interest rates will consider the average rate of inflation, the opportunity cost of money, intermediation costs (financial and operational) and the need for a conservative reserve for bad debts and surplus for capitalization purposes.
 - c. **Amounts and ceilings:** Advances will be granted for up to 50% of the cost of the raw materials used in each order, or the equivalent of US\$5,000. The ceiling in the case of associations is US\$50,000. Eligibility for further advances is subject to satisfactory completion of the previously assigned order. In either case, bills may be discounted for the total value of the order in question.⁴

E. Procurement of goods and services

- 4.11 The responsibility for the procurement of equipment and the hiring of consultants for phase 1 of the project lies with the FMSD. The ECA will be in charge of procuring equipment and marketing services and hiring consultants and subcontractors for the provision of production assistance services for phase 2 of the project. Both the FMSD and the ECA will be required to adhere to Bank regulations, procedures and policy in this area.

F. Implementation period and disbursement schedule

- 4.12 The project will be implemented over a period of four years. Project implementation should be completed in 48 months, with disbursements of project funding to be made over a period of no more than 54 months. The Bank may make

⁴ These standards were set based on the experience of the PCS [Social Marketing Company] in Medellín.

a US\$55,000 advance against its contribution to finance the cost of activities to be conducted under phase 1 of the project, subject to satisfaction of the requirements spelled out in the conditions precedent to the first disbursement of project funding. The Bank may grant an advance of up to 10% of its contribution to finance the cost of phase 2 activities, subject to satisfaction of the conditions precedent to the second disbursement of funding.

G. Environmental and social considerations

- 4.13 It was decided that project funding would be used to finance training activities for microenterprise owners and workers in ECA client microenterprises in the environmental protection and occupational safety and health areas based on environmental microenterprise project management guidelines. The Bank's own Environment Unit will also furnish relevant information and instructional materials for these training activities. Moreover, the marketing services regulations discussed in paragraph 4.7 above will establish selection criteria for marketable products and service recipients grounded in environmental protection and occupational safety and health considerations.

H. Recipients

- 4.14 Some 600 microenterprises in Colombia's Atlantic Coast region will be furnished with marketing services benefiting approximately 3,000 to 3,500 low-income residents through the marketing of close to US\$4 million worth of products over the course of the four-year project implementation period. Virtually all sales made by the ECA are expected to generate incremental benefits for these microenterprises, which should have a positive effect on their earnings. Moreover, the very fact of strengthening their competitiveness and of giving them what could potentially be permanent access to formal and institutional markets should help boost their long-term viability.

V. COST AND FINANCING

- 5.1 The total project cost is approximately US\$1,570,000, of which the MIF will furnish US\$850,000 in nonreimbursable funding. The FMSD will lay out US\$62,000 to cover ECA start-up costs for phase 1 of the project. The ECA will have the equivalent of US\$1,316,000 in authorized share capital, US\$658,000 in subscribed capital (irrevocable commitments by shareholders) and US\$104,000 in paid-in capital, payable in cash and designed to serve as seed capital for the ECA. Aggregate investments by ECA shareholders during its first year of operation are expected to reach US\$208,000 and should stand at US\$658,000 by year 4. At least 50% of these capital investments should be in the form of cash. In the event ECA shareholders fail to meet this target, the FMSD agrees to make up the difference between this US\$658,000 target figure and the value of actual contributions. One of

the conditions precedent to the disbursement of funding for phase 2 of the project is the presentation of documentation attesting to the incorporation and registration of the new ECA to the Bank's satisfaction, providing evidence of the establishment of the ECA by the partners in this undertaking with the aforesaid authorized, subscribed and paid-in capital.

Table 2 - Project budget (in US\$ 000)

Components	MIF	FMSD		Total	%
		FMSD	ECA Shareholders		
Phase one	55,000	62,000	0	117,000	7.5
1. Official incorporation and organization	55,000	62,000	0	117,000	7.5
Phase two	795,000	0	658,000	1,453,000	92.5
1. Marketing tools and technical capacity	440,000	0	205,000	645,000	41.1
2. Production assistance fund	180,000	0	146,000	326,000	20.7
3. Fund for discounts and advances	120,000	0	120,000	240,000	15.3
4. Working capital	0	0	175,000	175,000	11.1
5. Mid-term reviews and final evaluation	30,000	0	0	30,000	1.9
6. Contingencies	25,000	0	12,000	37,000	2.4
Grand total	850,000	62,000	658,000	1,570,000	100
Percentage share	54%	46%		100%	

- 5.2 The financial sustainability of the ECA hinges on five basic factors, namely: (i) the value of product sales; (ii) the markup for marketing services; (iii) the recovery of production assistance service costs; (iv) income from advances and bill discounting services; and (v) the value of operating costs. In order to move beyond the break-even point, the ECA will need to market approximately US\$2,000,000 worth of products, a target which it should be able to attain by the beginning of year 4. The ECA will need to add at least a 10% markup for marketing services, which should gradually increase as of year 5.⁵ The cost recovery rate for costs engendered by the production assistance fund should climb from 25% in year 1 to 80% by year 4, while advances and bill discounting services are to be furnished at market rates. Technical capacity building efforts by the ECA will need to be bolstered by the Bank during the course of its three first years of operation through the hiring of the four experts referred to in paragraph 3.5 above to ensure its financial feasibility and give it sufficient time in which to produce adequate economies of scale. However,

⁵ The PCS [Social Marketing Company] markup in 1999 was 11%.

by year 4, these costs should be fully covered by ECA earnings. Under this scenario, the coverage rate for total ECA costs should climb from 19% in year 1 to stand at 128% by year 4.

VI. JUSTIFICATION AND RISKS

- 6.1 It is a recognized fact that continued access to profitable markets is crucial to the long-term viability of any enterprise. Unfortunately, the low technological level and physical and cultural isolation of microenterprise owners, combined with a shortage of funding and information and a lack of business contacts, limit their market access. This project focuses specifically on eliminating these constraints by giving microenterprises in Colombia's Atlantic Coast region the opportunity to benefit from specialized marketing services designed to raise their income, maximize market sustainability and boost employment generation in the project area.
- 6.2 This new model represents a radical change in the conceptual framework for marketing models similar to the changes introduced by microfinance models offering a better probability of achieving financial and institutional sustainability by setting up profit-seeking banks and finance companies. The Bank could make enormous progress in its quest to establish sustainable marketing services by shifting from a social-service-type model to a model operating along corporate lines.
- 6.3 There are three potential risks associated with the implementation of this project. The first such risk has to do with the governance and independent management of the ECA, which could be compromised if different partners in this undertaking are allowed to put their own interests above the common good. And, with these partners scattered up and down the Atlantic Coast, there is also the risk of their seeking to maximize the number of clients served by the ECA in their specific area. Moreover, given the primarily social focus of many of the partners, they could conceivably press for the ECA to assist certain clients which may not necessarily be good targets for ECA services. To mitigate this risk, it was decided that the ECA should be organized in the form of a commercial corporation, giving priority to those microenterprises with the potential to sell their goods on formal markets. Its bylaws and regulations will ensure that ECA managers are able to make independent decisions with regard to suppliers, markets, alliances, agreements and other aspects of its management.
- 6.4 The second risk has to do with the project's ability to ensure markets for participating microenterprises. To minimize this risk, it provides for ongoing, in-depth market research and for major chain stores to be represented on the board of directors of the ECA. The project also includes activities such as the strengthening of marketing tools and the establishment of a production assistance fund and a fund for discounts and advances designed specifically to develop suitable markets.

- 6.5 Lastly, there is also the financial risk posed by the possibility of the ECA facing a liquidity squeeze or insolvency, which could impact on participating microenterprises, which could be harmed in the event their invoices are not paid. However, the risk of bankruptcy is minimized by the requirement to the effect that the ECA be highly capitalized, with such capital to be supplied by local counterpart funding. Moreover, the selection of the FMSD as the project executing agency is further assurance that this risk will not materialize, given its high current ratio. Furthermore, in keeping with the provisions of Colombian legislation with respect to the priority of other liabilities such as labor-related, tax liabilities, etc., the payment of invoices from microenterprises would be given priority over the settlement of any other ECA liabilities.

VII. MONITORING AND EVALUATION

- 7.1 Project implementation will be monitored against the business plan to be presented by the FMSD to the Bank's satisfaction which, at a minimum, must be designed to achieve the performance evaluation benchmarks established in the logical framework presented in Annex I. Moreover, the executing agency will submit annual reports outlining the progress made in project implementation over the course of the previous year and including a revised business plan for the following year showing the capital contributions furnished by ECA shareholders and projected capital contributions for the following year. The business plan will also provide for activities promoting the use of environmentally sound technology and improvements in microenterprise management from an occupational safety and health standpoint.
- 7.2 The project provides for two mid-term reviews and the presentation of a final report. The first mid-term review will be conducted upon the completion by the FMSD of all activities associated with phase 1 of the project. This review will include a performance evaluation of the various activities discussed in paragraph 3.2 above and will verify compliance with the conditions precedent to the disbursement of funding for phase 2 of the project, as outlined in paragraph 8.2 below. The review will be conducted by outside consultants retained by the Bank. Insofar as the Bank is satisfied with the findings from this review process, it will issue authorization for future disbursements of funding for the commencement of activities under the second phase of the project.
- 7.3 The Bank will retain the services of outside consultants for the performance of the second mid-term review and the preparation of the final report. The second mid-term review is scheduled to be conducted 18 months from the date of the first disbursement of funding for phase 2 of the project and will assess the implementation of the business plan (the original and revised versions), the capital contributions furnished by ECA shareholders, the organizational and technical capacity of the ECA, the use of marketing tools, performance by the production

LOGICAL FRAMEWORK
MARKETING COMPANY FOR MICROENTERPRISE OWNERS IN THE ATLANTIC COAST REGION

Objectives	Verifiable indicators	Means of verification	Assumptions
competitiveness of in Colombia's Atlantic giving them access to the provision of specialized es.	<ul style="list-style-type: none"> (i) Servicing of at least 600 microenterprises making close to US\$4 million worth of sales on formal and institutional markets. (ii) Establishment of a marketing system capable, in time, of serving larger numbers of microenterprise owners. 	<ul style="list-style-type: none"> • Monitoring system for ECA operations. • Statistical data on ECA operations and data bases on ECA clients. • Financial statements from microenterprise owners. • Surveys of microenterprise owners. 	<ul style="list-style-type: none"> • There is an effective market place which, in time, will serve numbers of microenterprises in the Atlantic Coast region. • The Colombian economy is strong enough to allow for the operation of formal and institutional markets for products manufactured by microenterprise owners.
Partnership of Atlantic Coast the establishment of a marketing company (ECA) marketing services to the sector operating along grounded in financial and sustainability considerations.	<ul style="list-style-type: none"> (i) The ECA is able to operate efficiently and furnish necessary marketing services. (ii) Accounting records show capital contributions by ECA shareholders for the value of its subscribed capital, or the equivalent of US\$658,000. <p style="text-align: center;">PERFORMANCE EVALUATION BENCHMARKS</p> <ul style="list-style-type: none"> (iii) The ECA successfully markets US\$250,000, US\$500,000, US\$1,000,000 and US\$2,000,000 worth of products per year and serves 100, 200, 375 and 600 clients in years 1, 2, 3 and 4 respectively. (iv) The cost recovery rate for production assistance services climbs from 25% in year 1, to 40%, 60% and 80% in years 2, 3 and 4 respectively. (v) The ECA posts total annual earnings of US\$34,000, US\$91,000, US\$190,000 and US\$356,000 in years 1, 2, 3 and 4 respectively. (vi) The coverage rate for total ECA costs climbs from 19% in year 1 to 43%, 78% and 128% in years 2, 3 and 4 respectively. 	<ul style="list-style-type: none"> • The ECA has the institutional capacity to furnish needed marketing services. • ECA and FMSD financial statements and reports. • Project performance audit reports by management and consultants. • Inspection reports by Bank personnel. • Final project report. 	<ul style="list-style-type: none"> • The ECA board of directors and shareholders all share and are committed to achieving the objectives and to producing the target results. • ECA shareholders and/or banks will include formal and institutional operators (chain stores). • The ECA management is committed to a successful project implementation. • There are properly trained personnel to meet the challenges posed by the market. • The ECA has an appropriate organizational structure. • The business plan and marketing strategy trace out an appropriate course of action for the ECA. • The marketing services are well designed. • The market and participating microenterprises respond positively to the services offered by the ECA, allowing for the operation of formal and institutional services based on institutional sustainability considerations.

Objectives	Verifiable indicators	Means of verification	Assumptions
the ECA and assistance for ECA operations.	<p>The ECA is officially and effectively incorporated with the equivalent of US\$1,316,000, US\$658,000 and US\$104,000 in authorized, subscribed and paid-in capital respectively.</p> <p>The ECA has an appropriate organizational structure, with clearly defined executive and strategic functions and skilled personnel to discharge its various responsibilities.</p>	<ul style="list-style-type: none"> • Documents attesting to the official incorporation of the ECA: bylaws, minimum capital investments and registration with the Chamber of Commerce. • Employee handbooks and contracts for contract personnel. • ECA business plan, reliable market studies, operating manuals, corporate regulations and policies and effective marketing services. 	<ul style="list-style-type: none"> • The partners reach an agreement in respect to the incorporation and make the established minimum capital investments. • The consultants hired to draw up the business plan, conduct market research, prepare operating manuals, corporate policy and regulations, design marketing services and provide services in a competent and professional manner.
g of ECA marketing tools and capability building. nt and operation of assistance fund services. nt of the fund for discounts s and operation of g services.	<ol style="list-style-type: none"> 1. Hiring of firms or individual consultants specializing in market research. 2. Conduct and organization of special events. 3. Development of information systems. 4. Procurement of information and bar code systems. 5. Provision of advances and bill discounting services. 6. Provision of production assistance services by outside organizations and consultants. 7. An installed technical capacity within the ECA. 	<ul style="list-style-type: none"> • Consulting service contracts. • Documentation and evidence of the conduct of special events. • ECA reports. • Operational systems. • Procurement documents for information and bar code systems. • Reports on production assistance services, advances and bill discounting services. • Contracts with ECA technical personnel and consultants. • Reports on the mid-term reviews. 	<ul style="list-style-type: none"> • There are qualified local consultants available to perform market research and develop needed systems. • The ECA is able to attract and retain consultants through the organization of special events. • Production assistance services and bill discounting services are furnished in a timely and efficient manner. • The ECA succeeds in entering into contracts with outside organizations and consultants for the timely and efficient delivery of production assistance services. • ECA technical personnel are available with the necessary expertise for the operation of marketing services.

assistance fund and the fund for discounts and advances, the effectiveness of the marketing services regulations and subcontracting procedures for services financed by the production assistance fund. More specifically, it will assess achievement of the performance evaluation benchmarks established in the logical framework. If the Bank is satisfied with the findings from this review process, it will proceed to issue authorization for the executing agency to continue to commit funding to the project. Otherwise, the executing agency will be required to take necessary corrective measures before the Bank will authorize the resumption of future disbursements of funding. The final report will include a study of the issues and concepts broached by the two mid-term reviews, survey data on the degree of satisfaction of microenterprise owners and the project's impact on microenterprises, and a comprehensive evaluation of project outputs and of the lessons drawn from the experience.

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 The FMSD will furnish terms of reference for the consultants in charge of the conduct of activities associated with phase 1 of the project to the Bank's satisfaction prior to the first disbursement of funding for this phase.
- 8.2 Necessary disbursements of funding for the activities to be mounted as part of phase 2 of the project are subject to presentation of the following items by the FMSD to the Bank's satisfaction: (i) documentation attesting to the incorporation and registration of the new ECA following guidelines previously agreed on with the Bank providing evidence of the incorporation of the ECA by the partners in this undertaking with the equivalent of US\$1,316,000, US\$658,000 and US\$104,000 in authorized, subscribed (irrevocable commitments) and paid-in capital respectively; (ii) evidence of the liquidation or assignment of FUNCAR and, where applicable, of the FUNCAR assets and personnel assigned to the ECA; (iii) a certified copy of the implementing agreement under which the FMSD assigns its responsibilities and rights associated with the implementation of phase 2 of the project to the ECA; (iv) a business plan, market studies, corporate policies, operating manuals and internal regulations establishing the economic, financial and institutional feasibility of the ECA; (v) evidence of the implementation of the marketing services regulations by the ECA; and (vi) terms of reference for the four experts in charge of the conduct of activities associated with phase 2 of the project, as outlined in paragraph 3.5 above, whose services are to be financed by the MIF. Failure by the FMSD to meet these requirements within a period of 12 months from the date of signature of the financing agreement will give the Bank the right to suspend, condition or cancel all undisbursed project funding. The Bank will hire a contractor to conduct the first mid-term review referred to in paragraph 7.2 above to verify compliance with these conditions.

Objectives	Verifiable indicators	Means of verification	Assumptions
<p>of market research.</p> <p>of formalities for the official of the ECA.</p> <p>the business plan.</p> <p>corporate policy, designing preparation of operating drafting of regulations.</p> <p>of and preparations for business conferences, workshops and trade shows.</p> <p>t of information and bar .</p> <p>targeted, production-related technical assistance nced by the production nd and hiring of consultants n environmental and social</p> <p>f advances for purchases of s and operation of bill services financed by the ounts and advances.</p> <p>of the four experts to be IF funding.</p> <p>aining in the operation of rvice.</p>	<ol style="list-style-type: none"> 1. Hiring of specialized firms or individual consultants. 2. Official incorporation papers. 3. Studies. 4. Business plan. 5. Statement of corporate policy, operating manuals and effective regulations. 6. Conduct of business conferences, exhibitions, workshops and trade shows. 7. Operational information and bar code systems. 8. Availability of targeted, production-related advisory and technical assistance services for microenterprises. 9. Availability of advances for purchases of raw materials and bill discounting services for microenterprises. 10. Employment of four top-notch specialists at the ECA for a period of three years. 11. Conduct of training seminars for ECA personnel on the operation of marketing services. 	<ul style="list-style-type: none"> • ECA accounting records. • Reports by outside consultants. • Auditors' reports. • Copies of contracts. • Reports by the manager and Board of Directors. • Reports on the mid-term reviews. • ECA and FMDS financial statements and reports. 	<ul style="list-style-type: none"> • The partners reach an agreement respect to the incorporation • The project is approved by

PROPOSED RESOLUTION

**COLOMBIA. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE
PROGRAM "TRADING COMPANY FOR MICROENTREPRENEURS IN THE
COLOMBIAN ATLANTIC COAST"**

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Fundación Mario Santo Domingo of the Republic of Colombia, and to take such additional measures as may be pertinent for the execution of the project proposal contained in Document MIF/AT- with respect to a nonreimbursable technical cooperation for the program "Trading Company for Microentrepreneurs in the Colombian Atlantic Coast."
2. That up to the sum of US\$850,000, or its equivalent in other convertible currencies shall be authorized for the purpose of this resolution, chargeable to resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.