

TECHNICAL COOPERATION DOCUMENT

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).
Taxonomy:	Operational Support
Date of TC Abstrac authorization	April 18th, 2013
Beneficiary:	Subnational Entities (Departments and Municipalities)/FINDETER.
Executing Agency:	Inter-American Development Bank (IDB)
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)
IDB Funding Requested:	US\$300,000
Disbursement Period:	30 months
Required start date:	June 1st, 2014
Types of consultants:	Individual consultants and firms (locals and internationals).
Prepared by:	FMM/CCO
Unit of Disbursement	CAN/CCO
Responsibility:	
Included in Country Strategy:	Yes
Included in CPD:	Yes
GCI-9 Sector Priority:	Institutions for Growth and Social Wealth fare

II. OBJECTIVES AND JUSTIFICATION

- 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 equipment in health and education). This part of the TC is designed to promote

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.

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 ACTIVITIES²/COMPONENTS AND BUDGET

- 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.

RESULTS MATRIX

- 3.3 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) ³	#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	Document	0	7

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

³ 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.

program participants.			
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

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3.4 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

IV. EXECUTING AGENCY AND EXECUTION STRUCTURE

4.1 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.⁴

⁴ 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.

V. MAJOR ISSUES

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

VI. ENVIRONMENTAL AND SOCIAL STRATEGY

- 6.1 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 #[37819053](#) y #[37819056](#))

VII. MONITORING AND EVALUATION

- 7.1 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.

REQUIRED ANNEXES:

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| Annex I | Request Letter |
| Annex II | Summary of Consultancies |
| Annex III | Procurement Plan |

**INPUTS TO THE DESIGN AND IMPLEMENTATION OF THE FISCAL STRENGTHENING
AND SUBNATIONAL SUSTAINABLE DEVELOPMENT**

CO-T1348

CERTIFICATION

I hereby certify that this operation was approved for financing under the Public Capacity Building Korea Fund for Economic Development (KPC) through a communication dated April 30, 2014 and signed by Mr. Suyeong Yu, Director of the International Bureau, Ministry of Strategy and Finance of the Republic of Korea. Also, I certify that resources from said fund are available for up to US\$300,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of six (6) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

original firmado

06/15/2014

Sonia M. Rivera
Chief
Grants and Cofinancing Management Unit
ORP/GCM

Date

APPROVAL

Approved:

Original firmado

06/19/2014

Vicente Fretes Cibils
Chief
Fiscal and Municipal Management Division
IFD/FMM

Date