

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**COLOMBIA**

**PROGRAM TO SUPPORT THE SUSTAINABLE DEVELOPMENT OF  
THE DEPARTMENT OF THE SAN ANDRÉS, PROVIDENCIA, AND  
SANTA CATALINA ARCHIPELAGO**

**(CO-L1125)**

**LOAN PROPOSAL**

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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	Annual Work Plan <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37972434">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37972434</a>
2.	Monitoring and Evaluation Plan <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37970931">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37970931</a>
3.	Procurement Plan <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37971266">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37971266</a>
4.	Environmental and Social Management Report <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37972950">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37972950</a>
<b>OPTIONAL</b>	
1.	Economic Evaluation <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37971048">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37971048</a>
2.	Environmental and Social Analysis <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38107014">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38107014</a>
3.	Summary Budget Report – San Andrés <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38094048">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38094048</a>
4.	Neighborhoods Diagnosis <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38090411">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38090411</a>
5.	Technical Diagnosis. Water and Sanitation Sector Problems in the Archipelago <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38185760">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38185760</a>
6.	Technical Diagnosis. Integrated Management of the Coastal Zone <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38185761">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38185761</a>
7.	Environmental and social safeguard classification <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37760207">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37760207</a>

## ABBREVIATIONS

AWP	Annual work plan
CONPES	Consejo Nacional de Política Económica y Social [National Economic and Social Policy Council]
DAPRE	Departamento Administrativo de la Presidencia de la República [Administrative Department of the Office of the President of the Republic]
DNP	Departamento Nacional de Planeación [National Planning Department]
ESMF	Environmental and Social Management Framework
ESMR	Environmental and Social Management Report
ICB	International competitive bidding
IRR	Internal rate of return
LIBOR	London Interbank Offered Rate
NCB	National competitive bidding
SAPSC	Archipiélago de San Andrés, Providencia y Santa Catalina [San Andrés, Providencia, and Santa Catalina Archipelago]
SGPR	Secretaría General de la Presidencia de la República [General Secretariat of the Office of the President of the Republic]
SISBEN	Sistema de Identificación de Potenciales Beneficiarios de Programas Sociales [System for the Identification of Potential Beneficiaries of Social Programs]
UNGRD	Unidad Nacional de Gestión del Riesgo de Desastres [National Disaster Risk Management Unit]

## PROJECT SUMMARY

### COLOMBIA

#### PROGRAM TO SUPPORT THE SUSTAINABLE DEVELOPMENT OF THE DEPARTMENT OF THE SAN ANDRÉS, PROVIDENCIA, AND SANTA CATALINA ARCHIPELAGO (CO-L1125)

Financial Terms and Conditions			
Borrower: Republic of Colombia  Executing agency: Unidad Nacional de Gestión del Riesgo de Desastres [National Disaster Risk Management Unit] (UNGRD)		Flexible Financing Facility *	
		Amortization period:	Bullet payment on 15 December 2028
		Maximum original WAL:	15 years**
		Disbursement period:	5 years
		Grace period:	15 years**
Source	Amount	Inspection and supervision fee	***
IDB (Ordinary Capital)	Up to US\$70,000,000	Interest rate:	LIBOR-based
Local	-	Credit fee:	***
<b>Total</b>	<b>Up to US\$70,000,000</b>	Approval currency:	U.S. dollars from the Ordinary Capital
Project at a Glance			
<b>Project objective:</b> The general objective of the program is to help improve the social and economic conditions of the inhabitants of the Department of San Andrés, Providencia, and Santa Catalina. Its specific objectives are to: (i) improve the living conditions of the low-income population and the urban environment in the central area of San Andrés Island and the areas surrounding the main beaches; (ii) expand the coverage and improve the quality of residential water and sanitation services; (iii) improve the coastal infrastructure and coastal risk management; (iv) support the development of microenterprises and small businesses; and (v) strengthen the institutional framework for fiscal sustainability.			
<b>Special contractual conditions:</b> <b>Precedent to the first disbursement:</b> (i) the UNGRD has appointed an activity coordinator to serve as liaison with Financiera de Desarrollo Territorial (FINDETER); (ii) the program Executive Committee has been established, in keeping with the guidelines in the program Operating Regulations, and with the participation of the highest-level authorities of the Administrative Department of the Office of the President of the Republic (DAPRE), the National Planning Department (DNP), the National Disaster Risk Management Unit (UNGRD), the San Andrés, Providencia, and Santa Catalina Archipelago (SAPSC) departmental government; and FINDETER; and (iii) the executing agency has approved and put into effect the program Operating Regulations, which will include, <i>inter alia</i> , the final version of the program's Environmental and Social Management Framework, in keeping with the findings of the Environmental and Social Management Report, under the terms previously agreed on with the Bank (paragraph 3.4). <b>Execution:</b> As a condition for the start-up of program activities, the UNGRD will have signed a contract with FINDETER, as an administrator, to perform the activities, from the outset of the program and in keeping with the program Operating Regulations, which will include FINDETER's obligation to form an implementation team by appointing key staff to work full time on the program (paragraph 3.5).			
<b>Exceptions to Bank policies:</b> None.			
<b>Project qualifies as:</b> SEQ [ X ]    PTI [ X ]    Sector [ X ]    Geographic [   ]    Headcount [   ]			

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

\*\* The weighted average life (WAL) and grace period could be less depending on the date on which the loan contract is signed.

\*\*\*The credit fee and the 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 relevant policies.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background and problems

- 1.1 The San Andrés, Providencia, and Santa Catalina archipelago (SAPSC) is one of Colombia's departments. It is located in the western Caribbean and has high and internationally recognized environmental value and its own cultural identity. Given its maritime location, the archipelago is environmentally vulnerable, moderately exposed to hurricanes and tropical storms and, as a direct result of these phenomena, to storm surges and high winds, all of which has had a considerable impact on the coastal zone, which are the islands' main economic asset.<sup>1</sup> In 2011, the archipelago had a total population of 73,320 inhabitants, 57% of whom belong to the Afro-American, Antillean, and Raizal group.<sup>2</sup> Its per capita GDP is less than the national average<sup>3</sup> as are its human development indicators. According to the indicator from the Sistema de Identificación de Potenciales Beneficiarios de Programas Sociales [System for the Identification of Potential Beneficiaries of Social Programs] (SISBEN), 80.9% of the population falls below 50 points<sup>4</sup> and 27% are at the extreme poverty level. In 2012, the department's unemployment rate was 7.5%, primarily affecting women.<sup>5</sup>
- 1.2 The archipelago was initially settled by English colonists and their slaves and until 1953 the majority of its population was protestant, black, and spoke a Caribbean dialect of English. However, since the islands were declared a free port in 1953, there has been an enormous immigration of mainland Colombians who completely transformed the economy and society. This was especially true for San Andrés Island, since Providencia remained relatively isolated from these changes. The free port launched a phase of trade and tourism-based development. Colombian tourists were encouraged to visit the islands and purchase imported merchandise at prices much lower than those in the rest of the country, and national and foreign merchants were encouraged to set up stores on San Andrés Island. Considering the requirement that Colombian tourists remain on the island for four nights and that the main reason for tourism was to purchase imported goods due to a customs differential, tourists left few resources on San Andrés, limiting its development

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<sup>1</sup> Quintero P. (2004): "El Turismo como Estrategia de Desarrollo Económico Sostenible: El caso de San Andrés Islas, Colombia" [Tourism as a Sustainable Economic Development Strategy: The Case of San Andrés Islands, Colombia] National University of Colombia, San Andrés campus.

<sup>2</sup> Latin American Demographic Center (CELADE) Census 2005.

<sup>3</sup> In 2011 per capita GDP was 11,728,103 pesos per year, below the national average of 13,372,404.

<sup>4</sup> The SISBEN identifies the potential beneficiaries of social programs. The index is constructed on the basis of education, health, housing, and vulnerability variables. It uses values between 0 and 100 points (the higher the score, the better the situation). The cutoff point for delivery of subsidies in most social programs (e.g., rural housing, subsidized health system, etc.) is 50 points.

<sup>5</sup> According to National Administrative Department of Statistics (DANE) data (2005), in 2010 the unemployment rate for women was 15.2%, compared to 9% for men. In addition, the percentage of women who are mothers in the department (17.9%) exceeds the national average (15.8%) (PROFAMILIA, National Demographic and Health Survey, 2010). SAPSC Department has a family violence rate higher than the national average, i.e., 424 per 100,000 inhabitants in 2010.

profile. The new development model had enormous consequences for the economy, society, and cultural identity of San Andrés. One of the most dramatic changes occurred in the population, due to the influx of Colombian and foreign migrants who came to set up as merchants. The rapid growth of the population, which exceeded 20% per annum in the early 1960s, led to the social and economic marginalization of the Raizal or native people.<sup>6</sup> With the demographic expansion and due to the new relative prices associated with the free port, the productive economic activities in which the island's native population worked were limited to a small fishing supply and some agricultural products for their own consumption. In addition, given the limited infrastructure developed on the island, tourism was based on the ecosystem and the ethnocultural environment.<sup>7</sup> With the opening up of the Colombian economy in the 1990s, mainland Colombians found it easier to purchase low-cost imported goods, diminishing commercial tourism in San Andrés. Sun and sand tourism intensified as the principal product for middle-income tourists with limited purchasing power.<sup>8</sup> In addition, the lack of access to public services has contributed to the fragile social situation. Detailed below are the principal factors determining the low socioeconomic indices, the improvement of which is the principal impact expected from the proposed program, and the challenges to be faced for development of the archipelago in social and housing terms, urban development and infrastructure, environmental vulnerability, economic development and fiscal sustainability, and the management of public investment.

- 1.3 **Social considerations and housing conditions.** Fifty-two percent of the urban population has unmet basic needs. Regarding housing conditions, according to data from the 2005 census, more than 10,022 (93%) of the 10,750 existing urban households have homes that are deficient in some basic service. This situation affects mostly low-income households (0-4 times the minimum wage). Domestic needs for water on San Andrés Island are met through different sources: underground water (water softening plant), seawater (desalination plant) for urban and rural clusters, and artesian wells and rainwater harvesting, primarily in both clustered and remote rural areas.<sup>9</sup> Service delivery is characterized by: (i) low coverage (46% in the urban area and 9% in the rural area); (ii) low quality due to

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<sup>6</sup> Meisel A. (2003): "La continentalización de la isla de San Andrés, Colombia: Panyas, raizales y turismo, 1953-2003" [The "mainlandization" of San Andrés Island, Colombia: Panyas, Raizales, and Tourism, 1953-2003], Centro de Estudios Económicos Regionales (CEER).

<sup>7</sup> Aguilera Diaz M. (2010): "Geografía Económica del Archipiélago de SAPSC" [Economic Geographics of the SAPSC archipelago], Cuadernos de Historia Económica y Empresarial, No. 133, Cartagena, Centro de Estudios Económicos Regionales (CEER).

<sup>8</sup> Aldana L. (2008): "Más que una historia económica" [More Than an Economic Story], SAPSC Chamber of Commerce, Desarrollo Económico, mimeo, San Andrés.

<sup>9</sup> A private concessionaire, Proactiva Aguas del Archipiélago S.A., is responsible for the delivery of water and sewerage services in urban areas and water service in rural clusters (sectors of La Loma, El Cove, and San Luis), through an operating contract without investment obligations, but with set performance targets. Areas and services not covered by the specialized operation fall under the aegis of the Special Control Unit for Public Services. The national government, through the Vice Ministry for Water and Basic Sanitation, supports service improvements with investments and technical support.

the poor condition of distribution networks, contamination, and infiltration of wastewater; (iii) low continuity due to network deficiencies; and (iv) operational and commercial inefficiency, with high operating costs, low collection levels, with high loss rates and irregular connections.<sup>10</sup> The downtown residential sector only receives water for 10 hours a day, while the remaining rural areas experience prolonged rationing for periods of more than 10 days and have only 800 users connected to the system.<sup>11</sup> The sewerage system has deficient networks and inadequate wastewater treatment and disposal, while sewage spills from the submarine pipeline without prior treatment, causing environmental degradation and contamination of aquifers, affecting public health throughout the island. The islands of Providencia and Santa Catalina do not have drinking water service.<sup>12</sup>

- 1.4 With the immigration that has been occurring since the middle of the twentieth century, the limited investments made in infrastructure and basic services in recent decades in San Andrés were primarily for the urban area where about 75% of the population resides, relegating the native resident population to rural communities. The more populous rural areas, including San Luis, El Cove, and La Loma are characterized by few paved roads (less than 20%) and by the lack of storm drainage systems and social facilities like parks and recreational areas.
- 1.5 **Development and urban infrastructure.** Although investments on San Andrés Island have targeted the urban area, expansion has occurred without adequate land use and occupancy planning, affecting the quality of life of residents and visitors. The 2012-2015 Departmental Development Plan emphasizes the infrastructure of the urban core as an area requiring improvements and public investment. Most of the population of San Andrés Island (71.8%) is concentrated in the urban center. The island's main commercial and tourist activities are concentrated there and are the source of most economic activity and employment. However, the center suffers from environmental threats, and problems in its design and unplanned expansion affect its functionality. The analysis done in preparation for this operation indicates problems in two particular areas.<sup>13</sup> The first is the connection at the headland of the airport, which links the northeast and northwest parts of the island.<sup>14</sup> In that area, at the end of Spratt Bight beach, the road narrows to one lane in each direction, hampering the movement of vehicles and pedestrians between the two urban sectors, with narrow paths that are poorly lit and precariously maintained. The second area that merits intervention is Spratt Bight beach in North End, where there is now a pedestrian walkway and where most visitors to the island come. The breakwater on this beach has deteriorated and hampers the natural replacement of

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<sup>10</sup> Estimates from Proactiva S.A. calculate the water loss rate at 70%.

<sup>11</sup> Within the rural area of San Luis, the hotel zone receives water daily.

<sup>12</sup> See [optional electronic link 5](#) Technical diagnosis. Water and Sanitation Sector Problems in the Archipelago.

<sup>13</sup> See [optional electronic link 3](#) Consulting assignment report by Eduard Rodríguez Villaescusa 2013.

<sup>14</sup> This work was included in the 2007 Departmental Road Plan.



the sand. In addition, this beach lacks additional services like public restrooms, showers, and vehicle parking areas.<sup>15</sup>

- 1.6 **Environmental vulnerability.** The evolution of the archipelago's coastal area results from the interaction of natural phenomena such as winds, storms, waves, tides, and currents plus man-made factors such as building fixed structures in tidal and beach areas, removing sand from dunes for construction, and contaminating marine ecosystems such as reefs.<sup>16</sup> In addition, the effects of climate change, such as rising sea levels, aggravate this problem. These factors result in accelerated rates of beach and cliff erosion and receding coastlines, threatening public and private infrastructure in various places. It is estimated that 16% of the shoreline on San Andrés Island is eroding, and the government has a project to stabilize the two main tourist beaches. In the case of Providencia and Santa Catalina, erosion is seen in very unstable cliffs and receding beaches in approximately 17% of the islands' 31 kilometers (5.1 km).<sup>17</sup> According to statements by the inhabitants, shoreline erosion is rapid and there are areas where the coastline has receded by about 30 meters over 10 years.<sup>18</sup> Erosion has caused the loss of most of the tourist beaches, as in the case of Old Town Beach, as well as the destabilization of Providencia's main road. There are various critical points, particularly on the west coast, that require detailed studies on the causes of coastal erosion and continuous monitoring of beach conditions.<sup>19</sup>
- 1.7 **Economic development.** With the opening up of Colombia's economy in the 1990s, SAPSC lost the advantage it had enjoyed since the establishment of the free port and began to lose competitiveness to the mainland. At present, SAPSC clearly lags behind the more advanced departments in Colombia.<sup>20</sup> The low competitiveness of the archipelago's productive sector, which is made up primarily of microenterprises and small businesses, is due to a series of weaknesses, including most notably a lack of capacity to innovate and assimilate technology<sup>21</sup>

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<sup>15</sup> Additional services are also lacking at the beach at Sound Bay in San Luis. Both beaches have deteriorated due to erosion of the eastern shoreline of San Andrés. In 2013, a project financed through the General Royalties System was approved for recovery of 1.4 km of beach in Spratt Bight and 2.4 km in Sound Bay.

<sup>16</sup> Marine and Coastal Research Institute (INVEMAR). 2011. Diagnóstico de la erosión costera del territorio insular Colombiano [Diagnostic of coastal erosion of Colombian islands].

<sup>17</sup> Álvarez, *et al.* 2013. Informe preliminar Puntos estratégicos en las islas de Providencia y Santa Catalina [Preliminary report on conditions of some strategic points on the islands of Providencia and Santa Catalina].

<sup>18</sup> National University of Colombia. 2013. Descripción e interpretación geológica de las islas de Providencia y Santa Catalina [Description and geological interpretation of the islands of Providencia and Santa Catalina].

<sup>19</sup> See [optional electronic link 6](#) Technical diagnosis. Integrated management of the coastal area on the archipelago.

<sup>20</sup> According to the global competitiveness ranking prepared by the Economic Commission for Latin America and the Caribbean in 2009, the department placed 11th, with a score that was roughly half that of the leading department.

<sup>21</sup> In the competitiveness ranking, SAPSC scored 17 out of 100 points, placing it 23 out of 29.

and difficulty accessing credit.<sup>22</sup> In particular, the more traditional productive activities of the native population fell farther behind, compounding social differences.<sup>23</sup> This situation is reflected in low rates of growth and exports.<sup>24</sup>

- 1.8 **Fiscal sustainability and management of public investment.** In fiscal terms, there are challenges both with respect to income generation and the ability to make and sustain investments to boost the archipelago's development. In the fiscal performance index calculated by the National Planning Department (DNP), the SAPSC departmental government scored 57.4 out of a possible 100 points in 2011, putting it in 27th place out of the 32 departments in Colombia.<sup>25</sup> On the revenue side, although tax receipts have performed well in recent years, they are still below the potential.<sup>26</sup> The limited own revenues profile is determined by deficient tax management and effective tax collection rates below those authorized by law.<sup>27,28</sup>

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<sup>22</sup> The factors determining limited access to credit include the difficulties microenterprises and small businesses have meeting the documentation and excessive collateral requirements, the inability to cope with the high cost of credit, and the inability of microentrepreneurs and small business owners to structure projects. Montoya D. (2011): "El Racionamiento del Crédito a las Microempresas en Colombia. Un Estudio de los Tipos de Racionamiento" [Rationing of Credit to Microenterprises in Colombia. A Study of Rationing Types], Coyuntura Económica, Vol. XLI, No. 1, Fedesarrollo. This diagnosis is confirmed by the 2012-2015 Departmental Development Plan and the Regional Competitiveness Plan of the SAPSC Archipelago Department (2009). It identifies the following among the causes that lead to limited business development: (i) absence of regional public policies to support productive ventures; (ii) the lack of dynamic and innovative ventures; (iii) scant dissemination of technology; and (iv) difficulty accessing credit.

<sup>23</sup> Economic marginalization of the Raizal population is seen in the sector breakdown of jobs. According to Meisel Roca (2003) the only sectors in which the majority of employees are native are agriculture and fishing (in addition to the public sector) (the percentage of Raizal employees is 61.3% and 61.8%, respectively). These sectors have been adversely affected by tourist flows and have not been able to boost their productivity and join tourism supply chains and, consequently, have low profit margins and wages.

<sup>24</sup> In recent years, average GDP growth in the department was slower than the national average (in the period 2000-2011, it averaged 3.6% compared to a national average of 4.2%), and from the standpoint of export capacity, SAPSC is far below the national average, with US\$42.7 in exports per capita in 2012, compared to a national average of US\$1,293.9 (US\$345.7 without mineral/energy exports).

<sup>25</sup> The index measures the ability of subnational entities to generate revenues to meet operating costs, own resources as a percentage of total revenues, public investment as a percentage of total spending, the sustainability of the debt, and the ability to generate savings.

<sup>26</sup> Between 2008 and 2012 own revenues (tax and nontax) increased from 36.29% to 39.56%.

<sup>27</sup> Revenue from property tax amounts to barely 5.4% of unrestricted current revenues (the municipal average is 23%). The principal factor impeding a good collection profile for this tax is: (i) the failure to update the land registry (the latest update was in 2007); and (ii) inaccurate identification of properties (only 30% are correctly identified) so that only 40% of what is billed can be collected. In 2013 there were 18,316 properties; the amount collected in 2012 was US\$3.1 million with an average effective rate of 3 per 1,000, compared to the national average of 5.5 per 1,000. Similar cities in terms of the value of their registry and number of properties, such as Fusagasugá, doubled the value of their registry by updating it and increased property tax revenue by 64%. In addition, a rate adjustment of 1 per 1,000 would represent an additional US\$7 million. Collection of the unified vehicles tax represents 0.12% of current revenues when the national average is 6.2%. One reason for this is that only 8% of the vehicles on the road pay this tax, which represented US\$101,000 for 2012, leaving a potential tax on more than 25,000 vehicles. In the case of the Tax on Industry and Commerce, receipts amount to 5.6% of current revenues (the national average is 32%). For this tax, only 60% of the amount billed is collected (US\$3 million).

On the public spending side, the new royalties law, which increases revenues allocated to investment in non-hydrocarbon producing subnational entities, the departmental government will receive an estimated US\$35 million per year, which represents a potential 200% increase in the amount of investment. In 2012, of the funds assigned from royalties, only 61% have been approved by the body responsible for approving projects. In this context, the departmental government's capacity for structuring and executing investment projects must be strengthened.

## **B. Experience and lessons learned**

- 1.9 The Bank has ample experience supporting the comprehensive development of subnational entities and in the sectors where the proposed operation will intervene. The design of this operation has drawn on experience in the design and execution of different operations in the region and in Colombia.<sup>29</sup> The main lessons learned from these operations refer to the advisability of working as closely as possible with subnational governments, supporting them in the project planning and execution process; and the need to monitor execution very closely, due to the limited experience that many of these governments have with procurement procedures and other Bank procedures. Regarding neighborhood improvement projects, the existing literature and the Bank's own evaluations demonstrate their effectiveness in increasing the beneficiary population's access to basic services, among other positive impacts.<sup>30</sup> Empirical experience suggests that the recovery of public spaces, particularly in central areas, boosts the momentum of economic activities and has positive effects on property values.<sup>31</sup> The literature also emphasizes the effectiveness of land registry interventions in improving local finances.<sup>32</sup>

## **C. Rationale**

- 1.10 The Government of Colombia sought support from the Bank to contribute to the sustainable development of the SAPSC archipelago by strengthening the institutional capacities of the departmental government, as well as by designing and implementing investment projects included in the San Andrés, Providencia, and Santa Catalina Plan developed by the central government on the archipelago for

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<sup>28</sup> In the case of the property tax, the law authorizes municipal councils to set rates up to 16 per 1,000 of property value; in San Andrés, the effective rate is 6 per 1,000.

<sup>29</sup> The Bank has assisted the Government of Colombia and the subnational entities with various investment and policy programs: Development Program for Subnational Entities (loan 1066/OC-CO); Programs for Sectoral Tax Adjustment and Reforms and Subnational Finances (loan 1166/OC-CO; loan 1335/OC-CO; ATN/FG-13268-CO; loan 2341/OC-CO); and others.

<sup>30</sup> See: UN-Habitat (2011): "Building Urban Safety through Slum Upgrading, United Nations Human Settlement Program, Nairobi; Soares and Soares (2005): The Socio-Economic Impact of Favela-Barrio: What Do the Data Say? Office of Evaluation and Oversight (OVE), IDB, Washington, D.C.

<sup>31</sup> See: Ministry of Cities and Spanish Agency for International Development Cooperation (2008): "Manual de Reabilitação de Áreas Urbanas Centrais" [Rehabilitation Manual for Central Urban Areas], Ministry of Cities, Brasília.

<sup>32</sup> In the case of Bogota, the updating of 2.1 million properties in 2008 increased the base value of the land registries by 47%, achieving a 30% increase in potential receipts. Ruiz and Vallejo, (2010), "Using Land Registration as a Tool to Generate Municipal Revenue: Lessons from Bogotá."

approximately US\$220 million. As established by the National Economic and Social Policy Council (CONPES),<sup>33</sup> the central government's integral plan has two central elements: actions that produce results in the short and medium term (US\$150 million), and actions with long-term results (US\$70 million). Activities under the former are financed with the central government's own resources and include interventions in: water and basic sanitation, transportation, agriculture, trade, tourism, housing, education, health and culture, inter-island and road transportation, and job promotion. The program requested from the Bank covers the actions included in the second central element. The following factors justify the Bank's intervention in the proposed program: (i) more than 15 years of experience in the subnational sector, putting the Bank in an ideal position to help with the Colombian government's strategy for the development of the archipelago; (ii) the convergence of the proposed program's objectives with the priorities in SAPSC's 2012-2015 Departmental Development Plan and in the country strategy with Colombia (2012-2014) (document GN-2648-1), in the sectors of decentralization and subnational fiscal management, urban development, environmental sustainability, water and sanitation; and (iii) the convergence of the proposed operation's objectives with the 2010-2014 National Development Plan. In addition, the proposed program contributes to the objective of the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9) (document AB-2764) with regard to poverty reduction and equity enhancement, through its support for sector priorities: institutions for growth and social welfare, and infrastructure for competitiveness and social welfare through expanded access to basic services.

#### **D. Objectives, components, and cost**

- 1.11 The program's general objective is to help improve the social and economic conditions of the inhabitants of the SAPSC Department. Its specific objectives are to: (i) improve the living conditions of the low-income population and the urban environment in the central area of San Andrés Island and the areas surrounding the main beaches; (ii) expand the coverage and improve the quality of residential water and sanitation services; (iii) improve the coastal infrastructure and coastal risk management; (iv) support the development of microenterprises and small businesses; and (v) strengthen the institutional framework for fiscal sustainability. The components and principal activities of the program are described below.
- 1.12 **Component 1. Comprehensive urban development (US\$24.5 million).** The objective of this component is to improve housing conditions for the low-income population and the urban environment in the central area of San Andrés Island and the areas surrounding the main beaches. Below are its subcomponents and activities, which are in line with the Urban Development and Housing Sector Framework Document (document GN-2732-2):

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<sup>33</sup> CONPES 3778 of 2013.

- a. **Neighborhood improvement.** This subcomponent will finance neighborhood improvement projects, which consist of urban infrastructure and community development interventions, including: (i) water supply and solutions for sanitary disposal thereof; (ii) improvement of main and secondary access roads, including sidewalks and storm drains; (iii) construction of social and sports facilities (recreational sports areas, plazas, and parks). Community development includes: (i) support for community organization; (ii) care and training for women, youth, and vulnerable groups; (iii) health and environmental education; and (iv) actions designed to strengthen community groups and ensure their participation in the project cycle and in the use and maintenance of community infrastructure and services.<sup>34</sup> Priority was preliminarily given to 16 urban centers, grouped in four large zones or neighborhoods located in the most populous rural areas on the island: La Loma and San Luis. Approximately 1,720 families live in these centers and most of the resident population is Raizal and Afro-American.<sup>35</sup>
  - b. **Revitalization of the urban center of San Andrés and the area surrounding the main beaches.** This subcomponent seeks to improve the functional conditions and urban environment in the central area and the area surrounding the main beaches. The interventions focus on: (i) pedestrian and roadway integration of Spratt Bight with the northwestern sector of the island, improving accessibility via the existing route located between the airport runway and the beach; (ii) recovery of pedestrian areas in the urban center; and (iii) urban interventions surrounding the beaches, including urban interventions in the areas surrounding Spratt Bight beach such as extending the stone walls protecting the beach, planting vegetation to anchor the dunes, removing the existing breakwater and building a new one (to allow water to circulate). In addition, financing will be provided to construct additional works to improve access roads, develop recreational services and facilities (including public restrooms, showers, vehicle parking areas, pedestrian accesses) for the beaches in the area of Spratt Bight and Sound Bay.
- 1.13 **Component 2. Provision and access to water and sanitation services (US\$24 million).** The objective is to expand the coverage and improve the quality of public water and sanitation services. Financing will be provided for: (i) expanding supply capacity by 25 liters per second (lps) to meet the needs of clustered rural areas in La Loma, El Cove, and San Luis; (ii) laying, rehabilitating, and optimizing approximately 25 km of drinking water conveyance and distribution systems in those sectors, as well as defining collective and/or individual projects for handling wastewater from the residences located there; (iii) final design of projects; (iv) training for staff of the Special Administrative Unit for Control of Public Water Services of San Andrés, Coralina, and the departmental government's Infrastructure

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<sup>34</sup> Particular attention will be paid to the participation of women in these community activities, and programs will be carried out to address the issues of violence and rights, sexual and reproductive health, and nutrition.

<sup>35</sup> [Optional electronic link 4](#) shows the diagnosis of the centers identified and the size of the intervention.

Secretariat;<sup>36</sup> and (v) the archipelago's Master Plan for drinking water, sewerage, and stormwater management and the Providencia sewerage plan.

- 1.14 **Component 3. Improving coastal infrastructure and incorporating coastal erosion risk management into physical planning (US\$9 million).** The objective is to control erosion, recover the shoreline, and improve coastal risk management. The component includes:
- a. **Improving coastal infrastructure.** This subcomponent will finance the recovery of beaches and cliff areas subject to erosion and instability on Providencia, seeking to reduce the vulnerability of public infrastructure and private property. The financing will include: (i) a prefeasibility study to prioritize the sites on the island most vulnerable to coastal erosion problems according to socioeconomic and environmental criteria; (ii) baseline studies (e.g., oceanographic studies) to verify and measure the factors contributing to erosion on the western coast; and (iii) feasibility studies and designs. Depending on the results of these studies and confirmation of the technical, economic, and environmental feasibility of the technical solutions, beach stabilization projects will be financed, which could include both nonstructural and structural measures, such as submerged breakwaters, cutwaters, and sand replenishment.
  - b. **Supporting comprehensive coastal erosion risk management.** To strengthen local capacity in coastal risk management on Providencia, financing will be provided for: (i) on-site monitoring studies with images of the dynamics of beaches and cliffs (critical points); (ii) a system for analysis of the coastal erosion risk and vulnerability mapping based on identifying exposed elements; and (iii) training in the comprehensive management of the erosion risk and coastal engineering. This activity includes sharing experiences with other programs in the Caribbean.
- 1.15 **Component 4. Local economic development (US\$5 million).** The objective is to support the development of microenterprises and small businesses in the archipelago through access to credit and technical assistance programs. To this end, financing will be provided for the design and implementation of a business development fund, which will provide credit and technical assistance to microenterprises and small businesses in different sectors, including tourism.
- 1.16 **Component 5. Strengthening institutional structure for fiscal sustainability (US\$2.5 million).** The objective is to strengthen fiscal management to support the sustainability of the archipelago. The component includes:

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<sup>36</sup> Different studies show the effectiveness of this type of intervention in rural areas to ensure efficiency in the provision of drinking water service and guarantee the sustainability of investments. See: International Water and Sanitation Centre (IRC), (2009): "Climbing the Water Ladder." For the Colombian case: Carrasco and Bernal (2011): "Apoyo al Gobierno Nacional en la definición de lineamientos de política para agua y saneamiento rural" [Support for the National Government in Setting Policy Guidelines for Water and Rural Sanitation].

- a. **Supporting tax management.** To strengthen collection capacities, bringing actual receipts close to their potential levels, financing will be provided for: (i) supporting updating of the property registry;<sup>37</sup> (ii) a diagnosis of the department's tax structure and an action plan to upgrade it; (iii) strengthening the enforced collection system; and (iv) training for the Departmental Finance Secretariat staff.
  - b. **Strengthening public investment management.** To improve capacities for the management of public investment, financing will be provided for: (i) training departmental government staff in the use of methodologies for the identification, analysis, and ex ante evaluation of projects, implementation and maintenance of physical investments; and (ii) a system to follow up and monitor progress in the physical execution of projects.
- 1.17 **Administration, auditing, monitoring, and evaluation (US\$5 million).** The program will contribute the resources required for program administration, including: (i) commissioning the audit; (ii) communication strategy and actions; and (iii) monitoring and program evaluations (midterm and final).
- 1.18 **Costs and source of financing.** The estimated total cost of the operation is up to US\$70 million, which will be financed with resources from the Bank's Ordinary Capital within the framework of the Flexible Financing Facility.

**Table 1.1. Program Costs (US\$ millions)**

Investment Categories	Cost
<b>I. Components</b>	
Comprehensive urban development	24.5
Provision and access to water and sanitation services	24.0
Improving coastal infrastructure	9.0
Local economic development	5.0
Strengthening institutional framework for fiscal sustainability	2.5
<b>II. Administration, audit, monitoring, and evaluation</b>	
Administration, monitoring, and evaluation of the program	4.5
Audit	0.5
<b>TOTAL</b>	<b>70</b>

## **E. Key results matrix indicators**

- 1.19 As a general impact, the program is expected to improve the population's social and economic conditions, as measured through the SISBEN. The expected outcomes will be measured based on: (i) a reduction in the number of households living in homes with deficiencies in some basic service; (ii) an increase in property values in the areas of intervention; (iii) an increase in the number of households with a connection to the water system and safe disposal of liquid effluent; (iv) an increase

<sup>37</sup> Support will consist of a socialization and awareness campaign so that the registry update can proceed.

in the number of hours per day of drinking water service in clustered rural areas; (v) an increase in per capita exports from the department; and (vi) improvement in fiscal management, measured by the Fiscal Performance Index calculated by the DNP. The outcome indicators and their targets are found in the Results Matrix.

## **II. FINANCING STRUCTURE AND RISKS**

### **A. Financing instruments**

- 2.1 The proposed operation is a specific investment loan to be disbursed over a period of five years.

### **B. Environmental and social safeguard risks**

- 2.2 In accordance with the Environment and Safeguards Compliance Policy (OP-703), this has been classified as a category B<sup>38</sup> operation given that it could cause localized, short-term adverse environmental impacts, including related social impacts, for which effective mitigation measures are available. The principal adverse environmental impacts are associated with construction during the works execution period. The risk of citizens' opposition to the interventions proposed in the program has been identified. In addition to the consultation processes necessary according to national legislation, as a mitigating action provision is made for the design and conduct of campaigns to raise the population's awareness, which will be carried out by the departmental government to make the citizens and public officials aware of the importance and benefits of the program. The environmental and social effects are expected to be positive, thus improving the quality of life of the archipelago's inhabitants. The Environmental and Social Management Report (ESMR) ([required electronic link 4](#)) summarizes the Environmental and Social Analysis ([optional electronic link 2](#)) performed, establishing the bases for the program's Environmental and Social Management Framework (ESMF).

### **C. Fiduciary risks**

- 2.3 The risk identification and institutional capacity measurement process found that the program execution agency—the National Disaster Risk Management Unit (UNGRD)<sup>39</sup>—has limited fiduciary capacity. Accordingly, the services of Financiera de Desarrollo Territorial S.A (FINDETER) will be commissioned for the program's fiduciary management. The institutional capacity assessment concludes that FINDETER has sufficient capacity to handle the fiduciary management of the program although certain actions must be taken to mitigate the

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<sup>38</sup> The operation triggered safeguard policies: OP-704; OP-710; OP-761; OP-765; and the following directives: B.02; B.03; B.04; B.05; B.06; B.07; B.09; B.11; B.17.

<sup>39</sup> Created through Decree 4147 of 2011. It has legal capacity, administrative and financial autonomy, own assets and is at the decentralized level in the national executive branch under the Administrative Department of the Office of the President of the Republic. The UNGRD is the entity authorized to execute resources through the San Andrés, Providencia and Santa Catalina subaccount in the National Disaster Risk Management Fund (FNGRD), created by Article 151 of Law 1607 of 2012.



risks of potential delays in procurement processes and in financial management that could affect program execution. The actions identified are: (i) inclusion of an activity coordinated in the UNGRD, to serve as a liaison between that unit and FINDETER; (ii) training sessions in financial management and procurement for FINDETER; (iii) a clear definition of the procedures to be applied in the program's Operating Regulations; and (iv) a minimum team at FINDETER exclusively assigned to the program.

#### **D. Other risks**

- 2.4 Macroeconomic and governance risks have been identified that could affect execution. The former risks include an increase in costs due to inflation or exchange rate appreciation, which could reduce the scope of the program's outputs (medium risk). This will be offset through an allocation for contingencies.<sup>40</sup> Lastly, there is the risk of weak coordination between the UNGRD and the SAPSC departmental government (medium risk). To mitigate this risk, an Executive Committee will be established, made up of senior authorities at the Administrative Department of the Office of the President of the Republic (DAPRE), the DNP, the UNGRD, FINDETER, and the departmental government as well as the inclusion in the departmental government's team of a coordinator specializing in project management issues, to be financed with program resources. Including the departmental government in the Executive Committee mitigates the (medium) risk that beneficiaries will fail to take ownership of the program. In addition, the fact that the proposed interventions are in the Departmental Development Plan also mitigates this risk and supports the sustainability of the investments once the Bank's financing ends.

### **III. IMPLEMENTATION AND ACTION PLAN**

#### **A. Summary of institutional and implementation agreements**

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Colombia. The executing agency will be the UNGRD, which will be responsible to the Bank for the planning, coordination, administration, execution, monitoring, and comprehensive evaluation of the program. The UNGRD will have the support of FINDETER,<sup>41</sup> which will administer the resources for program execution, including technical, operational, procurement, and financial management. FINDETER will have the following functions, *inter alia*: (i) prepare the annual work plans (AWPs); (ii) carry out selection and contracting processes for works, goods, and consulting services; (iii) carry out works supervision activities and monitor and follow up on program execution and evaluation; (iv) conduct the financial management of the

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<sup>40</sup> The budget for the interventions includes 20% for contingencies.

<sup>41</sup> Pursuant to Law 57 of 1989, it is a national mixed-economy stock company, under the Ministry of Finance and Public Credit. Its functions include the possibility of entering into contracts to administer resources transferred to it by the national government to execute investment programs.

- program, including preparation of supporting documents for disbursement requests and reporting of expenditures made using loan resources; (v) have an information system to maintain accounts for the administration, recording, and payment of works contracts and procurement of goods and consulting services; (vi) submit financial reports and accounting information required regarding the program to the UNGRD, the Bank, and the external auditors; (vii) maintain a suitable filing system for documents supporting eligible expenses for verification by the UNGRD, the Bank, and the external auditors; (viii) prepare and submit reports on the use of program resources and any other information the UNGRD requires for its reports to the Bank; (ix) carry out supervision, including on-site visits to constructed works; and (x) any other duties required for program execution that are previously agreed on with the UNGRD and the Bank.
- 3.2 The Executive Committee mentioned in paragraph 2.4 will meet at least once every four months and its main function will be to approve the AWP and carry out the general monitoring of program execution, making strategic decisions as necessary.
- 3.3 **Audits, disbursements, and procurement.** The UNGRD will contract an auditing firm deemed eligible by the Bank to carry out fiduciary supervision in accordance with the Bank's policies and during the operation's execution period. The audit will be performed annually in accordance with the Terms of Reference agreed to with the Bank. The program's financial statement reports will be submitted to the Bank no later than 120 days after the end of each year. The loan will be disbursed in the form of advances, according to the need for liquid funds to meet the commitments assumed for program execution, which will be periodically updated by FINDETER. The Bank may provide a new advance of funds when at least 80% of the total funds disbursed as an advance have been justified. Procurements will be carried out 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), and according to the breakdown presented in each case in the Procurement Plan agreed to with the Bank, managed through the Procurement Plan Execution System (SEPA) or another system as determined by the Bank. The procurement of works and goods and the selection and contracting of consultants will use the bidding documents harmonized with Colombia and agreed to with the Bank or other documents acceptable to the Bank. Processes and contracts will initially be revised on an ex ante basis. The contracting of individual consultants and shopping for goods and nonconsulting services will be reviewed on an ex post basis after the executing agency has carried out one of each to the Bank's satisfaction.
- 3.4 **The following will be special contractual conditions precedent to the first disbursement: (i) the UNGRD has appointed an activity coordinator to serve as liaison with FINDETER; (ii) the program Executive Committee has been established, in keeping with the guidelines in the program Operating Regulations, and with the participation of the highest-level authorities of**

**DAPRE, the DNP, the UNGRD, the SAPSC departmental government, and FINDETER; and (iii) the executing agency has approved and put into effect the program Operating Regulations, which will include, *inter alia*, the final version of the Environmental and Social Management Framework, in keeping with the findings of the ESMR, under the terms previously agreed on with the Bank.**

- 3.5 **Special execution conditions:** As a condition for the start-up of program activities, the UNGRD will have signed a contract with FINDETER, as an administrator, to perform the activities, from the outset of the program and in keeping with the program Operating Regulations, including FINDETER's obligation to form an implementation team by appointing key staff to work full time on the program.

**B. Summary of agreements on monitoring of results**

- 3.6 The results of the cost-benefit analysis of the operation indicate that its effects are positive ([optional electronic link 2](#)). The sensitivity and risk analyses confirm the high degree of reliability in the estimate of positive social return.<sup>42</sup> Instruments for program monitoring will be: the Program Execution Plan, the AWP, the half-yearly reports including fiscal and financial execution of the program and progress with respect to output and outcome indicators. Consulting services will be contracted to carry out the following activities: (i) after 24 months of eligibility, or when 35% of the Bank's funding has been disbursed, to prepare a midterm evaluation to measure progress made in producing outputs; and (ii) ex post economic evaluation, to be performed in the final six months of execution and to be financed with program resources. The breakdown of the arrangements for monitoring and evaluation of program outcomes is presented in the [Monitoring and Evaluation Plan](#).

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<sup>42</sup> The principal components were evaluated in order to estimate the ex ante profitability of the program. To do this, a cost-benefit analysis was performed on Components 1 and 2.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program		Lending for poverty reduction and equity enhancement.		
Regional Development Goals		i) Ratio of actual to potencial tax revenue, and ii) Public expenditure managed at the decentralized level as % total public expenditure.		
Bank Output Contribution (as defined in Results Framework of IDB-9)		i) Households with new or upgraded water supply (afro-descendant), ii) Number of households with new or upgraded dwellings (afro-descendant), and iii) Municipal or other sub-national governments supported.		
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix		GN-2648-1	i) Increased water system coverage; increased sewerage coverage, ii) A higher proportion of solid waste is being properly disposed of, and iii) A higher proportion of domestic wastewater is being treated.	
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
		7.3		10
3. Evidence-based Assessment & Solution		6.5	33.33%	1
4. Ex ante Economic Analysis		8.5	33.33%	1
5. Monitoring and Evaluation		6.8	33.33%	1
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Medium		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		B		
IV. IDB's Role - Additionality				
The project relies on the use of country systems (VPC/PDP criteria)		Yes	Financial management: 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-12362-CO.	
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				

The Department Archipelago of San Andrés, Providencia and Santa Catalina, with approximately 73,000 inhabitants and a high environmental vulnerability has experienced in recent decades a model of economic growth that has generated rapid population growth product of strong migratory pressure from the Continent that has led to the social and economic marginalization of the native islanders (Raizales). This marginalization has been accompanied by low levels of coverage and quality of basic services and low market access for the island's poor, accompanied with a weak capacity to collect tax revenue, limiting the scope of action of the local government. In this context, the document presents an analysis of housing and social conditions in the Islands, the situation of its urban infrastructure, the environmental vulnerability, the challenges for its economic development and the fiscal sustainability and management of public investment issues in the islands.

The document presents various challenges the population of the Archipelago has faced and justifies the intervention in terms of its relationship with the Central Government's "Plan San Andrés, Providencia and Catalina". The Central Government Plan has two axes, one with actions that involve results that materialize in the short and medium term, and one with long-term results. The first axis is covered by the Government's own resources. This project is part of the actions included in the second axis.

Consistent with the diagnosis five specific objectives are presented: i) improve the living conditions of the low-income population and the urban environment in the central area of the island of San Andres and in the vicinity of the main beaches, ii) expand coverage and improve the quality of water and sanitation services to households, iii) improve coastal infrastructure and coastal risk management, iv) support the development of micro and small businesses, and v) strengthening the institutional framework for local fiscal sustainability. The results matrix has vertical logic. However, some of the Outcome level indicators are not SMART.

The document includes an economic analysis. The analysis is divided in two independent studies that cover the main components of the program: 1) Urban Development, and 2) Access to water and sanitation services. Some of the assumptions regarding component 1 are not clear. The results of these studies show an Internal Rate of Return (IRR) of 20% using property valuations in the case of component 1, and an IRR of 11% for component 2, using simulations of willingness to pay with the SIMOP software.

The evaluation plan is based on an ex-post cost-benefit analysis.

## RESULTS MATRIX

<b>General objective</b>	The general objective of the program to help improve the social and economic conditions of the inhabitants of the Department of San Andrés, Providencia, and Santa Catalina.
<b>Specific objectives</b>	The specific objectives are to: (i) improve the housing conditions of the low-income population and the urban environment in the central area of San Andrés Island and the areas surrounding the main beaches; (ii) expand the coverage and improve the quality of residential water and sanitation services; (iii) improve coastal infrastructure and coastal risk management; (iv) support the development of microenterprises and small businesses; and (v) strengthen the institutional framework for fiscal sustainability.

## RESULTS

INDICATORS	Unit of measure	Baseline		Intermediate measurements						Final target		Source/means of verification /observations	
		Value	Year	Value	Year 2	Value	Year 3	Value	Year 4	Value	Year 5		
IMPACT: Improvement in the social indicators of the Department of San Andrés.													
% of the population scoring below 50 points on the System for the Identification of Potential Beneficiaries of Social Programs (SISBEN) <sup>1</sup>	%	80.9	2013	-	-	-	-	-	-	-	75	2018	SISBEN
EXPECTED RESULT 1: Improved housing conditions for the low-income population.													
Households living in homes with deficiencies in some basic service in neighborhoods covered by the neighborhood improvement projects	%	78.6	2011	-	-	-	-	-	-	-	30	2018	DANE quality of life survey
EXPECTED RESULT 2: Improved urban environment in central area and areas surrounding the main beaches on San Andrés Island.													
Increased property values in urban	%	\$70	2013	-	-	-	-	-	-	-	93.1 <sup>2</sup>	2018	Real estate survey. Survey

<sup>1</sup> The SISBEN identifies the potential beneficiary population of social programs. It is a standard of living index that uses values between 0 and 100 points and is constructed using different statistical methods (“fuzzy sets” and “PRINQUAL principal component analysis”) and different geographic breakdowns. The higher the standard of living, the higher the score on the index. The cutoff point to receive subsidies in most social programs (e.g.: rural housing, subsidized health system, families in the Acción program, early childhood care, land subsidies, etc.) is about 50 points. The composite index is constructed on the basis of education, health, housing, and vulnerability variables. The legislative support for the SISBEN is contained in Article 94 of Law 715 of 2001 and Article 24 of Law 1176 of 2007.

<sup>2</sup> The following methodology was used to estimate the increase in value of dwellings because of the works under the Comprehensive Neighborhood Improvement Project in San Andrés: Independent analysis of urban and rural neighborhoods.

INDICATORS	Unit of measure	Baseline		Intermediate measurements						Final target		Source/means of verification /observations
		Value	Year	Value	Year 2	Value	Year 3	Value	Year 4	Value	Year 5	
<u>areas</u> covered by the program.		million										financed by the program. Observation: baseline indicates average price per home measured in Colombian pesos.
Increased property values in <u>rural areas</u> covered by the program.	%	45 million	2013	-	-	-	-	-	-	64.8	2018	
EXPECTED RESULT 3: Microenterprises and small businesses developed												
Increased per capita exports from the department.	US\$000	42.7	2012	-	-	-	-	-	-	47	2018	Departmental factsheets from the Office of Economic Research of the Ministry of Commerce, Industry, and Tourism based on DANE data.
EXPECTED RESULT 4: Expanded coverage and improved quality of public services (water and sanitation) in housing												
Number of households connected to the aqueduct service network	Number of house-	800	2013	1,000	2015	1,500	2016	2,000	2017	2,500	2018	Operational and commercial reports from the archipelago’s Proactiva Aguas.

- 2.1 Identification of the difference between current prices for housing in neighborhoods with conditions similar to those the selected neighborhoods would have after the intervention, i.e. once the works have been completed, and the prices in the selected neighborhoods (without the works). To this end, information was taken from the following sources:
- 2.1.1 Direct observation in the field. All the selected neighborhoods were visited in urban and rural areas.
- 2.1.2 Processing of the DANE's 2011 and 2012 National Quality of Life Surveys, which provided information on 298 and 262 dwellings, respectively. The variable of price estimated by households for their dwellings was consulted, and they were classified by type of ownership, socioeconomic strata, and land tenure.
- 2.1.3 Analysis of a sample of 14 valuations performed in 2013 by real estate experts, to study mortgage loan applications for the National Savings Fund (FNA), in the selected neighborhoods.<sup>2</sup> Those valuations specified: neighborhood, socioeconomic strata, type of housing, land area, built area, finishings, status of access road (paved or unpaved), utility connections, etc. The valuation took the estimated commercial price for each dwelling.
- 2.2 The foregoing information on the price differential in the neighborhoods (with and without the neighborhood improvement project) was analyzed together with four experts from the Lonja de Propiedad Raíz de San Andrés, who provided additional information and proceeded to estimate the value that project works could have in the urban and rural areas.
- 2.3 Based on the information analyzed, the following average prices and appreciation rates were established, based on the location of the selected neighborhoods, for homes with an average areas of 90 m<sup>2</sup>:
- 2.3.1 Urban area. Number of homes: 284. Current average price \$70,000,000. Estimated increase in value because of the project: 44.5%.
- 2.3.2 Rural area. Number of homes: 1,433. Current average price \$45,000,000. Estimated increase in value because of the project: 33.3%.
- It should be noted that the valuations performed by FNA correspond to homes owned in the urban and rural part of the island. In this case, to estimate the appreciation, it was assumed that this corresponds to owned homes. According to the DANE's 2012 National Quality of Life Survey, in strata 1 and 2 in San Andrés, 84.6% of the homes have the deed or title registered.

INDICATORS	Unit of measure	Baseline		Intermediate measurements						Final target		Source/means of verification /observations
		Value	Year	Value	Year 2	Value	Year 3	Value	Year 4	Value	Year 5	
	holds											
Service continuity in clustered rural areas	hours/day	7	2013	8	2015	10	2016	15	2017	18	2018	Commercial reports from the archipelago's Proactiva Aguas.
<b>EXPECTED RESULT 5:</b> Strengthened institutional framework for fiscal sustainability												
Improvement in the Fiscal Performance Index (FPI) of the Department of San Andrés.	FPI	57.4	2011	-	-	-	-	-	-	72	2018	Fiscal Performance Index of departments and municipios is calculated by the National Planning Department. <sup>3</sup>

OUTPUTS	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/means of verification /observations
<b>COMPONENT 1: Comprehensive urban development</b>									
Number of neighborhood improvement projects (NIP) executed	NIP	0	0	0	2	2	2	6	Work acceptance report from supervisor. Completed output reported in half-yearly status report.
	Cost (US\$000)	0	379	3,975	6,441	2,005	0	14,800	
Training programs for women's development in the NIPs <sup>4</sup>	Programs	0	0	0	1	1	1	3	Status reports and reports on final delivery of consulting products approved by FINDETER. Completed output reported in half-yearly status report.
	Cost (US\$000)	0	0	0	60	70	70	200	
Km paved in the junction of Spratt Bight and the northwest sector of the island	Km	0	-	-	0.3	0.3	0.3	0.95	Work acceptance report from supervisor. Completed output reported in the half-yearly status report.
	Cost (US\$000)	0	100	200	1,900	2,100	2,400	6,700	
Pedestrian walkway at Spratt	Walkway	0	0	0	0	0	1	1	Work acceptance report from supervisor.

<sup>3</sup> This composite index ranging from 1 to 100 is made up of the following variables: (i) self-financing of operating expenses; (ii) support for debt service; (iii) dependence on transfers from the national government and royalties; (iv) generation of own resources; (v) size of investment; (vi) savings capacity.

<sup>4</sup> The programs will address violence and rights, sexual and reproductive health, and nutrition.

OUTPUTS	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/means of verification /observations
Bight with northwest sector of island constructed	Cost (US\$000)	0	0	0	300	400	500	1,200	Completed output reported in the half-yearly status report.
Breakwater (jetty) on beach at North End constructed	Breakwater	0	0	0	0	0	1	1	Work acceptance report from supervisor. Completed output reported in the half-yearly status report <b>Observation:</b> This output includes building of dunes, planting, and construction of new breakwater.
	Cost (US\$000)	0	100	200	500	500	800	2,100	
Beach at North End and San Luis equipped with urban infrastructure	Beach	0	0	0	0	0	1	1	Work acceptance report from supervisor. Completed output reported in the half-yearly status report Observation: This output includes public restrooms, showers, vehicle parking, pedestrian access routes.
	Cost (US\$000)	0	100	300	500	600	1	2,500	
COMPONENT 2: Provision of and access to water and sanitation services									
Expanded supply capacity for the rural area	Lps	40	0	0	25	0	0	65	Public Services Unit – reports from Planning Office of the archipelago’s Proactiva Agua.
	Cost (US\$000)	0	0	3,000	3,000	0	0	6,000	
Networks rehabilitated	Km	0	0	4	6	7	8	25	
	Cost (US\$000)	0	0	1,200	1,800	2,100	2,400	7,500	
Residential sanitation solutions constructed	Sanitation solution	0	0	50	100	100	100	350	
	Cost (US\$000)	0	0	500	1,000	1,000	1,000	3,500	
Comprehensive water supply and wastewater management projects formulated	Projects	0	0	1	0	0	0	1	Public Services Unit  For the works plan: Status and final output delivery reports from the consulting assignment approved by FINDETER.
	Cost (US\$000)	0	400	400	0	0	0	800	
SAPSC Drinking Water, Sewerage, and Stormwater Management Master Plan formulated and approved	Plan	0	0	0	1	0	0	1	
	Cost (US\$000)	0	500	1,500	1,500	0	0	3,500	



OUTPUTS	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/means of verification /observations
Sewerage works plan in Providencia delivered and approved	Plan	0	0	1	0	0	0	1	
	Cost (US\$000)	0	300	1,200	0	0	0	1,500	
Training workshops conducted for the Public Services Unit of San Andrés	Training workshops	0	1	1	1	1	1	5	This output consists of training for formulating sectoral policies, programs, and plans, planning and execution of the required works, supervision of the actions of the specialized operator, and other actors with an impact on the provision of water and sewerage services throughout the island.
	Cost (US\$000)	0	300	300	300	300	0	1,200	
COMPONENT 3: Improvement of coastal infrastructure and coastal risk management									
Diagnostic and pre-investment studies for recovery done	Studies	0	1	2	0	0	0	3	Status and final output delivery reports from the consulting assignment approved by FINDETER. Completed output reported in the half-yearly status report. The studies include: (i) pre-feasibility study to prioritize the most vulnerable sites on the island according to socioeconomic and environmental criteria; (ii) baseline studies (e.g., oceanographic) to verify and measure factors contributing to erosion on the west coast; and (iii) feasibility studies and designs.
	Cost (US\$000)	0	2,000	4,800	0	0	0	4,800	
Km of beach shoreline recovered in Providencia (Black Sand Bay)	Kms	0	0	0	0	0.5	0.6	11	Work acceptance report from supervisor. Completed output reported in the half-yearly status report.

OUTPUTS	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/means of verification /observations
	Cost (US\$000)	0	0	0	1,000	1,000	1,200	3,200	<b>Observation:</b> Depending on the results of the studies and the confirmation of technical, economic, and environmental feasibility of the technical solutions, financing will be provided for beach stabilization construction works. The beach at Black Sand Bay has been identified preliminarily. Beach recovery is understood as replacing sand eroded from the island’s coastline, revegetation, and reforestation (Departmental Plan for 2012-2015).
Studies done to monitor the dynamics of beaches and cliffs.	Study	0	1	1	1	1	1	5	Status and final output delivery reports from the consulting assignment approved by FINDETER. Half-yearly status report.
	Cost (US\$000)	0	100	100	100	100	100	500	
Coastal risk analysis system and vulnerability mapping designed and implemented	System	0	0	1	0	0	0	1	Status and final output delivery reports from the consulting assignment approved by FINDETER. Half-yearly status report.
	Cost (US\$000)	0	150	150	0	0	0	300	
Training workshops in the integrated management of coastal risks and coastal engineering.	Workshops	0	1	1	1	1	0	4	Status and final output delivery reports from the consulting assignment approved by FINDETER. Half-yearly status report <b>Observation:</b> This product includes sharing experiences with other programs in the Caribbean.
	Cost (US\$000)	0	50	50	50	50	0	200	
COMPONENT 4: Local economic development									
Individuals trained in the formulation of productive projects	Individuals	0	15	15	15	15	15	75	Status and final output delivery reports from the consulting assignment approved by FINDETER. Completed output reported in half-yearly status report.
	Cost (US\$000)	0	150	100	100	100	100	550	
Number of companies supported	Companies	0	0	15	15	15	15	60	Reports from the Unit for Promotion of

OUTPUTS	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/means of verification /observations
by the Business Development Fund	Cost (US\$000)	0	0	650	600	600	600	2,450	Competitiveness. Completed output reported in half-yearly status report.
<b>COMPONENT 5: Strengthening of the institutional framework for fiscal sustainability</b>									
Properties that contain nomenclature information and registry numbering in the registry base	Properties	5,500	0	0	18,315	0	0	23,815	Report from the Finance Secretariat.
	Cost (US\$000)	0	400	450	0	0	0	850	Completed output reported in the half-yearly status report <b>Observation:</b> The product includes design and startup of an advertising program (press, radio, television) to accompany the property registry update.
Training workshops conducted for employees of the Departmental Finance Secretariat	Workshops	0	1	1	1	0	0	3	Status and final output delivery reports from the consulting assignment approved by FINDETER.
	Cost (US\$000)	0	300	350	350	0	0	1,000	<b>Observation:</b> This output consists of training the technical team in the Finance Secretariat responsible for managing collection of the property tax, the Industry and Commerce tax, and the tax on foreign merchandise payable to the Department.
Diagnosis and action plan developed on the Department's	Study	0	0	1	0	0	0	1	Status and final output delivery reports from the consulting assignment approved by FINDETER. Half-yearly

OUTPUTS	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/means of verification /observations
tax structure	Cost (US\$000)	0	370	0	0	0	0	370	status report. Includes the updated departmental revenues statute, adjustment of property rates, adjusted procedures for processing the National Automotive Registry and modernization of the Tourism Card and enforced collections. As part of the action plan, an educational program on the voluntary payment of taxes will be designed.
Departmental government employees trained in the formulation and execution of public investment projects	Number of employees	0	0	20	20	0	0	40	Status and final output delivery reports from the consulting assignment approved by FINDETER. Half-yearly status report.
	Cost (US\$000)	0	380	280	0	0	0	660	The output includes: at least ten projects formulated and structured for submission to the different funds of the General Royalties System.
Information system designed and implemented for monitoring physical execution of projects	System	0	0	1	0	0	0	1	Status and final output delivery reports from the consulting assignment approved by FINDETER for design of and reports from the system on physical execution of projects as evidence of their implementation.
	Cost (US\$000)	0	300	320	0	0	0	620	Half-yearly report.

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

<b>Country:</b>	Colombia
<b>Project number:</b>	CO-L1125
<b>Name:</b>	Program to Support the Sustainable Development of the Department of the San Andrés, Providencia, and Santa Catalina Archipelago
<b>Executing agency:</b>	Unidad Nacional de Gestión del Riesgo de Desastres [National Disaster Risk Management Unit] (UNGRD)
<b>Prepared by:</b>	Miguel A. Orellana, Lead Fiduciary Specialist in Financial Management; and Gabriele del Monte, Lead Fiduciary Specialist in Procurement.

### I. EXECUTIVE SUMMARY

- 1.1 The UNGRD's fiduciary capacity was analyzed by applying the Institutional Capacity Assessment System (ICAS) and the Analysis of the Main Institutional Processes. The assessment concluded that the UNGRD has limited fiduciary capacity to perform actions related to the project's financial management, resource management, and procurement. The UNGRD's fiduciary risk in both financial management and procurement is high.
- 1.2 Administration of project funds will be delegated to Financiera de Desarrollo Territorial (FINDETER). Accordingly, its fiduciary capacity was analyzed, and the ICAS and Analysis of the Main Institutional Processes were applied. The Detailed Assessment of the Executing Agency's Capacity to Manage Procurement was validated (submitted in April 2013). It finds that FINDETER has sufficient capacity to conduct financial management, resource management, and project procurement activities. FINDETER's fiduciary risk both in financial management and procurement is low.
- 1.3 FINDETER will perform operational and fiduciary management of the project. The UNGRD will be the executing agency for budget purposes and expenditure management. The national government will be represented by the UNGRD, which will carry out the execution obligations through the management provided by FINDETER.
- 1.4 FINDETER is a national mixed ownership company organized as a credit institution, under the Ministry of Finance and Public Credit and subject to the oversight of Colombia's Financial Superintendency. FINDETER's contractual activity is governed by the legal and regulatory provisions applicable to the

performance of its activities in accordance with private law. It is also exempt from the application of the General Government Contracting Statute, without prejudice to its compliance with the principles of administrative operations and fiscal management.<sup>1</sup> Additionally, from a standards viewpoint, the contracting system it uses is considered adequate and consistent with internationally accepted practices. FINDETER uses its own financial information system for budgetary, accounting, and treasury control.

- 1.5 The project does not include counterpart funds or financing from other multilaterals.

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

- 2.1 FINDETER will maintain the project's accounts in its information system, which supports all budget, accounting, and treasury activities. Within the International Banking Department, it will assign a staff member to coordinate project financial and administrative procedures, such as budgets, treasury, accounting, and reporting. This department will be responsible for monitoring the operational and fiduciary management of the project.
- 2.2 FINDETER keeps the institution's activities documented, approved, and formalized through an information system that can be referred to and consulted by all the organization's staff. The internal control system is adequate and external oversight is currently carried out by PriceWaterHouseCoopers (PWC), which performs the statutory audit. It is also subject to audit by the Office of the Comptroller General of the Republic (CGR), the General Accounting Office of the Nation (CGN), the Office of the Attorney General (PGN), and the Financial Superintendency (SF). FINDETER has professionals in financial management, procurement, and contracting with experience in multilateral banking projects, using the multisectoral credit operations methodology, with satisfactory performance.
- 2.3 With respect to procurement, FINDETER has appropriately assigned functions for administering procurement processes in the pre contract, contract, and post contract stages.
- 2.4 There is job stability among staff members participating in the handling of procurement. The procurement for which FINDETER is responsible is processed with the participation of the General Secretariat's Legal Division, which was responsible for processing procurement financed with funds from loan 2768/OC-CO. The procedures and formality applied by FINDETER in managing

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<sup>1</sup> The contractual regime applicable to FINDETER is understood in accordance with the provisions of Article 15 of Law 1150 of 2007. With respect to Administrative Operations and Fiscal Management, see Articles 209 and 267 of the Constitution. In terms of compliance with the system of disqualification and incompatibilities, FINDETER is governed by the provisions of Article 8 of Law 80 of 1993 and Article 18 of Law 1150 of 2007.

the procurement cycle are generally very good and provide good monitoring of compliance with the Procurement Plan.

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

- 3.1 Based on the evaluation and the level of fiduciary risk defined, the following mitigating actions are proposed:

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

- 3.2 (i) Development and implementation of the program's Operating Regulations, which contain details on mechanisms for execution and coordination of activities between FINDETER and the agencies that make up the project Executive Committee; (ii) appointment of a General Project Coordinator to coordinate the integration of all technical and operational aspects of execution; (iii) formation of a project team in FINDETER for financial and procurement issues, with experience in multilateral banking and assigned exclusively to the project, as well as training in financial management procedures; (iv) incorporation within the SAPSC departmental government of a coordinator specializing in project management; and (v) appointment of an activities coordinator in the UNGRD who serves as a liaison between it, the National Disaster Risk Management Fund (FNGRD), and FINDETER.

#### **B. Procurement**

- 3.3 (i) Support provided to the coordinating unit by a staff member/consultant with experience in Bank-financed procurement, as well as training for the project working team at FINDETER in IDB procurement procedures, and use of the Procurement Plan Execution System (SEPA) tool; and (ii) agreement with the Bank on a detailed and complete flow chart of interventions and approvals in the procurement and contract management process.

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

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

- 4.1 **Special conditions precedent to the first disbursement:** (i) FINDETER's formation of a team for project implementation, with appointment of its key personnel; (ii) entry into effect of the program Operating Regulations, including the financial chapter under terms and conditions previously approved by the Bank; (iii) naming of the activities coordinator in the UNGRD; (iv) formation of the program's Executive Committee; and (v) contracting of FINDETER as administrator, by the borrower/executing agency, to carry out project activities.
- 4.2 **Special execution conditions:** (i) the executing agency will have a Bank-approved training plan specifically on financial management for FINDETER staff appointed for project execution; (ii) the executing agency will

submit expenditure documentation using the exchange rate for converting funds disbursed in U.S. dollars to Colombian pesos (monetization rate); and (iii) the project will submit audited financial statements annually.

**B. Procurement**

- 4.3 Provide the executing agency with a Bank-approved plan for training and use of the SEPA tool for FINDETER staff assigned to project execution.

**V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 5.1 The procurement policies applicable for this loan are those contained in documents GN-2349-9 and GN-2350-9.

**A. Procurement execution**

- 5.2 Before procurement starts, the Procurement Plan for the first 18 months must be recorded in the SEPA, and FINDETER must keep it up to date.
- 5.3 The relevance of expenditures, i.e., the terms of reference, subnational entities, bidding documents, and budget, are the responsibility of the project's Sector Specialist and always require prior no objection, with respect to the procurement itself, and in accordance with the operational criteria of the Project Team Leader.

**B. Procurement of works, goods, and nonconsulting services**

- 5.4 Contracts generated and subject to international competitive bidding (ICB) and national competitive bidding (NCB) will be executed using the respective bidding documents harmonized for Colombia and agreed to with the Bank.
- 5.5 An item of concern are possible cost overruns for construction work on the island given the need for maritime transport of basic construction inputs and the possible lack of bidders, both of which are important factors in determining the final cost of the bid.
- 5.6 Procurement of information technology systems: no comment.

**C. Selection and contracting of consultants**

- 5.7 Consulting firms: will be selected and contracted using the harmonized standard Request for Proposals (RFP) for Colombia and agreed to with the Bank.
- 5.8 Selection of individual consultants:<sup>2</sup> Bank procurement policies.
- 5.9 Training: Direct contracting will be used when the individual purchase is less than US\$5,000. For larger amounts, procurement will be based on the relevant competitive methods.
- 5.10 Advance procurement/Retroactive financing: N/A.

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<sup>2</sup> According to Section V of the Bank's policies in document GN-2350-9, use of the shortlist is not required, nor is the standard RFP used.



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

- 5.11 Main procurement items: Purchases for the first 18 months are reflected in the Procurement Plan and are not technically or procedurally complicated such that they merit special mention.
- 5.12 Recurring costs: Project personnel will be contracted according to the executing agency's internal regulations and national legal provisions that are consistent with IDB standards.
- 5.13 Supervision of procurement: The initial review method is ex ante. The contracting of individual consultants and shopping for goods and nonconsulting services will be reviewed on an ex post basis once the executing agency has carried out one of each to the Bank's satisfaction. Application of the ex post review modality will be evaluated, in coordination with the executing agency, during execution of the loan. Direct contracting is an exception and will be reviewed ex ante.
- 5.14 The ex post review reports will not provide for physical inspection visits.

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

\* Simple works and off-the-shelf goods and goods valued at below the ICB threshold may be procured through shopping.

- 5.15 **Records and files:** FINDETER's internal provisions on filing entail keeping physical documents for some 10 years. FINDETER has an external service for inactive files which is administered using controlled document retention tables.

## VI. FINANCIAL MANAGEMENT

### A. Programming and budget

- 6.1 The national government, through the National Public Budgeting Directorate and the National Planning Department (DNP), is responsible for budgetary programming, a process which concludes with the approval by congress of the Annual Budget Act. The loan proceeds will be included in the General Budget of the Nation under the UNGRD, will be executed through the subaccount for the SAPSC in the National Disaster Risk Management Fund (FNGRD) and will be remitted to FINDETER, which will control the resources through its information

system. The transfer of the UNGRD resources will be verified through the SIIF Nación II system.

- 6.2 In FINDETER, budgetary programming is done for each year and approved in October of the immediately preceding year by the Board of Directors, which is presided over by the Fiscal Support Directorate of the Ministry of Finance and Public Credit (MHCP). Given the structure of FINDETER's budget, project funds will be executed as special administrative resources and not as the entity's own resources. Nonetheless, the funds to be executed in each year should be incorporated in the General Budget of the Nation.

**B. Accounting and information systems**

- 6.3 The lead agency for government accounting in Colombia is the CGN, which provides guidelines on how to maintain the accounts of the National Public Budget and semipublic agencies. FINDETER will use its own information system for the project's budgetary, accounting, and treasury control. The accounting and reporting subsystem generates detailed reports classified according to investment category. Accounts will be recorded according to the accrual method. However, project financial statements will be prepared on a cash accounting basis and submitted to the Bank each year. For recording its operations and preparing its financial statements, FINDETER uses the standards prescribed by the CGN and in areas not established therein according to the standards applicable to national mixed ownership companies engaged in financial activities as established in Resolution 2416 of 1997.

**C. Disbursements and cash flow**

- 6.4 Externally sourced funds as well as other funds from the national government are executed through SIIF Nación II. For project treasury management, the UNGRD will open a special bank account (designated account) in foreign currency in the Banco de la República (BdR, the central bank) in the project's name, to be used exclusively for project funds.
- 6.5 FINDETER resources are executed through the agency's information system. For project treasury management, FINDETER will open a special bank account (designated account) in foreign currency, in the project's name, to be used exclusively for project funds. The disbursement method will be fund advances, based on liquidity needs for a maximum period of six months; and accounting for advances will be in accordance with the provisions of document OP-273-2, Financial Management Policy for IDB-financed Projects. In addition to projected cash flow, the disbursement request should be accompanied by the reconciliation of the special account and the implementation status of technical and fiduciary performance commitments (as applicable). Documentation of expenditures will use the monetization rate. The special conditions precedent to the first disbursement will be those detailed in Section IV.

**D. Internal control and internal audit**

- 6.6 FINDETER has an Internal Control Office (OCI). FINDETER's internal control is based on the applicability of the public model for internal control, NTC-GP1000. It also has risk maps prepared for each of the processes in the quality management system. The audit includes five systems (Integrated Planning and Management Model, Environmental Management System, Quality Management System, Internal Control System (MECI), and the Risk Management System) as well as the audit performed by an independent auditing firm. The OCI has professional staff to carry out its tasks, participates in the monitoring process under the plans for improvement of external audits and the CGR. At FINDETER, the review of investment projects is selectively scheduled according to the OCI's annual work plan. Audit reports have determined that internal control is adequate.

**E. External control and reports**

- 6.7 The external control of FINDETER is carried out by the CGR, the Financial Superintendency, and the PGN through public audits performed on the agencies, on a selective and ex post basis, in order to verify compliance with standards, the proper use of resources, the observance of processes and procedures, the attainment of targets and objectives, etc. Given that the CGR does not audit specific projects with multilateral bank financing and is not yet eligible to audit Bank-financed projects, the project will use an independent auditing firm.
- 6.8 The financial statements and the eligibility of project expenses will be audited by an independent auditing firm acceptable to the Bank, to be contracted by FINDETER. The auditing services will be financed using loan funds. The audited financial statements of the project will be prepared 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, including the review of procurement in addition to the Bank's actions and reviews. An independent auditing firm will be required to audit this operation in order to guarantee the timing and content of opinions in accordance with the procedures established in document OP-273-2.
- 6.9 There is no national policy on public disclosure of auditing reports. However, according to the current access to information policy, the audited project reports will be published in the Bank's systems.

**F. Financial supervision plan**

- 6.10 Based on the result of the fiduciary capacity analysis, the financial specialist will perform at least one on-site review per year and desk reviews of the audited annual and final financial statements. Financial supervision will be conducted on an ex post basis for FINDETER. The project auditor will verify that funds are executed according to Bank standards and policies on fiduciary management and the conditions stipulated in the Operating Regulations. The fiduciary supervision

visits on financial management will include, *inter alia*, verification of the financial and accounting arrangements used for project administration.

**G. Execution mechanism**

- 6.11 The borrower will be the Republic of Colombia, and the executing agency will be the UNGRD, which will manage expenditures for the SAPSC subaccount in the FNGRD. The UNGRD will work through FINDETER to advance all project execution, administration, contracting and operational management activities. More information on the execution mechanism is presented in the Loan Proposal and will be outlined in the Operating Regulations.

**H. Other financial management agreements and requirements**

- 6.12 There are no agreements in addition to those mentioned above. However, the fiduciary agreements and requirements included in this annex may be adjusted according to project dynamics based on updates of the risks analysis and institutional capacity assessment conducted during execution.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/13

Colombia. Loan \_\_\_\_/OC-CO to the Republic of Colombia  
Program to Support the Sustainable Development  
of the Department of San Andrés, Providencia,  
and Santa Catalina Archipelago

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Colombia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to support the sustainable development of the Department of San Andrés, Providencia, and Santa Catalina Archipelago. Such financing will be for an amount of up to US\$70,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_\_ 2013)