

# **The SMEs in Colombia**

## **Institutions and Policies**

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*Colombia Association for Micro,  
Small and Medium Enterprises - ACOPI*

### **ACOPI - Colombian Association for Micro, Small and Medium Enterprises**

It is the gremial organization of Colombia that groups together the formal micro companies and the small and medium companies of the various productive sectors. It is an organization without profit motive, founded in August 27, 1951. Its Mission is to foment the development of the small and medium companies as well as the micro companies for the progress of the country, within the rules of the social and ecological economics of market. ACOPI has functions of representing the interests of the sector before the various national and international instances and has assumed the role to lead the process of sustainable and competitive development of the micro, small and medium enterprises (MIPYME) through associative programs of initiatives for the productive linking, formation and training, technical assistance, commercial, institutional relationships at national and international level.

ACOPI has led in Colombia and it has advanced with the support of the Inter-American Development Bank, the government authorities in the Departments, the Konrad Adenauer Foundation and national institutions, initiatives tending to fortify enterprise collective processes with methodologies that respond to the local and sector necessities as well as at the level of associative experience and conformation of networks on which already it counts on an important number of affiliated and not affiliated companies. ACOPI groups ten

offer, and entrepreneurs' development.

8. Credit access, financial deepening and innovation in credit instruments for the SME.

9. Sustainable development in SME.

10. Social responsibility and the SME commitment with the goals of the millennium.

The Regional goals that the Internal Agenda proposes are: the Santanderes integration with the Venezuelan economy, the South West integration with the Andean Pacific Ocean, the South West integration with the Pacific Basin, the managerial integration in Cartagena, the joint of Mamonal's region with the Forest and the SME, regional Development integrated with the SMEs' unions.

The development of minichains between the Littoral and the North Colombian Region, the productive Integration of the agro-manufacturer SME in the Cundiboyacense region, the SME suppliers` development for the Mining industry in Cundinamarca, Strengthening of the ecotourism, the sequences and the mini productive chains between Risaralda, Caldas and Quindio.

Additional there appears the associative managerial development in this Region, the development and joint of the MISME in the Piedemonte Llanero; the identification of new mini productive chains, the development of supplier groups for the petroleum sector in this region, Associative Local development in the SME antioquena; qualification of the exportable offer in Antioquia, and finally the integration, and new models of relacionamiento between.

This private initiative tries to contribute to the National government and the National Department of Planning with the Internal Agenda construction, this initiative constitutes an exercise that reflects the commitment of the principal social and economic actors of the country with the processes of economic incorporation, the increasing introduction of an economic democratic order and with social and environmental responsibilities, across strategies focused to the SMEs.

## Notes

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3. Inter-American Development Bank, Departamento Nacional de Planeación, ACOPI, "Desarrollo de la Pequeña y Mediana Empresa en Colombia", Bogotá, 1999, p.17.
4. Hoyos Hernández, Alejandro, "Policy of micro-managerial promotion in Colombia. Financing sources and development for the Solidary sector and micro-managerial of the Costa Atlantica", this presentation has done in Cartagena on Jun, 2004.
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6. BUSSINESCOL.COM, "SMES in Colombia", [www.businesscol.com](http://www.businesscol.com), 2005.
7. Hoyos Hernández, Alejandro, *Op. Cit.*
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11. Cárdenas Santa María, Patricia, Balance and new credit developments for the SMES", ASOBANCARIA presentation, Bogota, on March 15, 2006.
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thousands affiliated at a national level, in enterprise, associative, registered and institutional categories. It counts on 15 regional offices at national level (Structured Services Portfolio).

The strengthening of MIPYME segment in Colombia, fundamental mission of ACOPI, demands the design of policies, strategies and actions that reflect and approach the relation of the minor size enterprises with their closer surroundings, the locality. This involves connecting the segment enterprises to productive initiatives that influence the areas that affect it more, the poverty in all their social and economic expressions, the unconventional work, the minimum access to the knowledge, the absence of real productive linkings, the lack of professional training and technical assistance, the absence of scale economies, by means of actions that strengthen the attributes of the small and medium enterprises as they are: a modern production without ecological deterioration, effective answers in employment terms, capital distribution, good social balance, adaptability to the technological change, methodical answer to the necessities and demands of the international markets, profits distribution, efficiency, versatility, harmony production scales with sizes and characteristics of the markets, diversification of the exportable offer, enterprise associability, and factor for the regional linking.

ACOPI supports the National Government and the national gremial Board in the policies formulation for the strengthening of the MIPYME in Colombia as well as to stimulate the segment companies to fulfill the millennium goals. ACOPI works with the multilateral cooperation institutions, with national institutions in the improvement and implementation of strategies and projects that favor the development, the diversification of the supply, the access to new markets and the improvement of the environmental and social conditions in the productive activity of the minor size enterprises.

## **Principal ACOPI's Activities**

The ACOPI's gremial activities have two big functions: The first one is to take the representation of the partners in front of the public opinion, the private organizations, the governmental authorities and the international

organizations. The second one is to develop services for benefit of its members. ACOPI, as a social and economical entity of national character has assumed the role of leading the process of sustainable and competitive development of the Small and Medium Enterprises, not only by means of the formulation of offers of public politics, but as direct Executor of many programs directed to achieve such a development and to the projection of the sector in the orders nationally and internationally.

ACOPI is an institution that offers services of training, technical assistance, information, organization, commercial, institutional relations and project administration.

## **ACOPI in an international context**

In the international field, ACOPI supports its leadership and realize efforts for extending its relations and influence. The Association exercises the presidency of the Latin-American Federation of Median and Small Enterprise CLAMPI. Likewise, ACOPI had the opportunity to preside at the Afro - Asian Conference of SMES and the Council of Government of the World Assembly of Organizations of the Small and Medium Enterprises (WASMES) re-elected to the union in the World Vice-presidency of the associations and institutions of the sector.

ACOPI supports activity in the SLAMP - Latin-American Symposium of Mike, Small and Medium Company-, as well as in the Andean Federation of the Small and Medium Industry CONANPYMI, the Latin-American Organization of Small enterprise - OLAMP - and in the Economic Council of the Pacific Basin, so that this gremial association has given to the Colombian SMEs a high level of representation in the international area.

In order to qualify the Colombian SMEs from international successful cases, ACOPI organizes annually different sectoral and cross-sectoral to different countries. In the last years, the missions had been organized to Spain, Italy, Germany, in Europe; Singapore, Malaysia, Taiwan, Hong Kong in Asia; Chile, Venezuela, Peru in South America; Cuba and Dominican Republic in the

Caribbean, etc. Nowadays, it leads, in alliance with other institutions, the program EUROSMEs - PROLIDER.

ACOPI was gathering and leading Andean integration of SMEs in the Negotiation of the Andean Free Trade Agreement (AFTA) between these countries and the United States of America.

On the other hand, in August of 2006, in the Third Round of Negotiations Colombia - Countries of the Triangle North of Central America (Honduras, El Salvador and Guatemala), the presidents of the national federations of SMEs, belonging to the Latin-American Federation-CLAMPI, led by ACOPI, presented a set of offers to the Negotiating Chiefs of every country, whose content includes five offers for the effective incorporation of the small and medium enterprises, and the utilization of the opportunities of the Agreement of Free Trade in mention. Some of the offers are: an agenda of horizontal cooperation, political public and instruments, institutional managerial strengthening, integration of the SME of the region, and an effective incorporation of the small and medium enterprises in the Agreement.

## **The Small and Medium Enterprises in Colombia: Engine of the Economy**

### ***A. CLASSIFICATION AND STATUS OF SME.***

The definition of the SMES companies is a great help to know the magnitude of every segment of companies, and, therefore, its impact in the productive activity, and to take measurements best focused of promotion of the production. Nevertheless, "there is not a definition of SME universally recognized and, probably it is not chance. According to the International Labour Organization -ILO-, there is no definition that can assemble all the aspects of what is a small or medium enterprise, the differences between companies, sectors or countries with different degree of development".

The countries apply diverse criteria to define the size of the companies of to sanely to its number of workers, of its economic activity, volume of sales, the

share capital, the brute value of the production of assets, also the degree of utilization of the capital, the character of the structure of property (familiar or not relative), the degree of formalization, the technological used level, the organizational structure and the typology of the management of the company among others. For the previous thing, the classification of companies under the name of SME, will depend on every country and its own legislation, on conformity with its economic national environment and its needs.

Nevertheless, the definitions are based with more frequency on the employment, the Sales / income and the assets. Besides, some countries have many differences in the definition, depending on if the economic unit is manufacturing, commercial or on services. Even, there are countries in which the definitions change according to the institution that establishes them and, therefore, every institution applies its own one to formulate its political ones of promotion"<sup>1</sup>.

### DEFINITIONS OF SME

| Category             | Country   | Category of industry                         | Criteria                         |
|----------------------|-----------|--|----------------------------------|
| Developed economies  | Australia | Manufacturing                                | <100 employees                   |
|                      |           | services                                     | <20 employees                    |
|                      | Germany   | SME  | <500 employees                   |
|                      | France    | SME  | 10-499 employees                 |
|                      | Japan     | Manufacturing                                | <200 employees                   |
|                      | Canada    | Manufacturing                                | <200 employees                   |
|                      | USA       | Very small                                   | <20 employees                    |
|                      |           | Small  | 20-99 employees                  |
|                      |           | Medium                                       | 100-499 employees                |
|                      |           | SME  | Depends on product group.        |
| Developing economies | China     |  | Usually 100 employees;           |
|                      |           |  | Investment ceiling US\$8 million |
|                      | Indonesia | SME  | <100 employees                   |
|                      | Malaysia  | SMEs   | <175 full time workers.          |
|                      | Thailand  | Labor intensive                              | <200 employees                   |
|                      |           | Capital intensive                            | <100 employees                   |
| India                | SME       | Up to Rs10.00 million in plant and machinery |                                  |

Source: *Advanced manufacturing technology implementation. Evidence from Indian small and medium enterprises (SMEs)*, in: <http://www.emeraldinsight.com>

In Colombia, according to the Law 590 of 2000, which promotes the development of the SMES, "its understanding for micro, small and medium enterprises are any unit of economic exploitation, realized by natural or juridical person, in managerial, farming, industrial, commercial activities or of services, rural or urban". Equally, the law defines three big categories according to workers' number and the size of the assets that it possesses, since it appears later:

### THE SMEs IN COLOMBIA

| Size   | Amount Workers | Total Assets                      |
|--------|----------------|-----------------------------------|
| Micro  | 1 to 10        | Up to US92.750                    |
| Small  | 11 to 50       | Between US92.750 and US927.500    |
| Medium | 51 to 200      | Between US927.500 and US5.563.640 |

*1 US = 2200 COP*

Like it can be observed in the previous picture, the criteria of classification used for the SMEs in Colombia, are the number of workers and the total assets. In case of appears a combination of parameters of Total Assets and of number of workers, different from the definite ones, the determinant element is that of the total assets. This managerial stratification, it allows "to support statistical references that serve to define trends and the behavior of the economic sectors and to evaluate the productive impact of each one on the GDP, which allows directing the efforts of promotion and development towards the strengthening of the most vulnerable sectors and the backing of the most productive"<sup>2</sup>.

In Colombia the segment MIPYME "it develops in all the economic sectors, assuming different roles in the economic concert: supplier of goods and services for other companies, and producer of goods and final services"<sup>3</sup>. The micro, small and medium enterprises, conceived as a set of important links in the regional economies of the country, constitute a nucleus of growth and potential development of great importance, which needs support and strengthening with participation of all the possible actors (public, private, ONG, unions, international entities, etc.). In this environment, "the political ones on SMES must cause a development adapted to the like revitalizing market of the competitiveness and the managerial, like that growth it is a question of local markets, the national market or the international market."



The Colombian SMEs become the economic sector, with the biggest strategic potential to grow and develop in the Colombian economy, because already represents around 96% of the total of the enterprises and more of the 35% of the GNP, generating almost the 65% of the labor.

Micro, small and medium enterprises, according to information of the Presidency of the Republic, "They represent 96% of the business of the country and 33% of the working population. Its participation in the industrial employment ascends to 60% and in the value added of the industry to 48 %. In the trade, they represent 95% of the employment and 74 % of the production. "Nevertheless, according to the numbers of CONFECAMARAS (Colombian Association of Chambers of Trade), SMES in sales only contribute 33%, whereas the big companies that in quantity are 2%, they contribute 67% of the sales. Of the previous thing, it is possible to deduce that though SMEs only generate the third part of the sales, which can be equivalent to the same proportion of the GDP, they are the big generating ones of employment, in reason to which the big companies you have best levels of technology, which gives them major productivity.

But, only 13% of the SMEs are exporting firms, other 6% has intended it and the 81% remaining never have exported. From the other side, increasing global competition means that all enterprises, regardless of size, must adopt multinational perspectives. The circumstances - as a result of the globalization - that face up the Colombian SMEs are not propitious and has seriously affected their grow. Their future is very uncertain, because of the arrival of imports products and a consistent increase of the competition for a weak internal demand each time more demanding and selective.

As a fact, those productive units - that grew in a context characterized by a minimum inter-connection with the rest of the world, and mainly basing their growth in the dynamism of the local market, "closed" by the imports substitution model, that was adopted by the government at the end of the '60s and where the exports alternative was and still is, only an exception or an accidental business, depending only of the "ups and downs" of the local market and -some times- depending on the revaluations of the Colombian money. Now days they confront an unexpected scenario where they must face a strongest competition from all over the world.

This difficult situation has led to the disappearance of thousands of SMEs and a minimum growth for the survivors, because the unfavorable condition of the local demand in the last years (unemployment of 15%, and less than US\$ 2.400 income per capita). This situation has been acting as a motivation "motor" to some SMEs to explore the foreign markets (mainly our partners in the Andean Pact), with a relative but a significant success. In spite of the numerous groups of manufacturing companies, the value of their individual exports is not big enough and their permanence in the future is very questionable.

According to information of CONFECAMARAS, in 2001 there were 43.242 small enterprises and 8.041 median enterprises. According to the DANE, Administrative National Department of Statistics, in its first National Survey of Micro establishments of trade, services and industry, realized in the last trimester of 2001, in the year 2000 in Colombia there were 967.315 micro establishments, of which 58% was in the trade, 30% in services and 12.5% in the industry.

During that period, the micro-establishments generated 1.094.755 employments, what would be equivalent to 1.1 employments for establishment. The employment relationship for establishment is of 1.8 percent in the sector trade, 2.8 percent by the industry and 2.5 percent in the services. The survey also points out that in the 2000 they existed around 7.600 industrial establishments with more than 10 workers and 120.785 micro-enterprises.

In the trade, the establishments with more than 20 workers they totaled 3.832, they occupied 215.818 people and they carried out sales for 40.2 trillion pesos. The micro-business with not more than 10 workers they were 558.000, they generated 556.775 employments and they registered sales of 8 trillion pesos.

### MICRO ENTERPRISES AND EMPLOYMENT

| Sector   | Number of Establishments | Total Workers |
|----------|--------------------------|---------------|
| Commerce | 557.759                  | 630.267       |
| Services | 288.771                  | 381.328       |
| Industry | 120.785                  | 156.653       |
| TOTAL    | 967.315                  | 1,168.248     |

SOURCE: DANE

On the other hand, the SME is oriented mainly to the domestic markets. However, in accordance with The Colombian Association for Micro, Small and Medium Enterprises, ACOPI, 6% of the production is exported and 94% goes to the domestic market; in the year 2004, the exports were of 900 million dollars. The main destinations of the exports are the countries of the Andean community and the United States.

On the other hand, the Colombian magazine DINERO affirms in this respect that "...the exports of the companies inscribed in Expopyme, which is a program flag of the government for the exporter companies, they increased 256% from 1999, until 171 million dollars. The number of companies grew 156% when adding more than 800..." Regarding the main problems that it faces the sector to export their products, the same one articulates affirms that "studies of Proexport (an organization of the Colombian government) identify these aspects among the main obstacles of the SME to export. 71% of the companies consider the knowledge of the market as obstacle, 77% the adaptation of the product and 85% the access to channels".

The industrial sectors with more significant presence of the SMEs are allowances, makings, graphic arts, Metalmechanic, wooden furniture, leather and footwear, all them highly concerned. As a result of the processes of economic opening, the market of the products of the SMES confronts a strong competition of legally cared products, others of smuggling and some that, although legally cared, enter to the market under conditions of disloyal competition or of "artificial competitiveness" on the part of other countries.

In front of narrow and highly concerned internal markets, the SMEs are in front of more difficult conditions to attack processes of technological development that are economically viable in function of the size of their markets.

This way, there are several reasons that justify the formulation of a public politics to promote the development of the SMEs in Colombia. On one hand, they represent, like it was said previously, the biggest percentage in the total number of establishments and they contribute a high portion of the employment and of the added value of the economy. Not alone that, the government's intervention is also necessary due to the structural inadequacies

in the markets of factors and to the structure industrial Colombian characterized by big companies in an end and micro-enterprises and informal sector in the other one. It is clear also that to promote the development of the SMEs contributes to increase the competitiveness of the economy in general, and even more, if we speak of the segment that is the motor of the economy of the country.

## ***B. SME INSTITUTIONS IN COLOMBIA***

The law 590 of 2000 established rules for the regulation, promotion and development of the small and medium enterprises, as well as for the micro-enterprises. It is the call SMEs Law. For parliamentary initiative this law was modified by the law 905 of 2004 that "establishes a group of instruments to facilitate the access to the productive resources of the small producers.

However, it is the law 590 the one that marks the starting point for the support of the SMEs, since it looked for to endow to this managerial segment of the strategic and institutional inputs to overcome their structural difficulties, being the Politics' of State law mark for the promotion of the development of the SMEs. Their main achievements are:

- It strengthens the paper of the State as revitalizing of processes for the development of the private initiatives.
- An effort in the integration of the politics' different instruments, looking for to promote the integral development of the micro-enterprise.
- Efforts to channel the resources efficiently and to give them transparency. In this address it was created the Colombian Fund of Modernization and Technological Development of the SMEs - Fomipyme (in Spanish) - and the bottom to Undertake.
- It looked for a rationality of the resources and the institutional efforts when incorporating to other government and not government entities dedicated to the same objectives.
- It strengthens the development of the administration of the State from the

local things; this is, from the municipalities.

- It makes the National System of SMEs, defining their composition and functions.

The introduction of changes in the institutional mark made by the Law 590 sandal mainly three areas: their composition, the instances of decision and politics' instruments. Regarding their composition, it gives origin to agreement spaces among public and private entities: It created the National System of SMEs, conformed in turn by the superior advice of small and medium company, the superior advice of micro - enterprise and the regional advice, for the Ministry of Trade, Industry and Tourism, Ministry of Social Protection, Ministry of Agriculture, National Department of Planning, Colciencias, Bancoldex, National Fund of Guarantees and FINAGRO.

The law also believes the Superior Council of the Small and Medium Company, and it defined its functions: to contribute to the definition, formulation and execution of political public general, traverse, sectorial and regional of managerial promotion of the small and medium companies, - SMEs -, to analyze the economic, political and social environment; their impact on the sector and envelope the capacity of these to energize the competition in the markets of goods and services, to contribute to the definition, formulation and execution of programs of promotion of the SMEs, with emphasis in those referred to the access to the markets of goods and services, formation of human capital, modernization and development technological and bigger access to the institutional financial markets.

They are also part of their functions to contribute to the coordination of the different programs of promotion of the SMEs that are carried out inside the mark of the development plans and government's politicians, to propose political and mechanisms of invigoration of the competition in the markets, to incline for the periodic evaluation of the politicians and public programs of promotion of the SMEs, by means of impact indicators and to propose the necessary correctives, to foment the conformation and operation of Regional Councils of Small and Medium Company, as well as the formulation of political regional of development for this companies, to foment the conformation and operation of Departmental Councils for the Productive

Development, for the competitiveness and stimulating chains of value at subregional and sectorial levels inside the mark of the National Plan of Development.

The superior advice of the SMEs should also propitiate the conformation of Regional Council for the development of the Micro, small and medium companies and for the promotion of projects and managerial investments, to stimulate the development of the managerial organizations, the associativeness and the strategic alliances among the public and private entities of support to this sector and to promote the agreement, with Mayors and Governors, of integral plans of support to the Small and Medium Company, mainly.

It is important to highlight like besides officeholders, this law grants in its composition recognition to the union participation, pointing out expressly which unions and it designates its presidents like members. This way, they are members of the Superior Council of Small and Medium Company: The minister, or vice minister in their defect, of Trade, Industry and Tourism, Agriculture, working and Social Security or in their defect the General Director of the SENA, that of Environment, the Director of the \*DNP, a representative of the Universities, the National President of the Colombian Association of the Micro, Small and Medium Enterprises - ACOPI -, the National President of the Federation of Merchants - FENALCO -, the President of the Colombian Confederation of Chambers of Trade - CONFECAMARAS, in representative of the dedicated \*ONG'S to the technological research and development of the small and medium companies, one representative of the Regional Councils of Micro, small and Medium Company, designated by the same Councils, a representative of the mayors of those municipalities in which is in operation a plan of integral development of the small and medium companies, designated by the Colombian Federation of Municipalities

Regarding the instances of decision, the definition functions, formulation and execution of politicians are centralized in the Ministry, entity that makes the Technical Secretary of the Superior Councils. The Superior and regional Councils contribute, support, offer, advise, foment, propitiate, promote and articulate. The specialized dependences of attention guarantee the materiality of the stocks, and they surrender annual reports. They also make part of this

new structure directed to the SMES specialized dependences of attention to micro enterprises in each one of the public entities that conform the Superior, more other Councils six, in \*IFI, \*FNG, SENA, \*Colciencias, \*BancoldeX, \*Proexport.

### Public Institutions for SMEs



Regarding the policy instruments, the most important in the law is the creation of the Colombian Fund of Modernization and Technological Development of the Micro, Small and Medium Enterprises - \*FOMIPYME - with a contribution of 10 million dollars per annum during 10 years. Their object is the financing of the projects, programs, technological development and the creation of instruments for its development and promotion. Additionally it was created The Fund of Investments of the Risk capital of the Micro, Small and Medium Enterprises "EMPRENDER". The Managerial Unique Registration is also among the instruments contributed by this law, to reduce steps before the State.

Other instruments are the explicit preference in favor of the small and medium companies in the state purchases, on the base that equality of price conditions, quality and supply capacity exist in the offer of such goods and services; also the command of making pursuit and evaluation, besides the orientation.

Additionally, the SME Law establishes tax incentives for the creation of small and medium enterprises, so that the State authorizes to the territorial entities to

establish special taxes (periods of exclusion, inferior rates, etc.), established parafiscal incentives for the creation of SMES, reduced the contributions (SENA, \*ICBF and compensatory Funds) during the first three years of operation of these company, created the environment so that the financial entities and the NGO, specialized in micro enterprise credit, direct their resources to this segment.

On the other hand, the Banking Supervision Office "Superbancaria" establishes the micro-credit modality. In this mark the promotion of the organization of local and national fairs also settled down to energize markets in benefit of the SMEs, of tributary stimuli to the creation of companies, and in general, the promotion to the access to financial markets.

An important Private Institution for the SMES in Colombia is the "CINSET" Corporación para la Investigación Socioeconómica y Tecnológica de Colombia. CINSET is an organization without profit motive in mind, founded in 1987, executes projects in environmental, social, economic and technological areas for the promotion of micro, small and medium enterprises, fundamental element of the economic activity. Its purpose is to promote sustainable human development within the criteria of Social and Ecological Economics emphasizing in micro, small and medium enterprises (MIPYME). Besides, CINSET works as a research, training and technical support center, specialized in holistic promotion of MIPYME, the sustainable development and the models of local and regional development within a prospect of the Social and Ecological Market Economics. Offers national and international consulting services, conforms inter-institutional alliances and develops projects with governmental, private and multilateral sponsors.

CINSET's principal action outlines are:

- Identification and consolidation of mini-supply chains all around the country regions. Guidelines formulation of competitiveness and productivity policies for mini-supply chains at a regional level.
- Identification of regional and sector opportunities for enterprises creation and development of business plans. Training and sensitizing of the marginal, reinserted and displaced population on business opportunities.



- Design of associative strategies, oriented to generate collective developments to increase MIPYME productivity.
- Execution of Cleaner Production Programs (PML), guidelines formulation to national policies, environmental management, contamination prevention, minimization and assessment of wastes, improvement of productivity and competitiveness, addressed to manufacture, agro-industry and services MIPYME.
- Development of socio-economics studies and Action Plans in specific regions and for the various entities of the country.
- Support to enterprises on professional risks topics, implementation of the basic assisted health care program.

This way, the institutional politics of support to the SMEs leads to an institutional synergy, of resources, norms and procedures, in order to strengthen, to develop and to articulate the sector of the micro, small and medium enterprises in Colombia.

Finally, it is important to settle down in a punctual way the entities that make part of the National System of Support and Promotion of the SMEs, which help to the managerial sector in a different way and in many occasions in a combined way:

### **Financial Private Entities**

- Banks
- Financial NGO
- Cooperative
- Compensatory Funds

### **Non-Financial Private Entities**

- Gremial Organizations: ACOPI, FENALCO, sectorial Unions
- NOGS of support to the micro enterprise. Carvajal Foundation, Compartir Foundation, Micro enterprises of Antioquia.

- Investigation Centers and NGO of support to the SME
- Chambers of Commerce
- Centers of Managerial Development
- Universities
- CINSET
- Entities of the Solidary Sector

### **Financial Public Entities**

- BANCOLDEX
- FINAGRO
- Financial entities, trustees and of \*leasing
- Covenants of title: National Fund of Covenants of title, \*FAG

### **Non-Financial Public Entities**

- Vice-ministry of Managerial Development
- SMES Direction.
- Competitiveness and Productivity Direction
- Vice-ministry of Foreign commerce
- Business Dealings Direction
- Net of Technological Development Centers
- SENA
- Proexport
- Colciencias

### **Private Entities**

- \*ACOPI
- \*ACICAM
- \*CORFOMEX
- \*CONAMIC
- Corporation for the Development of the Micro-enterprises -CDM
- \*FEDESMERALDAS
- \*FUNDES
- \*ICONTEC
- \*BANCOLDEX

- Incubators of Companies
- Centers of Regional Technological-Productive Development

## **Implementation and results of the principal public policies directed at the sector of SMEs.**

The public policy directed to the strengthening and development of the micro, small and medium company in Colombia, is based on the determination of this segment, the strengthening of her entrepreneurship: productive, of management, technological and innovative, and finally the internationalization of the managerial Colombian sector.

This policy consists mainly of two components: The first has a financial component and the second has not a financial component. The last one seeks to help, to promote and to strengthen the SMEs across programs, projects and actions directed to improve their position on the market.

Their principal pillars of work are: programs in marketing, governmental contracts, subcontracting, mini - productive chains, national program for the design industry, access to internal and external market, Suppliers' development, management in technological parks, FOMIPYME, Capital fund of risk, and the Innovation prize.

The **Program of Commercialization** seeks to generate spaces of marketing for the micro-businessmen of massive products by means of associative options to optimize elements of management, production and marketing to recover space in domestic and international markets.

This implementation had been done in diverse regions of the country; this program had achieved to receive 2,400 SMEs until 2005, the subscription of agreements with big surfaces markets and the accomplishment of 8 business rounds. Hereby, the Department across this program has achieved to generate 20 regional projects of marketing.

On the other hand, **The Program of State Buys** is important as part of the Policy of Support to SMEs in order for the State to facilitate offer spaces of this managerial segment and it receives benefit with its products and services. The government wants to develop SMEs competitiveness and productivity principally in some sectors like metal mechanic, electrically, electronic and industrial services, facilitating to them the access to Buys States because they can improve their position in the domestic and international markets, integrating public and private sector.

The actions of this program, for example, during the year 2004 was the implementation this program in 5 State Entities, where they benefited more than 150 SMEs. Also, an agreement was formalized with ECOPETROL and SENA for access licitation formation and buys state processes as establish of contracts with SMEs of the whole country. These actions gave continuity to the Indumil development program of Suppliers as well it granted besides active participation in the project Cluster of the energetic sector CIDET-MEDELLIN, and it developed the project BID-FOMIN-Fomipyme<sup>4</sup> with ACOPI.

**The Subcontracting Program** deigns for SMEs has as objective to promote links between the offer and the demand of goods, services, productive process and technology of the productive chains. Among their aims also it wants to generate strategic and technological alliances of mutual benefit between big companies and SMES in order to improve their productivity and competitiveness, to offer business opportunities for the production of parts, pieces, components, Intermediate subsets, services and technology and to spread information about the demand, the regional and national offer, across the Colombian Net of Centers of Subcontracting.

Between their principal actions are to realize more than 50 Suppliers' Lounges and Fairs, the subcontracting with 20 big companies in order to benefit 400 SMES. Likewise, it subscribes and develops an agreement with the SENA for the support and managerial strengthening. Also it has been established and agreement with COLCIENCIAS where this entity gives some programs support of suppliers' development<sup>5</sup>.

On the other hand, with the intention of reaching the goals established by the current Government in the National Plan of Development 1998 - 2002, PROEXPORT AND ACOPI agreed to realize the Program **EXPOPYME**.

EXPOPYME is a program directed to promoting Colombian PYMES' adjustment to the requirements of the world economy (globalization, competitiveness and opening on the outside). It is a result of conciliation between the gremial organization, the public and private sector and the academy.

The results of this promotion policy of exports have been visible. In 1999 the medians and small enterprises linked to Expopyme exported 48.9 million dollars, in the 2000 these exports increased in 37% until 67.1 millions. But the best achievement is that the tendency continues and in the first semester of 2001, 319 companies of the Program they have exported 46.2 million dollars.

In the period included between January and September 2001, more than the half of the not traditional exports were realized by companies attended by Proexport, due to destinations in this period the 7.486 millions of weight for investment for this entity. Expopyme has linked 1.680 small and medium companies, of which 1.070 designed his plan of exportation. 417 of the evaluated companies invoiced 49 million dollars in 1999, number that ascended to 46 millions in the first semester of 2001. For 2002, Proexport linked 250 small and medium companies; the coverage of the program was extended to 1.930 industrial establishments<sup>6</sup>.

**The Program of Development of Productive Mini-chains** principally aims to consolidate and project the economics regional activities, which answer to a natural vocation, generating a positive impact on the growth and inversely on the poverty, across strategies of association and solidarity, constructing the conditions of social equity and economic stability, generating mutual benefits to the productions groups.

Between the principal actions is the accompaniment of almost 50 mini-chains across workshops of methodological induction, diagnosis and proposition of solutions. Likewise, it has achieved the promotion and development of marketing activities and the support to 40 new mini-chains<sup>7</sup>.

### PROJECTS OF PRODUCTIVE MINICHAINS ADVANCED IN THE COSTA ATLANTICA REGION

| Departments             | Socio-productive Mini-chains                | Number of Benefits       |
|-------------------------|---|--------------------------|
| Atlántico               | Handcrafted and productive fishing          | 31 Micro - companies     |
| Bolivary Sucre          | Tejidosy Hamacas                            | 300 craftsmen            |
| Cesar                   | Lacteal                                     | 400 producers            |
| Cesary Magdalena        | Palm Esterea                                | 100 Craftswomen          |
| Córdobay Sucre          | Caña Flecha                                 | 409 Indigenous craftsmen |
| Guajira                 | Chinchorros                                 | 200 Indigenous craftsmen |
| San Andrésy Providencia | Inputs and services to the Tourism Industry | 16 micro - companies     |

**The National Program of Design for Industry** is a tool designed by the State because it wants to integrate PYMES to the new schemes of innovation and development, implementing integral strategies of Design in his productive networks and marketing. Some of these activities are the promotion and execution of the design projects, this Program has 200 SMEs beneficiaries, of the Metal mechanic sector, Textile - Confection, Leather - Footwear and Furniture - Wood.

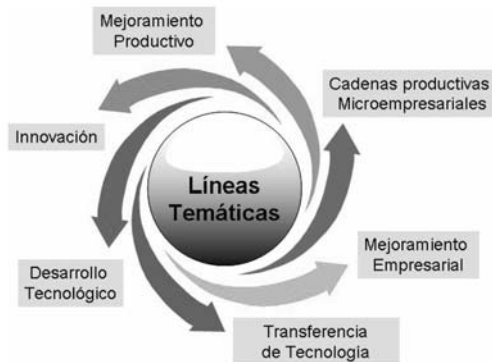
Also, The Department searches for ways to stimulate the new creations of SMEs across the motivation and recognition of his companies. For this reason, the Department created the **Prize to the Technological and Managerial Innovation INNOVA**, this figure born to foment innovative culture and technological development. It wants recognize the talent, the hardworking investigations and managerial innovative attitudes of the PYMES.

The Strategic Orientation of this program is constituted basically by the benefits that receive the winning companies, established in the decree 1780 of 2003: it gives support to receive national and international technical assistance, International specializing training, supports for the national and international participation in events of innovation and strategic commercial management.

For the development of this program exists an active inter-institutional participation, across Sponsoring Members, as the National Federation of Coffee growers, Associate Members like ACOPI, The Externado de Colombia University, The National University and the Chamber of Trade and Institutional Members (ANDI, ACICAM, Quality Corporation, etc.), all of these organizations are under direction of the Department of Trade and FOMIPYME. With this structure, the Program search to unite efforts to support the formation of human talent, the automation and standardization of processes and the access to technological specializing services.

The results obtained with the Prize INNOVA indicate for 2004 a whole of 222 postulated companies, 18 of these enterprises were the winners; in 2005, 117 companies were postulated and in 2006, 224 companies are postulated.

However, In spite of the development of these programs like contribution to the growth of the MIPYME in Colombia, the "**Colombian Fund of Modernization and Technological Development of the Micro, Small and Medium Companies - FOMIPYME**" is the principal instrument of policy of the law MIPYME. It has \$20 billion per year and these resources come from the National budget and its objective is the funding of projects, programs and activities for the technological development of the PYMES.



The items that are financed in the projects promoted by FOMIPYME are: training, advising and technical assistance, national and international experts, internships, technological missions and participation in events of national and

international training, specializing studies, design and development of specializing software, of equipments of production, of new products and of processes that include technological innovation, participation in fairs and in commercial national and international events, patents, license and records, normalization and certification.

In 2004, after four years of vigor of the Law, the Government realized fiscal contributions for approximately \$26,190,477 millions that have activated the Fund, which is controlled and directed by the Department of the Foreign Trade, Industry and Tourism. According to information of the Department of Trade, Industry and Tourism, exposed in 2004, it had executed to the date resources for \$7.620 in SMEs of direct and indirect exporters. Also FOMIPYME developed the Inter-institutional Agreement between the Department and the SENA to increase the co-financing projects of innovation and technological development<sup>8</sup>.

|                            | Approved Offers | Resources Approved |
|----------------------------|-----------------|--------------------|
| SME                        | 40              | 1.114              |
| Micro                      | 280             | 47.326             |
| Total Approved Cofinancing | 320             | 58.470             |

On the other hand, it is important to emphasize that besides the policy of promotion, the laws 590 of 2000 and 905 of 2004 establish benefits for creation of micro, small and medium companies. These allow a reduction in the parafiscal contributions for the first three years counted from the date of operation if these companies do the requirements of constitution and installation. About this form, the SMEs that assemble the requirements of this law and want to take their benefits, these must report in writing to the Box and present photocopy of the brief presented to the DIAN for the installation of the company.

This review of the principal institutional instruments of the public policy directed to the sector MIPYME from the Law 590, it allows emphasizing an active role of the State in the support of the activities directed to the sector in



the orientation and joint between the actors of the sector.

Nevertheless, with the expedition of the Law 590, the participation of the not governmental organizations in the design and monitoring of programs and policies specifics is relatively limited. The not governmental institutions don't have a lot of influence in policies. It is reflected in small influence in different social actors on the decisions of the SMEs' policies, in all their levels of action and depending on collective interests.

Additional, the MIPYME law or 905 law of 2004, they don't generate mechanisms to endorse or to foment the development of the micro-companies in Colombia. In fact, this law increases instances, offices, steps and reports from the creation of the advices for the micro-company. On the other hand, from the 590 law of 2000, it has been reduced legitimacy to the traditionally organizations were coming resting to the micro-companies with programs of training.

Example of this is Corpomixta's case, which was the instance from 1994 until 1998 created as the program of technological services for the micro-company, it is entrusted of evaluating the projects that micro-companies present to compete for the resources of the Fund for the Modernization and Technological Development of the Micro, Small and Medium Companies, Fomipyme. Initially, this corporation had in its account 60 billion of pesos to operate and finally it remained without budget.

The 590 law of 2000 and the 905 law of 2004 constitute a setback in the development of regulation of the public legitimacy SME and in the relations between the State and the civil Colombian society in his to gesticulate in favor of the development of this wide and strategic sector shaped by the micro - companies, the small and the medium companies.

Hereby, to solve these deficiencies, it is not enough promulgate another law, though it is private initiative. It is important to restructure the legal frame where the principal actors of the sectorial dynamics can include their consensus, and that allows to establish the basic agreements of an interinstitutional scheme of work between the public and private sector for the PYMES development. This coordination and conciliation will be able to join

efforts and to use the resources efficiently. Also, it will be able to extend the coverage and quality of the existing programs<sup>9</sup>.

The component of financial support of the Public Policy orientated to the Colombian SMEs search to increase the credit resources collocation and the capitalization development. The Colombian Government has been searching the consecution about this objective across the subscription of agreements between the Commercial Banking and the Department of Trade, Industry and Tourism and between Banks and NGOs. Likewise Bancoldex has designed strategies and policies that facilitate to the sector SME access to extending credits as the National found of Guarantees, which offers automatic guarantee for micro-companies in alliance with the territorial entities and financial institutions.

In this way, the Agreement signed with the Commercial Banking for 2004 had been achieved the disbursement of 388.954 credits that are equivalent to 858.845 million pesos<sup>10</sup>:

**AGREEMENT BANKING - DEPARTMENT OF CIT**

|                                     | <b>First Year<br/>(September 2002 -<br/>August 2003)</b> | <b>Second Year<br/>(September 2003 -<br/>March 2004)</b> | <b>Total</b> |
|-------------------------------------|--|--|--------------|
| Disbursements<br>(Million of Pesos) | \$489.090  | \$369.755  | \$858.845    |
| Number of<br>Credits                | 189.660  | 199.295  | 388.954      |

Likewise, the balance of this policy for 2004 shows that it was achieved a total disbursement of 763.657 million pesos across direct credits to micro companies and an amount of 105.188 million pesos for credit concept across NGOs. Finally, Bancoldex increased significantly his participation as credit supplier for the sector:

Additional, like complement of this politics of State, the banking of the country has overturned towards the SMEs. According to the results of Asobancaria's survey in October, 2005, 90% of the banks have a specializing SMEs` area. 5 Years ago only 40% of banks had it, this is a result of a process

that it has began since 2001, when the banks started separating the segment SME of the corporate segment. From 2002, the bank has started to separate the credit analyze to the corporative SME segment<sup>11</sup>, with flexibilitation for the sector. For this reason, the bank sector has developed products and services directed to the SMEs.

However, one barrier that continues preventing the growth and develops of the managerial sector of the small and medium Colombian companies is the difficulty of financing their needs, principally the work capital. Besides, the country has lacked traditionally culture of risk capital because the difficulties to finance business in improvement and growth. Also, the government does not have organisms that concentrate the development of innovative projects wish give to the PYMES the risk capital and technical assistance that they need for their growth.

## **Institutional Infrastructure in Favour the SMEs: It is a Sufficient Tool for the Sector ?**

### ***THE INTERNAL SMEs AGENDA<sup>12</sup>: AN OFFER OF ECONOMIC TERRITORIAL AND SECTORIAL DEVELOPMENT.***

The managerial policies are not born of the governmental initiative. It is a fundamental role of the economic and social actors incorporate alternatives and offers that give solutions to their needs. Hereby, the Colombian Association of the Micro, Small and Medium Companies close to the Consejo Gremial Nacional has been constituted in an actor who tries to highlight the interest of the private managerial sector, contributing initiatives for the strengthening of the MIPYME in Colombia.

The last year, the Private Sector Colombia agglutinated in the Consejo Gremial Nacional extended CGN-CAT gave to the Government and the public opinion a compendium of offers called "Intern Agenda SME". This was a result of the private preoccupation with Free Trade Agreement. The document tries to adopt some public policies decisions and programs that wish to be include in the Internal Agenda.

For the production of this offers compendium, the gremial institutions that integrate the Consejo Gremial Nacional Extended CGN-CAT had participated and dialogued about the document. The coordination was realized by ACOPI, Dr. Luis Gustavo Florez, coordinator the Intern Agenda of CGN - CAT, has been done the control of these meetings.

The document has 10 strategies for the improvement the SME competitive prospectus. These have topics related to the effective internationalization of the sector, the productivity elevation and the answers of the internal market needs; it integrates Regional bets for the productive diversification of the SME, these offers are agree with the DNP methodology.

It is appropriated to indicate that the document concentrates the propositions for the competitive improvement from the perspective SME and it does not try to be a document of Industrial and Productive Policy because it tries to incorporate topics like institutional reform, frame regulatory, fiscal policies, monetary and exchange, sciences strategy, innovation and technology, Pluri - Regional associations, infrastructure endowment and general policies about human talent and labour development.

The formulations of strategies need financial support of the general resources that integrate the financial component of the Internal Agenda, managerial contributions, resources of the international cooperation and the revenues assigned to the sector across instruments as FOMIPYME, the FNG, BANCOLDEX and PROEXPORT.

## **10 Strategies to Strengthen the PYMES**

1. *Strengthening of the PYME* for the best exercise of the Exterior Trade. It is a strategy that tries to strengthen the Exterior Trade System existing in Colombia, the creation of special services of managerial sector advising and formation of new negotiators in all areas.
2. *Construction of statistical information for the segment SME.* With this strategy it proposes the construction of statistical information about the

sector because the country has not a system of information about this managerial group. It is not certainty the number of SMEs that it operates in Colombia. Also, the number of SMEs that it agglutinates in the locally and regionally orders. In addition, the financial and countable information of the sector is limited and offers high degree of imprecision. Likewise, across this strategy it wants to strengthen and to give continuity to the SME Observatory, the DANE work, ACOPI and the EAN University.

3. Development of a policy activates in favour of the segment SME, across the unions, Buys State and programs of suppliers' development. The strategy proposes suppliers' development and industrial desegregation of projects, in big projects of investment on the Costa Atlantica, Antioquia and Valle del Cauca, emphatically in energetically sectors, systems of road communication and public transport. Also it is important the strengthening of platforms specializing in remanufacture in Colombia, the SME segment across the Buys State.
4. Programs for the technologic development and innovation, restructuring and transfer of technology to the SME segment. Between actions to propose in this strategy are the implementation of Assistance Nuclei Sectorial Technique - NATS -, wish agglutinated National and International Services offer.  
This strategy is organized and qualified to give assistance to the SMEs for sectors and regions; Identification of the technological condition of the SME in the principal segments and incentives for technology investment. The principal formulation that is done in this point is the creation of an institutional scene to achieve the Strategic Plan of Science, Technology and Innovation. This articulates national systems of innovation and vocational training.
5. Competition promotion and control of restrictive practices. It wants to create a Monitoring Unite about restrictive practices and behaviours intra and inter sectorial.
6. Managerial formation in exterior trade.
7. Exporting initiation in the segment SME - diversification of the exportable