

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

COMPETITIVENESS ENHANCEMENT PROGRAM

(CO-L1007)

LOAN PROPOSAL

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ANNEXES

Annex I Policy matrix

Proposed resolution

Electronic Links and References

Basic Socioeconomic Data	http://wbln0018.worldbank.org/lac/lacinfoclient.nsf/1daa46103229123885256831005ce0eb/3f5d6914415e782985256b1f005aa6c5/\$FILE/Colombia.pdf
Loan portfolio in execution	http://opsgs1/Cartera/LoanPortfolioInExecutionDates.asp?Country=CO&Language=EN
Information available in the RE3/FI3 technical files	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=752522
Annex II. Evidence of fulfillment of conditions precedent	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=756931
Annex III. Matrix of expected outcomes and their indicators	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=756934
Annex IV. Policy letter	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=756937
Annex V. Macroeconomic situation and vulnerabilities	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=752529

ABBREVIATIONS

APTDEA	Andean Trade Promotion and Drug Eradication Act
BCI	Business Climate Initiative
CAF	Andean Development Corporation
CESI	Committee on Environment and Social Impact
CONFIS	National Council on Fiscal Policy
CONPES	National Council on Economic and Social Policy
DANE	National Department of Statistics
DIAN	National Customs Service
DNP	National Planning Department
FTA	Free trade agreement
FTAA	Free Trade Area of the Americas
GRAT	Procedures Rationalization and Automation Group
ICTs	Information and communications technologies
IMF	International Monetary Fund
INVIMA	National Food and Drugs Surveillance Institute
MCIT	Ministry of Trade, Industry and Tourism
MEN	Ministry of National Education
MHCP	Ministry of Finance
MPS	Ministry of Social Protection
PBL	Policy-based loan
PND	National Development Plan
PSDS	Private Sector Development Strategy
SENA	National Apprenticeship Service
SIC	Superintendency of Industry and Trade
SNFT	National Job Training System
SPS	Sanitary and phytosanitary measures
SUIGP	Standardized Project Information and Management System
TC	Technical cooperation
USAID	United States Agency for International Development
VAT	Value-added tax
VUCE	Single Window for Foreign Trade
WB	World Bank
WEF	World Economic Forum

PROJECT SUMMARY

COLOMBIA COMPETITIVENESS ENHANCEMENT PROGRAM (CO-L1007)

Financial Terms and Conditions ¹				
Borrower: Republic of Colombia		Amortization period:		20 years
Executing agency: National Planning Department (DNP)		Grace period:		5 years
Source	Amount	%	Disbursement period:	Max. 12 months
IDB (Ordinary Capital)	US\$200 million	100	Interest rate:	Variable
Local	US\$0		Inspection and supervision fee:	0%
Other/Cofinancing	US\$0		Credit fee:	0.25%
Total	US\$200 million	100	Currency:	U.S. dollars
Project at a glance				
Project objective: <p>The general objective of the program is to help boost the country's competitiveness by reducing bureaucratic, legal, regulatory and institutional barriers to international trade and business development. The specific objectives are to strengthen the institutional framework for implementing the <i>Domestic Agenda for Productivity and Competitiveness</i>, and to improve the climate for competitiveness through targeted interventions.</p>				
Special contractual conditions: <p>The conditions precedent to disbursement of the proposed programmatic loan represent a combination of: (i) the significant progress that the country has already made in its reform program to make the economy more competitive; and (ii) subsequent steps that will further strengthen institutional capacities and legal and regulatory frameworks in order to produce a business climate that is more transparent and predictable (See Annex I, Policy Matrix)</p>				
Exceptions to Bank policies: <p>None.</p>				
Project consistent with country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Project qualifies as: SEQ <input type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/>				
Procurement: See paragraph 3.4 Verified by CESI on: The operation was submitted to CESI on 27 January 2006 (Meeting 04-06).				

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

- 1.1 The Government of Colombia has asked the Bank to provide the first of two programmatic policy-based loans (PBLs) to help improve the country's competitiveness. The second loan will be negotiated after certain agreed triggers have been achieved (see Chapter II). The Government has a policy of opening the economy internationally, and has identified areas for improvement in the legal, regulatory and institutional framework that will help businesses become more competitive and integrate themselves more sustainably into world markets. The program is structured to address these areas of improvement in a coordinated manner with other initiatives now under way toward the same goal. It is designed to help institutionalize the process of building public-private consensus on competitiveness issues, and of renewing and adjusting that consensus continuously. In light of the recent elections, the use of a programmatic PBL will allow realistic reform targets to be established with the current administration and lay the basis for policy dialogue and preparation of the second operation with the next administration, which will take office some time after 7 August.

A. Socioeconomic framework

- 1.2 In recent years, Colombia's macroeconomic performance has been good, and it has met all the targets of its standby program with the International Monetary Fund (IMF). GDP grew by 4.1% in 2003, 4% in 2004, and 5.1% in 2005. In 2005, inflation stood at 4%. Political stability and lower levels of violence helped to cut the country risk perception in 2005. Also, the stock exchange index has risen by more than 100% between late 2004 and early 2006, with levels down in recent months. Exports rose by 18.9%, in dollar terms, during 2005, somewhat below the pace achieved in 2004 (24.7%). Investments in capital goods continue to rise, laying the basis for sustained economic growth. The **central government deficit**¹ continues to be high and this has translated into a steadily rising debt burden. At the end of 2005, the central government's debt stood at 50.2% of GDP (17.7% external debt, 32.5% domestic debt²). Nevertheless, liquidity in the local financial market has allowed the government to pursue a strategy for improving the repayment profile of its short-term debt through currency swaps and rescheduling. The 2006 Financial Plan of the National Council on Fiscal Policy (CONFIS) anticipates financing of US\$7.469 billion,³ of which US\$6.217 billion is in local currency⁴ and

¹ Deficits in 2003, 2004 and 2005 were equivalent to 5%, 5.5%, and 5.1%, respectively, of GDP (source: CONFIS).

² Source: Ministry of Finance "Debt Profile".

³ This financing will cover the 2006 deficit of US\$6.872 billion, equivalent to 5.2% of GDP, plus US\$597 million for restructuring the financial system.

⁴ The local currency financing is being made available through the issuance of US\$3.343 billion in fresh funding in 2006, US\$2.762 billion in prefinancing in 2005, and US\$112 million from other minor sources.

US\$1.252 billion in net foreign currency. Gross foreign financing of US\$1.765 billion has been programmed with multilateral bank resources (disbursements less amortization of principal and interest).⁵ The proposed programmatic loan will contribute approximately 11% to the country's external financing. External debt payment for the years from 2006 to 2010 are projected to grow steadily to US\$2 billion, whereas internal debt payments will fall to approximately US\$4.2 billion. In managing its debt, one important feature will be the availability of fast-disbursing financing from the Bank and other multilateral financial institutions to minimize volatility and risk.

- 1.3 **The sustainability of the debt** depends on GDP growth, prudent deficit management, and continuous access to financial markets. If current assumptions of GDP growth and revaluation of the peso materialize, together with a slight reduction in the deficit, public debt is projected to drop from 47.8% of GDP in 2005 to 39.8% in 2010, with an ensuing decline in financing requirements from 4.4% in 2004 to 2.8% in 2010. However, an increase in internal or external interest rates, a devaluation of the peso, and/or an exogenous shock that interrupts access to foreign markets could upset these projections, and consequently the sustainability of the debt.⁶

B. The country's competitiveness position

- 1.4 According to the most widely recognized indices, Colombia ranks ahead of nearly one half of the economies surveyed worldwide. The Growth Competitiveness Index (GCI) contained in the Global Competitiveness Report 2005/2006 published by the World Economic Forum (WEF) places Colombia 57th among 117 countries (49th percentile) in 2005. In comparative terms, Colombia's 2005 ranking is substantially lower than that of Chile (23), but comparable to Mexico (55), ahead of Brazil (65) and Peru (68), and far above the standing of Ecuador (90). In recent years Colombia has performed well, moving up in relative terms from the 90th percentile during the crisis of the late 1990s to the 49th percentile in 2005. This recovery can be attributed in part to its macroeconomic stability and to improvements in the financial system. Based on the WEF findings and other international rankings, as well as its own studies, the National Planning Department (DNP) published a discussion paper in August 2005, entitled *Visión Colombia II Centenario: 2019* ("Vision of Colombia for the Second Centenary", or "*Visión II*"), offering a

⁵ Following is an explanation of the difference between gross and net foreign currency financing: **net** financing of US\$1.252 billion is equal to gross financing of US\$1.765 billion less net amortization of foreign currency denominated bonds of US\$513 million, less an US\$11million reduction in debt with international commercial banks plus net borrowing in other accounts of US\$13 million (see tables 12 and 13 of the CONFIS "Revisión Plan Financiero"; 18 January 2006).

⁶ See report "Colombia: Macroeconomic situation and vulnerabilities" prepared by OD5 in June 2006 (Annex V).

comprehensive analysis of the country's current situation and its goals for the future.

- 1.5 According to the WEF, *Vision 2019*, and other government studies, the principal factors that affect Colombia's competitiveness are: (a) the higher cost of doing business, because of violence and crime; (b) the costly taxation system; (c) governance and transparency issues; (d) the quality and quantity of the stock of economic infrastructure; (e) access to financing; (f) bureaucratic inefficiency; (g) shortcomings in the vocational training system; (h) access to international markets; (i) the low level of information technology development; and (j) the informal nature of much of the business sector.
- 1.6 In order to establish the **context for the proposed competitiveness program** and the role of the Bank in improving the country's competitiveness, the rest of this section B is devoted to an analysis of the main obstacles facing Colombia, and the progress it has made to date. Sections C, D and E present the strategy of the country, the Bank, and the program in light of past experience and future challenges. Section F discusses the Bank's previous involvement in sectoral reforms and the lessons learned, while section G describes the complementary programs of the Bank and other international agencies. Table 1 at the end of the chapter summarizes the main obstacles to competitiveness, the government's initiatives to overcome them, steps by international agencies to support the government, and the complementary targets of the proposed competitiveness program.
- 1.7 **The security situation.** One of the main factors raising the cost of doing business in Colombia is the level of violence and crime, which is closely linked to illegal activities such as drug trafficking. Although this remains a serious problem, it must be recognized that the Colombian government has been making significant progress. The homicide rate fell by 40% between 1991 and 2004; there were only a third as many kidnappings in 2004 as there were in 2000; terrorist attacks and assaults on population groups have declined by some 40%, and bank robberies, vehicle thefts and land piracy have dropped by 28%, on average, over the last four years. There have also been major improvements in promoting alternative crops and in reducing the number of displaced persons. These improvements have been achieved by augmenting and strengthening the security forces and asserting greater government control over the territory, together with an intensive program of demobilization and social reintegration of armed rebels, and a drastic cutback in illegal crops. The Bank has supported this process with programs for citizen security and peaceful coexistence (CO-0213) and for social infrastructure and municipal management for peace (CO-0234).
- 1.8 **The tax system.** Taxation rates in Colombia are high. The corporate income tax rate for 2003 was 38.5%, higher than in any other country in the region. The current tax system also suffers from distortions: a great number of individuals and certain economic sectors are exempt, and there are many temporary surtaxes. The Value-

Added Tax (VAT) has too many different rates, and many goods are exempt. Parafiscal or quasi-tax charges, which include contributions for pensions, health, vocational training and family welfare, represent a payroll cost of approximately 9% and are among the highest in Latin America, which makes it difficult for firms in the formal sector to compete with those elsewhere in the region. With the support of USAID, the national government is now taking steps to make the tax system more efficient and more effective, and is moving towards an overhaul of the tax structure. The proposed PBL will support an assessment of the use of parafiscal revenues for services to businesses.

- 1.9 **Governance and transparency.** Although Colombia enjoys political stability and has solid institutions, it needs to improve such areas as law enforcement, regulatory consistency, transparency in government procurement, and efficiency in public expenditure management.⁷ Colombia has made great strides in controlling corruption, in making government more effective, in establishing the rule of law, and in making property rights and contracts enforceable. Yet the country's geography is a barrier to maintaining an effective government presence. Under way is a MIF program to evaluate democratic governance in support of these measures (RG-M1071). The Government of Colombia has identified measures for improving the efficiency and transparency of public administration by strengthening internal control systems, simplifying procedures, and making use of the Internet for greater transparency and outreach. Similarly, it recognizes the need to provide stronger protection for property rights. The PBL will promote use of the Internet for broad public access to government procedures.
- 1.10 **Quality and quantity of economic infrastructure.** Economic infrastructure (transportation, energy and telecommunications) has a direct impact on growth and on productivity. Energy and telecommunications coverage in Colombia is above average for Latin America, and the country's roads, electricity, telecommunications and basic sanitation services are respectable for its level of development. Yet there is considerable scope for improving road infrastructure, in comparison with other countries in the region, especially with respect to paved roads, and multimodal transport is still in its infancy. Colombia's transportation infrastructure has seen major improvements through the involvement of private capital in the construction, operation, rehabilitation and maintenance of new and existing facilities, and the consequent improvement in roads, ports and airports. The government has focused its strategies on integrating the domestic transportation network and linking the country's main distribution and consumption centers, by encouraging the use of different modes of transport and promoting multimodal transport. In addition, it seeks to develop logistics services, to promote business efficiency, and to improve regulation in the sector. The Bank is supporting the country's efforts with a PBL for public services (CO-0270), a number of transportation investment programs, and

⁷ *Visión Colombia II Centenario: 2019*, Chapter I, pages 59-69.

MIF operations for airport security and for private-public partnership (see paragraphs 2.4 and 2.5).

- 1.11 **Access to financing.** The loan portfolio of the Colombian financial system is small for the size of the economy. The proportion of domestic credit to the private sector is around 25% of GDP, which is lower than in Brazil, Bolivia or Chile. There are market segments, such as SMEs and microenterprises, that face legal and institutional obstacles in pledging real and immovable property as collateral for loans. For this reason, among other factors, they receive little credit and they pay high rates. The capital market is also underdeveloped in comparison with other countries in the region: capitalization as a percentage of GDP is only 11.9% in Colombia, compared with the Latin American average of 27.4%. The government is taking steps to eliminate the barriers to business financing. These include the Securities Market Act of 2005 and a pending new insolvency law. With the proposed PBL, the Bank will be promoting this new law and the new opportunities it offers for posting loan collateral.
- 1.12 **Bureaucratic inefficiency.** Colombia is engaged in an effort to reduce the transaction costs that the State apparatus imposes on the economy, especially in the private sector's dealings with government. Colombia has moved up in the rankings of the World Competitiveness Report 2005/2006: from 2004 to 2005 it improved its position from 64 to 57 out of a total of 117 countries. This ranking reflects the business community's positive view of the country's evolving business climate. This perception is due in part to the improvements made in cutting red tape, such as the dramatic reduction in the time needed to register a business, which dropped from an average of 55 days to only five days in six cities between 2002 and 2004. Yet Colombia must still make great efforts to achieve an optimal ranking. For example, in that same report Chile is ranked 23. A highlight of the *Domestic Agenda* is a strategy to combat red tape that will reduce transaction costs through the progressive simplification of many procedures or groups of procedures, as well as the introduction of electronic payments, multiple interface services (in person, by telephone or by e-mail), and better public and business access to information. The proposed PBL will support these reforms, and the MIF has been promoting various specific measures to streamline procedures.
- 1.13 **Inefficient vocational training system.** A great proportion of the labor force lacks the basic tools for successful labor market entry, as needed to boost the country's competitiveness. There are problems of access to technical training, and there is a plethora of training institutions that are scattered and that have no interrelationships or common standards. Among other issues, the *Domestic Agenda* has pinpointed shortcomings in the vocational training system's quality-control mechanisms. There is also a lack of articulation between business demand and training programs. The proposed modernization of the National Job Training System (SNFT), established in CONPES Social 81 (a policy paper from the National Economic and Social Policy Council), is designed to diversify the training offered and improve its quality

and relevance. To achieve this, the CONPES recommends that the National Apprenticeship Service (SENA) address the needs of approximately 70% of its students in the textile industry during the remainder of 2006. The proposed PBL will promote actions in support of these reforms.

- 1.14 **Access to international markets.** Colombia has made great efforts to integrate its economy into the international landscape. The contribution of exports to GDP rose from 11.1% in the 1980s to 12.4% in the 1990s and to 15.5% in the period 2000-2004. The economy has become internationalized through the opening of external markets, growing demand in developed countries, relocation of foreign direct investment, and greater output capacity resulting from technological change. The industrial component of nontraditional exports has outpaced the primary goods component, reflecting a diversification of exportable supply and the gradual incorporation of greater value added to output for domestic sale. Colombia has concluded negotiations on a free trade treaty with the United States (see following box), and at the same time has been actively promoting regional integration through agreements and mechanisms with the Andean Community and with the South American Community of Nations, while pursuing bilateral treaties with other countries. The MIF has supported these processes with programs to improve the quality of information and technical standardization. Colombia now plans to pursue commercial integration with strategic countries, to enhance the capacity of its businesses to take advantage of these openings, to strengthen the export quality-control system, and to ensure that its institutional framework is appropriate for managing its commitments under the various existing and prospective agreements and treaties. The PBL includes initiatives to support these reforms, as described in Chapter II.
- 1.15 **Development of information and communications technologies (ICT).** Information technologies are tools for developing the so-called knowledge economy. In each country it is small firms that have the greatest difficulty in building ICTs into their daily management routines and thereby making themselves more competitive against firms in other countries that make more intensive use of ICTs.

The Free Trade Treaty with the United States

Background. At the Eighth Ministerial Conference of the FTAA, held in Miami on 19 November 2003, the United States announced its intention to negotiate a Free Trade Agreement (FTA) with Bolivia, Colombia, Ecuador and Peru. On 3 May 2004 negotiations were officially launched with Ecuador, Colombia and Peru, and Bolivia was allowed to attend as an observer. On 18 May of that year the formal process began in Cartagena, Colombia.

Contents of the treaty. The topics negotiated are the same as those covered in the WTO Doha Round, with the addition of areas relating to competition policy, investment, and government procurement.

National treatment	
Trade in goods	
Market access Bilateral negotiation	Nontariff measures Multilateral negotiation
1. Agriculture 2. Industry 2.1 Textiles	3. Safeguards 4. Sanitary and phytosanitary measures 5. Origin and customs 6. Technical barriers to trade
Trade in services	
Market access and rules	
7. Cross-border services 8. Telecommunications	9. Financial services 10. Electronic trade
Investments	Trade-related
11. Investments	12. Intellectual-property 13. Labor matters 14. Environmental matters
Treaty administration	Sectoral application
15. Dispute settlement and institutional matters	16. Competition policies 17. Cooperation 18. Government procurement

Mechanics and wrapup of negotiations. The negotiations were conducted in a series of rounds, held alternately in each of the countries, and running for an average of five days every six weeks. In total there were 14 rounds, including the wrapup session that was held on 27 February 2006.

What's next. With completion of the FTA negotiations, the next step is a legal review of the treaty text. Thereafter, the Presidents will decide on the form the FTA will take and they will send the matter to their respective congresses for approval. If it is approved and comes into force, the implementation process will begin, covering at least the following tasks:

- List and schedule of commitments for each party, specifying the various agencies involved.
- Identification of legal amendments or administrative processes in various fields.
- Design and implementation of various policy measures.
- Approval of legislation, administrative rules or decrees.
- Coordination among governments and with the private sector.
- Training for public officials and private agents.

- 1.16 The impact of the degree of ICT development on country competitiveness is measured in many ways, including indicators for key aspects such as connectivity and technological infrastructure, the degree of ICT use by businesses and consumers, and the regulatory environment. Despite the efforts made, Colombia has been losing ground in world rankings against these indicators, and now faces the challenge of narrowing the digital divide in order to improve its competitiveness. As it is, Colombia was rated 48th of 65 countries in the 2005 “E-readiness” ranking of the Economist Intelligence Unit, down seven places from its 2004 standing, when it was ranked 41st.
- 1.17 Although Colombia has made great progress with communications infrastructure, it still needs to make broadband services more generally available so that businesses, including small businesses, can readily join the digital age. This will require not only adequate infrastructure but, in addition, an effort to promote ICT use among firms. Colombia has moved forward in this respect by adopting a “*Connectivity Agenda*” that addresses: (i) access to information infrastructure; (ii) use of ICT in education and training; (iii) business use of ICT; (iv) fostering the national ICT industry; (v) generating contents; and (vi) developing online government. Building on previous programs of the MIF and other agencies, the PBL will support these initiatives.

C. The country's competitiveness strategy

- 1.18 Colombia is one of the leading countries in the region in terms of developing a comprehensive policy for competitiveness. In 1999, Colombia launched its Productivity and Competitiveness policy, designed to improve the conditions for business competitiveness so as to expand exports of goods and services. As part of this policy, the *Colombia Compite* (“Colombia Competes”) Network was established, a cross-cutting arrangement involving public, private and academic resources, and specialized networks were established to deal jointly and horizontally with critical factors for competitiveness. At the beginning of the current government's mandate Law 812 was passed (in June 2003), approving the National Development Plan (PDN) 2003-2006: *Hacia un Estado Comunitario* (“Towards a Community-based State”). The law and the plan established priority policy guidelines for “Competitiveness and Development” and “Commercial Policy”.
- 1.19 The National Development Plan (PND) includes a strategy to secure permanent access to international markets by negotiating free trade agreements. In preparation for this opening, the National Economic and Social Policy Council (CONPES) began work on the *Domestic Agenda for Productivity and Competitiveness* (published in document CONPES 3297 of July 2004). The DNP describes the *Domestic Agenda* as “an expression of common resolve” on the part of government, the regions and the private sector with respect to the strategic actions that the country must take over the short, medium and long terms to improve the

productivity and competitiveness of its productive apparatus. These actions can take the form of measures, plans, programs or projects. To put that “common resolve” into effect, 27 departmental committees were established, headed by chambers of commerce and municipal and regional governments, and 27 sector committees led by business associations. During this process, more than 1,500 meetings, forums and workshops were held: they attracted some 50,000 participants and produced a proposal to government in August 2005. There followed a process of feedback from the regions and sectors, which was completed at the beginning of 2006. Finally, a series of strategic actions has been identified, some of which the proposed program will support.

D. Bank strategy

- 1.20 The Bank's strategy with the country, approved by the Board of Executive Directors in September 2003 (document GN-2267-1), included two themes for reactivating the economy over the period 2003-2006: (i) promoting competitiveness; and (ii) supporting agricultural development and natural resource management. In other areas, the Bank has given priority to: (i) promoting social development and protection for the most vulnerable groups; and (ii) enhancing the country's governance and modernizing the State. The strategy also notes the country's fiscal imbalances, and declares the Bank's intention to provide resources to alleviate fiscal constraints.
- 1.21 The country strategy update, presented in 2005 (document GN-2257-10), recognizes the importance of the *Domestic Agenda* as a mechanism whereby the Government of Colombia seeks to reach agreement with subnational entities and the private sector on the strategic direction and actions that must be taken to support and improve the competitiveness environment. The updated country program continues to stress the importance of reviving the economy and jumpstarting growth. The proposed PBL is seen as an important tool for achieving this goal with the current government, laying the basis for policy dialogue with the next government, and helping to finance the current fiscal deficit.
- 1.22 **PSDS and BCI.** The Bank will work closely with the authorities and the private sector during 2006 on preparation of the Private Sector Development Strategy (PSDS) and the Business Climate Initiative (BCI). The competitiveness enhancement program represents the point of departure for this dialogue, and indeed the program is supporting a number of initiatives that clearly relate to the PSDS (use of information and communications technologies by SMEs) and/or the BCI (simplification of procedures).

E. Program strategy

- 1.23 The program will foster reforms in an evolving political context, making maximum use of the analytical work that the Bank has supported not only in preparing this

PBL but also in a number of previous investment loans and TC operations. The program was designed in tandem with the *Domestic Agenda*. This intensive process of dialogue, consultation and consensus building has taken longer than expected, and this has held up the pace of program preparation. However, the process has served to identify and is building consensus on a series of strategic actions and reforms to enhance the country's competitiveness. The *Domestic Agenda* was designed and prepared in the context of the 2003-2006 National Development Plan and preparation of the *Visión II* discussion paper as noted earlier (see paragraphs 1.4, 1.19, and 1.20 and table 1). The priorities of the program are based on the PND analysis, adjusted according to the consensus developed during the Domestic Agenda process. The specific actions supported under the program reflect these priorities and were prepared in accordance with the studies, diagnostic assessments, and technical cooperation operations sponsored by the Bank and the borrower during preparation of the operation. These actions focus on: (i) the institutional framework for competitiveness; (ii) the competitive environment in the context of freer trade; and (iii) readying businesses for new international markets.

- 1.24 The reforms needed to address the problems identified above will have to be implemented over the medium and longer term (i.e. a horizon that will exceed the mandate of the current administration). Because of the urgency of launching reforms in the short term, in preparation for the new international trade treaties that are being negotiated, and the need to seize the current window of political opportunity, the strategy for this operation is to take a programmatic approach, consistent with the guidelines of document CS-3633, by helping the country to maintain the momentum of initiatives, especially those emerging from public consultations and consensus building, such as the *Domestic Agenda*. In recognition of the significant progress that has been made in improving the country's competitiveness, the first of the two programmatic loans called for under the program includes specific conditions (Annex I) in terms of the next steps that are feasible at the current political juncture. The government has committed itself, in its Policy Letter to the Bank (see Annex IV), to other, related initiatives of longer gestation. The indicative targets or "triggers" for the second operation establish the basis for a policy dialogue. In short, the room for major short-term policy reforms in Colombia is limited and hence the program focuses on institutional reforms. However, as the 2006 IPES (Economic and Social Progress Report) concludes, "institutions and processes are not neutral or merely instrumental; they are the crucible in which policies are forged and shaped and acquire their true form and meaning".⁸

⁸ Economic and Social Progress Report 2006, *The Politics of Policies* ("Institutions and processes are not neutral or merely instrumental; they are the crucible in which policies are forged and shaped and acquire their true form and meaning" – page 256).

F. Previous Bank participation in sectoral reform initiatives, and lessons learned

- 1.25 The Bank has long been involved in competitiveness issues and a number of investment and TC projects are mentioned in Table 1. In terms of quick-disbursing programs, since 1998 the Bank has approved three emergency operations and three PBL programs. The emergency operations had a significant impact on the repayment profile for 2003 and 2004, and also provided support for meaningful reforms in fiscal policy, for dealing with the financial sector crisis, for protecting social expenditure, and for amending institutional and regulatory arrangements in the electricity sector.
- 1.26 As indicated in the country program and in the recent Report on Bank Activities during 2005 and Outlook for 2006, the lessons learned have included the following: (i) structural changes and institutional strengthening take time; (ii) the Bank's strategy is always subject to multiple risks, which must be addressed through measures to mitigate their effects; (iii) nonfinancial products and technical assistance for project preparation and execution are support tools that represent value added by the Bank; (iv) the approval and disbursement schedules for programmatic loans have not always coincided with governments' cash needs; and (v) the challenge for the Bank is to have ready human and financial resources that have had an ongoing involvement in specific development sectors and issues in the country, in order to generate and contribute value added to the reform process and to facilitate identification, preparation and disbursement of PBLs.

G. Coordination with other multilateral and bilateral agencies

- 1.27 As indicated in Table 1, the Bank and the MIF have financed several programs and TC operations in support of various aspects of the country's competitiveness. Other agencies active on these issues in Colombia are the World Bank (WB), the Andean Development Corporation (CAF) and the United States Agency for International Development (USAID). The competitiveness programmatic loan proposed here is designed to complement the reforms undertaken through the various initiatives of these agencies.
- 1.28 In September 2005 the **World Bank** approved the "First Programmatic Business Productivity and Efficiency Development Loan" for US\$250 million (Report 33538-CO). That operation, the first in a series of three, addresses the business environment and business development, and recognizes the progress that the government has made previously in reducing transaction costs and making business activities more efficient. In particular, the World Bank recognizes: (i) enactment of the "Anti-Red Tape" Law 962, and (ii) approval of CONPES 3292 on rationalization and automation of procedures. The proposed IDB operation also recognizes the country's progress in simplifying procedures, and will support

further initiatives to reduce transaction costs in three new sets of processes, as described in Chapter II.

- 1.29 On the foreign trade front, the World Bank program recognizes the progress already made with approval of Decree 4149 of the MCIT (Ministry of Trade, Industry and Tourism) (i) establishing the “Single Window for Foreign Trade” (VUCE) and (ii) simplifying the container inspection process. As detailed in Chapter II, the proposed IDB program complements these initiatives and supports additional progress by strengthening: (i) the national sanitary and phytosanitary system; (ii) the national quality control system; and (iii) the MCIT's foreign trade functions.
- 1.30 The World Bank is supporting new entrepreneurial activities through passage of a juridical stability law. Its program is also supporting efforts to deepen the financial system and make it more efficient, and to facilitate access to capital markets. The IDB program complements these initiatives with support for modernizing loan collateral and amending the insolvency law.
- 1.31 In addition to its strong support for upgrading security, USAID is providing non-reimbursable technical cooperation. The two operations most closely related to the proposed PBL are (i) the “Trade Capacity Building Support Program”; and (ii) the program for “Improving Institutional Capacity to Comply with Phytosanitary Norms”. The first of these operations involves studies, such as reports on the investment climate, property rights, and real and movable collateral. Together with the CAF, USAID has also supported preparation of the *Domestic Agenda* through wide-ranging technical assistance for the regional and sectoral forums that were held during its development. The proposed PBL complements these operations and will support additional progress in the institutional areas of the *Domestic Agenda* relating to competitiveness, access to international markets, access to financing, and vocational training.
- 1.32 The CAF is supporting creation of the *Colombia Compite* Network and a number of ad hoc initiatives for strengthening production chains and clusters in various economic sectors. In March 2005, the CAF approved a loan in support of the “Reform Program for Competitive International Integration”, in the amount of US\$250 million, recognizing the government's achievements in improving physical infrastructure, expanding telecommunications coverage, promoting private participation in the natural gas industry, making structural adjustments in the financial services sector, and optimizing mechanisms for helping businesses move along the learning curve and undertake scientific and technological development. The proposed PBL will complement the CAF programs in the area of information technologies.

Table 1. Summary of the main obstacles to competitiveness and initiatives for addressing them		
Main obstacles	Government solutions, proposed or under way	International agencies involved
Costs of doing business, related to security conditions	<ul style="list-style-type: none"> Plan Colombia (2000). Political determination, institutional strengthening of the Armed Forces, and the demobilization and social reintegration of illegal militias (ongoing) 	<ul style="list-style-type: none"> US government. Military and civilian programs (e.g. alternative crops), total US\$640 million in 2005 IDB Public Safety and Social Harmony Program (1998), Social Infrastructure and Municipal Management for Peace (2002)
Distorted tax system	<ul style="list-style-type: none"> Structural Tax Reform (2007-10) to eliminate exemptions and reduce rates 	<ul style="list-style-type: none"> USAID: TC for policy and institutional reforms to eliminate distortions (under way)
Governance and transparency	<ul style="list-style-type: none"> Rationalization of regulatory standards Management of the legal system Juridical Stability Act (2005) 	<ul style="list-style-type: none"> Competitiveness PBL (see policy matrix) MIF: Evaluation of Democratic Governance (under way) USAID: TC for reforms to investors' rights, strengthening public-sector financial management, and citizen participation in combating corruption (under way)
Inadequate infrastructure	<ul style="list-style-type: none"> Strategic Projects of the National Roads Institute (2005) Integrated Infrastructure Policy (CONPES 3272, 2004) Port Expansion Plan (CONPES 3342, 2005) 	<ul style="list-style-type: none"> IDB: Public Services PBL (2005), Integrated Mass Transit System for Cali (2005), Roads Program and Institutional Strengthening in Cundinamarca (2001), and Roads for Integration and Equity in Antioquia (in preparation) MIF: Strengthening Airport Security (2003), and Public-Private Partnership (2005) WB: REDI Study (2004), Mass Transit for Bogotá (2004) CAF: Sectoral Policy for Port Expansion (2005), Urban Transit in Bogotá (2004), 2500 km Plan (2005), Line Tunnel (pilot tunnel) (2005)
Access to financing (high margins, creditor rights)	<ul style="list-style-type: none"> Securities Market Act (2005) Merger of supervisory agencies (future) Draft Insolvency Act (future) 	<ul style="list-style-type: none"> Competitiveness PBL (see policy letter) MIF: various microfinance programs, and financial market development WB: support for merging supervisory agencies, strengthening anti-money-laundering activities, mortgage clearinghouses, and private equity funds USAID: TC for new instruments, studies of real and movable collateral (under way)
Bureaucratic inefficiency	<ul style="list-style-type: none"> Law 962, the "Anti-Red Tape Act" (2005) CONPES 3292 (2004) Creation of the GRAT 	<ul style="list-style-type: none"> Competitiveness PBL (see policy matrix) MIF: Procedural Simplification/Business Sector (2000), SME Participation in Government Procurement (2004) WB: Support for Anti-Red Tape Act and CONPES 3292

Main obstacles	Government solutions, proposed or under way	International agencies involved
Poorly trained workforce and inflexible labor market	<ul style="list-style-type: none"> ▪ Labor Reform Act (2002) ▪ CONPES Social Commitment 81 (2004) and National Job Training System (SNFT) 	<ul style="list-style-type: none"> ▪ Competitiveness PBL (see policy matrix) ▪ USAID: TC to improve analysis of supply and demand and adjust training programs (under way) ▪ MIF: competitiveness in the textile industry in the coffee zone
Access to international markets	<ul style="list-style-type: none"> ▪ CAN, G-3, MERCOSUR integration agreements ▪ VUCE (2004) ▪ FTA negotiations with United States (current) ▪ Strengthening the SPS system (current) ▪ Reform of the Free Zones System (future) ▪ Simultaneous merchandise inspection (future) 	<ul style="list-style-type: none"> ▪ Competitiveness PBL (see policy matrix) ▪ MIF Exporter Information Via Internet, Market Access and Integration through Technical Standardization, Strengthening of quality for horticultural exports ▪ USAID: TC to reduce technical barriers to trade (compliance with phytosanitary standards) and reforms to customs legislation and procedures (under way) ▪ WB: SPS system - legal and regulatory framework, institutional structure, technical capacity (under way)
Information technologies	<ul style="list-style-type: none"> ▪ Unified Information System ▪ Broadband Policy (2005) ▪ Electronic procedures and payments 	<ul style="list-style-type: none"> ▪ Competitiveness PBL (see policy matrix) ▪ MIF: Strengthening the Regulatory Framework for SME Access to Electronic Commerce (2002), Development of a virtual logistics system for small retailers (2003) ▪ CAF: new pricing policy for telephone services (2006), Unified Scientific Information System (2005)

II. THE PROGRAM

A. Objectives and description

- 2.1 The general objective of the program is to help boost the country's competitiveness by reducing bureaucratic, legal, regulatory and institutional barriers to international trade and business development. The specific objectives are to strengthen the institutional framework for implementing the *Domestic Agenda for Productivity and Competitiveness*, and to improve the climate for competitiveness through targeted interventions. The freely available nature of program funds will also contribute to fiscal and macroeconomic stability (see paragraph 1.3). The financing has been scaled in light of the Bank's exposure in the country, the contributions of other multilateral agencies, and the importance of the competitiveness agenda for the country's development.
- 2.2 The program is structured in two stages, following Bank guidelines for programmatic policy-based lending (see documents GN-2200-13 and CS-3633). The first operation involves a series of conditions precedent to the (single) disbursement, with the understanding that a second operation will be prepared once the authorities have achieved the indicative targets or triggers. The programmatic lending tool is particularly suitable to the current juncture, in which the present administration is in its last months and the next will follow shortly. The present administration is responsible for fulfillment of the specific conditions agreed, while achieving the triggers for the second operation and the corresponding outcomes will lay a solid basis for policy dialogue with the next administration. In this way, the Bank will be able to support the country over the medium and longer term in implementing its competitiveness agenda.
- 2.3 The issues to be addressed by the program were identified in the context of the *Domestic Agenda for Productivity and Competitiveness*, taking into account the main obstacles identified earlier. Some of the priority issues (such as the security situation) fall outside the scope of the program, or are addressed by initiatives of other agencies such as the tax system, political instability and corruption, and inadequate infrastructure (see Table 1).
- 2.4 With respect to **infrastructure and transportation**, priority issues for competitiveness, the Bank and other multilateral agencies have been particularly active. The Bank's Sector Program for Public Utilities (CO-0270), a three-tranche PBL now in execution, is designed to enhance the equity, efficiency, quality and sustainability of **public services** and thereby improve the climate for private investment. The program provides direct support for a policy of private participation in the development and financing of public services, to improve incentives for such participation. Indirectly, the PBL will help reduce the costs and

improve the quality of those services for the businesses that use them, and this in turn will make those businesses more competitive.

- 2.5 In **transportation**, Colombia is developing strategies to meet the challenges of expanding foreign trade, in terms of logistics and quality control, on the basis of studies sponsored by the World Bank. Among other things, it has adopted an integrated road infrastructure policy that includes guidelines for establishing project priorities. A loan has been arranged with the CAF to finance the regional infrastructure and development program, which is now in execution (paving of secondary roads). The recently approved Port Expansion Plan 2005-2006 implements the ports policy and defines a series of activities over the short and medium term. In the area of institutional reform, the government, with IDB support, has formulated a technical cooperation project (CO-M1004) that includes training, institutional strengthening, and the examination of new public-private partnership models in other countries. The Bank has also supported activities of the national and departmental governments in urban transportation (Urban Transit in Cali, CO-L1001) and secondary roads (Roads for Integration in Antioquia, CO-L1016, and the Roads and Institutional Strengthening Program in Cundinamarca, CO-0059).
- 2.6 As summarized below, the proposed programmatic loan places special emphasis on initiatives that are directly related to opening up the country to world trade. The program conditions are divided into three broad areas of concentration: (i) the institutional framework for competitiveness; (ii) the competitiveness environment in the context of freer trade; and (iii) readying businesses for new international markets. Studies have been conducted for each specific issue within these three areas, in order to convert the general issues identified in the *Domestic Agenda* into concrete, measurable targets for inclusion in the proposed operation. The first operation, and the triggers for the second, are detailed in the policy matrix (Annex I) and are summarized below. Evidence of fulfillment of the conditions precedent to the disbursement of the first loan is set out in Annex II. The expected outcomes, their indicators, and their baselines are presented in Annex III.

1. The institutional framework for competitiveness

- 2.7 **Background.** Beyond supporting specific objectives in each of the sectors and/or cross-cutting areas, the program is designed to bolster institutional arrangements for promoting competitiveness, in light of the targets already set during development and implementation of the *Domestic Agenda*. As indicated in the attached policy matrix, the program includes concrete targets for these institutional arrangements, with a view to fostering public-private cooperation on competitiveness issues at various levels. In particular, **before the disbursement**, the authorities will present the framework document of the *Domestic Agenda for Productivity and Competitiveness*, which embodies the overall results at the national level of debate on the general targets of the Domestic Agenda, its short- and medium-term

strategies, and adjustments that are now needed to implement the technical cooperation operation. As well, the Colombian government will present its institutional response to the proposed initiatives contained in the *Domestic Agenda* based on a sample of at least eight regional governments. **The trigger or indicative target for the second operation** anticipates follow-up to the recommendations on the *Domestic Agenda*, according to a schedule detailed in the framework document that the government will publish.⁹

2. The competitiveness environment in the context of trade liberalization

- 2.8 This section of the program includes most of the conditions to be met, and is divided into five components, described below:

a. Macroeconomic stability

- 2.9 This component specifies the standard PBL requirements for a stable macroeconomic framework.¹⁰ Although standard, however, those requirements are particularly important in this case as a necessary but not sufficient condition for Colombia to achieve and maintain a position of competitiveness in a context of increasing commercial globalization.

b. Prompt and efficient implementation of the new trade agreements

- 2.10 **Background.** As noted in the analysis of the previous Chapter, the Colombian economy has shown a growing trend towards internationalization, as the result of a deliberate policy of using international trade to drive development. Colombia completed negotiation on an FTA with the United States (see box in Chapter I), which is expected to enter into force before the APTDEA (Andean Trade Promotion and Drug Eradication Act) preferences expire. Colombia is also planning to negotiate an FTA with the European Union. Preparatory work for this operation included an in-depth analysis of the legal, institutional and administrative capacity of the government to manage foreign trade policy, and national impact of an FTA with United States.¹¹ It also took into account the initiatives under the

⁹ The Bank is supporting this process through a Public Administration Reform Program, which includes a component for strengthening institutional arrangements for implementing the *Domestic Agenda* (loan 1561-OC/CO).

¹⁰ In April 2005, the IMF Executive Board approved an 18-month standby arrangement for Colombia in the amount of SDR 405 million. For purposes of the programmatic PBL operation, macroeconomic stability was analyzed as part of the scheduled semiannual reviews for the stand-by agreement. The first review was conducted in October 2005, and the second in March 2006.

¹¹ See the following consultants' reports: Germán Umaña Mendoza, "*Diagnostico Institucional y Recomendaciones sobre la Gestión del Sector Comercio Exterior en Colombia*" (Institutional Diagnostic and Recommendations on Foreign Trade Management in Colombia), Bogota, September 2005, and Horacio Osorio Velosa, "*Propuestas de Política para el Apoyo a la Competitividad Regional*" (Policy Proposals in Support of Regional Competitiveness), Bogota, September 2005.

World Bank program mentioned above (see paragraph 1.28), and identified four priority issues to be addressed through this operation. These are described in detail below, together with a summary of the way they will be dealt with in the program.

(i) Publicizing the commitments assumed by Colombia and its trading partners in existing trade agreements

- 2.11 **The objective** of publicizing these commitments is to ensure that the Colombian private sector, and producers, exporters and importers in particular, will understand clearly the challenges and opportunities that the existing and prospective trade agreements represent. Although the Ministry of Trade, Industry and Tourism now posts the texts of the agreements and their respective annexes on its web site, the format is difficult to work with. **In its policy letter**, the government has declared that the MCIT will publish the matrix of tariff-cut commitments made by all parties to the existing trade agreements,¹² in a user-friendly informative format on the Internet. The **medium-term indicative target** is that the published information should be up-to-date, accessible and distributed to all interested parties. By then, the information will cover commitments in areas other than customs duties, as detailed in the policy matrix.

(ii) Strengthening the National Sanitary and Phytosanitary System

- 2.12 **The objective** of this initiative is to ensure that the State has the capacity to manage the risks associated with the spread of plant and animal diseases, and to supervise food hygiene properly. This will give the country's agro-industrial products effective access to markets in industrialized countries, and will have a direct and positive impact on the domestic productivity and competitiveness of the Colombian economy. In addition, it will meet the objective of preparing a system for implementing the commitments assumed in the trade agreements. As **conditions precedent to disbursement**: (i) the "National Agricultural and Food Safety Policy for the Sanitary and Phytosanitary Measures System" will need to be in place; (ii) the "Food safety policy for beef and milk producing industries" will need to be in force; and (iii) the transition plan for these two policies will need to be implemented, including programs relating to enactment of a decree creating the National Council on Sanitary and Phytosanitary Measures (SPS), and technical and scientific strengthening of the system's institutions. **As evidence that these conditions have been met**: (a) the CONPES must have issued a document approving each of the policies mentioned; (b) the process of creating the SPS Council must have begun; and (c) a series of institutional and technical measures must have been taken to ensure the country has the capacity to maximize the

¹² Effective November 2005, the preferential and free-trade agreements in force are with MERCOSUR, the Group of Three (Colombia, Venezuela and Mexico), CARICOM, Chile, Costa Rica, Cuba, Guatemala, Honduras, Nicaragua, and Panama.

benefits of treaties already signed and to be signed (see Annex II for further details). **As a trigger for the second programmatic loan**, the targets will be met as scheduled, the proposed strategies will be launched, and the decree creating the National SPS Council will be enacted.

(iii) The National Quality Control System

- 2.13 **The objective** of this component is to lay the basis for strengthening the national quality control system in Colombia. International standards are ever more demanding and it is difficult for domestic producers to obtain the corresponding certification, a factor that impedes foreign sales. At the same time, the country's competitiveness as a whole is reduced by the fact that domestic quality requirements do not match those at the world level. **As a condition precedent to disbursement**, the DNP must have prepared a technical report on the National Quality Control Policy for Colombia, which will include accreditation, standardization and metrology. The document will be presented **as evidence that this condition has been fulfilled**. **As triggers for the second programmatic loan**, that policy will be approved, through CONPES, and an action plan will be put in motion. **In its policy letter**, the government undertakes to host an international seminar that will provide input to the policy paper.

(iv) Institutional reform of the MCIT and DIAN

- 2.14 **The objective** of this component is to equip the MCIT and the National Customs Service (DIAN) with a proper institutional framework for giving effect to all the commitments involved in the various trade agreements that Colombia has signed or is negotiating. Such adaptation is essential to minimize the risk of noncompliance and to allow the government to respond appropriately to the opportunities offered by these trade agreements. **As conditions precedent to disbursement**, the MCIT's institutional reform plan will need ministerial approval. The plan will include the strengthening of its key offices in order for monitoring all the commitments assumed by Colombia under international trade agreements. As well, DIAN, which reports to the Ministry of Finance (MHCP), will approve the methodology for a system of review and supervision of businesses that includes ex post control techniques and risk analysis. **As evidence that these conditions have been fulfilled**, the MCIT must have approved an institutional reform plan as specified in Annex II, and the DIAN will submit evidence that a suitable methodology is in place for an ex post import control system. **Triggers for the second programmatic loan** will be: the specific reforms agreed, satisfactory progress with the staff training program, and the use of new customs procedures for ex post control and risk analysis. **In its policy letter**, the government commits the DIAN to approving a training plan for customs officers and importers in origin verification and certification.

c. Vocational training to meet the challenges of free trade

- 2.15 **Background.** An important aspect of efforts to improve the country's competitiveness in world markets is to upgrade the vocational training system. In July 2004, the CONPES Social 81 presented a proposal for "Consolidating the National Job Training System (SNFT)" and identified the Ministry of Social Protection (MPS), the Ministry of National Education (MEN), and the National Apprenticeship Service (SENA) as the institutions responsible for coordinating and implementing the new plan. That proposal points to bottlenecks in the system's regulation, particularly in the functions of policy definition and inspection, supervision and control over training providers. The lack of any system of equivalencies impedes mobility between training and the labor market. Training is currently offered in 2,700 institutions of secondary education, 112 universities, 99 university institutes, 66 technological institutes, and 51 technical schools. There are also some 4,000 informal education centers: they are licensed by the education authorities, but their diplomas have no academic validity. At the same time, big companies have facilities for training their own workers.
- 2.16 In addition to the foregoing, the SENA offers training, and indeed is the principal vocational training institution in the country. The SENA is a government agency funded with a 2% payroll levy on businesses (a parafiscal contribution) that yields an annual budget of about US\$223 million. The 2002 Labor Reform Act (Law 789), which governs various aspects of the labor market, allowed companies to claim refunds for training expenses, and established incentives for firms to hire apprentices.
- 2.17 The purpose of this part of the program is to support the overhaul of key aspects of the SNFT that will produce a better prepared and more productive workforce. A study¹³ commissioned during program preparation found that adjustments to the following areas would result in the change the country is seeking to become more competitive.

(i) Outsourcing of training services

- 2.18 **The objective** is to help fulfill the 2006 target of the CONPES 81, whereby the SENA is to outsource the training courses it offers to approximately 70% of its students. SENA's current approach to outsourcing is to negotiate contracts directly with providers. Outsourcing is supposed to be done openly with institutions duly accredited under the new SNFT. Successful outsourcing will depend on how well the course or program is publicized, so that all interested and qualified providers

¹³ Margarita Peña and Liliana González "Propuesta para la Estructura y Funcionamiento del Sistema de Acreditación de Programas e Instituciones de Formación para el Trabajo" (Proposal for the Structure and Operation of a System for Accreditation of Worker Training Institutions and Programs), Bogota, September 2005.

can participate in the call for proposals. SENA, working closely with the private sector, through sector roundtables has prepared standards for worker skills that meet the requirements of the job market. These standards will need to be made public and readily accessible to training course providers. **As a condition precedent to disbursement**, (a) all skills standards prepared by SENA will be made available as a public good; (b) the SENA will implement outsourcing through direct contracts with providers, and (c) regulations will be issued, governing public calls for proposals to which a greater range of qualified providers can respond. **As evidence of fulfillment of this condition**, (a) SENA's website must be freely accessible, (b) SENA must submit a report listing the contracts signed to December 2005 with public or private training providers, and (c) SENA's board of directors must have reached agreement on mechanisms and procedures for calls for proposals to select entities to provide training services in connection with the *Jovenes en Accion* (Youth in Action) program. **The trigger for the second programmatic loan** will be evidence that SENA has published a greater number of tenders for outsourcing training services to entities accredited under the new system.

d. Simplification of procedures

- 2.19 **Background.** The Government of Colombia has made great efforts in recent years to reduce business transaction costs in order to enhance the country's competitiveness. Among other policy and institutional measures taken, this issue has been made a priority in the Development Plan. This priority is also evident in CONPES 3248 and 3292 on the simplification of procedures, and in Law 962 of 8 July 2005, which contains important provisions for rationalizing the burden of formalities and procedures with which citizens and businesses must comply. A further move in this direction was the creation of the Procedures Rationalization and Automation Group (GRAT), comprising various government institutions involved in rationalizing public administration. The direct and indirect achievements of this process include the introduction of one-stop or "single window" business registration. Colombia is also making significant progress in simplifying and reducing processing times relating to foreign trade permits, social security and taxes. The consultant's report¹⁴ commissioned during preparation of this operation has helped to identify the next steps in simplifying procedures.
- 2.20 As noted in chapter I, the World Bank loan for business efficiency and productivity that was approved in September 2005 is supporting this process, and has rewarded the country's effort at simplifying procedures and reducing transaction costs. The present operation also recognizes the country's efforts in this field and will support further measures in three groups of procedures that were initially identified in a

¹⁴ Cesar Prieto, "Estudio para evaluar la competitividad relativa de procedimientos administrativos y el Costo/Beneficio derivado de su simplificación" (Study to evaluate the relative competitiveness of administrative procedures and the cost/benefit of streamlining). Bogota 2005.

cost-benefit study during project preparation. Those three groups (subject to confirmation upon conclusion of the cost-benefit analysis) are: (a) mechanisms for winding up businesses; (b) direct subsidies; and (c) financing.

- 2.21 During the design of this component, several groups of procedures were assessed. In the case of environmental procedures, the team considered that no further simplification was required, and that the costs imposed on businesses in complying with environmental regulations are justified under current conditions in the country. This assessment is consistent with the views expressed by government authorities and by the business community in various surveys and meetings that were conducted during project preparation.¹⁵ One of the most important provisions regulating environmental permits is Decree 1220 of 21 April 2005, regulating Title VIII of Law 99 of 1993 on environmental licenses. The information that businesses need in order to deal with environmental permits, controls and authorizations is broadly accessible and is sufficiently clear that the project team could find no problems of compliance or processing. Finally, the web page for the Unified Government Procedures Information System, which the project will support, will provide detailed public information on all groups of procedures with which businesses and individuals must comply.
- 2.22 **The objective and rationale** of this component is to support further efforts at simplifying administrative procedures for businesses in their dealings with the public administration. **The conditions precedent to disbursement** include publication of the Anti-Red Tape Act and its implementing regulations, the consolidation of simplified procedures, and the required back-office reengineering design, as well as automated systems for the three priority sets of procedures identified in the cost-benefit analysis during project preparation (i.e. liquation of companies, cofinancing with public resources, and property registration). Each set of procedures will include a mechanism for public monitoring of their processing. **Evidence of fulfillment of this condition** will be: (a) publication of the Anti-Red Tape Act and regulation of articles 1 and 2 of the Act; (b) reports from the responsible ministries on the volume of applications and the time taken to complete them; and (c) approval of the process reengineering for streamlining of the three sets of procedures agreed. **As the trigger for the second programmatic loan**, the selected procedures will have been simplified with evidence of significant savings in processing times and costs both for businesses and for the public administration. **In its policy letter**, the government undertakes to design and implement the Unified Procedural Information System.

¹⁵ In addition, the web page of the Ministry of Environment, Housing and Regional Development offers broadly accessible information on environmental licenses and permits (see http://www.minambiente.gov.co/viceministerios/ambiente/dir_licencias_perm_tramites/tramites.htm).

e. Leveling the playing field for access to sustainable financing by economic agents

- 2.23 **Background.** There are numerous legal impediments to the efficient and effective functioning of local financial markets that must be overcome if businesses are to have access to the credit they need to operate competitively in a globalized economy. This is particularly important for Colombia, which recently concluded negotiations on a free-trade treaty with the United States. The obstacles relate primarily to the security of the financial transaction system and to the enforcement of creditor rights under existing insolvency legislation. However, before any substantial change can be made in this area, there will have to be a better understanding of these problems, and broad consensus among the stakeholders. During preparation of this program a legal firm produced two in-depth studies of legislative shortcomings that impede access to financing, and a legal assessment of the draft securities market legislation¹⁶. The first two studies, together with economic studies commissioned by USAID, constitute the conceptual framework needed to achieve understanding and consensus on the problems of access to financing. As well, the legal analysis of the draft securities market legislation complements the World Bank's support for approval of a law.

(i) Real and movable collateral guarantees

- 2.24 **Objectives and rationale.** In Colombia, the process of constituting and executing loan collateral is a complicated affair. In contrast to developed countries, in whose markets Colombian firms will have to compete, there is no single liens registry and those that exist are not electronically linked in real-time, which means that lenders must run a prior check to determine if there are any liens on real or movable property pledged as collateral. As well, enforcement of collateral requires resort to the courts at each step of the process. **In the policy letter**, the government undertakes to establish a work plan that builds on the legal and economic studies commissioned by the Bank and other international agencies. That work plan will include a strategy for analyzing and discussing the current features of credit guarantee systems in the country, with institutions that represent not only the financial sector but also the real sector, as well as individuals and legal entities. There will be a comprehensive strategy, using the web site of the Ministry of Finance, to give publicity to the conclusions arising from those discussions. It should be noted that streamlining the procedures for property registration as a program component (see paragraph 2.23) will go a long way to putting in place a modern system of real and movable guarantees. **As a medium-term goal**, the

¹⁶ The legal firm, Brigard y Urrutia, prepared three reports entitled: (i) “*Acceso a Crédito Mediante un Sistema Eficaz de Garantías*”, (ii) “*Revisión Borrador Ley de Insolvencia*”, and (iii) “*Análisis del Proyecto Ley de Reforma de Mercado de Capitales*”.

program will establish an understanding of how the current collateral system works, and of the alternatives for reform, and their impact.

(ii) Amendments to the draft Insolvency Act

- 2.25 **Objectives and rationale.** The Insolvency Act (Law 550) imposes additional constraints on lending, especially when it comes to medium- and long-term credit. That law was approved during the severe recession that occurred seven years ago, in an attempt to simplify debt restructuring procedures between debtors and creditors and to give debtors special protection. Proceedings under Law 550 generally take a long time (10 to 15 years), during which time creditors will find it difficult to execute their collateral. Congress is currently considering a new insolvency law, where the right to enforce collateral is still not clear. Generally speaking, the desired changes will not be made until all stakeholders understand the impact of the current treatment of real collateral, in terms of the unnecessarily high costs it imposes and, consequently, the reluctance of financial institutions to grant credit, especially to small and medium-sized enterprises. Moreover, it must be recognized that the lack of access to credit will undermine efforts to take full advantage of the benefits of an FTA. It is important, then, to raise public awareness of the issue while the new collateral bill is under consideration by Congress. **In its policy letter**, the government undertakes to present a copy of the draft Insolvency Act recently submitted to Congress, together with documentation on discussions within government. **Over the medium term**, the Bank will be kept informed of congressional debate on the bill.

3. Readyng businesses for new international markets

- 2.26 **Background.** In improving competitiveness, the challenge is to equip Colombian firms to match their global competitors within and beyond the country's borders. The policies adopted have two thrusts: one addresses the regulatory framework and the business climate, and the other relates to specific policies that use different types of instruments, financial and nonfinancial. Economic integration also provides great incentive for making policies more effective in promoting business competitiveness. As important as optimizing the allocation of fiscal resources is to rationalize the parafiscal charges that businesses must pay, particularly when those revenues are used to provide services to businesses and their workers. The following section discusses initiatives under both aspects of the program dealing with enterprise development.

a. Information and evaluation system

- 2.27 **Objectives and rationale.** The objective of this component is to improve programs for business promotion and development, through an integrated system of information, monitoring and program evaluation. This system is a key element for the design and redesign of policies and for allocating resources according to the

merits and achievements of each program, while at the same time increasing transparency and accountability in program management. The Government of Colombia has demonstrated its concern and its determination to move forward in this field, through its approval of CONPES 3280 of 19 April 2004, on “Optimization of Enterprise Development Instruments”. That CONPES calls for the design and implementation of a unified system of information and monitoring for the business development programs of MCIT, Colciencias, and SENA, to be coordinated by the DNP. (This system was subsequently expanded to include information and evaluation of the business development programs of the Ministry of Agriculture.) It also calls for these institutions to conduct program impact evaluations with the help of the Policy Evaluation Division of the DNP, using evaluation methodologies that meet international standards and that at the same time allow for comparability among evaluations of different programs. The government will thereby be able to reallocate resources among programs, based on clear information about their impact.¹⁷

- 2.28 **As conditions precedent to disbursement** under this program, the government must have approved (on the basis of the CONPES 3280 guidelines) the Standardized Project Information and Management System (SUIGP) for business development programs, and an interagency plan for its implementation, and it will have designed and introduced methodologies for evaluating the impact of business development programs. Evidence of fulfillment of the SUIGP condition will be considered separately from the condition relating to the evaluations. **Evidence of fulfillment** will be: (a) an agreement between Colciencias and the participating entities to create a standardized information technology platform for monitoring and management of business development projects; (b) commitment of the resources that each agency will devote to implementing the new system; and lastly (c) the methodology used in evaluating the FOMIPYME (small business development) program of MCIT must be presented. The methodology will need to include activities of particular relevance from the environmental viewpoint.
- 2.29 **The trigger for the second operation** will be: that SUIGP has been functioning effectively for at least three of the participating agencies; that businesses can submit their applications for support through SUIGP; that an impact evaluation has been completed for at least two of the programs mentioned; that the National Policy Evaluation Division has documented the methodology for evaluation of business development programs, which must include environmental impact indicators for the business projects supported by the programs; and that resource allocation decisions have been based on the outcomes from the evaluations.

¹⁷ See consultant's report from M. Cabal, “*Propuesta para el Diseño de un Sistema de Monitoreo y Evaluación de Impacto de Programas de Desarrollo Empresarial en Colombia*”, Bogotá, November 2005.

b. Perception of the use of parafiscal resources

- 2.30 **Objectives and rationale.** In order to improve the services financed with parafiscal resources (such as those of the chambers, SENA, or the clearinghouses) and to design mechanisms to have them compete with private service providers, there must be an accurate understanding of business peoples' perceptions of how best to use the funds that they themselves contribute.¹⁸ With respect to the services targeted at businesses and financed with parafiscal resources, the government undertakes, **in its policy letter**, to take the results of an initial survey as the basis for a more in-depth analysis of the issue. **As a medium-term goal**, the conclusions of that analysis will be implemented.

c. Spreading the use of ICTs

- 2.31 **Objectives and rationale.** The objective of this component is to equip SMEs with greater communications abilities. It is urgent to bring Colombian firms into the IT mainstream and thereby overcome the technological gap that would otherwise leave behind a significant portion of the country's productive apparatus. This will require a framework that can be widely used by SMEs to upgrade their connectivity promptly, in terms of the number of connections and the capacity for broadband transmission of voice, image, data and electronic commercial documents. The government has already taken important steps to improve communications infrastructure, such as its ambitious Connectivity Agenda and its policy for wireless broadband communications, but additional measures are needed to facilitate SMEs' access to and use of ICTs.¹⁹
- 2.32 **As conditions precedent to disbursement**, the following will be taken into consideration: (a) adoption of measures to encourage greater connectivity and broadband use, as a way of helping SMEs adopt ICTs; (b) DNP approval of an action plan for defining an ICT promotion policy, including the steps for evaluating the Connectivity Agenda; (c) a report from the Superintendency of Industry and Trade (SIC) on the system for certifying digital signatures and secure places, and on the extent to which firms are using them; and (d) Internet accessibility for businesses to procedures relating to social security, foreign trade and business registration, and electronic updating of data. **As evidence of compliance with these conditions:** (a) the Ministry of Communications will issue two resolutions on the correct and judicious use of the electronic radio spectrum in the delivery of telecommunications services benefiting SMEs; (b) DNP management has approved

¹⁸ See the consultants' report from F. M. Guacaname and J. Ramírez "*Estudio Exploratorio sobre Percepciones, Prácticas y Experiencias de los Empresarios en Relación con la Parafiscalidad y los Servicios de Capacitación y Desarrollo Empresarial Asociados a la Misma (SENA y Cámaras de Comercio)*", Bogotá, February 2006.

¹⁹ See the consultant's report from T. Saint Pierre, "*Buenas Prácticas de Políticas de Conectividad para Pymes*", Santiago de Chile, July 2005.

the action plan described above; (c) the SIC has reported the number of entities authorized to certify secure places and digital signatures that are effectively operating thus demonstrating increased competition; and (d) reports certifying that small businesses have access to online processing. **The trigger for the second operation** will be the design of a system for electronic public contracting, and approval of a CONPES with a policy for promoting ICTs that includes an evaluation of the connectivity agenda as it relates to business adoption of ICTs.

B. Cost and financing

- 2.33 The program consists of two programmatic loans of US\$200 million each. The prestant proposal covers the first loan. The second loan will be prepared separately, according to Bank guidelines, once the indicative targets or “triggers” described in this chapter and in the policy matrix (Annex I) have been achieved. The terms and conditions of the first loan are as follows:

Source of funds:	Ordinary Capital
Amount:	US\$200 million
Amortization period /Grace period:	20 years/5 years
Interest rate:	Variable
Inspection and supervision:	0%
Credit Fee:	0.25% on undisbursed amounts
Currency:	U.S. dollars from the Single Currency Facility
Disbursement period:	12 months

III. PROGRAM EXECUTION

A. Borrower, guarantor, and executing agency

- 3.1 The borrower and guarantor is the Republic of Colombia. The Ministry of Finance will serve as the executing agency, with technical support from the National Planning Department.

B. Program execution and administration

- 3.2 The program consists of two single-tranche, programmatic loans. Because the conditions precedent to disbursement of the first loan are expected to be met before presentation to the Board of Executive Directors, the Multilateral Group of the MHCP, in coordination with the Business Service and the Credit Branch of the DNP, is considered to be the program executing unit. The MHCP and DNP have been responsible for coordinating compliance with the program conditions on the part of the ministries and agencies indicated in Chapter II. They have covered the administrative costs of those activities, through the regular budgets of each agency.
- 3.3 When it comes to preparing the second operation and supervising achievement of the triggers mentioned in Chapter II and in the policy matrix, the Multilateral Group of the MHCP, in coordination with the Business Service and the Credit Branch of the DNP, will be responsible for supervising the corresponding activities. Those activities will be financed through the regular budgets of each responsible entity.²⁰

C. Procurement of goods and services

- 3.4 As this is a policy-based loan, it does not involve the procurement of goods and services.

D. Execution period and disbursement schedule

- 3.5 This being a programmatic PBL operation, it is expected that the conditions precedent to disbursement will be met before submission to the Board of Executive Directors. Thus the only disbursement will be made immediately after approval and signature of the loan contract. The second loan will be prepared within 12 to 15 months after the first loan is disbursed. The timing of the second operation will depend on the pace at which the triggers described in Chapter II and summarized in the attached policy matrix are satisfied.

²⁰ According to a communication from the DNP, "It is not possible for the Government to contract loans for the structuring of other operations, because of internal procedural requirements such as parliamentary authorizations and allocation of fiscal room".

E. Monitoring and evaluation

- 3.6 The Bank will monitor the program through orientation and analysis missions for preparation of the second loan, as well as through active involvement by the Country Office. Based on the triggers for the second operation, the MHCP, in coordination with the DNP, will monitor progress towards those triggers and will send the Bank periodic reports on any difficulties encountered and the measures proposed for resolving them.
- 3.7 As described in Chapter IV, the outcomes matrix identifies the program's expected impacts, and indicators for measuring them. The executing agency will compile, file and maintain all the information, indicators and parameters, including semiannual and final evaluation reports, to help the Bank prepare the Project Completion Report following the second operation. The results of specific program initiatives will be measured on the basis of the data routinely compiled by the various ministries, the DANE, and other government agencies. Data from the Global Competitiveness Report of the World Economic Forum and from the World Bank's annual report, "Doing Business", will also be used (see sources of information listed in Annex III).
- 3.8 Consistent with the ex post evaluation policy approved on 15 October 2003 (see minutes DEA/03/40 and document GN-2234-5), this information will be provided to OVE and other interested sections for analysis and preparation of reports as necessary. The National Planning Department has declined to conduct an ex post evaluation.

IV. FEASIBILITY AND RISKS

A. Institutional feasibility

- 4.1 The MHCP will execute the program, working closely with the DNP and other sub-executing agencies such as the MCIT, MPS, MEN and SENA.
- 4.2 As previously documented,²¹ the Bank has had long and successful experience in preparing and executing PBLs with the DNP and MHCP, taking advantage of their key roles in all programs that have to do with structural adjustment. The DNP has historically been responsible for coordinating preparation of the National Development Plan, and more recently has taken the lead in preparing the *Domestic Agenda for Productivity and Competitiveness* and *Vision II 2019*. It also has a thorough understanding of competitiveness issues and of how to guide public and private efforts to improve competitiveness. The MHCP has led the way in implementing policy-based programs with the Bank for more than a decade, and has demonstrated its ability to work with the DNP and mobilize consensus on the measures needed to implement the government's agenda of reforms in general, and those relating to competitiveness in particular, with due regard to fiscal targets. The subexecuting agencies have demonstrated their execution capacities through their role in meeting the conditions of the current (first) programmatic loan, and in fact the triggers for the second loan have been defined on the basis of their administrative abilities and their budget resources.

B. Environmental and social impact

- 4.3 The institutional and policy changes that this operation will support will have no direct environmental or social impacts. Colombia has a highly developed and efficient system of environmental management, which ensures that future actions that might flow indirectly from the new policies will have to meet adequate environmental protection requirements. As well, the measures proposed in this operation, which will be conducted in the context of greater economic openness, are expected to encourage Colombian businesses to adopt international standards of environmental protection and social responsibility. If they are to compete in world markets, Colombia firms will need to meet such standards.

C. Expected outcomes of the reforms

- 4.4 The program is designed to improve the business climate by reducing bureaucratic, legal, regulatory and institutional barriers to trade and to doing business in general.

²¹ See the "Proposed Loan for the Public Utilities Sector Program" (document PR-2873) for a description of the institutional capacity of MHCP and DNP.

The two operations, to be financed with two consecutive programmatic loans, should be considered as a single program, the impact of which will be apparent at the end of the second operation. **The matrix of outcomes and indicators** provides the framework for measuring the program's outcomes over the medium term. Annex III presents the expected outcomes, their indicators, and their individual baselines. The borrower undertakes to maintain records of all those indicators. It should be noted that, to the extent the conditions for the second loan diverge from the triggers set forth herein, the outcomes and indicators will have to be amended accordingly.

D. Risks

- 4.5 The conditions precedent to disbursement of the proposed loan represent a combination of: (i) the significant progress that the country has already made in its reform program to make the economy more competitive; and (ii) subsequent steps that will further strengthen institutional capacities and legal and regulatory frameworks in order to produce a business climate that is more transparent and predictable. Most of these conditions precedent to disbursement take the form of action plans, policy outlines, program designs, etc. The “triggers” for the second loan consist of carrying out those plans, policies and designs. Given the many “sub-executing agencies” responsible for program execution, there is a risk that some of them will not have sufficient human or financial resources available in time to satisfy the triggers before preparatory work on the second operation begins. As noted in the section on lessons learned from previous operations, “structural changes and institutional strengthening take time.”
- 4.6 There are two factors that mitigate these risks. First, the government is firmly committed to improving the country's competitiveness, as demonstrated by the many studies and reforms summarized in this report. In terms of the PBL itself, each of the themes considered in the policy matrix is the result of detailed studies of the underlying problems, and the solutions proposed have been widely discussed with the DNP and the subexecuting agencies as to their feasibility. The proposals that will be supported were identified during the participatory and consensus-seeking consultations on the *Domestic Agenda*, and they are included in the medium and long-term proposals contained in *Vision 2019*.
- 4.7 The second factor is that the government has assured the Bank emphatically that it will earmark the necessary human and budgetary resources for achieving the triggers in a timely manner. Moreover, in negotiations that took place during preparation of the program, the government agreed to include only those targets that, in its judgment, are feasible before the second operation. The DNP and the Ministry of Finance, the program executing agencies, have clearly shown they have the capacity to coordinate the participating government agencies. Under their leadership, the agencies have fulfilled the conditions precedent to disbursement and prepared documentation evidencing fulfillment for presentation to the Bank's

Board of Executive Directors. In light of this experience, and given the role played by the ministries in charge of the country's economic affairs, the executing agencies will work closely with the agencies concerned to achieve the indicative targets for the second loan as well.

**COMPETITIVENESS ENHANCEMENT PROGRAM
CO-L1007
POLICY MATRIX**

Objective	Conditions Precedent to Disbursement	Triggers for a second programmatic PBL
I. The institutional framework for competitiveness: the Domestic Agenda and the competitiveness strategy		
Public-private cooperation at different levels on competitiveness issues.	Implementation of the Domestic Agenda <ul style="list-style-type: none"> ▪ Presentation of framework document of the Domestic Agenda for Colombian Productivity and Competitiveness ▪ Presentation of the Colombian government's response to the initiatives proposed for the regional Domestic Agendas 	<ul style="list-style-type: none"> ▪ Satisfactory follow-up to the recommendations in the domestic agenda framework document
II. The competitiveness environment in the context of freer trade		
A. Macroeconomic stability		
Maintain a macroeconomic framework conducive to growth and productivity	<ul style="list-style-type: none"> ▪ The macroeconomic policy framework is consistent with program objectives and the guidelines in the sector policy letter. 	<ul style="list-style-type: none"> ▪ The macroeconomic policy framework remains consistent with program objectives and the guidelines in the sector policy letter.
B. Prompt and efficient implementation of trade agreements		
Enhance the institutional capacity to implement and administer trade agreements	Strengthen the National Sanitary and Phytosanitary System <ul style="list-style-type: none"> ▪ The "National animal health and food safety policy for SPS measures" enters into effect, and ▪ The "Beef and milk products health and safety policy" enters into effect. ▪ Implementation of the transition plan in policy papers CONPES 3375 and CONPES 3376, including programs for: ▪ Implementation of institutional and technical reforms, including (a) presentation of the draft interministerial decree creating the National SPS Council, (b) enactment of the ministerial decree on the standards milk must meet for human consumption, and (c) presentation of the draft ministerial decree on the mandatory sanitary standards for public slaughterhouses; and ▪ Technical and scientific upgrading of the system's institutions, including (a) approval of plans of action in the areas of inspection, supervision, and control of animal and plant health and food safety, (b) appointment of staff for the INVIMA plant, and (c) 2006 budgetary allocation of resources for technical strengthening. 	<ul style="list-style-type: none"> ▪ Targets met in accordance with the timetable in CONPES 3375 and 3376 and the proposed strategies launched. ▪ Enactment of a decree creating the National SPS Council.

Objective	Conditions Precedent to Disbursement	Triggers for a second programmatic PBL
	<p>Strengthen the National Quality Control System</p> <ul style="list-style-type: none"> Approval by DNP of a technical paper on the National Policy on the Quality Control System, covering accreditation, standards and metrology. <p>Institutional reform of MCIT and DIAN</p> <ul style="list-style-type: none"> Ministerial approval of an institutional reform plan for MCIT to include: <ul style="list-style-type: none"> Strengthening the Office of International Legal Affairs, An interministerial thematic coordination system, A staff training program; and A system for monitoring by Colombia of its international trade treaty commitments. Issuance by DIAN of a document evidencing that an updated methodology is in place for ex post control of imports, using new risk analysis techniques 	<ul style="list-style-type: none"> Approval of policy (CONPES) and action plan for creating a National Quality Control System. Implementation of reforms covering trade treaty administration and implementation Satisfactory progress in applying the new ex post control techniques and risk analysis systems.
C. Labor force training to meet the challenges of free trade		
Help the labor force respond promptly to the productive sector's needs in the face of free trade.	<p>Outsourcing training services</p> <ul style="list-style-type: none"> SENA makes its labor skills standards publicly available SENA demonstrates that training services are being outsourced. SENA approves regulations for public tenders aimed at entities that provide training. 	<ul style="list-style-type: none"> The number of SENA's public tenders for outsourcing services has increased.
D. Simplification of procedures		
Reduce the red tape facing businesses in their dealings with government	<p>Reform the legal framework</p> <ul style="list-style-type: none"> Publication of the Anti-Red Tape Act Regulations to Articles 1 & 2 of Law No. 962 approved, whereby the workings of the Procedures Rationalization and Automation Group (GRAT) and the Sector Committees on Process Rationalization are regulated. <p>Simplification of procedures and process reengineering</p> <ul style="list-style-type: none"> Effective simplification of procedures for the Single Window for Business Registration, the Single Window for Foreign Trade, the Single Window for Social Protection and Social Security, and the Single Tax Registry, including advances in (i) number of procedures, (ii) length of processing procedures, and (iii) use of publicly available electronic media. 	

Objective	Conditions Precedent to Disbursement	Triggers for a second programmatic PBL
	<ul style="list-style-type: none"> Action plan for reengineering of processes for simplifying liquidation of companies, cofinancing with public resources, and property registration, considering at least (i) administrative reforms and processes required, (ii) proposal for an information technology platform supporting the new procedures as required by reengineering, (iii) information technology interface with public, and (iv) a module for access to the system that provides information on the status of application or request. 	<ul style="list-style-type: none"> Reengineering design implemented in the three sets of procedures selected for the first loan. Processing times for those procedures are reduced by half.
III. Ready businesses for new international markets		
Improve business promotion and development programs	<p>Implement the standardized project information and management system</p> <ul style="list-style-type: none"> Government approval of the Standardized Project Information and Management System (SUIGP) for business development programs, <p>Design a system and methodology for evaluating business development programs</p> <ul style="list-style-type: none"> Establishment of a framework methodology for evaluation of business development programs Implement an impact evaluation methodology as part of a business development program. 	<p>- SUIGP is operating in three entities and is available online to businesses.</p> <ul style="list-style-type: none"> Using an integrated methodology, evaluate the impact of two of the major business development programs and allocate funding to programs in light of those evaluations. DNP has prepared a revised version of the institutional paper on the methodology for evaluation of business development programs, including environmental impact indicators to measure how changes in productivity and technology financed for companies have affected the environment
Improve the ability of SMEs to communicate	<p>Promote the use of ICTs for SMEs</p> <ul style="list-style-type: none"> Approval of the "Policy on Use of Broadband Technologies" (and evidence of the rate of advance of the policy) and approval of the "Sustainable Strategy for Telecommunications Services" Action plan for establishing an ICT promotion policy, including steps for evaluating the Connectivity Agenda. Report from the Superintendency of Trade and Industry on the system for certifying digital signatures and secure places, and business use of that system Use of Internet for processing of social security, foreign trade and business registration, and updating of business data. 	<ul style="list-style-type: none"> Design of an electronic public contracting system. CONPES approval of an ITC promotion policy that includes evaluation of the Connectivity Agenda with respect to business adoption of ICTs.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/06

Colombia. Loan ____/OC-CO to the Republic of Colombia
Competitiveness Enhancement 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 financing to cooperate in the execution of a competitiveness enhancement program. Such financing will be for an amount of up to US\$200,000,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

LEGIII/CO-695834-06
CO-L1007