

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

**THIRD OPERATION UNDER THE MULTISECTOR CONDITIONAL CREDIT LINE
FOR INVESTMENT PROJECTS (CCLIP – CO-X1018) FOR THE FISCAL AND
PUBLIC INVESTMENT EXPENDITURE STRENGTHENING PROGRAM FOR
SUBNATIONAL ENTITIES AND THEIR PUBLIC UTILITIES**

(CO-L1165)

LOAN PROPOSAL

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ELECTRONIC LINKS
Required <ol style="list-style-type: none"> 1. Multiyear execution plan (MEP) 2. Annual work plan (AWP) 3. Monitoring and evaluation plan 4. Environmental and social management report (ESMR) 5. Procurement plan Optional <ol style="list-style-type: none"> 1. Project economic analysis 2. ESCI diagnostic assessment (Cartagena) 3. ESCI diagnostic assessment (Santa Marta) 4. ESCI action plan (Santa Marta) 5. City profile (Cali) 6. City profile (Cartagena) 7. City profile (Santa Marta) 8. Draft FINDETER Credit Regulations 9. Draft Operating Regulations 10. Environmental and social analysis 11. SARAS strengthening plan 12. Requirements of the Public Utilities Policy and compliance analysis 13. Project management report (PMR) 14. Program consistency with the sector strategies and sector framework documents (SFDs) 15. Evidence for processing of the third operation 16. References

ABBREVIATIONS

AWP	Annual work plan
CCLIP	Conditional credit line for investment projects
CGN	Contaduría General de la Nación [Government Accounting Office]
CGR	Contraloría General de la República [Office of the Comptroller General of the Republic]
DNP	Departamento Nacional de Planeación [National Planning Department]
ESCI	Emerging and Sustainable Cities Initiative
ESMR	Environmental and social management report
FINDETER	Financiera de Desarrollo Territorial S.A.
ICA	Impuesto de industria y comercio [industry and commerce tax]
ICB	International competitive bidding
IDF	Índice de desempeño fiscal [fiscal performance index]
IFI	Institución financiera de intermediación [intermediary financial institution]
IP	Impuesto predial [property tax]
OC	Ordinary Capital
PII	Plan Integral de Inversiones [Comprehensive Investment Plan]
PND	Plan Nacional de Desarrollo [National Development Plan]
PROFISCO	Programa de Apoyo a la Gestión Fiscal de los Fiscos [Program to Support the Management and Integration of Finance Administrations in Brazil]
SARAS	Sistema de Análisis de Riesgos Ambientales y Sociales [Environmental and Social Risk Analysis System]
SFD	Sector framework document

**PROJECT SUMMARY
COLOMBIA**

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Financial Terms and Conditions				
Borrower: Financiera de Desarrollo Territorial S.A. (FINDETER)			Flexible Financing Facility ^(a)	
			Amortization period:	25 years
Guarantor: Republic of Colombia			Original WAL:	15.25 years
Executing agency: FINDETER			Disbursement period:	5 years
Source	Third operation (US\$)	%	Grace period:	5.5 years
			Inspection and supervision fee:	(b)
IDB Ordinary Capital (OC):	150 million	100%	Interest rate:	LIBOR-based
			Credit fee:	(b)
Total:	150 million	100%	Currency of approval:	U.S. dollars from the Bank's Ordinary Capital
Project at a Glance				
<p>Objective of the conditional credit line for investment projects (CCLIP): To help enhance fiscal management and public investment in Colombia's subnational entities.</p> <p>Objective of the third operation: To contribute to an improvement in fiscal and urban sustainability in 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) the accessibility and quality of public utilities and social services.</p>				
<p>Special contractual conditions precedent to the first disbursement of the financing. Submission of evidence to the Bank's satisfaction that: (i) the FINDETER Board of Directors has approved the Credit Regulations for the third CCLIP operation under the terms previously agreed upon with the Bank, and they are in force; (ii) the project's Operating Regulations have been approved under the terms previously agreed upon with the Bank and have entered into force; (iii) the executing agency has appointed the core staff necessary to conduct the program's activities, pursuant to the terms of reference agreed upon with the Bank; (iv) the final version of the environmental and social risk analysis system (SARAS) strengthening plan has been submitted and has entered into force, in accordance with the environmental and social management report (ESMR) which will be included in the Operating Regulations; and (v) at least one of the beneficiary municipios has signed a credit agreement with one of the intermediary financial institutions under which funds will be transferred to the municipios to execute the program's activities (see paragraph 3.5).</p>				
<p>Exceptions to Bank policies. As with the previous operations financed under the CCLIP, this third operation will make use of the partial waivers approved by the Board of Executive Directors for individual operations financed under the credit line, in relation to: (i) the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), to allow the executing agency to use national legislation for procurement and contracting below the threshold for international competitive bidding (ICB) and for the contracting of consultants with an estimated cost of less than US\$500,000; and (ii) the Policy on Guarantees Required from the Borrower (Operational Policy OP-303), such that, in the guarantee contract to be signed with the Bank, the Republic of Colombia guarantees only the payment obligations (see paragraph 3.6).</p>				

Strategic Alignment					
Challenges: ^(c)	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting issues: ^(d)	GD	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>

- ^(a) 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.
- ^(b) 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 applicable policies.
- ^(c) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- ^(d) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 In December 2014, the Bank approved a multisector conditional credit line for investment projects (CCLIP) for fiscal and public investment expenditure strengthening in subnational entities (CO-X1018), with the aim of helping to improve fiscal management and public investment at those entities, together with a first operation for US\$100 million for the city of Barranquilla (3392/OC-CO).¹ In November 2015, the second operation (3596/OC-CO)² was approved for US\$150 million for five cities (Bucaramanga, Manizales, Montería, Pasto, and Pereira). The CCLIP's borrower and executing agency is Financiera de Desarrollo Territorial, S.A (FINDETER), and the guarantor is the Republic of Colombia. During the programming of Bank operations with Colombia, the inclusion of a third operation under the CCLIP was approved, for US\$150 million, to support the cities of Cali, Cartagena, and Santa Marta, along with their public utility companies, decentralized agencies, and metropolitan areas, in strengthening their fiscal management capacities and in financing investment projects. The program is justified by the financing needs and the Bank's knowledge to close the development gaps of the three subnational entities, in conjunction with their fulfillment of the requirements for admission to the program, and the availability of funds in the CCLIP.
- 1.2 **Main long-term sustainability challenges for the beneficiary subnational entities in the third program.** The three beneficiary cities of the third CCLIP operation have made major strides in implementing programs and interventions to help improve their residents' quality of life, particularly with respect to improved fiscal management, investment in road infrastructure and public utilities, and the expansion of social services (especially health and education). Nonetheless, the beneficiary subnational entities face significant challenges in ensuring their long-term sustainability, as reflected in the Municipal Development Plans for 2016-2019. In the cases of Cartagena and Santa Marta, these development plans have served as inputs for the Plans of Action of the Emerging and Sustainable Cities Initiative (ESCI). Based on these plans of action, priority intervention areas have been identified for these two cities along four dimensions: (i) environmental; (ii) economic and social; (iii) urban; and (iv) fiscal and governance. In addition, specific actions and projects have been identified for an estimated amount of over US\$2 billion, programmed over the short, medium and long terms. Actions under the plans are being implemented with funding from various sources, including central government, departmental government, the mayor's offices' own resources, FINDETER, the IDB, and commercial banks.
- 1.3 To deepen implementation of the actions prioritized in the ESCI action plans and their respective development plans, the mayor's offices of the proposed program's three beneficiary subnational entities have requested support from the Bank and FINDETER for institutional capacity-building and the design and implementation of projects in the areas of: (i) fiscal management, in terms of bringing revenue

¹ Interventions, operation 3392/OC-CO: fiscal management, urban development and management of municipal information for mobility and disaster prevention. Disbursement eligibility was granted in December 2015. As of August 2016, 15% of the funds had been disbursed.

² Interventions, operation 3596/OC-CO: fiscal management, urban development, and public utilities.

generation closer to its potential level and managing public investment and expenditure more effectively and efficiently; (ii) urban development; and (iii) public utilities and social services. A profile has been prepared for each of the beneficiary cities that includes the projects pre-identified by the mayor's offices for Bank financing and assistance under the proposed program (see city profiles for [Cali](#), [Cartagena](#) and [Santa Marta](#)).

- 1.4 **Municipal finances.** Fiscal performance in the beneficiary subnational entities has been positive in recent years, as reflected in an improvement in the fiscal performance index (IDF) calculated annually by the National Planning Department (DNP).³ The three municipios' average IDF rose from 63.2 in 2005 to 80.1 in 2014.⁴ In particular, local tax revenue grew strongly, thanks partly to the buoyancy of the real estate market,⁵ tax relief offered to taxpayers,⁶ and the property registry update process, which strengthened the property tax (IP) base.⁷ Tax revenue grew by an annual average of 14% in real terms, thereby contributing to the sustainability of operating expenses and increasing municipal investments, all within the framework of a prudent debt policy controlled by the central government. On the public expenditure side, the beneficiary mayor's offices made a significant investment effort, resulting in annual average investment growth of 11.5% in real terms.⁹ These growing investment volumes helped to close infrastructure gaps and enhance the municipios' social development.
- 1.5 The progress achieved will need to be sustained and taken further if fiscal and financial sustainability is to be consolidated in the medium term. This poses multiple challenges for the beneficiary cities. On the income side, although tax revenue grew significantly, it accounted for only 37% of total income in 2015, which reveals the heavy reliance on central government transfers.¹⁰ The small share of internally generated revenue is the result, among other things, of property tax rates that are in practice lower than authorized by the law,¹¹ outdated tax bases for the

³ The IDF analyses the fiscal management of departmental and municipal governments by calculating a compound index (on a scale of 0 to 100) which includes the following: (i) capacity to self-finance operating expenses; (ii) backup for debt service; (iii) reliance on transfers and royalties; (iv) generation of own revenue; (v) scale of investment; and (vi) saving capacity. Ratings close to 100 correspond to the best performing subnational entities. Law 617/2000 regards values above 80 as indicative of solvency. Source: [Fiscal performance of the departments and municipios, 2014](#). DNP.

⁴ This means an improvement of 17 percentage points, compared to the average progress of 10 percentage points observed in the IDF for all Colombian municipios in the same period.

⁵ For example, in Cali, according to data from the [Colombian Chamber of Construction](#), 7,043 housing units were sold in 2015, resulting in a 10% increase in this construction sector relative to the previous year, which generated additional property tax revenue.

⁶ Extension of payment dates and discounts for prompt payment.

⁷ According to information from the finance departments, in the subnational entities property tax revenue grew by an average of 16% per year in real terms between 2011 and 2015. Considering all of the municipios, the average ICA revenue grew by 7.6% per year.

⁸ According to official information released by the Government Accounting Office (CGN). These reports contain disaggregated information on municipal income and expenditure, in nominal terms. The figures in real terms (Colombian pesos at 2015 prices) were calculated by the Project Team.

⁹ Between 2011 and 2015, the data vary between 16.5% average annual growth in Santa Marta, 10% in Cali, and 7.8% in Cartagena.

¹⁰ Tax revenue represented 43% of total municipal income in Cali, 41% in Cartagena, and 27% in Santa Marta (satisfactory value under the ESCI methodology is greater than 55%). Source: Formato Único Territorial, CHIP, CGN, 2015.

¹¹ Law 44/1990 authorizes the municipal councils to set property tax rates of up to 16% of the cadastral value.

property tax (IP)¹² and the industry and commerce tax (ICA),¹³ compounded by ineffective collection measures.¹⁴

- 1.6 On the expenditure side, public spending is managed through information systems of limited functionality, in which the different modules are not fully integrated, and institutional coverage rates are only partial. These systems need upgrading to make management processes more efficient and improve the quality and timeliness of information for decision making.^{15 16} Capital expenditure levels are generally low¹⁷ and there are weaknesses in developing quality pre-investment studies that would enable financing to be secured for public investments that make an effective contribution to local and regional development. This weakness, compounded by low internal revenue capacity, resulted in low levels of investment in infrastructure, public utilities, and social services.
- 1.7 **Urban development.** In general, the beneficiary subnational entities display shortcomings in the delivery of urban services (including public spaces, the regularization of housing, mobility, and urban facilities); and access to these services is highly unequal.¹⁸ The following table shows relevant urban indicators that reveal public space deficits and vehicle congestion, as well as the disparities that exist in these sectors:

Table 1. Urban indicators

Indicator	ESCI satisfactory level	Cali	Cartagena	Santa Marta
Green space (ha/100,000 inhabitants)	> 50	27.6 ¹⁹	45.7	330,121
Average speed on main roads km/h	> 30	23 ²⁰	14.9	20.5
Trips by bicycle (%)	> 5	4.5 ²¹	1.0	5

Source: ESCI and the Cali Como Vamos and Cartagena Como Vamos Quality-of-Life Surveys 2015.

- ¹² According to España and Sánchez (IDB, 2014), properties are undervalued by an average of 40% to 50%. The deficiency in the property registries, given that they do not adequately record the economic conditions of the properties, has been identified in the public finance literature as one of the main constraints in Latin America for the effective management of property tax (Sepúlveda and Martínez-Vásquez, 2009).
- ¹³ In the IP, there is a natural process of obsolescence of information in the urban property registry owing to the dynamics of urban development and socioeconomic mobility. In the ICA, the dynamic of local economies makes it necessary to update the taxpayer database, since new industrial and commercial enterprises are constantly being created.
- ¹⁴ According to information from the finance departments of the districts of Santa Marta and Cartagena, between 2011 and 2015 property tax revenue collected relative to the amounts assessed was 40% and 50%, respectively (satisfactory value under the ESCI methodology for the Colombian case is greater than 85%).
- ¹⁵ According to the ESCI plans of action for Cartagena and Santa Marta, the various information technology modules currently in force need to be updated (treasury, budget, accounting) and integrated into a financial management system.
- ¹⁶ The Cali mayor's office has made it a priority to implement information technologies for its own institutional strengthening and better service delivery to citizens, reduction of corruption risks, and more efficient use of municipal resources.
- ¹⁷ In 2015, gross capital formation represented 40% of total expenditure in Cartagena, 39% in Cali, and 43% in Santa Marta (satisfactory value under the ESCI methodology is greater than 89.5%).
- ¹⁸ DNP and World Bank, 2012.
- ¹⁹ Cali Como Vamos Quality of Life Survey, 2015.
- ²⁰ Average value for Medellín, Cali, Bucaramanga, and Barranquilla according to measurements made by the Ministry of Transportation and the Mobility Departments. Source: DNP.
- ²¹ Cali Integrated Mobility Plan: Visión 2022. 2014.

- 1.8 Public utilities.** The three beneficiary subnational entities have features that need to be addressed to guarantee the supply and quality of public utilities. In the case of drinking water services, although coverage is widespread in Cali and Cartagena, there are deficits. The condition of the piping systems is precarious, and, in the medium term, drinking water treatment plants will need to be built or expanded, along with the respective pipelines, storage reservoirs, and other elements of the system. In the city of Santa Marta, this issue is now critical and could worsen in the medium term, given the deficit in water supply in that zone.²² Moreover, a loss of 41.3% is calculated for 2014, owing to losses in the conveyance networks and fraudulent connections.²³ This city also suffers from a major deficit in the sewer system. In terms of wastewater treatment, the three beneficiary cities report levels well below what is desirable. The energy supply service in the three beneficiary cities has coverage rates of above 95%; however, continuity is deficient, particularly in Cartagena and Santa Marta. The following table shows indicators for the relevant public utilities, along with the existing disparities:

Table 2. Public utility indicators

Indicator	ESCI satisfactory level	Cali	Cartagena	Santa Marta
Drinking water coverage (%)	> 95	99.2 ²⁴	99.9 ²⁵	89
Sewerage coverage (%)	> 95	97.2 ²⁶	93.6 ²⁷	76
Wastewater treatment (%)	> 70	17.6 ²⁸	100 ²⁹	30
Adequate waste disposal (%)	> 95	100 ³⁰	100	100
Average electric power outages per customer per year (#/year/customer)	< 10	9.9 ³¹	44.9	56 ³²

Source: Cartagena and Santa Marta: ESCI diagnostics, except for those indicated in a footnote.

- 1.9 Social services.** Cali, Cartagena, and Santa Marta have improved the accessibility and coverage of social services in the last decade. Nonetheless, challenges persist in terms of service quality and coverage in some areas. In education and child development, early childhood, and preschool service coverage remains sparse; and, owing to the coverage challenges affecting primary basic

²² Supply sources display time constraints for covering demand, which in the high tourism season (summer months) exceeds 2,450 liters/second, in which surface sources can produce flows as low as 300 liters/second, generating a deficit of around 2,150 liters/second.

²³ Saldarriaga, 2014.

²⁴ *Cali Como Vamos* Quality of Life Survey, 2015.

²⁵ ACUACAR, 2013.

²⁶ *Cali Como Vamos* Quality of Life Survey, 2015.

²⁷ Unified Public Utilities Information System (SUI) and ACUACAR, 2015.

²⁸ Data for 2013, Source: (EMCALI). In: *Cali en Cifras*, 2014.

²⁹ Wastewaters that enter the sewer system are fully treated and disposed of through an undersea effluent pipe. The remaining 6.4% corresponding to homes without coverage is discharged directly into water bodies.

³⁰ Evaluation and update of the integrated solid waste management plan of Santiago de Cali 2015-2027.

³¹ *Cali en Cifras*, 2014.

³² Information supplied by Electricaribe (2016).

education, coverage rates at the middle and secondary basic levels are also limited. The quality of education quality at those levels, measured in terms of student learning outcomes, is also poor. The following table shows indicators of the relevant social services and their disparities:

Table 3. Social service indicators

Indicator	ESCI Satisfactory level	Cali	Cartagena	Santa Marta
Monetary poverty (%) 2015 ³³	-	16.5	22.6	30.7
Gini coefficient 2015 ³⁴	< 0.35	0.478	0.467	0.47
Net education coverage rate (transition)	> 90%	69.1	65	53.2
Net education coverage rate (primary)	> 95%	91.8	82	82.7
Net education coverage rate (secondary)	> 90%	84.3	75	76.8
Net education coverage rate (middle-secondary)	> 70%	60.8	57	41.9
Standardized reading tests (Saber tests) 9th grade (%)	> 83	46	29	27
Standardized mathematics tests (Saber tests) 9th grade (%)	> 85	36	17	40

Source: for Cartagena and Santa Marta: ESCI diagnostics; Cali: *Cali Como Vamos* Quality of Life survey 2015 (except as indicated in the footnote).

1.10 Experiences and lessons learned. The design of the proposed operation has benefited from the experiences and lessons learned from the various CCLIPs implemented with subnational governments in Colombia and elsewhere in the region. The following programs have been drawn on for this operation: Support for the Management and Integration of Finance Administrations in Brazil (PROFISCO) (BR-X1005); the Bicentenary Cities Program (CH-X1001) in Chile; the Public Utilities Provider Financing Program (CO-X1003) in Colombia; and in Mexico, the Subnational Program for Infrastructure, Public Utilities, and Institution Strengthening (ME-X1002). Some of the lessons considered in the design of the proposed operation are listed below:

- Adopt comprehensive arrangements that include institutional strengthening actions and investments tailored to the needs of subnational governments (CH-X1001), (ME-X1002);
- Strengthen the capacities of subnational governments to increase the quality and effectiveness of investments through support for investment management units (CH-X1001), (ME-X1002);
- Promote formal access to financing for infrastructure and utilities through credit instruments that consider the diverse profiles of the sub-borrowers (CO-X1003);
- Provide technical support through multisector teams for the development and execution of more complex investment plans by subnational governments (ME X1002);

³³ Incidences of monetary poverty, monetary and extreme poverty, and Gini coefficient for 23 cities 2010-2015. Source: DANE.

³⁴ Idem.

- e. Strengthen fiscal management and modernize property registries and collection systems to increase subnational governments' internal revenue (BR-X1005);
 - f. Use country systems to manage and administer the operations, thus avoiding duplication and reducing costs (CH-X1001).
- 1.11 **Intervention strategy.** Considering the development challenges and gaps in different sectors faced by each of the three municipios, a multisector intervention is proposed, limited to four sectors—fiscal, urban, public utilities, and social services—to finance strategic projects arising from a medium and long-term planning process. The program proposes a flexible menu of interventions to respond to the municipios' specific preferences and needs. The projects that have been pre-identified by FINDETER and the mayor's offices to be financed under the program, are prioritized in the 2016-2019 development plans. In addition, in the cases of Cartagena and Santa Marta, the pre-identified projects are prioritized in the ESCI plans of action. Participation by intermediary financial institutions (IFIs) makes it possible to apply market criteria in the credit risk evaluations of the beneficiary cities, and potentially complement Bank funding with their own resources to meet increases in demand.
- 1.12 **Value-added of the proposed operation.** The operation adds value by supporting subnational governments in defining and implementing a sustainable development strategy, through the simultaneous strengthening of their institutional and fiscal management capacity, and assistance in designing, financing, and executing their investment programs.
- 1.13 **The criteria for processing a third operation have been fulfilled.** As indicated in the proposed amendment of the CCLIP (document GN-2246-7), the policy governing the provisions agreed upon for this operation, it has been verified that:
- a. Its objectives and components are consistent with those of the CCLIP;
 - b. The operation is included in the country program (document GN-2849);
 - c. The executing agency has demonstrated a satisfactory performance level in the sectors proposed for financing, and the required monitoring and evaluation system will be functioning during execution of the operation; and
 - d. The previous CCLIP projects satisfy the following: (i) they are considered likely to achieve their development objectives; (ii) the borrower and the executing agency have fulfilled the conditions of the loan contract and the Bank's policies on disbursement and goods and services procurement; and (iii) the financial and operational reports, including audited financial statements, reports on the accounts, budgetary execution and operational management, were prepared and timely presented and have an acceptable level of quality in terms of financial management and operational control of the projects.
- 1.14 A detailed description of fulfilment of the requirements for processing the third CCLIP operation is included in: [Evidence for processing of the third operation](#).
- 1.15 In accordance with policy GN-2246-7, the credit line agreement set the criteria for processing second and subsequent CCLIP operations for multisector loans. It also specifies the eligibility criteria for the beneficiary entities' participation in the program. The proposed operation meets these criteria as; (i) the mayor's offices of the three beneficiary cities, Cali, Cartagena, and Santa Marta have applied to

the CCLIP executive committee for admission to the program; (ii) they have submitted a Comprehensive Investment Plan (PII), formulated in accordance with their development plan and aligned with the CCLIP areas of action; and (iii) they display a borrowing capacity of roughly US\$380 million for 2017-2021, which ensures ability to repay the debt incurred by the cities benefiting from the operation.³⁵ It is estimated that the utility providers eligible under the CCLIP could more than double this borrowing capacity.

- 1.16 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and aligned with the development challenges of: (i) social inclusion and inequality; and (ii) productivity and innovation, based on the creation of a more redistributive tax policy, improvements in revenue collection and management, and the design of more progressive tax systems, in addition to the supply of infrastructure to reach more inclusive urban areas, particularly for poor and vulnerable population groups, targeting the following crosscutting areas: (i) institutions and the rule of law, promoting an improvement in internal revenue generation and public investment capacity; and (ii) climate change and sustainability based on interventions that support climate change mitigation and adaptation. In terms of the Corporate Results Framework 2016-2019 (document GN-2727-6, the program is aligned with the institutional challenges of productivity and innovation and social inclusion and equality, and with the crosscutting area of institutional capacity and the rule of law, through the following country development results indicators: (i) countries in the region with improved learning outcomes according to PISA; (ii) property value within project area of influence; (iii) percent of GDP collected in taxes; (iv) students benefited by education projects; (v) households with new or upgraded access to drinking water; (vi) roads built or upgraded; and (vii) government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery.
- 1.17 The program is aligned with the country strategy with Colombia 2015-2018 (document GN-2832), in terms of: (i) improving government revenues; (ii) improving educational quality; (iii) raising the quality of infrastructure and urban development; (iv) increasing expenditure quality and public investment management capacity; and (v) increasing equitable access to basic services. The operation is also included in the 2016 Operational Program Report (document GN-2849).
- 1.18 The proposed program is aligned with the objectives of the National Development Plan (PND) 2014–2018 “Todos por un Nuevo País” [Everyone for a New Country] (Law 1753/2015), specifically in the following crosscutting strategies: (i) strategic competitiveness and infrastructure; (ii) social mobility; (iii) good governance; and (iv) green growth. It also addresses the Caribbean regional strategy of prosperous and equitable growth without extreme poverty, and the Pacific strategy of

³⁵ Estimations made using the local borrowing capacity methodology (Laws 358/1997 and 819/2003), based on official information from the CGN, each city's medium-term fiscal framework (MFMP), and information supplied by the mayor's offices. Subnational entity payment capacity (autonomy to borrow) is possible under the following conditions: (i) Solvency: debt interest/operational saving \leq 40% (for 2016: Cali 3.35%, Cartagena 4.84%, and Santa Marta 7%); (ii) Sustainability: debt balance/current income $<$ 80% (for 2016: Cali 21.38%, Cartagena 31.77%, and Santa Marta 59%, with borrowing room of US\$167 million, US\$107 million, and US\$9 million, respectively); and (iii) Primary surplus/interest \geq 100% (for 2016: Cali 500%, Cartagena 1,140%, and Santa Marta 4,800%).

socioeconomic development with equity, integration, and environmental sustainability.

- 1.19 The proposed program is consistent with the following sector strategies: 2609 1 (document GN-2609-1); Strategy on Social Policy for Equity and Productivity (document GN-2588-4); Institutions for Growth and Social Welfare (document GN-2587-2); and Sustainable Infrastructure for Competitiveness and Growth. IDB Infrastructure Strategy (document GN-2710-5). It will also contribute to the dimensions of success and relevant lines of action of the sector framework documents on Education and Early Childhood Development (document GN-2708-5); Urban Development and Housing (document GN-2732-2); Transportation (document GN-2740-3); Social Protection and Poverty (document GN-2784-3); Water and Sanitation (document GN-2781-3); Decentralization and Subnational Governments (document GN-2813-2); Climate Change (document GN-2835-3); and Fiscal Policy and Management (document GN-2831-3) (see [Program consistency with the sector strategies and SFDs](#)).
- 1.20 Lastly, the projects to be financed in the public utilities component will need to satisfy the requirements of the Bank's Public Utilities Policy (document GN-2716-6), national laws and regulations for the economic analysis of investment projects, and the Credit Regulations. The projects must be consistent with the financial sustainability and economic evaluation conditions (document GN-2716-6, Chapter IV) and the policy principles ([Requirements and analysis of compliance with the Public Utilities Policy](#)).

B. Objectives, components, and cost

- 1.21 The objective of the conditional credit line for investment projects (CCLIP) is to help enhance fiscal management and public investment in Colombia's subnational entities. The objective of this third operation is to contribute to an improvement in fiscal and urban sustainability in 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) the accessibility and quality of public utilities and social services. The following paragraphs describe the program's components and main activities:
- 1.22 **Component 1. Improvement of fiscal management (US\$15 million).** The objective of this component is to improve fiscal performance by supporting tax administration and strengthening public expenditure management. The component includes:
- e. **Support for tax administration.** With the aim of increasing revenue and building capacity for managing municipal tax bases, this subcomponent will finance, among other activities, updating of the property registry,³⁶ urban classifications, and socioeconomic stratification with a view to increasing

³⁶ In the case of Bogotá, the value of the cadastral base rose 47% after the updating of 2.1 million properties in 2008, increasing potential revenue intake by 30% coverage in the metropolitan area (Ruiz and Vallejo, 2010). Sánchez and España (2014) show the average effect on revenue intake for all municipios from updating the property registry, in terms of the increase both in values and in the number of properties. The final potential of the property tax would be 1% of GDP.

property tax revenue.³⁷ Funding will also be provided for the consulting services to perform the update.

- f. **Strengthening of public expenditure management.** With the aim of improving expenditure management and public investment capabilities, this subcomponent may finance, among other activities, the development or optimization and expansion of the coverage of financial management systems, encompassing at least the budget, treasury, and accounting modules and their full integration. Funding will also be provided for the consulting services to implement the systems.
- 1.23 **Component 2. Urban development (US\$30 million).** The aim of this component is to improve urban development. It may finance, among other activities, investments in: (i) projects to enhance the quality and increase the quantity of urban public space,³⁸ consistent with climate change mitigation and adaptation strategies,³⁹ such as the construction of neighborhood squares and urban parks, restoration of greenspace, and renovation of urban facilities; and (ii) works to optimize urban mobility, including road upgrades, pedestrian streets, and bicycle paths.⁴⁰ This subcomponent will also finance preinvestment studies for the actions and associated social programs, together with the necessary sector and urban plans.
- 1.24 **Component 3. Improvement of public utilities and social services (US\$100 million).** The objective of this component is to improve the accessibility and quality of public utilities and social services.⁴¹ It is divided into two subcomponents:
- a. **Improvement in the delivery and coverage of public utilities.** Public utility projects can be financed in the mayor's offices and/or in the eligible utility companies,⁴² identified pursuant to the program's Credit Regulations. The component will finance, among other activities: (i) projects to increase water and basic sanitation coverage; and (ii) projects to finance the rehabilitation and maintenance of water supply systems in order to improve quality in terms of

³⁷ The socioeconomic stratification is also used for targeting subsidies, so the update will also help to make municipal expenditure more effective.

³⁸ The empirical evidence suggests that the restoration of public spaces, particularly in central areas, has positive effects on property values. See Ministry of Cities and Spanish International Cooperation Agency (2008).

³⁹ [Evidence of the contribution made by interventions in green spaces to mitigating and adapting to climate change.](#)

⁴⁰ The road construction and upgrading works have generated increases of over 20%, and potential for nearby properties and real estate to share in the value-added. CENAC (2012-2013). In four municipios (Pereira, Barrancabermeja, Apartadó, and Leticia) there were increases of 22.7%, 148%, 47.4%, and 51.4%, respectively. Du, H., C. Mulley (2007). Properties near or with better accessibility to improved transportation infrastructure. Brakraz et al. (2002). properties in improved neighborhoods (roads, public space, public utility networks).

⁴¹ The criterion for allocating these goods or services targets the most vulnerable populations.

⁴² The literature and the Bank's evaluations show their effectiveness in increasing the beneficiary population's access to public utilities, among other positive impacts (UN-Habitat, 2011; Soares and Soares 2005).

service continuity, potability, volume, and pressure.⁴³ The component will also finance the studies and designs necessary to undertake the physical interventions, including master plans for water treatment, the water distribution and sewer network, and the formal registration of users.

- b. **Improvement in the quality and coverage of social services.** Among the social services, actions have been identified preliminarily in the areas of education and early childhood development. The operation may finance, among other activities: (i) projects to build and equip childhood development centers and improve service delivery at existing centers;⁴⁴ (ii) construction, replacement, upgrade, repair, and/or maintenance of educational infrastructure, targeting schools located in the areas of greatest social vulnerability;⁴⁵ and (iii) projects to improve the quality of educational service delivery, including in-service training for teachers and principals,⁴⁶ the development and provision of educational and childhood development resources, extension of the school day,⁴⁷ and the development of information systems to improve school management.⁴⁸

- 1.25 For the investment projects in components 2 and 3 to be eligible for financing, they must: (i) meet the objectives and be included in the actions proposed for the operation; (ii) be included in the Municipal Development Plan and in the Comprehensive Investment Plan, which reflect the multisector nature of the operation and include the institutional capacity diagnostic, strengthening targets, and investment projects ranked by annual priority; (iii) satisfy the requirements of the ex ante economic evaluation, according to the adjusted general methodology under Colombian law; (iv) be built on land owned by the beneficiary cities, and authorized for such purpose; (v) demonstrate the technical and financial capacity for operation and maintenance; and (vi) possess the necessary environmental permits, hold public hearings, and obtain authorizations for easements and rights of way; In addition, (vii) public utility projects must satisfy the requirements of the Bank's Public

⁴³ The positive relationship between water and sanitation availability, health, cognitive development, psychomotor development, and growth is widely documented (Galiani et al, 2005). Worldwide, 88% of infectious diseases and 61% of child mortality correspond to episodes of diarrhea (also related to high levels of malnutrition) caused by intestinal parasites associated with a lack of water and sanitation (World Bank, 2008a); Ahs et al. (2010). Better health directly results in higher levels of education (fewer absences and increased capacity to assimilate knowledge) and an increase in productivity, resulting in access to better job opportunities, higher income, and a better quality of life, thus contributing to the countries' economic growth and development (World Bank, 2013); (Agénor, 2013).

⁴⁴ Positive effects of an increase in public early childhood education offerings on outcomes in standardized language and mathematics tests: Berlinsky, et al. (2009). Positive and significant effects of preschool attendance on the number of years of primary and secondary education completed (Uruguay): Berlinsky, et al. (2008).

⁴⁵ Duarte et al. (2012); CONPES document 3831 (2015).

⁴⁶ Implementation of teacher training alternatives by the Ministry of Education that could be more effective than traditional training, consisting of direct participation in the classroom, in contrast to programs based on bringing the trainee teachers together at large-scale events. Thus far, two impact assessments have been performed which include elements related to in-service training: (i) the "Todos a Aprender" program (Uniandes, 2013); and (ii) the Rural Sector Education Program, phase II (PER-II), (Econometría, 2015).

⁴⁷ School effectiveness theory (Scheerens, 1991; Reynolds, 2008), on the importance of increasing the time students spend on curriculum and thus increase their learning opportunities. In Uruguay: Cerdan-Infantes and Vermeersch, (2007) and in Colombia Hincapié (2016) analyze the effect of the duration of the school day on the outcomes obtained by students in census-type quality assessment tests.

⁴⁸ Shah (2013).

Utilities Policy (document GN-2716-6). The requirements are detailed in the Operating Regulations.

- 1.26 **Administration, audit, monitoring, and evaluation (US\$5 million).** These resources will be used to finance: (i) consulting services to support program execution; (ii) contracting of the audit; (iii) communication strategy and actions; and (iv) monitoring and evaluations.
- 1.27 **Costs and source of financing.** The estimated total cost of the third operation under the CCLIP is US\$150 million, which will be financed from the Bank's Ordinary Capital (OC) under the Flexible Financing Facility.

Table 3. Cost of the third operation under the CCLIP (US\$ million)

Investment Categories	Cost
1. Components	
1. Improvement of fiscal management	15
2. Urban development	30
3. Improvement of public utilities and social services	100
2. Administration, audit, monitoring, and evaluation	
Program administration, monitoring, and evaluation	4
Audit	1
TOTAL	150

C. Key results indicators

- 1.28 The results indicators specified in Annex II include: (i) fiscal performance index measured through the IDF, calculated by the DNP; (ii) market value per square meter of property in the program target areas (public space built or improved, and roads built or rehabilitated); (iii) increased average continuity of the water supply service; and (iv) net coverage rate at the preschool, primary, and middle-secondary levels.
- 1.29 **Economic viability.** Given their sizeable share of the operation, an ex ante [economic analysis](#) was performed on Components 2 and 3 using a cost-benefit methodology. To obtain a representative sample, one project from component 2 and two projects from component 3 were considered, representing roughly 70% of the total amount of the operation. The projects in question generated positive net benefits and internal rates of return above 12%, thus demonstrating the economic viability of the proposed actions. A sensitivity analysis was performed on the cost and benefit assumptions, to analyze their effect on the results obtained. For the scenarios rated highly likely, the benefit-to-cost ratios of the projects analyzed were above 1, demonstrating the robustness of the economic viability of the projects. As specified in the Operating Regulations, the investment projects for which financing is requested under the program must generate a positive net present value.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The third operation proposed under the CCLIP will have a five-year disbursement period.⁴⁹ As a multisector CCLIP, each individual project financed under the program is independent; they are not based on previous projects and do not depend on these to achieve the objectives set. The development objectives of the CCLIP in each city are strengthened by financing for projects in various sectors.
- 2.2 As in the previous operations under the CCLIP, the borrower and executing agency of the proposed third operation is Financiera de Desarrollo Territorial S.A. (FINDETER), and the guarantor will be the Republic of Colombia.

B. Environmental and social safeguard risks

- 2.3 Under Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation does not have an environmental category, since it will be implemented through a financial intermediary (Directive B.13). Nonetheless, the projects to be implemented in this operation could have environmental category A, B, or C. The potential adverse impacts and socioenvironmental risks will vary in magnitude, scope, and duration. As this operation mainly involves the construction, expansion, and upgrading of urban infrastructure, it can be assumed that the measures to manage the impacts and risks are known by this sector, and that they will be effective and appropriate to the environmental category of each project. Considering the possibility of the execution of projects in category A, the environmental sustainability risk is considered high. As a mitigation measure, it is intended to strengthen the Environmental and Social Risk Analysis System (SARAS) at FINDETER, in order to improve identification, evaluation, and mitigation, and strengthen the monitoring of the impacts and risks generated by the projects being financed. Implementation of the [SARAS strengthening plan](#) will make it possible to close loopholes and mitigate weaknesses in the system and ensure its compatibility with the Operational Policy OP-703. If situations of involuntary resettlement and/or economic displacement occur, it will be necessary to develop and submit an Involuntary Resettlement Plan consistent with the Bank's Operational Policy on Involuntary Resettlement (OP-710). Projects classified at category A or B will involve the respective public consultation/dissemination process to satisfy the requirements of Operational Policy OP-703. Additional information can be found in the [ESMR](#).
- 2.4 To comply with the Bank's Disaster Risk Management Policy (Operational Policy OP-704), the exposure of the operation's works to any type of disaster risk will be confirmed through the SARAS, and suitable disaster risk management plans will be identified, to protect the works from exposure to imminent risks. The operation's compliance with the Bank's Policy on Gender Equality in Development (Operational Policy OP-761), will be verified during implementation.

⁴⁹ The CCLIP for an amount of US\$600 million has two operations approved in 2014 and 2015 for a total of US\$250 million. Once this operation has been approved, US\$200 million would remain, for which two individual operations are expected to be approved.

C. Fiduciary risks

- 2.5 The fiduciary assessments performed for the first two operations of the CCLIP and the audit (for fiscal year 2015) conclude that the executing agency has sufficient capacity for fiduciary management of the loan; however, the heavy workload borne by technical staff at FINDETER and in the beneficiary subnational entities raises the potential risk of delays in procurement processes and financial management that could affect program execution. This risk will be mitigated by means of: (i) specific fiduciary training; (ii) a clear definition of procedures to be applied in the Operating Regulations; and (iii) appointment of a core team of qualified staff to the program with suitable experience and skills for the position.

D. Other project risks

- 2.6 Macroeconomic and public management risks have been identified that may affect the program's execution and scope. The former include cost increases resulting from inflation or an appreciation of the Colombian peso, which could reduce the scope of the program's outputs. This will be offset by setting aside resources for contingencies.⁵⁰ There is also the risk of a lack of coordination between FINDETER and the beneficiary entities that could lead to delays in program execution. As a mitigation measure, the program proposes two coordinators at FINDETER, one administrative/financial and another technical, in addition to the General Coordinator, to support the program's procurement and financial management and control, as well as the technical activities undertaken by the beneficiary entities and coordination with FINDETER.
- 2.7 The program activities have been identified as low-risk in terms of sustainability, given that: (i) the actions to be financed have been prioritized in the Emerging and Sustainable Cities Initiative (ESCI) action plans (Cartagena and Santa Marta) and development plans, which were prepared with the participation of the cities' main actors and were widely publicized; and (ii) projects have been pre-identified in the three cities with technical design and feasibility studies for phases III and II, in the amounts of US\$81 million and US\$170 million, respectively; these have a low likelihood of being deprioritized by the municipal administrations (cities of [Cali](#), [Cartagena](#), and [Santa Marta](#)); (iii) no changes are foreseen in the authorities of the beneficiary subnational entities before 2020. In addition, as in the previous CCLIP operations, the loan contract will specify that the borrower commits to take the necessary action to ensure proper maintenance of the program's works and goods. If the inspections made by the Bank, or the reports it receives, indicate that such maintenance and/or operation is below the agreed standards, the borrower will take the necessary action to fully correct any deficiencies.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower, executing agency, and guarantor.** The borrower and executing agency of the third operation under the CCLIP will be Financiera de Desarrollo Territorial S.A. (FINDETER), and the guarantor will be the Republic of Colombia. The beneficiary entities will be the mayor's offices of Cali, Cartagena, and Santa Marta, their utility companies, and the metropolitan areas in which they are located.

⁵⁰ The budget of the works interventions includes 20% for contingencies.

The Operating Regulations will define the criteria under which the beneficiary entities could be changed, in the event that they cease to meet the program's eligibility conditions.

- 3.2 FINDETER's responsibilities under the program will include the following: (i) based on the investment plans presented by the beneficiary agencies, propose to the Bank the projects to be included in Components 1, 2, and 3 of the program (according to the criteria set in the Operating Regulations); (ii) submit the annual work plan (AWP) to the Bank; (iii) determine whether the works supervision and execution monitoring activities are completed; (iv) conduct program financial management by consolidating the financial records required by the Bank; (v) maintain an information system for reporting on the administration, recording, and payment of the consulting contracts under its responsibility; (vi) submit required financial reports and accounting information to the Bank and the external auditors; (vii) maintain an effective record-keeping system for supporting documentation on the eligible program expenditures under its responsibility, for verification by the Bank and the external auditors.
- 3.3 In addition to the responsibilities listed in the previous paragraph, FINDETER will require the beneficiary agencies to carry out the following activities for execution of Components 1, 2, and 3 of the program: (i) prepare the investment plan for the execution of activities and submit it to FINDETER; (ii) provide the necessary information to FINDETER regarding selection and contracting processes for works, goods, and consulting services; (iii) supervise works and monitor execution; (iv) provide the necessary information to FINDETER regarding the financial management of program activities; (v) maintain an effective record-keeping system for supporting documentation related to activities financed with program funds, for verification by the Bank, FINDETER, and the external auditors; (vi) submit any other information required by FINDETER; and (vii) assign the core support staff necessary for program execution, as described in the Operating Regulations. FINDETER will support the beneficiary entities in fiduciary activities through the administrative/financial coordinator, and in sector activities through the technical coordinator. The Operating Regulations will provide details of the duties and job descriptions of the professional staff needed at FINDETER and the beneficiary entities.
- 3.4 FINDETER will transfer the resources to the beneficiary municipios through the intermediary financial institutions (IFIs), since Law 57/1989 establishing FINDETER requires all credit transactions to be performed through the rediscounting system via credit institutions or IFIs. The IFIs will be freely chosen by the beneficiary entities. The lending institutions identified in the Financial System Act may serve as IFIs in rediscounting operations with FINDETER. Based on a credit analysis of the beneficiary agencies, the IFIs will freely determine the amount of the subloan to the beneficiary agencies, as well as the nature of disbursements, interest rates and fees, repayment terms and frequency of installments, and grace periods. The rates will reflect their funding costs plus a spread to cover their operating costs. The relationship between FINDETER and the IFIs will be based on a framework contract signed between them, stipulating the obligations assumed by the IFIs in relation to FINDETER to intermediate resources. The Credit Regulations will be aligned to the existing operating manuals at FINDETER for the placement of resources and will stipulate the terms on which they are to be channeled through the IFIs. Irrespective of the funds provided to the

operation by the Bank, the IFIs can add resources from their own portfolio to meet eventual increases in demand from the beneficiary cities.

- 3.5 **Special contractual conditions precedent to the first disbursement of the financing: Submission of evidence to the Bank's satisfaction that:** (i) the FINDETER Board of Directors has approved the Credit Regulations for the third CCLIP operation under the terms previously agreed upon with the Bank, and they are in force; (ii) the project's Operating Regulations have been approved under the terms previously agreed upon with the Bank and have entered into force; (iii) the executing agency has appointed the core staff necessary to conduct the program's activities, pursuant to the terms of reference agreed upon with the Bank; (iv) the final version of the SARAS strengthening plan has been submitted and has entered into force, in accordance with the ESMR which will be included in the Operating Regulations; and (v) at least one of the beneficiary municipios has signed a credit agreement with one of the intermediary financial institutions under which funds will be transferred to the municipio to execute the program's activities.
- 3.6 **Exceptions to Bank policies.** As with the previous operations financed under the CCLIP, this third operation will make use of the partial waivers approved by the Board of Executive Directors for individual operations financed under the credit line, in relation to: (i) the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), to allow the executing agency to use national legislation for procurement and contracting below the ICB threshold, and for the contracting of consultants with an estimated cost of less than US\$500,000; and (ii) the policy on Guarantees Required from the Borrower (Operational Policy OP-303), such that, in the guarantee contract to be signed with the Bank, the Republic of Colombia guarantees only the payment obligations.
- 3.7 The policy on Guarantees Required from the Borrower (document GP-104-2) states that loans to national decentralized entities require the country's joint and several guarantee in relation to: (i) repayment of principal and payment of interest and other financial charges; (ii) compliance with contractual obligations related to project execution (performance-related obligations); and provision of local counterpart resources. In this operation, the Republic of Colombia will grant a joint and several guarantee of the loan and all financial obligations under it (payment of principal, interest, and other financial charges). Under national legislation (Article 41 of Law 80), the Republic of Colombia can only guarantee the payment obligations for loans to national decentralized entities. For this reason, the borrower's performance-related obligations are not covered by the guarantee and will be the exclusive responsibility of the borrower. This waiver has no repercussions for the Bank's risk profile, since a full sovereign guarantee remains in place for the repayment of the loan principal and payment of interest and other financial charges.
- 3.8 **Disbursements, procurement, and audit.** The loan will utilize the Bank's various disbursement modalities. The procurement of goods and works and contracting of consulting services under the program (except as described in paragraph 3.6) will be conducted in accordance with the Bank's Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and Policies for the Selection and Contracting of Consultants Financed by the IDB (document

GN-2350-9). FINDETER will engage an audit firm acceptable to the Bank to perform fiduciary supervision on an annual basis, in accordance with Bank policies, during the operation's execution period.

- 3.9 **Retroactive financing.** The Bank may retroactively finance against the loan proceeds eligible expenditures of up to US\$37.5 million (25% of the proposed loan amount) incurred by the beneficiary entities prior the loan approval date for activities under in components 2 and 3, for, provided requirements substantially similar to those of the loan contract have been met.⁵¹ Such expenditures must have been incurred on or after 5 August 2016 (the project profile approval date), but in no circumstances more than 18 months before the loan approval date. The beneficiary municipios and FINDETER have requested retroactive financing for US\$37.5 million, in respect of projects currently executing in the following areas and sectors: (i) urban development (US\$32.5 million), with investments in transportation for Cartagena (US\$20.6 million) and for Cali (US\$8.6 million), and investments in urban facilities for Santa Marta (US\$3.3 million); and (ii) social services in education for Cali (US\$5 million). The retroactive financing is justified on the basis of: (i) the projects identified and supported by the Bank under technical assistance financed with the following technical cooperation programs: ATN/OC-13605-CO, ATN/SS-14646-RG, ATN/SS-14823-RG, and ATN/FG-13797-CO, which support implementation of the ESCI in Cartagena and Santa Marta and the preparation and implementation of the third operation under the CCLIP; and (ii) the status of the projects is satisfactory, and it was decided that the beneficiary entities have sufficient capacity to complete the projects correctly.

B. Summary of arrangements for monitoring results

- 3.10 **Monitoring and evaluation.** The executing agency will be responsible for monitoring execution and evaluating program results based on the [Monitoring and evaluation plan](#). Monitoring will be done through six-monthly reports, which will use the output indicators defined in the Results Matrix and in other reports indicated in the loan contract and Credit Regulations (AWP, multiyear execution plan, etc.). Meetings will also be held with the Bank in which the following matters will be analyzed: (i) the projects structured; (ii) disbursement progress; and (iii) progress toward output indicators.
- 3.11 Consulting services will be contracted to perform the following evaluations: (i) midterm evaluation, after 30 months of eligibility, or once 50% of the resources have been disbursed, to identify possible corrective actions; (ii) final evaluation, once 95% of the resources have been disbursed; and (iii) ex post economic evaluation (cost-benefit), in the final six months of execution.

⁵¹ For the first operation under the CCLIP (3392/OC-CO) the Colombian government requested authorization to recognize up to 30% of the program amount in respect of the advances it had been making since the start of preparation of the operation in the proposed activities.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives		Aligned	
Development Challenges & Cross-cutting Themes		-Social Inclusion and Equality -Productivity and Innovation -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Regional Context Indicators		-Social Progress Index -Government effectiveness (average LAC percentile)	
Country Development Results Indicators		-Countries in the region with improved learning outcomes according to PISA (%) -Students benefited by education projects (#)	
2. Country Strategy Development Objectives		Aligned	
Country Strategy Results Matrix		GN-2832	i) Improve the quality of education; ii) Raise the quality of infrastructure and urban development and reduce transaction costs in the economy; iii) Increase the quality of expenditure and public investment management capacity at all levels of government; and iv) Increase equitable access to quality basic services.
Country Program Results Matrix		GN-2849	The intervention is included in the 2016 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability		Evaluable	WeightMaximum Score
		8.7	10
3. Evidence-based Assessment & Solution		10.0	33.33%10
3.1 Program Diagnosis		3.0	
3.2 Proposed Interventions or Solutions		4.0	
3.3 Results Matrix Quality		3.0	
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		6.1	33.33%10
5.1 Monitoring Mechanisms		1.8	
5.2 Evaluation Plan		4.3	
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood		Medium	
Identified risks have been rated for magnitude and likelihood		Yes	
Mitigation measures have been identified for major risks		Yes	
Mitigation measures have indicators for tracking their implementation		Yes	
Environmental & social risk classification		B.13	
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)		Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External control, Internal Audit. Procurement: Information System, Shopping Method, Contracting individual consultant, National Public Bidding.
Non-Fiduciary			
The IDB's involvement promotes additional 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	Technical Cooperations CO-T1348, CO-T1317, RG-T2491 and RG-T2552 were financed to support program implementation and preparation of phase three of the CCLIP.
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			

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The project has three specific objectives: improve fiscal performance, promote urban development and improve the provision of public and social services in the cities of Cali, Cartagena y Santa Marta. The proposal corresponds to a third operation of the line of credit CLIPP CO-X2028.

The factors that contribute to the identified problems are the limited capacity of the territorial entities to generate revenue, the limited capacity of administrative systems, low expenditure on capital investment, and poverty that limits the ability of the population to hire private services such as education. The diagnosis quantifies the gaps in the provision for the 13 products it proposes.

The results matrix has a clear vertical logic. Indicators are SMART and include initial and annual target values. However, the PEP and POA describe financial costs grouped by products which do not have a direct link with the physical annual targets in the results matrix.

The economic analysis ex ante identifies three projects that could be financed under the Multisector Credit Line: (i) the construction of roads and improvements to a public park in Cartagena, (ii) improvements to the provision of drinking water in Santa Marta and (iii) improvements in the quantity and quality of the supply of educational services in Cali. The three projects have a positive NPV. However, it is not possible to dimension how these projects will relate to actual project investments.

The proposal includes two ex post evaluations. One evaluation is economic and the other evaluation is reflexive. It is not possible to link costs in the PEP and POA with those listed in the monitoring and evaluation plan. Thus, it is not clear how much of the loan amount will be allocated to the associated activities.

The main risks identified are the exposition of project infrastructure to damage by natural disasters, increases in execution costs due to inflation, and delays resulting from time restrictions from the executing technicians. The proposed solutions are to monitor and respond to natural disasters, budget an amount for unforeseen changes in costs, and recruit and train executing agents.

RESULTS MATRIX

Project objective:	The general objective of the third operation under the CCLIP is to contribute to an improvement in fiscal and urban sustainability in 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 the quality of public utilities and social services.
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EXPECTED OUTCOMES

Expected outcomes/indicator	Unit of measure	Baseline		Targets		Means of verification	Comments
		Value	Year	Value	Year		
Fiscal performance index (IDF) ¹ in the program's three cities	Index	Cali 79.02, Cartagena 80.68, Santa Marta 80.21	2014	Cali 84.0, Cartagena 83.0, Santa Marta 84.0	2021	Report "Desempeño fiscal de municipios" [Fiscal performance of municipios] (DNP) validity 2014-2021	Results corresponding to the outputs of component 1, mandatory for all cities participating in the program.
Change in the market value per square meter of properties facing the public spaces that are built or upgraded under the program (%)	N/A	0	2016	10	2021	Expert valuation of a random sample of properties	Area of influence: two city blocks around the project (according to studies of the impact of parks on property values) ²
Change in the market value per square meter of properties along the roads that are built or rehabilitated under the program (%)	N/A	0	2016	20	2021	Expert valuation of a random sample of properties facing the roads built or rehabilitated under the program	Same percentage as used for the analysis of Barranquilla (loan CO-L1133)
Average availability of the drinking water service	Hours-day	16	2016	24	2021	Report issued by the water service operating company	Baseline and target for Santa Marta. The supply constraint directly affects service continuity, measured as the average number of hours per day that a user can rely on continuous service. This annual average indicator is 20.6

¹ 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 (vi) saving capacity.

² Crompton, John (2001).

Expected outcomes/indicator	Unit of measure	Baseline		Targets		Means of verification	Comments
		Value	Year	Value	Year		
							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 transition (%)	N/A	77	2015	83	2021	(a)	(b)
Net coverage primary basic (%)	N/A	94	2015	99	2021	(a)	(b)
Net coverage secondary basic (%)	N/A	93	2015	99	2021	(a)	(b)
Net coverage secondary middle (%)	N/A	73	2015	79	2021	(a)	(b)

OUTPUTS

Outputs	Estimated cost (US\$000)	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification
Component 1: Improvement of fiscal management										
Property registries updated	9,000	Registry	0	0	1	0	1	0	2	Contract settlement record signed between mayor's office and Instituto Geográfico Agustín Codazzi. Updated cadastral 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. Consists of the development and implementation of an integrated system with budget, treasury, accounting, and other modules.
Component 2: Urban development										
Surface area of public space built or upgraded	10,500	m ²	0	12,000	14,000	14,000	10,000	0	50,000	(d), (e), (f). Includes, among other things, rehabilitation and upgrading of parks, squares and sports fields, provision of urban furniture, tree planting, energy efficiency programs for street lighting, and citizen security programs

Outputs	Estimated cost (US\$000)	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End 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" ³ (% of total)
Component 3: Improvement of public utilities and social services										
Subcomponent a. Improvement in the delivery and coverage of public utilities⁴										
Water treatment plant built ⁵	30,000	Planta	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 the 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.
Subcomponent b. Improvement in the quality and coverage of social services										
Transition and early childhood places created	17,000	Places	27,300			1,000	1,000		29,300	(a), (j), (b)
Primary basic places created	15,000	Places	168,000		1,000	3,000	4,000	5,000	181,000	(a), (j), (b)
Secondary basic places created	15,550	Places	139,000		1,000	3,000	3,000	4,500	150,500	(a), (j), (b)
Secondary middle places created	10,000	Places	57,000		1,000	1,000	1,000	2,100	62,100	(a), (j), (b)

³ According to the INVÍAS (2008) methodological guide.

⁴ Water and sanitation projects identified for the city of Santa Marta.

⁵ Corresponds to the treatment plant for the city of Santa Marta, costing US\$127 million, of which the Bank will finance US\$30 million.

Outputs	Estimated cost (US\$000)	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification
Basic 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)
Places on unified workshop created	10,000	Places	28,000		3,000	3,000	3,000	3,000	40,000	(a), (j), (b)

Notes:

- (a) Means of verification: Reports of the Integrated Enrolment System (SIMAT).
- (b) Geographic unit: Municipio of Cali.
- (c) Responsible entity: Department of Finance.
- (d) Means of verification: works record, 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%) must be real, to discount the effect of inflation.
- (g) Responsible entity: Department of Mobility/Infrastructure – Public Transport System Operator.
- (h) Responsible entity: Service Operating Company.
- (i) These plans are a necessary condition for constructing the associated plant and infrastructure for provision of the service.
- (j) Responsible entity: Department of Education/Infrastructure.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Colombia
Project number: CO-L1165
Name: Third Operation under the Multisector Conditional Credit Line for Investment Projects (CCLIP – CO-X1018) for the Fiscal and Public Investment Expenditure Strengthening Program for Subnational Entities and their Public Utilities
Executing agency: Financiera del Desarrollo Territorial S.A. (FINDETER)
Prepared by: Miguel A. Orellana, Lead Fiduciary Specialist in Financial Management (FMP/CCO) and Gabriele del Monte, Lead Fiduciary Specialist in Procurement (FMP/CCO)

I. EXECUTIVE SUMMARY

- 1.1 FINDETER's fiduciary capacity was analyzed in September 2013 using the following tools: (i) the Institutional Capacity Assessment System (ICAS); and (ii) an analysis of the entity's main institutional processes; and the detailed assessment of the executing agency's capacity to manage procurement (submitted in April 2013) was validated. FINDETER is currently executing loans 3104/OC-CO, 3392/OC-CO and 3596/OC-CO. The fiduciary evaluation performed at the time of the approval of the CCLIP and of the first operation (CO-L1133), together with the audit of 2015 execution, conclude that the executing agency has sufficient capacity to undertake the loan's fiduciary management; nonetheless, there is a potential risk of delays in procurement processes and in financial management, owing to the heavy workload of FINDETER technical staff and of the beneficiary entities, affecting program execution. FINDETER's fiduciary risk, in terms of both financial management and procurement, is low.
- 1.2 FINDETER's contractual activity is governed by the laws and regulations applicable to the performance of its activities under private law; it is also exempt from application of the General Government Procurement Statute, without prejudice to fulfillment of the principles of administrative duties and fiscal management.¹ In addition, the public procurement system it uses is considered adequate from the regulatory standpoint and consistent with internationally accepted practices. FINDETER uses its own Financial Information System (SIF) for budget, accounting, and treasury control.
- 1.3 The project does not include counterpart funding or financing from other multilateral agencies.

¹ The contractual regime applicable to FINDETER is understood pursuant to Article 15 of Law 1150 of 2007. With respect to administrative duties and fiscal management, see Articles 209 and 267 of the Colombian Constitution, and on compliance with the rules on conflicts and disqualifications, FINDETER is governed by the provisions of Articles 8 of Law 80 of 1993 and 18 of Law 1150 of 2007.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 FINDETER will keep the project's accounting on its information system, which supports all budget, accounting, and treasury activities. A staff member in the Office of the Chief of International Banking will be responsible for coordinating financial and administrative procedures relating to the project, such as budgets, treasury management, general accounting, and reporting.
- 2.2 FINDETER keeps all of its activities documented, approved, and official in an information system for the information and consultation of the organization's entire staff. The internal control system is effective, and the entity's external control, as of the date of the assessment and for the 2015 fiscal year, was carried out by PriceWaterhouseCoopers (PWC), which performs the fiscal audit. Similarly, it is subject to auditing by the Office of the Comptroller General of the Republic (CGR), the Government Accounting Office (CGN), the Inspector-General's Office (PGN), and the Superintendency of Finance. FINDETER has professional staff in the fields of financial management, procurement, and contracting with experience in projects with multilateral banks, under multisector lending operations, and over the last two years with investment projects, with satisfactory performance.
- 2.3 In terms of procurement, the functions for the administration of procurement processes at the precontractual, contractual, and postcontractual stages are properly allocated by FINDETER. The Office of the Secretary-General's Legal Department will be involved in processing procurement under FINDETER's responsibility. This department has been responsible for processing procurements financed with the proceeds of loan 3104/OC-CO, 3392/OC-CO, and 3596/OC-CO. The staff who participate in this process are stable in their posts.
- 2.4 The procedures and formality applied by FINDETER in administering the procurement cycle are generally good, and provide for effective monitoring of fulfillment of the [procurement plan](#).

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

A. Financial management

- 3.1 Preparation and entry into force of Operating Regulations which describe the mechanisms for coordinated execution of activities between FINDETER and the beneficiary agencies, and will form an integral part of FINDETER's rules on rediscounting operations.
- 3.2 Formation of a project team at FINDETER and the beneficiary entities, with experience working with multilateral banks, for financial, procurement, and contracting matters, and the general monitoring of activities.

- 3.3 Establishment of a communication/coordination agreement between FINDETER and the beneficiary municipios for the operation's execution, accountability, and monitoring.

B. Procurement

- 3.4 Support for the coordination unit by a staff member/consultant with experience in IDB-financed procurement, as well as the training of the FINDETER project team in financial management and Bank procurement procedures.
- 3.5 Arrangement with the Bank of a detailed and comprehensive flowchart for intervention and approvals in the procurement and contract administration processes.

**IV. CONSIDERATIONS FOR THE
SPECIAL CONDITIONS PRECEDENT TO THE FIRST DISBURSEMENT**

A. Financial management

- 4.1 FINDETER is expected to (i) have formed a team for program execution, comprising experienced, qualified professional staff with the profile agreed upon with the Bank, dedicated full-time to the project; and (ii) have contracted the project's General Coordinator; and (iii) the Operating Regulations are expected to have come into force, including the financial chapter, on the terms and conditions previously approved by the Bank.
- 4.2 The executing agency will submit supporting documentation for expenditures, using the exchange rate applicable for converting funds disbursed in U.S. dollars to Colombian pesos (monetization rate).

B. Procurement

- 4.3 The program Operating Regulations will have entered into effect, including the procurement and contracting chapter, on the terms and conditions approved by the Bank.
- 4.4 FINDETER will have a Bank-approved plan for training and use of the Procurement Plan Execution System (SEPA) for FINDETER staff assigned to project execution.

V. AGREEMENTS AND REQUIREMENTS FOR PROGRAM EXECUTION

- 5.1 Goods and works procurement, and the contracting of consulting services will comply with the Bank's Policies (documents GN-2349-9 and GN-2350-9. International competitive bidding (ICB) will be mandatory for works with an estimated cost exceeding the equivalent of US\$10 million per contract, and for goods with an estimated cost exceeding the equivalent of US\$1 million per contract. Shortlists of consultants for services with an estimated cost of less than the equivalent of US\$500,000 per contract may consist entirely of national consultants. This partial waiver of application of the Bank's policies (documents GN-2349-9 and GN-2350-9)

has now been approved by the Board of Executive Directors for this CCLIP, so that the executing agency may use national legislation for the procurement of goods and contracts below the ICB threshold, and for the contracting of consultants whose estimated cost is less than US\$500,000, provided that the requirements defined in the Bank's procurement policies are respected, particularly in the following areas: (i) eligibility will be based on the nationality of firms and individuals and origin of goods; (ii) works, goods, and nonconsulting services will be awarded to the lowest cost bid; and (iii) bids will not be disqualified based on budgetary bands.

- 5.2 Procurements will be reviewed in the framework of the program's audit activities.
- 5.3 **Procurement execution.** Before commencing procurement, the executing agency will prepare a procurement plan for the first 18 months. This will be published in the SECOP online public procurement system, pursuant to current national rules. The relevance of the expenditure, i.e., the terms of reference, technical specifications, bidding documents, and budget, is the responsibility of the project team leader, and will always require prior no objection, with respect to the start of the procurement process, and according to the project team leader's operational requirements.
- 5.4 **Procurement of works, goods, and nonconsulting services.** Contracts subject to international competitive bidding (ICB) will be executed using the harmonized bidding documents for Colombia agreed upon with the Bank; while those subject to national competitive bidding (NCB) will use Colombia's national legislation on state procurement and contracting, with the restrictions mentioned above.
- 5.5 **Selection and contracting of consultants.** (i) Consulting firms: for amounts over US\$500,000, consultants will be selected and contracted using the harmonized standard request for proposals agreed upon with the Bank for Colombia; for amounts less than or equal to US\$500,000, consultants will be selected using Colombian national legislation on state procurement and consulting according to the Bank's eligibility rules. For amounts over US\$200,000, publication in UNDB Online is mandatory; and (ii) direct contracting processes will be identified in the procurement plan and duly justified.
- 5.6 **Selection of individual consultants.** The executing agency will use Colombian national legislation on state procurement and contracting according to the Bank's eligibility rules.

Table 1. Thresholds for the procurement of goods, works, and consulting services

Works*		Goods*		Consulting services	
ICB	NCB	ICB	NCB	International publicity	Short list 100% national
≥ US\$10 million	US\$350,000 - US\$10 million	≥ US\$1 million	US\$50,000 - US\$1 million	≥ US\$200,000	≤ US\$500,000

* Simple works and off-the-shelf goods whose value is below the ICB threshold may be procured using the shopping method.

- 5.7 **Main procurement processes.** Procurement in the first 18 months is reflected in the procurement plan and does not involve technical complexity or procedures worthy of special mention.
- 5.8 **Recurring costs.** All project personnel costs may be included under this heading. Personnel will be recruited under the executing agency's internal rules and national laws, provided that there is no conflict with the Bank's rules.
- 5.9 The Bank may retroactively finance against the loan proceeds eligible expenditures of up to 25% of the loan amount incurred by the beneficiary entities prior the loan approval date for activities under in components 2 and 3, for, provided requirements substantially similar to those of the loan contract have been met. Such expenditures must have been incurred on or after 5 August 2016 (the project profile approval date), but in no circumstances more than 18 months before the loan approval date
- 5.10 **Procurement supervision.** The initial review method will be ex post for procurements subject to NCB for works, goods, and nonconsulting services, and contracting of consulting services for less than US\$500,000, conducted by the executing agency using national legislation on government procurement and contracting, and ex ante for any procurement subject to ICB. Procurement will be reviewed in the framework of the program's audit activities.
- 5.11 Ex post review reports will not include physical inspection visits

VI. RECORDS AND FILES

- 6.1 FINDETER has record-keeping systems in which complete and orderly documentation on procurement procedures at all the precontractual, contractual, and postcontractual stages is kept. The rules on record-keeping require that physical documents be stored for 10 years. FINDETER has an external service for inactive files that is administered using controlled documentary retention tables.

VII. FINANCIAL MANAGEMENT

A. Programming and budget

- 7.1 Owing to FINDETER's partial government ownership and budget structure, the loan proceeds will not be included in the national budget, but will be executed as special funds under management, and not as the entity's own resources. Budget programming is put forward for each fiscal year and is approved in October of the immediately preceding year by the Board of Directors, which is chaired by the Ministry of Finance's Fiscal Support Bureau.

B. Accounting and information systems

- 7.2 The lead agency for Colombia's public accounting is the Office of the Comptroller General of the Republic (CGR), which issues guidelines on how the accounts making up the National Public Budget should be kept, including semipublic entities.

FINDETER will use its own information system for budget control, accounting, and treasury management. The accounting and reporting subsystem generates detailed reports classified by investment category. Records will be kept using the accrual method. However, the project's audited financial statements will be drawn up on a cash accounting basis and submitted annually to the Bank.

C. Disbursements and cash flow

- 7.3 Funding from external sources, like all FINDETER's resources, is executed through FINDETER's information system. For the project's treasury management, FINDETER will open a special (designated) bank account in foreign currency in the project's name for exclusive use of the project's funds. The operation will use the banks different disbursement modalities. In addition to the cash flow projection, disbursement requests will be accompanied by a reconciliation of the special account and a statement on the implementation status of technical and fiduciary performance commitments (as applicable). Expenses will be justified using the monetization rate.

D. Internal control and internal audit

- 7.4 FINDETER has an Internal Control Office (OCI), which applies the public internal control model NTC-GP1000; it also has risk maps prepared for each of the processes incorporated in the quality management system. The OCI has professional staff to perform its work and is part of the monitoring process for improvement plans from external audits and the CGR. Investment projects are reviewed selectively in FINDETER according to the OCI's annual work plan.

E. External control and reports

- 7.5 External control of FINDETER is conducted by the CGR, the Superintendency of Finance, and the PGN through selective, ex post, public audits, with the aim of verifying compliance with standards, proper use of resources, observance of processes and procedures, the achievement of targets and objectives, etc. As the CGR is not currently eligible to audit Bank-financed projects, an independent audit firm will be hired for the purpose.
- 7.6 The project's financial statements and eligibility of expenses will be audited by an independent audit firm acceptable to the Bank, which will be contracted by FINDETER. Auditing services will be financed from the loan proceeds. The project's financial statements will be audited annually and submitted to the Bank within four months following the fiscal year-end, pursuant to the previously agreed-upon procedures and terms of reference. The reports required will be those established in the terms of reference, which will include a review of procurement, in addition to the Bank's actions and reviews. An independent private audit firm is required to audit this operation.
- 7.7 There is no national policy on disclosure of audit reports; nevertheless, under the disclosure and access to information policy currently in force, the project's audited reports will be published on the Bank's systems.

F. Financial supervision plan

- 7.8 Based on the results of the institutional capacity assessment, the financial specialist will perform on-site and desk reviews of the annual and final audited financial statements. Financial supervision will be conducted on an ex post basis for FINDETER. The project auditor will verify that the resources are executed in accordance with Bank policies and standards on fiduciary management and the conditions set forth in the Operating Regulations. At a minimum, the following activities are included in the supervision plan: (i) annual visits by the external audit firm to FINDETER and the beneficiary municipios for a full audit of disbursement processes, including the financed works and/or final beneficiaries; (ii) on-site visits to the locations where the loan proceeds are invested; and (iii) one visit to verify compliance with the internal control recommendations made by the project's external audit firm. Fiduciary supervision visits regarding financial management will include verification of the financial and accounting arrangements used in administering the project, as well as monitoring of the recommendations issued by the project's independent auditor, among others.

G. Execution arrangements

- 7.9 In addition to what is indicated in the proposal for operation development, the program's execution arrangements are designed such that the beneficiary entities themselves will implement the activities. Fiduciary, administrative, and operational processes are included in the procedures promoted by FINDETER through the crosscutting support units responsible for these processes which are concentrated in the Office of the General Secretary and the Vice President for Finance.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/16

Colombia. Loan ____/OC-CO to Financiera de Desarrollo Territorial S.A. (FINDETER)
Third Operation under the Multisector Conditional Credit Line for Investment Projects
(CCLIP – CO-X1018) for the Fiscal and Public Investment Expenditure Strengthening
Program for Subnational Entities and their Public Utilities

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 Financiera de Desarrollo Territorial S.A (FINDETER), as Borrower, and with the Republic of Colombia, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of a fiscal and public investment expenditure strengthening program for subnational entities and their public utilities, which constitutes the third individual loan operation under the Multisector Conditional Credit Line for Investment Projects (CCLIP - CO-X1018) for the Fiscal and Public Investment Expenditure Strengthening Program for Subnational Entities, authorized pursuant to Resolution DE-204/14. Such financing will be for the amount of up to US\$150,000,000, from the resources of the Bank's Ordinary Capital, 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 __ _____ 2016)