



Country Program Evaluation

# Colombia

2011-2014

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This document presents an evaluation by the Office of Evaluation and Oversight (OVE) of the Country Program of the Inter-American Development Bank (IDB or the Bank) with Colombia over the period 2011-2014.

According to the Bank's Protocol for Country Program Evaluations (CPEs), the main function of a CPE is "to provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance." Like other CPEs, this evaluation examines Bank support to the country, with the dual purpose of strengthening accountability and facilitating learning.

The assessment in the CPE covers a portfolio that includes all the operations approved during the period under evaluation, together with those approved previously but implemented during this period. The details of the portfolio are provided in the annexes to this document.

In preparing this document, OVE interviewed the Bank's main counterparts among the Colombian authorities, project execution units, members of civil society and the private sector, representatives of multilateral agencies with presence in Colombia, the Bank's General Manager for the Andean Country Group Department, the Bank's Representative in Colombia, and IDB staff at the Bank's Country Office and at Headquarters. OVE also visited the sites of IDB-supported projects to assess implementation progress and challenges.

**Country Program Evaluation:**

# **Colombia 2011-2014**

Office of Evaluation and Oversight, OVE



**Inter-American Development Bank**  
May 2015



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ABBREVIATIONS

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## ABBREVIATIONS

|        |                                                                                                                                        |
|--------|----------------------------------------------------------------------------------------------------------------------------------------|
| BCR    | Banco de la República                                                                                                                  |
| CAF    | Development Bank of Latin America                                                                                                      |
| CCLIP  | Conditional credit line for investment projects                                                                                        |
| CCT    | Conditional cash transfer                                                                                                              |
| CIGERH | Comisión Interinstitucional para la Gestión del Recurso Humano [Interagency Commission for Human Resource Management]                  |
| CONPES | Consejo Nacional de Política Económica y Social [National Economic and Social Policy Council]                                          |
| CNI    | Comprehensive neighborhood improvement                                                                                                 |
| CTF    | Clean Technology Fund                                                                                                                  |
| DAF    | Dirección General de Apoyo Fiscal [Fiscal Support Department]                                                                          |
| DAFP   | Departamento Administrativo de la Función Pública [Civil Service Administrative Department]                                            |
| DANE   | Departamento Administrativo Nacional de Estadística [National Administrative Department of Statistics]                                 |
| DCAS   | Estrategia “De Cero a Siempre” [“From Birth to Always” Strategy]                                                                       |
| DNP    | Departamento Nacional de Planeación [National Planning Department]                                                                     |
| DSCN   | Dirección de Síntesis y Cuentas Nacionales [Department of Synthesis and National Accounts]                                             |
| ECV    | Encuesta de Calidad de Vida [Quality of Life Survey]                                                                                   |
| ECD    | Early childhood development                                                                                                            |
| ECH    | Encuesta Continua de Hogares [Ongoing Household Survey]                                                                                |
| EGERH  | Estrategia de Gestión del Recurso Humano [Human Resource Management Strategy]                                                          |
| FCL    | Flexible credit line                                                                                                                   |
| GEIH   | Gran Encuesta Integrada de Hogares [Large-scale Integrated Household Survey]                                                           |
| IDEAM  | Instituto de Hidrología, Meteorología y Estudios Ambientales [Institute of Hydrological, Meteorological, and Environmental Studies]    |
| IIC    | Inter-American Investment Corporation                                                                                                  |
| IMTS   | Integrated mass transit system                                                                                                         |
| LAC    | Latin America and the Caribbean                                                                                                        |
| MESEP  | Misión para el Empalme de las Series de Empleo, Pobreza y Desigualdad [Mission to Combine Employment, Poverty, and Inequality Surveys] |
| MIF    | Multilateral Investment Fund                                                                                                           |
| MSMEs  | Micro, small, and medium-sized enterprises                                                                                             |
| OECD   | Organization for Economic Cooperation and Development                                                                                  |
| OMJ    | Opportunities for the Majority Sector                                                                                                  |
| OVE    | Office of Evaluation and Oversight                                                                                                     |
| OVEDA  | Office of Evaluation and Oversight Data Analyzer                                                                                       |
| PBL    | Policy-based loan                                                                                                                      |
| PBP    | Programmatic policy-based loan                                                                                                         |
| PMR    | Program monitoring report                                                                                                              |
| PND    | Plan Nacional de Desarrollo [National Development Plan]                                                                                |
| PNL    | Política Nacional de Logística [National Logistics Policy]                                                                             |
| PPP    | Public-private partnership                                                                                                             |
| SCF    | Structured and Corporate Financing Department                                                                                          |
| SENA   | Servicio Nacional de Aprendizaje [National Learning Service]                                                                           |

## ABBREVIATIONS

|        |                                                                                                  |
|--------|--------------------------------------------------------------------------------------------------|
| SGP    | Sistema General de Participaciones [General Revenue Sharing System]                              |
| SGR    | Sistema General de Regalías [General Royalties System]                                           |
| SMEs   | Small and medium-sized enterprises                                                               |
| SNFCH  | Sistema Nacional de Formación de Capital Humano [National Human Capital Formation System]        |
| TC     | Technical cooperation                                                                            |
| UBN    | Unmet basic needs                                                                                |
| UNGRDN | Unidad Nacional para la Gestión del Riesgo de Desastres [National Disaster Risk Management Unit] |

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Colombia is an upper middle-income country with the third largest population and fourth largest economy in Latin America and the Caribbean (LAC). Since 2000, the country has experienced relatively high and stable growth rates (annual average of 4.2%, compared with 3.5% for LAC) and relatively low inflation rates (annual average of 4.8%).

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# Executive Summary

Colombia is an upper middle-income country with the third largest population and fourth largest economy in Latin America and the Caribbean (LAC). Since 2000, Colombia has experienced relatively high and stable growth rates (annual average of 4.2%, compared with 3.5% for LAC) and relatively low inflation rates (annual average of 4.8%). After a countercyclical response to the 2008-2009 world economic crisis, Colombia's fiscal position has strengthened in recent years: the deficit of the combined public sector narrowed from 3.3% of GDP in 2010 to 1% in 2013, reflecting the impact of high oil prices, fiscal reforms, improvements in tax administration, and curtailed spending. In March 2011, as a result of the sound policy framework and the credibility generated by the government's rigorous macroeconomic management, Colombia regained the investment grade status that it had lost in 1999. The poverty rate in Colombia has declined substantially over the last decade, owing to favorable economic performance, progressive income redistribution through fiscal reform, and the introduction of social safety net programs targeting low-income and displaced segments of the population. This trend has been accompanied by significant achievements in terms of reducing unemployment and crime rates and improving access to health and education services.

Despite these gains, Colombia faces structural hurdles that have led to slow productivity growth, with an adverse impact on competitiveness, such as deficiencies in infrastructure and education quality, along with safety issues that affects the business climate. Other challenges are inefficiency in the public sector at the national and subnational levels, the large size of the informal economy, and regional disparities. There are also weaknesses in the institutional capacity of subnational governments, as well as in their ability to exploit their own sources of revenue (including oil royalty revenues). Problems with the national pension system also need to be addressed. In addition, peace negotiations and the post-conflict reconciliation process will probably create fiscal pressures and growing demands for a regional presence by the State, among other challenges. However, the peace process also offers significant opportunities to reduce regional disparities and improve social and economic benefits (especially in agriculture, tourism, and mining).

Colombia has gained access to sources of finance other than the multilateral development banks in recent years, including bond issues on favorable terms in the international financial markets. The Colombian government's plan to accelerate growth is focused on improving the country's infrastructure (expanding public-private partnerships) and supporting the peace process, while its plan to continue addressing inequalities is based on social expenditure programs.

### **THE BANK'S COUNTRY PROGRAM, 2011-2014**

In general, the Bank's country program with Colombia was broad and timely. Approximately two thirds of the program was focused on policy-based loans (PBLs), supported by significant amounts of technical cooperation. The Bank's 2011-2014 program with the Government of Colombia, approved in 2012, was prepared in the wake of floods caused by the La Niña phenomenon, which affected more than 60% of national territory. The program was influenced by the country's interest in expanding Bank support, in particular through fast-disbursing PBLs. The government uses the Bank's financial and technical assistance in a strategic manner, drawing on its technical capacity and the country's access to international financial markets.

In addition to significant financing, the government appreciates other aspects of its relationship with the Bank. In particular, it values (i) the Bank's role as a source of countercyclical lending in times of crisis; (ii) the technical assistance and knowledge transfer that the Bank offers through lending and nonlending operations, as well as through interactions with its specialists; (iii) the Bank's convening power, especially in the area of PBLs; (iv) the continuity that Bank support provides to reform projects amid institutional changes; (v) the Bank's understanding of the region and Colombia's political economy, as well as its willingness to address priority development challenges, which also have political roots; and (vi) the high fiduciary, social, and environmental standards that the Bank's name lends to projects.

The Bank's country strategy with Colombia was aligned with the National Development Plan (PND), and the Bank's program was responsive to country demand. The country strategy centered on 11 sectors in which new operations were approved. Policy reforms focused on five areas: health, labor markets, institutional capacity of the State, transportation, and risk management and climate change. Substantial disbursements were also made through investment loans in the areas of transportation, institutional capacity of the State, access to financial services, social protection, and housing. The Bank used much the same results matrix in its strategy as the PND. Although use of much the same matrix for the strategy offered benefits in terms of efficiency and consistency of measurement, the evaluation indicators for a number of sectors were reduced to overly general measures for the specific interventions within the Bank's portfolio, which complicated their evaluation.

Although the Bank's program quickly adjusted to shifts in government priorities and needs, the effectiveness of its actions was reduced in some areas. Given that only two of the six programmatic series were completed as planned, several medium-term policy reforms were left pending; this reduced the effectiveness of the interventions and the Bank's value-added as a development partner. Of seven programmed investment loans prepared at a cost of US\$1.279 million, six were not approved, and one was canceled immediately after approval. As a result of changes in financing requirements and, in some cases, the substitution effect, the originally programmed loan amounts also fluctuated significantly, particularly in the case of PBLs. A health PBL originally planned for US\$100 million was ultimately approved for US\$250 million, while the parallel investment loan for that sector was not approved. The same occurred for labor markets: a PBL originally planned for US\$100 million was ultimately approved for US\$400 million, while the US\$100 million investment loan was prepared but not approved.

During the period evaluated, Colombia received the largest number of technical cooperation operations of any country (82). Around 70% of these were executed by the Bank. Colombia ranked third (after Brazil and Peru) in terms of the amount of technical cooperation funding. While Bank execution of technical cooperation operations can lead to greater efficiency, it also imposes high administrative and fiduciary costs on the Bank and reduces the program's impact on country institutional capacity development. Around 40% of the total value of technical cooperation was tied to the PBL portfolio, providing significant technical and institutional inputs to policy reforms, as well as direct support for PBL policy conditions and sector support in the five target areas.

The Bank has limited to options in working directly with the country's departments and municipios since loans to subnational governments require a guarantee from the national government, which is not always available. As an alternative, the Bank approved a conditional credit line for investment projects (CCLIP) for Fiscal

and Public Investment Expenditure Strengthening in Subnational Entities (CO X1018), in the amount of US\$600 million. Financiera de Desarrollo Territorial S.A. (FINDETER), a state-run second tier bank that enjoys a sovereign guarantee, channels the resources through first-tier banks. This instrument clearly represents a source of finance for subnational governments, yet the eligibility requirements for the program rule out the municipios most in need, which are those with limited institutional capacity.

## IMPLEMENTATION AND OUTCOMES

The Bank supported several sectors relevant to the country's development challenges. This support included investment and policy-based loans, as well as technical assistance, and yielded development benefits, particularly in the transportation, fiscal and municipal management, health, and social protection sectors, which have also been a focus of the Bank's long-term commitment to the Government of Colombia. In other areas, the results were more limited: labor markets, education, access to financial services, housing, and water and sanitation. Loans in trade and science and technology had a low level of execution, so it was not possible to evaluate their outcomes.

Bank support in the transportation sector was highly relevant. It focused on supporting modernization and institutional capacity building, promoting public-private partnership arrangements, and implementing public policies for national logistics, urban transportation, and road safety. This new focus on public policies, institution-strengthening, and innovative financing partnerships represented a significant shift with respect to previous country strategies. It was an innovative set of coordinated interventions with an emphasis that went beyond the traditional approach of financing investment in transportation networks. Despite these gains, the programmatic policy-based loan (PBP) series was not completed after the first loan. Nonetheless, the Government of Colombia has made progress on a number of pending reforms. At the same time, although there were achievements in the areas of infrastructure, institution-strengthening, financing, and sector policies, implementation of the urban transportation portfolio was subject to delays owing to a number of factors that limited the results achieved thus far in this area.

Bank support was aimed at improving efficiency in government, focusing on defense of the State against lawsuits, transparency and accountability in the royalties system, and building the capacity of subnational governments through the creation of fiscal stability. The PBP series supported fiscal stability through the consolidation of subnational fiscal responsibility based on greater efficiency in the funds transferred to these governments, improved quality of subnational fiscal data, and an increase in subnational tax revenue intake. The two supporting technical cooperation operations helped to produce major inputs for the technical and policy work of the Fiscal Support Department (DAF)

of the Ministry of Finance. Investment loans in institutional capacity of the State faced execution difficulties on account of a number of factors, including problems with budget allocations. Disbursements have not yet begun under the new fiscal programmatic PBL (loan CO L1142) approved in December 2014.

The Bank's vision for health sector reform emphasized preventive care, with support provided in the form of a PBP series comprising two loans (completed), and four parallel technical cooperation operations. An accompanying investment loan was canceled before it was approved. The four technical cooperation operations have generated high-quality strategic technical inputs for design and implementation of the health reform. The policy matrix conditions of the PBP series represent a relevant and appropriate selection of policies necessary to advance the sector reform. Nonetheless, one of the policy conditions in the matrix for the first operation (submission of draft Law 210 to Congress) was not followed up on in the matrix for the second operation (the law was not approved).

Bank support for the workforce training system focused on a reform to create a national human capital formation system, alongside a strategy for human capital management. It included a PBP for US\$500 million, which was disbursed. However, preparation and execution turned out to be difficult, and outcomes to date have been very limited. The PBP series of three operations was canceled after the second program owing to institutional and coordination problems. The policy matrix for second operation, which originally contained policy measures of substance, underwent changes that diminished the depth of these conditions as a result of a lack of progress in execution. Reform of the Government of Colombia is based on a model from England, but the institutional capacity elements of this model do not seem to have received full consideration in the local design. Moreover, a parallel investment loan to assist the government agency responsible for technical and vocational training, the National Learning Service (SENA), in improving service effectiveness was canceled shortly prior to approval owing to a lack of political commitment. While the PBP series yielded limited results and the investment loan was canceled before going to the Board, the parallel technical cooperation operation (US\$600,000) produced several major inputs for the reform process, including a pilot project for job skills and a national household survey module in the area of human capital formation.

Bank support to the environment sector centered on two programmatic PBL series—one in 2009 and another in 2011—for disaster risk and climate change management. Thus far, the PBL series on climate change and the PBL series on disaster risk management have been interrupted following approval of the first loans, limiting the impact of the full program of reforms. As an immediate response to the emergency caused by serious flooding in several parts of the country in 2010-2011, the Bank approved the second series of



PBLs for institution-strengthening, as well as mitigation activities in line with international standards. In addition to the two PBL series, the Bank approved six related nonreimbursable operations (five technical cooperation operations and one Global Environment Fund project) for a total of US\$5.65 million. Although both PBL series included policy conditions for the strengthening of coordination and knowledge transfer between the central and local governments, this policy has been particularly difficult, and there is little evidence that significant contributions have been made in the areas of climate change and natural disasters at the subnational level. However, the outputs of the technical cooperation operations helped to maintain sector dialogue and provided a certain continuity to reform programs.

## CONCLUSIONS AND RECOMMENDATIONS

Although Colombia has made significant progress in a number of areas, it faces development challenges and opportunities that will require diverse and innovative solutions at both the national and subnational government levels. Although Colombia enjoys access to international capital markets, the government values its relationship with the Bank, particularly the opportunity to combine financing with technical assistance.

OVE offers the following recommendations to make the Bank's support more effective, as a development partner for Colombia:

1. Strengthen the design, monitoring, and completion of PBL series to avoid interruptions in the Bank's comprehensive support for priority sectors, and ensure that development objectives are met in a sustainable manner. When PBL series are interrupted, it is recommended that these be removed from the lending program, and a project completion report prepared for the truncated series.
2. Strengthen risk analysis during project design and periodically reevaluate and reprioritize the lending program based on dialogue between the Bank and the Government of Colombia, with a view to lowering the cost of projects prepared but unapproved or canceled.
3. To lower the cost to the Bank of the program of technical cooperation operations, give priority to those linked to the Bank's strategy and lending program and increase the proportion of new technical cooperation operations executed by the client. In providing technical assistance, "fee-for-service" instruments may be useful for meeting client demands that cannot be met using nonreimbursable technical cooperation operations.

4. Strengthen country dialogue and continue exploring ways to become operationally involved with subnational entities, seeking innovative options that utilize sovereign guaranteed and non-sovereign guaranteed, technical cooperation, and fee-for-service instruments.
5. Consider expanding the Bank's involvement in rural development, given the persistence of regional disparities and the emergence of new work areas expected as a result of the peace process.

1



The country's economic performance over the 2000-2013 period was good, reflected in relatively high rates of GDP growth (4.2% annual average) that surpassed the average for Latin America (3.5%).

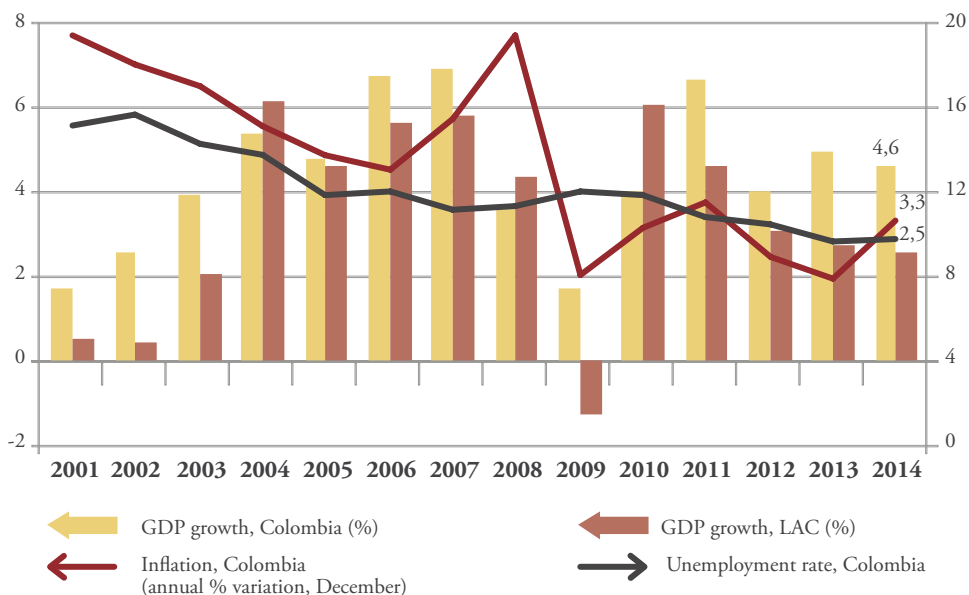
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# 1

# Background of the Country Program

Colombia is an upper middle-income country with a population of 47.9 million, the third largest in Latin America (National Administrative Department of Statistics (DANE), 2014). Its economy is the region's fourth largest after Brazil, Mexico, and Argentina, and it enjoys abundant natural resources. Per capita income at purchasing power parity was US\$11,189 in 2013, compared to an average of US\$12,667 for Latin America and the Caribbean (LAC) as a whole.<sup>1</sup> The country's economic performance over the 2000-2013 period was good, reflected in relatively high rates of GDP growth (4.2% annual average) that surpassed the average for Latin America (3.5%)<sup>2</sup> (see Figures 1-2 and Annex I.1).



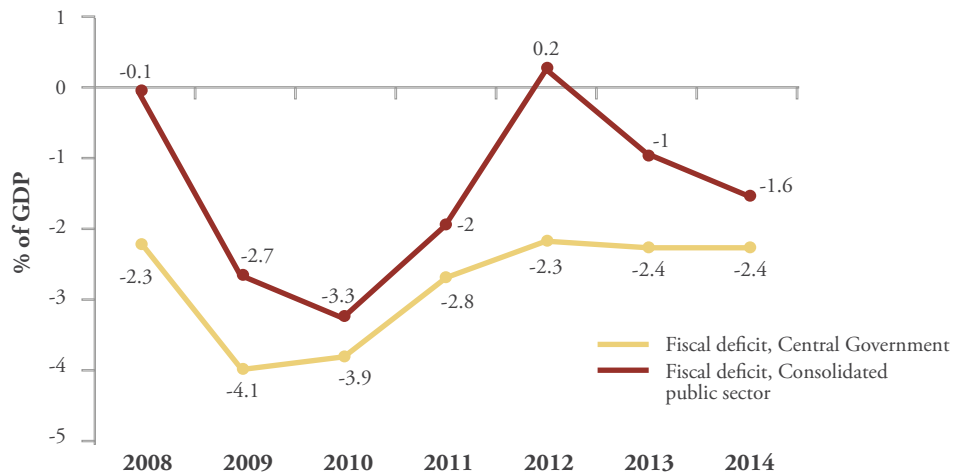
**FIGURE 1**  
GDP growth, inflation, and unemployment, 2001-2014

Source: OVE calculations with data from DANE (National Household Survey), Banco de la República, and the IMF's World Economic Outlook database.

\* Data to July 2014.

**FIGURE 2**  
**Fiscal deficit (% GDP)**

*Source:* Prepared by OVE based on the IMF (2014), Colombia Article IV Consultation, and the Economist Intelligence Unit's February 2015 Country Report, with data from the Ministry of Finance and Public Credit. Data for 2013 and 2014 are estimates. The consolidated public sector includes the central and subnational governments, social security, and state-run enterprises, but excludes Ecopetrol.



Economic performance in recent years has benefited from favorable external conditions, such as the strong impact of the commodity price boom (particularly oil after 2004), rapid growth in the two decades ending in 2007, and ample access to international capital markets on highly favorable terms from the mid-2000s onwards.

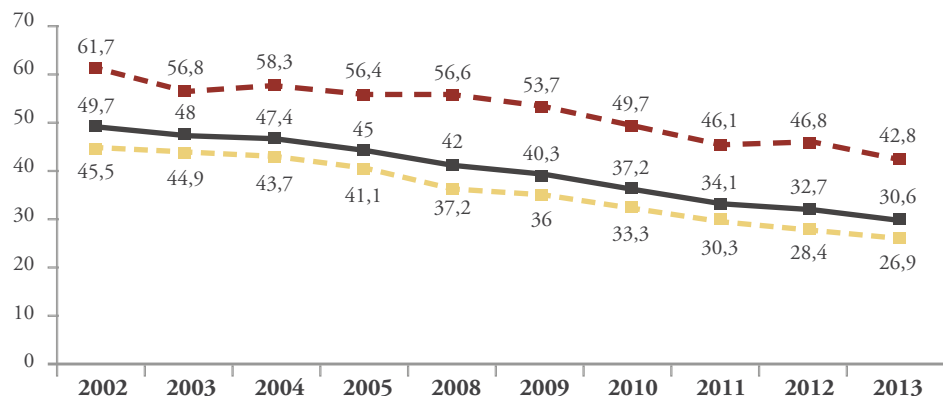
Colombia has also benefited from the institutionalization of a sound fiscal and macrofinancial policy framework. This framework includes the adoption of a structural fiscal rule for the central government; implementation of an inflation-targeting regime by Banco de la República; a flexible exchange rate policy; and effective oversight and regulation of the financial system. In 2011, based on the resulting credibility of macroeconomic management and progress in the area of security, the risk rating agencies restored Colombia's investment grade status for sovereign debt, which had been lost in 1999. As a consequence, the government issued several sovereign bonds on the international market in 2011-2013 at favorable rates.

As a result of the favorable economic performance and the introduction of social protection programs, poverty has declined significantly over the last decade, although substantial regional and urban-rural inequalities remain. According to official data (DANE), poverty declined from 49.7% in 2002 to 30.6% in 2013, while extreme poverty fell from 17.7% to 9.1% (see Annex I.2). Despite this progress, poverty levels remain relatively high compared to other countries with similar levels of income per capita (see Annex I.3). In terms of income inequality, the GINI coefficient fell modestly from 2002 to 2013 (0.57 to 0.54), but remains one of the highest in the world.

Although the labor market has traditionally recorded persistent, high rates of unemployment, the rate of open unemployment recently fell below 10%. Levels of informality are also thought to have declined in recent years, although they continue

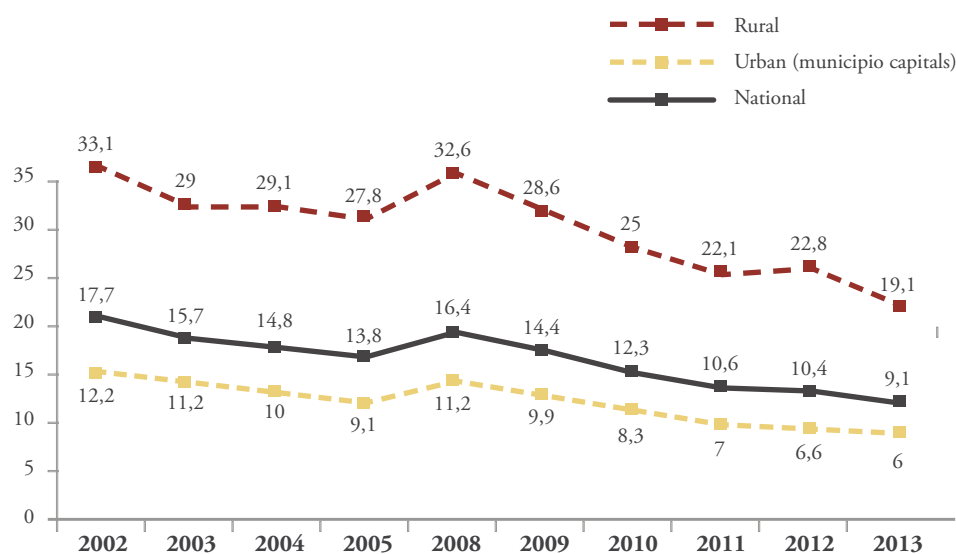


to range from 50% to 74% depending on the measurement used (International Labor Organization, 2012; World Bank, 2012). Women’s participation in the workforce remains low. Weak educational attainment, combined with high minimum wages and labor costs, are obstacles to employment opportunities in the formal sector.<sup>3</sup>



**FIGURE 3**  
Moderate poverty (%)

Source: DANE, Ongoing Household Survey (ECH) 2002-2006; and Large-scale Integrated Household Survey (GEIH), 2008-2013.



**FIGURE 4**  
Extreme poverty (%)

Source: DANE, Ongoing Household Survey (ECH) 2002-2006; and Large-scale Integrated Household Survey (GEIH), 2008-2013.

Persistent poverty and productivity differentials are the result of educational deficiencies and the challenges that poor segments of the population face in accumulating human capital.<sup>4</sup> Although Colombia has significantly increased enrollment rates at the preschool, primary, and secondary levels, weaknesses remain in educational quality and outcomes. An example of this is the results of the 2012 Program for International Student Assessment (PISA), in which the country ranked 62nd in mathematics out of 65 participating countries (OECD, 2013). At the same time, enrollment in upper secondary and higher education remains a challenge, and a significant share of graduates lack the skills necessary for success in the labor market.

Given its close ties with the rest of the world, the Colombian economy is exposed to a series of vulnerabilities of external origin. The most notable risks are the recent drop in commodity prices, particularly oil; a possible deterioration in global financial conditions related to the normalization of monetary conditions in the United States and its impact on the emerging economies; and possible growth shocks in major trading partners, which could reduce demand for Colombian exports. Regional turbulence could also have negative effects through commercial and financial channels (IMF (2014), Colombia Article IV Consultation). The recent drop in the price of oil (which accounted on average for 50% of total exports in 2011-2013) is an important factor, particularly given its impact on tax and export revenues. The IMF's last Article IV Consultation report estimates that for each US\$10 drop in the price of oil, exports would fall by around US\$3.3 billion (0.9% of GDP), and tax revenues by 0.4% of GDP. The recent depreciation of the Colombian peso has helped to somewhat cushion the impact of the lower oil prices; the value of the U.S. dollar rose 37% in local currency between mid-2014 and early April 2015.

Colombia has suffered more than 50 years of domestic armed conflict, with adverse consequences for its economy and social fabric. One of the most important goals of the administration of President Santos is to continue peace negotiations with the main guerrilla group, Fuerzas Armadas Revolucionarias de Colombia [Revolutionary Armed Forces of Colombia] (FARC), with the objective of bringing the armed civil conflict to an end. Although concerns persist in relation to the speed, temporary nature, and breadth of the negotiations, as well as those participating in them, Law 1448 known as the "Victims and Land Restitution Act" was approved in 2011. This law provides mechanisms to fully support and increase recognition of the victims of the conflict. The reconciliation process entails fiscal pressures, including more demands on the State for a greater regional presence, as well as economic and social benefits that are expected to come when the negotiations are complete. Peace will create a positive environment for public investment and poverty reduction, especially in rural areas. One issue in particular that needs to be addressed is service delivery for populations displaced during the conflict (see Annex I.4).

Available indicators suggest that a number of factors of a structural nature, particularly deficiencies in infrastructure and human capital, security problems, and other factors affecting the business climate, have led to slow growth in productivity and harmed competitiveness. According to the World Economic Forum's Global Competitiveness Index, Colombia fell from sixty-third place in 2006-2007 to sixty-ninth in 2013-2014, out of a total of 148 countries.<sup>5</sup> Analysis of the components of the index identifies the following main factors adversely affecting competitiveness: deficiencies in transportation infrastructure and quality of the education system, low capacity for innovation, relatively weak institutions, and levels of corruption that remain significant.<sup>6</sup>

In 2010 the Government of Colombia began to implement a series of initiatives to strengthen the fiscal framework. At the end of that year a tax reform was adopted, aimed at expanding the tax base. In June 2011, Congress also approved a structural fiscal rule for the central government, the principal objectives of which are to underpin fiscal sustainability through a reduction in public debt; to facilitate countercyclical fiscal policy (mainly through the improved management of extraordinary fiscal revenues); and to help improve the coordination of monetary and fiscal policies. The new fiscal framework was further strengthened through the approval of constitutional amendments. These amendments were aimed at adopting fiscal sustainability as a “constitutional criterion,” and at reforming the General Royalties System (SGR) to achieve a more equitable distribution among regions and save a portion of royalties in a Subnational Savings and Stabilization Fund. In addition, a new tax reform was approved in late 2012, aimed at enhancing the redistributive impact of taxation and promoting employment expansion in the formal sector through a reduction in nonwage labor costs.

As economic growth accelerated, the government responded appropriately with a tapering of the fiscal stimulus in effect since the 2008 financial crisis. Together with improvements in tax administration, high oil prices, and appropriate expenditure management, the impact of the tax package adopted in 2010 facilitated a significant improvement in public finances. In 2013, the central government deficit remained largely stable at 2.4% of GDP (equivalent to a structural deficit of 2.5%), in line with the fiscal rule. At the same time, the consolidated nonfinancial public sector recorded a deficit of approximately 1% of GDP, due mainly to the execution of deferred expenditure by subnational governments (following delays in oil revenue transfers). Preliminary estimates indicate that in 2014 the central government deficit in GDP terms stayed at about the same level as 2013, meeting the structural deficit target included in the fiscal rule. Public debt declined from 37.0% of GDP in 2010 to 35.2% in 2013 (IMF (2014), Colombia Article IV Consultation). Approximately 70% of total public debt is domestic, and a high proportion of external public debt (more than 75%) is at fixed interest rates.

Medium-term growth expectations are affected by the decline in oil prices and a general deterioration in global financial conditions. After estimated growth of 4.6% in 2014, GDP is projected to rise at a rate of 3.5% in 2015, returning gradually to its potential annual growth rate of 4.5% over the medium term, sustained by private sector expansion. However, there is concern as to the potential impact on growth and the public finances of even lower oil prices, higher U.S. interest rates (if unaccompanied by an increase in the rate of growth there), and possible negative shocks affecting key trading partners.



Persistent poverty and productivity differentials are the result of educational deficiencies and the challenges that poor segments of the population face in accumulating human capital. Although Colombia has significantly increased enrollment rates at the preschool, primary, and secondary levels, weaknesses remain in educational quality and outcomes.

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In relation to the public finances, the fiscal rule envisions a reduction in the central government structural deficit from 2.4% of GDP in 2013 to 1% in 2022, with an intermediate target of 1.9% for 2018. This would allow a reduction in public debt to around 25% of GDP in 2024. To preserve tax revenue intake, in December 2014 Congress approved the extension and modification of a number of tax measures set to expire at the end of the year (including the wealth tax and the 0.4% tax on financial transactions that would be eliminated in 2019). To meet the central government structural deficit reduction targets of the fiscal rule, the medium-term fiscal framework calls for reduced spending as a proportion of GDP, which would limit the ability to accommodate additional pressures of social spending and infrastructure.

At a structural level, Colombia faces challenges of a different nature, such as (i) improving transportation infrastructure to expand market access and help reduce inequalities among regions; (ii) raising the quality of the education

system to achieve a more competitive economy and further a reduction in informality; (iii) continuing to ensure citizen security, as well as an enabling business climate for investment; (iv) expanding credit access and financial inclusion; (v) consolidating a sustainable and inclusive pension and health system; and (vi) strengthening the institutional capacity of subnational governments, particularly in relation to financial and public investment management, as well as monitoring and evaluation focused on the attainment of results, generation of own revenues, and transparency and citizen oversight to ensure the success of reforms under way.





Subnational entities are one of the main agents of development in Colombia under decentralization, since the municipios are responsible for decisions on investment in infrastructure and services and have access to additional investment funding under the recent reform of the royalties system.

# 2 The Bank's Program with Colombia, 2011-2014

**At the end of 2013, Colombia's debt of US\$6.178 billion with the IDB accounted for approximately 17.3% of external public debt and 42.5% of debt with multilateral and regional agencies (IDB, World Bank, and CAF). There have been small variations in total external debt in recent years, and the level is expected to reach 25% of GDP in 2014 (Banco de la República), relatively low in comparison with other countries of similar development.**

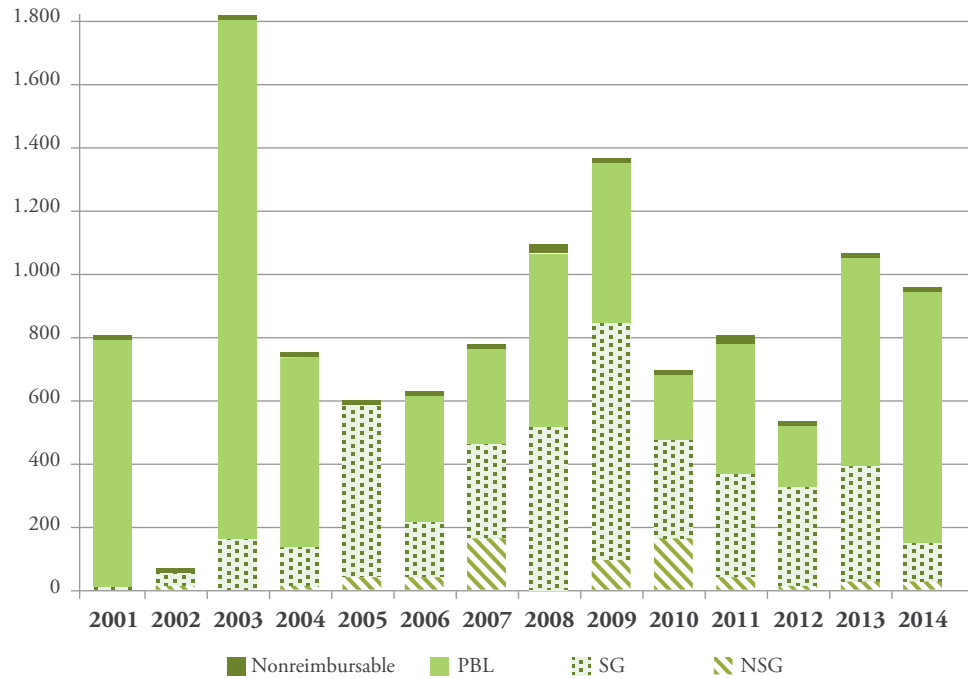
The Bank is a significant source of financing for the country. Since 2002, lending levels have exceeded US\$500 million per year. The Bank has also played an important role in providing countercyclical financing through fast-disbursing policy-based loans (PBLs): over US\$2.7 billion from 1999 to 2003 to assist with the country's recession; almost US\$2.1 billion in 2008 and 2009 during the international financial crisis; and US\$700 million in 2011 to support emergency expenditure linked to the torrential rains and flooding caused by the La Niña phenomenon, which affected 60% of the country. More recently, and despite Colombia's increased access to other sources of finance (such as the international private capital markets), the Bank has continued to provide solid financing and technical assistance support to the country, with loan approvals totaling more than US\$1 billion per year in 2013-2014.

This evaluation includes 34 loans approved by the Bank in the period from January 2011 to December 2014 for US\$3.272 billion (see Annex II.1). It also includes 17 loans in execution<sup>7</sup> as of December 2010 with an undisbursed balance of US\$1.14 billion. Of the new approvals (2011-2014), around 63% of the financing was for budgetary support, with eight PBLs for US\$2.07 billion in the sectors of health, labor market, fiscal and municipal management, transportation, and environment/risk management. The other 26 were investment loans, including 19 sovereign-guaranteed operations totaling US\$1.148 billion and 7 non-sovereign guaranteed (4 loans and 3 guarantees) totaling US\$54 million. Four private sector guarantees were also approved for US\$44 million.



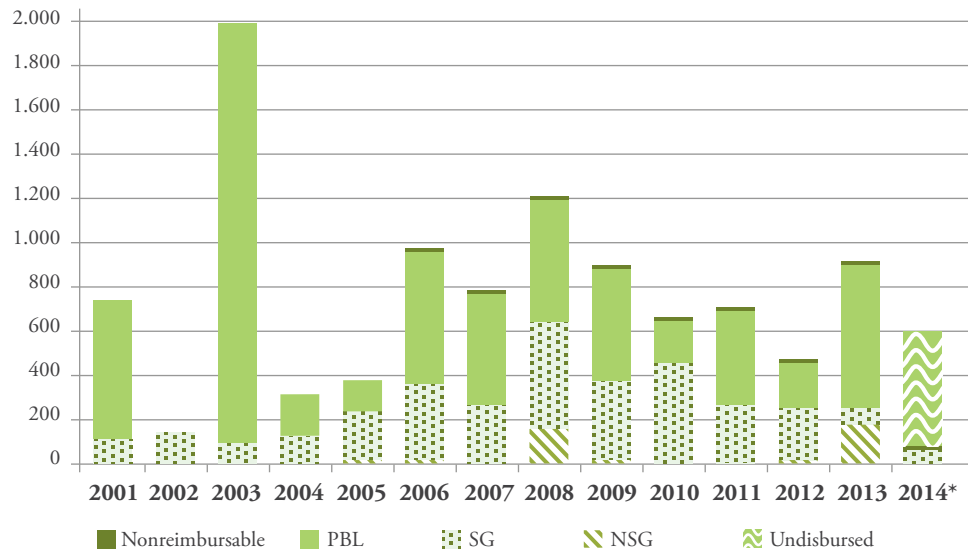
**FIGURE 5**  
**Annual approvals**  
**(US\$ million)**

Source: OVE/OVEDA and OPS.  
Current approved amounts. PBLs  
also include emergency loans.  
\* Preliminary data. Amounts  
excluding IIC.



**FIGURE 6**  
**Annual disbursements**  
**(US\$ million)**

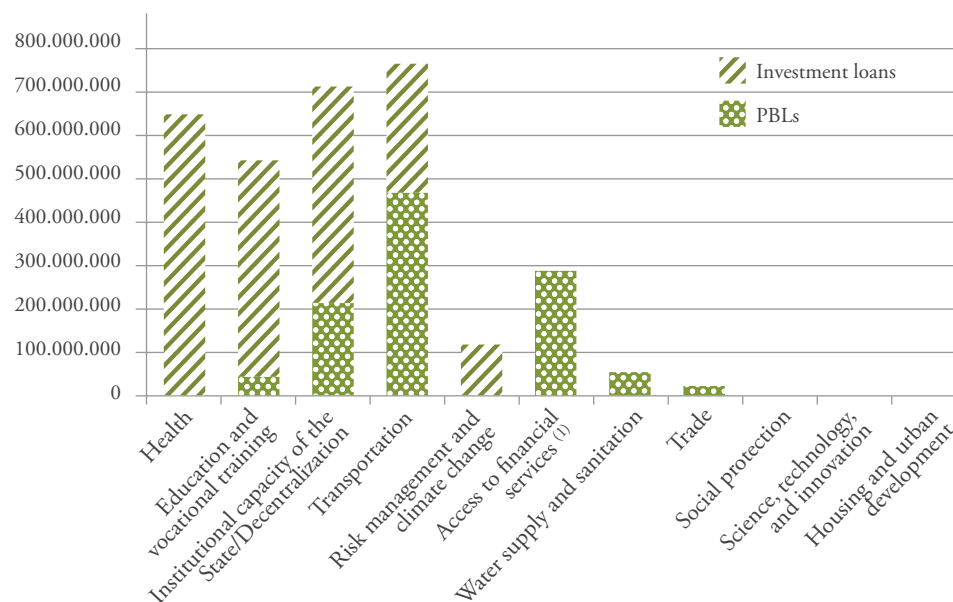
Source: OVE/OVEDA and OPS.  
Current approved amounts. PBLs  
also include emergency loans.  
\* Preliminary data. Amounts  
excluding IIC.



## A. THE BANK'S SECTOR RELEVANCE

The IDB's general program for Colombia was relevant and complemented the sector development plan of the Government of Colombia (Ministry of Finance and Public Credit and National Planning Department (DNP)). Since the election of President Santos in 2010, Bank dialogue with the Government of Colombia has focused on the National Development Plan (PND)<sup>8</sup> titled

“Prosperidad para Todos, 2010-2014” [Prosperity for All, 2010-2014]. As a result, the key areas of the IDB country strategy with Colombia (2012-2014) are based on the priorities included in the PND, which encompasses all of Colombia’s economic sectors. For the strategy and operational programming, the Bank and the government agreed to focus on the following 11 priority areas: (i) transportation; (ii) science, technology, and innovation; (iii) trade; (iv) access to financial services; (v) education and vocational training; (vi) social protection; (vii) health; (viii) water supply and sanitation; (ix) housing and urban development; (x) risk management, and (xi) governance, modernization of the State, and decentralization (see Annex II.2). Based on the information gathered, the selection of sectors for PBL loans was determined based on those sectors where reform processes were most significant and advanced, as well as those where the Bank could provide greatest technical support.<sup>9</sup>



**FIGURE 7**  
**Approved PBLs and investment loans by sector, 2011-2014 (amounts approved, US\$)**

Source: OVE/OVEDA.  
(1) Includes operations of the Capital Markets and Financial Institutions Division (ICF/CMF). The white square represents SCF and OMJ loans. The MIF and the IIC are not included. Canceled operations are not included.

The Bank has concentrated its PBL program with Colombia in five areas (Figures 7 and 8). From 2011 to 2014, PBLs totaling more than US\$2 billion were approved. Of these, 31.4% related to the health sector (two PBLs for US\$650 million), 24.5% to labor markets (two PBLs for US\$500 million), 24.2% to the institutional capacity and State reform sector (two PBLs for US\$500 million), 14.5% to transportation (one PBL for US\$300 million), and 5.8% to risk management and climate change (one PBL for US\$120 million). The Bank has also provided financing for significant investments in sectors such as transportation, institutional capacity of the State, access to financial services, social protection, and housing.



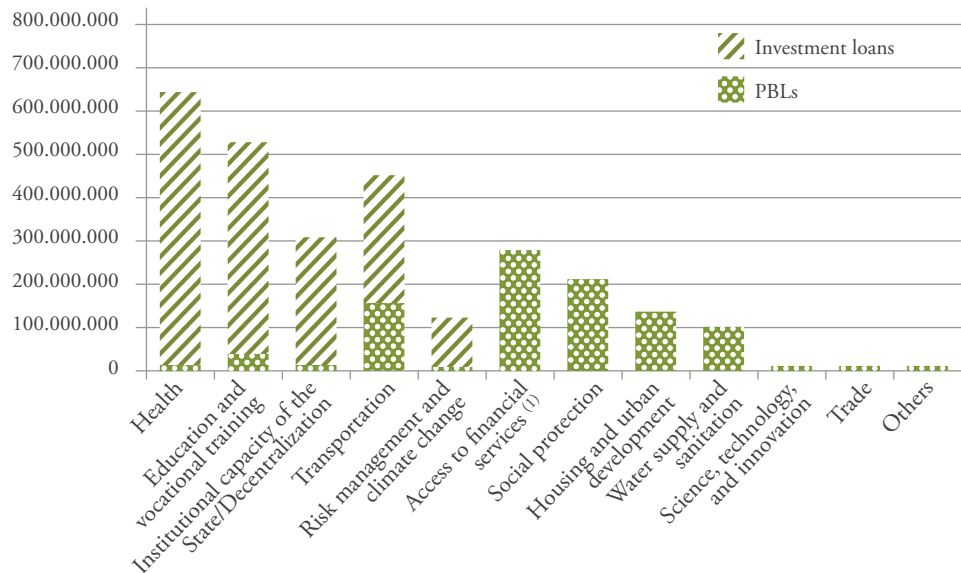
**FIGURE 8**

**Amounts disbursed by sector, 2011-2014\* (US\$)**

Source: OVE/OVEDA.

(1) Includes ICF/CMF operations. The SCF, OMJ, MIF, and IIC are not included. "Others" includes agriculture and energy.

\* Figures for 2014 are preliminary.



The Bank’s program in Colombia is broad in scope, and the number of sectors included in the country strategy is high relative to other countries. However, a large part of the current strategy appears to be determined by the medium and long-term relationship that the Bank has had, and continues to have, with the Government of Colombia, particularly in certain sectors. For example, of the 11 sectors in the current strategy, all of them (with the exception of trade) had operations in execution that were approved during the previous strategy period. This is explained in part by the fact that the strategy sectors correspond to those in the PND. In addition, the DNP asked the IDB to use the same results matrix in its strategy as the PND. Although use of much the same matrix for the current country strategy offers benefits in terms of efficiency and consistency of measurement, the evaluation indicators for many sectors were reduced to general measures, some of them irrelevant given the specific interventions within the Bank’s portfolio, which complicated evaluation of the sectors in the strategy.

**B. THE BANK’S FINANCIAL RELEVANCE**

During the current strategy period, the Bank remained an important source of financing for Colombia. Government of Colombia borrowing from international financial institutions, including the Bank, grew significantly over the 2002-2012 period. Despite a decline in external debt from 47% of GDP to 28%, the share of multilateral organizations in that debt rose from 30% to 42% (see Annex I.3). The share of these organizations has fallen more recently, but it remains significant. Under the current 2012-2014 country strategy with the Bank, average annual loan approvals were projected at US\$852 million (sovereign-guaranteed only): equivalent to approximately 18% of external public borrowing and 0.22% of GDP. These loans constituted an important source of financing, given that in 2014 Colombia’s total annual financing requirement was estimated at around 6% of GDP. In fact, Colombia did not reduce its exposure to the IDB over the strategy period, despite its success in strengthening public finances and attaining investment grade status.

Although Bank financing levels were maintained during the evaluation period, their cost is an increasingly important factor in the country's decision to work with the Bank. The Medium-term Debt Management Strategy for 2013 and the Public Credit Commission clearly specify that the cost of multilateral loans must be competitive with the markets in order to justify borrowing.<sup>10</sup> This means that there is little public sector borrowing from the Development Bank of Latin America (CAF), and CAF loans are channeled to the private sector. From 2002 to 2012, Colombia paid the lowest credit fees on loans in relation to disbursements of any Bank borrowing member country (see Annex II.3). This owed in part to the high proportion of fast-disbursing loans received by the country, since the credit fee is paid on undisbursed balances.

In addition to the significant financing provided by the Bank, the government appreciates other aspects of its relationship with the institution. In particular, it values: (i) the Bank's role as a source of countercyclical lending in times of crisis; (ii) the technical assistance and knowledge transfer that the Bank offers through lending and nonlending operations, as well as through interactions with its specialists; (iii) the Bank's convening power;<sup>11</sup> (iv) the continuity that Bank support provides to reform projects amid institutional changes; (v) the Bank's knowledge of the region and Colombia's political economy, as well as its willingness to address priority development challenges, which also have political roots; and (vi) the high fiduciary, social, and environmental standards that the Bank's name lends to projects.

### **C. CROSSCUTTING THEMES IN THE COUNTRY STRATEGY: INSTRUMENTS AND COUNTRY SYSTEMS**

Most financing received by the country consists of budgetary support. Country demand is for a mix of PBLs, investment loans, and technical cooperation (both reimbursable and nonreimbursable), yet PBLs represent 68% of total financing.<sup>12</sup> The PBLs are small in number but large in terms of their amount. They are also flexible and predictable in terms of their disbursements. Access to PBLs that disburse within a specific and predictable time period is crucial for Ministry of Finance financial planning, given that Colombia normally issues bonds in January and September.

Although the six programmatic PBL series were logically consistent, only two of them were completed. Table 1 presents the six sectors in which programmatic PBL (PBP) series were approved by the Bank. The series that were not completed are shaded. The PBLs were designed to support a medium-term reform program. The scope of the reform was truncated, affecting program impact and the medium-term development impact of Bank support in the sectors. It was found that the initial commitments contained in the series were often of low or medium structural depth,<sup>13</sup> with a high level of structural depth in the commitments under subsequent phases. However, in some cases the government continued to move ahead with the reform process without the Bank program.

**TABLE 1. NUMBER OF POLICY CONDITIONS CONSIDERED TO BE OF HIGH STRUCTURAL DEPTH**

| <b>Programs shaded indicate that the programmatic series was cut short.</b> |                                                        |                         |                  |
|-----------------------------------------------------------------------------|--------------------------------------------------------|-------------------------|------------------|
| <b>Sector</b>                                                               | <b>#Number of loans in the programmatic PBL series</b> |                         |                  |
| <b>1. Health</b>                                                            | <b>Program 1 (2013)</b>                                | <b>Program 2 (2014)</b> |                  |
|                                                                             | 0                                                      | 2                       |                  |
| <b>2. Subnational fiscal reform</b>                                         | <b>Program 1 (2010)</b>                                | <b>Program 2 (2012)</b> |                  |
|                                                                             | 1                                                      | 4                       |                  |
| <b>3. Transportation</b>                                                    | <b>Program 1 (2011)</b>                                | <b>Program 2</b>        |                  |
|                                                                             | 0                                                      | 6                       |                  |
| <b>4. Labor market</b>                                                      | <b>Program 1 (2012)</b>                                | <b>Program 2 (2013)</b> | <b>Program 3</b> |
|                                                                             | 1                                                      | 0*                      | 3                |
| <b>5. Climate change</b>                                                    | <b>Program 1 (2009)</b>                                | <b>Program 2</b>        | <b>Program 3</b> |
|                                                                             | 0                                                      | 1                       | 2                |
| <b>6. Risk management</b>                                                   | <b>Program 1 (2011)</b>                                | <b>Program 2</b>        |                  |
|                                                                             | 2                                                      | 1                       |                  |

\*Note: The second program originally proposed a high structural depth condition, but this was subsequently changed, reducing the structural depth.

As a result of gaps in the current rules, the monitoring of PBL series is not systematic. An important issue from an evaluation standpoint is that Bank rules do not require project monitoring reports (PMRs) to be submitted for PBPs, although a project completion report (PCRs) showing project outcomes must be delivered once the series is complete. However, there is a gap in the rules relating to those cases in which series are suspended for years without being officially removed from the lending program. In the case of Colombia, no PCRs have been prepared for the four series that were cut short.

The programming of Bank loans in Colombia is relatively volatile. A significant portion of the loans planned for the period were not approved, while other loans not been planned during the programming exercise did end up being approved (see Annex II.4). The value of approved loans (especially PBLs) also varied significantly compared to the originally programmed amounts. For example, the labor markets PBL—originally programmed for US\$100 million—was approved for US\$400 million due to the government’s financing requirements for that year. The health PBL rose from an original amount of US\$100 million to US\$250 million. As a result, there was a net increase of US\$450 million in the value of the PBLs, whereas investment loans increased by US\$133 million in the same period. This was offset by the cancellation of six investment operations included in the original program for a total of US\$329 million. The cancellations also entailed costs for the Bank. The Bank, together with the country, worked on the design of seven investment projects with a preparation cost of more than US\$1,279,000 for the Bank.<sup>14</sup>

The Bank has promoted the use of country fiduciary systems, with mixed results.<sup>15</sup> At the country level, the Bank has been involved in strengthening the procurement framework while the World Bank has led strengthening of the

financial administration system. Partly as a result of the dialogue with the Bank, in 2011 the government created the National Public Contracting Agency, “Colombia Compra Eficiente,” making Colombia the second-to-last country in the region to centralize the procurement function.<sup>16</sup> Despite enjoying more than a decade of operational experience and several technological upgrades, the SIIF-Nación II Integrated Financial Information System has faced major challenges, including rigidity and a lack of interoperability with other central government systems. In the period 2010-2012, as part of the initiative to expand the use of country systems, the Bank and the Government of Colombia conducted a pilot program for use of the Comptroller General’s Office and national audit procedures, financed under the Project for Strengthening Judicial Services (loan CO-L1041). However, the program was less successful than expected due to the lack of a shared vision between the Bank and the Comptroller General’s Office. In 2013, this resulted in a resumption in the hiring of private audit firms by the project executing unit, in accordance with Bank rules.<sup>17</sup>

#### **D. SUBNATIONAL GOVERNMENTS AND THE PRIVATE SECTOR**

zvmunicipios are responsible for decisions on investment in infrastructure and services and have access to additional investment funding under the recent reform of the royalties system. Strengthening the fiduciary capacity of these governments is therefore an important part of local development work. These operating capabilities affect the scope of their responsibilities for strategic planning, revenue intake, service delivery, public spending, and borrowing. For example, the local tax effort in Colombia is associated with better coverage and quality in diverse sectors such as education and water and sanitation.

The Bank has limited options to lend directly to the country’s departments and municipios since loans to subnational governments require a guarantee from the national government, which is not always available. As an alternative, the Bank approved a conditional credit line for investment projects (CCLIP) for Fiscal and Public Investment Expenditure Strengthening in Subnational Entities (CO-X1018), in the amount of US\$600 million. Financiera de Desarrollo Territorial S.A. (FINDETER), a state-run second tier bank that enjoys a sovereign guarantee, channels the resources through first-tier banks. Each operation must be approved individually by the Bank’s Board of Executive Directors. The first operation, in Barranquilla (CO-L1133), provided US\$100 million for subnational infrastructure and fiscal strengthening and is now in execution. This instrument clearly represents a source of finance for subnational governments, yet the eligibility requirements for the program rule out the municipios most in need, which are those with limited institutional capacity. This CCLIP combines multiple municipal credit operations with analytical work components financed by technical cooperation operations under the Emerging and Sustainable Cities Initiative.





Colombia has been working towards universal health coverage for more than 20 years, with progressive advances in social inclusion and income redistribution. Fiscal obligations have been significant owing to increased costs resulting from changes in the country's epidemiological profile (more chronic diseases) and high expenditures on drugs and health technologies.











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Despite these constraints, the Bank managed to provide support to subnational governments, in some cases through loans to the central government and technical assistance. The majority of Bank operations related to State modernization reforms focused on providing direct or indirect support to subnational governments using PBLs and investment loans. The Bank also supported these governments through technical cooperation and knowledge transfer (see Chapter 3). In addition, with projects approved during the previous country strategy or in the first few years of the current one, the Bank supported infrastructure investment projects in poor regions of the country with high population levels, such as housing in Amazonas and Caquetá; roads in Putumayo; mass/public transit in Magdalena, Cauca, and Nariño; and water/sanitation in Nariño. This Bank support also included noninfrastructure loans, such as those in social protection and health, focused on poor and remote communities (health pilot).






During the period evaluated, anticipated growth in Bank lending to the private sector did not materialize. The Opportunities for the Majority Sector (OMJ) financed an innovative project with Medellín's public utility company, Empresas

Públicas de Medellín (EPM), to help its customers build a credit history and thus improve their access to finance. OMJ also financed a similar project with Promigas in the coastal region, as well as other initiatives to promote mortgage financing for low-income housing, but its engagement was generally less than anticipated. The work of the Multilateral Investment Fund (MIF) in Colombia declined significantly over the same period. While the number of Structured and Corporate Financing Department (SCF) operations remained stable compared to the previous period, loan amounts dropped markedly (see Annex II.6). A key Bank operation with the private sector involved financing (via SCF) for expansion of the El Dorado airport (loan CO-L1029, approved in 2010).

#### Infrastructure projects financed by the IDB (2011-2014)

-  Roads for Integration and Social Equality
-  San Francisco–Mocoa Alternate Road Construction Project
-  Education Equity in Bogotá
-  El Dorado International Airport
-  Water and Sanitation Program
-  Medellín River Sanitation Program
-  Low-Income Housing System Consolidation
-  IMTS – Cali
-  IMTS – Bogotá
-  Strategic Public Transportation Systems

#### Unmet Basic Needs Index

|                                                                                     |               |
|-------------------------------------------------------------------------------------|---------------|
|  | 9.2 - 22.95   |
|  | 22.96 - 32.61 |
|  | 32.62 - 40.83 |
|  | 40.48 - 47.67 |
|  | 47.68 - 79.20 |



**CHART 1.**

**Map of infrastructure projects by region and unmet basic needs**

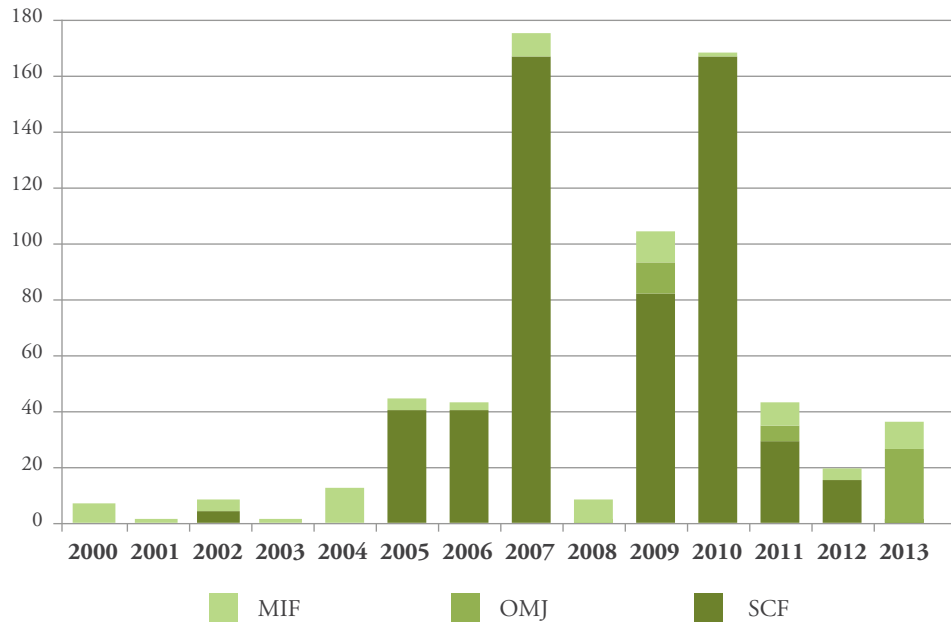
Source: Own calculations based on OVE/OVEDA data.

## E. PROJECT PREPARATION AND EXECUTION TIMES

Preparation times for operations lengthened on average during the period under evaluation, with respect to the previous period. Operations took 4 months longer to prepare in the 2011-2014 period than in the 2007-2010 period: 16 months versus 12.3 months from registration of the operation in the Bank's systems to approval. Execution times have been somewhat faster, but there is still room for improvement (see Chapter 3). Although preparation times were slower, there is a clear trend towards faster execution. The time from eligibility to first disbursement has seen a marked reduction when recent results are compared to those seen in the 1990s (see Annexes II.7) and in the period 2007-2010. Whereas in 2007-2010 this time averaged 5.5 months, in 2011-2014 it shortened to 2.6 months (see Annex II.8).

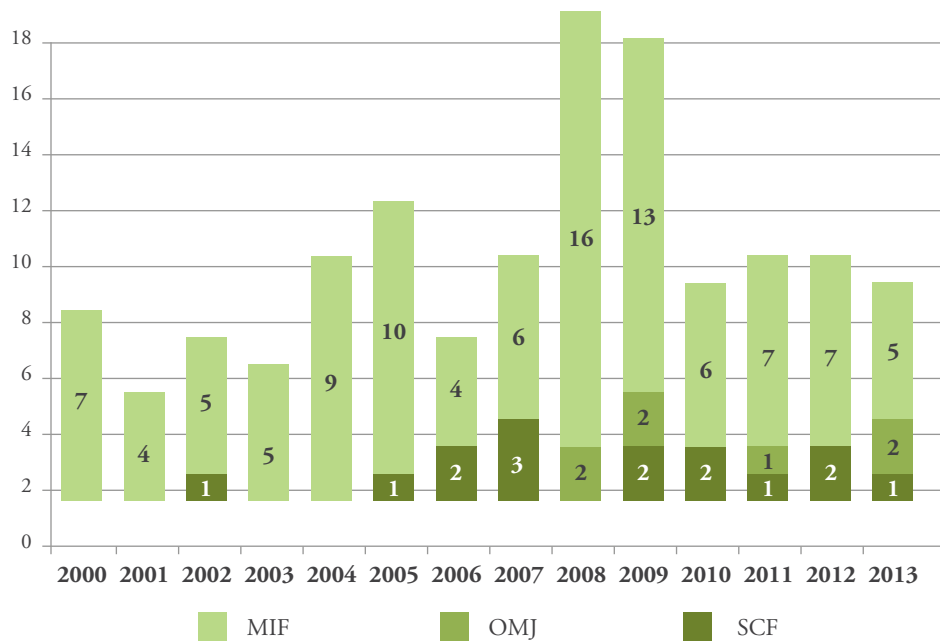
**FIGURE 9**  
**Approved amounts**  
**(US\$ million)**

Source: Own calculations based on OVE/OVEDA data. Current approved amounts. Figures do not include IIC or canceled operations.



**FIGURE 10**  
**Number of approved**  
**operations**

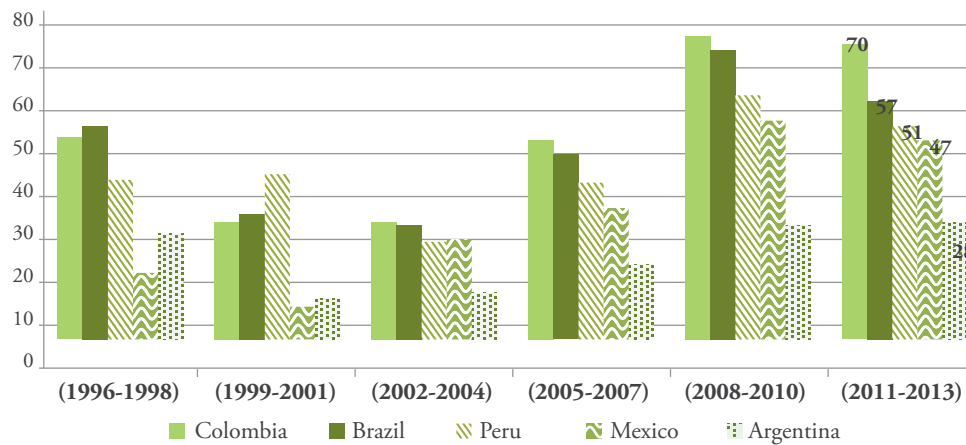
Source: Own calculations based on OVE/OVEDA data. Current approved amounts. Figures do not include IIC or canceled operations.



## F. NONREIMBURSABLE TECHNICAL COOPERATION OPERATIONS, 2011-2014

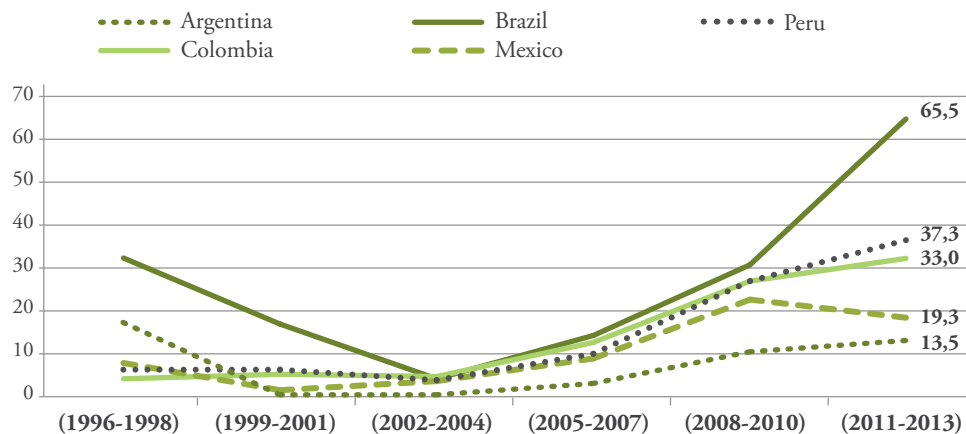
The use of technical cooperation during the evaluation period was significant in terms of both the number of operations and their value. Average annual approvals of these operations, in terms of both numbers and total amounts, rose considerably from 2005 onward, when Fund for Special Operations (FSO) financing declined and the

Bank began to finance technical cooperation with Ordinary Capital. The approved amount for nonreimbursable operations in 2011-2013 totaled approximately US\$33 million, rising to US\$55 million if MIF nonreimbursable operations and small special operations are included (see Annex II.9). In the periods 2008-2010 and 2011-2013, 71 and 70 operations were approved, respectively, representing a substantial increase in the number of technical cooperation operations. During the evaluation period, Colombia received the highest number of technical cooperation operations compared with other upper middle-income countries, although in terms of approved amounts it was surpassed by Brazil and Peru (see Figures 11 and 12).



**FIGURE 11**  
Number of nonreimbursable technical cooperation operations

Source: OVE/OVEDA. Includes nonreimbursable technical cooperation operations funded or administered by the Bank. MIF grants and canceled operations are not included.



**FIGURE 12**  
Approved amount of nonreimbursable technical cooperation operations

Source: OVE/OVEDA. Includes nonreimbursable technical cooperation operations funded or administered by the Bank. MIF grants and canceled operations are not included.

The proportion of technical cooperation operations executed by the Bank also increased. Compared to the previous period, the proportion increased significantly during the period evaluated (see Annex II.10). In 2009, 18% of new approvals were executed by the Bank, while in 2013 this figure increased to 71%. During the interviews held, several sectors of the government expressed an explicit interest in having the Bank execute technical cooperation operations, so as to avoid bottlenecks related to country procurement. Although Bank execution of technical cooperation projects





Strengthening the fiduciary capacity of subnational governments is an important part of local development work. These operating capabilities affect the scope of their responsibilities for strategic planning, revenue intake, service delivery, public spending, and borrowing. For example, the local tax effort in Colombia is associated with better coverage and quality in diverse sectors such as education and water and sanitation.

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can speed up execution (in addition to supporting dialogue and supplementing loan offerings), it also reduces the opportunities for building local capacity and carries greater administrative costs for the Bank.

Technical cooperation operations have provided substantial support for PBLs in Colombia. From 2011 to October 2014, the Bank approved a total of US\$13.08 million in nonreimbursable technical cooperation to directly support PBLs worth US\$2.12 billion in five sectors.<sup>18</sup> This means that almost 40% of the total value of technical cooperation operations (US\$13.08 million out of US\$33 million) was approved in support of PBLs (see Annex II.11).

The country has used the reimbursable technical cooperation instrument in the infrastructure area, and began using the “fee-for-service” instrument in 2014. The Bank approved three reimbursable technical cooperation operations in the transportation sector in 2013, for a total amount of US\$50 million. In 2014 it signed a “fee-for-service” technical cooperation operation with the public corporation Servicio Aéreo a Territorios Nacionales S.A. (SATENA), for an analysis and diagnostic assessment of the institutional and regulatory framework for the commercial air transportation sector. There are other sectors where “fee-for-service” makes sense, even when the nonreimbursable technical cooperation funding is insufficient (see Annex II.12).

## **G. OTHER DEVELOPMENT PARTNERS**

Colombia received support from several different multilateral institutions. The IDB, the World Bank, and the CAF are the country's main multilateral lenders, although the government only receives sovereign-guaranteed loans from the IDB and the World Bank. Colombia also has a flexible credit line<sup>19</sup> with the International Monetary Fund, and enjoys the support of other development partners including the United Nations agencies, Australia, Canada, the European Union, Japan, Korea, Norway, the United Kingdom, and the United States. In 2014, Colombia received budgetary support from bilateral sources (Germany and France) for the first time.<sup>20</sup>





The Bank's portfolio in the urban transportation subsector is relevant and financially significant, but faces serious execution delays. The urban transportation portfolio accounts for almost half of total approvals in the transportation sector during the period. It provides financial support for Integrated Mass Transit Systems in Cali and Bogotá, and includes a global loan to support strategies for public transportation systems in Pasto, Popayán, Armenia, and Santa Marta.



# 3 Program Effectiveness

The analysis in this chapter focuses primarily on the five sectors with programmatic policy-based loan (PBP) series approved during the period.<sup>21</sup> The programmatic series accounted for 64% of approvals and 68% of disbursements during the period (transportation, health, modernization of the State, labor markets, environment and natural disasters). There were also significant disbursements during the period under investment loans to support access to financial services. An analysis of the remaining areas can be found in Annex III.1. Of the six programmatic loan series begun, the full program was completed in only two cases (health and fiscal support), whereas the other four series were cut short. These four are not expected to be completed, and this reduces their development impact (labor markets, transportation, natural disasters, and climate change).

From 2011 to 2014, eight PBLs were approved for a total of more than US\$2 billion. In investment loans, the sectors of transportation, access to financial services, and modernization of the State accounted for more than 80% of the amount approved between 2011 and 2014 (see Figures 7 and 8 in Chapter II).

## A. TRANSPORTATION AND INFRASTRUCTURE

Context and main development challenges. One of the main constraints on Colombia's competitiveness is its deficit in transportation infrastructure and the quality of that infrastructure, especially its road system. The main challenges in the sector involve low levels of public and private investment, institutional weaknesses in the coordination of intermodal policies, and the difficulties created by a slow and complex decentralization process. Given these issues, the Government of Colombia has put the transportation sector at the heart of its development plans for growth and job creation.



Country strategy objectives. Sector objectives were as follows: (a) expand, improve, rehabilitate, and maintain road infrastructure; (b) promote alternative road infrastructure investment and finance vehicles; and (c) implement the national logistics policy and national transportation policy. These objectives were pursued through a range of coordinated PBLs and investment loans, as well as reimbursable and nonreimbursable technical cooperation operations. The new approach marked a significant change with respect to previous strategies and constituted an innovative intervention in relation to the most important public sector policies.

Overall approach, relevance, and value-added of Bank support. The Bank's support was highly relevant given that it focused on the government's main sector strategies: modernization and strengthening of institutional capacity, promotion of public-private partnerships, and implementation of the national policies on logistics, urban transportation, and road safety. The relevance of the Bank's positioning was rooted in this coherence, as well as the depth of the reforms supported and the stability of the interventions. The Bank's value-added was delivered not only by the diversity and depth of the instruments approved, but also through the externalities created by the interagency dialogue associated negotiation of the PBL policy matrices and design of the technical cooperation operations.

During the period evaluated, the Bank approved a total of nine operations for US\$710 million, including four sector investment and policy-based loans and four reimbursable technical cooperation operations aimed at strengthening institutions in the areas of decentralization, road management, logistics, and road safety. The bulk of disbursements were made under one programmatic PBL (PBP) for US\$300 million to support the National Logistics Policy (PNL). The portfolio also included three operations (one loan and two technical cooperation operations) that were approved under the previous country strategy but disbursed largely during the evaluation period. Most of the technical cooperation operations were executed by the Bank.

Main outcomes. Significant progress was made in the areas of institutional modernization and road management. In 2008, operation CO-L1022 financed road network plans in 22 of the country's 32 departments, and also helped to establish road management supervision in all 32 departments and at the Ministry of Transportation. The departments continue to play an important role in planning and budget programming and have helped to ensure the sustainability of investment budget allocation and management processes. The associated technical cooperation operations (12 approved during the period and 6 during the prior period) financed the preinvestment and the necessary technical studies for loan design.

Since the 1990s, the Bank has provided ongoing support for the promotion of public-private partnerships (PPPs) in Colombia. The Bank has supported the institutionalization of PPPs in the transportation sector and has extended this effort to other sectors, providing opportunities to involve the private sector in social

infrastructure projects. Bank financing supported updating of the regulatory framework and development of the new PPP Law (Law 1508), as well as strengthening of the new specialized agencies, particularly the National Infrastructure Agency (ANI). The fourth phase of support, under loan CO L1131 (2013), will facilitate an expansion in the use of PPPs to include departmental governments.

Significant progress was made on the PNL and the National Transportation Policy, driven by long-term Bank support for the process of institutional evolution in these areas. Bank support for implementation of the PNL (CONPES document 3547) was provided through the first loan (US\$300 million) under a PBP executed by the National Planning Department (DNP) over a period of more than two years. This was reinforced by a group of related technical cooperation operations: one reimbursable for US\$15 million (CO L1109), six nonreimbursable for just over US\$3 million (CO-T1230, CO-T1233, CO-T1238, CO-T1237, CO-T1303, and CO-T1239), and one regional economic and sector work (ESW) operation (RG K1011). However, the country has decided not to move forward with the second loan in the series.

Despite this progress, implementation of the PNL has been a difficult process, due especially to the resistance of transportation unions to improvements in the transparency, automation, and control of freight transportation. Other factors that have curtailed progress under the PNL are the dispersion and low level of professional qualifications among freight forwarders; a lack of modern information systems; and institutional difficulties in effectively coordinating public and private agents. One of the objectives of loan CO L1109, approved in 2013 but subject to considerable delays, is to provide continuity and sustainability to the reforms begun, with a view to structuring new PPP processes in the area of freight logistics.

The Bank's portfolio in the urban transportation subsector is relevant and financially significant, but faces serious execution delays. The urban transportation portfolio accounts for almost half (48%) of total approvals in the transportation sector during the period. It provides financial support for Integrated Mass Transit Systems (IMTS) in Cali and Bogotá, and includes a global loan to support strategies for public transportation systems in four mid-sized cities (Pasto, Popayán, Armenia, and Santa Marta). Despite its large size, the operation has been delayed significantly for reasons associated with delays in signature of the cofinancing agreements for the municipal counterparts as well as problems related to the supply of building materials and coordinating work with other agencies operating public utility systems. The delays on the IMTS in Bogotá stem from institutional instability issues (seven mayors from 2008 to 2014), the slow execution of easements, and financing of the new bus rapid transit (BRT) fleet. Nonetheless, the operation was fully disbursed in December 2014. None of the three new loans approved during the period have begun to disburse, and the second phase of the program to support the BRT system in Cali was canceled after the city failed to secure the sovereign guarantee from the central government.



Despite the fact that global unemployment has been falling steadily over the last five years, youth unemployment remains at about 20% and is higher for those without a university degree. A significant share of Colombia's labor force is deficient in skills relevant for the job market, affecting the ability to access high-quality jobs while also generating large wage disparities.

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## B. HEALTH

Context and main development challenges. Colombia has been working towards universal health coverage for more than 20 years, with progressive advances in social inclusion (coverage of the lowest quintile rose from 5% in 1993 to 85% in 2011) and income redistribution. Fiscal obligations have been significant owing to increased costs resulting from changes in the country's epidemiological profile (more chronic diseases) and high expenditures on drugs and health technologies. The system continues to face significant challenges in terms of quality, expenditure efficiency, and funding. The results of efforts to create supervision measures to improve efficiency, transparency, and accountability have fallen short of expectations. Considerable differences persist among regions in service access and quality, particularly in rural areas.

Country strategy objectives and the Bank's approach. The strategic objective of the PND and the country strategy was to enhance health system quality and sustainability. Evaluability of the country strategy is weak in this sector due to the lack of specific indicators in the results matrix. Bank support to the sector was highly relevant given its focus on equity and efficiency of spending. Sector reforms targeted improvements in health outcomes (through access to primary care and service delivery models for different populations), as well as financial protection for users, and efficiency and transparency in the administration of health resources.

During the period, the Bank approved a programmatic series in support of sector policies (Support for Reform of the General Social Security Health Care System), comprising two loans for a total of US\$650 million. Of this, US\$250 million was disbursed during the period under the first loan. Four interrelated nonreimbursable technical cooperation operations (US\$1.96 million) were also approved to support sector reforms, although not all of these were directly related to the PBL policy conditions.

Main outcomes. The four technical cooperation operations are achieving significant results. In addition to providing partial support for fulfillment of the policy matrices of the programmatic series, they provide high-quality strategic technical inputs for the definition of specific issues within sector reforms. For example, technical cooperation operation CO T1318, which is executed by the Bank, finances the design, piloting, and impact evaluation of a model for the organization and delivery of health care services to remote rural populations. Under CO T1263, also executed by the Bank, technical outputs have been produced that will give the Ministry of Health more control over system enrollment, revenue collection, and payments to health workers, as well as establishment of the ongoing process for prioritization of the benefit plan. It will also directly support the process for unification of the guaranteed package of basic health care services, and help to adjust the service delivery structure to improve the quality and relevance of services. The technical cooperation operations also supported the creation of a new Institute for Health Technology Assessment and the production of technical inputs for the new pharmaceuticals policy.

In general, the policy matrices for the programmatic series represent a relevant and appropriate selection of the measures necessary to advance sector reform. This effort will require additional gradual changes (in addition to satisfying the PBL policy conditions). The original matrix approved by the Bank in 2013 included policy conditions for the two loans in the series. A condition for the first program was submittal of reform Law 210 to Congress. Although the law made it to the second chamber of Congress, it was not debated within the allotted time period, the end of which coincided with the presidential campaign and elections. As a result, the law was not enacted. In retrospect, according to Bank specialists and the health sector authorities, passage of Law 210 may not have been indispensable for the achievement of many of the reforms pursued. Current laws may provide sufficient mandate for administrative, normative, and regulatory instruments that, although they would not have the force of law, would yield the same results. According to this argument, Law 1438 of 2011 allows the government to define territories and organize subsidized health services for scattered communities, which makes a law to create single territorial management agents almost unnecessary. Even with the outputs of executive branch measures (e.g., better control of information on enrollment and revenue collection), it is difficult to determine, *ex ante* and with scant evidence, whether the administrative instruments will have the same effects as intended in Law 210. If so, then two conclusions may be reached: firstly, as early



as 2011 it was clear that Law 210 might be unnecessary or, at least, redundant; secondly, this would detract from the weight, relevance, and robustness of three of the six policy matrix conditions under the first PBL.

Bank value-added. Technical cooperation operations, the majority executed by the Bank, are providing high-quality, strategic technical inputs for the design and implementation of sector reforms. These contributions have served not only as inputs for loans closely aligned with government policy, but have also provided tangible analytical inputs to further the national dialogue. The published analytical work under the technical cooperation operations has been disseminated to other countries implementing similar reforms, thus generating value-added outside Colombia as well. In addition, loan and nonreimbursable operations as well as dialogue have been strengthened by daily interaction between the Bank's Country Office specialists and counterparts in the ministry and Colombia's academic community, together with the Bank's quick responses to problems and specific requests.

Implementation challenges. Three of the four technical cooperation operations were implemented by the Bank, which meant fewer procurement issues and faster execution. The operation implemented by the Government of Colombia is facing significant procurement issues, mainly due to a lack of experience on the part of the executing agency.

### **C. MODERNIZATION OF THE STATE**

Context and main development challenges. While the National Development Plan (PND) is the first such plan to include a pillar devoted to governance as key to achieving the government's equity and growth objectives, the Colombian public administration still faces challenges that could reduce its effectiveness and its ability to meet citizen expectations regarding the performance of national and regional public institutions. These challenges include structural institutional inefficiencies that hinder effective budgetary execution; high staff turnover (especially in the justice sector); and low institutional capacity at the subnational level, especially for the execution of investment projects. The World Economic Forum ranks Colombia below average for LAC in the areas of government efficiency, level of transparency, and security.

Country strategy objectives. The strategy focused on the PND's good governance pillar, with the following objectives: (i) achieve more efficient governance, mainly through actions to strengthen crosscutting systems such as defense of the government against lawsuits, asset and liability management, and government procurement; (ii) make governance more transparent, chiefly by building up institutional capacity in the country's compliance agencies and solidifying a national accountability policy; and (iii) develop capacity in subnational agencies particularly to improve quality of expenditure, increase revenues, and strengthen accountability and thereby improve

fiscal indicators. Though the strategy only makes explicit reference to the good governance pillar of the PND, the areas mentioned also correspond to aspects of the consolidation of peace and regional convergence pillars.

The Bank's approach. Bank operations addressed a variety of high-priority challenges. In particular, the Bank focused on improving fiscal stability by consolidating fiscal responsibility at the subnational level, making the justice system more efficient, reducing the State's vulnerability to adverse judicial decisions, and making the royalties system more transparent.

The portfolio comprised a broad range of loans with different execution periods (eight approved during the period and eight in execution): the PBP series, fully implemented (Program to Consolidate Subnational Fiscal Responsibility, loans CO-L1072 and CO-L1117); two investment loans, over 50% disbursed (Project for Strengthening Judicial Services, CO-L1041, and Program to Strengthen the Office of the Attorney General of the Nation, CO-L1098); two other investment loans, at least 20% disbursed (Program to Strengthen the Public Investment System, CO-L1126, and Program to Strengthen the Legal Defense of the State, CO-L1097); two investment, approved but undisbursed (Citizen Service Efficiency Project, CO L1102, and Program to Support the Sustainable Development of the Department of San Andrés, CO-L1125); and the first operation under a conditional credit line for investment projects (CCLIP) for Subnational Fiscal and Public Investment Expenditure Strengthening in Barranquilla (CO-L1133). After several years of fiscal development policy loans from the World Bank, Colombia recently sought IDB budgetary support for its national-level fiscal reform (CO-L1142, a US\$400 million PBL approved in September 2014, currently undisbursed).

Main outcomes. The PBL series contributed to fiscal stability by building the capacity of subnational entities to exercise fiscal responsibility through more effective use of the resources transferred to their governments; improved quality of subnational fiscal information; and increased subnational tax revenue in both rule and practice. The main outcomes of the four components of the program were as follows: (i) Improved use of funding under the General Revenue Sharing System (SGP): The gains made surpassed the targets set under the operation. The adoption of a single system of indicators for rating risk events in subnational governments' use of SGP resources facilitated the implementation of preventive and corrective monitoring mechanisms, with the Fiscal Support Department (DAF) acting as the coordinating body for the sector ministries and the DNP. Regulation of the management of the excess liquidity of subnational entities and their decentralized agencies was also strengthened. (2) Improved quality and timeliness in subnational fiscal information: Prior to the program, data collection was fragmented in some cases, and nonexistent in others, such as subnational public debt. As a result of the program, the single consolidated subnational reporting form known as the FUT was established as a subnational information system, substantially expanding the consolidated categories of information. A module for public debt

balances was also created and has been in operation since 2011. (3) Improved management and revenue collection: Strengthening of local revenue collection by subnational entities required a number of successive phases, beginning with approval of the Subnational Tax Reform Law in July 2010. This modified taxes on alcoholic beverages, cigarettes, and gambling, and increased funding to the health sector. At the same time, a methodology was developed for measuring the fiscal cost of municipal tax benefits granted against the unified property tax and the industries and commerce tax; this was accompanied by model subnational tax procedures approved by the DAF.

With respect to the investment portfolio, there were few evaluable results given that most of the loans are still in execution. Notable outputs included the training of 60 judges and judicial employees in the implementation of an oral adversarial criminal justice system (under the Project for Strengthening Judicial Services); implementation of a pilot training program in the culture of lawfulness for public employees in six municipios; the training of more than 1,000 employees in preventive disciplinary action (Program to Strengthen the Office of the Attorney General); and modernization of the adjusted general methodology for investment project preparation (support for MapaInversiones, Program to Strengthen the Public Investment System).

Bank value-added. The PBPs were supported by two technical cooperation operations that produced a number of substantive inputs for the DAF's technical and policy work. However, execution of these operations did not coincide with the fulfillment of PBL policy conditions and disbursements, indicating that the inputs were not essential for this purpose. CO-T1206 was mainly executed in 2011, while a PBL was disbursed in October 2010. CO-T1283 was mostly executed in 2013, while the second PBL disbursed in December 2012. This underscores the conclusion that technical cooperation operations linked to the PBLs in this sector provide value-added largely through the IDB-Government of Colombia dialogue process and through sustained technical assistance, but not necessarily to support the fulfillment of policy conditions.

Implementation challenges. The implementation of several projects in the investment portfolio was delayed for a number of reasons, including institutional changes and a lack of ownership on the part of the leadership of the Ministry of Justice (CO-L1097); complications in procurement processes (CO-L1126); failure to take ownership on the part of the regulatory agency and a lack of receptiveness to technological changes, orality, and citizen services (CO-L1041); no measurement strategy for project training activities; changes in the directorship; delays stemming from the need to establish two parallel executing units (CO-L1126); the "Law of Electoral Guarantees" governing the electoral period (Law 1996 of 2005) which precludes the signing of certain types of contracts (CO-L1098, CO-L1126); and differences in data management on the part of different government bodies (CO-1126).

## D. LABOR MARKETS

Context and main development challenges. Despite the fact that global unemployment has been falling steadily over the last five years, youth unemployment remains at about 20% and is higher for those without a university degree. Informality affects half of the labor force. A significant share of Colombia's labor force is deficient in skills relevant for the job market ("employability"), affecting the ability to access high-quality jobs while also generating large wage disparities. This, in turn, hurts the productivity of Colombian firms, as well as the overall competitiveness of the economy. Colombia's Human Capital Formation System (SFCH), which comprises both formal education (Ministry of Education) and vocational training (National Learning Service (SENA) and the ministries of Education and Labor), does not fully meet the human resource needs of the productive sectors.

Country strategy objectives and the Bank's approach. The IDB sought to support the country in implementing the reform of its human capital formation system, turning it into a continuous learning system based on job skills, in accordance with the national Human Resource Management Strategy (EGERH), as well as in creating the Interagency Commission for Human Resource Management (CIGERH), pursuant to CONPES document 3674 approved in 2010.<sup>22</sup> The expected strategy outcome related to labor markets was that "the national job training system has been built up." The Bank's portfolio in labor markets included a PBP series comprising three loans, only two of which were approved, for US\$100 million and US\$400 million (Reform Program to Strengthen the National Human Capital Formation System). In parallel, the Bank approved two technical cooperation operations (CO-X1017 for \$600,000) to support the PBP series. The original design (three loans for US\$100 million each) did not play out because the government changed hands between the second and third operations, and the reform was no longer a priority. An investment loan was also prepared (CO-L1113, US\$92.7 million) to support SENA in increasing the effectiveness of its services. This operation was canceled prior to approval, along with the accompanying technical cooperation operation (CO-X1016 for US\$600,000). While the PBP series sought to support reform of the National Human Capital Formation System, the objective of the closely linked investment loan was to strengthen the main agency responsible for job training in the country (SENA) and, in particular, to ensure that these improvements were in line with the reforms supported under the PBPs. The investment loan and related technical cooperation operation were not approved, as the directorship of SENA changed twice during preparation, affecting political commitment to the project.<sup>23</sup>

Main outcomes. The first loan under the PBL series (CO-L1112) included institutional conditions necessary for development of the National Human Capital Formation System, as follows: (i) the CIGERH was formally created; (ii) an initial proposal was developed for a Job Skills Certification Program (SICECOL); (iii) a Technical Team for Qualifications was created with a view to formalizing the structure of the National





Colombia is highly exposed to natural disasters, both climate-related and geological. From 1970 to 2009, Colombia suffered 142 disasters affecting some 12.5 million people, with 32,000 deaths and economic losses of US\$7.103 billion.

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Qualifications Framework (MNC); and (iv) the National Accreditation Agency of Colombia (ONAC) was designated as the agency responsible for formal accreditation of skills certification bodies. Based on experience under the first PBL, the second PBL in the series (CO-L1128) sought to accelerate progress on the National Human Capital Formation System through a proposal to include EGERH funding in the national budget, as well as restructuring of the CIGERH to endow it with a technical unit with execution capacity. However, there has not been significant progress since the first PBL, and the government has decided not to move ahead with the third PBL operation due to changes in the context.

Technical cooperation operations financed (i) an institutional analysis of the national training system; (ii) preparation of a proposal for CIGERH institution-strengthening; (iii) the design and implementation of a pilot on standardization of labor skills in the information and communication technology sector in Medellín that promoted some productive sector involvement;<sup>24</sup> (iv) the development and implementation of a survey of businesses on the productivity and training of their human resources, conducted with assistance from the National Administrative Department of Statistics (DANE).

In the original design of the PBL series, the IDB-Government of Colombia team considered including a policy condition of high structural depth in the second operation, relating to the regulations of the Interagency Commission. However, during preparation of the second operation the condition was modified because of

the lack of progress in this reform area. Instead of “The EGERH operating regulations have been approved by the CIGERH,” it became “studies have been submitted to the CIGERH Technical Committee, as inputs to the integration of the EGERH operating regulations.” This alteration reduced the structural depth of the condition. Accordingly, the second PBL was approved with a policy matrix that lacked any conditions that would achieve significant changes in the sector, while the amount of the loan rose to US\$400 million (from US\$100 million under the first loan in the series) and was fully disbursed.

Bank value-added. The Bank’s main value-added was through the technical and policy support provided through the technical cooperation operations. There is evidence of Bank “convening power” in the case of the PBL policy conditions, which required eight agencies to meet to discuss and agree on key reform issues. However, this was short-lived. CIGERH meetings are held only a few times a year, and there are challenges of coordination among the many different ministries involved. All of this has contributed to a lack of concrete results. The Bank-executed technical cooperation operations that financed the pilot and surveys mentioned above also provided technical and organizational inputs to the reforms.

Implementation challenges. Despite the achievements under the first operation, there were nonetheless significant delays in preparing the operating regulations for the EGERH and the Human Resources Management Information System (SIGRH). It is also clear that creation of the CIGERH was not enough to achieve the outcomes expected from the reforms and the strategy, a finding possibly indicative of weaknesses during the design phase of the PBP program. In the case of the second PBP, some of the policy conditions originally planned were altered as a result of changes in the sector context. The main challenges to approval and implementation of the PBPs relate to institutional weaknesses, including coordination, leadership, and budget issues.

As a result of these restrictions, it was proposed under the second loan in the PBL series that a decree be issued to incorporate the private sector into the CIGERH, such that it would comprise the ministries of Labor, Education, and Finance, the DNP, the Senior Advisor, and the Private Council on Competitiveness (CPC) (representing the private sector), while SENA and the Civil Service Administrative Department (DAFP) would provide technical support within the commission. A senior manager from the Office of the President of the Republic was also to be included on the commission to facilitate coordination and leadership, but the decree was not approved. The reform was also no longer a priority in the run-up to the 2014 elections.

## **E. ENVIRONMENT AND NATURAL DISASTERS**

Context and main development challenges. Colombia is highly exposed to natural disasters, both climate-related and geological. From 1970 to 2009, Colombia suffered 142 disasters affecting some 12.5 million people, with 32,000 deaths (IDB, 2011)

and economic losses of US\$7.103 billion (National Disaster Risk Management Unit (UNGRDN), 2012). In 2009, the country's capacity to advance its policy agenda in the areas of climate change and disaster risk management was limited, as demonstrated by the losses mentioned above. Later on, the impact of the 2010-2011 La Niña storms and resulting floods that affected more than 1.6 million hectares and 800,000 people demonstrated the need for policy reforms to support more integrated risk management (including the management of reconstruction resources and the prevention and reduction of vulnerability) that would prepare the country for further climate change-related events.

Country strategy objectives. The country strategy objective focuses Bank support on institution-strengthening through policy and instruments in four areas: (i) bolstering standards and the institutional framework; (ii) developing a mechanism to identify, prioritize, and implement risk management projects; (iii) modernizing mechanisms to identify and reduce risks; and (iv) revising standards for earthquake-resistant construction.

General approach and relevance of the Bank's support and portfolio. As an emergency response to severe flooding in several regions of the country in 2010-2011, the Bank approved a programmatic series for the Disaster Risk Management and Climate Change Adaptation Reform Program (CO-L1103) in 2011. The first series (CO L1063), approved in 2009, called for three programs (only one of which has been completed). Its objective was to assist the government in defining the responsibilities of different national and subnational entities and improve coordination between them, as well as to establish the Adaptation Fund for the reduction of vulnerability and reconstruction of areas affected by La Niña. The second PBL series in 2011 (different from the 2009 one) supported institution-strengthening to respond to the crisis, as well as mitigation activities in line with international standards. In addition to the two programmatic series, the Bank approved six related nonreimbursable operations (five technical cooperation operations and one Global Environment Fund project) for a total of US\$5.65 million. In addition to these six operations, from 2011 to 2014 there were an additional 12 technical cooperation operations in execution in the sector (related to disasters, climate change, deforestation, and institutional support) for a total of US\$9.26 million.

Main outcomes. The Bank's financial response to the flood emergency was both timely and highly relevant, providing fast-disbursing resources at a time of crisis. Although only the first of two loan programs in the programmatic series for risk management materialized, the Bank's technical support for the reforms themselves came mostly through the technical cooperation operations, facilitating both the dialogue processes and knowledge generation and institution-strengthening. Specifically, one technical cooperation operation financed a study on the economic impacts of climate change that has become an input for the intersectoral dialogue, as well as an important planning tool for the DNP. Another technical cooperation operation strengthened the

Technical Group on Mitigation and Climate Change within the Ministry, while also financing technical studies to serve as inputs for the policy dialogue and help formulate the national strategy to reduce carbon emissions. A third technical cooperation operation financed the strengthening of the Institute of Hydrological, Meteorological, and Environmental Studies (IDEAM) for the development of tools to generate knowledge regarding different climate change scenarios. Lastly, an additional technical cooperation operation financed the institutional design of the new Adaptation Fund, which acts as an independent body within the Office of the President of the Republic tasked with financing investment projects for the reconstruction and strengthening of infrastructure in areas affected by La Niña.

Bank value-added. In addition to the technical cooperation outputs and their role in supporting ongoing sector dialogue, as well as the PBL's role in providing continuity to the reforms, the topics of climate change and disaster risk management featured much more prominently within the national policy agenda, gaining greater visibility within the Ministry of Finance and other line ministries. There was also an increase in the budget allocations to these challenges. Given the tight timeline for the PBL program, the pressure that the Ministry of Finance put on ministries to fulfill the policy conditions for disbursement helped accelerate the reform program, something that would not otherwise have occurred. The Bank's value-added also came through workshops organized by Bank specialists to share “good practices” and disseminate technical knowledge from similar projects in other LAC countries.

Implementation challenges. At this point, both the programmatic series relating to climate change and the one for disaster risk management have been interrupted following initial approval of their first program, thus limiting the impact of the full program of reforms. While both PBL series included policy conditions related to the strengthening of coordination and knowledge transfer from the central government to local governments, this area has proven challenging. The regions most vulnerable to climate change-related events—which often tend also to be the poorest—continue to exhibit institutional weaknesses affecting their capacity to deal with environmental catastrophes (agricultural losses, fire, drought).

## **F. ACCESS TO FINANCIAL SERVICES**

Relevance of the Bank's support and portfolio. Development through the private sector is an objective of both the country and the Bank's country strategy for the period. Colombia improved its business environment for the private sector, and achieved high rates of investment driven largely by foreign direct investment and a boom in the construction sector. The Bank sought to expand its support, mainly through the financial sector. The operations promoted access to credit for micro, small, and medium-sized enterprises (MSMEs) and the low-income population through the expansion of mortgage lending and other means. The Bank also supported infrastructure investments, continuing the funding approved in 2009 for a specialized fund (Ashmore), and the concession for the El Dorado International Airport in Bogotá (2010).



Access to financial services was a priority during the period 2010-2014, as set out in the Bank's strategy.<sup>25</sup> Operations in this sector accounted for 20% of the portfolio between 2011 and 2014. Disbursements generally proceeded as planned. Of 25 operations evaluated, 19 were aimed at supporting MSME financing, and the other six sought to expand credit access and housing finance for the "base of the pyramid." The majority of these operations (60%) were executed by public entities such as Bancóldex, FINDETER, and Empresas Públicas de Medellín (EPM). In the case of the private sector, Bancolombia executed the largest number of operations (one for external trade approved in 2009 and executed during the period, and another to furnish guarantees to ecological projects).

During the period, the Bank deepened its strategic partnership with Bancóldex, a second-tier public bank in Colombia with substantial technical expertise. It continued to provide funding to Bancóldex, approving US\$200 million in 2013 following an operation in the same amount in 2009 and one for US\$100 million in 2008. This financial relationship also enabled the IDB to begin supporting Bancóldex in 2012 with the structuring of innovative financing vehicles to promote private investment in climate change mitigation by leveraging the Clean Technology Fund (CTF). With the IDB's support, Bancóldex (a public bank) has become an effective financial intermediary for funding from international sources of climate finance, successfully competing with global private entities. Thus, in December 2014 the government furnished its sovereign guarantee for Bancóldex to execute two projects supported by resources from the IDB and CTF: an energy efficiency project in the services sector (hotel and health services)<sup>26</sup> and a project for technological transformation of the Bogotá IMTS. The structuring of these operations delivered a high degree of value-added in risk mitigation through the standardization of technologies eligible for financing, building in mechanisms for technical inspections and results monitoring, and the adoption of risk transfer mechanisms such as insurance and reinsurance.<sup>27</sup>

Outcomes to date. It is too early to evaluate the outcomes of the operations with CTF support signed in December 2014. However, since Bancóldex began work on programs like the IMTS before receiving the IDB/CTF funding, numerous hybrid buses are already on the streets in Bogotá. Regarding support for MSMEs, particularly the "A Progresar" productive investment line launched by Bancóldex in 2005, in late 2009 when the IDB had already approved to operations for a total of US\$300 million, Bancóldex had already channeled more than US\$1.2 billion from other sources via "A Progresar".<sup>28</sup> Significantly, this Bank support had a countercyclical impact following the global crisis begun in 2008. The IDB loan (denominated in U.S. dollars) enabled Bancóldex to generate revenue from the market placement of that funding, obtaining an estimated spread of 50 basis points equivalent to US\$15 million, which was earmarked to continue supporting the advantageous lending terms granted under "A Progresar." Bancóldex has reported to the IDB a portfolio of more than 23,000 MSMEs meeting the eligibility requirements of both programs, representing an amount equivalent to the US\$300 million supplied by the IDB. This

was facilitated by an advanced technology platform enabling Bancóldex to select firms within its existing portfolio. Bancóldex was also a pioneer in studying the positive impact of its lending on the beneficiary MSMEs.<sup>29</sup>

Evidence of IDB value-added. For the MSME programs with Bancóldex, the instrument employed by the IDB (financing in US dollars) and regulatory restrictions (that prohibit currency mismatches for Colombian financial institutions) lessen the connection between the MSME portfolio financed by Bancóldex and the funding provided by the IDB in the MSME lines. Colombia's financial sector enjoyed abundant liquidity in 2011, mainly from short-term deposits. If the Bank could at some point provide funding in pesos through the Flexible Financing Facility, its value-added could be more direct.<sup>30</sup> Where the IDB's additionality has been evident is in the introduction of innovative lines of financing to promote investment in climate change mitigation, as noted above, as well as in other areas promoted by several of the IDB's private sector windows, including the use of public utility databases to promote access to finance for low-income groups and support for vehicles for equity and quasi-equity investments in a diversified portfolio of infrastructure projects.



Although Colombia has made significant progress in a number of areas, it faces development challenges and opportunities that will require diverse and innovative solutions at both the national and subnational government levels.

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# 4 Conclusions and Recommendations

## A. CONCLUSIONS

**Although Colombia has made significant progress in a number of areas, it faces development challenges and opportunities that will require diverse and innovative solutions at both the national and subnational government levels. Although Colombia enjoys access to international capital markets, the government values its relationship with the Bank, particularly the opportunity to combine financing with technical assistance.**

## B. RECOMMENDATIONS

OVE offers the following recommendations to make the Bank more relevant as a development partner for Colombia:

1. Strengthen the design, monitoring, and completion of PBL series to avoid interruptions in the Bank's comprehensive support for priority sectors, and ensure that development objectives are met in a sustainable manner. When PBL series are interrupted, it is recommended that these be removed from the lending program, and a project completion report prepared for the truncated series.
2. Strengthen risk analysis during project design and periodically reevaluate and reprioritize the lending program based on dialogue between the Bank and the Government of Colombia, with a view to lowering the cost of projects prepared but unapproved or canceled.



3. To lower the cost to the Bank of the program of technical cooperation operations, give priority to those linked to the Bank's strategy and lending program and increase the proportion of new technical cooperation operations executed by the client. In providing technical assistance, "fee-for-service" instruments may be useful for meeting client demands that cannot be met using nonreimbursable technical cooperation operations.
4. Strengthen country dialogue and continue exploring ways to become operationally involved with subnational entities, seeking innovative options that utilize sovereign guaranteed and non-sovereign guaranteed, technical cooperation, and fee-for-service instruments.
5. Consider expanding the Bank's involvement in rural development, given the persistence of regional disparities and the emergence of new work areas expected as a result of the peace process.





- <sup>1</sup> Source: World Economic Outlook database, IMF, 2014. Unadjusted nominal GDP per capita was estimated at US\$8,149 in 2013.
- <sup>2</sup> Source: World Economic Outlook database, IMF (2014), and Banco de la República.
- <sup>3</sup> See Organization for Economic Cooperation and Development (OECD), 2014. “Colombia: Implementing good governance,” OECD Public Governance Reviews, p. 72. The Constitution provides for annual adjustments in the minimum wage of at least inflation for the previous year plus growth in productivity. Given marked regional differences in wages, the national minimum wage is close to or above average earnings outside the capital, and this has probably fueled informal activity in poorer regions.
- <sup>4</sup> Bloom et al. (2004). “The effect of health on economic growth: a production function approach.”
- <sup>5</sup> World Economic Forum (2014): Global Competitiveness Report, 2013-2014.
- <sup>6</sup> The World Bank’s Doing Business Index offers a more positive evaluation, ranking Colombia in forty-third place out of a total of 189 countries in 2013 (second to Peru within Latin America and the Caribbean). The factors identified that adversely affect this ranking are deficiencies in enforcing contracts, the complex tax system, problems in getting bank credit, and the time required to get electricity services. See World Bank (2013): Doing Business Report.
- <sup>7</sup> Operations with an undisbursed balance of at least 20% were included in the analysis.
- <sup>8</sup> The PND is organized around four crosscutting themes and three pillars. The crosscutting themes are (i) innovation in productive activities, public-private collaboration, institutional development, and sustainable development management; (ii) good governance; (iii) international relevance; and (iv) environmental sustainability. The pillars are: (a) sustained growth based on innovation, competitiveness, productivity, and the engines of growth; (b) equality of opportunities; and (c) peace building. Regional convergence (the reduction of regional inequalities) is also presented as a “necessary condition” for progress toward prosperity for all.
- <sup>9</sup> The central government’s technical capacity is generally high, and it makes selective use of external assistance, including areas of involvement, levels of borrowing, and instruments used. The government prioritizes and determines the specific areas in which cooperation will be sought from the multilateral development banks, including the IDB. These requests are supported by an institutional framework that combines instruments, processes, and policies that ultimately regulate and authorize external borrowing, including the Annual Financial Plan for Public Credit, the PND, the Medium-term Fiscal Framework, the Medium-term Expenditure Framework, the Medium-term Debt Strategy, and the Fiscal Rule. The Fiscal Rule (Law 1473/2011) is the result of a fiscal reform process begun in 2003 with the Fiscal Responsibility Law (Law 819) seeking to reduce the fiscal deficit.
- <sup>10</sup> *“The policy governing external borrowing from the multilateral banks focuses on obtaining the funds necessary to implement the central government’s financial plan for each fiscal year and the investment projects of State entities on terms more favorable than, or similar to, those available on the market.”* National Medium-term Debt Management Strategy, 2013.
- <sup>11</sup> Several of the PBLs supported reforms that encompassed various ministries and/or multiple divisions within a single institution. PBLs, technical cooperation operations, and Bank specialists all played an important role in bringing a variety of groups to the same table and facilitating work on complex policy issues.
- <sup>12</sup> For comparison, the average share of PBLs in total Bank loans to all countries from 2009 to 2013 was 25%, and 38% in the case of the C and D countries for the same period (see 2014 Operational Program Report, document GN-2756).
- <sup>13</sup> Structural depth is defined as the degree of structural change that policy conditions would lead to, if implemented. Conditions of high structural depth are those that on their own would lead to lasting changes in the institutional environment, if implemented.



- <sup>14</sup> Costs of preparation based on the Time and Labor system: (1) CO L1054 (2013): Support for the Design, Implementation, and Monitoring of User-focused Health Service Delivery Strategies (US\$132,744); (2) CO L1113 (2012): Support to the National Learning Service (SENA) (US\$243,525); (3) CO L1108 (2013): Historic Center Revitalization Project (US\$290,010); (4) CO L1101 (2012): Supplementary Financing for the Integrated Mass Transit System (IMTS) for Santiago de Cali (US\$162,421); (5) CO L1129 (2013) Program to Assist the Ministry of Transportation in Execution of the Regional Intermodal Transportation Infrastructure Plan (Regional Road Plan II) (US\$140,525); (6) CO L1110 (2013) Program for Low-Income Housing Policy Support (US\$268,477); (7) CO L1130 Colombia-Ecuador Border Integration (US\$41,649).
- <sup>15</sup> The country strategy identified “institutional issues in the public sector” as a potential risk for implementation. A mitigation factor was to “work actively on the buildup of country fiduciary and environmental management systems.”
- <sup>16</sup> The other country is Suriname.
- <sup>17</sup> In late 2014, the Bank began a process for diagnostic assessment/evaluation of the Comptroller General’s Office based on the international standard developed by the International Organisation of Supreme Audit Institutions (INTOSAI SAI-PFM). The results of this evaluation will serve as an input for preparation of a loan operation by the Institutional Capacity of the State division, scheduled for June 2015. The Comptroller General’s Office notified the Government of Colombia that it would not carry out audits of projects financed by multilateral banks from the 2013 fiscal year onward.
- <sup>18</sup> In health, 4 technical cooperation operations (US\$1.955 million); labor markets, 3 (US\$1.92 million); climate change/disaster risk management, 6 (US\$5.75 million); modernization of the State, 2 (US\$400,000); Transportation, 6 (US\$3.055 million).
- <sup>19</sup> Thus far, Colombia, Mexico, and Poland have been approved for the flexible credit line (FCL). Countries with solid economic fundamentals and policy track records can apply for the FCL.
- <sup>20</sup> US\$100 million in postconflict assistance from Germany and France for Antioquia (non-sovereign guaranteed).
- <sup>21</sup> The 2012-2014 country strategy includes the following 11 priority sectors taken directly from the National Development Plan and jointly selected by the Government of Colombia and the IDB: transportation and infrastructure, health, modernization of the State, education and labor markets, natural disasters and climate change, access to financial services, social protection, water and sanitation, housing and urban development, trade, and science and technology.
- <sup>22</sup> CONPES document 3674, “Policy Guidelines for Strengthening of the Human Capital Formation System (SFCH),” includes the Formal Education System and the National Job Training System (SNFT). This policy document addresses formal education, but not job training.
- <sup>23</sup> The delay and cancellation came when the country first requested a change in the financing structure, given the special features of SENA. This entailed additional analyses that affected the preparation time for the operation. When the operation was ready to be approved, the new management of SENA decided to cancel it.
- <sup>24</sup> The pilot was key in that it facilitated the development of standardization, evaluation, and certification processes from start to finish, as well as skills-based curriculum development. It also supported the preparation of operational documents explaining how to carry out each process and the training of firms and Colombian public employees.
- <sup>25</sup> In 2010 the World Bank’s “Enterprise Survey” identified “access to finance” as the greatest obstacle of the Colombian business environment (cited by 28.8% of companies surveyed).
- <sup>26</sup> Importantly, the International Finance Climate Lab, a technical agency sponsored by the developed countries funding the main sources of international climate finance, selected the financing strategy proposed under this program is one of the seven most promising financing strategies for leveraging private investment in climate change mitigation and adaptation.

- <sup>27</sup> During the evaluation, lengthy technical discussions focused on the counterguarantee mechanisms that Bancóldex and another second-tier public entity, FINDETER, would require to obtain the sovereign guarantee. In that context it was suggested that the government had an interest in them exploring non-sovereign guaranteed financing, including international debt issues. However, in March 2015, the government gave its no objection to the IDB for the preparation of two programs with IDB and CTF funding (nonconventional renewable energies in noninterconnected areas and geothermal generation), which is indicative of its willingness to continue furnishing its sovereign guarantee for innovative operations of this kind.
- <sup>28</sup> Source: Bancóldex, press release no. 499, 7 December 2009.
- <sup>29</sup> See: (i) Marcela Eslava, Alessandro Maffioli, and Marcela Melendez (January 2012). “Second-tier Government Banks and Firm Performance: Micro-Evidence from Colombia, IDB Working Paper IDB WP 294; (ii) Marcela Eslava, Alessandro Maffioli, and Marcela Melendez (March 2012). “Second-tier Government Banks and Access to Credit: Micro-Evidence from Colombia, IDB Working Paper IDB WP 308; and (iii) Marcela Melendez (August 2014). “Report on update of the earlier impact assessment on the effectiveness of Bancoldex credit programs in fostering Colombian firms,” manuscript.
- <sup>30</sup> The IDB and the country had discussions during the evaluation period to remove the regulatory barriers that still make it difficult for public institutions like Bancóldex to access this facility.