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COLOMBIA

**PROGRAM TO SUPPORT THE MODERNIZATION OF THE NATIONAL TAX
AND CUSTOMS DIRECTORATE**

(CO-L1245)

LOAN PROPOSAL

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REQUIRED LINKS	
1	Multiyear execution plan/annual work plan
2	Monitoring and evaluation plan
3	Procurement plan

OPTIONAL LINKS	
1	Cost-effectiveness analysis
2	Program Operations Manual
3	Safeguard Policy Filter Report and Safeguard Screening Form

ABBREVIATIONS

AEO	Authorized economic operator
AWP	Annual work plan
CGR	Contraloría General de la República [Office of the Comptroller General]
CSIRT	Computer Security Incident Response Teams
DANE	Dirección Nacional de Estadística [National Statistics Directorate]
DGA	Dirección de Gestión de Aduanas [Customs Management Directorate]
DGF	Dirección de Gestión de Fiscalización [Audit Management Directorate]
DGI	Dirección de Gestión de Ingresos [Revenue Management Directorate]
DGO	Dirección de Gestión Organizacional [Organizational Management Directorate]
DGRAE	Dirección de Gestión de Recursos y Administración Económica [Directorate of Resource Management and Economic Administration]
DIAN	Dirección de Impuestos y Aduanas Nacionales [National Tax and Customs Directorate]
FDC	Fondo DIAN para Colombia [DIAN Fund for Colombia]
GDP	Gross domestic product
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
IMF	International Monetary Fund
IT	Information technology
MHCP	Ministry of Finance
MUISCA	Modelo Único de Ingresos, Servicio y Control Automatizado [Single Automated Model for Revenue, Service, and Control]
NCB	National competitive bidding
OCI	Oficina de Control Interno [Office of Internal Control]
OECD	Organisation for Economic Co-operation and Development
PCR	Project completion report
PCU	Project coordination unit
PEFA	Public Expenditure and Financial Accountability
PETI	Plan Estratégico de Tecnología de la Información [Strategic Plan for Information Technology]
PND	Plan Nacional de Desarrollo [National Development Plan]
RUT	Registro Único Tributario [Single Tax Registry]
SCCPC	Sistema de Contratación y Compras Públicas de Colombia [Public Procurement and Contracting System of Colombia]
SGTIT	Subdirección de Gestión de Tecnología de Información y Telecomunicaciones [Subdirectorato for Information Technology and Telecommunications Management]
SIIF	Sistema Integrado de Información Financiera [Integrated Financial Information System]
SOC	Security Operations Center
VAT	Value-added tax

PROJECT SUMMARY
COLOMBIA
PROGRAM TO SUPPORT THE MODERNIZATION OF THE NATIONAL TAX AND CUSTOMS DIRECTORATE
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Financial Terms and Conditions						
Borrower: DIAN Fund for Colombia (FDC), represented by the fiduciary entity Consorcio Fondo DIAN para Colombia 2020					Flexible Financing Facility^(a)	
Guarantor: Republic of Colombia					Amortization period:	9 years
Executing agency: Special Administrative Unit, National Tax and Customs Directorate (DIAN)					Disbursement period:	5 years
					Grace period:	5.5 years ^(b)
Source	Amount Phase I (US\$)	Amount Phase II (US\$)	Total I and II (US\$)	%	Interest rate:	LIBOR-based
					Credit fee:	^(c)
IDB (Ordinary Capital):	250,000,000	250,000,000	500,000,000	100	Inspection and supervision fee:	^(c)
					Weighted average life:	7.25 years
Total:	250,000,000	250,000,000	500,000,000	100	Approval currency:	U.S. dollar
Project at a Glance						
Project objective/description: The general objective of the program is to improve the effectiveness and efficiency of the DIAN's tax and customs management. The specific objectives of the first operation are to: (i) improve the institutional governance model in order to increase the effectiveness of tax and customs management; and (ii) improve the efficiency of technology management.						
Special contractual conditions precedent to the first disbursement of the loan: Through the DIAN, the borrower will provide evidence of: (i) approval by the FDC's management board of the program Operating Regulations governing the relationship between the fiduciary entity and the DIAN, including their respective roles and responsibilities; (ii) selection of key staff for the project coordination unit (PCU), including the coordinator, procurement specialist, financial and administrative specialist, and planning and monitoring specialist; and (iii) approval of the program Operations Manual , in accordance with the terms agreed upon with the Bank (paragraph 3.5).						
Exceptions to Bank policies: Management is asking the Board of Executive Directors to approve a partial waiver of the Policy on Guarantees Required from the Borrower (Operational Policy OP-303), which would allow the Republic of Colombia to guarantee solely the financial obligations of the loan contract that will be signed by the Bank and the borrower (paragraph 3.7).						
Strategic Alignment						
Challenges:^(d)			SI <input type="checkbox"/>	PI <input type="checkbox"/>	EI <input checked="" type="checkbox"/>	
Crosscutting themes:^(e)			GD <input type="checkbox"/>	CC <input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>	

- (a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.
- (b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- (c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.
- (d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 Between 2014 and 2016, Colombia experienced an oil price shock that adversely affected growth, which dropped from 4.4% to 2% of gross domestic product (GDP), as well as public finances. Tax revenue fell from 14.3% to 13.8% of GDP. Additionally, the fiscal deficit increased from 2.4% to 4.0% of GDP, and public debt rose from 43.7% to 50.4% of GDP.¹ Three tax reform initiatives were carried out in order to increase tax collection² and achieve the fiscal rule target. While this stabilized macroeconomic indicators, fiscal challenges persist, such as low public investment.³ For this reason, policy measures are needed to increase fiscal headroom. The economy is currently suffering the effects of COVID-19. In the first half of 2020, the economy contracted by 7.4% year-on-year. Consequently, a decline in tax revenue is expected (from 13.9% of GDP in 2019 to 13.3% of GDP in 2020) to address the pandemic, which would result in a fiscal deficit of close to 8.2% of GDP and a public debt of 65.6% by the end of the year.⁴ Despite the uncertainty, economic recovery is expected by 2021 with annual growth of 4.6% of GDP and a fiscal deficit of -5.5% of GDP for the central government.
- 1.2 The National Tax and Customs Directorate (DIAN) is a Special Administrative Unit in the Colombian government. Its purpose is to ensure fiscal security through the administration and control of tax and customs requirements, and the facilitation of foreign trade operations. The DIAN's role is fundamental, as it collects two thirds of national government tax revenue.
- 1.3 The DIAN is facing critical institutional capacity challenges that have led to a low level of tax collection (14% versus 15.5% in Latin America between 2014 and 2018).⁵ These challenges include: (i) an ineffective human resources policy that limits talent recruitment and human capital development;⁶ (ii) inefficient management and control of taxes and customs, leading to suboptimal levels of tax collection;⁷ and (iii) significant delays in information systems.⁸ With respect to information techn

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¹ International Monetary Fund (IMF), (2018).

² These reforms included a wealth tax, a surtax on income tax (which accounted for 0.5% of GDP between 2014 and 2015), and an increase to value-added tax (VAT) (which accounted for 0.5% of GDP between 2016 and 2017)(Ministry of Finance (MHCP), 2016 and 2018).

³ Investment spending fell from 2.9% to 1.7% between 2014 and 2018 (IMF, 2019).

⁴ [2020 Medium-term Fiscal Framework](#).

⁵ Tax collection is incompatible with Colombia's revenue potential, which is estimated to be 33.4% of GDP (Fenochietto and Pessino, 2012).

⁶ The proportion of DIAN employees under the age of 50 is low.

⁷ Evasion rates for VAT and income tax are at 40% (Organisation for Economic Co-operation and Development (OECD), 2015) and 39% (Cruz, 2015), respectively. Colombia is ranked 146th out of 189 in the Ease of Paying Taxes Index (World Bank, 2019). For customs, it is ranked 60th out of 140 countries in the Global Competitiveness Index of the [World Economic Forum](#).

⁸ There is little use of technological advances for streamlining procedures and payments, partly due to the fact that investment levels in the DIAN are low and inconsistent (Comisión de Expertos para la Equidad y la Competitividad Tributaria de Colombia, 2015).

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1.19 ology (IT) management, while in 2019, spending on this line item represented 4.5% of the DIAN's operating budget, it was 17.1% in Brazil and 7.7% in Chile, averaging 10.2% in the countries of the Organisation for Economic Co-operation and Development (OECD).⁹

1.20 In order to improve tax and customs management, the DIAN has strengthened: (i) the risk-based auditing model; (ii) tax collection management; (iii) electronic invoicing; and (iv) the authorized economic operator (AEO) program. Additionally, the National Development Plan 2018-2022 (PND) "Pact for Colombia, Pact for Equity," approved through Law 1955 of 2019, provides for the creation of the DIAN Fund for Colombia (FDC), with the objective of modernizing the DIAN (Article 55). In order to achieve this target, the DIAN must resolve the following weaknesses:

1. Institutional organization and human resources

1.21 The DIAN's organizational structure¹⁰ limits its development due to the following factors: (i) the lack of coordination between management directorates;¹¹ (ii) imbalances in management and operational control sections;¹² and (iii) strategic targets that are only partially achieved because of weak links between planning and operational areas.¹³

⁹ OECD (2019).

¹⁰ It was last modified in 2008.

¹¹ For example, the Audit Management Directorate (DGF) and the Customs Management Directorate (DGA) do not share information on taxpayers.

¹² In all, 63 directors and 4 units report to the General Director, with an average of 3 subdirectorates reporting to each directorate head. Additionally, the Large Taxpayers Directorate actually has the same status as a section, not a management directorate, as would be expected given the important role it plays in collection (70% of total revenue).

¹³ In 2017, three of the nine strategic targets were achieved (33%) (DIAN).

- 1.22 The DIAN does not have effective in-person or virtual mechanisms for communicating with the public, nor does it have mechanisms for promoting its corporate image.¹⁴ The taxpayer assistance offices are outdated, which affects their ability to provide assistance to taxpayers.^{15, 16}
- 1.23 Human resources management does not meet current institutional needs due to the following: (i) hiring policies that limit professional development, generate inequalities, and discourage continued training;¹⁷ (ii) outdated job profiles and assignment that is not skills-based;¹⁸ (iii) performance evaluations that are not based on actual staff performance;¹⁹ and (iv) an outdated Code of Ethics.²⁰
- 1.24 The DIAN's School of Higher Studies for Tax, Customs, and Exchange Administration is not effectively handling the current recruitment program and needs related to competitive hiring and promotion of staff. This is due to: (i) the school's lack of physical and technological infrastructure;²¹ and (ii) limited resources for training on new processes for tax and customs operations, as well as for institutional transformation.²²

2. Tax and customs control

- 1.25 Tax and customs control processes have the following issues: (i) there is a lack of predictive analytics tools for data processing; (ii) the control and collection processes are manual, complex, outdated, and scattered, including those for large taxpayers;²³ (iii) there is little interaction and exchange of information between the tax control areas; (iv) auditor specialization is lacking, particularly in the areas of international taxation and foreign trade;²⁴ and (v) there are institutional weaknesses in detecting tax and customs fraud.
- 1.26 Information from electronic invoicing²⁵ is not used for facilitation and control processes, which leads to the following issues: (i) there is no plan for using electronic invoicing in large-scale controls and foreign trade audits; (ii) refunds are

¹⁴ For the indicator on its reputation in the media, the DIAN scored 5.8 out of 10. For reputation within the government, it scored 2 out of 10. (Centro Nacional de Consultoría, 2018).

¹⁵ The term "taxpayer" also includes foreign trade operators.

¹⁶ Between 2014 and 2018, the number of individuals registered in the Single Tax Registry (RUT) rose from 11.3 million to 14.7 million, whereas the number of providers of in-person tax assistance fell from 4.5 million to 2.5 million.

¹⁷ The last competitive process was held in 2008 (DIAN).

¹⁸ Job profiles were last updated in 2008 (DIAN).

¹⁹ A full 97% of staff received the highest score (5 points) on this evaluation (DIAN).

²⁰ The Code of Ethics was developed in 2005. Since then, minor updates have been made to it.

²¹ The school's physical infrastructure has not been updated since 1992 (DIAN).

²² In all, 40% of DIAN staff will reach retirement age in the next five years, meaning that additional resources will be needed for training new staff. Competitive hiring processes will begin in 2020.

²³ While some processes have been automated for domestic tax audits, all of the processes for customs and exchange audits are manual.

²⁴ The average yield of the 54,000 audits conducted on foreign trade operations (2018) was US\$2,400 per audit (DIAN).

²⁵ Electronic invoicing is currently in the initial phase of large-scale use, and the model is undergoing changes.

made using manual analysis and partial information;²⁶ (iii) there is no plan for using electronic invoicing to implement factoring; (iv) costs for complying with value-added tax (VAT) are high;²⁷ and (v) electronic invoicing for exports has not been implemented, making it difficult to validate information during audits.²⁸

- 1.27 A low percentage of taxpayers²⁹ file returns because: (i) insufficient information is provided to taxpayers, who must search for information from different sources;³⁰ (ii) extensive and large-scale control processes do not use vetted information;³¹ and (iii) there is a lack of prefilled tax returns.
- 1.28 Customs control and traceability processes are deficient due to the following: (i) few automated processes and low technology use;³² (ii) weaknesses in monitoring cargo and vehicles, as well as controlling passenger entry and departure;³³ (iii) a lack of clearly defined needs for physical infrastructure, technology use, and human resources; (iv) little oversight of customs clearance operations, control and inspection activities, and detection of irregularities;^{34, 35} (v) shortcomings in handling emergency situations (e.g. natural disasters, contingencies in customs operations, etc.); and (vi) limited resources for managing customs facilitation and security programs.

3. Technology platform, data, and information security

- 1.29 The main technology platform is weak due to: (i) the lack of a comprehensive strategic plan for digital transformation; (ii) reliance on obsolete technological architecture;³⁶ (iii) difficulty in developing new applications and updates for the technology platform;³⁷ (iv) low adoption of emerging technologies (like the cloud), due to incompatibility with the current platform; (v) higher costs due to the cost of

²⁶ According to the Growth Law (2020), taxpayers who issue electronic invoices will be able to access automatic refunds, as will 85% of their suppliers who also issue electronic invoices,

²⁷ It takes 71 hours to complete VAT payment (*Paying Taxes* 2019), which is above the OECD average of 54 hours.

²⁸ It can take up to three years for a destination country authority to provide the DIAN with confirmation that an export operation has actually been received.

²⁹ In all, 61.6% and 54.4% of income tax returns are filed on time by individuals and companies, respectively. The OECD average is 81.57% and 76.52% (OECD, 2017).

³⁰ Necessary data include financial sector capital returns, employers, retirement, property, and professional service fees.

³¹ Information is filtered through selective audits that use costly audit resources.

³² In 2018, 101,000 shipments were authorized for transit. However, only 86,281 were completed by customs in countries of destination.

³³ In 2018, 6,800,440 international passengers arrived by plane, and 92 arrests were made in relation to contraband.

³⁴ Cargo in customs is not monitored in real time (2,079,015 shipments in 2018).

³⁵ The maritime import process takes an average of 9.6 days (10.4 days for air), and the maritime export process takes 6.5 days (1.5 days for air) (DIAN).

³⁶ Because the architecture is obsolete, requests for corrective and preventive maintenance can take up to 12 months, whereas the standard is 4 months (DIAN).

³⁷ The technology platform's architecture has needed partial and piecemeal solutions and connections, which have added to its complexity.

- paying the technology provider for exclusive support;³⁸ (vi) inefficient use of technological resources (processing and storage) due to the use of outdated, three-tier architecture (application, processing, and database), instead of container-based architecture;³⁹ and (vii) the inability to meet high demand, due to insufficient storage and processing capacity, as well as balancing and availability of communications networks.⁴⁰
- 1.30 The processes that make up the tax and customs management cycle have a low level of effectiveness due to: (i) weaknesses in information use because of fragmented computer applications;⁴¹ (ii) applied architecture based on processing and transmitting static forms and documents, not on data flow;⁴² (iii) the lack of a unified system that integrates applications and services for tax and customs administration (the 120 computer applications have low interoperability);⁴³ (iv) the lack of a comprehensive vision for the taxpayer cycle because the process for integrating sources of information is inadequate;⁴⁴ (v) the lack of an institutional policy on data use, storage, and processing, which leads to scattered, duplicate, and unreliable data;⁴⁵ and (vi) little capacity for interoperability with other government systems, especially customs systems.
- 1.31 The information security management system is weak due to: (i) the lack of clarity in policies for physical and perimeter security, access control to applications and information assets, identity control, and secure handling of technology assets;⁴⁶ (ii) access control that is not unified and has no user traceability;⁴⁷ (iii) the inability to authorize, empower, and audit users in an efficient and thorough manner; and (iv) databases and application activity logs that do not follow best practices for

³⁸ The technology platform's annual maintenance cost is US\$24.5 million for managing 16 million taxpayers. In the medium term, a cloud solution would reduce the cost per taxpayer managed.

³⁹ The growing number of requests to improve priority service applications (the current number is 389) has not been addressed in a timely and efficient manner due to the current state of the technology platform.

⁴⁰ In 2018, 48 interruptions in service were recorded, which amounts to 240 hours during which critical services were unavailable.

⁴¹ Computer applications were developed in isolation, without consideration for existing applications and interoperability.

⁴² The Single Automated Model for Revenue, Service, and Control (MUISCA) stores information in forms. When one form is changed, changes must be made to all other forms that contain the same information. Globally, the trend is towards application interoperability based on data flow.

⁴³ The Subdirector for Information Technology and Telecommunications Management (SGTIT) receives 14,000 information extraction requests per year, due to the inability of MUISCA and SIGLO 21 to generate reports for users.

⁴⁴ Generating a comprehensive taxpayer overview takes at least 20 days per case. Best practices call for applications that integrate information in real time (e.g. in Mexico).

⁴⁵ Data are scattered across approximately 30 different nonintegrated databases.

⁴⁶ There are 530 different types of roles that allow users to access applications. Additionally, the process for deactivating retired staff is weak, so some individuals continue to have access even after retirement (Árbol de Problemas, DIAN).

⁴⁷ There are multiple identity directories (132). Best practices recommend having only two domains (one for internal staff and one for outside staff) (Árbol de Problemas, DIAN).

- backing up information, and whose online applications and services have serious vulnerabilities that cannot be resolved.⁴⁸
- 1.32 Monitoring and control of information technology (IT) security instruments do not meet the requirements due to: (i) difficulty in identifying correlated events that could turn into a cyberattack;⁴⁹ (ii) the inability to respond to information security incidents and provide effective solutions; and (iii) insufficient information security support tools.⁵⁰
- 1.33 **Bank experience with tax and customs administration.**⁵¹ In Colombia, the Bank provided support for the large-scale use of electronic invoicing (loan 3155/OC-CO)⁵² and tax reform (loans 3284/OC-CO, 4522/OC-CO, ATN/OC-17173-CO),⁵³ which included activities to strengthen management and collection of revenue. Lessons learned from these experiences suggest the importance of: (i) strong institutional support for decision-making and continuous budget allocations for program execution; and (ii) implementing strategies for large-scale use, dissemination, and change management.⁵⁴
- 1.34 In Brazilian states, PROFISCO I (loan BR-X1005) strengthened institutional capacity in order to increase collection. Experiences in Argentina (loan 4500/OC-AR), Honduras (loan 3541/BL-HO), Jamaica (loan 2658/OC-JA), Peru (loan 3214/OC-PE), Uruguay (loan 1894/OC-UR), and Nicaragua (loan 3484/BL-NI) underscore the importance of strengthening institutional and operational considerations and technology systems in order to make tax and customs administration more efficient.
- 1.35 **International evidence.** Collection levels rely on the institutional strengthening of tax and customs administrations. Therefore, the following actions are key: (i) improve access to and quality of information;⁵⁵ (ii) implement auditing models that are supported by intensive information use;⁵⁶ (iii) simplify procedures in order to facilitate tax compliance;⁵⁷ and (iv) improve capacity for trade facilitation and

⁴⁸ In the event of a disaster or loss of information, it would take three months to recover information. Online applications and services are vulnerable to outside intrusions, which could compromise tax and customs information (Árbol de Problemas, DIAN).

⁴⁹ There is no capacity for identifying and monitoring attacks on DIAN data. Overall, there are approximately 1,776,000 events that could become threats (SGTIT).

⁵⁰ There are only 6 firewall servers for monitoring 30 databases. There should be at least 15, as the standard is to have one server for every 2 databases.

⁵¹ See [Comparative Evaluation: Review of Bank Support to Tax Policy and Administration, 2007-2016](#).

⁵² Large-scale use of electronic invoicing focused on the domestic market. This operation will support implementation of electronic invoicing for foreign trade, as well as the use of information generated by electronic invoicing in tax and customs control processes.

⁵³ This operation complements the activities that began under the aforementioned programmatic loan and technical cooperation operations, specifically with regard to institutional organization and strengthening human resources in the DIAN.

⁵⁴ This is included in subcomponent 1.1 of this program (paragraph 1.25).

⁵⁵ Evasion rates are up to eight times higher when the tax and customs administration lacks automated instruments for verifying sources of taxpayer income (Slemrod et al., 2015).

⁵⁶ Availability of information strengthens audits of companies in Spain (Almunia and López Rodríguez, 2016).

⁵⁷ This can increase payment rates by up to 4% (Hallsworth et al., 2014).

control.⁵⁸ In Latin America, these areas have been strengthened, especially in Brazil and Uruguay.⁵⁹ Additionally, tax and customs administrations have begun reviewing their operational processes in light of the rise of digitalization, and massive flows of available information (see OECD, 2016).⁶⁰ Moreover, implementation of electronic invoicing generates detailed information on transactions, which facilitates effective, real-time risk control and increases collection (Barreix and Zambrano, 2018).

- 1.36 **Coordination with other international organizations.** Several bilateral technical meetings were held with the International Monetary Fund (IMF), the World Customs Organization (WCO), the European Union Delegation to Colombia, and Belgium's customs administration, among others, in order to discuss best practices and information technology issues. Coordination with these agencies will be maintained throughout program execution.
- 1.37 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy 2020-2024 (document AB-3190-2). It is strategically aligned with the development challenge of economic integration, as it aims to strengthen customs management in Colombia, which will help reduce processing times for international trade of goods and services. It is also aligned with the crosscutting areas of: (i) institutional capacity and rule of law, as it aims to strengthen the DIAN in terms of quality of and access to services that facilitate tax payment and foreign trade transactions; and (ii) climate change and environmental sustainability, through the reduction of greenhouse gas emissions as a result of the procurement of energy-efficient equipment. In all, 1.40% of the operation's resources will be invested in climate change mitigation activities, according to the [joint methodology of the multilateral development banks for estimating climate finance](#). These results contribute to the IDB Group target of increasing financing for projects related to climate change to 30% of all approvals by the end of 2020. The program also contributes to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the following indicators: (i) public agencies' processing times of international trade of goods and services; (ii) percent of GDP collected in taxes; (iii) professionals from public and private sectors trained or assisted in economic integration; and (iv) government agencies benefitted by projects that strengthen technological and managerial tools to improve public service delivery. It is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), with regard to revenue mobilization capacity. It is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), in terms of improving fiscal equity, and the Integration and Trade Sector Framework Document (document GN-2715-11), with regard to modernization of customs administrations. The program is aligned with the IDB Group Country Strategy with Colombia (2019-2022) (document GN-2972), specifically the strategic objectives to support a fiscal compact to improve State

⁵⁸ See: Carballo, Graziano, Schaur, and Volpe Martincus, 2016a, 2016b, 2016c; and Carballo, Schaur, and Volpe Martincus, 2016a, 2016b).

⁵⁹ [Project Completion Report \(PCR\), loan 1783/OC-UR](#). Barreix and Zambrano (2018). Electronic Invoicing in Latin America, IDB.

⁶⁰ Advanced Analytics for Better Tax Administration (OECD, 2016).

revenues and reduce barriers to integration, and is included in the Update to Annex III of the 2020 Operational Program Report (document GN-2991-3).

- 1.38 **Innovation.** In terms of additionality, the program incorporates new technologies through: (i) the use of hybrid multicloud services (paragraph 1.47); (ii) implementation of a Security Operations Center (paragraph 1.32); and (iii) a model for tax and customs control that is based on risk management, including the use of electronic invoicing data and artificial intelligence (paragraph 1.28).

B. Objectives, components, and cost

- 1.39 The general objective of the program is to improve the effectiveness and efficiency of the DIAN's tax and customs management. The specific objectives of the first operation are to: (i) improve the institutional governance model in order to increase the effectiveness of tax and customs management; and (ii) improve the efficiency of technology management. In order to achieve these objectives, the program includes the following components:

- 1.40 **Component 1. Institutional organization and human resources (US\$26.2 million).** The objective is to provide the DIAN with a structure and staff that are compatible with its role of collecting taxes and facilitating foreign trade, drawing from successful experiences around the world. It includes:

1.41 **Subcomponent 1.1 – Strengthening strategic planning and institutional structure.**

- a. Implement a new organizational structure. This includes: (i) re-engineering of business and administrative macro processes with balanced control sections; (ii) a methodology for formulating, controlling, and evaluating the strategic plan using balanced management dashboards throughout the country; and (iii) a system for monitoring strategic indicators, including technological support infrastructure.⁶¹
- b. Implement a communications plan for change management and a new institutional culture. This includes: (i) an organizational communications plan for internal and external dissemination of cultural change; (ii) brand building and campaigns for internal and external dissemination of the renewed corporate image; and (iii) upgrades to physical infrastructure used for taxpayer assistance at head offices, and designs for upgrading and constructing buildings.⁶²

1.42 **Subcomponent 1.2 – Updating the human resources model.**

- a. Implement a skills-based human resources management model.⁶³ This includes: (i) a plan to re-engineer human talent in order to prioritize professional development and continuous training, based on competitive hiring and promotion processes; (ii) a technological tool for human talent management; (iii) profile mapping, as well as implementation and

⁶¹ It includes: work stations (furniture) and computer equipment with the highest level of energy efficiency.

⁶² For this phase, upgrades include redesigning the offices in the building for large taxpayers in the city of Bogota. It also includes the construction design costs for the buildings. The second phase of the program will provide financing to remodel at least nine head office buildings.

⁶³ New staff will be recruited through a competitive process.

dissemination of skills-based roles, including workload measurement; (iv) performance evaluation methodology and results-based incentives; (v) reformulation of the code of ethics and an approach for in-person and virtual training and dissemination activities; and (vi) training for internal control units, including a review of process audit methodologies.

- b. Implement a plan for strengthening the School of Higher Studies for Tax, Customs, and Exchange Administration. This includes: (i) physical upgrades and equipment for the school in order to support the recruitment program; and (ii) design of a curriculum and training program in order to support competitive hiring processes.

1.43 **Component 2. Tax and customs control and compliance (US\$21 million).** The objective is to provide the DIAN with operational processes that are in line with international best practices. This component will oversee the optimization of tax and customs management processes to increase their efficiency in terms of increased revenue and enhanced risk management. It includes:

1.44 **Subcomponent 2.1 – Optimizing processes for managing domestic taxes and customs duties.**

- a. Establish a tax and customs control model based on risk management. The model will include: (i) a process for generating and maintaining the taxpayer risk matrix and using it for audits, with special focus on large taxpayers; (ii) a process for conducting audits using single digital taxpayer records; (iii) strategies for improving large-scale control of domestic taxes, including collection, as well as for strengthening customs audits; (iv) systems that support risk management for tax and customs control; and (v) a strategy for prosecuting tax and customs offenses.⁶⁴
- b. Establish a model for integrating electronic invoicing into DIAN control processes. This includes: (i) a tax control and audit process that uses electronic invoicing information; (ii) a refund control process that uses electronic invoicing information; (iii) a proposal for implementing factoring; (iv) a proposal for implementing prefilled VAT returns; and (v) a proposal for structuring electronic invoicing for foreign trade.
- c. Create a model for preparing a prefilled income tax return. This will include: (i) a procedure for processing basic information in order to prepare a prefilled form; (ii) a process for crosschecking and challenging basic information and tax returns; and (iii) a process for providing assistance with income tax returns.

1.45 **Subcomponent 2.2 – Improving traceability and customs control processes.**

- a. Manage cargo movement using new technologies. This includes functional design of the traceability system.
- b. Strengthen the cargo and passenger monitoring and control center. This will include: (i) review of the operations plan for the monitoring and control center; (ii) a system for integrating, using, and leveraging all sources of tax and

⁶⁴ Under the new structure, units will be created in order to investigate and prosecute tax and customs offenses.

customs information; (iii) technological equipment;⁶⁵ (iv) physical upgrades; (v) a system for receiving, storing, and processing advanced passenger information submitted by airlines and its interoperability with immigration and other government agencies; (vi) equipment for modernizing and strengthening passenger processing;⁶⁶ and (vii) design of internal operation protocols and interagency protocols in order to respond to alerts on foreign trade operations and passenger entry and departure. For effective implementation, the DIAN will release the standards that the new customs management platform will use to establish a consistent horizon for development of the new system with the adjustments private sector users will have to make. Moreover, the DIAN is coordinating with other government institutions that take part in the customs process (paragraph 3.4) (e.g., Ministry of Trade, Industry, and Tourism, the agency responsible for the Single Foreign Trade Window).

- c. Modernize control processes and physical and technological infrastructure at ports of entry. This includes: (i) a plan for functional design of processes, infrastructure needs, and technological equipment for control and facilitation;⁶⁷ (ii) proposed technical specifications for new technologies; (iii) an equipment procurement plan (e.g. density meters, radiation detectors, etc.); (iv) a plan for reconfiguring logistics processes and physical upgrades for clearance of goods for the postal service, as well as a courier service for a logistics center at El Dorado International Airport; (v) an equipment plan for the new customs office at the logistics center (conveyor belts, scanners, etc.); (vi) development of a canine unit; (vii) contingency plans; and (viii) dissemination and coordination activities with public and private entities.
- d. Strengthen the economic operator support system and early declaration mechanism, including: (i) automated management of AEO certification and implementation of mutual recognition agreements; (ii) dissemination and training activities for increasing the number of certified operators, as well as inclusion of the entire logistics chain; and (iii) actions for increasing management capacity of customs facilitation and security programs.

1.46 **Component 3. Technology platform, data, and information security (US\$192.7 million).**⁶⁸ This component includes actions for digital transformation of the DIAN so that management is based on timely, quality information. It includes:

1.47 **Subcomponent 3.1 – Strengthening the technology platform in order to streamline the tax and customs cycle.**

- a. Develop a Strategic Plan on Information Technology (PETI) including: (i) a maintenance strategy for the technology platform and integrated systems; and (ii) a strategy encompassing all critical activities for deploying IT instruments.

⁶⁵ This includes computer equipment, security and communications systems, and other support systems with the highest level of energy efficiency.

⁶⁶ Nonintrusive baggage inspection equipment.

⁶⁷ This includes the design for border crossings, which are a milestone for advancing to the second phase of the program (paragraph II.2.6).

⁶⁸ Once this component is implemented, the annual cost of IT will increase from US\$24.5 million (2018) to US\$38.3 million. During the transition period, the annual cost could be higher, since the old and new systems will be used simultaneously.

- b. Establish a platform based on modern technology (Platform as a Service (PaaS)), which includes: (i) support for assessing the current platform's status, as well as preparation and implementation of a strategy for migrating to the new platform; (ii) hybrid cloud service (public and private, container-based)⁶⁹ for the entire platform of applications and institutional services, and for a single data repository,⁷⁰ which includes storage, communication, security, application processing, software licenses, updates, and support; and (iii) equipment and cabling, LAN network, VoIP equipment, WAN, surveillance cameras, physical access controls, and control room upgrades.
 - c. Implement a comprehensive management system for domestic taxes and customs duties, which includes the following subsystems:
 - 1. Domestic taxes and shared services subsystem – modules: (i) registration; (ii) taxpayer returns and monitoring; (iii) payment and refund processing; (iv) taxpayer current accounts and revenue accounting; (v) collection; (vi) supervision and auditing; (vii) appeals and remedies; (viii) taxpayer services; (ix) risk management; (x) support processes; and (xi) information exchange.
 - 2. Customs subsystem – modules: (i) preclearance; (ii) clearance; (iii) postclearance; (iv) interoperability with other government agencies, foreign trade users, and the cargo traceability system; (v) passenger processing; (vi) risk management; and (vii) support processes.
 - 3. Digital services subsystem: (i) procedures and services for taxpayers and users; (ii) procedures and internal formalities; (iii) a catalogue of procedures and services; and (iv) document management and digitalization.
 - d. Establish a data governance model, including: (i) a diagnostic assessment and proposed model; (ii) information flow manuals; (iii) a policy on data access, use, and processing; and (iv) creation of a data management office.
 - e. Introduce data architecture and a single repository for all information assets, including electronic invoicing. These will include: (i) design of data architecture; (ii) implementation of a single repository; (iii) development of instruments for information mining and analytics; and (iv) preparation of courses for developing capacity for processing high volumes of data and analytics.
 - f. Establish an office for technological projects, including design, management, and control of projects for digital transformation of the DIAN.
- 1.48 **Subcomponent 3.2 – Establishing a strategy for information security (internal) and cybersecurity (external).**
- a. Establish a conceptual and regulatory framework for information security, including: (i) preparation of a diagnostic assessment of the current situation, future situation (based on Subcomponent 3.1), and transition period, and proposal of a new framework consistent with the PETI; (ii) development of

⁶⁹ In the event of a malfunction, container technology restores applications quickly and carries out continuous integration processes.

⁷⁰ Mexico was used as a reference for determining this cost, as it also uses cloud services.

security policy manuals; (iii) establishment of the framework, including awareness campaigns; and (iv) dissemination of information security and cybersecurity instruments.

- b. Establish an access control system for the entire DIAN, including: (i) a unified access mechanism; (ii) identity federation mechanisms; and (iii) access audit mechanisms.
 - c. Implement an identity control system (identity governance), including: (i) automation of user provisioning flows in different applications and services; (ii) a self-service functionality for generating users based on authorization flows and security policies; (iii) instruments for ensuring compliance with identity policies; and (iv) a functionality for sharing identities with public and private cloud services.
 - d. Establish a database backup model, including: (i) user-based traceability integrated into access control and application use, network segments, or domains; (ii) mechanism to protect against exhaustive database queries (bots); and (iii) a mechanism to prevent viewing of sensitive information based on user roles.
 - e. Establish a Security Operations Center (SOC) and Computer Security Incident Response Teams (CSIRT) for monitoring and operating IT security instruments, including: (i) information security and event management software; (ii) hiring of SOC-CSIRT staff; and (iii) expansion of technological support instruments for information security (servers, intrusion prevention system (IPS), firewalls, web application firewall).
- 1.49 **Beneficiaries.** The main beneficiaries will be: (i) taxpayers, due to the facilitation of tax and customs services; (ii) the Colombian government, which will have more resources for financing public policies; and (iii) the Colombian population, who will benefit from these policies.
- 1.50 **Program administration.** In all, US\$4,583,000 has been budgeted for the operating expenses of the project coordination unit (PCU), audits, final evaluation, and fiduciary administrator costs.⁷¹ A total of US\$5,500,723 has been reserved for contingencies.

C. Key results indicators

- 1.51 The impact indicator is tax revenue as a percentage of GDP. The outcome indicators are: (i) strategic targets achieved out of total strategic targets defined; (ii) the number of administrative career employees out of total DIAN employees; (iii) taxpayers (individuals) registered in the Single Tax Registry (RUT) out of the economically active population; (iv) the number of returns filed on-time for legal entities out of total expected returns for this tax; (v) the number of audits with adjustments out of total audits conducted; (vi) the number of import operations with findings out of total import operations selected for physical inspection; (vii) clearance time for imported goods; (viii) total downtime of digital services

⁷¹ Technical cooperation will be provided to strengthen technical evaluation of consulting services, including: (i) designing the technology platform and information security strategy; and (ii) the new human resources model, training on data analytics, risk models, and taxpayer services.

aimed directly at users; and (ix) average delivery time for technology applications requested by user areas.

- 1.52 **Economic analysis.** The [cost-effectiveness analysis](#) shows that, with the implementation of the first phase of the program, the DIAN will have more effective taxpayer management than without the program. This conclusion is based on the estimated reduction in annual IT costs for taxpayer management, the average of which goes from US\$4.33 in the status quo scenario without the program, to US\$2.39 in a scenario with the program. In addition, the cost to manage a new taxpayer (incremental cost) will be just US\$1.33 after implementation of the first phase of the program. The costs considered for the analysis include the direct investment costs financed for the first phase of the program (annualized), as well as the annual maintenance costs to be incurred as a result of the new technology platform.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 The instrument that the Bank will use to provide support is a sovereign guaranteed specific investment loan that will be structured as a multiphase program of US\$500 million, financed from the Bank's Ordinary Capital. The program consists of two phases of US\$250 million each, which will: (i) provide long-term support to the DIAN so that it can execute its modernization program, which will require more than one project cycle to complete; (ii) use these interdependent phases to position the DIAN as an entity for facilitating and strengthening voluntary tax and customs compliance, thereby boosting foreign trade through better management; and (iii) drive fulfillment of critical program targets that will trigger the second phase of the program (paragraph 2.6). The program meets the eligibility criteria for a multiphase program (documents GN-2085-2 and GN-2564-3),⁷² particularly with regard to alignment with the IDB Group Country Strategy with Colombia 2019-2022 (document GN-2972) (paragraph 1.37).
- 2.2 The first phase of the program will lay the groundwork for addressing challenges that the DIAN is facing in terms of its organization, human resources, technology, and management processes, in order to improve tax and customs control. In this phase, resources are distributed across components as follows:

⁷² According to the Proposed Amendments to the Conditional Credit Line for Investment Projects (CCLIP) and the Multi-Phase Program Loans (document GN-2246-13), individual multiphase loan operations already declared eligible before 1 January 2020, will continue to be processed and approved in accordance with Bank's applicable procedures. This operation continued to be processed as a multiphase program since it was declared eligible on 13 June 2019.

Table 1. Estimated program costs (US\$)

Categories	Bank	%
1. Direct costs	239,916,277	96.0
Component 1. Institutional organization and human resources	26,160,466	10.5
Subcomponent 1.1. Strengthening strategic planning and institutional structure	18,948,243	7.6
Subcomponent 1.2. Updating the human resources model	7,212,223	2.9
Component 2. Tax and customs control and compliance	21,024,211	8.4
Subcomponent 2.1. Optimizing processes for managing domestic taxes and customs duties	8,554,702	3.4
Subcomponent 2.2. Improving traceability and customs control processes	12,469,510	5.0
Component 3. Technology platform, data, and information security	192,731,600	77.1
Subcomponent 3.1. Strengthening the technology platform in order to streamline the tax and customs cycle	174,431,600	69.8
Subcomponent 3.2. Developing a strategy for information security (internal) and cybersecurity (external)	18,300,000	7.3
2. Administrative and technical management costs	3,083,000	1.2
3. Fiduciary administrative costs	1,500,000	0.6
4. Contingencies	5,500,723	2.2
Total	250,000,000	100

2.3 The disbursement period will be five years, as follows:

Table 2. Disbursement schedule (US\$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	25,914,585	55,126,227	68,804,554	54,930,437	45,224,197	250,000,000
%	10.4	22.1	27.5	22	18.1	100

- 2.4 The second phase will allow the Bank to supplement the modernization activities for the DIAN, through the expansion and cons
- 2.5 Oolidation of applications, tools, and technological developments that will facilitate tax and customs compliance at the national level (e.g. equivalent electronic documents, fintech payment models, cryptocurrency, digital tax information, automated customs clearance, strengthening new analytics projects, big data, etc.). Continued support will also be provided to optimize the DIAN's foreign trade control and facilitation capacities by modernizing border checkpoints and implementing advanced technologies for goods and passenger clearance. Financing will continue to be provided to upgrade physical spaces, as well as to review and update governance and human resource models started in the first phase. The additional expected impacts include greater facilitation of voluntary compliance by taxpayers and in foreign trade, and the expansion of the DIAN's audit capacities in areas not covered by the first phase.
- 2.6 **Triggers for the second phase.** The borrower will provide the Bank with evidence that: (i) at least 30% of the first operation's total funds have been disbursed;⁷³ (ii) designs have been prepared for upgrading and building new buildings financed in the second phase of the program (paragraph 1.25); (iii) final designs of the DIAN facilities for program-financed border checkpoints have been prepared (paragraph

⁷³ This percentage mainly corresponds to the cost of implementing and operating the hybrid cloud solution.

1.29); and (iv) infrastructure for hybrid cloud processing, storage, and communications is implemented and operational (paragraph 1.31). The required means of verification will be a report from the DIAN indicating that these milestones have been reached, based on the corresponding outputs described in the [monitoring and evaluation plan](#).

B. Environmental and social risks

- 2.7 According to the Environment and Safeguards Compliance Policy (Operational Policy OP-703), the program has been classified as a Category “C” operation. The program will help strengthen tax processes through systems development and institutional strengthening. No environmental or social risks are anticipated.

C. Fiduciary risks

- 2.8 High risk of potential delays in hiring the staff required for the execution mechanism. The DIAN does not have sufficient human resources for executing the program and that have experience with IDB-financed programs. This risk will be mitigated by designating or hiring a fiduciary entity. Additionally, two medium risks were identified: (i) the lack of adequate accounting and financial control for execution of program resources. This will be mitigated by validating and adapting a program accounting system; approving Operating Regulations that define and formalize coordination, roles, and information flows between the DIAN and the fiduciary entity; and designing an accounting manual; and (ii) delays in requesting disbursement and procurement processing. This will be mitigated by creating a PCU; hiring the specialists required for the execution mechanism; and providing training on Bank policies and procedures.

D. Other risks

- 2.9 The following risks were identified:
- a. **Fiscal sustainability (medium risk).** The dynamics of the economy and external conditions have a high degree of uncertainty due to COVID-19, which could impact growth and fiscal sustainability. Nonetheless, to date, the growth projections by the IMF and private analysts are positive for 2021. Although the program cannot mitigate this risk, program activities aim to help Colombia adequately prepare to face adverse shocks to the economy by strengthening tax collection and expanding the tax base.
 - b. **Development (high risk).** The following were identified: (i) insufficient capacity for carrying out institutional modernization (e.g. preparing terms of reference and technical specifications for computer systems), which would delay project implementation. This will be mitigated by carrying out regular missions to manage and supervise the operation, and by hiring a specialized consulting firm to assist DIAN staff in preparing the terms of reference and technical specifications, and provide technical support during the project; and (ii) the inability to implement program outputs in the desired manner, due to the lack of specialized human resources in the relevant work areas. This will be mitigated by preparing skills-based profiles in order to attract the necessary human resources through competitive entry and promotion processes; and providing training on institutional, management, tax, customs, and technology issues.

- c. **Sustainability (medium risk).** The following were identified: (i) delays in implementing IT strategy activities during the project and after project completion, due to the lack of financial resources and a maintenance strategy. This could lead to interoperability issues with systems that are still in use; discontinuation of new DIAN processes; and damage to the implemented technology infrastructure. This risk will be mitigated by implementing ongoing training programs; inserting a clause in the system provider contract that includes long-term maintenance support; and establishing the technology platform with a cloud environment, thereby eliminating the need to maintain a computing center, as well as the risk of damaging equipment and systems. (ii) Setbacks in the modernization process due to the fact that the operation's execution period will extend beyond the current Colombian president's term in office, and a new government may have other priorities or little interest in completing this program operation. This will be mitigated by amending the decrees on the DIAN's organizational and career civil service structure in order to make the suggested changes permanent. Although the second operation would be approved under a new government, the program's institutional commitment remains evident with the approval of the FDC by means of Law 1955 of 2019 and the approval of the fiduciary entity that will support program execution, thus enabling the program's continuity over the medium and long terms.
- d. **Public management and governance (high risk).** The following were identified: (i) insufficient governance capacity in the DIAN for coordinating the areas involved in the project (registration, collection, tax recovery, taxpayer assistance, audits, economic studies, and administrative areas). This will be mitigated by developing a strategy for coordination between the PCU and the areas involved in the program; and (ii) the inability to mitigate the reaction of staff and trade unions to organizational and operational changes, thereby preventing the desired institutional change from being achieved. This will be mitigated by adopting a change management model that will be implemented throughout project execution in order to improve communication and reduce resistance to change, namely with the government, employees, taxpayers, business people, and the general public.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and execution mechanism.** The operation's borrower will be the FDC (paragraph 1.20),⁷⁴ which will act through the fiduciary entity as its legal representative.⁷⁵ The borrower will be responsible for repaying the loan to the Bank, using the resources allocated to it by the national government in the general budget of the nation. Pursuant to national legislation, the Republic of Colombia will be the guarantor solely of the borrower's financial obligations. The executing agency will be the DIAN, through the formation of a PCU that will be used exclusively for purposes of the program.
- 3.2 The general governance structure is comprised of the FDC management board (which is responsible for establishing strategic guidelines for execution of resources), the fiduciary entity, and the DIAN. The DIAN will be responsible for authorizing the FDC's expenditures and for coordinating the program's execution and technical supervision. The fiduciary entity will be responsible for holding and transferring resources; entering into contracts for works, goods, and consulting services; and making relevant payments, in accordance with the guidelines that it receives from the DIAN. The roles, responsibilities, and obligations of the DIAN and the fiduciary entity will be formalized in Operating Regulations that will be approved by the FDC Management Board.
- 3.3 The DIAN will be responsible for the program's technical, administrative, and operational execution, including general coordination and resource management. The PCU will be created within the DIAN's structure and will be comprised of the designated minimum number of full-time key staff: a general coordinator, a procurement specialist, a financial and administrative specialist, and a planning and monitoring specialist. The PCU is also expected to hire other specialists to support its functions, including an IT specialist, a tax specialist, and a customs specialist, as established in the program Operations Manual. Individuals will be hired or designated to the PCU team with the Bank's prior no objection. The PCU's responsibilities include the following: (i) prepare and regularly update the multiyear execution plan, the annual work plan (AWP), the procurement plan, and the financial/cash flow plan; (ii) carry out the selection processes for works, goods, and consulting services; (iii) support the supervision of the works, as well as program monitoring and evaluation; (iv) provide financial management of the program, including preparation of supporting documentation for disbursement requests,

⁷⁴ The FDC was created as a stand-alone trust fund (patrimonio autónomo) administered by the MHCP or such other entity or entities as the MHCP may designate. The objective of the FDC is to finance and/or invest in the DIAN's modernization program. In order to achieve this goal, the FDC is authorized to engage in external financing operations on its own behalf, which are sovereign guaranteed. This mechanism follows a similar model of structuring and execution used in the Water, Basic Sanitation, and Electrification Program for the Colombian Pacific Region as part of the "Plan Todos Somos PAZcífico" (loan 3610/OC-CO), currently in execution.

⁷⁵ MHCP Decree 1949 of 2019 regulating Article 55 of Law 1955 of 2019 establishes that the administration of the FDC will be the responsibility of an entity devoted to executing the Fund's resources and managing its expenditures (executing entity), and an entity that holds and transfers its resources, acting as the Fund's spokesperson and representative, which will be the Fiduciary Entity. Pursuant to DIAN Resolution 2562 of 2020, the Fiduciary Entity is Consorcio Fondo DIAN para Colombia 2020.

verification of expenditures, and submission of financial reports required by the Bank; and (v) submit the project evaluation.

- 3.4 **Coordination mechanism.** The PCU will be responsible for technical coordination of each component with the DIAN's different operational areas, in accordance with the detailed responsibilities set forth in the program's Operations Manual. The Operations Manual will incorporate all of the procedures that will be used during execution, including: (i) a detailed execution mechanism; (ii) the institutional roles and responsibilities of the offices involved; (iii) an intervention strategy for the various phases of the program execution cycle; (iv) rules and procedures for selection and procurement of works, goods, and services; (v) rules and procedures for financial management; (vi) procedures for monitoring; and (vii) an execution mechanism for the monitoring and evaluation plan. The DIAN will be asked to designate liaisons within the offices involved in the program, who will participate in semiannual coordination meetings called by the PCU with the frequency to be determined. The program's Operations Manual will include the mechanism for the DIAN's strategic coordination with other institutions, placing special attention on coordination of the customs/single window process with the Ministry of Trade, Industry, and Tourism (paragraph 1.29).
- 3.5 **Special contractual conditions precedent to the first disbursement of the loan.** Through the DIAN, the borrower will provide evidence of: (i) approval by the FDC's management board of the Operating Regulations defining the relationship between the fiduciary entity and the DIAN, as well as their respective roles and responsibilities; (ii) selection of key staff in the PCU, including the coordinator, procurement specialist, financial and administrative specialist, and planning and monitoring specialist; and (iii) approval of the [program Operations Manual](#), in accordance with the terms agreed upon with the Bank. These conditions are necessary to ensure operational and institutional responsibility considerations that are required for the project's launch and orderly execution.
- 3.6 **Procurement of works, goods, consulting services, and nonconsulting services.** Procurement that is financed in whole or in part using Bank resources will be carried out in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), or any updates thereto. The procurement plan contains details on the procurement that will be carried out during program execution.
- 3.7 **Waiver of the Policy on Guarantees Required from the Borrower (Operational Policy OP-303).** Management is asking that the Board of Executive Directors approve a partial waiver of the Policy on Guarantees Required from the Borrower (Operational Policy OP-303), which would allow the Republic of Colombia to guarantee solely the financial obligations of the loan contract that will be signed by the Bank and the borrower. According to the Policy on Guarantees Required from the Borrower, joint and several guarantees are required (financial and performance obligations). A waiver is being requested because Law 80 of 1993 on the

Administrative Procurement Act establishes that the Republic of Colombia can only guarantee payment obligations and not performance obligations.⁷⁶

- 3.8 Disbursements will be made in the form of advances of funds, based on liquidity needs for a maximum period of six months. Advances of funds will be accounted for as established in the Financial Management Guidelines for IDB-financed Projects (document OP-273-6), or whichever policy is in effect during execution. With the exception of the first advance, at least 80% of the cumulative amount of all funds received must be accounted for prior to further disbursements. The disbursement request must be accompanied by cash flow projections, special account reconciliation, and the implementation status of technical and fiduciary performance commitments.
- 3.9 **Audits.** The program's financial statements will be audited annually by an independent audit firm acceptable to the Bank, no more than 120 days after the close of each fiscal year during the original disbursement period or any extension thereof, if necessary. The final audited financial statement will be submitted no more than 120 days after the stipulated date for the last disbursement, in accordance with procedures and the terms of reference previously agreed upon with the Bank.

B. Summary of arrangements for monitoring results

- 3.10 **Monitoring.** This will be based on: (i) the [multiyear execution plan](#) and [AWP](#); (ii) the [procurement plan](#); (iii) the Results Matrix; and (iv) the [monitoring and evaluation plan](#). The PCU will prepare semiannual progress reports on fulfillment of the outcome, product, and financial targets for approval by the Bank, which will conduct inspection visits and ex post reviews as part of project monitoring. The Bank will use the semiannual reports to update the progress monitoring report (PMR).
- 3.11 **Evaluation.** The project will be evaluated in accordance with the annual targets and indicators for the outcomes and outputs in the Results Matrix. The [monitoring and evaluation plan](#) includes a final independent evaluation. The borrower will prepare and submit a final evaluation report to the Bank that will be used as an input for the project completion report, no more than 90 days after the date upon which 95% of the loan proceeds have been disbursed.
- 3.12 The program includes a two-stage evaluation that uses quasiexperimental and experimental elements in order to identify improvements and automation of tax control processes, as well as risk management in audits. During the first stage, information will be automated in order to reduce the time spent by auditors in preparing cases, which will have an impact on the number of audits conducted (extensive margin). During the second stage, data analytics will be used on the information provided to auditors in order to make audits more effective through better case selection and capacity for detecting inconsistencies in the cases selected (intensive margin). This will be used to produce evidence that measures: (i) the impact on VAT collection of the new strategy for information automation, risk

⁷⁶ The Bank's Board of Executive Directors has approved similar waivers for Colombia in sovereign guaranteed loan operations (loans 3610/OC-CO, 2768/OC-CO, 2983/TC-CO, 2120/OC-CO, 3003/TC-CO, 2949/OC-CO, and 3661/TC-CO).

management, and data analytics tools in auditing processes; and (ii) the impact on tax collection of audits that use automated information and risk profiles from the new data management strategy.

Development Effectiveness Matrix		
Summary		CO-L1245
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Economic Integration -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Public agencies' processing times of international trade of goods and services * -Percent of GDP collected in taxes (%) -Professionals from public and private sectors trained or assisted in economic integration (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2972	(i) support a fiscal compact to improve State revenues; and (ii) reduce barriers to integration.
Country Program Results Matrix	GN-2991-3	The intervention is included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		
		Evaluable
3. Evidence-based Assessment & Solution		10.0
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		2.2
4.2 Identified and Quantified Benefits and Costs		3.3
4.3 Reasonable Assumptions		0.0
4.4 Sensitivity Analysis		2.2
4.5 Consistency with results matrix		1.4
5. Monitoring and Evaluation		10.0
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		7.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Monitoring and Evaluation National System, Statistics National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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		

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

Evaluability Assessment Note: The general aim of the program is to improve the effectiveness and efficiency of the tax and customs administration of DIAN. The proposal defines two specific objectives, namely: (i) improve the model of institutional governance that contributes to the effectiveness of tax and customs management; and (ii) improve the efficiency of Technology management.

The proposal diagnoses some inefficiencies in tax and customs administration and inefficiencies in the revenue collection. The team highlights that DIAN faces high costs of exchanging and effectively processing information; obsolete rules to hire, manage and retain personnel, and a dated technological platform. Quantification of those problems/needs are provided, and their magnitudes are expressed. To address those problems the plan proposes organizational, managerial, operational reforms and funding investments in software, hardware, and other technologies.

The vertical logic of the program is clear with components (products) loading conceptually on the achievement of specific results, which are properly associated with the fulfillment of the general development objective posed by the program. There is a weak causal empirical basis connecting the institutional and technological reforms that the program proposes with the expected results of the program. To fill that gap the program contemplates an impact evaluation to identify the causal impact of the program on the tax collection and evasion practices. Quasi-experimental and experimental evaluations will allow quantifying how the processes of information automation, analytical tools based on FE data, and the new risk management mode affect collections and tax evasion.

The project presents a cost-effectiveness analysis that compares the strength of the DIAN without the project and with the project. The analysis concludes that, with the implementation of the project, DIAN will have a more effective IT management than without a project, proven by the reduction of the IT cost to manage a taxpayer of USD4.33 without a project for USD2.12 with a project. Monitoring relies on official reports. Monitoring and evaluation costs are properly quantified.

The DLP narrative and the results matrix (approved by OPC in 2019) have both been updated to reflect the year 2020 as the start of the project. No changes in the program objectives have been made since the board approved the program in 2019.

RESULTS MATRIX

Project objective:	The general objective of the program is to improve the effectiveness and efficiency of tax and customs management of the National Tax and Customs Directorate (DIAN). The specific objectives of the first operation are to: (i) improve the institutional governance model in order to increase the effectiveness of tax and customs management; and (ii) improve the efficiency of technology management.
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EXPECTED IMPACT

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
IMPACT 1: Increased tax and customs collection by the central government as a percentage of gross domestic product (GDP)											
Tax revenue / GDP	%	13.9	2019	13.4	14.1	14.3	14.5	14.5	14.5	DIAN tax collection report	Calculation formula: Net tax revenue collected by the DIAN / GDP

EXPECTED OUTCOMES¹

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Outcome 1: Improved efficiency of tax and customs administration, through the new institutional governance model											
1.1 Strategic targets achieved/total strategic targets defined ²	%	33	2018	33	33	50	70	80	80	National Evaluation System report	Calculation formula: Strategic targets achieved / strategic targets defined
1.2 Number of administrative career employees / Total number of DIAN employees	%	53.9	2019	53.9	55	58	61	65	65	Directorate of Resource Management and Economic Administration (DGRAE) report	Calculation formula: Administrative career employees / DIAN employees
1.3 Taxpayers (individuals) in the Single Tax Registry (RUT) / economically active population	%	59.1	2019	60	60	62.5	64	65	65	Report from the DIAN's Subdirectorate for Customer Assistance Management	Calculation formula: Taxpayers (individuals) in the RUT / economically active population

¹ The expected outcomes are cumulative. For details on how baselines were calculated, see the [monitoring and evaluation plan](#).

² The strategic targets are: (i) new taxpayers of income tax; (ii) the proportion of underinvoicing and open smuggling in legal imports; (iii) ports that have nonintrusive inspection equipment; (iv) DIAN gross tax intake; (v) DIAN net tax intake; (vi) gross tax intake as a percentage of GDP; (vii) collection by DIAN management; (viii) VAT evasion rate; and (ix) import clearance times.

EXPECTED OUTCOMES¹

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
1.4 Number of income tax returns filed on time by legal entities / Total number of income tax returns expected from legal entities	%	53.7	2019	54.4	54.4	56	58	60	60	Report from the Revenue Management Directorate (DGI)	Calculation formula: Income tax returns filed on time by legal entities / Income tax returns expected from legal entities
1.5 Number of audits with adjustments / Total number of audits conducted	%	52.9	2019	55	57	59	62	65	65	Report from the Audit Management Directorate (DGF)	Calculation formula: Audits with adjustments / Audits conducted
1.6 Number of import operations with findings / Total number of import operations selected for physical inspection	%	9.2	2019	9.7	9.7	12	25	40	40	Reports from the Customs Management Directorate (DGA)	Calculation formula: Import operations with findings / Import operations selected for physical inspection
Outcome 2: Improved efficiency of DIAN's technology management											
2.1 Clearance time for imported goods	Hours	22	2019	21	19	18	17	16	16	DGA report	Calculation formula: Average number of hours from acceptance of the import declaration to release of the goods
2.2 Total downtime of digital services directed towards users	Hours	63.24	2019	63.24	63.24	51.84	38.88	25.92	25.92	Report from the Subdirectorato de Operations	Calculation formula: Total number of hours of downtime per month of the applications in the 36 services provided to citizens
2.3 Average delivery time of technological applications requested by user areas	Days	365	2019	365	365	250	180	120	120	Report from the Subdirectorato de Solutions and Development	Calculation formula: Average time from approval of the functional request to acceptance of product delivery by user

OUTPUTS³

Outputs	Unit of measure	Base- line	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification
Component 1. Institutional organization and human resources										
Subcomponent 1.1 – Strengthening strategic planning and institutional structure										
1.1.1 New DIAN organizational structure implemented	Structure	0	2019			1			1	DGRAE report
1.1.2 Communications plan for change management and new institutional culture implemented	Plan	0	2019					1	1	
Subcomponent 1.2 – Updating the human resources model										
1.2.1 Skills-based human resources management model implemented	Model	0	2019					1	1	DGRAE report
1.2.2 Plan to strengthen the School of Higher Studies for Tax, Customs, and Exchange Administration implemented	Plan	0	2019					1	1	
Component 2. Tax and customs control and compliance										
Subcomponent 2.1 – Optimizing processes for managing domestic taxes and customs duties										
2.1.1 Risk management-based model for tax and customs control established	Model	0	2019				1		1	DGF report
2.1.2 Model for incorporating electronic invoicing into DIAN control processes established		0	2019				1		1	DIAN report
2.1.3 Model for preparing prefilled income tax returns implemented	Model	0	2019					1	1	DGI report
Subcomponent 2.2 – Improving traceability and customs control processes										
2.2.1 System for traceability and management of cargo movement implemented	System ⁴	0	2019			1			1	DGA report
2.2.2 Cargo and passenger monitoring and control center implemented	Center	0	2019			1			1	

³ Outcomes are annual. For the milestones associated with each output, see the [monitoring and evaluation plan](#).

Outputs	Unit of measure	Base-line	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification
2.2.3 Plan to modernize processes and physical and technological infrastructure at ports, airports, and border crossings developed	Plan	0	2019					1	1	
2.2.4 System to support the authorized economic operator (AEO) program implemented	System ⁴	0	2019			1			1	
Component 3. Technology platform, data, and information security										
Subcomponent 3.1 – Strengthening the technology platform in order to streamline the tax and customs cycle										
3.1.1 Strategic Plan on Information Technology (PETI) established	Plan	0	2019		1				1	Organizational Management Directorate (DGO) report
3.1.2 Technology platform established	Software	0	2019					1	1	
3.1.3 Integrated management system for domestic taxes, shared services, customs, and digital services implemented		0	2019					1	1	
3.1.4 Data governance model implemented	Model	0	2019					1	1	
3.1.5 Data architecture and single repository for information assets, including electronic invoicing, implemented	Model and software	0	2019			2			2	
3.1.6 Office of Technology Projects set up	Office	0	2019					1	1	
Subcomponent 3.2 – Developing a strategy for information security (internal) and cybersecurity (external)										
3.2.1 Conceptual and regulatory framework for information security implemented	Model	0	2019		1				1	DGO report
3.2.2 Access control system established	Software	0	2019			1			1	
3.2.3 Identity control system established		0	2019			1			1	
3.2.4 Data backup model established	Model	0	2019			1			1	
3.2.5 Security Operations Center set up	Software	0	2019				1		1	

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Colombia
Project number:	CO-L1245
Project name:	Program to Support the Modernization of the National Tax and Customs Directorate
Executing agency:	Special Administrative Unit, National Tax and Customs Directorate (DIAN)
Prepared by:	Miguel Orellana, lead fiduciary specialist for financial management, and Eugenio Hillman, lead fiduciary specialist for procurement

I. EXECUTIVE SUMMARY

- 1.1 The borrower will be the DIAN Fund for Colombia (FDC), represented by the fiduciary entity Consorcio Findo DIAN para Colombia 2020. The executing agency will be the DIAN through the formation of a project coordination unit (PCU). The DIAN is a specialized national technical entity. It has independent legal status, administrative and budgetary autonomy, and its own assets. It is attached to the MHCP.
- 1.2 The institutional capacity assessment used the following: (i) the Institutional Capacity Assessment System (ICAS); (ii) analysis of the main institutional processes involved in execution; and (iii) management of project fiduciary risks. Since the fiduciary entity will be involved in execution, meetings were held with the MHCP in order to understand the procurement and cash management processes. It was determined that the DIAN has a medium level of development, and therefore a medium level of risk.
- 1.3 According to the Public Expenditure and Financial Accountability (PEFA) evaluation in 2016, Colombia has a mature public financial management system that performs well in most areas. Additionally, the Public Procurement and Contracting System of Colombia (SCCPC) is considered to be effective from a policy standpoint and consistent with international practices, and its use has been accepted for Bank-financed projects.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 This proceeds of the loan will not be included in the general budget of the nation and will therefore not be recorded in the Integrated Financial Information System (SIIF). The DIAN will be responsible for coordinating program-related financial and administrative procedures, such as budgets, procurement processes, disbursement requests, general accounting, and submission of financial reports to the Bank. The fiduciary entity will be in charge of signing contracts and managing payments to suppliers and contractors.
- 2.2 The DIAN has a satisfactory internal and external control system. In light of the execution mechanism, the fiduciary entity will need to demonstrate that it has an adequate accounting software program to support the execution cycle. In addition,

the DIAN will create a PCU and hire professionals that have experience with multilateral bank projects and, preferably, with IDB rules, policies, and procedures. The DIAN will establish mechanisms for coordination and planning with the fiduciary entity.

- 2.3 A fiduciary entity will be designated/hired that preferably has experience using Bank policies and procedures. This fiduciary entity will act as the fiduciary agent for program execution and will be in charge of fiduciary management (procurement/contracting, finances, and cash management).

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The following fiduciary risks and mitigation measures have been identified:

Table 1. Risks

Risk	Rating	Mitigation action
Delays in hiring the staff required for the execution mechanism. The DIAN does not have sufficient human resources for program execution with experience in Bank-financed programs.	High	(i) Designate or hire a fiduciary entity.
Lack of appropriate accounting and financial control over execution of program resources	Medium	(i) Validate and adjust an accounting system for the program. (ii) Approve Operating Regulations that define and formalize coordination, roles, and information flows between the DIAN and the fiduciary entity. (iii) Design a program accounting manual.
Delays in requesting disbursements and processing procurement/contracting	Medium	(i) Form a PCU with the specialists described in the execution mechanism. (ii) Provide training on Bank policies and procedures

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 The DIAN will submit supporting documentation for expenditures using the exchange rate on the effective date when the respective payments are made to the contractor, provider, or beneficiary.
- 4.2 The DIAN will submit financial statements audited by an independent audit firm on an annual basis until the end of the operation. The audit firm will be selected and hired in accordance with Bank policies, if possible on a multiyear basis, following the procedures and terms of reference previously agreed upon with the Bank.
- 4.3 In order to receive advances of funds, the DIAN will account for at least 80% of the cumulative amount of funds received, bearing in mind the fact that several actors are involved in the execution mechanism.
- 4.4 The DIAN will submit a procurement plan for the program that is acceptable to the Bank for the execution period.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 **Procurement of works, goods, and nonconsulting services.**¹ Procurement will be executed in accordance with the policy found in document GN-2349-15 and/or the policy that is in effect. Works, goods, and nonconsulting services² contracts subject to international competitive bidding (ICB) will be undertaken using the standard bidding documents issued by the Bank. Procurement subject to national competitive bidding (NCB) will be executed using the national bidding documents agreed upon with the Bank. The IDB sector specialist for the program and the functional areas of the DIAN are responsible for reviewing the technical specifications for procurement during preparation of the selection processes.
- 5.2 **Selection and contracting of consultants.** This will be undertaken in accordance with the policy found in document GN-2350-15 and/or the policy that is in effect. Consulting services will be contracted using the standard request for proposals agreed upon with the Bank. The IDB sector specialist for the program and the functional areas of the DIAN are responsible for reviewing the terms of reference for contracting of consulting services.
- 5.3 **Selection of individual consultants.** Selection will follow the terms of document GN-2350-15 and/or the policy that is in effect.
- 5.4 **Recurrent costs.** In order to ensure effective program execution and operation, funds will be provided to cover expenditures (PCU/fiduciary entity) within the annual budget approved by the Bank. For the fiduciary entity, funds to cover operating costs will be disbursed according to a fixed percentage based on the cost of the operation.
- 5.5 **Use of the country procurement system.** The SCCPC is the country procurement system approved by the Bank and can be used for procurement of:
- Public works contracts, for amounts below the Bank's ICB threshold;
 - Contracts for goods and nonconsulting services, for amounts below the Bank's ICB threshold;
 - Contracts for consulting firms, for amounts below the Bank's threshold for international shortlists;
 - Contracts for individual consultants.²
- 5.6 Any system or subsystem that is subsequently approved will also apply to this operation. The procurement plan and any updates thereto will specify which contracts will be executed using approved country systems.³

¹ Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document [GN-2349-15](#)), paragraph 3.2; Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document [GN-2350-15](#)), paragraph 3.2. Before loan negotiations take place, the borrower will prepare and submit a procurement plan to the Bank for approval, which will cover the initial period of at least 18 months.

² These contracts will be included in the procurement plan and will follow country procedures, including country guidelines on compensation for public sector consultants. On an exceptional basis, the Bank may authorize the use of its policies for special or technically complex cases.

³ Any other system or subsystem approved by the Bank will apply to this operation, according to the provisions of the loan contract.

- 5.7 Regarding the use of the SCCPC in Bank-financed operations, the following specific SCCPC provisions and regulations will not apply: (i) SCCPC measures that prevent objections to procurement processes from being submitted, in order to allow submission of objections; and (ii) direct contracting as described in the SCCPC.

Table 2. Thresholds (US\$)

Works		Goods		Consulting services	
ICB*	NCB (complex works)**	ICB	NCB** (complex goods)	Advertising, international consulting services	Shortlist without nationality restrictions
Greater than or equal to US\$10 million	Between US\$350,000 and US\$10 million	Greater than or equal to US\$1 million	Between US\$50,000 and US\$1 million	Greater than or equal to US\$200,000	Less than or equal to US\$500,000

* Simple works and off-the-shelf goods whose value is below the ICB threshold can be procured through shopping.

** Complex works and goods whose value is below the NCB threshold can be procured through shopping.

Table 3. Thresholds for ex post review

Works	Goods	Consulting services
US\$10,000,000	US\$1,000,000	US\$200,000

* Ex post review is subject to the provisions of the section on procurement supervision.⁴

- 5.8 **Main procurement items.** Procurement items for program execution are included in the procurement plan.
- 5.9 **Procurement supervision.** In the initial phase, procurement will subject to ex ante supervision. The use of ex post reviews will be assessed by the project team and implemented once DIAN staff has received training. This does not include direct contracting, which will always be subject to ex ante review.
- 5.10 **Records and files.** The fiduciary entity/DIAN will keep complete documentation on the procurement process, including the precontractual, contractual, and postcontractual phases. The procurement system that the fiduciary entity uses will manage and file procurement documentation that has been digitized and made available to the DIAN. Once contracts have been executed, all precontractual, contractual, and postcontractual documents handled by the fiduciary entity will be sent to the DIAN's central archive under the PCU's supervision or according to the guidelines established by the management board of the fund.

VI. FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** In coordination with the fiduciary entity, the DIAN will be in charge of budgets and programming in order to meet the development objectives within the specified time frames and costs.
- 6.2 **Accounting and information systems.** In order to record and control execution of the operation, an ad hoc accounting software will be used to support the execution cycle (budget, procurement/contracting, cash management, accounting

⁴ Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document [GN-2349-15](#)), Appendix 2, and the loan contract.

and reporting, monitoring and evaluation, and accountability), and provide information required by the Bank. Audited financial statements for the program will be prepared on a cash accounting basis. The DIAN will monitor the resources administered by the designated fiduciary entity in accordance with the Operating Regulations agreed upon by the parties.

- 6.3 **Disbursements and cash flow.** For purposes of managing program resources, a special bank account will be opened in U.S. dollars. It will be used exclusively for the proceeds of the loan and will be administrated by the fiduciary entity on behalf of the FDC and supervised by the DIAN. The FDC will be administered by Consorcio Fondo DIAN para Colombia 2020, which will be responsible for cash management and management of program resources. The Bank will advance funds in U.S. dollars based on the commitments assumed/acquired for a period of up to six months. The DIAN will prepare disbursement requests and be held accountable in accordance with document OP-273-12, or the policy that is in effect during execution. With the exception of the first advance, at least 80% of the cumulative amount of funds received will be justified prior to subsequent advances.
- 6.4 **Internal control and internal auditing.** The DIAN has a mature internal control system that operates in compliance with the framework described in the Standard Model of Internal Control. The DIAN's Office of Internal Control (OCI) monitors the quality management system. The OCI is comprised of a multidisciplinary team of professionals. Its director is appointed by the president of Colombia via a merit-based competitive process. The OCI has a direct line of communication with DIAN senior management. The DIAN has built a control culture in which its employees and executives are aware of the system's value and benefit for the performance of their functions. The OCI's work is based on local audit standards and international standards of the Institute of Internal Auditors. However, the Bank does not use the OCI's work for IDB-financed operations.
- 6.5 **External control and reporting.** External control of the DIAN is provided by the Office of the Comptroller General (CGR). The CGR conducts public audits of entities on a selective ex post basis in order to verify compliance with standards, proper use of resources, observance of processes and procedures, scope of targets and objectives, etc. The CGR issued an unqualified opinion on the DIAN with an emphasis of matter paragraph referring to budget execution for 2018. However, since the CGR is not currently eligible to audit Bank-financed projects, the program will use the services of an independent audit firm, which will audit the program under the DIAN and the fiduciary entity's management in an independent report.
- 6.6 Financial statements and eligibility of program expenditures will be audited each year by an independent audit firm acceptable to the Bank. The firm will be contracted by the DIAN's PCU, preferably on a multiyear basis. Audit services will be financed with program resources, the estimated budget for which is US\$250,000. The program's audited financial statements will be sent to the Bank no later than four months after the close of each fiscal year, or other time frame agreed upon by the parties, in accordance with the procedures and terms of reference previously agreed upon with the Bank.

- 6.7 **Financial supervision plan.** The financial specialist will conduct at least two onsite reviews per year and desk reviews of the audited annual and final financial statements. The program's auditor will verify that resources are being executed according to Bank standards and policies and will conduct inspection visits of the DIAN and fiduciary entity. The fiduciary supervision visits for financial management will include verification of the financial and accounting arrangements used for program administration. Implementation of the recommendations issued by the program's independent auditor, among others, will also be monitored.
- 6.8 There is no country policy on public disclosure of audit reports. However, according to the current policy on access to and disclosure of information, the program's audit reports will be published in the Bank's systems.
- 6.9 **Execution mechanism.** The DIAN will be responsible for the program's technical, administrative, and operational execution, including general program coordination and resource management. The DIAN will set up a PCU that is exclusively dedicated to the program for carrying out, in coordination with the fiduciary entity, bidding and award processes for projects, as well as all procurement processes. Additionally, the PCU will coordinate fiduciary activities with the fiduciary entity, which will sign contracts and make payments in accordance with the guidelines that it receives from the DIAN. The relationship, roles, responsibilities, and obligations between the DIAN and the fiduciary entity will be defined in the Operating Regulations. Operational considerations, responsibilities, and program execution will be defined in the program Operations Manual.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Colombia. Loan ____/OC-CO to Fondo DIAN para Colombia (FDC)
Program to Support the Modernization of the National Tax
and Customs Directorate

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 Fondo DIAN para Colombia (FDC), as borrower, and with the Republic of Colombia, as guarantor, for the purpose of granting the former a financing to cooperate in the execution of the Program to Support the Modernization of the National Tax and Customs Directorate. Such financing will be for the amount of up to US\$250,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2020)