

#### 5.4 Outline of the Japanese Legal Institution and Policies Related to Small and Medium Enterprises

Analysis in the previous section suggests insufficient administrative policy to promote SMEs and MEs in Colombia. In this section, the public administration related to small and medium scale enterprises of Japan is described to serve as a guidance in the strengthening of the small and medium scale enterprise sector by the Colombia government in the future.

Definition of small and medium scale enterprises in Japan somewhat varies with related laws but is based on classification in the Small and Medium Enterprises Act, which is summarized as follows:

<u>Industry sector</u>	<u>No. of employees/working capital</u>
Manufacturing/ mining	Less than 300 employees, or less than 100 Million Yen
Wholesale	Less than 100 employees, or less than 30 Million Yen
Retail/service	Less than 50 employees, or less than 10 Million Yen

Although the small and medium scale enterprises generally include microenterprises by definition, some of assistance programs are designed for small scale enterprises (including microenterprises) which are defined as follows:

<u>Industry sector</u>	<u>No. of employees</u>
Industry	Less than 20
Commerce/ service	Less than 5

The number of enterprises in the private and non-primary sector, of all sizes, is approximately 6,490,000, which employ 49 million workers. Of total, small and medium scale enterprises and small scale enterprises account for the following shares:

	No. of all enterprises	Small and medium scale enterprises	Small scale enterprises
No. of enterprises	649	645 (99%)	506 (78%)
No. of employees	4,900	3,951 (81%)	1,533 (31%)

Note: Unit; 10 thousand

The promotion of the small and medium scale enterprises in Japan is administered by the Small and Medium Enterprise Agency, under the Ministry of International Trade and Industry (MITI), which serves as the implementing body. The Small Business Corporation, local governments, financial companies and private associations are acting as links between the administration and the small and medium scale enterprises.

The domestic industry is entering a new phase through movements into foreign countries by many key domestic industries brought about by the strong pursuit by NIEs and the sharp appreciation of the yen since 1985. The Japanese economy has developed in the past by the efforts of the enterprises achieving improvements in their quality and structure through self-reliance overcoming the numerous difficulties. The small and medium scale enterprises have supported domestic industry and the economy responding to the changes in the environment, and the Japanese economy cannot be discussed without considering the contribution of the small and medium scale enterprises in consideration to their importance in terms of the number of establishments and employees.

The policies for promotion of the small and medium scale enterprises in Japan aim to support them in meeting the trends in the industry and economy which has entered a new phase of economy.

#### 5.4.1 Current Situation of Administrative Organizations

MITI is the administrative organization in charge of public administrative with respect to international trade, commerce, mining and industry, and petrology, etc. The ministry is constituted of the Secretariat, ten bureaus and departments in charge of, namely, Research and Statis-

tics, International Trade Policy, International Economic Affairs, Economic Cooperation, International Trade Administration, Industrial Policy, Industrial Location and Environmental Protection, Basic industries, Machinery and Information Industries, and Consumer Goods Industries which form the inner bureaus and there are the Patents Office, Agency of Natural Resources and Energy, Agency of Industrial Science and Technology, and the Small and Medium Enterprise Agency as peripheral organizations.

The Small and Medium Enterprise Agency is organized with the objective of fostering and developing small and medium scale enterprises and of establishing the necessary conditions for the improvement of the management and discharges the business related thereto.

They have the authority to seek the corporation of the relevant administrative agencies, the Diet and the Fair Trade Commission and to make recommendations and proposals. (The authorities of the Small and Medium Enterprise Agency according to the Small and Medium Enterprise Agency Formation Law) Figure 5.1 shows the organization and the division of labor of the Small and Medium Enterprise Agency.

Also, as local contacts of MITI, there are the Small and Medium Enterprise Sections in the Commerce and Industry Division of the International Trade and Industry Offices in 8 regions throughout the country, and are engaged in the regional center of the administration for the small and medium scale enterprises. With respect to technology relating to small and medium scale enterprises, the Technology Promotion Section in the Commerce and Industry Division is in charge thereof. They promote the administration of the small and medium scale enterprises in the regions under the collaboration with the Commerce and Industry Section. (Refer to Figure 5.2)

The Small Business Corporation was organized as a special corporation to be the agency to implement general measures for the small and medium scale enterprises by unifying the former Small and Medium Enterprise Promotion Corporation

On October 1, 1980 according to the Law concerning the Small Business Corporation, and it conducts the following businesses:

- 1) To promote the upgrading of the structure of the small and medium scale enterprises: a) Financing of projects for cooperation and collaboration of industrial parks, wholesale parks, communal factories, stores and facilities, and of projects to improve the structure of the textile industry, b) guidance relating to modernization projects,
- 2) training of projects small and medium scale enterprise counsellors as well as the small and medium scale enterprise operators through the Institute of the Japan Small Business Corporation, and the "Small and Medium Enterprise Research Institute" in the Institute, research projects to develop the training equipment and methods to improve the quality level of the training, the development of diagnostic instruction methods through the "Small and Medium Enterprise Research Institute" in the Institute, and
- 3) businesses relating to the administration of the mutual aid system according to the Small Enterprise Mutual Aid Law and the Small Enterprise Bankruptcy Prevention Mutual Aid Law.

As ministries and agencies closely related to the small and medium scale enterprises administration, there are the Ministry of Finance in charge of taxation and financing, the Ministry of Labor in charge of labor problems in general including labor conditions, the securing of labor force, etc., the Ministry of Welfare in charge of social insurance, social security, and financing of welfare facilities, the Ministry of Construction which is involved in the provision of housing for workers such as loans for industrial worker housing and urban problems, the Ministry of Agriculture and Forestry and the Ministry of Transportation as the ministries in charge of certain types of business of the small and medium scale enterprises, the Agency for Industrial Science and Technology and the National Testing Laboratories attached to MITI in charge of

industrial technology in general. These ministries and agencies are related to the Small and Medium Enterprise Agency in some way in the entire policy related to the promotion of the small and medium scale enterprises, and concrete policies are determined through deliberation committees on a project basis.

#### 5.4.2 Outline of Policies in Promotion of Small and Medium Scale Enterprises

As the small and medium scale enterprises face the new phase of restructuring of industry, the government implements policies in three aspects to enable an adequate response and a smooth adaptation to the environment. (Refer to Table 5.6)

##### (1) Measures for restructuring

The rapid appreciation of the yen since the fall of 1985, strong requests to international cooperation from abroad, competition from NIEs, progress of the information era, business diversification of large scale enterprises, and technological innovations accompanying the competition in the commercialization of biotechnology and in small size-large capacity semi-conductors have created difficult management environment for small and medium scale enterprises severe. Under such a situation, the government is achieving the restructuring of the small and medium scale enterprises by exercising drastic measures such as low interest rate loans, assisting in technical development, providing subsidies, taxation measures, and support of combination of different fields of business, extended to certain subsectors and areas that were drastically and suddenly affected and to the subsectors that are strongly export-oriented.

1) Measures to promote combination

The objective is to promote exploration of new fields by the combination of the knowledge of the small and medium scale enterprises of different fields.

a) Budgetary measures

Subsidies for association of the small and medium scale enterprises of different fields.  
Subsidies for development of new products or new services.

b) Loans

Combination promotion upgrading loan  
(Small Business Corporation)  
Special combination promotion lending  
(Bank for Commerce and Financial Corporation)

c) Taxation measures

Taxation related to testing and research  
Special measures for local taxes accompanying  
the knowledge combination development  
Reserve and special depreciation system  
Taxation relating to combination promotion  
upgrading

The implementation of the above measures are provided for in the "Combination Law".

2) Measures to promote entry into the foreign trade

To promote entry into the foreign markets and trade by the small and medium scale enterprises, projects supported by four pillars are developed, namely,

- 1) Projects to encourage overseas investments,
- 2) Smoothing of trade,

- 3) Advertising effort by Japan External Trade Organization, and
- 4) International exchange  
(Refer to Figure 5.3)

In these projects, stress is placed on dissemination of information relating to internationalization of the small and medium scale enterprises, arbitration of trade conflicts, dispatching of missions, holding of training courses, preferential taxation on market development reserve fund, etc.

- 3) Measures for specific subsectors

Specific subsectors mean the small and medium scale enterprises which were particularly affected by the structural factors and the enterprises whose business conversion plans of which were approved by the governors of the prefectures having jurisdiction. Also structural factors mean the decline in exports due to change in trade structure, the increase of imports, and increase of services due to the change in the international structure of trade.

These measures are designed to provide various types of assistance to the applicable enterprises to revitalize them. In carrying out the objective, the "Law on Extraordinary Measures for Business Conversion of Small and Medium Enterprise" will provide the legal ground. (Refer to Figure 5.4)

- 4) Measures for specific regions

The objective is, with respect to areas that are recognized to have been seriously obstructed in the business activity by a considerable number of small and medium scale enterprises by the change in the economic environment such as the exchange rate, or enterprises that carry out new construction or expansion of the factories in certain areas, to provide various aid measures and consideration regarding related measures such as the execution of public works, etc.

Under the "Law on Extraordinary Measures for Regional Small and Medium Enterprises Located in Specific Areas", they are divided into two fields, namely the smoothing policies for projects to enter new fields by the Small and Medium Enterprises in certain areas and the revitalization measures for certain areas, to enable a smooth implementation of the measures by the government and related organizations, providing expenditure of subsidies, implementing special loan systems, carrying out special credit insurance, and taking preferential measures in taxation for each. (Refer to Figure 5.5)

5) Measures for subcontracting enterprises

In response to the progress of the structural adjustment of the parent enterprise in the course of the rapid socioeconomic change, the need has arisen for subcontracting small and medium scale enterprise to improve in the overall production capacity, to diversify the parent enterprises that are the other party of the transactions, and to enter new fields. The objective is to support the subcontracting small and medium scale enterprises to enable them to carry out the structural adjustment rapidly in response to such needs of the era.

The measures consist of the following four systems.

- a) System to promote the development of technology to ensure smooth adjustment of the subcontracting enterprise
- b) System to lend funds to ensure smooth adjustment of the subcontracting enterprises
- c) System to lend for promotion policies for the subcontracting small and medium scale enterprises
- d) System to strengthen the foundation of small and



medium a scale enterprises, etc.

Subcontracting enterprise measures are supported by the four systems above mentioned and three policies, as shown below, which form the pillars of the "Law on the Promotion of Subcontracting Small and Medium Enterprise". (Refer to Figure 5.6)

- a) Formulation of the standards for promotion to be followed by the subcontractors and the parent enterprise, and the guidance and advice relating to the items stipulated therein.
- b) System of promotion projects plan which the business cooperatives organized by the subcontractors formulate and promote with the cooperation of the parent enterprises.
- c) Association for promotion of subcontracting enterprises to smooth the subcontracting transactions.

## (2) Policies for small scale enterprises

The objective is to support the enterprises in terms of taxation and financing so that the workers in the small scale enterprises, among the small and medium scale enterprises, which are left behind the large scale enterprises, namely, enterprises with 20 persons or less or 5 persons or less in the commerce and service industries may lead a living standard that does not differ from workers in other enterprises.

This policy is constituted by four pillars targeting the small scale enterprises and one pillar for the small and medium retailers.

- 1) Management improvement extension project called the organization and guidance project, it is divided into counseling and guidance on financing, taxation, labor, accounting, management, and transactions, conducted through the management guidance

personnel established in the Commerce and Industry Society and the Chamber of Commerce and Industry throughout the country and the management improvement extension project.

The management improvement extension project is implemented in a total of 13 sub-projects, namely, 1) improvement of the human guidance system, 2) strengthening of the guidance in record-keeping, 3) improvement of the specialized guidance systems, 4) improvement of the guidance environment, 5) expansion of the development funds for young successors, 6) strengthening of the guidance system in the urban areas, 7) upgrading of the quality of the instructors, 8) improvement of the manpower development project, and 9) others. The improvement of the management is promoted through expenditures of aid funds to strengthen instructors of the Commerce and Industry Society and other related associations, establishment of specialist instructors, subsidies to training projects, dispatching of technical specialists to the enterprises free of charge, mediation of manpower supply from the large scale enterprises to the small scale enterprises and other activities.

2) Financing of the management improvement fund

The small and medium scale enterprises, particularly the small scale enterprises are at a disadvantage financially because of the unstable management, many enterprises having a short history, being weak in security and credit, and having inadequate record-keeping. Thus, loans are extended to the small scale enterprises that received the management guidance of the Commerce and Industry Society and aid is given to improve the management.

The conditions of the loan are as follows;

- a) Limits of loan      no more than 4,500,000 yen  
  (US\$30,000 @US\$1 = 150 yen)

b) Term of loan      Equipment investment:

no longer than 5  
years (grace period  
of 6 months)

Working capital:

no longer than 3  
years (grace period  
of 6 months)

c) Rate of interest on loans, and others

5.4% per year  
no mortgage  
no guarantor

d) Targets of the loan

Small scale enterprises 5 or less employees

Commerce and service industries 2 or less  
employees

- To have received guidance of the management instructor since 6 months prior to date as a rule
- To have conducted business in the area of the same Commerce and Industry Society and the Chamber of Commerce and Industry for a year or more
- To have paid all taxes, namely, income tax, corporation tax, business tax, local taxes
- To have no extra strength in security and guarantee to render it obviously possible to use other financial institutions.

Also, for these small scale enterprises, there are owner deductions in individual business taxes, reduction of the corporation taxes, exceptional measure on bad debts reserves and other measures in taxation.

3) Loan for modernization of equipment and lending of equipment

a) Loans for modernization of equipment

The objective is to strengthen the competitiveness and to stabilize the management of the small and medium scale enterprises by improving the productivity and reducing the production cost. As the small and medium scale enterprises are weak in raising funds, it is generally difficult for them to increase the productivity by investing in equipment. And also as not a few small and medium scale enterprises find it difficult to borrow from financial institutions because of their low credit, this is a system established to promote modernization of the equipment of the small and medium scale enterprises. Since the "Law concerning the Modernization Funds to Assist the Small and Medium Enterprises, etc." enacted in 1966, the prefectures established special accounts to receive the subsidies from the country and to deposit an amount equal to the subsidy of the country, which fund is the source for the lending without interest one-half of the cost of the modernization of the equipment of the small and medium scale enterprises.

The specific contents of the system to lend funds for modernization of equipment are shown in Table 5.7.

b) Equipment lending system

Lending of equipment was opened for the small

scale enterprises which are weak in raising funds. The loans under the system to lend funds for modernization of equipment limits the loan to one-half of the required fund and the balance has to be raised on its own strength.

The lending system comprises the lending organization, a public corporation which receives a loan equivalent to one-half of the required fund from the prefecture interest-free and purchases the machinery responding to the application of the small scale enterprise and lends this to the applicant. The objects of equipment for lending are required to be the most up-to-date of the equipment that the Minister of International Trade and Industry designates each year and the equipment that the governor of the prefectures designates with respect to sub-sectors of the regional industry promotion.

Under the system, equipment is lent to small scale enterprises which lack financial resources for equipment investment. The amount of the loan to finance equipment modernization is limited to one half the amount required and the balance needs to be financed by each enterprise. The equipment lending system is operated by a public corporation which receives an interest-free loan equivalent to one half the required amount from a prefectural government with jurisdiction, then the public corporation purchases and lends the equipment to a small scale enterprise which has made the application therefore. The equipment qualified for the leading system should be the most advanced types designed by the Minister of International Trade and Industry each year, and those designated by a prefectural governor with jurisdiction in consideration to sub-sectors suitable for promotion of local industries.

The equipment lending system is divided into the

hire-purchase system and the lease system. The former is 4 years and 6 months or less and requires a deposit equivalent to 10% of the value of equipment (applied to a final payment), with annual payment of equipment cost and rent equivalent to 4.5% of the total value. Upon completion of installment payments, the ownership of the equipment is transferred to the enterprise. On the other hand, the lease system covers high-tech and information equipment and is 7 years or less. The lease charge is calculated to obtain an annual interest rate of 7%.

4) Mutual aid system for small scale enterprises

The objective of this system is to establish a mutual aid system by contributions, with respect to suspensions of business or resignation of directors of the small scale enterprises based on the spirit of mutual aid and to contribute to the advancement of the welfare of the small scale enterprises and to the promotion of the small scale enterprises.

This system is operated by the Small Business Corporation with the total investment by the government and subsidies, commissioning a part of the business to the associations of the small and medium scale enterprises throughout the country, and using financial institutions as agents.

Those qualified for admission are enterprises with 20 employees or less and individual enterprises, and the directors of companies, union of enterprises and business cooperatives. The monthly payment ranges from 1,000 yen to 70,000 yen in units of 500 yen, and the payments on the eligible date and the termination date (suspension of business, retirements, deaths etc.) vary with the monthly premiums and the number of months paid in.

There are the "lending on injuries, illnesses and casualties" to the party of the mutual aid contract who was affected by the casualty and requires one or more months of hospitalization by illness or the injury and the "general lending" system which lends business funds in the range of the monthly premiums paid in by simple and quick steps.

(General lending)

- a. Limits: no less than 100,000 yen no more than 2,500,000 yen
- b. Uses : Business funds
- c. Interest rate: 7.2% a year
- d. Loan period: 6 months, 12 months, 24 months (when 1,050,000 yen or more)
- e. Collateral, etc.: No security. No guarantor

(Lending on injury, illness, casualty)

- a. Limits: The lower of either 90% of the mutual aid fund when over 500,000 yen or, as a rule 4,000,000 yen.
- b. Use: Business funds
- c. Interest rate: 7.0% per year
- d. Period of lending: 3 years
- e. Collateral, etc.: No security. No guarantor (spouse, etc. as a rule).

## 5) Revitalization of local shopping districts

The policies for the small and medium retailers are implemented according to the Small and Medium Retailers Promotion Law. The objective of this law is to advance the improvement of shopping districts and projects such as cooperative operation of stores, and to develop the small and medium retailers by promoting the modernization of the management, and thus contribute to sound development of the national economy, as general guidelines, "development guidelines" consisting of the following are provided:

- a) Modernization of management
- b) Rationalization of management and control
- c) Modernization of facilities and equipment
- d) Cooperative operation of business
- e) Welfare of the employees
- f) Development of other small and medium commerce

There are various actions taken on the project of modernizing the management of the small and medium retailers according to the "development guidelines", and to list a few: when the application for the upgrading project plan such as cooperative operation of stores or improvement of shopping districts is approved by the government, there are applied exclusion from land ownership tax, exception in depreciation, measures in credit insurance, and financial aid measures according to the law (Law concerning the Promotion of Small and Medium Retailers). "Exceptions in depreciation" means that 8/100 of the operating expenses of the first year is allowed for a special depreciation and "financial aid measures" refer to "loans at general conditions (lending ratio 65%, interest rate 2.7%)" implemented through the Small Business Corporation and "special loans (lending ratio



80%, no interest)" and "Retailers upgrading loan" from the Smaller Business Finance Corporation and the Peoples Finance Corporation, etc.

### (3) Management foundation policies

With the goal of developing small and medium scale enterprises that have stable management foundation which can support the Japanese economy into the future with ability to respond effectively and timely to changes in environment both within and without the country, actions are taken in financing, supplemental credit, taxation, manpower development, technology improvement, protection of subcontractors, securing government and public demand, etc.

#### Basic policies

##### 1) Improvement of financial and supplemental credit systems

To ensure smooth financing of the small and medium scale enterprises by the private financial institutions, as well as the credit system of the government-operated small and medium financial institutions, a specialized institution was established to provide a mechanism to secure the small and medium scale enterprises financing as a system. Also, the small and medium scale enterprises lack asset and human resources and does not receive sufficient credit rating by financial institutions. The government, established a supplemental credit system in order to induce funds of the private financial institutions to the small and medium scale enterprises. This is a system whereby the credit guarantee association established in each prefecture and the small and medium credit insurance bank will issue the guarantee at the time of borrowing funds from financial institutions in the city.

There are 23 types of special loans implemented at

present through government-operated small and medium financial institutions, of which a part is introduced in Table 5.8.

Also, the lending conditions of the private small and medium financial institutions such as the credit banks, credit unions, etc., are outlined for each as follows:

(Credit Bank)

- a) Restriction on subsector: None
- b) Limits to lending: Lower of either 800 million yen or an amount equivalent to 20/100 of the equity capital
- c) Interest rate: 6.279% instrument lending  
5.210% discounted note
- d) Lending period: Not specified
- e) Collateral, guarantor: Not specified but will vary with the amounts and period

(Credit Union)

- a) Restriction of subsector: None
- b) Limits to lending: Lower of 20/100 of the equity capital of the credit union or 400 million yen.
- c) Lending period: Not defined particularly
- d) Collateral, guarantor: Not defined particularly

2) Improvement of the taxation system

Various measures are taken in the taxation system.

Firstly, there are ten major items of taxation measures, and some tax reductions are applied to each of the major items.

The major items are as follows:

- a) General measures for individual enterprise
- b) General measures for corporate enterprise
- c) Measures for succession of business of the small and medium scale enterprises
- d) Measures for cooperatives, etc.
- e) Special measures to promote investment in equipment and to promote testing and research of the small and medium scale enterprises
  - Special depreciation for machinery, owned by the small and medium scale enterprises
  - Taxation system to promote investment to strengthen new technology of the small and medium scale enterprises
  - Taxation system to strengthen the foundation of the small and medium scale enterprises, etc.
  - Taxation system to promote the rationalization of office work at the small and medium scale enterprises, etc.
  - Taxation system to strengthen the foundation of the technology of the small and medium scale enterprises
  - Deduction of tax when the amount of testing and research expenses increases
  - Taxation system to promote research and devel-

opment of key technology

- Taxation system relating to unions according to the Law concerning the Temporary Measures to Promote Development of Technology of the Small and Medium Enterprises.

f) Special measures for promotion of modernization, improvement of structure, fusion, etc. of the small and medium scale enterprises. (taxation systems related to laws)

- Measures relating to projects to improve the structure of the small and medium scale enterprises

- Measures relating to projects to upgrade the small and medium scale enterprises

- Measures relating to Small and Medium Enterprise Modernization Promotion Law

- Measures for policies for conversion of business of the small and medium scale enterprises

- Measures for policies for small and medium scale enterprises in certain areas

- Measures for projects to improve the structure of the textile industry

- Measures for combination of the small and medium scale enterprises

g) Special measures for resource-saving and energy-saving

h) Special measures for pollution control

i) Special measures for overseas transactions

j) Other measures

Of the above, the taxation system to strengthen the foundation of the small and medium scale enterprises, etc. of the special measures for promotion of investment in equipment and promotion of testing and research of the small and medium scale enterprises will be outlined.

Taxation system to strengthen the foundation of the small and medium scale enterprises.

This system was established with the objective to contribute to expansion of consumption, which will lead to development of the domestic demand, maintenance of the activity of industry and absorption of employment, etc. through the stabilization and strengthening of the management foundation of certain small and medium scale enterprises and the distribution and services industries under the current economic situation such as rapid appreciation of the yen, etc., and special depreciation or tax reductions are allowed when the eligible equipment is purchased and put to use in the designated business, or when the target equipment is put to use in the designated business by lease contracts.

a) Designated business

Designated business means business which belong to the subsectors other than the subsectors in accordance with the provisions of Item 1 and 2 of Paragraph 2, Article 2 of the Law on Extraordinary Measures for Business Conversion of Small and Medium Enterprise.

b) Method

- In the case of acquisition:

In the initial year

A 30% Special depreciations ] or option  
B 7% Tax deduction \_\_\_\_\_ ]

of the acquisition value.

- In the case of lease: Tax deduction of 7% on 60% of the total lease cost in the initial year.

The lease agreement which is the object of this taxation system needs to agree with each of the following requisites:

- The lease agreement period to be 5 years or more and the legal service life or less.
- The total lease cost is defined for each object equipment. (When there are two or more object equipment, per set or per unit.)
- The payment of the lease rental is in equal installments and made periodically.

3) Measures to promote cooperative organization

The small and medium scale enterprises are frequently put in a disadvantageous position on account of very small size and the small amount of capital, low credit rating and technological level in general, and therefore, various types of cooperatives are established with the objection of increasing the productivity and of strengthening the bargaining power by encouraging enterprises of the same trade to form an organization. The existing cooperatives are classified as shown in Figure 5.7 by subsectors membership, objectives of the activi-

ty. The government and the local public organizations grant subsidies to promote such activities. Also, loans according to joint equipment funds, etc. based on the Law concerning the Small Business Corporation, loans by the Commerce and Industry Union Central Bank, the Small Business Finance Corporation, and the financial the assistance program to strengthen the quality of the small and medium scale enterprises, which as taxation measures, the cooperative activities are supported by reduction of the corporation tax for cooperatives, exemption from the fixed assets tax, exemption from the real estate acquisition tax.

#### 4) Diagnosis and guidance projects

Such projects as the diagnosis and guidance of the management, the guidance in technology and the testing and research therefore, the training of the management and the technical staff of the small and medium scale enterprises are carried out by the cooperation of the prefectures and the Small Business Corporation. The mechanism of this project is shown in Figure 5.8.

### Improvement of the management resources

#### 1) Development of human resources

Development of human resources is carried out centered around the Institute of the Japan Small Business Corporation under the administration of the Small Business Corporation. The training projects of the Institute of the Japan Small Business Corporation is divided into a) training projects for small and medium scale enterprises, b) development and training of instructors, etc. for the small and medium scale enterprises, and c) research projects.

a) Training for small business owners

The objective of the training projects for the small and medium scale enterprises is to strengthen the comprehensive management capability to respond effectively to changes in business environment by improvement of software resources of management, particularly the development and improvement of human resources, and the project is divided into four courses, namely, Management Training for the Small and Medium Enterprises, Training to Promote the Upgrading of the Small and Medium Enterprises, Technical Training for the Small and Medium Enterprises, and Training by Correspondence, each having various courses.

b) Training for counselors for small business enterprises

Development and training of counselors, etc. for the small and medium scale enterprises aims to improve the projects to guide the small and medium scale enterprises, and the targets are mainly the officials of the regional public organizations but certain course may be opened for the general public by paying a specified fee.

c) Research projects

The objectives of the Small and Medium Enterprise Research Institute is to improve the quality of the important issues relating to the policies for the small and medium scale enterprises, and the managerial and technological difficulties faced by the small and medium scale enterprises, and the research projects of the Institute of the Japan Small Business Corporation, and the following research projects are implemented and the results are extended to various fields:



- A. Research on the problems of the small and medium scale enterprises from the macroeconomic perspective such as economic structure, industrial structure, etc.
- B. Developmental research on management strategy which matches the actual situation of the small and medium enterprises to respond effectively to changes in regional economy and the changes in business environment such as the progress of internationalization.
- C. Development of technical training materials and training methods utilizing the results of the research of A and B above and the research to support training projects to ensure the improvement of the quality level of the research projects.

2) Promotion of computerization and information resources

The Small and Medium Enterprise Agency endeavors to strengthen the guidance function of the Regional Information Centers of the Small and Medium Enterprises which are designed to utilize information resources by the small and medium enterprises in the region, so that the small and medium scale enterprises may overcome the disparity. In informational resources between the large enterprises ensuing the progress of computerization and may develop by actively utilizing the progress of computerization.

Furthermore, the computerization of the small and medium scale enterprises is promoted in a general way, by formation of information networks of the small and medium scale enterprises, the development of human resources to guide the small and medium scale enterprises in computerization and use of information resources.

The Small and Medium Enterprise Information Center of the Small Business Corporation collects, analyzes and creates management and technological information needed by the small and medium scale enterprises, builds the data base in a form easily used by the small and medium scale enterprises (this data base is called SMIRS), while disseminating information to the small and medium scale enterprises of the region through the Regional Small and Medium Enterprise Information Centers (45 centers as of the end of 1988) in the regions.

Also, various information publications directed to the General Guidance Office for Small and Medium Enterprises and to the three major associations in commerce and industry, etc. are published to complement the information collecting ability of the small and medium scale enterprises as well as rendering of consultation by information specialists to the small and medium scale enterprises on information.

And, the improvement of the data-base of the Small and Medium Enterprise Information Center of the Small Business Corporation (SMIRS) is contemplated (23,000 cases in 1989).

Furthermore, a standard program for industrial information exchange service (electronic network) by personal computer communication which is planned to be implemented in the Small and Medium Enterprises Information Center will be designed and developed.

Figure 5.9 depicts the system for collection and dissemination of information.

### 3) Improvement of the technical ability

The objective is to improve the technical ability of the small and medium scale enterprises and to support a smooth adaptation to changes in business environment by labor-saving, rationalization, development of new products, etc. Furthermore, the "Law concerning Temporary Measures for Promotion of Technical Development of the Small and Medium Enterprises" was enforced to provide special aid measures. (Refer to Figure 5.10)

The basic direction relating to technical development as submitted by the Ministry of International Trade and Industry was formalized as "Technical Development Guidelines", and the small and medium scale enterprises and cooperatives, etc. who supplement research and development according to these guidelines are to prepare Technical Development Plan and receive the approval of the prefectural governor. The plan that has been approved is eligible for preferential treatment such as the subsidy for the cost of policy to upgrade the technology of the small and medium scale enterprises, the lending of funds for upgrading by the Small Business Corporation, special loans by the Small Business Finance Corporation and the People's Finance Corporation, the exception of the Law concerning the Small and Medium Enterprises Investment and Development Company, Ltd., the exception to the Small and Medium Enterprise Credit Insurance Law, the exception to taxation, etc., according to the "Law concerning Temporary Measures for Promotion of Technical Development of the Small and Medium Enterprises".

With respect to development of human resources, there are the training of technical personnel carried out by the prefectures with the cooperation of the industry and the academia and the subsidy of the country and the training of technical instructors of the public testing and research organiza-

tions implemented by the Small Business Corporation through the Institute of the Japan Small Business Corporation.

With respect to technical guidance, the public testing and research institutes established in the prefectures (about 170 institutes are established throughout the country), technical guidance tied directly to the small and medium scale enterprises as those who undertake the front line of technical guidance, and also the country contemplates the improvement of the guidance system and the contents of the research by improving the facilities necessary for the public testing and research institutes to conduct the guidance.

Also, for the small and medium scale enterprises to realize the improvement in the quality and performance of their products and the rationalization of their production, the tests on the raw materials, inspection of the products become technical requirements, and it is difficult for the individual small and medium scale enterprise to own from the standpoint of capital and management. Therefore, there is installed in the public testing and research institutes, testing equipment required by the small and medium scale enterprises but not affordable because of funds and management. Thus, an open testing laboratory is built in the public testing and research institutes equipped with equipment which the small and medium scale enterprises find difficult to install on their own and which they can use freely.

Furthermore, to ensure the promotion of research and development-intensive enterprises which pioneer the new fields that use advanced technology, there are built in the public testing and research institutes, an open laboratory for advanced technology equipped with advanced testing and research equipment and an open laboratory for combination equipped with testing equipment necessary for

research or testing and inspecting to integration with technology of a different field which the small and medium scale enterprise conducts.

The technical advisory guidance project conducts guidance at the production site of the small and medium scale enterprises or at the public testing and research institutes for the small and medium scale enterprises that are not able to relate their rich ideas to new products or processes because of the lack of technical ability, by dispatching personnel who possess ample knowledge and experience relating to the technology registered at the prefecture (for example, personnel who has 20 years or more practical experience relating to the technology, professors and assistant professors of the four year colleges and the two year colleges, etc.) at the request of the small and medium scale enterprises.

Moreover, the window to request guidance is located in the commerce and industry sections of the prefecture or in the public testing and research institutes.

There are many cases in which the small and medium scale enterprises run into difficulty in developing the necessary technology on account of the technical ability, funding, etc. The public testing and research institutes, the state testing and research institutes, and the Small Business Corporation conduct development, design and manufacture of the prototype for the small and medium scale enterprises and the results are widely diffused through public meetings, in order to promote the improvement of such structure of the small and medium scale enterprises and to contribute to the improvement of the productivity.

## Others

As special policy actions relating to management foundation policy, there are listed the policy for subcontracting enterprises, the policy for prevention of bankruptcies, the policy for government and public procurement, the policy for modernization and the adjustment of the fields.

### 1) Policy for the subcontracting enterprises

The subcontracting enterprises are frequently forced to accept unfavorable conditions by the parent enterprise on account of their heavy dependency, generally, on the business with the parent enterprise. Delay in payment to subcontractors, reduction of payment, return of goods, without reason are some examples, and it is necessary to correct such unfair business practices and to ensure stability and growth of the management of the subcontractors. The enforcement of the Law concerning the Prevention of Delay of Payment of the Subcontracting Money was based on the above background. In the administration of this law, the Fair Trade Commission and the Small and Medium Enterprise Agency, based on documentary examination of manufacturers and subcontractors and the appeal from subcontractors, will examine actual conditions of the subcontract and conduct a house inspection, and will instruct the parent enterprise which is ascertained to be in violation to correct the situation and take measures such as recommendations when their instructions are not followed. These actions are supported by law and penalties are imposed in some cases.

### 2) Policy to prevent bankruptcy

As policies to prevent bankruptcy of the small and medium scale enterprises, there is a policy to prevent chain bankruptcies comprising the emergency guarantee program to prevent hindrance in the

stability of the management by the bankruptcy of a customer and to prevent bankruptcy of the subcontractor itself, the system to lend for the bankruptcy policy of the small and medium scale enterprises, the mutual aid system to prevent bankruptcy of the small and medium scale enterprises, and the holding of various councils and the special counseling projects for prevention of bankruptcies in which "Special Counseling Offices for Bankruptcy Prevention (stability of management)" are established in the Chambers of Commerce and Industry, etc. throughout the country with a staff of specialists conducting counseling and guidance.

The loan program related to bankruptcy of the small and medium scale enterprises is a loan implemented through the government based financial institutions (Small Business Finance Corporation, People's Finance Corporation) to prevent a chain of bankruptcies, and in its guarantee, the Credit Guarantee Society cooperates. The System for Mutual Aid to prevent bankruptcies of the small and medium scale enterprises is implemented by the Small Business Corporation, and the small and medium scale enterprise participating in the mutual aid system are eligible for non collateral no-guarantee loan according to the amount of premium accumulated in the event that a customer becomes bankrupt and the payments due cannot be collected.

For those small and medium scale enterprises that received guidance by the Special Bankruptcy Prevention Counseling Office through the Chamber of Commerce and Industry, the Federation of the Chambers of Commerce and Industry, mediator of commerce and industry, legal counsels certified public accountants, etc., and, further, received recommendation, loans from private financial institutions designated by the prefecture are available too.

3) Promotional measures related to government procurement

"The Law concerning the Ensuring of Awards for Government Procurement to the Small and Medium Enterprises" (Government Procurements Law) was enacted in June, 1966, with the objective of ensuring opportunity to the small and medium scale enterprises in the awarding of government procurement.

This law provides for 1) the government to make positive effort to ensure increased receipt of orders by the small and medium scale enterprises in executing contracts for purchases of goods, public works, and supplying services, considering the proper spending of the budget, 2) the government to prepare "policy on the government procurement relating to small and medium scale enterprises" to ensure increased opportunities for the small and medium scale enterprises, each fiscal year with respect government procurement, etc. with the purpose of indicating the direction of such effort, and the measures to endorse such direction, and, at the same time, publishing a summary thereof, 3) as a measure to ensure effect of the policy, the heads, etc. of the ministries and agencies to report the outline of the effects of the government procurement, etc. after the close of the fiscal year to the Minister of International Trade and Industry and the Minister of International Trade and Industry to grasp the progress of government procurement by the ministries and agencies at all times and the minister in charge of the project carried out by the Minister of International Trade and Industry to, if necessary, request the heads of the ministries and agencies to take necessary measures, 4) the local public organizations to be able to enforce policies to ensure opportunities for the small and medium scale enterprises to receive orders following the policies of the country, etc. as the main contents of this policy.



The enterprises eligible for such policy measures are those that passed the examination, those that are small and medium scale enterprises generally and not bankrupt, and excluding those that cannot be allowed to participate in the government contract because of unfair acts in the execution of a government contract in the past, are able to participate in the tenders for government procurement according to the size and competence of the enterprise.

#### 4) Policy for modernization

"Small and Medium Enterprise Modernization Promotion Law" to promote the modernization of the small and medium scale enterprises is enforced and various measures are taken based on this law.

The "Small and Medium Enterprise Modernization Promotion Law" was enacted in March, 1963 with the objective to contribute to a sound development of the national economy by promoting modernization of the small and medium scale enterprises matching the situation through a survey of the actual situation by subsectors of the small and medium scale enterprises in order to advance modernization according to conditions peculiar to the subsector and the form of business of the small and medium scale enterprises.

Since the enactment of the law, it has been amended several times according to changes in the environment of the small and medium scale enterprises, and has functioned as the core policy for the promotion of modernization by subsector responding to the economic conditions prevailing at the time, and there are a total of 186 designated subsectors under this law.

a) Designated subsectors to formulate the Small and Medium Enterprises Modernization Plan

The project is in a large part carried out by the small and medium scale enterprises (so-called the small and medium scale enterprise subsector) and the subsectors recognized to be in urgent need of modernization are designated by a government ordinance from the standpoint of ensuring the upgrading of the industrial structure, strengthening of international competitiveness and the stability and improvement of the national livelihood.

b) Items to be included in the Small and Medium Scale Enterprise Modernization Plan

- The targets of modernization such as the performance or quality of the product, the production cost, projection of the supply of the product in the target year, etc.
- Items necessary to achieve the targets of modernization such as development of new commodities, and new technologies, modernization of equipment, proper production scale, normalization of competition, improvement of customer relations, etc.
- Items to be considered in the modernization such as improvement of the welfare of the employees, increase of the benefits of the consumers, the preservation of the environment, etc. are to be referred to in the formulation of the modernization plan by the designated subsector.

Table 5.6 FUNCTIONAL ORGANIZATION OF MEASURES FOR SMALL- AND MEDIUM-SCALE BUSINESS

Structural Change	Measures for Small Scale Enterprises	Measures for Improvement of the Foundation of Business Management
<p>(Measures for Small- and Medium-Business in General)</p> <ol style="list-style-type: none"> <li>Promotion of synergetic combinations               <ul style="list-style-type: none"> <li>- Combinations of businesses in different industries</li> <li>- Subsidies, low-interest loans, tax measures</li> </ul> </li> <li>Promotion of internationalization               <ul style="list-style-type: none"> <li>- Establishment of a center for international exchange involving small- and medium-scale business</li> </ul> </li> </ol> <p>(Measures for Specific Small- and Medium-Scale Business)</p> <ol style="list-style-type: none"> <li>Measures for specific industries               <ul style="list-style-type: none"> <li>- Low-cost credit</li> </ul> </li> <li>Measures for specific regions               <ul style="list-style-type: none"> <li>- Low-cost credit; subsidies for promoting economic activity in specific regions (Subsidies for identifying new business projects and developing same), development of more advanced technology</li> </ul> </li> <li>Measures for subcontractors               <ul style="list-style-type: none"> <li>- Low-cost credit for subcontractors, support for technological development, 'technofair' events for subcontractors</li> </ul> </li> </ol>	<p>(Petty enterprises)</p> <ol style="list-style-type: none"> <li>Management improvement               <ul style="list-style-type: none"> <li>- Subsidies for managerial guidance services by Chambers of commerce and industry</li> </ul> </li> <li>Credit for improvement of management               <ul style="list-style-type: none"> <li>- Unsecured, unguaranteed</li> </ul> </li> <li>Loans and lending of equipment for equipment modernization</li> <li>System for mutual aid societies of petty enterprises</li> </ol> <p>(Petty commercial enterprises)</p> <ol style="list-style-type: none"> <li>Activating neighborhood retailers' associations               <ul style="list-style-type: none"> <li>- Credit for improvements through trisectoral activities</li> </ul> </li> </ol>	<p>(Basic policies)</p> <ol style="list-style-type: none"> <li>Finance               <ul style="list-style-type: none"> <li>- Three financial institutions (Shoko Chukin Bank, People's Finance Corporation, Small Business Finance Corporation)</li> <li>- Finance for elevation of level of industry (through Small Business Finance Corporation, at 2.7% or interest-free)</li> <li>- Extension of loan maturities</li> </ul> </li> <li>Credit support               <ul style="list-style-type: none"> <li>- Increasing insurance limits; creation of insurance for new business development efforts; improved credit guarantees</li> </ul> </li> <li>Tax measures               <ul style="list-style-type: none"> <li>- Extension of quasi-corporate tax treatment; tax measures for promotion of synergetic combinations; establishment of regional centers for information</li> </ul> </li> <li>Organizational measures               <ul style="list-style-type: none"> <li>- Subsidies for guidance to business associations by the Central Committee for Small- and Medium-Scale Business Cooperatives</li> </ul> </li> <li>Guidance and analysis               <ul style="list-style-type: none"> <li>- Guidance and analysis by local governments</li> </ul> </li> </ol> <p>(Enhancement of managerial resources)</p> <ol style="list-style-type: none"> <li>Development of human resources               <ul style="list-style-type: none"> <li>- Small Business College</li> </ul> </li> <li>Information               <ul style="list-style-type: none"> <li>- Small business regional information centers</li> </ul> </li> <li>Technology               <ul style="list-style-type: none"> <li>- Subsidies for improvement of technology (subsidies, low-interest loans, tax measures); technical guidance</li> </ul> </li> </ol> <p>(Others)</p> <ol style="list-style-type: none"> <li>Measures for subcontractors               <ul style="list-style-type: none"> <li>- Low to Prevent Delays in Payment to Subcontractors; information on business opportunities; guidance</li> </ul> </li> <li>Measures to prevent business failures               <ul style="list-style-type: none"> <li>- Advisory services</li> </ul> </li> <li>Government business               <ul style="list-style-type: none"> <li>- Low to Insure Opportunities for Small- and Medium-Scale Businessmen to Get Government Contracts</li> </ul> </li> <li>Modernization               <ul style="list-style-type: none"> <li>- Low for Promote Modernization of Small- and Medium-Scale Businesses</li> </ul> </li> </ol>

Table 5.7 CONTENTS OF FINANCIAL SYSTEMS FOR MODERNIZATION OF EQUIPMENT IN SMALL- AND MEDIUM-SCALE BUSINESS

	Financial system for equipment modernization	Supply of equipment		
		General equipment	Installment credit scheme	Leasing
Eligible beneficiary	Mainly small-scale businesses employing 100 or fewer persons	Mainly small-scale businesses employing 20 or fewer persons	Mainly small-scale businesses employing 80 or fewer persons	Mainly small-scale businesses employing 80 or fewer persons
Amount of loan	Maximum, ¥30 million	Maximum, ¥25 million	Maximum, ¥50 million	Maximum, ¥50 million
Interest and conditions	No interest	Fee, 4.5% p.a.; guarantee, 10%	Fee, 4.5% p.a.; guarantee, 10%	About 7% p.a., including tax and insurance
Duration	Within 5 years (within 12 years for environmental-protection equipment)	Within 4.5 years (11.5 years for environmental-protection equipment)	Within 6.5 years (11.5 years for environmental-protection equipment)	Within 7 years (84 months)

Table 5.8 SPECIAL LENDING ARRANGEMENTS OFFERED BY GOVERNMENT-RELATED FINANCIAL INSTITUTIONS FOR SMALL- AND MEDIUM-SCALE BUSINESS

(As of July 3, 1989)

Institution	Program	Interest (%)	Features	Use of funds
△ ○	Loans for promotion of modernization	5.85	[Funds for modernization of industries under the Modernization Promotion Law] Modernization of small- and medium-scale business	Equipment and working capital
		5.85	[Funds for modernization of gas-related industry] (○) Promotion of modernization and improvement of safety facilities of small- and medium-scale business in gas-related industries	Equipment
△ ○	Loans for modernization of commerce	5.85	[Funds for modernization of small-scale commercial enterprises; funds for modernization of small-scale wholesalers] Promotion of rationalization of distribution systems and modernization of management in commercial enterprises	Equipment and working capital
		5.35	[Funds for elevating the level of retailers] (○) Promotion of structural improvement of small- and medium-scale retailers	Equipment and working capital
		5.85	[Funds for modernization of physical distribution] Promotion of rationalization and modernization of physical distribution	Equipment
△ ○	Loans for structural improvement of small- and medium-scale industry	5.35, 5.85	Promotion of structural improvement of small- and medium-scale industry	Equipment and working capital
○	Loans for small- and medium-scale subcontractors	5.35, 6.0	Promotion of modernization of small- and medium-scale subcontractors	Equipment and working capital
◎	Loans for adjustment of small- and medium-scale industry to international economic conditions	4.85 (5.35)	[Funds for conversion to other business lines] (△○) Facilitation of smooth conversion to new business lines	Equipment and working capital
		6.0	[Funds for adaptation to environmental change] Promotion of advancement to new areas in accordance with changes in the international economic environment	Equipment and working capital
		4.85 (5.35)	[Funds to facilitate overseas investment] (◎) Intended to facilitate direct investment overseas	Equipment
		4.85 (5.35)	[Funds for facilitation of sale of imported goods] (△○) Promotion of expanded sales of imported goods by small- and medium-scale commercial businesses	Equipment and working capital
○	Loans for new business and technology promotion	6.0, 5.35	[Funds for promotion of advanced technology] Development of small- and medium-scale businesses related to advanced-technology industries	Equipment and working capital
			[Funds for technology development] Improvement of technology in small- and medium-scale industry	Equipment and working capital
		6.0	[Funds for promotion of new, domestic-demand industry] Promotion of elevation of service industries contributing to structural change favoring increased domestic demand	Equipment and working capital
○	Loans for improvement of foundation for information use	4.85 (5.35) 5.35, 5.85	Promotion of on-line information systems for small- and medium-scale business; improvement of reliability	Equipment

- Notes: 1. Figures within parentheses are interest rates from 4th year on.  
 2. Code for lending institution names: △: Small Business Finance Corporation (SBFC);  
 ○: People's Finance Corporation (PFC); ◎: SBFC, PFC and Bank for Commerce and Financial Corporation.  
 3. Limit to loans: in principle, SBFC, ¥350 - ¥520 million, PFC: ¥350 - 520 million.

Figure 5.1 ORGANIZATION, FUNCTIONS AND RELEVANT LAW OF SMALL AND MEDIUM ENTERPRISE AGENCY

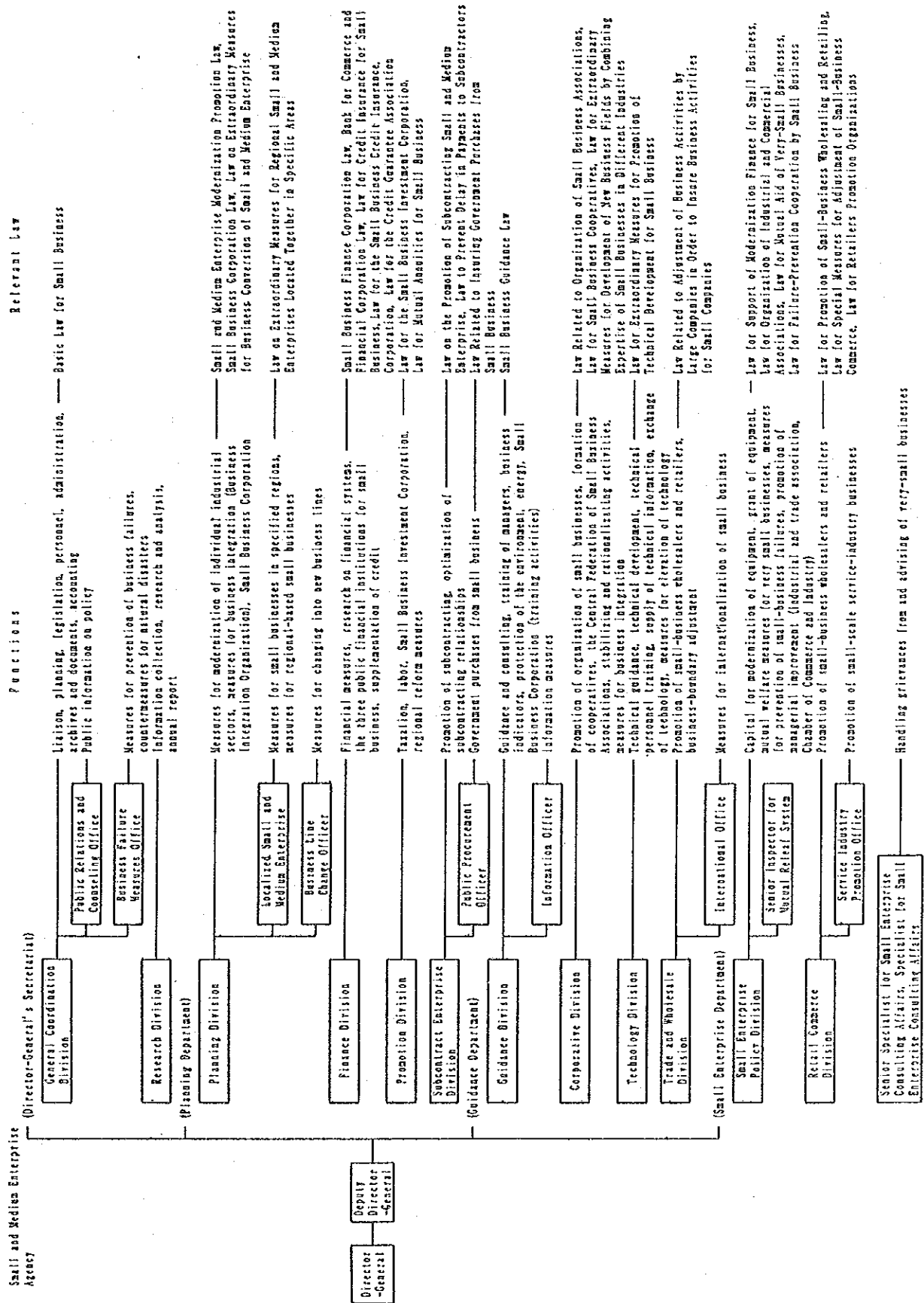


Figure 5.2 SYSTEM FOR IMPLEMENTATION OF MEASURES FOR SMALL- AND MEDIUM-SCALE BUSINESS

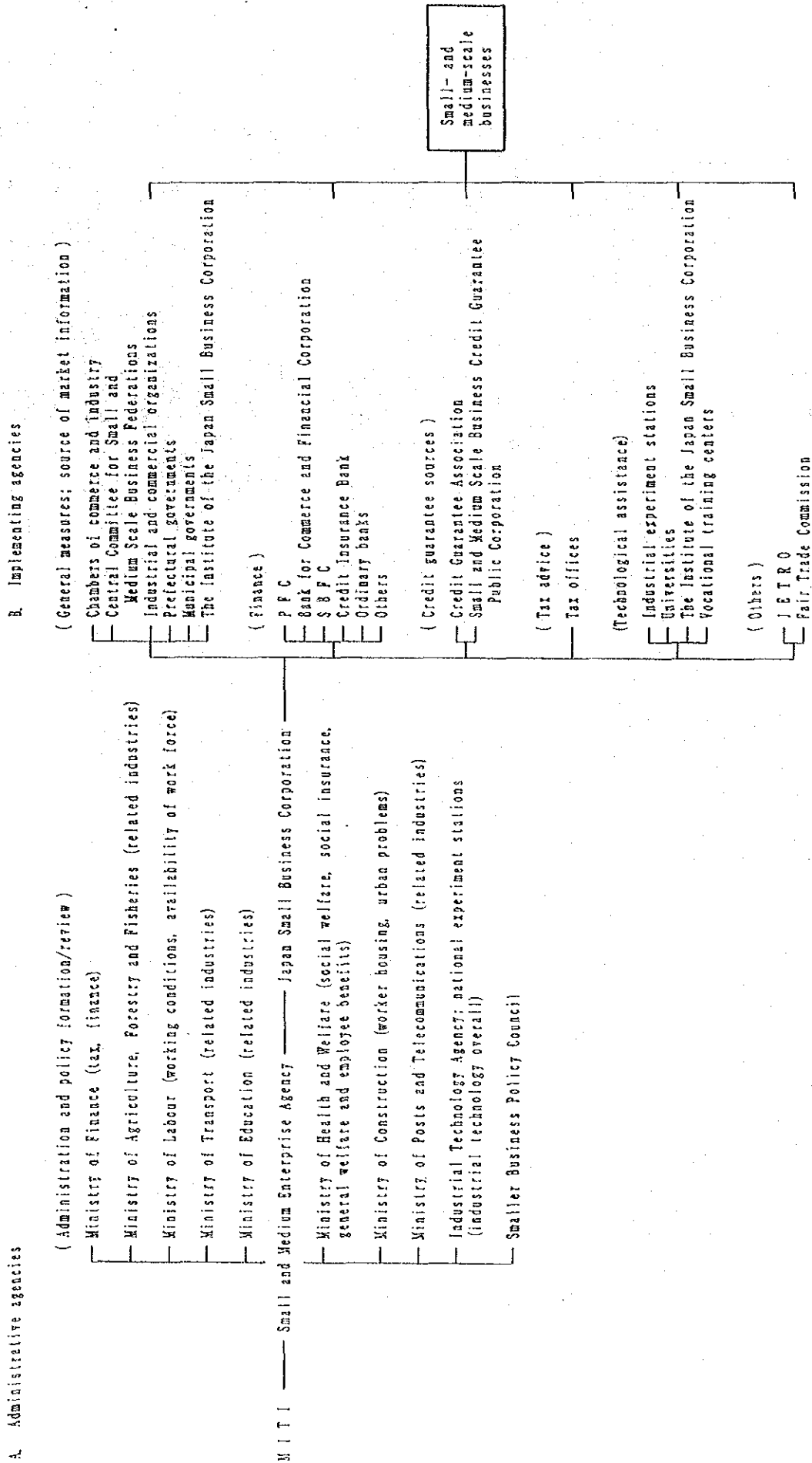


Figure 5.3 ARRANGEMENTS FOR INTERNATIONALIZATION MEASURES FOR SMALL- AND MEDIUM-SCALE BUSINESSES

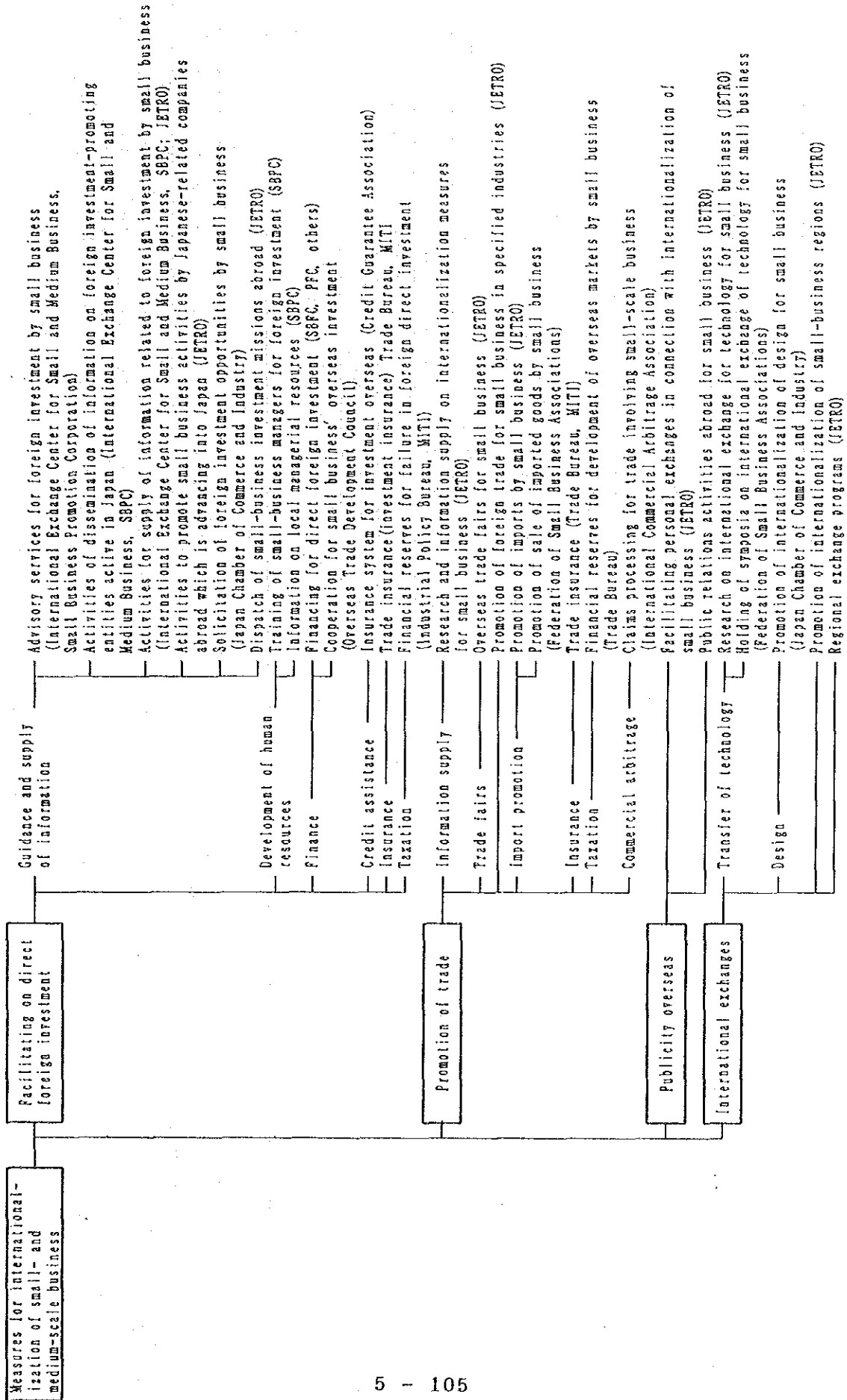




Figure 3.4 SCHEMATIC DIAGRAM OF THE TEMPORARY LAW FOR CONVERSION OF SPECIFIC SMALL-SCALE BUSINESS ACTIVITIES

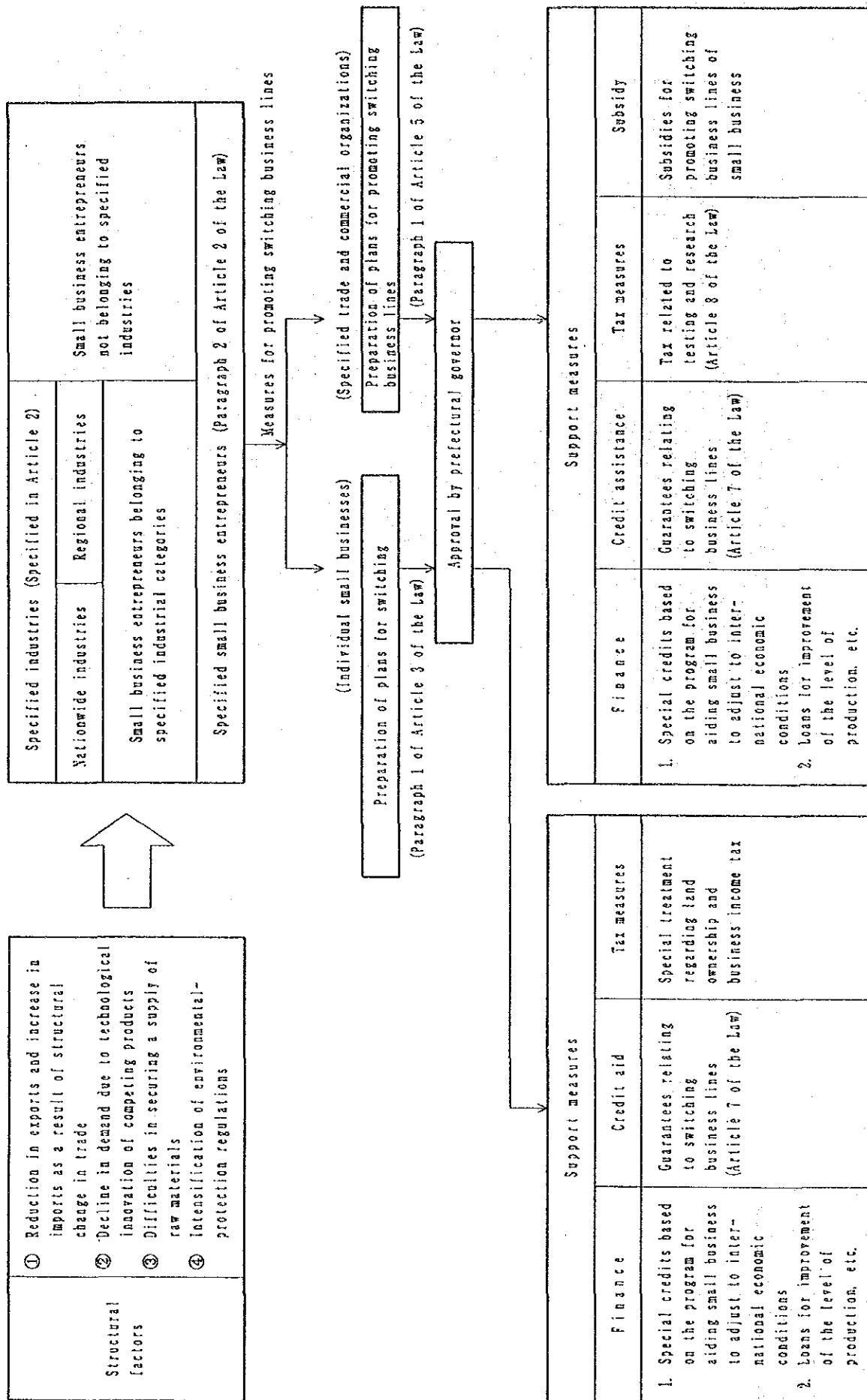


Figure 5.5 SCHEMATIC OUTLINE OF THE LAW FOR TEMPORARY MEASURES FOR SMALL BUSINESSES IN SPECIFIED REGIONS

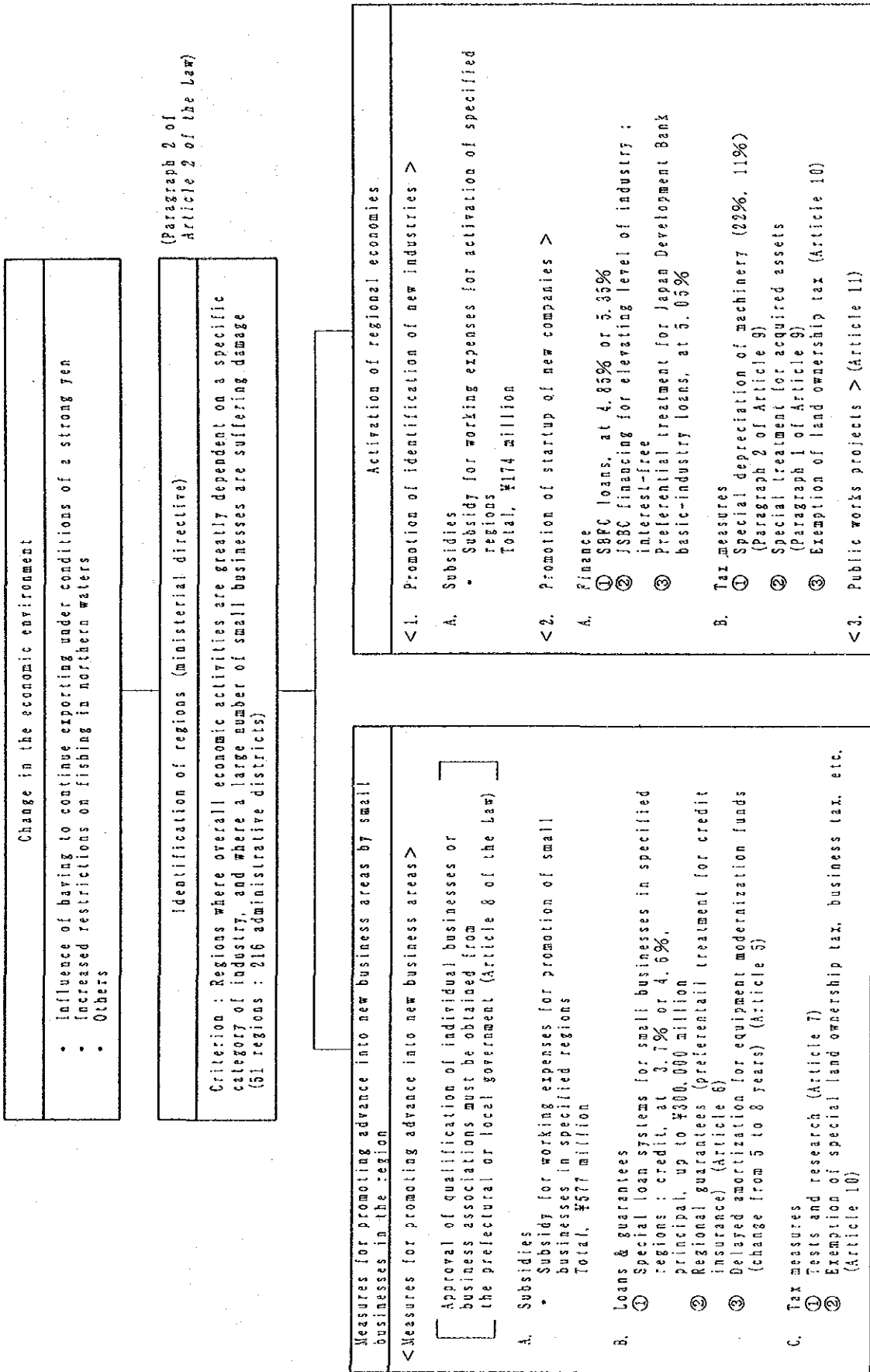


Figure 3.6 OPERATIONAL ARRANGEMENT IN RELATION TO THE LAW FOR PROMOTION OF SMALL-SCALE-BUSINESS SUBCONTRACTORS

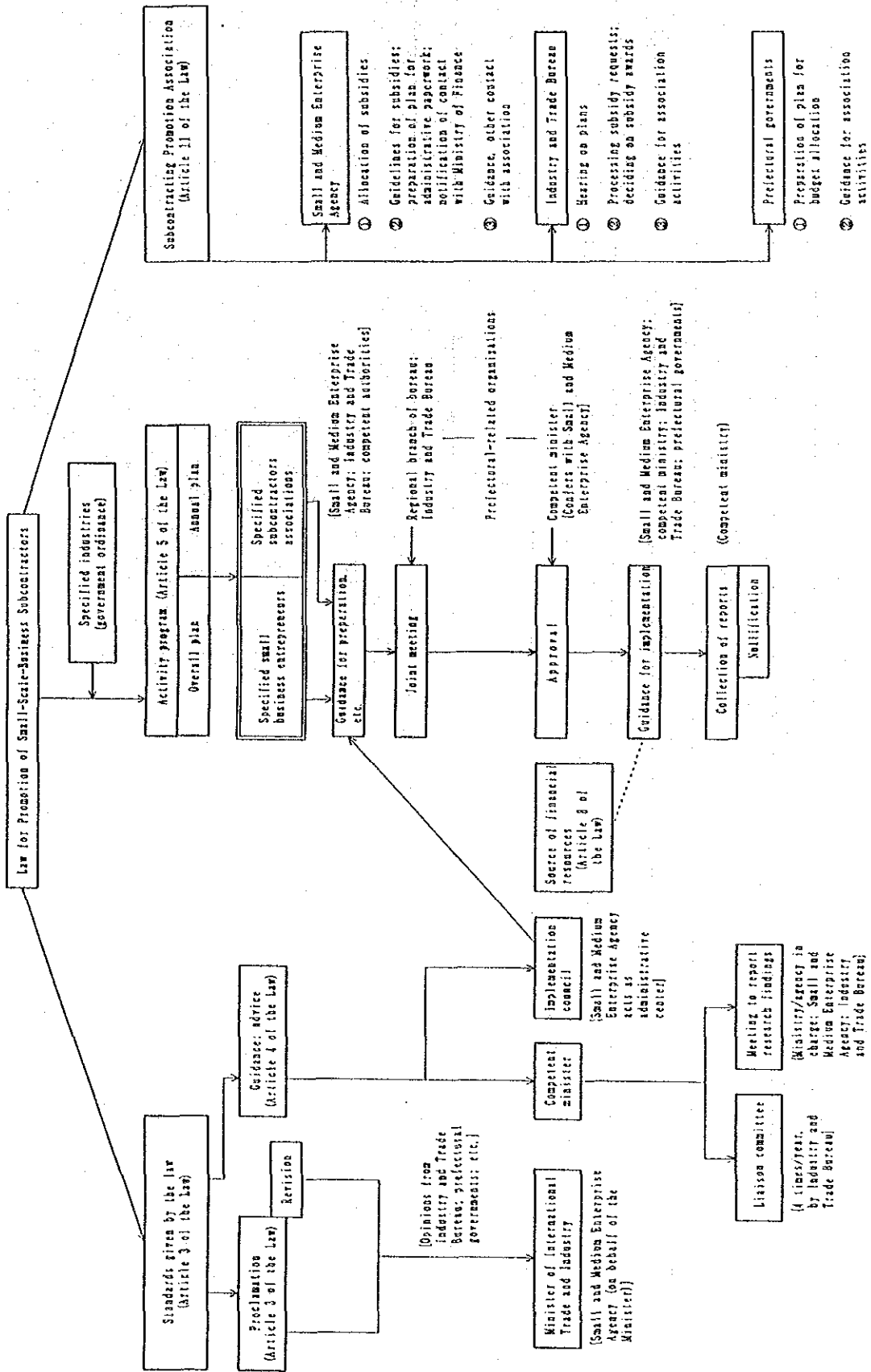


Figure 5.7 BUSINESS ORGANIZATION STRUCTURE

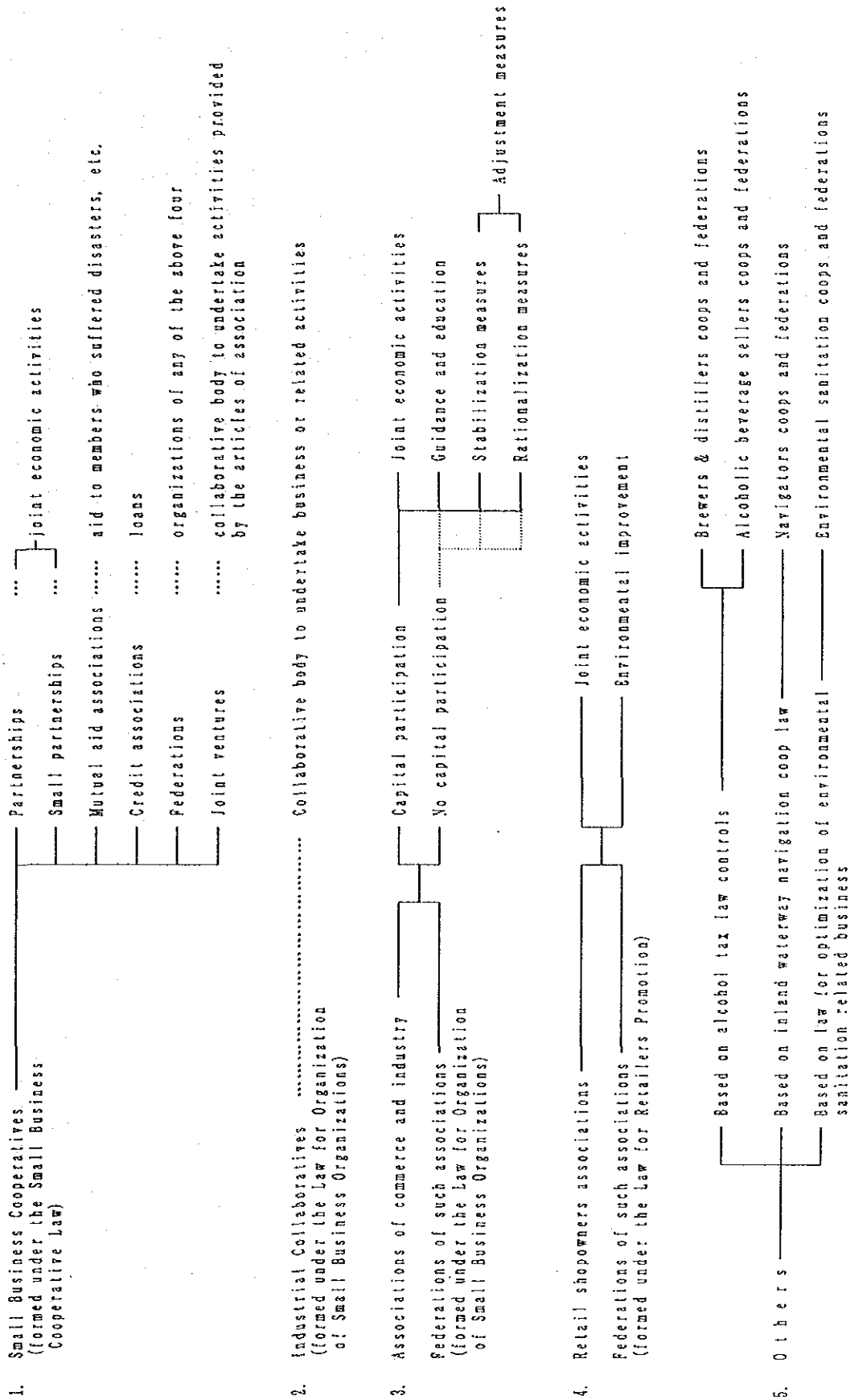


Figure 3.3 SCHEMATIC DIAGRAM OF GUIDANCE ACTIVITIES FOR SMALL BUSINESS

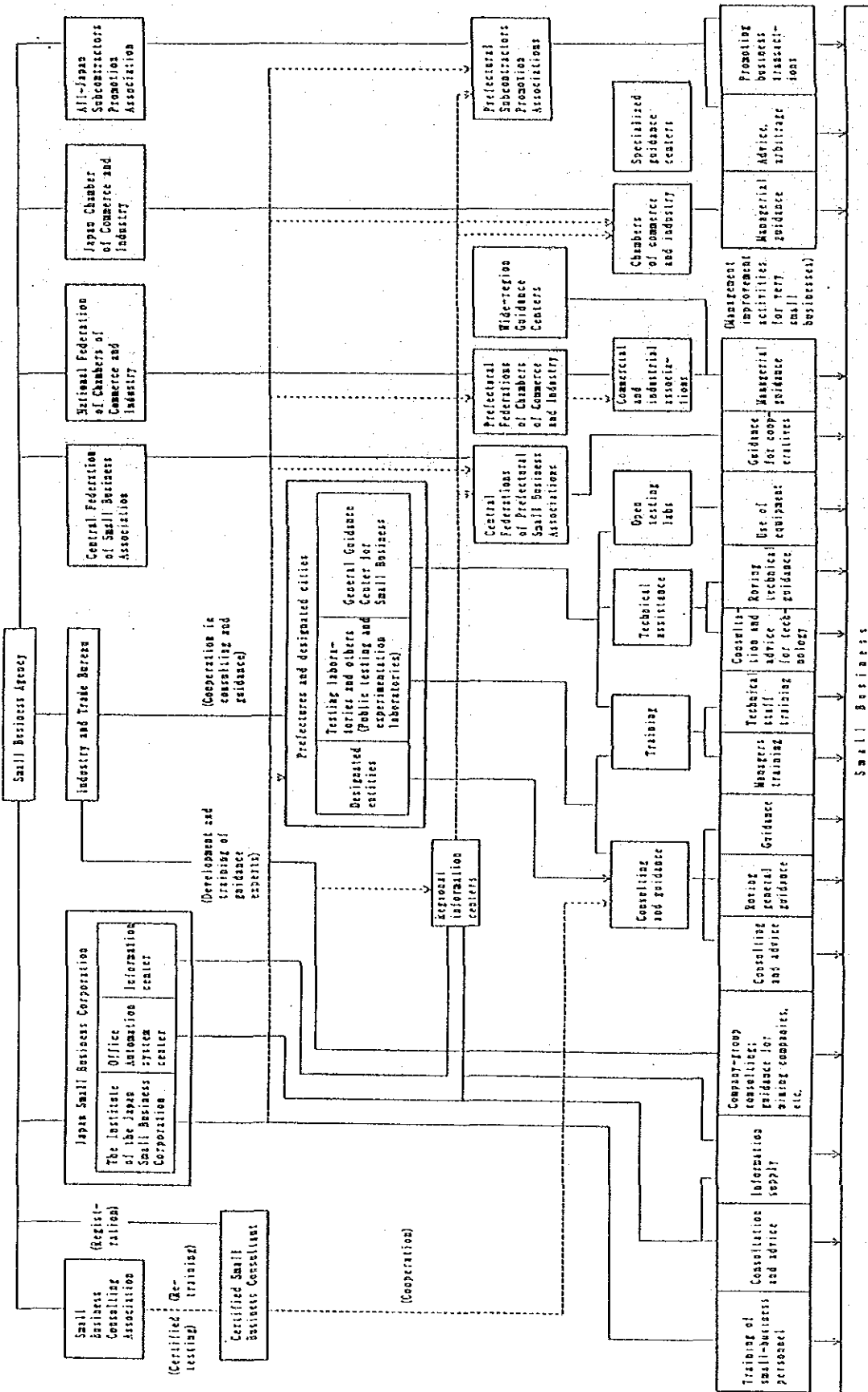


Figure 3.9 COLLECTION AND SUPPLY OF INFORMATION

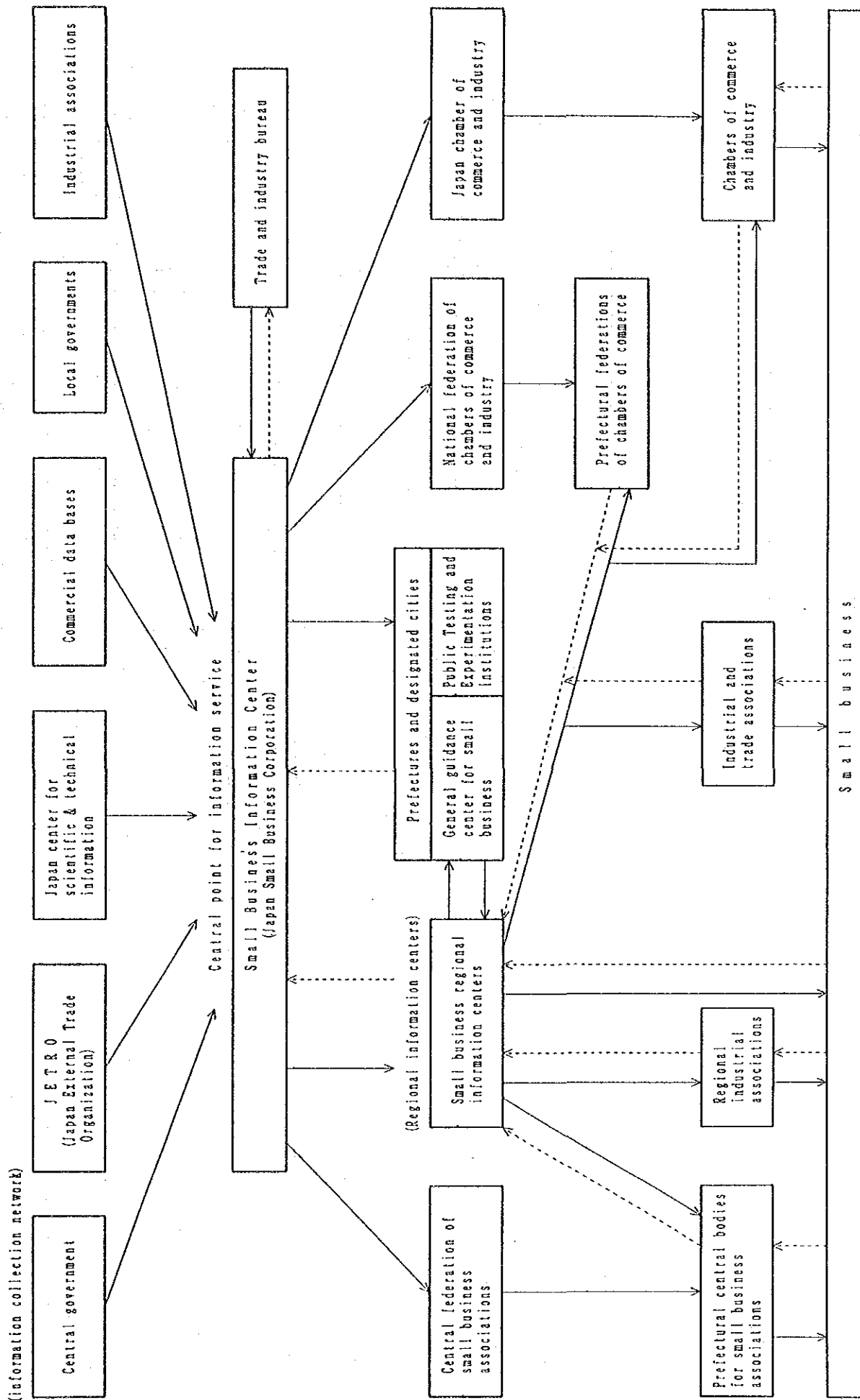
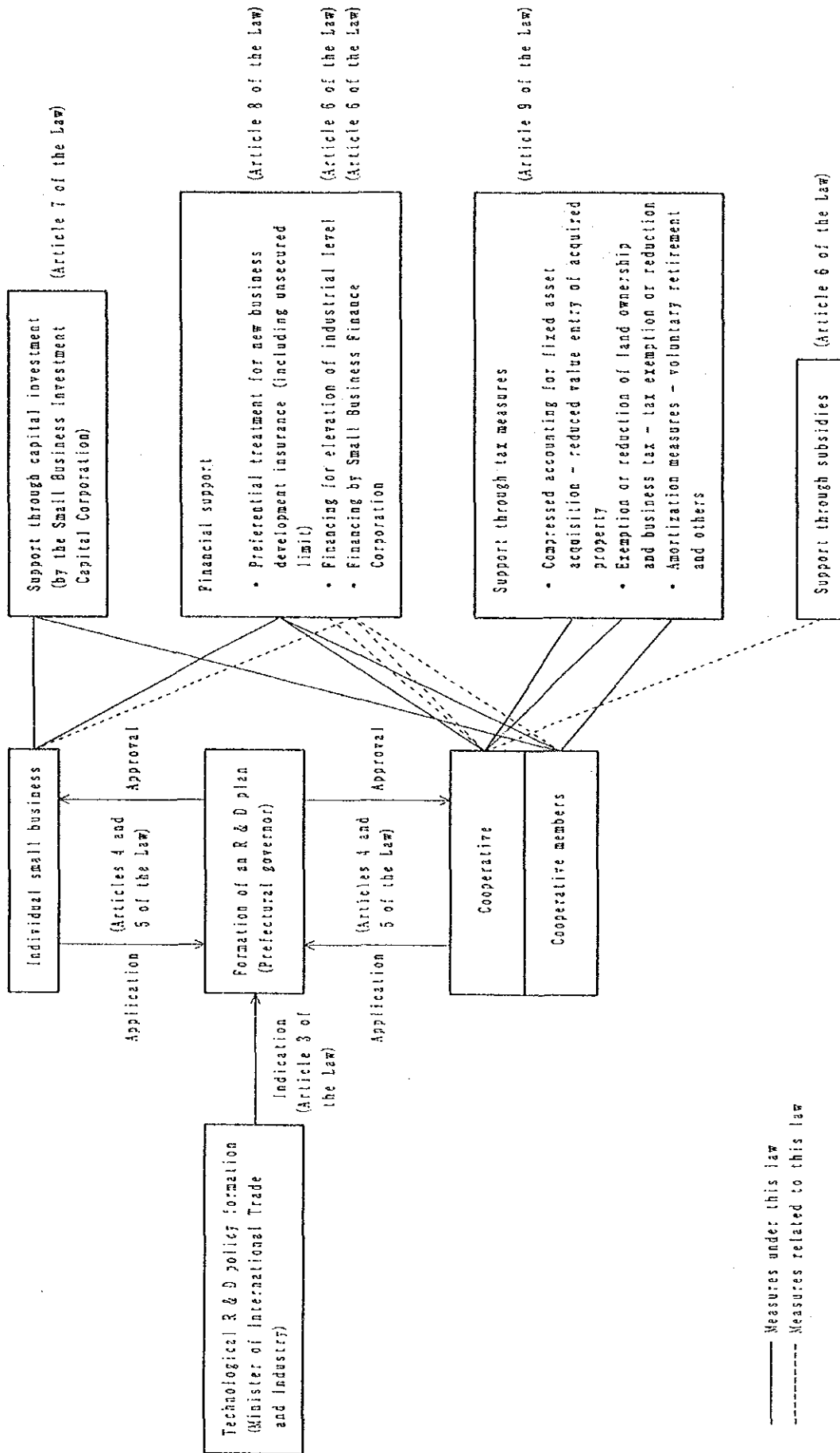


Figure 5.10 SCHEMATIC ORGANIZATION FOR THE LAW FOR TEMPORARY MEASURES FOR PROMOTION OF RESEARCH AND DEVELOPMENT BY SMALL BUSINESS



———— Measures under this law  
 - - - - - Measures related to this law

**Chapter 6 FINANCIAL SYSTEM FOR SMES AND MES  
IN COLOMBIA**





## Chapter 6 Financial System for SMEs and MEs in Colombia

### 6.1 Financial Markets and Policies

#### 6.1.1 Recent Changes in Financial Environment

Financial environment in any country changes with general economic conditions. The financial sector in Colombia has been heavily affected by fluctuation of international market prices of coffee, one of major sources of foreign currency earning. Major changes in Colombia's financial environment in the past fifteen years are summarized as follows.

Colombia enjoyed dramatic increase in coffee exports, with the soaring of international market prices, in 1975 when a major frost damage occurred in Brazil, followed by less severe damages in 1978 and 1979. This coffee "bonanza" caused a large amount of foreign currencies to flood into Colombia, increasing money flow to result in strong inflationary pressure. The government controlled the money flow by regulating the exchange of foreign currencies with the peso, raising interest rates, and requiring commercial banks to increase the legal reserve ratio to 100%.

As a result, liquidity of commercial banks was restricted, and coupled with increase in deposit rates, to put pressure on profitability. Despite such tight policy, excess money flow was directed to finance corporations and commercial finance companies which offered higher interest rates. There was only one finance corporation in 1975, which increased to 6 in 1978. On the other hand, 18 commercial finance companies were established between 1977 and 1978. This means, the commercial banks lost some of their financial market to the finance corporations and commercial finance companies which were not subject to government control.

In late 1980, the coffee bonanza ended and the trade balance which maintained surplus in the 1970s turned into

large deficit between 1981 and 1983, necessitating the country to depend on external borrowing.

The government attempted to cope with the situation by boosting domestic demand. However, liberalization of imports - part of the new economic policy - adversely affected domestic industries. Together with decrease in non-coffee exports to Venezuela and Ecuador which devaluated their currencies, economic conditions were further aggravated and went into a depression between July 1982 and June 1983. It hit hard financial institutions that boosted loans and investments to the manufacturing, service, and real estate industries, which turned into bad debts. Also, unprofitable lending to group companies has deteriorated their performance and liquidity. In 1982, the situation developed into a state of crisis.

The government declared the state of economic emergency in the same year by Law No.2920 and nationalized financial institutions in the critical condition. 9 of 27 banks, other than Housing Mortgage Bank, Agro Credit Bank, and Social Savings Bank, were nationalized between 1982 and 1986. At the same time, the government took austerity measures to cope with the crisis, including import restriction in 1983 to control the outflow of foreign currencies, and introduction of the value added tax in 1984, which increased the government revenue by 26.6%. Also, the government initiated programs to rescue troubled industries. Fondo de Capitalizacion Empresarial was established to increase own capital of private enterprises. For the financial institutions, one third of which has defaulted loans, the government's measures included (1) the establishment of Fondo de Capitalizacion Financiera to improve the financial position of financial institutions, (2) the establishment of Fondo de Garantia to prevent bankruptcy, (3) reduction of the legal reserve ratio to 45%, and (4) the restructuring of the organization to supervise the financial industry.

These economic and financial policies took effect in 1986, and partly helped by high coffee prices due to draught in Brazil, trade balance of the country turned into surplus,

and financial institutions make recovery. Since then, Colombia has been maintaining relatively stable trade balance and economic growth. In 1990, the government decided to initiate economic liberalization under assistance of the World Bank. Financial liberalization is implemented as part of this policy and includes possible abolishment of preferential interest rates for SMEs and MEs. The forced investment system imposed on banks and finance corporations for directed credit service will be abolished, and interest rates will be liberalized. Also, the process of privatizing financial institutions under government management was started this year.

#### 6.1.2 Current Situation of Financial and Capital Markets

##### (1) Market structure

Colombia's financial market, measured by financial assets, mainly consists of commercial banks and savings and housing loan corporations (CAVs), as shown in Table 6.1; in 1988, financial assets of these institutions accounted for 86.1% of the total. It should be noted, however, that their share has declined in recent years and dropped 4% between 1988 and 1989.

The main cause of this is that the finance assets of the commercial banks tended to decrease from 1988 and those of both the commercial banks and CAVs decreased in 1988 and 1989.

Instead, finance corporations and commercial finance companies have increased their shares. Between 1985 and 1989, financial assets of finance corporations and commercial finance companies increased 3.5 times and 3.9 times respectively, while those of commercial banks and CAVs grew 2.5 times and 2.7 times respectively during the same period.

Table 6-2 summarizes credit provided by major

financial institutions. Again, commercial banks and CAVs have been maintaining a dominant share (3/4 of the total), but which has declined recently to increase shares of finance corporations and commercial finance companies.

Between 1986 and 1988, the total credit of commercial banks increased 1.8 times, CAVs 1.6 times, finance corporations 1.7 times, and commercial finance companies 2.0 times.

## 2) Capital market

Colombia's capital market is made up of three stock exchanges in Bogota, Medellin, and Cali. As shown in Table 6.3, the secondary market is less than one half in size the primary market to indicate that the capital market is not very active. This means the capital market fails to develop a sufficient mechanism to allow investors to freely trade stocks and bonds in the primary market and is not attractive for investment. In terms of growth potential, the primary market reached its peak in 1986 and the secondary market in 1985, then both turned into negative growth since then.

Given the market imbalance and the weak growth potential, Colombia's capital market is not an attractive source of fund raising and operation for private enterprises. Recently, the government took various measures to foster the capital market. First of all, the issuance of non-voting stocks was authorized to increase marketable stocks in the present securities system which restricted the issuance of stocks to limited members for the purpose of preventing corporate takeover. Secondly, corporations which increased their working capital within the past one year were authorized to issue straight bonds up to 20% of the increased capital, and convertible bonds up to 40%. Finally, to enable SMEs and MEs to issue bonds, the government authorized several enterprises to issue a

joint-titled bond through a trust company.

### 6.1.3 Monetary and Interest Rate Policies

#### (1) Objective of monetary policy

A primary objective of Colombia's monetary policy is to achieve healthy economic growth while controlling inflation; control of inflation as the short-term objective, and smooth supply of funds for economic development as the medium- and long-term objective.

#### (2) Control of money supply

Colombia's financial policy mainly consists of legal reserve ratio requirements, and control of money supply through open-market operations.

First of all, legal reserve ratio requirements are designed to pump up or supply monies from or to financial markets by varying reserves required for financial institutions. During the coffee bonanza triggered by series of frost damages in Brazil since 1975, the government raised the legal reserve ratio to 100% to discourage financial institutions to create credit, and successfully reduced money supply. The legal reserve ratio was lowered as the economy cooled down. At present, it is maintained at relatively low levels to allow financial institutions to bolster their financial position for increasing competition with foreign banks in consequence of financial liberalization; in the range between 39% and 44% for private financial institutions, and 53% and 65% for quasi-government institutions.

On the other hand, open-market operations are carried out in the form of certificate system, under which money certificates are issued in return for import deposits. This was originally designed for import restriction, and today serves as one of effective means to pump up money from the open market.

Looking at results of Colombian monetary policy shown in Table 6.4, money supply (M1) has been following changes in GDP with some time lag, thus successfully controlling strong inflationary pressure. As a result, Colombia has been enjoying relatively low rates of inflation compared with other South American countries.

### (3) Interest rate policy

The government raised interest rates in the late 1970s to control excessive money supply, then liberalized them in the 1980s. Lending rates in Colombia have been changing with time deposit rates. (Fig.6.1) An average of interest rates for 90-day time deposits offered by major banks is used as the standard interest rate announced weekly, called the DTF (Promedio de la Tasa de Captacion para Depositos a Tremino del Sistema Financiero). Each bank lends their funds by adding a certain spread to the DTF rate. Table 6.5 shows DTF rates in 1989.

In addition to market interest rates, preferential interest rates are used under the directed credit system. Under the system, special funds are operated to make low-interest loans to specific industries, groups and/or areas, for the purpose of assisting the national development plan. Such funds for private industry sectors are FFI, FIP, FCE, and PROEXPO. These funds are raised from commercial banks and finance corporation in the form obligatory purchasing of securities issued by the central bank, called the forced investment.

As the forced investment and direct credit systems are exception to financial liberalization, the World Bank recommended the Colombian government to abolish them. In 1990, the government accepted the recommendation and started to make moves toward termination of preferential interest rates. Thus, it is expected that full-scale liberalization will form a basis of Colom-

bia's financial policy.

#### 6.1.4 Foreign Investment Policy

Traditionally, Colombia was rather reluctant to induction of foreign capital and complied with restrictions on foreign investment imposed by the Andes Common Market, including fade-out in equity share (requirement to decrease foreign capital's equity share stepwise, and within fifteen years after the incorporation, to become a domestic or joint venture company with 51% or more of shares being controlled by Colombian capital), and restriction on foreign companies to raise long-term funds in Colombia. However, other countries in the Andes Common Market averted to impose these restrictions. With an increasing gap between principles and realities, the member countries began to feel a need for modification of foreign investment restrictions in the common market.

In 1987, foreign investment restrictions in the common market were entirely revised, and in July of the same year, Colombia amended domestic laws related to foreign investment. The amendment included the increase in types of businesses to accept foreign investment, the acceptance on foreign capital's equity participation in domestic companies, and the increase in overseas transfer of profit, marking a drastic shift of policy to a direction to actively invite foreign investment.

At present, Colombia is implementing the following foreign investment policy including various incentives.

##### 1) Imports of raw materials and capital goods

Raw materials to be used for export-related production are exempt from advance deposits, import license, consulate visa tax, and custom duties, if prior agreement is made with the INCOMEX (External Trade Agency). No incentive or privilege is provided for imports of capital goods. However, an application for global license to import a set of



machinery is processed with priority, provided that medium- or long-term credit is obtained.

2) Transfer and reinvestment

Profit up to 25% of foreign investment registered with the central bank may be transferred overseas. Reinvestment is not treated as the direct foreign investment and not registered with the central bank, so that transfer of dividend is not permitted.

3) Local fund raising

Foreign companies are allowed to use all domestic funds except long-term development loans.

4) Local content

No local content requirement is imposed on licensing of foreign companies.

5) Import promotion and export obligation

Criteria for licensing of foreign companies by the National Planning Department include contribution to improvements in employment, technology transfer, environmental preservation, and balance of payments. No companies except trading companies and assembly operations are subject to export obligation; trading companies are required to export products equivalent to the initial investment in Colombia, while export obligation on assembly operations is imposed on the basis of agreement with the Ministry of Economic Development.

6) Types of businesses subject to foreign investment restriction

Establishment of foreign companies is not permitted in areas of public service, communications, TV program production, distribution and screening of movies, housing construction, and domestic passenger transport service.

Investment in the mining business is required to take the form of joint venture.

Direct investment in the financial and insurance businesses is not permitted. A bill to promote foreign investment in this sector is being prepared.

Table 6.1 FINANCIAL ASSETS BY FINANCIAL INSTITUTION

Unit: 1,000 million pesos

	1985(%)	1986(%)	1987(%)	1988(%)	1989(%)
Banks	464.5 (44.6)	638.4 (46.0)	833.9 (47.6)	931.4 (43.5)	1,184.3 (41.1)
Saving	172.0	257.0	331.0	389.7	476.3
CDT	292.5	381.4	502.9	541.7	708.0
CAVs	436.5 (42.0)	562.6 (40.5)	678.9 (38.8)	911.4 (42.6)	1,180.1 (41.0)
Finance Corporations	65.7 (6.3)	83.7 (6.0)	93.1 (5.3)	112.7 (5.3)	232.8 (8.1)
Commercial Finance	70.7	99.8	141.3	180.9	276.7
Companies	(6.8)	(7.2)	(8.1)	(8.4)	(9.6)
Others	3.0 (0.3)	3.0 (0.3)	3.6 (0.2)	4.9 (0.2)	7.7 (0.2)
Total	1,040.4 (100.0)	1,387.5 (100.0)	1,750.8 (100.0)	2,141.3 (100.0)	2,881.6 (100.0)

Source: BANCO DE LA REPUBLICA, SITUACION MONETARIA

Table 6.2 CREDIT BY FINANCIAL INSTITUTION

	Unit: 1,000 million pesos			
	1986(%)	1987(%)	1988(%)	1989/2(%)
Banks	1,156.2 (53.3)	1,540.7 (53.7)	2,051.3 (54.4)	2,508.3 (51.3)
CAVs	536.1 (24.7)	679.5 (23.7)	862.5 (22.9)	1,160.4 (23.7)
Finance Corporatio	382.7 (17.6)	500.6 (17.5)	665.5 (17.6)	927.8 (19.0)
Commercial Finance Companies	95.6 (4.4)	146.1 (5.1)	194.1 (5.1)	290.8 (6.0)
Total	2,170.6 (100.0)	2,866.9 (100.0)	3,773.4 (100.0)	4,887.3 (100.0)

Source: SUPERINTENDENCIA BANCARIA, INFORME FINANCIERO SEMANAL

Table 6.3 TREND OF CAPITAL MARKET

	Unit: Million pesos				
	1984	1985	1986	1987	1988
Issuing Market	217,524	609,152	3,903,164	2,518,538	1,338,709
(Change: %)	( - )	( 180.0)	( 540.8)	(-35.5)	(-46.8)
Delivery Market	151,958	327,285	357,675	550,774	513,314
(Change: %)	( - )	( 115.4)	( 9.3)	( 54.0)	( -6.8)

Source: 1988 DANE, MISSION PROCESS

Table 6.4 ANNUAL CHANGE OF MONETARY AND INTEREST POLICY INDICATOR

	1984	1985	1986	1987	1988	1989
Consumer Price Index	18.3	22.5	20.9	24.0	28.1	26.1
Wholesale Price Index	21.2	23.0	24.4	25.2	29.3	25.6
Money Supply (M1)	23.4	28.2	22.8	32.9	25.8	24.4
Broad Money Supply (M2)	24.5	34.0	26.9	29.5	23.4	26.5
Implicit Price in GDP	22.2	24.9	29.2	22.8	27.0	26.7

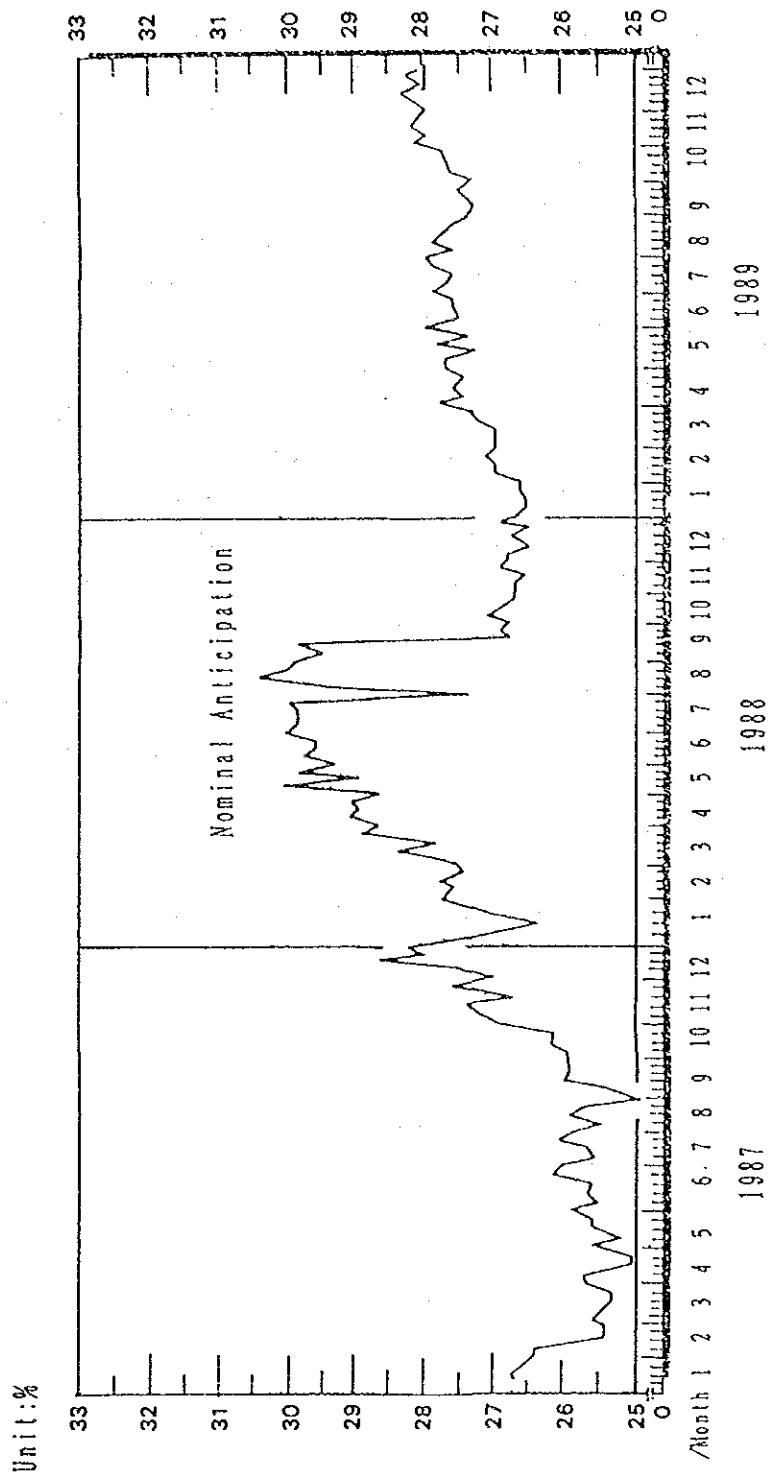
Source: DANE AND BANCO DE LA REPUBLICA

Table 6.5 DTF RATE IN 1989

		Unit: %
		DTF Rate
1989	January 2-8	27.15
	January 9-15	27.01
	January 16-22	27.08
	January 23-29	26.92
	February J30-5	26.93
	February 6-12	27.03
	February 13-19	27.33
	February 20-26	27.27
	March F27-5	27.57
	March 6-12	27.48
	March 13-19	27.68
	March 20-26	27.66
	April M27-2	27.53
	April 3-9	27.58
	April 10-16	27.59
	April 17-23	28.01
	April 24-30	27.84
	May 1-7	27.93
	May 8-14	28.03
	May 15-21	28.24
	May 22-28	28.12
	June M29-4	28.09
	June 5-11	28.16
	June 12-18	27.67
	June 19-25	28.26
	July J26-2	28.06
	July 3-9	28.06
	July 10-16	28.07

Source: BANCO DE LA REPUBLICA

Figure 6.1 RATE OF INTEREST OF 90-DAY TIME DEPOSIT (DTE RATE)



Source: BANCO DE LA REPUBLICA



## 6.2 Financial System and Institutions

### 6.2.1 Outline of Financial System

Fig.6.2 illustrates a general organization of a financial system in Colombia.

Major financial institutions in Colombia are monetary authorities, commercial banks, finance corporations, commercial finance companies, savings and housing loan corporations, and specialized banks. Monetary authorities consist of the Monetary Board, the central bank (Banco de la Republica), and the Superintendency of Banks, as shown in Fig.6.2. Together with the Financial Institutions Guaranty Fund and the directed credit funds that are under direct supervision of the central bank, the financial organization is formed with the central bank at the top.

In addition, leasing, factoring and insurance companies, bonded warehouses, and stock exchanges are included in the financial system in the broad sense.

Private financial institutions not included in the organization, which play important roles in financing small and medium enterprises and small businesses, are various foundations, cooperatives, and credit guaranty associations.

The following sections describe roles and activities of major financial institutions.

### 6.2.2 Roles and Activities of Major Financial Institutions

#### (1) Monetary authorities

##### 1) Monetary board

The Monetary Board was established under Law No.21 in 1963 to plan and supervise Colombia's financial policy. The board is primarily responsible for

regulating monetary, credit and foreign exchange markets.

The board consists of the following members:

- a) The Minister of Finance
- b) The Minister of Agriculture
- c) The Minister of Economic Development
- d) The director of the National Planning Department
- e) The governor of the Banco de la Republica
- f) The director of the Foreign Trade Institute (INCOMEX)

## 2) Central bank

The central bank, Banco de la Republica, was established under Law No.25 in 1923.

It is responsible for implementing policies established by the Monetary Board and serves the following functions:

- a) Issuance of currencies and management of foreign currency reserves
- b) Fund raising for public financial institutions
- c) Lending to private and specialized banks
- d) Discount of bills
- e) Acceptance of reserve deposit by private banks
- f) Advisor to the government

The central bank is made up of the following departments:

a) Technical management department (Subgerencia Tecnica)

Responsible for sector credit and economic survey.

b) Legal management department (Subgerencia Juridica)

Responsible for legal matters related to the central bank.

c) General administration department (Subgerencia General Administrativa)

Responsible for day-to-day business of the central bank, including system and personal management.

d) International transaction department

Responsible for international transaction including foreign currency exchange

3) Superintendence of banks

The Superintendence of Banks is attached to the Ministry of Finance and was established under Law No.45 in 1923. It is responsible for supervision of transactions by all financial institutions and is authorized to impose penalties on individuals and companies who have violated related laws and regulations.

(2) Commercial banks

The commercial banks provide short- and medium-term loans, serve as an intermediary financial institution for the central bank, and arrange foreign currency-

denominated loans for import payment. The specialized banks are the commercial banks which are vested with special functions.

In Colombia, there are 24 commercial banks, including national and private, in operation, and 3 specialized banks. (See Table 6.6) Activities of the commercial banks are defined in Law No.45 of 1923. The law defines a primary role of commercial banks "to accept funds from organizations with excess funds, thereby maintaining national growth and government saving at appropriate levels".

#### 1) Trends in financial resource and loan/investment

Table 6.7 summarizes actual loans and discounts provided by the commercial banks for major industrial sectors.

On a value basis, the commerce sector had the largest share (20%) in loans by commercial banks, followed by agriculture and cattle raising (10%), and manufacturing (10%) in 1988.

As shown in the table, periods of loans by commercial banks are divided into short-term (less than a year), medium-term, and long-term, which represented 70%, 20%, and 10% of the total respectively in the recent few years.

#### 2) Loan service by commercial banks

##### a) Documents required for loan application

A loan application needs to be accompanied by (1) a certificate of tax payment, (2) a certificate of registration with the chamber of commerce, (3) financial statements, and (4) a written approval for loan guarantee, which should be signed by a guarantor and accompanied by the guarantor's certificate of tax payment, certificate of registration with the chamber of commerce, and financial statements.

One guarantor is required for a loan of 10 million pesos or less, and two or more guarantors for a loan exceeding 10 million pesos. Real estate security is required for loans of 3 years or longer. As the loan application requires to specify project feasibility and safety, it is difficult for small and medium enterprises or small businesses to prepare it without outside advice or help.

b) Criteria to evaluate loan application

Each loan application is subject to evaluation of cash flow to check an ability of repayment, as well as analysis of debt ratio, liquidity ratio of operating income to net sales, and other financial indicators.

Examination of loan efficiency (loan/deposit ratio)

Ratio of a deposit to a loan (loan/deposit ratio) is a basic indicator to measure an effective interest rate and profitability of the loan, requiring careful examination.

Generally, the loan/deposit ratio is expected to be in the range between 30% and 50%, thus the loaning to companies with relatively small amounts of deposit is considered to be difficult to make.

Collateral and guarantee

As mentioned earlier, collateral and guarantee requirements vary with amounts and terms of loans. These requirements are not applied uniformly, rather they are relaxed for large companies with high credit standing whereas strict requirements apply to small companies with low credit standing.

c) Commercial banks and loans to small and medium enterprises and microenterprises

The commercial banks make loans to small and medium enterprises and microenterprises in either of the following two ways; general loans or institutional lending by using the FFI (Industrial Finance Fund). General loans are made from financial source of each commercial bank, and their terms are determined through negotiation on the basis of company sizes and loan periods. In case of Banco de Bogota, the average loan interest rate is said to be around 35% in 1989. To evaluate profitability of commercial banks in terms of spread, the DTF rate is considered as an interest rate on funds raised by the commercial banks. Since the DTF rate is between 27% and 28%, the commercial banks are able to attain the spread of 7% to 8% if the loan interest rate is 35%. If the FFI funds are used, the spread decreases to 4.5% for general loans and 2.5% for loans to purchase capital goods.

Therefore, from profitability consideration, it is advantageous for commercial banks to make general loans with low risk, i.e., backed up by collateral and guarantee, rather than lending the FFI funds to small and medium enterprises and microenterprises. Also, the amount of loan is one of the most important criteria to evaluate profitability for general loans. This means, profitability increases with increase in an amount of loan, because costs related to loan arrangement are more or less the same for all loans, regardless of amounts. As a result, the increase in an amount of loan brings higher interest revenues, thus better profitability. Therefore commercial banks tend to make loans to large companies who use a large amount of funds and present a very small risk.

As confirmed by results of the questionnaire survey and corporate analysis, microenterprises have little access to commercial banks, and the degree of difficulty to obtain loans from commercial banks definitely increases with decrease in business size.

d) Major activities of specialized banks

Caja de Credito Agrario, Industrial y Minero

Primary objective: To promote agriculture, manufacturing, and mining industries.

Banco Central Hipotecario

Primary objective: To promote industrial development as the central housing mortgage bank.

Caja Social de Ahorros

Primary objective: To promote savings.

(3) Finance corporations

Finance corporations are one type of development bank, and there are 24 of them, including national and private. (See Table 6.8)

The finance corporations were established on the basis of Law No.336 of 1957 and are primarily responsible for promotion, organization, and reforming of manufacturing, agriculture, and mining industries. To completely serve the purpose, the following three provisions were added under Decree No.2041 of 1987:

- a) To promote a unified quality level of the finance corporations as the financial industry, and to develop a channel as a medium- and long-term credit organization specialized in the manufacturing sector.

- b) To increase owned capital.
  - c) To be authorized to enter more profitable businesses, e.g., M&A, medium- and long-term factoring.
- 1) Trends in financial resources and loan/investment

Financial resources of the finance corporations are roughly divided into the following four types:

- a) Issuance of deposit certificates and bonds to public organizations.
- b) Special credit line at the central bank
- c) Direct or indirect (via the central bank) loans from foreign organizations
- d) Loans from the Development Finance Fund

In December 1987, the issuance of deposit certificates and bonds to public organizations accounted for 51% of all the financial resources, and the special credit line at the central bank 24%, and representing a combined share of 75%.

The financial corporations provide credit service in the form of loans or investments. As of December 1987, loans had a dominant 95% share and investment remaining 5%. Thus, while finance corporations are considered as the development bank or the investment bank in other countries, the finance corporation in Colombia serve as the development bank designed to support industries through loans.

Table 6.9 shows actual loans issued by the financial corporation according to industrial sectors. As the industrial sector represented a dominant 70% share, the finance corporations are rather characterized as the industrial development bank.



Long-term loans, accounted for less than 10% of the total in 1986, grew rapidly to 35.3% in 1987. This trend continued in 1988 and this is probably because the financial corporations are considered as the medium- and long-term credit institution under Decree No.2041.

2) Credit service by finance corporations

a) Documents required for loan application

A loan application, a certificate of registration with the chamber of commerce, financial statements, and a statement to describe bank transactions (e.g., deposit and credit transaction) need to be submitted.

b) Criteria to evaluate loan application and evaluation period

Each loan application is evaluated on feasibility of repayment. Major evaluation criteria are current situation and outlook for the industry, financial conditions, and project feasibility.

So far as documents are complete, evaluation procedures take slightly more than 4 weeks and loans are expected to be issued within one month. However, evaluation is delayed in many cases due to insufficient documentation, requiring a few months to issue loans.

c) Security for obligations

Usually, security interest is established on properties including land, buildings, machinery and equipment. No guarantor is required unless a group application is made. In some cases, guarantee by the Loan Guarantee Association (FNG: described later) is secured. This is used as a supplemental means when an amount of

loan applied is not covered by an assessed value of collateral pledged by the applicant.

### 3) Major financial corporations

Of 24 finance corporations, two corporations - Instituto de Fomento Industrial Corporacion Financiera (IFI) and Corporacion Financiera Popular (CFP) - are described because of their important roles as the government corporation to provide loans for the industrial sector.

#### IFI

##### a) Background and primary objective

IFI, established in 1940, obtained a license of investment bank in 1963 and has been authorized to issue development bonds since 1966. Currently, IFI serves as the development bank under the control of economic development authorities being primarily responsible for loans and investment for start-up and re-construction of basic manufacturing industries.

##### b) Major activity

IFI loans directly for start-up and re-construction of large manufacturing industries. In case of investment, IFI acquires stocks of enterprises and sell them when the enterprises have grown healthily.

For small and medium enterprises and micro-enterprises, CFP (Corporacion Financiera Popular) will be intermediary of IFI's loan. IFI has stocks of CFP and loans CFP counter fund for BID line. (Detail will be described later.)

As shown in Table 6.10.A, IFI's own funds exceeded 50% of all the financial resource at the end of 1988, and funds from foreign agencies

accounted for more than 30%. Compared to 1987, IFI's own funds showed notable increase. Table 6.11 summarizes IFI's credit and investment. In terms of percentage distribution in the manufacturing sector at the end of 1988, petroleum, rubber and carbon industries accounted for 25.5% of the total, followed by textile and apparel (24.4%) and metal working (23%).

#### CFP

##### a) Background and primary objective

CFP was established as a national development bank in 1967 for the purpose of promoting development of small and medium enterprises and microenterprises through financing and technical assistance. CFP is a designated agency to intermediate financing by the World Bank.

##### b) Major activity

As shown in Table 6.11, the World Bank accounted for more than 50% of CFP's financial resource at the end of December 1987, and FFI's share exceeded 19%, resulting in a combined total of over 70% by these two institutions. In 1988, the repayment to the World Bank progressed to decrease its share to 32% at the end of December, while FFI held a 26% share. Thus, these institutions still had a majority of CFP's financial resource, although their combined share dropped to 58%.

As the World Bank is expected to start the fifth round of financing (for small and medium enterprises) in 1990, its share will increase again after 1990.

Also, as an intermediate financial institution, it contributes to the promotion of microenterprises.

4) Finance corporations and small and medium enterprises and microenterprises

As mentioned earlier, small and medium enterprises and microenterprises are not capable of making loan applications in many cases due to lack of ability or data to complete required documents. Also, they cannot offer sufficient collateral. Finally, although small businesses often need a small amount of loan urgently, the financial corporations are not flexible enough to streamline the reviewing process.

On the other hand, the financial corporations deal with a variety of customers from large corporations to small and medium enterprises and microenterprises, and because of obvious advantages in efficiency, profitability and security, they tend to put weight to loans for larger corporations.

(4) Savings and housing loan corporations

Savings and housing loan corporations were established as Corporaciones de Ahorro y Vivienda in 1971 under the national development plan. As shown in Table 6.12, 10 savings and housing loan corporations were operated as of the end of December 1988. They are responsible for encouraging and accepting private savings and providing funds for construction and purchasing of houses.

The UPAC system, makes deposit rates link with inflation rates to encourage personal savings for home buying. While the system helps to stimulate the construction industry, it is not directly related to the metalworking industry which is a main subject of this study.

(5) Commercial finance companies

Table 6.13 shows the equity and assets of commercial finance companies.

Commercial finance companies were established as a

formal financial institution under Decree No.1970 in 1979, and their primary function is to supply short-terms funds for purchasing of semi-durable consumer goods. They raise working capital by issuing promissory notes which are equivalent to time deposits.

The commercial finance companies have few financial relationship with the manufacturing industry nor small and medium enterprises and micro- enterprises.

#### (6) Foundations

Reportedly, around 5,000 to 6,000 foundations are registered in Colombia as a non-profit corporation. These foundations are supposed to perform welfare activities by using profits obtained from business corporations. However, most of the foundations are said to be inactive and were established by business corporations for tax purposes to take advantage of their tax exempt status. As a result, the government is considering taxation on these foundations.

Nevertheless, the foundations actually engaged in social service cover a wide range of activities as described in Chapter 5. Some foundations provide credit service for small businesses and poor people, thus they are considered as one type of financial institution. In general, the foundations use own funds for financial assistance to poor people, while utilizing the BID line furnished by the Inter-American Development Bank.

As an example of financing by the foundations, credit service of Santa Elena Foundation (Fundacion Santa Elena) is described as follows:

##### 1) Credit service to support startup business

Financial resource: Contributions by the Corona company group (main business is pottery).

Line of loan: 800,000 pesos by each company.

Loan terms: Repayment period of 2 years (grace period of 3 months), interest rate at 24%, and monthly repayment

Loans issued: 70 cases totaling 25 million pesos

Each borrower is prohibited from using the loan again after one year.

The foundation conducts diagnostic analysis of business performance as well as technical advice free of charge for two years after the borrowing.

The loan application is made by using a very simple form.

Loan requirements

- a) Two joint sureties
- b) Pledging of properties to be purchased (not including real estate)
- c) Submission of business plan

The loan is issued around 15 days after application.

## 2) BID credit line (for microenterprises)

Maximum 3 million pesos per company (provided that the company has been operated for more than a year)

Repayment period of 3 years (grace period of 3 months), interest rate at 23%, and monthly repayment

Loans issued: 50 cases totaling 60 million pesos

The loan is issued around 2 months after application.

(7) Credit cooperatives

Colombia has been promoting development of cooperatives and similar organizations to take advantage of their socioeconomic impacts.

As it became apparent that financial intermediary system for these organizations was not properly managed and supervised, Decree No.1659 of 1985 and Decree No.1658 of 1986 were issued to require financial service for the cooperatives to be provided through credit cooperatives (Cooperativas de Credito), which are under supervision of the National Department of Cooperatives (Departamento Nacional de Cooperativas: DANCOOP) and the Superintendence of Banks.

The credit cooperatives provide financial intermediary service for companies of all sizes and their associations. In particular, they play an important role in financial intermediary for small and medium enterprises and microenterprises. Major credit cooperatives include Coopdesarrollo, Financiacoop and UCONAL. Financial intermediary services for small and medium enterprises accounted for 70% to 90% of the total, those for microenterprises 5% to 10%, with remaining shares going to large corporations.

The financial intermediary service by the credit cooperatives covers the government's credit programs, including the BID line by the IDB for microenterprises.

(8) Leasing companies

1) Current situation of the leasing industry

Leasing companies in Colombia are under supervision of Superintendencia de Sociedades. There were 59 leasing companies in early 1988 and increased by 3 to 62 as of the end of 1988. The leasing industry

grew rapidly between 1980 and 1982, but many of them became bankrupt during the period due to economic recession, and no entry was made between 1983 and 1986. Then, after 1987, the number of new companies has been increasing due to steady growth of the industry.

As shown in Table 6.14, the net value of leased assets recorded annualized growth of 15%, 23%, and 35% between 1983 and 1985. However, the real growth adjusted by inflation appears to have remained constant or increased slightly. Then, between 1986 and 1987, the net value grew 111% from 13,230 million pesos to 27,942 million pesos, while the number of leasing companies increased by 7. At present, the leasing industry is expected to continue healthy growth in the foreseeable future. According to the value of equipment leasing as of the end of June 1988 in Table 6.15, manufacturing and transportation sectors accounted for 28% and 20% respectively to dominate other industrial sectors.

## 2) Nature of the leasing industry

The leasing industry in Colombia is operated under close coordination among banks, insurance companies, and leasing companies, thereby to provide ease in securing loans from banks. Large scale equipment leasing such as aircrafts is often transferred to foreign leasing companies due to financial limitation. As a result, leasing companies in Colombia primarily handle the leasing of relatively small size and value.

### a) Application for leasing service

The leasing application is made by submitting an application form and necessary documents. Evaluation criteria include the company's business record, productivity, profitability, and membership in the trade association. A week to



a month is required from the application to the delivery of leased equipment. The term of lease contracts ranges between 2 and 5 years; 3 years are most common.

b) Qualification

The leasing service is divided into corporate leasing and personal leasing. In case of corporate leasing, the company is expected to register with the chamber of commerce. For microenterprises which are not registered, the leasing industry has a flexible policy and processes it as the personal leasing.

c) Guarantor, collateral

For corporate leasing, the company, the president, and one of major shareholders are required to become guarantors. In case of personal leasing, one or two guarantors are required according to the value of leased equipment. In the leasing to microenterprises, it is often the case that some family members become guarantors.

Collateral is not required as a risk of damage is avoided by recovering the leased equipment. Also, any lessee, either corporation or individual, is not liable for any damage to the leased equipment as an adequate insurance is purchased at the time of lease contract.

d) Lease charge

Lease charges are established according to leasing periods. The following is an example of calculating a lease charge:

Value of leased equipment: 1,000,000 pesos

Lease charge for 36 months: 53,058 pesos/month

Value added tax: 2,806 pesos/month

Purchase price after expiration of lease term  
(10% after 36 months): 100,000 pesos

The total lease charge for 3 years (36 months) is 1.91 times the original value of the leased equipment, equivalent to a loan with an annual interest rate of 30%.

3) Leasing service and small and medium enterprises/microenterprises

Leasing which does not require collateral is considered to be an effective means of equipment investment for small companies with poor solvency. From the viewpoint of leasing companies, however, the leasing to larger corporation is desirable compared to microenterprises which accompany relatively a high risk of collecting the lease charge. Thus, to make the leasing service more accessible to smaller companies, a guarantee program for leasing companies needs to be introduced.

6.2.3 Quasi-governmental Funds and Institutional Financing

(1) Financial Institutions Guaranty Fund

The Financial Institutions Guaranty Fund was established in 1985 to protect investors (e.g., shareholders and depositors) when financial institutions including commercial banks and finance corporations become bankrupt. The fund is under direct supervision of the central bank and is responsible for maintaining the order and sustainable growth of the financial system through protection of investors at the time of financial crisis.

Its working capital is financed by government budgets.

(2) Directed credit funds

Directed credit funds are established for specific sectors or purposes, and the following funds related to industry sectors are as follows:

This system will be abolished in accordance with the finance liberalization policy to be introduced from 1990.

- Industrial Finance Fund (Fondo Financiero Industrial: FFI)
- Private Investment Fund (Fond de Inversiones Privadas: FIP)
- Enterprise Capitalization Fund (Fondo de Capitalizacion Empresarial: FCE)
- Export Promotion Fund (Fondo de Promocion de Exportaciones: PROEXPO)

Operating funds of PROEXPO are financed from part of revenues from import duties, and other funds are financed by the forced investment system.

Under the forced investment system, the Monetary Board is authorized to request commercial banks and finance corporations to make investment in the funds by purchasing securities of the central bank. In practice, the financial institutions are required to make the investment.

Proceeds from the forced investment are deposited in a special account at the central bank and are used by the directed credit funds for investment and loans.

Recently, the funds have financed with other resources decreasing the forced investment.

These investment and loans are to be issued by commercial banks and financial corporations. Table 6.16 shows the balance of investment and loans by the

directed credit funds at each year-end, and Table 6.17 lists names of financial institutions executing the investment and loans.

Major activities of these funds are described as follows:

1) Industrial Finance Fund (Fondo Financiero Industrial: FFI)

FFI is fund under the central bank, established in 1968 for the purpose of financing mining and industrial projects. FFI provides general loans for small and medium enterprises and microenterprises and special loans for purchasing of capital goods to cover any size of business. FFI loans are issued by commercial banks, finance corporations, and agricultural banks.

a) General loans

Eligible company size

Companies holding total assets of less than 140 million pesos (considered as small and medium enterprises)

Term of repayment by loan purposes

Working capital: 3 years at maximum (with grace period of up to 6 months)

Equipment funds: 5 years at maximum (with grace period determined by the financial institution to execute the loan)

Interest rate

The interest rate varies with areas. To avoid concentration in major industrial areas and to promote regional development (rural areas, in

particular), the interest rate is lower in rural regions.

- Bogota, Medellin, and Cali: DTF + 2%

- Rural areas: DTF - 1.5%

- Other areas: DTF + 0.5%

Note: For explanation of DTF, see 6.1.3.

Line of credit

7 million pesos per loan

b) Loans for purchasing of capital goods

Eligible company size

Not limited.

Term of repayment

5 years at maximum (with grace period determined by the financial institution to execute the loan).

Interest rate

Same rate as DTF.

Line of credit

Not limited.

As shown in Table 6.16, the total amount of loans made by FFI was 5,876 million pesos in 1983 and 12,859 million pesos in 1988, at an annual average growth of 17.0%. However, with the inflation rate during the period being taken into account, the FFI loans recorded negative growth.

Up to 1984, the FFI loans were primarily handled by commercial banks. After 1985, finance corporations took over the position. In 1988, the amount of the FFI loans handled by finance corporations was 1.5 times that by commercial banks. Between 1983 and 1989 (at the end of January), the FFI loans through commercial banks grew nearly 1.7 times, while these through finance corporations around 2.8 times.

This is mainly because a profit margin (spread) from the FFI loan transaction is 1% higher for finance corporations; for ordinary loans in Bogota area, the spread for commercial banks is 4.5% compared to 5.5% for finance corporations; and for loans to purchase capital goods, 2.5% for commercial banks and 3.5% for finance corporations. Obviously, a 1% difference in the spread offers finance corporations a definite advantage for handling the FFI loans.

2) Private investment Fund (Fondo de Inversiones Privadas: FIP)

FIP is also a fund under supervision of the central bank and was established in 1963 to promote investment by private enterprises for development of national economy. It is responsible for lending working capital and equipment funds to relatively large companies (with the total assets of 140 million pesos). The FIP loans are issued only by commercial banks and finance corporations.

Eligible company size

Companies holding total assets of over 140 million pesos (considered as large companies)

Repayment period

Working capital: 3 years at maximum

Equipment funds: 10 years at maximum (with grace period of 3 years at maximum)

Interest rate

For the same reason as described in the FFI loans, the FIP loan rates vary with areas as follows:

- Bogota, Medellin, and Cali: DTF + 3.0% or + 4.0% (\*)
  
- Rural areas: DTF + 0.5% or - 3.0% (\*)
  
- Other areas: DTF + 2.5% or + 4.0% (\*)

Note: (\*) Covering companies which have already made loan application, and those which total assets including associated companies (as defined in Article 260 of Commercial Code) exceed 9,363.7 million pesos.

Line of credit

Up to 552.9 million pesos per company, and 1.5 times the capital in excess of annual reserve.

As shown in Table 6.16, the balance of the FIP loans increased from 7,684 million pesos in 1983 to 14,055 million pesos in 1988, at an annual average growth rate of 12.8%. By taking into consideration the inflation rate during the same period, the loans decreased in real terms. Also, financial corporations gradually gained a share in handling the FIP loans, while commercial banks have lost the share. This is mainly because of a 1% difference in the spread as observed in the FFI loans; in Bogota area, the spread for finance corporations is 4.5%, compared to 3.5% for commercial banks.

3) Enterprise Capitalization Fund (Fondo de Capitalización Empresarial: FCE)

FCE was established in 1983 and is under supervision of the central bank to promote investment by private companies in projects. It is primarily responsible for providing funds for capitalization of private enterprises.

The FCE loans are issued only through commercial banks and finance corporations.

Eligible company size

Not limited.

Repayment period by loan purposes

To obtain new stocks, allotment, or partial interest: 5 years with grace period of 2 years

To obtain convertible bonds: 5 years without grace period

Interest rate

To obtain new stocks, allotment, or partial interest:

DTF + 3%

To obtain convertible bonds: DTF + 4.5%

Note: No variation with regions.

Line of credit

200 million pesos, 600 million pesos, or 800 million pesos, depending upon types of companies.

As shown in Table 6.16, the FCE loans increased from 8,697 million pesos in 1986 to 14,726 million pesos in 1988, at an annual average growth rate of



30.1%.

Financial corporations handled 93% of the total in 1987 and 1988, while commercial banks accounted for remaining 7%. The spread for transaction of the FCE loans is 5% for both commercial banks and finance corporations.

4) Export Promotion Fund (Fondo de Promocion de Exportaciones: PROEXPO)

PROEXPO belongs to the Ministry of Economic Development (Ministerio de Desarrollo Economico) and under supervision of the central bank. It was established under Law No.444/1967 and started operation in 1968. Financed by part (6% of CIF) of special import duties (18%), PROEXPO is responsible for the following activities:

- a) Export finance
- b) Export promotion activities
- c) Research on exportable items and overseas markets

The export finance is issued by commercial banks and finance corporations to benefit exporters.

Credits provided by PROEXPO are classified into the following uses:

- a) Pre-investment
- b) Capitalization
- c) Working capital
- d) Post-shipment

Loan terms and conditions are described as follows:

Eligible Company Size

Not limited

Terms

6 months - 5 years

Interest

a) average of 3 months DTF

b) occasionally 18% - 26%

Grace Period

2 years or no grace period

As shown in Table 6.16, the total amount of financing by PROEXPO grew from 57,405 million pesos in 1983 to 191,118 million pesos in 1988, at an annual average rate of 27.2 in the five years. PROEXPO's financing takes the form of loan or investment, and loans accounted for 72% of the total in 1987 and 81% in 1988.

Table 6.6 COMMERCIAL BANKS AND SPECIALIZED BANKS

As of June, 1988  
Unit: Million pesos

	Number of Branch office	Location of Head office	Equity	Total Assets
<b>A. Commercial Banks</b>				
1. ANGLO COLOMBIANO	42	BOGOTA	1,153	30,820
2. BOGOTA	244	BOGOTA	4,719	288,039
3. CALDAS	33	MANIZALES	204	39,363
4. COLOMBO AMERICANO	5	BOGOTA	2,050	8,130
5. COLPATRIA DE LA COSTA	18	BOGOTA	1,138	39,256
6. COMERCIAL ANTIOQUEÑO	141	MEDELLIN	4,927	119,924
7. CREDITO	15	BOGOTA	1,745	27,769
8. SUDAMERIS	19	BOGOTA	1,242	33,095
9. CREDITO Y COMERCIO	29	BOGOTA	4,156	66,716
10. INTERNACIONAL DE COLOMBIA	32	BOGOTA	2,586	62,389
11. OCCIDENTE	96	CALI	7,278	150,290
12. EXTEBANDESDE COLOPMBIA	12	BOGOTA	1,293	18,748
13. INDUSTRIAL COLOMBIANO	89	MEDELLIN	7,327	137,803
14. REALDE COLOMBIA	10	BOGOTA	1,064	11,024
15. ROYAL COLOMBIANO	22	BOGOTA	1,143	28,317
16. SANTANDER	46	BOGOTA	1,522	58,040
17. CAFETERO	298	BOGOTA	19,504	371,656
18. GANADERO	141	BOGOTA	3,460	247,991
19. POPULAR	196	CALI	7,158	267,585
20. ESTADO	65	BOGOTA	13,915	130,265
21. COLOMBIA	240	BOGOTA	78,857	431,538
22. COMERCIO	101	BOGOTA	6,239	103,152
23. TEQUENDAMA	13	BOGOTA	5,401	20,733
24. TRABAJADORES	19	BOGOTA	2,005	15,923
<b>B. Specialized Banks</b>				
1. CAJA DE CREDITO AGRARIO. INDUSTRIAL Y MINERO	878	BOGOTA	28,418	430,256
2. BANCO CENTRAL HIPOTECARIO	105	BOGOTA	5,991	299,834
3. CAJA SOCIAL DE AHORROS	134	BOGOTA	2,091	49,606

Source: BANCO DE LA REPUBLICA

Table 6.7 LOANS AND DISCOUNT MADE BY COMMERCIAL BANKS

Sector/Year	Unit: Million pesos		
	1986 Dec.	1987 Dec.	1988
	(%)	(%)	(%)
Agriculture & Stock raising	92,393 (13.7)	115,381 (12.7)	118,411 (10.4)
Official entities	41,513 (6.1)	52,268 (5.8)	70,475 (6.1)
Commercial	133,466 (19.7)	178,427 (19.7)	222,005 (19.5)
Industry	74,379 (11.0)	87,536 (9.6)	112,056 (9.8)
Others	334,581 (49.5)	474,033 (52.2)	617,972 (54.2)
Total	676,332 (100.0)	907,645 (100.0)	1,140,919 (100.0)

Source: BANCO DE LA REPUBLICA

Year End	Unit: Million pesos							
	Total	Share(%)	Short	Share(%)	Medium	Share(%)	Long	Share(%)
1983	346,815	(100.0)	253,271	(73.0)	56,460	(16.3)	37,084	(10.7)
1984	416,077	(100.0)	292,071	(70.2)	71,717	(17.2)	52,289	(12.6)
1985	521,713	(100.0)	378,315	(72.5)	78,112	(15.2)	64,286	(12.3)
1986	676,332	(100.0)	472,893	(69.9)	122,235	(18.1)	81,204	(12.0)
1987	907,645	(100.0)	621,283	(68.4)	187,000	(20.6)	99,363	(11.0)
1988	1,140,919	(100.0)	779,160	(68.3)	232,145	(20.3)	129,609	(11.4)

Source: BANCO DE LA REPUBLICA

Table 6.8 FINANCE CORPORATION IN COLOMBIA

Unit: Million pesos

Name	Number of Branch Office	Location of Head Office	Equity (1988 Dec.)	Total assets (1988 Dec.)
<b>Private</b>				
1. COLOMBIANA S.A.	6	BOGOTA	2,884	46,371
2. BOYACA	7	TUNJA	763	3,665
3. CALDAS	9	MANIZALES	1,209	26,089
4. INDUFINANCIERA	1	BOGOTA	208	2,654
5. ANDES	4	BOGOTA	820	16,997
6. OCCIDENTE S.A.	10	PEREIRE	1,067	18,405
7. SANTANDER	4	BUCARAMANGA	632	13,688
8. NORTE	7	BARRANQUILLA	1,604	38,003
9. RIENTE S.A.	8	CUCUTA	448	19,166
10. TOLIMA	8	IBAGUE	291	7,149
11. VALLE S.A.	7	CALI	3,979	95,472
12. INTERNACIONAL	2	BOGOTA	222	1,247
13. NACIONAL S.A.	5	MEDELLIN	2,372	51,101
14. PROGRESO	2	BOGOTA	551	10,617
15. SURAMERICANA	20	BOGOTA	1,847	41,282
16. UNION S.A.	2	BOGOTA	150	3,526
<b>National</b>				
17. ELECTRICA NACIONAL	1	BOGOTA	29,987	297,864
18. CUNDINAMARCA	1	BOGOTA	779	2,176
19. COFIAGRO	5	BOGOTA	1,275	13,528
20. TRANSPORTE	13	BOGOTA	2,453	14,683
21. IFI	1	BOGOTA	29,782	91,117
22. POPULAR	18	BOGOTA	1,989	22,664
23. TURISMO	10	BOGOTA	3,436	13,400
			88,748	850,864

Source: BANCO DE LA REPUBLICA

Table 6.9 LOANS MADE BY FINANCE CORPORATIONS

	1986		1987		1988	
	Million Pesos	Share(%)	Million Pesos	Share(%)	Million Pesos	Share(%)
Industry	101,058	69.5	146,561	70.3	156,395	69.7
Agriculture	11,715	8.1	13,728	6.6	15,149	6.8
Agroindustry	0	0.0	3,607	1.7	2,438	1.1
Mining	5,304	3.6	8,333	4.0	7,874	3.5
Leasing	0	0.0	3,832	1.8	4,894	2.2
Construction & Turism	6,551	4.5	8,556	4.1	7,918	3.5
Others	20,795	14.3	24,009	11.5	29,758	13.2
Total	145,423	100.0	208,626	100.0	224,426	100.0

Source: BANCO DE LA REPUBLICA

Year End	Unit: Million pesos		
	Total	Short	Long
1983	90,386 (100.0)	62,534 (69.2)	21,782 (24.1)
1984	99,208 (100.0)	70,368 (70.9)	22,920 (23.1)
1985	106,633 (100.0)	71,602 (67.1)	27,457 (25.7)
1986	145,423 (100.0)	90,523 (62.2)	45,871 (31.5)
1987	208,626 (100.0)	46,513 (22.3)	88,518 (42.4)
1988	224,426 (100.0)	43,114 (19.2)	106,477 (47.4)

Source: BANCO DE LA REPUBLICA

Table 6.10 IFI: FUND RESOURCES AND FINANCE BY SECTOR

A. RESOURCES OF FUND	Unit: Thousand pesos	
	1988 Dec.	1987 Dec.
Fund Resources	Share(%)	Share(%)
Monetary board resolution	3,117,673	2,761,012
IFI's resource	12,898,726	7,643,095
Foreign agency	7,896,569	5,892,521
FIP	65,327	80,167
Others	1,500,141	10,371,874 (1)
Total	25,478,436	26,748,669

Note : (1) Mainly Constant Valve Bonds Resources  
 Source: IFI annual report 1988 Mission Process

B. FINANCE BY SECTOR AT END OF 1988	Unit: Million pesos	
	Amounts	Share(%)
Sector		
Food Beverages and Tobacco	2,728.7	10.3
Textile, Garment and Leather	6,491.5	24.4
Wood	104.8	0.4
Paper Mills and Paper Products	3,484.2	13.1
Oil, Carbon, Rubber	6,785.0	25.5
Basic Metal Industry	3,243.7	12.2
Metal Products Manufacturing, Machinery	2,878.9	10.8
Others	864.0	0.3
Total	26,580.8	100.0

Source: IFI ANNUAL REPORT 1988, MISSION PROCESS

Table 6.11 RESOURCES OF FUNDS OR CFP

	Unit: Thousand pesos	
Loans and Discounts	1988 Dec.	1987 Dec.
	Share(%)	Share(%)
World Bank	5,782,422	6,808,626
FFI	4,623,238	2,574,745
PROEXPO	1,337,524	899,670
Own Fund and Others	6,269,973	3,071,956
Total	18,013,157	13,354,997

Source: CFP ANNUAL REPORT 1988, MISSION PROCESS



Table 6.12 SAVING AND LOAN CORPORATION

Unit: Million pesos						
Corporation	Location of Head Office	Number of Branches	Capital and Reserves (1988 Dec.)	Total assets (1988 Dec.)		
1. AHORRAMAS	BOGOTA	46	1,525	42,128		
2. CAFETERA (CONCASA)	BOGOTA	74	3,540	107,531		
3. CENTRAL	BOGOTA	135	5,132	189,677		
4. COLMENA	BOGOTA	82	2,024	100,187		
5. COLOMBIANA (DAVIVIENDA)	BOGOTA	91	3,809	162,672		
6. COLPATRIA	BOGOTA	56	2,422	70,502		
7. GRANCOLOMBIANA (GRANAHORRAR)	BOGOTA	85	2,174	116,648		
8. LAS VILLAS	BOGOTA	76	1,747	59,256		
9. NACIONAL (CONAVI)	MEDELLIN	80	3,967	140,331		
10. POPULAR (CORPAVI)	BOGOTA	64	2,233	94,521		

Source: Banco de la Republica

Table 6.13 EQUITY AND ASSETS OF COMMERCIAL FINANCE COMPANIES

Company Name	Location of the Head Office	Number of Branch Office	Equity		Total assets	
			1986 Dec.	1987 Dec.	1986 Dec.	1987 Dec.
Colombiana de Financiamiento S.A.	BOGOTA	3	439	546	1,288	2,587
COLEFIN	BOGOTA	8	639	1,224	11,221	18,410
Creceer						
Fundacion para la Educacion Superior	CALI	6	1,211	1,520	15,476	21,466
.FES.	BOGOTA	1	75	83	427	449
Financiera Fenix S.A.	BOGOTA	18	3,697	3,739	13,288	18,314
Inbancredito S.A.	BOGOTA	18	305	589	12,913	23,036
Diners	BOGOTA	10	1,000	1,000	9,707	13,638
Inversiones Delta Bolivar S.A.	BOGOTA	1	66	73	721	1,503
Financiera Benudez y Valenzuela	BOGOTA	-	-	-	-	-
Financiera Tequendama S.A.(2)	BOGOTA	2	51	51	102	340
Financiera Industrial S.A.	BOGOTA	1	15	15	55	104
Financiera Galerias						
Grancolombiana de Promociones S.A.						
.PRONTA.	BOGOTA	24	4,141	4,141	19,068	22,201
Inversora S.A.	BUCARAHANGA	10	166	172	3,210	5,769
Confianciera S.A.	BOGOTA	2	93	130	1,197	2,108
Promotora de Ventas S.A.						
.PROVENSÁ.	BOGOTA	1	56	93	574	1,044
Servicios Financieros de Santander S.A.						
.SERFINANZA.	BOGOTA	6	706	766	6,486	9,120
.PRISA' (3)	BOGOTA	1	-	-	-	-
Financiera Andina S.A.	BOGOTA	1	85	91	832	1,183
Financiera Colpatria S.A.	BOGOTA	16	579	579	9,845	11,956
Fincomercio(4)	MEDELLIN	-	185	-	451	-
Financiamiento del Desarrollo Social						
.FINSOCIAL.	MEDELLIN	1	320	438	3,284	4,166
Inversiones del Estado S.A.	BOGOTA	1	78	75	260	307
Financiera Internacional S.A.	BOGOTA	5	178	189	1,635	2,483
Financiera Aliadas S.A.	MEDELLIN	3	163	346	1,685	3,485
Multifinanciera S.A.	BOGOTA	1	127	180	1,278	1,952
.FINEVESA.	MEDELLIN	1	106	149	117	1,451
Creditos e Inversiones Cartagena S.A.						
.CREDINVER.	CARTAGENA	1	43	88	480	937
Suramericana de Financiamiento Comercial						
.SUFINANCIAMIENTO.	MEDELLIN	3	280	496	3,224	5,720
Coltefinanciera	MEDELLIN	12	819	967	8,632	11,363
Comercia S.A.	MEDELLIN	3	459	609	2,772	5,525
Union Financiera(5)	BOGOTA	-	-	-	-	-
Financiera Hezdacredito	BOGOTA	4	308	325	1,601	4,118
Total			16,390	18,674	131,699	194,725

Source: BANCO DE LA REPUBLICA

Table 6.14 ASSETS STRUCTURE OF LEASING COMPANIES

Unit: Million pesos

	1983	1984	1985	1986	1987	1988
	(I Semester)					
Current assets	3,544	3,621	3,382	3,624	5,070	7,047
(Net leasing assets)	(6,935)	(7,992)	( 9,806)	(13,230)	(27,942)	(39,440)
(Net fixed assets)	(7,492)	(8,680)	(10,301)	(13,566)	(29,566)	(41,694)
Total fixed assets	8,116	9,118	11,351	14,836	31,260	44,174
Total assets	11,660	12,739	14,733	18,460	36,331	51,221
No. of Companies	40	40	41	42	52	59

Source: Estados Financieros Supersociedades

Table 6.15 CONTRACT OF LEASING BY INDUSTRIAL SECTOR  
(As of June 30, 1988)

Unit: Million peso

Sector	Number of Contract	Leasing Assets (Million pesos)	Share (%)
1. Agriculture, Hunting Forestry, Fishery	199	1,026	2.0
2. Mining, Sandpit	173	4,802	9.4
3. Manufacturing	1,373	14,221	28.0
4. Electricity, Gas Water	11	38	0.1
5. Construction	490	4,747	9.0
6. Commercial	894	4,414	8.7
7. Transportation	1,048	10,076	20.0
8. Financial institution	150	3,603	7.0
9. Real estate, Professional services	773	3,654	7.0
10. Cinema, Radio, TV	39	153	0.3
11. Others	759	4,328	8.5
<b>Total</b>	<b>5,909</b>	<b>51,062</b>	<b>100.0</b>

Source: Informacion Suministrada por las Sociedades

Table 6.16 OUTSTANDINGS OF LOAN AND INVESTMENT AT THE END OF 1983 - 1988  
(DIRECTED CREDIT FUNDS)

	Unit: Million pesos					
	1983	1984	1985	1986	1987	1988
Fondo de Financiero Industrial - FFI	5,876	8,567	8,309	7,868	8,702	12,859
Commercial Banks	2,841	4,288	3,703	3,328	3,545	4,558
Agro Credit Bank	431	530	807	842	853	1,322
Finance Corporations	2,604	3,749	3,799	3,698	4,304	6,984
Fondo de Inversiones Privadas - FIP	7,684	7,816	7,381	8,164	9,584	14,055
Commercial Banks	3,769	3,847	3,494	2,777	2,487	3,045
Finance Corporations	3,915	3,956	3,879	5,384	7,097	10,998
Other Intermediaries	-	13	8	3	-	12
Fondo de Capitalizacion Empresarial - FCE	n.a.	n.a.	n.a.	8,697	13,423	14,726
Commercial Banks				166	977	894
Finance Corporations				8,531	12,446	13,699
Fond de Promocion de Exportaciones - PROEXPO	57,405	73,429	87,056	118,196	148,496	191,118
Loan	47,898	55,175	56,421	67,472	106,725	154,032
Investment	8,383	17,087	28,886	48,793	41,771	37,086
Changable debt etc.	1,124	1,167	1,749	1,926	-	-

Source: BANCO DE LA REPUBLICA

Table 6.17 INTERMEDIARY BANKS AND FINANCIAL CORPORATIONS  
FOR THE CENTRAL BANK'S CREDIT

=====  
Commercial Banks  
=====

BANCO DE BOGOTA  
BANCO POPULAR  
BANCO DE COLOMBIA  
BANCO CAFETERO  
BANCO COMERCIAL ANTIOQUENO  
CAJA DE CREDITO AGRARIO INDUSTRIAL Y MINERO  
BANCO SUDAMERIS DE COLOMBIA  
BANCO GANADERO  
BANCO DE CREDITO Y COMERCIO DE COLOMBIA  
BANCO SANTANDER  
BANCO DE CALDAS  
BANCO COLPATRIA  
BANCO DEL ESTADO  
BANCO DE OCCIDENTE  
EXTEBANDES DE COLOMBIA

=====  
Financial Corporations  
=====

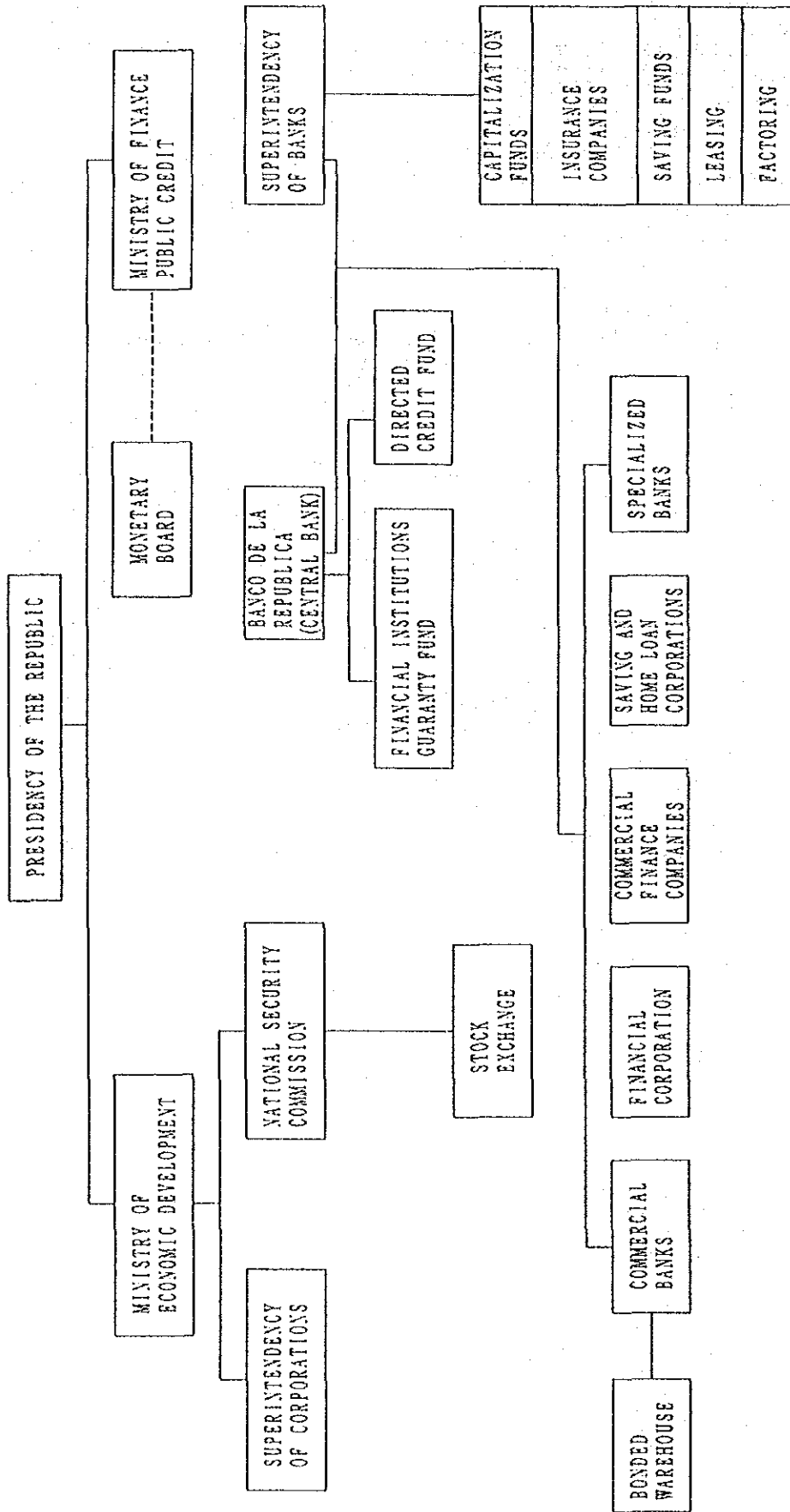
CORPORACION FINANCIERA COLOMBIANA  
CORPORACION FINANCIERA DE CALDAS  
CORPORACION FINANCIERA DE CUNDINAMARCA  
COFIAGRO  
CORPORACION FINANCIERA DE OCCIDENTE  
CORPORACION FINANCIERA DE ORIENTE  
CORPORACION FINANCIERA DE SANTANDER  
CORPORACION FINANCIERA FES S.A.  
CORPORACION FINANCIERA DEL NORTE  
CORPORACION FINANCIERA DEL TOLIMA  
CORPORACION FINANCIERA DEL VALLE  
CORPORACION FINANCIERA SURAMERICANA  
CORPORACION FINANCIERA UNION  
CORPORACION FINANCIERA DE BOYACA  
CORPORACION FINANCIERA DE NACIONAL  
CORPORACION FINANCIERA DE POPULAR

=====  
Specialized Bank  
=====

CAJA SOCIAL DE AHORROS

=====  
Source: BANCO DE LA REPUBLICA

Figure 6.2 THE COLOMBIAN FINANCIAL SYSTEM



### 6.3 Directed Credit for Small and Medium Scale Enterprises and Microenterprises

As described in the previous sections, there are the following channels of loans and investments available to small and medium scale enterprises and microenterprises in the industrial sector.

General loan: Commercial banks, finance corporations

Domestic directed credit: Industrial Finance Fund (FFI), Enterprise Capitalization Fund (PCE), and Export Development Fund (PROEXPO)

Other sources: Foundations, credit cooperatives

In addition, various directed credit facilities were established under assistance of international financial institutions. This section describes those established by multi-lateral or bilateral aids to serve small and medium scale enterprises and microenterprises.

#### 6.3.1 IDB's Credit Line

The Inter-American Development Bank (IDB) has been providing Colombia with series of loans for low income groups, called "small projects". Each of the projects was worth less than US\$500,000 and served a variety of purposes ranging from promotion of microenterprises, education, training, to promotion of cooperatives.

Of these small projects, loans related to promotion of microenterprises were incorporated into a program of US\$7 million and were supplied to Colombia as "800/SF" (SF stands for special funds). This credit line was signed in August 1987, and the lending was started in mid-June 1988. As shown in Table 6.18, 64% of the funds have been advanced by the end of the first quarter of 1989, and the whole amount is expected to be committed by the year end.



Currently, negotiation is underway for extension to the second round of loan.

The credit line is now playing a very important role for microenterprises in Colombia and is known as the "BID line"; BID is an abbreviation of Banco Interamericano de Desarrollo. For this reason, the IDB 800SF credit line is referred to as the BID line in this report.

(1) Outline of BID line

1) Total loanable amount

US\$10 million consisting of US\$7 million contributed by the IDB and US\$3 million by the Colombian side.

Loan from Colombian side will be given by IFI through CFP.

2) Primary purpose of loan

To supply funds to microenterprises engaged in production activities (e.g., machinists, mechanics, tailors, bakers, and restaurants)

3) Type of loan

Equipment funds and working capital

4) Eligibility

The loan is accessible to microenterprises meeting the following requirements:

- a) Monthly sales of 1,650,000 pesos or less
- b) Full time employment of 10 persons or less
- c) Total assets of 6,000,000 pesos or less

d) Person having permanent address (to own or rent a house)

e) Active in trade or market for one year or longer

f) Reasonable level of production efficiency

g) Membership in SENA or foundation (certificate)

5) Loan terms and conditions

a) Interest rate at 23%

b) Repayment period of 3 years (grace period of 6 months)

18 months for working capital (grace period of 6 months)

Note: Commercial bank loan at about 35% p.a.

(2) Major characteristics of BID line and loan process

Unique characteristics of the BID line are found in that it is a package program combining credit service and technical assistance. Business owners applying for the loan are required to go through an education program on business management, which consists of "accounting", "preparation of business plan", "marketing" and "cost".

The program takes about one month and is conducted by "entities" listed in Table 6.18, which are usually organized by foundations - private, non-profit organizations. In addition, the national training institute (SENA) is exceptionally designated to one of those entities.

A microenterprise applying for the BID line's loan is required to make the application to any of the entities for evaluation and to receive the education

program. Once the microenterprises has satisfied the requirements, the loan is issued by any of intermediate financial institutions listed in Table 6.18.

Each entity is responsible for project identification, loan evaluation, and education, and it receives fees equivalent to a 12% interest rate out of 23%.

The program is designed to allow identification of loan projects nationwide, and education and technical assistance through many entities, which are in turn compensated by a portion of difference (spread) between an interest rate (2%) agreed by the IDB and Colombian government and a lending rate (23%). Thus, the program is considered as an excellent system combining credit service and technical assistance (education) financed by the spread.

### (3) Interest rate structure and roles of entities

Microenterprises, beneficiaries of the BID line, are eligible for a low-interest loan (23%) which flows through the following channel:

- 1) Interest rate between the IDB and the central bank: 2%
- 2) Administration cost and allowance for foreign exchange risk at the central bank: 2%
- 3) Fee to the intermediate financial institution: 7%
- 4) Fee to the entity: 12%
- 5) Lending rate (1 + 2 + 3 + 4): 23%

When a microenterprise requires funds, it consults with any of the entities, mainly foundations. The entity evaluates the application in terms of feasibility, and if acceptable, it make a loan application to any of the intermediate financial institutions. At the same time, the entity provides the applicant with

the education courses as a prerequisite to the credit service.

The evaluation process at the entities is based on a flexible policy related to collateral and guarantee. In principle, microenterprises having assets are required to provide collateral and guarantee. However, when a microenterprise cannot provide sufficient collateral or guarantor, the entity sometimes bears the responsibility.

Each entity uses a check sheet to evaluate worthiness of financial assistance. Very small scale enterprises are often rejected because of poor feasibility. The evaluation criteria do not include whether the business is formal or informal.

#### (4) Reputation of BID line

The BID line was introduced on an experimental basis, as various potential problems are raised at the inception stage. If it shows successful results, subsequent implementation is expected with possible increase in funds. At present, the BID line is widely known and used by microenterprises. However, it should be pointed out that there is a tendency to put weight to microenterprises with high profitability, and an amount of loanable funds is relatively small. The latter problem seems to be improved if the BID line is continued.

#### 6.3.2 World Bank

The World Bank advanced US\$5.5 million of loans to Colombia's small and medium scale enterprises in 1975 (SME1), US\$15 million in 1977 (SME2), US\$32 million in 1980 (SME3), and US\$40 million in 1984 (SME4). The fourth loan (US\$40 million) was fully committed by September 1987, and 95% of all the funds were advanced in September 1988. The above loans are first advanced to the central bank, and CFP (Corporacion Financiera Popular), one of the finance corporations, serves as a lending institution.

CFP is a national finance corporation and was established by Banco Popular in 1967 on the basis of recommendation in the World Bank's study of 1962. CFP is responsible for supplying medium- and long-term loans to promote and develop small and medium scale enterprises.

In the fourth round of the loan (SME4), 86% of the loan were made to companies employing 50 or less persons, 57% (two third of 86%) to those with 20 or less employees, and 40% of this (23% of the total) to those with 10 or less employees. In terms of industry groups, labor intensive industries received a majority of the loan, including apparel, socks, and leather (14.2%), wood and furniture (10.8%), metal products (6.8%), and food and beverage (20.7%).

26% went to companies which had not received the loan, 98% of which were those supplying products to domestic markets, and 50% of which were located in areas other than Colombia's four major industrial areas of Bogota, Antioquia, Boyaca, and Atlantico. While the average amount of loan per company under SME4 was 6 million pesos, 25% of the companies received less than 2.5 million pesos. Major uses of the loan were a) the purchase of equipment (67%), b) construction (15%), and c) working capital (18%).

As to interest rates, the DTF rate was introduced from SME4. SME4 set DTF + 1%, which was 4-percentage points higher than that under SME3. Under SME4, 2,162 companies received the loans.

SME4 was started in October 1984, and 103 loans were advanced between October and December 1984, amounting to 201,697,000 pesos to represent 2.6% of the loanable funds. Then, in 1985, 655 loans were made to supply 1,750,749,000 pesos which accounted for 22.6% of the total. By the end of 1988, all the loanable funds were advanced to result in 2,086 loans.

As a result, SME4 lent all the funds in 4 years and several months after the start.

The fifth round (SME5) is scheduled to start in 1990.

SME5 is outlined as follows:

1) To make US\$80 million of loans to small and medium scale enterprises as well as microenterprises. US\$3 million will be allocated for microenterprises.

2) Loan terms by purposes

Equipment funds: Repayment period of 10 years  
(grace period of 3 years)

Working capital: Repayment period of 3 years  
(grace period of 6 months)

Interest rates

<u>No. of years</u>	<u>Interest rate</u>	<u>Borne by CFP</u>	<u>Spread</u>
1	DTF + 3.25	DTF - 0.8	4.05%
2	DTF + 3.50	DTF - 0.8	4.30%
3	DTF + 3.75	DTF - 0.8	4.55%
4	DTF + 4.00	DTF - 0.8	4.80%
5	DTF + 4.15	DTF - 0.8	4.95%
6	DTF + 4.30	DTF - 0.8	5.10%
7	DTF + 4.45	DTF - 0.8	5.25%
8	DTF + 4.60	DTF - 0.8	5.40%
9	DTF + 4.75	DTF - 0.8	5.55%
10	DTF + 5.00	DTF - 0.8	5.80%

The loan rates are designed to rise with increase in loan terms to allow for adjustment against inflation. In addition, the spread increases with increase in loan terms to provide incentive for long-term loans.

3) Eligibility for borrowing

Companies with assets of US\$1 million or less.

4) Lending financial institutions

In addition to CFP, 7 private finance corporations and 6 commercial banks will participate in SME5 as lending institutions.

6.3.3 Credit Lines under Bi-lateral Economic Assistance

(1) West Germany (Kreditanstalt für Wiederaufbau - KfW)

1) Line AL-7465164

Loanable amount: DM8 million

Purpose: To supply funds to investment projects related to private small and medium scale enterprises in the manufacturing industry.

Loan terms: 30 years at maximum

Intermediate institution: CFP (interest rate of 18.5% p.a. to be applied to the intermediary)

2) Line AL-7565500

Loanable amount: DM4.2 million

Purpose: To supply funds to investment projects related to private small and medium scale enterprises in the manufacturing industry.

Loan terms: 10 years at maximum

Intermediate institution: Commercial banks (interest rate of 25% or 22% p.a. to be applied to the intermediary)

(2) Canada

1) The first line

Loanable amount: 5.5 million Canadian dollars

Purpose: To supply funds to investment projects related by private enterprises.

Loan terms: 10 years (including grace period of 2 years)

Intermediate institution: Commercial banks (interest rate of 3.5% p.a. to be applied to the intermediary)

2) The second line

Loanable amount: 11 million Canadian dollars

Purpose: To supply funds to purchase equipment and materials made in Canada, including assembly, installation, service, and transportation costs.

Loan terms: 10 years (including grace period of 2 years) and 30 years (including grace period of 7 years), with credit line of 5.5 million Canadian dollars each.

Intermediate institution: Commercial banks (interest rate of 3.5% p.a. to be applied to the intermediary)



Table 6.18 FINANCE BY INTERMEDIARIES FOR  
INTER-AMERICAN DEVELOPMENT BANK LOAN

As of the first quarter of 1989

ENTITY	Amount (US\$)	Share (%)
1. FUNDECOOP	1,929,605.78	43.01
2. BARRANQUILLA	148,598.27	3.31
3. FUNDESARROLLO	360,463.39	8.03
4. SANTA HELENA	103,379.21	2.30
5. FUDENOR	139,364.57	3.11
6. FUNDESAN	91,700.97	2.04
7. MICROANTIOQUIA	394,316.67	8.79
8. CALDAS	211,810.22	4.72
9. COMPARTIR	195,478.85	4.36
10. CORPOCAUCA	160,365.45	3.57
11. CULTIVAR	45,686.87	1.02
12. SENA	579,310.57	12.91
13. CIRCULO DE OBREROS	40,119.94	0.89
14. SHELLE	39,871.95	0.89
15. FUNDAEMPRESA	4,934.96	0.11
16. CARVAJAL	41,619.01	0.93
<b>TOTAL</b>	<b>4,486,628.68</b>	<b>100.00</b>
<b>INTERMEDIATE FINANCIAL INSTITUTIONS</b>		
1. FINANCIACOOP	2,244,205.30	50.02
2. BANCOQUIA	346,949.00	7.73
3. COOPDESARROLLO	372,390.20	8.30
4. CFP	1,459,813.58	32.54
5. COLPATRIA	26,678.83	0.59
6. UCONAL	36,589.77	0.82
<b>TOTAL</b>	<b>4,486,628.68</b>	<b>100.00</b>
<b>DISBURSEMENT 64.09%</b>		

Source: Inter-American development bank Colombia office

#### 6.4 Credit Guaranty System for Small and Medium Scale Enterprises and Microenterprises

The credit guaranty system for small and medium scale enterprises and microenterprises in Colombia is operated by FNG (Fond Nacional de Garantias) and FOMENTAR (Fundacion Fondo de Garantias para el Desarrollo de la Economia Social y Solidaria).

##### 6.4.1 FNG

FNG was established under Decree No.3788 of 1981 and is under supervision of the Ministry of Economic Development.

##### (1) Financial resources

Working capital of FNG is financed by the following 5 institutions:

- 1) IFI
- 2) CFP
- 3) PROEXPO
- 4) ACOPI
- 5) CARBONORTE

##### (2) Eligibility for the credit guaranty service

The credit guaranty service covers exports industries, SMEs in the manufacturing and mining industries, and MEs.

SMEs in the manufacturing industry eligible for the credit guaranty service are expected to satisfy the following requirements:

- 1) Employment of less than 200 persons

2) Total assets of 384,360,000 pesos or less as of the end of 1988

3) Total amount to be guaranteed at 38,500,000 pesos or less

Export industries eligible for the credit guaranty service are expected to satisfy the following requirements:

1) Industries receiving loans from PROEXPO and satisfying the requirements for the SMEs in the manufacturing industry

2) Total amount to be guaranteed at 89,500,000 pesos or less

Microenterprises eligible for the credit guaranty service are expected to satisfy the following requirements:

1) Engaged in industrial or commercial activity

2) Total assets of less than 6 million pesos

3) Monthly turnover of 11,700,000 pesos or less

4) Employment of 10 persons or less

5) Those completed the education program conducted by foundations or SENA

(3) Guaranty application procedure

Upon request by the intermediate financial institution including commercial banks and finance corporations, FNG evaluates the application for credit guaranty and makes decision. The whole process is said to take around 7 days.

(4) Guaranty fee

The fee for the credit guaranty service is 4% of the amount to be guaranteed. The maximum amount of guaranty is 80% of the amount loaned. Thus, the applicant (financial institution) is expected to secure own mortgage interest for remaining 20% of the loaned amount.

(5) Record of credit guaranty service

1) Percentage shares by industry group

The credit guaranty for SMEs in the manufacturing industry amounted to 2,744 million pesos, accounting for 50.5% of the total, and that for export industries totaled 2,374 million pesos, or 43.7%. A combined total for these two sectors represented nearly 95% of all the credit guaranty.

2) Percentage shares by business size

In terms of business size, the credit guaranty for SMEs accounted for 80% of the total, while that for microenterprises 20%.

As of May 1989, the credit guaranty service is provided for 32 financial institutions including commercial banks and finance corporations, with the accumulated total amount guaranteed standing at 5,429 million pesos, and the net balance at 3,443 million pesos.

3) Percentage shares by applying institution

49.1% of the total guaranty was requested by CFP (Corporacion Financiera Popular), reflecting that CFP advances loans on behalf of the World Bank and FFI and requests the credit FNG's guaranty when the borrowers do not have sufficient collateral.

(6) Available guaranty fund

Of the total guaranty fund available (7 times the capital fund of 1,850,804,920.3 pesos), FNG uses the fund equivalent to 2.5 times the capital fund. Thus, 8,325 million pesos, equivalent to 4.5 times the capital fund) are available.

6.4.2 FOMENTAR

(1) Background

FOMENTAR was established in 1988 to provide credit guarantee for microenterprises. Its working capital was contributed by SENA, FUNDESARROLLO, FUNDECOOP, EDUCONAL, CORFAS, SEDECOM, and CORPOCALDAS, and it serves as an organization to promote the Microenterprises National Development Program (PNDM).

(2) Scope of guaranty

FOMENTAR provides guaranty for loans using the BID line.

1) Eligibility for credit guaranty

Microenterprises holding membership with any of foundations or cooperatives, including formal and informal.

2) Limit of guaranty

Up to 10 times the balance of bank deposits.

3) Guaranty fee

1% of the amount to be guaranteed.

4) Total guaranty fund

US\$1 million (4 times the capital fund)

### (3) Guaranty application procedure

The procedure to receive FOMENTAR's credit guaranty service is described as follows. The process from 2) through 5) takes 1 to 2 weeks if necessary documents are ready.

#### 1) Obligation to form an association

Companies applying for FOMENTAR's credit guaranty service are required to form an association consisting of 5 to 20 companies to make a joint application; the member companies are jointly responsible for the guaranty. The association is not necessarily limited to companies in a same industry group or trade. Upon forming the association, the member companies are required to draw out an agreement to specify joint responsibility and conditions of loans to be issued to each member.

#### 2) Obligation to make deposit

Each of the member companies is required to deposit an amount equivalent to 10% of the amount to be guaranteed at any of four financial institutions designated by FOMENTAR; COOPDESARROLLO, FINANCIACOOP, UCONAL, or CORFAS. Then, the member company is required to receive "the balance certificate" from the financial institution.

#### 3) Advisory organization

The association submits the agreement to form the association, the balance certificates, and a loan application to any of six "advisory organizations" (SENA, FUNDESARROLLO, FUNDECOOP, EDUCONAL, CORFAS, and SEDECOM which are funding members of FOMENTAR) and consults with the advisory organization for possible credit guarantee. The advisory organization, in turn, submits the documents together with a guaranty application to FOMENTAR to any of financial institutions to make the loan application.

4) Request for credit guaranty

The financial institution, upon application by the advisory organization, evaluates the proposed loan and requests FOMENTAR's credit guaranty.

5) Determination of credit guaranty

FOMENTAR notifies the financial institution of credit guaranty to be issued. It should be noted that FOMENTAR does not evaluate the guaranty application as the financial institution has already accepted the loan.

(4) Problems related to FOMENTAR

FOMENTAR is a guarantee organization to support MEs with poor credit standing to secure loans. Nevertheless, it has the following problems in addition to relatively a short history (commercial operation started in 1988).

1) Small guaranty fund

FOMENTAR can guarantee US\$1 million at maximum, which is too small to satisfy growing demand by MEs.

As private financial institutions are contributors, it is difficult to expect significant increase in the working capital. In fact, FOMENTAR anticipates shortage of guaranty fund as the demand has rapidly increased by advertising activities.

2) Because of obligation to form the association by five or more members, the company with urgent demand or which cannot find four other members is not accessible to the credit guaranty service.

## 6.5 Financing System for MEs and SMEs

### 6.5.1 Colombia's Financial Systems for MEs and SMEs

Colombia's financial institutions include commercial banks, finance corporations, commercial finance companies, savings and home loan corporations, which are playing important roles under cooperation with the central bank. In addition, there are credit cooperatives which intermediate credit service to associations, as well as private foundations which supply own funds to MEs and poor people.

In practical terms, the Colombia's financial market is divided into two segments; while relatively large scale enterprises receive loans from commercial banks, SMEs and MEs raise funds from the directed credit system (institutional finance by the government), program loans using loans from the World Bank and the Inter-American Development Bank (IDB), and informal markets including friends, relatives, and private lenders.

This means that SMEs and MEs are almost not able to borrow funds from commercial banks. From the commercial bank's side, loans to smaller companies present a high risk due to poor credit rating and require relatively a high percentage of administration cost to reduce the profit margin. From the borrower's side on the other hand, smaller companies see loans from commercial banks require complicated procedures - many of them cannot prepare required documents - and take a long period of time not to meet urgent need. In addition, they cannot pledge sufficient collateral or guaranty. Thus, SMEs and MEs tend not to receive loans from commercial banks. According to our questionnaire survey and interviews with SMEs and MEs, many of them pointed out difficulty in raising funds from commercial banks and were reluctant to apply for loans by commercial banks because of the above reasons. Under this circumstance, SMEs and MEs require a credit system suitable for their needs. Table 6.19 shows credit systems available to SMEs and MEs.



#### 6.5.2 Directed Credit System for SMEs and MEs - FFI

A directed credit service for the industrial sector provided by the Colombian government is the Industrial Finance Fund (Fondo Financiero Industrial; FFI). FFI's fiscal resource is raised from forced investment which commercial banks and finance corporations are required to make by the Monetary Board. FFI's loans are directed to SMEs (having total assets of 140 million pesos or less) at preferential interest rates.

Commercial banks and finance corporations are supposed to act as the intermediary institutions for the FFI loans, but they are reluctant to do so partly because of controlled lending rates to reduce the spread, and partly because the strict evaluation procedure requires relatively large time and cost. As a result, although the FFI loans grew at an annual average rate of 17% between 1983 and 1988, a real growth after taking into account inflation rates showed negative figures. This is because the intermediary institutions have given priority to World Bank's SME loans rather than the FFI loans.

Without any doubt, the FFI loans have been playing important roles in supplying funds to SMEs and MEs, especially to SMEs. Nevertheless, they have not been fully utilized partly due to strict requirements and complicated procedures and partly due to lack of incentive for the intermediary institutions in terms of low profit margin, although the free limit was raised to 20 million pesos. Thus, it is important to improve these conditions if the FFI loans are to become an accessible credit system for SMEs and MEs. In this connection, the World Bank is negotiating with the Colombian government and the central bank to modify conditions of the FFI loans to those adopted in the World Bank's fifth round of loans for SMEs and MEs (SME5).

The government, however, is moving to abolish the forced investment system and the preferential interest rate in the course of liberalization for financing system as a part of overall economic liberalization policy.

### 6.5.3 World Bank's SME Loans

The World Bank has recently completed the fourth round of loans for SMEs (SME4) and is currently negotiating with the Colombian government to start SME5 in 1990. The total amount of the SME5 loans will be doubled from US\$40 million in SME4 to US\$80 million, thereby to emulate the FFI loans as the directed credit system for SMEs. Compared on a basis of actual loaned amounts, FFI is larger than SME4 and before, with their difference being decreased gradually. Today, the FFI and SME4 loans serve as two pillars of institutional finance system for SMEs. Since lending interest rates for the SME loans are higher than those for the FFI loans, the World Bank is negotiating with the Colombian government to adjust conditions of the FFI loans closer to those of the SME loans.

This move reflects the World Bank's intention to reform the directed credit system based on the forced investment and to modify the credit system for SMEs into a near free market system which is based on the principle of money market, without artificial incentive. Nevertheless, it is pointed out that the World Bank's SME loans have advantages in simplified application procedures and flexible lending conditions for borrowers, while having a major disadvantage in relatively high interest rates.

Finally, under the SME5 loans, an attempt is being made to increase the number of intermediary institutions (only CFP for SME4) to commercial banks and finance corporations to provide a wider channel of lending.

### 6.5.4 IDB's Line for MEs

The BID line provided by the Inter-American Development Bank (IDB) is designed to provide loans only for MEs. Combination of the financial service by the National Microenterprises Development Program (PNDM) and the educational service for business owners, is giving this program unique characteristics. As the interest rate on loans from the IDB to the central bank is only 2%, the 21%

spread can be attained while offering a sufficiently low interest rate (23%) to MEs, thereby securing cost for the educational service. Project identification, education and training and technical advice after lending are left to private foundations and SENA which has a nationwide service network, while loans are issued through credit cooperatives and CFP. Use of private foundations - non-profit service organizations peculiar to Colombia - as the support system makes it possible to provide services suitable for needs of MEs.

On the other hand, this loan scheme has a major disadvantage in fund limitation. [Note: The IDB line amounts to US\$10 million, consisting of US\$7 million by the IDB and US\$3 million of counter fund, compared to US\$235 million in total under the SME5 scheme, consisting of US\$80 million by the World Bank and US\$155 million of counter fund. The FFI loans amounted to US\$350 million in 1988.] Another problem is that the scheme is not well known by MEs due to lack of advertisement, as found from results of the questionnaire survey and interviews. The IDB line is still at the experimental stage and can be developed into an effective credit system with further upgrading. Recently in 1990, the government held negotiation with IDB for the continuation of IDB line as the second phase.

In the second IDB line, the preferential interest will be abolished on a step-by-step basis to go toward market interest levels. (Note: the above data was as of October 1989)

#### 6.5.5 Credit Guaranty System

FNG provides credit guaranty for SMEs and MEs, while FOMENTAR provides the same for MEs under the IDB line incorporated into PNDM. Nevertheless, the credit guaranty system for SMEs and MEs in Colombia is considered to be insufficient and ineffective in terms of both quality and quantity. For instance, FNG's guaranty covers only 80% of loan amount, while FOMENTAR has a limited amount of financial resource and requires an association to be formed by

5 to 20 borrowing companies. To effectively support SMEs and MEs which lack sufficient collateral, it is critical to improve the credit guaranty system in the infant stage.

In this connection, effectively linkage should be developed between the existing loan schemes including the FFI loans, the SME loans, and the IDB line, and the credit guaranty system. More precisely, it is desirable to incorporate the directed credit system and the credit guaranty system into a credit system which automatically gives credit guaranty for companies eligible for loans. And this would stimulate the lending to SMEs and MEs by commercial banks and finance corporations that serve as the intermediary institutions.

At the same time, a favorable environment is growing for SMEs, as the tax reform in 1986 facilitated LEs to build up internal reserves and encouraged them to increase investment from internal resources. As a result, the commercial banks and finance corporations have begun to recognize loans to SMEs and MEs as a new market. This situation also suggests importance of the well-developed credit guaranty system which would reduce a risk of lending to SMEs and MEs as felt by the financial institutions.

#### 6.5.6 Conclusion

It is clear that Colombia's financial system is stratified into two segments; while LEs use loans from commercial banks and finance corporations, SMEs and MEs having little access to these institutions are depending upon the directed credit system. This two-tier structure is by no means unique to Colombia but is widely observed in the developing countries as a whole. The directed credit system in Colombia consists of the FFI and SME loans which serve SMEs as well as MEs, and the FFI loans are operated as the directed credit service by the Colombian government. In addition, the IDB's BID line serves exclusively MEs.

There are two different policies related to the directed

credit system for SMEs and MEs, preferential interest rates in particular. One is consistently advocated by the World Bank group to allow financial markets to operate under fair competition while cutting subsidy as far as possible. Under this policy, same interest rates are applied to all loans, regardless of business sizes. In contrast, there is a policy on the basis of notion that SMEs and MEs have poor financial positions and need to be protected and fostered through the directed credit system which offers favorable lending conditions. In this sense, the FFI loans and the BID line are rather based on the latter policy.

The Study Team takes a stand that promotion of SMEs and MEs is vital to creation of employment, modernization of production facilities and equipment, and improvement of productivity and production efficiency in the developing countries, therefore a directed credit system to offer preferential treatment for SMEs and MEs. For instance, Japan and South Korea have been implementing various programs, including the financial system, to provide SMEs and MEs with favorable conditions, which served as a major vehicle of industrialization and a source of employment. Improvement of technological and management resources of SMEs and MEs, in turn, brought positive impacts on LEs which use them as subcontractors. Thus, preferential treatment of SMEs and MEs contributed greatly to the whole process of industrial development. It should be noted, however, that such programs do not mean just social welfare nor relief. Industrialization and industrial modernization cannot be accomplished if MEs with low growth potential are unduly protected.

Based on the understanding, the Study Team considers it appropriate to relax evaluation procedures and requirements for the FFI loans with due consideration to interests of SMEs and MEs, while maintaining the preferential interest rates. Similarly, the Study Team does not share the opinion of the World Bank to recommend early abolishment of the forced investment system.

Furthermore, it is feasible to use low-interest loans or grants, such as the IDB's credit line, as part of bilateral economic assistance. These financial resources can be used to introduce a more effective credit scheme for SMEs and MEs in the country.

Finally, in conjunction with purposes of the study, it is recommended to consider introduction of sector loans, credit guaranty loans, and venture capital loans on the basis of bi-lateral economic assistance, as a means to foster and develop the metalworking industry in the country. In this connection, soft loans are recommendable for SMEs and MEs. Unless a preferential and accessible credit system is provided for SMEs and MEs in order to ensure modernization of production equipment, we will again see slowdown in the industrialization process.

Table 6.19 SUMMARY OF FINANCING SYSTEM TO SMEs and MES

Name of Finance	Intermediary Institution	Scale of Beneficial Enterprises	Remark
1. FFI Ordinary Finance	Commercial Banks, Agro. Credit Banks, Finance Corporations	Total assets: less than CS140m (Small & Micro)	Interest rate: 30% in Bogota area Max. Loan size: CS7m
2. FIP Investment Finance	Commercial Banks, Finance Corporations	Total assets: more than CS140m (Medium & Large)	Interest rate: 31% or 32% in Bogota area Max. Loan size: CS553
3. FCE Capitalization Finance	-ditto-	Any scale	Interest, rate: 31% or 32.5% Max. loan size: CS200m, CS600m, CS800m by type
4. PROEXPO Export Promotion Finance	-ditto-	Any scale (For export business only)	Interest rate: 28% for large scale enterprises 26% to 27% for other scale of enterprises
5. Ordinary loan of Commercial Banks	Commercial Banks	Any scale	Interest rate: about 36% Loan for small-and micro-enterprises is few
6. Own Finance of Various Foundations	Foundations themselves	Microenterprises, Poor Individuals	Interest rate: about 23% Interest rate and beneficiaries vary by each foundation
7. Leasing	Leasing Companies	Any scale	Leasing for small-and micro-enterprises is few
8. IDB 800/SF (Bid Line)	Application: Foundations and SENA Financing: Intermediate Finance Institutions such as CFP and Credit Cooperatives	Microenterprises (10 or less workers)	Interest rate: 23% Training of a foundation or SENA is a mandatory condition for financing
9. IBRD Loan 2464-CO (SME-4)	CPP	Total assets: less than US\$ 790,000 (Micro-, Small-, and Medium-Scale Enterprises)	Interest rate: 31% The fund was fully committed. Fifth SME loan is under preparation

Notes: DIF is assumed as 28% for calculation of the above interest rate.  
CS = Colombian Peso

## 6.6 Estimate of Financial Demand

This section estimates potential demand for capital investment funds by the metalworking industry in Colombia. The estimate was made by using the following two methods.

### a) Estimate based on results of questionnaire survey

Based on responses to the questionnaire survey, the average amount of investment per enterprise was calculated for MEs, Sml-Es, and Med-Es. Each figure was then multiplied by the estimated number of enterprises in each size category to obtain the total financial demand.

### b) Estimate based on macroeconomic indicators

Capital formation, or capital investment of enterprises is correlated to their value added. Based on this, the value added by SMEs and MEs in metalworking business and a percentage thereof allocated to capital investment were estimated and multiplied to obtain the financial demand.

#### 6.6.1 Estimated based on results of questionnaire survey

##### (1) Investment per enterprise

192 out of 268 enterprises which responded to the questionnaire plan to make capital investment for expansion of production capacity in the future, and 139 indicate an amount of investment.

From these responses, the following data are obtained:

- 1) Ratio of enterprises having investment plan to all enterprises responded to the questionnaire:  
 $192/268 = 0.716$
- 2) Planned investment per enterprise (those having investment plan)



Microenterprises: 9.9 million pesos/enterprise  
= US\$25,000/enterprise

Small scale enterprises:  
43.2 million pesos/enterprise  
= US\$108,000/enterprise

Medium scale enterprises:  
148.2 million pesos/enterprise  
= US\$370,000/enterprise

(Based on an exchange rate prevailed during the questionnaire survey = 400 pesos/U.S. dollar)

Note: These investments are planned to be made within the next three years.

(2) Estimation of the number of metalworking MEs

Since there is no statistical data available to determine the total number of MEs in each industrial sector, the estimate was made on the basis of related data shown in various reports, as follows:

- 1) The total number of MEs  
(PNDM and other sources) : 1,000,000
- 2) Percentage in the metalworking  
industry (Table 6.20) : 2.5%
- 3) The number of metalworking MEs  
(1) x 2)) : 25,000
- 4) Percentage of enterprises with  
2 to 10 employees (Table 6.20) : 45.8%
- 5) The number of enterprises with  
2 to 10 employees in metalworking  
business (3) x 4)) : 11,450

(3) Estimation of the number of metalworking SMEs

Similarly, there is no data on the number of SMEs engaged in metalworking business, the estimate was made in accordance with the following procedure:

- 1) To estimate the number of manufacturing enterprises other than MEs in 1990 extrapolating the rate of increase between 1977 and 1986:

The number of manufacturing enterprises in 1977 : 5,900 (see Table 5.1)  
 The number of manufacturing enterprises in 1986 : 6,556 (see Table 5.1)  
 Rate of increase between 1977 and 1986 : 1.18%/year  
 The estimated number of manufacturing enterprises in 1990 : 6,870

- 2) To estimate the percentage of metalworking enterprises:

DANE's data on manufacturing and metalworking enterprises are as follows:

	Total number of manufacturing enterprises <u>(CIIU311-390)</u>	Number of metalworking enterprises <u>(CII381-385)</u>	
1983	6,249	1,260	(20.2)
1984	6,258	1,214	(19.4)
1985	6,406	1,251	(19.5)
1986	6,684	1,294	(19.4)
1987	6,972	1,373	(19.7)
		<hr/>	
		5-year average (19.6)	

Thus, metalworking enterprises represented 19.6% of all manufacturing enterprises as the five-year average.

- 3) To estimate the total number of metalworking enterprises other than MEs: From 1) and 2) above,

$$6,890 \text{ enterprises} \times 19.6\% = 1,350 \text{ enterprises}$$

- 4) To estimate percentage distribution of metalworking enterprises by size based on DANE data, percentage distribution of metalworking enterprises by size

(other than MEs) is summarized as follows (see Table 5.1):

	<u>Number of manufacturing enterprises</u>	<u>Percentage</u>
Sml-Es	4,638	70.7
Med-Es	1,453	22.2
LEs	465	7.1
	<u>6,556</u>	<u>100.0</u>

5) To estimate the number of metalworking enterprises according to size.

Multiplying the total number of metalwork industries determined in 3), 1,350, by percentages in 4):

Sml-Es:  $1,350 \times 70.7\% = 954$  enterprises  
 Med-Es:  $1,350 \times 22.2\% = 300$  enterprises  
 LEs :  $1,350 \times 7.1\% = 96$  enterprises

(4) Estimate of financial demand

From the above calculation, the number of metalworking enterprises was estimated for each size category as follows:

MEs (2 to 10 employees):	11,450
Sml-Es :	954
Med-Es :	300
LEs :	96
<u>Total</u>	<u>12,800</u>

Assuming that 71.6% of these enterprises plan to make capital investment by amount shown in 6.6.1 (1), financial demand for each enterprise size is estimated as follows:

MEs	:	11,450 x 0.716 x US\$25,000 = US\$205 million
Sml-Es:		954 x 0.716 x US\$108,000 =US\$ 74 million
Med-Es:		300 x 0.716 x US\$370,000 =US\$ 79 million
<hr/>		
Total :		US\$358 million

Thus, the planned capital investment by metalworking SMEs and MEs in the following three years is estimated to be US\$358 million.

#### 6.6.2 Estimate based on microeconomic indicators

##### (1) Methodology

The value added by the manufacturing industry is known to be closely related to capital formation (investment); an industry sector allocates a certain portion of its value added for reinvestment. Based on this assumption, investment in the metalworking industry was estimated from the value added by the metalworking sector and the estimated ratio of investment (propensity to investment from the value added).

##### (2) Value added by metalworking sector

As seen from Table 6.21, the total value added by the metalworking sector (CIIU381 - 385), on a nominal peso basis, grew at an annual 26.7% between 1981 and 1987. By applying the growth rate, the value added by the metalworking sector in 1990 is estimated as follows:

$$221,080 \times (1.0 + 0.267)^3 = 449,650 \text{ million pesos}$$

This was converted to the U.S. dollars at the exchange rate in March of 1990, as follows:

$$449,650 \text{ million pesos} \div 465 \text{ pesos/US\$} = \text{US\$967 million}$$

Note that this does not include the value added by MEs. As shown in the lower column of Table 6.1, only 128 MEs in 1986 and 190 in 1987 are included in the "manufac-

turing industry". (the estimate in the previous section assumes that there are 11,450 MEs in the "metalworking industry") Thus the value added by MEs was estimated under various assumptions. Prior to the estimate, the value added by metalworking SMEs was estimated as follows:

The value added by the metalworking industry according to enterprise size was estimated by using the percentage distribution among manufacturing enterprises in 1987:

Sml-Es: US\$967 million x 9.7% = US\$ 93.8 million  
 Med-Es: US\$967 million x 21.9% = US\$211.8 million  
 LEs : US\$967 million x 67.9% = US\$656.6 million

The value added by MEs was estimated from the value added per enterprise and the estimated number of MEs in 1990.

The value added by microenterprise was estimated from the results of the questionnaire survey at 6 million pesos, which were converted to the U.S. dollars at an exchange rate prevailed during the questionnaire survey (400 pesos/dollar), or US\$15,000/enterprise.

By multiplying the amount by the estimated number of metalworking MEs (11,450) in 1990, the total value added by MEs is US\$1,717.5 million.

In summary, the value added by metalworking SMEs and MEs in 1990 is estimated as follows:

MEs	1,717.5
Sml-Es	93.8
Med-Es	211.8
<hr/>	
Total	2,023.1

### (3) Investment/value added ratio and financial demand

Table 6.22 shows recent trends in value added and investment by the metalworking industry (CIIU381 - 385), with the ratio of the investment to the value added. In 1981 and 1982, the ratio exceeded 10% and plummeted to 5% for 3 years after 1983 due to recession, then grew again after 1986 with recovery of the economy. Financial demand was estimated by using the investment/value added ratio between 1981 and 1987 (7.7%), as follows:

- 1) Value added by the metalworking industry (SMEs and MEs) : US\$2,023.1 million
- 2) Ratio of investment to value added : 7.7%
- 3) Financial demand in 1990: 1) x 2) = US\$155.8 million
- 4) Financial demand for the next three years : 3) x 3 = US\$467 million

Breakdown of the estimated financial demand is as follows:

	<u>Total value added</u> (million US\$)	<u>Financial demand</u> (million US\$)
MEs	1,717.5 x 7.7%/year x 3 years =	397
Sml-Es	93.8 x 7.7%/year x 3 years =	22
Med-Es	211.8 x 7.7%/year x 3 years =	49
<hr/>		<hr/>
Total		467

#### 6.6.3 Comparison of Two Estimates

Two estimates of financial demand, one based on the results of the questionnaire survey and other based on microeconomic indicators, were compared as follows:

Estimates of Financial Demand by Metalworking Industry  
(million US\$)

<u>Enterprise size</u>	<u>Based on results of questionnaire survey</u>	<u>Based on microeconomic indicators</u>
MEs	205	397
Sml-Es	74	22
Med-Es	79	49
<u>Total</u>	<u>358</u>	<u>467</u>

Thus, metalworking SMEs and MEs are expected to invest US\$360 million to US\$470 million in the next three years starting in 1990, and MEs represent a majority share.

Table 6.20 AVERAGE SIZE AND SECTORIAL AND SIZE DISTRIBUTION OF THE INFORMAL UNITS EXISTING IN THE INDUSTRY, COMMERCE AND SERVICES (Four metropolitan areas)

Sector	Number of existing units			% of the total
	1 person	2-10 employees	Total employees (1-10 employees)	
A. Manufacturing Industry	89.1	54.1	143.2	23.0
1. Metalworking industry	8.4 (54.2%)	7.1 (45.8%)	15.5 (100.0%)	(2.5)
2. Others	80.7	47.0	127.7	(20.5)
B. Commerce and Hotels	225.2	89.8	315.0	50.5
C. Services	130.2	34.7	164.9	26.5
D. Total	444.5	178.6	623.1	100.0

Note: Four metropolitan areas: BOGOTA, MEDELLIN  
BARRANQUILLA AND CALI.

Source: CIE - Op.Cit



Table 6.21 VALUE ADDED OF TOTAL MANUFACTURING SECTOR  
AND METALWORKING INDUSTRY

I. Value Added

	Total Manufacturing (CIIU 311 to 390)		Metalworking Industry (CIIU 381 to 385)	
	(10 <sup>9</sup> pesos)	(Change %)	(10 <sup>9</sup> pesos)	(Change %)
1981	409.15	-	53.45	-
1982	452.07	10.5	62.03	16.1
1983	548.64	21.4	69.99	12.8
1984	722.84	31.8	92.70	32.4
1985	955.00	32.1	116.87	26.1
1986	1,307.23	36.9	149.23	27.7
1987	1,610.50	23.2	221.08	48.1

- Notes: 1) Simple average of the annual change to the previous year in the metalworking industry : 27.2%  
2) Compound annual growth rate over 1981 to 1987 : 26.7%

II. Break-up of the value added for the total manufacturing by scale of enterprises

	1986				1987			
	Nos. of establishment		Value added		Nos. of establishment		Value added	
	Nos.	(%)	10 <sup>9</sup> pesos	(%)	Nos.	(%)	10 <sup>9</sup> pesos	(%)
MEs	128	( 1.9)	37.02	( 2.8)	190	( 2.7)	7.41	( 0.5)
Sml-Es	4,638	( 69.4)	175.87	( 13.5)	4,776	( 68.5)	156.52	( 9.7)
Med-Es	1,453	( 21.7)	289.41	( 22.1)	1,514	( 21.7)	352.80	( 21.9)
LEs	465	( 7.0)	804.93	( 61.6)	492	( 7.1)	1,093.77	( 67.9)
	6,684	(100.0)	1,307.23	(100.0)	6,972	(100.0)	1,610.50	(100.0)

Source: DANE: ENCUESTA ANUAL MANUFACTURERA

Table 6.22 RATIO OF INVESTMENT TO VALUE ADDED  
IN METALWORKING INDUSTRY (CIU 381 to 385)

	(1) Value added $\frac{1}{}$ (10 <sup>9</sup> pesos)	(2) Investment $\frac{1}{}$ (10 <sup>9</sup> pesos)	(3) Ratio (%) (1)/(2)
1981	53.45	5.88	11.0
1982	62.03	6.63	10.7
1983	69.99	3.52	5.0
1984	92.70	5.07	5.5
1985	116.87	6.72	5.7
1986	149.23	12.91	8.7
1987	221.08	16.27	7.4
Average			7.7

Note:  $\frac{1}{}$ : Total manufacturing sector

Source: DANE: ENCUESTA ANUAL MANUFACTURERA