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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

Proposal and Recommendations
For the Review of the
Development Loan Committee

COLOMBIA - SMALL AND MEDIUM INDUSTRY DEVELOPMENT



BEST AVAILABLE DOCUMENT

AID-DLG/P-2054/2

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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AID-DLC/P-2054/2

November 27, 1974

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Colombia - Small and Medium Industry Development

Attached for your review are recommendations for authorization of a loan to the Government of Colombia in an amount not to exceed \$5,000,000 to assist in financing the United States dollar and local currency costs of the Borrower's program to stimulate employment expansion and technological transfer in small and medium sized industrial enterprises by providing funds for credit activities of the Popular Finance Corporation ("CFP") and by providing funds to be administered by the CFP for technical assistance.

The DLSC reviewed and approved a proposal for a loan to Colombia for Small and Medium Industry Development on June 27, 1974. The original proposal provided for a \$5.5 million loan, with a GOC contribution of \$6.1 million, to support two institutions that would be assisting Colombia's small and medium entrepreneurs. Due to shortage of available funds, the Agency could not authorize the loan during FY 74 and the loan proposal, therefore, was carried forward into FY 75.

In the interim, however, and in preparation for a new government which recently took office in Colombia, the Colombia Mission undertook a review of the activities within the Colombian economy which AID had been supporting. It determined that, given changing AID priorities and emerging GOC strategies, one of the two proposed implementing agencies under the loan, the Industrial Finance Fund (IFI), should be limited to a supporting role utilizing past AID assistance available from rollovers. The Mission's judgment was that IFI's target clientele, which included a number of medium-sized industrialists, would largely be able to obtain additional resources from other sources. This decision, which did not change the original purpose or thrust of the approved loan, was confirmed in consultations with both the new Colombian Government (installed in August) and AID/W. The loan proposal has subsequently been modified to expand AID support for the more innovative of the GOC institutions, the

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Popular Finance Corporation (CFP), while dropping the FFI credit element. This revised DLC paper reflects these changes.

As noted above, the loan objectives, the project beneficiaries (to a large extent), and the estimated project benefits are essentially unchanged. The amount of the original proposal was \$5.5 million with a GOC contribution of \$6.1 million; the revised proposal is for \$5.0 million with a GOC contribution of \$5.8 million. The purpose of the loan remains the same: to generate employment, both primary and secondary, by making funds available to overcome the critical constraints which plague labor intensive small and medium industries in Colombia.

The revised loan will support the same CFP credit programs and transfers of technology appropriate to the small entrepreneur as the original proposal, except on an expanded basis. The credit element will assist a very innovative aspect of CFP's activities, the Special Credit program, which provides "confidence," community and professional credits to small entrepreneurs. The technology transfer element will support the CFP's technical assistance programs to small entrepreneurs for production, quality control and information dissemination needs. A Mission analysis of the credit needs of CFP shows that the increased support to be made available through the loan is fully justified and is in keeping with the economic priorities of the new government. Since the continued momentum of the program depends on authorization of the loan, and since the new GOC has expressed interest in proceeding with the program, we believe that the already approved loan should now be authorized without delay.

No meeting is scheduled for this loan proposal. However, please advise us of your concurrence or objections as early as possible, but in no event later than close of business on Friday, December 6, 1974. If you are a voting member, a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development
Program Review

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I - V

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COLOMBIA

SMALL AND MEDIUM INDUSTRY DEVELOPMENT LOAN

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SUMMARY AND RECOMMENDATIONS

A. Borrower and Implementing Entities

The Borrower will be the Government of the Republic of Colombia (GOC), represented by the Ministry of Finance. The implementing agency will be the Popular Finance Corporation (CFP), which will be a signatory to the Loan. For purposes of coordination, the Director of the National Planning Department (DNP) will also be a signatory of the Loan Agreement. The CFP may contract with other public and private entities to carry out portions of the loan activities.

B. The Loan

1. Amount: Not to exceed \$5.0 million
2. Terms: Interest in dollars at 2% during the first ten years; 3% thereafter. Repayment in dollars over 40 years with a 10-year grace period.

C. Purpose

The proposed loan seeks to generate employment by attacking constraints on labor-intensive small and medium industry on three fronts:

- credit availability, particularly in geographical and functional areas which currently suffer discrimination;
- development and refinement of institutions serving the small and medium industrialist;
- transfer of technology appropriate to the small industrialist's needs.

Successful implementation of the proposed loan should, then, result in a technology transfer oriented development bank dedicated to small industry operating at higher absolute levels as well as answering more efficiently the small entrepreneur's credit needs.

D. Background

AID involvement in the small and medium industry sub-sector commenced with Urban/Regional Sector Loan 514-L-063 in August 1971, and continued with Urban/Regional Sector Loan 514-L-068, the operations

of which have not yet been completed. These loans made credit available to small and medium industry through the Industrial Financial Fund (FFI), and CFP -- the latter entity is involved in this loan. During the course of the loans, two factors became clear:

1. While a continuing credit need existed, the limited resources available to AID could not fill it, and, due to successful initiation of the sectoral program, other donors were capable of and interested in expanding ordinary credit provision to small and medium industry; and

2. There were a number of innovative, high-risk areas of benefit to small industrialists -- both in special types of credit, and in complementary technical services -- in which other donors were unable to fill their needs.

The GOC has requested an AID loan in the amount of \$5.0 million for innovative credit activities and technological transfer initiatives within the CFP. The Mission feels that this request represents an important step from the broad sectoral approach into the specific and highly innovative types of assistance appropriate to Colombia's now more advanced stage of development.

Following extensive, well conceived macro-economic measures to combat inflation and rationalize public finance, the new GOC administration is turning its attention to development programming. One of the first activities it is seeking to support is small industry, as a means of employment expansion.

E. Description of Loan

The loan will provide AID assistance to the development of Colombian small and medium industry through the following mechanisms:

1. Funding of innovative credit activities within the CFP; and
2. Provision of funds to be administered by the CFP for technological transfer activities.

F. Alternative Sources of Financing

The IBRD, IDB and Eximbank have been advised of this proposed loan, and have indicated no interest in financing its components.

G. Loan Administration

1. Procurement: Local costs with the option for dollar procurement of technical assistance services and training.

2. Disbursements: Local currency utilized under the loan shall be Colombian pesos obtained by AID with US dollars utilizing the same mechanisms as in previous AID loans to Colombia. (See Section V-A for details).

H. Views of the Country Team

This loan will be the principal instrument of FY 1975 assistance to industrial development in Colombia. It will materially aid the GOC's capacity to assist the poorest levels of the urban population, and set them on the road to increased productivity, hence, well-being. The Country Team recommends approval of the loan.

J. Statutory Criteria

All statutory criteria have been met. (See Annex I for detail.)

K. Issues

1. The necessity of additional concessional funds for a technical assistance fund within the CFP.

2. The adoption of bona fide employment generation criteria as the evaluation mechanism for credit aspects of the Loan.

L. Recommendations

Authorization of a loan to the Government of the Republic of Colombia in an amount not to exceed \$5.0 million, subject to the following terms and conditions prior to disbursement, in addition to normal AID loan conditions:

I. CONDITIONS PRECEDENT

Prior to the disbursement of any AID funds to the CFP, the Borrower shall furnish on form and substance satisfactory to AID, evidence that CFP has acquired mutually agreed upon consultancy services.

II. COVENANT

Prior to any disbursement of any AID funds to the CFP for technological transfer activities, the Borrower shall furnish in form and substance satisfactory to AID evidence that CFP has prepared a detailed work plan and organizational framework outlining its technological transfer activities to be accomplished during the first two years of the program.

The Borrower covenants to provide assurances that CFP will use its own resources to continue to support the technology transfer technical assistance activity supported under the loan for a period not less than three (3) years after the loan is disbursed, and at a level of activity no less than that attained in the second year.

M. SUMMARY FINANCIAL PLAN

<u>Loan Elements</u>	<u>Financial Targets (Millions of \$)</u>					
	<u>1975 1/</u>		<u>1976 2/</u>		<u>Total</u>	
	<u>AID</u>	<u>GOC</u>	<u>AID</u>	<u>GOC</u>	<u>AID</u>	<u>GOC</u>
A. Credit Programs	(2.0)	(2.33)	(2.0)	(3.13)	(4.0)	(5.46)
1. Guarantee Fund	-	0.3	-	0.70	-	1.00
2. Confidence Credits	0.6	0.4	0.64	0.50	1.24	0.90
3. Community Credits	1.2	0.8	1.12	0.88	2.32	1.68
4. Professional Credits	0.2	0.13	0.24	0.19	0.44	0.32
5. Marketing Company	-	0.7	-	0.86	-	1.56
B. Technological Transfer Activities	(0.5)	(0.13)	(0.5)	(0.17)	(1.0)	(0.3)
1. Production-related Technological Transfer	0.5	-	0.5	-	1.0	-
2. Accountancy Centers	-	0.13	-	0.17	-	0.3
Total	<u>2.5</u>	<u>2.46</u>	<u>2.5</u>	<u>3.3</u>	<u>5.00</u>	<u>5.76</u>

1/ 1975 average 30.0 pesos = \$1.00

2/ 1976 average 35.0 pesos = \$1.00

SMALL AND MEDIUM INDUSTRY

CAPITAL ASSISTANCE PAPER

BACKGROUND

A. Role of Small and Medium Industry in the Economy

By every measure, manufacturing industry is assuming an increasingly important role in the Colombian economy. Annual increased value added to this sector has averaged 6.3% in real terms in the 1950-1970 period, 9% in 1971-1973, and currently represents approximately 20% of Colombian GDP. Manufactured exports have grown 500% since 1971. Employment growth in manufacturing industry was estimated at 5.5% in 1972. However, as the following table shows, small and medium industry has not completely shared in this growth.

Small and Medium Manufacturing Industry in Colombia
 (Col. \$ million at 1958 prices)

	1963		1969		Average Annual Increase 1963-69 (%)	
	Amt. /No.	% of Total Mfg.	Amt. /No.	% of Total Mfg.	Small and Medium Mfg.	Total Mfg.
Firms (No.)	7,314	93.9	6,528	91.3	-1.7	-1.7
Workers (No.)	120,899	44.7	134,274	41.3	1.8	1.1
Gross Production	4,555.9	35.7	5,650.5	30.7	3.7	1.1
Gross Value Added	1,476.2	26.3	1,905.8	23.7	4.4	1.1

Small and medium industry -- employing 5 - 99 workers -- represents 91% of all manufacturing firms, employs 41% of the industrial labor force, and contributes 24% of value added in manufacturing and approximately 33% of net industrial investment. From a developmental point of view, small and medium industry has several marked advantages over large industry. First and foremost it is more labor-intensive. Secondly, it utilizes a lower proportion of skilled labor (57% versus about 40%) than large industry, thereby

redistributing wealth to the poorer strata of the population and serving as a training ground for new members of the labor force, and for entrepreneurial talent. Thirdly, the fragmented nature of Colombian geography has led small and medium industry to have a wider distribution than larger industries needing larger markets to support them; hence, a regional development justification also exists. Finally, the small entrepreneur himself generally represents the middle rather than upper class -- often a workman made good rather than an inheritor of wealth -- the strengthening of which can be expected to have positive socio-economic effects.

B. Problems of Small Industry

Small and medium industry faces a series of obstacles in Colombia. These may be divided into four categories:

- Financial difficulties;
- Raw materials shortages;
- Production difficulties; and
- Marketing difficulties.

1. Financial Difficulties

The small entrepreneur is in an unfortunate position in the Colombian credit market. From 1967 to 1971, GOC monetary policies and developmental priorities caused the volume of commercial bank credit flowing to industry to drop 31% in real terms, while the ratio of new industrial credit to industrial value added fell from 25% to 13%. Simultaneously, internal generation of funds has been restricted by the failure of the tax system to allow for compensations justified by inflation. As the money supply tightened, smaller borrowers were inevitably forced out of the institutional lending market. Not only does the small entrepreneur represent a less efficient use of the banker's time per amount loaned, but his capacity to provide adequate financial information -- simple accountancy that a larger firm would have as a matter of course -- often makes the banker reluctant to clean the Augean stables of the small borrower's books

in order to obtain adequate figures to justify a relatively small loan. The labor intensity of the small firm also is disadvantageous in the eyes of the banker as such a firm has fewer fixed assets to present as part of the very stringent -- up to 300% of the loan's value -- guaranty requirements of the Colombian capital market. His inability to compete in the commercial credit market leaves the small entrepreneur with two mutually inclusive alternatives:

- the non-institutional credit market;
- under capitalization.

Over 25% of the small and medium industrialists interviewed in a recent World Bank survey had current loans from the extra-bank market at annual rates ranging from 36%-65%. Another 50% had loans from non-institutional sources such as raw materials suppliers, family and friends, at 24% to 60% interest. This degree of utilization of expensive non-institutional credit sources provides a measure of the small industrialist's credit needs. His degree of under-capitalization is indicated by the finding of the same survey that 42 of the 45 small industrialists interviewed felt the pressing need for credit. The macro side of the same equation is presented in the following table.

Flows of Credit to Small and Medium Industry

1973

(million of current pesos)

Industrial Finance Fund (FFI) through the following intermediaries:	580
Private banks	235
Investment Corporations (excluding IFI and the CFP)	103
IFI	-
Corporación Financiera Popular (CFP)	137
Agricultural Bank (Caja Agraria)	7
Official and semi-official banks (excluding Caja Agraria)	62
Foreign Banks	33
Consortium Banks and Corporations	3
Corporación Financiera Popular (from own resources)	56
Agricultural Bank (Caja Agraria)	48
Sub-Total	781
Financial institutions (excluding CFP and Caja Agraria) own resources added to IFI discounts (approx.)	190
Total Flow	874

As opposed to the 874 million peso total flow figure, small industry demand is estimated at 2 billion pesos.

2. Raw Materials Shortages

For much the same reasons that the small entrepreneur cannot compete in the capital market, he is also at a disadvantage in the raw materials market. Raw materials common to both small and large industry are often in short supply, and consistent buyers in quantity clearly command better service in this scarcity situation. The problem is aggravated by advance deposit requirements and import licensing regulations with which the small industrialist cannot cope. Export incentives for such items as leather and fibers cause these products to leave Colombia with a minimum of value added while the shoemakers and clothing manufacturers do not have materials with which to work. In addition, the small manufacturer must often finance sales for more than three months to compete with big industry while he pays cash for raw materials since his purchases are not of sufficient magnitude to demand better terms.

3. Production Difficulties

The small entrepreneur has already been characterized as a successful workman come up through the ranks. He is unlikely to know of the latest production techniques involving advances in technology, or much about plant organization and management, or of quality control and standardization and their relation to expanded markets. It has been stated that what the small Colombian industrialist needs is the advice of the dirty finger-nailed engineer -- of the professional with academic background and of extensive practical experience who can size up a plant and make suggestions affecting such varied production aspects as efficient space utilization, equipment placement, and the organization of a quality control program. Seventy-five percent of the IBRD interviewees indicated a need for technical assistance, and general production assistance was first priority in the types of help required.

There are in existence a number of Colombian official and private institutions, universities, trade associations, as well as international organizations, engaged in useful technical transfer. The most important of these are detailed in Part D. However, considering Colombia's technical assistance resources in relation to the needs of over

10,500 small entrepreneurs and countless artisans, it is evident that a technological transfer gap exists. There is an acute need for more direct and sustained technological transfer of a type specifically conducive to the individual needs of the entrepreneurs. This latter type of technological transfer is difficult to introduce on a national basis owing to its costly and highly skilled, labor-intensive nature. The most comprehensive technical assistance programs are carried out by the Servicio Nacional de Aprendizaje (SENA), a governmental institution charged with raising the skill levels of Colombian workers and increasing the managerial competence of small and large industrial entrepreneurs and artisans. The Caja and CFP provide some limited direct technological transfer and coordinate and assist financially technological transfer programs through other organizations. There are universities that have well developed regional technological transfer programs, such as the Escuela de Administración y Finanzas in Medellín, and the Universidad Industrial de Santander. Others are just establishing such programs, such as the Universidad Autónoma del Caribe in Barranquilla. There exists a nationally known, private, non-profit consulting institution, the Fundación Para el Fomento de la Investigación Científica y Tecnológica (FICITEC), that has earned a top reputation for providing in-depth managerial, marketing and production assistance services, notwithstanding the limited scope of its operations. Despite this wide range of activities, it was estimated in 1972 that less than 10% of Colombian small industrialists were obtaining in-depth technological transfer.

4. Marketing Difficulties

Marketing is yet another area in which economies of scale militate against the small industrialist. It has already been mentioned that small firms find it difficult to compete with larger ones on sales terms. Of equal importance, the small industrialist often cannot enter the most lucrative markets due to his inability to supply in sufficient quantity and with sufficiently consistent quality. Moreover, the small industrialist does not have the capacity to perform market research, particularly for the profitable export market. A need for cooperative marketing efforts on the part of small manufacturers is evident.

C. Previous AID Investment in Small and Medium Industry

1. Industrial Finance Fund (FFI)

The FFI is a bank of the Republic rediscounting facility created in 1968 to channel funds through public and private financial intermediaries to small and medium industry. FFI funds are available to

manufacturing firms with at least five workers, total assets below 35 million pesos, and capital/employment ratios ranging from 75,000 - 150,000 pesos. The FFI provides financing for working capital, fixed assets (up to 20% of applicant's net worth, but no more than 2 million pesos), and repayment of accounts payable.

The maximum maturity of credits eligible for FFI rediscounting is five years. Lending rates to final borrowers range from 14 - 16% per annum, increasing with the term. A 3% spread for the financial intermediaries is passed to the ultimate borrower. To encourage better regional credit distribution, loans to enterprises located in cities with less than 350,000 inhabitants can be rediscounted up to 80% as against 65% for clients in larger cities. Financial intermediaries finance the portion of the loan not eligible for rediscounting.

The FFI has received \$7.2 million (180 million pesos) from Urban Sector Loan 514-L-063, and is programmed to receive \$4.6 million (115 million pesos) from Urban Sector Loan 514-L-068. Performance of this entity has been mixed.

a. Financial Performance

The FFI approved 1,012.0 million pesos worth of loans from August 1971 through December 1973 representing FFI rediscounts of 712.2 million pesos of which 497.5 million pesos were disbursed, 289.2 million of which in 1973, against a Loan Agreement target of 460 million pesos, i. e., 63% of the Loan 514-L-063 target. Much of the 063 shortfall must be attributed to the general difficulties of passage of AID funds through the budget which affected virtually all 1973 programs. In fact, the FFI demonstrated a capacity for approvals of up to 68 million pesos of loans per month when sufficient funds were on hand to allow full operations. The 063 shortfall has been made up in the first quarter of 1974. The FFI has already authorized the 740 million peso total portfolio target specified in Loan 514-L-068. Disbursements to final recipients should be complete within three months from the time when 068 money is finally received by the FFI.

b. Program Accomplishments

(1) Loan 063

Table I shows that the FFI has approved 128 million pesos in rediscounts for intermediate cities as opposed to the target of 75

million pesos, but that only 145 million pesos has been disbursed. Two hundred fifty-seven million pesos of loans to large cities have been approved, and 221 million has been disbursed as opposed to loan target of 260 million. In other words, loan targets are close to being met one year after the date foreseen in the Loan Agreement.

Of the 20 million pesos budgeted for regional industrial development organizations, 10.5 million pesos has been disbursed. This low rate results not so much from deficiencies in the disbursement mechanism as from a dearth of worthwhile projects within the foundations. Negotiations are under way to try to expand DNP involvement in the project selection process to new foundations where more profitable work seems to be taking place.

(2) Loan 068

Table 2 demonstrates that against the Loan Agreement target of 230 million pesos to intermediate cities and 230 million pesos for other activities, 56.7 million and 75.3 million have been disbursed, and 111.4 million and 166 million pesos worth of rediscounts approved. This low level of performance is largely due to the aforementioned difficulties in disbursement of loan funds to the FFI. With resolution of these problems, Mission expects prompt drawdowns and disbursement of remaining funds.

TABLE 1

Industrial Finance Fund (FFI)

Loan 514-L-063

(CY 1972 - 1973)

(current pesos 000)

	<u>Loan Amount</u> <u>Approved</u>	<u>FFI</u> <u>Rediscounts</u>	<u>FFI</u> <u>Disbursement</u>	<u>Pending FFI</u> <u>Disbursement</u>
Intermediate cities	223,025	178,420	144,565	33,855
Large cities	<u>395,005</u>	<u>256,753</u>	<u>220,947</u>	<u>35,806</u>
TOTAL	<u>618,030</u>	<u>435,173</u>	<u>365,512</u>	<u>69,661</u>

TABLE 2

Industrial Finance Fund (FFI)
Loan 514-L-068
 (As of December 1973)

	<u>Loan Amount</u> <u>Approved</u>	<u>FFI</u> <u>Rediscount</u>	<u>FFI</u> <u>Disbursement</u>	<u>Pending FFI</u> <u>Disbursement</u>
Intermediate cities	139,249	111,399	56,674	54,725
Large cities	<u>254,749</u>	<u>165,587</u>	<u>75,294</u>	<u>90,293</u>
TOTAL	<u>393,998</u>	<u>276,986</u>	<u>131,968*</u>	<u>145,018</u>
Loan 063 + 068				
TOTAL	<u>1,012,028</u>	<u>712,159</u>	<u>497,480</u>	<u>214,679</u>

*Represents 75 million pesos BOR loans plus 57 million pesos reflows.

(a) Extra-Loan Agreement Performance Considerations

Tables 3 and 4 reveal that, while the FFI may have complied with Loan Agreement targets as to city size, activities have been concentrated heavily -- over 40% -- around Bogota, and that another approximately 30% of FFI activities took place in the other two large industrial concentrations dominated by Medellin and Cali. Although the FFI can be expected to follow industrial concentrations, there are indications that the extremely heavy weighting in Cundinamarca is caused to a large degree by FFI procedures rather than simply greater demand. Since all FFI rediscounts are reviewed in Bogota -- even automatic rediscounts under 200,000 pesos are ultimately reviewed there -- and since Bogota bankers have more direct communication links with the FFI, a type of discrimination exists against other parts of the country. The complexity of FFI forms and procedures exacerbates this discrimination in less developed regions where unsophisticated bankers and clients alike have difficulty coping with FFI requirements. A simplification of procedures and system of education would seem to be indicated to eliminate this discrimination.

To date, under Loans 063 and 068, the FFI has created 4200 jobs at an average cost of approximately US\$3,000 per worker.

TABLE 3
Industrial Finance Fund (FFI)
AID 514-L-063 Credit Lines Approved by Departments
August 11, 1971 - June 30, 1973

<u>Department</u>	<u>No.</u>	<u>%</u>	<u>Pesos</u> <u>(000)</u>	<u>%</u>
Antioquia	234	12.0	94,837	15.3
Atlantico	109	5.9	39,134	6.3
Bolivar	33	1.8	9,471	1.5
Boyaca	51	2.7	7,161	1.2
Caldas	50	2.7	13,868	2.2
Cauca	4	0.2	1,860	0.3
Cesar	5	0.3	760	0.1
Cordoba	2	0.1	1,400	0.2
Cundinamarca	512	27.5	264,417	42.7
Choco	2	0.1	1,086	0.2
Guajira	-	-	-	-
Huila	8	0.4	665	0.1
Magdalena	5	0.3	935	0.2
Meta	4	0.2	417	0.1
Nariño	12	0.6	1,970	0.3
Norte de Santander	57	3.1	8,515	1.4
Quindio	39	2.1	4,715	0.8
Risaralda	172	9.2	31,658	5.1
Santander	212	11.4	25,801	4.2
Sucre	2	0.1	295	0.0
Tolima	57	3.1	12,813	2.1
Valle	292	15.6	97,252	15.7
TOTAL	<u>1,862</u>	<u>100.0</u>	<u>619,030</u>	<u>100.0</u>

TABLE 4

Industrial Finance Fund (FFI)
AID 514-L-068 Credit Lines Approved by Departments
July 1 Through December 31, 1973

<u>Department</u>	<u>No.</u>	<u>%</u>	<u>Pesos</u> <u>(000)</u>	<u>%</u>
Antioquia	104	14.0	46,860	12.0
Atlantico	48	6.4	36,188	9.3
Bolivar	6	0.8	3,400	0.9
Boyaca	10	1.3	7,234	1.9
Caldas	11	1.5	7,163	1.8
Cauca	3	0.4	4,090	1.1
Cesar	-	-	-	-
Cordoba	1	0.1	314	0.1
Cundinamarca	227	30.6	163,324	42.0
Choco	-	-	-	-
Guajira	-	-	-	-
Huila	7	0.9	1,999	0.5
Magdalena	-	-	-	-
Meta	2	0.3	307	0.1
Nariño	2	0.3	90	0.0
Norte de Santander	18	2.4	4,875	1.3
Quindio	11	1.5	3,876	0.9
Risaralda	64	8.6	18,850	4.8
Santander	91	12.2	17,533	4.5
Sucre	1	0.1	400	0.1
Tolima	26	3.5	6,914	1.8
Valle	108	14.5	64,447	16.6
Caqueta	4	0.1	1,000	0.2
TOTAL	<u>745</u>	<u>100.0</u>	<u>388,998</u>	<u>100.0</u>

2. Popular Finance Corporation (CFP)

The CFP was created in 1967 by the Banco Popular, a public institution, to provide credit to small industry. In the intervening years, it has developed a reputation for competence and dynamism which led to support under Urban/Regional Sector Loan 514-L-068 in 1973. Initial

experience with CFP in Loan 068 has led in turn to consideration of linking future AID loan inputs to particular CFP programs. Support of the regular lending activities of the CFP that started with Loan 068 is expected to be assumed by the IBRD, the Germans, and perhaps the British. The Mission and other donors have been impressed by the capacity of the organization to carry out its program up to the limit of available resources, and to fight within the government bureaucracy for its fair share of those resources. (For a detailed description of CFP's organization, reference is made to the IBRD small-scale industry project document). The CFP received 128 million pesos of the 140 million pesos counterpart projected in 1973 but, due to the AID/GOC budgetary contretemps, only 5 million pesos of the 60 million promised AID resources. Despite this shortfall, the CFP carried out an impressive lending program of 210 million pesos using reflows and rediscounts to make up the difference. (See Annex III for complete financial information.)

TABLE 5

Corporacion Financiera Popular (CFP)

Development of Small and Medium Industry
Sources and Application of Funds
(pesos 000)

<u>Sources</u>	<u>1973</u>	<u>9 months 1974</u>
AID Loan Agreement 514-L-068 Credit Resources	5,000.0	55,000.0
<u>GOC Counterpart</u>	<u>127,949.5</u>	<u>82,284.0</u>
Fondo Nacional de Ahorro - Line	520.0	-
- Bonds	15,000.0	-
Sociedades de Capitalización - Bonds	38,619.2	13,910.6
Banco Popular - Mutual	42,746.8	30,746.8
- Increase of equity	-	15,000.0
FONADE	534.4	422.2
IFI	14,567.9	5,422.7
BID - IFI	2,278.4	-
Proexpo	3,900.0	13,562.5
Bonds Decree 2363	5,400.0	-
Profit	4,382.8	3,219.2
Repayments	133,028.7	131,510.8
Reserve for bad debts	14,963.0	12,417.0
IFI Rediscounts	97,113.0	97,412.2
Other liabilities	4,783.4	14,041.4
Cash	1,509.5	487.5
Total	<u>364,348.6</u>	<u>373,159.8</u>

(continued)

TABLE 5 (Continuation)

<u>Application</u>	<u>1973</u>	<u>9 months 1974</u>
Loan Disbursements	210,368.9	198,932.6 <u>1/</u>
Long-term Investment	3,541.0	2,720.5
Temporal Investment	4,750.0	11,539.7
<u>Payment of Resources</u>	<u>121,706.0</u>	<u>159,967.0</u>
Fondo Financiero Industrial	39,591.0	68,039.4
Banco Popular - Mutual	40,000.0	30,746.8
- Bonds	3,000.0	17,000.0
Fondo Nacional de Ahorro - Line	7,414.7	7,206.9
- Mutual	6,000.0	4,500.0
BID - IFI	1,800.3	1,733.3
IFI	6,546.2	-
IFI - Resolucion 88	8,469.0	10,395.4
Bank of the Republic 2369	5,400.0	
Bonds 2369	948.1	858.1
FONADE	262.5	192.9
Proexpo	2,274.2	4,050.0
Increase of Other Assets	20,915.7	10,805.9
Surplus Reduction	<u>3,067.0</u>	<u>4,438.3</u>
Total	<u>364,348.6</u>	<u>373,159.8</u>

1/ Total estimated loan disbursement for 1974 is between 300,000 pesos and 320,000 pesos. CFP has already disbursed 35,000 pesos during October

The CFP now sees itself not as just a bank, but rather as the chief motive force of small industry in Colombia with a great deal of social responsibility as an integral part of this role. Short of funds as it was in 1973, it still managed to make 5.7 million pesos worth of signature loans, 3.7 million pesos worth of cooperative loans, and nearly 20 million pesos worth of agro-industrial credit available. The organization simultaneously struggled to establish the legal framework for a Guarantee Fund for loans under 500,000 pesos, and for a marketing company. It is currently considering approximately 50 separate programs to assist the small industrialist. It clearly possesses enthusiasm and the capacity for sustained

effort -- loan approvals increased by 65% in 1973 over 1972, and are projected to increase at an even faster rate in the next five years -- but must avoid fragmentation of its efforts, and assure that sound management accompanies innovation.

The CFP has proven remarkably open to suggestions from outside sources of expertise. It appears to be the only Colombian organization that understands the implications of the Stanford Research Institute's findings concerning the necessity of a mix of technological transfer and credit. The World Bank team was surprised to find improvements its members had suggested as possible conditions precedent on their first visit already implemented on their second.

The CFP has proved even more efficient than the FFI in job creation. Despite the low reception of AID resources, 5,700 jobs were created in 1973 at an average cost of US\$2,000 per worker.

D. Other Entities Involved in the Small and Medium Industry

Sector

A variety of organizations, both public and private, provide financial, technical, managerial, and promotional assistance to small industry. Some are decentralized in their operations (e.g. SENA, INCOLDA) and have branches in major cities where they are more accessible to adjacent industrial centers.

1. The National Apprentice Service (SENA)

Colombia puts a high priority on technical training of the labor force, hence SENA receives an automatic allocation of 2% of all private sector payrolls. Its 1973 program expenditures are estimated in excess of \$20 million. SENA operates 17 centers which cover all industrial and commercial areas adequately. In addition to its regular training activities, SENA has organized a limited program of managerial and technical assistance to small and medium industry. This program will be considerably strengthened by other donor participation as detailed in Section III C.

2. The National Association of Industrialists (ANDI)

This organization is composed of the management of the largest industrial firms. The staff of ANDI studies such subjects as factors affecting location of Colombian industrial firms. Its orientation is towards the interests of its membership. There is also close collaboration between ANDI, IFI, and the other large financial institutions. ANDI has expressed some interest in collaborating with INCOLDA on a big brother program of assistance to small industry.

3. Colombian Association of Small Industrialists (ACOPI)

Although very limited in financial resources and having only a small staff, ACOPI has been successful in representing the interests of smaller firms. The organization now has 14 regional offices loosely federated under a national office in Bogota. Two of these offices, Bogota and Medellin, have entered the raw materials supply area, the former with a finance scheme, the latter with a cooperative buying program.

4. Colombian Institute for Administration (INCOLDA)

As a non-governmental institution INCOLDA enjoys a great deal of flexibility in defining its roles. So far this AID-assisted version of our AMA has sponsored seminars on a variety of issues of national importance, promoted use of modern accounting, production and marketing techniques, and offered mid-career training courses for business and government executives. Thus, it has a much broader scope than its name would imply.

5. Technological Investigation Institute (IIT)

This institution receives principal support from donations by the Bank of the Republic and the Coffee Bank, but also has a modest government subsidy. It charges fees for investigative services amounting to 60 - 70% of costs. Its activities have to date principally been concerned with metallurgy and food products. It has not yet broadened its scope nor does it have the capacity yet to meet the more extensive needs of the Colombian economy in transferring technology. IIT has received substantial technological transfer support from UNIDO and other multilateral agencies.

Institute has a Department of Economic Investigations which has helped the technical departments prepare feasibility studies. These studies have sometimes been criticized as being weak in their business and economic content. Moreover, it has suffered some loss of competent personnel. IIT occupies a unique position in Colombia. If its technical potential can be channeled into small industry's needs, it represents the only national institution capable of dealing with difficult hard-science technological problems.

6. Foundation for Assistance to Small and Medium Industry(FICITEC)

The Coffee Bank, the Agricultural Insurance Company, and the Bank of the Republic have subsidized the formation of this Foundation which offers both managerial and technological transfer to small and medium-sized industrial firms. It has attracted highly talented leadership including professional engineers, and management consultants. It has developed contacts with foreign sources of technical information such as Georgia Tech. Its contract fees cover about 50% of actual costs. Although its technical transfer operations are currently limited to about 25 companies per year, FICITEC would seem to be a promising source of future assistance to small and medium industry. The Foundation sees itself mainly as providing help to entities already having intimate contacts with small industrialists -- such as CFP and ACOPI -- rather than greatly increasing the scope of its own such contacts.

II. DESCRIPTION OF PROJECT

Urban/Regional Sector Loan 514-L-063 marked the beginning of recent AID involvement with the small industry sector in Colombia. In that loan it was recognized that, with over half the population of the country already in the cities, and with a continued high rate of urbanization, economic development in Colombia was inextricably linked with industry. Seeking to alleviate the greatest bottleneck to industrial development within the context of the sectoral approach, the loan made funds available for credit activities. Seeking to put this money where it was most needed and to assist the poorer elements of the population, the loan restricted its credit activities to small, labor-intensive industries. The correctness of this approach may be measured by the fact that two other major donor nations-- the Germans and the British-- as well as the IBRD plan their own credit programs to small industry within a year.

However, as Stanford Research Institute pointed out, credit is not the only need of the small industrialist. SRI insisted that he also required technical assistance, and the recent World Bank survey has proved that his need is strongly felt by small entrepreneurs. Technological transfer represents a much more difficult area to deal with than credit. Ordinary credit activities can be run through the formal banking system with a minimum of disruption, but technological transfer require high-risk, innovative projects which other donors find it difficult to finance. This CAP proposes several such projects to attack the aforementioned bottleneck areas of finance, raw materials, production and marketing.

Participation in the credit aspect of the small industry sub-sector under Loan 068 revealed several other problem areas. Institutions were expected to perform tasks in which they had little prior experience. They did not always adjust as well as one would like to their new duties. The proposed loan includes an element of institution building to strengthen the institutions that must be relied upon to carry out activities in the small industry area.

It was noted that certain groups of people which represented preferred targets of assistance to small industry--the very small industrialists with such labor intensive plants that they could offer little in the way of guarantees; the geographically isolated; the cooperatives; those trying to establish heretofore unknown enterprises in backward areas--were at a disadvantage in participating in the new credit opportunities made available in Loan 068 and now continued by other donors' loans. The proposed loan seeks to redress the disadvantages.

The proposed loan, then, seeks to advance a step from the one constraint of small industry attacked in previous loans to alleviate complimentary problems that plague the small industrialist.

The Popular Finance Corporation (CFP)

The CFP is a small industry development bank of great dynamism. It has reached the point where other donors can satisfy much of its capital needs for normal small industry credits (see Section III-C), but is embarking on several new projects and expanding others of special benefit to the very small industrialists which reinforce its and the FFI's credit activities and which require equity capitalization. A recent IBRD loan paper contains a full analysis of CFP organization and financial structure.

1. Credit Activities - Within its 1.1 Billion peso (\$32 million) lending program for the 1975-76 period, the CFP is projecting credit activities of special impact on very small entrepreneurs of 310 million pesos (\$9.46 million).

This program, called the Special Credit Program, addresses specifically the issue of income redistribution. Small industries usually located in poor neighborhoods, where land and services are cheap, open new jobs for low-income people.

The CFP already has some experience with the Special Credit Program. It has allocated over 22 million pesos for three of the programs (as shown in Table 5-A) of interest to this loan request. In spite of the relaxation of guarantee requirements for these credit lines, only 10% of the loan repayments to CFP for this credit program are outstanding. This slowness rate compares favorably with the rate for the regular credit programs (around 15%).

Both GOC and the CFP new general manager have expressed great interest in increasing "confidence," "community," and "professional" credits (see below). To this end, CFP is planning to increase its staff so that each regional office will have one full-time person dedicated to promote the Special Credit Program. In addition, CFP is planning to open two new small regional offices, one in Pasto and one in Neiva (capitals of two of Colombia's most impoverished provinces), where there is great potential demand for this type of credit.

The organizational study, mentioned below, is expected to touch these matters.

TABLE 5-A

Corporación Financiera Popular (CFP)

Special Credit Program

Credits Approved up to September 31, 1974

<u>Lines of Credit</u>	<u>Pesos (000)</u>	<u>No. of New Jobs Created</u>	<u>Cost per Job Created (Pesos)</u>
"Confidence"	8,781	267	32,900
Community	13,536	349	38,800
Professionals	<u>95</u>	<u>6</u>	<u>15,600</u>
Total	22,412 =====	622 ===	36,000 =====

a. Guarantee Fund: The utility of a guarantee fund has been stressed in the Urban Sector Analysis and the Loan 063 CAP. CFP plans to capitalize such a fund with 35 million pesos which is sufficient to guarantee up to 350 million pesos worth of loans (maximum size, 500,000 pesos) to small industry. The fund, which any bank or financial corporation may utilize, represents an important element in the integration of small industrialists into the financial system leading not only to more efficient utilization of installed capacity, but also to expansion of that capacity where desirable, and finally to increased employment. The guarantee fund may also serve a type of insurance function in not demanding repayment if its participants default due to natural disaster or other unforeseeable circumstances.

OPIC is considering a 90 million peso guarantee fund in the Bank of the Republic in which any private bank or finance company could participate on payment of a 2% annual charge. There is no limit on the size of enterprise which might utilize this fund, and the only limit on the size of individual transactions -- of which a bank may finance up to 75% -- is 10% of the total portion of the fund held by the bank involved. Since OPIC officials expect bank subscriptions in the 20 - 40 million peso range, loans of 2.7 - 5.3 million pesos can be guaranteed by the Fund if it comes into being. Colombian banking practices make it likely that the fund will be used mainly for the large medium-size firms, hence it will complement the CFP Guarantee Fund which will concentrate on smaller enterprises. In addition, the OPIC fund contemplates no changes in the lengthy guarantee procedure currently being utilized while the CFP fund by-passes this process.

b. "Confidence" Credits: Credits especially designed to reach the industrialists who does not have real guarantees, whose administrative systems are very poor, and who is located in small and medium cities or marginal areas of big cities. The great majority of these funds are expected to go to artesians. CFP plans to allocate 70 million pesos in the 1975-76 period for this type of credit which should generate around 1700 new jobs. The CFP has learned by experience that this type of program requires close supervision. The availability of extensive and unaccustomed resources has been known to go to the head of the small industrialist and to result in unwise investment. For this reason, CFP expects to develop close links with a number of institutions (like SENA and private development foundations) working in the geographical areas and with the type of industrialist mentioned above. This joint action will allow CFP a maximum utilization of its human resources, and the reduction of bad cases due to poor studios, poor technical assistance and supervision. Special attention will be given to assistance in the administrative areas, particularly through the accountancy centers (see below).

c. Community Credits: Loans, sometimes without guarantees, to cooperatives and other units for acquisition of raw materials, manufacturing, mining, and agricultural activities. CFP is placing greater priority on associations located in rural areas or in marginal areas of big cities. Allocations for this program have been set at 130 million pesos for the 1975-76 period, which should generate around 2500 jobs. Here again, CFP is planning to carry out joint actions with institutions involved in this type of projects. The new CFP general manager's background in the cooperative movement is making it easier for CFP to contact the necessary institutions. Preliminary contacts have been made with Superintendencia de Cooperativas, SENA, ICA, and Centro de Investigacion y Accion Social. The central office has already been promoting the project in regions such as Nariño and Huila. The CFP is also receiving the assistance of 10 - 12 MBA Peace Corps Volunteers to assist in this program.

Professional Credits: Loans to qualified professionals, not necessarily with a university background, to found or expand manufacturing operations which either involve technological processes new to the area in which they are requested, or are located in very poor areas. The requisites and policies for approval of this type of credits are much more flexible than for any other type. CFP expects to allocate 25 million pesos in the 1975-76 period for a generation of 300 jobs. (Note that the average cost of creating a new job in Table 5-A has been considered too low and atypical since the experience is not very great).

e. Marketing Company: The small industrialist is faced with a double problem when he markets his goods. Not only is he often ignorant of demand changes, standards for export, and general market conditions,

but he often cannot produce in sufficient quantity or with adequate quality control to justify his entrance into the more lucrative markets. The CFP will create a marketing company to assist the small industrialist in efforts to produce and market products on a scale possible only if resources are combined. The company will also assist industrialists with production techniques and quality control programs.

The company will start activities with manufacturing sectors in which necessities have already been identified. They include textiles, leather, wood; others will be chosen later. It is expected that the company will work with all interested industrialists, not only CFP clients. The program will be supported by an investment of 50 million pesos for the 1975-76 period.

2. Technological Transfer Activities - There is universal agreement among academics (SRI and Georgia Tech) and foreign assistance entities (IBRD, UNDP, ILO, UNIDO, German, British and USAID) that small industry in Colombia requires transfer of management and production technology. The CFP is sponsoring one program in this area with its own resources - accountancy centers. Accountancy has been a bottleneck in the expansion and improvement of small industry in Colombia. Without adequate book-keeping, a firm can neither obtain credit, nor expand beyond a limited size. Avoidable losses continue because the numbers are not laid out with sufficient clarity for effective examination. The CFP proposes to create accountancy centers aimed at small industry to help alleviate these problems. The program will establish ten centers in ten different cities which will counsel 1,600 clients in the first two years of operation. Since some of the firms which most need this service cannot afford to pay commercial rates, the CFP projects 9 million pesos worth of finance on liberal terms to 300 clients in this period. Another 1 million pesos for financial advisory services to instruct businessmen on the uses of this new management tool is projected.

In addition to accountancy, technological transfer is required in the areas of production, quality control, information dissemination, and raw materials. The study presented in Annex II suggests the provision of trained personnel to CFP, IIT, SENA, and FICITEC in a program administered by CFP to assist in these areas. Since that Annex was prepared, considerable work has gone into planning the proposed technological transfer activity. Agreement in principle has been reached that CFP will create a core staff of technical personnel to supervise the program, but will contract with SENA, IIT and FICITEC to perform consulting services for CFP clients. The loan program would pay training costs of CFP and consulting personnel and would subsidize the cost of consultancy services on a rapidly declining proportionate basis during the first two years of the program's operation. As small industrialists become acquainted with technical consultancy they would be expected to pay for services with financing provided by CFP loans for technical assistance. The IBRD is providing up to \$500,000 dollars to CFP for a revolving fund for T.A. loans.

On the basis of the projected level and cost of technological transfer consultancy which are outlined below, the IBRD provided funds would be drawn down by the end of the third year of the program's operation, the interest earned by CFP on T.A. loans would cover most (over 75%) of their personnel costs of administering and promoting technological transfer activities, and CFP clients would be paying the full market cost of T.A. services (about an estimated \$600 dollars per consultancy). The projected cost is based on liberal salary assumptions (average salaries beginning at 300,000 pesos per year, growing at about 20% per year, although reduced by 10% during training), overhead charges of 50% of salaries by the consultants (the CFP, however, is expected to absorb overhead costs of its own personnel), an average of only 37.5 consultancies per consultant per year, a six-month recruitment and training period, fully subsidized operations during the first semester of actual operations, 75% subsidy during the second semester, 50% during the third semester, 25% during the fourth semester and a self-supporting program thereafter. In the event that earnings on the revolving fund do not cover CFP's expenses for administering the program, the CFP will covenant to maintain their activities at the loan-financed level for at least five years.

The CFP will also carry out a program of promotional activities which they call a "motivational" program, that is a series of motivational training seminars designed to spark awareness of their technical assistance needs among entrepreneurs. Limited funding may also go to ANDI and/or INCOLDA for a "big brother" program with large industry. The information dissemination aspect of the program will be funded by CFP, and probably jointly administered by ACOPI, which has the contacts, and FICITEC, which has the technological know-how and has contracted with SBA to receive more. FICITEC projects 3,000 clients of this program by the end of 1976.

Annex III argues for guidance of the training aspects and start-up of the technological transfer program via foreign technical assistance. An UNIDO consultant currently assigned to CFP, other USAID consultants, the Mission, and the CFP itself all agree that such assistance should be acquired. The GOC has rejected loan funding for foreign technical assistance in line with its general policy and because it expects to receive additional assistance from UNIDO in support of the program and because it may draw on the AIP Block Grant.

The following table summarizes the projected loan-financed costs of technological transfer activities for which \$ 1 million dollars have been requested:

Loan Funded Technological Transfer Activities (000 Pesos)

	1975		1976		1977
	1st Sem	2nd Sem	1st Sem	2nd Sem	1st Sem
CFP T. A. Staff	-	825	1,440	1,800	1,920
CFP Trainees	675	295	325	180	-
Consultant's Trainees	2,700	1,190	1,135	540	-
Consultants Staff inc. Overhead	-	4,950	4,880	4,050	2,225
Training Expenses	1,000	400	500	200	-
Motivation Program	150	200	200	150	100
Publications Program	100	100	100	100	100
Big Brother Program	50	50	50	50	50
Total	4,675	7,470	8,630	7,070	4,395

Total Loan Funding: 32,240

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Memo Items

T. A. Revolving Fund Loans (000 pesos)	-	-	1,630	4,050	6,675
Expected No. of Consultancies	0	375	450	550	550
CFP Trainees	5	4	2	1	-
CFP Staff	-	5	8	9	9
Consultants Trainees	20	6	7	3	-
Consultants Staff	-	20	24	27	27

2. Management Assistance to the CFP - As has been pointed out, CFP organizational structure has not always kept pace with the entity's rapid growth. CFP needs to strengthen its organization to sustain its growth, improve control of its operations and portfolio, and better attend to the financial and technical assistance needs of its clients. To this end, CFP is seeking proposals to have an organizational study carried out. At this time, an UNIDO consultant working in upgrading the operational work of CFP, is leading a working group which is defining the terms of reference for the subject study. Both USAID and IBRD are requiring the CFP to contract management assistance as a condition of their loans.

III. FINANCIAL ASPECTS

A. Borrower .

The Borrower will be the Government of the Republic of Colombia, which will be authorized, after approval by its Economic and Social Policy Council and its Interparliamentary Committee, to enter into the Loan Agreement without further Congressional ratification.

B. Terms of the Loan

The terms recommended for the proposed loan are 40-years repayment by the Borrower, including a 10 year grace period, at an interest rate of 2% per annum during the grace period and 3% per annum thereafter. The Loan Committee is of the opinion that the terms recommended are reasonable for this project.

C. Other International Donor Participation

The IBRD, IDB and Exim-Bank have been advised of this proposed loan, and have indicated that they are not interested in financing its activities.

The Mission is in touch with the other two national donors interested in this area, the British and the Germans, with the ILO Mission and with IBRD study groups. Programs have been closely coordinated and data shared.

The British will continue to assist SENA with short visits of consultants during at least the next year. The ILO plans to have six full-time and three temporary consultants here starting this year for a two to three year period. ILO and UNDP officials have expressed themselves eager to coordinate their assistance to SENA with proposed AID technological transfer activities. The Germans plan two to three years of technical assistance involving two to three people at a time to assist SENA in its work with industrial organizations, perhaps in the cooperative field, perhaps in the Barranquilla area.

The Germans also plan a \$2.5 million loan to the CFP to commence in 1975. The British wish to make \$500,000 available to CFP for tied machinery imports in the same time frame. Two UNIDO experts are also expected to assist CFP.

An IBRD loan for \$5.5 million to the CFP will probably be signed before the end of 1974. Up to \$500,000 of this loan may be spent on the CFP's technological transfer program, most of it in the form of a fund to contract consultant services for CFP clients on the open market, and part of it to finance a foreign expert to assist the CFP in its technological transfer activities. The fund and the expert obviously complement the provision of trained technological transfer personnel to work in this area within the CFP as proposed in Annex II, just as AID funding of the more innovative and higher-risk credit programs is complemented by World Bank resources for CFP's ordinary credit lines.

The IBRD \$5 million lending program will be used by CFP for relending to finance fixed assets, including construction costs of industrial buildings, of a wide range of small industrial firms. Financing will be restricted to small manufacturing firms with total assets not in excess of 10 million pesos at the time of subloan approval. At the low end, cottage industry (firms with less than 5 employees) while not excluded, is expected to use only a small part of the loan. Maximum assistance to any one firm would be limited to 2.5 million pesos. The IBRD expert working with the CFP would review all subloan proposals involving Bank financing in excess of 200,000 pesos, make specific recommendations on each subloan proposal submitted for approval to the Loan Committee or Board of Directors, and ask for improvement of less than satisfactory appraisals. Subloans approved against the expert's advice would be sent for ex post review to the IBRD. All subloans over 1.5 million pesos will require prior IBRD approval. Furthermore, the IBRD will closely supervise the project and review ex post a sufficient sample of subprojects. This procedure is designed to upgrade CFP's appraisal and decision-making. Before releasing the second US \$2.5 million tranche of the IBRD loan, the adequacy of this arrangement would be reviewed.

D. Prospects for Repayment

The prospects for repayment of the proposed loan are excellent. The Government of Colombia will undertake the obligation and assure the exchange rate. Colombia's debt service burden is low compared to other Latin American countries experiencing similar economic conditions.

E. FINANCIAL PLAN

TABLE 6

FINANCIAL TARGET BY ACTIVITY
(pesos millions, commingled funds)

<u>Activity</u>	<u>1975</u>	<u>1976</u>	<u>Total</u>
A. Credit Programs			
1. Guarantee Fund	10.0	25.0	35.0
2. Confidence Credits	30.0	40.0	70.0
3. Community Credits	60.0	70.0	130.0
4. Professional Credits	10.0	15.0	25.0
5. Marketing Company	20.0	30.0	50.0
B. Technological Transfer Activities			
1. Production-related technological transfer	15.0	17.5	32.5
2. Accountancy Centers <u>1/</u>	4.0	6.0	10.0
	<u>149.0</u>	<u>203.5</u>	<u>352.5</u>
Total	(US\$ 4,966.7 million) <u>2/</u>	(US\$ 5,814.3 million) <u>3/</u>	(US\$ 10,781 million)

1/ Not receiving AID funds

2/ 1975 average 30.0 pesos = \$ 1.00

3/ 1976 average 35.0 pesos = \$ 1.00

TABLE 7
SUMMARY FINANCIAL PLAN

<u>Loan Elements</u>	<u>Financial Targets</u> (Millions of \$)					
	<u>1975 ^{1/}</u>		<u>1976 ^{2/}</u>		<u>Total</u>	
	<u>AID</u>	<u>GOC</u>	<u>AID</u>	<u>GOC</u>	<u>AID</u>	<u>GOC</u>
A. Credit Programs	(2.0)	(2.33)	(2.0)	(3.13)	(4.00)	(5.46)
1. Guarantee Fund	-	0.3	-	0.70	-	1.00
2. Confidence Credits	0.6	0.4	0.64	0.50	1.24	0.90
3. Community Credits	1.2	0.8	1.12	0.88	2.32	1.68
4. Professional Credits	0.2	0.13	0.24	0.19	0.44	0.32
5. Marketing Company	-	0.7	-	0.86	-	1.56
B. Technological Transfer Activities	(0.5)	(0.13)	(0.5)	(0.17)	(1.0)	(0.3)
1. Production-related Technological Transfer	0.5	-	0.5	-	1.0	-
2. Accountancy Centers	-	<u>0.13</u>	-	<u>0.17</u>	-	<u>0.3</u>
Total	2.5	2.46	2.5	3.3	5.00	5.76

^{1/} 1975 average 30.0 pesos = \$1.00

^{2/} 1976 average 35.0 pesos = \$1.00

Disbursement of the loan is expected to start in the first semester of 1975. Disbursement for the credit activities should be completed by the end of 1976. In that the technology transfer activity being financed by the loan is considered to be a two-year pilot program, following a six-month start up period, it is probable that disbursement for the activity will require two and a half years after its initiation, i.e., until mid 1977.

GOC counterpart will come from general CFP resources, the expected sources of which are similar to those cited on Table 5, page 11. No counterpart is attributed to the technological transfer activity, although CFP will be financing its own overhead, and CFP clients will be paying most of the cost of the program after the initial start-up.

IV ECONOMIC AND SOCIAL ASPECTS

A. Present Status of the Colombian Economy

Performance of the Colombian economy currently presents a very mixed picture. On one hand, economic growth performance has been quite good, with GDP growing by more than 7% annually for the last two years, and with exports growing at spectacular rates. On the other hand, inflation has become a serious problem during the past two years, and prices are currently rising at an annual rate of around 30% -- far above the rates that have been usual in Colombia. In addition, the government has been faced with serious fiscal problems limiting its ability to carry out the investment program in social sectors that has been a basic tenet of its policy.

The growth of total production during 1973 is currently estimated at 7.3%, up slightly from 1972 and considerably above the historical average. Growth was fastest in the industrial and construction sectors in 1973, the latter sector benefitting heavily from the establishment of a savings and loan system with adjustment of savings for inflation in 1972. This new savings instrument, the UPAC, was mainly responsible for a massive increase in financial savings in 1973 by the private sector. The agricultural sector performed poorly, with production of crops other than coffee declining slightly from 1972 levels. This decline, due largely to bad weather conditions during the year, was a major cause of the accelerated inflation of 1973. A substantial improvement in agricultural production is expected in 1974.

Inflation has become a matter of serious concern during the past two years. The cost of living rose by 23% during 1973, and the rate of inflation during the first four months of 1974 is several points higher than the 1973 rate for the same period. This acceleration of the rate of inflation is due principally to the rapid growth of the money supply, and to the rather poor performance of the agricultural sector. This growth in money supply was in turn due principally to the accumulation of international reserves resulting both from good export performance and large foreign borrowing by the GOC. Since government borrowing went into international reserves rather than into increased imports, the net effect of the borrowing was inflationary. The role of government during 1974 is expected to be less expansionary than in the several previous years, and the leveling off of international reserves should allow monetary growth to be restricted. Nevertheless, inflation can be expected to continue to be a serious concern to the GOC during the next two years.

As a consequence of both the fiscal problems and the government's desire to reduce inflationary pressures by curtailing spending, government investment expenditures in 1973 were cut substantially from programmed levels, and declined in real terms. Prospects for 1974 are for a continuation of restrictions on government investment, with nominal expenditures expected to increase by about 20%. This need for austerity during the 1973-74 period is the result of shift in government financing from a heavy dependence on foreign commercial borrowing to a situation where such borrowing is used little or not at all. This shift will be completed in 1974, consequently investment expenditures in 1974 should again begin to rise in real terms. Nevertheless, it seems clear that no major expansion of government investment (such as occurred during the 1969-72 period, when government investment increased by 52% in real terms) is likely unless some significant new tax measures are enacted by the government. The incoming government seems aware of the need for such additional taxation, but legislative approval for such measures is always uncertain.

The balance of payments position of the country has improved very substantially during the past several years, largely as the result of high commodity prices and a vigorous export promotion effort. On a registration basis, exports increased by 87% between 1971 and 1973. First quarter figures for 1974 indicate a further 60% increase over the corresponding figure for 1973. Until recently, this export boom had been accompanied by a relatively restrictive import policy, and international reserves consequently rose rapidly, increasing from \$170 million at the end of 1971 to \$515 million at the end of 1973. Net reserves rose another \$40 million in January, 1974, stabilized during the following quarter, apparently as the result of a much more liberal import policy. This liberalization has taken the form of reduced import duties on a wide range of commodities and the lifting of administrative approval requirements for many commodities. The share of imports requiring prior administrative approval has been reduced from about 70% to about 50%. At the current rate of registration of imports, the country's international reserves represent slightly less than four months' imports.

In view of the macroeconomic situation currently faced by Colombia -- adequate levels of international reserves and significant demand-induced inflation -- the question of the need and appropriateness of foreign assistance must be addressed. The Mission feels that the primary justification of the loan lies in its programmatic impact. Additionally, the magnitude of the loan is sufficiently small as to have very limited

macroeconomic implications. The loan supports important initiatives of the GOC, and it appears probable that the absence of the loan would lead to a substantial reduction in GOC activity in this sector. This reduction would be a necessary concomitant of the austere approach that the government is taking concerning credit expansion. Politically, it is extremely difficult for the government to place severe limitations on lending to powerful interests in large industry while expanding credit for small industry. The effect of the loan would be to allow this to occur. Additionally, the loan would, of course, support continued expansion of a very dynamic entity, the CFP, create innovative possibilities for transfer of technology to small industry, and improve operations of the FFI.

Since the above analysis was prepared, Colombia has elected a new Administration pledged to control inflation and redress income inequality. The new Administration has just completed a series of wide-ranging macro-economic reforms in connection with a 45-day State of Economic Emergency (a constitutional device whereby the Executive may legislate on economic matters). These reforms include budget deficit reduction through reduced subsidies on wheat and on exports, increased taxes and expenditure limitations; capital markets reform including higher minimum wages. The measures are in general long overdue and they should have a decided anti-inflationary impact. They may also, unfortunately, have a damaging effect on real growth. Thus, as the Government's policy makers are turning their attention to development programs, they are especially concerned with stimulating employment and production. The small industry program of the CFP, which has been under review by both AID and TBRD for several months, has become the focus of intense interest on the part of policy makers. The program is one of the first investment initiatives of the new Government.

B. Impact on the U.S. Economy

The project does not compete with U.S. enterprise and is not expected to have any adverse effects on the U.S. economy. In addition, the loan will increase foreign exchange availabilities, which should lead to an increase in U.S. exports to Colombia. Similarly, the expected impact of the program of contributing to the economic and social development of Colombia should in the long-run provide a larger market for U.S. exports.

C. Benefits of the Proposed Loan

The proposed loan would attempt to stimulate the growth and development of small and medium industrial firms through two principal mechanisms: credit availability and technological transfer. In both

cases, the proposed assistance would attempt to correct for existing discrimination against small firms. As noted in Section i, the small firm has considerably less access to credit than the large firm. In part, this is simply a result of the fact that loan administration costs are relatively lower for large loans. However, the current financial structure of Colombia provides an additional incentive to lend to large, established firms. Since interest rates in the banking system are administratively controlled at below market levels, there is excess demand for credit. Banks tend to handle this excess demand by lending first to the larger customers. Were interest rates higher, large firms would find it in their interest to borrow significantly less, leaving higher credit availabilities for the borrower of last resort, the small firm. By making additional credit available specifically for small industry, the loan is able to counteract the discrimination inherent in the existing system of credit rationing.

Discrimination against small firms in the area of technical and administrative know-how results primarily from the lack of an adequate delivery system for such information and concepts to the small firms. Consequently, firms that are too small to be able to afford full-time specialists for these types of activities tend to obtain too little assistance, both because of high cost and the difficulty in locating an appropriate source. The proposed loan attempts to establish mechanisms necessary to provide a delivery system for at least a portion of the sector.

Given the purpose of the loan -- stimulating of small industry through the elimination of sources of discrimination against such firms -- the question arises as to the reasons why promotion of the development of small and medium industry is itself justified. A number of reasons exist to indicate that this is an area where assistance is highly desirable. First, small and medium industry tends to be considerably more labor-intensive than large industry. The reasons for this are not completely clear, but it appears to be related to a significant degree to both discrimination in favor of large firms by the import-licensing system and substantially higher wages paid by large firms which encourage them to use capital-intensive methods. The higher wages in turn appear to be related to monopoly power by large firms and strong unionism among workers of large firms.

The firm keeps its unionized workers content by paying wages substantially higher than market requirements. This increased cost is passed on to the consumer because of the firm's market power, and the firm economizes on labor because of its high cost. Because of the large amount of capital per employee, workers in this sector tend to be quite productive, and consequently give a productivity justification for the fact that their wages are much higher than the market. The consequence of this situation is a distortion of the market for both goods and labor. Assistance to small industry would tend to diminish the importance of such distortions both through assistance to firms whose production relationships are not distorted by such problems and additionally by increasing the level of competitiveness within the economy.

A second reason for promoting small and medium industry is that it appears that the potential for increased productivity through inputs of technical and managerial assistance is highest among this segment of

industry. It appears to be generally the case that there is a wider gap in technology and management between small firms and large firms in Colombia than there is between large Colombian firms and large firms in the developed countries.

Finally, it is felt that stimulation to small industry has desirable social implications. Opportunities are created for individual entrepreneurs with limited resources, and new possibilities are made available to people from poor backgrounds. In addition, the existence of a healthy small-industry sector contributes to the democratization and decentralization of industrial decision-making.

D. Environmental Aspects

The proposed loan is not expected to have any significant impact on environmental quality. Though the loan is directed at industry, the type of firm to be assisted is generally involved in light manufacturing, consequently has no detrimental environmental impact. The sectoral distribution of sub-loans is expected to be similar to that of previous AID experience with FFI and CFP. If this is the case, then the largest share of lending activity -- close to one-third of the total -- will be to firms engaged in production of shoes, clothing and textiles. The remainder would then be spread widely among the whole range of industry, with very little concentration in any individual sector. About 10-15% of sub-loans can be expected to be made to firms in sectors often characterized as potential polluters -- e.g., chemical firms and minerals processors. Nevertheless, even these firms would tend to be small and widely dispersed, making any detrimental impact on the environment minimal. The Loan Agreement will include a covenant regarding environmental questions.

E. The Role of Women

The proposed loan is expected to have a positive impact on opportunities for women in Colombia, mainly through the creation of new job possibilities for women. Small and medium industry tends to use women relatively more than large industry, with 30% of the labor force being female compared with 24% for large industry. In addition, in the specific industries that are expected to be the largest recipients of credit and technological transfer assistance under the loan (textiles and clothing), women make up a strong majority (67%) of the work force.

The question of job-creation, especially in unskilled categories, represents a much more important contribution to improved status for women in Colombia than it would in developed countries. Lower-class women have traditionally had no alternative to working as domestic servants, usually on a live-in basis. Jobs in industry provide an alternative to this dismal situation, and represent a major improvement in the woman's status, in that she receives much higher pay, has fixed and shorter working hours, the freedom to choose where she will live, and is integrated into the productive aspect of the economy.

While the principal thrust of the loan is to improve the status of lower-class women, women will play an important role as professional workers in the institutions that administer the loan. For example, the head of small lending at the second-largest branch of CFP is a woman.

V. CONDITIONS AND COVENANTS

A. Prior to any AID disbursement for technology transfer activities, the CFP will submit for AID approval an organizational scheme and work plan for those activities. All contracts between CFP and entities providing technical assistance to small industry and between CFP and consultants related to the technology transfer activities will be submitted to AID for approval.

B. Prior to disbursement of AID funds to the CFP, that organization will acquire management consultant services informal substance mutually agreed upon by the CFP, AID and IBRD.

VI. LOAN ADMINISTRATION

A. Disbursement Procedures

1. Credit Activities - Disbursement for CFP credit activities will take place in a form similar to that implemented for sector lending in Colombia. AID will deposit pesos purchased with loan funds in a special account in the Bank of the Republic which the Treasurer of the Republic will pay to CFP through normal GOC procedures. The amount of any AID disbursement will depend on the projected needs of credit disbursement by the CFP during the proximate quarter, and prior expenditure of GOC funds in amounts greater than the requested disbursement prior to the release of AID funds. That is, disbursement will be made on a pari passu basis, but with AID always in the position of "catching up" with GOC expenditures. No advance will be made for credit activities.

2. Technology Transfer Activities - The Loan Agreement and Implementation Letters will specify the particular activities and items to be loan financed. Most of these activities will be carried out by the CFP or contracted by them. AID may reimburse CFP directly for such expenditures or funding will be provided through the GOC budget process as indicated above.

Part of the funds authorized for technology transfer activities may be needed to finance dollar costs of consultant services and participant training. Expenditures for consultants and foreign training will be paid by AID directly from loan funds on the basis of loan-financed PIO/T's and PIO/P's or similar documentation.

B. Loan Monitoring

Primary responsibility for monitoring the loan implementation will rest with the USAID/C Urban Development Division, assisted by the Capital Development and Controller staffs. Disbursement request will be accompanied by detailed reports of program activities which shall serve as the basic management review tool. Qualitative progress will be reviewed through periodic field inspections.

C. Evaluation

This project shall be evaluated at least annually during the disbursement period (preferably at or near the anniversary date of the loan) plus at least one follow-up evaluation approximately 2 years subsequent to the TDD. The evaluation will endeavor to measure in overall terms progress toward the objectives of the loan. The evaluation will be based on a group of progress and end of project indicators, properly targeted, similar to those provided below. Such targets will be developed during the negotiation stage of the loan and will be incorporated in the Loan Agreement and/or subsequent Implementation Letters. In addition, it will probably be desirable to develop a survey or other appropriate means to ascertain the acceptance and value of the technological transfer organization and activities.

It is contemplated that these evaluations will be carried out jointly by the Government of Colombia and the Mission, plus such outside expert assistance as the evaluation team may consider necessary and appropriate. The Government of Colombia accepts responsibility for the collection of the data necessary to permit the annual review of the program indicators.

The following are representative indicators of the type which might be utilized for the annual evaluation exercise.

1. CFP Institutional Development

Average administrative costs X pesos or less per loan.
Average administrative costs X pesos per 100,000 pesos loaned.
Loan delinquency rate (X days or less) not exceeding X% of regular portfolio.
Loan delinquency rate (X days or less) not exceeding X% of loan-financed special portfolio.
Loan default rate (over X days) not exceeding X% of regular portfolio.
Loan default rate (over X days) not exceeding X% of loan-financed special portfolio.
Average processing time (request/approval and approval/distribution) for regular portfolio not exceeding X days.
Average processing time (request/approval and approval/distribution) for loan-financed portfolio not exceeding X days.

2. CFP Employment Creation

New CFP loans totalling X pesos in CY 1975.
New CFP loans totalling Y pesos in CY 1976.
One new job created per Y pesos loaned under CFP program.
Confidence Credits totalling 10 million pesos in CY 1975.
Confidence credits totalling 20 million pesos in CY 1976.
Confidence Credits result in 270 new jobs in CY 1975.
Confidence Credits result in 500 new jobs in CY 1976.
Community Credits totalling 15 million pesos in CY 1975.
Community Credits totalling 30 million pesos in CY 1976.
Community Credits resulting in 300 new jobs in CY 1975.
Community Credits resulting in 550 new jobs in CY 1976.
Professional Credits totalling 5 million pesos in CY 1975.
Professional Credits totalling 7 million pesos in CY 1976.
Professional Credits resulting in 100 new jobs in CY 1975.
Professional Credits resulting in 120 new jobs in CY 1976.
Marketing Company has X clients by end CY 1975
Marketing Company has Y clients by end CY 1976.

3. Technological Transfer

X% of TT activity (Production Technology, Accountancy Center, Marketing Company) financed by proposed loan independent of CFP production credit activities
Accountancy Center has X clients by end CY 1975 .
Accountancy Center has Y clients by end CY 1976.
Production Technology Org. has X clients by end CY 1975.
Production Technology Org. has Y clients by end CY 1976.

VII. ISSUES

A. Technical Assistance Fund

AID has considered including capitalization of a fund in the CFP for loans for technical assistance purchased by small and medium industry. Such a fund is necessary (see consultants report, Annex II). The IBRD is including \$500,000 for such a fund in the loan it is currently discussing with the CFP, thereby making AID funds for this purpose unnecessary at this time.

B. Evaluation Criteria

The criteria for sub-loans used by CFP currently stress the employment generation effects of the sub-loans. Such criteria will be maintained. The evaluation of effectiveness of credit will be based on examination of social security records before and after lending.

ANNEX I

STATUTORY CHECKLIST AND

MISSION DIRECTOR'S CERTIFICATION

CHECKLIST OF STATUTORY CRITERIA
(Alliance for Progress)

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973

App. - Foreign Assistance and Related Programs Appropriation Act, 1974

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

- 1 FAA § 103; § 104; § 105;
§ 106; § 107. Is loan being made

(d) to solve economic and social development problems in the field of small and medium industry.

COUNTRY PERFORMANCE

Progress Toward Country Goals

2. FAA § 108; § 107 (b)

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

Colombia is making appropriate efforts through its Office of Agricultural Planning, Institute of Agricultural Marketing, Institute for Development of Natural Renewable Resources, and the Colombian Agricultural Institute. These efforts are more fully described in Parts One and Two of the FY 1972 Agricultural Sector Loan Paper.

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(2) Creating a favorable climate for foreign domestic private enterprise and investment.

With respect to domestic private investment a favorable climate has been maintained and investment continues at a respectable rate. With respect to foreign private investment, some enterprises, which might possibly fall within the restrictive provisions of the Andean Code, may have been deterred by the uncertain legal status of the Treaty of Cartagena and the Andean Code from investing in Colombia; but the amount of investment, if any, so deterred is a matter of speculation.

(3) Increasing the public's role in the developmental process.

The public's role in the development process is clearly being increased, as witnessed by the programs instituted by the Colombian Government under this loan and other programs also assisted by A.I.D. loans, entailing substantial increases in the financing of education and of credit to small and medium-sized farmers.

(4) (a) Allocating available budgetary resources to development.

The Mission has concluded that Colombia's investment in the four crucial sectors of the economy concerned with overall development is both "reasonable and feasible"

(b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations (See Item 10).

It is considered that some expenditure for modernization of Colombia's armed forces is justifiable.

Colombia is not intervening in the affairs of other free and independent nations.

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(5) Making economic, social, and political reforms such as tax collection improvements and change in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

Colombia, with the assistance of the Mission, has embarked on a program of substantially improving tax collection procedures, which has resulted in increased fiscal revenues (see Sect. III A). Colombia's program of land reform is discussed in detail in Parts One and Two of the 1972 Agricultural Sector Loan Paper. The development plans of the GOC recognize the importance of individual initiative and private enterprise. Individual freedom of press, speech and religion continue.

(6) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

Colombia is adhering to the principles of the Act of Bogota and the Charter of Punta del Este.

(7) Attempting to repatriate capital invested in other countries by its own citizens.

Under the 1967 Foreign Exchange Statute, Colombian nationals were to repatriate demand and time deposits by mid-1967, upon their sale, and no Colombian national was to invest abroad without the prior approval of the Department of Planning. During 1967 it is estimated that up to \$50 million was repatriated. No data are available for later periods.

(8) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

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The GOC is undertaking effective self-help measures in response to vital concerns of its people.

- B. Are above factors taken into account in the furnishing of the subject assistance?

Yes.

Treatment of U.S. Citizens by Recipient Country

3. FAA § 620 (c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

According to the best information available, Colombia is not known to be so indebted.

4. FAA § 620 (e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No such action is known to have been taken.

5. FAA § 620 (o). Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters.

Apart from an incident which occurred in 1967, which was satisfactorily resolved, no such seizure, penalty or sanction has occurred.

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a) Has any deduction required by Fishermen's Protective Act been made?

N. A.

b) Has complete denial of assistance been considered by A.I.D. Administrator?

N. A.

Relations with U. S. Government and Other Nations

6. FAA § 620 (a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?

Colombia does not furnish assistance to Cuba and has taken appropriate steps to prevent its flag carriers from carrying cargoes to or from Cuba.

7. FAA § 620 (b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?

Yes.

8. FAA § 620 (d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?

Loan funds will not finance any production enterprise which will directly compete.

9. FAA § 620 (f). Is recipient country a Communist country?

No.

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10. FAA § 620 (i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

No.

11. FAA § 620 (j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

Colombia is taking adequate measures to prevent such damage or destruction.

12. FAA § 620 (l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?

The GOC signed an investment guaranty bilateral agreement in 1963, and has cooperated in implementing the guaranty program to date. However, the agreement has not been ratified by the Colombian Congress. For this reason, the "Administrator's Determination" under which the program has operated was not renewed upon its expiration on December 31, 1970. OPIC currently is studying the question of whether to continue the program in Colombia. Pending this study, the Mission recommends against denying assistance.

13. FAA § 620 (n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?

No.

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14. FAA § 620 (g). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?

No.

15. FAA § 620 (t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

16. FAA § 620 (u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?

Colombia is not delinquent.

17. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

The Government of Colombia has been made aware of the problem of narcotic drug trafficking and has initiated measures designed to inhibit such trafficking. The President has designated the Minister of Justice as overall coordinator. The Procurador

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General also has oversight responsibility through the Judicial Police. Seizures of narcotic drugs in the past twelve months have been substantially above earlier periods. The GOC has sponsored or participated in a number of inter-governmental, intragovernmental and public/private seminars, which have served to increase awareness generally and improve technical capacity of law enforcement officials. Staff of control agencies are being trained in narcotics interdiction. Assistance and advice of the USG in these respects has been solicited, provided and utilized.

18. FAA, 1973 § 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?

N. A.

Military Expenditures

19. FAA § 620 (s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PP/RC).

(a) Military Expenditures as percentage of total budget: In CY 1971, 10.4 percent of appropriated funds. In CY 1972, 11.1 percent of approved budget; actual expenditures 10.5% of appropriated funds. In CY 1973 it has been proposed that 9.2% of the budget go to the Ministry of Defense (including police forces).

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(b) Foreign Exchange Expenditures for Military Equipment: In CY 1971 the GOC assumed commitments for foreign exchange expenditures of US\$91 million. Given that most of the acquisitions are being financed with credit over 8 to 10 years, actual appropriations for foreign exchange expenditures in 1971 were US\$ 9 million. In 1972, foreign exchange expenditures did not exceed \$10 million dollars, a figure which is expected to be repeated in 1973.

(c) Foreign Exchange Expenditures for Sophisticated Weapons: Of the foreign exchange totals above, the following are the amounts related to purchase of sophisticated weapons, i.e., Mirage jets; 1971-commitments of US\$41 million and actual expenditures of US\$8 million; 1972 no new commitments and actual expenditures of US\$8 million. In 1973 the Mission anticipates no new commitments and estimated actual expenditures of US\$7 million.

CONDITIONS OF THE LOAN

General Soundness

20. FAA § 201 (d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.

The terms of the proposed loan are consistent with the laws of Colombia and the United States and are not excessive or unreasonable for the Borrower (See Section III).

21. FAA § 251 (b)(2); § 251 (e). Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

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The project is economically and technically sound. The GOC has submitted an application for the proposed loan and the Mission has been provided sufficient information and assurances to indicate reasonably that the funds will be used in an economically and technically sound manner.

22. FAA § 251 (b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

The terms of the proposed loan are such that there are reasonable prospects for its repayment. (Section III)

23. FAA § 251 (b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

The IBRD, IDB and Eximbank have been advised of this proposed loan and have indicated that they are not interested in financing the program (see Section III). The sector loan is not suitable for financing by private financial institutions.

24. FAA § 611 (a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?

Yes. This loan is of the intermediate credit institution type. Previous experience with the implementing agencies permits confidence that the cost estimates are accurate.

25. FAA § 611 (a)(2). If further legislative action is required within recipient country, what is the basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of loan?

No further legislation is required except for the yearly Budget Law which is normally approved by the end of each CY. Based upon past performance, there are reasonable expectations that the necessary Budget Laws will be enacted and that the law or amendments thereto will contain the amounts scheduled to be contributed by the GOC.

26. FAA § 611 (e). If loan is for Capital Assistance and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

Yes. See Director's certificate.

Loan's Relationship to Achievement of Country and Regional Goals

27. FAA § 207; § 251 (a); § 113
Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs; (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy.

a) The development of the small and medium industry sector in Colombia is clearly a reflection of Colombia's determined emphasis on building economic, democratic and social institutions (see also Section III C)

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- b) N. A.
- c) Training of small and medium industry entrepreneurs is a component of the loan (see Section II A)
- d) N. A.
- e) One of the purposes of the loan is improved planning and administration of industry.
- f) Section IV E of this paper covers this topic.

28. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

No.

29. FAA § 251 (b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

The loan activities relate directly to and are consistent with other sectoral and specific development activities contained in the overall Colombia 1972-74 Social and Economic Development Plan. The loan program is consistent with recommendations of the Consultative Group for Colombia as expressed most recently on February 29, 1972.

30. FAA § 251 (b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

See comment under Item 29 above.

31. FAA § 209; § 251 (b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

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Loan has no direct bearing on achieving such integration.

32. FAA § 251 (g); § 111. Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

N. A.

33. FAA § 251 (h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.

This loan is consistent therewith.

34. FAA § 261 (a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.

Section IV hereof outlines the expected impact of the program on the people of Colombia, and concludes that it will increase participation by the populace in the development process.

35. FAA § 281 (b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Section I A of this loan paper describes the need for assisting small and medium industry in Colombia. A portion of the funds made available under the loan will be used to train personnel concerned with management and planning, which will serve to encourage institutional development.

36. FAA § 601 (a). Information and conclusions whether loan will encourage efforts of the country to (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of co-operatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
- a) The loan will increase the flow of international trade by making free dollars available to the GOC with which it can continue a substantial importation of necessary goods. (See Section IV)
- b) The loan will foster private initiative and competition, materially helping the small and medium industry sector's productivity.
- c) N. A.
- d) N. A.
- e) One of the purposes of the loan is to strengthen the technical efficiency of small and medium-size industry.
- f) N. A.
37. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?
- N. A.

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Loan's Effect on U.S. and A.I.D. Program

38. FAA § 251 (b)(4); § 102. Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

The Mission does not contemplate any adverse effect on U.S. economy.

39. FAA § 252 (a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

For all practical purposes all of the loan funds will go to intermediate credit institutions for use by private borrowers. No procurement is anticipated.

40. FAA § 601 (b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). (see item 39 above.)

(See Section III B)

41. FAA § 601 (d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?

UNCLASSIFIED

Not a capital project.

42. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.

See item 39 above.

43. FAA § 620 (h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?

No.

44. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

See item 39 above.

Loan's Compliance with Specific Requirements

45. FAA § 110 (a); § 208 (e). Has the recipient country provided assurance that it will provide at least 25% of the cost of the program project, or activity with respect to which the Loan is to be made?

Yes. See Section III.

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46. FAA § 112. Will loan be used to finance police training or related program in recipient country?
- No.
47. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions?
- No.
48. FAA § 201 (d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?
- Yes.
49. FAA § 604 (a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?
- No commodity procurement is anticipated.
50. FAA § 604 (b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?
- N. A.
51. FAA § 604 (d). If the cooperating country discriminates against U. S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?

Goods to be financed under the proposed loan will be purchased on a CIF basis with the responsibility for the purchase of

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marine insurance being left to the exporter. The loan agreement will contain such a clause.

52. FAA § 604 (e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

N. A.

53. FAA § 604 (f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable?

N.A.

54. FAA § 608 (a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

The loan agreement will contain a provision enjoining Borrower to use U.S. excess property under appropriate circumstances.

55. FAA § 611 (b); App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?

N. A.

56. FAA § 611 (c). If contract for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?

Colombian law so requires.

57. FAA § 612 (b); § 636 (h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

The GOC is financing over half of the cost of the program for which this loan is made; this financing includes the cost of contracting and other services. No U.S.-owned foreign excess currency is available for these purposes.

58. App. § 113. Will any of loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?

No.

59. FAA § 612 (d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No.

60. FAA § 620 (g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?

Loan Agreement will not permit such use.

61. FAA § 620 (k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million?

N. A.

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62. FAA § 636 (i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?
- No.
63. App. § 103. Will any loan funds be used to pay pensions, etc., for military personnel?
- No.
64. App. § 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?
- Yes.
65. App. § 107. Will any loan funds be used to pay U.N. assessments?
- No.
66. App. § 109. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7).
- N. A.
67. App. § 110. Will any of loan funds be used to carry out provisions of FAA Secs. 209 (d) and 251 (h)?
- Such is not anticipated.
68. App. § 114. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan.

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By the congressional presentation - Fiscal Year 1974, Page 118,
and by letter February, 1974.

69. App. § 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress?

No.

70. MMA § 901 (b); FAA § 640 (c).
(a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

Loan agreement will contain a provision in compliance with this requirement.

- (b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?

No.

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CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

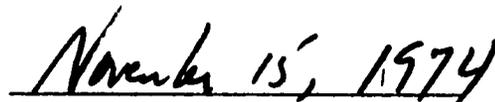
SUBJECT: COLOMBIA - Capital Assistance - Small and Medium Industry
Development Loan

Having taken into account, among other things, the maintenance and utilization of projects in Colombia previously financed or assisted by the United States, I certify hereby that in my judgment Colombia has the financial capability and the human resources (when supplemented by the specific external technical assistance to be required under the proposed loan) to maintain and utilize effectively the proposed Small and Medium Industry Development Loan.

This judgment is based primarily on the facts developed in the Capital Assistance Paper for the proposed loan of \$5.0 million, and the manner in which the various Colombian government agencies scheduled to receive funds under the loan have utilized resources provided by the United States Government on prior occasions.



William A. Ellis



Date

ANNEX II

TECHNOLOGICAL TRANSFER POSSIBILITIES

FOR COLOMBIAN SMALL INDUSTRY

TECHNOLOGICAL TRANSFER POSSIBILITIES

FOR COLOMBIAN SMALL INDUSTRY

CLINT STONE - Agency for International Development

NELSON WALL - Georgia Institute of Technology

CHARLES SEWEL - DGC Services Company

May 17, 1974

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- C** ACOPI Membership Summary
- D** Survey of Consulting Services Available in Bogotá
- E** Representative Organizations included in Preliminary Discussions

BACKGROUND

The basic concept for the Small and Medium Industry Development Loan has been described in the Intensive Review Request dated April, 1974.

As a follow-on to an earlier Georgia Tech. study, the purpose of this report is to recommend an organization and implementation plan which will facilitate the administration of technical assistance services as an adjunct to the loan program. In addition, recommendations are included regarding organizational relationships, particular areas of program emphasis, special factors affecting technical services in the field, staffing requirements, functional responsibilities of the various organizations, and an initial cost estimate for the program.

A brief statement is appropriate to describe the rationale for the recommendations contained within the report. The team membership itself is an obvious factor. The four-man group is composed of a representative of the Office of Science and Technology/TA/OST (AID/W); a representative of Georgia Institute of Technology; a special consultant experienced in the field of both finance and industry; and a special consultant whose background includes the development of technical assistance service and current responsibilities in banking and related financial activities. The orientation of the team has therefore been one of practical experience in the administration of field technical assistance - and a particular concern for developing a program which will in fact leave maximum impact.

In shaping its recommendations, the team has been understandably sensitive to the current roles of the various organizations now operating both in the lending and technical assistance areas. The mix of industry in Colombia, its geographical distribution, and the level of technical sophistication are also factors affecting the design of the proposed program. Clearly, a major difficulty in any such effort involves the staffing and training of qualified personnel. There are operational controls to be established, efficient procedures to be defined, and, as a pivotal factor, realistic policy guidelines which provide for effective loan administration and loan protection. In the last analysis, the program concept described within the Report is intended to represent a mechanism which will involve all appropriate organizations in their most effective roles.

RECOMMENDATIONS

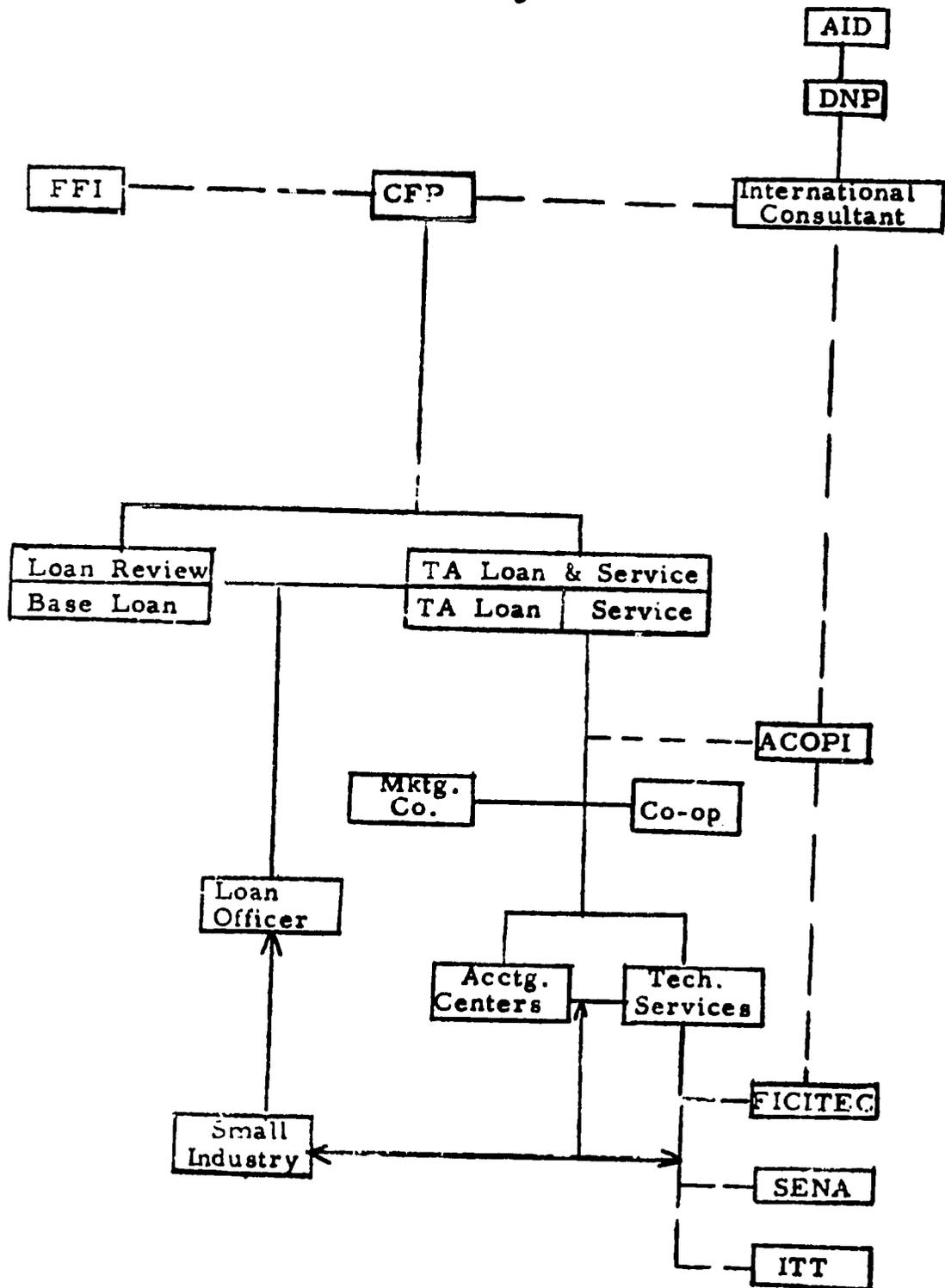
The basic organizational structure is illustrated on page 3. In summary form with details contained in subsequent portions of the report, the

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Following activities are key elements in the recommended structure:

1. FFI should continue its basic rediscount function but improvements in its internal operational procedures are essential.
2. CFP is given a pivotal role in the structure. The organization has established credibility as an aggressive, imaginative agency with a history of support for technical assistance. Its past history and future potential have attracted the attention of the World Bank and other organizations. It is the logical vehicle for the coordination of the total program. By any other name, it is a development bank. The proposal does not preclude the later involvement of other banks, but at least as a starting point, CFP should be the primary agency for the program administration.
3. The Marketing Development Company already contemplated by the CFP is included as a means of improving the marketing effectiveness of small to medium industry.
4. The concept envisions that the loan funds will be distributed (on a basis to be determined) into two pools: Base loans - for operating capital and other purposes and technical assistance loans - which can be drawn down on as appropriate for the specific technical assistance required and which will generate income to compensate ultimately for the administration of technical assistance services.
5. The technical assistance loan fund will be one of the two functions which will be supervised by a new official to be added to the organization. His other responsibility will be that of directing the work of the technical assistance staff and monitoring relationships and activities of associated organizations.
6. Contained within the total technical assistance function are three primary activities:
 - a. A small group of technical specialists (perhaps four) in the office of the director who will have direct line responsibilities for both diagnostic and occasionally generalist services in the field.
 - b. The accounting center operations (and related activities) already proposed by the CFP.
 - c. The special resource personnel which will be developed within,

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PROPOSED ORGANIZATION STRUCTURE

for immediate purposes, FICITEC, SENA, and IIT.

7. As auxiliary functions, ACOPI is recommended as the agency responsible for publication, in cooperation with FICITEC, of special newsletters and technical material. (ACOPI might also become the vehicle through which a non-profit, separate cooperative could be established. This activity should operate as an effective purchasing co-op, with the goal of consolidating the raw material requirements of small and medium industry, negotiating for consolidated buying contracts, and insuring protection for its stockholders both against major price fluctuations and unpredictable delivery schedules).
8. The International Consultant role appears essential as a means of providing the broad range of professional guidance necessary for total program implementation.
9. The specialist resource groups of FICITEC, SENA, and IIT have been selected from a number of organizations now active in the broad field of management and advisory services. Each of the three represents a particular areas of relative specialization and competence, from which should be developed those capabilities necessary to attack specialized industrial problems.

In practice, the work flow is expected to follow a basically standard pattern:

1. The representative of the small industry would approach the lending officer of CFP with a loan proposal. As a part of the overall review of the project's feasibility, the loan applicant would provide certain basic information for review by the Technical Service Staff. Where feasible, a plant visit by the TA representative would be in order; but in no case should this review delay the processing of the loan. Depending upon the findings of the TA representative, the lending officer might flag the loan for possible future service by the TA staff. In such cases, it would be appropriate to establish, in addition to the actual operating loan being granted, an additional line of credit tentatively committed against TA Loan Pool.
2. Upon approval and disbursement of the operating loan, the TA staff would be responsible for providing appropriate forms of follow-up support. This could originate in several ways. The loan officer could observe that the company is falling behind its originally anticipated growth - in which case he would request the TA staff

to investigate the situation. The investigation would initially be a problem diagnosis effort; if the problem were such that the TA representative or an Accounting Specialist could resolve the difficulty himself, the appropriate solution would be applied. If the problem were more specialized, and outside the range of competence of the immediate staff, a request for specialized service would be directed to FICITEC, SENA, or IIT - depending upon the character of the problem. In such cases, the actual cost of the services would be financed by implementing a separate line of credit granted to the company from the TA Loan Pool.

From another standpoint, to the degree practical, TA staff personnel should initiate periodic visits to the firms and observe any potential problem areas. If operating difficulties are apparent, or if operating improvements are achievable, the company could again draw down on a TA loan line of credit to finance the necessary technical services.

In addition to these approaches, it is also probable that requests for technical service would originate through ACOPI's operations in the field. Further, there is no barrier per se to prohibit a firm from going directly to the TA function (or its resource group) to request services.

In no case should a TA staff recommendation involving a significant expenditure of funds by the company be implemented without prior approval of the senior TA official. It is also essential that the responsible loan officer be informed of the alternative consequences possible from such recommendations..... in the sense that the consequences could affect the firm's requirements for additional debt.

The net effect of this approach is four-fold. First, there is established an additional dimension of protection on the operating loan itself; the availability of technical services becomes a form of insurance for CFP's small loan portfolio. Second, the individual firm profits through access to sound counsel on areas of technical improvement - and an increase in both profit and growth potential. Third, there will be established a new sensitivity among small industry as to the potential impact of improved technology - an awareness which is essential to the effective development of industry. Finally, and as something of a by-product, it is anticipated that the proceeds of interest income from TA loans will gradually make TA services self-supporting, thereby contributing to the development of more diversified and more effective technical assistance resources for Colombia.

A DEFINITION OF FUNCTIONAL RESPONSIBILITIES

FFI

The rediscount function of FFI is essential to the continued flow of capital to the small industries and the technical assistance function. However, the institutional character and staffing of FFI are not appropriate to the management of a TA system. The subject of the interaction between FFI CFP and local banks is being studied separately in terms of improved administrative procedures. The team does feel that some mechanism is desirable to improve the understanding of FFI with regard to the TA function and to involve them in the dissemination of project information. Based on a letter from INCOLDA to AID 23 APRIL, 1974, we recommend that FFI be directed to engage INCOLDA for the services necessary to conduct a series of seminars for local bankers on the purposes of the project, the administrative features of the loans and the advantages of TA to all concerned.

INTERNATIONAL CONSULTANT

Successful design and prosecution of the technical assistance project requires a number of specialized inputs and services that would appear to be available only through an international consultant arrangement. There are a number of qualified U.S. organizations and the team recommends that steps be taken to engage the services of such an organization at the inception of the project. Indeed, initiation of the recruiting phase of project activities is crucial to the timing of all subsequent steps and it would be desirable to begin with recruiting prior to finalization of the loan if at all possible.

The TA personnel requirements are different from most other industrial and governmental activities and have been discussed in other sections of this report. A clear understanding of the technical and functional requirements is essential to the selection and training of the staff for CFP, FICITEC, SENA, and IIT. This training should be done abroad as well as on the job in Colombia which necessitates that the consultant have both a formal training capability and connections with U.S. industry. The training should include direct experience in technical assistance as well as short term courses in appropriate financial and management subjects.

The consultant will be required to assist in the design of the contractual and administrative features of the TA loan fund and the technical consulting services. Simplicity with adequate control are key to the utility of the service to industry. Since the functions and arrangements are somewhat unusual, previous experience on the part of the international consultant will be important.

It is anticipated that the great majority of technical assistance requests from small industry can satisfactorily be handled by the Colombian staff. However, it seems likely that some situations will arise in which advanced technology may play an important role. Thus the consultant should be able to provide or procure special technical assistance as required. The consultant's role in guiding, reviewing and appraising the performance of the TA specialists is obvious.

The consultant should be capable of assisting the AID/C project officer in the day-to-day coordination of the project. As the project progresses evaluations should be made of institutions and mechanisms for the expansion of technical assistance beyond the initial framework of the pilot project. This activity can be coupled with the ongoing task of ensuring widespread dissemination of information about the project and its features to industries and local bankers. It is expected that the international consultant should play an advisory role in both of these functions.

The team felt that the consultant should be highly responsive to AID/C and serve as aid to the project officer. We recognized the desirability of maximum Colombian involvement however. After reviewing the various relationships involved, it is recommended that Planeación participate in the selection of the international consultant and that the project be organized to include a reporting responsibility to Planeación by the consultant. This will impose some constraints on the consultant and require special capabilities of their resident staff but it is deemed worthwhile.

LOAN AND SERVICE

This activity has two dimensions: Administration of the TA loan pool and management of the technical assistance function. One senior official should be selected to direct both activities. The specifications, duties and responsibilities of the position are outlined in Exhibit A. The loan pool itself should be established at such a level as to insure an ample supply of funds for TA purposes. TA loans will most probably be short term (rarely over 3 years in length) and should be priced at a percentage rate lower than operating loans. For example, one approach might well involve a six to eight percent annual rate. Assuming the latter rate, the interest proceeds would amount to approximately \$80,000 annually if a TA loan pool of \$1,000,000 were committed. More likely, the demand on the loan pool will be modest at first, reaching a substantial level near the end of the third year of the project life. TA loans should, on the average, rarely exceed 10% of the amount of the operating loans granted. The exact amount will depend, of course, on the complexity and subsequent staff costs necessary to resolve a particular problem. Under any circumstances, it is desirable that

administration of the TA loan pool fall within the responsibility of the TA administrator.

Contained also within this office should be up to four technical assistance specialists. Initially, it would be reasonable to consider the assignment of at least three to specific geographic areas of Colombia. Depending upon demand, they could reside in these areas, but a more practical starting point would have them operate from Bogotá. In any case, they should be given responsibility for specific areas of the country - probably those areas surrounding Bogotá, Medellín, and Cali, each of which contains an industry mix likely to respond to technology transfer. As demand for service increases, additional staff personnel should be added. The specifications, duties and responsibilities of these individuals are outlined in Exhibit B.

PURCHASING COOPERATIVE

The initial concept of the purchasing cooperative included, as one aspect, organization of a pilot operation in Medellín. This facility would presumably include warehousing services, cooperative buying, and allied services for small industry groups with common raw material requirements. It was further proposed that, assuming success of the pilot project, the effort would be duplicated in other cities - conceivably accompanied by government action for selective price controls and allocation schemes.

The team recommendations do not conflict with the basic objectives of the cooperative. However, there is a question as to the nature of its organization and administration. It is recommended that the cooperative be formed as a separate non-profit organization, founded initially by the subject loan, but so designed as to become self-supporting at an early date. The team concept envisions that shares of the cooperative would be sold to member firms, thereby strengthening the initial injection of funds from AID. In all probability, the co-op's initial efforts will be directed toward such areas as textile fibers and leather - reportedly key shortage areas. Large scale contract buying which should result from combined purchase orders should produce significant cost savings for the membership plus assure more reliable deliveries. A small override on the value of the purchase orders is expected to gradually cover administrative costs and hopefully, with time, generate dividends for the shareholders.

The cooperative could stand alone as an entity within the CFP framework, or it could operate as an allied function of ACOPI. In the latter case, it should be clearly understood that membership in ACOPI was not a pre-requisite to participation in the cooperative.

MARKET DEVELOPMENT COMPANY

The team concurs in the concept of the Market Development Company as a parallel effort to the purchasing cooperative. The net effect of the two organizations should produce savings on raw materials and increased sales of finished goods.

ACOPI

ACOPI has an established role in representing a broad range of small to medium-sized industry (See Exhibit D). The organization could fill several roles. It should clearly be a participant in the publication of technical newsletters in cooperation with the current efforts of FICITEC. Reports of this type should include summaries of technological innovations appropriate to the Colombian industry mix new service programs, announcements of training programs and conferences, and news of related activities in the field of technical assistance. It could be argued that ACOPI might well be involved in the organization and of the purchasing cooperative. In one sense, the affiliation could provide an initial core of shareholders from ACOPI membership; from another standpoint, the appearances of the relationship might suggest that the cooperative is a captive of ACOPI.

ACCOUNTING CENTERS

The team concurs in the concept of the accounting centers, and the allied services which are essential informational in nature, as strengthening the important factor of orderly bookkeeping and cost accounting system in small and medium industry.

TECHNICAL CONSULTANTS

Specified technical assistance studies of industrial problems must be performed on a business-like basis if technical assistance (TA) is to become an accepted, cost-effective service. Solutions must be provided on a time scale consistent with changing business conditions; often the timing of assistance is as important as the nature of the solution itself. The personnel providing the TA field service must have a unique background and special training. A broad technical training, industrial experience, and an understanding of the many constraints imposed on proposed solutions by the small industry environment are essential to the TA specialist. The available institutions were reviewed by team with these conditions in mind.

Private consultants, universities, peace corps, ANDI, regional foundations FICITEC, ACOPI, SENA, INCOLDA, IIT, engineering societies were all discussed. One member of the team made a brief survey of the

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nature and capabilities of private engineering consulting firms in the Bogotá area (See Exhibit E). The conclusion was reached that although some technical assistance was being provided to small industry, trained personnel for a professional service did not exist and that the loan project would have to undertake recruiting and training of specialists for the institution(s) selected to provide TA. However, it did appear that careful recruiting combined with a pay scale competitive with industry could generate an adequate supply of candidates.

The process of selecting institutions in which to place the new TA staff was complicated by a number of competing factors. It was agreed from the outset that the creation of new entities was to be avoided wherever possible. Administrative efficiency would be best served by placing all of the specialists in a single organization; indeed the idea of putting the TA function entirely in CFP was debated at length. A major goal of the overall project is to bring TA to all small industries in Colombia and to institutionalize the function by interweaving it with credit assistance. This argues for a geographical distribution of activities and the choice of ACOPI or a group of universities for example. After much discussion, the team concluded that the optimum approach would be to select a small number of institutions which would provide a hospitable environment for the TA specialists, which had the administrative and managerial strength to operate an effective contracted service and which could ultimately expand to service a broader portion of small industry. FICITEC, SENA and IIT were chosen as having a complementary set of interests and the desired institutional characteristics.

Considerable attention will have to be paid to the contractual, informational and interactive mechanisms between the consulting organizations, CFP and the industrial clientele during the detailed project design phase. The team recommends that a task order type of contract be employed with a minimal task initiation mechanism for each TA activity. During the formative stages of the project and in the second and third year, the salaries and overhead for the new TA personnel should be guaranteed but with some quality control mechanism to ensure that ineffective staff can be eliminated if necessary. If a fully operational made, the funds for these services would be provided directly by industry or through the TA loan mechanism.

Industries requiring assistance would be identified by the CFP TA loan office and in most cases a preliminary diagnosis would be made by the CFP TA staff. They would select the organization or organizations best qualified to provide detailed assistance. A task would be initiated and staff from the consulting institutes would visit the company to work directly with the entrepreneur in analysing the problems and exploring

solutions. In most situations it is expected that the process will require two visits. In any event, it is unlikely that an absolutely accurate estimate of the time and cost for TA will be possible at the time of CFP diagnosis. Therefore, some methods for adjusting task scope while in progress will probably be necessary. The specialists at FICITEC, SENA and IIT will be called upon to travel extensively if a diverse set of small businesses is to be served but this is preferable to a widely scattered operation in the formative stages of the project. As demand grows and as the personnel and institutions become more experienced, regional offices staffed with technical consultants are possible.

U. S. experience has shown that, on the average, a qualified TA consultant can study, analyze and recommend one or more solutions to a problem with an expenditure of 40 man hours spread over a period of two to three weeks. Thus an estimated average cost for a TA case is approximately \$400 U.S. including overhead, travel, and miscellaneous expenses. These costs may vary from a low of \$200 to as much as \$1500 depending upon the nature of the specific problem. Clearly efficiencies will be low in the early stages of the project and a part of the guaranteed salaries will be a form of subsidy for this inefficiency. The incentives of guaranteed salaries overhead on this activity and the prospects for continued growth of industrial technical assistance should be sufficient to encourage expansion by the participating institutions. Their performance and attitudes should be closely monitored during the first 18 months of the project to ensure that the prospects for continuation beyond the term of the project are satisfactory.

COST ANALYSIS

A life-of project cost analysis has been developed and is detailed on page 12.

In calculating these costs, the Team has based its projection on the most reliable available information as to salaries, probable expense requirements, and incidental costs all as they relate to both the size and character of the function to be fulfilled.

As indicated earlier, the ultimate objective of the program design is to create a technical assistance loan and service program which will, within reasonable period, be self-supporting. It would be fallacious however not to recognize that start-up costs for this program are essential. Their order of magnitude can be more than justified in terms of long-range impact.

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COST ANALYSIS

US\$

CFP Staffing	
Gerente General and 4 assistants	171,600
Associate Organizations	
FIGITEC, IIT, SENA (5 Tech Assts.)	117,000
Travel (CFP and Associates)	50,000
Training (Overseas and Local)	50,000
Consulting Firms	300,000
36 man months: Recruiting, technical service design, implementation, coord- ination, purchasing co-op support, report and evaluation	
ACOPI	30,000
Non-profit Purchasing co-op	150,000
Market Development Company	40,000
TOTAL	<u>908,600</u> =====

CONCLUSIONS

The objective of the proposed program design is to create a closed-loop system of technical assistance services, staffed by competent personnel with both generalist and specialist capabilities who are capable of responding effectively to the practical problems of small industry. Ultimately, the program should become self-supporting from proceeds generated by income from the TA Loan Pool.

Several points deserve a concluding emphasis:

1. The key to the success of the project lies in the quality of technical personnel involved. They must bring to their positions that

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unique combination of engineering competence, practical know-how, a sensitivity to the financial implications of their recommendations, and the capacity to work effectively with small industry officials.

2. The dissemination of technical information must parallel, in terms of practical utility, the orientation of the technical staff. The technical references must be relevant to the needs of Colombian industry; high technology has little or no application for most small industry at the current stages of development. As a corollary effort, the Team recommends that consideration be given to assigning an appropriate agency the task of building a reference library of catalogs on equipment and machinery. This library should be stocked by catalogs of suppliers who can meet Colombian needs and contain not only descriptive materials but also current price lists.
3. It is self-evident that the total program coordination must be administered with a strong sensitivity to the organizational personalities of all the groups involved. Each of the affiliated agencies (ACOPI, SENA, FICITEC, IIT, etc) has a concept of its existing and potential capabilities. In the development of this total program, they must be convinced that by their participation their individual resources are strengthened and their impact magnified.

Position: Director, T.A. Loan and Services

SPECIFICATIONS:

Successful completion of academic training in industrial management or a related field of engineering plus supplementary studies in business and finance. At least ten years of progressively responsible experience in industry. Must have a highly practical orientation toward problem solving in the field, a general knowledge of industrial processes, and the ability to translate current technological developments into practical application in the Colombian environment. Should have a general knowledge of banking practices and operations. Must be effective in both written and oral communication and capable of establishing sound working relationships with key figures in government, business, technical and trade organization. Must be fluent in Spanish and ideally, a Colombian national.

DUTIES AND RESPONSIBILITIES:

1. Plans and directs an effective program of technical assistance services. Identifies priorities, establishes operating goals, and monitors all work progress. Selects, trains and supervises the work of his immediate staff of TA specialists. Oversees the activities of the Accounting Centers. Establishes standard operating policies and procedures.
2. Develops close working rapport with affiliated organizations (ACOPI, FIGITIC, SENA, IIT and other groups) and negotiates contract agreements for their services. Monitors the work of specialists provided by these groups and advises on areas of special competence which appear needed. As necessary, develops additional resource capabilities.
3. Supervises administration of the TA loan pool. Reviews requests for loans, determines appropriate terms and conditions, and authorizes disbursements. Maintains close working liaison with Loan officials administering the base loan pool.
4. As a key staff member of CFP, participates in policy planning and implementation. Advises on changing needs in the field of technical assistance and their implications for broad CFP policy.
5. Exercises general supervision over the operations of the Market Development Company and the Purchasing Cooperative. Advises on problem areas and on new program potentials.
6. Maintains close working rapport with officials of ACOPI in the planning and implementation of allied programs - especially in such areas as the publication of technical newsletters, administration of seminars and related public affairs projects.

EXHIBIT B

Position: Technical Assistance Specialist

SPECIFICATIONS:

Successful completion of college academic training in industrial management or a related field of engineering. Should have at least three years of progressively responsible industry experience, including work assignments on operating production problems. Must have an understanding of basic industrial systems and industrial technology in broad terms. Must have demonstrated analytical skills and capacity to communicate effectively. Should have basic understanding of principles of banking and the capacity to evaluate economic consequences of technological changes. Must be capable of dealing effectively with a wide variety of individuals at different economic and official levels. Must be fluent in Spanish and ideally, a Colombian national.

DUTIES AND RESPONSIBILITIES:

1. Under the general supervision of the Director, TA Loan and Services, develops a thorough knowledge of the industry mix in a specific geographic area and builds close working rapport with industry representatives in that section. Receives requests for review of loan proposals and evaluates technical aspects of the planned expenditure of funds. Evaluates feasibility either by review of documents or by direct plant visits and advises loan officer of any potential problem areas.
2. Within his assigned geographic area, monitors status of loan customer operations, either by direct request from the loan officer, by personal visits to the plants, or at the request of the customers themselves. Makes a preliminary diagnosis of problem areas and takes action to resolve those within his area of competence. Provides appropriate reports to the Director, TA Loan and Services.
3. Keeps informed of technological developments relevant to his industry assignments and provides on-site advice to loan customers. Works closely with FICITEC and other agencies involved in the dissemination and publication of technical newsletters and information.
4. As necessary, conducts special assignments, such as studies of new industrial potentials, potential application of technological innovations, and training - seminar needs.

A C O P I
PRESIDENCIA NACIONAL
BOGOTA, D.E.

Bogotá Mayo 10 de 1.974

AC. 384

Señor Dr.
 Steven Singer
 A. J. D.
 BOGOTOA

Muy apreciado Señor:

En atención a su solicitud, nos es grato poner en su conocimiento los siguientes porcentajes de composición de Acoopi, por Sectores de producción, sobre el total de afiliados en el país y sus modalidades de sociedad.

1. COMPOSICION PORCENTUAL POR SECTOR DE PRODUCCION.

a- Alimentos y bebidas	9,5%
b- Artesanías	1,0%
c- Calzado cueros y pieles	7,3%
d- Caucho y sus manufacturas	7,5%
e- Eléctricos	2,5%
f- Joyería y Bisutería	1,5%
g- Materiales de construcción	3,0%
h- Metalmeccánica	18,1%
i- Muebles y Maderas	8,0%
j- Plásticos	5,0%
k- Químicos y Farmacéuticos	6,2%
l- Servicios	3,0%
m- Tipografía y Artes Gráficas	10,4%
n- Textiles y Confecciones	18,0%
ñ- Otros	1,0%

2. MODALIDADES DE SOCIEDAD, PORCENTAJES.

a- Anónimas	0,5%
b- De personas	78,5%
Discriminadas así:	
1- Limitadas	40,0%
2- Colectivas	30,0%
3- En Comandita	1,0%
4- Hecho	7,5%
c- PERSONAS Naturales	20,0%

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3. No existen afiliados que sean solamente comerciantes, hay algunos que tienen objetivos mixtos, es decir, empresas de Industria y Comercio, que constituyen menos del 10% del total.

Sin otro particular nos reiteramos servidores y amigos,

LUIS IVAN RINCON FABON
GERENTE ADMINISTRATIVO

IR/mrm.

BRIEF SURVEY OF CONSULTANT

SERVICES AVAILABLE IN

BOGOTA-COLOMBIA

NELSON C. WALL
Georgia Institute of Technology

May 11, 1974

BRIEF SURVEY OF CONSULTANT
SERVICES AVAILABLE IN
BOGOTA-COLOMBIA

As part of the INTENSIVE REVIEW REQUEST SMALL AND MEDIUM INDUSTRY DEVELOPMENT LOAN it was decided by Mr. S. Singer and the author that a brief survey be carried out to determine the "consultant services" available to small industries.

In view of the fact that only one or two days could be given to this task, it was further decided to only contact firms in Bogota and to carry out the survey by random choice of names, telephone contacts and maybe a few personal contacts.

The author would pretend to be a potential client seeking information as to services available.

This task was carried out during May 8-9, 1974.

No forms were prepared and no set of questions were established, the survey was very informal and the only objective was to get a "feeling" for the available services in this field. The following firms were contacted by personal visit, telephone or general information was obtained from persons that knew the company.

1. ASESORIA INDUSTRIAL - Carrera 7 # 21-65;
Management Consultants; established in 1965; principals OCTAVIO FREYDELL (engineer) and GILBERTO RIOS (engineer). Indicated as references having worked with: Cía. Gaseosas Lux, Empresa de Acueducto y Alcantarillado de Bogotá, Envases Metálicos Litografiados "Litometal", Productos Metalicos American, Plasticos Internacionales, and Ergon S. A.
2. ASESORIAS ECONOMICAS DE COLOMBIA - Ave. Jimenez No. 9-43,
General Planning, Feasibility Studies; established in 1954; principals HUMBERTO SANCHEZ CASTRO (civil engineer and economist), FRANCISCO HERNANDEZ (attorney). Indicated having worked with: Banco Ganadero, Frigorífico San Martín de Porra, Frigorífico Guadalupe, Croydon del Pacífico, Bayer de Colombia and Ferrerterías Americanas.
3. ASESORES ANDINOS ASOCIADOS - Calle 10 No. 9-64;
Market Analysis, Company Development, Financial Planning; principals: Alberto Leon, Anibal Palacio, Camilo Santander. Indicated having worked with: Adelatec; Caterpillar, Fondo de Promoción de Exportaciones, Dupont, Worthington Colombiana, Celanese de Colombia and Corn Products.

4. ARTHUR ANDERSEN & CO. - Carrera 10 No. 15-39;
Accounting Systems; established in 1960; principals:
Michael J. Johnson (accountant-England), Wayne H. Aper (accountant),
R. J. Parker (accountant).
5. CONSUMER LITE - Carrera 9 # 16-51;
Market Analysis; principal: Oscar Lombana.
Indicated having worked with: Colgate Palmolive, Gillette de Colombia,
Cía. Colombiana de Tabaco, Laboratorios Miles, Franco Hermanos,
Warner Lambert and Yardley de Colombia.
6. CONSULTORES GENERALES ASOCIADOS LTDA. - Carrera 10 No. 16-39;
Management Consultants; established in 1963; principals: Jorge
Galvis (mechanical & industrial engineer), Emilio Londoño (economist),
Gustavo Arias de Greiff (mech. engineer). Indicated having worked
with: Compañía Colombiana de Cúrtidos, Nacional de Seguros, Textiles
Ego S.A., Splendid Ltda., Autofil Ltda., Covaplo Ltd.
7. COLSISTEMAS - Carrera 7 No. 17-01;
Management and Accounting Systems; established in 1968; principals:
Eduardo Ospina (management - Ga. Tech), Ernesto Torres (electrical
engineer - Purdue), Fabio Roberto González (civil engineer - MIT).
Indicated having worked with: Grupo Colseguros, Singer Sewing Machine
Co., Banco Cafetero, Banco de Colombia, Colombia Gulf Oil Co., and
Colanese Colombianan S.A.
8. CIA. ANDINA DE CONSULTORES ASOCIADOS-CONSULTORIAS LTDA. - Edificio
Seguros Tequendama;
Financial Studies; established in 1922; principals: Jorge N. Pinzón
(economist), Anibal Restrepo (economist), Omar Páramo (economist).
Indicated having worked with: Empresa Colombiana de Niquel, Indus-
trias Tequendama Ltd., Construandina Ltd., Industrias de Concreto
Centrifugado, Grupo Cifuentes and Coempaqes.
9. CONSEJOS - Carrera 6 No. 15-32; Economic Analysis, Market
Studies; principals: Anibal Trujillo (civil engineer), Hernando Lopez
(civil engineer) and Arístides Paris (accountant). Indicated having
worked with: Ferrocarriles Nacionales, Instituto de Crédito Territorial,
Caja Agraria, Industrias de Madera IMA, Colseguros and Cofe S.A.
10. CONFIN - Calle 12 No. 7-71;
Management and Financial Studies; established in 1970; principal
Eduardo Ospina (civil engineer).

BEST AVAILABLE COPY

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11. ECONOMISTAS ASESORES - Carrera 9 No. 14-36;
Accounting and Financial studies; established in 1966; principals:
Luis Peña Onzaga (economist), Humberto L. Reyes (economist).
Indicated having worked with: Productos Helios, Molinos Bagra S.A.,
Legislación Económica, Univ. Gran Colombia.
12. ESTUDIOS INDUSTRIALES - Carrera 10 No. 12-82;
Management Consultants; established in 1968; principals: Sergio
Sokoloff (chem. engineer), Hugo Díaz (accountant), Emilio Gómez
(civil engineer). Indicated having worked with: Artital Ltd.,
Saab Aktiebolag, Corporación Financiera del Caribe, Sintéticos S.A.,
Mubal S.A., Pflizer de Bogotá and Artegrafos S.A.
13. ESTUDIOS TECNICOS LTDA. - Calle 16 No. 6-66;
Accounting Systems, feasibility Studies, General Management Con-
sultants, established in 1960; principals: Alvaro Villaveces (civil
engineer), Eduardo Bayona (civil engineer), Hernán Peralta (civil
engineer). Indicated having worked with: Instituto de Crédito
Territorial, Departamento Nacional de Planificación, Fondo Grancolombiano,
Empresa Colombiana de Minas, Concesión de Salinas and Acería Paz del
Río S.A.
14. FIGITEC - Information has been presented on this non-profit organiz-
ation.
15. INVESTIGAR - Transversal 6 No. 27-10;
Market Research; established in 1968; principal Hugo Botero. Indi-
cated having worked with: Seguros Bolívar, Chiclets de Colombia,
Campaña Presidencial de Fantana Sorriero, Industrias Victoria, Papeles
Metalizados, Inversiones Extranjeras, Elizabeth Arden and Escouche.
16. INVECOMA - Calle 19 No. 5-71
Economic Studies; established in 1967 principal Vladislao Prieto.
17. INTERAMERICAN RESEARCH - Carrera 8 # 15-49;
Market Research.
18. INTERCONSULT - Carrera 13 No. 25-75;
Information Systems, cost-controls, Management; established in 1970;
principals: Carlos Reyes (civil engineer-MIT), Pedro Navas (Industrial
engineer-Cornell). Indicated having worked with: INTRA, Univ. Nac.
de Colombia, Departamento Norte Santander, Em. de Teléfonos N.
Santander, Corporación Financiera de Telefonos.
19. LATIN AMERICAN RESEARCH - Carrera 10 No. 14-20
Market Research; established in 1962; principals: Nestor M. de Mayo
(social scientist), Antonio Castro (biologist). Indicated having
worked with: Backus Brewery, Colgate Palmolive, Fonz Products, ESSO,
Gillette, McCann Erickson Corp. and Nestlé.

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20. SERVICIOS TECNICOS Y ADMINISTRATIVOS - Calle 19 No. 5-51
General Consultants; principals: Francisco G. Giraldo (civil Engineer), Hernando Jeramillo Mejía (civil engineer).
21. ULISES MARTINEZ & CO. - Carrera 10 No. 28-49;
Accounting Systems; established in 1966; principals: José Ulises Martinez (accountant), Víctor Pulido (accountant). Indicated having worked with: Banco Ganadero, Instituto de Crédito Territo: Industrial Agraria La Palma S.A., Coltejer, Federación de Arroce: and Cemento Diamante.
22. WILLIAM FADUL & CIA. - Carrera 7 No. 17-01;
Management Consultants; established in 1961; Principals: William Fadul (chem. engineer), Armando Chaparro (industrial engineer). Indicated having worked with: Avianca, Industrias Metalicas Asociadas, Federación Nacional de Algodoneros, IDEMA, INCOLDA and Cía. Nacional de Chocolates.

The twenty two organizations on which some information was obtained are all located in Bogotá. No information was obtained on organizations outside the capital city but some of the persons interviewed indicated that little or no consultant service are available in other areas except around Cali.

Much of the information regarding the names of companies, principals, etc., was obtained by Mr. Eduardo Ospina a personal friend, graduate of Georgia Tech. and principal officer of CONSISTEMAS. Mr. Ospina told the author that few if any "industrial consultants" existed or were available in Colombia. Most of the consultant firms that now exist prefer to work in the areas of management, market analysis, feasibility studies, accounting systems and financial studies. Mr. Ospina further indicated that nearly all consultant firms worked with a small group of client companies and usually did not work with small industries because they are not able to pay for the services, when asked why he being an engineer with an MA in management had not entered the "industrial consultant field", Mr. Ospina indicated that he believed his present line of business was far more profitable and did not require a large staff, his only investment is in his computer.

When the "technical assistance" to small industry concept was explained to Mr. Ospina he indicated that this is needed in Colombia, and that the type service would be very desirable and helpful. As far as he is concerned, there are no organizations in existance today that could handle this type of program. If such a program were to be established, Mr. Ospina believes that staff engineers and others would need to be trained to carry out the task. The author puts great weight on Mr. Ospina's

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words because this person took additional training at the Industrial Development Division of Georgia Tech and worked part time with the Division so he is familiar with the type of technical assistance programs that the Division carries out.

In conclusion, after gaining some information on twenty-two "consultant" firms in Bogotá; having talked to some of the senior members of the consultant firms and having interviewed Mr. Ospina, it appears to the author that:

1. At present there are few if any firms doing industrial consultant work as we define this activity.
2. A few engineers, employed by large or small companies do "moonlight" work as industrial consultants.
3. The "moonlighters" are not very dependable, tend to be erratic and are hard to find when needed.
4. If industrial consultant services were to be offered, it would probably require the additional training of interested persons that have the proper background.
5. If the industrial consultant service were to be offered by a private firm, the services may need to be subdivided if it is to serve small industries.
6. Very few if any of the firms contacted offer services in the areas of: production, control, quality control, standard costs, plant layout, product design and other general industrial needs.
7. Some of the contacted firms indicated that they believed that "industrial consultant services" were being rendered by SENA, FICOTEC or CFP.

From the above conclusions, it appears that if industrial consultant services are to be offered as part of the "loan program", it will be necessary to work with one or more existing firms and help them develop and train the necessary staff. This may be expanded over the years, if desired, in order to create in the future a competitive market by having several firms capable of providing this service.

REPRESENTATIVE ORGANIZATIONS INCLUDED IN PRELIMINARY DISCUSSIONS

<u>Organization</u>	<u>Representatives</u>
DNP:	R. Manrique J. Gomez
CFP:	M. Llinás G. J. Espinosa
ACOPI:	G. Alfonzo
FIGITEC:	G. Llinas M. Bermudez

ANNEX III

CFP FINANCIAL STATISTICS

SMALL SCALE RURAL PROJECTBASIC DATA ON CFP

1. Year of establishment: 1967
2. Ownership (September 30, 1973)

	<u>Number of Shares</u> (Par value = Col\$100.0)	<u>%</u>
Public Institutions	596,775	99.9
Private Shareholders	<u>17</u>	<u>0.1</u>
Total	<u>596,792</u>	<u>100.0</u>

4. Operations

<u>Loans:</u>	<u>1970</u>	<u>1971</u> (Col\$ million)	<u>1972</u>	<u>1973 1/</u>
Approvals	89.3	132.7	180.4	276.4
Disbursements	67.0	137.0	211.0	210.0 1/

Equity Investments

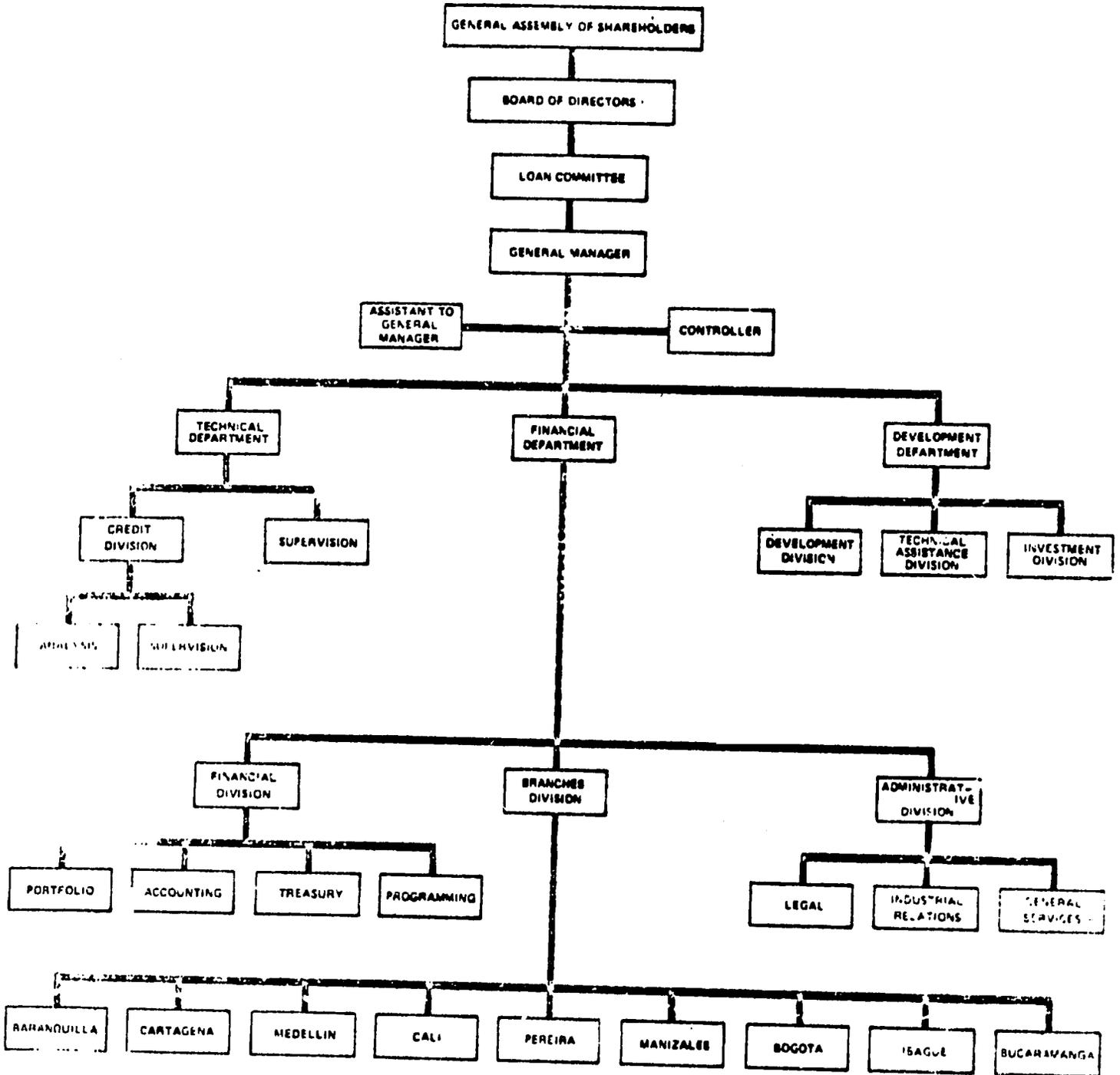
Approvals	-	-	0.2	3.6
Disbursements	-	-	0.2	3.6

5. Financial Performance

(a) Total Assets:	98.4	155.5	303.0	371.7 1/
Loan Portfolio	94.7	139.9	290.2	360.0 1/
Equity Portfolio	1.0	1.0	1.3	1.3 1/
Long-term debt	52.3	124.0	224.8	289.0 1/
Equity	42.5	64.8	67.7	68.1 1/
Debt/Equity Ratio	1.3:1	2.0:1	3.4:1	4.4:1 1/
(b) Net profit after tax and provisions as % of average equity	2.6	1.7	1.1	0.1 1/
Reserves & Provisions as % of loan port- folio	1.9	2.2	2.9	3.5 1/
Financial Expenses as % of average total assets	3.0	5.5	8.4	8.3 1/
Administrative Expen- ses as % of average total assets	5.4	6.8	6.3	6.5 1/

1/ Estimated on basis of November financial data.

COLOMBIA: SMALL SCALE INDUSTRY PROJECT
 CORPORACION FINANCIERA POPULAR
 Organization Chart as of November 30, 1973



COLOMBIA: SMALL-SCALE INDUSTRY PROJECTCORPORACION FINANCIERA POPULARSummary of Technical Assistance Activitiesfrom 1971 to 1973

(Fiscal Years)	<u>1971</u> ^{1/}	<u>1972</u>	<u>1973</u> (June 30)
Total clients:	1,330	1,905	2,179
Number of clients who received technical assistance from:			
SEIA	29	134	160
FIGITEC	1	21	13
Universities & business schools	-	22	68
Private consultants	-	-	-
ANDI	-	2	-
IIT	-	-	-
Others	-	2	-
	<u>30</u>	<u>181</u>	<u>241</u>
	<u>0.2%</u>	<u>9.5%</u>	<u>22.0%</u> ^{2/}

^{1/} No technical assistance was given before 1971.

^{2/} On annual basis.

OPERATIONAL BALANCE SHEET - PERIODIC

Past and Projected Balance Sheets as of December 31, for the Period 1968-78
(in millions of dollars)

	P A S T						P R O J E C T E D				
	1968	1969	1970	1971	1972	1973 ^{1/}	1974	1975	1976	1977	1978
ASSETS											
Cash and Banks	14,417	1,976	3,111	2,704	5,137	7,760	15,800	19,100	26,000	23,900	33,500
Portfolio											
Loans	8,485	47,317	94,707	189,957	290,230	360,100	545,000	747,000	997,900	1,315,000	1,710,000
Equity Investments	39	1,040	1,061	1,071	1,330	4,900	14,900	34,900	64,900	95,000	134,900
Total	8,524	48,357	95,768	191,028	291,560	365,000	559,900	781,900	1,062,800	1,410,000	1,844,900
Less provisions for losses on:											
Doubtful Loans	-	293	1,845	4,792	8,419	12,500	18,000	24,500	32,300	42,100	54,500
Doubtful Equity Investments	-	200	597	597	507	1,200	1,700	2,700	4,200	5,900	7,600
Net Portfolio	-	47,864	93,344	186,139	282,542	351,299	540,200	754,700	1,025,400	1,362,000	1,782,800
Other Receivables and deferred Expenses	47	694	1,134	5,221	11,773	12,200	16,000	24,300	34,000	43,000	53,000
Fixed Assets (net)	319	510	861	2,295	3,189	3,500	4,200	5,900	7,100	9,100	10,600
Other Assets	-	-	-	130	384	2,600	7,600	12,600	17,600	22,600	27,600
TOTAL ASSETS	23,113	51,044	98,448	195,258	303,028	371,700	584,100	816,600	1,110,200	1,462,900	1,907,500
LIABILITIES AND NET WORTH											
Borrowings in Domestic Currency:											
Rediscounting - FFI	-	11,143	18,685	58,511	69,496	97,300	144,800	165,400	215,400	245,400	288,600
Term Deposits	-	-	30,000	48,190	80,573	68,000	42,100	9,400	3,400	0,900	-
Bonds:											
Banco Republica, Banco Popular	-	-	2,281	12,052	32,245	37,500	17,400	15,400	13,400	11,000	9,400
Sociedades Capitalizadoras	-	-	-	-	-	41,000	46,900	41,800	36,700	31,600	26,900
Fondo Nacional de Ahorro	-	-	-	-	-	15,000	52,000	101,000	138,900	168,000	190,000
Fondos Regionales de Capitalizacion Social	-	-	-	-	-	-	20,000	140,000	210,000	320,000	398,000
Total Bonds:	-	-	2,281	12,052	32,245	93,500	164,300	298,200	398,100	531,000	623,900
Other Borrowings in Domestic Currency	-	-	1,341	5,310	42,523	30,200	29,700	27,400	28,400	29,900	32,400
Total Borrowings in Domestic Currency	-	11,143	52,307	124,063	224,839	289,000	382,900	515,400	645,300	807,200	944,900
Borrowings in Foreign Currency:											
World Bank	-	-	-	-	-	-	-	53,500	137,500	137,500	132,000
KfW	-	-	-	-	-	-	-	17,000	43,800	43,800	43,800
Others	-	-	-	-	-	-	-	-	-	79,000	279,000
Total Borrowings in Foreign Currency	-	-	-	-	-	-	-	70,500	181,300	260,300	454,800
Total Borrowings	-	11,143	52,307	124,063	224,839	289,000	382,900	585,900	826,600	1,067,500	1,399,700
Other Payables	409	1,470	3,211	5,095	11,646	14,600	20,200	27,800	35,700	47,700	60,800
Total Liabilities	409	12,613	55,518	129,934	236,485	303,600	403,100	613,700	862,300	1,115,200	1,460,500
NET WORTH											
Paid-up Capital	21,500	17,000	40,000	59,679	59,679	59,700	170,000	180,000	210,000	290,000	360,000
Reserves for Other Year	123	383	1,981	2,588	2,887	0,300	2,500	11,900	14,900	19,900	29,300
Retained Earnings	91	214	596	2,578	5,166	8,100	8,400	11,000	22,900	37,800	57,700
Total Net Worth	22,514	17,597	42,577	64,845	67,732	68,100	180,900	202,900	247,800	347,700	447,000
TOTAL LIABILITIES AND NET WORTH	23,113	51,044	98,448	195,258	303,028	371,700	584,100	816,600	1,110,200	1,462,900	1,907,500

1. Month of December estimated on the basis of November financial data

CORPORACION FINANCIERA POPULAR

Past and Projected Income Statements
as December 31, for the Period 1968-78
(in Col\$ 000's)

INCOME	P A S T					P R O J E C T E D					
	1968	1969	1970	1971	1972	1973 ^{1/}	1974	1975	1976	1977	1978
Income from loans											
Interest	1,056	3,911	9,387	21,700	40,824	56,000	72,400	109,300	153,000	201,200	270,600
Commissions	11	270	843	1,723	3,012	5,800	9,900	18,900	18,400	23,000	30,200
Other Income	1,057	4,181	10,230	22,957	45,836	56,000	81,400	125,700	170,400	226,200	301,000
	4	26	102	751	570	1,100	1,900	3,000	4,700	6,200	7,800
Total Income	1,061	4,205	10,332	23,708	44,406	55,100	83,300	175,700	175,100	232,400	308,800
EXPENSES											
Financial expenses from domestic borrowings	-	50	2,262	8,175	21,157	27,900	43,100	60,500	78,000	99,000	120,500
Financial expenses from foreign borrowings	-	-	-	-	-	-	-	4,400	21,400	37,500	62,200
Total Financial Expenses	-	50	2,262	8,175	21,157	27,900	43,100	64,900	99,400	136,500	182,700
Selected	300	708	1,581	4,385	6,672	8,400	10,500	13,200	16,400	20,500	25,600
Other Personnel Expenses	168	420	513	2,847	3,972	5,100	7,300	9,100	11,400	14,200	17,800
Other Administrative Expenses	456 ^{2/}	1,656 ^{2/}	1,876 ^{2/}	2,780	3,236	3,800	7,100	9,100	11,400	14,200	17,800
Research and Expansion Expenses	-	-	-	-	-	2,000	4,000	6,400	7,500	9,500	14,000
Total Administrative Expenses	924	2,784	4,070	10,021	15,680	22,000	29,100	37,600	46,700	58,400	75,200
Total Expenses Before Provisions and Depreciation	924	3,284	6,332	18,196	37,037	49,900	72,200	102,700	146,100	195,000	257,900
Provisions for doubtful loans	-	293	1,592	2,709	4,128	4,000	7,500	9,500	11,800	14,800	18,400
Provisions for equity investments	-	200	30	-	-	600	500	1,000	1,500	1,700	1,700
Depreciation	14	45	70	215	354	300	500	600	800	1,000	1,500
Total Non-Cash Expenses	14	538	2,019	2,924	4,482	4,900	8,500	11,100	14,100	17,500	21,600
Total Expenses	938	3,822	8,351	21,120	41,519	54,800	80,700	113,800	160,200	212,500	279,500
Net Profit	123	383	1,981	2,588	2,887	300	2,600	11,900	14,900	19,900	29,300

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ANNEX III-5

1/ For audited period, month of December has been estimated.
2/ Includes advertising commissions paid to Banco Popular of:
Col\$25,226 in 1968, Col\$31.07 million in 1969, and Col\$1.039 million in 1970.

COLUMBIAN SPACE TRADE INDUSTRY PROJECT

COMPLETION OF INVESTMENT PROJECTS

Analysis of Loan Approvals from December 31, 1971
(In Col\$ Thousands)

By Size	1971			1972			1973			1974			1975			Total	Average	1971-75				
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%							
Up to 50.0	18	60	1.7	70	2,459	4.4	127	4,271	5.5	417	13,858	7.6	258	9,754	5.4	314	12,511	4.4	1,271	45,064	5.9	
50.1 to 100.0	5	47	2.4	52	4,741	7.6	65	5,511	5.2	266	17,768	5.7	157	12,154	7.1	187	12,442	5.1	879	58,277	6.7	
100.1 to 300.0	15	3,476	18.2	116	27,970	40.7	156	25,711	28.8	185	36,900	20.7	219	39,526	21.7	329	62,130	27.6	976	181,177	23.1	
300.1 to 500.0	12	6,450	34.4	30	12,430	21.9	49	20,300	22.7	69	30,067	16.5	40	16,459	9.2	67	28,577	10.5	271	117,857	14.1	
500.1 to 700.0	7	4,662	23.3	11	6,810	12.1	23	12,640	14.2	33	20,536	11.7	25	15,546	8.6	26	17,177	6.6	127	77,647	9.1	
Above 700.0	3	3,000	13.9	8	2,540	3.3	23	20,270	22.6	51	63,500	34.8	57	85,776	47.4	104	122,960	50.3	246	218,048	29.3	
Total:	67	18,829	100.0	285	56,503	100.0	421	89,346	100.0	954	182,700	100.0	756	180,207	100.0	1,066	274,409	100.0	3,549	802,036	100.0	
By Duration																						
1 to 2 years	11	1,230	6.5	4	230	0.4	68	1,359	2.2	76	10,772	5.9	180	50,354	28.1	132	44,841	16.3	61	108,596	13.5	
2 to 3 years	35	12,189	53.5	31	4,275	7.6	37	4,822	5.2	435	64,896	35.5	373	58,958	32.7	787	178,013	64.2	1,574	319,833	39.9	
3 to 4 years	15	1,820	20.2	182	30,657	54.6	251	43,531	48.7	313	51,161	28.0	173	57,984	29.4	122	61,378	15.1	1,235	223,752	27.8	
4 to 5 years	3	2,510	12.3	36	11,684	20.0	78	20,130	22.5	102	42,641	23.5	67	24,441	8.0	14	12,087	4.4	262	103,594	12.9	
3 to 10 years	1	1,200	6.4	22	9,225	16.3	67	19,145	21.4	28	13,230	7.3	3	2,230	1.8	1	100	-	112	68,261	8.5	
Total:	67	18,829	100.0	285	56,503	100.0	421	89,346	100.0	954	182,700	100.0	756	180,207	100.0	1,066	274,409	100.0	3,549	802,036	100.0	
By Size of Enterprise																						
Up to 300.0	-	-	-	-	-	-	151	8,233	9.2	417	19,191	10.5	295	14,967	8.3	431	23,343	8.7	1,308	71,187	8.9	
300.1 to 600.0	-	-	-	-	-	-	89	10,097	11.3	194	18,353	10.0	155	18,373	10.2	173	21,890	8.0	667	77,184	9.7	
600.1 to 1,000.0	-	-	-	-	-	-	37	11,340	12.7	107	23,289	12.8	100	28,370	15.7	123	20,507	7.5	446	81,701	10.3	
1,000.1 to 2,000.0	-	-	-	-	-	-	31	15,345	17.4	120	38,980	21.3	99	24,494	13.6	126	36,234	14.2	462	134,707	16.8	
2,000.1 to 3,000.0	-	-	-	-	-	-	23	12,701	14.2	31	16,754	9.2	28	13,970	7.4	99	32,490	11.8	175	85,999	10.7	
3,000.1 to 4,000.0	-	-	-	-	-	-	13	8,240	9.2	23	13,709	7.5	9	3,450	1.9	25	14,768	5.4	99	47,597	5.9	
4,000.1 to 5,000.0	-	-	-	-	-	-	9	3,490	3.9	21	13,187	7.2	7	3,450	1.9	19	10,001	3.6	58	34,897	4.4	
5,000.1 to 10,000.0	-	-	-	-	-	-	19	12,300	13.8	29	24,707	13.5	32	30,879	17.2	63	57,334	20.7	191	131,977	16.5	
More than 10,000.0	-	-	-	-	-	-	2	7,350	8.2	12	14,520	8.0	31	45,859	25.4	37	55,622	20.2	101	121,267	15.2	
Total:	57	18,829	100.0	285	56,503	100.0	421	89,346	100.0	954	182,700	100.0	756	180,207	100.0	1,066	274,409	100.0	3,549	802,036	100.0	
By Location																						
Cordinance	26	9,076	48.2	96	23,390	41.4	127	34,070	38.1	195	61,320	33.5	130	35,547	19.7	245	80,218	29.3	630	231,051	30.4	
Antioquia	15	4,638	23.2	31	9,285	16.4	43	12,875	14.4	112	24,775	13.5	128	48,383	26.8	218	44,867	16.3	567	144,111	18.2	
Valle	9	3,302	17.5	38	5,493	10.1	91	13,998	17.4	165	33,385	18.3	143	27,944	15.2	139	31,268	11.4	545	117,623	14.7	
Atlantic	1	334	1.8	28	8,155	10.7	26	6,407	7.4	59	16,372	9.1	59	23,222	12.9	81	45,895	16.7	254	98,764	12.2	
Santander	1	620	2.2	26	3,483	5.4	21	2,440	2.7	127	10,533	5.9	93	11,064	6.1	125	19,729	7.2	393	47,291	5.9	
Tolima	1	205	1.1	17	1,180	3.0	18	2,404	2.7	40	6,985	3.8	34	8,139	4.9	31	8,126	2.9	133	28,490	3.6	
Manizales	-	-	-	9	2,180	4.0	14	1,540	1.8	89	10,171	5.5	50	6,683	3.9	59	17,028	6.2	229	87,373	10.9	
Others	4	1,062	5.7	40	2,483	8.8	81	13,237	14.8	167	18,979	10.4	119	18,483	10.3	168	27,287	10.0	491	89,372	11.1	
Total:	67	18,829	100.0	285	56,503	100.0	421	89,346	100.0	954	182,700	100.0	756	180,207	100.0	1,066	274,409	100.0	3,549	802,036	100.0	
By Decentralization of Credit																						
Bogota	33	9,076	48.2	96	23,390	41.4	118	34,070	38.1	195	61,320	33.5	130	35,547	19.7	245	80,218	29.3	630	231,051	30.4	
Rest of the country	32	9,753	51.8	189	33,113	58.6	202	55,276	61.9	759	121,380	66.5	626	144,660	80.3	821	194,191	70.7	2,719	570,985	69.6	
Total:	67	18,829	100.0	285	56,503	100.0	421	89,346	100.0	954	182,700	100.0	756	180,207	100.0	1,066	274,409	100.0	3,549	802,036	100.0	
By Size of Loan																						
Working capital	53	7,663	40.6	233	31,410	55.9	343	49,388	55.2	782	126,246	62.1	620	137,304	76.1	n.a.	212,167	77.3	n.a.	566,399	70.4	
Fixed assets	12	11,166	59.4	52	25,093	44.1	78	39,958	44.8	172	56,454	30.9	136	42,903	23.9	n.a.	62,242	22.7	n.a.	235,637	29.6	
Total:	67	18,829	100.0	285	56,503	100.0	421	89,346	100.0	954	182,700	100.0	756	180,207	100.0	1,066	274,409	100.0	3,549	802,036	100.0	
By Type of Industrial Activity																						
Apparel and Footwear	13	4,593	24.4	54	7,910	14.0	83	14,118	15.8	187	26,997	14.8	177	31,324	17.4	192	46,217	16.9	406	131,181	16.3	
Metal products	5	671	3.3	30	5,774	9.9	33	6,185	6.9	100	21,624	11.8	114	25,269	14.0	77	28,067	10.2	345	87,355	10.9	
Non-metallic minerals	4	937	5.1	12	1,255	3.3	27	6,148	6.8	66	11,485	6.3	78	23,750	13.2	75	29,937	11.0	257	74,156	9.3	
Food products	7	2,336	12.2	30	8,111	14.3	29	5,412	6.1	106	16,366	9.0	76	16,914	9.4	74	19,345	7.0	322	67,598	8.4	
Furniture	5	797	4.2	17	1,633	3.2	32	5,258	5.2	84	10,432	5.7	46	4,325	2.5	72	10,456	3.9	254	33,502	4.2	
Chemicals	5	1,900	10.1	19	5,040	9.0	20	4,764	5.4	54	14,623	8.1	28	13,627	7.6	90	23,826	8.7	181	45,921	5.8	
Textiles	9	175	0.9	4	90	0.2	4	2,683	3.0	41	17,395	9.5	16	11,280	6.3	14	4,211	1.9	52	37,690	4.7	
Diverse activities	-	-	-	10	1,340	2.0	42	10,955	12.3	32	2,297	1.3	56	16,205	9.0	194	16,205	5.9	334	38,494	4.8	
Other metal products	12	3,973	21.1	17	4,378	7.8	33	8,973	10.0	42	7,512	4.1	18	7,933	4.4	17	7,131	2.6	137	35,619	4.5	
Leather products	-	470	2.5	15	2,135	3.8	28	4,751	5.3	34	7,565											

COLUMBIA: SMALL-SCALE INDUSTRY PROJECTCORPORACION FINANCIERA POPULARSummary of Past Operations from 1968 to December 31, 1973

(in Col\$ thousand)

(Fiscal years)	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
<u>Approvals</u>						
Loans ^{1/}						
Medium ^{2/}	11,299	4,505	6,580	75,666	109,552	220,823
Long-term ^{3/}	7,530	51,998	82,806	107,034	70,655	53,485
Equity	--	1,000	--	--	250	3,580
	<u> </u>					
Total	18,829	57,503	89,386	182,700	180,457	277,888
	<u> </u>					
<u>Disbursements</u>						
Loans ^{1/}	9,000	46,000	67,000	137,000	211,000	210,000 ^{4/}
Equity	--	1,000	--	--	250	3,580
	<u> </u>					
Total	9,000	47,000	67,000	137,000	211,250	213,580
	<u> </u>					

^{1/} Corporacion Financiera Popular does not provide any short-term loan.

^{2/} Between one and three years.

^{3/} From three to seven years.

^{4/} Estimated

CORPORACION FINANCIERA POPULAR
Past and Projected Financial Ratios

	Past						Projected				
	1978	1989	1990	1991	1992	1993 ^{1/}	1994	1995	1996	1997	1998
Total income as % of average total assets (-)	4.57	11.32	13.87	16.03	17.77	16.33	17.44	17.94	18.17	18.07	16.37
Financial expenses as % of average total assets	-	1.34	3.02	5.53	8.47	8.27	9.02	9.26	10.32	10.62	10.84
Gross profit as % of average total assets (-)	4.57	9.98	10.85	10.50	9.30	8.06	8.42	8.68	7.85	7.45	7.68
Administrative expenses as % of total assets	3.98	7.49	5.1	6.77	6.35	6.52	6.09	5.40	4.85	4.54	4.45
Profit before provisions and depreciation as % of average total assets (-)	0.59	2.49	5.1	3.73	2.95	1.54	2.33	3.28	3.00	2.91	3.02
Provisions and depreciation as % of average total assets	0.06	1.45	2.70	1.97	1.79	1.45	1.78	1.58	1.54	1.36	1.28
Net income as % of average total assets	0.53	1.04	2.66	1.76	1.16	0.09	0.55	1.70	1.46	1.55	1.74
Net income as % of average equity	0.54	1.27	4.94	4.68	4.35	0.44	2.08	6.20	6.61	6.67	7.36
Net income before provisions and depreciation as % of average equity	0.60	3.05	9.97	9.98	11.11	7.65	8.91	11.98	12.86	12.55	12.78
Interest and commission as % of average portfolio (-)	12.61	15.01	14.40	16.12	18.25	16.61	18.00	19.00	19.54	19.56	19.92
Financial expenses as % of average borrowings	-	4.48	7.23	9.27	12.12	10.85	12.82	13.38	14.14	14.45	14.80
Gross spread	-	10.53	7.17	6.85	6.13	5.76	5.18	5.62	5.40	5.13	5.12
Total debt/equity	0.02	0.35	1.31	2.03	3.47	4.46	2.22	3.02	3.44	3.19	3.25
Percentage increase in total assets	-	1.22	92.86	99.62	54.19	22.66	57.14	39.80	35.94	31.75	30.39
Provisions as % of loan portfolio	-	0.67	1.94	2.26	2.90	3.47	3.30	3.28	3.24	3.20	3.16

ANNEX III-B

^{1/} Month of December has been estimated.

ANNEX IV

AN IN-DEPTH REVIEW OF

FONDO FINANCIERO INDUSTRIAL

AN IN-DEPTH REVIEW OF
FONDO FINANCIERO INDUSTRIAL

JAMES E. BAIN, CONSULTANT

MAY 29, 1974

Bogotá, Colombia, S. A.

FONDO FINANCIERO INDUSTRIAL

At this point it appears incongruous to repeat the background of this organization and its operations which have been discussed in the U. S. AID/C Intensive Review Request of April, 1974, and also in the study of the IDD section Georgia Institute of Technology in April, 1974.

The main objective of this report is threefold, as follows:

- 1 - Determine the efficiency and effectiveness in employment creation and assess the administrative capacity of FFI.
- 2 - Recommend to FFI management and explore the possibilities of expansion of activities in areas of technological transfers and small industry promotion.
- 3 - Determine improvements FFI should undertake in the above areas.

Let us take step 1 and say that determining efficiency and effectiveness borrowing money has on employment creation is at best second guessing. There is no guaranteed or proven method to the problem but some reasonable assumptions can be made. To carry this a bit further, in reviewing some sample requests of loans approved by FFI for rediscount, 70-80% of the requests covered needs for working capital to cope with expanding production and additional employees.

Of the 208 approved loans for rediscount for the first 3 months of 1974, samples indicated increased personnel from 5 to as high as 60. Since we are talking about small and medium size business, let us say investigations showed the average employment creation would be 7 people. There would, therefore, have been 1456 new jobs created in the first quarter of 1974, with an additional 4-5 people represented by an average family group (wife and 3 children) who are affected economically outside of the employment area through each new job created. Carrying this out for the balance of the year 1974 at the same rate, would indicate a one year employment creation of 5,824 new jobs.

A disturbing factor during the first 3 months of 1974 is the 69 rejections of rediscount applications for reasons such as faulty financial figures, inadequate reasons for the loan and unacceptable guarantees within the norms of the Fondo de Garantías. Based on the average employment of 7 people as mentioned above, there could have been another possible 483 new jobs created if all of the 69 rejections had been revised and approved.

The importance of the rediscount mechanism cannot be over-emphasized. FFI, however, has the internal structure predominant in all Latin American banks and that is the weakness developed by bank bureaucracy. This bureaucracy which is not internal procedures but a matter of personnel bureaucracy, tends to promote weak administration through the ranks which eventually leads to ineffectiveness and since the whole operation cannot be monitored by the lending agency, FFI can only be pressured at best. No amount of AID loans will change the system and one learns to live with it.

The personnel at FFI exhibit a fair understanding of the small and medium size industry needs and have a desire to assist these needs, but are somewhat restricted by the guidelines for rediscount. It is possible that if FFI were organized as a separate entity, they could be more operationally free as it were from the internal bureaucracy.

Since this does not seem possible under the present arrangement with BOR, some alleviation to the problem will be discussed later in this report.

So far in the first 3 months of 1974, FFI has rediscounted an average of 46.8 million pesos per month versus 44.2 million pesos per month in 1973 which is an improvement over the monthly net disbursement target established in 1972 of 22.5 million pesos per month. However, during this same period an average of 16.2 million pesos were rejected.

In 1973 the average rediscounts approved per month were 79.5 while in the first 3 months of 1974 this average has been 69.3 with rejections running at 24.9% versus 18% for 1973. In spite of this swing in figures, the rediscount amounts show improvement on the average versus 1973.

One bad procedure used by FFI is in connection with rejected applications. If for example, the analyst finds there is information lacking in the application, be it an error or an omission, a letter is written to the intermediary or finance corporation acting as intermediary and also the applicant advising what is wrong with the application. Should no reply be received by FFI within a month, the application is relegated to the files where it is considered dead. This is an area requiring improvement. Instead of contact by mail the FFI analyst should make direct contact by telephone with the intermediary, spelling out just where the application is faulty and faces rejection. The intermediary then should contact the applicant so that he will immediately take the necessary steps to correct his application. This would considerably reduce the 30 day waiting period used by FFI for rejection. There is a good side to this coin. The Credit Committee on reviewing an application where some doubt may arise can request that an analyst accompanied by whatever expert is needed, i. e. : engineer, accountant, etc., visit the applicant to check out any doubtful information. There is no doubt there is room for improvement in the process for additional information so that applications are just not relegated out of existence for failing to reply within a month.

In step 2 the possibilities of expansion of activities, technological transfers and small industry promotion was discussed with FFI management and while management was in agreement that something should be done in these areas, no steps have been taken to date. FFI first should have initiated a program of educating their 22 branches on the internal procedures used in processing loan applications. From that point the branches should have been instructed on the use of this information with respect to assisting small and medium size industries in their areas. This would cover the use of credit, the advantages of credit for expansion and the requirements of FFI on loan applications presented for rediscount.

Management at FFI agreed to the lack of credit and banking knowledge, not only among the other banks, financial corporations and applicants, but also within their own branches. Many times the applications must be filled out by FFI because of lack of qualified people in other institutions. The only two banks rediscounting with FFI who have no trouble with the application forms are Banco de Bogotá and Banco de Colombia and the reason is they have adopted their application forms after those of FFI and have trained people how to assist the applicant. This reduces the delay when they apply for rediscount at FFI. The use of seminars to impart knowledge and education is endorsed by FFI management but they appear reluctant to initiate a program.

In discussing technological transfer and small business promotion only the area where FFI is more or less qualified to give assistance via seminars were explored. This covered the credit mechanism, use of credit in expanding and a detailed explanation of the information required on the application forms. It was strongly pointed out that applicants were going to outside money markets at higher interest rates due to lack of understanding as to how and why the credit mechanism functions as it does, when they should be coming to the commercial banks and financial corporations.

A visit with a prospective borrower pointed up just how lacking in knowledge he was concerning the FFI procedures. This company wishes to expand and increase its labor force, but has been reluctant to do so because of what they know of FFI. After discussions with this company, it is felt their attitude has improved to the point where they will apply for a loan via CFP.

Step 3 covers the conclusions or recommendations that FFI should undertake in the areas of steps 1 and 2. It is felt these recommendations are essential to the continuous flow of capital to small and medium size industries in addition to the TA function.

1. - The application forms at FFI are too involved in their present state. They should be reduced to a single page or two such as is used by most commercial banks and financial corporations. A suggested form is attached as exhibit A. Since the intermediaries are responsible for the loans they undertake it is not deemed necessary for FFI to act as monitor to the intermediaries. The only guidelines FFI should use are:

- a) Does the applicant fall within the size limits.
- b) Does the applicant fall within the Capital/Labor ratio.
- c) Has the applicant performed well under previous loans?

If the answer to all three questions is positive there should be no further delay in processing the rediscount. The major complaints of many intermediaries visited were that FFI was too inflexible and took too long to process requests. This is not quite so as a review of many

cases at FFI showed a decided improvement over 1 year ago and the time element for processing was now down to 15 days minimum and in most cases 1 month maximum. There are exceptions however, but these are very few.

The subject of FFI being concerned with guarantees is wrong since FFI assumes no responsibility on the rediscount. Guarantees are the responsibility of the intermediaries and FFI should have nothing to do with this area of the application.

2. - The approval limits of under 200,000 pesos of the Credit Committee for automatic rediscount is too low. FFI agreed that 82.2% of all loans rediscounted fell within the 500,000 peso range. Since CFP has raised their regional loan limits to 350,000 pesos for approval, FFI should adopt the same approval level. This will avoid having the intermediary with a loan level higher than the rediscount level and avoid confrontation between the intermediary and FFI, CFP which represents 38.2% of FFI rediscounts would be in an untenable position if it had to contend with a lower level of approval at FFI. This confrontation can be avoided not only for CFP but also with other intermediaries who might raise their limits.

FFI has agreed that raising the limits would automatically reduce the paper workload. However, again FFI appears reluctant to initiate this step. A further advantage to this change is the probability of using the analysts at FFI for instructing their branches since the reduced workload would give them time to devote to activities in this area.

To carry the use of the analysts one step further, CFI management agreed that education and/or TA seminars were definitely needed both for the intermediaries, applicants and their own branch personnel. Therefore, at this point FFI could use their trained analysts to undertake these programs. No one knows better than the analyst the correct procedures at FFI. The seminars could and should be held 2-3 times per year, either at all locations of FFI, or reduced to key areas which are heavily industrialized and labor intensive. The TA, however, should remain within the area of banking credit and finance and not cross over into the TA system as outlined for CFP. Here, however, there seems

to be no harm in bringing FFI into the picture on the TA function as it will be handled by CFP. It could be a distinct advantage for CFP if FFI can recommend prospects to them.

3. - The FFI should contract for the services of someone like INCOLDA to handle or conduct the seminars. A visit to INCOLDA indicated they are well prepared and have the personnel on hand to conduct the seminars for local bankers, intermediaries and small industry on credit, credit application and TA functions and in general, promoting education in these areas. Both INCOLDA and FFI have their individual specialties and to successfully carry out seminars, INCOLDA is better qualified.

In conclusion, another approach is suggested for bringing FFI around to instituting reforms and that is to channel additional funds to CFP, thus giving CFP a broader scope with a subsequent reduction in the need to rediscount.

JEB/EM.

ANNEX V

DRAFT LOAN AUTHORIZATION

ALLIANCE FOR PROGRESSLOAN AUTHORIZATION

Provided From: FAA Section 106
COLOMBIA : Small and Medium Industry
Development Loan

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan ("Loan") pursuant to Section 106 of said Act and in furtherance of the Alliance for Progress, to the Government of Colombia ("Borrower"), of not to exceed five million United States dollars (\$5,000,000) to assist in financing the United States dollar and local currency costs of the Borrower's program to stimulate employment expansion and technological transfer in small and medium sized industrial enterprises by providing funds for credit activities of the Popular Finance Corporation ("CFP") and by providing funds to be administered by the CFP for technical assistance.

The Loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment: Borrower shall repay the Loan to A. I. D. in United States dollars within forty (40) years from the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A. I. D. in United States dollars, on the outstanding balance of the Loan, interest at the rate of two percent (2%) per annum during the grace period, and three percent (3%) per annum thereafter.

2. Other Terms and Conditions:

(a) Goods and Services financed under the Loan shall have their source and origin in Colombia or in countries included in Code 941 of the A. I. D. Geographic Code Book.

(b) United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A. I. D.

(c) As a condition precedent to disbursement to the Popular Finance Corporation for technology transfer activities it will submit to A. I. D. for approval an organizational scheme and work plan for such technology transfer activities.

(d) The Loan shall be subject to such other terms and conditions as A. I. D. may deem advisable.

Deputy U. S. Coordinator

Date