

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

**CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR
PRODUCTIVE BUSINESS FINANCING**

(CO-00004)

FIRST PRODUCTIVE BUSINESS FINANCING PROGRAM

(CO-L1228)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Omar Villacorta (IFD/CMF), Project Team Leader; Eduardo Sierra (IFD/CMF), Alternate Project Team Leader; Alvaro Concha; Daniel Fonseca; Claudia Marquez; Gabriela Andrade; Isabelle Braly; Carmen Fernandez; Maria Netto; Sebastián Vargas; Rodrigo Chaparro; Alison Arauz, and Cecilia Bernedo (IFD/CMF); Alejandra Luzardo (KIC/ICD); Matteo Grazzi and Fernando Vargas (IFD/CTI); Alejandra Villota (INT/TIN); Giovanni Leo Frisari (CSD/CCS); Alexandra Planas (INE/ENE); Ariel Nowersztern (IFD/ICS); Sandra Reyes (INO/FLI); Christine Ternent (GRU/CCO); Pilar Jimenez (LEG/SGO); Vida Bobic (SPD/SDV); Mylenna Cardenas and Eugenio Hillman (VPC/FMP); and Mónica Charry (CAN/CCO).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING.....	1
	A. Background, problem addressed, and rationale.....	1
	B. Objectives, components, and cost.....	10
	C. Key results indicators	12
II.	FINANCING STRUCTURE AND MAIN RISKS.....	13
	A. Financing instruments	13
	B. Environmental and social risks	15
	C. Other key issues and risks.....	15
III.	IMPLEMENTATION AND MANAGEMENT PLAN	16
	A. Summary of implementation arrangements	16
	B. Summary of arrangements for monitoring results	18

APPENDIXES

Proposed resolution

ANNEXES

PRINTED ANNEXES

Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

LINKS

REQUIRED

1. [Monitoring and evaluation plan](#)
2. [Environmental and social management report \(ESMR\)](#)

OPTIONAL

1. [Project economic analysis](#)
2. [Current state of the Colombian financial system](#)
3. [Financial stability report](#)
4. [Report on the credit situation in Colombia](#)
5. [MSME financing gap in Colombia](#)
6. [Financing for women entrepreneurs under CO-X0007](#)
7. [Analysis of the orange economy and financing potential](#)
8. [Overview of climate finance in Colombia](#)
9. [Bancóldex 2018 annual report](#)
10. [Credit Regulations](#)
11. [Safeguard Policy Filter \(SPF\)](#)

ABBREVIATIONS

Asobancaria	Asociación Bancaria y de Entidades Financieras de Colombia [Association of Banks and Financial Institutions of Colombia]
Bancóldex	Banco de Comercio Exterior de Colombia
CCC	Cali Chamber of Commerce
CCLIP	Conditional Credit Line for Investment Projects
CTF	Clean Technology Fund
ESMR	Environmental and Social Management Report
FFF	Flexible Financing Facility
GHG	Greenhouse gases
ICAS	Institutional Capacity Assessment System
MM-I	Multisector Modality I CCLIP
MinCIT	Ministry of Trade, Industry, and Tourism
NDP	National Development Plan 2018-2022
NPV	Net present value
OECD	Organisation for Economic Co-operation and Development
PCR	Project Completion Report
PFP	Programa Fábricas de Productividad [Productivity Factories Program]
SME	Small and medium-sized enterprises
WISE	Women in STEM Entrepreneurship

PROJECT SUMMARY

COLOMBIA CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR PRODUCTIVE BUSINESS FINANCING (CO-00004) FIRST PRODUCTIVE BUSINESS FINANCING PROGRAM (CO-L1228)

Financial Terms and Conditions					
Borrower: Banco de Comercio Exterior de Colombia (Bancóldex)			Flexible Financing Facility^(a)		
			Amortization period:	25 years	
Executing agency: Bancóldex			Disbursement period:	4 years	
Guarantor: Republic of Colombia			Grace period:	5.5 years ^(b)	
Source	CCLIP (US\$)	First Program (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital and Other Sources)^(d)	600,000,000	60,000,000 (OC)	67	Credit fee:	^(c)
				Inspection and supervision fee:	^(c)
				Weighted average life:	15.25 years
Local	0	30,000,000	33	Approval currency:	United States dollars
Total:	600,000,000	90,000,000	100		
Project at a Glance					
Objective of the CCLIP: The objective of the CCLIP is to promote business productivity in Colombia through financing channeled by Bancóldex.					
Objectives of the first individual operation under the CCLIP: The general objective of the first program under the CCLIP is to help improve the productivity of smaller enterprises through financing channeled by Bancóldex. The specific objectives are to: (i) increase productive financing for smaller enterprises; (ii) scale up financing for investments by smaller enterprises in energy efficiency projects; and (iii) contribute to the creation of a financing market for smaller enterprises in the orange economy.					
Special contractual conditions precedent to the first disbursement of the loan: A special contractual condition precedent to the first disbursement of the loan will be the approval of the Credit Regulations for this program by Bancóldex, with the Bank's prior no objection, which will include information on the criteria and procedure for the selection of the subborrowers. (paragraph 3.4).					
Exceptions to Bank policies: Approval of a partial waiver of the Bank's Policy on Guarantees Required from the Borrower (Operational Policy OP-303) is sought from the Board of Executive Directors so that the Republic of Colombia guarantees only the loan payment obligations, including interest and fees (paragraph 3.9).					
Strategic Alignment					
Challenges:^(e)		SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
Crosscutting themes:^(f)		GD <input checked="" type="checkbox"/>	CC <input checked="" type="checkbox"/>	IC <input type="checkbox"/>	

^(a) Under the terms of the Flexible Financing Facility (FFF) (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) Under the flexible repayment options of the FFF, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

^(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the relevant policies.

^(d) The total amount of the CCLIP to finance the individual operations thereunder may come from the Bank's Ordinary Capital or from funds administered by the Bank. The amount and origin of the respective funds and the applicable financial terms and conditions will be determined for each individual operation. The amount corresponding to each individual operation financed from the Bank's Ordinary Capital or funds administered by the Bank will be calculated for purposes of determining the total amount available under the CCLIP.

^(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(f) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Economic growth and improved social welfare have been observed in Colombia.**¹ Over the past 20 years, Colombia has seen a favorable change in its macroeconomic indicators, becoming a middle-income economy like Argentina, Brazil, Mexico, Peru, and Costa Rica. Between 2000 and 2016, investment—most of it private—increased from 14% to 27% of GDP, while savings rose from 16% to 18% of GDP.² Annual capital flows grew substantially from US\$3 billion in the 1990s to an average of US\$21 billion between 2009 and 2016. The current account benefited from the increase in foreign direct investment, low international interest rates, and the confidence of foreign investors, which led to an increase in investments in securities and stock.³ In this context of economic growth, social indicators also made positive advances. Between 2002 and 2017, unemployment dropped from 17.6% to 9.4%, the poverty rate fell from 49.4% to 28.0%, and extreme poverty decreased from 17.6% to 8.5%. The middle class, which in the early 2000s was approaching 37% of the population, now comprises just over 50% of Colombian households.⁴ Nonetheless, inequality remains an unresolved issue. According to the World Bank, Colombia is the third most unequal country in Latin America, after Honduras and Haiti.⁵
- 1.2 **Developments in the domestic industry are not in line with growth.** Colombia's economy is highly dependent on natural resources and is increasingly less diversified and sophisticated.⁶ In 2018, primary production and mining accounted for 80% of exports, about 10% more than in 1990. The manufacturing industry, the main economic activity as a percentage of GDP in the 1980s, ranked third at year-end 2018, with a share of just 12%.⁷ The drop in the Competitive Industrial Performance Index from 57th to 69th position between 1990 and 2015 confirms the deterioration in the country's productive structure.⁸ Colombia has also not seen significant improvement in its competitiveness since 2009. According to the most recent measurement of the Global Competitiveness Index calculated by the World Economic Forum, Colombia ranked 66th among 137 countries in 2018. While the number of new enterprises in the country rose by approximately 15% between 2001 and 2015, 7 in 10 enterprises fail within their first five years of operation. Survival rates vary based on enterprise size. Large and medium-sized enterprises in Colombia have higher survival rates, with 71.4% of large enterprises

¹ This paragraph is based on the text from the Country Development Challenges 2005-2018 Update produced for Colombia.

² National Administrative Department of Statistics (DANE) (2017). "*Formación Bruta de Capital*" [Gross capital formation]. *Cuentas Económicas Integradas*. Bogotá.

³ Thus, between 2010 and 2016, this type of investment rose from US\$6.429 billion (1.1% of GDP) to US\$8.9 billion (3.1% of GDP).

⁴ Castellani, P., Zenteno (2013). "The Colombian Middle Class Between 1997 and 2012," Washington, D.C.

⁵ World Bank (2016). "Poverty and Shared Prosperity 2016: Taking on Inequality." Washington, D.C.

⁶ Organisation for Economic Co-operation and Development (OECD) (2019). "Production Transformation Policy Review of Colombia: Unleashing Productivity," Paris.

⁷ Calculations based on information from the International Trade Statistics Database, <https://comtrade.un.org/>.

⁸ During the same period, Chile's position improved from 58th to 51st and Mexico's, from 31st to 19th.

and 68% of medium-sized enterprises continuing to operate after five years. This proportion is just 29% for microenterprises.

- 1.3 **Business productivity continues to display weaknesses.** Most of the per capita GDP growth in Colombia between 1990 and 2016 is attributable to an increase in the proportion of workers, not higher labor productivity. This is evident when we consider, for example, that it takes four Colombian workers to generate the value of one U.S. worker and two Colombian workers to generate the value of one Chilean or Uruguayan worker.⁹ Although Colombia has a strong business fabric, that fabric consists primarily of smaller enterprises,¹⁰ which are the least productive. Of the 1,379,284 active businesses in the country, 92% are microenterprises. The remaining 8% consists of 99,906 small and medium-sized enterprises (SMEs) and 6,361 large enterprises.¹¹ Microenterprises lag particularly far behind in terms of productivity. In 2015, their productivity was 16% of that recorded in large enterprises. This figure was 43% for small enterprises and 51% for medium-sized enterprises.¹² While smaller enterprises in the entrepreneurial ecosystem¹³ help create an ideal image of the country as a place for doing business and innovating, and although they have great potential for improving Colombia's productivity,¹⁴ efforts to promote their development have historically been plagued by duplication of efforts, low budget allocation, and a lack of coordination.¹⁵
- 1.4 **Financing is crucial for productivity.** Financing impacts business productivity. It facilitates efficient use of capital at the aggregate economic level as well as investment in projects in innovation,¹⁶ research and development,¹⁷ and the adoption of new technologies.¹⁸ Its income-increasing effect is felt by businesses in the medium and long term. International empirical evidence confirms that companies with access to credit, compared to those without such access, have an

⁹ Calculations for the Country Development Challenges 2005–2018 Update, based on Conference Board data.

¹⁰ In this document, the term “smaller enterprises” refers collectively to microenterprises and SMEs, as defined in Decree 957 of 5 June 2019. This term also refers to microenterprises and SMEs in the entrepreneurial ecosystem that, despite meeting the definitions set out in the above decree, are referenced separately in practice due to their differentiated business model. Smaller enterprises in the entrepreneurial ecosystem are characterized by a philosophy focused on ambitious growth and resilience to failure, contributions to the generation of innovations and the use of digital technologies, dynamic and flexible business models to deal with change, and the potential to contribute to employment in the long term.

¹¹ Confecámaras (2016). “*Nacimiento y Supervivencia de las empresas en Colombia.*” *Cuadernos de Análisis Económico.*

¹² OECD (2019), op. cit.

¹³ The definitions used in the entrepreneurial ecosystem differ depending on the specific characteristics of the microenterprises and SMEs in this group. These are, for example, early-stage entrepreneurs, high-impact entrepreneurs, and/or accelerated-growth entrepreneurs. Terms such as “startups” and “scaleups” are also used to refer to these types of entrepreneurial initiatives. In some cases, the term “gazelle entrepreneurs” is used to refer to fast-growing entrepreneurs.

¹⁴ OECD (2019), op. cit.

¹⁵ National Development Plan, “Pact for Colombia, pact for equity,” op cit.

¹⁶ Schain, J.P., J. Stiebale (2016). “Innovation, Institutional Ownership, and Financial Constraints.” Dusseldorf Institute for Competition Economics Discussion Paper 219.

¹⁷ Ilyina, A., R. Samaniego (2011). “Technology and Financial Development.” *Journal of Money, Credit and Banking* 43.

¹⁸ Cole, H., et al. (Sept. 2016). “Why Doesn't Technology Flow from Rich to Poor Countries?” *Económica* 84.

investment level of 130%, labor productivity of more than 27%, and total factor productivity of over 15%.¹⁹ Financing sources and terms determine the dynamics underlying business creation and survival.^{20,21} Confecámaras studies in this regard confirm that accelerated-growth enterprises saw a 43% increase in earnings compared to enterprises that took no action to boost their productivity,²² and that smaller enterprises created 22,482 jobs during the four-year analysis period.²³

- 1.5 **The financial system could provide better business development support.** Credit institutions posted US\$204 billion in assets,²⁴ an annual increase of US\$12 billion from 2017, as a result of a higher balance in the main asset accounts. Although the past-due portfolio was higher at year-end and resulted in a quality indicator of 4.33%,²⁵ the coverage indicator for credit institutions was 132.9%.²⁶ Credit institutions posted a solvency indicator of 16.58% and reported earnings of US\$3 billion (see [optional link 2](#) and [optional link 3](#)). Credit institutions indicate that there is demand for all types of credit. In the sector analysis, however, they state that the trade, industry, and service sectors have greater access to commercial loans and that the agricultural and construction sectors are not favored as much. With respect to enterprise type, credit institutions have the perception that access to credit is low for micro and small enterprises, but more favorable for medium-sized and large enterprises (see [optional link 4](#)).
- 1.6 **Traditional gaps in financing for smaller enterprises persist.**²⁷ A total of 46.3% of enterprises in the country still finance their investments with own capital.²⁸ The outlook is more critical for smaller enterprises, as the share of this type of enterprise in a banking system' total business portfolio is just 32%,²⁹ a lagging indicator relative to regional and international benchmarks.³⁰ From a supply

¹⁹ Ruiz-Arranz, M., et al. (2018). "Creciendo con productividad: Una agenda para la Región Andina." Inter-American Development Bank. Monograph.

²⁰ Private Council for Competitiveness (2018). "Informe Nacional de Competitividad 2017-2018": <https://compite.com.co>.

²¹ Asobancaria (2018). "Supervivencia de las MiPyME: Un problema a resolver." *Semana Económica*. Issue 1145.

²² Confecámaras (2018). "Determinantes de la Productividad de las Empresas de Crecimiento Acelerado."

²³ Confecámaras (2018). "Nuevos Hallazgos de la Supervivencia y Crecimiento de las Empresas en Colombia."

²⁴ The credit institutions supervised by the Financial Superintendency of Colombia include banks, financial corporations, finance companies, and financial cooperatives. Other credit institutions operating in the market are financial nongovernmental organizations, savings and/or loan cooperatives, and alternative financing platforms.

²⁵ This implies that 95.67% of loans were up to date on payment obligations.

²⁶ Meaning that for every US\$1 in the past-due portfolio, credit institutions have US\$11.33 in coverage provisions.

²⁷ The financing gaps for smaller enterprises described in this section are considered traditional since they have been previously identified for not only Colombia, but also other countries in the region. For further information, see the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7).

²⁸ World Bank Enterprise Surveys for Colombia 2017: <http://www.enterprisesurveys.org/>.

²⁹ Financial Superintendency of Colombia (2018). "Dinámica de la cartera regional y financiación formal a las PyMEs." Macroeconomic Seminar and Third Business Services Fair – National Association of Financial Institutions.

³⁰ According to the OECD (2018), Financing SME and Entrepreneurs 2018. An OECD Scorecard, this is a lagging indicator relative to regional and international benchmarks. In Brazil, for example, the portfolio for this segment accounts for 37% of the total business portfolio, whereas this proportion is 42% in member countries of the Organisation for Economic Co-operation and Development.

standpoint, in addition to the typical obstacles of information asymmetries or the limited types of acceptable collateral, there is a substantive problem in the liability structure. Approximately 60% of bank liabilities are short-term, giving rise to disincentives for long-term financing due to liquidity mismatches.³¹ In addition, banks still do not have the capacity to evaluate creative³² investment (paragraph 1.9b) or technology adoption projects, as there is a lack of information on credit sectors and methodologies for the proper assessment of the risks that such projects entail. On the demand side, just 14% of microenterprises and 38% of SMEs sought loans from a credit institution in 2018.³³ Consequently, self-exclusion by smaller enterprises could be one of the main reasons why they do not apply for formal credit, believing that they do not need it or assuming that they would be turned down. The International Finance Corporation estimates the financing gap for smaller enterprises in Colombia to be as much as US\$38.6 billion (see [optional link 5](#)).

1.7 **Financing gaps for smaller enterprises run by women and smaller enterprises in the entrepreneurial ecosystem.** There is evidence that financing gaps exist in two segments of the smaller enterprises group that warrant further analysis:

- a. **Women entrepreneurs.**³⁴ The World Bank Enterprise Surveys for Colombia reveal that 7% of loan applications from businesses run by women are rejected and that the collateral such businesses are required to post as a percentage of the borrowed amount is as much as 191.4%. By comparison, these values for businesses run by men are 5% and 159.7%, respectively.³⁵ In a sample of loans to smaller enterprises financed through its second-tier lines of credit by credit institutions, the Banco de Comercio Exterior de Colombia (Bancóldex) found that women entrepreneurs regularly contracted loans with higher interest rates, for shorter terms, and for smaller amounts than those contracted by men entrepreneurs (see [optional link 6](#)). On a territorial level, the Cámara de Comercio de Cali (CCC) reported that access to credit for women participating in its business acceleration and scaling programs is just 26%, compared to 37% for men.³⁶
- b. **Smaller enterprises in the entrepreneurial ecosystem.** The Global Entrepreneurship Report 2018 shows that financing in Colombia is one of the business areas where more support is required. iNNpulsa studies report that although financial resources are the main weakness of these smaller enterprises, just 12% of these enterprises sought bank loans, unsuccessfully,

³¹ Calculations based on financial statements published by the Financial Superintendency of Colombia.

³² This refers to investment projects in the orange sectors of the economy (paragraph 1.9b).

³³ According to publications of the National Association of Financial Institutions, namely *Gran Encuesta a las Microempresas* and *Gran Encuesta PyME*, both from 2018.

³⁴ The analysis presented in this section is specific to access to credit for women entrepreneurs. Surveys such as the World Bank Global Financial Index find financing gaps between men and women in Colombia, but at the individual not business level.

³⁵ With respect to other variables, such as the percentage of businesses with bank loans or lines of credit and the percentage of businesses that use banks to finance investments, men also present better indicators, albeit with less significant gaps.

³⁶ Although this data shows gaps in access to credit, they are not necessarily sufficient to determine the existence of gender discrimination. Under Component 1 of this program (paragraph 1.18), a pilot project is planned to collect more information to help better understand this problem.

and that although another 22% managed to receive loans, the amounts granted were smaller than requested.³⁷ The Colombian Private Council on Competitiveness states that the lack of access to financing for startups can hinder the creation of companies that drive innovation, introduce new competitors, and accelerate structural changes in the market. For scaleups, the scarcity of financing can be a determining factor in whether they remain small or realize their development and job creation potential.³⁸

- 1.8 **Bancóldex's contribution as a public development bank.** The public development bank dedicated to business financing in Colombia is Bancóldex,³⁹ an institution whose primary objective has evolved over time.⁴⁰ Founded in 1967 exclusively to promote exports, its focus shifted to credit for smaller enterprises in the early 2000s.⁴¹ Today, it has a multipronged objective providing second- and third-tier support to domestic companies of all sizes through rediscount lines, private equity funds, project structuring, factoring, international interbank operations, and training and consulting.⁴² Historically speaking, smaller enterprises received 50% of the resources from all disbursements made by Bancóldex. This business segment uses Bancóldex long-term resources to replace short-term credits for projects involving investment in fixed assets. A study of smaller enterprises that accessed loans from credit institutions through Bancóldex programs showed an increase of 24% in sales, 11% in employment, 70% in investment, and 10% in productivity during the four-year observation period.⁴³
- 1.9 **Financing needs for new productivity drivers.** Between 2014 and 2018, Bancóldex disbursed over US\$3.12 billion to credit institutions for onlending to smaller enterprises with business modernization projects. The need for greater traditional financing for these purposes is clear given the persistent gaps in the Colombian market. Nevertheless, Bancóldex is gradually making inroads into new sectors, such as green growth and the orange economy, in line with government policies and on the basis of identified opportunities for becoming the country's new productivity drivers.
- a. **Green growth.** Colombia's commitment under the Paris Accord in terms of mitigation is to reduce greenhouse gas (GHG) emissions by 20% by 2030.⁴⁴ Of the 240 million metric tons of CO₂ emitted by the country, 130 million are

³⁷ Fajardo, R. et al. (2015). "*Emprendedores en Crecimiento*." iNNpulsa; and Fajardo, R. et al. (2017). "*Emprendedores en crecimiento. El Reto de la Financiación*." iNNpulsa.

³⁸ Private Council on Competitiveness (2018), op. cit.

³⁹ Ocampo, J. A. et al. (2018). "*La Banca Nacional de Desarrollo en Colombia*." *Ensayos sobre Política Económica*. Banco de la República.

⁴⁰ Public development banks in Colombia are organized in a system of four institutions with sector specialties. In addition to Bancóldex, these include the Fondo para el Financiamiento del Sector Agropecuario, Financiera de Desarrollo Territorio, and Financiera de Desarrollo Nacional.

⁴¹ Bancóldex developed various megaprojects in this second phase of its evolution, such as Banca de las Oportunidades, the Productive Transformation Program, and iNNpulsa.

⁴² Zuleta, L.A. (2018). "*Inclusión financiera de la pequeña y mediana empresa en Colombia*." Financing for Development Series. Economic Commission for Latin America and the Caribbean.

⁴³ Eslava, et al. (2012a). "Second-tier Government Banks and Firm Performance: Micro-Evidence from Colombia," and Eslava, et al. (2012b). "*Restricciones de crédito y desempeño empresarial: evidencia de un programa de crédito público en Colombia*."

⁴⁴ The 20% decided is primarily for its cost benefit in economic terms. The measures are aimed at modernizing and transforming the economy at a cost not greater than US\$20 per metric ton of CO₂.

emitted by the agricultural sector, 70 million by the energy sector,⁴⁵ and the rest is divided between waste and industrial processes.⁴⁶ Under the National Climate Change Finance Strategy, an investment of US\$1.47 billion per year is required during the 2017-2030 period to mitigate climate change. Of that total, 14% is targeted toward the industrial sector (see [optional link 8](#)). In this context, banks are gradually becoming interested in green financing. The Association of Banks and Financial Institutions of Colombia (Asobancaria) reported that at end-2017, the credit portfolio for energy efficiency, renewable energy, cleaner production, and sustainable construction, etc., was US\$533 million, which accounts for just 0.4% of its total credit portfolio. From a demand perspective, in addition to having a positive effect on reducing GHG emissions, green investment in the smaller enterprise sector has a clear potential for cost savings due to resource optimization, generating profitability and competitiveness in their markets, and according greater business prestige.⁴⁷ In the case of energy efficiency, the analysis conducted by the International Energy Agency concludes that this type of investment has multiple benefits for smaller enterprises,⁴⁸ but the financing gaps for smaller enterprises described above prevent more significant investment.⁴⁹

- b. **Orange economy.**⁵⁰ The momentum in the cultural and creative industries, also called “orange economy industries,” is one of the strategic areas set out in the National Development Plan 2018-2022 (NDP).^{51;52} The orange economy comprises products or services related to the creation, production, and marketing of goods and services based on intangible cultural and creative content including: (i) the arts and cultural heritage; (ii) cultural industries; and (iii) functional creations, new media, and content software.⁵³ A total of

⁴⁵ The Indicative Action Plan on Energy Efficiency and the Program for Rational and Efficient Use of Energy 2017-2022 define the strategic and sectoral actions for meeting energy efficiency targets with a view to contributing to energy security and fulfilling international commitments on environmental issues. The plan estimates that 699,678 terajoules in electricity consumption could be saved through the use of energy efficiency measures during the period from 2017 to 2022 and sets indicative savings targets in the transportation, industry, tertiary, and residential sectors.

⁴⁶ Institute of Hydrology, Meteorology, and Environmental Studies (2016). “*Proyecto Informe Bienal de Actualización.*”

⁴⁷ McLaughlin, L. (2015). “ISO 50001: Energy Management Systems – A practical guide for SMEs.” United Nations Industrial Development Organization.

⁴⁸ International Energy Agency (2015). “Accelerating Energy Efficiency in Small and Medium-sized Enterprises.” According to this study, the benefits for smaller enterprises are as follows: (i) reduce energy costs, thereby increasing profitability and competitiveness; (ii) reduce exposure to volatility in energy prices; and (iii) contribute to broader policy objectives, such as increasing job opportunities, expanding the market for energy efficient goods and services, improving energy security, reducing GHG emissions, and postponing investment in additional energy generation.

⁴⁹ In addition to longer terms, credit institutions should create and adopt special risk mitigation tools and environmental information capture and monitoring systems to better meet demand.

⁵⁰ For more information on the concept of a creative economy at the international level, see: Luzardo, A., L. Gasca (2018). “*Emprender un futuro naranja: Quince preguntas para entender mejor a los emprendedores creativos*”; and Benavente, J.M., M. Grazzi (2017). “*Políticas públicas para la creatividad y la innovación: Impulsando la económica naranja en América Latina y el Caribe.*”

⁵¹ It is important to note that Colombia has Law 1834 of 23 May 2017, also known as the “Orange Law.”

⁵² The NDP 2018-2022 also defines the concept of “orange value added,” which refers to the incorporation of creative, cultural, or artistic value into manufactured goods from all industrial sectors in the country.

⁵³ See NDP 2018-2022 – “X. Pact for the protection and promotion of our culture and the development of the orange economy.”

282,566 individuals were employed in the orange economy in 2018, corresponding to 2.6% of workers according to service activities and the manufacturing industry. However, financing in this sector, as a trigger of productivity, poses particular challenges for credit institutions and Bancóldex. The bulk of enterprises operating in the orange economy are in service subsectors, meaning that they do not have easily pledgeable real property assets. Their need for financing is usually tied to the preparation of a specific project requiring large working capital expenditures and, therefore, longer collection cycles. These initial estimates suggest that the financing needs of smaller enterprises in this sector amount to US\$616 million per year (see [optional link 7](#)).

- 1.10 **Sector experience and lessons learned.**⁵⁴ The most significant sources of experience and lessons learned come from the CCLIP CO-X1007 approved in 2008 and climate finance pilot programs approved as of 2013 with resources administered by the Clean Technology Fund (CTF). Under CCLIP CO-X1007, Bancóldex pursued the objective to support the efforts of the Government of Colombia to strengthen the competitiveness of the productive sector through financing for investment, productive restructuring, and export development projects through four programs: loan [2080/OC-CO](#) in the amount of US\$100 million in 2008, loan [2193/OC-CO](#) in the amount of US\$200 million in 2009, loan [2949/OC-CO](#) in the amount of US\$200 million in 2013, and loan [4439/OC-CO](#) in the amount of US\$90.7 million in 2017. In 2013, in parallel with CCLIP CO-X1007, Bancóldex developed pilot programs for energy efficiency financing (operation [2983/TC-CO](#) in the amount of US\$10 million; 2013), sustainable transportation (operation [3003/TC-CO](#) in the amount of US\$40 million; 2013), and renewable energy in off-grid areas ([3661/TC-CO](#) in the amount of US\$9.3 million; 2016).⁵⁵ The most significant lessons learned from CCLIP CO-X1007 and the pilot programs include: (i) the close support provided to Bancóldex for the effective allocation of resources in scenarios where the execution of parallel programs is common; (ii) the constant supply of market information enabling Bancóldex and credit institutions to detect unexpected changes in demand early so that timely action could be taken; and (iii) improvements to information systems and the establishment strict results monitoring and evaluation. Each of the elements mentioned has been strengthened through technical cooperation resources, particularly to build capacity in green financing (operations [ATN/TC-13728-CO](#), [ATN/TC-14011-CO](#), [ATN/TC-15151-CO](#), [ATN/TC-15364-CO](#)), as well as regional technical cooperation resources, used for the structuring of financial tools intended for smaller enterprises in the startup phase ([ATN/OC-15604-RG](#)), the implementation of an energy savings assurance system to support energy efficiency financing ([ATN/CF-15453-RG](#)), and assistance in structuring and issuing green and social bonds ([ATN/SU-15599-RG](#)).⁵⁶ Lastly, with the Bank's support, Bancóldex issued Colombia's first orange bond in the amount of US\$135.2 million in November 2018. In this case, as in the case green and social bond issues, the IDB made noteworthy contributions to establishing conceptual frameworks,

⁵⁴ Section IV of the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7) outlines the lessons learned from the Bank's experience in this sector.

⁵⁵ The resources administered by the CTF have highly concessional terms and conditions.

⁵⁶ In August 2017 and May 2018, Bancóldex was the first public development bank in Colombia to issue green (US\$67 million) and social (US\$133 million) bonds, in the local market, with demand doubling or quadrupling the securities issues, respectively.

defining resource use, conducting independent expert reviews, and producing reporting protocols for investors.

1.11 **Coordination with the IDB Group.** The program has extensive complementarity with the IDB Group's public- and private-sector operations.

- a. **Complementarity with other IDB operations.** With respect to financing for the orange economy, the program complements an investment loan currently in preparation, as one of its components will allocate resources for capacity-building among smaller enterprises in the service sectors of the orange economy through the [Productivity Factories Program \(PFP\)](#) of the Ministry of Trade, Industry, and Tourism (MinCIT) and Colombia Productiva.⁵⁷ The beneficiary smaller enterprises of this program are expected to “graduate” and apply for loans from credit institutions and gain access to Bancóldex rediscount lines. Regular monitoring of both programs will ensure smooth communication and coordination between MinCIT and Bancóldex so that a portfolio of orange economy projects eligible for financing can be created. Synergies are also sought with operation [ATN/OC-16425-CO](#), which benefits Bancóldex and aims to create financial instruments for innovative smaller enterprises in the startup phase. The products developed as part of this technical cooperation operation are expected to be used for the program and for those under the CCLIP with a focus on smaller enterprises in the entrepreneurial ecosystem. Lastly, the program complements operation [3747/TC-CO](#) with regard to the identification of energy efficiency financing opportunities under Component 2, as a series of business chains have been identified in San Andrés that could be financed by credit institutions with access to Bancóldex resources.
- b. **Complementarity with IDB Lab and IDB Invest.** The coordination with IDB Lab will be key to progress, notably in relation to financing for smaller enterprises in the entrepreneurial ecosystem and women entrepreneurs through the WISE Program⁵⁸ (operation [ATN/ME-16116-RG](#)), a regional initiative whose scope covers Colombia and which aims to strengthen the ecosystem for entrepreneurship and innovation out of universities so that women's entrepreneurial undertakings become disruptive, gain access to financing, increase productivity, grow, and create jobs.⁵⁹ The IDB and IDB Lab will work with Bancóldex and credit institutions to facilitate access to financing for smaller enterprises supported by the WISE Program, in addition to monitoring the development of their productivity indicators to gain a better understanding of the impact that credit has on financing for women entrepreneurs. In addition, the portfolio of investment funds in which Colombia participates and which support smaller enterprises in line with the program eligibility criteria will be studied with IDB Lab.⁶⁰ Lastly, there will be

⁵⁷ The aim of the PFP is for small, medium-sized, and large enterprises in the agribusiness, manufacturing, and service sectors to improve their production processes (reduce time and cost), optimize their energy consumption for products with more competitive prices, comply with quality standards, use more technological tools, and improve their logistics, etc.

⁵⁸ WISE stands for “Women in STEM Entrepreneurship.”

⁵⁹ STEM careers that WISE focuses on are in science, technology, engineering, and mathematics.

⁶⁰ These investment funds include Velum (EQU-MS14075-CO), Progresá (EQU-MS-11705-CO), Inversor (EQU-MS-12731-CO), Ecoenterprise II (EQU-MS-12423-RG), The MGM Sustainable Energy Fund (EQU-MS-16819-MSEFI), and Acumen (EQU-MS-12570-RG).

coordination with IDB Invest within the framework of talks taking place with Bancóldex regarding the purchase of a share package. The inclusion of IDB Invest as a shareholder will contribute to Bancóldex's governance, since it would bring in a complementary partner with a more technical profile that includes additional support at the technical level.⁶¹

- 1.12 **Bank additionality and value added.** (i) The Bank is collaborating with Bancóldex on pioneering activities for the creation and consolidation of new financing markets. This is the case for markets involving financing for investments in the orange economy and in energy efficiency, which are nonexistent or minuscule in Colombia. Without firm support from the Bank to collaborate with Bancóldex, financing for smaller enterprises that operate their businesses in these sectors could slow down or stop indefinitely; (ii) the Bank is seeking to help Colombia create a new business class with an entrepreneurial mindset and business models that have growth potential. To that end, it is promoting a fresh perception of smaller enterprises, showing that there is a range of entrepreneurs capable of innovating, structuring sophisticated projects, and managing complex activities to increase productivity and therefore deserving of financial support from credit institutions. This is novel thinking compared to the typical belief that smaller enterprises engage in subsistence activities without tangible value-added; and (iii) the Bank is impacting the strategic approach taken by Bancóldex regarding financing for women business owners. Bancóldex has begun to categorize and analyze information disaggregated by gender with a view to identifying and understanding potential gaps and biases in financing for women business owners. Bancóldex considers this to be not only far-reaching work that will require separate efforts, but also an opportunity to propose corrective action if necessary.
- 1.13 **Technical cooperation.** A technical cooperation operation is being prepared to help with the preparation and execution of the proposed program. Technical cooperation resources will be used by Bancóldex to: (i) strengthen the capture and analysis of credit information disaggregated by gender; (ii) create financial instruments to penetrate the orange economy more effectively; and (iii) support the CCC in the pilot mentioned under Component 3 of the program.
- 1.14 **Strategic alignment.** The program is aligned with the Update to the Institutional Strategy (UIS) 2010-2020 (document AB-3008) and in line with the Productivity and Innovation development challenge, given that it will: (i) reach all segments of the population and companies in the financial and service markets; (ii) facilitate access to financing for microenterprises and SMEs; and (iii) boost the productivity of microenterprises and SMEs by increasing access to investment financing. The program is aligned with the Climate Change and Environmental Sustainability crosscutting theme, considering that 33.33% of program resources will be invested in climate change mitigation activities, according to the [joint methodology of multilateral development banks for the estimation of climate finance](#). These resources contribute to the IDB Group's climate finance target. In the same vein, the program is consistent with the Climate Change Sector Framework (document GN-2835-8). Furthermore, the program is aligned with the Gender Equality and Diversity crosscutting theme by promoting the measurement of

⁶¹ Should IDB Invest become a shareholder, Bancóldex will follow the guidelines of the Financial Superintendency of Colombia to mitigate risks of conflicts of interest with the Bank, establishing the habitual limits and exposures with respect to related institutions and/or individuals.

onlending intended for women entrepreneurs under Component 1 as well as a pilot to characterize their demand for financing. The program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) by increasing the number of micro, small, and medium-sized enterprises financed and will help reduce emissions with financial support from the IDB Group (millions of metric tons of CO₂ equivalents). The program is also aligned with the Sector Strategy: Institutions for Growth and Social Welfare (document GN-2587-2), particularly the component on Enhancing the Productivity and Growth of SMEs, and is consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), under the pillar on improving the efficiency and scope of bank credit intermediation to the productive sector. The program is aligned with the Country Strategy with Colombia 2019-2022 (document GN-2972) by contributing to the strategic objective to “spur innovation and development in business and agriculture” and the “Climate Change” crosscutting theme. The operation is included in the Update to Annex III of the 2019 Operational Program Report (document GN-2948-2).

B. Objectives, components, and cost

- 1.15 **Objective of the CCLIP.** The objective of the CCLIP is to promote business productivity in Colombia through financing channeled by Bancóldex.
- 1.16 **Objective of the first individual operation under the CCLIP.** The general objective of the first program under the CCLIP is to help improve the productivity of smaller enterprises through financing channeled by Bancóldex. The specific objectives are to: (i) increase productive financing for smaller enterprises; (ii) scale up financing for investments by smaller enterprises in energy efficiency projects; and (iii) contribute to the creation of a financing market for smaller enterprises in the orange economy. The program will comprise three components, as described below.
- 1.17 **Component 1. Productive strengthening (US\$60,000,000).** This component will contribute to the financial capacity of Bancóldex in order to expand its medium- and long-term financing offering in “business modernization” rediscount lines intended for credit institutions. As financial intermediaries, credit institutions will grant loans to smaller enterprises for asset acquisitions aimed at increasing production capacity or updating business models, or any other types of projects that increase the productivity of smaller enterprises by improving their capacity to generate higher revenues. The onlending under this component will finance assets such as machinery, equipment, and vehicles. Working capital financing will be possible when the investment is linked to a productive strengthening activity and will gain relevance for smaller enterprises whose business model is based primarily on intangible assets. Smaller enterprises in all sectors of the economy will be eligible for this component, subject to the financial terms established by the program’s Credit Regulations.⁶²

⁶² The average amounts of the subloans to be financed differ according to enterprise size. The estimated averages are US\$5,073 for microenterprises, US\$16,912 for small enterprises, and US\$109,925 for medium-sized enterprises. The maximum amount of financing per subloan will be US\$1,000,000. Subloans financed under this component will also comply with the extended list of exclusions and the positive list, according to the Environmental and Social Management Report (ESMR) and its Annexes C, D, and E as well as the subsequent guidelines of the Credit Regulations.

- 1.18 As part of this component, a pilot project is expected to be implemented to identify factors that will improve access to financing for smaller enterprises in the entrepreneurial ecosystem, particularly those run by women. More specifically, the aim of the pilot is to characterize demand among these businesswomen and understand the internal and external factors affecting their access to financing and their effects on enterprise development in order to adequately inform the design of future financing programs and their support. To implement this pilot, the plan is to work with the CCC through its Entrepreneurship and Innovation Unit.⁶³ From an operational standpoint, Bancóldex and credit institutions are expected to coordinate access to credit in this segment with the CCC. The CCC will provide methodological follow-up on enterprise development and will periodically report on progress and results. Bancóldex will also review its methodology for classifying subloans granted under this component according to the gender of the owner or head of the borrowing smaller enterprise, in accordance with best practices in the field, in order to build a baseline and periodically capture information that can be used to monitor changes in the participation of smaller enterprises and measure gender gaps in relation to access and the conditions contracted with credit institutions (for example, amount, term, and interest rate).
- 1.19 **Component 2. Energy efficiency (US\$20,000,000).** This component will facilitate investment by smaller enterprises in energy efficiency projects that help reduce CO₂ emissions. Bancóldex will channel medium- and long-term financing to credit institutions so that they can grant loans for energy efficiency projects submitted by smaller enterprises from all sectors of the economy. Initial consideration will be given, but not limited to, projects that invest in electric motors, LED lighting, and photovoltaic panels and boilers. Financed projects will have to meet the criteria set out in the program Credit Regulations, including energy savings validation and reporting guidelines, as well as the provisions established in the social and environmental management plan.⁶⁴ Bancóldex will expand the capacities acquired during the implementation of loan 2983/TC-CO, which focused exclusively on energy efficiency projects for hotels, hospitals, and clinics.
- 1.20 **Component 3. Orange economy (US\$10,000,000).** This component will support the creation of a new financing market targeting smaller enterprises in the orange economy.⁶⁵ Bancóldex will introduce a new rediscount line with the option of subloans granted by credit institutions to finance short-, medium-, and long-term working capital, with special terms and conditions outlined in the program's Credit Regulations. The conceptual framework developed by Bancóldex for the issuance of its orange bonds will be used as a basis for designing the new rediscount line. Special consideration is expected to be given to key aspects for financing projects

⁶³ The CCC has extensive experience with support programs for dynamic and high-impact enterprises in the city of Cali and in the municipios of Dagua, Jamundí, La Cumbre, Vijes, and Yumbola. The CCC has a solid structure and experience in relation to data, including disaggregation by sex, and impact assessments for such programs, factors that will enable the design of a pilot with a robust framework to test key hypotheses of common interest to the IDB, Bancóldex, and the CCC.

⁶⁴ The average subloan amounts are expected to vary predominantly according to the technologies to be financed. The estimated amounts are: (i) US\$150,000 for electric motors; (ii) US\$50,000 for LED lighting; (iii) US\$1,000,000 for boilers; and (iv) US\$200,000 for solar panels. The maximum amount per subloan under this component is estimated to be US\$1,500,000.

⁶⁵ Financed projects will focus on generating "orange value-added," that is, incorporating creative, cultural, or artistic value into goods manufactured in all of Colombia's industrial sectors, rather than just sectors typically associated with the orange economy.

submitted by smaller enterprises with business models based on intellectual property and the exploitation of intangible assets.⁶⁶

- 1.21 **Beneficiaries.** The program's end beneficiaries are the individuals and legal entities considered to be smaller enterprises, that is, micro, small, and medium-sized enterprises in all of Colombia's economic sectors, including those identified in the entrepreneurial ecosystem. Smaller enterprises will receive subloans from credit institutions, with Bancóldex resources, to implement working capital or fixed asset investment projects that promote productivity.⁶⁷

C. Key results indicators

- 1.22 **Outputs, outcomes, and expected impacts.** The program will have impact on higher productivity, measured based on growth in sales per employee in smaller enterprises that receive subloans under the program. The outcomes will be as follows: (i) investments by smaller enterprises with access to program and productive financing; (ii) Bancóldex total portfolio of productive financing for smaller enterprises; (iii) average term of the Bancóldex total portfolio of productive financing for smaller enterprises; (iv) Bancóldex portfolio of productive financing for smaller enterprises run by women; (v) energy savings realized by smaller enterprises that benefit from energy efficiency projects; (vi) Bancóldex portfolio of financing for energy efficiency projects for smaller enterprises; and (vii) smaller enterprises in the orange economy that access credit with program funds. The outputs will be as follows: (i) amount aimed at financing productive investments by smaller enterprises; (ii) amount aimed at financing energy efficiency investments by smaller enterprises; and (iii) creation of a second-tier financing line for smaller enterprises in the orange economy.

- 1.23 **Economic analysis.** The cost-benefit analysis quantifies the expected program benefit measured as additional value (net of operating costs) generated by beneficiaries in contrast to what the situation would be without the program. The data observed under comparable financing in CCLIP CO-X1007 were used to define the distributions of beneficiary smaller enterprises according to investment and sales amounts. The central analysis result shows that the program (considering the funds provided by the IDB and Bancóldex) will generate an aggregate net present value (NPV) of US\$24.7 million, with an internal rate of return of 22%. This value was subjected to sensitivity analyses based on various parameters, including sales, operating margins, technological efficiency, and electricity and fuel prices. The conclusion was reached that it presents an adequate degree of tolerance to changes in these parameters, maintaining a positive NPV. The analysis was carried out according to the guidelines established by the Bank, particularly with respect to the use of a real discount rate of 12% (see [optional link 1](#)).

⁶⁶ The average amounts of these types of subloans vary widely, from around US\$5,000 for small enterprises to as much as US\$500,000 for large projects. The average value of the subloans financed is expected to be US\$126,000. The maximum amount per subloan under this component is estimated to be US\$1,000,000.

⁶⁷ According to ex ante estimates, 1,327 smaller enterprises have been identified as program beneficiaries.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **CCLIP.** The total CCLIP amount will be US\$600 million to finance individual operations under the credit line. The total CCLIP amount could come from the Bank's Ordinary Capital or funds administered by the Bank.⁶⁸ The amount and origin of the respective funds and the applicable financial terms and conditions will be determined for each operation. The amount corresponding to each individual operation financed from the Bank's Ordinary Capital or funds administered by the Bank will be computed for purposes of the total available CCLIP amount. The CCLIP will be for a term of 10 years and will include at least three operations.
- 2.2 **Rationale for the instrument.** The Multisector Modality I (MM-I) CCLIP is the IDB operational instrument best suited to support Bancóldex given the multisector financing initiatives it has planned in the short, medium, and long term. According to the MM-I CCLIP definition, Bancóldex is an executing agency with a sound institutional capacity to work in multiple sectors and to fulfill the role conferred on it by the Colombian government's policies to promote business productivity through the financial system. In particular, the MM-I CCLIP will provide it with a strategic instrument with which to ensure its continuous presence in sectors where it pursues business development objectives by closing the wide financial gaps. The MM-I CCLIP targets and objectives will be achieved through Bancóldex loans for projects in the sectors mentioned in the paragraph below.
- 2.3 **CCLIP themes and sectors.** The programs covered by the CCLIP will provide solutions for generating business productivity in Colombia across various sectors and themes, according to the priority order established by Bancóldex pursuant to the Colombian government's mandate as the promoter of business growth. Consequently, the CCLIP programs could finance programs with components involving modernization and productive improvement⁶⁹ and climate change management,⁷⁰ etc. The CCLIP programs may incorporate crosscutting considerations in their components, namely technological innovation, orange value-added or orange economy, and products with a gender approach. Eligible projects may benefit all business segments in Colombia, without restriction;

⁶⁸ The individual operations under the CCLIP are expected to be financed with funds administered by the Bank from other sources of financing. This will give Bancóldex the option of accessing concessional financing (blended finance) conditions where appropriate in order to increase private resource mobilization for financing investments with development impact, especially in sectors such as environmental sustainability.

⁶⁹ Understood as: (i) the purchase of machinery, plant, and equipment, facility adaptation, and other assets directly linked to the company's business; (ii) the development and adoption of 4.0 technologies, such as the "Internet of Things," advanced data analysis and Big Data, artificial intelligence, robotics, additive manufacturing (3D printing), advanced materials, and virtual and augmented reality; (iii) the improvement of procedures associated with quality infrastructure; and (iv) human talent management.

⁷⁰ Understood as: (i) technological transformation required by companies for low-carbon fuel replacement and own electricity generation with renewable sources, including cogeneration systems and biomass inclusion; (ii) integral production, coprocessing, and solid and liquid waste separation and recovery projects; (iii) cleaner transportation technologies, including hybrid and electric vehicles, in all transportation segments, infrastructure financing for implementation of these technologies, and the establishment of maintenance, parts, and service centers; and (iv) climate change adaptation measures aimed at reducing the vulnerability and increasing the adaptive capacity of companies, bearing in mind future threats generated by extreme weather events.

- however, they will prioritize those of smaller enterprises, such as microenterprises, SMEs, and entrepreneurs. Each eligible project under the CCLIP will have Credit Regulations specifying the following: (i) sectors to be supported; (ii) types of eligible enterprises; (iii) eligible credit institutions; and (iv) compliance with social and environmental policies.
- 2.4 **CCLIP eligibility criteria.** In compliance with all eligibility criteria of the policy governing the CCLIP instrument (document GN-2246-13), particularly those relating to the MM-I CCLIP, it should be noted that: (i) the areas to be financed are set out in the priorities defined in the Country Strategy with Colombia 2019-2022 (document GN-2972) (paragraph 1.14).
- 2.5 **Compliance with the eligibility criteria of the first program under the CCLIP.** The first program meets the eligibility criteria for individual loan operations under the MM-I CCLIP defined in the policy (document GN-2246-13) given that:
- a. Bancóldex's institutional capacity has been previously assessed using the Institutional Capacity Assessment System (ICAS),⁷¹ with high average results, a satisfactory level of achievement of development objectives, and low risk levels. The ICAS did not identify areas for improvement or potential risks. The ICAS was supplemented with the analysis of the project risk management matrix. The results of the risk analysis indicated various exogenous or market factors that could have an impact on the outcomes of the first program, for which the applicable mitigation measures have been identified (paragraph 2.9 and 2.10). Bancóldex has experience with programs similar to those proposed as part of this proposal, specifically, those under the CCLIP CO-X1007. Bancóldex executed these programs well, according to the available Project Completion Reports (PCRs) and progress reports,⁷² it fulfilled the loan contract conditions, and the financial audit reports presented unqualified opinions on all programs.
 - b. The objective of the first program contributes to the achievement of the multisector objective of the CCLIP (paragraphs 1.15 and 1.16).
 - c. The first program is included in the sectors to be supported by the CCLIP (paragraph 1.16 to 1.20).
 - d. The first program includes actions to be undertaken to mitigate risks identified in the program risk management matrix (paragraphs 2.9 and 2.10).
- 2.6 **Costs and timeline of the first operation under the CCLIP.** The first operation is a global credit program in the amount of US\$60 million financed from the Bank's Ordinary Capital and will include a contribution of US\$30 million from Bancóldex:

⁷¹ The ICAS was applied to Bancóldex in April and May 2019.

⁷² The abovementioned PCRs correspond to loans 2080/OC-CO, 2193/OC-CO, and 2949/OC-CO. The PCR for operation 4439/CO-OC, the last operation under the CCLIP, as well as for operations 2983/TC-CO and 3003/TC-CO, financed with CTF resources, are being prepared, since these programs closed at end-2018.

**Table 1. Estimated program costs
(US\$ millions)**

Component	IDB	Local	Total	%
Component 1. Productive strengthening	30	30	60	66.7
Component 2. Energy efficiency	20	0	20	22.2
Component 3. Orange economy	10	0	10	11.1
Total	60	30	90	100

- 2.7 IDB resources will be disbursed over the course of 48 months as of the effective date of the loan contract:⁷³

**Table 2. IDB disbursement timeline
(US\$ millions)**

	Year 1	Year 2	Year 3	Year 4
Disbursements	20	20	10	10
%	33.3	33.3	16.6	16.6

B. Environmental and social risks

- 2.8 As a financial intermediation program, under the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), Directive B.13, this operation cannot be classified on an ex ante basis. The results of the environmental and social due diligence to analyze the potential socioenvironmental risks of eligible subloans and the capacity of Bancóldex to manage them determined that this program poses a low financial intermediation risk (FI-3). Consequently, the program will have an Environmental and Social Management System similar in design to the three previous programs executed by Bancóldex. The subprojects eligible for financing under the program will be socioenvironmental category "B" or "C" operations, according to the IDB classification. No subprojects that fall under category "A" will be eligible. The socioenvironmental requirements set out in this document will be included in the program Credit Regulations, as described in the ESMR (see [required link 2](#)).

C. Other key issues and risks

- 2.9 **Development.** Program components 2 and 3 target emerging markets or those in the process of consolidation where credit institutions deal with higher degrees of uncertainty. Therefore, the risk of limited demand for financing for investment projects submitted by smaller enterprises in the orange economy and in energy efficiency has a moderate likelihood of occurrence. Mitigation actions will be coordinated through IDB technical assistance provided to Bancóldex for more in-depth analysis of the needs of these sectors, as well as custom financial products that can be worked on jointly with Bancóldex and credit institutions. Bancóldex will execute an intensive communication and promotion strategy, in

⁷³ The disbursement schedule was defined in coordination with Bancóldex on the basis of technical criteria, such as growth targets by component, operational capacity, and market potential. Factors such as the development of new rediscount lines, the creation of risk mitigation instruments, and market awareness-raising were also considered.

which it will set out the benefits for credit institutions offered by the new rediscount lines.

- 2.10 **Fiscal sustainability.** The credit granted by credit institutions to smaller enterprises will be contracted mainly in local currency, meaning that credit institutions will request resources from Bancóldex in that currency. The IDB finances Bancóldex in U.S. dollars, thereby posing a risk that the market conditions for conversion to local currency will not be favorable and will suppress Bancóldex's desire to use IDB funds and request program disbursements. The risk has a moderate likelihood of occurrence. To mitigate it, the IDB will explore the possibility of making disbursements to Bancóldex in local currency within the framework of options available under the Flexible Financing Facility and in light of prevailing market conditions. In addition, Bancóldex will identify a portfolio of potential projects submitted by smaller enterprises whose business lines use predominantly U.S. dollars for the purpose of providing them with subloans through credit institutions in this currency, without exposing them to exchange rate risk.
- 2.11 **Program sustainability.** Bancóldex is a public development bank characterized by implementing initiatives with a vision of long-term sustainability.⁷⁴ The sustainability of its initiatives depends on the decisions of credit institutions on lending to smaller enterprises. Bancóldex will offer rediscount lines with incentives embodied in terms and conditions so that credit institutions can make inroads in the smaller enterprise segment, achieving a sufficient financial return to cover costs and make profits. This way, credit institutions will be able to reinvest the funds collected from the recovery of subloans for more loans in the same type of activities and gain experience in managing these types of projects and the underlying risks. Bancóldex will also use IDB technical assistance to develop nonfinancial and risk transfer instruments that support a better business environment and the structuring of sound, financeable smaller enterprise projects. The combination of these elements will have a transformational impact on the market, which will help promote financing for smaller enterprises, including after program completion. Where required, Bancóldex could continue or scale up its intervention in the same sectors through new CCLIP operations.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower, executing agency, and guarantor.** Bancóldex will be the borrower with a sovereign guarantee from the Republic of Colombia and the executing agency for all programs under the multisector CCLIP, including this first program, and will fulfill administrative, fiduciary, and control functions for effective management. Bancóldex is a second-tier financial institution with legal standing, administrative autonomy, and its own equity, supervised by the Financial Superintendency and attached to MinCIT. Bancóldex assets at end-2018 totaled US\$2.6 billion, financed by US\$2.1 billion in liabilities and US\$506 million in equity. The net loan portfolio closed the 2018 financial year with US\$2 billion, generating

⁷⁴ In previous IDB-financed programs, Bancóldex piloted its foray into new markets in order to subsequently scale them up and consolidate them as part of its regular rediscount line offering to the financial system. In this program, for example, Component 2 is a scaleup of operation [2983/TC-CO](#).

US\$33 million in earnings. This represented a return on assets of 1.48% and a return on equity of 7.23%. In 2018, Bancóldex disbursed US\$1.5 billion and financed more than 124,000 enterprises located in 30 departments across the country, more than half of which were smaller enterprises. In 2019, Fitch Ratings gave Bancóldex local ratings of F1+8 and AAA for the short and long terms, respectively, with a stable outlook. BRC Standard & Poor's gave ratings of AAA for the long term and BRC 1+ for the short term (see [optional link 9](#)).

- 3.2 **Execution and administration.** The program management team will consist of the Vice Presidency for Finance, supported by the Vice Presidency for Commerce through the Special Business Office, and the Vice Presidency for Risk. The Vice Presidency for Finance and Administration will be responsible for coordinating program execution arrangements, including: (i) the preparation, implementation, and coordination of annual work plans; (ii) budget preparation, program accounting, financial administration, reports, and disbursement requests; (iii) technical, execution, and financial report preparation; (iv) program monitoring and evaluation; (v) program evaluation at the end of the execution period; (vi) contracting of an external auditor and implementation of his or her recommendations; and (vii) appointment of a program point of contact with the IDB. Program resources will be channeled using the second-tier rediscount line mechanism offered by Bancóldex to credit institutions, with active financing quotas. The main role of first-tier credit institutions will be to manage the credit risk of smaller enterprises and act as an intermediary for program resources through subloans granted to them.
- 3.3 **Credit Regulations.** The program [Credit Regulations](#) will establish the terms and conditions for program execution, including the specific characteristics of subloans subject to financing, treatment by subloan amount, monitoring of socioenvironmental considerations, limits on the intended use of resources, and other conditions, such as environmental and social management requirements, fiduciary obligations, and monitoring and evaluation requirements. The [Credit Regulations](#) cannot be amended without the written consent of the IDB.
- 3.4 **Special contractual conditions precedent to first disbursement of the loan. A special contractual condition precedent to the first disbursement of the loan will be the approval of the [Credit Regulations](#) for this program by Bancóldex, with the Bank's prior no objection, which will include information on the criteria and procedure for selection of the subborrowers.** This condition is justified because the [Credit Regulations](#) will include details on the guidelines to be adopted under each program component and the socioenvironmental conditions, as established in Annex B of the [ESMR](#).
- 3.5 **Procurement of goods and services.** As a financial intermediation program that will be demand-driven, procurement of works, goods, services, or consulting services has yet not been identified as part of program execution. The proposal therefore does not include an execution plan or a procurement plan. Any procurement of services or consulting services that may be required for program administration and/or evaluation will comply with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of

Consultants Financed by the Inter-American Development Bank (document GN-2350-9), or their subsequent updates.

- 3.6 **Retroactive financing.** The Bank may retroactively finance from the loan proceeds eligible expenditures incurred by the borrower prior to the loan approval date, to finance activities planned in Components 1, 2, and 3, for amounts up to US\$12 million (20% of the proposed loan amount), provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures will have been incurred on or after the project profile approval date (20 May 2019), but under no circumstances will expenditures be included if incurred more than 18 months prior to the loan approval date.
- 3.7 **Disbursement mechanism.** The resources intended for the program components will be disbursed by the IDB to Bancóldex through the reimbursement modality.⁷⁵ Disbursements will be made to reimburse Bancóldex for transfers to credit institutions that have loan quotas with Bancóldex and that submitted onlending contracts in accordance with the eligibility conditions set out in the program Credit Regulations. Disbursements will be verified on an ex post basis, subject to on-site review of the subloans granted.
- 3.8 **Financial statements and audit.** Program financial statements will be audited in accordance with the procedure previously agreed with the Bank. The executing agency will submit, within 120 days of the closing of each project fiscal year, during the original disbursement period or its extensions, audited financial statements for the program, duly certified by an independent audit firm acceptable to the Bank.
- 3.9 **Exceptions to Bank policies.** Approval of a partial waiver to the Bank's Policy on Guarantees Required from the Borrower (Operational Policy OP-303) will be sought from the Board of Executive Directors so that the Republic of Colombia guarantees only the financial obligations arising from loan contracts between the Bank and Bancóldex as part of the CCLIP operations. The request is consistent with the provisions of Decree 2681 and Article 40 of Law 80 of the Republic of Colombia, and is in line with the precedent of the same waiver for previous operations approved under the CCLIP CO-X1007.

B. Summary of arrangements for monitoring results

- 3.10 **Monitoring.** The first program will follow the general procedures established by the Bank for the monitoring and evaluation of investment operations, based on the indicators in the Results Matrix, agreed between the executing agency and the Bank, and the Monitoring and Evaluation Plan (see Annex II and [required link 1](#)). The program will be monitored by way of periodic reports prepared by the executing agency, which will be responsible for program supervision and administration. The executing agency's own resources will be used to cover the monitoring costs of this operation. The Bank will conduct periodic visits to support and monitor program execution.
- 3.11 **Evaluation.** The executing agency and the Bank will carry out an evaluation that will measure progress in achieving program objectives and program outcomes based on the Results Matrix in order to identify any relevant corrective actions. The

⁷⁵ However, all disbursement modalities in the Financial Management Guidelines (document OP-273-6) or in current IDB policies will be available to Bancóldex, provided the IDB approves their use.

executing agency's own resources will be used to cover the costs of this evaluation. The executing agency will provide all the information the Bank may need to prepare a PCR once all disbursements have been fully justified. The evaluation method proposed is an ex post cost-benefit program analysis. As explained in the Monitoring and Evaluation Plan, this methodology will be used to analyze the economic value generated by beneficiaries through higher expected sales and the economic value associated with energy savings and the reduction of CO₂ emissions.

- 3.12 **Information.** Bancóldex will compile and retain all information, indicators, and parameters required to prepare the PCR and any ex post evaluation that the Bank may want to carry out.

Development Effectiveness Matrix		
Summary		CO-L1228
I. Corporate and Country Priorities		
1. IDB Development Objectives		
		Yes
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Gender Equality and Diversity -Climate Change and Environmental Sustainability	
Country Development Results Indicators	-Reduction of emissions with support of IDBG financing (annual million tons CO2 e)* -Micro / small / medium enterprises financed (#)*	
2. Country Development Objectives		
		Yes
Country Strategy Results Matrix	GN-2972	Spur innovation and development in business and agriculture
Country Program Results Matrix	GN-2948-2	The intervention is included in the 2019 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		
		Evaluable
3. Evidence-based Assessment & Solution		
		10.0
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		
		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		1.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		0.0
5. Monitoring and Evaluation		
		8.5
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes Technical cooperations for capacity building in green financing (ATN/TC-13728-CO, ATN/TC-14011-CO, ATN/TC 15151 CO, ATN/TC-15364-CO).

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The project "First program of productive business financing (CO-L1228)", the first operation under the CCLIP CO-0004, aims, as its general objective, to contribute to the improvement of the productivity of smaller sized firms (EMTs) through financing channeled by Bancoldex. The specific objectives of the program are to: (i) increase financing of productive assets by EMTs; (ii) scale up the financing of EMT investments in energy efficiency projects; and (iii) contribute to the creation of a financing market for EMTs in the orange economy.

The project identified the relatively lower productivity of micro, small and medium sized firms, as compared to large firms, as the primary problem it is seeking to address. This is crucial given that the vast majority of firms in Colombia are in the former category. The program identifies the lack of access to credit, in particular longer-term credit, as one of the key causes of the problem of low productivity, since it limits these firms' ability to invest in fixed assets and new technologies. In addition, banks' risk assessment systems are not adapted to projects related to the orange economy and adoption of new technologies. The program's three components, focused on (i) fixed asset investment, (ii) financing of projects related to energy efficiency, and (iii) credit to the orange economy, are consistent with tackling these problems. The program has SMART indicators to measure the expected impacts and results, as well as to monitor the implementation of the products to be generated during the program.

The cost-benefit analysis of the project is adequate and shows a positive net present value in the central scenario, as well as under a range of conditions included in the sensitivity analysis. There is evidence of the effectiveness of this type of intervention in this specific context from evaluations of the Bank's prior operations in Colombia. As a result, the program does not plan to conduct an impact evaluation with attribution at closure.

RESULTS MATRIX

Project objective:	The general objective of the first program under the CCLIP is to help improve the productivity of smaller enterprises through financing channeled by Bancóldex. The specific objectives are to: (i) increase productive financing for smaller enterprises; (ii) scale up financing for investments by smaller enterprises in energy efficiency projects; and (iii) contribute to the creation of a financing market for smaller enterprises in the orange economy.
---------------------------	--

EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline year	Final target (2022)	Means of verification	Comments
Rate of growth in sales per employee in beneficiary smaller enterprises with subloans under the program	%	0%	2018	4%	Bancóldex reports	The indicator measures the difference in rates of average annual growth in sales per employee in beneficiary enterprises and a sample ¹ of enterprises that are not program beneficiaries. It is calculated based on data obtained from the Bancóldex onlending portfolio and Confecámaras database. The baseline is zero since the growth rate is equal to 6% for both types of enterprises (see Economic Analysis). The target for this indicator is calculated based on the results of a prior impact assessment on the assumption that the average number of employees will remain constant in the short term. See Economic Analysis and Monitoring and Evaluation Plan .

¹ See Table 3 of [Monitoring and Evaluation Plan](#).

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Baseline year	Final target (2022)	Means of verification	Comments
<u>Outcome 1: Increase productive financing for smaller enterprises</u>						
Investments made by smaller enterprises with access to the program and productive financing	US\$ millions	300	2018	375	Bancóldex reports	The indicator measures the value of the sum of investments with loan proceeds and own resources made by all beneficiaries of Component 1 under the program. The target value is this sum, plus expected cofinancing, plus the baseline value. The information for the baseline comes from 2018 Confecámaras data obtained through the Bancóldex portfolio information system.
Total Bancóldex portfolio of productive financing for smaller enterprises	US\$ millions	756.5	2019	851	Bancóldex reports	This indicator measures the total value of the Bancóldex portfolio of productive financing for smaller enterprises, which includes program resources and operations financed with other resources. The target value is calculated based on Bancóldex growth projections, which also take into account the values of this operation.
Average term of the total Bancóldex portfolio of productive financing for smaller enterprises	Months	30	2018	48	Bancóldex reports	The indicator measures the average term obtained by all beneficiaries of productive financing from Bancóldex, including operations financed with other resources. The baseline and target were defined based on 2018 portfolio information.
Bancóldex portfolio of productive financing for smaller enterprises run by women	Index	100	2019	111	Bancóldex reports	This indicator is an index that measures the percentage of loans for women entrepreneurs within the portfolio of productive financing for smaller enterprises. The baseline value is equal to the normalized index based on the proportion of women in the portfolio. This percentage will be estimated more accurately later, as Bancóldex continues to classify loans by gender. However, growth of at least 11% in the proportion of women is expected.
<u>Outcome 2: Scale up financing for investment by smaller enterprises in energy efficiency projects</u>						
Energy savings for beneficiary smaller enterprises from energy efficiency projects	GWh	0	2019	35.7	Bancóldex reports	This indicator measures the total annual energy savings achieved by all beneficiary enterprises under Component 3 of the program. The Monitoring and Evaluation Plan contains details of the means of verification. The baseline is equal to zero because the energy efficiency savings will begin with program financing. The target was calculated based on estimates in the program's Economic Analysis.

Indicators	Unit of measure	Baseline	Baseline year	Final target (2022)	Means of verification	Comments
Bancóldex portfolio of financing for energy efficiency projects submitted by smaller enterprises	US\$ millions	14	2019	39	Bancóldex reports	This indicator measures the value of the energy efficiency investment loan portfolio. The target is calculated based on the program's expected contribution, plus cofinancing with enterprises' own funds. The baseline is equal to the 2019 energy efficiency loan portfolio.
Outcome 3: Support the creation of a financing market for smaller enterprises in the orange economy						
Smaller enterprises in the orange economy that access credit with program resources	Number	0	2018	100	Bancóldex reports	A financing line is being created for creative smaller enterprises so the number of these enterprises served will constitute an outcome rather than an output. Since this line defines unique eligibility criteria and has distinct terms and conditions, no smaller enterprises currently have these characteristics in the Bancóldex portfolio. The baseline is therefore zero. However, the number of beneficiaries is not one of the credit conditions.

OUTPUTS

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target (2022)	Means of verification	Comments
<u>Component 1: Productive strengthening (US\$60,000,000)</u>										
Amount intended to finance productive investments by smaller enterprises	US\$ millions	0	2019	0	30	30	0	60	Bancóldex reports	The indicator measures disbursements for this component.
<u>Component 2: Energy efficiency (US\$20,000,000)</u>										
Amount intended to finance energy efficiency investments by smaller enterprises	US\$ millions	0	2019	20	0	0	0	20	Bancóldex reports	The indicator measures disbursements for this component.
<u>Component 3: Orange economy (US\$10,000,000)</u>										
Creation of a second-tier financing line for smaller enterprises in the orange economy	Number	0	2019	0	1	0	0	1	Bancóldex Financial System Circular	This is a binary indicator whose value is zero when the line has not been created and one when the line is introduced.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Colombia
Project number:	CO-L1228
Name:	First Productive Business Financing Program under the Productive Business Financing CCLIP (CO-O0004)
Executing agency and borrower:	Banco de Comercio Exterior de Colombia S.A. (Bancóldex)
Guarantor:	Republic of Colombia
Prepared by:	Mylenna Cárdenas García, Fiduciary Specialist in Financial Management, and Eugenio Hillman, Lead Fiduciary Specialist in Procurement

I. EXECUTIVE SUMMARY

- 1.1 Bancóldex is a second-tier financial institution with legal standing, administrative autonomy, and its own funds. It is supervised by the Financial Superintendency and attached to the Ministry of Trade, Industry, and Tourism. Bancóldex has experience in the execution of IDB-financed programs and has demonstrated its capacity as an executing agency since 2008 through the following programs: loan 2080/OC-CO for US\$100 million, loan 2193/OC-CO for US\$200 million, loan 2949/OC-CO for US\$200 million, and loan 4439/OC-CO for US\$90.7 million, financed under the Conditional Credit Line for Investment Projects (CCLIP), approved in 2008 in the amount of US\$650 million (CO-X1007). This is in addition to the following operations: 2983/TC-CO for US\$10 million and 3003/TC-CO for US\$40 million, which are now closed, and operation 3661/TC-CO in the amount of US\$9.265 billion, which is in the process of being executed. Bancóldex continues to have sufficient capacity to carry out financial management and resource administration activities for this operation. The evaluation of fiduciary risk for Bancóldex has been rated as low.
- 1.2 Bancóldex is not part of the National General Budget, as it is a public-private national corporation. As a result, it is not obligated to keep its accounting records and carry out its budgetary control in the Public Financial Management System. Bancóldex uses a reliable integrated system that runs on the AS/400 platform, with integrated accounting, treasury, portfolio, and budget modules.
- 1.3 The amount of the CCLIP is US\$600 million with a 10-year term. The amount of the first operation is US\$90 million, of which US\$60 million will be financed with IDB resources and US\$30 million with a local contribution. The disbursement period will be four years. The program does not include financing from other multilateral agencies.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 Bancóldex uses a reliable integrated accounting system that runs on AS/400, in which the accounting, treasury, portfolio, and budget applications are online, and receives information from the investment (Alfyn), T24, cash (Pagaduría), SISA, treasury (COBIS), PBO (balance transfer), and payroll (SRH) applications. This system is used to maintain, manage, and monitor independent accounts that make it possible to record program resources, facilitating their control and identification.
- 2.2 Bancóldex policies, procedures, and processes are well defined and published on the intranet so that they can be consulted by all employees. These procedures are part of the Bancóldex value chain comprising all the processes and subprocesses executed by the institution. This was identified during the supervision of loans that are being executed. Bancóldex also currently has ISO-9001 quality management system certification. One strength is that Bancóldex has qualified staff, functional information systems, and clear, defined procedures for carrying out all of the programmed activities. It also has technical staff with solid experience, tenure, and seniority in each area of the institution, which enables it to ensure the quality of its fiduciary and administrative processes, as well as accountability and efficiency in the performance of its duties.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 Bancóldex has experience in executing programs with resources financed by the IDB and has demonstrated its capacity as an executing agency through seven programs financed under the CCLIP, approved in 2008 in the amount of US\$650 million (CO-X1007), including operations 2983/TC-CO and 3003/TC-CO, which are now closed, and operation 3661/TC-CO, which is in the process of being executed. The Institutional Capacity Assessment System, conducted in April and May 2019, confirmed that the institution continues to have sufficient capacity to carry out financial management and resource administration activities for this operation. The fiduciary risk is therefore rated as low.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 **Financial management**
 - a. The IDB will disburse project resources under the reimbursement modality.¹
 - b. The exchange rate for reimbursement requests will be the rate in effect on the effective date of payment in Colombian pesos.
 - c. Audited annual financial statements will be required for the project and for the borrower.
 - d. The fiscal year of the project runs from 1 January to 31 December of each year.

¹ However, all disbursement modalities in the Financial Management Guidelines (document OP-273-12) or in current IDB policies will be available to Bancóldex provided the IDB approves their use.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 A global credit structure was adopted for procurement under this operation. In this context, credit resources would be disbursed according to the rules set out in the Credit Regulations, consisting of subloans granted by private-sector first-tier credit institutions. Subborrowers will engage in procurement processes using private-sector practices. Bancóldex will not engage in procurement processes using the Bank's loan proceeds.
- 5.2 **Procurement execution.** Pursuant to paragraph 3.12 of the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) of March 2011, where procurement in loans to financial intermediaries involves funds re-lent to beneficiaries under another loan in order to finance subprojects, current private-sector procurement practices for goods and services acceptable to the Bank may be used. The principles of quality, economy, efficiency, competition, and transparency will be observed in such procurement procedures.
- 5.3 **Thresholds table (in thousands of U.S. dollars).** Not applicable.
- 5.4 **Main procurement items.** No procurement is envisaged by Bancóldex, which operates as a second-tier bank in all cases.
- 5.5 **Procurement supervision.** Given the nature of this operation, the Bank will not be conducting procurement reviews.
- 5.6 **Special provisions.** Not applicable.
- 5.7 **Records and files.** Documentation for subloans financed by the operation will be kept by first-tier credit institutions, which analyze and approve the loan applications. These institutions therefore assume all of the credit risk and will be solely responsible for monitoring the portfolio.
- 5.8 The area of Bancóldex in charge of maintaining project records and files will be the International Bank Office of the Vice Presidency for Finance and Administration. Official disbursement request forms listing the subloans subject to reimbursement of expenses will be used in the preparation and filing of reports for this program.
- 5.9 **Retroactive financing.** The Bank may retroactively finance from the loan proceeds eligible expenditures incurred by the borrower prior to the loan approval date, to finance activities planned in Components 1, 2, and 3, for amounts up to US\$12 million (20% of the proposed loan amount), provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures will have been incurred on or after the project profile approval date (20 May 2019), but under no circumstances will expenditures be included if incurred more than 18 months prior to the loan approval date.

VI. FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** Bancóldex is a public-private national corporation and is therefore not part of the National General Budget, that is, it does not use funds from the government treasury to cover its expenditures. Rather, its expenditures are paid with funds derived from its own operations as a credit institution, which is why it is not obligated to carry out its budgetary control in Colombia's Public Financial Management System. The institution's budget is structured in accordance with the Strategic Action Plan, which enables a course of action to be established for business fronts for the year planned and the subsequent determination of allocations for each line (credit disbursement needs). These allocations include bonds, term deposit certificates, bonds for specific purposes, savings accounts (product launched in March 2019), and operating expenses, which are covered with internal funds, resources collected from interest payments, and principal paid by first-tier financial entities, to which loans are granted using the rediscount credit method. It is important to point out that Bancóldex has clear policies for budget preparation and monitoring that are defined in the budget planning and management processes established in the entity's value chain and that are approved by senior management. Budgets are prepared using actual Bancóldex positions as of October of the immediately preceding year, and the last two months are projected jointly with the commercial department for each line; these are approved by the Board of Directors for each fiscal period. To monitor budget management, there are tools available to make business projections (COGNOS PLANNING) and to facilitate expenditure tracking (COGNOS FINANCE) and monitoring of the various allocation lines and other business units (data warehouse). Budget execution is monitored by the Bancóldex executive committees and the Board of Directors, which meets monthly.
- 6.2 **Accounting and information systems.** The Bancóldex policies on accounting and financial statement preparation are in line with the Accounting and Financial Reporting Standards accepted in Colombia, which are based on the International Financial Reporting Standards. Its regulatory framework contains the Basic Accounting and Financial Circular (External Circular 100 of 1993) and the Basic Legal Circular (External Circular 029 of 2014) of the Financial Superintendency of Colombia. The accrual method of accounting in the Bancóldex multiuser accounting module will be used for the project. Transactions and their balances will be administered using the T24 core banking software solution, the standard software for managing credit transactions. The transactions related to the project will be clearly identified in the Bancóldex database and will be modified through an automatic data entry system on the Oracle Forms platform, in which automatic controls and validations agreed with the IDB will be implemented in order to select and administer the status of associated transactions. All of these tools are covered in Bancóldex operational and database management plans. Bancóldex will control this amount in Delfos (institutional information system). There is a report allowing for automatic control of transactions that support each of the disbursements received from the IDB. In light of the foregoing, control is understood to be separated from the Bancóldex portfolio accounting or transactional system. The core information for the presentation of project financial statements is extracted from the AS/400 application, but the statements are generated in Excel manually.

- 6.3 **Disbursements and cash flow.** The resources intended for the program components will be disbursed by the IDB to Bancóldex through the reimbursement modality.² Disbursements will be made to reimburse Bancóldex for transfers to credit institutions that have loan quotas with Bancóldex and that submitted onlending contracts in accordance with the eligibility conditions set out in the program Credit Regulations.³
- 6.4 **Internal control and internal audit.** Bancóldex has an implemented, operational Standard Internal Control Model, MECI 1000:2014, for Colombian government entities based on the COSO global standard, which is aligned and coordinated with the internal control system framework established by the Financial Superintendency of Colombia for its supervised entities. The internal control system also comprises applicable quality and risk management policies and systems subject to the supervision and control of the aforementioned control entity. Therefore, Bancóldex has methodologies and manuals for the administration of mandatory risks supervised by the Financial Superintendency of Colombia. These systems include the Credit Risk Management System, Market Risk Management System, Liquidity Risk Management System, Operational Risk Management System, and System for the Management of the Risk of Fraud, Money Laundering, and Financing of Terrorism. As part of its high-level controls, Bancóldex has in place a Code of Ethics, a Code of Good Corporate Governance, a Code of Institutional Conduct, a Control Policy established and based on the principles of self-regulation, self-management, self-control, and continuous improvement, and a Quality and Operations Manual. It also has an Audit Committee established pursuant to its regulations made up of three members of the Board of Directors.
- 6.5 Bancóldex conducts an annual independent normative evaluation of its Internal Control System under the MECI: 2014 Model administered by the Civil Service Department. Efforts to strengthen Bancóldex include the commitment to the continuous improvement of internal control, which is reflective of the responsibility for strategic plans and guidelines on internal control proposed by the National Government where their components, control environment, risk assessment, control activities, information, communication, and monitoring are evaluated, supplemented by risk management systems implemented at the request of the Financial Superintendency. Areas with opportunities for improvement are part of time-bound action plans, monitored by the Comptroller, Audit Committee, and External Audit Office. An annual evaluation of the Internal Accounting Control System is also carried out pursuant to the methodology of the Colombian National Accounting Office, whose assessed normative elements correspond to the existence and effectiveness of controls applicable to accounting policies, accounting process stages, accountability and reporting to interested parties, and accounting risk management. Under this methodology, the resulting independent rating for the Bancóldex Internal Control System, 2017 version, is 1.34 out of 3.0,⁴

² However, all disbursement modalities in the Financial Management Guidelines (document OP-273-12) or in current IDB policies will be available to Bancóldex provided the IDB approves their use.

³ Credit institutions include banks, financial corporations, finance companies, financial cooperatives, as well as financial NGOs, savings and/or credit unions, alternative financing platforms, accelerators, or incubators, with specialized financing units, and others that comply with the formal accreditation processes of Bancóldex.

⁴ In accordance with the Internal Control Quality and Efficiency Evaluation Matrix in the Audit Guide of the Comptroller General of the Republic, in the following ranges:

- in accordance with the Internal Control Quality and Efficiency Evaluation Matrix included in the Audit Guide of the Comptroller General of the Republic. The controls evaluated and those for which improvement opportunities were identified are part of the defined action plans, monitored by the Internal Control Office, Audit Committee, and External Audit Office. Management of the institution is aligned with periodic monitoring through established plans, targets, budgets, and projects and is consistent with the government environment and policies, in addition to providing reliability in resource management and the achievement of objectives and targets set by Bancóldex Corporate Governance.
- 6.6 Every year, the Bancóldex Board of Directors, through its Audit Committee, presents the Internal Control System Evaluation Management Report at the General Shareholders' Meeting, fulfilling the legal requirement established by the Financial Superintendency of Colombia in Part I, Title I, Chapter IV "Internal Control," of the Basic Legal Circular (External Circular 029 of 2014). The institution has "Guidelines on Credit and Technical Assistance Programs with Multilateral and Cooperation Agencies," which describe the general activities carried out as part of credit and technical assistance programs signed by Bancóldex with multilateral and cooperation agencies as a funding and/or financing strategy, in accordance with the institution's strategic framework, offered through the rediscount credit line to first-tier financial institutions and the customer segments served.
- 6.7 Bancóldex has an Internal Comptroller's Office that performs the independent functions of an internal control office, reporting functionally to the Audit Committee and the Board of Directors and administratively to the Office of the President of Bancóldex. The Comptroller's Office also carries out the independent assessment of Bancóldex, fulfilling the audit function. It currently holds a quality certificate from The Institute of Internal Auditors, meaning that it applies the IIA Global® standards in carrying out its assurance or consultation work. It also has an Audit Charter, an Audit Manual, and a Risk-Based Annual Audit Plan, instruments approved by the Audit Committee and the Bancóldex Board of Directors.
- 6.8 **External control and reports.** Resource execution and the eligibility of program expenditures will be audited annually by an independent audit firm hired by Bancóldex and acceptable to the Bank. The program auditor may be the same firm performing the statutory audit function and auditing Bancóldex financial statements and other ongoing projects, which would optimize costs and provide a comprehensive view of control over the executing agency and program administration. The auditor will submit a report on the eligibility of project expenditures, will verify the existence of promissory notes endorsed to Bancóldex and whether resources are being channeled through private-sector first-tier credit institutions to the final beneficiaries in accordance with the conditions stipulated in the program Credit Regulations, and will conduct inspection visits of both private-sector first-tier credit institutions and final beneficiaries. Audit services will be financed with Bancóldex resources. Audited financial statements for the project will be sent to the IDB within 120 days after the closing of the project's fiscal year,

-
- From 1 to <1.5 = "efficient."
 - From =>1.5 to <2 = "with deficiencies."
 - From =>2 to 3 = "inefficient."

- throughout the original disbursement period or its extensions, in accordance with the terms of reference and procedures previously agreed with the Bank.
- 6.9 The IDB will request audited financial statements from the borrower as well as additional financial information relating thereto during the project execution period, until all project resources have been disbursed. These will be sent to the IDB within 120 days after the closing of the Bancóldex fiscal year, beginning with the year in which project execution is initiated and throughout the original disbursement period and its extensions.
- 6.10 **Financial supervision plan.** The financial specialist will, at a minimum, conduct an on-site review every year and desk reviews of the audited annual and final financial statements. The auditor will verify the existence of promissory notes endorsed to Bancóldex and whether resources are being channeled through private-sector first-tier credit institutions to the final beneficiaries in accordance with the conditions stipulated in the program Credit Regulations, and will conduct inspection visits of both first-tier credit institutions and final beneficiaries. The fiduciary supervision visits regarding financial management will include the verification of financial and accounting arrangements for project administration and for monitoring the implementation of recommendations that the independent auditor of this project may issue.
- 6.11 **Execution mechanism.** The borrower and executing agency will be Bancóldex, which will be legally liable to the IDB for debt repayment, with national government guarantee, and will carry out the program's technical and financial activities. The IDB loan proceeds will be transferred by Bancóldex to first-tier credit institutions through the usual rediscount mechanism used by Bancóldex or another mechanism agreed with the IDB, at a market rate that reflects its funding costs plus a margin to cover its operating costs. Bancóldex will be responsible for identifying and selecting eligible first-tier credit institutions for participation in the project, in accordance with the Credit Regulations and its own policies and processes. The first-tier credit institutions will freely set the subloan amounts, the disbursement characteristics, the interest rates and fees, the repayment terms and frequency, and the grace periods on the basis of a credit analysis on the subloans and the project lifespan. Financial management responsibilities will be entrusted to Bancóldex, as will the assessment of financial risks and monitoring in connection with the loans and amounts granted to the first-tier banking institutions.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Colombia. Conditional Credit Line for Investment Projects (CCLIP) CO-O0004
for Productive Business Financing

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, to enter into such agreement or agreements as may be necessary with Banco de Comercio Exterior de Colombia S.A. (Bancóldex), to establish the Conditional Credit Line for Investment Projects (CCLIP) CO-O0004, for an amount of up to US\$600,000,000 chargeable to the resources of the Bank's Ordinary Capital or resources administered by the Bank, to cooperate in the execution of programs for productive business financing.

2. To determine that the resources allocated to the above-mentioned Conditional Credit Line (CCLIP) CO-O0004 shall be used to finance individual loan operations in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects approved by Resolution DE-58/03, as amended by Resolutions DE-10/07, DE-164/07, DE-86/16 and DE-98/19; (b) the provisions set forth in documents GN-2564-3 and GN-2246-13; and (c) the terms and conditions included in the Loan Proposal for the corresponding individual operation.

(Adopted on ____ 2019)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Colombia. Loan ____/OC-CO to Banco de Comercio Exterior de Colombia S.A. (Bancóldex).
First Productive Business Financing Program. First Individual Operation under
the Conditional Credit Line for Investment Projects (CCLIP) CO-O0004

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Banco de Comercio Exterior de Colombia S.A. (Bancóldex), as borrower, and with the Republic of Colombia, as guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the First Productive Business Financing Program, which constitutes the first individual operation under the Conditional Credit Line for Investment Projects (CCLIP) CO-O0004 approved on ____ _____ 2019 by Resolution DE-___/19. Such financing will be in the amount of up to US\$60,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ _____ 2019)