

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**COLOMBIA**

**FISCAL AND PUBLIC INVESTMENT EXPENDITURE STRENGTHENING  
PROGRAM FOR SUBNATIONAL ENTITIES AND THEIR PUBLIC UTILITIES  
(CO-L1165; 3842/OC-CO)**

**THIRD OPERATION UNDER THE MULTISECTOR CONDITIONAL CREDIT LINE  
FOR INVESTMENT PROJECTS (CCLIP – CO-X1018)**

**PROPOSED AMENDMENT OF LOAN CONTRACT 3842/OC-CO**

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## **ABBREVIATIONS**

CCLIP	Conditional credit line for investment projects
DNP	National Planning Department
FINDETER	Financiera de Desarrollo Territorial S.A.
MHCP	Ministry of Finance
PAHO	Pan-American Health Organization
SARAS	Sistema de Análisis de Riesgos Ambientales y Sociales [Environmental and Social Risk Analysis System]

## I. BACKGROUND

### A. Document purpose and program background

- 1.1 The purpose of this document is to request that the Bank's Board of Executive Directors approve contractual amendments to the "Fiscal and Public Investment Expenditure Strengthening Program for Subnational Entities and their Public Utilities" (loan contract 3842/OC-CO), hereinafter the program, which is the third individual operation under the Multisector Conditional Credit Line for Investment Projects (CCLIP – CO-X1018) for "Fiscal and Public Investment Expenditure Strengthening in Subnational Entities."
- 1.2 The proposed contractual amendments are based on the request of Financiera de Desarrollo Territorial S.A. (FINDETER), the borrower, to help contain and control the coronavirus (COVID-19) and mitigate its health and economic impacts on the delivery of public and social services in urban areas.
- 1.3 **Background.** On 15 December 2014, the Board of Executive Directors approved CCLIP CO-X1018 for "Fiscal and Public Investment Expenditure Strengthening in Subnational Entities," in the amount of US\$600 million from the Bank's Ordinary Capital resources, and the first individual operation, "Fiscal and Public Investment Expenditure Strengthening in Barranquilla" (loan CO-L1133; 3392/OC-CO) in the amount of US\$100 million. The second individual operation, "Fiscal and Public Investment Expenditure Strengthening Program for Municipios, their Decentralized Agencies, and Metropolitan Areas," (loan CO-L1155; 3596/OC-CO) was approved on 30 November 2015, in the amount of US\$150 million. Lastly, the third individual operation (loan CO-L1165; 3845/OC-CO) was approved on 2 December 2016, in the amount of US\$150 million. Loan contract 3842/OC-CO was signed on 23 December 2019 and declared eligible for disbursements on 8 April 2020.<sup>1</sup>
- 1.4 FINDETER is the program's borrower and executing agency. The Republic of Colombia is the guarantor of the loan.
- 1.5 The objective of the CCLIP is to strengthen fiscal and public investment expenditure of beneficiary entities<sup>2</sup> in Colombia through the approval of individual operations and the signing of individual loan contracts with FINDETER. Importantly, the CCLIP target areas include financing investments in social infrastructure for health and education services.
- 1.6 The general objective of the third individual operation (loan CO-L1165; 3842/OC-CO) is to contribute to an improvement in fiscal and urban

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<sup>1</sup> In 2017 and 2018, FINDETER asked the Bank to extend the deadline for the signature of loan contract 3842/OC-CO so it could focus on execution of the first and second individual operations under the CCLIP (loans 3392/OC-CO and 3596/OC-CO). In September 2019, FINDETER fully completed execution of the first individual operation under the CCLIP (loan 3392/OC-CO), and thus it proceeded to sign the contract for the third individual operation on 23 December 2019.

<sup>2</sup> The beneficiary entities are subnational governments, such as municipal governments, districts, public services providers, metropolitan areas, the departments in which they are located, or any other subnational entity that satisfies the requirements of the Operating Regulations and the program objective. The beneficiary entities can operate as individuals or collectively with their public utility companies.

sustainability in three subnational entities, their decentralized agencies, and the metropolitan areas they serve. The specific objectives are to improve: (i) fiscal performance in terms of revenue collection and public investment capacity; (ii) urban development; and (iii) access to and quality of public utilities and social services.

- 1.7 The program includes three components: (i) Component 1: Improvement of fiscal management (US\$15 million); (ii) Component 2: Urban development (US\$30 million); and (iii) Component 3: Improvement of public utilities and social services (US\$100 million). The program also allocates resources to administration, audit, monitoring, and evaluation activities (US\$5 million). In line with the areas targeted by the CCLIP, the third individual operation includes a subcomponent to improve the quality and coverage of social services under Component 3, Improvement of public utilities and social services, which was initially intended to finance activities in the areas of education and early childhood development.
- 1.8 FINDETER transfers resources to beneficiary entities through regulated financial intermediaries using its rediscounting mechanism. The financial intermediaries are chosen by the beneficiary entities and determine the amount of the subloan to those entities at rates that reflect the funding costs plus a margin to cover operating costs. The relationship between FINDETER and the financial intermediaries is based on a framework contract signed between them, which stipulates the obligations assumed by the financial intermediaries vis-à-vis FINDETER to intermediate resources. The program's beneficiaries are the cities of Cali, Cartagena, and Santa Marta.

#### **B. Status of program components**

- 1.9 Program execution began in April 2020. At that time, the borrower requested that the program be amended to support the needs of Colombian cities during the COVID-19 pandemic. To date, no headway has been made on program execution, in light of the amendment to be made based on this proposal.
- 1.10 FINDETER has projected US\$12 million in disbursements in 2020 to finance investment projects under Components 2 and 3 in Cali and Santa Marta. Projected execution by year-end 2020 would account for 8% of total financing.
- 1.11 The fiduciary assessments performed for the first two operations of the CCLIP (loans 3392/OC-CO and 3596/OC-CO) conclude that the executing agency has sufficient capacity for management of the loan. The fiduciary and coordination risks identified during preparation of the program have been mitigated through fiduciary trainings, clearly defined procedures in the program Operating Regulations, and appointment of a core team of qualified staff with suitable experience and skills for the position.
- 1.12 **Environmental and social risks.** Pursuant to the provisions of Directive B.13 of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703), the program does not require classification because it is a financial intermediation operation. However, to ensure appropriate environmental and social management, FINDETER has an environmental and social risk analysis system (SARAS) ([optional link 22](#)), which has been strengthened during execution of the CCLIP with the implementation of an environmental and social

management framework and the formation of a technical team at FINDETER to monitor it.<sup>3</sup>

### **C. The borrower's request**

- 1.13 FINDETER wrote to the Bank on 2 April 2020 ([optional link 2](#)) to request that loan contract 3842/OC-CO be amended in order to respond to the pandemic caused by COVID-19 in Colombian cities.<sup>4</sup> In view of the fact that COVID-19 was declared a public health emergency in Colombia on 12 March 2020 via Ministry of Health and Social Protection Resolution 385 ([optional link 15](#)) and declared an economic, social, and environmental emergency on 17 March 2020 via Decree 417 ([optional link 16](#)), the request for amendment of the contract seeks to add the following to the program: (i) activities to support investments in the health sector, ensuring its capacity and adequate functioning; (ii) additional cities and departments as beneficiary entities, in response to the geographic spread of COVID-19; and (iii) financing of recurrent expenditures in FINDETER's eligible sectors, to ensure the continuity of service delivery.<sup>5</sup> The request also seeks to streamline implementation of the program by allowing FINDETER to issue direct loans to subnational entities in accordance with Decree 468 ([optional link 17](#)) of 23 March 2020.<sup>6</sup> This way, the program can add the option of supporting operations that do not involve financial intermediaries to its execution approach.
- 1.14 The Pan-American Health Organization (PAHO) reported 1,280,487 cases of COVID-19 and 36,019 deaths in Colombia as of 26 November 2020. In the 24 hours preceding the publication of the PAHO report, Colombia was among the 15 countries reporting the highest number of new cases and deaths worldwide (9,496 cases) and had the third highest number of cases among countries in the Western Hemisphere. All told, 50% of cases and 42.5% of deaths reported in the week ending 26 November 2020 took place in five municipios: Bogota, Medellín, Cartagena, Cali, and Barranquilla.<sup>7</sup> Except in the case of Cali, these cities report incidence rates that exceed the national average (2,542 cases per

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<sup>3</sup> See the Bank's 2019 social/environmental mission report ([optional links 7 and 8](#)).

<sup>4</sup> The borrower requested amendments to the two active loan contracts under CCLIP CO-X1018 (loans 3596/OC-CO and 3842/OC-CO) in light of: (i) high demand for loans among subnational entities due to the health and economic impacts of the pandemic (paragraph 1.14); and (ii) the different execution timetables for the two loans, using of the CCLIP to provide ongoing support to Colombian cities, even in the post-pandemic recovery period. The last disbursement for loan 3596/OC-CO is slated for 21 July 2022, while the last disbursement for loan 3842/OC-CO is 23 December 2024.

<sup>5</sup> Consistent with the Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans (document GN-2331-5) and the Guidelines for the Eligibility of Expenditures in Investment Loans: Amended Version (document GN-2331-11).

<sup>6</sup> See Decree 468 ([optional link 17](#)) of 23 March 2020, which authorizes FINDETER to undertake new operations during the economic, social, and environmental emergency. Also, Decree 473 ([optional link 18](#)) of 25 March 2020 authorizes subnational entities and their decentralized agencies to borrow for noninvestment purposes, and Decree 581 ([optional link 19](#)) of 15 April 2020 stipulates that FINDETER "may lend directly to public utilities to provide them with liquidity or working capital to implement measures adopted by the national government to mitigate the impacts of the emergency." The direct lending option is in line with the recommendations of the midterm evaluation ([optional link 12](#)) to facilitate FINDETER's allocation of program resources by making borrowing conditions more competitive for the beneficiary entities.

<sup>7</sup> PAHO (2020). *Reporte de situación COVID-19 Colombia No. 185*, 26 November 2020.

100,000 inhabitants). In addition to the health challenges posed by the COVID-19 pandemic (for example, there were reports of an increase in the number of hospitalizations in the country between May and June), its impact on economic activity is adversely affecting the public finances of subnational governments. The Ministry of Finance (MHCP) points out that economic performance is directly linked to subnational governments' revenues due to the subnational tax structure. The pandemic is also putting pressure on spending, as demand for social assistance, public health services, and economic reactivation has increased. Meanwhile, the administrative functioning of subnational entities needs to be ensured. According to financial scenarios drawn up by the MHCP, the potential fiscal and budgetary impacts of the pandemic on subnational governments include a 10%-30% decrease in tax revenues and a 6% increase in operating expenses and social investment.<sup>8</sup> Depending on how long the public health emergency lasts, 22% of resources could be redirected.

- 1.15 The purpose of the borrower's request is to support beneficiary entities so they can carry out the investments and activities needed to contain and control COVID-19 and mitigate its health and economic impacts for the delivery of urban and social services in more areas of the country.

**D. Rationale for amending the loan contract**

- 1.16 The request submitted to the Bank by the borrower to amend the loan contract in response to the public health emergency is based on the following considerations:
- a. Increasing the number of departments, cities, and other beneficiary entities will allow FINDETER to use its geographic reach to curb the impact of COVID-19, bearing in mind that the public health emergency is concentrated in the country's urban areas and has hit those areas the hardest.<sup>9</sup>
  - b. Including health sector investments in the program will allow the beneficiary entities to expand their capacity and improve the delivery of health services, including treatment of COVID-19.
  - c. During the emergency and the post-pandemic recovery period, it will be necessary to ensure the financial sustainability of the program and its objectives by financing the recurrent expenditures of public utilities and entities that deliver social services in Colombia, and the economic relief

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<sup>8</sup> [\*Implicaciones Presupuestales y Fiscales Derivadas de la Pandemia del COVID-19 para las Entidades Territoriales\*](#). MHCP (May 2020).

<sup>9</sup> Updated data from [\*Coronavirus Colombia\*](#).



measures are considered complementary to the declaration of the mandatory preventive isolation decreed by the national government.<sup>10</sup>

- 1.17 The departments and cities to be added as program beneficiaries have an estimated demand of US\$28 million for resources under Components 1 and 3, which amounts to 18.6% of total program resources ([optional link 9](#)).<sup>11</sup>
- 1.18 The execution arrangements will maintain the original execution mechanism using financial intermediaries for beneficiary entities that identify investment projects under the program, since FINDETER has operated as a second-tier bank since it was established. FINDETER will also be able to implement the program through direct lending to subnational entities provided that the criteria established in Decree 468 of 2020 have been met, thereby reducing financial intermediation costs.<sup>12</sup> FINDETER has developed lending and risk analysis and management policies and procedures that are consistent with the guidelines issued by the Financial Superintendency of Colombia for direct lending operations. The executing agency has updated its credit regulations and adapted its governance, organizational, and operating structure in accordance with the needs of the direct lending business line. FINDETER has the ability to use either of the two execution mechanisms so it can address the specific needs of each beneficiary entity.
- 1.19 In accordance with the Operations Administration Manual Regulation on Substantial and Fundamental Changes to Sovereign Guaranteed Operations, the changes requested by the borrower would entail a modification of the general objective of the third individual operation under the CCLIP to address the impacts of the public health emergency in a greater number of beneficiary entities. That change is not considered extensive. The only change to the general objective will be to increase the number of subnational entities eligible as beneficiaries, since, in terms of fiscal and urban sustainability, the general objective addresses the multisector nature of subnational government. The program's support for new activities to strengthen the health care services of subnational entities would be

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<sup>10</sup> Decree 517 ([optional link 20](#)) of 4 April 2020 and Decree 528 ([optional link 21](#)) of 7 April 2020 allow residential users in strata 1 and 2 to defer payment of fixed and unsubsidized use charges for public electricity, water, sewer, and/or waste collection services incurred in the 60 days after the declaration of the COVID-19 emergency, and users in strata 3 and 4 can defer payments for 24 months. As a result of this deferred payment, at the subnational level, public utilities do not have enough resources to ensure that they can deliver basic services, so they require financing to be able to continue operating (recurring expenditure and investment). The program will be able to transfer these resources directly to the beneficiaries (e.g. public utilities, municipal governments, or departments) as a 36-month loan to cover payment of the bills of subscribers and/or users in the strata listed above. Once the COVID-19 emergency has passed, users must pay their outstanding bills within the period and under the terms set forth in Decree 528.

<sup>11</sup> Based on the demand for resources by municipio and by sector ([optional link 9](#)), financing should be provided for approximately US\$87 million in investments under Component 3 in Cali, Cartagena, and Santa Marta (the program's three current beneficiary cities), and approximately US\$13 million of investments in cities with an estimated demand for public utilities and social services, such as Montería, Manizales, and Bogotá.

<sup>12</sup> "Findeter podrá otorgar créditos con tasa compensada a alcaldías y gobernaciones, anuncia Min Hacienda" (2019).

covered under specific objective (iii), improve access to and quality of public utilities and social services.

- 1.20 In accordance with the Bank's procedures for processing sovereign guaranteed operations, the changes proposed in this document will be processed by amending the loan contract, since: (i) the substantial and fundamental changes are neither extensive nor do they significantly alter the design of the operation originally approved by the Board of Executive Directors; and (ii) the changes will not require a significant portion of the funds originally approved (an amount equal to or greater than 40% of the original loan amount) nor will they entail additional funding to finance new or different activities or to scale up the original activities. Moreover, this request is supported by FINDETER's strong track record of satisfactory performance.

#### **E. Strategic alignment**

- 1.21 The proposed contractual amendment will maintain the strategic alignment of the program as originally designed and is consistent with the second Update to the Institutional Strategy 2020-2023: Development Solutions that Reignite Growth and Improve Lives (document AB-3190-2), since it continues to respond to the challenges of social inclusion and equality through actions that facilitate access to basic and social services with a view to making urban areas more inclusive, especially for the poor and vulnerable. It is also aligned with the crosscutting themes of (i) institutional capacity and the rule of law, since it promotes improvements in subnational governments' revenue collection and administration and the design of more progressive tax systems; and (ii) climate change and environmental sustainability, through actions that support climate change mitigation and adaptation. The program supports the IDB Group Corporate Results Framework 2020-2023 (document GN-2727-12) through the following development results indicators: students benefited by education projects, roads built or upgraded, and agencies with strengthened digital technology and managerial capacity.
- 1.22 The third individual operation contributes to the dimensions of success established in the Subnational Governments and Decentralization Sector Framework Document (document GN-2813-8) as regards subnational governments improving (i) the efficiency and quality of expenditure and service delivery; and (ii) their own revenue collection and access to financing. It also contributes to the following dimensions of success of the Urban Development and Housing Sector Framework Document (document GN-2732-6): (i) subnational institutions acquire greater capacity for management of urban areas, including by promoting more equitable and productive societies and sustainable urbanization patterns; (ii) city residents have access to quality urban infrastructure and public services; and (iii) the cities in the region intervene in their habitat to improve the quality, accessibility, use, and sustainability of urban spaces. In addition, it dovetails with the IDB's Integrated Strategy for Climate Change Adaptation and Mitigation and Sustainable and Renewable Energy (document GN-2609-1); the Strategy on Social Policy for Equity and Productivity (document GN-2588-4); the Sector Strategy for Institutions for Growth and Social Welfare (document GN-2587-2); and the IDB Infrastructure Strategy for Sustainable Infrastructure for Competitiveness and Inclusive Growth

(document GN-2710-5) ([optional link 10](#)). Lastly, the program is aligned with the IDB Group Country Strategy with Colombia 2019-2022 (document GN-2972) in that it aims to: (i) raise the quality of infrastructure and urban development and reduce transaction costs in the economy; (ii) increase equitable access to quality basic services; and (iii) increase the quality of expenditure and public investment management capacity at all levels of government.

## **F. Eligibility of expenses**

- 1.23 **Disbursement of redirected program resources.** The expenditure reimbursement method can be used for the first disbursement of the loan proceeds once the respective amendatory contract has entered into force and has been declared eligible. The borrower can ask the Bank to reimburse expenses incurred by the program on or after 2 April 2020, the date of the borrower's request, provided that those expenses were incurred following procurement procedures that comply with basic procurement principles under current IDB policies (documents GN-2349-15 and GN-2350-15). Expenses related to investments and recurrent expenditures in the sectors of health (Bogota, Manizales, and Montería), urban transportation (Sincelejo), and urban development (Cali) are expected to be eligible.
- 1.24 **Consistency with policies and practices restricting the use of investment loan resources.** The program's use of resources for recurrent expenditures in order to ensure the continuity of public utility services and social services in light of the public health emergency will comply with the policy on the Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans (document GN-2331-5) and the Guidelines for the Eligibility of Expenditures in Investment Loans (document GN-2331-11) ([optional link 11](#)).<sup>13</sup> It will, therefore, be verified that the recurring expenditures: (i) are part of the project; (ii) are necessary to achieve its development objectives; and (iii) are productive, in the context of the specific project supported. To determine whether, and to what extent, such expenditures are appropriate for financing in each case, the Bank will consider their fiscal impact and their impact on indebtedness. In all cases, project proposals should show which features justify consideration of such expenditures. In addition, when financing for such costs will need to continue after a project ends, they must be shown to be sustainable.<sup>14</sup>
- 1.25 As part of the declaration of the public health emergency in Colombia, residents of Colombia were ordered to preventively self-isolate starting 24 March 2020. This measure has had a significant impact on the country's production-related activity, resulting in a loss of jobs and a reduction in households' consumption capacity. Against this backdrop, the provisions of Decree 517 of 4 April 2020 ([optional link 20](#)) and Decree 528 of 7 April 2020 ([optional link 21](#)) allow residential users in strata 1 and 2 to defer payment of the fixed and unsubsidized

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<sup>13</sup> The country financing parameters for Colombia indicate that the Bank allows the financing of recurrent expenditures under considerations of: (i) the sustainability of the benefits produced by the investment; (ii) future disbursements; and (iii) Colombia's aggregate fiscal position.

<sup>14</sup> The costs will be considered sustainable when the borrower demonstrates it has the capacity to sustain the benefits produced by the investment after program execution has ended. (Guidelines for the Eligibility of Expenditures in Investment Loans, page 15, [optional link 11](#)).

use charges for public electricity, water, sewer, and/or waste collection services incurred in the 60 days after the declaration of the COVID-19 public health emergency for a period of 36 months; they also allow users in strata 3 and 4 to defer payments for up to 24 months. Public transportation services have also seen a reduction in fare income due to a decrease in passenger numbers, both as a result of preventive isolation and the application of social distancing measures. Consequently, public utilities have suffered a substantial reduction in the revenues they need to guarantee delivery of basic services. To meet the objective of keeping public utilities and social services operating during the public health emergency, the program may complement beneficiary entities' eligible investment projects and may also finance recurrent expenditures, in accordance with the criteria set out in the program Operating Regulations.

## **II. DESCRIPTION OF THE PROPOSED MODIFICATIONS**

- 2.1 The proposed modifications based on the request submitted by the borrower are set out below.

### **A. Program objectives**

- 2.2 There is no substantial change to the general objective of the program, as the proposal is to increase the number of beneficiary subnational entities from that originally envisaged. Therefore, the following change is proposed: "The general objective of the program is to contribute to an improvement in fiscal and urban sustainability in **at least** three subnational entities, their decentralized agencies, and the metropolitan areas they serve." No change will be made to the program's original specific objectives.

### **B. Program components**

- 2.3 The amendment maintains Components 1 and 2 as originally approved, with no changes to their technical scope. As for Component 3, recurrent expenditures have been added to Subcomponents 3.1 and 3.2 to guarantee the continuity of public services to population groups affected by the public health emergency; expenditures to ensure sanitary conditions at schools and child development centers have been added to Subcomponent 3.2; and a new subcomponent, Subcomponent 3.3: Strengthening the health service delivery network, has been added to strengthen health services at the subnational level.
- 2.4 **Component 3. Improvement of public utilities and social services (US\$100 million).** The objective of this component is to improve access to and the quality and continuity of public utilities and social services. It is divided into three subcomponents:
- 2.5 **Subcomponent 3.1. Improvement in the delivery and coverage of public utilities.** This subcomponent can finance public utility projects in municipios, metropolitan areas, departments, and/or eligible public utility companies identified according to the provisions of the program Operating Regulations and Credit Regulations, including public water, sewer, and sanitation services, electricity, and public transportation services. It will finance: (i) projects that aim to increase the coverage of public utility services; (ii) projects that finance the refurbishment and maintenance of infrastructure and systems to restore and/or

enhance service quality; (iii) projects that promote comprehensive service planning; (iv) the procurement of supplies and materials for service delivery; and (v) recurrent expenditures necessary to maintain levels of access to and coverage, continuity, and quality of services.<sup>15</sup>

- 2.6 **Subcomponent 3.2. Improvement in the quality and coverage of social services.** Within the social services, the actions that have been preliminarily identified are in the areas of education and early childhood development. The operation can finance such activities as: (i) projects to build and equip child development centers and improve service delivery at existing centers; (ii) the construction, replacement, upgrade, repair, and/or maintenance of educational infrastructure, targeting schools located in the areas of greatest social vulnerability; (iii) projects to improve the quality of educational service delivery, including in-service training for teachers and principals, the development and/or provision of educational and child development resources and supplies to support sanitary conditions at schools, extension of the school day, and development of information systems to improve school management, and (iv) recurrent expenditures necessary to maintain levels of access to and coverage, continuity, and quality of services.<sup>16</sup>
- 2.7 **Subcomponent 3.3. Strengthening the public health service delivery network.** This subcomponent will finance projects that aim to expand capacity and boost the efficiency of the health service delivery network that supports the general social security system. It will finance: (i) construction, expansion, renovation, and/or retrofitting of hospitals or health centers; (ii) outfitting hospitals and health centers for facility-based (intramural) care, including the procurement of medical and laboratory equipment and respective furnishings, as well as the portable equipment and transport vehicles mobile teams need to provide extramural care; and (iii) technology upgrade projects and digital solutions for hospitals and health centers (e.g., interoperable electronic medical records, telemedicine, and telehealth), including the procurement of equipment and technology for connectivity and access points (such as tablets, laptops, routers, and software licenses), connectivity services, and software as a service (SaaS); payment of courier services; consulting services to develop and customize new software solutions; and implementation of technology services in the field. This component also aims to maintain the continuity of health care during the COVID-19 crisis and thus can also finance recurrent expenditures, protective equipment, and other supplies required for care; the installation of temporary, lightweight structures that can be swiftly deployed, as well as semi-temporary prefabricated and modular structures; and the respective equipment for the proper on-site handling of solid and liquid biological waste.

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<sup>15</sup> Recurrent expenditures can only be financed when such costs are directly attributable to the project, are incremental, and are necessary for the project objectives. Operating costs not associated with investments constituting the main objective of the program are not eligible for financing (document GN-2331-11).

<sup>16</sup> See footnote 13.

## C. Costs and sources of financing

- 2.8 The estimated program and per component costs remain unchanged from the original program design and amount to up to US\$150 million, broken down by investment category as shown in Table 1.

**Table 1. Program costs (US\$ million)<sup>17</sup>**

Investment category	IDB	%
<b>Component</b>		
1. Improvement of fiscal management	15	10
2. Urban development	30	20
3. Improvement and continuity of public utilities and social services	100	67
<b>Administration, audit, monitoring, and evaluation</b>		
Program administration, monitoring, and evaluation	4	3
Audits	1	0
<b>Total</b>	<b>150</b>	<b>100</b>

## D. Results matrix

- 2.9 The results matrix will reflect the outcome and output indicators listed in Annex II. The outcome of Component 1 will be adjusted in accordance with the recommendations of the final evaluation ([optional link 13](#)) of the first individual operation under the CCLIP (operation CO-L1133) to ensure that it aligns with the institutional strengthening activities financed by the program. The following outcome indicators will be added to incorporate the health investments in Component 3: “percentage of hospital visits” and “average wait time to schedule a general surgery procedure.” The corresponding output indicators are: “number of hospital beds installed and equipped in hospitals built, expanded, or retrofitted;” “health units with electronic medical records or technology solutions implemented;” and “number of health units with service delivery continuity plans supported.”

## E. Economic viability

- 2.10 The original program’s economic viability was calculated based on Components 2 and 3, applying a cost-benefit analysis. The internal rate of return remains over 12%, which demonstrates the economic viability of the program’s interventions.

## F. Environmental and social risks

- 2.11 In accordance with the provisions of Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation has

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<sup>17</sup> The amount allocated to Component 3 (US\$100 million) would be redirected as follows: US\$87 million of investments will be made in the current beneficiary entities (Cali, Cartagena, and Santa Marta), and approximately US\$13 million of investments will be made in the new beneficiary cities after approval of the loan contract amendment ([optional link 9](#)). At the time of writing, all Component 1 resources are expected to go to new beneficiary entities.

been classified as a “financial intermediary operation” and thus its impacts cannot be classified ex ante. To ensure satisfactory environmental and social management of the operation, the environmental and social management framework currently in place at FINDETER focuses on implementing Colombian environmental and social regulations as well as the applicable IDB environmental and social safeguard policies to guarantee implementation of satisfactory measures for mitigating and controlling social and environmental impacts and risks. The environmental and social management framework will be updated taking into account the new activities envisaged in the amendment, paying special attention to the construction/expansion of medical care facilities. The key adverse impacts of the new activities are associated with the generation of hazardous and infectious waste, which will be handled in accordance with international best practices (including treatment and final disposal), such as by following the requirements of the International Finance Corporation’s Environmental, Health, and Safety Guidelines for Health Care Facilities. Under these guidelines, health care facilities should establish, operate, and maintain a waste management system adequate for the scale and type of activities and identified hazards, paying particular attention to: (i) waste minimization, reuse, and recycling; (ii) waste sorting strategies; (iii) on-site handling, collection, transport, and storage; (iv) transport to external facilities; (v) treatment and disposal options; and (vi) air emissions. Another medium risk that has been identified is the economic or physical displacement of people due to works to build or expand medical care facilities. FINDETER will update the environmental and social management framework before the first disbursement to include the mitigation measures for new activities under the amendment and environmental and social best practices for adequate management of risks associated with COVID-19.

## **G. Fiduciary and other risks**

- 2.12 The operation is classified as medium risk. The fiduciary risks originally identified, associated with the workload generated by procurement and financial management processes, remain unchanged and will continue to be mitigated through coordination in the field with the beneficiary entities by FINDETER’s Vice Presidency for Sales, regular training on fiduciary matters including training on the procurement policies currently in effect (documents GN-2349-15 and GN-2350-15), and the appointment of a team with the right experience and skills to ensure successful execution. These risks are accompanied by the development risk associated with the staff’s learning curve concerning procedures for lending directly to the beneficiary entities, which includes portfolio origination, analysis, and management, which will be mitigated by bringing in trained personnel; through organizational and governance modernization as well as modernization of management information systems; and by developing Credit Regulations that set forth clear procedures. A development risk that has been identified is associated with technological upgrade projects and digital solutions in the health sector, which will be mitigated through technical advisory support to beneficiary entities from the Ministry of Health and Social Protection. Lastly, another new sustainability risk is associated with the recurrent expenditures. This will be mitigated by ensuring that the beneficiary entities have the capacity to

sustain the benefits generated by the investment after program execution has ended.

#### **H. Implementation arrangements**

- 2.13 As part of these contractual amendments, the existing execution mechanism through financial intermediaries will be maintained, but an additional option will be added to allow FINDETER to issue direct loans to individual subnational entities or groups of subnational entities. These loans will be made at subsidized rates with the aim of financing projects and activities in the program's eligible subnational entities and sectors, provided that: (i) the subnational entities accessing these loans comply with the rules on public borrowing and guarantee that the proceeds are used exclusively for the projects financed; (ii) the Credit Regulations stipulate the conditions under which resources are to be channeled to the subnational entities; and (iii) FINDETER's relationships with the subnational entities are governed by loan contracts, promissory notes, or signed contracts that stipulate the obligations the subnational entities assume vis-a-vis FINDETER. FINDETER's Department of International Banking will continue to be the program execution unit under the current structure. That office will be supported by other FINDETER departments for execution, primarily the Planning, Business, Risk, and Operations Departments.
- 2.14 **Following signature of the amendatory contract and as a condition precedent to the first disbursement of the loan proceeds, the executing agency will submit the updated operating regulations, including: (i) an updated environmental and social management framework taking into account the new activities envisaged in the amendment, with particular attention given to the construction/expansion of medical care facilities; and (ii) the option for FINDETER to lend directly to subnational entities, in accordance with the respective Credit Regulations.** This condition is justified to ensure proper environmental and operational execution of the program.

#### **I. Arrangements for monitoring results**

- 2.15 The originally planned evaluations will be maintained without any changes. These include a midterm and a final evaluation.

### **III. RECOMMENDATION OF THE PROJECT TEAM**

- 3.1 Based on the evidence and documentation submitted by the borrower, together with the analysis set out above, IDB Management recommends that, pursuant to Section B(5) of the Operations Administration Manual (Substantial and Fundamental Changes to Operations), the provisions of paragraph 3.29(c) of the Regulations of the Board of Executive Directors of the Inter-American Development Bank, version approved on 30 March 2020 (document DR-398-19), and paragraph 6 of the List of Matters that Can be Considered by the Board via Short Procedure (document CS-3953-4), the Board of Executive Directors approve the modifications proposed in this document by short procedure.
- 3.2 Where applicable, the relevant modifications will be reflected in an Amendment to Loan Contract 3842/OC-CO.



**CO-L1165 (3842/OC-CO) (HUD)(MOD) - Fiscal and Public Investment Expenditure  
Strengthening for Subnational Entities and Their Public Utilities**

**Third Operation under CCLIP CO-X1018**

**Evaluability note**

The modification to operation CO-L1165 has the general objective of contributing to the improvement of fiscal and urban sustainability in at least three (3) subnational entities and its decentralized entities and metropolitan areas. The specific objectives are to improve: (i) fiscal performance in terms of revenue collection and public investment capacity; (ii) urban development; and (iii) the accessibility and quality of public utilities and social services.

The results matrix is consistent with the vertical logic, progress, and scope of the project, presenting adequate indicators at the level of results. The result indicators are appropriately defined to measure the achievements of the project's specific objectives.

The program proposes to carry two ex-post evaluations, a reflexive (before and after) and an economic evaluation to measure the results indicators.

## RESULTS MATRIX

<b>Project objective:</b>	The general objective of the third operation under the conditional credit line for investment projects (CCLIP) is to contribute to an improvement in fiscal and urban sustainability in at least three subnational entities and their public utilities. The specific objectives are to improve: (i) fiscal performance in terms of revenue collection and public investment capacity; (ii) urban development; and (iii) access to and quality of public utilities and social services.
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## EXPECTED OUTCOMES

Expected Outcome/Indicator	Unit of measure	Baseline		Target		Means of verification	Comments
		Amount	Year	Amount	Year		
Specific objective 1: Improve fiscal performance in terms of revenue collection and public investment capacity							
Internal resource generation of beneficiary entities.	Index	100	2018	108	2024	“Desempeño fiscal de municipios” [Fiscal Performance of Municipios] report, 2018 and 2024, National Planning Department (DNP).	Generation of internal resources is one of the variables included in the composite fiscal performance indicator used to evaluate the effort subnational entities are making to generate their own tax revenue. <sup>1</sup> The DNP produces a database with the currently available report (2018).
Specific objective 2: Improve urban development							
Change in the market value per square meter of properties facing the public spaces that are built or upgraded under the program (%).	%	N/A	N/A	10	2024	The change in market value is measured based on a counterfactual to establish the difference in assessed or expert appraisal value of a random sample of properties in the area of influence of each public space project and in sectors with similar urban characteristics that were not targeted by the intervention.	Area of influence: two city blocks around the project (according to studies of the impact of parks on property values). <sup>2</sup>

<sup>1</sup> Compound index (ranging from 1 to 100), comprising: (i) self-financing of operating expenses; (ii) support for debt service; (iii) dependency on transfers from the national government and royalties; (iv) internally generated resources; (v) scale of the investment; and (iv) saving capacity.

<sup>2</sup> J. Crompton (2001) The Impact of Parks on Property Value: A Review of Empirical Evidence, Journal of Leisure Research.

Expected Outcome/Indicator	Unit of measure	Baseline		Target		Means of verification	Comments
		Amount	Year	Amount	Year		
Change in the market value per square meter of properties along the roads that are built or rehabilitated by the program.	%	N/A	N/A	20	2024	The change in market value is measured based on a counterfactual to establish the difference in assessed or expert appraisal value of a random sample of properties fronting onto roads built or rehabilitated with the project and in sectors with similar urban characteristics that were not targeted by the intervention.	The roads program is measured with the “roads” indicator, the public spaces program with the “public spaces” indicator. If there is a city in which the areas of influence of the two projects coincide, the outcome will be measured using the public space indicator.
<b>Specific objective 3: Improve access to and quality of public utilities and social services</b>							
Average availability of drinking water services.	Hours/day	16	2016	24	2024	Report issued by the water service operating company.	Baseline and target for Santa Marta. Supply restrictions directly affect service continuity, measured as the average number of hours per day that a user can rely on continuous service. The indicator’s annual average is 20.6 hours/day (in the summer it can drop to 16 hours per day). Report issued by the Unified Information System, Superintendency of Public Utilities.
Net coverage of transitional education (last year of preschool education) (%).	%	100	2020	102	2024	(a) <sup>3</sup>	(b) (k) (l)
Net coverage of primary education (%).	%	100	2020	103	2024	(a)	(b) (k) (l)
Net coverage of lower secondary education (%).	%	100	2020	102.5	2024	(a)	(b) (k) (l)
Net coverage of upper secondary education (%).	%	100	2020	102	2024	(a)	(b) (k) (l)

<sup>3</sup> See notes at the end of Annex II for (a), (b), (c), (d), (e), (f), (g), (h), (i), and (j).

Expected Outcome/Indicator	Unit of measure	Baseline		Target		Means of verification	Comments
		Amount	Year	Amount	Year		
Percentage of hospital visits.	%	100	2020	105	2024	Administrative data reported each year by the Ministry of Health and Social Protection from the Individual Registry of Health Service Delivery.	The denominator is the number of hospital visits in the program area of influence during period i and the numerator is the difference between the number of hospital visits between periods i and i-1. (m)
Average wait time for scheduling a general surgery procedure.	Days	100	2020	98	2024	National Health Quality Observatory, annual survey produced by the Ministry of Health and Social Protection.	The baseline and target will be determined based on the number of health units that implement technology solutions such as interoperable electronic medical records. (m).

#### OUTPUTS

Output	Estimated cost (US\$'000)	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification
<b>Component 1: Improvement of fiscal management</b>										
Property registries updated.	9,000	Registry	0	0	1	0	1	0	2	Contract settlement record signed between the mayor's office and Instituto Geográfico Agustín Codazzi. Updated property record database. (c)
Integrated financial management system designed and implemented.	6,000	System	0	0	1	2	0	0	3	Status reports and reports on final delivery of approved outputs. (c) Designing and implementing the system requires software and hardware. This consists of the development and implementation of an integrated system with budget, cash flow, accounting, and other modules.
<b>Component 2: Urban development</b>										
Surface area of public space built or upgraded.	10,500	m <sup>2</sup>	0	12,000	14,000	14,000	10,000	0	50,000	(d), (e), (f). Includes, among other activities, rehabilitation and upgrading of parks, squares and sports fields, provision of urban furniture, tree planting, energy efficiency programs for street lighting, and public safety programs.

Output	Estimated cost (US\$'000)	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification
Kilometers of roads built or rehabilitated.	19,500	km	0	5	9	11	0	0	25	(d), (g), (f). Refers to the indicator "Paved road network in good and very good condition" <sup>4</sup> (percentage of total).
<b>Component 3: Improvement and continuity of public utilities and social services</b>										
<b>Subcomponent 3.1. Improvement in the delivery and coverage of public utilities<sup>5</sup></b>										
Water treatment plant built. <sup>6</sup>	30,000	Plant	0	0	0	0	0	1	1	(d), (h)
Distribution network masterplan and sewer masterplan.	250	Document	0	0	1	0	0	0	1	(d), (h), (i). This plan relates to the policies, strategies, programs, projects, and targets that make it possible to guarantee the current and future supply of drinking water and stormwater drainage and sanitation service in the municipio/district.
User formalization development plan.	200	Document	0	0	1	0	0	0	1	(d), (h), (i). This plan refers to the guidelines to be followed for normalizing the use of public water and sewer utilities, and for invoicing unconnected properties located in zones where services are available, or people who use the services on a clandestine or fraudulent basis.
<b>Subcomponent 3.2 Improvement in the quality and coverage of social services</b>										
Places in transition and early childhood education, created.	17,000	Places	27,300			1,000	1,000		29,300	(a), (j), (b)
Places in primary education, created.	15,000	Places	168,000		1,000	3,000	4,000	5,000	181,000	(a), (j), (b)
Places in lower secondary education, created.	15,550	Places	139,000		1,000	3,000	3,000	4,500	150,500	(a), (j), (b)
Primary and secondary teachers, trained.	2,000	Teachers	0		2,000	3,000	3,000	3,000	11,000	Reports issued by the Education Quality Management System (SIGCE). (j), (b)
<b>Subcomponent 3.3 Strengthening the health service delivery network</b>										
Number of hospital beds installed and equipped in hospitals built, expanded, or retrofitted.	13,000	Beds	0	0	0	0	20	200	100	State-owned Social Enterprise (Hospital) records. Approximately 80 intermediate hospital care beds, 20 intermediate care unit beds, and 20 intensive care unit beds.

<sup>4</sup> According to the INVÍAS (2008) methodological guide.

<sup>5</sup> Water and sanitation projects identified for the city of Santa Marta.

<sup>6</sup> Refers to the treatment plant for the city of Santa Marta, costing US\$127 million, of which the Bank will finance US\$30 million.

Output	Estimated cost (US\$'000)	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification
Health units with electronic medical records or technology solutions implemented.	5,000	IT system	0	0	0	0	0	3	3	State-owned Social Enterprise (Hospital) records.
Number of health units with service delivery continuity plans supported.	2,000	Plans	0	0	0	0	4	0	4	State-owned Social Enterprise (Hospital) records.

Notes:

- (a) Means of verification: Reports from the Integrated Enrolment System (SIMAT).
- (b) Geographic unit: To be determined.
- (c) Responsible entity: Department of Finance.
- (d) Means of verification: Works registry. Monthly/semiannual progress report. Final works report.
- (e) Responsible entity: Department of Planning/Infrastructure.
- (f) The commercial price of the property will be expressed in current Colombian pesos. The percentage valuation (10%) should be real to correct for inflation.
- (g) Responsible entity: Department of Mobility/Infrastructure – Public Transportation System Operator.
- (h) Responsible entity: Service operating company.
- (i) These plans are a necessary condition for constructing the plant and associated infrastructure for service delivery.
- (j) Responsible entity: Department of Education/Infrastructure.
- (k) 1.3 - Education service delivery is divided into three levels: (i) preschool (age 3 to 6), consisting of pre-K, kindergarten, and transition; (ii) basic education, which is in turn divided into primary education (1st through 5th grade, age 7 to 11) and lower secondary education (6th through 9th grade, age 12 to 15); and (iii) upper secondary education (10th and 11th grades, age 16 and 17). Ministry of Education (2009). Guideline 33.
- (l) The baseline should be calculated as a normalized index based on available data for the municipio or set of municipios benefited by the credit. The baseline year will be determined based on available data and the start of execution (between 2019 and 2021, depending on available data). Targets are currently defined based on the national average and will be adjusted to reflect the municipio or entity benefited by the credit and the year they join the program.
- (m) The baseline should be calculated as a normalized index based on the data available for beneficiary entities of the loan. The baseline year will be determined based on available data and the start of execution (between 2019 and 2021, depending on available data). Targets are currently defined based on the national average and will be adjusted to reflect the municipio or entity benefited by the credit and the year they join the program.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/\_\_\_

Colombia. Loan 3842/OC-CO to Financiera de Desarrollo Territorial S.A. (FINDETER) Fiscal and Public Investment Expenditure Strengthening Program for Subnational Entities and their Public Utilities. Third Operation under the Multisector Conditional Credit Line for Investment Projects (CCLIP) CO-X1018 (Amendment to Loan Contract 3842/OC-CO to respond to the pandemic generated by COVID-19 in Colombian cities)

The Board of Executive Directors

RESOLVES:

1. To approve the amendment of Loan Contract 3842/OC-CO "Fiscal and Public Investment Expenditure Strengthening Program for Subnational Entities and their Public Utilities" authorized by Resolution DE-116/16, in order to incorporate the financing of activities to respond to the pandemic generated by COVID-19 in Colombian cities, in accordance with the terms and conditions described in Document PR-\_\_\_\_\_.

2. 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 Financiera de Desarrollo Territorial S.A. (FINDETER), as borrower, and with the Republic of Colombia, as guarantor, to amend Loan Contract 3842/OC-CO for the purpose described in this Resolution.

(Adopted on \_\_\_\_\_ 20\_\_)