

SECTION C - DESCRIPTION/SPECIFICATIONS/STATEMENT OF WORK

C.1 PURPOSE

AADO's main challenge now is to determine the most cost effective way to consolidate the various on-going initiatives to achieve the Mission's goal of sustainable reduction in the production of illicit drugs and the promotion of peace in Colombia. Illicit production has shifted from large scale production in extensive areas to small production units co-located in more populous areas with traditional crops, and into protected national parks. As of September 30, 2004, 22,803 hectares of illicit crops have been manually eradicated in conjunction with USAID's Alternative Development Program.

USAID's strategy will focus upon creating sustainable economic activities through the various facets of the MIDAS Program, and at the same time, the program is designed to insure that efforts are taken to eradicate illicit crops.

MIDAS will emphasize production of licit crops and their sustainable integration into market development networks.

By focusing on the pre-conditions for sustainable economic development at the regional and local level in vulnerable areas, the MIDAS Program will discourage a simple shift of illicit production locations as eradication progresses. As a result, of the calculated and systematic shift of production, vulnerable communities will be put in the best possible position to permanently turn away from involvement in illicit drug production/commercialization activities.

C.2 INTRODUCTION

C.2.1 Development Context and Constraints

Although there has been considerable progress over the past several years in reducing the production of illicit crops in Colombia (hectares down by over 50%), and in reducing violence (kidnappings are down 26% and homicides 23%, Colombia remains a major foreign policy concern to the United States. It supplies an estimated 90% of U.S. cocaine imports, and it represents a potential destabilizing force within the fragile Andean region. The mutually reinforcing problem of narcotics and illegal armed groups undermines growth and stability in Colombia, and is a threat to its neighbors, including the United States.

The USAID Alternative Development (AD) program supports activities designed to encourage small farmers in regions primarily influenced by the cultivation of illicit crops to embrace the legal economy. This challenging task is accomplished through strengthening local and national institutions and non-Governmental organizations (NGOs), establishing productive infrastructure, implementing profitable productive activities, and promoting the sustainable management of natural resources. Through FY 2004, the AD program has supported 55,071 hectares of licit crops, improved the management and conservation of 25,820 hectares of forests, completed 664 infrastructure projects, such as schools, sewage treatment systems, health centers, sports facilities (in 13 municipalities located in coca growing areas), thus benefiting 44,015 families.

The challenge now is to determine the most cost effective way to consolidate this initiative to achieve the Mission goal of sustainable reduction in the production of illicit drugs and the promotion of peace in Colombia. While the area planted has been reduced dramatically in some zones, it has expanded in others. In addition, coca crops have shifted from large scale production in extensive areas to small production units co-located in more populous areas with traditional crops, and into protected national parks. Aerial spraying of herbicides has had the greatest impact on eradication, both in terms of direct eradication and of encouraging farmers to seek alternative development assistance. However, manual eradication techniques (without utilizing USG resources) are also a key tool in the campaign to suppress illicit crops, particularly as production shifts from large-scale monoculture to smaller scale plantings interspersed with legitimate crops. As of September 30, 2004, 22,803 hectares of illicit crops have been manually eradicated in conjunction with the AD program.

USAID's strategy will focus upon creating sustainable economic activities through the various facets of the MIDAS Program, and at the same time, to insure that efforts are taken to eradicate illicit crops. By emphasizing production of licit crops and their sustainable integration into market development networks, and by focusing on the pre-conditions for sustainable economic development at the regional and local level in vulnerable areas, the MIDAS Program will discourage a simple shift of production location as eradication progresses and put vulnerable communities in the best possible position to turn away permanently from involvement in drug production/commercialization activities.

In the past several years the Government of Colombia (GOC) has firmly committed to an integrated effort to reestablish the presence of the government that has substantially driven the illegal armed groups out of the more populated parts of Colombia, and has extended at least a minimal level of state presence into every municipality, perhaps for the first time in history. The National Development Plan that has been implemented by President Uribe's administration aims to consolidate state presence in all municipalities in the country. The principal objectives of the Plan are to: 1) provide democratic security; 2) improve public administration; and 3) promote social and economic reactivation. However, in order to assure that this progress is sustainable, a strong and sustained effort is necessary in order to insure a credible state presence as well as to create an economic policy and institutional framework which will promote sustainable trade/investment growth at the national level; and which will facilitate growth opportunities in key areas of the country that were previously under the sole influence of extra-legal institutional forces.

Key to recent progress in the war on narco-terrorism in Colombia has been the dramatic up-scaling in security infrastructure investment by the GOC (which has risen over the past two years from about 2.5% of GDP to over 4.5% of GDP). In addition there has been a 20% increase in private investment over the same period, driven in part by more stable fiscal performance and by improved investor expectations. Gross Domestic Product (GDP) increased by 4% in 2003 and a similarly strong performance is expected for 2004. Inflation remains under control (projected at 5.5% for 2004) and employment is at its lowest point in over 2 years. With Colombia on the cusp of a Free Trade Agreement

with the U.S., prospects for maintaining a solid medium-term growth trajectory as well as the current air of optimism within the private investment community seem strong.

However there remain major developmental constraints to be addressed if a buoyant and equitable economic growth path, so critical to continued progress in the fight against narco-terrorism, is to be maintained. Public sector fiscal balance remains fragile; particularly in light of the expected ongoing requirement to maintain and perhaps even ramp up further security expenditures as a share of GDP, and given the considerable rigidities built into the expenditure planning/management system. The level of financial intermediation remains alarmingly low; reflecting lack of competitive pressures within the banking system, directed credit and guarantee-based policy distortions, interest rate ceilings, and institutional capacity constraints which have muted the ability of the banking system to innovatively meet the financing needs of private entrepreneurs. Moreover core policy and institutional constraints have limited the development of the nascent capital market in Colombia and thus competitive access to longer-term financial capital; although the existence of almost \$10 billion in private pension fund capital underscores the critical role that this market could play in spurring sustainable access to long-term financing for the private sector.

A range of additional core enabling environment constraints limit private sector response capacity. A particularly critical constraint is market-based access to land. Colombia is one of the most severely challenged performers in the hemisphere in terms of concentration of land ownership, and key policy and institutional constraints that severely limit peasant access to land ownership and rental markets. These must be effectively addressed if the underlying conflicts which led to rural violence and social disruption in Colombia over two generations are to be permanently resolved.

Moreover, despite its status as a middle-income developing country, Colombia remains characterized by strategic limitations in its institutional capacity to both drive new, and to take full advantage of existing market growth opportunities. It should be noted that Colombia was one of the original pioneers in implementation of the concepts which later morphed into “competitiveness” theory (i.e. the cut flower and coffee sectors); and that in formal institutional terms Colombia has bought in to core competitiveness strategies (witness the organized operation of over 30 tripartite sector-specific competitiveness counsels, sponsored through the Ministry of Trade, Industry and Tourism). At the same time, however, the country has apparently been unable to build effectively on the lessons learned of its prior successful market development experiences, and to develop dynamic new employment and export-intensive sub-sectors over the past two decades. Though there is much organized discussion of competitiveness strategy, there appear to be ongoing weaknesses in the private sector’s financial and operational management and market development capacity; and in its related capacity to build organic market linkages/alliances which promote economies of scale (in terms of both production and knowledge/information) across the value chain. As a result, there is a strong sense across both the public and private sectors that core institutional impediments continue to limit the capacity of the

economy to respond to the incentives associated with an improved security environment, and more stable macroeconomic performance.

Consistent with the preceding analyses, the MIDAS Program will contribute to the achievement of core USG foreign policy objectives in Colombia through focusing on establishment of the policy and institutional preconditions for sustainable and equitable economic growth in the country. Through MIDAS, USAID will launch innovative productive sector intervention programs designed to stimulate private investment, and promote sustainable income, employment, and export creation capacity in key sectors of the economy. Through strategic interventions designed to improve the capacity of the private sector to respond buoyantly to the trade integration challenges and opportunities associated with regional trade/investment integration trends, MIDAS will play a critical role in helping place Colombia on a sustainable medium-term economic growth path.

These interventions will be primarily targeted towards the Small and Medium Sized Enterprises (SME), agribusiness, agro-forestry, and micro-finance sectors, reflecting the enormous unrealized income, export, and job-creation potential of those sectors. The program will focus on the development and implementation of sustainable strategies for improving technology transfer, financial and operational management, and market development capacity in these areas of the economy. This will be achieved both through direct program impact on participating enterprises/associative institutions, through the demonstration effect impact of the programs on non-participants, and through specific institutional strengthening strategies designed to create permanent market-based service provision capacity in the technical and planning support areas covered under MIDAS.

Moreover through strategic interventions designed to target critical policy and institutional constraints, MIDAS will significantly improve Colombia's competitive capacity to respond to market opportunities. In the policy area, this will include an intensive focus on macro/fiscal, financial sector, and structural policy constraints that limit and/or distort private investment incentives in a manner which constrains the volume and efficiency of private investment; and mutes the income and employment-generation impact of private investment activities. In the institutional reform area, this will include a range of key institutional strengthening efforts required to remove cross-cutting institutional barriers which limit the capacity of the private sector to maximize their income and job-creation potential. These would include critical themes such as financial market (including SME and micro-finance) and land market access constraints, technical barriers to trade, sanitary and phyto-sanitary requirements, environmental enforcement, and competition policy enforcement.

Strategic productive sector and policy/institutional reform support programs/efforts would be organically linked to ensure that they are mutually reinforcing and together generate the maximum direct and demonstration effect-based impact on sustainable and equitable economic growth in Colombia. Productive sector efforts will be concentrated principally in six corridor zones. These are major geographic areas where USAID plans to pursue the integrated implementation of alternative development investments with a range of critical institutional strengthening interventions, including this MIDAS program. Annex B consists of a map of these corridors and Annex C provides a detailed description of the criteria used for corridor selection. Wherever possible,

MIDAS activities should seek to coordinate with and reinforce the activities of other USAID programs occurring in these corridors.

C.3 CURRENT USAID SUPPORTED EFFORTS

USAID currently is implementing a dynamic entrepreneurial development program as a major component of the Mission's Alternative Development strategy. Under the 4 year \$38 million Colombian Agribusiness Partnership Program (CAPP), USAID is assisting the Colombian agribusiness sector by providing resources to finance a range of competitive agro-processing and cultivation expansion activities, and anticipates leveraging upwards over \$200 million in private sector financing in the program overall over the next three years. This program is also supporting bond certificate issuances designed to provide sustainable capital market financing for long-term commercial crop production and processing projects.

Under the 3 year \$12 million Colombian Enterprise Development (CED) Program, USAID is supporting the provision of a range of critical integrated business development services to Colombian SME's on a sustainable basis. CED expects to create at least 8,000 permanent jobs and to leverage up to \$25 million in private bank financing for SME's over the 2004-2006 period. Through the 3 year \$23 million Colombian Forestry Project, USAID is working with farmers and agro-forestry businesses to develop employment-intensive and environmentally-sustainable industry chain linkages in the forestry sector.

In an effort to spur development of the micro-finance sector, USAID has currently committed a total of \$16.2 million to six on-going programs that are intended to promote policy improvements and upgrade institutional capacity in the sector, as well as to increase the actual volume of credits granted by the sector to micro-enterprises as well as to Internally Displaced Persons (IDPs). The overall goal has been to improve the flow of funding needed for the expansion of the lower levels of the national economy.

In addition, USAID is implementing a 3 year \$10 million Specialty Coffee Program, which provides targeted technical and financial support designed to facilitate the development of long-term niche-markets for Colombian coffee exports. In addition, under the 3 year \$10 million Dairy Industry Support Program, USAID is providing targeted dairy industry technical support activities designed to increase the competitiveness of small-scale dairy production and processing chains. Neither program will be included in the overall MIDAS effort

In the economic policy/institutional reform area, the USAID Animal and Plant Health Inspection Service (APHIS) supported Center for Plant Health Excellence (CEF) is the first in the world to circumvent the principal obstacle to fresh fruit and vegetable international trade, with the development of systematic pest risk analyses. USAID has supplemented this path-breaking ongoing effort through support for establishment of a Center for Pest Risk Mitigation (CEMIP), which will seek to improve Colombian plant health laboratory infrastructure, and to define the treatments which fruits and vegetables will need to undergo in order to become eligible for U.S. importation. This three year institution building program is funded at approximately \$1 million.

Moreover, USAID has recently developed strategic efforts designed to effectively address key first stage constraints to sustainable economic growth, principally in relation to helping Colombia comply with and respond with maximum buoyancy to the opportunities associated with a Foreign Trade Agreement (FTA). In this regard, USAID has committed to leveraging \$4 million in direct USAID funding to promote the establishment of Colombia's first SME equity fund (in the \$20-30 million dollar range), which will provide competitive market-based long-term capital to high-potential SME's. It is currently expected that the fund will be operating by late spring 2004, and that the majority of fund for the fund will come from private Colombian pension funds. In addition, USAID will soon launch an intensive two-year institutional strengthening effort designed to improve the securities market monitoring, surveillance and enforcement regulatory framework and system, working with the Superintendencia de Valores-Colombia (Superintendencia de Valores). Finally, USAID will shortly begin initiating targeted short-term institutional strengthening programs in the tax policy/administration, customs, labor market reform, and other critical areas designed to build the capacity of the Colombian public and private sectors to collaborate in establishing a policy and institutional environment conducive to private investment growth.

C.4 PROGRAM DESCRIPTION

Looking forward, USAID attention must be focused upon galvanizing strategic private sector response capacity private sector to the economic growth opportunities and challenges associated with a healthier macroeconomic setting and an integrated trade/investment environment. The Colombian private sector reflects a broad continuum of entities which range from large, sophisticated corporations owned by Colombian or multinational investors, down to the single entrepreneur engaged in a micro enterprise business venture. Each class of business entity has the potential to expand its operations and to create new job opportunities that will encourage the unemployed to avoid the entrapment of illicit activities. USAID's goal will be to provide the SME sector with strategic institution-building support programs designed to address in a sustainable manner the primary informational and market development barriers which limit SME growth potential in Colombia.

Thus the core specific technical/training support components to be undertaken through MIDAS will include SME development, agribusiness development, agro-forestry development, micro-finance, and a related cross-cutting economic policy/institutional reform support program. It is expected that these activities will be supported in a synchronized and mutually reinforcing manner which maximize the impact which program activities have on (1) placement of the Colombian economy on a sustainable and equitable medium term growth trajectory; (2) the sustainable operation of a network of public and private sector institutions which are committed to and contribute effectively to the creation of an appropriate enabling environment for strong market-based private sector development in Colombia. The main activities to be implemented under MIDAS are outlined below:

C.5 SCOPE OF WORK

C.5.1 Small and Medium Sized Enterprise (SME) Development:

The country's SMEs represent a large, dynamic and rapidly growing sector of the Colombian economy. The SMEs presently generate 63 percent of total employment in the national economy, and 40 percent of total GDP.

Two distinct categories of SMEs should be highlighted; one segment which is involved in agribusiness activities, and another large group that is focused upon various types of manufacturing or productive activities, commerce, services, and other areas. Colombian SMEs have considerable potential to stimulate job growth and increase incomes on a relatively short-term basis. Through their upstream linkages to larger scale production/ processing/marketing firms, they also have can contribute indirectly to export expansion. However, expansion of the SME sector is restricted by various institutional barriers to growth, especially access to innovative financial products to finance investment, access to technology and innovation, lack of financial and operational management skills, lack of effective vertical integration into market networks, and a range of core enabling environment policy and institutional rigidities. The goal of the program described herein will be to define and effectively address these critical constraints, and thereby help place the Colombian economy on a sustainable medium-term growth path in a manner which helps sustain and expand progress under Plan Colombia.

The program will thus focus on the development and implementation of innovative support strategies and programs designed to facilitate a strong expansion in investment, production, exports, and employment in the SME sector. The core focus of the program will be on defining and effectively addressing the financial and operational management, technology transfer, and market development/access constraints which limit the competitive capacity of the Colombian SME sector. Particular focus will be given to the development of a network of institutions which are able to serve as catalytic agents for the expanded application of improved enterprise development skills on a systemic basis.

Given the size of the Colombian economy and the importance of designing strategic interventions which yield sustainable impact, the program will define strategic sub-sectors with high growth potential where a concentrated program focus can yield the most buoyant and sustainable results in terms of employment and income growth. These efforts should be designed to effectively address core competitiveness constraints at the sectoral and sub-sectoral level, working through relevant public/private institutional networks. The program will be expected to take full advantage of and build upon the expansive network of institutional relationships/contacts built up through the current CED Program, and to build critical linkages with local, regional, and international institutions in a manner that contributes to the sustainable expansion of management know-how, technology transfer, and market development/access knowledge and skills.

A core focus of this effort will entail the development of strategic relationships with major commercial banking institutions designed to improve their institutional capacity to innovatively develop and manage SME lending portfolios, and to develop innovative financial products for the SME sector. A complementary focus will be provided to helping the SME sector interface effectively with commercial banking institutions (already a significant focus of the current CED Program). Finally, program activities in this area will also be expected to focus on the development and implementation of innovative capital market financing strategies and mechanisms for the SME sector.

Illustrative activities in this area include: (a) Provision of operational and financial management training and related technical support to selected SME's directly and through the staff of local consulting and business association organizations; (b) Provision of training and related technical

support designed to help individual SME's SME clusters meet relevant technical norms/standards;(c) Development of market linkages designed to better integrate an SME firm or cluster of firms with downstream processing and/or marketing companies; (d) Provision of strategic training and related technical support to commercial banks designed to transform the credit analysis/administration capacity of those institutions in relation to the SME sector.

Moreover, USAID strongly believes that the efforts presently focused upon SMEs must also be expanded to meet the critical financing needs of the microenterprise sector (particularly important from a short-term employment generation, and from a poverty alleviation perspective). The development of the microfinance sector in Colombia has seriously lagged behind the growth levels achieved in many other Latin American countries. As a result, the lower strata of Colombian society suffer from a lack of convenient banking services and the inability to have ready access to credit. While several of the major financial institutions have announced their intentions to provide a broader range of banking services to all sectors of the populace, these efforts have had little impact. It is reported that only 40 percent of the population presently has access to banking services, while only 31 percent of the population has a bank account. As a result, the economic growth of this sector of society has been severely constrained due to the lack of market-based credit. At the same time, this sector of the population continues to encounter severe obstacles in depositing funds into the banking system that in turn acts as an impediment to increasing the amount of funds available to the banking system to fund new bank loans. The inefficiencies inherent in the banking system in gathering deposits, and then converting those deposits into new loans are clearly demonstrated by the industry's loan/deposit ratio which in recent times has been 88 percent. In comparison, the US banking system's loan/deposit ratio surpasses 140 percent while the ratio of the neighboring nations of Peru and Bolivia stand at 120 percent. Overall financial deposits and loans as a share of GDP stood at an anemic 24.3 % and 23.6%, respectively in 2004; and intermediation spreads are quite high by international standards. Financial intermediation levels and efficiency in Colombia thus continue to languish in relation to regional and international norms; and must be improved significantly in order to facilitate economic growth and prosperity at lower economic levels of society. In the recent past, USAID has provided six distinct microfinance programs with assets in excess of \$16.2 million.

Colombia's effort to deliver banking services and benefits to all sectors of society has long suffered from a series of well-intentioned, but ultimately counterproductive policy and institutional development decisions. In view of the complexity of the various issues that presently limit the development of this vital sector, USAID will focus its' actions under MIDAS on three crucial factors adversely impacting upon the ability of the financial sector to properly serve the needs of the lower levels of society. First, core policy and related institutional constraints must be carefully analyzed and effectively addressed (that effort is further described in this RFP under Section D, Crosscutting Themes). Important issues must be critically evaluated and corrective policies must be formulated and implemented through effective dialogue with the GOC.

In addition, USAID should develop effective strategic programs to support sustainable market based micro-lending activities, most urgently needed in rural areas. traditionally isolated from the formal financial system. This could include programs that efficiently provide support to (1) the micro-lending arms of formal financial sector institutions;

(2) the development of integrated micro-finance support programs through which formal financial sector institutions provide second-floor funding to specialized microfinance organizations; and/or assistance to non-bank savings and loan institutions with rural outreach to help them develop the products, services and techniques to expand the delivery of financial services to rural clients.

Formal financial sector entities could benefit from improved loan approval and monitoring practices, as well as the implementation of comprehensive loan review procedures and administrative systems. In turn, the substantial savings mobilization base of these institutions could potentially be galvanized to facilitate the transfer of financial resources (and where necessary improved loan analysis/administration standards) on a sustainable basis. An important option in rural areas could be to develop a specialized micro-finance lending program through Banco Agraria; the public sector agricultural lending institution which is the only formal sector financial institution that has an extensive branch lending network in rural areas (and which is currently attempting to develop a sustainable micro-lending focus). Finally, it will be expected that program initiatives in this area will to the maximum degree possible incorporate IDP's within their beneficiary focus; while avoiding the design of IDP-specific intervention efforts that might compromise the sustainability of market-oriented micro-finance support programs.

C.5.1.1. ILLUSTRATIVE SME EXPANSION BUDGET - USAID FUNDS

FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
TOTAL	x,500,000	x,000,000	x,000,000	x,000,000	x,000,000
xx,000,000	x,100,000	xxx,000,000			

C.5.2 Agribusiness Partnership Development

The program will focus on addressing critical management, technology transfer and market development/access constraints which limit the growth capacity of the Colombian agribusiness sector. This is large and critical component of MIDAS, the core focus of which is to promote private sector investment and involvement in alternative development agribusinesses. The component should respond to and support private sector initiatives that benefit rural families in illicit production regions. Wherever possible, these activities should have a significant employment, income, and export generation impact, and should identify interventions which maximize the downstream employment and income linkages/impact at the farm and rural community level. It is envisioned that this component should target at the upstream end of the value chain rural families in illicit production regions and vulnerable zones within USAID's identified growth corridors to help them by supporting strategic alliances between agribusiness firms and these families. Thus, this component will work to promote private sector agribusiness linkages with agricultural producers, encouraging a shift from illicit products to legal activities, or ensuring that rural producers and labor force participants have strong incentives to remain uninvolved in illicit production or related activities. It will also focus intensively on effectively addressing critical market development constraints at key value chain links; and building market-based institutional networks which promote the sustainability of the employment and income generation impacts of these programs.

Given the broad range of high potential growth sectors in the agri-business area, which covers a range of fruit/vegetable, long-term crops, and livestock products, it will be critically important to define strategic sub-sectoral targets of opportunity in a manner which will maximize the program's benefits for participating rural families in terms of sustainable impact on income, employment, and/or export expansion, as needed. Building upon and strategically expanding and deepening the progress achieved under USAID's current Colombian Agribusiness Partnership Development (CAPP) Project, this component of MIDAS will be expected to forge strategic public/private institutional alliances in a manner which galvanizes major private sector investment resources and ensures the long-range sustainability of the employment and income impacts of the program. In this regard, the major foci should include strengthening participating rural families/farmers' associations and effectively addressing the competitiveness constraints which limit the employment and income generation potential of the value chains related to these products.

In addition, the program should focus intensively on broader themes across the sector. These include developing the capacity of the Colombian agribusiness sector to meet market access norms and standards required at the regional and international level, supporting the development and deepening of sustainable market-based relationships between the commercial banking system and the agribusiness sector, and the development of innovative financial products designed to improve competitive access to longer-term capital market financing for the agribusiness sector (building upon and expanding progress currently being made under CAPP). Again a critical dimension of all activities will be linking back strategic institutional interventions in the agribusiness sphere to sustainable employment and income growth at the community level.

Illustrative activities include: (a) provision of technology transfer-related training and technical support to the strategic alliances placed in operation through the project, as well as to participating agribusiness firms, to improve productivity/operational cost-efficiency; (b) development of strategic institutional linkages at the national and international level which improve the timeliness and quality of relevant market information to specific agro-industries or a value chain-linked group of enterprises; (c) provision of training and related technical support designed to improve the capacity of an agribusiness firms, value chains, or cluster-linked groups of firms to meet relevant sanitary/phyto-sanitary norms and standards; (d) development of innovative financial products designed to secure competitive longer-term financing for a value chain-linked group of enterprises. USAID/Colombia's strategies will build upon the current successes that Mission programs have garnered in this important area of private agribusiness development and expansion in activities related to AD, as well as, other innovative approaches that would lead to significant progress and accomplishments.

C.5.2.1 ILLUSTRATIVE AGRIBUSINESS PARTNERSHIPS BUDGET- USAID FUNDS

FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
TOTALS	x,800,000	x,300,000	xx,000,000	xx,000,000	
xx,000,000	x,000,000	xx,100,000			

C.5.3 Commercial Forestry Development

The program will be focused on the development and implementation of strategic management upgrading, technology transfer and market development/access programs designed to facilitate the development of sustainable commercial forestry niches, reflecting Colombia's significant employment and income generation potential in this sector. This will include a strategic focus on

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agro-forestry and wood product related value chain and cluster development opportunities, and related plantation forestry development and management initiatives.

It will also entail a focus on improved natural forestry management planning and implementation capacity. In all these areas, the program will build upon progress currently being made through the Colombia Forestry Development Program (CFDP). The program will be expected to focus on key market niches whose galvanization through targeted value chain and cluster development will expand forestry development-related employment and income growth, while simultaneously contributing to improved conservation and environmentally-friendly management of forestry resources.

A critical focus will be on improvement in market integration through improved access to market information and commercialization channels; as well as through significant improvement the productivity and quality management characterizing forest product transformation and processing activities. A strong focus will be provided to building local institutional capacity (through specific cluster/value chain linkages and at the broader industry association level) to meet relevant technical norms and standards.

Illustrative activities include: (a) Provision of training and related technical support designed to upgrade technological and quality management practices in forest product transformation and processing facilities; (b) Provision of training and related technical support for the establishment and efficient operation of forestry-related processing centers; (c) Provision of training and related technical support at the individual enterprise and value chain/cluster level designed to facilitate adherence to relevant technical norms and standards; (d) Strategic technical support designed to facilitate forestry sector access to longer-term market-based financing through the design of innovative financial products.

C.5.3.1. ILLUSTRATIVE COMMERCIAL FOREST PARTNERSHIPS BUDGET-USAID FUNDS

FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
TOTALS	x,400,000	x,500,000	x,000,000	x,500,000	
xx,300,000	x,500,000	xx,9000,000			

C.5.4 Crosscutting Themes:

Priority Economic Policy/Institutional Reform Areas: The program will be expected to focus intensive technical/training and limited financial support on efforts designed to effectively address critical policy and institutional constraints to private sector investment and income/export/employment growth. These programmatic interventions will be tightly linked to intensive ongoing policy dialogue efforts with the GOC counterparts to promote major economic policy/institutional reforms in specific sectoral areas. These efforts will also be linked to related programs of other major donor in order to ensure maximum complementarities and impact of donor policy/institutional reform-related programs in Colombia. In this regard it will be critically important to ensure intensive dialogue with and ensure close programmatic coordination with the major multilateral institutions which are present in Colombia; including most importantly the International Monetary Fund (IMF), World Bank, and the Inter-American Development Bank (IDB).

The IMF has a 2 year Special Drawing Right (SDR) 1.55 billion Standby Arrangement in place, which is expected to be extended through April 2005. In addition intensive discussions between IMF and senior GOC officials on a possible follow-on Standby Arrangement are expected to take place in early 2005. USAID coordinates closely on an ongoing basis with IMF technical staff on the fiscal and related structural policy reform objectives of the IMF Program in Colombia.

The World Bank's Country Assistance Strategy

<[http://lnweb18.worldbank.org/LAC/LAC.nsf/ECADocByUnid/D2B9E4A66E77879C85256E3C0053C984?](http://lnweb18.worldbank.org/LAC/LAC.nsf/ECADocByUnid/D2B9E4A66E77879C85256E3C0053C984?Opendocument)

> (CAS) for Colombia, which commits upwards of 3.3 billion in project financing from 2003 through

mid 2006, is focused principally on development of a firm economic foundation for peace through the achievement of rapid and sustainable economic growth. In the economic development area the Bank's critical initiatives include a \$100 million loan (approved in Sept. 2004) to support the second phase of a program that seeks to strengthen Colombia's financial system and increase its capacity to promote increased investment in the economy. The Second Programmatic Financial Sector Adjustment Loan builds on the \$150 million first phase of the program approved in April, 2003, which focused on enhanced stabilization and improved regulatory oversight of the country's financial system (with a primary though not exclusive focus on the banking system).

The World Bank also has in place a \$150 million fiscal structural adjustment loan and related technical support program designed to improve the fiscal policy planning and procurement systems in Colombia, and to modernize the tax information computerization system. In addition, the Bank in November 2004 approved a \$200 million loan to continue the work of reforming Colombia's labor regulations and to make further progress with social development projects; and related technical assistance effort to help implement the program. The Bank is also planning to finalize a major Rural Diversification Loan for Colombia in 2005; designed to promote enhanced agricultural competitiveness (USAID worked closely with the Bank in planning and implementing a series of technical studies related to this program in 2003-2004).

As of mid-2004, the IDB country portfolio for Colombia included 27 loans valued at approx. \$1.4 billion. In addition

the IDB's Multilateral Investment Fund (MIF) had a portfolio in mid-2004 of 22 non-reimbursable operations to support private investment in Colombia which totaled approx. \$21.5 million. Priority intervention foci for the IDB include the competitiveness, corporate social responsibility, procurement reform, securities market infrastructure development, and utilities reform areas. The IDB is also planning a major policy-based competitiveness facility for Colombia (in the \$400 million range) for 2005.

The priority economic policy/institutional reform areas which MIDAS will, in close coordination with other major donors, focus on are expected to include but will not be limited to the following areas:

Macro/Fiscal Reform: Continued and sustainable improvement in macro/fiscal conditions in Colombia will likely prove critical to maintaining and deepening healthy private investor expectations regarding the stability of the investment climate, and reducing the drain of public sector bond issuances on the availability of medium-term financing for private investment. Illustrative initiatives in this area could include: (a) technical/training support designed to facilitate a systematic restructuring the current distorted taxation regime and lessen the overall tax

burden on investment capital; (b) technical/training support designed to improve the competitiveness and transparency of the public procurement system; (c) technical/training support designed to improve the efficiency and equity characteristics and the financial sustainability of the intergovernmental finance regime, and improve the revenue raising-incentive effects of the system on local governments; and (d) technical/ training support designed to facilitate the effective implementation of pilot property tax reform programs designed to significantly improve the buoyancy and resource-neutrality of local taxation regimes (e.g. through the introduction of self-valuation methodologies for property tax assessment).

Financial Sector Reform: The Colombian financial system is currently characterized by a highly distorted subsidy directed credit and guarantee system (most particularly in the agricultural sector); which is principally financed through forced transfer of 7% of the savings deposits from licensed banking institutions to the GOC. This system artificially raises financial intermediation costs, generates rent-seeking incentives among financial sector participants, and combines with the highly concentrated structure of the Colombian banking sector to promote risk-averse lending behavior and limit incentives for the development and marketing of innovative financial products. An even more extreme situation characterizes the micro-credit market, where GOC policy has focused on a combination of interest rate ceilings and jawboning towards formal financial institutions, with the predictable outcome that there is not currently a viable network of deposit mobilization -based private sector institutions which can in a sustain finance micro-finance needs in a manner which comes anywhere close to meeting the needs for these services in the population. Combined with the impact of unstable security conditions in limiting the branch operations of private sector financial institutions, these factors have led to a situation in which the level of financial intermediation in Colombia is among the lowest in the western hemisphere.

This situation is particularly acute in rural areas; where security issues, anemic economic growth conditions, and socio-institutional barriers have combined to severely limit the availability of financial intermediation services from both the formal banking sector and NGO-linked financial service providers. In fact traditionally there has been a net transfer of financial savings from rural to urban areas; underscoring the failure of sustainable financial intermediation services to become broadly established in rural areas. This must be effectively addressed if the rural sector is to benefit fully from the job and income-creation benefits linked to healthier macroeconomic and structural policies; and if traditional social tensions are to be permanently abated.

In the capital market area, an inadequate regulatory framework for monitoring, surveillance and enforcement and rigidities in the organizational and governance framework for key financial market intermediary institutions limits confidence in and private sector access to securities markets. In addition, there is a need to overhaul the accounting legal and self-regulatory oversight regime in a manner consistent with international standards. These reforms are critical for purposes of building on the momentum created by an FTA in promoting the integration of regional and international financial markets and promoting the inflow of additional financial capital and FDI into Colombia.

Effective programmatic initiatives in this area will require a tightly coordinated and prioritized strategic mix of policy reform and institutional strengthening interventions. At the institutional level, this would involve working with formal financial institutions and/or NGO's on the development and application of innovative financial products designed to improve competitive access of SME's and micro-entrepreneurs to market-based financing on a sustainable basis. Activities in this area would be tightly coordinated with the ADAM Program; which would play an active role in the implementation of these initiatives at the local level.

Illustrative program activities in this area could include: (a) an intensive policy analysis program designed to address key financial sector policy distortions and develop/propose a transitional policy framework towards an alternative financial sector institutional architecture; (b) an intensive technical/training support program, integrated with other MIDAS program elements, designed to promote the active transition to more innovative/ flexible customer-oriented loan analysis and administration practices among banking institutions and related development of innovative financial products; and (c) the development of innovative market-oriented micro-lending support programs with relevant formal financial sector and NGO institutions (with a strong focus on rural areas).

Core Enabling Environment Reforms: Colombia has a reasonably propitious corporate, contract and property law-related environment for business development. However there remain a number of significant enabling environment rigidities which should be addressed if the country is to maximize its medium-term growth potential; particularly in light of the counter-balancing impact which ongoing security issues and related “reputation” concerns will likely continue to have on investor expectations. Critical policy/institutional constraints which could be addressed in this area include legal reforms designed to strengthen the creditor rights provisions of and the overall transparency and speed of corporate bankruptcy proceedings; legal/regulatory reforms which enhance the stability and predictability of investor rights (particularly in key infrastructure sectors and for larger-scale foreign and local investors); legal/regulatory and institutional reforms which promote expanded collateral-based lending including for agricultural lending/rural finance (e.g., definition and pledging of moveable assets, the establishment and operation of a unified collateral registry; the establishment and operation of a unified real property registration system); institutional strengthening reforms which build upon the success of recent IDB-supported pilot initiatives to streamline procedures for the registration and establishment of new businesses; and institutional strengthening support designed to promote compliance capacity in relation to key environment-related regulatory policy and procedural guidelines.

Illustrative activities in this area could include: (a) technical/training support designed to develop/implement critical reforms of the bankruptcy regime; (b) technical/training support designed to develop/implement critical reforms of the foreign investment legal regime; (c) technical/training support to the implementation of a unified system of real property registration and technical/training and limited financial support designed to facilitate the adoption and implementation of a unified collateral registration system.

Technical Barriers to Trade (TBT)/Sanitary and Phyto Sanitary (SPS) Reforms: Colombia will need to significantly improve the core policy/regulatory framework for and related institutional adaptability required to promote systematic compliance with major international product design and safety norms. This will likely prove a fundamental prerequisite for placing the private sector in a position to respond competitively to the opportunities to be presented by an FTA. Thus in order to maximize the benefits from trade liberalization, SME’s will need to be in a position to comply with major industrial standards which are either legally required for export; and/or which represent industry norms which must be met in order to build or maintain a competitive market position. This will undoubtedly represent a significant challenge for SME’s across a range of industrial and service sectors; which will be trying to leverage the impending trade integration process into a competitive advantage in external markets.

In the SPS area, Colombia will face daunting policy and institutional challenges in (1) conforming the major regulatory contours of its SPS oversight system (registration, risk analysis,

risk mitigation, monitoring/tracking, approval/ certification) for plant/vegetable products, live animals, and processed food products to international requirements; and
(2) developing the institutional capacity to effectively enforce those requirements.

Illustrative support efforts in these areas could include: (a) provision of training and expertise to a core group of business consultants in key industry norms/standards and key SPS norms/processes; and to build greater private sector awareness of the challenges and opportunities associated with these issues; (b) related development of regulatory reforms designed to promote certification processes which facilitate enhanced reliance on private sector agents to carry out core TBT and SPS processes to build industry compliance capacity in key sectors; and (c) technical/training and limited financial support to expand the capacity of both the public and private sectors to effectively define and enforce key industry norms/standards.

Land Access and Market Development: As noted earlier, Colombia is characterized by one of the most unequal land distribution patterns in Latin America. Moreover the peculiar dynamics associated with the operation of the drug industry in Colombia have reinforced these longstanding trends; by promoting large-scale displacement of the rural peasantry and the further concentration of land holdings. Recent World Bank/USAID empirical research also indicates that rural land is being grossly misallocated from both a production efficiency and employment intensity perspective; with a significant under-allocation to both cropping and forestry uses and a significant over-allocation to extensive livestock activities. Again this phenomenon has undoubtedly been accelerated and intensified by the transfer of drug profits into real asset holdings in rural areas.

It is clear that in order to consolidate and accelerate the progress in the war against narco-terrorism, and to permanently eliminate the sources of rural unrest and violence that play into the interests of the narco-terrorists, it will prove critical to develop market-based approaches to improving access to agricultural land on the part of traditionally disenfranchised rural groups. Many of the same reforms that will benefit these groups are valuable to ensuring maximum benefits from a transition to free trade by inducing more productive rural land use and encouraging the development of competitive rural enterprise. From both perspectives--stability through inclusive development and ample participation in commerce--it is critical to introduce legal/regulatory and related institutional reforms that will lead to greater coherence of property rights information, allow more expedient regularization of informal and other irregular land tenure situations and encourage formal land market participation. In terms of fomenting systemic change in the land market access area, the most critical institutional targets of opportunity will likely prove to be: (1) the re-allocation of seized lands from extra-legal groups; and (2) the development and implementation of systemic legal/administrative mechanisms to facilitate the exercise of clear land ownership and transfer rights by IDP's.

Improving land access and market development will require addressing the lessons-learned from past ineffective GOC land reform efforts as well as from a number of recent small-scale pilot initiatives which are applying more decentralized market-based land access strategies. These lessons include factors affecting both how smaller farmers and land-poor persons can gain meaningful access to land as well as related land administration issues (e.g. tenure, registration, taxation). Addressing lesson learned, in turn, will require gaining further understanding of, developing a wider consensus about, and taking strategic action on, several key land market access issues. These include critical legal, regulatory, and administrative changes required for more effective land markets and tenure security. Existing limitations in this area appear to relate primarily to

regulatory and administrative rigidities which limit the capacity of marginal groups to participate in land market transactions that lead to expanded income generation. These limitations appear to reflect a need for core regulatory and administrative procedural reforms; as well as creating a broader understanding of the law, its application and the value of making it effective in practice for all segments of Colombia's economy.

A critical specific goal in this area could include making the process of titling and registration more effective, accessible and affordable. Rural areas display greater reliance on informal tenure arrangements and unrecorded property rights and have more limited cadastral coverage (fiscal and physical) than do urban areas. This combines with high transaction costs and traditional cultural norms to limit supply of smaller, affordable parcels in formal land market limit registration of land transfers and affect actual land prices as well as value declarations for taxation. Changing these patterns could be facilitated by improving rules and procedures relating to inheritance of rights in property (especially legalizing historical informal succession of rights), adverse possession for rural lands, incentives to register (sales tax, notary and registry fee structures, etc), transitioning from group forms of tenure to individual and from use rights to ownership when desired by all parties ; and related legal/administrative reforms designed to simplify property rights recording and transfer processes, lower transactions costs and create incentives for development of formal rural land markets.

A critical related institutional reform effort could be to build upon current efforts (supported by the GOC, USAID, the WB and other donors) to help internally displaced persons with return to their land, relocation to a new rural parcel, or to find urban housing by clarifying IDP real asset ownership/disposal rights. These efforts are proving effective as short-run mechanisms to move forward and achieve provisional tenure security and land access. It will be important to ensure that appropriate measures are taken to convert temporary status (e.g., municipal registration of provisional certificates of possession) to more sustainable status (registration of full and transferable property rights), as appropriate. At the same time this experience, if compared and synthesized, could also point to possible elements of more effective approaches to tenure regularization and land access and to corresponding legal, regulatory and institutional change that would be needed to generalize their application.

Colombia faces particular land access challenges for its historically disenfranchised rural poor as well as with displaced persons. Exploring possible direct and innovative measures to overcome these challenges will help inform the GOC and the donors that support it to formulate implementation activities. This could include building the capacity of the GOC, through INCODER (the public sector institution in charge of land redistribution strategy and programs), to facilitate the range of land access modalities that are within its legal mandate. Most immediately, it would involve improving institutional capacity to implement processes related to distribution and tenure of land available through demobilization and through seizure and divestment of land assets related to extra-legal activity. This includes, importantly, finding ways to introduce innovative incentive-based programs that make seized lands available for those with a capacity to engage in competitive enterprise/productive land uses.

It is also very important to continue to seek the overall development of land market access (e.g., purchase, rental, co-investment) for rural producers more generally, with or without involvement of the state. While direct support for implementation of these measures would be carried out by

other program mechanisms (i.e. ADAM in coordination with the IDP support program), MIDAS would take the lead on all policy analysis and related public/private outreach activities designed to build consensus on and design policy/institutional reform proposals and programs.

Illustrative activities in this area could include: a) Technical assistance for continued development of solutions to bottlenecks in the implementation of measures called for under Decree 2007 (Colombian Law No. 2007 issued September 24, 2001), relating to clarifying/protecting the real asset ownership/disposal rights of displaced people (including possible use of mobile registration and legal services); b) Application of these new solutions to tenure regularization in the context of demobilization and distribution of seized lands where return of displaced persons is not involved; c) Development of strategic administrative tools/mechanisms to reduce land market information asymmetries e.g., model contracts, legal briefs, introduce registration of rental contracts; d) Development of innovative incentive-based programs to support the expeditious and productive reallocation of the massive amounts of seized lands; (e) prioritization of needs and options for generalized claims processing in relation to demobilization and displaced persons; and (f) Development of strategies which foster intensive land market access links to agribusiness and commercial forestry development efforts.

C.5.4.1. ILLUSTRATIVE ESTIMATED ECONOMIC/POLICY REFORM BUDGET

FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
TOTAL	x,000,000	x,500,000	x,000,000	x,000,000	
x,500,000	x,000,000	xx,000,000			

C.6 COMMITMENTS RELATED TO PUBLIC-PRIVATE ALLIANCES

It is anticipated that under MIDAS a variety of public private alliances will be developed with civil society organizations, private sector firms, producer associations, chambers of commerce, industry associations, Colombian foundations, universities. The contractor will be asked to carry out an aggressive corporate social responsibility effort involving and design to promote financial contributions/participation from these entities. To the extent that these organizations can become partners in sustainable economic development activities, the program will have greater chance of success, and it may prove possible to leverage critical additional resources to complement those provided by USAID/Colombia and other program participants. These efforts should include a focus on how special USAID/Washington supported initiatives, such as the Global Development Alliance and the Last Mile Initiative, which attempt to stimulate partnership initiatives in key productive and/or infrastructure sectors and promote improved enabling environment conditions, could be leveraged to increase the sustainable investment and job creation impact of MIDAS activities. Once public private alliances are formed the Contractor will need to assure that commitments to specific roles and responsibilities, including resource contributions, are formalized through memorandum of understanding, letters of intent and other legally and non-legally binding mechanisms.

C.7 ILLUSTRATIVE PROGRAM BENCHMARKS

The following are indicators that the Mission has tentatively identified as possible achievement measures (USAID/ Colombia is prepared to entertain modified alternative results indicators for which offerors will be expected to justify the measures they propose, as well as, indicate the means that will be used to gather the information required to judge performance against the

indicators). A list of final indicators and measures will be subject to USAID review and approval. Prior to performance beginning, the Baseline for all of the Benchmarks will be established, and the parameters upon which performance will be judged will be formalized

X percent increase in SME investment in a minimum of X critical potential high growth sectors. ·
X percent increase in SME employment in a minimum of X critical potential high growth sectors. ·Minimum total increase in SME employment. · X percent increase in new agribusiness investment in a minimum of X critical potential high growth sectors. · X percent increase in agribusiness employment in a minimum of X critical potential high growth sectors. ·Minimum total increase in agribusiness employment/ · X percent increase in new commercial forestry investment in a minimum of X critical potential high growth sectors. · X percent increase in commercial forestry employment in a minimum of X critical potential high growth sectors. ·Minimum total increase in commercial forestry employment. ·X percent increase in total jobs created in the targeted corridor areas. ·X percent increase in farm families linked to the formal agribusiness/agro-processing sector. ·X percent increase in commercial bank lending to SME's in critical potential high growth sectors. ·X percent increase in commercial bank lending to agribusinesses in critical potential high growth sectors. ·X percent increase in commercial bank lending to commercial forestry firms in critical potential high growth sectors. ·A minimum of X generated in innovative capital market-based financing for SME, agribusiness and commercial forestry enterprises. · X percent increase in the provision of market-based microcredit financing a comprehensive tax reform package developed and adopted which improves the resource neutrality and the buoyancy of the tax regime. ·Strategic reforms of the intergovernmental finance regime designed and implemented which improve the efficiency and equity, and the financial sustainability of the fiscal transfer system. ·Strategic legal/administrative reforms designed and implemented which eliminate interest rate ceilings on loans. ·Strategic legal/administrative reforms designed and implemented which reduce the role of subsidized directed credit in the financing of the agribusiness sector. ·Strategic policy reforms designed and implemented which clarify and strengthen creditor rights under bankruptcy proceedings. ·Strategic policy reforms designed and implemented which clarify and strengthen the exercise of transferable rights to real and moveable property. ·Strategic regulatory/administrative reforms developed and implemented which Significantly reduce the time and expense required to register and open a private business. ·Strategic regulatory/administrative reforms implemented which facilitate compliance with international best practice-consistent technical norms in a minimum of X critical high growth potential sectors. · Strategic regulatory/administrative reforms designed and implemented which facilitate compliance with Sanitary/Phyto-Sanitary standards for a minimum of X critical potential high-growth agricultural and agribusiness sectors. ·Strategic regulatory/administrative reforms designed and implemented which clarify and strengthen the property rights of displaced persons to abandoned land plots. · Pilot programs designed and implemented which facilitate the return of a minimum of X IDP's to their original land parcels or to alternative land parcels. ·Strategic regulatory/administrative reforms designed and implemented which facilitate the transparent and cost-efficient transfer of seized land parcels to IDP's and other marginalized social groups. · Incentive-based programs designed and implemented which facilitate the transparent and cost-efficient transfer of at least 50% of all seized land to marginalized social groups.

C.8. IMPORTANT GUIDELINES

C.8.1. Maximize Use of Host Country Professionals and Local Organizations: Colombia has excellent human resources, and a number of national and/or local organizations have demonstrated outstanding technical and administrative competence. Of particular importance are the Colombian civic organizations that demonstrate commitment by the country's private sector

and individuals to counter the forces destabilizing the country. This social capital is an important asset available to this program. Involving these resources in the program will enhance the chances of success for the program.

C.8.2. Flexibility in Adapting to Changing Circumstances: The past four years have witnessed significant changes in the operating environment and priorities, and this can be expected to continue. The program described in this document may be subject to significant modification in the future, due to changes in the economic, political, and security environment.

C.8.3 Requirement for Geographic and Thematic Coordination Mechanisms: USAID/Colombia is committed to achieving close coordination among its various program elements, as well as coordinating these activities with other donors and private organizations. The synergies that can be attained through this coordination are important to program success. The implementing firm should seek opportunities for thematic coordination, i.e. forums that can bring together professionals to discuss non-traditional agricultural export opportunities, review land tenure issues and solutions, new production technologies, etc. This thematic coordination should also be seen as an opportunity for identification of policy issues that need attention at the national level and can be addressed by USAID/ Colombia's national level policy activities.

C.8.4 Broaden Private Sector Involvement Investment in Alternative Development and Value Chain Linkage Activities (processing, distribution channels): There is a need to broaden private sector participation and investment in alternative development activities in the MIDAS regions through mechanisms that involve Plan Colombia, the commercial banking sector, local organizations such as regional Chambers of Commerce and agricultural and industry groups.

C.8.5 Coordination with internally displaced persons (IDPS) and other vulnerable group assistance: Direct humanitarian support activities to support IDPs will be supported through separate project activities. In addition, direct job training programs for IDP's, and pilot land market access activities for IDP's at the local level, will be implemented through IDP project activities in close coordination with relevant MIDAS policy/program initiatives. In addition, for those areas in which significant IDP support programs operate (including those outside of the "Areas for Municipal Development-Alternative Development Program" (ADAM) municipalities); MIDAS will seek to incorporate IDP's into its core income generation support focus/programs in the most effective manner possible (without designing/implementing separate income generation programs for IDP's).

C.8.6. Joint U.S. and Colombian Government Program: USAID/Colombia will coordinate the program with the Government of Colombia. The primary public sector counterparts for this program will include Plan Colombia, the Ministry of Finance, the Ministry of Planning, and the Ministry of Trade, Industry, and Tourism. The firm selected to manage this program is expected to give full recognition that this is a joint project of the U.S. and Colombian Governments in all public notices issued in relation to the program, and all equipment and supplies should be marked as having been donated by USAID. In addition, the organization should also note in any public notices and events that U.S. Government assistance is supportive of GOC efforts to implement Plan Colombia and the National Development Plan.

C.9 ILLUSTRATIVE KEY IMPLEMENTATION STEPS

The MIDAS Program will be implemented through a process that accentuates maximum involvement of Colombian institutions, develops strong political and technical support from

national, departmental, municipal, and community leaders, involves community members in participatory decision making, assures that all supported activities are economically justified and sustainable, brings new partners and significant resources to bear on the development problems through public private alliances, and maintains the highest technical standards in promoting appropriate economic activities.

For illustrative purposes, the following provides the Mission's description of the key implementation steps

C.9.1. The contractor will establish offices in Bogotá, Colombia and will participate with USAID/Colombia in formalizing the final design of the programs. In the process, the contractor will initiate contact with key national, departmental, and municipal leaders.

C.9.2. Another important implementation role for the contractor will be a public information and community outreach function. This effort will focus on promoting public acceptance and support for alternative development and illicit crop eradication efforts. To increase national government legitimacy, these public information and outreach efforts will also emphasize that the alternative development activities are carried out with USG resources that support the joint objectives of the USG and GOC to achieve alternative development and democratic strengthening objectives. The contractor will

be tasked with preparation of success stories whenever appropriate that portray the impact of the program, especially at the community and individual level. The contractor will also coordinate with the USAID and Embassy public information offices to provide information on the impact of the program, and assist with public information events and visiting dignitaries. A specific Contractor staff specialist should be assigned these public information responsibilities.

C.9.3. Although USAID/Colombia does not have a participant training program, organizations may want to consider whether there are specific areas where human resources in Colombia are sufficiently weak that a modest investment in such training would be appropriate.

C.10 ILLUSTRATIVE KEY COUNTERPART COMMITMENTS

In order for this program to be successful, a number of specific commitments will be required of Colombian officials and other stakeholders as part of the assistance to be provided. Some of these required commitments are national, and their negotiation and monitoring will be the direct responsibility of USAID. Others are departmental and regional in nature, and will require the joint involvement of USAID and the selected contractor, as well as national level GOC officials. The contractor will be responsible for obtaining commitments required at the municipal and community level.

C.10.1 Commitments related to national and targeted area level activities

USAID has a close and effective working relationship with key GOC officials responsible for policies and activities under Plan Colombia. In order for private sector investment to be successful in areas targeted under the program, the GOC will need to live up to its commitment to pursue Plan Colombia initiatives designed to improve security. In addition, certain regulatory reforms may be required to create favorable investment conditions.

C.10.2. Commitments related to public private alliances

It is anticipated that a variety of public private alliances will be developed with civil society organizations, private sector firms, producer associations, chambers of commerce, industry associations, Colombian foundations, universities. The contractor will be asked to carry out aggressive corporate social responsibility campaign involving these entities. To the extent that these organizations can become partners in the municipal level development activities, the program will have greater chance of success, and it may be possible to leverage additional resources to complement those provided by USAID, the GOC, and the municipalities.

Once public private alliances are formed the contractor will need to assure that commitments to specific roles and responsibilities, including resource contributions, are formalized through memorandum of understanding, letters of intent and other legally and non-legally binding mechanisms.

C.10.3. Tracking and enforcing commitments

The contractor will need to establish systems to monitor the commitments required and obtained, and to record how compliance with the commitments is monitored. Failure of any party to live up to its commitment is grounds for suspending the provision of additional assistance and withdrawal of all equipment or other assets purchased with USAID resources. However, given the delicate security conditions in many areas, the contractor should consult with USAID prior to initiating any such suspension or withdrawal.

C.11 PROGRAM SURVEILLANCE AND MANAGEMENT

C.11.1 USAID Management Responsibility

Technical components of MIDAS will be monitored by the Agricultural and Alternative Development Office of USAID/Colombia, in consultation with the Mission's Economics Unit. A project technical guidance committee, consisting of the SO2 Team Leader and the Mission Economist will monitor the technical integrity of the project, ensure that the project components proceed on-course, approve the final project design, and approve annual work plans. Input of the Mission Economist will ensure that MIDAS policy efforts and other cross-cutting themes are carried out in concert with other Mission and USG policy interests in Colombia.

C.11.2 Identification and Roles of Colombian and International Partners

The primary counterpart institutions for this activity will include the High Presidential Commissioner for Social Action and its Alternative Development Program office, the Ministry of Finance, the Ministry of Planning, and the Ministry of Trade, Industry and Tourism. Their role will be to assist in coordinating interactions with other GOC entities, provide information on GOC policies and priorities, participate in overall assessments of results, and participate in public information and outreach activities of the program. A number of Colombian private sector organizations, and potentially international partners as well, could play key roles in the successful implementation of this program. The roles and responsibilities of these organizations will need to be clearly identified, along with the relationships and the programs' management structure.

C.11.3 Environmental Impact Mitigation Plan

All program activities must be in compliance with USAID Environmental Impact Monitoring and Mitigation Regulations (Regulation 216). The implementing contractor will need to complete an

Environmental Review that follows Mission guidelines, under the supervision of the Mission Environmental Officer. The Environmental Review will be completed within 90 days after mobilization. The Environmental Review will enable USAID/Colombia to determine the level of environmental assessment of the program that will be required. To the extent activity interventions at the farm level involve technical assistance, only these will qualify for a categorical exclusion. If possible, a blanket assessment should address specific concerns for each category of assistance and indicate any specific measures that should be taken to meet USAID's requirements, without requiring subsequent analyses of each individual activity other than to confirm compliance.

C.11.4 Performance Monitoring Plan and Proposed Indicators

The implementing contractor in collaboration with any implementing partners will be required to develop a performance monitoring plan to track progress towards achieving results. An illustrative listing of anticipated results indicator for this activity is included in this RFP.

The contractor should also be aware that monitoring alliance commitments will require the tracking of resources commitments of partners such as funds, equipment, donations, expert's time allocated to an activity, as well as, volunteer hours etc.

C.12. OTHER REQUIREMENTS

C.12.1 Key Personnel

USAID/Colombia requires the designation of Key Personnel to include the Chief of Party (COP) and the Project Manager. Further guidance re this element may be found at RFP Section F.5.

C.12.2 .Public Information and Community Outreach

An important implementation role for the contractor will be a public information and community outreach function. This effort will focus on promoting public acceptance and support for project components and emphasize that project activities are carried out with USG resources that support the joint objectives of the USG and GOC to achieve alternative development and related objectives. The contractor will be tasked with preparation of success stories whenever appropriate that portray the impact of the program, especially at the community and individual level. The Contractor will also coordinate with USAID to provide information on the impact of the program, and assist with public information events and visiting dignitaries. A specific contractor staff person should be assigned these responsibilities.

C.12.3 Reporting Requirements

The following are the principal reporting requirements for this contract. Other reporting needs may be identified in the future:

Annual work plan: The Contractor will submit an Annual Work plan for each calendar year. The first work plan will be submitted within 45 days of mobilization in-country. After the first work plan has been submitted, subsequent work plans shall be submitted by 30 days prior to the start of the period covered by the plan. The work plan will detail the principal activities to be implemented over the period covered, broken down

by quarter. It will also indicate the anticipated achievements under the project, both in terms of contract inputs delivered and targets for results indicators achieved.

Quarterly Reports: The Contractor will submit quarterly reports that report on progress made in the implementation of the annual work plan and problems with proposed courses of action to resolve them. The quarterly reports presented at the middle (April 30) and end (October 31) of the fiscal year will be more intensive in that they will focus on progress, significant results, as well as the identification and proposed resolution of significant problems.

Final report: A final report will be submitted that summarizes the impact of the program and lessons learned. –

Quarterly Financial Reporting: The Contractor will submit a quarterly financial report summarizing expenditures against the approved budget, accruals and projected expenditures. The annual work plan and progress reports will include a data component that will provide information required for USAID's comprehensive data base (presently being developed). The data would also be consistent with the GOC data requirements as coordinated between USAID and the GOC. This information will be used by the Mission and the GOC to assess program impact and coordinate donor activities. -

Success stories: The Contractor will provide USAID with short descriptions of specific program successes as frequently as appropriate in order to assist the Mission in accurately describing the impact of the program. These stories should wherever possible reflect the impact on specific communities or individuals.

C.12.4 Relationships between USAID, Contractor, and any Sub-Contractors or Consortium Members

The prime contractor will meet all USAID procurement requirements and sub-grant requirements. The contractor will be expected to have formalized all partnership participation in the MIDAS Program through memoranda of understanding prior to award, and share these agreements with USAID. Management mechanisms that will be used to ensure that contractor and sub-contractor involvement is appropriately programmed to maximize the use of all project resources should be identified. The contractor is expected to cooperate fully with USAID efforts to coordinate activities among all program operators, and will seek to identify ways that this coordination can be made more effective.

Contractors may anticipate that some of the resources under this program be granted by it to Non-Government Organizations (NGOs) and to other organizations as part of its' implementation strategy. USAID/Colombia will need to obtain specific approval for such grants under a contract authority. If a firm considers this arrangement, it needs to demonstrate that the resources will be managed in keeping with USAID accountability standards. Such grants should be budgeted as Other Direct Costs, not subject to overhead charges.

Regularly scheduled meetings will be held between the USAID CTO and the Contractor's COP. The contractor will notify USAID off all events that significantly affect the program activities and propose necessary modifications.

C. 12.5 The firm selected to manage this program is expected to give full recognition to the fact that this is a joint project of the U.S. and Colombian Governments in all public notices issued in relation to the program, and all equipment and supplies should be marked as having been donated by USAID. In addition, the organization should also note in any public notices and events that

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U.S. Government assistance is supportive of GOC efforts to implement Plan Colombia and the National Development Plan.