PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MULTILATERAL INVESTMENT FUND

COLOMBIA

PROMOTING SHARED VALUE BUSINESS APPROACHES WITH POOR AND LOW INCOME POPULATIONS

(CO-M1084)

DONORS MEMORANDUM

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PROJECT SUMMARY

PROMOTING SHARED VALUE BUSINESS APPROACHES WITH POOR AND LOW INCOME POPULATIONS

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Even though microenterprises owned by the poor and low-income populations (PLIPs) have been linked to anchor firms in Colombia, they generally operate in segments of the value chain which require very basic skills and generate low income. This arrangement limits microenterprises' ability to capture or increase economic gains, thereby, restricting their growth potential. As suppliers or distributors of products and services with little value added, their growth is constrained by the anchor firms' business performance, operating structure, and the value chain governance. Another obstacle to micro-businesses graduating to small firms is the absence of methodologies on how to best link micro-enterprises to the anchor firm in order to achieve high value potential, not just marginal income increases. Moreover, even microenterprises with high value and growth potential are unable to seize these opportunities because they lack the skills needed to identify competitive niches and conceptualize innovative ideas.

The MIF will finance specialized consulting services and bring its own technical expertise to support the creation of new businesses in more sophisticated activities. The Project will work with anchor firms' value chains and explore scaling opportunities through clusters or a group of firms in the same or complementary industries and upgrade existing microenterprises already part of the value chains. The project will use selected anchor firms' value chains as a vehicle to accelerate existing microbusinesses or incubate higher value micro and small businesses – part of the approach referred to as "shared value".

The ANDI Foundation, a not-for-profit organization created by ANDI – the Colombian National Association of Businesses will implement the proposed project which totals over US$2.7 million. The Executing Agency will design test and transfer two methodologies to beneficiaries: one to upgrade existing microbusinesses in their value chains; the other to create new businesses in areas of the value chain that offer greater profitability. In the pilot phase, the project will upgrade approximately 120 microenterprises and create 15 new businesses, ultimately improving the livelihoods of 1,500 poor and low-income individuals.

TABLE OF CONTENTS

PROJECT SUMMARY

ANNEXES

ANNEX I	Logical Framework
ANNEX II	Budget Summary
ANNEX III	Quality for Effectiveness in Development (QED)

APPENDIXES

Draft Resolution

INFORMATION AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF MIF PROJECT INFORMATION SYSTEM

ANNEX IV	Detailed Budget
ANNEX V	Preliminary List of Milestones
ANNEX VI	Diagnostic of Needs of the Executing Agency (DNA)
ANNEX VII	Execution Unit and Reporting Requirements
ANNEX VIII	Compliance with Milestones, Fiduciary Arrangements and Integrity Due Diligence
ANNEX IX	Procurement and Contracting Plan
ANNEX X	Project Activities Schedule
ANNEX XI	Operating Regulations
ANNEX XII	Terms of Reference of the Project Director

ACRONYMS AND ABBREVIATIONS

AFE	Association of Business Foundations
ANDI	National Association of Business Executives of Colombia
ANSPE	Colombian Government's Agency for Social Prosperity
AOP	Annual Operating Plan
CONFECAMARAS	Colombian Confederation of Chambers of Commerce
DANE	National Administrative Department of Statistics
DNA	Diagnostic of Executing Agency Needs
DSP	Department of Social Prosperity
IDB	Inter-American Development Bank
MIF	Multilateral Investment Fund
OMJ	Opportunities for the Majority
PLIP	Poor and Low Income Population
QED	Quality for Effectiveness in Development
SCF	Structured Corporate Finance
SEP	Social Entrepreneurship Program
SME	Small and Medium-sized Enterprise

Project Information

PROMOTING SHARED VALUE BUSINESS APPROACHES WITH POOR AND LOW-INCOME POPULATIONS

(CO-M1084)

Country and Geographic Location:	Colombia		
Executing Agency:	Fundación ANDI (ANDI is an acronym in Spanish for Asociación Nacional de Empresarios de Colombia)		
Access Area:	Access to Markets and Skills		
Agenda:	Linking Small Firms to Value Chain		
Coordination with Other Donors/Bank Operations:	The project is being coordinated with SCF and OMJ as they are seeking to partner with large Colombian firms interested in linking microenterprises of poor and low-income populations to their value chains.		
Direct Beneficiaries:	The project's beneficiaries are 1,500 poor and low-income owners/employees of 15 new and 120 existing microbusinesses; 500 of the beneficiary individuals are expected to be below the national poverty line.		
Indirect Beneficiaries:	Indirect beneficiaries include 30 anchor firms, 20 NGOs that offer services to microbusinesses, and 6,000 members of the beneficiary households.		
Financing:	Technical Cooperation:	US$ 1,615,100	59%
	Counterpart:	US$ 1,105,900	41%
	TOTAL PROJECT BUDGET:	US$ 2,721,000	100%
Execution and Disbursement Period:	36 months of execution and 42 months of disbursement.		
Special Contractual Conditions:	Conditions prior to first disbursement will be: (i) the selection of the Project Director; and (ii) the presentation of a signed agreement between the Executing Agency and ANDI by which ANDI commits to providing necessary information, technical and administrative support to the project implementation.		
Environmental and Social Impact Review:	This operation was screened on March 22, 2013 and classified as required by the IDB's safeguard policy (OP-703). Given the limited impacts and risks, the proposed category for the project is C.		
Unit with Disbursement Responsibility:	COF/CCO will supervise the project.		

1. Background and Justification

A. Diagnosis of the Problem to be addressed by the Project

1.1. According to research on Colombia's labor force, including worker transition flows into and out of self-employment and business ownership for 2001-2007, only 0.3% of the self-employed (mostly women and disadvantaged youth) effectively make the transition to business owners.[1] Many microenterprises have been unable to achieve higher economic gains even when "included" in anchor firms' value chains. Most of these businesses still run tiny operations providing an alternative, subsistence-level income opportunity, but they are unable to grow sufficiently to become profitable small and medium-sized enterprises (SMEs) that generate the level of income required to lift people out of poverty and to create quality employment opportunities for other workers in the economy. This lack of dynamism of the "micro to small" business range explains why 95% of businesses in Colombia are micro and very few become SMEs. This becomes increasingly relevant given that Colombia is one of the most inequitable countries in the world,[2] and its 2010 poverty rate is still high at 31%, with even higher rates of informal businesses and employment (about 48% of the total workforce).

1.2. From 2008 to 2011, ANDI implemented a program called "Productive Linkage Projects within a Context of Corporate Social Responsibility -Pro-CSR, CO-S1001) funded by the IDB/MIF's Social Entrepreneurship Program (SEP). A preliminary analysis indicates that approximately 20-30% of the microbusinesses supported under this SEP have the potential to create higher value and significant growth within their value chain, and these microbusinesses not only are in an industry with growth potential but also have gained a relative position in the market to be able to establish a business model that will create advantages within their value chain. However, several reports[3] point to many firms' view on the inclusion of the poor as philanthropy and not as a business opportunity. Other research in the same field reveals that business owners of larger firms rarely consider the poor as potential businesses partners.[4] Therefore, a significant number of linkages created between anchor firms and the microenterprises of poor and low-income populations (PLIPs), lack rigor in the development of the business models, which ultimately tend to create subsistence level microbusinesses.

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[1] Mondragon-Velez and Pena-Parga, "Business Ownership and Self-Employment in Developing Economies: The Colombia Case".

[2] Colombia ranks third among 129 countries according to the UNDP's Human Development Report 2011.

[3] Final Evaluation of CO-S1001, "Creando valor extraordinario con los pobres: emprendimientos de valor compartido", Yuma Consulting and Universidad de los Andes, 2012, and "Emprendimiento de Alto Impacto en Clusters", The Breakthrough and University of Los Andes, 2011.

[4] "Enterprise Solutions to Poverty, Emerging Innovation Group", Colombia Agribusiness, 2008; "Socially Inclusive Business, Engaging the Poor through Market Initiatives in Iberoamerica", SEKN, 2008";"Los negocios inclusivos en Colombia" SNV/CECODES, 2008; and MIF-funded research project on shared value in "Clusters under the Cluster Development Project" (ATN/ME-8797-CO).

1.3. In most cases, both their weak operational capacity and lack of understanding on how each value chain is governed[5] impede microbusinesses' ability to upgrade – through improvements in processes, products, and functions. Besides, there is a glaring lack of analytical skills among anchor firms and microenterprises alike regarding the potential for scaling up the function of the entire value chain. Anchor firms and PLIP-run microenterprises have not traditionally worked together and have therefore failed to develop ways to create new, profitable business opportunities for both. While this weakness was meant to be addressed in the previous SEP project by incorporating a new actor – mostly NGOs– to fulfill a coordination role between the anchor firms and the PLIPs, results show that more work needs to be done to identify and strengthen this role, given that the majority of coordinators were focused on more social work and had little, if any, real business expertise to offer the PLIPs. This is one of the reasons that the target population was linked to very simple activities within the value chain. Furthermore, the previous SEP project also indicated that microbusinesses lack access to finance even when included in the value chain– an important constraint to their becoming reliable suppliers, distributors or partners for established anchor firms.

B. Project Beneficiaries

1.4. The proposed project's beneficiaries are: 1,500 poor and low-income new and existing microbusiness owners/employees, 500 of whom are expected to be below the national poverty line. The breakdown of the expected 1,500 beneficiaries is the following: 1,440 individuals who are the owners and employees of the 120 upgraded firms; and 60 owners and employees of 15 new firms that will be created in the pilot phase. [6]

1.5. The beneficiaries also include 30 anchor firms that will improve their own business performance as their PLIP-owned suppliers, distributors or partners[7] increase the quality, price, volume or other attributes of the products/services provided to anchor firms.

1.6. Additionally, 20 organizations including business foundations, NGOs, government entities, chambers of commerce, incubators and local business development organizations that work with microbusinesses also will benefit from the project as they will be trained on the new methodologies, which will then become additional services within their toolkits for microbusiness clients.

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[5] Value Chain Governance is the power to control, influence, set the modes and rules of interaction in value chain. "Types of Value Chain Governance", Gereffi, Humphrey and Sturgeon, 2005.

[6] It is worth noting that the definition of microenterprise in Colombia is up to 10 employees, and the upgrading microenterprises are expected to go above that definition, while the newly created businesses with high value propositions may need to start with 2 founders to sustain complex operations. The average for the upgraded microenterprises will have a conservative setting of 1 owner and 11 employees per company, so the total beneficiaries would be 1,440 (120+11×120). As the previous SEP project showed that more complex business opportunities for the poor start out with 3 to 5 employees, then the newly created microenterprises would have an estimated average of 2 owners and 2 employees per company, and the total beneficiaries number would be 60 (15×2+15×2).

[7] Anchor firms might spin off a non-core part of their business and act as angel buyers or partners with equity stakes while the new business may get to a point where the anchor firm could exercise an exit strategy.

1.7. Indirect beneficiaries include 6,000 members of the beneficiary households. In so far as the pilots provide the expected early wins, this project will have a demonstration effect of the type of growth that is possible for PLIP-owned businesses both in participating communities and new communities. It is expected that new anchor firms will also become interested in these new methodologies, once the results are available and that more organizations will become interested in playing the coordination role between PLIPs and anchor firms.

1.8. Ample consideration will be given to gender issues by identifying high-value business opportunities for women and determine the types of training, logistics, working hours, and other gender-specific needs required to help women take advantage of these opportunities. Also, microenterprises that are owned by women and upgraded will provide input to the methodology, providing a better understanding of and gender specific solutions to the obstacles faced by women-owned microbusinesses. It is expected that at least 20% of project beneficiaries will be women.[8]

C. Contribution to MIF Mandate, Access Framework and IDB Strategy

1.9. This project will help achieve the MIF's dual mandate: (I) reduce poverty by creating high-value, sustainable new businesses opportunities for PLIPs by incorporating them into the value chains of anchor firms; and (ii) promote private sector development by creating high value through new business for the PLIP, strengthening existing businesses in new value creation and generating a better environment in which to do business. The project contributes to the agenda "Linking Small Firms to Value Chains" by testing models and refining good practices generated based on the lessons learned from previous projects, specifying how to identify and implement high-value business opportunities with the PLIP, how to work with different types of populations in the most effective ways, how to scale the initiatives by working with clusters or other alternatives such groups of firms in the same or complementary industries including platforms for social innovation created under the MIF-financed project with Compartamos (CO-M1091, Paragraph 2.38), and how to replicate it in other organizations and countries.

1.10. The project will also further the 2012-2014 IDB Country Strategy for Colombia in the areas of expanding services to the private sector, promoting growth and competitiveness and, especially, supporting equality of opportunity by addressing barriers to growth for micro and new businesses owned by PLIPs, with specific attention to gender and other factors of traditional exclusion.

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[8] A recent study shows that: the universe of women-owned microbusinesses in Latin America is an average of 40%; women-owned businesses tend to face more obstacles than those owned by men - higher informality, smaller in terms of assets and sales, slower growth, and concentrated in less profitable sectors. (Pure Perseverance: A Study of Women's Small Businesses in Colombia, 2012).

1.11. Collaboration with the Bank Group. This project has been developed in close coordination with the Opportunities for the Majority (OMJ) and Structured Corporate Finance (SCF) departments of the Bank, as both may be able to develop loans for potential anchors firms of the proposed MIF project. This coordination is expected to help scale the project results and sustain them in the long-term.[9]

2. Project Description

A. Objectives

2.1. The objective at the impact level is to improve the livelihood of the owners and employees of new and upgraded microenterprises engaged in anchor firms' value chains, creating shared value[10] with the poor and low-income populations (PLIPs) in Colombia. The objective at the results level is to develop and/or strengthen the capacity of new and existing microenterprises as suppliers, distributors or partners of anchor firms within their value chains or clusters, as a result of shared value business models implemented with the PLIPs.

B. Description of Model/Solution/Intervention

2.2. To accomplish the expected results, the project will work collaboratively with all key members of value chain to develop, test and transfer two basic methodologies: (i) to accelerate growth and upgrade microenterprises already linked to anchor firms' value chains; and (ii) to identify and create new initiatives owned by the PLIPs, in more sophisticated parts of anchor firms' value chains.

2.3. Based on the experiences of the past SEP project (as mentioned in Paragraph 1.3), it is anticipated that for both methodologies, coordinating organizations –most likely not-for-profit entities engaged in business development, incubation/acceleration, and cluster development will play an important role as an intermediary to facilitate ideation between the business opportunities emerging in the PLIPs and the selected anchor firms' value chains. While the previous SEP project considered that the critical expertise needed for NGOs to play such role was their knowledge of and experience with the PLIPs, there are two elements that should be incorporated in this new project: the first

[9] With the aim to mainstream shared value investments by middle to large sized companies, SCF has designed a new product offering: "Shared Value Appraisals: Defining the Business Case for Development Partnerships with Indigenous Peoples, African Descendants, and Women (RG-T2200)" through a technical cooperation launched in partnership with the Gender and Diversity Division (GDI). This new product is designed to offer existing SCF clients a shared value appraisal that consists of a comprehensive review and examination of their investment opportunities in strategic sectors, coupled with a robust cost-benefit analysis of social components.

[10] "Shared Value" refers to the principle that involves creating economic value in a way that also creates value for society by addressing its needs and challenges ("The Big Idea: Creating Shared Value" by Michael Porter and Mark Kramer, Harvard Business Review, 2011). According to Porter and Kramer, there are three distinct ways to do this: by reconceiving products and markets, redefining productivity in the value chain and building supportive industry clusters at the company's locations. This project has taken the second approach to upgrade businesses and create new higher value businesses with the poor within the value chain of anchor firms, and look at the role of clusters in this endeavor.

is that, in fact, this is a critical role that needs to be present when linking the PLIPs to anchor firms. The second point is that this role needs to be played by organizations that have real experience in organizing new, viable businesses and who are committed to co-creating with the poor and helping them manage profit-making organizations; philanthropic and charitable institutions tend not to have the expertise required to fulfill this role adequately.

2.4. **(i) Upgrading methodology.** It is expected that 200 microbusinesses with potential to grow within their value chains will be identified through organizations that support microenterprises and inclusive business, such as foundations, NGOs, chambers of commerce, among others which have worked with the MIF before. The SEP project previously executed by ANDI – ProCSR – will be tapped as an important source for microbusiness candidates. From this pool of 200, through a process of business diagnostic applied to the selected microbusiness that measure the enterprises' potential in the context of a specific value chain, approximately 150 existing microbusinesses with real potential for upgrading will be identified (past experiences indicate an attrition rate of as much as 25% in this first phase).

2.5. In order to identify microenterprises that are capable of upgrading, the project will work with: (i) anchor firm and/or (ii) firms that are in the clusters. Depending on how a particular value chain is governed,[11] with certain companies wielding more control than others, microenterprises may have openings for upgrading or "moving up" within the chain. In general, the governance structure varies depending on industries, complexity of the product and service specifications required by anchor firms, competence of suppliers, and long-term mutual dependence between anchor firms and suppliers.

2.6. The performance of the microbusiness, the coordinating agency and the anchor firms of the value chains or clusters within which the microbusinesses are upgraded will be evaluated to garner lessons learned and incorporate them into the methodology. Once documented, the methodology will be transferred to organizations working with microbusinesses to be added to the toolkit offered by those organizations to those microbusinesses that demonstrate growth potential.

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[11] The connections between industry activities within a value chain can be described a continuum extending from the market to hierarchical value chains through different grades of direct ownership in the production processes. Between the two extremes there are several intermediate modes of governance where lead firm exercises power through coordination of production vis-à-vis suppliers without direct ownership ("The Governance of Global Value Chains", Gereffi, Humphrey and Sturgeon 2005).

It is likely that in some stages of specific value chains, labor-intensive business models (when product specifications required by anchor firms are simple) still prevail, and can compete with price as suppliers. As the product specifications become more complex, suppliers need to develop the capacity to supply a package of specialized products with more internalized knowledge (e.g. computerized design). Sometimes upgrading includes upgrading of the value chain itself whereby actors move into new, but related, industries. A cluster, based on geographic proximity, may be an appropriate instrument for facilitating the transition into adjacent areas/supporting industries through rapid information flow and learning process (e.g. from agriculture to agro-tourism).

2.7. (ii) **New business creation methodology.** An important idea behind the second methodology to incubate new, higher value business opportunities with anchor firms is the intent to demonstrate that solid businesses run by the PLIP can be created from the outset. This will require the identification of anchor firms that are committed to exploring higher value opportunities within their own value chains and to creating new businesses with the poor as suppliers, distributors or partners.

2.8. In innovating business models, anchor firms and the PLIPs need to learn – again facilitated by coordinating organizations- entrepreneurial methods as well as a more managerial approach to innovation. To identify such opportunities for high-value business propositions and appropriate the created value, clusters may help replicate models that have worked in one firm to other firms in the cluster. Alternatively, using existing hubs will be an effective tool to bring related market actors together to develop business model innovation through a kind of crowd-sourcing (an example of the hub has been already supported by a previous MIF-financed project. See Paragraph 2.38).

2.9. Both methodologies are based on an emerging principle of corporate strategy that states that business acceleration and incubation is far more effective when linked with anchor firms' value chains. The 30 anchor firms (roughly 15 firms for each methodology) for are expected to earn economic gains through business transactions with new and existing microenterprises in their value chains - input providers, manufacturers, suppliers or distributors of related products/services, whose quality will be enhanced with improved management Some illustrative examples of "shared value approaches" are as follows:

(i) Instead of sourcing wood from a poor community, a large furniture firm promotes the creation of a firm, owned by the poor, that produces a line of custom-made wood furniture, for a target market that is too small for a bigger company to take advantage of.

(ii) Instead of letting street vendors sell candies on buses (low skill, low income, no learning, no new job creation) as traditional bus owners/drivers have done to help the poor, a bus manufacturer - another part of the value chain- outsources the making of special fiberglass parts for massive transit buses to a new firm owned by poor people (trained in transfer of technology, producing complex product with complex skill set).

(iii) Instead of promoting a cooperative to source raw material, a palm oil company creates an opportunity for poor farmers to start a business sharing ownership of an oil extracting plan.

C. Components

Component I: Pilot implementation of the new methodologies for business upgrading and creation (MIF: US$895,000; Counterpart: US$575,000).

2.10. The objective of this component is to design, test and document two methodologies to create shared value between anchor firms in value chains and PLIPs-owned new and microbusinesses. To achieve this objective, the project will identify and select: (i) 200 existing microenterprises, owned by PLIPs, for the upgrading methodology; and (ii) 30 anchor firms to participate in the business creation methodology. After the methodologies are designed, this component will finance business consultants to diagnose microbusinesses and their (new) value chains, identify new business opportunities with growth potential, provide training, mentoring and advisory services to the existing microbusiness as well as the new businesses or its process working together with the selected anchor firms. [12]

2.11. Under the first methodology, once the diagnosis confirms their growth potential both as firms and as players within the value chain, technical consultancies will be provided to develop new upgrading plans (taking into account the potential opportunities offered by the value chain where the microbusiness is integrated) and conduct training activities and provide mentoring assistance to implement each plan. It is expected that 120 microbusiness will be upgraded in value chains of an estimate of 15 anchor firms (initial estimates suggest that 30 of the 150 microbusiness -20%- will not finish the entire upgrading process).

2.12. Under the second methodology, it is expected that 30 anchor firms that demonstrate the most interest in the creation of new viable businesses, will be selected to work with the project. Each anchor firm's value chain will be diagnosed in detail to identify at least 20 new higher value business opportunities that can be implemented by new firms owned by PLIPs. Then technical consultancies will be provided to develop new business plan with anchor firm, identify (and train if necessary) the coordinating organization and select those entrepreneurs from the PLIP who are able and interested in starting the new business venture with the anchor firm. Subsequently, a program of training and mentorship will be developed and provided for these start-ups. Ultimately, 15 new higher-value initiatives, within value chains of an estimate of 15 anchor firms[13], are expected to be structured (past experience has shown that attrition occurs after the anchor firms and new opportunities are selected, and 5 of the 20 the new business opportunities identified are unlikely to make it out of the incubation process, either

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[12] Given the importance of gender issues in business development, the project will help identify obstacles that are specific to women-owned businesses and incorporate recommendations into both methodologies to deal with overcoming these obstacles.

[13] It is estimated that there would be 15 anchor firms for each methodology involved, but it is to be noted that the number of microenterprises to be linked with anchor firm varies depending on its sector (e.g. agricultural sector is expected to have a larger number of suppliers), and some anchor firms might be able to become involved in both upgrading and new business creation.

because the business idea is unfeasible or because the entrepreneur is unable to form a team to operate a complex start up business).

2.13. While performance of the PLIP-owned business, the coordinating organization and the anchor firm will be evaluated, spillover effects on other beneficiaries will be identified and documented. Lessons learned will be documented and incorporated into these methodologies (which will then be transferred to other organizations that promote entrepreneurship and new business creation under the Component 3).

2.14. The graphs below illustrate the processes that each methodology is expected to follow.

<u>Methodology to upgrade existing microbusinesses within the value chain</u>

Develop and test

Identify existing microbusinesses with potential - 200

Diagnose microbusinesses and value chain of 20 anchor firms - 150

Develop plan for upgrading - 120

Implement upgrading plan (training, mentoring and advisory services) - 120

Evaluate performance and incorporate lessons learned - 120

Document methodology

Transfer methodology

<u>Methodology to incubate new, higher value business opportunities with anchor firms</u>

Develop and test

Identify committed 30 anchor firms

Diagnose value chain of anchor firms to identify new, higher value business opportunities

Select most viable opportunities and develop business plans - 20

Identify coordinating agent between the poor and the anchor firms

Train and mentor start-ups - 20

Evaluate performance and incorporate lessons learned - 15

Document methodology

Transfer methodology

2.15. Selection of the participating -new and existing- microenterprises will be made through the two methodologies to be developed in this same Component. However, the anticipated selection criteria would include: (i) not more than 10 employees; (ii) (future) business owners not seeking philanthropic or public subsidies; (iii) business models with growth potential preferably in growing industries;(iv) revealed willingness of (future) business owners to collaborate with identified anchor firms; and (v) anchor firms' commitment to linking or co-creating businesses.

2.16. The products of this component are the following: (i) 2 new methodologies, designed, tested and documented; (ii) 150 microbusinesses diagnosed and supported in business management; (iii) 20 new, higher-value initiatives supported in their start-up processes, with an inventory of additional high-value business initiatives in anchor firms' value chains; and (iv) an on-going business performance monitoring system, operational.

2.17. In order to have early wins, the project will initially be implemented in areas where larger firms/robust clusters are concentrated with the business dynamic required to help scale the model. Although the anchor firms will be selected in the first year of the project implementation, the following 17 large firms in 12 industries have expressed interest in participating in this new initiative (most also participated in the SEP project CO-S1001):

Dairy: Alpina (Bogotá), Alquería (Bogotá),
Agribusiness: Syngenta (Bogotá), Aliagro (Quindío)
Food: Súper de Alimentos (Medellín), Colombina (Cali y Cauca)
Retail: Grupo Éxito (Medellín)
Furniture: Muebles y accesorios, TUGO (Bogotá
Petroleum: Independence (Bogotá)
Cement: CEMEX (Bogotá)
Motorcycles: Yamaha (Medellín)
Glass: Peldar (Bogotá)
Plastics: Enka de Colombia (Medellín), Grupo Phoenix (Bogotá)
Oil: Team (Bogota)
Pharmaceutical: Procaps (Barranquilla)

Component II: Identification and Training on Strategic Financing Sources. (MIF:US$50,000; Counterpart:US$21,500).

2.18. This Component seeks ways of working with the existing financial market to fund new and improved business initiatives with the PLIP developed under the Component 1. In value chains, financial flows are channeled through several mechanisms, but mostly by: (i) the large firms that offer direct financing to microenterprises such as trade finance; or (ii) the link to a large firm that can strengthen the microenterprise capacity to obtain credit/investment either based on the reputational effect of working for a large company, or because the link provides future cash flow and purchase orders, or because the large firm may be prepared to offer guarantees. Access to finance is expected to improve "in-firm networks" through reputational effects and/or through reduced information asymmetry of microenterprises' financial situation as a result of being part of larger firms' agglomerations and networks. Depending on the nature of data –either soft or hard– on entrepreneurs/microenterprises, the inter-firm finance can be categorized into: (a) relationship finance; and (b) hard data-driven instruments such as leasing, warehouse receipt finance, factoring, and purchase order financing.[14]

2.19. The activities of this Component are to hire consultants to carry out the following activities: (i) mapping of relevant funding sources; (ii) identifying interested financiers; (iii) training microenterprises with growth potential in developing better funding strategies; and (iv) coordinating match-making activities between microenterprises and appropriate funding sources. Results will be monitored to incorporate best practices in the documentation of the methodologies developed in Component 1. The products of this component will be the following: (i) a document mapping the range of appropriate financial actors for the types of businesses created or upgraded; (ii) 200 newly created and upgraded microbusinesses trained the different types of value chain finance available and their most appropriate uses; (iii) 20 financing sources made aware of the profiles and needs of new and existing microbusinesses linked to anchor firms' value chains; and (iv) a document registering any transactions that take place as a result of the match-making events and recommendations of best practices for the methodology documents.

Component III: Knowledge Management, Transfer of Methodologies and Communications Strategies. (MIF: US$170,500; Counterpart: US$91,500).

2.20. The objective of this Component is to convert learning derived from implementing the project in best practices and scalable solutions for the defined stakeholders and audiences within and outside the project environment. Though others might be identified during project execution, the key audiences to communicate the results of this project include:

(i) Entrepreneurial PLIPs – not all PLIPs will be interested in or able to create or upgrade their firms to achieve high value and growth; those that are able and willing need to understand the benefits of working with these new methodologies instead of continuing with more traditional microbusiness training and advisory services.

(ii) Anchor firms and clusters (cluster managers) – these stakeholders need to understand the business benefits of working with PLIPs in their value chain.

[14] "Inter-Firm Linkages and Finance in Value Chain", IDB, 2012

(iii) Business development institutions – Most NGOs that work with PLIPs, help create traditional microbusinesses with marginal growth. These two new methodologies need to be communicated as new service offerings for entrepreneurial PLIPs they already serve or can add to their client base.

(iv) Public policy makers – many of the programs that work with PLIPs are managed by social policy makers. This audience needs to understand the difference between working with entrepreneurial PLIPs that can create higher value business and their traditional, usually subsidized programs. Business development policy makers, who usually do not work with PLIPs also need to understand that poverty does not exclude successful business development.

2.21. Although the best information and channels to reach the audiences will be specifically defined by experts for each audience, it is anticipated to develop videos, case studies and info-graphs communicating the difference between the new methodologies and the more traditional offering in serving the target beneficiaries. Also showing videos with testimonials of those who have succeeded, public recognition of successful initiatives by governments and other organizations and write-ups in the press, would be considered useful. For some audiences, the Executing Agency itself is the best channel as it provides a forum for CEOs of the largest firms in Colombia to exchange information and experience in partnering for successful initiatives with PLIPs, demonstrating the benefits of the project for anchor firms. Articles in the business press and magazines based on case studies are ways to communicate to a broader audience of businesses. Info-graphs and case studies can be sent on a periodic basis by email to a mailing list of social policy and program institutions, both public and private.

2.22. The knowledge capturing under this Component will include more detailed evaluation of the results of the inclusive business initiatives supported by the aforementioned SEP project (CO-S1001). Despite overreaching its goals, the SEP project’s lean executing unit and the limited execution time of the initiatives did not allow for rigorous evaluation of the results of each business initiative; this analysis is expected to be done at the beginning of the project execution as input to the design of the methodologies.

2.23. The main expected knowledge products would be two (2) scalable solutions that will be based on the two proven methodologies. These solutions will be systematized and packaged in a practical way in order to facilitate their dissemination and potential adoption by national and regional stakeholders. A “How to” Guide to support the adoption of each solution will be produced. These guides will describe: (i) how to identify and implement high-value business opportunities with the PLIPs, specifically highlighting the structuring and relevant actors required for sustainable linkages within value chains; (ii) how to work with different types of vulnerable populations in the most effective ways; (iii) how to scale initiatives by working with clusters or alternatives such as groups of firms in the same or complementary industries and hubs; and (iv) how to replicate models with other organizations and in other parts of the country/region.

Additionally, the solutions will be complemented by at least 5 case studies to be written with the “How to” guides, by a joint team of academics and practitioners. These knowledge tools will be intended to help practitioners design and implement similar initiatives in Colombia and replicate and scale the solutions region wide.

2.24. **Strategic Communication**. Communication and promotion of the project outcomes and learning will include the organization of at least 2 stakeholder workshops during project execution. These workshops will be aimed to refine and review advances on the methodologies and support the systematization process of the knowledge products. The knowledge products will be widely disseminated among relevant public and private organizations as described above and as new packaging and stakeholders are identified throughout project execution.

2.25. The activities of this Component are the following: (i) systematization and formatting of 2 methodology-based solutions; (ii) development of 2 “How to” Guides to support solutions adoption; (iii) identification and documentation of at least 5 case studies related with different applications of the mentioned solutions/methodologies; at least one of which will focus on the issues of women-owned businesses; (iv) production and dissemination of 2 short audiovisuals promoting both solutions in real use conditions; (v) design and execution of at least 2 workshops of knowledge transfer including training material and activities; (vi) organize at least 2 stakeholders workshops to refine and validate knowledge products; and (vii) submit and update solutions contents on the MIF Knowledge platform.

2.26. As a result of this Component, at least 20 organizations that work with microbusinesses will be trained on how to implement the two solutions (methodologies); these include business foundations, NGOs, government entities, chambers of commerce, incubators and local business development organizations. The materials and training programs will be developed and taught by the consultants who developed the methodologies in the Component 1. While this demonstration effect is difficult to gauge before the pilots are executed, the project will monitor and document these and other spillover effects that might emerge from the project implementation.

D. Project Governance and Execution Mechanism

2.27. The project’s highest governing body will be the **Board of Directors** of the ANDI Foundation to inform decisions regarding how the Foundation will create the capacity to continue the project and the implementation of the models as part of their program of work. The project execution will be directly supervised by the executive director of the ANDI Foundation, who will report directly to the Board of the Foundation. The MIF project matters related to its strategic direction and reporting will be deliberated at the periodic meeting of the Foundation’s board.

2.28. To ensure that the project has feedback and advice from experts in the different project areas, an **Advisory Committee** will be formed by experts in business development, value chain management, inclusive business and shared value, high-value entrepreneurship and public policy.

2.29. An **Operations Committee** will be put in place to ensure adequate project execution. The members of this committee will include the project's executing unit and the MIF supervision team in Colombia. Other units of the Foundation and ANDI can be invited as the needs required.

2.30. **Executing Unit.** To incorporate a lesson learned in the previous SEP project, the ANDI Foundation has decided to hire a Project Director as part of the Foundation's staff, to manage the project and propose and implement strategies for project consolidation within the Foundation and scaling up through other NGOs, chambers, and firms, after MIF funding ceases. A project coordinator will be contracted under the Project Director given the number of firms and first tier organizations that the project will be working with simultaneously; again a lesson learned from the previous project. An administrative and financial assistant will be assigned within the Financial Vice-presidency of the Foundation to support the additional workload required by the project. Finally, a knowledge and strategic dissemination consultant will be hired for the project reporting directly to the Project Director.

E. Sustainability

2.31. The project sustainability is determined by the ANDI Foundation's commitment to continuing similar activities after the project execution. Given the governance structure of the Foundation, ANDI's financial and institutional commitment as such (where the member firms are large, most influential, potential anchor firms) is the key including knowledge transfer to the staff in both organizations (ANDI and ANDI Foundation) and scaling of the model with other organizations and in other regions of Colombia. The strategy advisor to the President of ANDI has been a principal member of the design team who ensured that the highest level of ANDI Management is fully aware of the importance of the project and engaged in sustaining the project in the future.

F. Experience and Lessons Learned from MIF or other Institutions

2.32. There are several relevant lessons learned from similar projects executed in the past:

(i) The poor have many unmet needs and while it is very important to satisfy those needs in an integrated way, it is critical for projects to ensure that the right organizations meet those needs. Do not expect one business project to address all social needs of the poor; these needs to be accomplished by creating partnerships and coordinating alliances with other organizations.

(ii) PLIPs tend to be linked to anchor firms' value chains mostly in low-skilled activities. However, by working with committed anchor firms, selecting the appropriate coordination organizations, much can be learned to upgrade and create innovative initiatives in higher levels in the value chains with more complex skill set requirements and better income generation potential.

(iii) Most projects working with PLIPs focus on what the individuals know how to do or can be easily trained to do and support improvements without considering if there is an attractive market that will buy the products/services that are offered. Projects targeted at the poor should focus first on identifying market demand and customer needs, and then organize firms and production processes to be able to meet those specific needs including quality, price, volume and delivery.

(iv) The poor have little difficulty in creating microbusinesses as subsistence level income-generating activities. However, identifying those microbusinesses that have growth potential and unleashing that potential requires continued strategic orientation.

(v) If creating high-value business opportunities for larger firms is difficult and requires the best consultants, incorporating the poor into those high-value business opportunities is a huge challenge that requires the best (thus expensive) minds in business strategy. It is important to incorporate well-qualified consultants who have the right networks, know-how and creativity.

(vi) Lean executing units usually do not include experienced people to ensure that the right information is captured and analyzed. In order to have rigorous knowledge products at the end of the projects, emphasis needs to be placed, from the initial design phase, on identifying the products to be developed, the specific stakeholder that will receive the different products, the best packaging of the products for each audience and putting in place the staff and systems needed to capture the information during project implementation and deliver the right products for the appropriate audiences.

(vii) In order to start or upgrade firms owned by PLIPs, they not only need advisory services, they also need financial resources, which are rarely available to this type of business. Most projects working with PLIPs either don't address the financial issue, believing it to lie outside their purview or they include funding mechanisms that are subsidized, instead of trying to solve a market failure. To overcome this barrier, financial needs of the PLIPs in creating or upgrading their firms need to be taken into account during product design and the project should involve understanding the market failure and promoting solutions to overcome it. When profitable businesses are being created, the market should be able to finance them.

G. MIF Additionality

2.33. Non-Financial Additionality. The MIF provides a degree of credibility, technical expertise, and national and international networks of businesses organizations and experts. It also brings synergies with other funding organizations that would otherwise not be available, credibility with potential anchor firms and with high-level consultants. The MIF is strategically positioned to help replicate and scale this type of initiative throughout the country and the LAC region. The MIF's work in engaging anchor firms to explore and partner in developing new ways to achieve access for the traditionally excluded, especially in this new, high-value approach, has no strong competition in Colombia. In addition, as part of the IDB Group, the MIF has the ability to engage public sector support for the initiative as well as that of NGOs, academics and civil society to help mitigate risks and to create a more integrated approach to working with the poor (health, nutrition, childcare, education, security, etc.).

2.34. Financial Additionality. While there are funds to implement the existing proven model, few funding sources are willing to finance the creation of new models. Social programs don't usually fund business initiatives and business funding sources don't usually fund poverty alleviation projects. The MIF is a unique catalyst in bridging this gap in Colombia.

H. Project Results

2.35. The project results will include: 120 existing microenterprises upgraded to generate higher-than- industry average returns (such as growth of sales and profits).[15] In addition, the results will include 15 new businesses created in more sophisticated activities of anchor firms' value chain (requiring more complex skill sets, having growth potential, using technology, etc.). Moreover, there will be two methodologies replicated throughout the country; one proven methodology to successfully upgrade microbusiness within value chains and another proven methodology for creating new business opportunities with anchor firms and the poor in higher value activities of the value chain.

2.36. Thirty anchor firms (estimated to be 15 for each methodology) will have enhanced supply chains or new microbusiness partners offering them better products and services, which should lead to improved performance of the anchor firms themselves. Also, 20 business development organizations will have improved their service offering to higher potential microbusiness and to PLIP entrepreneurs by incorporating two new methodologies to upgrade microbusinesses and to create higher value businesses within anchor firm value chains.

I. Project Impact

2.37. At the impact level, the project seeks a 20% increase in the income (on average) for 1,500 poor and low-income owners/employees (including 500 below national poverty line) of micro and small enterprises working with anchor firms that look for high-value creation. 1,000 additional jobs created through micro businesses that have been scaled by the piloted models.

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15 5-10% of all the participatory microenterprises are expected to be classified as high-impact/growth firms with annual sales growth over 20% over a 3-year-period (as defined by OECD).

J. Systemic Impact

2.38. A systemic impact of this project will include adoption of the developed methodologies both for upgrading and new business creation by other organizations in Colombia and other countries of the Region. MIF/CCO participates in the activities sponsored by the Colombian National Committee for Inclusive Business that is managed by the local chapter of the World Business Council for Sustainable Development (WBCSD). This project can both feed into and use National Committee's new inclusive business portal as a communication channel with stakeholders, which will help systematize inclusive business initiatives nationally and internationally.

2.39. Another important partner for such systemic impact is the Association of Business Foundations (AFE) that has already expressed interest in working with the project to help involve its members. Furthermore, the Confederation of the 57 chambers of commerce (CONFECAMARAS) has also expressed interest in being part of the project in order to adopt and scale through the chamber movement. Finally, the Colombian Government already co-financed the previous SEP project and has expressed interest in working on this new project. Compartamos con Colombia, a not-for profit executing agency for the recently approved Social Innovation project of MIF (CO-M1091), is also working on Shared Value concept. This project will ensure a close working relationship with Compartamos to share methodologies and information and avoid duplicating activities within Colombia. Close coordination will also continue to be done with the Bank's private sector arms, SCF and OMJ, to identify potential scaling options.

3. MONITORING AND EVALUATION STRATEGY

3.1. Baseline: Baseline data will be gathered at the beginning of the project. This information can be incorporated in the existing information and monitoring system already developed by the SEP project. The household data will be made available by the Colombian Government's Agency for Social Prosperity (ANSPE) and the National Statistics Agency (DANE). Also, as participants enter the program, the baseline data will be disaggregated by gender and the monitoring system will track results, highlighting any differences there might be in terms of gender ownership or employees.

3.2. The specific metrics to define the high-value business opportunities will be developed by the consultancy that works with anchor firms. In all cases, the data (sales, profits, employment) will be disaggregated by gender, race, level of education, age, type of business/sector and other information that will be relevant to the results of the project over time. It is important to work with the Department for Social Prosperity (DPS) and ANSPE, to include specific input regarding baseline data on poor families and information on the living standards and socio-economic characteristics of the target families.

3.3. Monitoring: Project result indicators will be measured during the life of the project with the information system created under the previous SEP project; the metrics currently used will be evaluated and improved, and new variables can be included if necessary.

3.4. Evaluation: The key evaluation questions are: (i) What were the key factors that (a) enabled microbusinesses to successfully upgrade within the anchor firms' value chains and (b) allowed the creation of new businesses in higher parts of value chains? (ii) How was "shared value" created for the new and upgraded microbusinesses and the anchor firms? (iii) What were the economic effects on the performance of microbusinesses as a result of being successfully created or upgraded within anchor firms' value chains – sales, EBITDA, formal job creation? (iv) Is there evidence to suggest that upgraded microbusinesses and firms created in higher value parts of the value chain have acquired more sophisticated skills and have, therefore, reduced their vulnerability of falling back into poverty?

3.5. The other evaluation questions include: (i) What differences were identified, if any, across sectors, types of involvement in stages of the value chains or value chain governance structure? (ii) Did the change in the coordinating organization's expertise and mindset, result in better linkages between the PLIPs and the anchor firms? (iii) Are there other beneficial spillover effects from the project that enhance local economic development? (iv)Did firms in clusters provide a viable option to scale work with microbusinesses and new businesses? (v) What evidence is available to demonstrate that anchor firms benefited from creating new shared value initiatives with the poor and whether and to what extent these new initiatives motivated other anchor firms to replicate the methodology? (vi)To what extent did the growth of microbusinesses within the value chain strengthen other parts of the value chain and upgrade the value chain itself? (vii) What profiles both in poor firms and in anchor firms were more open to working on shared value initiatives, both with existing microbusinesses and in creating new businesses? What were the characteristics of these profiles? And, (viii) Are certain initiatives more appropriate for the type of vulnerable population engaged, i.e., women, youth, victims of violence, handicapped persons, etc.

3.6. Because of the foreseen difficulty in constructing counterfactuals due to heterogeneity of firm-level targets, the project does not contemplate conducting an impact evaluation; however, the project expects to capture knowledge about the effects of upgrading within the value chain on the poor and low-income populations and about methodologies that are most effective in creating shared value. While the evaluation is not expected to be experimental or quasi-experimental, it will rigorously analyze the results of the various models, examining to the extent possible different interventions' attributions.

4. COST AND FINANCING

4.1. The project has a total cost of US$ 2,721,000, of which US$1,615,100 (59%) will be provided by the MIF on a non-reimbursable basis, and US$1,105,900 (41%) by the counterpart. The execution period will be of 36 months and the disbursement period will be of 42 months.

Components	MIF	Counterpart	Total
Component 1. **Pilot implementation of the new methodologies for business upgrading and creation**	895,000	575,000	1,470,000
Component 2. **Identification and Training on Strategic Financing Sources**	50,000	21,500	71,500
Component 3. **Knowledge generation and transfer of methodologies**	170,500	91,500	262,000
Management/Executing Agency Administration	230,400	417,900	648,300
Baseline, Monitoring and Evaluation	80,000		80,000
Ex post reviews	30,000		30,000
Contingencies	44,195		44,195
Sub-total	**1,500,095**	**1,105,900**	**2,605,995**
% of Financing	**58%**	**42%**	**100%**
Impact Evaluation Account (5%)	75,005		75,005
Agenda Account	40,000		40,000
Grand Total	**1,615,000**	**1,105,900**	**2,721,000**

5. EXECUTING AGENCY

A. Executing Agency

5.1. The ANDI Foundation will be the Executing Agency of this project. ANDI Foundation was created in 1997 by large firms affiliated with the National Association of Businesses of Colombia (ANDI). ANDI is the most important business association in Colombia, representing medium and large business, with 15 offices around the country and 22 industry-specific chambers housed within its structure. ANDI is the regional focal point for the UN Global Compact, and a member of the National Committee on Inclusive Business. The overall mission of the ANDI Foundation is to promote development and social welfare, supporting cultural, economic, social and environmental projects. In 2011, the Foundation was strengthened with new financial resources and the mandate to generate sustainable income for vulnerable populations. ANDI will continue to provide back office support to the Foundations (ANDI was the executing agency of the previous SEP project).

5.2. Given the Foundation's new mandate to generate sustainable income for vulnerable populations and promote shared value, the project is directly aligned with the institution's core business, priorities and overall mission. As with the previous SEP project, one of the most important aspects is the Executing Agency's ability to form partnerships with public, private and academic institutions at the national, state and local levels, as well as to foster close coordination between business and social agents.

Both ANDI and the ANDI Foundation are committed to testing the new "shared value" approach. They have begun to assemble a team and devise work programs to continue to address the demand created in the previous SEP project. ANDI's broad geographic reach and industry coverage are expected to enhance the quality of the project execution.

5.3. ANDI Foundation has established the necessary structure to effectively and efficiently execute project activities and manage project resources, and will also be responsible for providing progress reports on project implementation. Details on the structure of the execution unit and reporting requirements are in the project technical files.

6. PROJECT RISKS

6.1. **Executing Agency's lack of experience in working with development agencies**. While ANDI is Colombia's most influential business association and has successfully executed the SEP project, it has decided to delegate the execution of this new project to its foundation. While there are clear reasons for this decision (including the fact that ANDI itself is a business association and, therefore, only starts projects to spin them off to other organizations once successfully executed), little experience that the ANDI Foundation as such has with the MIF might generate some execution problems, thus jeopardizing the project sustainability. To mitigate these risks, financial sustainability will be enhanced as ANDI's President was able to convince ANDI membership to agree to a voluntary increase in members' dues to financially strengthen the Foundation. Also, to mitigate fiduciary and operational risks, the back office services of the Foundation will be provided by ANDI and as such, the execution of the previous SEP project should be a guarantee of solid fiduciary execution and low reputational risk for the new project. Furthermore, to ensure ANDI's commitment to supporting the project in these different aspects, the Executing Agency is required, as a condition prior to the first disbursement, to present to the Bank a signed agreement between the Executing Agency and ANDI by which ANDI commits to providing necessary information, technical and administrative support to the project implementation.

6.2. **Anchor firms' perception of business risk in creating new high-value business model with the poor.** Low credibility surrounding the poor and low income populations in implementing very complex business activities may hinder the project's success – inclination towards social inclusiveness may override business principle of profit-making. The experience of the previous project indicates, however, that Colombian businesses are eager to work with the poor and only require proven models that are functional and have credible organizations backing them. The methodologies that will be created within this project, the fact that high-level strategy consultants, who have traditionally worked with anchor firms and, therefore, have high credibility among them, will be hired to develop the methodologies and the emphasis being placed on the role of the coordinating organization, all look to mitigate this risk. The appropriate communication of early wins is another strategy to inform anchor firms' perception of risk.

7. ENVIRONMENTAL AND SOCIAL EFFECTS

7.1. This operation was screened on March 22, 2013 and classified as required by the IDB's safeguard policy (OP-703). Given the limited impacts and risks, the proposed category for the project is C.

8. COMPLIANCE WITH MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

8.1. **Disbursement by Results and Fiduciary Arrangements.** The Executing Agency will adhere to the standard MIF disbursement by results, procurement and financial management arrangements specified in the project technical file.

9. INFORMATION DISCLOSURE

9.1 **Information Disclosure.** Under the Access to Information Policy of the Bank, this document is subject to public disclosure