

TECHNICAL COOPERATION (TC)

I. BASIC INFORMATION

Country/Region:	Colombia/CAN
TC Name:	Inputs to the Design and Implementation of the Fiscal Strengthening and Subnational Sustainable Development Program
TC Number:	CO-T1348
Team Leader / Members:	Ramiro López Ghio, Team Leader (FMM/CCO); Oscar Lora (FMM/CBO); Diego Arcia (FMM/CCO); Noe Lozano (CAN/CCO); Javier Jiménez (LEG/SGO); y Dianela Avila (IFD/FMM).
TC Type:	Operational Support
Name and Number of Operation Supported by the TC:	Fiscal Strengthening and Subnational Sustainable Development Program (CO-X1018) and First Individual Loan from CCLIP Fiscal and Public Expenditure Strengthening in Subnational Entities - Barranquilla (CO-L1133)
Abstract Date:	April 18th, 2013
Fund Approval Date	May 1st, 2014
Beneficiary:	Subnational Entities (Departments and Municipalities)/FINDETER.
Executing Agency:	Inter-American Development Bank (IDB)
Amount Requested:	IDB: US\$300,000
Disbursement Period:	30 months
Start Date:	June 1st, 2014
Consultancies Type:	Individual consultants and firms (locals and internationals).
Prepared by:	FMM/CCO
Unit with Disbursement Responsibility:	CAN/CCO
Included in Country Strategy:	Yes
Included in CPD:	Yes
Strategic Objective GCI-9:	Institutions for Growth and Social Wealth fare

II. JUSTIFICATION AND OBJECTIVES

- 2.1 The 1991 Constitution promoted the decentralization process in the political and administrative structure of Colombia. The Local Authorities (in Spanish Entidades Territoriales - ET), Departments and Municipalities received increased powers for the implementation of public expenditure and transfers from the Central Government (CG). This has deepened the vertical financial imbalance in the ET in recent decades. This difference between the amount spent and the revenue collected has created a strong dependence on transfers from the GC and generated local public finances more vulnerable and less predictable.
- 2.2 With the decentralization process, departments and municipalities have assumed greater responsibilities in promoting the development of their territories, and

therefore an increasing role in urban management, promoting economic development and technological innovation, the preservation of the environment and social services.¹

- 2.3 To the extent that the population and urbanization grow, so does the demand on government spending to meet the demand for public goods and services. This requires the ET an increased capacity to generate its own resources and to formulate and implement public investment programs. However, many of the ET still have significant weaknesses in the efficient, reliable and transparent management of public finances, and with the planning instruments and management of their services and investments. The limitations of ET for more effective governance include: (i) weak system of planning and management of territorial development, due to absence of coordination tools between development plans, and financial and investment planning; (ii) heavy reliance on transfers from the Government, which represent approximately 40% of total revenues of the ET; (iii) low level of recovery, with average effective tax rates substantially lower than the nominal tax rates; and (iv) low effectiveness of public investment, with low capacity for identification, design, implementation and evaluation of projects. This situation negatively affects fiscal management and the expenditure and investment execution, including the quality and quantity in the provision of basic services and infrastructure. Finally, most of the ET shows a marked deficit of infrastructure and public services, which negatively impacts the opportunities for local and regional development. In this sense, subnational governments require significantly and sustainably increase their capabilities management and investment resources.
- 2.4 To address this situation, the Government of Colombia has requested support to the Bank in designing a Line of Credit (CCLIP) which aims to improve fiscal management and public investment in ET through individual loans by strengthening fiscal management capacity, planning and execution of investments in such entities. The main expected results are related to: (1) Fiscal Management, by strengthening the fiscal capacity to support the sustainability of ETs. Activities to improve fundraising capabilities will bring effective revenues and public investment to their potential levels, by means of: (i) updating of land registers and tax bases; (ii) developing of systems for tax administration, financial tracking and monitoring the implementation progress; (iii) reviewing of tax policy by analyzing date bases, tax rates, and tax costs of municipal revenues; (iv) support for planning and budget by long-term fiscal frameworks, and (v) training for public officials; and (2) Financing Investments. The objective is to finance investments that contribute to integrated and sustainable development of the ET. The eligible areas are (i) urban development (including overall improvement of neighborhoods, parks, and urban infrastructure); (ii) local economic development; (iii) public services, road and communications infrastructure; (iv) digital infrastructure, and (v) social infrastructure (including infrastructure and

¹ ETs run a high percentage of the Colombian government spending, rising in 2011 by about 73% of total expenditure on education in the country and 61% of health spending.

equipment in health and education). This part of the TC is designed to promote efficient policy development and resource allocation across sub-national governments. It does this by informing decision-making, and by improving the alignment of departmental and municipal policies, programs and projects with governments priorities and public expectations. The identification and preparation of investment projects emphasizes the need to take account of the social costs and benefits of proposals, and the need to ensure the proper use of public resources. This is achieved through performing an assessment and evaluation of the costs and benefits for relevant investment options.

- 2.5 The amount identified for CCLIPs is US\$600 million, which was determined based on: (i) the interest expressed by the ET to access the resources of the credit line, even exceeds the amount proposed; (ii) the need for funding for medium-sized cities, which could be verified with the action plans developed through the Initiative for Emerging and Sustainable Cities (ICES), in which for the first four cities (Barranquilla, Bucaramanga, Manizales and Pereira) needs exceeded US\$ 2,000 million, and (iii) the decision of the GC to use the line of credit to meet the financing needs of the ET, which had an available borrowing capacity estimated at about US\$3,000 million for the period 2012-2015. The first operation of the CCLIP which will be submitted to the Executive Board during the first quarter of 2014 has identified Barranquilla as the beneficiary. A second operation for the CCLIP has been preliminarily identified for cities that are under the ICES such as Bucaramanga, Manizales, Monteria, Pasto and Pereira.
- 2.6 The Government of Colombia requested that the borrower of individual operations under the CCLIP is FINDETER, through which the resources to be channeled to the ETs. This Technical Cooperation (TC) aims to support the preparation of individual operations and implementation of the Fiscal Strengthening and Subnational Sustainable Development Program (CO-X1018). This program has been prioritized in the Bank's programming for Colombia in 2014, and in turn the Colombian Government has requested technical assistance for the development of studies such as analysis and evaluation of institutional and borrowing capacity, of the municipalities that participate in the program.
- 2.7 Due to the complexity of the sub-national fiscal credit line proposal, the development of preparatory activities is vital to ensure the appropriate design and effective implementation of the first two loans. The consulting services to be procured with the TC will provide key operational and technical inputs to ensure the greatest impact of the investment. The TC proposal directly supports the ETs, not only in the generation of income and strengthening its investment capabilities but also in structuring investment projects to be financed by the CCLIP's individual operations. Additionally, the TC will provide manuals and guidelines for planning implementation, risk management and evaluation of the program.

III. DESCRIPTION OF ACTIVITIES.²

- 3.1 The TC will finance the following activities: (i) preparation of the financial feasibility analysis, debt capacity and institutional development of municipalities that are eligible under the program; (ii) design of mechanisms for strengthening the participant Ets; (iii) identification and prioritization of investment projects to be financed by the credit line, especially those related to revenue generation and strengthening of public expenditure and debt management; (iv) definition of investment project profiles and territorial entities participating in the program, and (v) support for the preparation of regulatory rules and operational guidelines, implementation planning and contract management and monitoring and evaluation mechanisms.
- 3.2 For the purpose of resources allocations the TC comprises two components: (a) Support the Development of Technical Instruments for the Credit Line Operations and (b) Design of regulatory and operational guidelines, implementation planning and contract management, risk management and monitoring and evaluation mechanisms.

IV. BUGDET

- 4.1 The TC budget is US\$300.000, distributed as follows:

Table 1. Costs in US\$		
Activity/Component	Description	IDB Total
Component 1. Support the Development of Technical Instruments for the Credit Line Operations		
Individual technical consultancy (II-A)	Preparation of financial feasibility analysis, debt capacity and institutional development of municipalities which are eligible under the program.	75,000
Individual (II-B)	Design of mechanisms to strengthen the program participants and regional authorities, as a result of this analysis of institutional capacity.	55,000
Individual (II-C)	Identification and prioritization of investment projects to be financed by the CCLIP.	50,000
Technical Firms (II-D)	Definition of investment project profiles and territorial entities as program participants.	70,000
Component 2: Design of regulatory and operational guidelines, implementation planning and contract management, and risk management and monitoring and evaluation mechanisms.		
Individual (II-E)	Design of regulatory and operational guidelines.	15,000
Individual (II-F)	Design of execution planning and contract management procedures.	15,000
Individual (II-G)	Design of risk management and monitoring and evaluation mechanisms.	20,000
Total		300,000

² The details of the activities to be financed are described in Annex II. Summary of Consultancies

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 As requested by the Government of Colombia the implementation of the Operational Support TC will be in charge By the Bank through the Fiscal and Municipal Management Division in Colombia (FMM/CCO). The reasons for that decision are manifold: (i) considering that this TC supports a conditional credit line in which the executor/beneficiary of each operation has not been decided yet it is not possible to allocate the execution to the TC to any subnational entity; and (ii) while each operation may count with several executors, it is not clear the convenience to allocate the execution of a TC that supports the design of a loan to many entities.³

VI. RESULTS MATRIX

- 6.1 The following are the output indicators and expected results of the TC:

Table 2. Results Matrix			
Outcome Indicators	Unit of Measure	Baseline	End of project
Expected result: (A) Contribute to strengthening fiscal management and the implementation of investment projects that contribute to integrated and sustainable development of ET.			
Investment Programs rated "highly evaluable" and adequate institutional capacity to carry out their activities (medium risk or low) ⁴	#Projects	0	2
Indicators de product	Unit	Based Line	Meta
Component 1. Support the Development of Technical Instruments for the Credit Line Operations			
Preparation of financial feasibility analysis, debt capacity and institutional development of municipalities which are eligible under the program.	Document	0	1
Design of mechanisms to strengthen the program participants and regional authorities, as a result of this analysis of institutional capacity.	Document	0	1
Identification and prioritization of investment projects to be financed by the CCLIP.	Document	0	1
Definition of investment project profiles and territorial entities as program participants.	Document	0	7
Component 2: Support for the design of regulatory tools, operational and implementation planning and contract management, risk management and monitoring and evaluation mechanisms			
Design of regulatory and operational guidelines.	Document	0	1
Design of Plan of Operations and Contract management instruments.	Document	0	1
Design of risk management and monitoring and evaluation mechanisms.	Document	0	1

³ It was agreed at the identification mission that the Bank would be the agency responsible for implementing the TC, at the express request of the DNP.

⁴ The rating of a project as "highly evaluable" responds to the existence of: (i) empirical evidence to determine the cause of problems to solve and the incorporation of successful experience in the design of the operation, and (ii) monitoring and evaluation plans to determine the progress of products and the evaluation of results. Adequate institutional capacity means the existence of sufficient institutional capacity for an operation to present an average or low risk in terms of the probability of achieving the outputs and outcomes proposed.

VII. RISKS AND ESPECIAL ASPECTS

- 7.1 Due to the nature and activities outlined in this TC, the project team has not identified any significant risks associated with its implementation.

VIII. ENVIRONMENT AND SOCIAL RISK CLASSIFICATION

- 8.1 Since the activities financed by the TC are associated with technical consulting and operational readiness of the first loan of the credit line by developing management tools and studies, there are no negative social or environmental risks associated with it. According to the result of the Toolkit and following the Safeguards and Environment Policy, the operation is classified as Category C. (see electronic links [#35819053](#) y [#37819056](#))

IX. MONITORING AND EVALUATION

- 9.1 The primary responsibility for monitoring the TC will be in FMM/CCO. If necessary, during the execution of the TC, technical and administrative missions would take place in order to assess the development of products and activities (this support is already included in the operation). These missions will be coordinated with staff responsible from FINDETER, the CCLIP's borrower. Specific monitoring activities include: (i) review of the intermediate and final consultancies deliveries and will be supported by the Bank team and technicians from FINDETER; and (ii) the work done by the consultants will be accompanied continuously by the Bank team, for which it will rely on the production of periodic reports and reviews of products in terms of content and delivery against agreed schedules.

X. ANNEXES

Annex I. Request Letter

Annex II. Summary of Consultancies

Annex III. Procurement Plan



Presidencia
Dirección del DAPRE
República de Colombia

Reasignar
**Prosperidad
para todos**

OFI13-00062597 / JMSC 30000

Bogotá D.C., martes, 21 de mayo de 2013

Doctor
RAFAEL DE LA CRUZ
Representante en Colombia
Banco Interamericano de Desarrollo
Carrera 7 No. 71-21 Torre B piso 19 Edificio Bancafé
Bogotá

Asunto: Solicitud de cooperación técnica

Señor Representante:

De manera atenta quiero hacer referencia al trabajo conjunto que se viene adelantando entre el Gobierno de Colombia y el Banco Interamericano de Desarrollo en relación con San Andrés, Providencia y Santa Catalina.

Sobre el particular, por medio de la presente me permito realizar las siguientes solicitudes de cooperación técnica a la Representación a su digno cargo, de manera que sean ejecutadas por el Banco Interamericano de Desarrollo:

1. Cooperación técnica para proveer "Insumos al diseño y ejecución del Programa de fortalecimiento fiscal y desarrollo sostenible de entidades subnacionales", por un monto de US\$300.000.
2. Cooperación técnica para la "Innovación y desarrollo de cadenas de producción en el sector turístico de San Andrés, Providencia y Santa Catalina" por un monto de US\$360.000.

Con estas cooperaciones se pretende fortalecer la capacidad del departamento archipiélago en materia fiscal y como destino turístico. Teniendo en cuenta la importancia que para el Gobierno nacional tienen estos asuntos en las islas, las actividades que se financien para cada una de las cooperaciones antes señaladas se deben definir de manera conjunta entre las entidades pertinentes de los Gobiernos nacional y local, y el Banco Interamericano de Desarrollo.

DOCUMENTO PÚBLICO

Calle 7a No. 6-54
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Presidencia
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República de Colombia

**Prosperidad
para todos**

Agradezco su atención en esta materia y quedo atento a los pasos a seguir para concretar las iniciativas antes señaladas.

Cordialmente,


JUAN MESA ZULETA

Director del Departamento Administrativo

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Summary of Consultancies

Component 1. Support the Development of Technical Instruments for the Credit Line Operations		IDBDocs #
Technical consultancy Firm. (Annex II-A)	Preparation of financial feasibility analysis, debt capacity and institutional development of municipalities which are eligible under the program.	37781071
Individual consultancy. (Annex II-B)	Design of mechanisms to strengthen the program participants and regional authorities, as a result of this analysis of institutional capacity.	37771793
Individual consultancy. (Annex II-C)	Identification and prioritization of investment projects to be financed by the CCLIP.	37771795
Technical consultancy Firm. (Annex II-D)	Definition of investment project profiles and territorial entities as program participants.	37771794
Component 2: Design of regulatory and operational guidelines, implementation planning and contract management, and risk management and monitoring and evaluation mechanisms		IDBDocs #
Individual operative consultancy. (Annex II-E)	Design of regulatory and operational guidelines.	37781072
Individual operative consultancy. (Annex II-F)	Design of execution planning and contract management procedures	37781068
Individual technical consultancy. (Annex II-G)	Design of risk management and monitoring and evaluation mechanisms.	37781073
Administración		IDBDocs #
Individual operative consultancy. (Annex II-H)	Technical, administrative and operational coordination.	37781070

PROCUREMENT PLAN

No. ¹	Description of the contract and estimated cost of procurement	Procurement method ²	Review (prior or post)	Source of financing and percentage		Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
				IDB %	Local/other %	Publication of specific procurement notice	Completion of contract		
1.	Preparation of financial feasibility analysis, debt capacity and institutional development of municipalities which are eligible under the program. Estimated cost: \$75,000	CQS	NA	100	0	III Quarter 2014	II Quarter 2015	Pending	Component 1
2.	Design of mechanisms to strengthen the program participants and regional authorities, as a result of this analysis of institutional capacity. Estimated cost: \$55,000	IICQ	NA	100	0	IV Quarter 2014	II Quarter 2015	Pending	Component 1
3.	Identification and prioritization of investment projects to be financed by the CCLIP. Estimated cost: \$50,000	IICQ	NA	100	0	IV Quarter 2014	II Quarter 2015	Pending	Component 1
4.	Definition of investment project profiles and territorial entities as program participants. Estimated cost: \$70,000	CQS	NA	100	0	II Quarter 2015	I Quarter 2016	Pending	Component 1
5.	Design of regulatory and operational guidelines. Estimated cost: \$15,000	IICQ	NA	100	0	IV Quarter 2014	II Quarter 2015	Pending	Component 2
6.	Design of execution planning and contract management procedures Estimated cost: \$15,000	IICQ	NA	100	0	III Quarter 2014	I Quarter 2015	Pending	Component 2
7.	Design of risk management and monitoring and evaluation mechanisms Estimated cost: \$20,000	IICQ	NA	100	0	IV Quarter 2014	I Quarter 2015	Pending	Component 2

¹ If there are a number of similar individual contracts to be executed in different places or at different times, these can be grouped together under a single heading, with an explanation in the comments column indicating the average individual amount and the period during which the contracts would be executed. For example: an education project that includes school construction might include an item “school construction”, for a total value of US\$20 million, and an explanation in the comments column such as: “This encompasses some 200 contracts for school construction averaging US\$100,000 each to be awarded individually by the participating municipal governments over a three-year period between January 2006 and December 2008.”

² **Consulting Firms:** **QCBS:** Quality- and Cost-Based Selection **QBS:** Quality-Based Selection **FBS:** Selection under a Fixed Budget; **LCS:** Least-Cost Selection; **CQS:** Selection based on the Consultants’ Qualifications; **SSS:** Single-Source Selection. **Individual Consultants:** **NICQ:** National Individual Consultant selection based on Qualifications; **IICC:** International Individual Consultant selection based on Qualifications