DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

FINDETER: CCLIP
(CO-X1003)

AND

FIRST LENDING PROGRAM FOR PUBLIC SERVICE PROVIDERS
(CO-L1012)

LOAN PROPOSAL

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CONTENTS

EXECUTIVE SUMMARY

I. DESCRIPTION AND PERFORMANCE MONITORING 1

A. Background, problem to be addressed, and rationale 1
B. Objectives and components 5
C. Cost, currency, and financing 6
D. Key indicators and performance matrix 7

II. FINANCING STRUCTURE AND RISKS 7

A. Financing, incentives, and contractual conditions 7
B. Risks and mitigants for the CCLIP and first program 8
C. Other risks 9

III. EXECUTION PLAN AND MONITORING 9

A. Execution mechanism 9
B. Monitoring and evaluation 11

ABBREVIATIONS

CCLIP	Conditional credit line for investment projects
EMBI+	Emerging Markets Bond Index Plus
FINDETER	Financiera de Desarrollo Territorial S.A.
GDP	Gross domestic product
IFIs	Intermediary financial institutions
LCF	Local Currency Facility
M&E	Monitoring and evaluation
PSPs	Public service providers

Electronic Links and References

Printed annexes	Status	Hyperlink
Annex I: Performance Matrix http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1112162		**Attached**
Annex III: Procurement Plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1112154		**Attached**
Additional technical references	**Description**	**Hyperlink**
Annex II: CESI Minutes http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1120384	Reviewed by CESI on [4 May 2007].	**Link**
Annex IV: Local Currency http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1112258		**Link**
Annex V: Credit Regulations http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1112125	Advanced draft	**Link**
Annex VI: Annual Work Plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1112301	Advanced draft	**Link**
Annex VII: Program Monitoring and Evaluation System http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1112137		**Link**
Proposal for Design of a Monitoring and Evaluation System at FINDETER http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=937860	Consulting assignment. Completed.	**Link**
Analysis of Potential Demand and Credit Risk Analysis of FINDETER http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=981805	Consulting assignment. Completed.	**Link**
Updated Analysis of Potential Demand http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1112146	Study by FINDETER. Completed.	**Link**
Demand Study of Subprojects in the Water and Sanitation Sector http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=709598	Consulting assignment. Completed. The government originally requested Bank support to finance projects in the water and sanitation sector. This demand study was undertaken to gauge potential demand for project resources. It found that, despite sufficient demand in the sector, the funding channeled by the Bank operation would be restricted due to a subsidy mechanism for water and sanitation financing. The study recommended broadening the group of sectors eligible for the operation.	**Link**

EXECUTIVE SUMMARY

FINDETER: CCLIP (CO-X1003) AND FIRST LENDING PROGRAM FOR PUBLIC SERVICE PROVIDERS (CO-L1012)

<table>
<tr><th colspan="4">Financial Terms and Conditions</th></tr>
<tr><td colspan="2" rowspan="3">Borrower and executing agency:
Financiera de Desarrollo Territorial S.A. (FINDETER)</td><td>Amortization period for first program:</td><td>15 years</td></tr>
<tr><td>Grace period for first program:</td><td>3 years per program</td></tr>
<tr><td>Disbursement period:</td><td>Credit line: 10 years
Program: 3 years</td></tr>
<tr><td>Source</td><td>Amount</td><td>Inspection and supervision fee:</td><td>*</td></tr>
<tr><td rowspan="2">IDB (OC)</td><td rowspan="2">CCLIP, US$200 million
First program, US$50 million</td><td>Interest rate:</td><td>LIBOR</td></tr>
<tr><td rowspan="2">Credit fee:</td><td rowspan="2">*</td></tr>
<tr><td>Cofinancing</td><td>0</td></tr>
<tr><td>Local</td><td>0</td><td rowspan="2">Currency:</td><td rowspan="2">United States dollars from the Single Currency Facility</td></tr>
<tr><td rowspan="2">Total</td><td rowspan="2">CCLIP, US$200 million
First program, US$50 million</td></tr>
<tr><td>Conversion to Colombian pesos:</td><td>Local Currency Facility</td></tr>
</table>

Program at a Glance

Project objective and description:

The general objective of the proposed conditional credit line for investment projects (CCLIP) and program is to support development and regional competitiveness through sustainable access to financing for infrastructure and service projects related to public service delivery. The purposes are to: (i) facilitate longer maturities for eligible projects of public service providers (PSPs); (ii) sustainably improve their access to financing; and (iii) consolidate FINDETER's role as a territorial development agency. The first program will focus on improving the maturity terms for lending to PSPs. Subsequent programs under the CCLIP will emphasize better access to financing for PSPs with limited project preparation capacity.

Special contractual clauses: As a special condition precedent to the first disbursement, the borrower will produce evidence to the Bank's satisfaction that FINDETER's board of directors has approved the program Credit Regulations and annual work plan. With respect to the Local Currency Facility (LCF) (document GN-2365-2 of 4 November 2005): (i) the clause on interruption of the Bank's access to funding will not apply (see paragraph 1.25 and Annex III, Section 3).

Additional financial conditions:

So as to expand the financing options available to the borrower, the conversion of outstanding balances into local currency will be subject to two additional financial conditions beyond those set in the LCF: (i) more flexible amortization profiles for outstanding balances in local currency; and (ii) pricing based on the Bank's actual cost of funds, in the event that the Bank secures funding through bond issues (see paragraph 1.25 and Annex IV, Section 2).

Exceptions to Bank policies: An exception to Bank Operational Policy OP-303 will be necessary, such that the national government will guarantee only the payment obligations. (see paragraph 2.1)

A waiver is requested regarding nonapplicability of the clause on interruption of the Bank's access to funding, as described in paragraph 3.15 of document GN-2365-2 on the LCF (see paragraph 1.25 and Annex IV, Section 3).

Project consistent with country strategy: Yes [X] No [ ]

Project qualifies as: SEQ [ ] PTI [ ] Sector [ ] Geographic [ ] Headcount [ ]

* 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 the applicable provisions of the Bank's policy on the lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND PERFORMANCE MONITORING

A. Background, problem to be addressed, and rationale

1.1 **Macrofinancial environment.** Colombia's economy has gained strength in the past five years. From 2002 to 2006, real GDP growth rose from 1.9% to 6.8%, led by construction, manufacturing, and trade. The outlook remains bright for the coming years (projected 5% annual growth), supported among other things by continued favorable external conditions. Inflation has trended downward (4.48% in 2006), and the Colombian peso has been appreciating.[1] Under these conditions, international reserves swelled to US$20.098 billion at the close of the first half of 2007. Such economic performance, generally, along with security gains, have led to significantly higher private investment and lower perceived country risk (EMBI+ 179 as of August 2007). The country's tax position remains vulnerable, however, and the central government deficit has run near 5% of GDP for the past three years, pushing debt to around 45% of GDP.

1.2 **Financial sector.** Since the financial crisis of the late 1990s, Colombia's financial system shows marked improvement in terms of soundness, profitability, and efficiency of operations. But despite this enabling environment, financial deepening has still not returned to precrisis levels (see Table 1, http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1111973) . The volume of bank assets is around US$82 billion, equivalent to 48.6% of GDP; the net loan portfolio represents 25% of GDP, versus 36% before the crisis; and investments, mainly in government securities, while down from 2005 levels, still account for more than one fifth of the portfolio, versus 12% in 1998. The Government of Colombia is readying a financial system reform to promote greater deepening and transparency that would include credit reporting centers, access to financing, and a modernized payment and settlement system.

1.3 **Effectiveness of financial intermediation.** The banking system is able to source funding on short maturities. The average term for banks is approximately one year, and the average term for local currency loans is no more than five years. This limits maturity transformation, especially for financing of infrastructure investments, which require maturities of 5 to 15 years. The banking system's spread income, in turn, is around 3.3% annually (net interest earnings over assets).

1.4 **Infrastructure for public service delivery**. Colombia has substantial unmet needs in infrastructure for public service delivery. Low, and in some cases unequal, levels of coverage for water (98% urban, 73% rural), sewers (93% urban, 68% rural), health (74%), and education (90%), together with the need for more modern transportation infrastructure, have made these sectors high priorities in the recently

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[1] The government recently announced measures to guard against a possible reversal of the inflation trend and sustained appreciation of the peso. These include: (i) uncompensated freeze of a portion of higher deposits taken by banks (marginal reserve requirements); (ii) six-month deposit of 40% of the liquidated value at the representative market rate for hard currency inflows from external financing; and (iii) a ceiling of 500% of technical assets for institutions engaging in leveraged transactions.

approved National Development Plan.[2] In addition, there is a wide variety of public service providers. The decentralization embarked upon in the 1980s opened the way for departmental agencies, districts, and municipios to run their own social services and make direct investments in infrastructure and public utilities.

1.5 Law 142 of 1994 sparked a business transformation in the sector that created numerous public service companies (private, semipublic, or public). These, along with subnational entities and other private sector operators, began to seek commercial financing for such investments. There are currently some 38 telecommunications companies, over 530 sanitation companies, over 2,000 providers of water and sewer service in the principal towns of municipios, and over 11,000 providers in rural areas (830 registered with the Superintendent of Public Utilities), and many, mainly private, electricity and gas companies.[3]

1.6 **Access to financing.** Public service providers (PSPs)[4] generally have limited access to credit and find it hard to secure financing on the maturity terms required for the relevant infrastructure and equipment projects to mature. On the public side, it is illustrative that the principal sources of funding at the departmental level are still the General Revenue Sharing System (known by its Spanish-language acronym, SGP) and direct or indirect royalties. These represent nearly 75% of departmental investment funding, while credit financing accounts for only 3% (see Table 2, http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1111973). The pattern is similar at the municipal level.

1.7 The fiscal crisis experienced by subnational entities in 1999-2003 led to steep declines in these municipios' own resources available for health, education, and water and sanitation,[5] adversely affecting municipal enterprises. Commercial lending to subnational entities and PSPs in general has recovered since 2003, aided by current economic conditions and high levels of liquidity. Yet such financing is still limited mainly to road infrastructure and, to a lesser degree, water and sanitation.

1.8 The principal constraints on access to medium- and long-term financing for such entities are: (i) maturity terms for domestic savings and the financial system's lack of depth, as described above; (ii) no financial instruments to cushion the impact of

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2 Link to National Development Plan 2007

3 "Impacto sectorial de los diez años de la legislación marco de servicios públicos domiciliarios en Colombia" [Ten-year Sector Impact of the Framework Legislation for Public Utilities in Colombia], Office of the Superintendent of Public Utilities, Colombia. October, 2004.

4 In this document, PSPs include private companies, subnational entities, decentralized agencies, leagues of municipios, public utilities, national government agencies, and standalone agencies with their own separate assets operating at the subnational level in the following sectors: public utilities; health; education; housing; transportation; urban rehabilitation, renewal and facilities; sports, recreation and culture; market centers; plant and equipment; telecommunications environment; institutional development; and tourism.

5 F. Sanchez, "Descentralización y progreso en el acceso a servicios sociales de educación, salud y agua y alcantarillado" [Decentralization and Progress in Access to Social Services for Education, Health, and Water and Sanitation], National Planning Department, Colombia, 2006.

the political cycle for subnational entities, and uncertainty as to the allocation and execution of public resources; and (iii) the small size of some providers, which have weaknesses in their organizational structure, financial management, and technical capabilities, and lack the capacity to develop bankable projects that meet the requirements of first-tier commercial banks.

1.9 Instruments to mitigate the credit risk of PSPs can play a key role in facilitating their access to credit. These include the use of government transfers for collateral by public sector entities or, to a lesser degree, the National Guarantee Fund by private companies.[6] Development of mechanisms to support project preparation could also facilitate the "graduation" to first-tier borrower status of businesses that do not meet the accounting, financial, and technical requirements of the commercial banking system.

1.10 **Financiera de Desarrollo Territorial S.A. (FINDETER).** In the late 1980s the Government of Colombia instituted an economic development policy based on second-tier public financial institutions specializing in priority sectors. FINDETER was chartered in 1990 under Law 57/89 as a second-tier financial institution under the Ministry of Finance with separate legal status and its own assets, supervised by the Office of the Superintendent of Financial Institutions. In keeping with its implementing regulations, FINDETER employs a discounting mechanism to lend to public service providers, both public and private, through financial institutions.

1.11 Driven by sustained portfolio growth and efficiency gains in managing its operating costs, FINDETER's profitability indicators have improved steadily since 2002 (see Table 3, http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1111973). FINDETER approves some 400 operations each year, concentrated mainly in public utility investments: water, sewer, waste disposal, electricity, gas, telephone (30% of the total portfolio), and transportation (25%), as well as low-income housing, health, and education (24%). Currently, over 60% of FINDETER's clients are private sector entities, and over 40% of its portfolio is comprised of leasing operations.

1.12 FINDETER's financing activities changed notably in 2003. The institution expanded its automatic discounting system, made its products more flexible, diversified its portfolio to encompass new sectors, new clients (leasing and commercial finance companies), and new private sector subborrowers, scaled back its technical assistance to PSPs,[7] and took steps to improve its integrated risk management. With these new activities, FINDETER went from carrying credit exposure alone to being fully dependent on the assessment of risk and returns done by intermediary financial institutions (IFIs).

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[6] The government has been moving in this direction with the development of trustee mechanisms for the water and sanitation sector, approved under Article 75 of Law 1110, but further progress is needed.

[7] FINDETER now provides only basic assistance to identify financial intermediaries and prepare documents, in contrast to its previous institutional strengthening activities.

1.13 In recent years FINDETER has secured most of its funding on the local market through issues of term deposit certificates of up to three years. It does offer amortization periods of up to 15 years, but the current portfolio average is under seven.[8] FINDETER believes that other sources of funding from abroad with longer terms need to be added for a blending of resources that minimizes the maturity mismatch of its loan portfolio.

1.14 **Rationale for the CCLIP and first program.** The proposed conditional credit line for investment projects (CCLIP) and first program will provide medium- and long-term financing for eligible investment projects submitted by PSPs that now find it difficult to secure funding on suitable terms. FINDETER will channel the financing through regulated IFIs using a proven second-tier mechanism. This should result in longer average maturities for PSP financing, and give them greater, sustainable access to the financial system. The CCLIP and first program will also have a positive impact on FINDETER's operations, lengthening the maturities of its liabilities and enhancing technology to measure the impact of its financing activities on the subnational entities. IFIs, in turn, will have the financial instruments to deepen banking services at the subnational level.

1.15 Given the nature and structure of target group demand for credit, multisector global credit has been selected as the instrument for each of the CCLIP programs. The second-tier lending will deepen financial penetration by: (i) providing access to a broad spectrum of the target group through relatively small loans; and (ii) ensuring that resources are allocated transparently on market criteria. This will give small projects ineligible for direct Bank lending sustainable access to bank credit with medium and long maturities. The application of market rates for each of the different tranches, in turn, will lend additionality to the operation.

1.16 The CCLIP and first program are consistent with the Bank's financial sector strategy and country strategy with Colombia 2003-2006. First, the financial sector strategy seeks to promote the use of second-tier financial institutions to channel resources toward meeting medium- and long-term credit needs. Second, one of the country strategy's three top priorities is to foster competitiveness so as to lay the foundations for economic revival through infrastructure development, market expansion, and improvement of the competitive supply of goods and services. The country strategy also calls for measures to enhance second-tier banking performance and foster financial deepening.

1.17 **Size of the CCLIP and first program**. FINDETER has 340 bankable projects in its pipeline for the next 12 months with an approximate total value of US$675 million. The principal sectors in terms of project value and quantity are health, transportation, public utilities, education, and tourism with more than

[8] In part due to the growing proportion of leasing operations in FINDETER's portfolio, the average maturity is getting shorter. The average term was under five years for 75% of the value of disbursements in the last 18 months. This trend may change with the planned development of a new type of financial instrument, called infrastructure leasing, with a minimum amortization period of 12 years.

60% private providers. The average value of this pipeline is US$2 million. Thus, the project profile is one of many small projects distributed widely across numerous economic sectors and geographic regions of the country.

1.18 The Bank resources will help to meet this demand for longer-term finance, supplementing FINDETER's traditional sources of funding. For this selection of projects, there is a gap between the maturities sought by PSPs and those offered by IFIs, especially for infrastructure and equipment projects. PSPs are looking for 8 to 10 years, while banks offer no more than 7 (the average is 6 years). Equipment is financed for an average term of 4.5 years, but takes an estimated 6.5 years to mature.

B. Objectives and components

1.19 The **general objective** of the proposed CCLIP and first program is to support development and regional competitiveness through sustainable access to financing for infrastructure and service projects related to public service delivery. The purposes are to: (i) facilitate longer maturities for eligible projects of PSPs; (ii) sustainably improve their access to financing; and (iii) consolidate FINDETER's role as a regional development agency.

1.20 The first program will have two components: (i) financing; and (ii) institutional strengthening of FINDETER. Although the financing component predominates in terms of the amount involved, the first program's value-added will derive from the technical assistance component's success at developing the capacity and tools at FINDETER to monitor and evaluate its operations and impact as a development agency.

1.21 **Financing component (US$49.926 million).** The first program will help to strengthen FINDETER's financing schedule by making more medium- and long-term resources available for currently bankable PSP projects that have obtained financing with shorter-than-desired maturities. The resources will be channeled through IFIs on terms set in the program Credit Regulations, which are described below and conform to FINDETER's existing lending operations manuals.

1.22 **Institutional strengthening component (US$73,500)**. This component will provide technical assistance support for startup, monitoring and evaluation of the CCLIP and first program, business plan development, and strengthening of the core impact monitoring and assessment capabilities of FINDETER's line units. Specifically, it will fund the following consulting engagements: (i) procedural design of a monitoring and evaluation (M&E) system, including design of the information gathering, storage, and dissemination process and training of FINDETER staff; (ii) development of the M&E system software and training of FINDETER staff; and (iii) development of a business plan to institute FINDETER's 2008-2012 strategic plan, now in preparation.

1.23 **Subsequent programs under the CCLIP.** The CCLIP will make it possible to progressively meet the financing and technical assistance needs of various risk profiles. Subsequent programs under the CCLIP will expand the universe of

borrowers with access to medium- and long-term financing from commercial banks through financial and nonfinancial assistance in the preparation of PSP projects. Opportunities will be explored for developing mechanisms to mitigate credit risk. Financial assistance will be sought from investment banks, and nonfinancial assistance from the relevant sector ministry or specialized institutions. A fund to finance feasibility studies will be established with central and municipal government budgetary and other resources, and additional funding will be explored from other sources, such as the InfraFund.[9]

C. Cost, currency, and financing

1.24 The CCLIP resources, totaling US$200 million, will be applied under the multisector global credit modality to the financing of capital investments, purchases, and ongoing working capital needs associated with the three CCLIP programs.

Table 4. CCLIP cost by source of financing (in US$ millions)

Investment component	IDB	Local counterpart	Total	%
CCLIP				
Financing	199.00	-	199.00	99.50
Technical assistance	1.00	-	1.00	0.50
Total	**200.00**	**-**	**200.00**	**100.00**
First program				
Financing	49.726	-	49.726	99.85
Technical assistance for FINDETER M&E system	0.735	-	0.735	0.15
Total	**50.000**	**-**	**50.000**	**100.00**

1.25 **Currency.** The CCLIP will draw upon resources of the Single Currency Facility of the Bank's Ordinary Capital in United States dollars, and will be subject to the Operational Framework for Lending in Local Currency, or Local Currency Facility (LCF) (document GN-2365-2 of 4 November 2005). To minimize exchange risk, FINDETER may opt under the LCF for outstanding balances on projects under the credit line to be converted for disbursement in pesos. So as to expand the financing options available to the borrower, the conversion of outstanding balances into local currency will be subject to two additional financial conditions beyond those set in the LCF: (i) more flexible amortization profiles for disbursements in local currency, as described in Annex IV, Section 2(a); and (ii) pricing based on the Bank's actual cost of funds, in the event that the Bank secures funding through bond issues, as described in Annex IV, Section 2(b); The conversion into local currency of outstanding balances on projects under the credit line will require an *exception to*

[9] Over the course of the first program, the impact monitoring and evaluation system is expected to provide information to more accurately identify what kind of financial and nonfinancial technical assistance is required.

the LCF with respect to nonapplicability of the clause on *interruption of the Bank's access to funding*[10] (see Annex IV, Section 3).

1.26 The term for drawdown of the line of credit will be 10 years, under three successive programs of at least US$50 million each, with a 15-year first program. The first loan will fund the program proposed here, with US$49.726 million for onlending and US$73,500 in technical assistance.

D. Key indicators and performance matrix

1.27 Development of the procedures and systems described above will yield a set of indicators to guide and assess FINDETER's performance as a development bank. Two groups of indicators have been devised: (i) the indicators included in the program performance matrix, and (ii) management, performance, and impact indicators tied to the business plan, which will be monitored using the M&E system. Table 5 shows the main impact indicators included the performance matrix:

Table 5. Key Indicators for the Program

Indicators	Baseline	Target at project end
Longer maturities: Ratio of loan disbursements with maturities longer than 8 years to FINDETER's total disbursements	15.0%	21.5%
Market share: Ratio of FINDETER's total PSP portfolio to total PSP portfolio of the financial sector	29.3%	30.0%
Financial deepening: Increase in the ratio of FINDETER's total PSP portfolio to PSP sector GDP	2.2%	2.8%

II. FINANCING STRUCTURE AND RISKS

A. Financing, incentives, and contractual conditions

2.1 The borrower and executing agency will be FINDETER, an autonomous institution with separate legal status and its own assets, chartered in 1990 under Law 57/89, which will be legally liable to the Bank for repayment of the debt, guaranteed by the national government. An exception to Bank Operational Policy OP-303 will be necessary, such that the national government will guarantee only the payment obligations.[11] Such an exception is justified by the nature of the operation (no local counterpart and limited execution risk) and the fact that FINDETER is a sound, financially autonomous institution with ample financial capacity to meet its obligations to the Bank.

2.2 FINDETER will onlend the Bank loan proceeds to IFIs using its customary discounting mechanism at a market rate that reflects its cost of funds plus a spread

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[10] That clause provides that the Bank may revert local currency conversion to convertible currency if funding in local currency is interrupted and the Bank cannot obtain replacement financing.

[11] The Government of Colombia has reaffirmed its commitment to use its best efforts, to the extent of Colombian law, to ensure that FINDETER meets its performance obligations.

to cover operating costs. FINDETER will identify and select the IFIs eligible to participate in the program. The IFIs will be free to determine the amount of subloans, disbursement characteristics, interest rates and fees, maturity and grace periods, and repayment frequency based on credit analysis of the subloans and the project's useful life. This mechanism, under which the Bank operates as a third-tier institution, will provide sufficient protection against the credit, exchange, and environmental risks of the financed subprojects, as discussed in Section B, "Risks and mitigants for the CCLIP and first program."

2.3 **Special contractual conditions.** As a special condition precedent to the first disbursement, the borrower will produce evidence to the Bank's satisfaction that FINDETER's board of directors has approved the program Credit Regulations and annual work plan.

B. Risks and mitigants for the CCLIP and first program

2.4 **Fiduciary risk**. The operation is deemed to carry little fiduciary risk. FINDETER has satisfactorily executed two prior operations with the Bank. It has maintained a AAA local rating with Duff & Phelps of Colombia, and is supervised by the Superintendent of Financial Institutions, Comptroller General, Attorney General, and the statutory auditor that reviews the institution's financial statements. FINDETER can sufficiently absorb the exchange risk of the part of the operation disbursed in dollars, since its policies require it to remain hedged at all times against exchange risks assumed within the limits set by Banco de la República. An institutional capacity assessment during program preparation yielded satisfactory results.

2.5 **Credit risk**. The IFIs fully assume all credit risks of subloans, and will be solely responsible for actions to recover subloans made with the program resources. The credit risk assumed by FINDETER relates exclusively to the first-tier institutions. Nevertheless, in all instances the first-tier institutions pledge the portfolio of loans to end beneficiaries as an additional guarantee, so FINDETER is effectively covered by a double guarantee. Significantly, FINDETER enjoys preferred status over any other creditors of a bankrupt or liquidated financial institution.

2.6 **Environmental and social risks**. The strategic environmental assessment requirements of the guidelines and procedures for CCLIPs do not apply to second-tier financing operations, since they have no direct adverse environmental impact. The proposed CCLIP and first program will be subject to the environmental and social requirements of Colombian legislation. FINDETER has successfully executed lending operations with the Bank that involved environmental and social management as a lending requirement.

2.7 On the recommendation of the Committee on Environment and Social Impact (CESI), an environmental and social management review of FINDETER was done during program preparation. Two specific actions are proposed to strengthen FINDETER's environmental and social management system, so that it can efficiently and effectively address the operation's environmental and social risks and impacts without hampering the discounting mechanism: (i) a list of activities

ineligible for financing, set out in the Credit Regulations, and (ii) adjustment of the discounting application to expressly state that the subborrower is in compliance with Colombian legislation.

2.8 The Bank's standard supervision procedures call for compliance review of environmental and social management requirements. In addition, the CCLIP final report will include an environmental and social review of the beneficiary programs.

C. Other risks

2.9 The following factors may adversely affect demand for the program resources and sustainable access to financing for PSPs: (i) financial system reform and, specifically, authorization of the banking sector to handle leasing transactions directly, which may reduce the demand for funding from leasing companies; (ii) reform of the General Revenue Sharing System and the expected increase in transfers to the education and health sectors; and (iii) the existence of the rate offset subsidy system for the financing of projects and programs in the health, water, sewer, and waste disposal sector.

2.10 With respect to financial system reform, the consulting engagement to develop a business plan under Component 2 should help FINDETER to identify new market niches that will facilitate its activities in the new environment. With respect to reform of the General Revenue Sharing System, the outcomes are not expected to substantially affect FINDETER's operations, given that its main clients in health and education are in the private sector. Lastly, it should be noted that the rate offset subsidy system is limited in time (through December 2008) and amount (US$252 million). Significantly, the CCLIP and first program do not provide for funding to finance projects that access these rate offset mechanisms. A critical mass of bankable multisector projects with demand for maturities longer than those offered by the financial market was identified during program preparation (see paragraph 1.17).

III. EXECUTION PLAN AND MONITORING

A. Execution mechanism

3.1 FINDETER will execute the program under its current organizational structure. At FINDETER, primary responsibility for execution of the programs will rest with the Office of the Vice President for Finance and Operations, working directly with the Office of the Vice President for Commercial Banking. The rules of procedure governing program execution are set out in the Credit Regulations agreed upon between the Bank and FINDETER for each CCLIP program. These Credit Regulations are consistent with FINDETER and Bank policies and procedures, as well as Colombian law and financial practice.

3.2 **IFI eligibility criteria.** The following may act as intermediary financial institutions for FINDETER discounting operations: the lenders specified in the Financial System Act, decentralized institutions of subnational governments that finance the activities described in FINDETER's charter, and others as allowed by law. Lenders

must have a ceiling approved by the FINDETER board of directors. These ceilings will be adjusted at least every six months, based on the financial statements published by the Superintendent of Banks, risk rating agency reports, and such other information as FINDETER deems relevant.

3.3 **PSP eligibility criteria.** To be eligible for the program, borrowers must be public- or private-sector PSPs legally organized and operating in Colombia with the administrative, technical, financial, legal, and environmental capacity to execute the projects being financed. These PSPs may include private companies, subnational entities, decentralized agencies, leagues of municipios, public utilities, national government agencies, and standalone agencies with their own separate assets operating at the subnational level in the sectors eligible for FINDETER.

3.4 **Eligibility for subloans** The program resources will be used to make loans to participating IFIs, funding subloans for projects submitted by PSPs. They may be used to finance: (i) capital investments; (ii) investments to strengthen the beneficiary's administrative, financial, and organizational capacity; and (iii) working capital for operations of the beneficiary entities.

3.5 **Disbursements and execution time.** The program resources will be committed over a period of 30 months, running from the effective date of the loan contract. Disbursements are expected to be made over a period of up to 36 months, running from the same date. FINDETER financing to IFIs for eligible operations up to 18 months prior to the start date of the operation will be recognized, up to 30% of the total value of the first program. Bank disbursements to FINDETER will be made against presentation of the proper documentation on discounted eligible operations.

3.6 **Procurement.** The Bank's private sector procurement policies will be followed for the discounting of financial instruments deriving from operations with private companies or autonomous public sector trading enterprises. But even in such cases, international competitive bidding may be the most efficient and economical method for purchases of major items or in bulk, when large quantities of identical goods can be bundled together. Under such circumstances, the policies of document GN-2349-7 of July 2006 will be followed.

3.7 The Bank's policies for operations with the public sector will be followed for the discounting of financial instruments deriving from operations with municipios, departments, or other subnational entities: "Policies for the procurement of works and goods financed by the IDB" (document GN-2349-7) and "Policies for selection and contracting of consultants financed by the IDB" (document GN-2350-7). The first of these two documents allows the use of local legislation as it relates to national competitive bidding procedures, under Law 80 of 1993 and Law 1150 of 2007, provided that it does not violate basic procurement principles or policies of the Bank, as reflected in Clause 4.01 of future loan contracts negotiated with the national government. The Credit Regulations provide an itemized list of the uses of program resources not permitted by the Bank.

3.8 The technical assistance activities for the institutional strengthening of FINDETER under Component 2 will be conducted in accordance with the annual work plan and Credit Regulations for the operation, following Bank procurement policies and procedures.

B. Monitoring and evaluation

3.9 FINDETER will deliver semiannual progress reports to the Bank on the program monitoring and impact indicators. These reports will address both the indicators included in the program performance matrix and the management, performance, and impact indicators monitored using the M&E system (see Annex VII). Based on the findings of these reports, FINDETER and the Bank may agree to make adjustments to the program.

COLOMBIA
FINDETER: Conditional Credit Line (CCLIP) and Lending Program for Public Service Providers
Proposal for Operation Development (CO-L1012)

CCLIP Objectives
The general objective of the conditional credit line for investment projects (CCLIP) and programs is to support development and regional competitiveness through sustainable access to financing for infrastructure and service projects related to public service delivery.
The purpose of the first program is: (i) to facilitate longer maturities, (ii) sustainably improve the maturity terms for lending to public service providers (PSPs) for eligible projects, and (iii) to consolidate FINDETER's role as a territorial development agency. **The purpose of the second program** is: (i) to facilitate longer maturities, (ii) sustainably improve the maturity terms for lending to PSPs for eligible projects, (iii) expand the universe of PSPs with access to medium- and long-term financing from commercial banks, and (iv) consolidate FINDETER's role as a territorial development agency. **The purpose of the third program** is: (i) to facilitate longer maturities, (ii) sustainably improve the maturity terms for lending to PSPs for eligible projects, (iii) expand the universe of PSPs with access to medium- and long-term financing from commercial banks, and (iv) consolidate FINDETER's role as a territorial development agency.

Performance Matrix for the First Program
Table of Indicators

	Baseline	End of year 1	End of year 2	End of year 3	2 Years after program end	Remarks
Objective: (i) To facilitate longer maturities, (ii) to sustainably improve the maturity terms for lending to PSPs for eligible projects, and (iii) to consolidate FINDETER's role as a territorial development agency.						
Financing component						
Outputs:						
1. A total of US$49.9 million in loans have been made	0% of loans made	33% of loans made	66% of loans made	100% of loans made	Idem	
2. Ratio of FINDETER's total PSP portfolio to total PSP portfolio of the financial sector, broken down as follows:						Market allocation of resources.
- Education	54.0%					
- Health	23.2%					
- Public utilities	23.0%					
- Transportation	39.1%					
- Tourism	21.4%					
Intermediate outcomes:						
3. Increase in the ratio of FINDETER's total PSP portfolio to total PSP portfolio of the financial sector	29.3% (12-31-06)	29.6%	29.9%	30.0%	30.1%	This indicator measures FINDETER's outreach in the financial market.
Final outcomes:						
4. Increase in the ratio of loan disbursements with maturities longer than 8 years to FINDETER's total disbursements	15.0% (12-31-06)	18.0%	20.0%	21.5%	23.6%	Given FINDETER's heterogeneous portfolio of clients, the maturity of FINDETER's portfolio will be used as a proxy for the average loan maturity of PSPs, on the implicit assumption that their principal source of commercial finance is FINDETER onlending funds through intermediary financial institutions (IFIs).

	Baseline	End of year 1	End of year 2	End of year 3	2 Years after program end	Remarks
5. Increase in the ratio of FINDETER's total PSP portfolio to PSP sector GDP	2.2% (12-31-05)	2.5%	2.7%	2.8%	2.9%	FINDETER's contribution to financial deepening in the public services sector. Baseline and targets will be updated at end-2007, when the new GDP figures are published.
Technical assistance component:						
Outputs: FINDETER has a monitoring and evaluation (M&E) system and business plan	FINDETER has no M&E system to measure the performance and impact of its operations.	(i) M&E system designed and in operation (ii) FINDETER business plan developed and agreed upon.	–	–		
Intermediate and final outcomes: FINDETER follows its business plan with specific targets from the M&E system, and has developed sustainable institutional capacity in planning and M&E.	–	–	FINDETER calculates and utilizes the M&E system performance and impact indicators for its operations.	FINDETER continues to track performance and impact indicators as part of its strategic and line operations, consistent with its business plan.		

FINDETER: Conditional Credit Line (CCLIP) and Lending Program for Public Service Providers
Project CO-L1012 and loan contract number _____
Period covered by this procurement plan: January 2008 to June 2009

Ref. no.	Category and description of the procurement contract	Estimated cost of procurement (US$000)	Procurement method[1]	Review (prior or post)	Source of financing and percentage		Prequalification (Yes/No)[2]	Estimated dates		Comments
					IDB %	Local/ other %		Publication of specific procurement notice	Completion of contract	
1	**Consulting services**									
	Component 1: Development and introduction of a monitoring and evaluation (M&E) system									
	1.1 Consulting engagement: **Procedural design of an M&E system**, including design of the information gathering, storage, and dissemination process and training of FINDETER staff	17,500	NICQ	Prior	100	No		n/a	9/5/2008	
	1.2 Consulting engagement: **Development of the M&E system software in the Cronos system** and training of FINDETER staff	35,000	NICQ	Prior	100	No		n/a	12/19/2008	
	Subtotal	**52,500**								
	Component 2: Support for development and implementation of FINDETER's strategic plan and business plan									
	2.1 Consulting engagement: Development of FINDETER business plan.	21,000	NICQ	Prior	100	No		n/a	8/25/2008	
	Subtotal	**21,000**								
	Total	**73,500**								

[1] Individual consultants: NICQ: National Individual Consultant selection based on Qualifications; IICQ: International Individual Consultant selection based on Qualifications.

[2] For new policies, applies only to goods and works. For old policies, applies to goods, works, and consulting services.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/08

Colombia. Conditional Credit Line (CCLIP)
FINDETER: Financing Public Utilities Companies Program

The Board of Executive Directors

RESOLVES:

1. 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 agreement or agreements as may be necessary with the Financiera de Desarrollo Territorial S.A (FINDETER), to establish a Conditional Credit Line (CCLIP) for FINDETER: financing public utilities companies program, hereinafter referred to as the "Credit Line", of up to the sum of US$200,000,000, chargeable to the resources of the Single Currency Facility of the Ordinary Capital of the Bank.

2. That the establishment and utilization of the Credit Line shall be carried out in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects established by Resolution DE-58/03 of July 16, 2003 and amended by Resolution DE-10/07 of January 31, 2007; and (b) the specific provisions set forth in document GN-2246-4.

3. That the approval of individual operations, chargeable to the Credit Line, shall be subject to, with the exception of the first of such operations, the satisfactory performance of the previous program or programs financed under the Credit Line.

4. That the amounts authorized to finance individual operations chargeable to the Credit Line shall be granted as individual loans subject to the usual financial terms and conditions applicable to financing from the resources of the Single Currency Facility of the Bank's Ordinary Capital, in force at the time that the individual operation is approved, which shall be specified in the executive summary of the corresponding loan proposal.

5. That the Bank may only sign an agreement or agreements with the Argentine Republic to grant financing for the first individual operation after the Credit Line agreement or agreements between the Argentine Republic and the Bank enter into force.

(Adopted on _________ 2008)

LEG/SGO/CO-1353727-08
CO-L1012
CO-X1003

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/08

Colombia. Individual Loan ____/OC-CO to Financiera de Desarrollo Territorial S.A. (FINDETER)
Utilization of the resources of the Conditional Credit Line
Established by Resolution DE-___/08
First operation of the Financing Public Utilities Companies Program

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 utilize the resources of the Conditional Line of Credit approved pursuant to Resolution DE-___/08, by entering into such contract or contracts as may be necessary with Financiera de Desarrollo Territorial S.A. (FINDETER), as Borrower, and with the Republic of Colombia, as Guarantor, for the purpose of granting the former a financing for an individual operation for cooperating in the execution of the first operation of the financing public utilities companies program. Such financing will be in the amount of up to US$50,000,000, from the resources of the Single Currency Facility 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.

LEG/SGO/CO-1353691
CO-L1012
CO-X1003