

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

SECTOR PROGRAM FOR PUBLIC SECTOR REFORM

(CO-0084)

LOAN PROPOSAL

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CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
A. Background	1
B. Scope of the operation	2
C. Strategy of the Bank	3
D. Participation of the Bank	3
E. Summary of program and loan	5
II. FRAME OF REFERENCE	7
A. Macroeconomic trends	7
B. Medium-term program	9
C. External debt and indebtedness capacity	12
III. STRUCTURE AND OPERATION OF THE PUBLIC SECTOR	13
A. Importance and Integration	13
B. Prospects and determinants	14
C. Recent developments in the public sector	16
IV. THE REFORM PROGRAM: ITS FINANCING AND EXECUTION	19
A. Objectives of the operation	19
B. Principal components of the operation	19
C. Financing by the Bank	29
D. Execution of the program	30
E. Conditions for processing and authorizing disbursements	31
F. Distributional impact on the low-income population	34
G. Benefits and risks	34
V. RECOMMENDATIONS	36

ANNEXES

Annex I	Letter on Development Policy
Annex II	Policy Matrix
Annex III	Tender Procedures
Annex IV	Selection and Contracting of Consulting Firms and/or Individual Experts
Annex V	Proposed Terms of Reference for Selected Studies to be Conducted with Technical Cooperation Resources

TABLES

Table 1	Key Macroeconomic Indicators and Balance of Payments
Table 2	Composition of Public Sector in Colombia by Type of Entities and Number
Table 3	Consolidated Decentralized Sector Expenditure and Revenue
Table 4	Import and Export Cargo
Table 5	Import and Export Cargo by COLPUERTOS and Private Docks
Table 6	Share of Colombian Shipping Lines in Total Maritime Transport

APPENDICES

Appendix I	Project Resolution for the Loan
Appendix II	Project Resolution for the Technical Cooperation
Appendix III	Recommendations
Appendix IV	Description of the Loan
Appendix V	Description of the Technical Cooperation Program
Appendix VI	Tender Procedures for Sector Adjustment Operations

ABBREVIATIONS

ALCALIS	Alcalis de Colombia, S.A.
BR	Banco de la República [Bank of the Republic]
COLPUERTOS	Empresa Puertos de Colombia [Colombian Ports Administration]
CONFIS	Consejo Superior de Política Fiscal [Senior Council on Fiscal Policy]
CORELCA	Corporación Eléctrica del Atlántico [Atlantic Electrical Corporation]
CVC	Corporación Regional del Valle del Cauca (Regional Cauca Valley Corporation)
DNP	Departamento Nacional de Planeamiento [National Planning Department]
ECOPETROL	Empresa Colombiano de Petróleos [Colombian Petroleum Company]
FERROVIAS	Empresa Colombiana de Vías Férreas [Colombian Railways Company]
GRANCOLOMBIANA	Flota Mercante Grancolombiana [Grancolombiana Merchant Fleet]
HIMAT	Instituto de Hidrología, Meteorología y Adecuación de Tierras [Hydrology, Meteorology and Land Preparation Administration]
IBRD	International Bank for Reconstruction and Development
ICEL	Instituto Colombiano de Electrificación [Colombian Electrification Administration]
ICT	Instituto de Crédito Territorial [Territorial Credit Administration]
IDEMA	Instituto de Mercadeo Agrícola (Agricultural Marketing Administration)
IFI	Instituto de Fomento Industrial [Industrial Development Administration]

IMF	International Monetary Fund
ISA	Interconexión Eléctrica, S.A. [Electrical Interconnection Company, Inc.]
ISS	Instituto de Seguridad Social [Social Security Administration]
MHCP	Ministerio de Hacienda y Crédito Público [Ministry of Finance and Public Credit]
NGO	Nongovernmental Organization
SENA	Servicio Nacional de Aprendizaje [National Apprenticeship Service]
STF	Sociedad de Transporte Ferroviario [Rail Transportation Company]
TELECOM	Empresa Colombiana de Telecomunicaciones [Colombian Telecommunications Company]

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I. INTRODUCTION

A. Background

- 1.01 The Colombian public sector - basically as a result of surpluses generated by oil exports - differs from those of other Latin American countries in that it is not characterized by large aggregate fiscal deficits or by intervention in numerous sectors of economic activity. It operates primarily in the infrastructure, petroleum and mining sectors, but allows the private sector to participate in the latter two and seeks to promote a significant role for municipal enterprises in the telecommunications, electric-energy, and sanitary-works sectors.
- 1.02 A negative factor in growth is the low productivity of capital. The incremental capital-product ratio, which was 4.9 in 1984-1989, needs to be brought down. This low capital productivity in Colombia is explained, inter alia, by the insulation of production from international competition and modern technology and by the scant efficiency of the public sector. During 1971-1983 the incremental capital-product ratio in the public sector, which on average accounted for 42% of fixed-capital formation, was 7.8, while that in the private sector was 2.9.
- 1.03 As a means of speeding up its economic progress, Colombia has decided to replace the hitherto dominant strategy of import substitution and protection of domestic industry with a strategy of economic growth based primarily on expanding exports, opening up the economy to the effects of competition, increased efficiency in the public sector, and higher investment and productivity levels. This strategy is described in a document entitled "Programa de Modernización de la Economía Colombiana" [Program for the Modernization of the Colombian Economy] that was approved in February 1990 and that the present administration wants to step up. The Bank endorses this strategy, and the operation proposed herein is a key element in its successful implementation.
- 1.04 The operation is designed within the country's medium-term macroeconomic program, the basic targets of which are to reach an annual GDP growth rate of 5.5% in 1994 and 1995 (compared with 3% in 1989), to bring the yearly rate of inflation down to approximately

20%, to reduce the debt-service to export-earnings ratio from 54% in 1989 to 31% in 1995, to sustain the level of gross investment at 18% of GDP, and to reduce the consolidated fiscal deficit from the level of 2.4% of GDP that was posted in 1989 to less than 1% by 1992. A package of public sector reforms will need to be instituted in order to attain or surpass these targets. The operation proposed herein is designed to support those reforms.

B. Scope of the operation

- 1.05 The operation will focus on two major areas of action which will be necessarily and expressly related, not only between each other and in terms of their constituent elements, but also with the medium-term macroeconomic program. The two designated action areas are:

- (a) modernization of public sector management; and
- (b) development of private sector competition and participation.

1. Modernization of public sector management

- 1.06 In order to achieve greater efficiency in public sector management, program budgeting standards applicable across the board to all public entities will be instituted. (Under the previous system, only those institutions that required transfers from the government were included in the budget.) The standards will govern approval of the yearly budget by the government for each institution and outlays by the agency vested with the respective responsibility and operational autonomy. At the same time, a financial plan covering a period of at least three years will be prepared annually. The plan will set maximum limits on current expenditures, investment, indebtedness, and transfers, and will seek to ensure that public sector financing is compatible with macroeconomic and sector policies. In parallel fashion, performance plans, between the government and the various decentralized institutions, including municipal agencies requiring government guarantees for their external borrowings, will be signed. These plans will be subject to periodic review and renewal. They are expected to cover all of the major public entities and more than 90% of aggregate spending by the decentralized sector.

2. Development of private sector competition and participation

- 1.07 The operation will support the introduction of competitive elements into sectors which have traditionally been regarded as public monopolies (railroads, telecommunications and ports) or in which the public sector has been the dominant presence (domestic marketing and agricultural imports). In addition, a more dynamic capitalization of the banking and industrial sectors will be sought through privatization of nationalized banks and established industries; liberalization of shipping services will proceed; and low-cost low-income housing financing and construction mechanisms will be restructured. The government will also use the loan to adjust the prices of goods and services produced by the public sector in

accordance with economic criteria and to rationalize subsidies so as to do away with those not aimed at the achievement of specific objectives consistent with the macroeconomic program.

C. Strategy of the Bank

- 1.08 As indicated above (paragraph 1.03), the Bank endorses the government's development strategy and, as part of it, the need for the public sector to increase its efficiency so as to help achieve the country's economic goals. The loan for this operation, together with the IBRD financing, will not only contribute to the achievement and consolidation of important reforms whose absence would compromise the successful outcome of the new strategy, but would also lead to the removal of potential obstacles to implementation of the policies for modernizing and opening up the economy. At the same time, this operation would be a signal, especially to foreign commercial banks, of the Bank's and the IBRD's confidence in the government's economic strategy and program.
- 1.09 In the foregoing context, and in the framework of consistency between policies and action in the different areas of activity of the public sector, on the one hand, and development strategy and medium- and long-term macroeconomic programming, on the other, the Bank and the government should find it possible to carry on a more fruitful dialogue and a lending program that enhances Colombia's capacity to provide infrastructure and services to productive activities, especially exports, eradicate poverty, generate employment, and strengthen the institutions at every level of public administration. To this end, the Bank has under consideration a number of significant operations in the energy sector (generation, transmission and distribution), the transport sector (improvement and maintenance of transport corridors), and agriculture, all of which call for partial financing of the respective multiannual investment and maintenance programs. Preparation and subsequent processing of these operations will be greatly facilitated by implementation of the reforms covered by this loan. Operations in the areas of urban development, industrial credit and credit for microenterprises are also planned.

D. Participation of the Bank

- 1.10 The proposed loan, including the technical cooperation, will be US\$305 million and will assure the financial feasibility of the program to modernize the economy, a fundamental part of which are the reforms in the public sector. The Policies Letter (Annex 1) summarizes the public sector reform program that the government is committed to and that the loan supports. The loan will be used to help finance two components: (i) up to US\$300 million, disbursed in three stages of US\$100 million each relating to the accomplishment of specific conditions; and (ii) up to US\$5 million in technical cooperation for institutional strengthening and studies on implementing policies and actions under the public sector reform program. The policy matrix (Annex 2) summarizes the agreements reached with the government. The first disbursement under the loan

of US\$100 million will require the accomplishment of reforms and actions prior to the presentation of the operation to the Board of Executive Directors. The first disbursement of the sector component is expected to be made soon after the operation has been presented to the Board of Executive Directors. The second and third disbursements will be authorized approximately 9 and 18 months later, respectively, after the accomplishment of the reforms and actions agreed upon for each stage has been verified. The technical cooperation resources assigned to studies and institutional development will be disbursed pursuant to the Bank's conventional technical cooperation policies.

- 1.11 Through this operation, the IDB and IBRD are fulfilling an important role by contributing to the viability of the Financial Plan (paragraphs 1.6 and 1.10) and improving the climate of confidence vis-à-vis the commercial banking system with which Colombia will soon be negotiating a loan for US\$1.3 billion. In the period 1991-1994 Colombia plans to maintain in nominal terms the participation in financing by the commercial banking system, suppliers and bilateral sources, while increasing financing by multilateral institutions, as shown in the next table. The table summarizes the financing needs, including the current account and the increase in reserves (annual averages) and the structure under two alternatives: with and without IDB and IBRD financing under this sector operation. The table also shows how the IDB's operation permits a net positive flow from the multilateral institutions.

Summary of the Financial Program 1990-1992
(annual averages)

	With the operation (US\$ millions)	Without the operation (US\$ millions)
1. Current Account Balance	-327	-327
2. Financing Required *	447	447
3. Financing Planning		
- Net Total	347	147
- Multilateral	210	10
- IDB	252	152
- IBRD	-42	-142
- Bilateral	76	76
- Suppliers	104	104
- Commercial Banks	-21	-21
- Others	-22	-22
4. Other Capital Flows	100	100
5. Increase in Reserves	120	120
6. Balance Without Financing	-	200

* The projections of average annual amortizations are: IDB, US\$161.6 million; IBRD, US\$441.6 million; Bilateral, US\$277.3 million; Suppliers, US\$176.3 million; and Commercial Banks, US\$769 million.

E. Summary of program and loan

- 1.12 The loan application was submitted to the Bank by the Department of Planning on March 27, 1990. The Government of Colombia, represented by the Ministry of Finance and Public Credit (MHCP), will be the guarantor and borrower.
- 1.13 The operation will support the program of public sector reforms, the specific purpose of which is to improve the productivity of the public sector by creating incentives for the provision of efficient services and by ensuring that the sectoral and specific policies and operations of decentralized institutions are consistent with the objectives and macroeconomic goals established for the medium term. The program will include institutional actions and reforms to rationalize the organizational and administrative structure of the public sector, promote efficiency, and stimulate competition through private sector development.

- 1.14 The objectives of this operation are wholly consistent with the strategy devised by the government and constitute an important part of the action being taken under the economic modernization program.
- 1.15 Financing: The Bank proposes to grant a loan and technical cooperation in foreign exchange in the amount of US\$305 million from the ordinary capital (OC) resources. The IBRD will cofinance this operation by contributing US\$304 million. The resources of both banks will be fast-disbursing, except those earmarked for the studies and institutional-strengthening components, and will be made available in three disbursements, to finance general imports subject to certain restrictions.
- 1.16 Terms and conditions of the loan and technical cooperation: The IDB loan and technical cooperation will be subject to a 20-year term of amortization, including a 5-year grace period. The term for disbursement will be two years for the loan and 39 months for the technical cooperation. The interest rate will be variable; there will be a credit fee of 0.75% on undisbursed balances and an inspection and supervision charge equal to 1% of the loan amount and technical cooperation.

II. FRAME OF REFERENCE

A. Macroeconomic trends

- 2.01 Colombia's economy has posted one of the most stable records of growth of any of the countries of Latin America and the Caribbean in the past 30 years. On average, based on an abundance of natural resources (mines, oilfields and arable land), an annual GDP growth rate of 4.5% has been achieved. This, together with a relatively low rate of population growth of 1.9%, has made possible important advances such as significant improvements in life expectancy and in literacy and school-attendance rates. Nevertheless, poverty and disparities in the income levels and quality of life continue to be critical problems.
- 2.02 The milestones of development policy in recent years have responded basically to cyclical variations in international coffee prices and attendant economic policy changes. The period from 1967 to 1975 was characterized by prudent management of the economy and an average yearly growth rate of 6.3%. The years from 1975 to 1980 were marked by high coffee export earnings, which, injected into the stream of economic activity, triggered a rise in inflation and an overvaluation of the national currency. As a result, nontraditional exports ceased to grow and there was a downturn in the rate of economic growth, which fell to 5% per annum. With the slowdown in coffee export earnings in the early part of 1980s, the annual deficits of the public sector became larger and contributed to inflation. Exports again began to decline with the appreciation of the Colombian peso and the weakening of international demand. The current account of the balance of payments, after showing a small surplus in 1980, fell to a deficit equal to 10.8% of the GDP in 1983. In spite of the imposition of severe restrictions on imports of goods and services, the level of foreign exchange reserves fell off sharply. Economic growth over this period was barely 1.6% per annum.
- 2.03 Following a period of economic crisis in the early 1980s, the government successfully carried out a policy of macroeconomic adjustments from 1984 to 1986. Stability was regained, and the structural deficit was brought down through increases in taxes and cutbacks in expenditures. At the same time, the restrictions placed on imports during the previous period were eased and public sector investment priorities underwent a rigorous review. The revised policies enabled Colombia to negotiate in 1986 with the international commercial banking community for the so-called "jumbo credit" of US\$1 billion. In 1986, the current account of the balance of payments, thanks to favorable international coffee prices and a marked increase in coal and oil exports, posted a positive balance. Fiscal performance was also positive, the deficit dropping to the equivalent of 0.3% of GDP from 3.5% in 1985. Exports, including nontraditional ones, and private investment resumed rapid growth. The government was able to pay a portion of its short-term foreign debt, build back its foreign exchange reserves, and institute a

program of fiscal reforms aimed at improving the levels of tax collection and further reducing the fiscal deficit. Economic growth that year was at 5.8%.

- 2.04 In August 1986, the Barco administration, which took office that year, continued the program of economic adjustment. A new decline in international coffee prices was largely offset by a significant increase in private capital transfers and, once again, by a marked increase in exports, particularly those of oil and coal. The current account of the balance of payments registered a small deficit, equal to 0.1% of GDP, but the fiscal deficit was again high, equal to 1.8% of GDP, in spite of a sharp increase in national government tax revenues stemming from implementation of the tax reforms. In 1987, following a series of difficult negotiations, Colombia came to a new agreement with the commercial banks, and a new US\$1 billion operation, designated as the "concord credit", was brought to fruition. Economic growth that year was at 5.3%, unemployment fell from 15% to 10%, inflation was held to approximately 22%, and the international reserves rebounded to a level equal to the requirements for five months of imports.
- 2.05 During 1988 there was a sharp increase in domestic demand, which was stimulated by higher disposable incomes and a policy strongly directed at monetary expansion. Economic growth, however, could not be sustained, owing to production-capacity restraints that coincided with the placing of protectionist restrictions on fuel imports and the ravages of a prolonged drought. Inflation, consequently, accelerated to 28%, and lower production and exports of coffee and oil contributed, in turn, to a further worsening of fiscal conditions, resulting in a fiscal deficit equal to 2.8% of GDP in 1988.
- 2.06 The collapse of the International Coffee Agreement in July 1989, together with the continued guerrilla attacks on oil pipelines, escalation of the fight against drug trafficking, and the need to pursue negotiations with the commercial banking community on the country's debt service payments, which will amount to US\$1.3 billion for 1991 and 1992, make the prospects for 1990 and 1991 rather uncertain. It is estimated that the drop in the international price of coffee led to a decline of US\$200 million in export earnings in 1989 and will result in a US\$500 million decline in 1990. The fight against drug trafficking will also exert an adverse effect by increasing the amount of nonproductive public expending and by discouraging investment and tourism. The government responded quickly to this situation by limiting credit and reducing investments and subsidies, all of which helped to reduce the fiscal deficit in 1989 to 2.4% of GDP and to contain inflation at 26%. The GDP, however, grew by only 3% last year.
- 2.07 During 1990 the government continued to take action to enable the economy to adjust to the impact of the decline in coffee prices and the fight against drug trafficking. Real devaluation of the national currency accelerated, subsidies for the coffee sector were eliminated

and the real domestic price of coffee declined, real wages fell, fuel prices rose, and certain investments were postponed. These measures, implemented by the Barco administration in its final months, enabled the government to hand over to the new administration an ongoing program of economic growth and stability. These measures as a whole were designed to reduce the fiscal deficit (of the non-financial sector) by 1.7% of GDP, to hold inflation at approximately 24%, and to achieve an economic growth rate of 3%.

B. Medium-term program

- 2.08 The measures taken by the government in late 1989 and at the start of 1990 were aimed not only at adjusting the economy but also at instituting a policy of openness and rationalization for foreign trade. The goals are to subject domestic production to competition with foreign goods and to lower the quantitative restrictions on imports, replacing them initially with tariff protection which would subsequently be reduced on a gradual and sustained basis. Colombia is also making arrangements for a new round of negotiations with commercial banks to obtain a new credit in an amount at least equal to the total of the amortization payments due in 1991 and 1992. Starting in 1992, the amortization payments falling due on debt to commercial banks will be significantly smaller, approximately US\$450 million per year, until the year 2000, obligations that Colombia would have no problem in meeting.
- 2.09 In February 1990 the government approved the Program for the Modernization of the Colombian Economy, whose key component was the reduction in categories subject to quantitative restrictions and their replacement by import tariffs to be reduced gradually. These measures have been enhanced and accelerated under the present administration, eliminating quantitative restrictions and generalizing the drop in customs duties and should be accompanied by other measures to improve the allocation of resources and securing an appropriate response from the productive sectors in terms of adequate supplies. The reforms envisaged for the financial and industrial sectors and for the public sector are critically needed in order to give a greater depth to the Program for Modernization of the Economy while further action is being taken on fiscal and external current account stabilization. The goals and other indicators for the medium-term macroeconomic program have been adjusted taking into account recent world price hikes in coffee and petroleum and a decline in import demand in the short run and are shown in Table 1. The basic elements of the adjusted program call for attaining an average yearly GDP growth rate of 5.5% in 1994 and 1995, stabilizing inflation at approximately 20% by 1995, reducing the debt-service-to-export-earnings ratio to 31% in 1995, from 53.6% in 1989, stabilizing the level of gross investment at 18% of GDP and bringing the fiscal deficit down from the equivalent of 2.4% of GDP in 1989 to less than 1% by 1992.

- 2.10 The net effect of higher world prices for petroleum on the external current account has been deemed to be positive. Projections reveal that for every US\$1 increase in the world oil price 20 cents constitute the net impact, since there is also an increase in interest payments, in the cost of imported derivatives and payments abroad of foreign firms. Under the assumption that the price in 1991 will be US\$25.50 per barrel of crude (the original program assumed a price of US\$18.20 per barrel), the net annual effect will be US\$80 million. The volume of petroleum exports is also lower than originally estimated for 1990, owing to delays in construction of an oil pipeline, which could also affect oil exports in 1991. Coffee export earnings, however, are now projected to be greater inasmuch as prices have risen by about 5 cents a pound. Each increase of one cent in the international price of coffee represents about US\$33 million annually in the external current account.
- 2.11 Although the higher international prices for petroleum and coffee do improve the trade balance, they must be looked upon largely with a view to the overall situation. Accordingly, the government will increase its level of reserves in order to dampen the future effect of potential price fluctuations, seeking to arrive at five months of imports. The adjusted projections reveal that the accumulation of reserves will only increase from 4.3 months, the present level, to an average of 4.6 months in the period 1990-1992.
- 2.12 The principal characteristics of the reforms instituted by the government in the areas of foreign trade, finance and industry are outlined in the following paragraphs:
- 2.13 **Foreign Trade:** The strategy decided upon by the government to modernize the productive apparatus is to open the economy up to foreign competition. The reforms announced will be implemented in two stages. The first stage will begin with the elimination of quantitative import restrictions and the reduction and simplification of customs tariff categories. The second stage will enhance the degree of external competitiveness by steady reduction in customs duties, to the point of achieving, towards the end of the term of office of the current administration (1993), the average level of protection of 15%, with values that are supposed to be concentrated around a small range of variation. The process will be accelerated as much as possible, depending upon the structural results obtained.
- 2.14 **Finance:** In the financial and banking sector the program calls for continued efforts to improve efficiency by encouraging competition, reducing compulsory investments, allowing the use of market-based interest rates, and eliminating barriers to capital inflow. Important decisions have already been made, including the decisions to reduce legal reserve requirements, adjust interest rates to market conditions on industrial and agricultural credit lines, eliminate compulsory investments and supervised credits that segment the financial market and authorize majority ownership of banks by foreigners. In addition, the regulations governing financial

institutions and supervision by the Bank Examiner's Office have been improved. The government is also aiming at simplifying the regulations governing liquidations, mergers and conversion of financial institutions, promoting greater availability of public information and preventing practices that are not competitive. Whenever the objectives and goals of equity can only be achieved efficiently through subsidized loans, such loans shall be intended specifically for targeted beneficiary groups and channeled largely through the fiscal budget.

- 2.15 **Industry:** The government program seeks to make the industrial sector more competitive at the international level, improve the use and productivity of installed capacity and increase the country's ability to produce tradeable goods for which Colombia enjoys comparative advantages. Also important in this regard are measures to simplify the institutional framework and its regulations in ways that will foster competitiveness and the response of industrial supply capacity to the opening up of trade.
- 2.16 In the energy sector, the government is pursuing two basic objectives. The first is to expedite financial recovery in the electric power subsector so as to reduce its share of the public sector's consolidated deficit, which is equal to 1% of GDP, while also reducing subsidies provided for high- and medium-income residential consumers and cutting power losses. The second objective is to institute a system of progressive increases in the real price of fuels so as to bring them up to their opportunity value and keep them there.
- 2.17 As a fundamental part of the economic modernization policy, improvements are required in the operation of transport and cargo-handling infrastructure and services in order to lower their costs, enhance the competitiveness of export products and bring down the prices of imports. With these purposes in view, initial action has been taken to allow the private sector to invest in semipublic railway companies and specialized port terminals. Concomitantly, efforts are being made to reduce the inefficiencies resulting from excessive protection of domestic shipping companies and foster competition in international shipping.
- 2.18 As for improvements to the operational efficiency of the public sector, initiatives are needed to ensure consistency between macroeconomic and sector programming, strengthen investment programming, and improve operational capacity in decentralized institutions. At the same time, it is also important to encourage the introduction of an element of competition into sectors previously regarded as public sector monopolies and to reduce direct public sector participation in the established financial and industrial sectors.

C. External debt and indebtedness capacity

- 2.19 Colombia's external debt, amounting at the close of 1989 to approximately US\$17.1 billion – equal to 42% of GDP and 226% of the value of exports that year – is not high, especially compared with that of other Latin American countries. The targets and growth rates previously indicated (paragraph 2.09) and the decline in Colombia's debt service commitments starting in 1992 (paragraph 2.08) are clear indications of Colombia's creditworthiness. Overall exogenous improvements in the balance of payments also helped improve Colombia's creditworthiness. Moreover, Colombia has always been up-to-date in its payments and has never found it necessary to negotiate a rescheduling of payments.

III. STRUCTURE AND OPERATION OF THE PUBLIC SECTOR

A. Importance and Integration

- 3.01 During the period 1981-1986 the Colombian public sector accounted, on average, for approximately 20% of the GDP. While public sector participation in economic activity has been less pervasive and distorting than in other Latin American countries, transfers of funds to decentralized institutions absorb a large proportion of revenues, have grown over time, and often conceal low productivity rates and inefficiencies. While the public sector accounted in 1970 for somewhat less than 14% of GDP, by 1986 the proportion had risen to nearly 22%. Roughly 50% of fixed capital formation and 33% of labor compensation are contributed by the public sector. Provision of social services - education, health and others - continues to be the sector's principal activity, though its share has been declining over time since 1986 concurrently with the increase in oil and industrial output.
- 3.02 Production of goods and services in the public sector is scattered among 1,076 national, departmental and municipal institutions (Table 2). Apart from the municipalities, the departments and the national government itself, there are: (i) 473 decentralized institutions that operate with legal and administrative autonomy but are financially dependent on transfers or allocations of funds from the national, departmental or municipal government; (ii) 273 enterprises operating under public sector control, but with a high degree of autonomy, which were expected to become financially self-sufficient at the time of their establishment; and (iii) 70 financial and insurance institutions.
- 3.03 Approximately 30 of the decentralized institutions constitute an important factor in the economy, accounting for 10% of GDP, 60% of public savings and 60% of fixed-capital formation by the public sector. Their operations are concentrated mainly in the mining sector and the electric power subsector, followed, in order of importance, by the telecommunications, transportation, agricultural and sanitary-works sectors (Table 3). The national government is predominant in the mining, transportation and agricultural sector, while the electric power subsector and the communication sector are characterized by a system of combined national and municipal government ownership and the sanitary-works sector by total municipal control. Nonetheless, many municipal enterprises, especially in the electric power subsector, require continuous financial support from the government. All decentralized companies, with the exception of the Empresa Colombiana de Petróleo [Petroleum Corporation of Colombia] (ECOPETROL) and the Empresa Nacional de Telecomunicaciones [National Telecommunications Corporation] (TELECOM), rely on transfers from the government. The decentralized enterprises generate, in the aggregate, approximately 40% of the consolidated fiscal deficit.

B. Prospects and determinants

- 3.04 During the period 1990-1994, Colombia's economically significant decentralized institutions are expected to improve their fiscal performance, to cease to generate deficits, which in 1988 amounted to nearly 1% of GDP, and to begin to make a positive fiscal contribution. This will materialize to the extent that spending is kept under tight control and that the level of savings can be raised from the equivalent of 19.2% of GDP (1989) to 21.6% (1994), basically through current revenue expansion resulting from implementation of the new pricing and investment policies to be supported by the sector operation. These values are expected to improve as a consequence of adjustments to administrative policies and structures, the elimination of restraints on competitiveness, and the execution of annual programs under performance plans.
- 3.05 **Administrative policies and structures:** Until 1989, when a law was enacted creating a new budget system to become effective this year, the government had no effective tools for monitoring the operational and investment decisions of decentralized institutions or for ensuring that their respective actions were wholly compatible with macroeconomic programming and with sector priorities. The only formal link between the government and the decentralized institutions lay in the fact that the latter's respective board of directors were usually chaired by the minister for the appropriate sector or by his or her delegate and often made up of representatives of the sectors using the goods and services produced. In the absence of any explicit statements of policy to be followed in each sector and in each decentralized institution, management was ad hoc, with no strategic objectives, based on the perceived priorities in each case and the pressures exerted by organized groups and political interests. The government, in turn, frequently interfered by setting prices for goods and services, appointing and removing senior staff, and involving itself in other aspects of day-to-day operations. This has given rise to serious errors in the investment area, to a general absence of financial discipline, frequent administrative, operational and labor crises, and violation of efficiency control standards.
- 3.06 **Programming and budgeting:** Given the inability to program expenditures in an adequate way and the uncertainty stemming from the absence of clearly-defined objectives and strategies, decentralized institutions operating under the budgetary system previously in effect often defined their levels of expenditure and investment priorities without regard to, and frequently in conflict with, the country's macroeconomic and investment objectives and priorities. In addition, the central government budget included only those institutions to which fund transfers needed to be made. Finally, there was no way of assessing the efficiency of fund allocation and use. This led to a proliferation of successive clearances in the preparation, approval and execution of the budget, none of which was helpful in the achievement of greater effectiveness. The rigidity of the processes in turn created circumstances that made it necessary,

in the course of each fiscal year, to approve substantial budget increases, in amounts that were often equal to the original annual budget and also required parliamentary approval and, consequently, lengthy and difficult negotiation.

- 3.07 **Public sector monopolies:** The public sector's participation in economic activities was nearly always protected by barriers to private sector competition and participation. This precluded any action to measure the degree to which the public sector was less efficient. These monopolies were formidable obstacles to growth in particular economic sectors and the economy as a whole. Poor administration and monopolistic conditions made it possible for labor costs to rise steeply, for user costs to be high, and for the quality of goods and services provided to be low. At the same time, operational, financial and administrative problems were multiplying. The principal sectors affected by protected, inefficient monopolies, some of which are operative throughout Colombia, are transportation (ports and railroads), telecommunications (interurban and international), electric energy, and sanitation services.
- 3.08 Public port and railway services have operated as a government monopoly and have been highly inefficient, as have the shipping services provided by the GRANCOLOMBIANA merchant fleet and its affiliates, also virtual monopolies, operating under the aegis and protectionist legislation and cartelized fleets (shipping conferences). These services have hindered productivity improvements and economic growth and may impair the outcome of the policy of openness being pursued by Colombia. Their inefficiency, however, is harming more than trade and the economy: in the case of railroads and ports, it is also placing a heavy burden on the Treasury.
- 3.09 Electric power generation, transmission and distribution and sanitation services are activities reserved to the public sector. Development of the electric power subsector is based primarily on municipal enterprises. The national government participates through the Instituto Colombiano de Energía Eléctrica [Colombian Institute of Electrical Energy] (ICEL) and the Corporación Eléctrica de la Costa Atlántica [Atlantic Coast Power Corporation] (CORELCA), which are responsible basically for distribution in areas which are not being served by municipal companies. The national government also participates, jointly with the authorities of departmental capitals, in another enterprise, Interconexiones Eléctricas [Electric Energy Interconnections] (ISA), which was established for the purpose of developing hydroelectric resources of national interest, facilitating interconnection services, and coordinating investment plans. In the past, investment plans have not always been marked by appropriate balance among generation, transmission and distribution, a situation that, together with inadequate policies and rate schedules, has placed the subsector in a situation of financial crisis. There are no plans to foster private sector participation in this subsector.

- 3.10 The provision of water supply and sanitation services in the major cities was developed along adequate lines. The medium-sized cities and smaller towns, however, required national government financing of investments and operations. This introduced a number of serious distortions into resource allocation, and also failed to meet the sector's demand for financial resources and restricted the available supply. In 1987, as part of the decentralization policy, the national government shifted the responsibility for operation and management of water supply and sanitation services to the municipalities. This is another sector in which, for the time being, there is no intention of encouraging private sector participation.
- 3.11 The government, by providing heavily subsidized credit for operations of the Instituto de Crédito Territorial [Low-Income Housing Agency] (ICT), has created a virtual monopoly for this organization in the low-income housing area. The funds for this financing are derived from investments in ICT bonds which pay interest rates well below the market and which institutions in the financial sector are required to invest in. These bonds accounted for 15% of all compulsory investments by the financial sector in 1989 and represented a cumulative amount of ICT applications totaling US\$178 million. Net transfers to ICT under this procedure are, at the present time, totally inadequate to cover the low-income housing investment targets, primarily because the interest rates being charged by ICT are not in line with those it is paying for capital and because of the institution's high operating and administrative costs, inadequate loan portfolio management, and the low quality and the high cost of the housing units it is constructing. The role of ICT and the mechanism for the financing of low-income housing are at present being reviewed by the government.
- 3.12 The government also plays a dominant role in the import and marketing of foods staples, through the Ministry of Agriculture, which sets maximum and support prices for inputs and products and determines volumes to be imported, and through the Instituto de Mercadeo Agropecuario [Agricultural Marketing Institute] (IDEMA), which imports, markets and regulates the market. IDEMA operations have tended to restrict competition and have prevented the development of an efficient, transparent market for certain products.

C. Recent developments in the public sector

- 3.13 The government has taken some significant steps in an effort to begin correcting the problems mentioned above: in 1989 the Congress approved a revised budget law to strengthen the public sector's managerial capacity; a number of measures have been instituted for the purpose of ensuring greater efficiency in the allocation of public resources, and action was taken to encourage competition in sectors previously regarded as public sector monopolies.
- 3.14 The inclusion, within the new budgetary system, of all public institutions (except for operations of the Fondo Nacional del Café [National Coffee Fund] and Banco de la República [Bank of the

Republic)), along with the establishment of the Consejo Superior de Política Fiscal [Fiscal Policy Council] (CONFIS), which is in charge of financial policy and ensuring consistency between the macroeconomic program and the investment programs and budgets of all decentralized institutions, and of the simplification of procedures for outlay commitments and disbursements, are all important initial measures within the program of improvements to public administration. The extent to which efficiency in the public sector is enhanced will depend largely on the implementation of policies, reforms, and appropriate supplementary actions such as those to be supported by this operation.

- 3.15 In an effort to remedy the inefficiency brought about by the existence of public sector monopolies, in July 1989 initial steps were taken to liquidate the existing railway company and establish two or more companies, one government-owned, to be responsible for rehabilitation and maintenance of the infrastructure (FERROVIAS), and one or more, either private or semipublic (public/private in ownership), to be responsible for railway transport operations ("STFs"). A program for voluntary termination of surplus staff (6,000 out of a total of 7,000 workers) initiated at the time is now going forward without delay. No problems are foreseen in bringing it to successful conclusion. The administrative, investment and financial plans for FERROVIAS and the STFs are close to completion, and the promotional efforts aimed at the private sector, begun in April 1990, have made it possible to virtually establish two STFs, one with a 49% private ownership and the other 100% private. In addition, the monopoly held in the past by COLPUERTOS in public port facilities has been brought to an end, and the government has authorized private operators to invest and provide services at Santa Marta, Buenaventura and Cartagena.
- 3.16 In the financial sector, the government has taken action to eliminate obstacles to the formation of new financial institutions as a means of encouraging competition and strengthening the sector's capital base. In December 1989, a law was approved that allows foreign investors to hold a majority share of the capital stock of financial institutions. And in mid-1989 the government issued rules to govern the privatization of public banks. These rules include provisions that require the auctioning off of groups of shares as a means of achieving financial solvency, acquiring experience and broadening the base of ownership. Since no proposals were received, the government decided to revise the terms of sale in order to make the operations more attractive and has established a new action timetable.
- 3.17 In mid-August 1990, the government issued a decree eliminating the monopoly status of TELECOM in the telecommunications field, authorizing competition by private firms in the supply of selected services (data transmission, electronic mail, telex, fax) and the participation of departmental and municipal enterprises in domestic long-distance telephone service and, in association with TELECOM, in international long-distance service. The same provision restores to the government (Ministry of Communications) the responsibility for

planning and regulating, a responsibility that was being exercised up until that time by TELECOM in conjunction with its operating functions.

- 3.18 In the industrial sector the government has launched an intensive program aimed at selling off the portfolio of the Instituto de Fomento Industrial [Industrial Development Institute] (IFI). The IFI privatization program for 1989-1990 calls for the sale of 18 companies with a total value estimated at US\$200 million. At the time of the analysis mission, seven companies had been sold for a total of US\$154 million. Work is going forward on the rest of the program. At the same time, the government has begun to dismantle the IFI's sources of financing, which are based on revenues from import taxes and social security.
- 3.19 In the low-income housing sector, the government has begun to dismantle the system of compulsory financing for ICT by limiting the contribution from insurance companies and mortgage banks to an amount equal to the cumulative value of ICT's debt obligations to them.
- 3.20 Finally, in the energy sector, the government obtained approval of a law establishing a committee in charge of formulating sector investment and pricing policy. The committee has recently begun operations. In addition, in September 1990 the government approved a rate adjustment eliminating the subsidies on high-consumption residential accounts.

IV. THE REFORM PROGRAM: ITS FINANCING AND EXECUTION

A. Objectives of the operation

- 4.01 The operation is designed to support the reform program, the specific purpose of which is to improve public sector productivity by creating incentives to the provision of efficient services and ensuring that sector policies and operations and those of decentralized institutions are compatible with the macroeconomic goals established for the medium term. The macroeconomic program is a cornerstone of the operation. Its consistency with the economic modernization strategy (see paragraph 1.3) will be permanently and steadily ensured by the government and evaluated periodically by the Bank, especially as concerns authorization for disbursements under the operation. For evaluation purposes, the government will send reports to the Bank at least every six months, starting not later than March 31, 1991, and up to the time of the last disbursement. They will be used, among other things, for the review meetings to evaluate consistency in the macroeconomic framework and program and in the program of public sector reforms.
- 4.02 The salient aspects of the evaluation made by the Bank of the macroeconomic framework and program of the government and its implementation will include fiscal and monetary policy (level of credit to the public and private sectors, fiscal deficit, prices, rates, wages, spending and public revenue, demand for money and near money, liquidity conditions), the policy on the external sector (current account and balance of payments, level of reserves, structure and level of financing, foreign exchange policy) and the sectoral composition of total and public investment and its financing. The public sector reform program also includes actions to rationalize the organization structure, operations and administration of the public sector, to promote efficiency, and to stimulate competition through development of the private sector.

B. Principal components of the operation

- 4.03 This operation seeks to extend support to decisions on public sector policies and administrative measures and private sector development with the aim of giving added impetus to reforms initiated in certain areas, implementing policies and legislative decisions, and applying new policies aimed at achieving the government's objectives in the area of public sector reform.

1. Modernization of the public sector

- 4.04 As part of the operation, the government has formulated specific policy definitions which are included in the Letter on Policies that the government has sent to the Bank (Annex 1). The letter covers three areas of priority importance to the modernization of the operation of the public sector: pricing of goods and services, public investment and planning, and evaluation of the performance of decentralized institutions.
- 4.05 The Letter on Policies defines the basic policies and strategies to be followed by the decentralized institutions, as well as the principal measures to be taken to adjust the institutional framework that governs and determines the patterns of their operation, especially in the areas of personnel administration, operational organization and bidding procedures. In order for the Bank to authorize the second and third disbursements, the government must first have attained the policy objectives and satisfactorily carried out the actions agreed upon, to maintain consistency of the macroeconomic framework and program and introduce reforms for greater productivity and efficiency of the public sector.
- 4.06 In the pricing area, the government undertakes to apply economic and financial self-sufficiency criteria in setting the prices for goods and services produced by the public sector. Public sector entities producing goods which are internationally traded will set the prices for their goods in line with the level of international market prices. Public sector entities producing services which are not internationally traded will set their prices in accordance with cost-effectiveness and financial self-sufficiency criteria. Public sector entities pursuing predominantly social objectives will be governed by explicit cost-recovery policies consistent with these principles.
- 4.07 At the same time, the operation will include policy actions and studies in specific areas of significant importance from the points of view of the efficiency of the public outlays involved, the desirability of public sector participation in the production of goods and services, and the size of the subsidies involved, as well as the beneficiaries. The areas in which actions and studies will be concentrated are those in which the public sector has decided to reduce or do away with its direct participation as producer, i.e. basically in low-income housing, industrial development, marketing of basic agricultural goods, telecommunications and transportation. The study of problems pertaining to efficiency and compatibility between sources and uses of funds will be helpful, in turn, in designing better financing mechanisms and, in certain cases, imparting greater flexibility to the allocation and use of funds.
- 4.08 In the area of public investment, the government has established the principle of not undertaking any projects whose output is commercial and which the private sector would be able to undertake under an appropriate incentives arrangement (except specific cases in the horizon of the public sector reform program, defined on account of

the fact that the government considers they are strategic) and will continue the efforts to alleviate poverty and facilitate the provision of infrastructure to productive sectors, as the main approach to public sector investments. Public investment programs will seek to facilitate private sector participation and the use of market mechanisms in the provision of goods and services. The public sector will intervene directly in cases in which there is no interest on the part of the private sector.

- 4.09 A planning and performance evaluation system was established within CONFIS to enable the government to review the operations of decentralized institutions for consistency with macroeconomic policies and goals. This system, supplementary to the government's medium-term financial program, will make it possible, by means of negotiations among the parties concerned (CONFIS, for the national government, and the management of each decentralized institution), to determine the strategic role to be played by each institution within the framework of the macroeconomic and sector objectives, the targets and operational efficiency to be attained, and the indicators for performance evaluation. In the course of preparing this operation, the government reached decisions on methodological, organizational and legal aspects relating to the start-up of the system and put the system into practice even before submitting the operation to the Board of Directors. The content of each performance plan is specific and will be defined on a case-by-case basis pursuant to the conditions of each entity and must be acceptable to the Bank.
- 4.10 The decentralized institutions with which the implementation of the system of performance plans is to begin are: ECOPETROL, TELECOM, ICT and the Instituto de Hidrologia y Meteorologia [Institute of Hydrology and Meteorology] (HIMAT). The objectives for the four institutions chosen to make up the first group selected for the system of performance plans would differ according to the functions of each institution. The principal objective for ECOPETROL and TELECOM will be to achieve higher levels of efficiency. These two companies generated more than 45% of the revenues of decentralized institutions in 1989, accounting for 6.5% of GDP. In the case of ICT, the performance plan will seek to guide its restructuring as a transitional measure until such time as the necessary legal instruments are approved (see paragraph 4.22) and will include financial, operational and administrative reforms designed to provide for greater private sector participation, to rationalize the governmental subsidies for low-cost housing, and to limit the organization's functions to the granting of direct subsidies. The focus of the performance plan with HIMAT will be on strengthening cost-recovery, ensuring decentralization and proper management of its operations, and defining the targets pertaining to the transfer of responsibility for operation and maintenance of the irrigation districts to users.
- 4.11 For submission of the operation to the Board of Executive Directors, the Bank also required that the system of performance plans and evaluation be in operation, that at least the plans with HIMAT and

ICE have been worked out and have come into effect in a manner satisfactory to the Bank, and that the objectives of the remaining two have, in turn, been substantially defined. The government would like to have those last two plans enter into force on January 1, 1991. To authorize the second disbursement, the Bank will have to be satisfied with the operation of the system and the execution of the first two performance plans, i.e. that they are being implemented in accordance with the objectives and actions agreed upon, or else that the necessary corrective steps have been taken, which must be acceptable to the Bank, and that CONFIS has worked out performance plans with four more decentralized agencies. Bearing in mind the fiscal relevance and the importance in the market in which they operate, the government decided, with the Bank's agreement, that the second group will include in principle COLPUERTOS, IDEMA, COPRELCA and ICEL. It was also agreed that, in order to authorize the third disbursement, the Bank would have to be satisfied with the progress of all of the plans signed and with the corrective steps taken in cases of unsatisfactory performance, and with the evaluation of the performance of the management levels in the execution of the first four plans, that the pertinent system of incentives has been applied, and also that other plans have been worked out with at least the Servicio Nacional de Aprendizaje [National Apprenticeship Service] (SENA), ISA, the Corporación Autónoma del Valle del Río Cauca [Autonomous Corporation of the Río Cauca Valley] (CVC), and the Instituto de Seguros Sociales [Social Security Administration] (ISS). Any changes in the composition of the groups of agencies will require prior agreement between the government and the Bank.

- 4.12 An evaluation of the decentralized institutions' performance in complying with the specific mandates of the government requires a precise delimitation of the area of responsibilities of each institution and of the government, as well as an appropriate adjustment of administrative and legal provisions for the purpose of increasing the institutions' degree of autonomy and responsibility. Under current conditions, the role of the boards of directors and managers of public institutions is not sufficiently effective because of government intervention in such areas as pricing, administrative appointments, worker benefits and organizational structure, as well as inefficiency stemming from existing regulations that hamper the management process. The government will rationalize the administration of decentralized institutions and limit its intervention to defining the strategic objectives and policy to be pursued by each institution, relinquishing responsibility for matters lying within the purview of the management of each entity. At the same time, arrangements for establishing a system of unemployment insurance will be studied and, if deemed advisable, submitted for approval.
- 4.13 The constitutional provision that recognizes the autonomy of municipalities and of entities under their jurisdiction has prevented the government from including these under the recently-established control system, notwithstanding the significant macroeconomic effects exerted by their financial results, borrowing requirements, and

investment programs. Three of the major companies in the electric subsector and all of the principal utility companies are included within the area of jurisdiction of municipalities and have depended in the past on government guarantees for access to external credit. While some of these companies have consistently operated with satisfactory financial results, others have become a heavy burden to the government, which in practice has no effective legal recourse for obtaining payments from municipal authorities or for requiring them to remedy problems. In order to ensure a degree of financial discipline on the part of companies under municipal jurisdiction that enjoy the benefits of government guarantees and to ensure an evenhanded treatment for all decentralized institutions, the government will require, for granting a guarantee on external loans that the municipal decentralized agencies agree in advance on performance plans with objectives and goals on performance and financial capacity and that they be evaluated by CONFIS.

2. Development of competition

- 4.14 This component of the operation seeks to provide assistance in developing and implementing recent measures undertaken by the government for the purpose of achieving greater efficiency in the use of resources, by encouraging competition in activities in which the public sector currently has a monopoly or is excessively present or in which market access is restricted. These measures include the opening up of railway and port operations to private sector participation, liberalization of shipping services, and less involvement of the public sector in the low-income housing, industrial, financial and banking and agricultural marketing sectors.
- 4.15 As previously indicated, restructuring Colombia's railway system is an important target in transportation. The operation supports the government's efforts to complete the liquidation of the existing company and establish new companies for railway transport infrastructure and operation. New companies to operate along the Magdalena corridor have formally announced their establishment, one with 100% and another with 49% private capital participation. In the Letter on Policies, the government indicates that it will continue efforts to attract private sector participation in other railway corridors and that satisfactory progress will continue until the liquidation of FNC is completed. The letter will also state that the government will be a partner in STFs, holding 51% or less of the capital stock and without insisting on a majority position on the respective boards of directors, and that such enterprises will operate on a commercial basis; that FERROVIAS will only carry out investments with demonstrated economic profitability and at the request of one or more STFs, and that an effort will be made to achieve self-financing for FERROVIAS. In the event that private capital shows no interest in investing in a railway operation for certain corridors and lines, the government will assess its present strategy and, by means of an appropriate program, will redefine its participation in those corridors. The technical cooperation under the operation will support the performance of a study to define a

rate structure for FERROVIAS according to which the operating, maintenance and rehabilitation costs will be covered by real income, within a framework of competition with automotive and river transport.

- 4.16 Although COLPUERTOS initially enjoyed a monopoly in cargo handling, the government, over the years, has followed a policy of gradually opening up port operations to the private sector with the aim of keeping bottlenecks from developing as a result of inadequate capacity and of making possible certain economic activities that would otherwise have been precluded by the inefficiency of COLPUERTOS. As a result of this process, in 1988 COLPUERTOS was handling only 15% of total import-export cargo, whereas private specialized port facilities for petroleum, coal and bananas were handling 63% of the cargo and private piers in public port facilities were handling 21% of total cargo (table 4). In general cargo handling, however, COLPUERTOS continued to handle a substantial share (42% of the total) and to enjoy a monopoly on commercial services (Table 5). Private piers and ports were only allowed to handle cargo related to their own commercial and industrial operations. In the context of preparations for this operation, the government recently authorized private sector investors to initiate public service port operations and decided to undertake a comprehensive review of the conditions governing private sector participation and the role of COLPUERTOS in port services.
- 4.17 In the Letter on Policies, the government confirms its intention to seek the approval of a new port law, consistent with the objectives, policies and general conditions for private sector participation approved by CONPES ("Consolidación de la Política Portuaria," [Consolidation of Port Policy], May 30, 1990) to ensure competitiveness and better service. The government has stated that it wants to submit to the Congress in 1990 the draft of new port regulations. To authorize the second or third disbursement (see paragraph 4.51), the government will have had to restructure the port sector in line with the objectives defined in the Policy Letter, including the institutional framework and regulations, the separation of regulatory functions of the operators and the establishment of conditions so that private investors can participate and compete in port operations. The competition conditions will include a single system of port charges for all operators, criteria and a clear system for determining compensation payable to the State for the use of coastal resources and public facilities and to grant licenses to invest in and operate port facilities and services. The government will then have to apply the new regulations in a coherent and systematic fashion.
- 4.18 COLPUERTOS continues to provide inefficient services as a result of its obsolete facilities, poor operation and maintenance practices and low labor productivity. In addition, it is facing progressively greater financial difficulties owing to its surplus labor force, its pension obligations and its distorted rate system. This, along with private sector competition, has created a need to restructure the

company. The government has set forth the basic objectives to be attained in restructuring COLPUERTOS within the context of competition between operators or when these conditions have not been developed, operational, administrative and financial autonomy for the terminals, a rate system for each terminal that reflects its real costs, and a reduction of redundant personnel. A program of actions for restructuring COLPUERTOS, acceptable to the Bank and consistent with the objectives stated in the Policy Letter, shall be submitted for authorizing the second disbursement. As a condition for authorizing the second disbursement, CONFIS will agree upon a performance plan with COLPUERTOS, which is compatible with the objectives of its restructuring. To authorize the third disbursement, the government will examine the performance of COLPUERTOS under the plan agreed upon with CONFIS.

- 4.19 The basic purpose of the Cargo Set-aside Law was to foster the establishment of a national shipping company to satisfy the country's commercial requirements. This purpose has not been attained. After a decade of protection, the Flota Mercante Grancolombiana [Greater Colombian Merchant Fleet] has become a virtual monopoly, its services are inefficient and high in cost, and it has come to depend excessively on relationships with associated foreign shipping companies, which have become the principal beneficiaries of the protection granted under this law (Table 6). The government plans to deal with this problem in two stages. In the near term, the level of competition in this subsector will be increased by reducing the percentage of cargo set aside for domestic bottoms. In March 1990, the government issued a decree reducing the set-aside both for bulk cargo (which accounts for 67% of total cargo and nearly 20% of the total value of cargo) from 50% to 10% and the set-aside for general import cargo from not less than 50% of the total (which was roughly 75% in practice) to a maximum of 50%. At the same time, the procedures for management of set-aside and free cargo were revised.
- 4.20 As the result of the recent measures on set-aside cargo, positive results have already been observed. Some of them are the drop of more than 20% in freight charges for coffee exports and the fact that GRANCOLOMBIANA has launched a process of business restructuring, rationalization of services and costs, and modernization of its fleet. Nevertheless, obstacles remain that limit competition and the effects of the recent measures, such as: (i) the prohibition of making remittances abroad of 20% of the freight charge income, which discourages the participation of foreign shipping firms; (ii) the excessive and costly procedures for checking on set-aside cargo; (iii) the discretionary administrative mechanisms, without any economic foundation, for assigning routes; and (iv) the maintenance of provisions that are contrary to conventional practices in the maritime transportation market. In the Policy Letter, the government undertakes to eliminate the obstacles to efficiency and to increase competitiveness in maritime transportation. In order for the Bank to authorize the second disbursement, the government must have eliminated the restriction on foreign exchange remittances abroad arising from income earned by foreign shipping companies, simplified

the set-aside cargo control procedures, and eliminated or at least reduced the set-aside of bulk cargo to not more than 5%.

- 4.21 The protection granted by the Set-aside Law limits the access of importers and exporters to opportunities in the international shipping markets. To address this problem in the medium term, the government has proposed that it will evaluate the impact of the measures that are recent and to be implemented in the short run and will identify other measures to liberalize the present quota system and allow importers and exporters to choose whatever shipping services are most economical and best suited to their needs. In order for the Bank to authorize the third disbursement, the government shall have defined and started a plan of action to reform the regulatory, operational and administrative conditions so as to promote efficient transportation under conditions of competition by domestic shippers, eliminating or reducing substantially the general set-aside for imports.
- 4.22 In 1983, the government assigned basic responsibility for providing low-income housing to ICT. The setting of highly subsidized interest rates, and the assignment to ICT of direct functions in the design, construction and financing of housing, acted as a disincentive to private sector participation. The chief mechanism for the financing of low-income housing has been the system of compulsory investments by the financial sector in ICT bonds paying rates substantially below the market. These transfers, as indicated in paragraph 3.11, are insufficient to reach the investment goals and offset the significant losses resulting from misaligned lending and borrowing rates, high operating costs, and inefficient portfolio management. The government has agreed to restructure the low-income housing system, redefining the pertinent role of the public sector and improving the efficiency of the subsidies granted. To this end, it has submitted the pertinent bill for approval by the Congress. The restructuring of the system will make it possible to set up a direct and clear mechanism to grant housing subsidies, redefining the role of the ICT. To authorize the second or third disbursement (see paragraph 4.51), the government must have restructured the low-income housing system pursuant to the objectives and policies established in the Policy Letter and excluding the ICT from any functions involving design, construction and financing of housing, eliminating through compulsory investments, defining a payment plan for the obligations of ICT and establishing a system of incentives for promoting participation by the private sector, including nongovernmental organizations.
- 4.23 The operation also supports the government's decision and program to reduce controls applied on interest rates on low-income housing, eliminating them except for the stratum of people with family income between 2.5 and 4 times the minimum wage and providing the subsidies that are required through the government's budget, supplementing private sector financing. For the stratum with family income of less than 2.5 times the minimum wage, the subsidy will come entirely through the government's budget.

- 4.24 Intervention by the government in the marketing of food is, as indicated previously (paragraph 3.12), concentrated principally in the Ministry of Agriculture and in IDEMA. The operation of IDEMA is funded mainly with fees it charges the private sector in connection with its import operations. The frame of reference, which is outlined in the Letter on Policies, calls for limiting the intervention of IDEMA as importer to emergency situations, implementing support prices, and averting potential dumping activities. To this end, the government will submit the necessary bill to Congress for approval. Under the proposed loan, the government will carry out studies to determine its effectiveness in this area and the functions that may alternatively be required to increase efficiency and competition in food marketing. For the second or third disbursement to be authorized (see paragraph 4.51), the agricultural marketing system will have to be restructured, in a manner consistent with the Letter on Policies, and must include the establishment of a transparent, automatic system that will allow for unrestricted import of the products currently limited to IDEMA, transformation of the current system to a variable tariff system applicable to selected products on a range of prices, and review of the support price policy. Restructuring of the system will imply adjustment of IDEMA to the new functions.
- 4.25 The government has decided to pursue the strategy of making the sector more competitive and strengthening its capitalization through privatization of nationalized banks and promotion of foreign investment in this sector. In the early 1980s a group of banks encountered liquidity and solvency problems that led the government to nationalize them. The largest of these is Banco de Colombia (61% of the nationalized assets), followed by Banco del Estado (19%), Banco de Comercio (17%), Banco Tequendama (3%) and Banco de los Trabajadores (2%). The last three of these have recovered financially, Banco del Estado has improved its status but faces a lawsuit that jeopardizes the integrity of its entire capital stock and reserves, and Banco de Colombia is still financially weak. The government recently placed Banco de los Trabajadores on the market, but no bids were received although several groups of investors expressed interest. The government is now in the process of revising the conditions of sale to include a study of the desirability of a merger of smaller banks as a prior step. For the operation to be submitted to the Board, the Bank required the government to establish new conditions for the sale of banks that will allow for greater flexibility in negotiations with potential buyers. For the Bank to authorize the second disbursement, the government will have to have put another three nationalized banks up for sale (Banco Tequendama, Banco del Comercio and Banco de los Trabajadores), either individually or jointly. For the Bank to authorize the third disbursement, the government will have to have devised and approved a strategy and plans of action to privatize those banks that, having been placed on the market, have not received any acceptable offers, and to privatize or else restructure Banco de Colombia for total or partial sale.

- 4.26 Investment by the IFI has been the principal tool of public sector participation in the industrial sector. In July 1988, IFI's investment portfolio consisted of shares in 54 companies, in 25 of which the share exceeded 30% of the capital stock at the time. IFI has initiated an investment portfolio sell-off program with a view to rehabilitating itself financially and redefining its function as an industrial promotion agent. The Letter on Policies sets forth the government's commitment to complete the 1989-1990 privatization program and define and implement the 1991-1992 program.
- 4.27 The government will also carry out a study to determine the best way of restructuring ALCALIS with a view to possible privatization or, alternatively, liquidation. ALCALIS, which is wholly owned by IFI, produces chemical bases and raw material for domestic industry. It represents the third-largest investment of IFI and its second-largest debtor and is the only industry that continues to be wholly controlled by the public sector. ALCALIS has met with serious financial and operational problems over the past ten years, but the government has delayed any action to sell the company or liquidate it, because it is the only supplier of chlorine for water and refined table salt. The study will make it possible to design the most appropriate plan of action.

3. Technical cooperation

- 4.28 The purpose of this component of the operation is to cooperate in the financing of studies and advisory services, including institutional development and implementation of systems and activities in connection with government efforts to improve the efficiency of public sector management, to strengthen its competitiveness and to allow a greater degree of private sector participation. To this end, the government will engage a number of consulting firms and individual consultants for the implementation of the technical aspects of this operation.
- 4.29 During the preparation, analysis and negotiation of this operation, agreement was reached with the Colombian authorities on the need for technical economy and for extending support to CONFIS in its work of establishing and evaluating performance plans with public agencies. The following have been identified among the sector efforts required: (i) rationalization of public sector personnel and salaries; (ii) definition of cost-effectiveness criteria and levels and of railway infrastructure subsector rates as a prerequisite for setting the tolls to be charged by FERROVIAS to semipublic (public/private) or private enterprises using the railway infrastructure; (iii) mechanisms for implementing the policy for opening up port operations to the private sector and for restructuring COLPUERTOS; (iv) identification and quantification of the present levels and beneficiaries of the subsidies policy; (v) restructuring of IDEMA, the agency responsible for the import and marketing of food; (vi) strategy for the possible sale of Banco de Colombia; (vii) cost-accounting system for TELECOM; (viii) design, start-up and institutional strengthening for the operation of a system of

financial information and operational control for decentralized institutions and municipal and departmental entities; and (ix) design, start-up and institutional strengthening for the operation of a communications-service control system. The technical cooperation operation will, in principle, finance the studies, advisory services and institutional strengthening indicated in Appendix V.

C. Financing by the Bank

1. Amount

- 4.30 The proposed loan and technical cooperation, as mentioned above, will amount to US\$305 million, which will be used to contribute towards financing two components: the loan, in the amount of US\$300 million, to be disbursed in three successive stages of US\$100 million each, subject to the fulfillment of specific conditions, and the technical cooperation funding, in the amount of US\$5 million. Three disbursement stages are regarded as appropriate for the sector loan component given the fact that the first disbursement is designed essentially to support a number of reforms and actions that the government has been carrying out as work goes forward on the conclusion of agreements and as part of the preparation for the operation prior to its submittal to the Board, and that the last two disbursements are designed to support measures to be taken within a period of time that will cover at least one complete fiscal year (1991). A policy matrix, which has already been substantially negotiated and agreed upon with the government, is attached hereto (Annex 2).

2. Use of funds

- 4.31 The loan proceeds will be used to reimburse 100% of the foreign exchange cost of eligible imports of goods, up to a value of US\$297 million, and to cover the costs of inspection and supervision in the amount of up to US\$3 million. The technical cooperation resources will be used to cover 100% of the cost of the above-mentioned studies, advisory services, systems and institutional strengthening, in connection with the implementation of the policies and activities agreed upon, in the amount of up to the equivalent of US\$4,950,000, and to cover the costs of inspection and supervision in the amount of up to US\$50,000 equivalent. The sector loan will be disbursed against general imports of goods, not including alcoholic beverages, tobacco, radioactive materials, weapons, goods for military use and luxury goods. The list of excluded goods (see Appendices III and IV) has been confirmed during the negotiation of the operation. These loan funds will be freely disposable at the government's discretion; they are not earmarked to finance procurements or to cover specific or general expenses of public institutions. The local resources to be made available for this component of the operation will also be freely usable at the government's discretion. The technical cooperation resources will be disbursed in accordance with the Bank's technical cooperation and procurement policies (Annexes 3 and 4).

D. Execution of the program

1. Procurement procedure

- 4.32 Reimbursement from the loan for the procurement of goods will be contingent upon the public or private sector's having utilized the international public bidding system if the amount of an individual contract or purchase order exceeded the equivalent of US\$5 million. In the case of a smaller amount, the public sector must have followed other competitive procedures specified under Colombian law provided that these are not in conflict with the Bank's policies. For purchases of imported goods that the private sector has carried out, the established commercial practices for the goods in question must have been followed based on quotations from suppliers in at least two member countries. All procurement will be subject to the procedures set forth in Appendix VI. In contracting for consulting services, the pertinent practices established by the Bank, as set forth in Annex 4 shall be followed and will be annexed to the technical cooperation agreement

2. Reimbursement for procurements

- 4.33 Under the Bank's current policies, funds from the financing may be used to compensate the country for foreign exchange spent on imports of eligible goods and the hiring of consulting services over a six-month period prior to the date of the loan contract, provided that the requirements established by the Bank in this operation have been complied with and that such reimbursements do not exceed US\$100 million.

3. Auditing and control

- 4.34 Disbursements shall be made against submittal by the Ministry of Finance of statements of expenditures setting forth in detail the transactions in each period and providing evidence of compliance with the conditions for eligibility. For purpose of reimbursement against eligible imports, the import records maintained by Banco de la República (BR) shall be used. These records contain, inter alia, data on the type of product imported, country of origin, tariff classification, date and value. For purposes of disbursements for the technical cooperation component, the statements of expenditures shall set forth in detail the payments made or required according to the degree of progress under each contract. The Ministry of Finance will be responsible for keeping the books on the loan, preparing and forwarding requests for disbursement, preparing listings of imported goods considered eligible, and maintaining the necessary supporting documentation.
- 4.35 The borrower shall submit to the Bank, not later than 60 days after the request for each disbursement is submitted, a report providing evidence, on terms acceptable to the Bank, that the goods with respect to which the disbursement request in question was submitted were eligible for reimbursement out of the loan proceeds.

- 4.36 The Bank reserves the right to conduct an ex post audit of the various stages and documents pertaining to each procurement under the loan. For this purpose, the borrower has agreed to provide the Bank with any documentation the Bank requests concerning the procurement of goods and contracting of services to be audited. Moreover, the Bank reserves the right to withhold disbursements for goods or services that were procured without adhering to the rules set forth in this operation.
- 4.37 The corresponding financial statements shall be submitted to the Bank within 150 days after each of the three disbursements of the loan and the close of each fiscal year for the technical cooperation operation.

4. Inspection and supervision

- 4.38 The Bank shall establish such inspection procedures as it deems necessary to ensure the satisfactory execution of the program, and the borrower and the guarantor agree to provide all cooperation which is required for the accomplishment of this purpose. The sum of US\$3,050,000 shall be set aside from the amount of the financing for credit to the account of the Bank for general inspection and supervision.

5. Letter on policies

- 4.39 The Bank concurs with the borrower with respect to the content of the Letter on Policies attached hereto as Annex I, in which the government formulates specific definitions of policies concerning the macroeconomic context and program, and operation of the public sector and undertakes to apply those policies.

6. Ex post evaluation

- 4.40 The ex post evaluation shall be carried out between six and twelve months after the Bank authorizes the last disbursement. Staff of the Bank will participate in the analysis for the purpose of making the study as comprehensive as possible. The intention is to focus the assessment on the entire process of loan execution, including an analysis of compliance with the policies agreed upon. To the extent possible, the ex post evaluation will also examine the immediate impact of the measures taken. The specific items to be covered by the evaluation will be specified in due course with the assistance of the Bank's Operations Evaluation Office (OEO).

E. Conditions for processing and authorizing disbursements

- 4.41 Authorization of the three successive disbursements for the sector component will be linked to compliance with the conditions indicated below.
- 4.42 The first disbursement for the sector component will be authorized once the Board approves the operation, the latter enters into force

in accordance with the regulations of Colombia and the Bank, and so long as the macroeconomic context and program continue to be consistent with the strategy and objectives set forth in the Letter on Policies.

4.43 Authorization of the second disbursement for the sector component will be contingent upon:

- (a) Continued consistency of the macroeconomic context and program with the strategy and objectives set forth in the Letter on Policies (paragraphs 4.01 and 4.02);
- (b) Fulfillment of the public sector reform program objectives and execution of the corresponding activities agreed upon (paragraph 4.05);
- (c) Fulfillment of the objectives of the performance plans and evaluation system and execution of the first set of performance plans (ICT, HIMAT, ECOPETROL, TELECOM), in accordance with the objectives and activities agreed upon, or, if this is not the case, execution of the necessary corrective measures; and signature by CONFIS of performance plans with COLPUERTOS, CORELCA, ICEL and IDEMA (paragraph 4.11);
- (d) Definition of the restructuring program for COLPUERTOS to adjust its functions to the objectives, reform strategy and policy framework set forth in the Letter on Policies (paragraph 4.18);
- (e) Elimination of the restriction on foreign remittances of income by foreign shipping company charges, simplification of the reserved cargo control procedures, and elimination or at least reduction of the bulk cargo reserve to less than 5% (paragraph 4.20); and
- (f) Placement of another three nationalized banks on the market for sale, either individually or jointly (paragraph 4.25).

4.44 Authorization of the third disbursement for the sector component will be contingent upon:

- (a) Continued consistency of the macroeconomic context and program with the strategy and objectives set forth in the Letter on Policies (paragraphs 4.01 and 4.02);
- (b) Fulfillment of the public sector reform program objectives and execution of the corresponding activities agreed upon (paragraph 4.05);
- (c) Fulfillment of the objectives of the performance plans and evaluation system and execution of the current performance plans, in accordance with the objectives and actions agreed upon, or, if this is not the case, execution of the necessary corrective measures; signature by CONFIS of performance plans with CVS, ISA,

ISS and SENA; and evaluation of managerial performance in the execution of the four first plans and application of the corresponding incentive system (paragraph 4.11);

- (d) Definition and satisfactory initiation of implementation of the restructuring plan for COLPUERTOS (paragraph 4.18);
- (e) Definition and initiation of implementation of a plan of action to increase competition in the shipping sector (paragraph 4.20);
- (f) Definition and initiation of implementation of a plan of action for privatization of the banks which, having been placed on the market, have still not been sold, and to privatize or else restructure Banco de Colombia for total or partial sale (paragraph 4.25).

4.45 In order to help the government process the operation with the legislative branch, and institute a legal framework that will help achieve the proposed objectives, it has been agreed that, in addition to the conditions indicated in paragraph 4.43, the second disbursement of the sector component will be authorized contingent upon fulfillment of one of the three following conditions, while authorization of the third disbursement will be contingent upon fulfillment of the remaining two, in addition to those indicated in paragraph 4.44:

- (a) Restructuring of the port subsector in a manner consistent with the provisions of the Letter on Policies, including separation of the regulatory functions of the operators, and the establishment of conditions for private investors to participate and compete in port operations (paragraph 4.17);
- (b) Restructuring of the low-income housing system in a manner consistent with the provisions of the Letter on Policies, including elimination of ICT's participation in the design, construction and financing of housing, elimination of the forced investment system, definition of a payment plan for ICT obligations and establishment of an incentive system to promote private sector participation (paragraphs 4.22 and 4.23);
- (c) Restructuring of the import and marketing system for agricultural products in a manner consistent with the provisions of the Letter on Policies, including establishment of a free import system for the private sector for products currently limited to IDEMA, transformation of the system of import of selected products into a variable tariff system based on a range of price variations and review of the support price policy (paragraph 4.24).

4.46 Disbursements of the technical cooperation funding will be authorized on the basis of requests for withdrawal of funds accompanied by statements of expenditures incurred for eligible consulting services and related items. Regular Bank procedures will be followed for the procurements of systems, equipment and other goods. The borrower and

the Department of Planning will prepare detailed terms of reference and budgets and develop the roster of consulting firms or individual consultants or suppliers, the evaluation and selection criteria, and the criteria for awarding of contracts, in a manner wholly consistent with the Bank's procedures and the description set forth the Appendix V and Annexes 3 and 4.

F. Distributional impact on the low-income population

- 4.47 The distributional impact of sector adjustment loans is generated by the policies adopted and is manifested in a number of sectors or even in the entire economy, which makes it much more difficult to measure. The Bank has not as yet developed a methodology for estimating the distributional impact of sector loans. Nevertheless, the policies to be implemented under the operation will improve the efficiency of operations in the public sector and encourage private sector competition and participation, thereby contributing, in the medium- and long-term, to the generation of additional net revenues as a result of the greater productivity and economic growth.
- 4.48 A study of shadow prices carried out by the government with assistance from the Bank and from the Universidad de los Andes in Bogota and completed last year estimates that an increment in domestic demand equal to one peso results in 10 additional centavos [hundredths of a peso] of income for the low-income population, in terms of wages paid. Using the findings of this study as an approximation, it can be estimated that, if the impact of the public sector reform program supported by the operation focused mainly on the service, hydrocarbons, communications and agriculture sectors, the distributional impact would represent, on average, about 30 and 35 centavos per additional peso of production in those sectors. Taking into account the impact on wages of the reform program in sectors in which its impact is expected to be greatest, it can be concluded that the distributional impact of the operation on low-income population is on the order of 30%.

G. Benefits and risks

- 4.49 The operation is designed to support a package of measures - some of which some have already been started but need to be developed and sustained over time and others have yet to be undertaken by the government - under a program of reforms that seeks to adjust the public sector to the need for modernization of the Colombian economy in general. The expected benefits from this program include: (i) higher productivity and rationalization for the decentralized portion of public administration and for public investment, through the establishment of a system for planning and performance evaluation of decentralized institutions; (ii) restructuring of the railway system and the system for the design, construction and financing of low-cost housing in Colombia, an area that constitutes an important goal in the development and efficiency of the country's economy; (iii) greater competition in port operations, shipping services, and food marketing; and (iv) achievement of greater economic efficiency and

improvement of the fiscal situation through support for the sale of nationalized banks and state-owned industrial firms to the private sector and through the rationalization of prices, rates and subsidies.

- 4.50 Salient among the risks associated with this program are possible countermeasures by labor unions and interest groups that have benefited from the monopoly conditions and the absence of mechanisms for monitoring the performance and operating efficiency of decentralized institutions, distortions that the government is now seeking to remedy. It is possibly in the restructuring of COLPUERTOS and ICT that staff reductions and adjustments to present schemes for the provision of services will be most sorely needed but which will be carried out gradually and with payment of the compensation required under labor law. To the extent that the reform program that this operation seeks to support reduces the role of the state and provides incentives to additional private activity, a contraction in the demand for labor is not anticipated. Indeed, reactivation of the economy is expected to generate employment opportunities and reduce the overall indicators of unemployment and underemployment. Also, as previously noted (paragraph 4.12), the government is studying the possibility of setting up a system of unemployment insurance. These elements, taken together, help to reduce the risks associated with the operation.
- 4.51 In order to implement profound, rapid reforms in the areas of ports, low-income housing, and import and marketing of agricultural products, the government needs the applicable laws and other provisions to be adjusted. To this end, the government will submit the necessary bills to Congress for approval as soon as they are ready and circumstances permit. Given the support the new administration has in public opinion and with Congress, together with the consensus on the need for the reforms, approval is likely. However, to help the government in its procedures with Congress, the reforms concerning the conditions for the authorization of disbursements have been arranged in a flexible manner, with three conditions (paragraph 4.45). During the negotiations, it was agreed that the government would fulfill one of the three conditions prior to authorization of the second disbursement and the other two prior to authorization of the third disbursement. If the government is unable to obtain the legal instruments, action programs will be prepared within the framework of existing legislation, to achieve the objectives of the reform as best possible. The Bank will determine whether these are acceptable.

V. RECOMMENDATIONS

5.01 In view of the foregoing, the loan is considered to meet the requirements set forth in the Agreement Establishing the Bank and in the document on the Seventh Replenishment. It is therefore recommended that the operation be submitted to the Board of Executive Directors for consideration, with the following normative documents:

- Proposed Resolution on the Loan and on the Technical Cooperation (Appendices I and II, respectively)
- Recommendations (Appendix III)
- Loan Description (Appendix IV)
- Description of the Technical Cooperation Program (Appendix V)
- Procurement Procedure for Sectoral Adjustment Operations (Appendix VI)

Mr. Enrique Iglesias
President
Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577

REF: COLOMBIA--Public sector reform program, sectoral policy paper.

Dear Mr. Iglesias:

1. Colombia's economic performance over the past four decades has been characterized by stability and sustained growth. The economy has grown an average rate of 4.5 percent per year, and the prudent and gradualist approach adopted in the conduct of economic affairs has made it possible to avert the types of cyclical upheavals experienced in other countries. Colombia has not experienced a single negative growth period in recent decades.
2. The Colombian Government recognizes that future economic progress will require increasing the productivity of existing resources and of investment, in both the public and private sectors. With this in view, the government has adopted an economic modernization program, which is designed to bring about a structural change in Colombia's historical development model by working to achieve (a) economic liberalization in order to allow the economy to become exposed to international competition, (b) an improvement in the efficiency of the public sector combined with a reduction and streamlining of its sphere of activity, (c) the introduction of sectoral reforms aimed at promoting greater economic efficiency, and (d) an increase in the efficiency and resources needed to meet Colombia's human resource development needs.
3. To attain these objectives, the government has adopted and proposes to maintain a set of policies aimed at ensuring macroeconomic stability while increasing public and private savings. The policies proposed for the fiscal, monetary and foreign exchange areas are consistent with the goal of restoring economic growth to levels of five to six percent per annum while gradually bringing down inflation and keeping international reserves at an adequate level.

Public sector reform program

4. The public sector reform program is a key element of economic modernization. The government has defined the following objectives: improving productivity in the use of public resources; ensuring efficient provision of services to complement economic sector activity, particularly those sectors associated with the economic modernization policy; and eliminating those structural and institutional factors that inhibit the operation of competitive market mechanisms and interfere with the allocation and efficient use of resources in the economy. The government seeks to attain these objectives through:

(a) The formulation of explicit policies and adoption of measures, in keeping with macroeconomic objectives, to rationalize the State's role and bring about increased efficiency in the conduct of its affairs;

(b) Improvements in public expenditure programming and execution, both at the central government level and at the decentralized institution level;

(c) Elimination of public monopolies save in those cases where strategic considerations strongly argue against such a step; and the replacement of such monopolies with regulatory frameworks that allow competition and private sector participation on an equal footing; and the restructuring of government agencies to ensure that their operations reflect changed sectoral conditions; and,

(d) Privatization of those assets in respect of which public sector control is not justified by clearly defined policy objectives.

In order to reach the objectives outlined above, the government has initiated and proposes to pursue reforms in public sector management and deregulation of economic activity.

Formulation of policies to streamline the State's role and improve efficiency in the allocation and use of resources

5. To streamline the State's involvement in the process of economic modernization, the government has formulated explicit policies concerning the State's role in economic affairs, the pricing of goods and services, public investment targets, and the granting of subsidies. The government is resolved to implement these policies in an appropriate fashion in the allocation and use of public resources.

The State's role in the economy

6. The fundamental objectives of the State's role in the economy are to establish and maintain a stable macroeconomic framework, to introduce clear-cut incentives based on competition on equal terms with the aim of developing the various forms of business activity, and to pursue policies

that ensure that income is distributed appropriately and that the basic needs of the poorest population groups are met.

7. In accordance with these priorities, the government will pursue its policies of limiting its involvement in the direct production of goods and services to just those areas that it deems to hold strategic importance at present (oil, telecommunications, and basic public services). With the aim of eliminating the inefficiency caused by the monopolistic character of the public sector in these sectors, the government will be promoting private sector involvement and competition in these areas, and will employ criteria of economic efficiency in the area of prices and public investment. Additionally, the government will be concentrating on improving the living conditions of the poorest groups of society.

8. Prices of public goods and services. The government's basic policy is that the prices of public goods and services should reflect criteria of economic efficiency. The primary purpose of such a policy is to ensure appropriate fiscal performance in the public sector, to obtain an adequate rate of return on government assets in those sectors pursuing commercial objectives, and to ensure that economic resources are efficiently allocated and used.

9. With respect to internationally tradeable goods (except coffee), domestic consumer prices for these goods will be at least equal to international prices, and may in fact be greater by reason of the taxes that be levied on such goods. With those goods that lie below international price levels, the Government will gradually reduce the gap between the domestic price and the international price. As for nontradable goods, supplied on a natural monopoly basis, prices must be established on the basis of the long-term marginal cost criterion. With regard to services supplied by government agencies that are not pursuing commercial objectives, it will be necessary to adopt and implement explicit cost recovery policies in the interests of economic efficiency.

10. Public investment. The government intends to target public investment at the development of the human resources and physical infrastructure needed as an adjunct to the private sector's efforts to invest in productive areas. Save in exceptional circumstances where strategic considerations apply, the government's policy will accordingly be to stay out of those projects of a commercial nature that can be executed by the private sector under a system of incentives aimed at promoting economic efficiency. The government's decision to encourage participation by the private sector (both domestic and foreign) in the petrochemical sector represents one significant manifestation of this policy. Pursuant to the policy objectives outlined above, the government will only be executing infrastructure projects if such projects offer an appropriate economic rate of return and are compatible with the macroeconomic program.

11. Programs targeted at the poorest population groups will continue to be a priority objective of public investment. In view of the institutional shortcomings in the social area of the public sector, and in the interests

of improving the productivity of social investment, the government will emphasize market mechanisms and direct community involvement in the execution of programs in the areas of health, education, nutrition and low-income housing.

12. Subsidy policy. As one of the goals for improving the productivity of the public sector, the government will rationalize the system of subsidies to eliminate the distortions in resource utilization and the regressive effects which some of these subsidies have on income distribution. Work has accordingly begun on dismantling those subsidies that are not designed for, or are not effective in, accomplishing the purposes of specific social or economic policies, as is the case with the supply-based subsidies for the low-income housing sector. The government will target subsidies at the poorest groups of society, and there will be a clear and transparent fit between the objectives pursued and the form, amount and beneficiaries of subsidies.

Improvements in public sector programming and management

13. The basic aims pursued by the government in this field are to: (i) Ensure compatibility between macroeconomic policy objectives and performance in the public sector (both central and decentralized); (ii) simplify budgeting procedures so as to bring about greater efficiency in the programming and execution of public expenditure; and (iii) rationalize the relationships between the central government and decentralized institutions by establishing a system of management performance and evaluation agreements.

14. To these ends, the government has gained approval for a new budget law. This law has laid the groundwork for substantial changes in the public expenditure budgeting and programming machinery, and for resolving a number of serious deficiencies and institutional gaps. The government is at present implementing a number of institutional reforms based on the provisions of the new law. The following developments are worth noting:

(a) Establishment of institutional mechanisms for the formulation and execution of financial policies in the public sector

15. In the past, the government lacked the institutional means to formulate financial policies for the public sector and to exercise effective supervision over the outcome and results of such policies. At the time of the Macroeconomic Adjustment Program implemented in mid-1984, the government began to devise financial control mechanisms for the public sector that enabled the government to identify and evaluate with some degree of confidence the fiscal problems facing the central government and its decentralized institutions. These mechanisms functioned in tandem with the existing institutional mechanisms, and even though they made a major contribution to the success of the stabilization policies, they lacked the kind of backing and support from the decentralized agencies that would have ensured their effectiveness, particularly as a medium-term financial programming mechanism. To remedy this institutional deficiency, the new

law established a Fiscal Policy Board [Consejo Superior de Política Fiscal (CONFIS)] consisting of the principal economic authorities and two sector ministers. The CONFIS is in charge of setting financial policies for the public sector and monitoring compliance with them. CONFIS has been in regular operation since February 1990 and its staff includes a team of professionals to assist it in the formulation and implementation of policies.

16. The CONFIS prepares the public sector financial plan, which sets limits for expenditure, investment and indebtedness for the principal public sector institutions and determines the levels of internal transfers within the sector, with the primary aim of ensuring that sector performance is compatible with the targets established in the macroeconomic program. The government will be developing the public sector financial plan, and beginning in fiscal year 1991, the government will proceed with the preparation of revolving and ongoing public sector financial plans to cover a period of greater than two years, compatible with the national development plan, the results of which are to provide the basis for the preparation of the annual investment plan, the overall national budget and annual cash program. This financial plan, in keeping with the government's macroeconomic objectives, will be designed to achieve a gradual reduction in the budget deficit by exercising strict control over current expenditure, improving tax administration, and rationalizing the prices of goods and services produced by the public sector.

(b) Improvements in the efficiency of programming and execution of expenditure by institutions dependent on central government resources

17. In the past the budget law was a major source of inflexibility in expenditure allocation and inefficiency in expenditure execution. This was primarily due to the law's constraints on the inclusion of credit resources within the budget, together with the complexity of the procedures for committing budgetary resources. A further constraint was to be found in the procedures for disbursing budgetary resources. This meant that disbursements intended for public investment were used as a tool to achieve short-term monetary objectives. These constraints weighed most heavily on the social and physical and infrastructure sectors, which have traditionally been dependent on non-tied resources from the national budget.

18. The new budget law has eliminated the rigidities of the old Budget Law, which will make it possible to prepare annual budgets reflecting the entire range of activities programmed for the period in question and to simplify to a significant extent the procedures for commitment and delivery of budget allocations. The government will continue to develop new budgetary rules with the aim of ensuring greater efficiency in the programming and execution of public investment, eliminate any rigidities that inhibit a proper fit between public expenditure programming and execution, reduce the number of clearances required for outlays, and

provide public institutions with greater autonomy within the programming framework established by the central government.

19. With the aim of ensuring efficient allocation of public resources and appropriate levels in the execution of public investment, the government has attached considerable importance to the establishment and prompt launching of the National Project Bank [Banco Nacional de Proyectos]. The National Project Bank will be responsible for evaluating all investment projects financed with central government resources, and its purpose in doing so will be to ensure that these projects meet basic standards of economic profitability and technical viability.

(c) Establishment of institutional mechanisms allowing the government to improve the efficiency of institutions in the decentralized sector

20. One of the government's primary goals has been to rationalize its relationships with decentralized institutions in order to maximize the efficiency of the latter's operations. The performance of the decentralized institutions has been handicapped by the lack of an institutional mechanism through which the government could specify the action targets for each institution and evaluate operational performance. Furthermore, the lack of clear guidelines for treating the surpluses generated by certain public institutions militates against flexible mobilization of resources within the public sector. To tackle these shortcomings, the government has entrusted the CONFIS with responsibility for establishing and operating a Performance Planning and Management Evaluation System [Sistema de Planeación del Desempeño y de Evaluación de Gestión (SPDEG)] for the main public institutions. In addition, the new Budget Law has explicitly established the central government's ownership of the profits and surpluses generated by the decentralized institutions, and has authorized the National Board of Economic and Social Policy [Consejo Nacional de Política Económica y Social (CONPES)] to reallocate these resources in keeping with government priorities. The government will consistently and actively pursue a policy of reallocating the surpluses generated by decentralized institutions in accordance with government-determined investment priorities, and those surplus-generating institutions will be allowed to keep the resources necessary to carry out investments agreed with the government (in accordance with a reasonable indebtedness policy) together with those book reserves and financial reserves appropriate to the industry or sector in question.

21. The SPDEG system is a cornerstone of the government's strategy for ensuring that (a) the decentralized institutions function in a manner consonant with macroeconomic constraints, and (b) raise their standards of productivity and efficiency. Accordingly, the system's general objectives are as follows:

(i) To maximize the economic rate of return of the decentralized institutions by implementing the pricing, investment and subsidy policies mentioned earlier, and by developing management procedures that ensure that

such agencies are run efficiently. The government is hopeful that these policies and procedures will help to bring about substantial improvement in the financial rate of return generated by public enterprises, and an increasing degree of financial self-sufficiency for those decentralized institutions providing goods and services with potential for cost recovery and/or delivery on a commercial basis;

(ii) To rationalize the public sector's role by seeking to limit its involvement in those areas capable of being developed and operated by the private sector under market-based or incentive systems aimed at boosting economic efficiency. The public sector will focus its energies on those policy objectives that cannot be pursued through such systems;

(iii) To adapt the functioning of decentralized institutions to a system of incentives that promotes competitiveness with the private sector on equal terms.

22. The SPDEG will pursue these general objectives by setting strategic goals for each agency; these goals must be in accordance with the government's sectoral policies, macroeconomic plans and investment programs. These strategic goals will be translated into operational terms through the setting of performance targets for the management of the agencies in question. These targets will help to evaluate the management efficiency of public managers in their attainment of the objectives entrusted to them by the government. The performance evaluation of managers will culminate in the introduction of an incentive system for ensuring that decentralized institutions are managed professionally and efficiently. This system will initially be based on administrative penalties for those public managers who show substandard performance, and the system will be designed and implemented during the first quarter of 1991. In addition, the government will shortly be seeking to reform statutory arrangements in such a way that economic incentives can be tied to performance evaluation.

23. The government will be applying the SPDEG to ECOPETROL, TELECOM, ICT and HIMAT beginning in January 1991; to COLPUERTOS, IDEMA, ICEL and CORELCA beginning mid-1991; and to SENA, ISA, CVC and ISS beginning early 1992. These agencies have been chosen on the basis of their impact on government revenue and the government's own priorities in improving expenditure efficiency. The government will extend this system to all institutions in the financial and non-financial decentralized public sector that are important in terms of government revenue or in terms of the provision of public goods and services. In addition, the government may incorporate into this system those decentralized territorial agencies that require central government guarantees for their external financial operations. For this purpose, the government will issue the regulations necessary to stipulate as a prerequisite for the furnishing of guarantees for external loans to departmental or municipal institutions, that the institution in question have entered into a performance agreement with CONFIS that provides the central government with guarantees in respect of the institution's performance and financial capacity.

24. The government is in the final stages of preparing performance agreements for HIMAT and ICT. These agreements are expected to be signed during November 1990. The performance agreements for ECOPETROL and TELECOM are being prepared. However, the goals to be pursued under these agreements have already been decided. With ECOPETROL, the agreement will seek: (i) To set ECOPETROL's goals for 1991 in terms of current and capital expenditure, indebtedness and precise criteria regarding transfers to the central government; (ii) to establish the contents of the investment plan; and (iii) to establish goals for increasing ECOPETROL's operational productivity and financial profitability. As a medium-term objective, the agreement will seek to establish during 1991 a cost accounting system that will enable genuinely systematic control to be exercised over the efficiency of ECOPETROL's operations while also serving as a basis for devising ECOPETROL's corporate programs. TELECOM's agreement will seek to design and initiate an enterprise restructuring program aimed at commercializing the various services which TELECOM provides and acclimating TELECOM to the new competitive conditions prevailing in the sector. The agreement here will cover the same ground as with ECOPETROL, including the design and implementation of a cost accounting system. The government intends to sign these agreements during December 1990, so that they can come into effect from the beginning of the next fiscal year.

4. Expansion of the scope of public institutions' administrative and operational autonomy

25. Along with the institutional changes, the government will seek to bring about a substantial expansion of the scope of the administrative autonomy granted to public institutions in such a way as to strengthen the hand of management units in administering the institutions, and the government will clearly define the extent of the institutions' responsibility for the attainment of their assigned objectives and successful performance of their assigned tasks. The government's role will be confined to managing the institutions in the following areas: (i) Ensuring that the institutions' operations are compatible with macroeconomic constraints (financial plan); (ii) determining the strategic objectives and the targets to be pursued by each institution (performance agreements); (iii) appointing the members of the boards of directors and the principal managers; (iv) evaluating the performance of managers of public institutions, and applying appropriate incentives and imposing appropriate penalties (performance agreements); and (v) in those cases the government deems necessary, defining the pricing policies which the institutions must follow.

26. The government will also take steps in the areas of personnel and procurement of goods and services. These areas have a fundamental impact on the ability of managers of public institutions to conduct their operations efficiently and to carry out the institutional adjustments specified in their respective performance agreements.

27. Personnel. The government attaches particular importance to initiating a process of reducing operating costs in the public sector; the

government is also concerned that this process be combined with effective measures for raising standards of productivity and efficiency in public institutions. In addition to the action to be taken in this area in the form of the SPDEG, the government has decided to freeze in real terms the personnel expenditures of public institutions for the year 1991. The expenditure limits have been set in global terms, and each institution has been given the responsibility of making the necessary adjustments in terms of reducing and reallocating personnel. In addition, an incentives system has been established for public managers under which they may keep and reallocate, for such purposes as they think fit, such savings as they may generate in the management of their institutions. Furthermore, given the need to rationalize the staffing levels of several of the institutions that are to come under the system of performance agreements, the government is determined to promote this rationalization process in the interests of improving the efficiency and productivity levels of public institutions. The government will take care to alleviate the social repercussions associated with such rationalization, and the government will seek to provide appropriate compensation for those persons adversely affected by the rationalizing of staffing levels.

28. Regulations to govern competitive bidding for procurement of public sector goods and services. The regulations to govern competitive bidding are a major reason for the inefficiency encountered in public sector institutions. The multilevel review through which decisions must pass, the emphasis on procedural and legal considerations in bid evaluation, and the comparatively limited importance attached to economic and technical considerations, are some of the factors that account for the inefficiencies caused by current regulations. The government intends to reform the procurement rules with which public institutions must currently comply. For this purpose, a proposal for reforming the existing system will be submitted during the forthcoming legislative session. The government has accordingly appointed a Committee of Experts [Comisión de Expertos] charged with preparing this reform proposal on the basis of the following guidelines: (a) Procurement decisions will require no approvals or review beyond those granted or performed by the institution's board of directors and audit council in the normal process of overseeing and auditing the institution in question; (b) bids will be evaluated and bidders rated primarily on the basis of the economic, technical and financial criteria established for each case, and there will be an opportunity for later clarification or correction in cases where bidders have failed to meet procedural or legal requirements; and (c) the goal of regulation must be solely to determine the procedures and criteria that will ensure true competition in public sector procurement of goods and services. Related issues must be dealt with here, such as special protective tariff arrangements for domestic producers that exceed the levels provided for in the general system of tariffs.

Improvements in efficiency of provision of public services

29. The government's priority objective is to eliminate inefficiencies in the allocation and use of resources that have arisen from government

monopoly systems or restraints on competitiveness in the various economic sectors, inefficiencies which have resulted in the provision of inferior and expensive services that have had an adverse impact on the productivity of government assets and the economy in general. The government will accordingly be promoting sectoral reforms for ports, railroads, maritime transportation, low-income housing, telecommunications, and agricultural marketing. The purpose of the reforms will be to eliminate barriers to entry and to develop a regulatory and incentive system based on competitive market mechanisms. As part of this process of sectoral reform, and in those cases where it is considered advisable to maintain the State's operational presence, an impetus will be given to the restructuring of the institutions in question with a view to adapting them to the new competition-based sectoral framework.

30. Ports. The government has recently devised a strategy for reforming the ports sector. This strategy is designed (a) to eliminate the monopoly which COLPUERTOS has held in the management of general cargo, and (b) to establish a regulatory framework for the sector to foster competition among public and private port operators. The basic ingredients of this strategy are as follows:

(i) Clear separation of regulatory and operational functions in the ports sector. It is the government's intention to disengage COLPUERTOS from the regulatory functions that it currently performs (including tariffs, authorization of works at shipping terminals, and regulation of port operations) and to transfer these functions to the appropriate government agencies;

(ii) Adoption of a uniform tariff policy for port operators. As a short-term policy, the government will establish a uniform tariff regulation for port operators, the purpose of which will be to curb monopolistic practices affecting those port services in which no competition has developed. The regulation will be designed to establish maximum duties based on criteria reflecting economic efficiency. Once competitive conditions have developed, a policy of unregulated prices will prevail which will apply in a nondiscriminatory fashion to public and private operators;

(iii) Adoption of a policy and uniform methodology for collecting fees for the use of national community assets such as shoreline. The government will formulate this policy on the basis of economic concepts, inter alia shoreline scarcity, alternative uses of shoreline for other activities, and pollution potential, and the rules will be applicable to both public and private operators. The use of market mechanisms (such as competitive bidding) will be encouraged in allocating the temporary usufruct of seashores;

(iv) Adoption of a transparent system for the issuing of licenses that takes due account of the factors involved in decisions in this area: technical, maritime, or harbor engineering considerations, environmental considerations, aspects of urban, regional, and tourism-related regional

development. The government will be introducing elements of competition into the licensing system as well as facilities for encouraging the efficient use of available shoreline;

(v) Restructuring of COLPUERTOS and streamlining of its operations and labor force so that it can function efficiently under the changed conditions prevailing in the sector.

31. The government intends to implement the proposed reforms at the earliest opportunity. Accordingly, in this legislative session the Congress of the Republic [Congreso de la República] will be presented with a draft law setting forth the principles for sector's regulatory and institutional framework and equipping the government with the necessary statutory authority to build this framework. At the same time, progress is being made in the procurement of the technical assistance needed to determine the technical and economic requirements for drafting the respective regulations. The government intends to finish the research and map out the sector's regulatory and institutional framework in the year 1991. Lastly, the government will be carrying on negotiations with those private investors that have been provisionally authorized to operate in the sector, and the government will seek a swift resolution to unresolved issues on the basis of the policy objectives outlined earlier.

32. Railroads. The government is currently devising a policy for reforming the railroad sector with the aim of achieving substantial improvements in efficiency and quality in the provision of services. The reform has begun with the liquidation of the Colombia National Railroads enterprise [Ferrocarriles Nacionales de Colombia (FNC)], which held the public monopoly, and FNC's replacement with a composite structure in which the public and private sectors participate on a commercial basis.

33. The government's primary objective is to develop the railroad sector by harnessing the comparative advantages of railroads as compared to other modes of transportation, in the interests of ensuring efficient mobilization of goods at the lowest possible costs. It is government policy to promote complementarity and competition among the various modes of transportation.

34. To prevent the inefficiencies that have arisen in the past, the government will be focusing its energies in this sector on the following areas: (i) Designing, formulating and guiding public transportation policy in the area of railroads; (ii) regulating and overseeing the railroad system; (iii) operating and executing investments in the national railroad network; and (iv) providing the railroad transportation public service in association with the private sector on a purely commercial basis.

35. Although the government will retain responsibility for operating and managing Colombia's national railroad network, the enterprise established for this purpose (FERROVIAS) will promote only those investments that offer an adequate economic rate of return and that are intended to meet the actual operational needs of private or private/public operators that

provide or are willing to provide railroad transportation services on a commercial basis. Accordingly, the government will perform an exhaustive evaluation of the investment program prepared by FERROVIAS to ensure that the specified criteria are met. This evaluation will be performed by qualified experts and will be completed within the first half of 1991.

36. The government will seek to ensure that FERROVIAS's operation is financially self-sustainable by charging rates that cover the network's operating costs and maintenance and investment costs. Accordingly, the government will commission a study of the system of tolls charged by FERROVIAS, which will be completed and will begin to be acted upon in the second half of 1991.

37. Mindful of the serious deterioration of the railroad infrastructure and the need to establish minimum standards of operation that will be attractive to the private sector, the government will be contributing to FERROVIAS's investment and initial operating cost. This contribution will be confined to just those resources necessary to give the railroad sector the opportunity to make the most of its comparative advantages, on a basis of economic efficiency.

38. FERROVIAS's staffing levels will be determined exclusively on the basis of the volume of traffic and the need to ensure safety on the railroad. Staffing levels may be adjusted only if pressing operational requirements leave no other option. Maintenance, rehabilitation or expansion of the railroad infrastructure will be executed by means of contracts with third parties.

39. Public railroad transportation services will be provided by companies on a strictly commercial basis. The government is interested in acquiring minority participation in the ownership and management of these services, with a view to withdrawing from the railroad industry in due course.

40. Maritime transportation. The government recently initiated a process for raising the level of competition in the maritime transportation sector. It did this by issuing Decree No. 501 of February 1990, which substantially reduced cargo reserve levels currently in force for general cargo and bulk cargo. The government will continue the process of reducing the level of protection accorded the national merchant marine, with the aim being to achieve significant improvements in the quality of service and user costs, and to provide the merchant marine with a suitable framework within which to attune its operations to the new climate of competition.

41. As a first step, the government will take steps to improve the competitive conditions established as part of the recent reforms. Accordingly: (i) The government will eliminate the remittance limit of 80 percent of the freight value imposed on foreign shipping companies; (ii) the government will reduce the reserve quota for bulk cargo to a maximum of five percent of the total of such imports; and (iii) the government will streamline and simplify the control mechanisms established to ensure compliance with cargo reserve levels. In the medium term, the government

will devise a strategy to boost competition levels in the maritime transportation sector by means of reforming the sector's institutional and regulatory system. With this in mind, the government will very shortly be embarking upon a study aimed at evaluating alternative mechanisms for achieving the objectives in question, and once the reform strategy has been decided, the government will implement it in accordance with the timetables established as an integral part of this strategy. The government will also reduce the percentage of general cargo reserved for the national merchant marine.

42. Low-income housing. The government has devised a reform program for the low-income housing sector, the goal of which is to significantly improve the productivity of the resources which the State invests in the low-income housing sector. This goal is to be achieved by rationalizing subsidies, by dismantling the burden which ICT financing has imposed on the financial sector, and by encouraging an active role for the private sector (both commercial and nonprofit) in the provision and financing of low-income housing.

43. The basic ingredients of the low-income housing sector reform strategy consist of: (i) Eliminating the ICT's involvement in the construction of low-income housing and restricting its role in financing to channelling resources to fund private or regional organizations implementing programs addressed to family groups with income of less than two times the minimum wage. These resources will be made available to the financial sector at rates equivalent to the average cost of funds for institutions which finance housing, intermediated by the latter on market conditions; (ii) Orienting the ICT's role principally toward the technical promotion of low-income housing projects and the administration of public subsidies for beneficiaries; (iii) eliminating compulsory investments as a source of net financing for the sector, and devising a plan to eliminate the ICT's liabilities to the financial sector; and (iv) introducing a system of incentives to encourage the private sector and nongovernmental organizations to participate in the sector. The government may maintain subsidies in the form of low-income housing loans for groups with household income of up to four minimum wages by means of the introduction of controlled interest rates which shall be positive in real terms. Subject to improvement in fiscal capacity, the government will seek to eliminate credit subsidies and to channel subsidies directly to the beneficiaries of the housing.

45. The government intends to expedite completion of the planned reforms. The government has accordingly submitted to Congress a draft law seeking the necessary powers to carry out certain aspects of reform. In addition, the government has embarked upon certain of the measures for restructuring the ICT, which will be embodied in the performance agreement signed between the ICT and the CONFIS.

46. Telecommunications. The government has introduced reforms into the regulatory framework of the telecommunications sector. The purpose of these reforms is to increase the competition between the state monopoly

held by TELECOM and municipal telecommunications companies in the provision of national long distance services, cellular telephone services, and (under certain prescribed circumstances) international long distance services; to enable the private sector to participate in the provision of certain value added services (publifax, facsimile, electronic mail, etc.); and to disengage TELECOM from the regulatory, planning and supervision functions that it has exercised in the telecommunications sector. The government will take all necessary steps to foster the development of the proposed framework, subject to the constraints in terms of technology and efficient network development. Accordingly, one of the government's priority objectives is to upgrade the role of the Ministry of Communications [Ministerio de Comunicaciones] as the sector's planning and regulatory agency, and to initiate a process for restructuring TELECOM onto the kind of commercial basis that will enable TELECOM to compete on an equal footing with municipal and private enterprises in the various areas opened up to competition under the new sectoral framework.

47. Agricultural marketing. The government will carry out a reform of the existing agricultural marketing system. With respect to those products currently subject to an importation monopoly, the reform will be designed (a) to enable active private sector involvement in the importation and marketing of agricultural products, (b) to replace the import quota system with a flexible tariff system, and (c) to revise existing policies relating to support prices, which will need to be compatible with the new policy of tariff-based protection for national production.

48. In addition, efforts will be made to restructure the Agricultural Marketing Administration [Instituto de Mercadeo Agrícola (IDEMA)] with the aim of harmonizing IDEMA's operations with the new sectoral framework. Accordingly, the goals of the performance agreement arranged for IDEMA will be to curtail IDEMA's role so that the private sector can become the primary importing agent and IDEMA can confine itself to carrying out import operations in cases described as "market failures," operations involving the regulation of monopolistic practices, and operations of an official nature that cannot be executed by the private sector. In these operations the IDEMA will be operating under the same terms and conditions as the private sector.

Privatization of government assets

49. The government has initiated procedures for privatizing public sector assets in two sectors in which no significant public sector presence can be justified at present: These are the banking and industrial sectors.

50. The State's intervention in the early 1980s to control a crisis in the banking sector resulted in the nationalization of five banking institutions accounting for approximately one fourth of national banks' assets. The fact that this crisis has been overcome, as evidenced by adequate levels of solvency, profitability, and capitalization in the banking sector, has led the government to redirect its policy toward fostering greater competition as a means of boosting efficiency in resource

allocation, reducing intermediation costs, and enhancing responsiveness to the economy's financing needs.

51. The government has adopted key measures aimed at making it easier for investors to gain access to the sector. Firstly, authorization has been given for banking institutions to be controlled by foreign investors. Secondly, the government has embarked upon a process of privatization under a timetable that makes allowance for the particular circumstances of the institutions concerned and the conditions prevailing on the market. This year, the government invited bids to purchase the Workers Bank [Banco de los Trabajadores], yet obtained no acceptable offers. The government intends to proceed with privatization by seeking to carry out the kind of fine-tuning that will elicit a positive response from the market. Accordingly, the government will amend the decree regulating privatization procedures in such a way as to allow for greater flexibility in the evaluation process and the terms for awarding bids. On the basis of the new regulatory framework, the Government intends to place three of the nationalized banks on the market in 1991.

52. The government is mindful of the difficulties involved in privatizing the Bank of Colombia [Banco de Colombia] or the State Bank [Banco del Estado] in view of the innumerable financial and corporate problems facing these two banks. With the State Bank, the government must await the outcome of the judicial proceedings which, if they go against the Bank, would compromise practically its entire net worth. As for the Bank of Colombia, the government will thoroughly evaluate the circumstances confronting this institution, and will decide on a strategy that is both clear-cut and compatible with the government's goal of reducing its involvement in the banking sector. Action will begin to be taken in this area during 1992.

53. In connection with the industrial sector, the government some while ago devised a clear-cut policy concerning the role of the IFI as the engine of investment in the industrial sector, and IFI's role as supplier of venture capital for catalyzing the financing of economically and financially viable projects. In keeping with IFI's role, the government in 1988 devised a program for privatizing IFI's investments. The purpose of this program was to sell off the portfolio of already mature investments kept in IFI's possession in the interests of ensuring that IFI would have liquidity levels sufficient to continue performing its primary function. The government intends to carry on the process of selling IFI's assets. During the present calendar year, the IFI will accordingly decide on a 1991-1992 program for selling assets; this program will make provision for disposing of those IFI enterprises that are capable of being put on the market. In addition to the program for selling assets, the government will pay careful attention to the status of the enterprise ALCALIS de Colombia S.A. with a view to designing and implementing in the short term (once the appropriate studies have been completed) a strategy for returning ALCALIS to commercial viability and if possible transferring it to the private sector. The government will devise this strategy during the year 1991.

54. In conclusion, the government has embarked upon a comprehensive and consist program of public sector reform as a key portion of the medium-term strategy for modernizing the Colombian economy, a strategy that aims to expedite economic growth through improved allocation and use of resources. It is the government's hope that the Inter-American Development Bank will join with and assist my country in the implementation of this strategy.

Sincerely yours,

Rudolf Hommes
Minister of Finance and Public Credit
[Ministro de Hacienda y Crédito Público]

COLOMBIA. LOAN FOR REFORM OF THE PUBLIC SECTOR
POLICY MATRIX

OBJECTIVES	PRIOR ACTION	SUBMISSION TO THE BOARD	SECOND DISBURSEMENT	THIRD DISBURSEMENT
I. PUBLIC SECTOR ADMINISTRATION				
a. Definition of the institutional and policy framework for operation of the public sector in the areas of price, investment, finance and administration, and a compatible reform program.		Policy Charter containing the basic objectives of the policy the government pursues in the public sector, including definitions of the following items: prices (economic prices for goods and services supplied by the public sector), investment (restrict public sector investment to market-oriented projects and concentrate it on those projects with poverty-relief objectives) and administration (establishing the system of performance agreements and evaluation with decentralized institutions) and reforms for improving productivity in the use of public resources.	Macroeconomic framework and program maintained in a manner consistent with the objectives of the modernization program. Satisfactory fulfillment of the objectives set forth in the Policy Charter.	Macroeconomic framework and program maintained in a manner consistent with the objectives of the modernization program. Satisfactory fulfillment of the objectives set forth in the Policy Charter.

COLOMBIA. LOAN FOR REFORM OF THE PUBLIC SECTOR
POLICY MATRIX

OBJECTIVES	PRIOR ACTION	SUBMISSION TO THE BOARD	SECOND DISBURSEMENT	THIRD DISBURSEMENT
<p>b. Establishment of the performance planning and evaluation system for modernizing the management of institutions in the decentralized public sector. The system will develop the necessary institutional liaison between the government and the decentralized institutions which will make it possible to improve the latter's administration and operations on the basis of market criteria and discipline.</p>	<p>Establishment by law of the Fiscal Policy Board [<u>Consejo Superior de Política Fiscal</u> (CONFIS)] and inclusion of a requirement calling for the government's approval of the budgets of all decentralized institutions.</p> <p>Issuance of regulations to govern CONFIS, authorizing CONFIS to determine restrictions on the decentralized sector's operations and to enter into and evaluate performance agreements with the various agencies.</p> <p>Initiation of the operations of CONFIS, including approval of the Financial Plan for 1990, and formulation of organizational and administrative arrangements for implementing the performance agreements and performance evaluation, and appointment of two senior advisors.</p> <p>The plans with ECOPETROL and TELECOM</p>	<p>Signing and implementation of the performance agreements with ICT and HIMAT. The agreement with ICT establishes the operational, financial, and portfolio administration prerequisites <u>inter alia</u> for achieving improved results, while laying the groundwork for bringing about ICT's restructuring, in accordance with the reform specified in the Policy Charter. The agreement with HIMAT is designed to implement appropriate cost recovery policies, to ensure the decentralization and administration of HIMAT's operations, and to transfer irrigation districts to the beneficiaries.</p>	<p>The performance agreements with IDEMA, COLPUERTOS, CORELCA and ICEL have been signed and have come into effect. The plans with COLPUERTOS and IDEMA will be aimed at restructuring these institutions in such a way as to adjust their operations in accordance with the policies specified in the Policy Charter. The plans with ICEL and CORELCA are aimed at achieving greater efficiency.</p> <p>Agreed performance agreements are progressing in a manner acceptable to the Bank, in accordance with established objectives, actions, goals and deadlines; otherwise, necessary corrective action has been taken.</p> <p>Performance planning and evaluation system functioning in accordance with established objectives.</p>	<p>Performance agreements with SENA, ISA, C and ISS have been signed and have come into effect. The performance agreements are aimed at achieving greater efficiency.</p> <p>The performance agreements are progressing in a manner acceptable to the Bank, in accordance with established objectives, actions, goals and deadlines; otherwise, the necessary corrective action has been taken -- and the agreements include evaluations of management units under the first four agreements, and the corresponding introduction of incentives system.</p>

COLOMBIA. LOAN FOR REFORM OF THE PUBLIC SECTOR
POLICY MATRIX

OBJECTIVES	PRIOR ACTION	SUBMISSION TO THE BOARD	SECOND DISBURSEMENT	THIRD DISBURSEMENT
	<p>will seek to achieve improvements in their efficiency and bring TELECOM into line with the competitive conditions established by recent regulations.</p> <p>Concluding of performance agreements with HIMAT and ICT, and concerning strategic objectives and principal components of the plans with ECOFETROL and TELECOM, including goals in terms of current and capital expenditures, operating and net earnings, indebtedness levels, investment program and efficiency targets (including design and implementation of cost accounting systems). The agreement with TELECOM includes the preparation and startup of the plan for restructuring TELECOM.</p>			

COLOMBIA. LOAN FOR REFORM OF THE PUBLIC SECTOR
POLICY MATRIX

OBJECTIVES	PRIOR ACTION	SUBMISSION TO THE BOARD	SECOND DISBURSEMENT	THIRD DISBURSEMENT
II. PRIVATE SECTOR DEVELOPMENT				
a. Increased competition in the provision of public port services and establishment of an institutional and regulatory framework that allows and facilitates participation by private investors and operators.	<p>The government has given private investors preliminary authorization to engage in public service port activities in Buenaventura, Cartagena and Santa Marta, in competition with services provided by COLFUERTOS but without an adequate regulatory framework.</p> <p>Definition of policies and necessary scope for the new institutional and regulatory framework for the port sector, including <u>inter alia</u> a uniform tariff policy, a concession system and system for compensating the State for the use of coastal spaces, disengaging transactors from regulatory responsibility, conditions of parity and competition between public and private transactors, a transparent licensing system for transactors, and authority to</p>	Government defines the new frame of reference for restructuring the port sector, and prepares an action plan acceptable to the IDB for implementing this new frame of reference.	<p>* Port sector restructured in a manner compatible with the objectives set forth in the Policy Charter.</p> <p>Definition of the program to restructure COLFUERTOS to attune its functions to the sectoral restructuring objectives.</p>	<p>* Port sector restructured in manner compatible with the objectives set forth in the Policy Charter.</p> <p>Execution of the COLFUERTOS restructuring program</p>

COLOMBIA. LOAN FOR REFORM OF THE PUBLIC SECTOR
POLICY MATRIX

OBJECTIVES	PRIOR ACTION	SUBMISSION TO THE BOARD	SECOND DISBURSEMENT	THIRD DISBURSEMENT
	r e s t r u c t u r e COLPUERTOS.			
b. Restructuring the railroad system through liquidation of the existing enterprise FNC, the authority to establish commercially operated private and private/public railroad transportation enterprises, and the establishment of a state enterprise to operate the railroad infrastructure.	<p>Promulgation of laws and regulations that allow liquidation of existing enterprises and establishment of two or more new enterprises, one for infrastructure and one or more for railroad transport operations, with participation by the private sector.</p> <p>Execution of programs for voluntary reduction of FNC personnel.</p> <p>Establishment of FERROVIAS to rehabilitate and maintain the railroad infrastructure, operating on an economic basis.</p>	<p>The Policy Charter will specify the basic implementing policies, <u>inter alia</u> stipulating that the government, outside its functions for establishing policy, regulating the railroad system and maintaining the infrastructure in accordance with criteria of commercial profitability, will have no more than 51 percent participation in association with private capital in railroad transport service enterprises and shall not exercise control over directorates. FERROVIAS in turn will invest only in accordance with criteria of economic profitability and in response to the needs of transport service enterprises.</p>		

COLOMBIA. LOAN FOR REFORM OF THE PUBLIC SECTOR
POLICY MATRIX

OBJECTIVES	PRIOR ACTION	SUBMISSION TO THE BOARD	SECOND DISBURSEMENT	THIRD DISBURSEMENT
c. To improve competition in the maritime transport sector.	A decree has been issued that amends the current law on protection of navigation by reducing the quota reserved for national vessels from 50% to 10% of total cargo of bulk carriers; and from no less than 50% of general import cargo to not more than 50% of total general cargo.		Following actions executed: (i) Bulk cargo reserve eliminated or reduced to at least 5%; (ii) elimination of the restriction on outward remittances of foreign exchange imposed on freight income of foreign shipping companies; and (iii) reduction and simplification of reserved cargo verification requirements.	Design and initiation to Bank's satisfaction of the plan for increasing the competitiveness of maritime transport including the elimination of a substantial reduction of the general import cargo reserve.

COLOMBIA. LOAN FOR REFORM OF THE PUBLIC SECTOR
POLICY MATRIX

OBJECTIVES	PRIOR ACTION	SUBMISSION TO THE BOARD	SECOND DISBURSEMENT	THIRD DISBURSEMENT
<p>d. To reduce governmental intervention in the production and financing of low-income housing through incentives for private sector participation, open and complementary subsidies for financing by the private sector, and elimination of the compulsory nature of the financing of investments by the financial sector.</p>	<p>The government has decided that ICT (i) may not execute projects by force account, (ii) should undertake aggressive action for portfolio recovery, and (iii) improve its credit policy. The government has also limited the compulsory nature of the financing of investments by insurance companies and housing banks so that this approach is taken only to service the ICT's debt with these institutions, which reduces net exposure. A new strategy has also been determined for rationalizing subsidies and facilitating the operations of NGOs, territorial entities, and the private sector.</p>	<p>Formulation by government of the new frame of reference and preparation of an action plan acceptable to the IDB for implementing this new frame of reference.</p>	<p>* The low-income housing system has been restructured in a manner consonant with the objectives set forth in the Policy Charter. Main action (compatible with the restructuring) in the following areas: (i) Disengaging the ICT from functions pertaining to design, construction, and the financing of supply; (ii) establishing a direct and transparent system for granting subsidies to low-income families; (iii) eliminating the compulsory nature of the financing of investments; (iv) designing and implementing a payment schedule for the ICT's obligations to the banking and financial sector; and (iv) introducing the incentives system and reducing controls over interest rates with the aim of encouraging participation by the private sector and NGOs.</p>	<p>* The low-income housing system has been restructured in a manner consonant with the objectives set forth in the Policy Charter. Main action (compatible with the restructuring) in the following areas: (i) Disengaging the ICT from functions pertaining to design, construction, and the financing of supply; (ii) establishing a direct and transparent system for granting subsidies to low-income families; (iii) eliminating the compulsory nature of the financing of investments; (iv) designing and implementing a payment schedule for the ICT's obligations to the banking and financial sector; and (iv) introducing the incentives system and reducing controls over interest rates with the aim of encouraging participation by the private sector and NGOs.</p>

COLOMBIA. LOAN FOR REFORM OF THE PUBLIC SECTOR
POLICY MATRIX

OBJECTIVES	PRIOR ACTION	SUBMISSION TO THE BOARD	SECOND DISBURSEMENT	THIRD DISBURSEMENT
e. Eliminate the government's role in importing and marketing food, and develop a system of market competition and anti-dumping protection.	Government determines policies and regulatory instruments needed to effect change.	The Policy Charter will specify the basic implementing policies <u>inter alia</u> the elimination of IDEMA's import monopoly, the limited establishment of support prices (not development prices), vigilance in ensuring competitive practices in the domestic production and marketing of agricultural products and in avoiding the dumping of imported agricultural products, and the restructuring of IDEMA, all in accordance with established policies.	* The agricultural importation and marketing system has been restructured in accordance with the objectives set forth in the Policy Charter. A system of deregulated importation has been established for the products reserved for IDEMA; customs treatment changed to variable duties over a band of prices; and support price policy reviewed.	* The agricultural importation and marketing system has been restructured in accordance with the objectives set forth in the Policy Charter. A system of deregulated importation has been established for the products reserved for IDEMA; customs treatment changed to variable duties over a band of prices; and floor price policy reviewed.
f. To improve the competition and capitalization of the financial sector and to restrict government intervention in the sector.	Decree specifying terms and procedures for privatization of national banks. Legislation that allows majority ownership of financial institutions to rest in foreign hands. One of the nationalized banks put up for sale.	Evaluation and adjustment of the terms of negotiation and sale, in order to increase the likelihood that private capital will take an interest in the nationalized banks.	Three other nationalized banks (separated or merged) put up for sale.	Design and initial implementation of action plan (acceptable to Bank) for whole or partial privatization and liquidation of the Bank of Colombia, and the sale of other banks which, having been put on the market, have not yet been privatized.

COLOMBIA. LOAN FOR REFORM OF THE PUBLIC SECTOR
POLICY MATRIX

OBJECTIVES	PRIOR ACTION	SUBMISSION TO THE BOARD	SECOND DISBURSEMENT	THIRD DISBURSEMENT
g. Program for selling off IFI's investment portfolio in accordance with the policy of reducing capital by virtue of industry maturity and the policy of keeping the public sector out of commercial activities.	<p>1989-1990 IFI privatization program including 18 companies and an estimated value of US\$200 million.</p> <p>Seven of the 18 companies have been sold, with a value of US\$154 million, and the others have been offered.</p> <p>Terms of reference agreed for determining the strategy to follow with the ALCALIS company; consultants selected.</p>	<p>Policy Charter will specify the government's commitment to proceeding with the sale of IFI's portfolio and formulating the program for 1991-1992, which will include saleable IFI assets in established enterprises, and the formulation of the strategy to be pursued with ALCALIS, which must be acceptable to the Bank.</p>		

NOTE: * At least one of the three actions marked with an (*) is to be carried out prior to the authorization of the second disbursement; the other two are to be carried out prior to the authorization for the third disbursement.

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TENDER PROCEDURES

(Sector Adjustment Program for Public Sector Reform)

I. APPLICABILITY

- 1.01 This procedure shall be used by the Executing Agency 1/ in all procurement of goods and contracting of construction and other services for the Technical Cooperation whenever the value of such goods or services exceeds the equivalent of two hundred thousand United States Dollars (US\$200,000) and provided such Agency is part of the public sector. Included in the public sector are corporations and other entities in which government participation exceeds 50% of their capital.
- 1.02 The Executing Agency may apply, in addition to the provisions of this procedure, formal requirements or procedural details prescribed under local law, when their application does not contravene basic bidding guarantees or relevant Bank policy.

II. GENERAL RULES

A. Public International Bidding

- 2.01 The system of public international bidding shall be used whenever the acquisition of goods or execution of services is to be partially or totally financed with foreign exchange from the financing and its cost exceeds the equivalent of two hundred thousand United States Dollars (US\$200,000).
- 2.02 When foreign exchange of the financing is used, the procedures and specific requirements for the bidding shall permit the unrestricted participation of contractors, from member countries of the Bank. Consequently, no conditions that would limit or restrict the offer of goods or services, including those related to mode of transport, from such countries may be imposed through such procedures or specific requirements.

B. Public Bidding that may be Restricted Locally

- 2.03 The acquisition of goods or execution of services to be totally or partially financed with local currency from the Financing, or with local counterpart funds whose total exceeds the equivalent of two

1/ In these procedures, the term Executing Agency is also equivalent to Borrower, when the borrower is in charge of bidding.

hundred thousand United States Dollars (US\$200,000), shall be accomplished through public bidding which may be limited to the national economy.

C. Other Procedures for Execution of Services or Procurement of Goods

- 2.04 Whenever the procurement of goods or the execution of services is financed exclusively by resources other than those of the financing or local counterpart funds 1/, the Executing Agency may follow procedures agreed upon with the supplier of such resources, provided that such procedures are tailored to the technical requirements of the Technical Cooperation and guarantee that both the cost of the goods or services and the financial terms and conditions governing the resources are deemed reasonable by the Bank. The Bank may request that the Executing Agency provide it with information on the applicable procedure and the results obtained therefrom.

D. Procedures Applicable to Bids of US\$200,000 or Less

- 2.05 The procurement of goods or execution of services for amounts less than or equal to the equivalent of two hundred thousand United States Dollars (US\$200,000), shall be governed in principle by the provisions of local law. Insofar as possible, the Executing Agency shall establish procedures permitting the participation of several bidders and give appropriate consideration to economy, efficiency, and price. Whenever foreign exchange from the financing is to be utilized, the procedures employed shall permit, in addition, the participation of bidders for goods and services from the Bank's member countries.

E. Participants and Eligible Goods

- 2.06 Goods and services to be procured for the Technical Cooperation that are to be financed by proceeds from the loan, must originate in the Bank's member countries. The following rules shall be followed in determining such origin:

1. Bidding on Works

- 2.07 Only firms from the Bank's member countries may bid on works. To verify the nationality of the bidding firm, the Executing Agency must use the following criteria:
- (a) That the firm be incorporated and operating pursuant to the laws of the country in which the firm was its principal place of business;
 - (b) That the firm have its principal place of business located in an eligible country;

1/ Such as commercial banks, suppliers, and other institutional financial institutions.

- (c) That the firm be more than 50% beneficially owned by a firm or firms in one or more eligible countries and/or by citizens or bona fide residents of such eligible countries;
- (d) That the firm be an integral part of the economy of the eligible country where located;
- (e) That there be no arrangement whereby any substantial part of the net profits or other tangible benefits of the firm will accrue or be paid to persons not citizens or bona fide residents of eligible countries or to juridical countries not eligible pursuant to the nationality requirements of this article;
- (f) That not less than 80% of all persons who will perform services under the contract in the country where the construction is to be carried out, whether employed directly by the contractor or by a subcontractor, be citizens of an eligible country. For purposes of the computation, with respect to a firm from a country other than the site of the construction, citizens or permanent residents of the country where the construction is to be carried out will not be counted; and
- (g) The foregoing criteria apply to each member of a joint venture or consortium (a collaborative effort of two or more firms) and to every firm which is proposed to subcontract part of the work.

The requirements set forth in this Section must be communicated to interested parties, who shall provide the Executing Agency with the information necessary for verification of their nationalities on the prequalification, registration and bid forms.

2. Biddings on Goods

2.08 Only goods from member countries of the Bank may be acquired. The country of origin is:

- (a) the country in which the material or equipment has been mined, grown, produced, manufactured, or processed; and
- (b) the country in which, through manufacturing, processing or assembly, another commercially recognized article results which differs substantially in its basic characteristics, purpose or utility from any of its imported components. The nationality or country of origin of the firm that produces or sells the goods or equipment shall not be relevant in determining their origin.

F. National and Regional Margins of Preference for Bidding on the Procurement of Goods

2.09 The Executing Agency may apply the following margins of preference in public international bidding on the procurement of goods:

1. National Margin of Preference

2.10 Where suppliers in the country of the Executing Agency participate in public bidding, such local suppliers of goods may be entitled to a national margin of preference which is provided to them, utilizing the following criteria:

- (a) Goods shall be considered to be of local origin if the cost of the local materials, labor and services used to produce the item constitutes not less than 40% of the cost of the finished product;
- (b) In comparing local and foreign offers, the bid or offered price of goods of local origin shall be the delivered price at the project (or program) site, with deductions for: (i) import duties paid on significant raw materials or manufactured components, and (ii) local sales, consumption and value-added taxes incorporated in the cost of the item or items being offered. Proof of the amounts to be deducted under (i) and (ii) shall be established by the local bidder. The foreign bid or offered price shall be the CIF price (excluding import duties, consular fees and port taxes) to which will be added port handling charges and any local transportation from the port or frontier to the project (or program) site;
- (c) The conversion of currencies to provide price comparisons shall be made on the basis of the conversion rate utilized by the Bank itself in this loan contract; and
- (d) In adjudicating bids, a 15% margin of preference or the actual import duty, whichever is the lesser, may be added by the borrower to the CIF price of the foreign offers expressed in their local currency equivalent.

2. Regional Margin of Preference

- (a) For purposes of this Contract, the Bank recognizes the following regional or subregional integration agreements: (i) Central American Common Market; (ii) Caribbean Community; (iii) Cartagena Agreement; and (iv) Latin American Integration Association. If the country where the Executing Agency is located has signed more than one integration agreement, either the subregional margin of preference or the regional margin may apply depending on the country of origin of the article to be procured; and
- (b) Where suppliers of a country (other than the country of the Executing Agency) that is a party to an integration agreement, to which the country of the Executing Agency is also a party, participate in such bidding, such suppliers of goods are entitled to a regional margin of preference utilizing the following criteria:

- (i) Goods shall be considered to be of regional origin if they originate in countries that are parties to an integration agreement to which the country of the Executing Agency is also a party and comply with the standards governing origin and other matters relating to trade liberalization programs established in the respective agreements;
- (ii) The local value added is not less than that stipulated for the national margin of preference; and
- (iii) In comparing foreign offers, the Executing Agency may add to the price offered for goods originating in countries not parties to the respective integration agreement, either 15% or the difference between the import duty applicable to such goods when they originate in countries not parties to the integration agreement and that which is applicable to those goods when they originate in countries which are parties to the agreement, whichever is lower.

III. PUBLIC INTERNATIONAL BIDDING

A. Prequalification. Registration of Bidders

1. Applicability. General Rule

- 3.01 As a general rule, in bidding conducted for the execution of services, the Executing Agency shall use a system of prequalification or registration of bidders. The Executing Agency may also use this system in bidding conducted for the procurement of goods if deemed appropriate. For smaller-scale works, the Executing Agency and the Bank may agree to waive this requirement.
- 3.02 Two-Envelope Procedure. Unless prohibited by the laws of the respective country, the Bank and the Executing Agency may agree to a procedure of prequalification or registration simultaneous with the submission of bids whenever, in the judgment of the Executing Agency and the Bank, circumstances so dictate. By means of this procedure, which must be clearly established in the bidding documents, every bidder shall submit, at the time the bids are opened, two envelopes containing the following:
 - (a) Envelope 1 - information on the financial, legal and technical qualifications of the firms, such as: financial solvency, general and specific experience, key personnel and machinery available for the project, contracts fulfilled, ongoing contracts, current obligations and litigation.
 - (b) Envelope 2 - the bid itself, with the respective price quotation.
 - (c) At the opening of bids, which shall take place in a public ceremony at the set day and time, Envelopes No. 1 shall be opened and verified whether the bidders have included all documents

required by the bidding specifications. If the envelopes do not contain the required documentation, the fact will be recorded in the minutes along with a description of the missing or incomplete information, and Envelope No. 2 shall be returned to the bidders unopened. Upon completing these procedures the first ceremony shall be adjourned, and Envelopes No. 2 of bidders that have presented all the required information shall remain sealed. Based on the information presented in Envelope No. 1, prequalification of bidders shall take place within the periods set forth in the bidding documents. Once the prequalification has been completed and approved by the Bank, the second public ceremony shall take place at the date, time and place set in the bidding documents. At this act, Envelopes No. 2 shall be returned unopened to the firms not prequalified. Once the representatives of the firms that did not prequalify have withdrawn, Envelopes No. 2 of the firms that did prequalify shall be opened, the price of each offer shall be read aloud, and a record of the prices and main points of the tenders shall be made in the minutes.

- (d) The final evaluation of the proposals and the award shall be made within the time period set forth in the bidding documents, and once the Bank has given its consent to the proceedings.

2. Registration of Bidders

- 3.03 No conditions that would impede or deter the participation of foreign companies or violate the principle of bidder equality shall be established in the procedures for registration or prequalification of bidders. Registers shall be opened often either to bring information on registered firms up to date or to add new firms. In any event, registers should be opened in connection with invitations for bids let with the resources of this program.

3. Term for Prequalification

- 3.04 The Executing Agency shall conclude the prequalification within a term compatible with the timetable of investments mutually agreed upon by the Executing Agency and the Bank.

4. Content and Publicity of the Invitation to Bid

a. Prior Approval of the Bidding Documents by the Bank

- 3.05 The bidding documents, including the public notices and bidder prequalification or registration forms, as the case may be, shall be mutually agreed upon by the Executing Agency and the Bank prior to the publication of the call for registration of prospective bidders. The bidding documents shall comply with the provisions of paragraph B.3 (Bidding Documents) herein.

b. Content of the Public Notice

3.06 The public notice of prequalification or registration of prospective bidders shall include, as a minimum, the following information:

- (a) General description of the Technical Cooperation and of the work which is the subject of the bidding, its site and its principal characteristics. In the case of bidding on materials, their description and distinguishing characteristics, if any;
- (b) the method proposed for prequalification;
- (c) approximate dates of the invitations to bid, opening of tenders, commencement of the services which are the subject of the bidding, and completion of construction;
- (d) the fact that the Technical Cooperation is being partially financed by the Bank and that the procurement of goods or contracting for services covered by said Financing shall be subject to the provisions of this Contract;
- (e) the place, time and date on which firms may obtain the prequalification or registration forms agreed upon by the Executing Agency and the Bank, as well as their cost; and
- (f) any other requirements to prequalify or participate in public bidding.

c. Publicity

- (a) Newspapers and Trade Journals. The public notice of prequalification or registration or the invitation to bid, when prequalification has not taken place, shall be published in at least one of the most widely circulated newspapers in the country on at least three separate occasions. There must be a space of at least three calendar days between each of the three public notices. For large-scale contracts, the public notice of prequalification, registration or submission of bids must be published, in addition, in a widely circulated international trade journal and in the United Nations journal "Development Business, The Business Edition of Development Forum".
- (b) Embassies. The Executing Agency shall deliver copies of the notices of prequalification, registration or submission of bids, as the case may be, to the embassies or, if there are none, to the consulates of each of the Bank's member countries on the same date they are delivered to the press for publication.

5. Content of the Prequalification or Registration Form

3.07 The prequalification or registration form, as the case may be, shall contain, inter alia, the following data:

- (a) Legal background on the creation, juridical nature and nationality of the bidding firm. A copy of the firm's by-laws and statutes shall be attached. The information on the nationality of the firm shall comply with Chapter II, paragraph E 2.07 herein 1/;
- (b) technical background of the firm;
- (c) financial condition of the firm;
- (d) available staff and equipment;
- (e) experience in the construction, manufacture and installation of goods or services similar to those which are the subject of the bidding;
- (f) work under way or present obligations assumed by the firm;
- (g) evidence that the firm has sufficient staff and equipment to satisfactorily carry out the services envisaged in the Project (Program) and an indication of where such staff and equipment are located; and
- (h) description, in broad terms, of how the firm would execute the services.

6. Deadline for Delivery of the Forms

- 3.08 Interested parties shall have at least 45 calendar days, from the final publication of the notice, to file prequalification or registration forms. This term may be reduced to thirty days if the invitation for bids is limited to national bidders.

7. Selection of Prequalified Firms

a. Qualified Firms

- 3.09 Only those firms that have demonstrated the necessary technical, financial, legal, and administrative qualifications to carry out the services, in accordance with existing laws in the respective country and the norms established herein, may be prequalified or entered on the register of bidders. Such forms as contain formal defects, errors or omissions may be accepted, provided such defects, errors or omissions do not impinge on matters of substance and, in the correction thereof, the principle of equality of bidders is not altered.

1/ In the rare instances when prequalification is conducted on bidding for the procurement of goods, the information to which reference is made in this subparagraph (a) must also include information on the origin of the goods, pursuant to Chapter II, E 2.08.

b. Technical Report

- 3.10 The Executing Agency shall prepare a technical report on firms that filed for prequalification, indicating which were declared prequalified or duly qualified in the registry of projects and which were not, together with the grounds for such action. The report shall be sent to the Bank promptly for its approval or rejection.

c. Notification of Results

- 3.11 Once the Bank approves the technical report, all participating firms shall be notified of the results simultaneously.

d. Later Disqualification

- 3.12 Once prequalified, a firm may not be disqualified from bidding unless prequalification or registration was based on incorrect information filed by the firm or unless compelling circumstances that would justify such a decision occur after the date of prequalification or registration.

e. Duration of Eligibility

- 3.13 If one year has elapsed since prequalification or registration, and an invitation has not been issued, the Executing Agency shall issue a new call for prequalification or registration so that prospective new bidders may be admitted and those firms already prequalified or registered may update the information they provided originally. The new call shall meet the prerequisites established herein.

f. Absence of Prospective Bidders

- (a) If fewer than two prospective bidders were prequalified or registered in the first call, a second call shall be made, following the same procedure, unless the Bank authorizes private bidding on the terms set forth in the following subparagraph or authorizes the hiring of the sole successful bidder; and
- (b) if after the second call, two or more firms fail to qualify, the prequalification may be declared null and void, and with the prior approval of the Bank, private bidding may be conducted with at least three firms being invited to bid, including the firm prequalified previously if there was one.

3.14 Prequalification for several invitations for bids

- (a) The Executing Agency may agree with the Bank to conduct a single prequalification of contractors for several invitations for bids when it anticipates that in a short period of time it must let several invitations for bids on the construction of a group of facilities of the same kind which, because of their geographic

location or other reason acceptable to the Bank, cannot be let for bids under a single invitation.

(b) Contractors thus prequalified may take part, if the bidding conditions have so provided, in one or more scheduled invitations for bids. In each invitation for bids, the Executing Agency may require that the bidders bring up to date their qualification status which may have changed since they were prequalified. It is especially important that there be a demonstration that the performance capabilities of each contractor continue to meet the requirements of the bidding conditions.

(c) The validity of prequalification for a group of invitations for bids shall not exceed one year.

B. Bidding

1. Invitation to Bid

a. When prequalification took place

3.15 If prequalification has taken place, the Executing Agency shall send or deliver invitations to bid to only those firms that were prequalified. Prior to sending or delivering such invitations, the Executing Agency shall transmit to the Bank, for its approval, the text of the invitation to bid, together with the bidding documents if they were not transmitted earlier. At this stage, notices need not be published, and the embassies need not be advised as is stipulated in paragraph A 4(c) above.

b. Without Prequalification

3.16 In the absence of prequalification, the invitation to bid shall be publicized as set forth in paragraph A 4(c) herein. The bidding documents shall clearly specify the minimum prerequisites which would qualify bidders to carry out the services or supply the goods involved. For this purpose, the documents shall include a questionnaire similar in content to the form specified in paragraph 3.07 of this Chapter, which is to be filled out by interested parties and delivered by them along with their respective offers.

2. Notices of the Call to Bid and Invitations to Bid

3.17 Calls to bid published in the press or invitations to bid delivered or forwarded to prequalified firms must specify, at a minimum, the following information:

(a) Description of the Technical Cooperation, purpose of the bidding and source of funds to cover the cost of the procurement of goods or services;

- (b) the fact that the Technical Cooperation shall be partially financed by the Bank and that the procurement of goods or contracting of services payable from said financing shall be subject to the provisions of the loan contract entered into with the Bank;
- (c) general description of the equipment, machinery and materials required, as well as of the services, the volume or quantity of work, its principal parts and deadline for its completion;
- (d) the office or place, date and time at which the bidding documents, including the bidding guidelines, plans, specifications, and draft contracts may be obtained;
- (e) the office where the bids are to be delivered and the authority responsible for their approval and award; and
- (f) the place, date and time at which the bids will be opened in the presence of the bidders or their representatives.

3. Bidding Documents

a. Bank Approval

- 3.18 The bidding documents, including inter alia instructions to bidders, conditions of contract, schedule of requirements/bill of quantity, plans and specifications, if any, and the draft of the contract shall be approved by the Bank prior to their release to interested parties.

b. Clarity of the Documents

- 3.19 The bidding documents prepared by the Executing Agency must be coherent and comprehensive. Particular care must be taken to ensure that the goods and services to be supplied are described with sufficient clarity and in sufficient detail to form the base for competitive bids. The cost of such documents must be reasonable.

c. Free Access to the Executing Agency

- 3.20 The Executing Agency and the Board shall be available, once the bidding documents have been collected by bidders and up to the time the bids are opened, to answer questions or clarify the bid documents for bidders. These inquiries shall be answered promptly by the Executing Agency, and clarifications, if any, made available to the other interested parties and the Bank.

d. Standards of Quality

- 3.21 If particular standards with which equipment or materials must comply are cited, the specifications should state that goods meeting other authoritative standards, which ensure an equal or higher quality than the standards mentioned, will also be accepted.

e. Specifications for Equipment: Brand Names

- 3.22 Descriptions contained in specifications should not prescribe brand names, catalogue numbers, or types of equipment of a specific manufacturer unless it has been determined that this is necessary to ensure inclusion of certain essential design, performance or construction features. In such a case, the reference should be followed by the words "or equivalent," and a measure to determine the "equivalence" included. The specifications should permit offers of alternate equipment, articles or materials which have similar characteristics and provide equal performance and quality to those specified. In special cases, with previous approval of the Bank, specifications may require that a proprietary item be supplied.

f. Currency Clause

- 3.23 The bidding documents should state the currency or currencies to be used in payment, taking into account the provisions of this Contract. Whenever expenditures in both local currency and foreign currency are involved, the bidding documents should require that the amounts of these expenditures be detailed separately.

g. Bid Bonds

- 3.24 Bid bonds or other tender guarantees should not be set so high ^{1/} or their validity stretched out over long periods, as to discourage suitable bidders, from tendering. In addition, bid bonds shall be returned:
- (a) to the winning party once the contract is executed and its bid bond or guarantee accepted;
 - (b) to the second- and third-place bidders, within a term of no more than three months from the date of the award or upon execution of the contract, if the latter occurs prior to such deadline. Nevertheless, if such bidders indicate lack of interest, the bond shall be returned within five days following the award;
 - (c) to other bidders within five days following the award.

^{1/} Some bidding practices limit the amount of the bid bonds (tender guarantees) to 1 percent of the price of the contract. Others recommend that the Executing Agency set a fixed amount in cash for all bidders instead of requiring the bidder to base his guarantee on a given percentage of the value of his bid. This is to avoid undue publicity of the price of each tender prior to the opening of the bids, should the amount of the guarantee or bid bond become public knowledge.

h. Performance Guarantees

- 3.25 Specifications for construction works should require performance bonds or other surety to guarantee that the work will be carried on to completion. Even though the amount of the bond will vary with the type and magnitude of the work, it should be defined in the bidding documents and be sufficient to afford the Executing Agency adequate protection. The amount of the bond should be sufficient to ensure completion of the work, at no increase in expense to the Executing Agency, in case of default by the contractor in the performance of the work. The life of the bond or surety should extend sufficiently beyond completion of the contract to cover a reasonable warranty period. If necessary, performance bonds or sureties may be required in connection with contracts for supply of equipment. These guarantees may consist in a percentage of the total payment being held as retention money during a trial period.

4. Deadlines for Submission of Bids

a. Normal Term

- 3.26 The normal deadline for filing offers in international public bidding shall be not less than 45 calendar days from the date of the invitation to bid or the date of availability of bidding documents, whichever is later.

b. Term for Large Civil Works

- 3.27 Where large civil works are involved, a minimum of 90 calendar days shall be allowed for contractors to prepare their bids.

c. Deadline for Filing of Domestic Bids

- 3.28 When the bidding is limited to the national economy, the Executing Agency may reduce the deadline for filing offers to a period of up to 30 calendar days.

5. Confidentiality of Bid and Prequalification Documents

- 3.29 The officers in charge of receiving the envelopes containing prequalification or registration forms or tenders, shall verify that such envelopes are delivered by the tenderer properly sealed. These envelopes shall be kept in a safe place until opened and recorded. Once opened, no copies shall be taken of these documents, and other suitable measures should be envisaged to ensure that their contents are not divulged to persons other than those officially responsible for their examination. Except as may be required by law, no information relating to the examination, tabulation, clarification and evaluation of bids and recommendations concerning awards, should be communicated to any person or persons not officially concerned with the procedures, after the public opening of bids and before the announcement of the award of contract to the successful bidder.

6. Modification or Extension of the Bidding Documents

- 3.30 Any modification or extension of the bidding guidelines, specifications, or the filing date must first be approved by the Bank and communicated to all interested parties who are in possession of the bidding documents. In the event that such modification or extension is substantial, in the opinion of the Executing Agency, or the Bank, there must be an interval of at least 30 calendar days between the date of notice to interested parties and the date bids are opened.

7. Consultations should not Modify the Bidding Documents

- 3.31 Consultations on the interpretation of bidding documents addressed to the Executing Agency by interested parties may not be used to modify or expand the bidding guidelines and specifications. Consultations and replies thereto shall in no case cause a suspension of the term for presentation of bids.

8. Single Bid

- 3.32 When only a single bid is received in response to an invitation bid, the Executing Agency may not award the contract without the prior consent of the Bank.

9. Opening of Bids

- 3.33 Offers shall be submitted in writing in sealed envelopes. They must be signed by the legal representatives of the bidders and comply with the prerequisites set forth in the bidding documents. They shall be opened in public on the scheduled date and hour. Representatives of the bidders and of the Bank may attend the bid opening and shall be entitled to inspect the bids. Bids received after the filing date shall be returned unopened. The names of the bidders, the price of each bid, the term and amount of guarantees, and any substantial change submitted separately, before the deadline but after the principal bid is submitted, shall be read aloud. All of the above shall be recorded in the proceedings, which shall be signed by the representative of the Executing Agency and by any bidders present who wish to do so.

10. Clarification of Bids

- 3.34 The Executing Agency may request clarifications from the bidders with respect to their tenders. Clarifications requested or given shall not alter the essence of the offer or its price, nor shall they violate the principle of bidder equality.

11. Analysis and Comparison of Bids

a. Purpose

- 3.35 Bids shall be analyzed and evaluated to determine whether they comply with the terms and conditions stipulated in the bidding documents, and the value of each bid shall be fixed for the purpose of awarding the winning bid.

b. Lowest Evaluated Bid

- 3.36 In addition to the bid price, adjusted to correct arithmetical errors, the Executing Agency may also consider other relevant factors in determining the low bid:

- (a) These factors preferably should be expressed in monetary terms or, as a minimum, given a relative weight according to criteria specified in the bidding documents. No criteria may be used in bid evaluation that are not set forth in the bidding documents. The amount of escalation for price adjustments, if any, included in the bids, should not normally be taken into consideration; and
- (b) The currency or currencies in which the price offered in each bid would be paid by the Executing Agency if that bid were accepted, should be valued in terms of a single currency selected by the Executing Agency for comparison of all bids and stated in the bidding documents. The rates of exchange to be used in such valuation should be the selling rates published by an official source, and applicable to similar transactions on the day bids are opened or at such later date (30 or 60 days after bid opening) as shall be specified in the call for bids.

c. Rejection of Bids

- 3.37 The Executing Agency shall reject all bids which do not meet the specifications under the bidding documents. It may, however, accept bids which contain formal defects, errors or omissions, provided that such defects do not impinge on matters of substance and, in the correction thereof, the principle of equality of bidders is not altered. The Executing Agency may also, after consulting with the Bank, reject all bids where no bids meet the intent of the bidding, or where there is evidence of lack of competition or collusion. The Executing Agency may also reject all bids if the low bids exceed the official estimate by an amount sufficient to provide reasonable justification for such action. In such cases, new bids should be requested from at least all who were invited to submit bids in the first instance and a reasonable amount of time should be allowed for the submission of the new bids. In the absence of a 100% performance bond, individual bids may be rejected in cases where the particular bid is so much lower than the official estimate, that it is

reasonable to conclude that the bidder will not be able to complete the works or supply the product, within the specified time at the price offered.

12. Bid Evaluation Report

- 3.38 The Executing Agency shall prepare a detailed report on the analysis and comparison of bids, describing precisely the reasons for selection of the lowest evaluated bid. The report, shall be submitted to the Bank for consideration prior to the contract award. If the Bank determines that the proposed award is not consistent with the terms of this Contract, it will promptly inform the Executing Agency of its determination and state the reasons therefore, and the contract will not be eligible for financing by the Bank. The Bank may cancel an amount of the Financing which, in the Bank's reasonable opinion, represents the amount of such ineligible expenditures.

13. Award of Contract

a. Bank Approval

- 3.39 The award shall be made to the bidder whose responsive bid has been determined to be the lowest evaluated bid, once the Bank has approved the corresponding notice of award.

b. Notification of Award and Signature of the Contract

- 3.40 The Executing Agency shall promptly notify all bidders of the award, at the addresses they have provided. It shall promptly send to the Bank, for its approval, a draft copy of the contract for signature by the winning bidder. The contract to be signed shall not modify the winning bid or the terms and conditions stipulated in the bidding documents. Once the Bank approves the draft contract, it shall be signed. The Executing Agency shall promptly send a copy of the signed contract to the Bank.

14. Modification of the Award

- 3.41 If for any reason the winning bidder does not sign the contract within the period set for that purpose, the Executing Agency may award it, without a new invitation to bid, to the next lowest responsive bidder.

15. Bidding Declared Null and Void

a. Report to the Bank

- 3.42 Whenever the Executing Agency has reasonable grounds for declaring the bidding null and void, it shall request prior approval of the Bank for such action by sending it a complete report including the reasons and grounds for proposing such a measure.

b. Effects of the Declaration

- 3.43 Once the bidding is declared null and void, the Executing Agency shall issue a second invitation to bid following the provisions set forth in this procedure. If the second bidding is declared null and void, the Executing Agency and the Bank shall agree on the procedure to be followed for the procurement involved.

IV. DUE PROCESS

- 4.01 The Executing Agency shall not impose conditions which would impede, restrict or increase the cost of presentation of protests by suppliers and contractors participating in public bidding for the acquisition of goods or execution of works with resources of the Financing.
- 4.02 The Executing Agency shall notify the Bank promptly of any protest or claim lodged in writing by the participating firms and of any responses to such protests or claims.

V. NONOBSERVANCE OF THIS PROCEDURE

- 5.01 The Bank reserves the right not to finance any award in which, in its opinion, there has been noncompliance with the provisions set forth in these procedures.

Original: Spanish
Translation for
information only.

Sector Adjustment Program for Public Sector Reform
Technical Cooperation for Studies on Program Implementation

SELECTION AND CONTRACTING OF CONSULTING
FIRMS AND/OR INDIVIDUAL EXPERTS

(Annex of the Technical Cooperation Agreement)

In the selection and contracting of consulting firms, specialized institutions and/or individual experts (hereinafter referred to without distinction as "Consultants") necessary for execution of the Technical Cooperation, the following shall be applicable:

I. DEFINITIONS

The following definitions are established:

- 1.01 A consulting firm is any legally constituted association, composed primarily of professional personnel, for the purpose of offering consulting services, technical advice, expert opinions, and professional services of other kinds.
- 1.02 A specialized institution is a non-profit organization such as a university, foundation, autonomous or semiautonomous organization or an international organization which offer consulting services. For the purpose of this Annex, the same rules shall apply to specialized institutions as to consulting firms.
- 1.03 An individual expert is any professional or technician specialized in some form of science, art or trade.

II. CONFLICTS OF INTEREST

- 2.01 The resources of the Bank shall not be used to contract Consultants from the country of the Borrower if they are part of the regular or temporary staff of the State or of the institution which receives the Financing or is the beneficiary of the services of the experts, or if they have pertained to such entity within the six months prior to one of the following dates: (a) that of the presentation of the application; or (b) that of the selection of the individual expert, unless the Bank agrees to reduce that period.
- 2.02 A fully-qualified professional services firm which is a subsidiary or affiliate of a construction contractor, equipment supplier, or holding company, normally will be considered acceptable only if it agrees in writing to limit its role to the provision of professional

consulting services, and agrees in the contract to disqualify itself and its associates from any construction work, material or equipment supply or financial participation on the same Program.

III. ELIGIBILITY AND NATIONALITY REQUIREMENTS

- 3.01 The Borrower shall not establish in the implementation of the procedures set forth in this Annex provisions or conditions which may restrict or impede the participation of Consultants from member countries of the Bank.
- 3.02 Only Consultants who are nationals of countries that are members of the Bank may be contracted. To determine the nationality of a consulting firm the following criteria shall be considered:
- (a) The country in which the firm is duly established or legally organized.
 - (b) The country in which the firm maintains its principal place of business.
 - (c) The nationality of any firms or the citizenship or the bona fide residency of individuals possessing ownership, with the right to participate in profits, of more than 50% of the consulting firm, as established by the certification of a duly authorized officer of such firm.
 - (d) The existence of arrangements whereby a substantial portion of the profits or other tangible benefits of the firm accrues to firms or individuals of a given nationality.
 - (e) A determination by the Bank that the firm constitutes an integral part of the economy of a country, as evidenced by bona fide residency in the country of a substantial portion of the executive, professional and technical personnel of the firm, and that the firm has available in the country the operating equipment or other elements necessary to provide the services to be contracted.
- 3.03 The nationality requirements established by the Bank shall also be applicable to firms proposed to provide part of the respective services in joint venture with or under sub-contract to a qualified consulting firm which itself meets the nationality requirements.
- 3.04 The nationality of an individual expert shall be established by means of the individual's passport or other official document of identity. The Bank, however, may allow exceptions to this rule in those cases in which the individual expert, not being eligible by reason of nationality: (i) has established his domicile in an eligible country, is legally entitled to work there (as other than an international civil servant) and has no known intention of returning to his country of origin in the immediate future; or (ii) has

established permanent domicile in an eligible country and has resided therein for at least five years.

IV. PROFESSIONAL QUALIFICATIONS

- 4.01 An analysis of the professional qualifications of a consulting firm for a specific project will take cognizance of the firm's experience and that of its principals, in providing successful consulting services for projects of a comparable size, complexity and technical specialty as those of the task involved; assigned number of professionally qualified personnel; previous experience in the region and in foreign areas; language capability; financial capacity; present work load; ability to organize sufficient personnel to do the work within the required time; high ethical and professional reputation; and a position completely free of any potential conflict of interest.

V. PROCEDURES FOR SELECTION AND CONTRACTING

A. Selection and Contracting of Consulting Firms

- 5.01 In the selection and contracting of consulting firms:

(a) Prior to the selection of the firm, the Borrower shall submit the following to the agreement of the Bank:

(i) The procedure to be used in the selection and contracting of the firm:

(A) The role of the agency staff assigned to:

1. Review and approve documents;
2. Select the short list of firms;
3. Rank the firms on the short list by merit;
4. Approve the firm selected.

(B) The specific point system to be used as the criteria for preselection when prequalification of firms is carried out. The point system shall include at least the following factors:

1. General background of the firm;
2. Similar projects carried out;
3. Previous experience in the country in which the services are to be provided, or experience in similar countries;
4. General knowledge of the language of the country;
5. Use of local consultants.

(C) The specific point system to be applied as the selection criteria. This system must include the following factors:

1. Qualifications and experience of the staff to be assigned to the project;
 2. Evaluation methods (if applicable);
 3. Proposed plan of execution;
 4. Timetable for execution;
 5. Mastery of the language;
 6. Managerial support systems to ensure quality control during execution (regular reports, budget control, etc.)
- (D) Specific reference to local law, tax requirements and procedures that may be applicable to the selection and hiring of the consulting firm.
- (E) If it is estimated that the cost of the services will not exceed two hundred thousand United States dollars (US\$200,000) or its equivalent, calculated in accordance with the provisions of Article 3.05(a) of the General Conditions, selection and contracting must be announced in Development Forum - Business Edition of the United Nations and in the local press. These announcements must indicate the intention to contract professional consulting services and give a brief description of the services needed, asking firms and consortiums interested in applying to submit detailed information on their technical capacity, previous experience in similar projects, etc., within a period of 30 days after the date of the announcement. A copy of the announcements shall be sent to each embassy of the member countries of the Bank in the country. The Bank shall be informed of these advertisements, and clippings thereof shall be sent to it specifying the date and the name of the publication in which they have appeared;
- (ii) The terms of reference (specifications) describing the work to be done by the firm, together with an estimate of the cost; and
- (iii) A list of at least three and no more than six firms from which proposals for the work would be invited.
- (b) Once the Bank has approved the foregoing requirements, the approved firms shall be invited to present proposals, in conformity with the procedures and terms of reference approved. The approved firms shall be advised of the specific selection procedures and evaluation criteria adopted, special local laws, tax requirements and other procedures pertaining to the selection of firms, and of the names of the other firms invited to present proposals.

- (c) In the invitations to present proposals the use of one or the other of the following procedures shall be specified, as appropriate:

- (i) In the first procedure, a single sealed envelope including only the technical proposal, without a price quotation, shall be used. The Borrower shall examine the proposals received and establish their order of merit. If the complexity of the case so requires, the Borrower may resort, at its own expense, to a group of consultants to review the proposals and provide technical and expert advice in establishing the order of merit.

Once an order of merit has been established among the firms, the firm listed as first shall be invited to negotiate a contract. During these negotiations, the details of the terms of reference shall be reviewed completely to assure full and mutual understanding with the firm, the contractual and legal requirements of the agreement shall be reviewed, and finally, detailed costs shall be developed. If agreement cannot be reached with the firm on the terms of the contract, it shall be notified in writing that its proposal has been rejected and negotiations shall be initiated with the second firm and so on until a satisfactory agreement has been reached.

- (ii) In the second procedure, two sealed envelopes shall be used for presenting proposals, the first containing the technical proposal exclusive of costs and the second containing the proposed costs for the services.

The Borrower shall analyze the technical proposals and establish their order of merit. Contract negotiations shall commence with the firm offering the best technical proposal. The second envelope presented by this firm shall be opened in the presence of one or more of its representatives and shall be utilized in the contract negotiations. All the second envelopes presented by the other firms shall remain sealed and, if an agreement is reached with the first firm, they shall be returned to the respective firms. If an agreement on the terms of the contract is not reached with the first firm, it shall be notified in writing of its rejection and negotiations shall be initiated with the second firm, and so on until a satisfactory agreement is reached.

- (iii) Inability to agree on detailed costs or compensation for services, or a judgment on the part of the Borrower that such costs or compensation are inappropriate or excessive, shall be sufficient cause for notifying the rejection of the proposal and for the initiation of negotiations with the firm which follows in the order of merit. Once a firm

has been rejected it shall not be recalled for further negotiations on such contract.

- (d) Prior to initiating negotiations, the Borrower shall provide the Bank with a copy of the report summarizing the evaluation of the technical proposals presented by the firms on the short list identified in Section 5.01(a)(iii) of this Annex.
- (e) The text of the proposed contract negotiated with the consulting firm shall be submitted to the agreement of the Bank, before it is signed and the services are initiated. A true copy of the text as signed shall be promptly sent to the Bank.

B. Selection and Contracting of Individual Experts

5.02 In the case of the selection and contracting of individual experts:

- (a) Before the selection of the experts, the Borrower shall submit the following to the agreement of the Bank:
 - (i) The selection procedure;
 - (ii) The terms of reference (specifications) and the schedule of the services to be performed;
 - (iii) The names of the experts tentatively selected, setting forth in detail their nationality and domicile, background, professional experience and knowledge of languages; and
 - (iv) The form of contract to be used in retaining the experts.
- (b) Once the Borrower and the Bank have approved the foregoing requirements, the Borrower shall proceed to contract the experts. The contract to be entered into with each of them shall be consistent with the form of contract which the Bank and the Borrower shall have agreed upon. A true copy of the signed text of each contract shall be sent promptly to the Bank.

5.03 Notwithstanding paragraphs 5.01 and 5.02 above, and at the request of the Borrower, the Bank may assist in the selection of the Consultants as well as in drafting the pertinent contracts. It is understood however, that the final negotiation and signing of such contracts, under terms and conditions acceptable to the Bank, shall be the sole responsibility of the Borrower and that the Bank assumes no commitment on this matter.

VI. CURRENCIES OF PAYMENT TO CONSULTANTS

6.01 The following provisions are established with respect to the currencies with which the Consultants shall be paid:

(a) Payments to Consulting Firms: Contracts entered into with consulting firms shall reflect one of the following formulations, as the case may be:

- (i) If the consulting firm is domiciled in the country in which it is to perform the services, its compensation shall be paid exclusively in the currency of that country, except for expenses incurred in foreign exchange for foreign travel or per diem expenses abroad, which shall be reimbursed in dollars, or the equivalent in other currencies that form part of the Financing, except that of the country wherein the study is made;
- (ii) If the consulting firm is not domiciled in the country in which it is to perform the services, the highest possible percentage of its compensation shall be paid in the currency of such country and the rest in dollars or the equivalent in other currencies that form part of the Financing, except that of such country, with the understanding that the part corresponding to per diem expenses shall be paid in the currency of the country or countries in which the respective services are to be performed. In the event that the percentage to be paid in the currency of the country in which the services are to be performed is less than 30% of the total compensation of the consulting firm, a complete and detailed justification shall be submitted for its examination and comments to the Borrower, which in turn shall submit it to the Bank for its examination and comments;
- (iii) In the case of a consortium composed of firms domiciled in the respective country and firms not domiciled therein, the part of the compensation which corresponds to each of the members shall be paid in accordance with paragraphs (i) and (ii) above, as pertinent; and
- (iv) The provisions of Article 3.05(a) of the General Conditions shall apply with respect to the rate of exchange.

(b) Payments to Individual Experts:

- (i) If the expert is domiciled in the country in which his/her services are to be performed, his/her honoraria shall be paid exclusively in the currency of that country;
- (ii) If the expert is not domiciled in the country in which his/her services are to be performed and is hired to work for less than six months, his/her honoraria and per diem shall be paid totally in United States of America dollars; and

- (iii) If the expert is not domiciled in the country in which his/her services are to be performed and is hired to work six or more months, his/her honoraria and post adjustment shall be paid in the following manner: (1) 40% in the currency of that country; and (2) 60% in United States of America dollars. Per diem, installation and change of residence allowances and withholding of compensation when applicable, shall also be paid in United States of America dollars;
- (iv) Fixed lump sum compensation for services, including honoraria, transportation tickets and per diem, may be paid in United States dollars;
- (v) The provisions of Article 3.05(a) of the General Conditions shall apply with respect to the rate of exchange.

VII. RECOMMENDATIONS OF CONSULTANTS

- 7.01 It is understood that the opinions and recommendations of the Consultants obligate neither the Borrower nor the Bank, and that they reserve the right to put forward such observations or exceptions as they deem appropriate.

VIII. SCOPE OF COMMITMENT OF THE BANK

- 8.01 It is agreed that the Bank assumes no commitment to finance all or part of any Program or project which, directly or indirectly, might result from the services performed by the Consultants.

IX. SPECIAL CONDITIONS

- 9.01 The final payment for services to the Consultants shall be contingent upon prior acceptance by the Borrower and the Bank of the Consultant's final report. Such payment shall consist of not less than 10% of the total amount to be paid to the Consultants in accordance with their respective contracts.

PROPOSED TERMS OF REFERENCE FOR SELECTED STUDIES TO BE CONDUCTED
WITH TECHNICAL COOPERATION RESOURCES

This annex contains draft terms of reference for a selection of studies to be conducted with Program resources.

I. MAIN STUDIES REQUIRED FOR RESTRUCTURING
THE COLOMBIAN PORTS SYSTEM

A. Legal reform of the Colombian ports sector

1. Objectives

The objective of the requested assistance is to prepare the regulations needed to ensure enforcement of the draft law for the reform of the Colombian ports system, in the event it is passed by Congress. The regulations will be prepared in keeping with the mandate the law confers and arguments will be prepared to counter any possible opposition.

2. Scope of the services required

The regulations to the draft law should cover the following subjects, inter alia, with technical support from other consultants working on parallel projects.

- Methods and procedures for approving port charges; procedures for the transition to a free rate system and measures to control natural monopolies.
- General operating regulations; procedures for services for third parties, hours of operation, contractual relations between operators, port companies and users, etc.
- Procedures for closing down the company Puertos de Colombia (COLPUERTOS); compensation procedures, terms and procedures for transferring its assets to the port companies, etc.
- Procedures for transferring the income from use of the port infrastructure to a fund to cover COLPUERTOS' liabilities.

The consultant will also prepare the necessary legal arguments in the event that opposition is made to the draft law or its regulations.

B. Institutional and operational study

1. Objective

The objective of the study is to design an institutional framework for the creation and operation of port companies, and to prepare procedures that the Directorate General of Ports of the Ministry of Public Works and Transport can use to regulate and monitor them.

2. Scope of the services

The consultant will provide a plan for establishing, operating and supervising the activities of the port companies envisioned in the law. The study will cover the design for general operating regulations, monitoring procedures and sanctions that could be used by the competent authorities to carry out the mandate assigned to them under the law.

Specifically, regulations will be prepared for:

- Port operations, hours of work and service obligations for the operators of private and public services. The fact that operations may be carried out by service entities, directly by the companies themselves, or through rental arrangements should be kept in mind.
- Contractual arrangements between users, operators and port companies that guard against restrictions on competition and discrimination in the provision of services.
- Government regulation of operations; design of administrative procedures for the Directorate General of Ports of the Ministry of Public Works and Transport for monitoring and supervising port activities. This will include a proposed internal organization chart for the Directorate's activities.

C. Study on the rates system in the ports sector

1. Objectives

The objectives of this study are:

- To design a rates policy to regulate the price system for the different port services provided in Colombia. The purpose is to promote greater efficiency in the use of port resources and send out adequate signals so that investment policies will be consistent with rate policies.
- To develop methods or procedures to calculate the charges for port services.
- To apply them to three selected cases.

2. Scope of the study

The study will determine which goods and services the rates will apply to and name the agents who will collect them. The following are suggested by way of example: dredging and maintenance of access channels, the use of natural and/or artificial ports, tug-boat services and docking and undocking operations, cargo handling, etc. A clear differentiation will be made between charges for the use of public infrastructure and goods and charges for operations, cargo handling and other services.

The consultant will discuss and define the economic principles on which the rates for the different port services will be based, particularly with regard to differential costs and price structures to encourage efficient use of port facilities and permit recovery of investments.

Once the foregoing points have been established, the consultant will develop a method for calculating and setting port charges, including the following as a minimum:

- An administrative procedure whereby both public and private port operators can obtain rate approvals.
- A procedure for calculating rates based on the principles established, which will include the different cost items and their definitions, and formulae to calculate the charges for each particular service.
- A procedure to establish differential rates for activities that could present economies of scale.
- An indexing procedure for readjusting rates during the period they are in effect.

As far as possible, these points should be written up in the form of a regulation or decree so that authorities can clearly visualize the links between the different parts of the proposed system.

After establishing the foregoing, the consultant will calculate three examples demonstrating how the procedures can be used. In principle, the examples could include the following:

- Charges for services for vessels in port, including bulk carriers, container ships and general cargo vessels.
- Charges for handling bulk cargo, containers and general freight.
- Charges for using access channels and dredged areas.

The consultant will study demand for these types of services and project future demand and the costs that will be incurred to provide them. Special attention will be paid to the impact of efficiency on cost levels for services, since the rate scheme should simulate a competitive market that functions efficiently.

D. Study to define a program to restructure COLPUERTOS

1. Introduction

In document DNP-2469 of May 1990, CONPES noted the need to restructure the company Puertos de Colombia (COLPUERTOS) to decentralize the administration and financing of port terminals and to introduce competitive elements into the provision of services. The main legal, labor, financial and institutional obstacles that stand in the way of introducing such measures immediately were identified.

The restructuring is intended to make the terminals self-sufficient and to improve port services. The contracted study is expected to define the main actions that must be taken to comply adequately with CONPES' directives.

2. Objective

The objective of this study is to design a plan of action for COLPUERTOS to put CONPES' recommendations with regard to port efficiency and competition into practice. The work will include defining specific goals in each area, and projecting the company's flow of funds during and after implementation of the plan.

3. Scope

The study will develop the following activities:

- (a) Review of the studies contracted by COLPUERTOS under the Port Rehabilitation Program, and an analysis of the current status of each of the aspects discussed.
- (b) Based on the government's guidelines, the recommendations contained in the studies, and the consultant's analysis, a program of goals for the restructuring operation will be prepared, with specific objectives and time frames for the following aspects:
 - Labor: renegotiation of the collective labor agreement, reductions in personnel, and policies for contracting services with third parties.
 - Financial: design of a rate scheme based on estimated operating costs, using differential cost criteria applicable to the private sector, simplification of collections, and

elimination of differences in charges for similar export and import cargo services.

- Administrative: restructure the organization of the company and the terminals to decentralize them and make them competitive, clearly separating operational and regulatory functions.
- Operational: wage schemes to encourage productivity; purchasing policies, and operating equipment.

(c) Preparation of a plan to implement the proposed measures, based on financing requirements, current legislation, and service requirements over the period in question.

II. TERMS OF REFERENCE FOR A STUDY ON THE COSTS AND RATES OF COLOMBIANA DE VIAS FERREAS (FERROVIAS)

1. Introduction

The Colombian government, in use of the powers conferred under Law 21 of 1988, ordered the close-down of the company Ferrocarriles Nacionales de Colombia, and created two new companies to upgrade and operate the railroad system.

To ensure that these new companies are self-sufficient and profitable, a study must be conducted to establish a rate system that will allow FERROVIAS to operate self-sufficiently, and to permit the transport company to offer rates that are competitive with other modes of transport.

2. Scope

The goals of the study are:

- To review the costs of FERROVIAS' investment program and establish a structure for its operating costs.
- For the Sociedad Colombiana de Transporte Ferroviario (STF), the consultant will review the bases of the financial projections for the project.
- Based on the foregoing studies, the consultant will define methods to establish a toll system applicable to FERROVIAS.

3. Proposed methodology

1. Evaluate the estimates contained in earlier studies of the investment costs for each of the sections. The specifications for materials and their costs will be reviewed.

2. Suggest alternatives for monitoring, administration and maintenance, seeking minimum-cost solutions within set parameters for security and efficiency. Based on this, estimate the costs for FERROVIAS broken down into fixed costs and variable costs, seeking least-cost solutions.
3. Define a financial structure for FERROVIAS, broken down into: operating costs, investment costs, financial costs, other costs, operating income, capital income and other income. The items in each of these categories should be defined.
4. Define a basket of costs and present a financial projection for the operating company STF, setting up a program that allows for a sensitivity analysis of the different assumptions, whenever possible.
5. Using the information obtained under the previous points, construct a model to obtain financial indicators for the project (IRR, etc) and for the company's situation in terms of creditworthiness and liquidity, based on toll levels.

Using this model, tolls will be set at levels that will offer sufficient incentives to STF to undertake the project, outlining transfers and/or subsidies.

6. Present a financial projection for FERROVIAS that includes income from tolls, the fuel tax and other income on the one hand, and on the other, the costs for the financial years and the loans to be obtained. Debt service should be included in the costs.

III. TERMS OF REFERENCE FOR A STUDY TO UPGRADE MARITIME TRANSPORT IN COLOMBIA

1. Introduction

Ninety-five percent of Colombia's foreign trade is shipped by sea. An analysis of operating and service costs in the country indicates limited supply, relatively high freight rates compared to those charged in neighboring countries, and poor ability to compete by the national merchant marine. Given the impact of maritime freight rates on total transport costs, possible points of conflict between the current regulatory framework and Colombia's foreign trade requirements must be identified.

2. Objectives

The objectives of this study are:

- To study the regulatory framework governing maritime transport in Colombia for users, shipping companies and the government entities involved in the sector.

- To propose measures to guarantee and raise the quality of service and reduce freight rates, and a scheme for the sustained development of the merchant marine that does not have a negative impact on the cost of the service.
- To analyze the operations of Colombian shipping lines and propose measures to make them more competitive on the international market.

3. Scope

In the course of this study the consultant will:

- Review the background and legal framework for maritime transport in Colombia.
- Prepare projections for the supply and demand for shipping services, broken down by types of cargo and services.
- Analyze the behavior of freight rates and the supply of services in the light of Decree 501 of 1990, and if necessary, recommend future modifications.
- Study the types of protection provided for the merchant marine, and propose alternatives, particularly with regard to the rules governing cargo reserves.
- Based on demand projections, design legal and economic mechanisms to make the Colombian merchant marine more competitive.

IV. TERMS OF REFERENCE FOR A NATIONAL STUDY OF THE RADIO
FREQUENCY SPECTRUM (TELECOMMUNICATIONS)

1. Introduction

The Ministry of Communications' structure for administering the radio frequency spectrum is composed of a Radio Division with two sections: engineering, which includes radio communications and industrial development, and the frequency control and technical recording section which includes technical control and recording groups and monitoring stations.

To improve management and streamline procedures for issuing licenses, Decree 1901 of 1990 established a new structure in the Ministry of Communications, creating a Frequencies and Networks Division in the Directorate General of Sectoral Planning and a Frequencies Management Division in the Directorate General of Telecommunications and Postal Services. This will make staff available to carry out the activities required for good management of the spectrum, such as planning the spectrum, channeling the bands, certifying equipment, calculating compatibility, carefully analyzing the technical characteristics of

equipment and communications networks, studying and determining broadcasting parameters, etc.

A study of the radio frequency spectrum is required to initiate these activities, which will provide the Ministry with a tool it can use to carry out the following functions in the best possible way: develop planning, regulatory and control activities; train the staff that manages the spectrum; and redefine the activities of the monitoring stations and the necessary computer equipment.

The study should be conducted in two parts:

Part one: Management of the radio frequency spectrum

The purpose of this part is to conduct a study to improve management of the spectrum by implementing a suitable information system to be used for planning, which will ensure that existing radiocommunications regulations are enforced.

The analysis should include use of radio channels, location of equipment, power of the equipment, development of logistical support for adequate management and spectrum engineering, an improved system for issuing licenses, and procedures for strictly applying the regulations applicable to each service.

Scope of the study (part one)

- Make recommendations for the preparation of basic procedural manuals, and for the description and organization of the different responsibilities.
- Define strategies and policies to optimize the use of the radio spectrum, and for planning and regulating radiocommunications services.
- Organize and coordinate training for the staff responsible for managing the spectrum.
- Prepare technical specifications and study the compatibility of equipment to be purchased for managing the spectrum, with the necessary logistical support.

Part two: Control of the radio frequency spectrum

The purpose of the second part is to conduct a technical, economic and social analysis of radio communications that describes the current situation and needs throughout the country, for the purpose of controlling the radio spectrum and radiocommunications services, based on technological progress and the country's requirements.

This stage will include upgrading the six monitoring stations currently in existence so they will cover the whole country.

Scope of the study (part two)

- Conduct a national scan of the HF, VHF and UHF bands assigned to the different radiocommunications services.
- Detect the channels available and plan the spectrum by service, based on new transmission technologies, determining the most adequate technical parameters for starting up new radio stations.
- Prepare an inventory of authorized services and the coverage of each of the networks and stations, based on power, frequency and location.
- Analyze existing regulations and recommend technical standards for establishing radio stations, and for manufacturing, assembling and importing equipment and materials for these services.
- Determine the logistical support required to facilitate systematic procedures for planning and assigning frequencies, and for monitoring use of the frequency spectrum in Colombia.
- Define the best technical parameters for optimizing the radiocommunications service, based on the operational characteristics of existing equipment, current operating frequencies and service areas.
- Study regions and municipalities that do not receive radio broadcasting or television services, and study the technical, economic and social convenience of installing prototype stations which, without sacrificing the quality of the service, are geared to the needs and facilities of each region.

COLOMBIA - Key Macroeconomic Indicators

Key Indicators 1/	Actual		Prelim.	Estimate	P r e d i c t i o n s		
	1986	1987	1988	1989	1990	1991	1992
GDP Growth	5.8%	5.8%	3.7%	3.0%	3.5%	3.5%	3.8%
GDY Growth	5.6%	2.4%	3.6%	2.8%	2.6%	3.3%	3.7%
GDY/Capita Grth Rt.	3.8%	0.6%	1.8%	1.0%	0.8%	1.5%	1.9%
Debt Service (US\$ mill.)	2435.5	2719.2	3199.4	4075.9	3811.2	3728.9	3536.3
Debt Serv/XGS	35.8%	41.1%	46.2%	53.6%	47.8%	41.9%	36.0%
Debt Serv/GDP	7.0%	7.2%	7.8%	9.2%	8.1%	7.8%	7.5%
Gross Inv/GDP	17.2%	17.4%	18.1%	17.5%	16.5%	16.5%	17.0%
Dom.Svgs/GDP	19.4%	20.3%	19.3%	19.2%	19.8%	20.4%	21.6%
Nat.Svgs/GDP	19.2%	20.2%	19.2%	19.1%	19.6%	20.2%	21.4%
Marginal Natl Svgs Rate	n.a.	37.6%	-7.9%	18.4%	39.5%	38.7%	57.1%
Public Fxd.Inv/GDP	6.1%	5.3%	5.5%	5.2%	5.5%	5.5%	5.5%
Public Mt.Svgs/GDP	n.a.	5.2%	3.3%	3.9%	4.4%	4.4%	4.4%
Private Fixed Inv/GDP	10.1%	10.0%	10.3%	10.0%	9.5%	10.0%	10.5%
Private Natl Svgs/GDP	n.a.	15.0%	15.9%	15.2%	15.3%	15.8%	17.1%
Ratio of Public/ Prvt Inv.	60.4%	53.0%	53.4%	52.0%	57.9%	55.0%	52.4%
Gov Revenues/GDP	23.5%	21.7%	20.8%	20.8%	20.5%	20.7%	20.8%
Gov Exp/GDP	23.8%	23.5%	23.6%	23.2%	23.2%	22.3%	21.4%
Deficit (-) or Surplus (+)/GDP	-0.3%	-1.8%	-2.8%	-2.4%	-2.7%	-1.6%	-0.6%
Exp.Growth Rate 2/	43.7%	-3.3%	1.6%	10.5%	5.5%	13.2%	14.9%
Exports/GDP 2/	15.5%	13.9%	13.0%	13.3%	13.2%	14.7%	16.7%
Import Growth Rate 2/	-7.2%	11.3%	19.0%	4.7%	4.2%	8.2%	8.0%
Imports/GDP 2/	9.8%	10.0%	11.0%	10.6%	11.4%	12.0	12.5%
Current Account US\$ million	564.7	-20.5	-355.0	-310.4	-474.0	-302.0	-202.0
Current Account/ GDP	1.6%	-0.1%	-0.9%	-0.7%	-1.1%	-0.6%	-0.2%

1/ All National Accounts GDP ratios are at constant prices. External accounts are at current prices

2/ Exports and imports of goods (Balance of Payments).

Colombia: Medium-Term Balance of Payments
(in U.S. millions)

	1985	1986	1987	1988	Prelim 1989	Projected 1990	Projected 1991	Avg. 1992	1990-92

CURRENT ACCOUNT	-1596	553	-50	-232	23	-474	-302	-202	-326
Trade Balance	109	2024	1461	827	1324	1526	1947	2147	1989
Exports, f.o.b.	3782	5433	5255	5343	6050	6765	7644	8452	7620
Coffee	1702	2742	1633	1621	1470	1311	1406	1472	1396
Hydrocarbons	409	619	1342	988	1412	1939	2304	2540	2261
Coal	126	201	263	304	509	564	620	688	624
Gold	365	460	385	413	365	381	406	433	407
Nickel	55	48	76	161	160	115	122	129	122
Other	1125	1363	1556	1856	2134	2454	2786	3190	2810
Imports, f.o.b.	3673	3409	3794	4515	4726	5239	5697	6305	5770
Nonpetroleum	3207	3279	3692	4368	4541	4968	5400	6024	5487
Petroleum	466	130	102	147	185	271	297	281	283
Services (net)	-2166	-2274	-2512	-2023	-2475	-2800	-3046	-3149	-2998
Credit	1068	1364	1360	1701	1679	1757	1853	1970	1860
Factor	208	233	220	335	341	341	347	385	358
Nonfactor	860	1131	1140	1366	1338	1416	1506	1585	1502
Debit	3234	3638	3872	3724	4153	4556	4899	5119	4858
Factor 1/	1918	1985	2194	2086	2340	2626	2872	2952	2817
o/w: public int.	877	964	1109	1160	1211	1270	1304	1353	1309
private int.	426	381	262	274	281	245	254	260	253
other (profit remit)	615	640	823	652	848	1111	1314	1339	1255
Nonfactor	1316	1653	1678	1638	1813	1931	2028	2167	2042
Transfers (net)	461	785	1001	964	1173	800	800	800	800

CAPITAL ACCOUNT	1863	825	-160	620	126	448	423	468	446
Net disbursements MLT	1147	1879	-43	620	402	348	323	368	346
IBRD		311	73	146	30	-52	-68	-7	-42
IDB		147	134	169	170	254	250	251	252
Bilateral credits		227	-40	26	53	116	60	52	76
Commercial banks		1184	-283	239	-123	-62	0	0	-21
Supplier credits		-16	19	35	91	104	110	98	104
other (inc. bonds)		18	44	-5	172	-12	-28	-26	-22
Net disbursements short term	239	-1079	-136	-4	5	0	0	0	0
Other net *	477	25	18	4	-282	100	100	100	100

OVERALL BALANCE	267	1360	-211	388	149	-26	121	266	120

* - Net Direct Investment and Net Long Term loans to the Private Sector and net Short Term loans to the Private Sector and net other financial Private Sector flow

**COMPOSITION OF PUBLIC SECTOR IN COLOMBIA
BY TYPE OF ENTITIES AND NUMBER**

I. PUBLIC ADMINISTRATIONS

1) Central	
a) Nation	28
2) Local	
a) Department, Intendence and Commissary	32
b) Municipality	1016
TOTAL PUBLIC ADMINISTRATIONS	1076

II. PUBLIC AUTHORITIES

a) Central Government owned	89
b) Municipality-owned	84
c) Department-owned	235
d) Social Security	55
TOTAL PUBLIC AUTHORITIES	473

III. PUBLIC FINANCIAL INSTITUTIONS

1) National Public Enterprises	45
2) Department, Intendence and Commissary Public Enterprises	127
3) Municipal Public Enterprises	101
TOTAL NO FINANCIAL ENTERPRISES	273

IV. PUBLIC FINANCIAL INSTITUTIONS

1) Monetary Institutions	9
2) Insurance Company and Pension Funds	4
3) National Financial Institutions	15
4) Department, Intendence and Commissary Financial Institutions	19
5) Municipal Financial Institutions	23
TOTAL PUBLIC FINANCIAL INSTITUTIONS	70
TOTAL PUBLIC SECTOR	1892

CONSOLIDATED DECENTRALIZED SECTOR EXPENDITURE AND REVENUE, BY SUBSECTOR, 1988
(As Percent of GDP)

	CONSOLIDATED DECENTRALIZED SECTOR	POWER	WATER SUPPLY	AGRICULTURAL SECTOR	COMMUNICATIONS	TRANSPORT	MINES	SOCIAL SECTORS
REVENUE	18.8%	2.0%	0.6%	1.2%	1.6%	1.4%	6.3%	0.3%
Personal Revenue	18.1%	2.2%	0.4%	0.7%	1.2%	0.6%	6.0%	0.0%
Government Transfers	1.6%	0.4%	0.0%	0.8%	0.0%	0.7%	0.0%	0.0%
Income	1.0%	0.3%	0.1%	0.1%	0.2%	0.1%	0.3%	0.3%
EXPENDITURE	14.8%	3.2%	0.6%	1.2%	1.6%	1.6%	6.7%	0.3%
Expenditure	10.0%	2.1%	0.3%	1.1%	0.9%	0.6%	4.4%	0.3%
Expenditure	4.8%	1.1%	0.3%	0.1%	0.6%	1.0%	1.3%	0.0%
/SURPLUS	-0.9%	-0.3%	0.0%	0.0%	0.0%	-0.2%	-0.4%	0.0%
	0.9%	0.3%	0.0%	0.0%	0.0%	0.2%	0.4%	0.0%
Internal Financing	0.0%	0.1%	0.0%	0.0%	0.1%	0.3%	0.6%	0.0%
External Credit	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	0.3%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	-0.2%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%

Plano Financiero del Sector Publico 1989-1990; Department of Planning; Republic of Colombia.

IMPORT AND EXPORT CARGO

COLPUERTOS OWNED PORTS						PRIVATE DOCKS		SPECIALIZED PORTS				
B/TURA	C/GENA	STA.MARTA	B/QUILA	TOTAL	SHARE %	TOTAL	SHARE %	COVENAS (PETROLEUM)	PORT BOLIVAR (COAL)	PORT TURBO (BANANA)	TOTAL	SHARE %
2671	746	826	684	4827	44.7	4164	38.6	1011		690	1701	15.8
2284	668	613	586	4091	38.5	4519	42.6	1067		811	1878	17.7
2693	666	684	663	4626	42.3	4343	39.7	1028		796	1823	16.7
2454	788	386	577	4126	31.9	5929	45.9	1942		783	2726	21.1
2694	748	542	485	3869	31.7	5793	47.5	1373		1036	2408	19.7
2376	916	838	532	4686	31.4	5573	37.6	948	2733	769	4440	29.9
2298	764	654	414	4126	28.2	6273	30.6	4893	4799	984	9866	48.2
2538	866	724	468	4462	15.1	7848	26.6	7832	8928	1011	16963	57.4
2843	879	782	457	4061	14.8	6968	26.8	10772	9466	1061	21233	63.4

Department of Planning, Colombia.

IMPORT AND EXPORT CARGO BY COLPUERTOS AND PRIVATE DOCKS					
YEAR	COLPUERTOS	%	PRIVATE	%	TOTAL
1980	4827	53.7	4164	46.3	8991
1981	4091	47.5	4519	52.5	8610
1982	4626	51.6	4343	48.4	8969
1983	4125	41.0	5929	59.0	10054
1984	3869	40.0	5793	60.0	9662
1985	4660	45.5	5573	54.5	10233
1986	4128	39.7	6273	60.3	10401
1987	4462	36.2	7848	63.8	12310
1988	4961	41.6	6968	58.4	11929

Source: Department of Planning, Colombia.

SHARE OF COLOMBIAN SHIPPING LINES IN TOTAL MARITIME TRANSPORT
BY TYPE OF CARGO AND AVERAGE PERCENTAGE FOR 1980-1985 PERIOD

TYPE OF CARGO	(1) COLOMBIAN COMPANY OWNED SHIPS	(2) COLOMBIAN COMPANY LEASED SHIPS	(3) SHIPS OF FOREIGN COMPANIES ASSOCIATED WITH COLOMBIAN COMPANIES	(4) FOREIGN OWNED SHIPS	TOTAL SHIPPING PROTECTED BY FLAG LAW (1+2+3)	TOTAL FOREIGN OWNED SHIPPING (2+3+4)	TO
) TOTAL TRADE							
AVERAGE ANNUAL TOTAL (METRIC TONS)	1,089,899	1,304,002	812,372	7,839,032	3,206,274	9,955,406	11,045,000
%	9.87	11.81	7.35	70.97	29.03	90.13	100
GENERAL CARGO	816,704	493,676	676,984	1,644,689	1,985,863	2,815,148	3,630,000
%	7.38	4.47	6.13	14.89	17.98	25.49	32
%	22.46	13.60	18.65	46.30	54.70	77.54	100
BULK CARGO	274,696	810,426	135,389	6,194,443	1,220,411	7,140,258	7,414,000
%	2.49	7.34	1.23	58.00	11.05	64.65	67
%	3.70	10.93	1.83	83.54	16.46	96.36	100
) IMPORTS							
AVERAGE ANNUAL TOTAL (METRIC TONS)	868,921	1,101,676	610,646	3,423,068	2,361,142	5,115,279	5,784,000
%	11.68	20.43	8.83	59.18	40.82	88.44	100
GENERAL CARGO	621,049	422,730	382,120	437,091	1,326,705	1,241,947	1,763,000
%	9.02	7.31	6.61	7.68	22.94	21.47	30
%	29.69	23.97	21.66	24.78	76.22	70.41	100
BULK CARGO	147,072	758,839	128,526	2,985,967	1,034,431	3,873,332	4,020,000
%	2.64	13.12	2.22	51.62	17.88	66.96	69
%	3.68	18.87	3.20	74.27	25.73	96.34	100
) EXPORTS							
AVERAGE ANNUAL TOTAL (METRIC TONS)	420,977	122,433	301,727	4,415,973	845,138	4,840,135	5,261,000
%	-1	0	1	1	0	0	0
%	0.00	2.33	6.74	83.94	16.06	92.00	100
GENERAL CARGO	293,464	70,840	294,804	1,207,498	659,168	1,573,202	1,866,000
%	6.68	1.35	6.00	22.95	12.63	29.90	35
%	15.72	3.79	15.79	64.68	35.41	84.28	100
BULK CARGO	127,623	51,693	6,863	3,208,475	185,980	3,208,933	3,394,000
%	2.42	0.98	0.13	60.98	3.63	62.10	64
%	3.75	1.52	0.20	94.62	5.48	96.24	100

Source: DIMAR.

PROPOSED RESOLUTION ¹

COLOMBIA. LOAN /OC-CO TO THE REPUBLIC OF COLOMBIA
(Public Sector Reform Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Colombia, as Borrower, for the purpose of granting it a loan to cooperate in the financing of: (a) a PUBLIC SECTOR REFORM PROGRAM, whose general framework, objectives, policies and actions, as well as the Borrower's obligation to comply therewith, are set forth in the Policy Letter sent by the Borrower to the Bank on , 1990, all of which together are hereinafter referred to as the "Program"; and (b) a project for the importation of eligible goods, hereinafter referred to as the "Project". This financing shall be subject substantially to the following conditions:

1. Amount and Currencies: Up to US\$300,000,000, or the equivalent in other currencies (except that of Colombia) which are part of the ordinary capital resources of the Bank, to pay for goods of external origin acquired through international competition originating in the member countries of the Bank, and for such other purposes as may be specified in the loan contract. Payments of amortization and interest shall be made in the currency or currencies specified by the Bank, in a quantity equivalent to the corresponding amount owed, calculated in units of account in terms of dollars of the United States of America, in accordance with provisions to be included in the loan contract.
2. Source of Funds: The ordinary capital resources of the Bank.
3. Guarantee: The general responsibility of the borrower.
4. Credit Fee: 0.75% per annum on the undisbursed portion of the financing, commencing to accrue 60 days after the date of the contract and payable in dollars of the United States of America on the same dates as the interest.

¹ The provisions contained in this Appendix and in Appendices II, III, IV, V, and VI will be final only when the Board of Executive Directors has approved the proposed loan.

5. Amortization: The Borrower shall amortize the loan in a period of 20 years from the date of the contract, by means of semiannual, consecutive and, insofar as possible, equal installments. The first installment shall be paid sixty-six months after the date of the loan contract.
6. Interest: The Borrower shall pay interest semiannually on the daily outstanding balances of the loan. The first payment shall be made six months after the date of the loan contract. The Bank shall determine the rates of interest to be applied during the life of the loan, in accordance with the lending rate policy of the Bank.
7. Disbursement: The term for disbursement of the financing shall expire two years after the date of the contract. The financing shall be disbursed in three tranches of US\$100,000,000 each, or its equivalent in other currencies that are part of the ordinary capital resources of the Bank.
8. Special Conditions:
 - (a) The Borrower shall carry out both the utilization of the resources of the loan and the execution of the "Program" through: (i) the Ministry of Finance and Public Credit, hereinafter "MFPC" or "Executing Agency," with regard to execution of the "Program"; and (ii) the "Banco de la Republica," hereinafter "BR," with regard to the presentation of documents and other activities in connection with the use of the resources during execution of the "Project." The Borrower agrees to ensure that the MFPC and the BR shall execute the "Program" and the "Project," respectively, according to the provisions of the loan contract. If modifications in the legal provisions or the basic regulations concerning the Borrower, the MFPC or the BR are approved which, in the opinion of the Bank, may substantially affect the "Program" or the "Project," or if the Borrower makes changes to its macroeconomic policy or its policy for the sectors involved in the "Program" that are inconsistent with said "Program," the Bank shall have the right to require the Borrower, the MFPC and the BR to provide explanatory and detailed information in order to determine whether such modification or modifications have, or may eventually have, a substantially adverse impact on the execution of the "Program" or the "Project." Only after hearing the Borrower, the MFPC or the BR and assessing its information and clarifications, may the Bank take such measures as it deems appropriate, in accordance with provisions to be set forth in the loan contract.
 - (b) The Borrower and the Bank shall meet, on the initiative of either party, at least semiannually, on the date and at the location agreed upon, to exchange opinions on: (i) the progress achieved in the execution of the "Program" and of the relevant agreed actions, including compliance with the obligations set forth in paragraphs (c) and (d) of Clause 8 of this resolution; and (ii)

the maintenance of consistency between the macroeconomic policy and program of Colombia and the "Program." For this purpose, the Borrower agrees to submit to the Bank for its review and comments, prior to each meeting, a report in such detail as the Bank may reasonably require on the fulfillment of the obligations referred to in subparagraphs (i) and (ii) above. The Borrower shall submit semiannual reports on the maintenance of consistency referred to in subparagraph (ii) above, beginning no later than March 31, 1991 and until the last disbursement of the financing. The disbursements of the financing shall be subject to the Bank finding that the Borrower has satisfactorily fulfilled the obligations referred to in subparagraphs (i) and (ii) of this Clause.

(c) The Bank shall only authorize disbursement of the second tranche of the financing when:

(i) upon completion of the review referred to in Clause 8(b) above, the Bank is satisfied with the progress achieved by the Borrower in the execution of the "Program" and with the maintenance of consistency between the "Program" and the macroeconomic policy and program of Colombia; and

(ii) the Borrower demonstrates to the satisfaction of the Bank:

(1) regarding the performance plans for decentralized entities: (A) that it is achieving the objectives of the operation of the Performance Plans and Evaluation System (PPES); (B) that the performance plans with the "Instituto de Crédito Territorial" (ICT), the "Instituto de Hidrología, Meteorología y Adecuación de Tierras" (HIMAT), the "Empresa Colombiana de Petróleo" (ECOPETROL) and the "Empresa Nacional de Telecomunicaciones" (TELECOM), are being executed, in accordance with the objectives, activities, goals and timetables agreed upon, or, if this is not the case, that the necessary remedial actions have been taken; and (C) that the "Consejo Superior de Política Fiscal" (CONFIS) has formalized performance plans with four other decentralized institutions which, unless the Bank and the Borrower agree otherwise in advance, shall be: the "Empresa Puertos de Colombia" (COLPUERTOS), the "Instituto de Mercadeo Agropecuario" (IDEMA), the "Corporación Eléctrica de la Costa Atlántica" (CORELCA) and the "Instituto Colombiano de Energía Eléctrica" (ICEL). The Bank shall only agree to substitute institutions to be subjected to performance plans when the institutions and plans proposed to replace them contribute equally, in the opinion of the Bank, towards achieving the objectives of the PPES objectives set forth in the "Program";

(2) regarding the restructuring of the port sector: that it has approved the plan for the restructuring of COLPUERTOS to adjust its functions in a manner consistent with the port sector reform strategy set out in the "Program";

(3) regarding shipping services, that it has: (A) eliminated the restriction on remittances abroad of foreign currency generated by freight revenue of foreign liners; (B) reduced and simplified the procedures to control cargo reserve quotas; and (C) eliminated, or at least reduced to no more than 5%, the cargo reserve quota on total bulk imports;

(4) regarding the privatization program for nationalized banks, that it has: put up for sale, either individually or in merged form the "Banco de los Trabajadores," the "Banco del Comercio" and the "Banco Tequendama"; and

(5) that it has fulfilled at least one of the following three conditions:

(A) the port sector has been restructured in a manner consistent with the objectives set forth in the "Program," which restructuring shall include: (i) separation of operating activities from regulatory ones; and (ii) establishment of conditions for private investors to be able to participate and compete in port operations, including the following: (aa) a uniform tariff regime for operators in the subsector; (bb) the criteria and a standard methodology to determine compensation for the use of public resources and facilities; and (cc) a system for the granting of licenses for investors and port operators;

(B) the low-income housing system has been restructured in a manner consistent with the objectives of the "Program," which restructuring shall include: (i) the elimination of ICT participation in the design, construction and financing of low-income housing; (ii) the elimination of financing for the ICT through forced investments; (iii) preparation of a payment plan for the obligations of the ICT; and (iv) the establishment of an incentive system to promote the participation of the private sector and of nongovernmental organizations in the financing of low-income housing; or

(C) the agricultural marketing system has been restructured in a manner consistent with the objectives set forth in the "Program," which restructuring shall include: (i) in respect of agricultural products currently reserved for exclusive importation by the IDEMA, the establishment of a transparent, automatic system to allow the unrestricted

importation of such products by the private sector; (ii) the conversion of the current importation regime for agricultural products into a variable tariff system based on ranges of prices; and (iii) the revision of the current policy on support (not development) prices for local production.

(d) The Bank shall only authorize disbursements of the third tranche of the financing when:

(i) the review referred to in clause 8(b) of this resolution has been completed and the Bank is satisfied with the progress achieved by the Borrower in the execution of the "Program," and with the maintenance of consistency between the "Program" and the macroeconomic policy and program of Colombia; and

(ii) the Borrower demonstrates, to the satisfaction of the Bank:

(1) regarding the performance plans for decentralized institutions: (A) that it is achieving the objectives of the operation of the PPES; (B) that the performance plans signed are being implemented according to the objectives, activities, goals and timetables agreed upon, or, if this is not the case, that the necessary corrective measures have been taken; (C) that the evaluation system for the managerial levels responsible for execution of the performance plans, together with the related incentive system, have been established and are being applied so as to ensure operation of the PPES in accordance with the objectives set forth in the "Program"; (D) that the evaluation of the managerial levels responsible for execution of the performance plans mentioned in clause 8 (c) (ii) (1) (B) above has been conducted according to the system referred to in subparagraph (C) above; and (E) that CONFIS has signed performance plans with four other decentralized institutions, which, unless otherwise agreed upon in advance by the Bank and the Borrower, shall be: the "Servicio Nacional de Aprendizaje" (SENA), "Interconexión Eléctrica S.A." (ISA), the "Corporación Regional Autónoma del Valle del Río Cauca" (CVC) and the "Instituto de Seguros Sociales" (ISS). The Bank shall only agree to substitute the institutions to be subjected to performance plans when the institutions and plans proposed to replace them contribute equally, in the opinion of the Bank, towards the achievement of the PPES objectives as defined in the "Program";

(2) regarding the restructuring of port operations: that it is implementing the plan for the restructuring of

COLPUERTOS approved under the terms of Clause 8(c)(ii)(2) of this resolution;

(3) regarding shipping services, that: (A) it has defined an action plan for the reform of the institutional and regulatory framework of the sector in order to increase competition therein; and (B) it has taken the initial actions for the execution of said plan, which action must, at least, eliminate or substantially reduce the cargo reserve quotas on general imports;

(4) regarding the program for the privatization of nationalized banks, that it has approved the strategies and action plans for the privatization or, if this is not the case, the restructuring, for the purpose of total or partial sale, of: (A) the "Banco de Colombia;" and (B) the banks put up for sale pursuant to clause 8(c)(ii)(4) of this resolution for which no acceptable offers have been received; and

(5) that it has fulfilled any conditions set forth in subparagraph (c)(ii)(5) above which remain to be fulfilled.

- (e) Resources of the financing may be used to compensate Colombia for foreign currency spent on imports within the six months prior to the date of the loan contract, provided that requirements substantially similar to those set forth in this resolution and in the loan contract have been fulfilled and that the amount does not exceed the equivalent of US\$100,000,000.
- (f) In order to utilize the resources of the financing in the acquisition of goods by either the public or private sector, the system of international public bidding shall have been followed in each case in which the value of such acquisitions exceeds the equivalent of US\$5,000,000. For lower amounts : public sector procurement shall have been carried out according to the normal procedures established by local law to the extent that they do not conflict with the Bank's procurement policies; and private sector procurement shall have been carried out following the established commercial practices applicable to the goods in question. The procurement shall be subject to the procedures to be set forth in an annex to the loan contract.
- (g) The Bank shall establish such inspection procedures as it deems necessary to ensure the satisfactory execution of the "Program" and the "Project," and the Borrower and the Executing Agency shall extend all cooperation which is required for the most effective accomplishment of this purpose. From the amount of the financing the sum of US\$3,000,000 shall be allocated for credit to the general income accounts of the Bank to meet expenses of general inspection and supervision.

- (h) Should any idiomatic discrepancies arise in the interpretation of the Spanish and English versions of paragraphs (c) and (d) of Clause (8) of this resolution, the English version shall prevail. For this purpose, the English version of these Clauses shall be annexed to the loan contract.

PROPOSED RESOLUTION

COLOMBIA. REIMBURSABLE TECHNICAL COOPERATION FOR THE EXECUTION OF
STUDIES AND OTHER SERVICES RELATED TO THE ADOPTION AND IMPLEMENTATION
OF POLICIES AND OTHER ACTIONS REQUIRED FOR THE PUBLIC SECTOR REFORM PROGRAM

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into the agreements necessary and to adopt any other relevant measures for the execution of the plan of operations referred to in Appendix V for technical cooperation with the Government of Colombia for the purpose of assisting the Ministry of Finance and Public Credit in the execution of studies and technical advisory services for institutional strengthening in connection with the adoption and implementation of policies and other required actions for the execution of the PUBLIC SECTOR REFORM PROGRAM.
2. That for the purposes of this resolution, the amount of up to US\$5,000,000 or its equivalent shall be allocated from the ordinary capital of the Bank.
3. That the above amount shall be granted on a reimbursable basis and that the technical cooperation agreement shall be signed on the same date as loan contract /OC-CO.

RECOMMENDATIONS

- A. It is recommended that the following conditions, to be met to the Bank's satisfaction, be included in the loan contract in addition to the conditions set forth in the proposed resolution:
1. The Borrower agrees to submit to the Bank, through the BR, within 60 days after the date of each disbursement request, a report containing data that will enable the Bank to ascertain whether the goods which served as the basis to support the corresponding disbursement request were eligible for financing with the loan proceeds.
 2. Disbursements may not be made with the resources of the financing for the following:
 - (a) imports of goods included in the categories or subcategories of the Standard International Trade Classification ("SITC") listed in paragraph V of Appendix IV;
 - (b) expenses in Colombian pesos or for goods from Colombia;
 - (c) imports of goods procured by contract or purchase order the value of which is less than the equivalent of US\$10,000;
 - (d) imports of goods that have medium- or long-term financing in foreign currency; and
 - (e) imports of luxury goods;
 - (f) imports of weapons; and
 - (g) imports of other goods for the use of the armed forces.
 3. The statements of accounts of the imports financed with the resources of each loan tranche, during execution of the "Project," shall be submitted to the Bank within 5 months after the final disbursement of each tranche audited by independent auditors acceptable to the Bank.
 4. Technical Cooperation Agreement ATR/OC -CO shall be signed on the same date as the loan contract.
- B. The loan contract shall contain annexes substantially similar to Appendix IV (The "Program" and the "Project") and Appendix VI (Procurement Procedure).

THE "PROGRAM" AND THE "PROJECT"
(Annex A to the Loan Contract)

I. PURPOSE OF THE "PROGRAM"

- 1.01 The purpose of the "Program" is to support public sector reforms, the specific objectives of which are to improve public sector productivity, to provide efficient services and to ensure that the specific sector policies and operations of decentralized institutions are compatible with medium-term macroeconomic goals. The "Program" includes activities and institutional reforms to rationalize the organization and administration of the public sector and to promote the competitiveness and development of the private sector.

II. THE "PROJECT"

- 2.01 The "Project" consists of a group of eligible imported goods acquired by the public and private sectors of Colombia. The eligibility criteria for these goods are set forth in Recommendation A.2 of Appendix III.

III. FINANCING

- 3.01 The Bank will finance up to the equivalent of US\$300,000,000 in foreign currency from the ordinary capital (OC), and the International Bank for Reconstruction and Development (IBRD) will finance US\$300,000,000 in foreign currency. The Bank resources will be fast-disbursing, and will be disbursed in three tranches of US\$100,000,000 each.

IV. USE OF THE RESOURCES

- 4.01 The resources of the loan will be used to: (a) reimburse 100% of the cost in foreign currency of eligible imports, in the amount of up to the equivalent of US\$297,000,000; and (b) cover the expenses of general inspection and supervision, in an amount up to the equivalent of US\$3,000,000.

V. NEGATIVE LIST

- 5.01 The goods referred to in Recommendation A.2(a) of Appendix III are those included in the following categories or subcategories of the Standard

International Trade Classification of the United Nations ("SITC")¹, including any amendments that may be made to such categories or subcategories, of which the Bank shall advise the Borrower:

<u>Category</u>	<u>Subcategory</u>	<u>Description of the goods</u>
112		Alcoholic beverages;
121		Tobacco unmanufactured, Tobacco residue;
122		Tobacco, (whether or not containing tobacco substitutes);
525		Radioactive and associated materials;
667		Pearls, precious and semi-precious stones, worked or unworked;
718	718.7	Nuclear reactors and parts thereof; fuel elements (cartridges) non- irradiated for nuclear reactors;
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems);
971		Non-monetary gold (except gold ore and concentrates).

VI. PROCUREMENT

- 6.01 All procurement of eligible imported goods shall have been carried out in a manner that allows for the free competition of goods originating in the member countries of the Bank. Accordingly, no conditions shall be imposed in the acquisition procedures or bidding conditions that might limit or restrict the offer of goods from those countries.

¹See Standard International Trade Classification of the United Nations, revision 3 (SITC, Rev. 3), published by the United Nations in "Statistical Papers", Series M, No. 34/Rev. 3 (1986).

REIMBURSABLE TECHNICAL COOPERATION
FOR THE EXECUTION OF STUDIES AND OTHER SERVICES RELATED TO THE
ADOPTION AND IMPLEMENTATION OF POLICIES AND ACTIONS REQUIRED
FOR THE PUBLIC SECTOR REFORM PROGRAM

I. SUMMARY OF MAIN DATA

A. Amount and financing

- 1.1 Total cost: The technical cooperation will have a total estimated cost of US\$9,000,000. The International Bank for Reconstruction and Development (IBRD) will finance the equivalent of US\$4,000,000. The Government of Colombia will provide the logistical support necessary for the execution of the Technical Cooperation.
- 1.2 Financing of the Bank: The Bank's financing shall be for an amount up to US\$5,000,000.
- 1.3 Terms of the loan: The Bank's financing shall be amortized in a 20-year period, including a 5-year grace period. The current terms and amounts in effect for loans from ordinary capital resources will be applied with regard to interest, credit commission and inspection and supervision fee.

B. Categories eligible for financing

- 1.4 Consulting services: The Government will contract several consulting firms and individual consultants for the execution of studies and provision of advisory services, in accordance with Bank procedures for this type of contracting, which will be set forth in an Annex to the Technical Cooperation Agreement.
- 1.5 Systems: The development of data processing systems, including the acquisition and installation of equipment and programs, and technical training for their operation. The acquisitions for this category will be carried out in accordance with Bank procedures for this type of contracting, which will be set forth in an Annex to the Technical Cooperation Agreement.
- 1.6 In the selection and contracting of consulting services and in the acquisition of equipment and programs financed, in whole or in part, with resources of the Technical Cooperation, no conditions may be established that would restrict or prevent the participation of consultants from member countries of the Bank.

C. Periods for execution of the Technical Cooperation

- 1.7 Period for commitment of the resources: The resources of the Bank's financing must be committed in contracts for consulting services or for the acquisition of goods within two years after the date of the Agreement.
- 1.8 Period for execution of the Technical Cooperation: The period of execution shall be three years after the date of the Agreement.
- 1.9 Disbursements: The period for the last disbursement of the Bank's financing shall expire 39 months from the date of the Agreement, and the period for the presentation of the final disbursement request shall expire 36 months from said date. Disbursements will be made according to the procedures set forth in the Technical Cooperation Manual of the Bank.

D. Responsibility within the Bank

- 1.10 Basic responsibility: DPL/SLP.
- 1.11. Technical responsibility: Project Team.
- 1.12 By delegation of DPL/SLP or the Project Team, the Field Office in Colombia will attend to administrative matters regarding the studies, advisory services and acquisitions.

II. OBJECTIVE

- 2.1 The objective of the proposed Technical Cooperation is to conduct studies, provide technical advisory services and implement their results, including technical systems, for the purpose of increasing the efficiency of public sector management, developing its institutional capacity and increasing competition in the Colombian economy.

III. DESCRIPTION

- 3.1 During preparation and analysis of the "PUBLIC SECTOR REFORM PROGRAM," it was agreed with the Colombian authorities that there was a need to conduct studies on various sectors of the economy and to support the work of the CONFIS in establishing and evaluating performance plans with public entities. Among the sectorial matters requiring analysis and development, the following have been identified:

(a) to be financed by the IBRD:

(i) rationalization of staff and salaries in the public sector;

- (ii) identification, quantification and evaluation of the current levels and beneficiaries of the subsidy policy;
 - (iii) restructuring of IDEMA, which is in charge of food importation and marketing;
 - (iv) strategy for the possible sale of "Banco de Colombia;"
 - (v) information system for HIMAT, in compliance with the objectives pursued in its performance plan; and
 - (vi) technical assistance for the preparation of performance plans for the public entities to be subjected to the PPES;
- (b) to be financed by the Bank:
- (i) definition of criteria and levels for the tariffs applicable to the railroad infrastructure, in order to establish tolls to be charged by FERROVIAS to semipublic or private enterprises making use of said infrastructure;
 - (ii) definition of mechanisms to implement the policy of opening the ports sector to the private sector and for the restructuring of COLPUERTOS;
 - (iii) revision of the cargo reserve protection system in the shipping sector, with the objectives of assessing the impact of the recent reduction in the reserve quotas and promoting competition;
 - (iv) formulation and implementation of a cost accounting system for TELECOM;
 - (v) formulation and implementation of a cost accounting system for ECOPETROL; and
 - (vi) studies, technical advisory services and strengthening of the CONFIS in the operation of the PPES.

3.2 Additionally, at least two areas in which technical advisory services must be provided in support of the "Program" have been identified, as follows: (i) formulation and implementation of a computerized system for CONFIS to collect, process and analyze financial and statistical information from public entities, including the provision of the necessary computer equipment, to be financed by the IBRD; and (ii) support for the Ministry of Communications, training its staff and adjusting its functions and equipment, in order to ensure quality control of the services provided and an adequate process in the recently approved opening to competition in telecommunication services, to be financed by the Bank.

- 3.3 The studies, systems and technical advisory services described in the above paragraphs must be undertaken as soon as possible, since their results will be needed for the adoption of decisions by the Government in order to, inter alia, comply with the conditions agreed upon with the Bank for authorization of the disbursements of the second and third tranches of sector loan/OC-CO. In addition, it is expected that the Government will require that other studies be initiated to execute the policy of opening the economy, to increase efficiency in public sector management and to develop the competitiveness of public entities, as well as to facilitate greater participation by the private sector.

IV. EXECUTION

- 4.1 The executing agency of the Technical Cooperation will be the Ministry of Finance and Public Credit (MFPC).
- 4.2 The CONFIS advisors, in coordination with the National Department of Planning (NDP), the respective ministries and, as appropriate the corresponding public entities, will be responsible for preparing the terms of reference, specifications and other documentation, for each study, technical advisory service or acquisition, and for contracting, executing and supervising the technical advisory services for the preparation of the performance plans for decentralized entities under the PPES.
- 4.3 The NDP, in coordination with the CONFIS advisors, the respective ministries and, as appropriate, the corresponding public entities, will be responsible for the preparation and execution of the following components of the Technical Cooperation:
- (a) definition of criteria and tariff levels for the railroad infrastructure sector;
 - (b) definition of mechanisms to implement the policy of opening the ports sector to private operators and for the restructuring of COLPUERTOS;
 - (c) cost accounting system for TELECOM;
 - (d) revision of the cargo reserve protection system in the shipping sector;
 - (e) technical assistance for the Ministry of Communications to ensure quality control and the process of opening to competition in telecommunication services; and
 - (f) cost accounting system for ECOPETROL.
- 4.4 All documentation related to execution of the Technical Cooperation will be submitted to the Bank by the MFPC. Once the Bank's "non-objection" has been obtained, the processes of consultant

selection or procurement of goods will be initiated. These processes will be carried out in accordance with Bank regulations which will be set forth in Annexes to the Technical Cooperation Agreement. The MFPC and NDP, as applicable, will be technically responsible for the studies and other components of the Technical Cooperation, and will be in charge of selecting, subject to the Bank's approval, and supervising the corresponding contracts. The MFPC will keep a registry and a control log, from which the information recorded must be included in the semiannual reports to be submitted to the Bank.

- 4.5 Disbursement requests will be prepared by the MFPC, which must ensure that the resources are applied in accordance with the purposes set forth in the requests. The MFPC will also keep records and financial statements on the Technical Cooperation and will contract external auditors to submit to the Bank the annual report on the audited financial statements, according to procedures established by the Bank for this purpose.
- 4.6. A special account, denominated in United States dollars, will be opened in the "Banco de la República," in which the resources of the Technical Cooperation will be deposited, including those disbursed as an advance, which at the request of the MFPC may be made for an amount up to the equivalent of US\$500,000, and may be replenished as the MFPC presents the corresponding justifications to the satisfaction of the Bank. Disbursements chargeable to this account will be authorized by the MFPC.
- 4.7. The MFPC will be responsible for submitting to the Bank any reports the Bank may reasonably request.

V. REPORTS

- 5.1 The Government of Colombia, through the MFPC, will submit to the Bank copies of the following reports:
 - (a) those presented by the consultants in accordance with their respective contracts;
 - (b) semiannual reports on the progress of the activities of the Technical Cooperation, beginning six months after the date of the Agreement;
 - (c) any additional reports reasonably requested by the Bank; and
 - (d) annual financial reports, detailing the expenses of the Technical Cooperation, audited by independent auditors acceptable to the Bank.

VI. COSTS

- 6.1 The total cost for the studies, advisory services and technical systems envisioned in this operation is estimated at US\$5,000,000. Below is a summary of the estimated costs:

<u>Studies</u>	<u>Estimated Costs</u> (US\$)
1. Costs and tariff rates and review of the investment program for the Colombian railway system	200,000
2. Development of the institutional framework of the port sector	400,000
3. Studies, advisory services and strengthening for CONFIS in the operation of the PPES	400,000
4. Revision of the cargo reserve protection system	400,000
5. Authorization and control system for telecommunications services	1,200,000
6. Cost accounting system for TELECOM	600,000
7. Cost accounting system for ECOPETROL	1,000,000
8. Others	800,000

TOTAL	5,000,000

TENDER PROCEDURES FOR SECTOR
ADJUSTMENT OPERATIONS

(Public Sector Reform Program)

I. APPLICABILITY

- 1.01 This procedure shall govern all procurement of eligible goods connected with the "Project," whether carried out by the public or private sector. Procurement shall only be for goods imported from member countries of the Bank, as stipulated in paragraph 2.01(b).

II. PUBLIC SECTOR PROCUREMENT AMOUNT ABOVE THRESHOLD

- 2.01 The procurement of goods carried out by public sector entities ¹ (hereinafter referred to as "tendering entity") in amounts greater than the equivalent of US\$5 million, must comply with the following requirements in order to be eligible for disbursements under the sector adjustment programs:

(a) International public bidding

The system of international public bidding shall be used. The procedures and specific requirements for the bidding shall permit the unrestricted competition of bidders from the member countries of the Bank. Consequently, no conditions that would limit or restrict the offer of goods or the participation of bidders from such countries may be imposed.

(b) Origin of goods

Only imported goods from member countries of the Bank will be eligible. The origin of a good shall be:

- (i) the country in which the material and/or equipment has been mined, grown, produced, manufactured or processed; and
- (ii) the country in which, through manufacturing, processing or assembly, another commercially recognized article results which differs substantially in its basic characteristics from any of its imported components. The nationality or

¹This sector includes enterprises or other institutions in which state participation is greater than 50% of the capital.

country of origin of the firm producing or selling the goods or equipment shall not be considered in determining the origin of such goods.

(c) Notices of the call to bid and invitations to bid

Calls to bid published in the press must specify, at a minimum, the following information:

- (i) exact description of the goods for which the call for bids is being held;
- (ii) the office or place, date and time at which the bidding documents, including the bidding guidelines, plans, specifications, and draft contracts may be obtained;
- (iii) the office where the bids are to be delivered and the authority responsible for their approval and award; and
- (iv) the place, date and time at which the bids will be opened in the presence of the bidders or their representatives.

(d) Publicity

The call for bids shall be:

- (i) published in at least one of the most widely circulated newspapers in the country on at least three separate occasions. There must be a space of at least three calendar days between each of the three public notices; and
- (ii) published in a journal or specialized newspaper with wide international circulation; or in the United Nations journal entitled Development Business; or distributed to the embassies of the member countries. To that effect, the tendering entity shall deliver copies of the invitation to bid on the same date as the invitation is delivered to the national newspapers for publication. If there are no embassies, it shall be delivered to the respective consulates.

(e) Clarity of the documents

The bidding documents prepared by the tendering entity must be coherent and comprehensive. Particular care must be taken to ensure that the goods to be supplied are described with sufficient clarity and in sufficient detail. The cost of such documents must be reasonable.

(f) Free access to the tendering entity

The tendering entity shall be available, once the bidding documents have been collected by bidders and up to the time the bids are opened, to answer questions or clarify the bid documents for bidders. These inquiries shall be answered promptly by the tendering entity, and clarifications, if any, made available to other interested parties.

(g) Standards of quality

If particular standards with which equipment or materials must comply are cited, the specifications should state that goods meeting other authoritative standards, which ensure an equal or higher quality than the standards mentioned, will also be accepted.

(h) Specifications for equipment: brand names

Descriptions contained in specifications should not prescribe brand names, catalog numbers or types of equipment of a specific manufacturer unless it has been determined that this is necessary to ensure inclusion of certain essential design, performance or construction features. In such a case the reference should be followed by the words "or equivalent," and a measure to determine the "equivalence" included. The specifications should permit offers of alternate equipment, articles or materials which would have similar characteristics and provide equal performance and quality to those specified. In special cases with previous approval of the Bank, specifications may require that a proprietary item be supplied.

(i) Currency Clause

The bidding documents should state the currency to be used in payment.

(j) Bid bonds

Bid bonds or other tender guarantees, if any, should not be set so high ² or their validity stretched out over long periods, as to discourage suitable bidders from tendering. Bid bonds shall be returned as follows:

²Some bidding practices limit the amount of the bid bonds (tender guarantees) to 1% of the price of the contract. Others recommend that the agencies calling for bids set a fixed price in cash for all bidders instead of requiring the bidder to base his guarantee on a given percentage of the value of his bid. This is to avoid undue publicity of the price of each tender prior to the opening of the bids, should the amount of the guarantee or bid bond become public knowledge.

- (i) to the winning party once the contract is executed;
- (ii) to the second- and third-place bidders within a term of no more than three months from the date of the award or upon execution of the contract, if the latter occurs prior to such deadline. Nevertheless, if such bidders indicate lack of interest, the bond shall be returned within five days following the award;
- (iii) to other bidders within five days following the award.

(k) Deadlines for submission of bids

The deadline for submitting bids shall not be less than 45 calendar days from the date of the last publication of the invitation to bid or the date of availability of bidding documents, whichever is later.

(l) Confidentiality of bids

The officers in charge of receiving the envelopes containing bid registration forms shall verify that such envelopes are delivered properly sealed. These envelopes shall be kept in a safe place until the date set for their opening. Once opened, no copies shall be taken of these documents. Except as may be required by law, information relating to the examination, tabulation, clarification and evaluation of bids and recommendations concerning awards, may only be communicated to officials of the tendering entity officially concerned with the respective bidding procedures, after the public opening of bids and before the announcement of the award of contract to the successful bidder.

(m) Modification or extension of the bidding documents

Any modification or extension of the bidding guidelines, specifications, or the filing date must be communicated to all interested parties who are in possession of the bidding documents. In the event that such modification or extension is substantial, in the opinion of the tendering entity, there must be an interval of at least 30 calendar days between the date of notice to interested parties and the date bids are opened.

(n) Consultations should not modify the bidding documents

Consultations on the interpretation of bidding documents addressed to the tendering entity by interested parties may not be used to modify or expand the bidding guidelines and specifications. Consultations and replies thereto shall in no case cause a suspension of the term for presentation of bids.

(o) Opening of bids

Offers shall be submitted in writing in sealed envelopes. They must be signed by the legal representatives of the bidders and comply with the prerequisites set forth in the bidding documents. They shall be opened in public on the scheduled date and hour. Representatives of the bidders may attend the bid opening and shall be entitled to inspect the bids. Bids received after the filing date shall be returned unopened. The names of the bidders, the price of each bid, the term and amount of guarantees, and any substantial change submitted separately, before the deadline but after the principal bid is submitted, shall be read aloud. All of the above shall be recorded in the proceedings, which shall be signed by the representative of the tendering entity and by any bidders present who so desire.

(p) Clarification of bids

The tendering entity may request clarifications from the bidders with respect to their tenders. Clarifications requested or given shall not alter the essence of the offer or its price, nor shall they violate the principal bidder equality.

(q) Analysis and comparison of bids

(i) Purpose

Bids shall be analyzed and evaluated to determine whether they comply with the terms and conditions stipulated in the bidding documents, and the value of each bid shall be fixed for the purpose of awarding the winning bid.

(ii) Lowest evaluated bid

In addition to the bid price adjusted to correct arithmetical errors, the tendering entity may also consider other relevant factors in determining the lowest bid.

(iii) These factors should be expressed in monetary terms or, as a minimum, given a relative weight according to criteria specified in the bidding documents. No criteria may be used in bid evaluation that are not set forth in the bidding documents. The amount of escalation for price adjustments, if any, included in the bids should not be taken into consideration.

(iv) The currency or currencies in which the price offered in each bid would be paid if that bid were accepted, should be valued in terms of a single currency selected by the tendering entity for comparison of all bids and stated in the bidding documents. The rates of exchange to be used in such valuation should be the selling rates published by an

official source, and applicable to similar transactions on the day bids are opened or at such later date (30 or 60 days after bid opening) as shall be specified in the call for bids.

(v) Regional margin of preference

The following regional margin of preference may be applied in the comparison of bids:

Where suppliers of a country (other than the country of the borrower) that is a party to an integration agreement,³ to which the country of the borrower is also a party, participate in such bidding, such suppliers of goods are entitled to a regional margin of preference utilizing the following criteria:

- (1) Goods shall be considered to be of regional origin if they originate in countries that are parties to an integration agreement to which the borrower is also a party and comply with the standards governing origin and other matters relating to trade liberalization programs established in the respective agreements;
- (2) The value added is not less than that stipulated for the national margin of preference; and
- (3) In comparing foreign offers the borrower may add to the price offered for goods originating in countries not parties to the respective integration agreement, either 15% or the difference between the import duty applicable to such goods when they originate in countries not parties to the integration agreement and that which is applicable to those goods when they originate in countries which are parties to the agreement, whichever is lower.

(vi) Rejection of bids

The tendering entity shall reject all bids where no bids meet the intent of the specifications, or where there is evidence of lack of competition and/or collusion. The tendering entity may reject all bids if the low bids exceed

³For purposes of this provision, the Bank recognizes the following regional or subregional integration agreements: (i) Central American Common Market; (ii) Caribbean Community; (iii) Cartagena Agreement; and (iv) Latin American Integration Association. If the country where the borrower is located has signed more than one integration agreement, either the subregional margin of preference or the regional margin of preference may apply depending on the country of origin of the article to be procured.

the official estimate by an amount sufficient to provide reasonable justification for such action. In such cases, new bids should be requested from at least all who were invited to submit bids in the first instance and a reasonable amount of time should be allowed for the submission of the new bids. In the absence of a 100% performance bond, individual bids may be rejected in cases where the particular bid is so much lower than the official estimate that it is reasonable to conclude that the bidder will not be able to complete the works or supply the product within the specified time at the price offered.

(vii) Bid evaluation report

The tendering entity shall prepare a detailed report on the analysis and comparison of bids, describing precisely the reasons for selection of the lowest evaluated bid.

(r) Award of contract

The award shall be made to the bidder whose responsive bid has been determined to be the lowest evaluated bid.

(s) Notification of award and signature of the contract

The tendering entity shall notify all bidders of the award at the addresses they have provided within three working days after the date of the award. The contract to be signed shall not modify the winning bid or the terms and conditions stipulated in the bidding documents.

(t) Modification of the award

If for any reason the winning bidder does not sign the contract within the period set for that purpose, the tendering entity may award it, without a new invitation to bid, to the next lowest responsive bidder.

(u) Bidding declared null and void

The tendering entity may, on reasonable grounds, declare the bidding null and void.

(v) Effects of the declaration

Once the bidding is declared null and void, the tendering entity shall issue a second invitation to bid following the provisions set forth in this procedure. If the second bidding is declared null and void, the tendering entity shall establish the procedure to be followed for the procurement involved.

(w) Due process

This procurement procedure must guarantee the legal protection of bidders, establishing the right of administrative and judicial review.

III. PUBLIC SECTOR PROCUREMENT AMOUNTS BELOW THRESHOLD

- 3.01 The procurement of goods carried out by the public sector in amounts less than the equivalent of US\$5 million, must comply with the following requirements in order to be eligible for disbursement under sector adjustment programs:
- (a) It must be carried out in accordance with the procedures prescribed under local law.
 - (b) When such procedures require public bidding, the latter must be acceptable to the Bank, and must therefore satisfy the general principles and provide the guarantees established under Chapter II of this Procedure.

IV. PRIVATE SECTOR PROCUREMENT

- 4.01 In order to be eligible for disbursement, the procurement of goods by the private sector:
- (a) for contracts whose amounts are above US\$5,000,000, public international bidding shall be required pursuant to the terms specified in Section 2.01 of these procedures; and
 - (b) for contracts whose amounts are less than US\$5,000,000, purchases shall be made following established commercial practices.

V. SUPERVISION BY THE BANK

- 5.01 The Bank reserves the right to conduct ex post supervision of the different stages and documents of each procurement connected with the Project, after the contract has been signed with the respective winning bidder. For this purpose, the borrower agrees to provide the Bank with all the documentation it may require regarding the procurement to be supervised. The Bank reserves the right not to make disbursements for goods which have been procured without complying with the regulations prescribed in this Procedure.

VI. REIMBURSABLE IMPORTS

- 6.01 In order to be eligible for disbursement under the project, all procurement of goods must:
- (a) have been carried out according to the regulations of this Procedure; and

- (b) have been carried out for goods not included in the categories of goods whose import the borrower and the Bank have agreed to exclude from the financing, as stipulated in Annex A of this Contract.