

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

SUPPORT FOR NATIONAL LOGISTICS POLICY IMPLEMENTATION

(CO-L1109)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Procurement Plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37750366
2.	Annual Work Plan (AWP) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37789563
3.	Monitoring and Evaluation Arrangements http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37749779
OPTIONAL	
1.	Economic Evaluation of the Project http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37647744
2.	National Logistics Committee – Introduction http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36803735
3.	Contribution of the Operation to Regional Integration http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710082
4.	Formalization of Employment and Business Development of the Road Freight Transport (RFT) Sector in Colombia http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37326796
5.	The Buenaventura Logistics Activities Zone – Current situation and recommendations for action http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37735811
6.	Methodological Design of the National RFT Policy http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37646096
7.	Specialized Logistics Infrastructure. Management models applicable to Colombia, status and proposed institutional arrangement http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37243543
8.	Evolution of the National Logistics Policy and National Freight Policy http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37789457
9.	Safeguard Policy Filter (SPF) and Safeguards Analysis Form (SSF) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37750758

ABBREVIATIONS

AWP	Annual work plan
CDP	Coordinación del Programa [Program Coordinating Office]
CNL	Comité Nacional de Logística de Transporte [National Transportation Logistics Committee]
CONPES	Consejo Nacional de Política Económica y Social [National Economic and Social Policy Council]
CPC	Consejo Privado de Competitividad [Private Competitiveness Council]
DIES	Dirección de Infraestructura y Energía Sostenible [Infrastructure and Sustainable Energy Division]
DNP	Departamento Nacional de Planeación [National Planning Department]
FDI	Foreign direct investment
MT	Ministry of Transportation
OEL	Optional electronic link
ONL	Observatorio Nacional de Logística [National Logistics Observatory]
PMR	Project Monitoring Report
PND	Plan Nacional de Desarrollo [National Development Plan]
PNL	Política Nacional de Logística [National Logistics Policy]
PNTC	Política Nacional de Transporte de Carga [National Freight Transport Policy]
REL	Required electronic link
RFT	Road freight transport
SIIF	Sistema Integrado de Información Financiera [Integrated Financial Information System]
SLI	Specialized Logistics Infrastructure
TEG	Technical Execution Group
TULE	Technical Unit for Logistics Execution
VMT	Office of the Deputy Minister for Transport
WACC	Weighted Average Cost of Capital

PROJECT SUMMARY

COLOMBIA SUPPORT FOR NATIONAL LOGISTICS POLICY IMPLEMENTATION (CO-L1109)

Financial Terms and Conditions					
Borrower: Republic of Colombia Executing Agencies: National Planning Department (DNP) and Ministry of Transportation (MT)		Flexible Financing Facility *			
		Amortization period:		Single payment on 15 December 2028	
		Original Weighted Average Life		15 years**	
		Disbursement period:		5 years	
		Grade period:		15 years**	
Source	Amount (US\$)	Inspection and supervision fee:		***	
IDB (OC)	15,000,000	Interest rate:		LIBOR	
Local	0	Credit fee:		***	
Total	15,000,000	Currency:		U.S. dollars from the Ordinary Capital (OC)	
Project at a Glance					
Objective: The objective of the program is to support the implementation of the National Logistics Policy of Colombia and strengthen the competitiveness of domestic and foreign trade by optimizing processes for domestic transportation, logistics, and distribution of goods and merchandise, ensuring their proper linkage with the territory and connectivity with transportation networks and foreign trade hubs. The anticipated results of the program are: (i) reduced costs and times of logistics for the physical distribution of goods, particularly in domestic and foreign trade logistics chains and corridors; and (ii) increased public-private participation in the development of infrastructure and logistics services.					
Conditions precedent to the first disbursement of Component 1: (i) evidence that the DNP has appointed the General Coordinator of the program with specific functions to perform his/her work (paragraph 3.2); and (ii) evidence that the DNP has approved the program's Operating Regulations according to the terms and conditions previously approved by the Bank (paragraph 3.6).					
Conditions precedent to the first disbursement of Component 2: (i) evidence that the MT has appointed a Technical Execution Group (TEG) for Component 2 and appointed its coordinator, with specific functions to perform his/her work (paragraph 3.3); and (ii) evidence that the MT has approved the Operating Regulations according to the terms and conditions previously approved by the Bank (paragraph 3.6).					
Special conditions of execution: (i) that, within no more than six months following the first disbursement, the DNP has hired the staff for the Program Coordinating Office (CDP) (paragraph 3.2); (ii) that, within no more than six months following the first disbursement, the MT has hired the staff for the Technical Execution Group (paragraph 3.3); and (iii) that, prior to financing activities under Component 1 with national or subnational entities benefiting from the program, the DNP and those subnational entities have signed a letter of commitment on interagency support in accordance with the terms indicated in the Operating Regulations agreed upon with the Bank (paragraph 3.7).					
Exceptions to Bank policies: None					
Project qualifies as:		SEQ []	PTI []	Sector []	Geographic [] Headcount []

* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes in the amortization schedule as well as currency and interest rate conversions, subject in all cases to the final amortization date and the original weighted average life (WAL). The Bank will take market conditions and operational and risk management considerations into account when reviewing such requests.

** The WAL and the grace period may be shorter, depending on the effective date of signature of the loan contract.

*** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with relevant policies.

I. DESCRIPTION AND MONITORING OF RESULTS

A. Background, problems, and rationale

- 1.1 A solid macroeconomic context together with significant domestic demand and access to low-cost loans facilitated the Colombian economy's recovery following the 2008 crisis, with domestic product increasing by 4% in 2012. In addition to these positive trends, in recent years the Government of Colombia has been structuring an open integration policy in order to connect with different markets and consolidate free trade agreements. The country has free trade agreements with Mexico, El Salvador, Guatemala, Honduras, Canada, Chile, South Korea, Costa Rica, Cuba, Panamá, Israel, the Caribbean Community, the Andean Community, and the Common Market of the South as well as signed agreements with the European Union and the United States, and negotiations are in progress with Turkey. The country's foreign sales grew by 43% in 2011 and 5% in 2012, with a notable positive change in sales to markets in the United States, the European Union, the Andean Community, and elsewhere. Over the last 10 years, the flow of foreign direct investment (FDI) to Colombia has increased fivefold, reaching US\$15.823 billion in 2012, an 18% change over 2011. These FDI flows are primarily based on high international prices for minerals and oil, sectors that account for the largest share of the country's FDI.
- 1.2 Continued growth in the domestic market and in foreign trade—in conjunction with a dynamic and growing mining industry and an open integration policy that tends to capture significant volumes of FDI—creates pressure to promote the efficient use of the country's logistics assets (ports, airports, road freight transport (RFT), and the road network) and proper coordination of the sequencing of public and private investments so that, together, they will have a direct impact on productivity and competitiveness.
- 1.3 Given this need, since 2008 the Government of Colombia has been developing a policy strategy and sector lines of action aimed at advancing measures to improve logistics performance and promote the country's sustained economic growth,¹ with the formulation of the National Freight Transport Policy (PNTC) and the National Logistics Policy (PNL), which establish the general framework of policies and lines of action in these areas.² ([OEL#8](#)).

¹ In 1994, with the creation of the National Competitiveness Council, the Government of Colombia put the emphasis on the topics of quality, productivity, and competitiveness. This vision evolved under the National Policy on Productivity and Competitiveness of 1999. In 2004, the domestic agenda for productivity and competitiveness was renewed and culminated in 2006 with the creation of the National Competitiveness Administrative System, now the National Competitiveness and Innovation Administrative System and the National Competitiveness Commission.

² CONPES 3489 and 3759 (Policy guidelines for the modernization of road freight transport (RFT) and statement of the strategic importance of the program to replace and recondition the trucking fleet) include strategies for RFT development. CONPES 3547 promotes best practices in logistics and transportation, and identifies institutional weakness as an impediment to improving performance.

- 1.4 The implementation of this strategy was the focus of action of loan 2540/OC-CO supporting the PNL, executed in 2011 by the National Planning Department (DNP). Through this loan, the Bank provided support for the definition of the PNL's institutional framework as embodied in the 2010-2014 National Development Plan, which governs the actions of the Government of Colombia during that four-year period with the force of law.^{3, 4} This loan contributed to the integration of the National Transportation Logistics Committee (CNL)⁵ by supporting the formation of a Logistics Programmatic Coordination Office and the preliminary designation of the Technical Unit for Logistics Execution (TULE)⁶ ([OEL#2](#)).
- 1.5 The CNL is made up of the High-level Presidential Advisory Office for Public and Private Management, the DNP, the Ministry of Commerce, Industry, and Tourism, the Ministry of Transportation (MT), the National Taxes and Customs Division, and Proexport, representing the public sector, and the Private Competitiveness Council (CPC) and Confecámaras, representing the private sector.⁷ In March 2012, the Government of Colombia made a definitive step toward consolidation of the PNL by approving the internal rules of procedure of the CNL and ratifying the action plan.⁸
- 1.6 **Identification of the problem.** Despite increased investment in developing road infrastructure and defining an institutional structure, Colombia needs to diversify its transportation modal matrix (including rail and river transport⁹) and optimize the use of its logistics assets. These deficiencies compromise the growth of its

³ Policy-based loan 2540/OC-CO: The general objective of the program was to strengthen and consolidate the freight logistics sector and trade facilitation by deepening and expanding the proposals made in the PNL. The project completion report of March 2012 indicates that the actions adopted, mostly contained in the 2010-2014 National Development Plan law, make it possible to assert that the process for achieving the program's objectives has begun, the foundation is there for executing the proposed technical changes, and the principal institutions in charge have already been established.

⁴ The 2010-2014 National Development Plan includes in its action statement specific points that will enable the country to begin institutionalizing the National Logistics Plan and makes a commitment to the institutional strengthening of the logistics and freight sector.

⁵ Formerly COMIFAL: Trade Facilitation and Logistics Committee.

⁶ Responsible for linking public and private actors in the management of all actions taken with respect to a strategic corridor in which multiple trade flows converge. 2011-2014 National Development Plan.

⁷ Colombia has effective agencies and opportunities for public-private dialogue and collaboration: (i) Proexport is the agency in charge of promoting international tourism, foreign investment, and nontraditional exports; and (ii) the CPC is the link between the public and private sectors for promoting competitiveness and public policies.

⁸ The core strategies are: (i) institutional strengthening; (ii) logistics information; (iii) sustainable logistics; (iv) promotion of specialized logistics infrastructure (SLI); (v) value added logistics services; and (vi) foreign trade facilitation ([OEL#2](#)).

⁹ Rail transport in Colombia is focuses on the transport of hydrocarbons and bulk energy. Some cargo is transported by river but the lack of investment in port infrastructure, buoyage systems, dredging, and signage and the absence of specific policies and regulations reduce private-sector interest. These transport modalities can significantly decrease logistics costs and the emission of greenhouse gases, since they would partially replace RFT, the main contributor to such emissions.

economy, producing high costs and logistical delays for both domestic transport and foreign trade.¹⁰ The country's logistics underperformance forestalls (domestic and international) investment by leading companies in the logistics sector and limits improvements in the country's level of competitiveness and its ability to reduce costs and times in domestic and international trade.^{11 and 12}

- 1.7 In RFT, freight accounts for 22%, on average, of the total costs of international physical distribution.¹³ The country's geographic characteristics and the location of the centers of production and consumption, at a considerable distance from the principal foreign trade ports, mean that road transport weighs very heavily in the final cost of transporting goods in the country.¹⁴ RFT plays a strategic role in the country's economic development, not only because of its impact on the cost of merchandise but also because it is the main option for transporting merchandise. If other direct costs related to inefficiencies, such as loading and unloading wait times¹⁵ and protective services due to unsafe conditions, are taken into account, RFT represents up to 39% of international physical distribution costs and 36% of export costs.
- 1.8 Inefficient RFT and the inability to predict service delivery have an effect on the inventory levels that companies must keep and on the productivity of tractor units (empty runs and load factors) and are a barrier to the growth and development of logistics services.
- 1.9 In the port sector, foreign trade processes and training for officials responsible for inspection affect port operations and average productivity, slowing down foreign

¹⁰ Costs and days required to export a 20-foot container: for Colombia, US\$2,270 and 14 days; for Latin America and the Caribbean, US\$1,257 and 18 days; and for the OECD countries, US\$1,032 and 10 days. *Doing Business* 2012, Colombia.

¹¹ According to the 2012-2013 Global Competitiveness Index, Colombia ranks 69th out of the 144 countries analyzed, with the quality of its transportation infrastructure being one of the major challenges that must be addressed to improve the country's competitiveness. In this regard, the quality of Colombia's transportation infrastructure ranks 114th among the 144 countries analyzed. ["Global Competitiveness Report 2012-2013"](#) World Economic Forum.

¹² Limão, N., A. J. Venables. Infrastructure, Geographical Disadvantage, and Transport Costs, proved that transport costs affect a country's export capacity and performance; Nordås, H., E. Pinali, M. Geloso, Logistics and Time as a Trade Barrier. OECD Trade Policy Working Paper No. 35 proved that time spent in domestic procedures and logistics performance are barriers to improving a country's foreign trade; Rodrigue, J. (IDB, 2012). [The Benefits of Logistics Investments: Opportunities for Latin America and the Caribbean](#) describes the importance of joint public-private agendas in complementary areas of activity, transport services, and infrastructure.

¹³ Costs of International Physical Distribution: from the origin in the exporting country to the place of consumption, in a 20-foot container with origin/destination at a port in the United States.

¹⁴ In 2009, 83.4% of freight was moved in this way. Sector Note on Transportation for Colombia, IDB.

¹⁵ Average import/export costs for the land logistics chain in Colombia are higher (US\$2,659 and US\$4,309 respectively) in comparison with the average for Latin American countries (US\$2,195 and US\$2,016). Logistics Performance Index, World Bank.

- trade operations and increasing costs and the number of days in port, which is reflected in low utilization of ports compared with other countries in the region.
- 1.10 The airport system's current capacity is insufficient to meet the demand for air cargo services resulting from trade treaties and growth in the economy. Use of the infrastructure is suboptimal due to slow inspection procedures, the lack of 24-hour service, and the agencies' failure to coordinate for critical processes with strict deadlines involved in this type of transport. Long waiting times for inspection and capacity limits hamper the transport of large shipments and cause foreign trade losses.
 - 1.11 The principal causes affecting logistics performance in Colombia are described below:
 - 1.12 **Cause 1.** Fragmentation of RFT ownership,¹⁶ the average age of the fleet,¹⁷ and limited professionalization¹⁸ of the service lead to low productivity of the units, high operating costs, and onerous logistics times. This leads to limited participation by RFT companies in the delivery of logistics services, low energy efficiency in the sector, greenhouse gas emissions, and traffic accidents ([OEL#4](#)).
 - 1.13 **Cause 2.** Moderate institutional capacity to link different agencies in the development of public policies and investments focused on logistics. The implementation of projects, policies, and processes depends on certain and effective interagency coordination, on the capacity of the agents involved, and on the participation of different governmental jurisdictions (national, departmental, and municipal) ([OEL#5](#)). With respect to the supply of land for logistics and corridor management projects that would optimize national distribution and foreign trade (freight centers for distribution, controlled customs areas, multimodal logistics platforms, port and airport logistics areas, etc.), the Government of Colombia has no specific management model for promoting specialized logistics infrastructure (SLI), lacks experience in legislating on urban logistics activities, developing departmental logistics plans, or managing integrated logistics corridors, which are essential components for strengthening the competitiveness of national exports ([OEL#7](#)).
 - 1.14 **Cause 3.** The dispersion and/or lack of information on logistics performance, the productive sector, and RFT, and the lack of a common mechanism for data management and defined metrics make it difficult to assign priorities and monitor actions. The lack of information results in limited interaction and coordination between the public and private sectors and impinges on sector knowledge covered

¹⁶ Owned 76% by individuals, 16% by private companies, and 2.5% by transportation companies. CONPES 3489.

¹⁷ Forty-six percent of RFT involves vehicles with over 20 years of useful life and an average age of 18.5 years. Ministry of Transportation.

¹⁸ Waiting, loading and unloading times in the Buenaventura-Bogota Corridor: 41 hours weekdays (US\$113,506/ton) and 89 hours weekends. (US\$153,115/ton). Twenty-seven percent of vehicle runs are empty with no paying cargo. Ministry of Transportation.

by applicable legislation, compromising the consolidation and coordination of the CNL and the implementation of its action plan.

- 1.15 **Relationship with the Bank's country strategy:** Based on the country strategy with Colombia (document GN-2648-1), two of the areas where the Bank will direct its efforts are: (i) definition of a management model to ensure public-private partnership and attraction of institutional investors as a mechanism for project development and financing;¹⁹ and (ii) implementation of the PNL focused on efficiency in the delivery of freight transport services, development of SLI and promotion of intermodality, and infrastructure development in border areas. This operation is consistent with the competitiveness and transport pillar of the country strategy. The introduction of best practices in freight transport and logistics will reduce costs and time in the productive chains, which will strengthen productivity, support strategic investment projects, and foster private sector participation.
- 1.16 The operation is aligned with the Bank's institutional strategy in accordance with the Ninth General Capital Increase (GCI-9) (document AB-2764) and with the loans in support of climate change initiatives, renewable energy and environmental sustainability, and regional cooperation and integration. The operation falls under the classification criteria of cross-country focus and subsidiarity (document GN-2650), in that it supports a national policy that seeks the country's internationalization and addresses the need to boost its competitiveness for increased regional and global economic participation. The operation also contributes to the harmonization of domestic policy reforms and the updating of national regulatory and investment frameworks ([OEL#3](#)).

B. Objectives, components, and cost

- 1.17 The objective of the program is to support the implementation of Colombia's National Logistics Policy and strengthen the competitiveness of Colombian domestic and foreign trade by optimizing processes for national transportation, logistics, and distribution of goods and merchandise, ensuring their proper linkage with the territory and connectivity with transportation networks and foreign trade hubs.
- 1.18 In view of Causes 1, 2, and 3 identified in paragraphs 1.12, 1.13, and 1.14, the program structures actions around two technical components, each of which is assigned to an executing agency, the DNP and the MT, as the entities responsible for setting the National Logistics Policy (PNL) and regulating road freight transport, respectively. The DNP will also be responsible for performing the financial audit and for program monitoring and follow-up.
- 1.19 Given the interaction between logistics and multimodal freight transport, the specific objectives of the program are: (i) to provide linkage mechanisms and

¹⁹ The program is covered under Law 1508 of 2012, establishing the legal mechanism for public-private partnerships, which defines the guidelines for public-private initiative projects and will provide a legal and regulatory framework to support the structure, and economic and technical studies on logistics projects.

- monitor implementation of the PNL; (ii) to support the modernization of RFT, the comprehensive restructuring of the sector, and job formalization and business development; (iii) to generate, consolidate, and systematically analyze freight transport and logistics data; (iv) to train and support subnational entities to incorporate the distribution and transportation of merchandise in land-use planning; (v) to review the public sector participation mechanism for SLI development and management; and (vi) to strengthen foreign trade facilitation tools.
- 1.20 **Component 1. Support for the consolidation and coordination of the National Transportation Logistics Committee (US\$7.25 million).** This component will have the DNP as its executing agency and may have other beneficiary agencies. It includes generation of logistics information, promotion of SLI, improvement of logistics activities in urban settings, foreign trade facilitation, and promotion of sustainable logistics practices, through the execution of seven subcomponents:
- 1.21 **Subcomponent 1.1. Foreign trade facilitation.** The actions to be carried out are aimed at reducing times and cost overruns due to bottlenecks affecting the logistics performance of foreign trade hubs. They are: (i) studies involving a comprehensive review of procedures at port and air hubs, to reduce foreign trade times and costs, including estimating financial and operational impact and regulatory adjustments needed to allow implementation of identified measures, and mechanisms used to inform users of such implementation; (ii) management and support for the development and/or continuation of operational optimization plans for border crossings with Ecuador and Venezuela; and (iii) formulation of strategies to promote and strengthen intermodal logistics operators.
- 1.22 **Subcomponent 1.2. Logistics information.** The subcomponent includes support for developing the institutional structure for implementation of the National Logistics Observatory as a strategic tool to capture, analyze, and disseminate the country's logistics information by generating indicators that make for efficient decision-making on public policies and prioritization of public and private investments. It will include institutional aspects as well as information and methodological systems integration to measure and calculate logistics indicators, including the use of regulatory reform and business intelligence tools.
- 1.23 **Subcomponent 1.3. Dissemination and update of the PNL.** The objective of this subcomponent is to expand knowledge and participation in support programs and instruments developed by the PNL. It also calls for disclosing successful cases, stimulating the development of networks and horizontal transfers among subnational entities, developing training programs in international logistics practices for different actors in the chain, and generating informative material on the PNL and its areas of action. At the end of the execution period, the subcomponent includes updating the PNL.
- 1.24 **Subcomponent 1.4. Technical studies for promoting the specialized logistics infrastructure (SLI).** This subcomponent consists of formulating policy tools and guidelines that contribute to the consolidation of the National Logistics Platforms

System, with the participation of the Government of Colombia in the development of this type of infrastructure, including formulation of a promotion policy, inter-jurisdictional interaction mechanisms, mechanisms for attracting investments, and the definition of the responsibilities and participation of national, regional, and local governments in promotion, startup, and monitoring.

- 1.25 **Subcomponent 1.5. Logistics and urban and regional distribution.** The subcomponent will improve coordination with local governments, regional competitiveness commissions, and other control agencies to identify mechanisms for improving logistics management and urban and regional distribution. Specifically, the subcomponent provides for: (i) supporting, through pilot experiences, the formulation of municipal, metropolitan, and departmental plans for policies and strategies to optimize freight handling in urban centers; and (ii) identifying and legislating freight transport and logistics activities and urban SLI as well as other actions to manage freight in urban environments, and designing mechanisms to incorporate urban logistics in mobility plans.
- 1.26 **Subcomponent 1.6. Sustainable logistics.** This subcomponent calls for the development of mechanisms for coordination with the private sector to incorporate sustainable management measures in the supply chains and the design and execution of strategies to promote reverse logistics activities.²⁰
- 1.27 **Subcomponent 1.7. Institutional strengthening.** Under this subcomponent, technical capital will be created in the logistics sector, through the Technical Unit for Logistics Execution (TULE). This structure will provide continuity for the CNL's operations, through the development of new tools for action, the coordination of the policy's public and private actors, and constant updates and training for PNL implementation.
- 1.28 **Component 2. Support for implementation of the National Freight Transport Policy (PNTC) (US\$7.25 million).** As an integral part of the PNL, this component will support the MT in implementing activities for which it is responsible by: (i) implementing, stabilizing, and maintaining information systems; (ii) preparing actions to formalize and develop RFT businesses and jobs; (iii) conducting studies and creating regulatory frameworks to promote alternative modes of transportation; and (iv) designing incentives and implementation mechanisms to develop logistics services through clusterization approaches in all modes, seeking to promote comprehensive freight transport services. This component will specifically finance:
- 1.29 **Subcomponent 2.1. Modernization of RFT.** This subcomponent provides for developing and implementing policy guidelines and actions aimed at modernizing, formalizing, and developing RFT businesses and jobs. The conditions for delivering this service will be reviewed and set, on the basis of technical, social, and economic

²⁰ They involve the transfer of materials from the user or consumer to the manufacturer or to pickup points for reuse, recycling, or, eventually, destruction.

criteria as well as standards for delivering world-class freight transport services, among other lines of action set out in CONPES 3759.

- 1.30 **Subcomponent 2.2. Freight transport and logistics services.** This subcomponent seeks to eliminate bottlenecks in the delivery of transportation and logistics services in order to facilitate international trade, bring national producers closer to global markets, and strengthen national production chains by: (i) conducting studies and developing regulatory frameworks to improve the operation of river and rail transport that provide incentives for the use of these alternative modes of transportation; (ii) designing incentives and implementing mechanisms to develop logistics services through clusterization approaches in all modes, seeking to promote integrated freight transport services; (iii) supporting the structure and work of logistics corridor offices; and (iv) identifying information technology and intelligent transport systems requirements for logistics processes.
- 1.31 **Subcomponent 2.3. Information systems for monitoring and optimizing freight transport.** The subcomponent provides for strengthening and developing information systems for freight transport monitoring and optimization, by promoting activities such as analytical tasks related to the description of freight transport cycles and logistics operations, relationships between the different logistics agents that are involved in the chain, and the conceptual design of a system of indicators for the RFT Observatory, which will be fed through the strengthening of the information systems and tools that the sector currently has.²¹
- 1.32 **Subcomponent 2.4. Institutional strengthening.** This subcomponent finances: (i) the startup and consolidation of the freight transport and logistics technical unit of the Office of the Deputy Minister for Transport (VMT), which is responsible for implementing and coordinating freight logistics actions specifically related to RFT.
- 1.33 **Auditing (US\$0.3 million).** This line item covers the financial audit of the program.
- 1.34 **Monitoring and follow-up (US\$0.2 million).** This line item covers program monitoring, follow-up, and evaluation expenses.
- 1.35 **Program beneficiaries.** The country's current business climate points to opportunities for the Government of Colombia to promote policies and projects designed to improve the efficiency of its transport and logistics system.²² Thus, local governments will be beneficiaries of the initiative promoted by the program, while the role of assigning priorities belongs to the national government.

²¹ RFT costs index, efficient costs information system, information system for the regulation of RFT, national freight dispatch registry, and the vehicle supply model.

²² According to projections, an expanding middle class and the entry into effect of the free trade agreements will draw new companies to the country and create the need to expand existing companies. In addition, the international crisis and the regional political situation make Colombia more attractive as an investment destination.

- 1.36 The country's export-import sector, freight transport users, and participants in the country's logistics chains will be the primary beneficiaries. The general population will benefit from the increased competitiveness of domestic exports and national distribution processes. The program will bring about a reduction in the income threshold needed to invest in the country, which would attract more domestic and foreign firms (increased investment, increased competition, and reduced prices for logistics services due to competition) and will allow greater access to more modern technology and logistical processes. In addition, the program would amount to an improvement in investment and competitiveness conditions in the sector, measured on the basis of parameters such as an improved organic growth rate among logistics firms, reduced weighted average cost of capital, and potential increases in the yield on capital invested.
- 1.37 Lastly, public-private partnerships interested in developing logistics infrastructure with the characteristics that interest the national government will benefit from the program due to the availability of the set of incentives, information, disclosure mechanisms, and institutional support that the program will provide.
- 1.38 **Cost and financing.** The total cost of the program will be US\$15 million, financed by the Bank from the Ordinary Capital within the framework of the Flexible Financing Facility, according to the following breakdown:

Table 1. Cost and Financing

Components and expenditures		Bank (in US\$)
1.	Component I. Support for the consolidation and coordination of the CNL	7,250,000
2.	Component II. Implementation of the PNTC	7,250,000
3.	Financial audit	300,000
4.	Monitoring and follow-up	200,000
Total		\$15,000,000

C. Results framework with key indicators

- 1.39 The proposed outcome and output indicators and means of verification will optimize use of the information collected by the executing agencies during project execution. All outputs and associated milestones will be verified directly based on supervision reports. Outcome indicators will be measured directly or indirectly depending on the methodologies to be established for each indicator ([REL#3](#)). These measurements and/or estimates will then be compared with projections in the Results Framework ([Annex II](#)), which is part of the Performance Monitoring Report (PMR). The specific outputs and milestones, targets and associated programmed costs, determining factors in program execution, and lessons learned will also be considered within the PMR. The following table presents the selected indicators and respective verification methods:

Table 2. Outcome and output indicators and verification methods

Indicator	Verification method
Impact	
Reduced national logistics costs	National Logistics Survey (ENL) and monitoring by the ONL
Increased outsourcing of logistics activities	
Reduced average export costs and times	<i>Doing Business</i> editions
Outcome	
Increased surface area of logistics centers	Baseline determined through ENL and monitored by the ONL
Reduced loading and unloading logistics times in RFT	
Reduced empty load trips in RFT	MT freight matrix
Outputs	
Component I. Support for the consolidation and coordination of the CNL (DNP)	
Trade facilitation shock plans	Half-yearly reports and final evaluation
Design and structuring of SLI	
Implementation of the TULE and the ONL	
Component II. Implementation of the PNTC (MT)	
Freight transport and logistics technical group	Half-yearly reports and final evaluation
RFT business modernization and formalization	
Development of freight transport and logistics services	
Information systems for RFT monitoring and optimization	

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The loan proceeds will be disbursed over a period of five years, starting on the date the loan contract takes effect, according to the following disbursement schedule:

Table 3. Disbursement Schedule

Source	2014	2015	2016	2017	2018	Total
IDB (US\$ million)	1.78	3.33	3.33	3.33	3.23	15.0
%	10	24	22	20	24	100

B. Environmental and social risks

- 2.2 In accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703), the program has been classified as a category "C" operation in that it involves institutional strengthening and research activities that do not include works or actions with a negative environmental and social impact, the effects of which are minimal and do not require any environmental and social analysis in addition to preselection and the initial delineation. The environmental and social strategy focuses on promoting inclusion of the sustainability, responsibility, and environmental risk prevention principles of OP-703.

C. Fiduciary risk

- 2.3 The fiduciary evaluation concludes that the DNP and the MT have sufficient capacity to carry out the loan's financial management, resource administration, and procurement activities. However, the MT's TEG working model needs to be evaluated six months after it is established. The MT's fiduciary risk in financial management is average and the DNP's is low. In the case of procurement, the MT's risk is high and the DNP's is low.
- 2.4 In order to mitigate the identified risks, training in financial management and procurement will be arranged through the executing units of the DNP and the MT. Participants will include employees and consultants with experience in procurement using funding from the multilateral banking system. The MT plans to purchase software for generating reports by cost center and by source of financing and suitable for the project's information reporting requirements. Lastly, the program's Operating Regulations will include a chapter detailing the application of the Bank's policies and procedures in the financial and procurement areas (paragraph 3.6).

D. Other special aspects

- 2.5 **Economic evaluation.** The program is not an investment in fixed assets with a cost flow and direct benefits measurable over time. Thus, its impact as a catalyst should be evaluated, through changes in the valuation parameters of new investments attributable to its implementation. The benefits from the additional investment in logistics achieved by the change in the decision-making parameters of companies and the impact of sector competition on reducing service prices were estimated.
- 2.6 Two approaches are presented for performing the economic analysis of the program: the real options approach and the multiplier approach of earnings before interest and taxes (EBIT) to estimate the value of a firm. According to the first approach, the program will reduce the risk of investments in logistics by identifying specific projects, providing better information on business opportunities, and reducing income volatility. The program will also reduce the ambiguity and uncertainty associated with the lack of specific policies and regulations. According to the theoretical results of the approach, the program would bring about a reduction in the earnings threshold needed to invest. This would attract more domestic and foreign firms (more investment, increased competition, and reduced prices for logistics services due to competition) as a result of public investment in the sector through the program. As for the second approach, in its various components the program would tend to improve the organic growth rate of logistics firms (increase in new and more clearly delineated opportunities), with an improvement in investment conditions and competition in the sector.
- 2.7 Along these lines, the program would introduce improvements in the weighted average cost of capital (WACC) of companies in the sector (through reduced country risk; reduced impact) and in their prospects for organic growth. Over the next 20 years, the social benefits attributable to the program would increase the value of firms by 11.93% in the air subsector; 17.57% in the maritime subsector;

8.31% in the rail and road transport subsector; and 11.19% in the logistics platforms subsector. In aggregate terms, the additional value created by the program would be US\$2.176 billion in 2013 ([OEL#1](#)).

- 2.8 **Sustainability.** Program sustainability is supported by the decision of the DNP and the MT to incorporate, within their respective institutional structures, the execution units that will be created and strengthened with Bank financing. Both the DNP and the MT have proposed in their new organic structure the creation of the TULE and the freight transport and logistics technical unit as essential mechanisms for improving the sector's management in response to the challenges created by the increasingly global economy and the free trade agreements (paragraph 1.1).

III. EXECUTION AND ADMINISTRATION PLAN

A. Summary of execution arrangements

- 3.1 **Borrower and coexecuting agencies.** The borrower is the Republic of Colombia. The DNP and the MT will be coexecuting agencies for the operation and will be responsible for structuring the projects under their jurisdiction, drawing up and monitoring contracts, and coordinating the bidding process.
- 3.2 The DNP, through the Infrastructure and Sustainable Energy Division (DIES), will be responsible for program coordination, execution of Component 1, auditing, and monitoring. That division will be supported by a technical team of specialized professionals linked to the TULE and by the Program Coordinating Office (CDP) in operational matters. The CDP will consist of a general coordinator, a procurement specialist, an attorney, and an administrative assistant. The General Secretariat and the Financial Subdivision will be involved in the DNP for budgetary control and contracting activities for Components 1, 3, and 4. The specific functions of the DIES, the TULE, and the CDP are described in the program's Operating Regulations. **Evidence that the DNP has appointed the program's general coordinator with specific functions to perform his/her work will be a special condition precedent to the first disbursement for Component 1.** A special condition for execution will be that the DNP has hired staff for the CDP within six months of the first disbursement.
- 3.3 The MT, through the VMT, will be responsible for executing Component 2 and for that purpose will appoint a technical execution group (TEG). To implement the program, the TEG will have a sector coordinator, a financial-accounting specialist, a procurement specialist, and a project technical assistant. The specific functions of these professionals are set out in the program's Operating Regulations. **Evidence that the MT has appointed the TEG for Component 2 and its coordinator, with specific functions to perform his/her work, will be a special condition precedent to the first disbursement for Component 2.** A special condition for execution will be that the MT has incorporated staff into the TEG within six months of the first disbursement.

- 3.4 The functions of the DIES and the VMT will be as follows: (i) to coordinate the activities of the TULE and the TEG, respectively; (ii) to promote the program among potential beneficiaries; (iii) to identify and design the activities to be financed with program funds; (iv) to develop terms of reference and bidding documents for studies and consulting assignments to be financed by the program; (v) to support the Colombian government's line agencies and the subnational governments in the identification, monitoring, evaluation, diagnosis, and preparation of logistics initiatives; (vi) to follow up on projects financed by the program; and (vii) to perform activities to disseminate, explain, and publicize the program-financed projects and initiatives. The specific functions of each coexecuting agency will be set out in the program's Operating Regulations.
- 3.5 The principal tasks of the CDP and the TEG include: (i) preparing periodic monitoring reports; (ii) reporting program information to update the investment projects monitoring system, in accordance with the system's requirements; (iii) providing technical and financial information to facilitate the detailed monitoring of program execution; (iv) monitoring the program's procurement plan and the annual work plan and submitting the required reports; and (v) developing financial execution monitoring tables and payment schedules. With respect to the financial execution of Component 2, the CDP will receive the corresponding information from the TEG and will consolidate the program's financial execution information.
- 3.6 The program's Operating Regulations will govern execution of the program and will include: (i) its general description; (ii) its institutional organization; (iii) relations between coexecuting agencies; (iv) the selection of activities; (v) administrative procedures and flows and the division of responsibilities; (vi) rules for the procurement of goods and consulting services; (vii) procedures to ensure appropriate disclosure and transparency in the development of the program's activities; (viii) aspects related to supervision, monitoring, and control; and (ix) the model interagency agreement that subnational beneficiary entities will sign. **Evidence that the program's Operating Regulations have been approved by the DNP, in accordance with the terms previously agreed upon with the Bank, will be a special condition precedent to the first disbursement for Component 1. Evidence that the program's Operating Regulations have been approved by the MT, in accordance with the terms previously agreed upon with the Bank, will be a special condition precedent to the first disbursement for Component 2.**
- 3.7 The program will be executed on the basis of the program's annual work plan (AWP), which will include the activities to be implemented, their objectives, and specific goals. The inclusion of an activity will be contingent upon compliance with eligibility criteria based on the effect that such activity will have on private participation in the sector, the interest and support received on the part of the beneficiary, and the ability to disseminate the results obtained. As a special condition for execution, prior to financing Component 1 activities with national or

subnational program beneficiary entities, the DNP and such subnational entities will have signed a letter of commitment on interagency support according to the terms indicated in the program's Operating Regulations agreed upon with the Bank.

- 3.8 **Procurement of goods and services.** The procurement of consulting services and goods to be financed with program funds will be carried out in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB” (document GN-2349-9) and the “Policies for the Selection and Contracting of Consultants Financed by the IDB” (document GN-2350-9), both from 2011. International bidding procedures will be reviewed on an ex ante basis.
- 3.9 **Disbursements.** The program will disburse funds through advances reflecting the project's actual liquidity requirements. The frequency of such advances will be determined according to the project's financial programming. Each of the coexecuting agencies will submit its own disbursement requests, estimating the financing resources needed to execute its components according to its budget and procurement plan. The Bank may process a new advance of funds when at least 80% of the total funds disbursed as advances have been justified. Supervision will be handled on an ex ante basis until the borrower and the Bank agree that review will be done ex post. There is no provision for recognition of expenditures.

B. Summary of monitoring and evaluation arrangements

- 3.10 Program monitoring and evaluation will be based on the targets and progress indicators defined in conjunction with the DNP and the MT, which were incorporated in the Results Matrix. The Bank will monitor the program through inspection visits and administration missions. This monitoring will allow it to examine: (i) progress made in activities and contracting; (ii) the performance of the DNP and the MT and progress made in institutional strengthening; (iii) the budget for the next year; and (iv) the execution calendar and performance indicators.
- 3.11 The program monitoring and evaluation process will be coordinated by the DNP. The DIES has adequate systems for: (i) compiling periodic information on physical and financial progress; and (ii) keeping relevant information on the execution of the program's activities and its resources accessible and up-to-date. Program monitoring and evaluation will use the following instruments: (i) the AWP, the project execution plan, and the procurement plan; (ii) semiannual monitoring reports; (iii) audited financial statements; and (iv) the Project Completion Report (PCR), including an ex post evaluation ([REL#3](#)). In addition, a methodology is proposed for evaluating the impact of the Comprehensive Policy on RFT Modernization²³ focused on four aspects: (i) economic relations; (ii) modernization of the trucking fleet; (iii) sector businesses' formalization and development; and (iv) the development of logistics services.

²³ The methodology for evaluating the impact of the Comprehensive Policy on RFT Modernization was designed within the framework of CO-T1237 ([OEL#6](#)).

- 3.12 The financial statements and the eligibility of project expenditures for both the DNP and the MT will be audited each year by an independent auditing firm acceptable to the Bank, to be contracted by the DNP. Auditing services will be financed with loan proceeds. The project's audited financial statements will be sent to the Bank no later than four months after the close of the entity's fiscal year, in accordance with procedures and terms of reference previously agreed upon with the Bank.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program		i) Lending to support climate change initiatives, renewable energy and environmental sustainability, and ii) Lending program to support regional cooperation and integration.		
Regional Development Goals				
Bank Output Contribution (as defined in Results Framework of IDB-9)		i) Municipal or other sub-national governments supported, and ii) Number of cross border and transnational projects supported.		
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix		GN-2648-1	The intervention contributes to the implementation of the National Logistics Policy.	
Country Program Results Matrix		GN-2696	The project is not included in 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Highly Evaluable	Weight	Maximum Score
		8.2		10
3. Evidence-based Assessment & Solution		9.8	33.33%	10
4. Ex ante Economic Analysis		7.6	33.33%	10
5. Monitoring and Evaluation		7.2	33.33%	10
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Medium		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		C		
IV. IDB's Role - Additionality				
The project relies on the use of country systems (VPC/PDP criteria)				
The project uses another country system different from the ones above for implementing the program				
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality				
Labor				
Environment				
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes	The following technical cooperations are in execution in support of the operation: i) CO-T1230 Support to improve the use of ICT in Freight Logistics and Trade Facilitation; ii) CO-T1233 Support to the National Logistics Policy (UTEL), and iii) CO-T1237 Support Initiative on Energy Efficiency in Freight Transportation.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		Yes	The monitoring and evaluation activities will allow to measure the program's outcomes in particular through the provision and generation of data by the National Observatory of Logistics and the new National Logistics Survey.	

The program's goal is to contribute to the implementation of the National Logistics Policy and Freight Motor Carrier Policy, strengthening the competitiveness of foreign trade by optimizing transport processes and national distribution of goods and products, ensuring proper coordination with the territory and its connectivity to the networks of transport and foreign trade nodes.

The results matrix presents the impact indicators, outputs and outcomes associated with the program's objectives and components. The indicators presented in the results matrix are SMART.

The program includes an economic analysis for the entire program and its components. The monitoring and evaluation plan is based on an ex-post cost-benefit analysis and a before-after comparison that should identify and quantify the impact of the project in particular through the provision and generation of data by the National Observatory of Logistics and the new National Logistics Survey.

Risks are identified as well as mitigation measures.

RESULTS MATRIX

Impacts and outcomes expected from the operation	The objective of the operation is to help strengthen the competitiveness of Colombian foreign trade by optimizing domestic goods and merchandise transportation and distribution processes, ensuring their proper linkage with the territory and connectivity with transportation networks and foreign trade hubs.
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Indicators	Baseline	Target	Means of Verification / Observations
Impact: Reduced domestic logistical costs			
Logistical costs as a percentage of the value of sales of companies producing goods	2008 12.48%	2018: 3% reduction	Responsible agency: National Logistics Laboratory (ONL) Methodology: The baseline is taken from the 2008 National Logistics Survey. This baseline will be updated within the first two years of execution (year 2014 or 2015) with a new survey, which will be financed by the program. The information must be compiled through interviews with authorities, user groups, and companies, and field verification processes. <i>Metric: percentage</i>
Impact: Reduction in average export costs and times			
Average total cost and time to export a 20-foot container	2012: US\$2,270 and 14 days	2018: US\$ 2,000 and 12 days	Responsible agency: DNP/ONL Source: Editions of <i>Doing Business Report</i> Methodology: Adopt value directly from <i>Doing Business Report</i> for target year. <i>Metric: US\$ and days, respectively</i>
Impact: Increased outsourcing in logistics activities			
National Index of Logistics Outsourcing	2008 Low or no outsourcing. 61.7% Average outsourcing. 37.4% Medium high outsourcing. 0.9%	2018: Low or no outsourcing. between 55% and 57% Average outsourcing. between 39% and 43% Medium high outsourcing. between 3% and 4%	Responsible agency: ONL Methodology: The baseline is taken from the 2008 National Logistics Survey. <i>Metric: percentage</i>

Indicators	Baseline	Goal	Means of Verification / Observations
Outcome: Increased surface area of logistics centers			
Increased area of logistics centers in Colombia (in square meters)	To be determined (2014/2015)	2018: 5% increase	<p>Responsible agency: ONL</p> <p>Methodology: The baseline will be determined within the first two years of execution (year 2014 or 2015), through the National Logistics Survey, which will be financed by the program. Information must be compiled through interviews with authorities, user groups, and companies, and field verification processes.</p> <p>Metric: percentage</p>
Outcome: Reduced logistics times for loading and unloading freight			
Reduced logistics times for loading and unloading freight	To be determined (2014/2015)	2008: 5% reduction	<p>Responsible agency: ONL</p> <p>Methodology: The baseline will be determined within the first two years of execution (year 2014 or 2015), through the National Logistics Survey, which will be financed by the program. Information must be compiled through interviews with authorities, user groups, and companies, and field verification processes.</p> <p>Metric: percentage</p>
Outcome: Reduction in empty runs in road freight transport (RFT)			
Reduction in empty runs in RFT	2008: 27%	2018: 20% reduction	<p>Responsible agency: MT</p> <p>Source: Freight matrix of Colombia</p> <p>Methodology: Adopt the value directly from the freight matrix.</p> <p>Metric: Percentage</p>

Output Indicators	Baseline (2013)	2014	2015	2016	2017	2018	Cumulative Goal	Means of Verification / Observations
Component I. Support for the consolidation and coordination of the National Transportation Logistics Committee (CNL)								
Subcomponent 1.1. Institutional strengthening								
Number of consulting studies finalized for a comprehensive review of processes at port and airport hubs, including any necessary adjustments in regulations for their implementation	0	0	1	0	0	0	1	Responsible agency: DNP Information will be verified by means of the consulting report, the final approval report on the consulting assignment(s), and the semiannual execution reports. During the first year of execution, terms of reference will be established for conducting the studies.
Number of consulting studies finalized for the preparation and/or continuation of operational optimization plans for border crossings with Ecuador and Venezuela	0	0	0	2	0	0	2	Responsible agency: DNP Information will be verified by means of the consulting report, the final approval report on the consulting assignment(s), and the semiannual execution reports. During the first year of execution, terms of reference will be established for conducting the studies
Number of consulting studies finalized for the formulation of strategies to promote and strengthen intermodal logistics operators, including the logistics module in operation within the Foreign Trade Single Window (VUCE)	0	0	0	0	1	0	1	Responsible agency: DNP Information will be verified by means of the consulting report, the final approval report on the consulting assignment(s), and the semiannual execution reports. During the first year of execution, terms of reference will be established for conducting the studies.
Subcomponent 1.2. Logistics information								
Adoption and startup of the National Logistics Observatory (ONL)	0	0	1	0	0	0	1	Responsible agency: DNP Information will be verified through the report certifying implementation of the ONL.
National logistics survey designed and approved	0	1	0	0	0	0	1	Responsible agency: DNP Information will be verified through the report containing the results of the survey and the semiannual reports.

Subcomponent 1.3. Update and dissemination of the PNL								
PNL dissemination activities	0	1	1	1	1	1	5	Responsible agency: DNP Information will be verified by means of the consulting report, the final approval report on the consulting assignment(s), and the semiannual execution reports. During the first year of execution, terms of reference will be established for conducting the studies
Update of the PNL (CONPES)	0	0	0	0	0	1	1	Responsible agency: DNP Information will be verified through the new CONPES of the PNL.
Subcomponent 1.4. Technical studies for promoting the specialized logistics infrastructure (SLI)								
Number of SLI feasibility studies	0	1	1	0	0	0	2	Responsible agency: DNP Information will be verified by means of the consulting report, the final approval report on the consulting assignment(s), and the semiannual execution reports. During the first year of execution, terms of reference will be established for conducting the studies
Number of technical, legal, and financial SLI structuring processes carried out	0	0	0	2	0	0	2	Responsible agency: DNP Information will be verified by means of the consulting report, the final approval report on the consulting assignment(s), and the semiannual execution reports. During the first year of execution, terms of reference will be established for conducting the studies
Number of CONPES documents on SLI projects formulated	0	0	0	0	0	1	1	Responsible agency: DNP Information will be verified by means of the semiannual execution reports and the CONPES.

Subcomponent 1.5. Logistics and urban and regional distribution								
Number of consulting studies finalized for developing municipal, metropolitan, or departmental plans on policies and strategies and legislation for optimizing freight handling in urban centers.	0	0	0	1	1	0	2	Responsible agency: DNP Information will be verified by means of the consulting report, the final approval report on the consulting assignment, and the semiannual execution reports. During the first year of execution, the terms of reference will be established for conducting the studies.
Number of consulting studies finalized for identifying and legislating freight transport and logistics activities in urban SLI and other activities to manage freight in urban environments and designing mechanisms to incorporate urban logistics in mobility plans	0	0	0	0	0	1	1	Responsible agency: DNP Information will be verified by means of the consulting report, the final approval report on the consulting assignment, and the semiannual execution reports. During the first year of execution, the terms of reference will be established for conducting the studies.
Subcomponent 1.6. Sustainable logistics								
Methodology for measuring the benefits and impacts of national and urban freight logistics projects and actions in reducing greenhouse gas emissions	0	0	0	1	0	0	1	Responsible agency: DNP Information will be verified by means of the consulting report and the final approval report on the consulting assignment. During the first year of execution, the terms of reference will be established for conducting the studies.
Number of consulting assignments completed for developing mechanisms to coordinate with the private sector on incorporating sustainable management measures in supply chains and improving fuel consumption levels	0	0	0	1	0	0	1	Responsible agency: DNP Information will be verified by means of the consulting report and the final approval report on the consulting assignment. During the first year of execution, the terms of reference will be established for conducting the studies.
Strategy for promoting and strengthening reverse logistics activities formulated and implemented	0	0	0	1	0	0	1	Responsible agency: DNP Information will be verified by means of the consulting report, the final approval report on the consulting assignment, and the semiannual execution reports.

Subcomponent 1.7. Institutional strengthening								
Technical Unit for Logistics Execution in the DNP operational and strengthened through contracting of experts in logistics, multimodal transportation, economic and financial analysis	0	0	0	0	0	1	1	Responsible agency: DNP Information will be verified through the semiannual report.
Number of training sessions attended by staff of the DNP's Technical Unit for Logistics Execution	0	1	2	2	2	1	8	Responsible agency: DNP. Information will be verified through the semiannual report.

Output Indicators	Baseline (2013)	2014	2015	2016	2017	2018	Cumulative Goal	Verification Methods / Observations
Component 2. Support for implementation of the National Freight Transport Policy								
Subcomponent 2.1. Modernization of RFT								
Number of consulting studies finalized to develop regulations for the logistics and freight transport sectors and to formalize jobs.	0	0	1	1	1	1	4	Responsible agency: MT Information will be verified by means of the consulting report and the final approval report on the consulting assignment. During the first year of execution, terms of reference will be established for conducting the studies.
Number of training sessions provided for freight transport and logistics chain actors to improve their operations	0	0	0	0	2	2	4	Responsible agency: MT Information will be verified by means of the consulting report and the final approval report on the consulting assignment. During the first year of execution, terms of reference will be established for conducting the studies.
Subcomponent 2.2 Freight transport and logistics services								
Number of consulting studies finalized to develop technological tools and intelligent transportation systems to improve freight logistics	0	0	0	0	1	0	1	Responsible agency: MT Information will be verified by means of the consulting report and the final approval report on the consulting assignment. During the first year of execution, terms of reference will be established for conducting the studies.
Number of consulting studies and regulatory frameworks finalized for improving the operations of river and rail transport	0	0	0	1	1	1	3	Responsible agency: MT Information will be verified by means of the consulting report and the final approval report on the consulting assignment. During the first year of execution, terms of reference will be established for conducting the studies...
Number of consulting studies finalized for structuring and management of logistics corridors offices	0	0	0	0	1	1	2	Responsible agency: MT Information will be verified by means of the consulting report and the final approval report on the consulting assignment. During the first year of execution, terms of reference will be established for conducting the studies.

Subcomponent 2.3. Information systems for monitoring and optimizing freight transport								
Number of consulting studies finalized to strengthen and develop information systems to monitor and optimize freight transport	0	0	1	1	1	0	3	Responsible agency: MT Information will be verified by means of the consulting report and the final approval report on the consulting assignment. During the first year of execution, terms of reference will be established for conducting the studies.
Development of new systems to process and analyze information	0	0	0	1	0	0	1	Responsible agency: MT Information will be verified by means of the consulting report and the final approval report on the consulting assignment. During the first year of execution, terms of reference will be established for conducting the studies.
Subcomponent 2.4. Institutional strengthening								
Technical Execution Group consolidated through the hiring of experts in logistics, multimodal transport, transport regulation, and economic and financial analysis	0	0	0	0	0	1	1	Responsible agency: MT The information will be verified through the hiring of individual consultants.
Number of training sessions attended by staff from the freight transport and logistics technical unit	0	1	1	1	1	1	5	Responsible agency: DNP Information will be verified through the semiannual report.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

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I. EXECUTIVE SUMMARY

- 1.1 A fiduciary assessment was conducted of the National Planning Department (DNP) and the Ministry of transportation (MT) using the following tools: (i) “Detailed Assessment of the Executing Agency’s Capacity to Manage Procurement;” (ii) “Institutional Capacity Assessment System;” and (iii) “Project Risk Management.” Currently, the MT is satisfactorily executing loan 1963/OC-CO and the DNP has satisfactorily executed loans 1594/OC-CO and 2079/OC-CO. The assessment concludes that the coexecuting agencies have sufficient capacity to carry out the loan’s financial management, resource administration, and procurement activities. However, an assessment must be done of the capacity of the Technical Execution Group (TEG) of the Office of the Deputy Minister for Transport six months after it is appointed. The MT’s fiduciary risk in financial management is MEDIUM and the DNP’s risk is LOW. In the case of procurement, the MT’s risk is HIGH and the DNP’s risk is MEDIUM.
- 1.2 According to the Public Expenditures and Financial Accountability (PEFA) assessment, Colombia’s public financial management system is a mature system and performs well in most areas. However, it is still not entirely aligned with international standards. The public procurement system is also considered adequate from a regulatory perspective and consistent with internationally accepted practices but its use has not yet been authorized for Bank loans.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The MT and the DNP will perform the project’s accounting using the Integrated Financial Information System (SIIF). However, the DNP will control the project’s accounting information using the “SEVEN” accounting software that can be used to generate detailed information. As project coordinator, the DNP will consolidate accounting information from the MT and the DNP and will prepare the project’s financial statements. Both the MT, through the TEG to be appointed, and the DNP will be responsible for coordinating financial and administrative procedures related to the component for which they are responsible, such as budgets, cash flow, and general accounting.
- 2.2 The DNP has a financial, procurement, and contracting specialist with experience in multilateral banking system projects. As areas for improvement, the MT will be appointing the project’s TEG and identifying the personnel who will participate in

- executing the project. It will be purchasing parallel accounting software because the SIIF accounting and reporting subsystem does not generate detailed reports classified by investment category.
- 2.3 The DNP is appropriately organized to handle procurement and has detailed procedures, powers, and responsibilities. The DNP's technical area has staff or consultants with experience in applying the Bank's procurement policies and in the use of standardized documents. Corrective measures have been suggested for weaknesses noted in procurement administration. Contracts are monitored manually using Excel sheets and there is no specialized software for managing the procurement cycle. The MT has a group of employees with experience in applying Colombian legislation on procurement. The employees who will form the program's TEG have not been designated but this will be done as part of the program's conditions precedent. Procurement planning is performed by the MT division responsible for contracting and the MT's organizational structure for procurement is included in the Functions Manual and the Contracting Manual. There are problems in the MT in terms of processing procurement financed by multilateral lending institutions because: the MT staff on the Bidding and Contracts Committee tend to apply the provisions of Law 80 and its regulations without considering the provisions on contracting contained in the loan contracts signed between the national government and the multilateral banks; there are no provisions on the application of the multilateral banks' procurement policies; and the number of MT employees with adequate experience in applying the Bank's procurement policies is limited.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 The following fiduciary risks were identified using the "Project Risk Management" tool:
- 3.2 It is recommended that another institutional capacity assessment be conducted on the subject of procurement upon completion of the first year of execution, in order to evaluate the result of applying the proposed mitigation measures and any modification in the risk rating of the two entities.

IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACTS

- 4.1 The following will be considered special conditions precedent to the first disbursement: (i) that the MT has appointed the project's TEG, for which it must take into account the profiles of the financial and procurement specialists defined by the Bank; and (ii) the program's Operating Regulations have taken effect, including the chapter on finances with the terms and conditions previously approved by the Bank.
- 4.2 Each coexecuting agency will submit supporting documentation for expenditures, using the exchange rate for converting the funds disbursed in U.S. dollars to Colombian pesos (monetization rate).

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

1. Procurement execution

- 5.1 **Procurement of works, goods, and nonconsulting services:** Contracts for works, goods, and nonconsulting services¹ under the project and subject to international competitive bidding (ICB) will be executed using the Standard Bidding Documents (SBDs) issued by the Bank. Contracting subject to national competitive bidding (NCB) will be executed using national competitive bidding documents agreed upon with the Bank. Review of the technical specifications for procurement during preparation of the selection processes is the responsibility of the project's sector specialist.
- **Procurement of information technology (IT) systems:** The Bank's IT specialist will advise on the design of provisions for this procurement. If available, the executing agency will recommend the use of the SBDs for the Procurement of Information Technology Products and Services. [If contracts using contracting methods other than those of the Bank are required, explain the reasons why those methods would be more appropriate].
- 5.2 **Selection and contracting of consultants:** Consulting services contracts generated under the project will be executed using the Standard Request for Proposals (SRPs) issued by or agreed upon with the Bank. The review of the terms of reference for contracting consulting services is the responsibility of the project's sector specialist.
- **Selection of individual consultants:** In accordance with GN-2350-9
 - **Training:** *The program provides for training. See the Procurement Plan*
- 5.3 **Recurring expenses:** Provision is made for financing recurring expenditures and operating and maintenance expenses needed to execute the project during its useful life, which will be financed by the project within the annual budget approved by the Bank, and will be executed following the administrative procedures of the executing agency. These procedures have been reviewed and accepted by the Bank provided they do not violate the basic principles of competition, efficiency, and economy. In addition, recurring expenditures include the costs of consultants contracted to assist the executing agency during the period from (insert start date) to (insert end date).²
- 5.4 **Trade practices:** Not applicable.
- 5.5 **National preference:** [This section should be included only in cases where the borrower seeks inclusion of national preference. In such case, indicate: "The supply

¹ Policies for the procurement of goods and services financed by the IDB (document [GN-2349-9](#)), paragraph 1.1: Nonconsulting services are treated as goods.

² On an exceptional basis, incremental staff costs incurred by the executing agency and specifically tied to project execution are financed (document [GN-2331-5](#) Annex I, 1.7. C.c.1.22).

of goods originating in the borrower's country will have price preference³ equal to 15% in contracts subject to international competitive bidding.”]

- 5.6 **Other:** [Indicate whether there is some special provision for grants, donations, acquisition of land, rights, and rights of way needed for project execution and how the procurement mentioned in this section would be handled.]

2. Table of thresholds (US\$000)

Works			Goods ⁴			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International advertising	Shortlist 100% National
>=10,000	>=350 <10,000	< 350	>=1,000	>=50 <1,000	< 50 ⁽¹⁾	>=200.	< 500,000

(1): The shopping threshold for goods may be increased according to the technical specifications of the goods to be procured and market conditions

Threshold for Ex Post Review*		
Works	Goods	Consulting services
US\$10,000,000	US\$1,000,000	US\$200,000

* Ex post review is subject to the provisions of section 4. Procurement supervision

3. Main procurement processes

- a. The main procurement processes, as part of the Fiduciary Agreements and Requirements, are the responsibility of the executing agency. These are the project's most important purchases (include only the name of the purchase, the type of selection, the estimated date, and the estimated amount in thousands of dollars) and must be prepared using information generated for preparation of the procurement plan for joint work of the executing agency with the procurement and technical units of the institution heading the project and the sector specialist who must ensure that procurement is in line with obtaining the outcomes and outputs of the operation. Once the loan is approved, the executing agency will be responsible for preparing the procurement plan^{5,6} and the executing agency will provide and ensure that these are appropriate and of the expected quality in accordance with the Bank's procurement policies through issuance of the mandatory no objection.

³ Policies for the Procurement of Works and Goods Financed by the IDB (document [GN-2349-9](#)), Appendix 2, and the loan contract.

⁴ Includes nonconsulting services.

⁵ Policies for the Procurement of Goods and Works Financed by the IDB (document [GN-2349-9](#)), paragraph 1.16; Policies for the Selection and Contracting of Consulting Services Financed by the IDB (document [GN-2350-9](#)), paragraph 1.23.

The borrower must prepare and, prior to negotiating the loan, submit for the Bank's approval a procurement plan acceptable to the Bank for the initial period of at least 18 months.

⁶ See [Guide for the Preparation and Implementation of the Procurement Plan](#)

- b. See Procurement Plan. To access the 18-month Procurement Plan, click [here](#).

4. Procurement supervision

- Works: ex ante unless the Bank determines otherwise.
- Goods: ICB and NCB ex ante unless the Bank determines otherwise.
- Shopping: the first ex ante and, if result is satisfactory, may be ex post.
- Consulting firms: ex ante unless the Bank determines otherwise.
- Individual consultants: the first ex ante and, if result is satisfactory, may be ex post.

5. Special provisions: N/A

6. Records and files

- a. The DNP keeps complete documentation on the contracting process. The Bank has conducted three ex post procurement reviews and has found folders, files, and procurement material in proper order and condition. Procurement documentation is properly digitized in the DNP's ORFEO system. The respective technical area handles pre-contract, contract, and post-contract documentation. Upon completion of contract execution all documentation is sent to the DNP's Central Archive.
- b. The MT keeps complete documentation on the contracting process (pre-contract stage). Much of this documentation is published on the SECOP. Contract documentation is kept for two years in the Contracts Group office. After the contract is settled, the documentation from the pre-contract, contract, and post-contract stages is sent to the Central Archive. Documentation is kept according to a documents retention table, as provided for in the Colombian law on archives. Contract documentation is kept for 28 years and is microfilmed before being destroyed.

VI. FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** The national government, through the National Public Budget Bureau is responsible for budget programming, a process that concludes with approval of the Annual Budget Law by the Congress of the Republic. The loan proceeds are included in the national budget under the MT and DNP headings and will be controlled through the SIIF.
- 6.2 **Accounting and information systems.** The lead agency for government accounting in Colombia is the Office of the General Comptroller of the Nation (CGN). The official government accounting system is the SIIF. The MT and the DNP will use the SIIF for the project's budget, accounting, and treasury control. The DNP also has the "SEVEN" system for maintaining the project's detailed accounts and, as coordinator, will consolidate the accounting information of the MT and the DNP and prepare the project's financial statements. The MT will purchase

- parallel accounting software that will provide the breakdown of information needed to submit reports to the Bank, because the SIIF accounting and reporting subsystem does not generate timely reports and has operational problems. Nor does it generate reports that are itemized or classified by investment category.
- 6.3 **Disbursements and cash flow.** The proceeds of external loans and the country's other resources are executed through the SIIF. For the project's treasury management, each coexecuting agency will open a special foreign currency account at Banco de la República, to be used exclusively for the loan proceeds, and will prepare its disbursement requests. Disbursement will be in the form of advances of funds, based on liquidity needs for a maximum of six months. Accounts will be rendered on advances in accordance with the Financial Management Policy for IDB-Financed Projects (document OP-273-2). See special conditions precedent to the first disbursement in Section IV, paragraph (a), and exchange rate use in paragraph (b) of this annex.
- 6.4 **Internal control and internal audit.** The MT and the DNP each have an internal control office. Internal control at the MT and the DNP is based on the 2005-MECI public internal control model and on the principles of self-regulation, self-management, self-control, and ongoing improvement. Each entity's internal control office has professional staff trained to carry out the work and participates in the monitoring process as part of the external audit improvement plans and the CGR. Internal audit activities are carried out in accordance with Auditing Standards. Internal and external audit reports have indicated that internal control is effective. The Bank will not use their services because those offices do not include the review of investment projects in their auditing plans.
- 6.5 **External control and reports.** The CGN exercises external control over the coexecuting agencies by conducting public audits of the entities, on a selective and ex post basis, in order to verify compliance with standards, the proper use of resources, adherence to processes and procedures, and the scope of goals and objectives, etc. Given that the CGN is not eligible to audit projects financed with Bank funds, the project will use the services of an independent auditing firm.
- 6.6 The project's financial statements and the eligibility of project expenses will be audited each year by an independent auditing firm acceptable to the Bank, to be contracted by the DNP, and financed with loan proceeds (budget US\$300,000). The project's audited financial statements will be sent to the Bank no later than four months after the close of each fiscal year, in accordance with procedures and terms of reference previously agreed upon with the Bank.
- 6.7 **Financial supervision plan.** Based on the capacity assessment findings and the project's risk assessment, the financial specialist will conduct at least one on-site review per year and desk reviews of the audited annual and final financial statements. The project auditor will verify that funds are executed in accordance with Bank standards and policies in the area of fiduciary management and conditions stipulated in the Operating Regulations.

- 6.8 **Execution arrangements.** The borrower will be the Republic of Colombia, the DNP will act as coexecuting agency and project coordinator, and the MT will be the coexecuting agency. Project funds will basically be used to contract consulting services. To handle the project's treasury, each coexecuting agency will open a special bank account exclusively for the loan proceeds and each agency will prepare its disbursement requests. Disbursements will be made in the form of advances of funds. The MT and the DNP will use the SIIF for the project's budget, accounting, and treasury control. However, as project coordinator, the DNP will consolidate the accounting information of the MT and the DNP and will prepare the project's financial statements. A single audit report will be required for the project. The Operating Regulations will define the functions of each of these bodies and their members as well as the interagency coordination and execution mechanisms for the project's activities.
- 6.9 **Other financial management agreements and requirements.** There are no other agreements other than those mentioned above. However, the fiduciary agreements and requirements included in this annex may be adjusted in accordance with the project's dynamics based on updates of risk analyses and the institutional capacity assessments conducted during program execution.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/13

Colombia. Loan ___/OC-CO to the Republic of Colombia
Support for National Logistics Policy Implementation

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 program of support for national logistics policy implementation. Such financing will be for an amount of up to US\$15,000,000 from 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.

(Adopted on __ _____ 2013)

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