

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

PROGRAM TO DEEPEN FISCAL REFORM IN COLOMBIA

(CO-L1142)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Luiz Villela (IFD/FMM), Project Team Leader; Edna Armendáriz (IFD/FMM); Francesca Castellani (CAN/CAN); Ramiro López-Ghio (FMM/CCO); Martin Ardanaz (IFD/FMM); Sergio Salinas (IFD/FMM); Kevin McTigue (LEG/SGO); Marcio Cracel (consultant); and Maria Lorena Kevish (IFD/FMM).

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ELECTRONIC LINKS	
REQUIRED	
1.	Policy letter http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39043630
2.	Means of verification http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38687925
3.	Results matrix http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38687991
OPTIONAL	
1.	Monitoring and evaluation plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38688308
2.	Bank country strategy with Colombia (2012-2014) http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36701087
3.	Cost-benefit analysis http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38694269
4.	Law 1473-2011 establishing the Fiscal Rule http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38257160
5.	Evaluation of the Bank's Program to Consolidate Subnational Fiscal Responsibility and the system for monitoring, supervision, and control of subnational finances. http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38255384
6.	Taxation and Economic Growth in Colombia http://publications.iadb.org/bitstream/handle/11319/6379/Taxation%20and%20Economic%20Growth%20in%20Colombia%20FINAL.pdf?sequence=1
7.	Colombia Country Report, July 2013, Economist Intelligence Unit http://www.eiu.com/FileHandler.ashx?issue_id=1640732948&mode=pdf
8.	Presentation on the 2012 Tax Reform http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38255393
9.	Tax Reform Law 1672-2012 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38257568
10.	Draft decree for the expansion of electronic invoicing http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38255395
11.	Draft decree introducing new customs regulations http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38255371
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14.	Law 1508 establishing the legal framework for public-private partnerships (PPPs) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38255377
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ABBREVIATIONS

ANCP	Agencia Nacional de Contratación Pública [National Public Contracting Agency]
CNG	Central national government
Col\$	Colombian pesos
CREE	Contribución empresarial para la equidad [business contribution for equity]
DIA	Development in the Americas
DIAN	Dirección de Impuestos y Aduanas Nacionales [National Tax and Customs Directorate]
DNP	Departamento Nacional de Planeación [National Planning Department]
GCI-9	Ninth General Capital Increase, or Ninth General Increase in the Resources of the Inter-American Development Bank
MHCP	Ministerio de Hacienda y Crédito Público [Ministry of Finance]
NFPS	Nonfinancial public sector
PPP	Public-private partnerships
SECOP	Sistema Electrónico de Contratación Pública [Electronic Public Contracting System]
SGR	Sistema General de Regalías [General Royalties System]
VAT	Value-added tax

PROJECT SUMMARY

COLOMBIA

PROGRAM TO DEEPEN FISCAL REFORM IN COLOMBIA

(CO-L1142)

Financial Terms and Conditions			
Borrower: Republic of Colombia		Flexible Financing Facility (FFF) *	
		Amortization period:	Bullet payment on 15 July 2027
		Original WAL:	12.75 years **
Executing agency: Ministry of Finance (MHCP)		Disbursement period:	1 year
		Grace period:	12.75 years
Source	Amount (US\$)	Inspection and supervision fee:	***
IDB: Ordinary Capital (OC)	400 million	Interest rate:	LIBOR
Local:	0	Credit fee:	***
Total:	400 million	Currency:	U.S. dollars from the Bank's Ordinary Capital
Project at a Glance			
<p>Objectives and description: The program's general objective is to contribute to Colombia's fiscal stability through an increase in tax revenue intake, more efficient use of public expenditure, and better management of public debt and liabilities, including contingent liabilities.</p> <p>This operation is the first in a programmatic series of two policy-based loans. The objective is to address some of the main challenges facing Colombia in consolidating the various fiscal reforms introduced in recent years, as well as in enhancing tax collection efficiency and public expenditure effectiveness including the public investments financed by the General Royalties System (SGR), and making public finances less vulnerable to external shocks.</p> <p>Macroeconomic stability is a condition of this operation, which is structured into three components: Component I: Strengthen the management and collection of tax and customs revenue; Component II: Improve public expenditure efficiency; and Component III: Improve the management of public debt and contingent liabilities.</p>			
<p>Special contractual conditions: Disbursements are subject to the completion of policy reform measures (see Annex II, Policy Matrix), as described under the program components (see paragraphs 1.32, 1.34, and 1.36) and the other conditions established in the loan contract.</p>			
<p>Exceptions to Bank policy: None.</p>			
<p>Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []</p>			

* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

** The original weighted average life (WAL) of the loan and grace period may be less, depending on the effective date of loan contract signature.

*** 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 the corresponding policies.

I. DESCRIPTION AND RESULTS MONITORING

A. General context and background

- 1.1 In recent years, the Government of Colombia has made progress in adopting instruments to ensure the stability of public finances. The institutional framework was strengthened through the addition of a fiscal sustainability criterion to the Constitution,¹ the introduction of the fiscal rule,² and the creation of a macroeconomic stabilization and savings fund. These changes helped Colombia to regain its investment grade credit rating in 2011, after 11 years.
- 1.2 More recently, the government has approved a far-reaching tax reform,³ a reform of the General Royalties System (SGR), the creation of the National Public Contracting Agency (ANCP), a Public-Private Partnerships Act, and a debt management strategy. These reforms are consistent with the process of global economic engagement embarked upon by Colombia, which includes actions such as double taxation agreements, free trade agreements, and, beginning in 2013, commencement of the process to join the Organization for Economic Cooperation and Development (OECD).

B. Macroeconomic conditions and fiscal position

1. Macroeconomic conditions

- 1.3 Colombia's economic performance has been good in recent years. GDP grew by 6.6% and 4% in 2011 and 2012, respectively. In 2013, it expanded by 4.3% compared to the previous year. The highest rates of growth over this period were seen in construction (9.8%); agriculture, forestry, hunting, and fishing (5.2%); and mining (4.9%); while the manufacturing sector contracted by 1.2%. On the demand side, final consumption grew by 4.7%, gross capital formation by 4.9%, and exports by 5.3%. Growth in 2014 is projected at between 3.3% and 5.3%.

¹ In June 2011, sustainability in public finances was established as a guiding principle for all government branches and agencies, to ensure that planned expenditures do not jeopardize financing for public sector programs and obligations in the medium term.

² The fiscal rule approved in 2011 establishes a structural fiscal deficit target for the central government, and is to be the main tool of public financial discipline aimed at simultaneously implementing a countercyclical fiscal policy and a sustainability policy. The fiscal rule establishes a declining path in the medium term for the structural fiscal deficit, from 2.3% of GDP in 2014 to 1% of GDP in 2022.

³ In December 2012, a tax reform was approved with the objective of creating jobs and enhancing social equity. The reform included: (i) an alternative minimum tax of 1% on earnings and wages above 2.3 million pesos, eliminating the collection of withholding tax; (ii) a new business contribution for equity (CREE) imposed on corporate profits, which replaces social security contributions levied on payroll; and (iii) simplification of the value-added tax (VAT), with a reduction in the number of rates from seven to three. The corporate income tax rate remains at 33% but will be divided into two levies: an ordinary levy of 25% and the CREE of 8%. The 8% CREE includes: 2.2% to the Instituto Colombiano de Bienestar Familiar [Colombian Family Welfare Institute] (ICBF), 1.4% to the Servicio Nacional de Aprendizaje [National Learning Service], and 4.4% to health care. The main idea underlying this change is that high nonwage costs are partly responsible for high rates of unemployment and informality (60%) in Colombia.

- 1.4 Inflation was 1.9% in 2013, the lowest in the last 50 years. In January 2014, the consumer price index variation was 0.5%, higher than the 0.3% recorded in January 2013. Inflation expectations for 2014 are 2.9%, within the target band of 2% to 4% set by the central bank, Banco de la República. During 2013, Banco de la República lowered the interest rate from 4.25% to 3.25%, where it has stood since March 2013.
- 1.5 The nominal exchange rate has remained relatively stable, fluctuating within a reasonable range in response to various internal and external factors. In 2012, it appreciated by 9% in nominal terms, from Col\$1,942 to Col\$1,768 to the dollar, whereas in 2013 it depreciated by 9%. The normalization of U.S. monetary policy and Banco de la República's interventions in the local foreign exchange market have, together with the measures adopted by the government, reinforced the trend towards peso depreciation. The peso has depreciated by 5% since the beginning of 2014, falling to Col\$2,017 to the dollar in mid-March.
- 1.6 The country has run a modest current account deficit for the last five years, averaging 3% of GDP on average, financed by a surplus on the capital and financial account. In the first nine months of 2013, the current account of the balance of payments recorded a deficit of US\$9.295 billion (3.4% of GDP). The increase in this deficit was due to a lower surplus on the goods balance, resulting mainly from a broad reduction in export prices for the principal products. The surplus on the capital and financial account stood at US\$15.008 billion, equivalent to 5.5% of GDP. Foreign direct investment totaled US\$13.251 billion, or 4.9% of GDP. Balance of payments projections for 2013 are for a current account deficit of 3% to 3.6% of GDP.
- 1.7 International reserves stood at US\$43.710 billion at the end of 2013. In June 2013, the International Monetary Fund approved a new two-year arrangement with Colombia under the Flexible Credit Line for US\$5.84 billion equivalent.
- 1.8 The solid economic performance in recent years, coupled with a strengthening of fiscal accounts and meeting inflation targets, has permeated the market. Unemployment was 9.6% in 2013, the lowest in 12 years. With these results, poverty declined from 45% in 2005 to 32.7% in 2012, and extreme poverty from 13.8% to 10.4%. The Gini coefficient fell from 55.8 to 53.9, still high compared to countries of the region with equivalent levels of income.

2. Fiscal position

- 1.9 The Ministry of Finance (MHCP) projects that 2013 will close with a nonfinancial public sector (NFPS) deficit of 1.4% of GDP. This represents a deterioration of 1.8 percentage points of GDP compared to 2012, driven by a central national government (CNG) deficit of 2.4% of GDP (compared to 2.3% in 2012) and a smaller surplus of 1% of GDP for the decentralized sector (compared to 2.8% in 2012).
- 1.10 The NFPS debt-to-GDP ratio fell from a high of 39.7% in 2002 to 24.7% in 2013, while the CNG net debt fell from 45.3% to 33.6% of GDP. At the CNG level,

24.8% of GDP represents domestic debt, and 8.8% external debt, which has made the Colombian economy less vulnerable to external shocks. The sovereign borrowing requirement for 2014 is projected to reach Col\$47.2 billion (6.1% of GDP), the most significant components of which are a deficit of Col\$17.9 million (2.4% of GDP) to be financed, and repayments of Col\$22.9 billion (2.9% of GDP). Among its sources of financing, the central government has access to funds totaling Col\$37.896 billion (4.9% of GDP), consisting mainly of domestic and external debt disbursements.⁴ The country expects to borrow US\$4 billion (1% of GDP) from external sources in 2014, of which US\$2 billion (0.5% of GDP) will come from multilateral agencies and US\$2 billion from bond issues on the external market. This operation will cover 20% of the multilateral financing.

C. Public finance issues and challenges

- 1.11 Despite the aforementioned progress, one of the most important challenges for the Colombian government is to deepen its efforts in the fiscal arena through a set of measures designed to consolidate tax reform, improve public expenditure efficiency, and better manage contingent liabilities. The main issues relate to the following areas.

1. Management of tax revenue

- 1.12 The tax burden remains low in Colombia (15% of GDP) compared to the Latin American average (24% of GDP), and particularly when compared to countries with similar levels of income (Argentina, Brazil, Chile, and Uruguay: 31% of GDP).⁵ To improve this performance, the government launched a tax reform in January 2013, and is working to improve the efficiency of tax and customs administration by the National Tax and Customs Directorate (DIAN).
- 1.13 The value-added tax (VAT) is one of the most significant taxes for Colombia. VAT revenues accounted for approximately 35% of tax revenues at the national level, and 5.5% of GDP.⁶ However, the revenue productivity ratio of this tax is only 33%,⁷ due to an evasion rate of around 25%,⁸ and the existence of differential rates and exemptions that narrow the taxable base.
- 1.14 The main issues identified are as follows: (i) although the Tax Reform Law establishes a new paradigm in the area of international taxation, with a view to OECD membership, no specific regulations have yet been introduced to meet this goal; (ii) the use of paper invoices limits the ability and effectiveness of the

⁴ The rest of the sources of financing (1.2% of GDP) include treasury operations and changes in deposits and other liquid claims.

⁵ Data based on Development in the Americas (DIA) 2013, prepared by the Bank.

⁶ Data based on *Revenue Statistics in Latin America, 1990-2012*, Economic Commission for Latin America and the Caribbean (ECLAC).

⁷ According to DIA 2013, VAT productivity in the region averages 41%.

⁸ According to the latest available estimate (2010), the VAT evasion rate is 25.4%, equivalent to 2% of GDP.

regulatory authorities in combating fraud and evasion;⁹ (iii) the existing customs statute, which dates from 1999, is inconsistent with current international best practices and has become obsolete for the purposes of customs control;¹⁰ (iv) current customs procedures do not facilitate international trade, nor do they provide effective customs border protection;¹¹ and (v) weaknesses in DIAN's current organizational structure are the main factor limiting revenue productivity, reflected in a tax burden that is below potential.¹²

2. Management of public expenditure

- 1.15 Problems in expenditure management are seen in both its capital and current components. The country's wealth of nonrenewable natural resources means that royalties are a significant source of financing for public investment in Colombia.¹³ Despite this, recent years have seen (i) a marked concentration of these resources in a small number of subnational entities,¹⁴ contributing to geographical inequalities; (ii) little progress in expanding coverage of basic social services (education, health, water, and infant mortality) despite the magnitude of funds transferred, pointing to inefficiency in expenditure allocation;¹⁵ and (iii) irregular use of funds.¹⁶
- 1.16 This state of affairs led the Colombian government to propose a reform of the royalty distribution mechanism established in the 1991 Constitution. The reform changed the structure for the distribution of revenues from the exploitation of

⁹ The use of paper invoices limits access to quality information for decision-making, thus hindering DIAN's collection capacity.

¹⁰ According to the World Bank's *Doing Business 2014* index, Colombia ranks 94th on the "Trading Across Borders" component, well below the country's overall ranking of 43rd.

¹¹ According to the World Bank's *Doing Business 2014* index, customs authorization and technical control procedures for imports take two days and cost on average US\$170 per container. This is higher than in countries such as Chile (US\$100).

¹² According to information from DIAN, low audit rates (0.1% of active taxpayers, compared to an average of 3.1% for the region, according to DIA 2013) are the result of low staffing levels (the number of inhabitants per tax official in Colombia is the highest in the region at more than 10,000, double the average for Latin America and the Caribbean); staff composition (the average age of employees is over 45); small local footprint (effective presence in only 43 of 1,121 municipios); and little coordination between the tax and customs offices. Although a number of factors influence incentives to comply with tax obligations, variables such as the severity of sanctions for noncompliance in Colombia are in line with international best practices, and are even above regional averages (DIA 2013). Despite this, DIAN's weak control capacity stemming from its current organizational structure undermines voluntary compliance, worsening the problems of evasion and low revenue productivity.

¹³ Revenues from nonrenewable resources account for approximately 8% of total fiscal revenues, and have increased significantly over the last decade. For example, royalties grew from 0.6% of GDP in 2002 to 1.7% in 2012. The SGR budget for 2014 is approximately 1% of GDP.

¹⁴ Seven departments, representing 14% of the population, accounted for 70% of funds allocated in the 2002-2011 period (Bonet and Urrego, 2014).

¹⁵ See "Una evaluación del impacto de las regalías directas y Fondo Nacional de Regalía" [Impact evaluation of direct royalties and the National Royalties Fund], National Planning Department (DNP), 2012.

¹⁶ Draft Legislative Act 13-10, explanatory introduction. See also Comptroller General reports.

nonrenewable natural resources, replacing it with the SGR. The SGR's objective is to foster regional growth, improve equity among the regions, reduce poverty, and enhance competitiveness, based on criteria of regional, social, and intergenerational equity.¹⁷

- 1.17 On the current expenditure side, the magnitude of spending on goods and services¹⁸ led to the creation in 2011 of the National Public Contracting Agency (ANCP), or "Colombia Compra Eficiente." The ANCP's objective is to increase efficiency, transparency, and effectiveness in the use of public funds. Nonetheless, the nature of procurement processes presents an obstacle to the optimal use of these resources.¹⁹
- 1.18 Given the spending allocation issues identified above, the main challenges relate to: (i) reform of the SGR, which entails new responsibilities for the National Planning Department (DNP) and, therefore, a new institutional structure;²⁰ (ii) weak capacity of subnational governments for the structuring of investment projects;²¹ (iii) no institutional mechanisms to promote projects at the regional level, which has led to the fragmentation of investments into small-scale projects with little social impact;²² (iv) no indicators to identify the impact of the various funds that make up the SGR; (v) the need to identify bottlenecks in administrative processes to ensure the rapid use of funds (given their magnitude,²³ the number of actors involved, and the novelty of the SGR); and (vi) no mechanisms to standardize purchasing and demand aggregation processes to facilitate public procurement processes.

¹⁷ To attain these objectives, the SGR is made up of various "funds" and mechanisms governing direct distributions to regional governments. The five funds that make up the SGR are the Fondo de Ahorro y Estabilización [Savings and Stabilization Fund] (FAE); Fondo de Ahorro Pensional de las Entidades Territoriales [Subnational Government Pension Savings Fund] (FONPET); Fondo de Ciencia, Tecnología e Innovación [Science, Technology, and Innovation Fund] (FCTeI); Fondo de Desarrollo Regional [Regional Development Fund] (FDR), and Fondo de Compensación Regional [Regional Compensation Fund] (FCR).

¹⁸ According to the OECD, public procurement is equivalent to approximately 15% of GDP.

¹⁹ According to Colombia Compra Eficiente, between 2,000 and 3,000 procurement notices are published each business day for various types of goods and services required by public agencies throughout Colombia.

²⁰ Under Article 9 of Law 1530 of 2012 governing the organizational structure and operation of the SGR, the DNP's functions include serving as the Technical Secretariat for the Steering Committee and proposing a methodology to the committee for the evaluation and monitoring of projects financed by the Regional Development and Regional Compensation Funds.

²¹ See DNP: "Resultados de evaluación del desempeño integral de los municipios 2012" [Results of the evaluation of overall municipal performance, 2012].

²² See "Una evaluación del impacto de las regalías directas y Fondo Nacional de Regalía" [Impact evaluation of direct royalties and the National Royalties Fund], DNP, 2012.

²³ In the period 2013-2014, more than 3,300 investment projects have been approved for a total value of more than Col\$7.2 trillion (approximately 1% of GDP).

3. Management of debt and contingent liabilities

- 1.19 Colombia has made progress on several fronts in making public finances less vulnerable to different types of shocks. Firstly, borrowing policies have improved substantially with the approval of a National Medium-term Debt Management Strategy in early 2013. This strategy envisions a series of actions related to the size and characteristics of the bond portfolio, aimed at achieving specific objectives in the areas of risk, cost, maturity, currency, and interest rates.
- 1.20 Secondly, Colombia approved a Public-Private Partnerships Act in 2012, with the aim of improving the institutional, economic, and regulatory environment for private sector participation in infrastructure development. Of course, public-private partnerships (PPPs) entail various implicit fiscal risks: operational, financial, regulatory, environmental, natural disaster related, etc. Financial risks may increase financing costs and decrease real income, affecting the country's fiscal accounts.
- 1.21 Lastly, given that natural disasters have resulted in high fiscal costs for the country, the government has designed a strategy that reduces fiscal vulnerability in the face of such events. In particular, this involves the need to develop financial methodologies to identify, mitigate, and address the fiscal risks associated with natural disasters.
- 1.22 Despite these advances, the key challenges are as follows: (i) public debt management is not accompanied by monitoring mechanisms for achieving the objective parameters or medium-term targets set in the New Debt Management Strategy, leaving public finances exposed to market risks; (ii) a number of local government agencies tend to submit PPP projects that do not guarantee value for money for society; (iii) first, second, and third generation road concession contracts have resulted in court disputes, lawsuits, and fines for the government, thus raising the level of contingent liabilities;²⁴ and (iv) the fiscal impact of natural disasters is substantial and recurrent, warranting the adoption of mitigation measures.²⁵

D. The Bank's country strategy

- 1.23 This operation supports the institutional strengthening efforts that the Bank has promoted in Colombia to improve government effectiveness and public finance. It is also aligned with the Bank's country strategy with Colombia (document GN-2468-1), which sets objectives in the area of governance and modernization of the state designed to: (i) achieve more efficient governance, mainly actions to strengthen crosscutting systems such as defense of the government against lawsuits, asset and liability management, and government

²⁴ According to OECD Working Paper 317 (2013), 25 concession contracts have been renegotiated 430 times. The average additional fiscal cost per renegotiation is US\$265 million, equivalent to 280% of the original value of the contracts.

²⁵ Natural disasters have caused losses totaling US\$7.1 billion for the housing sector over the last 40 years, equal to annual losses of US\$177 million (MHCP, 2013).

procurement; (ii) make governance more transparent, chiefly by building up institutional capacity in the country's compliance agencies and solidifying a national accountability policy; and (iii) develop capacity in subnational agencies particularly to improve quality of expenditure, increase revenues, and strengthen accountability and thereby improve fiscal indicators. The program also supports the regional goal of "institutions for growth and social welfare" under the Ninth General Capital Increase (GCI-9) (document AB-2764) by contributing to: (i) the ratio of actual to potential tax revenues, and (ii) public expenditure managed at the decentralized level as a percentage of total public expenditure.

- 1.24 This operation complements the experience gained on operations between the Bank and Colombia in the fiscal and public management areas. Some of the key operations in this area have been the Program to Consolidate Subnational Fiscal Responsibility, Phases I (2341/OC-CO) and II (2744/OC-CO); Program to Strengthen the Legal Defense of the State (2755/OC-CO); Program to Strengthen the Public Investment System (2977/OC-CO); Citizen Service Efficiency Project (CO-L1102; 3154/OC-CO); Disaster Risk Management and Climate Change Adaptation Reform Program (CO-L1103; 2616/OC-CO); Program to Support Public-Private Partnerships in Infrastructure (CO-L113; 3090/OC-CO); and Promotion and Expansion of Electronic Invoicing in Colombia (CO-L1138; 3155/OC-CO).²⁶
- 1.25 These experiences have created synergies in the fiscal and public management areas. This program seeks to deepen the Bank's support for the government's efforts in the fiscal area, such as the recent tax reform, the expansion of electronic invoicing, the transparency and efficiency of public administration, and liability management (including contingent liabilities). Previous policy-based operations in the fiscal area, seeking to improve revenue and expenditure management, have achieved generally satisfactory results, both in Colombia and in other countries in the region (see optional electronic link 37).²⁷ In particular, there is rigorous evidence regarding the effectiveness (in terms of revenue productivity) of organizational reforms in tax administration in middle-income countries, as well as reforms to improve the efficiency of public expenditure.²⁸

²⁶ Optional electronic link 37 contains a summary table of the main features of these projects and the lessons learned.

²⁷ For Colombia, see loans 2341/OC-CO and 2744/OC-CO, as well as the "Final report on the evaluation of the IDB's Program to Consolidate Subnational Fiscal Responsibility and the system for monitoring, supervision, and control of subnational finances." For regional experiences, see the "Presentation on the Fiscal Stability Consolidation Program (PROCONFIS), Stages I and II," prepared by the Government of the State of Bahia, Brazil.

²⁸ In the case of revenue, there is evidence that the introduction of performance-based incentives for tax administration staff increased the detection of irregularities and significantly reduced tax evasion in Brazil (Kahn et al., 2001). See also Olken et al. (forthcoming) for the case of Pakistan. In the case of public expenditure, there is evidence that demand aggregation mechanisms in public procurement systems lead to significant cost savings, of the order of 1% of GDP (see Bandiera et al., 2009).

E. Objective and strategy

- 1.26 The program's general objective is to contribute to Colombia's fiscal stability through an increase in tax revenue intake, more efficient use of public expenditure, and better management of public debt and liabilities, including contingent liabilities. In strengthening the country's macrofiscal pillars, the program is therefore expected to benefit the entire population. In particular, it is expected to contribute to lowering the risk of macroeconomic shocks, which disproportionately affect more vulnerable households.²⁹ In focusing on policy reforms to improve the quality of public investment at the subnational level, the program will also reach a large beneficiary population.³⁰
- 1.27 Consistent with the country's sector strategy, the aim is to lock in the gains made by Colombia under a fiscal responsibility framework launched over a decade ago. Improvements are also expected in the efficiency of tax administration, the allocation of resources from royalties, and the public procurement process, as well as the management of fiscal risks and contingent liabilities.
- 1.28 The policy-based program is structured into two technically linked operations. The actions under them seek to address some the challenges facing the country in improving the effectiveness of recent fiscal reforms and policies. This first programmatic operation focuses on laying the legal and regulatory foundations for the reform program, through issuance of the required decrees, resolutions, regulations, and institutional adjustments. The majority of the legal reforms have been enacted between 2013 and 2014, as part of preparation of this operation, and are included in the policy matrix governing disbursement under the operation.
- 1.29 The second programmatic operation envisages, among other things: (i) compliance with OECD norms regarding base erosion and profit shifting (BEPS); (ii) the issuance of regulations and implementation of rules relating to the new customs law; (iii) presentation of the preliminary findings on the impact of the SGR; (iv) gains made as a result of private sector involvement in the structuring of SGR-financed investment projects; and (v) implementation of the National Fund for Disaster Risk Management.

F. Program components

- 1.30 **Macroeconomic stability.** The objective of this condition is to ensure that the Government of Colombia maintains a macroeconomic environment conducive to

²⁹ De Janvry and Sadoulet (1999) find evidence that the rise in poverty in the wake of a macroeconomic shock may be larger than the subsequent reduction resulting from economic growth. One explanation for this phenomenon is that crises have long-term consequences for the poor, such as, a shift from schooling to child labor that, if not reversed, erodes the stock of human capital, leading to wage losses in the long term (Hicks and Wodon, 2000). For evidence regarding the general impact of macroeconomic crises on poverty and inequality, see Lustig (2000).

³⁰ In 2013, 3,700 investment projects were approved for financing with SGR resources, targeting 923 out of 1,123 municipios. The number of beneficiaries per project averaged 56,000.

fiscal sustainability, and that the policies it adopts are consistent with the main points of the Policy Letter.

- 1.31 **Component I. Strengthen the management and collection of tax and customs revenue.** The objective of this component is to increase the productivity of the tax base and improve revenue intake at the national level. The following actions are proposed: (i) implement and consistently apply regulations tied to aspects of international taxation that have been affected by the recent reform and are compatible with OECD standards; (ii) lay the regulatory foundation for reducing VAT transaction costs and evasion; (iii) strengthen the role of the customs authority to deal with the increasing number of tax agreements signed, coordinated border management, and competition among countries to attract investment; (iv) identify solutions that support the implementation of improvements in customs administration, based on international best practices; and (v) adopt measures to modernize DIAN.
- 1.32 The following conditions have been established for disbursement under this operation: (i) approval of regulations governing aspects of international taxation related to the permanent establishment of persons and corporations, under-capitalization, residency for tax purposes, and transfer prices; (ii) approval of regulations laying the foundation for expansion of electronic invoicing; (iii) introduction of a bill for New Customs Regulations establishing new customs processes and procedures consistent with both current international practices and targets included in trade agreements; (iv) a consulting engagement to identify the customs control system that best meets Colombia's needs; and (v) strengthening of DIAN's organizational structure and staffing.
- 1.33 **Component II. Improve public expenditure efficiency.** The objective of this component is to strengthen the quality of public expenditure. The following actions are proposed: (i) strengthen the new institutional structure of the DNP for implementation of the SGR; (ii) strengthen the capacity to structure investment projects at the subnational level by involving the private sector, academia, and nongovernmental organizations; (iii) incentivize the design and execution of regional projects that promote the country's development and competitiveness; (iv) prepare an evaluation agenda to measure the impact of SGR-financed investments in terms of regional development and convergence, innovation and competitiveness, poverty reduction, and good governance; (v) promote an evaluation agenda for SGR processes that emphasizes the various actors and bottlenecks, to improve their design, management, and implementation; and (vi) strengthen the regulatory framework to facilitate demand aggregation and improve efficiency in public contracting and purchasing.
- 1.34 The following conditions have been established for disbursement under this operation: (i) creation of an SGR Coordination Group within the Subdirectorate for Subnational Entities and Public Investment, as well as the interagency agreement for operational and logistical support to subnational entities; (ii) approval of regulations governing the "Red de Estructuradores" [Structurers' Network] for

- SGR-financed investment projects; (iii) creation of a “Mesa Nacional para el Fortalecimiento Regional” [National Roundtable for Regional Strengthening] for SGR-financed investment projects; (iv) baseline set to measure SGR impact, including the Regional Development and Regional Compensation funds, and competitive bidding process launched to set the baseline for the Science, Technology, and Innovation Fund; (v) an evaluation of the SGR institutional framework and its processes (with emphasis on the investment project cycle), aimed at identifying progress, achievements, and areas for improvement in the design, management, and implementation of the system, and its ability to meet objectives; and (vi) approval of framework agreements on pricing, the purchasing manual, and standard bidding documents.
- 1.35 **Component III. Improve the management of public debt and contingent liabilities.** The objective of this component is to make public finances less vulnerable through the following actions: (i) implement a debt management strategy based on actions leading to the right structure and size of the bond portfolio according to key public debt indicators; (ii) include insurance mechanisms in the fourth generation of road concession contracts, to ensure effective allocation of risks associated with the contingent liabilities created by PPPs; (iii) set the general rules and guidelines to be followed in preparing PPPs, including technical and financial criteria for the identification of projects to be executed using PPP arrangements, as well as the due diligence to be done by entities to determine their feasibility; and (iv) develop a range of financial instruments that can provide sources of additional and timely financing in the event of high-impact natural disasters.
- 1.36 The following conditions have been established for disbursement under this operation: (i) development of a model for monitoring the new debt management strategy; (ii) adoption of a framework contract containing insurance measures to mitigate risks associated with the contingent liabilities created by PPPs; (iii) adoption of measures to improve the institutional, economic, and regulatory environment for PPPs in Colombia; and (iv) design of a strategy for public financial management policy in response to natural disaster risk.
- 1.37 **Economic analysis.** The project team carried out a cost-benefit analysis based on just two of the main program outcomes: (i) customs modernization, through the adoption of new processes and procedures aligned with current international practices and targets under trade agreements; and (ii) strengthening of the public procurement and competitive bidding process with a view to improving efficiency, through the creation of a regulatory framework for demand aggregation and negotiating better prices. It should be noted that financial benefits due to modernization of DIAN’s organizational structure to enhance efficiency were not included in the analysis; doing so would even further improve the robust result of the financial evaluation.

- 1.38 The financial analysis yielded an estimated internal rate of return (IRR) of 21% and a net present value (NPV) of US\$335 million, justifying the Bank's financing.³¹ A sensitivity analysis involving various scenarios was also performed. The simulations do not alter the conclusion regarding the viability of the program, as the NPV remains positive in all cases, and the IRR remains robust at over 18% in the most pessimistic scenario.

G. Main outcomes

- 1.39 To measure the medium-term effectiveness of the reform measures, a Results Matrix was prepared jointly with the borrower, indicating the impacts, outcomes, and outputs of the program.
- 1.40 The expected outcomes of the program will include (i) improvements in tax revenue intake and efficiency; (ii) reductions in the time needed for goods to clear customs, as well as the cost of customs authorization and import controls; (iii) an increase in the number of investment projects approved with funding from royalties; (iv) savings from improvements in public procurement; and (v) improvements in the public debt profile.

³¹ The discount rate applied to net financial flows was 12%.

Table 1: Summary of Expected Outcomes

Indicators	Unit of measure	Baseline		Targets	
		Value	Year	Value	Year
Improvement in tax revenue intake and efficiency					
Total tax revenues	% GDP	14.8	2013	15.4	2016
Tax collected through improved auditing	Col\$ billion	4.1	2013	6.0	2016
Efficiency gains from improvements in the customs system					
Import clearance times	Hours	23	2013	10	2016
Cost of customs authorization and technical control procedures for imports	US\$ per container	170	2013	100	2016
Improved quality of SGR-financed investment projects presented by local governments					
SGR budget approved amount available	%	76	2012	90	2016
Savings from efficiency improvements in public procurement*					
National-level fuel expenditure, including Bogotá (18 cities)	Col\$ billion	385	2012	375	2016
Expenditure on solid waste collection and food services	Col\$ billion	96	2012	91	2016
Improvement in the public debt profile					
Foreign-currency denominated share of public debt	% of total	28	2012	25	2016

* The indicator measures the reduction in spending owing to prices, leaving quantities constant. Constant prices in relation to base year.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments, amount, and currency

- 2.1 This operation is structured under the programmatic modality (first in a series of two operations), based on the guidelines and directives established in the new lending framework (document GN-2200-13) and in the guidelines for preparation and implementation of policy-based loans (document CS-3633-1). The programmatic modality is justified by: (i) the complex nature of the reforms; (ii) the different timelines for the implementation of each reform; (iii) the coordination of reforms between different institutions; (iv) support for policy dialogue in the country; and (v) the supervision required for implementation of the reforms, in order to monitor and provide feedback on outcomes and the triggers for the second operation of the program.
- 2.2 This amount of this operation is US\$400 million, to be disbursed in a single tranche. The amount is justified by the country's financing requirements. As noted in paragraph 1.10, the 2014 external financing requirements are US\$4 billion, and this operation will cover 10% of those requirements. This first programmatic operation will be conducted through the Flexible Financing Facility, in U.S. dollars from the Bank's Ordinary Capital. The agreed amount and timing of the second

operation will be based on progress toward the triggers and the Bank's programming exercise with the country.

B. Environmental and social safeguards

- 2.3 Given the nature of the program, which involves institutional strengthening activities, there are no associated environmental or social risks. In accordance with directive B.13, and based on the results of the safeguard policy filter report, this operation does not require classification.

C. Fiduciary risks

- 2.4 The resources of this operation will go directly to Colombia's treasury to cover the government's financing requirements, so there is no fiduciary risk.

D. Other issues and risks

- 2.5 The implementation of the proposed structural changes and the attainment of targets under this programmatic operation are subject to three categories of risk, which the project team has assessed based on the likelihood and impact of their occurrence: (i) macroeconomic and fiscal sustainability risks; (ii) public management and governance risks; and (iii) monitoring and accountability risks. These risks are rated as low and, therefore, do not warrant mitigation measures. This operation is also targeted to support reforms, the majority of which have been approved during program preparation, and the rest are in the final phase of approval, thus guaranteeing completion of the proposed policy actions.
- 2.6 **Sustainability.** The policies supported by this operation are fully consistent with the strategy for the modernization of fiscal institutions adopted in recent years, as well as the actions planned under the National Development Plan 2010-2014. The advances supported under the operation are therefore expected to be maintained in the medium term.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Execution arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Colombia. The Ministry of Finance (MHCP) will be the executing agency. An important factor ensuring success in implementation of the reforms is that program coordination is under the responsibility of the MHCP's Department of Public Credit, the entity that will benefit directly from the loan proceeds.
- 3.2 The executing agency is responsible for: (i) coordinating among the different institutions responsible for actions or technical execution of activities (MHCP, DNP, DIAN, and ANCP); (ii) supervising and seeing that the activities planned under the operation are completed; (iii) maintaining official communication with the Bank; (iv) preparing the necessary reports within the established time frames agreed upon with the Bank; and (v) anticipating and effectively addressing any risks or problems in program execution.

B. Arrangements for monitoring results

- 3.3 The MHCP will supply the information required to verify fulfillment of the triggers for the next operation and the stages of the agreed reforms. Most of the targets in the Results Matrix will be monitored using the central government's Sistema Nacional de Evaluación de Gestión y Resultados [National System for the Evaluation of Management and Results] (Sinergia), which contains and facilitates access to data on the main indicators, accessible on the Web (www.sinergia.dnp.gov.co).
- 3.4 To support program implementation, the Bank's project team has followed a strategy of: (i) providing required technical assistance in areas already identified, financed partly using operational support resources from technical cooperation operation CO-T1361, "Support for the Deepening of Fiscal Reform in Colombia;" (ii) organizing special missions to coincide with key stages of the design and implementation process; and (iii) together with the Government of Colombia, monitoring closely to anticipate and effectively address strategic, technical, and coordination risks and difficulties associated with program execution.
- 3.5 **Evaluation.** The evaluation financed by the aforementioned technical cooperation operation will include a study of the program's effectiveness in the coming years, including an ex post cost-benefit analysis and a comparison of the planned Results Matrix with the outcomes actually achieved.

IV. POLICY LETTER

- 4.1 **Policy Letter.** The Policy Letter reiterates the national government's commitment to the objectives and actions contemplated for the programmatic operation as a whole. The Bank and the government have also agreed on a Policy Matrix that describes the policy actions under this programmatic operation, as well as actions to be completed prior disbursement of the second operation.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program				
Regional Development Goals		i) Ratio of actual to potential tax revenue, ii) Public expenditure managed at the decentralized level as % total public expenditure.		
Bank Output Contribution (as defined in Results Framework of IDB-9)		i) Public financial systems implemented or upgraded (budget, treasury, accounting, debt, and revenues), ii) Municipal or other sub-national governments supported.		
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix		GN-2648-1	Further strengthen subnational fiscal responsibility.	
Country Program Results Matrix		GN-2756	The intervention is included in the 2014 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Evaluable	Weight	Maximum Score
		8.6		10
3. Evidence-based Assessment & Solution		9.3	33.33%	10
3.1 Program Diagnosis		3.0		
3.2 Proposed Interventions or Solutions		3.6		
3.3 Results Matrix Quality		2.7		
4. Ex ante Economic Analysis		10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		1.5		
4.3 Identified and Quantified Costs		1.5		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		1.5		
5. Monitoring and Evaluation		6.5	33.33%	10
5.1 Monitoring Mechanisms		1.5		
5.2 Evaluation Plan		5.0		
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Low		
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		B.13		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/PDP Criteria)				
Non-Fiduciary				
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	CO-T1283 (Support to the Consolidation of Subnational Fiscal Responsibility in Colombia).	
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				

The document states that beyond the macroeconomic achievements, Colombia faces significant challenges in three areas related to public finance management: i) tax revenues, ii) public expenditure productivity, more specifically investment, and iii) contingent liability management.

In Colombia the tax burden is low compared to the rest of Latin America, and is almost half that of countries with similar incomes. Similarly, tax revenue productivity is also low due to high evasion. Although penalties imposed in Colombia are not very different from those usually applied in other countries, the document argues that a central challenge of tax administration in Colombia is the low level of "enforcement", mainly due to limitations in the number of staff, weak organizational structure and limited physical presence of the Tax agency DIAN. The diagnosis in the fiscal area presents quantitative information that supports the argument.

Regarding the inefficiency in public expenditure management, the document goes directly to the management of royalties that are distributed to sub national level entities. Until the recent royalty reform, their regional distribution was unequal, their impact was limited on the quality and coverage of basic social services and resources were often used irregularly. The recent reform presents challenges for managing royalties both centrally (DNP) and regionally. This assessment is also supported by relevant information and statistical evidence. The third issue addressed is the management of debt and contingent liabilities. Debt management, public private partnerships, natural disaster risk management and contingent liabilities related to road concessions are also included in this component.

The proposed reform program has been structured in two technically related operations. The first operation aims to lay the legal and regulatory framework of the reform program. Most of these reforms and changes were approved during the period 2013-2014, and are part of the policy matrix for the disbursement of the operation.

As a result of this diagnosis, the proposed intervention's final impacts are associated with the fiscal balance of the Central Government and the evolution of Net Public Debt.

The documentation contains an economic analysis that is based on the estimation of two of the main outcomes of the program: (i) Customs modernization through the adoption of new processes and procedures that conform to current international practices and goals agreed in trade agreements; and (ii) strengthening of the public procurement process aimed at efficiency improvements, through the establishment of a regulatory framework for aggregating demand.

The Monitoring and Evaluation plan proposes an ex-post cost-benefit analysis.

POLICY MATRIX

Objective	Conditions precedent to the first disbursement for the first programmatic loan	Triggers for a second programmatic loan
General conditions for policy-based loans		
Maintain an appropriate and fiscally sustainable macroeconomic environment.	The macroeconomic policy framework is consistent with program objectives and the parameters set out in the policy letter. Means of verification. Independent Assessment of Macroeconomic Conditions (IAMC) and Policy Letter.	The macroeconomic policy framework is consistent with program objectives and the parameters set out in the policy letter.
Component I. Strengthen the management and collection of tax and customs revenue		
Increase the productivity of the tax base and improve revenue intake.	1.1 Strengthen the tax framework by issuing regulations tied to aspects of international taxation that have been affected by the recent reform and are compatible with OECD standards. Means of verification. Decrees governing: (i) residency for tax purposes; (ii) local incorporation; (iii) transfer prices; and (iv) under-capitalization.	1.1 Compliance with OECD norms regarding base erosion and profit shifting (BEPS).
	1.2 Strengthen management of the value-added tax by laying the legislative foundation for expansion of electronic invoicing. Means of verification. Decree governing electronic invoices.	1.2 Implementation of the pilot program for the rollout of electronic invoicing.
	1.3 Strengthen the role of customs through the introduction of a bill for New Customs Regulations establishing new customs processes and procedures consistent with both current international practices and targets included in trade agreements. Means of verification. Bill for New Customs Regulations.	1.3 Enactment and implementation of New Customs Regulations.
	1.4 Strengthen customs through the identification of solutions to facilitate the implementation of improvements in administration, based on international best practices. Means of verification. Consulting engagement to begin to identify the customs control system that best meets Colombia's needs, published in the Electronic Public Contracting System (SECOP).	1.4 Launch of customs control system operations at full capacity.

Objective	Conditions precedent to the first disbursement for the first programmatic loan	Triggers for a second programmatic loan
	<p>1.5 Modernization of DIAN's organizational structure to improve efficiency.</p> <p>Means of verification. Decrees mandating changes in DIAN's organizational and wage structure.</p>	<p>1.5 DIAN operating with the new organizational structure.</p>
II. Improve public expenditure efficiency		
Strengthen the quality of public expenditure.	<p>2.1 Strengthen the DNP through the creation of a new institutional structure for implementation of the SGR.</p> <p>Means of verification.</p> <p>(i) Resolution 2300: Creation of an SGR coordination group.</p> <p>(ii) Entry into force of the FONADE agreement on technical assistance to subnational entities for the structuring of projects.</p>	<p>2.1 Consolidation of coordination and operation of the SGR in a single DNP department.</p>
	<p>2.2 Strengthen the capacity of subnational entities to structure SGR-financed investment projects through the creation of a Network of Structurers (private sector).</p> <p>Means of verification. DNP Resolution No. 3643 defining the Red de Estructuradores.</p>	<p>2.2 Red de Estructuradores operating for SGR-financed investment projects.</p>
	<p>2.3 Strengthen the capacity of subnational entities to design and execute SGR-financed projects at the regional level, through the creation of a National Roundtable for Regional Strengthening.</p> <p>Means of verification. Invitation to members to participate in a meeting of the National Roundtable for Regional Strengthening.</p>	<p>2.3 Operation of the National Roundtable for Regional Strengthening.</p>
	<p>2.4 Assess SGR impact to set baseline (including the Regional Development and Regional Compensation funds) and conduct the competitive bidding process to set the baseline for the Science, Technology, and Innovation Fund</p> <p>Means of verification. Entry into force of the consulting contract for the baseline for the Regional Development and Regional Compensatory Funds, and call for proposals for the Science and Technology Fund baseline.</p>	<p>2.4 Preliminary impact results for the SGR based on the baseline.</p>

Objective	Conditions precedent to the first disbursement for the first programmatic loan	Triggers for a second programmatic loan
	<p>2.5 Identification of the main bottlenecks to SGR functioning through an evaluation of institutional arrangements and processes.</p> <p>Means of verification. Entry into force of the consultancy contract for the evaluation.</p>	<p>2.5 Adjustments made based on the results of the evaluation.</p>
	<p>2.6 Strengthen public contracting and purchasing processes to improve efficiency, through the creation of a regulatory framework for demand aggregation.</p> <p>Means of verification. ANCP approval of two framework pricing agreements (Combustible Bogotá and SOAT Nacional); a Purchasing Manual (General Guidelines for the Issuance of Contracting Manuals); and three standard bidding documents (Specifications for Public Works, Contracts for Public Works, and Fiduciary Contract Governing the Use of Fund Advances).</p>	<p>2.6 Launch of SECOP 2 and signing of five new framework pricing agreements. Linking of major stores to the Tienda Virtual del Estado [Virtual State Store] (the platform for the framework agreements).</p>
III. Improve the management of public debt and contingent liabilities		
Reduce the vulnerability of the public finances.	<p>3.1 Improve the profile of the public debt by developing a model for the monitoring of the new debt management strategy.</p> <p>Means of verification. Report on the operations of the model for the monitoring of the new debt management strategy, published by the Department of Public Credit and National Treasury.</p>	<p>3.1 Debt issuance consistent with the new debt management strategy.</p>
	<p>3.2 Mitigate risks associated with the contingent liabilities created by PPPs by means of insurance mechanisms.</p> <p>Means of verification. Draft framework contract for insuring PPPs, published by the Department of Public Credit and National Treasury.</p>	<p>3.2 PPP contracts signed subsequent to the adoption of the framework contract contain the mandated risk mitigation measures.</p>
	<p>3.3 Improve the quality of PPP projects presented by subnational through the adoption of measures to improve the institutional, economic, and regulatory framework for PPPs in Colombia.</p> <p>Means of verification. PPP manual and Best Practice Guidelines published by the Department of Public Credit and National Treasury.</p>	<p>3.3 Creation of an interinstitutional committee to strengthen the PPP preparation and approval process.</p>

Objective	Conditions precedent to the first disbursement for the first programmatic loan	Triggers for a second programmatic loan
	<p>3.4 Mitigate the fiscal risks associated with natural disasters through design of a strategy for public financial management policy in response to natural disaster risk.</p> <p>Means of verification. Strategy for public financial management policy in response to natural disaster risk, published by the Department of Public Credit and National Treasury.</p>	<p>3.4 Implementation of a public financial management policy strategy to mitigate fiscal risks linked to natural disasters.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/14

Colombia. Loan ___/OC-CO to the Republic of Colombia
Program to Deepen Fiscal Reform in Colombia

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 to deepen fiscal reform in Colombia. Such financing will be for an amount of up to US\$400,000,000 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 __ _____ 2014)

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