

PD-ACG-027



**PROJECT FOR
DISSEMINATION AND IMPLEMENTATION
OF THE INTEGRATED ETHICS PROGRAM
FOR THE SMALL AND MEDIUM SIZED
ENTERPRISE (SME)**

FINAL REPORT

Presented by
TRANSPARENCIA POR COLOMBIA

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INTRODUCTION

This report presents the work carried out by Transparencia por Colombia, in the project financed by USAID, for the dissemination and implementation of an integrated ethics Program for SMEs as a preventative tool against corruption for at least 300 small and medium enterprises from September 2003 to September 2005, with the aim of gaining their commitment to the fight against this scourge and providing them with the tools to enable them to increase productivity and competitiveness through achievement of the following specific objectives:

- To create alliances with trade associations and entities that bring together SMEs in a joint effort to disseminate and promote the tool among as many of this type of company as possible.
- To generate a critical mass within the community of SMEs in the fight against corruption, and to promote the construction of ethical environments that generate a multiplying effect in the sectors within which the SMEs work.

The document is comprised of 4 sections:

1. Management of the proposed objectives
2. Achievements
3. Future prospects
4. Conclusions
5. Financial report

1. MANAGEMENT OF THE PROPOSED OBJECTIVES

1.1. Alliances for dissemination and promotion of the Program

1.1.1 Strategic Approach

Within the context of the work carried out, initial alliances were useful in helping us understand the complexity of the work in hand, in an environment where it became necessary to focus our efforts on finding allies that would increase the level of effectiveness of encouraging the SME's to join the Program and, that at the same time, would validate the SME's perception of the Program. With this aim, we contracted a consultant to carry out a market research study in December 2004 to provide us with the information to achieve these goals.

The main findings of the study with respect to allies were:

- There is a need to generate ethical practices from the point of view of large companies, trade associations, family compensation funds and Chambers of Commerce.
- The large companies are interested in and willing to generate the external drivers¹ required to encourage SME's to join the Program.
- The Bogotá, Cali, Medellín and Barranquilla Chambers of Commerce have their own networks of consultants and sales teams which they could use as channels through which the SME's join the Program.
- With the exception of "Compensar", the profile of organizations chosen for initial alliances is not the most appropriate to ensure that SMEs join the Program.

Based on the work carried out to date, and the results of the market research obtained, the strategy with regard to alliances is currently focused on the following:

- Establishment and development of corporate alliances with companies which have: (i) clearly defined social responsibility policies; (ii) significant potential given the the number of SMEs with which they work; (iii) the ability and willingness to generate external drivers that encourage SMEs to develop organizational ethics Programs as a strategy for risk prevention and provider of solutions in critical areas; and (iv) mutually beneficial business relationships with their value chain.

Using this model , we have contacted 50 entities and presented alliance proposals to 34 of them.

- We worked in close collaboration with the Family Compensation Funds already allied to the Program, in order to adapt the model to the characteristics of the organization and to get other

¹ External drivers may be defined as actions that the ally undertakes to encourage SMEs to join the Program. Such as giving a higher point score in credit applications, in the case of financial entities or in evaluations of suppliers and distributors in the case of large companies.

similar organisations on board that have the ability to encourage SME's to join the Program in strategic geographical areas.

- Identify and develop corporate channels which are already positioned within the SME sector because of: i) other types of corporate development programs, ii) their commercial and consulting areas, and iii) their logistical capacity to promote the dissemination of the Program to SMEs to encourage them to join, all within an operating structure that enables Transparencia por Colombia to sustain the project.

The prospects so far identified are the Chambers of Commerce in the main cities. This proposal is now undergoing a validation process, for which we are receiving support from the Bogotá Chamber of Commerce, an entity that is providing important information based on their experience in disseminating Programs from their services portfolio, specifically through their "Tutor" Program which enables SME's to create a self-managed strategic plan. In terms of number of SMEs joining the Program, as a means of comparison, the Bogotá Chamber of Commerce has placed 170 "Tutor" Programs within this market in a two year period, having invested heavily in commercial and logistical resources, which are considered to be a priority issue by business people.

1.1.2 Alliances with Trade Associations

"Acopi", "Colfecar" and "Asopartes" held nine (9) events attended by 139 SME's to encourage them to join the Program. The work with trade associations was very useful in providing us with an understanding of the required alliance framework which, given SME's indifference, by nature, towards these types of initiatives, their 'short termism' and prioritization of everyday business issues, required efforts over and above dissemination of the Program and which are important related factors in relationships between allies and their SMEs to achieve the targeted number of SMEs who have joined the Program.

By their nature, function and relationship with SME's, trade associations offer a support service providing information about the Program and the importance of implementing ethical corporate standards.

1.1.2 Alliances with Universities

At regional level, universities are important in terms of their contribution to the positioning of Program by disseminating information about the Program at an academic level and by providing conceptual feedback to its development.

Although universities have SME training courses, they do not have sufficient influence in their business relationships with to encourage SME's to join the Program. However, universities like the Tecnológica de Bolívar have maintained their interest in finding the way to achieve this objective through alliances with large companies in their region.

1.1.4 Alliances with Family Compensation Funds

Family Compensation Funds are privately owned legal entities to which all Colombian companies must be affiliated. Their areas of work include corporate development and strengthening. These

funds have the capacity to support the Project from two fronts: with their affiliate companies and with their suppliers. We currently have alliances with three of the major Family Compensation Funds, which cover the geographical areas with the highest corporate development in the country.

Comfandi

This compensation fund is ranked first in the state of Valle del Cauca in terms of number of affiliates, trajectory and support provided to the corporate sector. It covers the vast majority of companies in the region. Of its 11.568 affiliate companies, there are about 1.100 potential companies suitable for this project.

“Comfandi” have achieved dissemination of the Program to 600 of their affiliated SMEs, and enrolled four (4) in an initial approach. Given the results, they made the decision to focus on inviting large companies to suggest they get involved as promoters among companies in their value chain.

Compensar

In terms of the number of affiliated companies, Compensar ranks second amongst Family Compensation Funds in Bogotá, and is recognized, within the corporate sector, as the provider of the best quality services to its affiliates. Out of all its affiliate companies, it has around 3.300 companies potentially interested in joining the Program, in addition to a network of 1.200 suppliers.

Compensar has disseminated the Program to 438 companies, and 19 have joined the Program. The process began with affiliate companies and was then directed to suppliers, which required a strategic approach that includes presentation of the Program to groups of companies by product line, and the generation of an external driver which consists of additional points awarded to supplier evaluations for those companies that can prove they have the Program underway.

Comfama

This compensation fund has the largest number of affiliated companies in the Antioquia region. They have a program dedicated to strengthening of SME's, and have identified 4.868 potential target companies for the Program.

Transparencia por Colombia is working together with Comfama to research the possibility of establishing the organization as a corporate channel to take advantage of the direct sales channel it uses to systematically contact their most important affiliate companies in order to offer their services. Comfama represents a means for direct approach to business people in the Antioquia region.

1.1.5. Alliances with large companies

The strategy places emphasis the generation of alliances with large companies that are recognized as business leaders in within their business sector, and for their ability to influence SME's in their value chain.

Transparencia por Colombia has itself carried out promotional work with the allies in order to confirm the agreements. Once agreements have been signed with the allies, Transparencia provides training for the allied company's internal support team and additionally, provides assistance and support for all activities in the context of the alliance.

The commitment assumed by the corporate allies has required the institutional support of the organizations in order to invite SMEs to participate in the program, as well as logistical support in dissemination and training activities. Part of their commitment has involved providing plane tickets and accommodation for Transparencia por Colombia employees who have supported these activities. At the end of the funding period, this amounted to a surplus of US\$1.868 in the budget line allocated to travel expenses.

The following corporate entities have signed alliance agreements:

GC2 Carvajal

This outsourcing company provides services to the Carvajal Group, a conglomerate, which has been working for more than 100 years principally in the publishing, telecommunications, packaging and paper industries in Colombia. Furthermore, the company currently has a presence in 18 countries. They are highly regarded in the Valle del Cauca region for their social work. The participation of GC2 in the Program represents 600 potential participants in the Program and the possibility of extending the alliance to distribution chains and clients from the other 17 companies that comprise the Carvajal Group.

In the execution of their alliance, GC2 has disseminated the Program to 57 of their suppliers and 14 have joined the Program under a model that awards additional points in supplier evaluations to those companies that implement the Program. They will be holding additional events in future to continue with the dissemination of the Program.

Colcerámica

Manufacturers and sellers of ceramic tiles, sanitary porcelain and plumbing systems; they are part of the Corona organization, an important business group in Colombia, which is a member of Transparencia por Colombia, and is highly recognized for its social work and corporate leadership. Until now, this alliance has been implemented in only one of the three lines of business of Colcerámica, with the potential for extension to the other two lines and subsequently, covering all the other companies within the group, where they will be implementing the model developed for the distribution chain.

The Program has been disseminated to 96 of their distributors and 33 of those companies have joined the Program, making Colcerámica the most effective of the allied partners with regard to the number of SME's made aware of the Program.

Avantel

A telecommunications sector company dedicated to mobile telephony closed networks. Their value chain is comprised of about 200 SMEs, including distributors, traders and companies providing outsourcing services.

They are currently implementing the Program internally, and will begin execution of the alliance starting January 2006, using a work plan developed in conjunction with Transparencia por Colombia.

Smurfit Cartón de Colombia

The largest producer of paper and packaging material in the country, the company is strongly committed to social responsibility issues. Their potential is represented by over 300 SMEs that comprise their production chain. Through the Program, they have found a practical way to align the stakeholder companies to their social commitment policies.

They will begin the dissemination and promotion of the Program in January 2006.

1.1.6. Potential Allies

Below is a list of the proposals that are being considered by corporate entities with a presence throughout the country. They have been selected with the aim of increasing the dissemination and the number of SMEs joining the Program within strategic business sectors.

COMPANY	SECTOR
Alfagres	Production, sales and and export of flooring and lining for construction.
Alianza Team	Production and sales of fat, edible vegetable oil and derivatives.
Alpina	Production and sales of dairy products and other foods.
Nacional de Chocolates	Production and sales of chocolates, coffee and derivatives.
Almacenes Éxito	Largest superstore in the country.
Carulla	Second ranked supermarket chain.
Bancolombia	Largest bank in the country with the broadest SME portfolio.
BBVA ²	A multinational financial group whose commercial strategy is focused on SMEs.

² BBVA had previously made the decision to become an ally, but postponed their decision because of their merger with Banco Granahorrar.

1.2 Generation of a critical mass among the SME community for promotion of ethical environments and the fight against corruption

1.2.1 Target Group Profile

The project development has enabled us to validate the hypotheses about our knowledge of the target SMEs to enable us to identify them more accurately. We now know that we are facing significant cultural barriers as to the way SMEs behave, in terms of their paradigms of i) the lack of time available to implement the Program, ii) the lack of discipline needed for self-management, characterized by their typically indifferent attitude towards the importance of executing ethics Programs in their organizations, iii) their 'short termism' in terms of the difficulty of overcoming the temptation of bribery, and iv) they are focused on their survival in a harsh business environment in which their viability is threatened by money laundering operations.

Based on this profile we consider it appropriate to aim for the more structured SMEs that may be more receptive to implementation of the Program. Therefore, the profile identified relates to SMEs with: (i) over 15 employees; (ii) at least two functional areas; (iii) over three billion pesos in annual sales, and (iv) if possible, those who have made some progress in the area of organizational culture.

The knowledge we have acquired has led us to emphasize the promotion work with SMEs as follows:

- To aim at companies with the identified profile to disseminate and promote to potential allies.
- To carry out assessments of our allies to generate external drivers.
- To use appropriate language when approaching SME business people, making the connection between the benefits of the Program and their critical areas, in terms of governance in family owned businesses, risk mitigation, leadership and communication issues.
- To provide optional support in the implementation of the Program to overcome the lack of discipline in terms of self-management.
- To establish motivational strategies for Program implementation.

1.2.2. Results of the dissemination and SMEs joining the Program

In the work developed during this phase pertaining to SMEs the following results were achieved:

SMEs invited by allies	1.266
SMEs attending events organized by allies	485
Number of events held by allies	22
Approximate number of employees in SMEs that have joined the Program	6.000

The table on page 16 contains detailed results broken down by ally.

1.2.3. Training

Eighteen workshops were held for 272 promoters (the project managers in the SME's) that joined the Program in Bogotá, Cali, Medellín, Barranquilla, Pereira and Bucaramanga, in groups averaging 20 companies.

The work involved the design, testing and adjustment of two workshops, one in the basic modules and another in the thematic modules, training of allied companies internal support teams, training of external facilitators to support implementation of the program when the SME's request it, and coordination and logistical support of training events held by the allies.

Implementation follow up with the SMEs is carried out by telephone, to check on their progress, to motivate them to implement the Program as fast as possible and to request that they send us the products resulting from the application of the basic modules.

1.2.4. Means of recognition for SMEs implementing the Program

This is the formal means of recognition that companies receive for the implementation of the basic modules of the Program, with the aim of motivating them to begin the Program, to strengthen their internal structures and to report the results of their measurement of the organizations's ethical climate, their ethical commitment statements and their bribery prevention policies to Transparencia por Colombia. This recognition may make SMEs more visible to the various interest groups with whom they interact, generating added value with regard to implementation of the Program.

This formal recognition does not constitute certification of a company's ethics. It is simply an acknowledgement of its development of certain activities within the Program.

This formal recognition will comprise:

- Proof of implementation of the basic modules of the Program.
- Authorization to incorporate the formal recognition into the SME's corporate image.
- A listing on the Transparencia por Colombia web page, where interested members of the general public may view which companies currently hold valid recognitions. The list will be updated monthly; including newly recognised companies and removing those that have not renewed their recognition.

At the same time, it will be necessary to develop a dissemination campaign for this recognition to contribute to its positioning.

1.2.5. Publications

The Program has been disseminated through the mass media as follows:

- **El Tiempo newspaper:** the main newspaper in the country and the only one with a nationwide circulation. An article describing the program was published on June 21st 2004.

- **The Container newspaper:** monthly publication by Colfecar, Colombian Federation of Highway Cargo Transporters. An article was published in the October 2004 edition.
- **Ethics Resource Center (ERC) newsletter and web page, Washington D.C.** The article "Comprehensive Ethics Programs for Small and Medium Sized Enterprises in Colombia", was published in May 2005.
- **La República newspaper:** the country's main financial newspaper. Review of the publication by ERC on May 24th 2005, "Rumbo Pymes recognised by the Ethics Resource Center".
- **Dinero Magazine:** an important weekly business publication. Article "Good company" was published in the July 9th 2005 edition.
- **SME Guide:** an annual publication by Legis, specializing in the SME sector (2005 edition). An article on corporate ethics in SMEs, written by Transparencia por Colombia was included; in payment for writing the article, we were given the opportunity to publish a full page advertisement for the Program at no additional cost.

In addition, we were given the opportunity to present the Program at international events such as the First Central American Anti-Corruption Conference in Nicaragua on February 26th 2004, and the Corporate Transparency and Social Responsibility Workshop for the Project on Corporate Probity in Business When Working with Government Entities, in Costa Rica on September 21st 2005.

1.3. Published Material

1.3.1. Design concept

A corporate image portraying a voyage at high seas was strengthened, connecting the Program name - Rumbo Pymes Integrales y Transparentes - to the content in each module and the design concept: (i) navigation chart - Program user guide; (ii) barometer - ethical climate measurement device; (iii) mark coordinates - ethical commitment; (iv) marine salvage - principles to counteract bribery; (v) finding your bearings at high sea – training in ethics, (vi) clearing the way – governance in family owned businesses; (vii) teamwork on board – strengthening of communication channels; (viii) full swing – ethical leadership; (ix) stern or prow – decision making with ethical sense, and (x) good winds, good seas – ethical conflict resolution. The market research ³ found that the image generated remembrance and facilitated accomplishment of the program's educational objectives.

1.3.2 Teaching Material

The Program was packaged as a kit, containing a user guide module for management of the tool, nine (9) booklets, together along with electronic files to print out of the forms and the software for tabulation of ethical climate surveys. This presentation enables SMEs to see the Program as unique, standing out because of its purpose, the quality of its content and its ease of understanding.

USAID's contribution enabled us to design and produce 1.000 kits with its own ISBN. ⁴

³ Commercial strategy for dissemination and sales of the SME Rumbo Pymes – Integrales y Transparentes Program from April 13th 2004

⁴ International standard book number

1.3.3. Promotional Material

The following promotional material was designed, edited and printed:

Description	Quantity	Destination
Brochures for promotion of the Program to SMEs.	2.000	Events with SMEs.
Posters for dissemination of the Program within companies.	2.000	50% were delivered with the kits and the remaining 50% were delivered to SMEs for information.
Rumbo Pymes Mouse Pad	1.000	Delivered with the kits
Cases for the booklets	1.000	Program packaging
Rumbo Pymes calendars	1.000	Delivered to SMEs and allies to promote the Program

1.3.4. Inventory

The kits were distributed as follows:

Delivered to SMEs	85
Delivered as general information	17
Samples given to potential allies, at international events and government entities	36
Working copies	8
Total	146

We currently have the following material in stock:

Kits	854
Posters	39
Brochures	1639

2. ACHIEVEMENTS

- The commitment of highly respected private sector organizations, represented by the twelve established alliances, that through the implementation of the Program, have found a means of aligning the SMEs, within their interest groups, with the standards of their corporate mission.
- The construction of a model that can be replicated both at local and international levels, that introduces a new factor for engaging in commercial relations such as demand for implementation of organizational ethics programs between value chains.

- The dissemination of the Program to over 1.200 business people in SMEs in the main regions in the country, translated into 85 SMEs that have joined the Program, with a total of around 6.000 employees, represents enormous progress in terms of the generation of a critical mass that will make business people in SMEs aware of the current need to implement organizational ethics programs, and generates knowledge of the implications of this trend for the Colombian economy in terms of sustainability and productivity.
- Appealing and easily understandable printed material available for delivery to SMEs joining the Program, unlike other initiatives available to business people in SMEs that use theoretical approaches to the subject.
- A module in the Program that enables implementation of "Corporate principles to counteract bribery"⁵ and facilitates SMEs compliance with international initiatives. This module serves as a reference in the development of anti-corruption indicators worldwide.
- The concept and value of the Program has aroused interest at an international level. Transparencia por Colombia received an invitation to present the Program in Nicaragua during the First Central American Anti-Corruption Conference on February 26th 2004 and in Costa Rica during an event with business people organized by the Transparency chapter there. Furthermore, the kit was sent to the worldwide International Transparency program to analyze its potential for other regions.

3. FUTURE PROSPECTS

- To specify with current and potential allies external drivers with the aim of increasing number of allies.
- To complete the process of production of a means of recognition that motivates SMEs to implement the Program and raises their profile in their business environment. This entails developing a graphic image along with a communications strategy.
- To develop a base line to raise the profile of the Program, to disseminate results and encourage SMEs to adopt ethics programs, enabling them to make direct comparisons.
- To extend regional coverage through promotion of the Program, by building alliances with large companies in strategic business sectors.
- To consolidate a group of external consultants to work as facilitators of the training workshops, and to provide support to SMEs as required in implementation of the Program..

⁵ Initiative promoted by Transparencia Internacional and Social Accountability International, 2003

4. CONCLUSIONS

- A difficult business environment, characterized by the consequences of the recession and unfair competition, vulnerable to corrupt practices which threaten the feasibility of many SMEs; it poses a greater challenge than originally anticipated in terms of encouraging SMEs to join the Program.
- In this context, enormous effort was made to encourage SMEs to join the Program. However, we realise now that visible results are slow and long term. Eighty five SMEs having joined the Program out of an initial projection of three hundred actually means considerable progress in the process of achieving a critical mass.
- The establishment of alliances has had a slow but strategic start in the context of the objective of gaining the commitment of business people in large companies in the fight against corruption. Through our Program, we are positioning ethics as a strategic factor in business relationships between large companies and their value chain, which represents a significant cultural change.
- The content and presentation of the Program constitute an innovative, practical proposal that respond to the needs stated by business people in SMEs in the critical areas such as leadership, communication, conflict resolution, governance in family owned businesses and risk prevention.
- Setting up the Program, supported by alliance models with large companies and by strategies aimed at establishing organizational ethics as a differentiating factor in the market, opens an important new space with regard to the growing international trend to establish ethical standards in the private sector.

5. FINANCIAL REPORT

5.1 Budget narrative

The budget approved by USAID for the development of the project "Comprehensive Ethics Program for Small and Medium-Sized Enterprises" was for a total of US\$349.866 (USAID provided US\$ 150.000 and US\$199.866 was provided as cost sharing by other organizations, including Transparencia por Colombia) to be spent from September 30, 2003 to September 30, 2005.

This budget was adjusted due to (i) the change in some of the budget lines (such as personnel, teaching materials, and logistical expenses) and these changes were approved by USAID in May, 2005 and (ii) in addition, the cost share budget was increased by US\$45.554.

90% of the budget approved for this project was utilized (99% of the budget financed by USAID and 87% of the cost share budget).

One percent (1%) of the USAID's budget was not utilized and corresponds to US\$1.868 for travel that was mostly financed by alliance partnerships that were created in different regions of the country for the promotion of the Program in these areas. Given that this Program is an integral element of the of the organization's private sector strategy and will continue in 2006, it is foreseeable that the travel

expenses will be spent in the coming months and for this reason a request was made to USAID in October 2005 for an extension of the agreement until June 2006.

Furthermore, the 13% of the cost share budget that has not yet been utilized will also be used in the coming months, given that for the most part the budget is allocated to the remuneration of the personnel in charge of developing the project and to the expenses incurred by the allies in the promotion of the project in different regions of the country.

Therefore, the quarterly expense reports for both for the USAID and the cost share budgets will continue to be sent to USAID.

Please find below: (i) Details of the original budget. (ii) The revised budget. (iii) A detailed report of the approved budget. (iv) Standard Form 269a with information about the development of the project (September 2003 to September 2005), as an addendum to the format sent on October 30, 2005 that corresponds to the quarter July through September 2005.

APPENDIX

Annex 1: Results of the dissemination of the Program and the SMEs that have joined the Program

The table below shows results achieved by order of ally:

TYPE OF ALLY	Ally	Invited SMEs	Number of introduction events	Number of SMEs the Program has been presented to	Number of companies that have joined the Program	Number of companies trained in the use of the Program
TRADE ASSOCIATIONS	ACOPI – BOGOTÁ	N/A	5	12	0	0
	ASOPARTES	50	4	24	2	2
	COLFECAR	89	0	No event*	1	1
	Subtotal	139	9	36	3	3
FAMILY COMPENSATION FUNDS	COMFANDI (Affiliates)	600	1	50	4	4
	COMPENSAR (Affiliates)	N/A	1	110	5	5
	COMPENSAR (Suppliers)	238	1	90	11	9
	Subtotal	838	3	250	19	18
UNIVERSITIES	U. DE ANTIOQUIA	N/A	1	37	1	
	U. TECNOLÓGICA DE BOLÍVAR	108	1	47	9	9
	Subtotal	108	2	84	10	9
LARGE COMPANIES	CARVAJAL (Suppliers)	57	2	50	14	11
	COLCERAMICA (Sellers)	96	6	65	33	32
	Subtotal	152	8	115	47	32
OTHERS	PRODUCTIVE COEXISTENCE	14	0	No event	2	2
	Independent – no affiliates	14	0	No event	3	3
	Subtotal	28	0		5	5
TOTAL		1266	22	485	85	78**

* Colfecar sent direct mail to their affiliates with the SME Rumbo Pymes multimedia presentation to invite them to participate in the Program.

** There are 7 companies pending training for specific inherent reasons.

Annex 2: Geographical distribution of SMEs that have joined the Program

Region	Enrolled SMEs
Central Andean	35
Atlantic Coast	13
Valle Region	24
Antioquia and the Coffee Growing Region	13
TOTAL	85

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