

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **COLOMBIA**

### **PROGRAM TO STRENGTHEN THE PUBLIC INVESTMENT SYSTEM**

**(CO-L1126)**

#### **LOAN PROPOSAL**

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ELECTRONIC LINKS
<p><b>REQUIRED</b></p> <ol style="list-style-type: none"> <li>1. Annual Work Plan (AWP) (Plan of activities for the first disbursement and the first 18 months of implementation)  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37693292">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37693292</a></li> <li>2. Monitoring and Evaluation Arrangements  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710940">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710940</a></li> <li>3. Complete Procurement Plan  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710943">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710943</a></li> </ol> <p><b>OPTIONAL</b></p> <ol style="list-style-type: none"> <li>1. Economic Analysis  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710882">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710882</a></li> <li>2. Institutional Capacity Assessment of the Departamento Nacional de Planeación [National Planning Department] (DNP)  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37737665">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37737665</a></li> <li>3. Budget  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710032">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710032</a></li> <li>4. Diagnostic Surveys on the Status of Information at the National (DNP) and Subnational Level  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37738209">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37738209</a></li> <li>5. Results Chain  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710920">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710920</a></li> <li>6. Impact Assessment  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710923">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710923</a></li> <li>7. Supporting Statistical Information on Program Efficiency Indicators  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710924">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710924</a></li> <li>8. Analysis Mission Aide-Mémoire  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37731309">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37731309</a></li> <li>9. Estimated Projections – Impact Indicator  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37733684">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37733684</a></li> <li>10. Safeguard screening form  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710945">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710945</a></li> </ol>

## **ABBREVIATIONS**

DNP	Departamento Nacional de Planeación [National Planning Department]
MDMB	Management and Decision-Making Body
PGN	Presupuesto General de la Nación [General Budget of the Nation]
SGP	Sistema General de Participaciones [Revenue Share-out System]
SGR	Sistema General de Regalías [General Royalty System]

## PROJECT SUMMARY

### COLOMBIA PROGRAM TO STRENGTHEN THE PUBLIC INVESTMENT SYSTEM (CO-L1126)

Financial Terms and Conditions			
Borrower: Republic of Colombia Executing agency: Departamento Nacional de Planeación [National Planning Department] (DNP)		Flexible Financing Facility*	
		Amortization period:	Single payment, 15 years
		Original weighted average life:	Maximum of 15 years
Source	Amount (US\$)	Disbursement period:	48 months
IDB (Ordinary Capital)	8,000,000	Grace period:	15 years
Local	25,000,000	Interest rate:	LIBOR-based
Total	33,000,000	Credit fee:	**
		Inspection and supervision fee:	**
		Currency:	U.S. dollars from the Bank's Ordinary Capital
Project at a Glance			
<b>Project objective:</b> The general objective of the program is to boost efficiency and transparency in the use of public investment funds by strengthening the public investment monitoring and tracking system in accordance with the legal competencies of the DNP. To achieve this objective, the program would: (i) design an Integrated Information Technology Platform for public investment; (ii) implement the General Royalty System (SGR) module, including building the institutional and technical capacities required for its operation; and (iii) implement the public investment resource and project visualization and georeferencing module.			
<b>Components.</b> (i) Component 1. Design of an integrated technology platform for public investment; and (ii) Component 2. Implementation of the integrated technology platform for public investment.			
<b>Conditions contractual conditions precedent to the first disbursement.</b> The following will be conditions precedent to the first disbursement: the executing agency has presented evidence that it (i) has appointed a General Program Coordinator, a financial specialist and a procurement specialist for the program; and (ii) has approved the program Operating Regulations, with the prior no objection of the Bank (paragraph 3.9).			
<b>Exceptions to Bank policies:</b> None.			
<b>Project qualifies as:</b>		SEQ [ ]	PTI [ ]
		Sector [ ]	Geographic [ ]
		Headcount [ ]	

\* Under the terms of the Flexible Financing Facility (document FN-655-1) the borrower has the option of requesting changes in the amortization schedule, as well as currency and interest rate conversions. In considering those requests, the Bank will take operational and risk management considerations into account.

\*\* 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.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem, and rationale

- 1.1 In Colombia, three trends have been identified that have helped to redefine the role of the State in the economy and social policy since the 1990s. The first is political and administrative decentralization, which involved a transfer of resources from the central level to the subnational levels of government. As a result subnational governments have gained increasing and important responsibilities for spending. Between 1990 and 2002, funds transferred to subnational governments increased twenty-two-fold and this trend continued, although to a different degree, during the first decade of this century.<sup>1</sup> In 2008, subnational governments collectively executed spending amounting to nearly 8% of GDP (close to one-third of total public expenditure) obtaining nearly 3% of GDP in tax receipts (close to one-fifth of total taxes collected).<sup>2</sup>
- 1.2 The second trend is the constant expansion of public investment, which became one of the principal instruments for promoting the country's medium- and long-term economic growth and social development.<sup>3</sup> The financing of public investment in Colombia is based on different sources, primarily the Presupuesto General de la Nación [General Budget of the Nation] (PGN), the Sistema General de Participaciones [Revenue Share-out System] (SGP),<sup>4</sup> and the Sistema General de Regalías [General Royalty System] (SGR).<sup>5</sup> Each of these sources has its own scope, budget, and objectives as established by law.
- 1.3 Between 1994 and 2009, resources allocated to public investment increased by 42%.<sup>6</sup> In recent years, this growth has been even more rapid. The nation's

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<sup>1</sup> Source: DNP, Capítulo 5-Finanzas Públicas [Chapter 5-Public Finances].

<https://www.dnp.gov.co/EstudiosEconomicos/Estad%C3%ADsticasHistóricasdeColombia.aspx>

<sup>2</sup> Source: Colombia – Informe de la Gestión Financiera Pública y Sistema de Contratación [Colombia—Report on Public Financial Management and the Procurement System] (2009).

<sup>3</sup> Public investment is normally understood to mean the expenditures of central sector divisions, decentralized bodies, and State-owned enterprises that are allocated to the construction, expansion, maintenance, and conservation of public works and generally all expenditures intended to increase, conserve, and improve national assets. Source: Ha-Joon Chang, “La Administración de la Inversión Pública” [Public Investment Administration], United Nations, 2006.

<sup>4</sup> The SGP consists of funds that the federal government transfers pursuant to Articles 356 and 357 of the Constitution to the subnational entities to finance education, health, and general services, jurisdiction for which is assigned to them under Law 715 of 2001.

<sup>5</sup> The SGR was established in 2011 through Legislative Act 05, amending Articles 360 of 361 of the Constitution and issuing other provisions on the royalties and compensation system. Law 1530 of 2012 governs the organization and functioning of the SGR. These provisions govern the exploitation of nonrenewable natural resources, specifying the conditions for sharing out revenue with beneficiaries. All SGR resources finance investment projects presented by the subnational entities to the Management and Decision-Making Bodies (MDMBs) responsible for defining, evaluating, making feasible, prioritizing, and approving the projects and appointing executing agencies for them.

<sup>6</sup> Source: DNP. Figures in constant 2012 prices.

investment budget grew by 11% from 2012 to 2013.<sup>7</sup> During the last six years, combined public sector capital expenditures, including the central, regional, and local governments, public enterprises, and social security, represented an annual average of 6.7% of GDP. For the next five years, the International Monetary Fund projects capital expenditure to increase to an annual average of 7.5% of GDP.<sup>8</sup>

- 1.4 Given this scenario, both international experience and research studies indicate that increased public investment must be accompanied by efforts to strengthen the institutional mechanisms of the State so as to ensure the efficient and transparent allocation of resources, meeting rigorous prioritization and performance criteria in terms of efficiency and effectiveness. Increasing the resources for public investment without an appropriate institutional framework raises the risk of a decline in the average productivity of capital expenditure, thus slowing the country's rate of growth.<sup>9</sup> Most of the institutional reforms that various member countries of the Organisation for Economic Co-operation and Development (OECD) carried out in the 1990s sought to improve the quality, efficiency, and effectiveness of public services by redesigning public policy management and control processes, including as the centerpiece building capacity for monitoring and tracking public investment.<sup>10</sup>
- 1.5 The literature also emphasizes strengthening systems for monitoring and tracking expenditure and public investment, including the adoption of new technologies for compiling and displaying information, as part of the solution to information asymmetry problems.<sup>11</sup> However, improvement in the systems for monitoring and tracking expenditure and public investment must be conceived as an exercise that increases actors' ability to generate, share, and give citizens access to information regarding the allocation and utilization of public resources.
- 1.6 Lastly, the third trend is the transformation of the citizenry, which is assuming a more active role as voters, taxpayers, and users and is becoming an active

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<sup>7</sup> Investment amounted to 36.8 billion Colombian pesos in the 2012 budget and reached 40.7 billion in 2013. Source: América economía. Colombia: presupuesto de inversión en 2013 será el más alto de la historia [Colombia: 2013 Investment Budget Will Be the Highest in History].

<http://www.americaeconomia.com/economia-mercados/finanzas/colombia-presupuesto-de-inversion-en-2013-sera-el-mas-alto-de-la-historia>

<sup>8</sup> Source: IMF. Colombia: Article IV Consultation Report (2012).

<sup>9</sup> Arregoces, Alejandro; Jola Andrés; Quintero Diana; Velásquez Lady. DNP. Bases para el análisis de la eficiencia y la efectividad de la inversión pública en Colombia [Foundations for Analysis of the Efficiency and Effectiveness of Public Investment in Colombia].  
<https://www.dnp.gov.co/LinkClick.aspx?fileticket=P4qAS7uQfdw%3D&tabid=110>

<sup>10</sup> For the sake of consistency with the methodology and terms adopted by the DNP, in this document "tracking" will be understood as the continuous and systematic examination of progress and achievement of the objectives under a policy, program, or project. Unlike "monitoring," "tracking" studies less operative aspects of the program or project, and utilizes specific indicators affecting the decision-making of interested parties. Source: DNP, <https://www.dnp.gov.co/Glosario.aspx>

<sup>11</sup> Memorias BPIN 20 años [National Investment Programs and Projects Bank. Proceedings. 20 Years], DNP, 2010. p. 45.

participant in public policy, demanding more and better services from government as well as increased transparency and access to information. The impetus for this transformation is the dissemination of information and communication technologies and the resulting widespread citizen access to social networks and interactive services on the Internet. In response to this growing citizen demand, the National Development Plan, under its pillar called “the State in the service of citizens: An efficient and transparent State,” seeks, *inter alia*, continuous improvement in public sector management models to make spending more efficient and transparent.<sup>12</sup>

- 1.7 Based on the foregoing, the convergence of these three trends, i.e., (i) greater political and administrative decentralization; (ii) increased public investment; and (iii) growing citizen demand for more and better services and easier access to socially useful information, necessitate the implementation of actions designed to make public investment more efficient and transparent.
- 1.8 **Problem and challenges.** Although Colombia is among the Latin American countries that have made great strides toward the consolidation of public management systems,<sup>13</sup> weaknesses persist in monitoring and tracking investment, particularly with respect to the incorporation of efficiency criteria.<sup>14</sup>
- 1.9 In Colombia, information systems that monitor and track public investment focus primarily on financial tracking, rather than on programming, monitoring the achievement of results, or the impact of the resources invested.<sup>15</sup> This has at least three important implications. First is that the information available on public investment refers almost exclusively to inputs on financial execution and not outputs or the impact of such resources. The second is that entities receive funds regardless of their performance on public policy objectives. The third is that accountability for the use of public funds is limited and lacking in transparency. The causes of the problem are summarized below.
  - a. The information available on public investment in Colombia is scattered and fragmented, basically due to the many formats used to report information to the National Planning Department.<sup>16</sup> This assertion is to some extent consistent with the C+ rating given to Colombia in 2009 on the performance indicator that measures the quality and timeliness of budget reports during the

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<sup>12</sup> Source: NDP 2010-2014. <https://www.dnp.gov.co/PND/PND20102014.aspx>

<sup>13</sup> Source: “Managing for Development Results: Progress and Challenges in Latin America and the Caribbean,” García and García, IDB 2010.

<sup>14</sup> The team has compiled supporting statistical data to demonstrate weaknesses in the efficiency of monitoring and tracking public investment, using the case of public investment projects financed with royalties. See Optional Link 7.

<sup>15</sup> Economía Urbana, Evaluación al Programa para el Fortalecimiento de la Información Pública, Seguimiento y Evaluación para la Gestión por Resultados en Colombia [Evaluation of the Program to Strengthen Public Investment, Monitoring and Evaluation for Results-based Management in Colombia]. May 2012.

<sup>16</sup> According to surveys the project team conducted of employees at the DNP, the Ministry of Mines and Energy, the Ministry of Finance and Public Credit, the Planning Secretariats of the subnational entities, MDMBs and executing entities. See Optional Link 4.



year.<sup>17</sup> Different evaluations point to deficiencies in the monitoring and tracking of the country's public investment funds,<sup>18</sup> which translate into: (i) the inability to put into practice systems that would provide feedback throughout the public investment programming cycle; and (ii) information disclosure in a manner that is not convenient for citizens. In Colombia, citizens have the legal right to access to information from the government. Most of the data on government budgets and contracting can be obtained via the Internet. However, there is limited ability<sup>19</sup> to analyze the information in depth so that it could easily be used by both citizens and public employees in decision-making.

- b. Although there is a Unified Public Investment and Finance System (SUIFP) that seeks to link the planning, investment, and budget processes by integrating various information systems associated with the investment project cycle, there is still limited interoperability<sup>20</sup> among existing systems and sources throughout the public investment cycle.<sup>21</sup> This translates into: (i) increased risk of inaccuracy due to errors in collecting and providing information; (ii) information dissemination and access channels that are weak and used irregularly;<sup>22</sup> and (iii) the inability to georeference public investment projects.

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<sup>17</sup> The C+ rating reflects some concerns over the accuracy of budget information, but this does not fundamentally undermine its basic utility. Source: Informe de la Gestión Financiera Pública y Sistema de Contratación [Report on Public Financial Management and Procurement System]. World Bank – IDB, 2009.

[http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2010/08/05/000333037\\_20100805001929/Rendered/PDF/551130ESW0Volu1olumen0II010Spanish.pdf](http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2010/08/05/000333037_20100805001929/Rendered/PDF/551130ESW0Volu1olumen0II010Spanish.pdf)

<sup>18</sup> Economía Urbana, Evaluación al Programa para el Fortalecimiento de la Información Pública, Seguimiento y Evaluación para la Gestión por Resultados en Colombia [Evaluation of the Program to Strengthen Public Investment, Monitoring and Evaluation for Results-based Management in Colombia]. May 2012.

<sup>19</sup> The limitation in terms of information is related, *inter alia*, to insufficient frequency of complete statistics on contract awards, the use of funds at the first-line service provider in different sectors, and information formats that make it difficult to customize reports for specific purposes. Source: IDB, World Bank. Colombia – Informe de la Gestión Financiera Pública y Sistema de Contratación [Report on Public Financial Management and Procurement System] (2009).

<sup>20</sup> The DNP has conducted tests to take the measure of existing interoperability levels, which found that: (i) there is no interoperability in the case of the SGR; and (ii) interoperability is very low in the PGN, and is limited to the updating of projects, updating of items marked as “pre-authorized distribution,” and information on budgetary execution. Source: Information provided by the Dirección de Inversiones y Finanzas Públicas [Department of Public Investment and Finances], DNP. March 2013.

<sup>21</sup> Santiago Montenegro, DNP. ¿Por qué evaluar el gasto público? Experiencias internacionales y el caso colombiano [Why Evaluate Public Spending? International Experiences and the Colombian Case], 2004.

<sup>22</sup> Meetings held with the DNP in the context of the Analysis Mission, March 2013.

- c. There is limited institutional capacity to handle the responsibilities involved in tracking public investment. Although the DNP<sup>23</sup> is the government agency charged with programming and tracking national investment resources in Colombia, it does not have: (i) sufficient human resources trained to carry out the functions of monitoring and tracking public investment; (ii) updated methodologies for monitoring and tracking investment projects;<sup>24</sup> and (iii) technological infrastructure and display tools that easily and accurately provide knowledge on what was invested, where it was invested, and how the investment was made.<sup>25</sup>
- 1.10 **Bank strategy and the country.** The program is consistent with the Bank's country strategy with Colombia (2012-2014) (document GN-2648-1) and its objectives of improving the quality of public administration and strengthening the oversight system. The program contributes to one of the sector priorities of the Ninth General Increase in the Resources of the Bank (document AB-2764) related to "Institutions for Growth and Social Welfare" with respect to efficient financing and management of the public sector, specifically in building solid, effective institutions and promoting transparency and accountability in national and subnational entities. The program is consistent with and complements planned interventions at the subnational level such as the project being prepared on Fiscal Strengthening of Subnational Entities (CO-L1125).<sup>26</sup>

## **B. Objectives and components**

- 1.11 The objective of the program is to boost efficiency and transparency in the use of public investment funds by strengthening the public investment monitoring and tracking system in accordance with the legal competencies of the DNP. To this end, the program would: (i) design an Integrated Information Technology Platform for public investment ("the platform");<sup>27</sup> (ii) implement the SGR module, including building the institutional and technical capacities required for its operation;<sup>28</sup> and (iii) implement the public investment resource and project display and georeferencing module.

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<sup>23</sup> The DNP guides, formulates, monitors, evaluates, and follows up on policies, plans, programs, and projects for the economic, social, and environmental development of the country, through interagency work coordinated with national and subnational entities, with a sense of responsibility to the citizens. Source: DNP website.

<sup>24</sup> Meetings held with the DNP in the context of the Analysis Mission, March 2013.

<sup>25</sup> Op cit. Arregoces et al., 2012.

<sup>26</sup> This operation complements operation CO-L1125, in that the latter helps to build the capacity of subnational entities to manage, plan, monitor, evaluate, and track public investment.

<sup>27</sup> There is evidence of the benefits of using technological systems to support the monitoring and evaluation of projects in terms of transparency and effectiveness. Source: Lopez-Acevedo et al. "Building Better Policies, The Nuts and Bolts of Monitoring and Evaluation Systems," 2012.

<sup>28</sup> Pursuant to Decree 1949 of 2012.

1.12 The program's area of intervention will be to strengthen the system for monitoring and tracking the investment resources and projects included in the PGN, the SGP, and the SGR—all of which will be developed in differentiated ways according to plans in the different components. The program will tap into the technical expertise generated in designing the MapaRegalías<sup>29</sup> [Royalties Map] tool and the Bank's experience spearheading institutional reforms in the country, through the use of new information and communication technologies. The program's main beneficiary will be the DNP, given its legal powers with respect to monitoring and tracking the country's public investment.

1.13 **Component 1. Design of an integrated technology platform for public investment.** The objective of this component is to design a platform that will allow public employees and citizens to access timely information on investment resources and projects in the PGN, the SGP, and the SGR. The following will be financed under this component:

- a. A diagnostic assessment of the current status of information management throughout the life cycle of resources and projects, to include: (i) identification of the current status of rules and procedures governing the management of information on national public investment; (ii) identification of relevant actors and their information needs for decision-making throughout the life cycle of projects and resources; (iii) identification of the current status of existing information systems and their interoperability; and (iv) a diagnosis of the current status of the infrastructure and human resources supporting the information systems.
- b. Design of the platform to include: (i) development of proposed standards and processes; (ii) adaptation of the Adjusted General Methodology and strengthening of the Unified Project Bank; (iii) design and dimensioning of the necessary infrastructure; (iv) identification of capacities in terms of the human and technical resources that will be needed to operate the platform; (v) development of the required technological architecture; and (vi) a survey of the functional and technical requirements for design of the required software modules and their operability.<sup>30</sup>
- c. A platform implementation plan, to include: (i) the schedule; (ii) responsibilities; and (iii) resources. This plan will detail phases for the gradual implementation of the platform, according to the activities in the design.

1.14 **Component 2. Implementation of the integrated technology platform for public investment.** The objectives of this component are to: (i) implement the

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<sup>29</sup> This tool is being financed by technical cooperation operations ATN/FI-12361-CO and ATN/FI-12362-CO with technical support from the IDB Transparency Fund.

<sup>30</sup> The platform will be able to report specific information on gender and diversity, allowing tracking and analysis of the use of public investment resources consistent with the Millennium Development Goals relating to gender equity, women's empowerment, and the National Plan on Gender Equity for Women.

technological module facilitating the management of resources and projects and allowing the identification of early warnings from the SGR; and (ii) implement the display technological module for all public investment resources and projects (Investment Map). The main activities in this component are: (i) contract the service or purchase the equipment and software licenses needed to implement the modules mentioned; (ii) develop the skills and capacities required within the DNP to administer and operate the platform modules; and (iii) create a help desk to provide technical and operational support to platform users.

- 1.15 **Subcomponent 2.A. Implementation of the SGR technological module in the platform.** The objective of this subcomponent is to implement the SGR resource and project management module, within the framework of the platform phased implementation plan. Financing will be provided to procure goods and services for: (i) having the technological infrastructure needed to implement the SGR module in the platform; (ii) implementing a technical and operational help desk allowing timely responses to users' queries; (iii) implementing a roles security and management scheme for the platform; (iv) implementing a project management tool to strengthen the execution of responsible entities; and (v) strengthening the DNP's project monitoring tools.
- 1.16 Under this subcomponent, three pilot projects will be implemented in subnational entities and one in a Management and Decision-Making Body (MDMB)<sup>31</sup> to be determined with the Technical Secretariat of the Steering Committee,<sup>32</sup> based on the following criteria: (i) include a regional MDMB that has approved the largest number of projects, a municipio with high institutional capacity, a municipio with average institutional capacity, and a municipio with low institutional capacity according to the latest DNP report on the Evaluation of the Comprehensive Performance of Municipios;<sup>33</sup> (ii) be one of the 20 municipios that receive the most resources from the SGR under the institutional capacity category; and (iii) present basic needs deficiencies according to the Index of Unmet Basic Needs.<sup>34</sup>
- 1.17 The interventions in the selected pilots include: (i) strengthening of the institutions and infrastructure needed to produce the information required by the platform; (ii) monitoring and surveying lessons learned and good practices in the use of the

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<sup>31</sup> These bodies are responsible for determining which investment projects are submitted for their consideration to be financed with SGR resources.

<sup>32</sup> The SGR Steering Committee, for which the DNP serves as the Technical Secretariat, is responsible for setting general policy, evaluating its execution, and issuing, by means of agreements, the administrative regulations intended to ensure the proper operation of the SGR.

<sup>33</sup> DNP. Evaluación de Desempeño Integral de los Municipios 2011 [Evaluation of Overall Performance of Municipios 2011].  
<https://www.dnp.gov.co/Programas/DesarrolloTerritorial/Evaluaci%C3%B3nySeguimientodelaDescentralizaci%C3%B3n/DocumentosdeEvaluaci%C3%B3n.aspx>.

<sup>34</sup> Departamento Administrativo Nacional de Estadística [National Statistics Administrative Department] (DANE). Necesidades Básicas Insatisfechas desagregadas al 31 de diciembre de 2011 [Unmet Basic Needs, Disaggregated as of 31 December 2011]  
[http://www.dane.gov.co/files/censo2005/NBI\\_desagregadas\\_cab\\_resto\\_mpio\\_nal\\_30jun11.xls](http://www.dane.gov.co/files/censo2005/NBI_desagregadas_cab_resto_mpio_nal_30jun11.xls)

platform; and (iii) documentation of lessons learned and design of the standard capacity-building model to facilitate application in the different subnational entities and/or the MDMBs.

1.18 **Subcomponent 2.B. Implementation of a public investment resource and project display and georeferencing technological tool – Investment Map.** The objective of this subcomponent is to design and implement a display and georeferencing tool on investment resources and projects financed by the PGN, the SGP, and the SGR.<sup>35</sup> For this purpose, financing will be provided to contract goods and services to: (i) develop and configure all the functionalities required for implementing the tools as defined in the design phase; (ii) put into operation the technological support infrastructure; and (iii) develop and implement a strategy for dissemination, training, and outreach regarding the tool.

1.19 **Expected outcomes.** Upon completion of this operation, it is expected that: (i) national public investment resources will be subject to monitoring and tracking to facilitate decision-making and allow the identification of early warnings; (ii) the operating and transaction costs linked to monitoring public investment financed with royalties will be reduced; and (iii) transparency and citizen access to information on projects financed with public investment resources will be increased.

### C. Key indicators of the results matrix

1.20 Colombia is expected to improve its efficiency and transparency in the management of public investment resources as a result of implementing this program. The program's key indicators are summarized below:

- a. Efficiency gains in processes for reviewing and approving investment projects to be financed with royalties, to be measured based on the number of days required for a project to advance through the various phases of the process.
- b. Reduced operating and transaction costs associated with tracking public investments financed with royalties, to be measured based on reductions in the person-hours needed to carry out these tasks appropriately and on the monetary value thereof. This information is obtained based on surveys of employees involved in the process.
- c. Increased transparency of and access to information on projects financed with public resources (PGN, SGR, SGP), to be measured based on the percentage of projects with information available online and the increase in the number of hits to the page with information on projects.<sup>36</sup>

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<sup>35</sup> This component will expand the functionalities and coverage of the “Mapa Regalías” [Royalties Map] tool.

<sup>36</sup> As a reference on the effectiveness of investments of this type, there are the preliminary results of the MapAmericas platform the Bank has implemented to track and monitor its interventions in the countries of the region. In terms of georeferencing projects, the platform went from 0 projects in 2012 to 531 projects with 4,242 outputs mapped as of March of this year.

## II. STRUCTURE OF FINANCING AND PRINCIPAL RISKS

### A. Costs and financing

- 2.1 The program will have an estimated total cost of US\$33 million. That cost will be financed through a specific investment loan of up to US\$8 million drawn on the Bank's Ordinary Capital, plus a local contribution of US\$25 million. Optional link 3 presents the itemized budget for the operation and the corresponding estimate of disbursements.

Table 1 – Program Cost (US\$)

Categories	IDB	Local Contribution	TOTAL
1. Design of a platform for public investment	5,570,000	1,500,000	7,070,000
2. Implementation of the platform for investment	1,970,000	23,300,000	25,270,000
3. Financial audit	150,000	-	150,000
4. Administration, supervision, and evaluations	310,000	200,000	510,000
<b>Total</b>	<b>8,000,000</b>	<b>25,000,000</b>	<b>33,000,000</b>

- 2.2 **Disbursement schedule.** Loan funds will be disbursed over a period of 48 months, starting on the effective date of the loan contract, according to the table below:

Table 2 – Disbursement Schedule

SOURCE	2014	2015	2016	2017	TOTAL	%
<b>IDB</b>	2,000,000	2,800,000	2,000,000	1,200,000	8,000,000	24%
<b>Local</b>	6,250,000	8,750,000	6,250,000	3,750,000	25,000,000	76%
<b>TOTAL</b>	8,250,000	11,550,000	8,250,000	4,950,000	33,000,000	100%
<b>%</b>	25%	35%	25%	15%	100%	-

### B. Environmental and social safeguard risks

- 2.3 Based on the nature of the program and given that it deals with institutional strengthening activities that do not include works or actions that would have adverse environmental and social impacts, this has been classified as a category "C" operation according to the Bank's Environment and Safeguards Compliance Policy (OP-703). As a result, the preparation of an environmental strategy for the program is not considered necessary.

### C. Fiduciary risk

- 2.4 The evaluation of financial and procurement management concludes that the DNP has sufficient capacity to conduct activities related to financial management and

administration of program resources. The DNP's fiduciary management capacity was assessed based on the analysis the Bank did when preparing the program to provide Support for the Implementation of the National Logistics Policy (CO-L1109) in June 2012 and the recent institutional capacity update conducted by the firm auditing the loan for the Program to Support Private Participation and Concessions in Infrastructure (loan 2079/OC-CO). The DNP has satisfactorily executed both the program of Support of Private Participation and Concession in Infrastructure-Second Stage 2 (loan 1594/OC-CO) and loan 2079/OC-CO. Fiduciary risk in financial management and administration of procurement processes financed by the Bank is low. In addition, according to the results from the evaluation performed through the Institutional Capacity Assessment System, the level of risk related to the capacity to administer Bank-financed procurement processes is low (see Annex III).

**D. Other risks**

- 2.5 The executing agency's level of commitment based on possible changes in officials due to elections has been classified as a medium risk, which is mitigated by conducting a bridge mission with the new government team. Insufficient room in the budget for the proper execution of the program is considered a medium risk, which is mitigated by conducting a programming workshop between the Bank and the DNP. Nonetheless, the Government of Colombia has indicated that implementation of this program was a technical and political priority, consistent with the government's commitment to transparency as governmental policy. These factors also help to provide sustainability to the activities carried out under the program.

### **III. EXECUTION AND MANAGEMENT PLAN**

**A. Summary of implementation arrangements**

- 3.1 **Execution arrangements.** The borrower will be the Republic of Colombia, and the executing agency will be the DNP, which will act through its Subnational and Public Investment Section.

**B. Roles and responsibilities**

- 3.2 **National Planning Department (DNP).** The DNP will handle coordination and supervision in the execution of program activities. Its responsibilities are as follows: (i) preparing and presenting to the Bank requests for disbursement of loan funds; (ii) procuring goods and services and selecting and contracting consulting services, in accordance with the Bank's policies in this area; (iii) carrying out the financial management of loan funds, and submitting audited and unaudited financial reports to the Bank as established in the loan contract; (iv) preparing and updating all of the program's work plans, including annual work plans, the execution plan, the procurement plan, and the financial plan, which must be submitted to the Bank following the format, frequency, and timing established in the loan contract; and

- (v) contracting the consulting services needed to conduct program audits and the evaluations provided for in the loan contract.
- 3.3 The program will have a technical team headed up by a General Coordinator, who will be supported by a financial management specialist, a procurement specialist, a project monitoring and evaluation specialist, and a professional specializing in information and telecommunications technology.
- 3.4 The DNP will assign responsibility for program execution to its technical and administrative areas and will ensure that they are adequately staffed to fulfill program responsibilities, which include: (i) heading up the formulation, monitoring, and evaluation of projects to be financed with program resources; (ii) preparing the budget documents and progress and performance indicators for program activities; (iii) drafting the terms of reference and other documentation for the selection and contracting processes for consultants, goods, and services; (iv) providing financial and accounting information as required by the Bank; (v) presenting each year audited financial statements in accordance with Bank procedures; (vi) supervising the provision, use, maintenance, and conservation of goods, equipment, and materials; (vii) processing requests for disbursement of the financing and presenting the respective documentation for eligible program expenses in keeping with Bank procedures; (viii) preparing the annual work plans (AWP) and program execution reports; and (ix) maintaining adequate systems for contract payment and administration, financial accounting and internal control, and filing the supporting documentation for transactions.
- 3.5 **Procurement.** Works, goods, and consulting services, to be covered with loan funds, will be procured in accordance with the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9). For developing the design of the Investment Map tool, Microsoft Services Colombia will be contracted directly for up to US\$1.4 million. This contract is a natural continuation of the work previously done under the MapaRegalías [Royalties Map] tool, as provided in paragraphs 3.10 and 3.11 of document GN-2350-9.
- 3.6 **Disbursements.** To manage the program's cash flow, a special foreign currency bank account (designated account) will be opened at the Banco de la República, in the name of the project, to be used exclusively for loan funds. The DNP will prepare its disbursement requests and the Bank will disburse program funds as advances to the DNP's account at the Banco de la República, based on actual liquidity needs for a period not to exceed six months, in accordance with the investment schedule and the flow of funds required for those purposes, as established in the Financial Management Policy for IDB-financed Projects (document OP-273-2). In addition to the cash flow projection, the disbursement request must be accompanied by the reconciliation of the special account. The DNP will submit documentation on expenses using the exchange rate in effect in the country on the date the expense was paid in the local currency.



- 3.7 **Advance procurement, retroactive financing, and recognition of expenditures.** None are planned.
- 3.8 **Auditing.** The financial statements and the eligibility of program expenses will be audited by an independent auditing firm acceptable to the Bank that will be contracted by the DNP. The auditing services will be financed with loan proceeds. The audited financial statements for the program will be annual statements and must be sent to the Bank no more than four months after the close of each financial period, in accordance with the previously agreed procedures and terms of reference. The reports to be required will be those established in the standard terms of reference, and will include the review of procurement in addition to the Bank's actions and reviews. To audit this operation, a private independent auditing firm will be required to guarantee the timing and content of the opinions, in accordance with the provisions of the Financial Management Policy for IDB-financed Projects (document OP-273-2). There is no national policy on public disclosure of audit reports. Nonetheless, according to the policy in effect on access to and disclosure of information, the program's audited reports will be published in the Bank's systems.
- 3.9 **Special contractual conditions precedent to the first disbursement. The following will be special contractual conditions precedent to the first disbursement: the executing agency has presented evidence that it (i) has appointed a General Program Coordinator, a financial specialist, and a procurement specialist for the program; and (ii) has approved the program Operating Regulations, with the prior no objection of the Bank.**
- C. Summary of agreements for program monitoring and evaluation**
- 3.10 To monitor and evaluate the program, a management system will be implemented that is compatible with the Bank's systems and can be used to monitor the outcome and output indicators in the results matrix. The system will allow for: (i) evaluating the operation's progress towards its objectives; (ii) identifying problematic areas and obstacles encountered during implementation; (iii) boosting productivity and generating higher value added from the activities financed and disbursements made; and (iv) determining success or failure in achieving the objectives in terms of obtaining the expected outputs. To do this, the system will: (i) consider indicators and delivery deadlines for outputs (physical and budgetary targets); (ii) identify information instruments and sources and the agency responsible for the recording, monitoring, and reporting thereof; and (iii) supply information for development of half-yearly reports to be submitted to the Bank.
- 3.11 The following instruments will be used to monitor the program: the program execution plan, the annual work plan, and half-yearly reports. These will be complemented by periodic updating of the risk mitigation matrix and the results matrix. The required financial reports will be the financial execution plan and the audited financial statements. Monitoring of procurement will be based on the Procurement Plan Execution System.

- 3.12 The DNP will prepare a midterm report and send it to the Bank 90 days after the date when 50% of the funds have been disbursed. It will also send the Bank a final evaluation that will be used as input for the project completion report 90 days after the date of the operation's last disbursement.
- 3.13 The anticipated outcomes are provided in the results matrix and its principal indicators were agreed to during preparation, including methods and means of verification. The final evaluation work will be based on terms of reference agreed to with the Bank. The aim will be to review progress made and attainment of the indicators, outcomes, and targets, as well as to formulate recommendations, propose corrective actions, and establish good practices and lessons learned.
- 3.14 An impact assessment will be carried out and will be financed with funds from the local contribution. This assessment will provide empirical evidence on the effectiveness of the intervention that will be used as input for potential operations with similar characteristics.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program			
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	Public financial systems implemented or upgraded (budgeted, treasury, accounting, debt, and revenues).		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2648-1	i) More effective governance and ii) The country's transparency levels have improved.	
Country Program Results Matrix	GN-2696	The intervention is included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.0		10
3. Evidence-based Assessment & Solution	9.0	33.33%	10
4. Ex ante Economic Analysis	10.0	33.33%	10
5. Monitoring and Evaluation	7.9	33.33%	10
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	C		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	i) Budget, ii) Treasury and, iii) Accounting and Reporting.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	ATN/FI 12361 CO y ATN/FI-12362.	
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	Yes	The proposal includes a semi-experimental evaluation (Dif in Dif) on use of public funds.	

The document identifies the main problems that the project will address, which are associated with the monitoring of public investment: i) financial tracking, ii) system interoperability and iii) weak institutional capacity for compliance with monitoring, particularly in the DNP.

The POD has a clearly articulated and systematic diagnosis of the problems facing public investment resulting from the three trends: decentralization; significant increase of public investment, particularly decentralized investment; and the increasing public demand. As a result of the diagnosis, the proposed intervention seeks to improve the efficiency and transparency of public investment by running two sets of activities or components: (i) Design of an Integrated Platform of Investment (PII), and (ii) Implementation of PII including a section for the General Royalty System, and the development and implementation of a visualization tool based on MapAmericas.

The Results Matrix presents clearly the logic of the intervention. Monitoring investment, reducing transaction costs in this monitoring and greater transparency (availability of information) should facilitate decision making with an early warning system and generating lower monitoring costs of public investment financed by royalties.

The monitoring and evaluation plan is complete and includes an impact assessment based on Differences in Differences.

## RESULTS MATRIX

**Objective:** The objective of the program is to boost efficiency and transparency in the use of public investment funds by strengthening the public investment monitoring and tracking system in accordance with the legal competencies of the Departamento Nacional de Planeación [National Planning Department] (DNP).

### EXPECTED IMPACT

Impacts (final outcomes)	Unit of measure	Baseline		Targets		Source/ Means of verification	Observations
		Amount	Year	Amount	Year		
<b><u>EXPECTED IMPACT:</u></b> To boost transparency in the use of public investment resources.							
Number of annual hits to online information systems for public investment projects.	Number of hits	1,266,575	2012	4,051,414	2017	Statistics from the Subdirección Territorial y de Inversión Pública [Subnational and Public Investment Section] - DNP	The baseline consists of the number of hits to the SGR and the Investment Project Tracking System.  Upon completion of the program, the information on investment projects will be published in a single system called the Investment Map.  The details supporting the estimated projections for the increase in hits are found in Optional Link 9.

### EXPECTED OUTCOMES

Expected outcomes	Unit of measure	Baseline		Targets		Source/ Means of verification	Observations
		Amount	Year	Amount	Year		
<b>Outcome 1:</b> National public investment resources financed with funds from royalties will be subject to monitoring and tracking to facilitate decision-making and identify early warnings.							
% of approved projects financed with funds from royalties, information on which is available online.	%	0%	2013	100%	2017	Number of approved projects financed with funds from royalties, information on which is available online / Number of approved projects financed with funds from royalties. Subnational and Public Investment Section / DNP Systems ( <a href="https://sgr.dnp.gov.co/">https://sgr.dnp.gov.co/</a> ).	Although there is now information on the SGR website, it is not specific to any project.  The Investment Map will show information on each project, not general information, so the value of the baseline is 0%.
% of approved projects financed with SGR recorded in the SUIFP with complete information.	%	10%	2013	80%	2017	Number of approved projects financed with funds from royalties, information on which is complete / Number of approved projects financed with funds from royalties DNP – Dirección de Regalías [Royalties Directorate]	Complete information is understood to mean at a minimum: <div><div>(i)</div>Updated financial execution with cutoff according to rules established by the DNP.<div>(ii)</div>Updated physical execution with cutoff according to rules established by the DNP.<div>(iii)</div>Georeferenced projects.<div>(iv)</div>Execution photos with cutoff according to rules established by the DNP.</div> Data on responsible parties updated according to rules established by the DNP.

Expected outcomes	Unit of measure	Baseline		Targets		Source/ Means of verification	Observations
		Amount	Year	Amount	Year		
Outcome 2: Reduction of operating and transaction costs associated with tracking public investment financed with royalties.							
Average time a DNP employee dedicates to seeking, sending, and processing information for monitoring, tracking, and overseeing investment projects financed with funds from royalties.	Days	30	2013	25	2017	DNP. Survey of Royalties Directorate employees.	A survey was conducted to calculate the baseline. The results of that survey are available in Optional Link 4.  A follow-up survey will need to be done in 2017 to confirm the reduction of time.
Average time that municipal Secretaria de Planeación [Planning Department] employees dedicate to reviewing and verifying requirements per project to be financed with funds from royalties.	Days	14.29	2013	11	2017	Survey of Planning Departments.  Reduction of 15% per year until reaching 5 days  Decree 1949-2010.	A survey was conducted to calculate the baseline. The results of that survey are available in Optional Link 4.  It is estimated that the average time of five working days established in the rule will be achieved in 2019.  A follow-up survey will need to be done in 2017 to confirm the reduction of time.
Average time a project takes from formulation (initial entry in the Unified Public Investment and Finance System-SUIFP) to approval.	Days	40.47	2013	30	2017	DNP – Royalties Directorate. Project Bank information (SUIFP).  Decree 1949-2012.	Currently the information in the Project Bank does not include the time between formulation and entry in the Project Bank.  In the survey of system actors it was estimated that process time is higher and may be twice that value. The results of that survey are available in Optional Link 4.  A follow-up survey will need to be done to evaluate achievement of the target.

## OUTPUTS

Output	Estimated total cost per output (US\$) <sup>1</sup>	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Final goal	Source/ Means of verification
<b>Component I: Design of an integrated technology platform for public investment</b>									
1. Analysis of existing procedures and preparation of proposals on regulatory framework for operation of the platform	240	Analysis done	0	1	0	0	0	1	Half-yearly program report
2. Design of Investment Map	1,340	Platform designed	0	1	0	0	0	1	Half-yearly program report.
3. Analysis of current status of information systems, technological structure, databases being used, human resources, and dimensioning of requirements	840	Analysis done	0	0	1	0	0	1	Half-yearly program report.
4. Operating Plan for the platform.	2,710,000	Operating Plan carried out	0	0	0	1	0	1	Half-yearly program report.
5. Organizational Plan for managing content of the platform	2,710,000	Organizational Plan carried out	0	0	0	1	0	1	Half-yearly program report.
6. Proposal on managing change, and training program and implementation of a communications strategy for Investment Map.	220,000	Proposal done	0	0	0	1	0	1	Half-yearly program report.

<sup>1</sup> Estimated exchange rate: 1,800 Colombian pesos per US\$.

Output	Estimated total cost per output (US\$) <sup>1</sup>	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Final goal	Source/ Means of verification
<b>Component II: Implementation of the integrated technology platform for public investment</b>									
1. Implementation of the public investment funds and projects display and georeferencing tool – Investment Map.	2,070,000	System implemented	0	0	1	0	0	1	Half-yearly program report.
2. a. General Royalty System (SGR) module in the platform.	23,350,000 (Local contribution)	Module implemented	0	0	1	0	0	1	Half-yearly program report.
2. b. Pilots in subnational entities and a Management and Decision-making Body (MDMB) implemented.	4,200,000 (Local contribution)	Pilots implemented	0	0	0	4	0	4	Half-yearly program report.



## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

<b>Country</b>	Colombia
<b>Project number:</b>	CO-L1126
<b>Name:</b>	Program to Strengthen the Public Investment System
<b>Prepared by:</b>	Miguel A. Orellana, Lead Fiduciary Specialist in Financial Management (FMP/CCO); and Gabriele M. del Monte, Lead Fiduciary Specialist in Procurement (FMP/CCO).

### **I. EXECUTIVE SUMMARY**

The fiduciary management capacity of the National Planning Department (DNP) was assessed based on the analysis done by the Bank when preparing the project to provide Support to the Implementation of the National Logistics Policy (CO-L1109) in June 2012 and the recent institutional capacity update done by the auditing firm for the Program to Support Private Participation and Concessions in Infrastructure (loan 2079/OC-CO), as part of the 2012 audit (conducted by PriceWaterhouseCoopers in November 2012). Those evaluations utilized the following tools: (i) Detailed Evaluation of the Executing Agency's Capacity to Administer Procurement (April 2013); (ii) Institutional Capacity Assessment System. To date, the DNP has satisfactorily executed the Programs to Support Private Participation and Concessions in Infrastructure (loans 1594/OC-CO, 2079/OC-CO). The evaluation concludes that the DNP has sufficient capacity to perform the program's financial management, resource management, and procurement activities. The fiduciary risk in financial management at the DNP is low. The risk is also low in the case of procurement.

According to the Public Expenditure and Financial Accountability (PEFA) assessment, Colombia's public financial management system is mature and performs well in most areas. However, it is still not entirely adapted to international standards. The public procurement system is also considered adequate from a regulatory perspective and consistent with internationally accepted practices, but its use has not yet been authorized for IDB loans. The DNP uses the Sistema Integrado de Información Financiera [Integrated Financial Information System] (SIIF Nación 2) for budgetary, accounting, and treasury oversight, which are found online. In addition, the DNP has the "SEVEN" accounting software that allows the detailed recording of operations and the production of any reports that will be required for the program.

The program includes US\$25 million as local counterpart funds, and no provision is made for financing from other multilateral organizations.

### **II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT**

The DNP will keep the accounts for the program using SIIF Nación 2. However, the DNP will control the program's accounting information using the "SEVEN" accounting software,

which can generate detailed information. The DNP will create a coordinating unit that will be responsible for coordinating project-related financial and administrative procedures such as budgets, treasury, general accounting, and reporting.

Among its strengths in financial management, the DNP keeps all the entity's activities documented, approved, and formalized through an information system for the knowledge of and consultation by all staff. The internal control system is adequate and external control is carried out by the Contraloría General de la República [Office of the Comptroller General of the Republic] (CGR). The DNP has specialists in finance, procurement, and contracting with experience in multilateral banking system projects, who are currently responsible for the loan in execution (loan 2079/OC-CO), with satisfactory performance.

The DNP has assigned functions appropriately to administer the processes for procurements financed using local resources and multilateral banking system funds, as in the case of the IDB, in the pre-contract, contract, and post-contract stages. The DNP has instructions applicable to procedures for contracting financed by multilateral banks. Those instructions are found in the Contracting Manual (2012 update).

In the DNP, services are provided by employees and consultants who have been accumulating significant experience in administering procurement processes financed by multilateral organizations, including the IDB. There has been stability among the employees involved in procurement processing. There appear to be no indications that the handling of procurement processes could change for the worse. The General Secretariat's Contracting Group processes procurements for which the DNP is responsible. The Contracting Group has been responsible for handling procurement processes financed using funds from loan 2079/OC-CO. The experience in executing that program has been good, and nearly 40 processes were handled to contract consulting firms using the quality- and cost-based selection (QCBS) method and ex post reviews.

The procedures the DNP uses to manage the procurement cycle adequately cover the related requirements of the policies for procurements financed by the IDB (documents GN-2349-9 and GN-2350-9). Compliance with the Procurement Plan is monitored.

### **III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES**

The employees who would make up the program's executing or coordinating unit have not been appointed as yet. Thus, no risk management evaluation has been carried out, although provision is made for doing so once the unit has been formed and prior to executing the operation.

### **IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS**

#### **A. Financial management**

1. The following will be special conditions precedent to the first disbursement: the DNP has presented evidence that it (i) has appointed a General Program Coordinator, a financial specialist, and a procurement specialist for the program; and (ii) has approved the program Operating Regulations, with the prior no objection of the Bank.

2. The executing agency will submit expense vouchers, using the exchange rate in effect in the country on the date the expense was paid in the local currency.

**B. Procurement: Agreement and requirements for procurement execution**

The procurement policies that will apply for this loan are those contained in documents GN-2349-9 and GN-2350-9.

**1. Procurement execution**

- 1.1 Before procurements are begun, the procurement plan for the first 18 months needs to be published, as indicated by the Bank, and it must be kept up-to-date by the executing unit.
- 1.2 The relevance of the expenditure—i.e. in keeping with the terms of reference, technical specifications, bidding documents, and budget—is the responsibility of the project's sector specialist and always requires a prior no objection for the start of the procurement and must be in keeping with the operational criteria of the project team leader.

2. **Procurement of works, goods, and nonconsulting services: document GN-2349-9 will apply.** Contracts generated and subject to international competitive bidding (ICB) and national competitive bidding (NCB) will be executed using the documents harmonized for Colombia and agreed to with the Bank.

2.1 **Procurement of information technology (IT) systems:** Not applicable.

2.2 **Turnkey procurement (supply and installation):** Not applicable.

2.3 **Procurement with community participation:** Not applicable.

3. **Selection and contracting of consultants:** Document GN-2350-9 will apply.

3.1 **Consulting firms:** These will be selected and hired using the standard request for proposals harmonized for Colombia and agreed to with the Bank.

3.1.1 Direct contracting of Microsoft Services Colombia for up to US\$1.4 million is proposed. The technical justification for this direct contracting is as follows:

Pursuant to the provisions of Law 1530 of 17 May 2012 and Decree 1949 of 19 September 2012, the Government of Colombia sought support from the Inter-American Development Bank to design and implement an Integrated Platform for the Revenue Share-out System (SGR). The objective of this initiative was to improve the efficiency, effectiveness, and transparency of public investment financed using funds from royalties by developing an integrated platform that will make the royalties cycle fully traceable, using technological georeferencing tools for displaying and managing information. This was the method used under the Technical Assistance to Support Management for Results for Local Governments I (ATN/FI-12361-CO) to finance the first stage for displaying royalties funds and to create MapaRegalías [Royalties Map].

The MapaRegalías display module was developed by Microsoft Services Colombia and its partners exclusively, based on the same technology and experience. This made it possible not only to adapt a platform like MapAmericas to the conditions of the country,

but to obtain decisive information for information flows and recurring problems in the development of technological tools and platforms for information management.

In the context of the analysis mission for this program, the Colombian government suggested the possibility of expanding the scope of the initial MapaRegalías platform and moving ahead with a business model that would make it possible to cover the entirety of the country's public investment. The objective of this request is to strengthen the tracking and monitoring of the country's national public investment system, considering the experience and knowledge derived from implementing the MapaRegalías module. Using the same technology and experience of Microsoft Services Colombia is essential for implementing this project. The consequences of not doing so would be to have implementation delays and problems from developing the two platforms with different providers and technologies.

**3.2 Selection of individual consultants:** Selection and contracting will be in accordance with Bank policies.

4. **Training:** Not applicable.
5. **Recurrent costs:** Not applicable.
6. **Trade practices:** Not applicable.
7. **Advance procurement/Retroactive financing:** Not applicable.
8. **Domestic preference:** Not applicable.
9. **Other:** Not applicable.
10. **Table of thresholds**

WORKS		GOODS		CONSULTING	
ICB	NCB	ICB	NCB	International advertising	Shortlist 100% national
≥ US\$10 million	US\$350,000 to US\$10 million	≥ US\$1 million	US\$50,000 to US\$1 million	≥ US\$200,000	≤ US\$500,000

Simple works and common goods valued at less than the amount for ICB may be procured through shopping.

11. **Major procurement processes:** Procurements in the first 18 months are reflected in the Procurement Plan (IDBDOCS 37710943) and are not technically complex. The only procedure that warrants special mention is the aforementioned direct contracting of Microsoft Services Colombia.

## 12. Procurement supervision

Ex post review of procurement processes financed by the Bank is recommended, with the exception of those using ICB, which will be reviewed ex ante, and for procurements designated for such review in the procurement plan, as well as direct contracting (any amount), which also requires ex ante review.

Thresholds for Ex Post Review		
Works	Goods	Consulting Services
Less than US\$10 million *	Less than US\$1 million *	Less than US\$200,000 *

### 13. Special provisions

- (a) **Measures to reduce the likelihood of corruption:** Not applicable.
- (b) **Other special procedures:** Not applicable.

### 14. Records and files

The DNP has archiving systems with complete and orderly documentation of the procurement processes for all pre-contract, contract, and post-contract stages. The provisions on archiving mean keeping “physical” documents for some 20 years. The documentation is kept in the Central Archive of the DNP (Library and Archives Section).

### C. Financial management

1. **Programming and budget:** The national government, through the Dirección General de Presupuesto Público Nacional [National Public Budget Directorate] and the DNP, is responsible for budgetary programming, a process that concludes with approval of the Annual Budget Law by the Congress of the Republic. The loan proceeds are included in the national budget under the DNP heading and will be controlled through the SIIF Nación 2 system.
2. **Accounting and information systems:** The lead agency for government accounting in Colombia is the Contaduría General de la Nación [General Accounting of the Nation] (CGN), which issues directives on how to maintain the accounts that make up the national budget. The official government accounting system is the SIIF Nación 2, which is a source for downloading information sent to the CGN through the Sistema Consolidador de Hacienda e Información Pública [Finance and Public Information Consolidating System] (CHIP). The DNP will use SIIF Nación 2 for budgetary, accounting, and treasury oversight of the program. The DNP also has the “SEVEN” system for maintaining the program’s detailed accounts, because the SIIF Nación 2 accounting and reporting subsystem does not generate reports that are itemized or classified by investment category. Records are kept on an accrual basis but the program’s audited financial statements will be prepared on a cash basis and submitted to the Bank annually. For recording its transactions and preparing its financial statements, the entity uses the standards prescribed by the CGN and, for matters not established therein, the generally accepted accounting standards in Colombia as established in Decree 2649 of 1993.
3. **Disbursements and cash flow:** Externally sourced funds as well as other government funds are executed through the SIIF Nación 2 system. For program treasury management, the DNP will open a special foreign currency account (designated account) at the Banco de la República (Central Bank) in the name of the program, for the exclusive use of program funds. The disbursement method will be advances based

on liquidity needs for a maximum of six months and accountability with respect to advances will be as established in the Financial Management Policy for IDB-financed Projects (document OP-273-2). In addition to the projected flow of funds, the disbursement request must be accompanied by the reconciliation of the special account and the implementation status of the technical and fiduciary performance commitments. Expenses will be documented using the exchange rate in effect in the country on the date the expense was paid in the local currency. Special conditions precedent to the first disbursement will be that the DNP: (i) has appointed a General Program Coordinator, a financial specialist, and a procurement specialist for the program; and (ii) has approved the program Operating Regulations, with the prior no objection of the Bank.

4. **Internal control and internal auditing:** The DNP has an internal oversight office. Its internal oversight is based on the applicability of the 2005-MECI public model for internal oversight and the principles of self-regulation, self-management, self-control, and continuous improvement. It also has risk maps for each of the processes included in the quality management system. These entities are intended to achieve results through efficiency, effectiveness, and operational transparency and have an institutional code of values and performance measurement, a defined vision, mission, annual work plan, indicators, and standards. The internal oversight office has professional staff to carry out its work and participates in the monitoring process as part of plans for improving external audits and audits by the Accounting Office. Internal audit activities are carried out according to the Auditing Standards. In the DNP, the review of investment projects is selectively programmed according to the annual work plan of the internal oversight office. Internal and external audit reports have indicated that internal oversight is adequate. Although the procedures used by the internal oversight offices are reliable, the Bank will not use their services because those offices do not include project reviews within their auditing plans.
5. **External control and reports:** The CGR carries out the external control of the DNP through public audits of the entities, on a selective and ex post basis, in order to verify compliance with standards, proper use of resources, adherence to processes and procedures, and attainment of targets and objectives, etc. The CGR issued an unqualified opinion for financial year 2010. Given that the CGR is not eligible at this point to audit Bank-financed projects, the project will use the services of an independent auditing firm.

The financial statements and the eligibility of program expenses will be audited by an independent auditing firm acceptable to the Bank that will be contracted by the DNP. Loan funds will be used to finance the auditing services. The program's financial statements will be audited annually and will be sent to the Bank no later than four months after the close of each financial year, in accordance with the previously agreed upon procedures and terms of reference. The reports to be required will be those established in the standard terms of reference and will include procurement review in addition to the Bank's actions and reviews. To audit this operation, a private independent auditing firm will be required, to guarantee the timing and content of the opinions, in accordance with the provisions of document OP-273-2.

There is no national policy on public disclosure of audit reports. Nonetheless, according to the policy on access to and disclosure of information in effect, the program's audited reports must be published in the Bank's systems.

6. **Financial supervision plan:** Based on the results of analyzing the capacity assessment, the financial specialist will carry out at least one "on-site" review per year and "desk" reviews of the audited annual and final financial statements. The program auditor will verify that funds are executed in accordance with Bank standards and policies in the area of fiduciary management and the conditions stipulated in the program Operating Regulations. The auditor will conduct inspection visits to the entity. The fiduciary supervision visits on financial management will include verification of the financial and accounting arrangements used to administer the program and will monitor implementation of the recommendations issued by the program's independent auditor.
7. **Execution mechanism:** The borrower will be the Republic of Colombia, and the executing agency will be the DNP, which will act through its Public Investment and Subnational Section.

In order to fulfill its role and responsibilities, the DNP will appoint a Program Coordinator, who will have the support of a technical team (comprised of the respective technical, administrative, and financial support areas). The composition of this team will be detailed in the program Operating Regulations.

8. **Other financial management agreements and requirements:** There are no other agreements besides those mentioned above. However, the fiduciary agreements and requirements included in this annex may be adjusted according to the dynamics of the program based on updates of the risks analyses and the institutional capacity assessment carried out during program execution.