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COLOMBIA

IDB GROUP COUNTRY STRATEGY WITH COLOMBIA (2019-2022)

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ABBREVIATIONS

AFP	Administradoras de fondos de pension [Pension fund administrators]
BEPS	Beneficios Económicos Periódicos [Periodic Economic Benefits]
CDC	Country Development Challenges
CONPES	Consejo Nacional de Política Económica y Social [National Social and Economic Policy Council]
DANE	Departamento Administrativo Nacional de Estadística [National Administrative Department for Statistics]
DIAN	Dirección de Impuestos y Aduanas Nacionales [Department of National Taxes and Customs]
DNP	Departamento Nacional de Planeación [National Planning Department]
DPS	Departamento de Prosperidad Social [Social Prosperity Department]
ECV	Encuesta Nacional de Calidad de Vida [National Quality of Life Survey]
FDI	Foreign direct investment
ICBF	Instituto Colombiano de Bienestar Familiar [Colombian Family Welfare Institute]
IETS	Instituto de Evaluación Tecnologica en Salud [Health Technology Evaluation Institute]
INVIMA	Instituto Nacional de Vigilancia de Medicamentos y Alimentos [National Food and Drug Surveillance Institute]
LAC	Latin America and the Caribbean
MFA	Más Familias en Acción [More Families in Action]
MHCP	Ministry of Finance and Public Credit
MSMEs	Micro, small, and medium-sized enterprises
NFPS	Nonfinancial public sector
OVE	Office of Evaluation and Oversight
PISA	Programme for International Student Assessment
PND	Plan Nacional de Desarrollo [National Development Plan]
PPP	Public-private partnership
PwD	Persons with disabilities
R+D+i	Research, development, and innovation
RAIS	Régimen de Ahorro Individual con Solidaridad [Solidarity-based Individual Savings Regime]
RPM	Régimen de Prima Media [Average Premium Regime]
SIIF	Sistema Integrado de Información Financiera [Integrated Financial Information System]
SISBÉN	Sistema de Identificación de Potenciales Beneficiarios de Programas Sociales [System for Identification and Classification of Potential Social Program Beneficiaries]
SMEs	Small and medium-sized enterprises
WEF	World Economic Forum
ZNI	Zonas no interconectadas [non-interconnected zones]

EXECUTIVE SUMMARY

Socioeconomic context

Colombia has grown at an annual average rate of 4.1% over the last 15 years. As a result, the country has succeeded in rapidly narrowing several different socioeconomic gaps, particularly poverty, which fell from 49.7% to 27% between 2002 and 2018, and the middle class, which accounts for more than 50% of the population. However, external shocks hitting the economy in recent years have slowed growth. Although government policies have safeguarded macroeconomic stability, social gains have also lost momentum. In this new environment—characterized by greater international volatility, the end of the commodity supercycle, and rapid mass immigration—it is essential to strengthen the domestic foundations for growth. In particular, significant productivity gains are needed to accelerate economic growth and social progress.

The IDB Group in Colombia

The IDB Group country strategy with Colombia 2015-2018 prioritized the following areas: (i) increase productivity; (ii) improve public management effectiveness; and (iii) ensure greater social mobility and consolidation of the middle class. It also envisaged three crosscutting areas: (i) gender and diversity; (ii) climate change; and (iii) integration. Approvals during the previous country strategy cycle were 19 sovereign guaranteed loan operations for US$3,559.4 million and 10 non-sovereign guaranteed operations for US$994.7 million. IDB Lab approved 20 operations for US$21.3 million.

Strategic areas

The objective of the 2019-2022 country strategy remains to support the policy areas that contribute to achieving the long-term vision of transforming Colombia into a high-income country with social mobility. Accordingly, support is proposed for Colombia's institutional and productive transformation and the promotion of social mobility. The country strategy will thus continue to prioritize the three strategic areas now in implementation. As part of these Bank priorities and programs, special emphasis will be put on the needs of Venezuelan immigrants. Planned actions are aligned with the current National Development Plan (PND), which prioritizes institution-strengthening, inclusive economic growth based on higher productivity, and poverty reduction and social development.

Financial envelope

Average sovereign guaranteed loan approvals of around US$1 billion per year are projected during the period 2019-2022. Projected sovereign guaranteed disbursements are US$4.074 billion. In addition to this lending, technical cooperation, investments, and non-sovereign guaranteed loans for the private sector will be channeled through IDB Invest and IDB Lab.

Risks

The main risks for country strategy implementation relate to: (i) macroeconomic volatility and its impact on public finances; (ii) insufficient fiscal resources and risks relating to public investment execution; and (iii) risks specific to non-sovereign guaranteed operations.

Strategy cycle

Once approved, the IDB Group's country strategy with Colombia 2019-2022 will remain in force until 7 August 2022.

I. SOCIOECONOMIC CONTEXT[1]

1.1 **Colombia's economy performed well between 2000 and 2014 but then embarked on a downward growth path as oil prices declined.** At 4.3%, Colombia's annual growth rate in the 2000-2014 period was 1.4 percentage points higher than in the 1990s. Inflation was brought under control in the same span of time, falling from an annual 22% to 4.9% on average, and consolidation was observed in the fiscal and external accounts. The central government fiscal deficit shrank from -4.6% of GDP in 2000 to -2.4% in 2014, while the current account deficit stabilized at 3% of GDP, financed primarily by foreign direct investment. The public finances deteriorated as a result of the falling oil prices in mid-2014, leading to a fiscal deficit of 4% of GDP[2] and a current account deficit of 6% in 2016. Growth settled gradually to an annual rate of 1.4% in 2017. The economy resumed a growth path in 2018 with an annual rate of 2.8%. So long as current conditions hold for investment, employment, and productivity, projections for the next few years point to annual GDP growth of 3.5%.

1.2 **External conditions and monetary and fiscal policies created the conditions necessary for sustained growth.** Increased commodity prices led to a 58% improvement in terms of trade between the 1990s and 2018. This pushed up the value of exports, particularly oil and minerals, which accounted for more than 60% of total exports in the period 2011-2017. Monetary and fiscal policy management has enabled Colombia to maintain investment grade status since 2011. The introduction of a fiscal rule in 2011 was aimed at balancing the public sector accounts with a downward trend in the fiscal deficit. In monetary policy, Banco de la República adopted inflation targeting in the 1990s, which has led to low and stable inflation rates. In that framework, the flexible exchange rate acts as an automatic stabilizer in the event of external shocks. Financing for the current account was secured in an international context of low interest rates and substantial growth in capital flows. Foreign direct investment (FDI) rose from an annual average of 1.7% of GDP in the 1990s to an average of 3.7% for the period 2000-2018.

1.3 **With the end of the commodity price supercycle, the Colombian economy suffered fiscal and external imbalances, while growing at slower rates.** The 2014 oil price shock widened the external and fiscal deficits, depreciated the exchange rate, and raised inflation. Since 2018, the external accounts and inflation have converged on their historical levels. The fiscal deficit remains on a downward trajectory, converging in the medium term on the target set by the Fiscal Rule (-1% of GDP). Thus, in 2018 GDP grew at an annual rate of 2.8%, and the fiscal and current account deficits closed out the year at 3.1% and 3.8% of GDP, respectively. Inflation was within the target band, ending the year at an annual rate of 3.2%. In a scenario that assumes no policy reforms, projections for the country strategy period indicate annual GDP growth near 3.5%, with annual

[1] Bibliographic citations and data sources not referenced in this strategy document are included in the Country Development Challenges (CDC) document for Colombia and the CDC Update (see links).

[2] The absence of hedges against oil price fluctuations exacerbated the impact of the shock on the economy.

inflation of 3.2%, a fiscal deficit of less than 2% of GDP, and a current account deficit of 2.5% of GDP.

1.4 **Economic performance and social policies reduced poverty and made expansion of the middle class possible.**[3] Colombia has traditionally been a country with very low social mobility. The favorable social developments since 2002 were spurred by changes in employment and wage earnings and an increase in transfers to the low-income population. Monetary poverty went from 49.7% to 28.5% between 2002 and 2014, and extreme poverty from 17.7% to 8.1%. The middle class also received a significant boost: whereas this group accounted for close to 37% of the population in the early 2000s, now that same indicator is more than 50% of Colombian households.[4] Unemployment went from 16% to 9%, and inequality (as measured by the Gini coefficient) improved marginally from 0.57 to 0.54, over the same period. Since 2014, in the wake of the shock that sent oil prices plunging, social indicators such as employment and poverty have been less robust. Poverty has continued to fall but at a slower pace, to 27% in 2018 for moderate poverty and 7.2% for extreme poverty. The unemployment rate, in contrast, remained at 9% on average.[5]

1.5 **Colombia needs to find new engines of economic growth that also leverage greater productivity.**[6] Accelerating potential economic growth will require a transition to a different development model more driven by productivity gains (first strategic area). Many of these interventions require public funding and strong institutions (second strategic area) in a context of fiscal consolidation. One important challenge is the flow of migration from Venezuela. According to the United Nations estimates, approximately 3.7 million people have left Venezuela, 1.2 million of whom live in Colombia. Between 2017 and 2018, more than 1.3 million new immigrants entered Colombia. The phenomenon poses a fiscal challenge, given that this wave of immigrants demand health, education, and early childhood services, as well as humanitarian assistance. This shock is having a stark impact on public expenditure and making immediate demands on the labor markets and public education and health. Lastly, to consolidate the growth of the middle class, social strategies need to be reformulated to protect the safety net for the middle class (third strategic area), with emphasis on the most vulnerable sectors.

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[3] See CDC Update.

[4] See CDC and CDC update.

[5] Source: National Administrative Department of Statistics (DANE).

[6] In The Age of Productivity: Transforming Economies from the Bottom Up IDB (2010), the problem of low productivity in Latin America and the Caribbean is associated with: (i) high rates of informality; (ii) a number of social policies that displace workers into low-productivity activities; (iii) the high cost of transportation, energy, and logistics services; (iv) limited credit access; (v) macroeconomic volatility; (vi) discriminatory tax regimes; (vii) low innovation and an absence of efficient productive development policies; and (viii) weak diversification of production.

1.6 **The identified challenges are consistent with the National Development Plan 2018-2022: Pact for Colombia – Pact for Equity (PND).**[7] The PND has three major strategic areas and fourteen crosscutting areas. The three major strategic areas are: (i) a pact for legality; (ii) a pact for entrepreneurship, formalization, and productivity; and (iii) a pact for equity. The crosscutting areas (pacts) relate to: (i) sustainability; (ii) science, technology, and innovation; (iii) transportation and logistics; (iv) digital transformation; (v) public services; (vi) mining and energy; (vii) the orange economy and culture; (viii) peace-building; (ix) ethnic groups; (x) persons with disabilities; and (xi) equality for women.

II. THE IDB GROUP IN COLOMBIA

A. Analysis and results of the IDB Group country strategy 2015-2018[8]

2.1 **The IDB Group country strategy 2015-2018 has been an important tool for dialogue on Colombia's development.** Policy dialogues and consultation processes with the government, business sectors, civil society, and others have stimulated discussion regarding the nature of growth in the country and ways of accelerating it. The objective of the Bank's country strategy with Colombia was to support policy areas that help to achieve the long-term vision of transforming Colombia into a high-income country with social mobility. To this end, three closely interrelated strategic areas were identified: (i) economic productivity; (ii) public management effectiveness; and (iii) social mobility and consolidation of the middle class. In light of the results achieved and the judgment of the government and representative sectors of civil society, continued support to the country is proposed in these same three priority areas. This will require extending the time horizon for the strategy and confirms the effectiveness of continuing to work on the same major strategic areas.

2.2 **The IDB Group is one of Colombia's key multilateral partners.** IDB sovereign guaranteed lending accounts for 44.2% of multilateral financing and 14.3% of external financing.[9] During the strategy period,[10] the Bank approved US$3,459.4 million under 19 sovereign guaranteed operations.[11] Of the total volume of approved funding, 76.9% was allocated to the areas of connectivity, markets and finance, fiscal management, innovation in citizen services, and

[7] In 2018, one of the precursors to discussions about a national development pact was the "Grand National Accord for the Future of Colombia," in which the Bank participated actively. The process involved 120 experts, leading to the setting of quantifiable targets for a four-year period. The main stakeholders included Universidad de los Andes, Universidad del Rosario, Asociación Nacional de Empresarios de Colombia (ANDI), Consejo Privado de Competitividad, Proantioquia, Cámara Colombiana de la Construcción (CAMACOL), Federación Nacional de Comerciantes (FENALCO), Corporación Excelencia en la Justicia, McKinsey & Company, and the IDB.

[8] Includes results achieved during the country strategy execution period, irrespective of the approval date of operations.

[9] Nonfinancial public sector data as of December 2018 (Source: Ministry of Finance and Banco de la República).

[10] From November 2015 to December 2018.

[11] Thirteen investment loans for US$959.4 million and six policy-based loans for US$2.5 billion.

infrastructure. The remaining 23.1% was distributed across the areas of housing and urban development, natural disaster management, rural development, and the social areas. Fifty-two nonreimbursable technical cooperation operations were also approved for US$50.6 million, with an emphasis on social investment, the environment and natural disasters, and reform and modernization of the State. IDB Invest approved 10 operations for US$994.7 million, emphasizing the sectors of infrastructure and energy (70%) and financial institutions (29%). Of special note has been the IDB Group's support for the Ituango hydropower plant with an expected installed capacity of 2,400 MW of renewable energy, representing close to 20% of Colombia's total power. IDB Lab approved 20 operations for a total amount of US$21.3 million, concentrating on sustainable agriculture; the development of micro, small, and medium-sized enterprises (MSMEs); dynamic entrepreneurship; investment funds; capital markets; technology adoption in health; entrepreneurship and financial inclusion (Fintech); inclusive cities; and the knowledge economy.

2.3 **The portfolio of sovereign guaranteed loans in execution stood at US$2,376.3 million with disbursement of 21%.**[12] In terms of volume of approvals, infrastructure operations accounted for the largest share of the portfolio (47.9%), followed by sustainable development (24.1%), institutions (25.6%), social (1.9%), and integration (0.5%). The active nonreimbursable technical cooperation portfolio includes 65 operations with a current approved amount of US$60.5 million, concentrated in sustainable development (42%), infrastructure (35%), institutions for development (12%), social sector (10%), and support for economic growth and execution of operations (1.2%).

2.4 **IDB Invest has a current exposure of US$483.5 million,** consisting of 13 operations concentrated primarily in the sectors of financial intermediaries, energy, and transportation. It also has two operations in the process of contract closing in the manufacturing and financial markets sectors with approved funding of US$30 million. As of 30 April 2019, IDB Invest has six specific operations for Colombia in its pipeline (in the process of being approved) for a value of US$380 million in the sectors of financial institutions, energy, and science and technology. The IDB Lab portfolio in Colombia has 45 projects for a value of US$54.5 million, consisting of US$28.3 million in investment operations, US$18.7 million in technical cooperation operations, US$4.6 million in Social Entrepreneurship Program loans, US$2 million in a MIF loan, and US$0.9 million in contingent recovery technical cooperation.

2.5 **The IDB Group portfolio provides a strong basis for strategic positioning consistent with the government's expressed priorities and the objectives of the new Bank country strategy.** In the public sector, the IDB has financed loan and technical cooperation operations to support quality infrastructure and public

[12] The portfolio in execution (or active portfolio) is defined as operations approved by the Board of Executive Directors or Senior Management that have not yet been closed from an operational standpoint. Operational close occurs when the last disbursement has been made, and supporting documentation submitted, in accordance with the Financial Management Guidelines for IDB-financed Projects (document OP-273-6) or sovereign guarantees, upon the date of execution or expiration. Data as of 31 December 2018.

service delivery, reduce vulnerability to climate change, address natural disasters and support sustainable development in post-conflict zones, reduce social and sector gaps, finance the public and private financial sectors, and improve the quality of institutions. In terms of policy dialogue, the Bank has developed significant and innovative activities in support of fiscal policy, pensions, the quality of education, health, targeted subsidies, transparency, construction efficiency, and other areas. IDB Invest has built on this by targeting its operations to infrastructure improvements, access to finance (particularly for the least-served segments), and promotion of innovation. The strategic areas have thus been covered, with positive outcomes as described below.

1. Increase economic productivity

2.6 **Innovation and business and agricultural development.** The Bank helped to improve MSME productivity by fostering lending for medium- and long-term investment projects[13] through credit institutions. Ordinary Capital financing of US$200 million was provided, leveraging a further US$200 million in local counterpart funding; together, these amounts were used to finance 1,870 companies. Access to finance was improved among the beneficiary companies, with the average tenor of loans funded through the program increasing from 2.18 to 4.3 years, and the quality of the subloan portfolio improving from 2% to 1.09%. The Bank also contributed to the supply of regular statistical information to enable the public and private sectors to optimize the design of policy instruments and decision-making. IDB Lab invested in the fintech company Sempli, which provides online loans to startups and scaleups in the information and communication technologies, applied engineering, and logistics sectors.[14] With respect to the public policy dialogue,[15] the Bank supported development of the financial sector in Colombia by: (i) increasing financing for productive development;[16] (ii) supporting capital market development and financial transparency;[17] and (iii) improving financial inclusion for the unbanked population and MSMEs.[18]

2.7 In the area of innovation, the Bank helped to strengthen the capabilities of the Department of Science, Technology, and Innovation (Colciencias) for managing, monitoring, and evaluating its regional and national programs. At the same time, support was provided to stimulate business innovation in the biofuel and energy efficiency sectors.[19] A unique social innovation program was also developed that

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[13] CO-L1132 and CO-L1222. Programs for the Financing of Investment Projects, Productive Restructuring, and Export Development.

[14] Sempli is an online lending platform that uses an automated, technology-based process of credit analysis and risk segmentation to provide working capital loans of up to $600 million to small and medium-sized enterprises (SMEs) in Colombia with a 48-hour turnaround.

[15] CO-L1144 and CO-L1214. Financial System Reform Support Program.

[16] Credit to the agriculture sector rose from 31% of sector GDP in 2013 to 33.8% in 2017.

[17] In 2017, there were 54 new issues on the stock exchange.

[18] The share of the adult population with at least one financial product rose from 69% in 2014 to 77% in 2016, whereas the share of MSMEs with a bank loan or credit line rose from 57.2% in 2010 to 64.7% in 2018.

[19] CO-L1092. Project to Strengthen the National Science Technology and Innovation System.

successfully linked Colciencias to nonconventional beneficiaries (socially excluded communities) with clean drinking water access solutions in communities in the Guajira, Putumayo, and Risaralda regions.[20] Lastly, IDB Lab implemented an international innovation methodology (Ideas Lab) in Quibdó, to identify and define production-related projects.

2.8 **Improve the quality of education.** The Bank has contributed to the process of modernizing decentralized management in education, supporting the government's efforts to reduce regional inequities in education quality and coverage by: (i) deepening the process of modernization in decentralized management, reaching educational institutions in particular; (ii) improving citizen skills and education for the exercise of human rights in basic education; and (iii) expanding access and graduation rates in technical and technological education by strengthening existing supply and generating new, quality educational options.[21]

2.9 **Raise the quality of infrastructure and urban development and reduce transaction costs in the economy.** IDB Group interventions in the transportation sector sought to improve connectivity in order to enhance the country's productivity and competitiveness, with support for strategic public transportation systems,[22] fostering infrastructure investment through public-private synergies such as public-private partnerships (PPPs), and strengthening the necessary institutional structure.[23] Subnational programs have improved habitability in low-income neighborhoods by means of social infrastructure, public spaces, and urban roads.[24] IDB Invest is financing three 4G operations[25] and two airport concessions. Lastly, the Bank assisted in the creation of Empresa Metro de Bogotá and is lead financier for the metro system with a credit line of US$600 million.[26]

2. Improve public management effectiveness

2.10 **Increase State revenues.** Through its support for electronic invoicing and advisory support in the area of tax policy, the Bank has been a key partner for the country in deepening the 2016 fiscal reform.[27] This reform yielded additional revenue of nearly 1% of GDP in 2017 and 2018. Colombia is also expected to

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[20] Following preparatory work in Afrodescendant, indigenous, and rural communities, 119 needs were identified, leading to the development of clean energy solutions for the well-being of communities in Colombia's Pacific region. Source: Project completion report, CO-L1092. Project to Strengthen the National Science Technology and Innovation System, Phase I.

[21] CO-L1093. Management Support Program for the Quality Education Plan for Prosperity.

[22] CO-L1091. Strategic Public Transportation System Program.

[23] CO-L1131. Program to Support Public-Private Partnerships in Infrastructure.

[24] CO-L1125. Program to Support the Sustainable Development of the Department of the San Andrés, Providencia, and Santa Catalina Archipelago; and operations under Conditional Credit Line for Investment Projects (CCLIP) CO-X1018: Fiscal and Public Investment Expenditure Strengthening in Subnational Entities.

[25] 4G public-private partnership program in Colombia.

[26] CO-O0003/CO-L1234. First Line of the Bogota Metro – First Tranche.

[27] Program to Deepen Fiscal Reform in Colombia, comprising two tranches: CO-L1142 (2015) and CO-L1227 (2018).

improve tax revenue intake by 0.4% of GDP in 2019 as a result of electronic invoicing, while customs clearance times are projected to be shortened by three hours, and the profile of the public debt improved.[28] As a result of the program to expand electronic invoicing, 153,000 companies are expected to issue electronic invoices by 2021. This will strengthen the capacity of the Department of National Taxes and Customs (DIAN) to perform inspections and manage the risk of evasion, avoidance, and smuggling, while also improving efficiency, transparency, and control in tax and customs operations and reducing and optimizing invoicing timeframes and costs for taxpayers (including for SMEs and exporters and importers). In the medium term, global electronic invoicing for the value-added tax (consumers and international trade), combined with cross-referencing against the income tax database, will yield additional revenue of 4% of GDP.

2.11 **Raise the quality of expenditure and public investment management capacity at all levels of government.** Subnational entities execute a large share of Colombia's public expenditure (around 73% of the country's total education expenditure and 61% of health expenditure). Consistent with this, there was continuity in the area of financial and technical assistance to local governments in the credit line to subnational entities for fiscal strengthening and the financing of public investment.[29] Assistance was also provided to the country in developing tools to support results-based public management—specifically, the launch and implementation of the MapaRegalías tool with georeferenced information on projects registered in the project database of the National Planning Department (DNP), indicating where each project is being developed and its main features and beneficiaries. The drafting of a law to create a Budgetary Technical Assistance Office would also represent a significant contribution to public budgetary management, encouraging the creation of an independent body capable of providing advice on the budgetary implications of laws under discussion in Congress.

2.12 **Increase the efficiency and quality of justice.** Significant progress has been achieved in the justice system, leading to improved perceptions of agility and consistency and increased trust. A new judicial model has been implemented in the superior courts, while 340 judges and judicial officers have been trained in judicial management, 18 courtrooms have been furnished, 93,000 case files have been organized in accordance with legal guidelines, a new legislative information system has been developed for the superior and administrative courts, a new public service strategy has been implemented, and a new portal has been launched for the judicial branch.[30] Legal defense of the State has been strengthened with a 25% increase in unappealable judgments favoring the government and a 12% increase in settlements as a proportion of the total. Support for strengthening of the Office of the Attorney General has been

[28] The average life of the debt in 2019 is expected to be 6.4 years for domestic debt and 11.1 years for external debt, while foreign currency-denominated debt is not expected to exceed 32% of the total. Source: Results matrix, CO-L1227. Program to Deepen Fiscal Reform in Colombia II.

[29] CO-L1133, CO-L1155, and CO-L1165.

[30] Source: CO-L1041. Project for Strengthening Judicial Services.

successful in improving the level of regulatory compliance among departmental governments, the Ministry of Social Protection, and the National Highways Institute. The results obtained led to an improvement of more than 10 percentage points in the rate of regulatory compliance, based on (among other things) the development of plans for strengthening the comprehensive prevention system, implementation of an integrated preventive information system, introduction of a preventive management oversight protocol for the public administration, execution of a national preventive training program, and implementation of hiring guidelines for preventive staff.[31]

3. Increase social mobility and consolidate the middle class

2.13 **Continue to reduce poverty and eliminate extreme poverty.** Support was provided to the Government of Colombia in building public policies to expand the coverage and targeting of transfer programs. An operation was approved to improve the equity and efficiency of subsidy expenditures financed through the central government budget.[32] Policy conditions in the programmatic series[33] seek to improve subsidy allocation by increasing the number of programs that allocate subsidies in accordance with the principles established in the legal framework (by 40%), as well as the percentage of programs that allocate subsidies with budget identifiers (by 60%) and the efficiency with which these subsidies are targeted using the System for Identification and Classification of Potential Social Program Beneficiaries (SISBÉN). Projections for 2020 indicate that 1,102 municipios will be using SISBÉN IV, while the number of inclusion/exclusion errors will be reduced by 8%, and the number of programs using SISBÉN as a targeting criterion increased by 8. The Sustainable Colombia operation was also approved and will promote environmental and socioeconomic sustainability with an emphasis on municipios affected by the armed conflict.

2.14 **Reduce economic informality.** Bank support has helped to develop skills and social entrepreneurship in at-risk and economically excluded teens and young people aged 15 to 25. More than 8,000 entrepreneurs also received training, leading to the design of 40 change initiatives that are having a significant impact in their communities. The Bank is also assisting the Colombian government with design and implementation of the new national human capital policy, supporting the coordination of public and private stakeholders and adapting capital human strategies to policies aimed at boosting productivity. Accordingly, the Bank has worked together with the country's six largest chambers of commerce to provide incentives for the formalization of enterprises to enhance regional competitiveness. Lessons learned from the project and its methodology were used by the central government as inputs for preparing National Economic and

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[31] Source: Progress report, CO-L1098. Program to Strengthen the Office of the Attorney General.

[32] CO-L1163. Support for Subsidy Reform Program.

[33] (i) A bill that would organize the allocation of subsidies; (ii) a proposed amendment to Decree 1082 of 2015 (Sole Decree Governing the National Administrative Planning Sector); (iii) the technical document "Comprehensive targeting and social mobility system, SISBÉN IV" submitted for preliminary review by the National Economic and Social Policy Council (CONPES); and (iv) an interoperability decree that allows social programs to access the same updated information, so that families participating in any of the social programs can be traced.

Social Policy Council (CONPES) document 3956, “Política de Formalización Empresarial [Enterprise Formalization Policy].” The inclusion of persons with disabilities (PwD) in the labor market was also fostered under the “Pacto de Productividad [Productivity Pact]” program, which developed and launched an organizational model and architecture to help place PwD in jobs in Colombia, effecting an institutional, entrepreneurial, and public policy transformation in the labor sphere.[34]

2.15 **Consolidate a sustainable and inclusive pension and health system.** Support was provided to the government for testing a new health model[35] aimed at improving service quality and access, and for identifying different mechanisms for coordinating system participants. Support was also continued to determine the implementation process for the value-added generation policy in health technologies. As part of this, the National Food and Drug Surveillance Institute (INVIMA) and the Health Technology Evaluation Institute (IETS) improved their capabilities for detecting the new health technologies that will enter the Colombian market,[36] ensuring greater efficiency in the use of public resources allocated to the sector. This support also envisions the preparation of guidelines for increasing dissemination of the findings of the health technology evaluation. The Bank also assisted Colombia Compra Eficiente and the Department of Health in establishing a centralized process for negotiating the prices of hepatitis C and HIV medications. Technical support was provided to the government in identifying a reform agenda for the economic protection system for the elderly. The Colombian pension administrator, Colpensiones, also received support to identify opportunities for modernizing the management of work histories and benefit determination.[37]

2.16 **Increase equitable access to quality basic services.** As a result of the Bank’s support, connections to clean drinking water systems will be expanded in 62,000 homes (56,000 Afrocolombian) and more than 17,000 homes with connections to the sewer system in Buenaventura and Quibdó. Municipios on the Pacific coast will benefit from an increase in electricity coverage to 92% and the connection of more than 9,000 Afrocolombian households to the electricity system.[38] A project is being developed on San Andrés Island to expand the access of vulnerable populations to water and sanitation and improve electricity

[34] CO-T1425. Social Inclusion Model for Individuals with Disabilities. Significant progress has been made thus far in developing a model of soft or socioemotional skills that will benefit persons with disabilities (PwD), their families and caregivers, and rehabilitation organizations and public bodies that promote employment and employability for this vulnerable population. In addition, two PwD-owned companies that also employ PwD were selected for technical assistance to strengthen their productivity and competitiveness.

[35] CO-T1318. Piloting an Experimental Model of Health Service Delivery.

[36] CO-T1356. Support for Deepening Reform of the General Social Security System.

[37] CO-T1474. Strengthening Colombia’s Pensions System.

[38] CO-L1156. Water, Basic Sanitation, and Electrification Program for the Colombian Pacific Region as part of the “Plan Todos Somos PAZcífico.”

services through efficient demand management.[39] Recovery will also be supported in the municipio of Mocoa through implementation of the sewer master plan for the city. Lastly, through its operations to support subnational entities, the Bank has sought to increase access to public and social services and improve their quality. A technical cooperation operation supported by Switzerland is being used to develop a vast program of support for the quality of management in water companies in 10 of the country's cities.

2.17 **Crosscutting themes.** The Bank has supported several areas of opportunity in gender and climate change, including the social impact bond program,[40] which is an innovative financing model tied to employment outcomes in Colombia. The program is helping to improve the quality of life for traditionally excluded groups—including at-risk youth and women heads of household—by ensuring that they are able to access formal employment. More than 7,600 people are expected to benefit, 50% of whom will be women. Support is also being provided for the creation of Women's Equality Centers in Medellín and Quibdó and for strengthening activities in departments with responsibility for women's issues (aimed at building capacity for the planning and execution of projects benefiting women).

2.18 Support is being provided through IDB Lab for creation of the first Habitat Bank, which channels private funding into activities to restore and conserve private lands. Under this pioneering arrangement in Latin America, companies causing environmental damage can offset it by purchasing credits generated by Habitat Bank operations. Habitat Bank expects to have an impact on 600 hectares through 350 environmental credits.[41] IDB Invest is providing technical assistance

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[39] CO-L1119. Efficient Energy Demand Management in Non-Interconnected Zones – San Andrés, Providencia, and Santa Catalina Archipelago Pilot Program. Electricity services are expected to be improved by the replacement of domestic appliances, with a positive impact in terms of reducing greenhouse gas emissions and the cost of service delivery.

[40] Social impact bonds are financial vehicles that allow private funds to be channeled into actions addressing social problems. Contracts are typically established between the government and an intermediary (usually a nongovernmental organization) that enlists private investors and coordinates execution of the intervention. Social impact bonds invite the private sector to advance funds so that service providers can implement their interventions, and the government only pays if results are forthcoming, as verified by an external expert. In other words, the risks of the intervention are transferred to the private sector. Accordingly, the government no longer pays for activities, paying instead for results. For example, instead of paying to train people who are difficult to place in employment, it pays when these people secure formal employment.

Social impact bonds were first launched in 2010 in the United Kingdom. Colombia was the first developing country to issue a social impact bond, under an IDB Lab program cofinanced by the Swiss Agency for Development and Cooperation (SECO) and executed by Fundación Corona. In 2017, the Social Prosperity Department (DPS) and the IDB Group signed the first social impact bond aimed at creating employment for vulnerable individuals. The project was successfully completed in December 2018, and its results are being analyzed to document them and identify best practices. The second bond under the program was issued in 2019 with Cali City Hall. As an international lesson learned, a Payment for Results Fund is being developed by the DPS and the IDB Group project as a strategy for scaling up the use of these bonds in Colombia and Latin America generally.

[41] The purpose of habitat banks is to serve as aggregate offsetting mechanisms, whereby several companies can offset their environmental impact in a single area. Companies generating impacts only pay out when various benchmarks are met in the design, structuring, and maintenance of biodiversity units (measured in hectare equivalents).

to clients with a view to expanding its green portfolio. The Davivienda operation will finance approximately 250,000 home construction loans in Colombia, with plans to include sustainability criteria and climate change mitigation and adaptation measures.

B. Lessons learned

2.19 **Lessons learned are based on the Bank's accumulated experience in the country, as well as the dialogue with different public, private, and civil society actors and the findings and recommendations of the Office of Evaluation and Oversight (OVE) (see Annex IV).**

2.20 **Lessons learned:** (i) The ongoing policy dialogue promoted by the Bank regarding the need to accelerate growth has stimulated discussion across broad segments of society and has established a shared work agenda based on the Bank's country strategy; (ii) performance on projects experiencing difficulties has been improved by maintaining open and continuous communication channels with the Ministry of Finance and Public Credit (MHCP) and the National Planning Department (DNP); (iii) the Bank can play a key role in catalyzing resources from other institutions, having achieved cofinancing agreements worth US$300 million, such as in the Sustainable Colombia Fund,[42] US$50 million in Korean funds for the digital PBL, leveraging the China Cofinancing Fund, and attracting US$700 million in financing for the Ituango dam (a hydroelectric project supported by the Bank's Energy Division and financed by IDB Invest); (iv) effective use of technical cooperation operations can enable the IDB Group to position itself as a key actor in strategic areas for the government; and (v) to achieve a systemic impact in SME access to finance, it is important to partner with financial institutions that have a significant presence in the country.[43]

III. STRATEGIC AREAS

3.1 **IDB Group country strategy 2019-2022.** This country strategy seeks to accelerate growth of the Colombian economy above its current trend, to annual rates of 6% to 7% in the medium and long term.[44] To achieve this vision, which extends beyond this strategy cycle, the delivery and quality of public goods, infrastructure, and logistics need to be expanded significantly. In turn, the availability of fiscal resources for public investment needs to be increased. Lastly, the middle class needs to be strengthened and consolidated in order to ensure social mobility in society.

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[42] With resources from Norway, Sweden, and Switzerland.

[43] Specifically, regarding IDB Invest, a financial institution's performance may be suboptimal if it fails to identify the universe of beneficiaries of these lines in advance, even where the institution is a leader in green financing.

[44] See CDC.

3.2 **Colombia faces three major challenges in accelerating growth.**[45] The three strategic objectives are: (i) economic productivity; (ii) public management effectiveness; and (iii) social mobility and consolidation of the middle class.[46] The strategy will also provide continuity and support to the crosscutting themes of gender and diversity, climate change, integration, and new challenges posed by the digital economy and immigration (see CDC Update). IDB Group support will be provided through new interventions (sovereign guaranteed and non-sovereign guaranteed) and ongoing operations, as well as technical assistance, analytical studies, and policy dialogue. The country strategy 2019-2022 is aligned with the IDB Institutional Strategy 2010-2020,[47] the IDB Invest Business Plan 2016-2019, and the IDB Lab Business Plan 2019-2021 (see paragraphs 3.15, 3.23, and 3.35). As part of these Bank priorities and programs, special emphasis will be put on immigrants' needs. Lastly, the strategy is aligned with the National Development Plan.[48]

A. Economic productivity

3.3 **Convergence toward the developed countries has stalled.** Colombia's GDP per capita is 24% of the GDP of the United States, and hardly any convergence has occurred over the last 30 years, with the gap narrowing by just 4% between 1990 and 2017. This performance is primarily due to a stagnation in productivity. Growth in Colombia's economy from 2000 to 2018 was driven by factor accumulation. Thus, while the contribution of productivity[49] to growth was negative in the period 1990-2018 (-0.7% per year on average), in the United States productivity contributed 0.5 percentage points to annual GDP growth.[50] Likewise, it currently takes four Colombian workers to generate the value of one U.S. worker, and 1.6 Colombian workers to generate the value of one Chilean or Uruguayan worker.[51]

3.4 **Low productivity is the result of multiple factors.** Based on the findings of the Country Development Challenges (CDC) document, the factors limiting productivity growth include the following: (i) spur innovation and development in business and agriculture; (ii) achieve quality education and prioritize the most

[45] These challenges were identified as the main development bottlenecks in both the previous strategy and the CDC Update. Paragraph 11 of the CDC Update offers a comparison of development gaps in the periods 2015-2018 and 2019-2022 and shows that the challenges identified in the CDC continue to exist. The CDC Update and the dialogue with civil society have also allowed new challenges to be identified, particularly digitalization of the economy and immigration.

[46] All references can be found in the CDC and CDC Update.

[47] This strategy is also consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008).

[48] The strategy is aligned with the following areas of the PND: (i) a pact for legality; (ii) a pact for entrepreneurship, formalization, and productivity; and (iii) a pact for equity. It is also aligned with the crosscutting lines of: (i) sustainability; (ii) science, technology, and innovation; (iii) transportation and logistics; (iv) digital transformation; (v) public services; (vi) the orange economy and culture; (vii) peace-building; (viii) ethnic groups; (iv) persons with disabilities; and (x) equality for women.

[49] Measured as total factor productivity.

[50] This decline intensified in the years following the collapse in oil prices. In 2015-2018, the contribution of productivity to GDP growth was -1.4% per year on average.

[51] Authors' calculations based on data from the Conference Board.

vulnerable segments of the population; and (iii) increase the quality and stock of infrastructure.

3.5 **Innovation and digital ecosystems** (see CDC, paragraphs 3.2 to 3.7, and the CDC Update, paragraphs 38, 39, 44, and 47 to 50). Investment in innovation is a critical factor for long-term economic growth and not simply a result of that growth.[52] Although Colombia has made progress in recent years in shoring up the foundations for positioning itself in the new digital economy,[53] there is a significant lag in relation to innovation. The innovation capacity index shows that Colombia ranks below the advanced countries.[54] The number of patent applications (per million inhabitants) shows Colombia lagging behind the rest of Latin America and the Caribbean (LAC) and the advanced nations.[55] At the same time, Colombian companies' use of digital instruments such as cloud computing, big data, and artificial intelligence is low (at 17%, 3%, and 2%, respectively). Moreover, only 28% of companies deliver products online, and just 12% have a digital transformation strategy.[56] The factors accounting for the gaps in innovation and slow digital transformation include: (i) low levels of investment in research, development, and innovation (R+D+i);[57] (ii) a lack of skilled human capital;[58] and (iii) limited development of the innovation and entrepreneurship ecosystems, including access to finance, that drive the transition to the digital economy (such as seed capital financing for the development of startups).[59]

3.6 *Policy proposals*. To accelerate the digital transformation in Colombia, government and enterprises need to work together in a coordinated manner, taking into account the following major strategy areas: (i) increasing investment in R+D+i;[60] (ii) improving access to digital education and promoting large-scale

[52] The Age of Productivity: Transforming Economies from the Bottom Up (IDB, 2010).

[53] Since the beginning of the decade, mobile network operators have contributed to the expansion by investing US$9 billion in networks and radio spectrum. As a result, 3G broadband coverage in Colombia is over 90% today, and 4G technology is expanding rapidly, reaching almost two thirds of the population. The mobile ecosystem generated around 64,000 jobs in 2016 and contributed almost US$2.3 billion in taxes and regulatory fees. GSMA (2017), "Country overview: Colombia. Mobile industry collaborating with government to promote entrepreneurship and innovation".

[54] The World Economic Forum's innovation capacity index for 2018 shows a score of 3.8 for Colombia, compared to 4.8 for Europe and the U.S.

[55] Colombia had 1.9 patent applications per million inhabitants in 2017, compared to 3.7 in LAC, 59.7 in Southeast Asia, and 80.7 in Europe and the U.S.

[56] See CDC Update and Observatorio de Economía Digital [Digital Economy Observatory], ABC de la Digitalización [ABC of Digitalization], Ministry of Information and Communications Technologies. Available at http://micrositios.mintic.gov.co/abc_digitalizacion_empresas/.

[57] Total annual R+D+i spending in Colombia is 0.27% of GDP: 40% of the average amount invested in LAC (0.67%) and seven times less than the average for OECD countries (1.9%).

[58] For example, Colombia has 346 researchers per million inhabitants, compared to 4,712 in Spain, 1,514 in Argentina, and 872 in Brazil.

[59] Colombia ranks 103rd out of 126 countries on development of innovation networks, which reflects such factors as research collaborations between centers of education and industry, the presence of innovation clusters, strategic partnerships for joint ventures, and patent registrations.

[60] Total investment in the science, technology, and innovation sector should be steadily increased until levels of around 2.3% of GDP are reached, equal to the average for OECD countries and the most dynamic emerging countries in the area of technology generation and transfer (see CDC and CDC Update).

training and placement of professionals in science, technology, and innovation; and (iii) strengthening local digital innovation and entrepreneurship systems and expanding e-commerce and seed capital for the development of startups.[61]

3.7 **Private sector financing** (see CDC, paragraphs 3.8 to 3.12, and the CDC Update, paragraphs 40 and 41). The importance of access to finance and financial system development as determinants of productivity dynamics has been widely documented. Credit depth is low in Colombia, at 49.4% of GDP. Although this represents an expansion from 20% in 2000, it remains well below the level seen in OECD countries (101.5% of GDP).[62] For example, access to business credit is limited in Colombia. Even though micro, small, and medium-sized enterprises (MSMEs) account for 99% of companies, 80% of private employment, and 35% of GDP, they receive only 14% of commercial loans.[63] The cost of financing is also a significant impediment, with 24% of MSMEs identifying this as one of their main challenges (compared to 16% for LAC).[64] There are inequities in household access to financial services. Only 45% of adults report having an account in the financial system, compared to 50% in LAC and 92% in the OECD countries. Just 6.9% of households have a mortgage, below the averages for LAC (7.3%) and the OECD (27.2%). The use of electronic payment tools is lower than in similar economies: 37% of adults have made or received a digital payment, compared to 43% in LAC and 88% in the OECD.[65] The causes of these limitations include: (i) poor availability of eligible collateral and weak contract enforcement, which make banks more risk averse and shrink the supply of credit;[66] (ii) the difficulty of assessing the bankability of informal enterprises, creating information asymmetries in the financial system;[67] and (iii) information deficits among companies (mainly smaller ones) regarding alternative formal financing products such as leasing and factoring.[68]

3.8 *Policy proposals*. To promote an increase in private sector access to credit, there is a need to: (i) support improvement of the regulatory framework relating to financial development policy, particularly as regards collateral and contract enforcement; (ii) support deepening of the financial market by mitigating information asymmetries and extending banking services to those segments facing greater constraints in the credit market; and (iii) develop the fintech

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[61] Fostering increased investment in innovation and the adoption of new disruptive technologies; leveraging seed capital for startups, with special emphasis on those with high growth potential due to their ability to create jobs and generate new ventures in their value chains; building collaborative digital ecosystems; and continuing to support the deployment of convergent infrastructure (see CDC Update).

[62] World Development Indicators, with available data for 2016.

[63] Eighty-eight percent of informal enterprises report never having accessed credit (Gran Encuesta Microempresarial [Large-scale Microenterprise Survey], National Association of Financial Institutions (ANIF), 2018).

[64] Enterprise Survey, 2017.

[65] Global Findex, with available data for 2017.

[66] Colombia ranks 177th out of 190 countries on the contract enforcement indicator in the World Bank's 2019 Doing Business report.

[67] See paragraph 3.7.

[68] Asobancaria (2017), "La educación financiera como motor de las MIPYMES en Colombia" [Financial education as a driver for MSMEs in Colombia]. Semana Económica, Volume 1094, Bogota.

industry with a view to promoting financial inclusion in the country, while also improving financial education programs (particularly in remote areas).[69]

3.9 **Agricultural development** (see CDC, paragraphs 3.13 to 3.18, and the CDC Update, paragraphs 42 and 43). Agriculture can support development in a number of ways, namely economic growth, environmental sustainability, reductions in poverty and hunger, and greater equity and food security. Colombia's rural sector extends over 22 million hectares of arable land, only 5.3 million of which are cultivated. In addition to its contribution to GDP, the agricultural sector is labor-intensive and is central to Colombia's rural development strategy.[70] Stagnation in the agricultural sector is due in large part to low productivity.[71] Although the economy has grown at an average annual rate of 4.1% over the last decade, growth in the agricultural sector has averaged only 2.7%. As a share of GDP, it declined from 7.4% in 2005 to 6.2% in 2018. Factors that discourage productivity-enhancing investment and sector performance include: (i) the distribution of public spending in the sector, which is skewed toward subsidies;[72] (ii) legal uncertainty around property ownership;[73] and (iii) limited access to financial services.[74]

3.10 *Policy proposals*. To increase agricultural productivity and the complexity of the export basket, there is a need to: (i) reorient public spending in the sector to the provision of public goods; (ii) regularize land ownership; and (iii) foster private investment in rural areas, incorporating climate-smart agricultural practices and improving the access and participation of production in local markets and global value chains.

3.11 **Education** (see CDC, paragraphs 3.19 to 3.25, and the CDC Update, paragraphs 36 and 37). Education has a direct impact on an individual's productivity and income and, consequently, on a country's economic growth. Colombia has made significant efforts in recent decades to increase education levels among the population, reaching 97% coverage in the first six years of education. However, although education expenditure has increased, it falls short of needs. There are also deficiencies in the quality of education, particularly in rural areas. This is highlighted by the PISA tests,[75] on which Colombia continues to rank among the poorest-performing countries.[76] Job automation has left many workers vulnerable and has in many cases excluded them from the formal labor market. Such workers lack the necessary skills to obtain new employment, yet

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69 IDB Invest will prioritize support for the banking sector and nonbank financial intermediaries to expand their intermediation of financial resources to households and enterprises in rural areas, as well as to women and women-led companies.

70 The agricultural sector employs 16% of Colombia's labor force (World Development Indicators).

71 Agricultural productivity (measured as value added per worker) is just 13% of the level in OECD countries.

72 Around 90% of sector public spending is concentrated in subsidies.

73 At least 59% of rural households are estimated to lack formal property title. https://ceo.uniandes.edu.co/images/Documentos/170519-Decreto_ley_tierras_Final_consulta_previa.pdf.

74 The agricultural sector accounts for only 3% of the banking sector loan portfolio.

75 Programme for International Student Assessment (PISA).

76 Out of a total of 44 countries, Colombia ranked 41st in mathematics and 40th in reading and science.

the education and training system is currently failing to respond quickly and flexibly to the demand for new skills. The factors responsible for weak performance include: (i) deficiencies in teacher training and performance;[77] (ii) low efficiency in education spending;[78] and (iii) regional inequities between urban and rural areas and weaknesses in existing education infrastructure.[79]

3.12 *Policy proposals*. Policies should be promoted to improve the quality of education across the entire country by: (i) encouraging quality teacher development; (ii) supporting improved resource allocation; and (iii) reducing the infrastructure deficit and regional inequities in the sector by financing investments in education projects, including PPPs.[80]

3.13 **Increase the quality and stock of infrastructure**[81] (see CDC, paragraphs 3.26 to 3.37, and the CDC Update, paragraphs 15 to 18). Together with low levels of digitalization and new technology adoption in the sector, transportation costs represent an obstacle to productivity and connectivity in the country. Domestic transportation and export costs for a container in Colombia, for example, are more than double the average for LAC and the OECD.[82] Road density is low in Colombia at 30 kilometers per million inhabitants, significantly lower than in countries with similar levels of development, such as Brazil (1,066 km) and Mexico (1,188 km). Colombia's road quality index is also just 50% of the index the OECD or Chile and 25% below the index for the region. For example, the quality of infrastructure has a negative impact on the competitiveness of exportable services such as tourism.[83] There are structural problems in the

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77 See "La profesión docente en Colombia: normatividad, formación, selección y evaluación" [The teaching profession in Colombia: regulatory framework, training, selection, and evaluation], 2018. Working document 54, Universidad de los Andes

https://egob.uniandes.edu.co/index.php/es/component/abook/book/12-documentos-de-trabajo/138-la-profesion-docente-en-colombia-normatividad-formacion-seleccion-y-evaluacion.

78 The PISA test results are inferior to those of other countries that spend a similar amount on education as a proportion of GDP. The efficiency gap with respect to this group of countries is 23%.

79 The deficit in school classrooms is estimated at 51,134. Rodríguez et al. (2018). Participación privada en infraestructura: su evolución en Colombia y el apoyo del Grupo BID [Private participation in infrastructure: trends in Colombia and IDB Group support]. IDB, IDB Invest.

80 In terms of the benefits of such investments, the DNP has estimated the direct multiplier effect of investment in 4G highway infrastructure under PPP initiatives at 1.02% of GDP in 2015, with an indirect effect of 0.61%, leading to an overall multiplier effect of 1.63% of GDP. These projects are estimated to have generated between 180,000 and 450,000 new jobs in the economy. Source: National Infrastructure Agency (ANI) and DNP: APP en Infraestructura en Colombia [Infrastructure PPPs in Colombia]. August 2016.

81 The importance of investment in infrastructure (due to its direct impact on economic growth as part of gross fixed capital formation and its indirect impact in terms of making production factors more productive) was emphasized in the 2015-2018 country strategy with Colombia, as well as very recently in the Bank's 2019 Macroeconomic Report for Latin America and the Caribbean.

82 Exporting a container costs around US$2,160, 80% higher than the LAC average. Domestic transportation accounts for 65% of these costs—equivalent to US$1,525—while the averages for the OECD, Brazil, and Mexico are US$345, US$763, and US$1,000, respectively.

83 The quality of tourism infrastructure earned a score of 4.4 (out of a maximum of 7) on the Executive Opinion Survey, compared to an OECD average of 5.3 (World Economic Forum, 2018). In addition to infrastructure, another important challenge for the tourism industry is its sustainability, which ranks below that of LAC and the OECD in the same survey.

organization of the transportation industry: (i) advanced age of the vehicle fleet; (ii) informality; (iii) traceability and fulfillment of delivery times, on which Colombia ranks 111th and 108th out of 160 countries, respectively; and (iv) freight transportation prices, which are regulated and reflect those of the least efficient companies. The freight transportation matrix lacks diversification and depends heavily on road transportation. These gaps and costs are due to multiple factors: (i) the stock and quality of transportation infrastructure is low,[84] particularly in the tertiary network, which is critical to improving agricultural sector productivity and the quality of life for the rural population; (ii) there are inefficiencies in the delivery of freight transportation services (informality and rates);[85] [86] (iii) low capacity and service levels in inland waterway infrastructure, and its poor integration with a multimodal freight transportation network;[87] and (iv) climate change, which affects the country's infrastructure and use of energy resources.[88]

3.14 *Policy proposals*. There is a need to continue with policies that: (i) strengthen the quantity and quality of road, port, and airport infrastructure,[89] while also implementing the master plan for long-term intermodal transportation;[90] [91] (ii) implement regulatory reforms governing the road freight sector; (iii) consolidate intermodal transportation by developing rail and inland waterway transportation; and (iv) develop resilient infrastructure to reduce the impact and costs of climate change.

3.15 **Alignment.** This strategic area contributes to the implementation of the Update to the Institutional Strategy 2010-2020 of the IDB Group with respect to the challenges of low productivity and innovation and limited economic integration, including their objectives of: (i) including all segments of the population in

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84 In addition to the low quantity of infrastructure, the road quality index (as measured by the World Economic Forum) is 50% of the index for the OECD and Chile and 25% below the average for Latin America (see the CDC).

85 Around 40% of trucks (excluding dump trucks) have been in operation for more than 15 years, and 90% of the freight vehicle fleet is owned by individuals or small partnerships.

86 There is also a lack of consolidation and efficiency in freight and passenger transportation systems (urban and interurban).

87 Inland waterway networks account for less than 2% of freight transportation.

88 For example, transportation sector losses stemming from heavy rainfall caused by the La Niña phenomenon totaled 0.62% of GDP in the period 2010-2011.

89 Including urban transportation systems and using PPP arrangements, prioritizing climate change resilient investments and investments that help to improve the international positioning of goods produced in Colombia.

90 The master plan should include the execution of strategic projects and have the following priorities: (i) implementing solutions to bottlenecks and access to cities in the main trade corridors; (ii) improving and expanding the capacity of existing corridors; (iii) prioritizing and financing an ongoing maintenance program for the road system; (iv) consolidating intermodal transportation by developing rail and inland waterway transportation (this will require institution-strengthening for the regulation and management of these modes and the structuring of models to facilitate their operation); (v) delineating powers and incentives for the development of specialized logistics infrastructure (to which end, pilot projects should be identified to solve problems in specific locations such as Buenaventura and the Magdalena River while also boosting intermodal transportation); and (vi) improving trade facilitation and integration processes.

91 There is also a need to implement policies and strategies for the rollout of digital infrastructure using existing infrastructure networks.

financial markets; (ii) providing inclusive infrastructure and infrastructure services; (iii) developing quality human capital; (iv) providing adequate knowledge and innovation ecosystems; (v) providing urban planning and rural infrastructure; (vi) improving regional infrastructure; and (vii) addressing the economic and social impacts of climate change. These initiatives also contribute to the following strategic priorities included in IDB Invest's 2017-2019 Business Plan: supporting infrastructure investment, strengthening capacities in the corporate sector, and building partnerships with the financial sector with a view to working in priority areas for action, such as support to SMEs.[92] With respect to IDB Lab, these actions support its mandate of supporting innovation for inclusion by providing financing, knowledge, and connections to projects and startups with the potential for an exponential impact on vulnerable populations, particularly in the thematic areas of climate-smart agriculture, inclusive cities, and the knowledge economy, together with the crosscutting themes of gender and diversity, climate change, and the development of innovation ecosystems.

B. Public management effectiveness

3.16 **Institutions determine the volume, quality, timeliness, and accessibility of services delivered to the population.** They can limit obstacles to productivity and enterprise growth while offering a certainty factor in transactions and dispute settlement. This policy area focuses on the effectiveness of public investment and public administrative management. The lines of action are as follows: (i) improve State revenues; (ii) raise the quality of expenditure and public investment management capacity at all levels of government; and (iii) improve the quality of justice.

3.17 **State revenue** (see CDC, paragraphs 3.38 to 3.43, and the CDC Update, paragraphs 27 to 32). Central and subnational government revenue levels have failed to rise above 18% of GDP over the last 10 years in Colombia. This tax ratio is low compared with the OECD average (26% of GDP) and the ratio for a number of countries of the region at a similar stage of development. Limited tax revenues are the result of three main factors: (i) incentives and exemptions that erode the tax base;[93] (ii) weak tax administration;[94] [95] and (iii) informality in the economy.[96]

3.18 *Policy proposals.* To address the challenge of increasing public revenue, there is a need to: (i) boost revenue by means of a comprehensive tax reform that expands the tax base and improves enforcement across all levels of government, with a view to improving tax revenue intake and system equity; (ii) continue strengthening the Department of National Taxes and Customs (DIAN) and the

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92 These proposals for action are also aligned with the Business Plan Update approved in 2018 (document CII/GA-77-4).

93 Tax expenditures in Colombia are around 4% for the value-added and income taxes.

94 DIAN is present in only 43 of the country's 1,121 municipios, and just 0.1% of active taxpayers are audited, below the regional average of 3.1%.

95 In addition, Colombia could implement hedging against oil price fluctuations, as Mexico has been doing in recent years to avoid sudden losses of tax revenue.

96 See paragraph 3.26.

efficiency of tax administration processes; and (iii) accelerate the implementation of electronic invoicing, to increase revenue and encourage taxpayer formalization.

3.19 **Quality of expenditure and public investment** (see CDC, paragraphs 3.44 to 3.48, and the CDC Update, paragraphs 33 to 34). Colombia has limited public expenditure execution capacity and a quality deficit in public investment, public services, the civil service, and policy implementation. On the government efficiency index produced by the World Economic Forum (WEF), Colombia ranks below the averages for the main economies in the region and the OECD. This translates, for example, into wasteful spending estimated at approximately 1.5% of GDP in the public procurement component.[97] This weakness is partly due to the high percentage of procurement expenditure at the regional and local levels, which represents around 42% of overall expenditure in this category.[98] There are also challenges in the area of transparency. For example, Colombia ranks 117th out of 137 countries on the WEF's public institutions index (which measures the quality of institutions), below Barbados, Chile, Costa Rica, and Uruguay. The factors that account for this low efficiency include:[99] (i) institutional weaknesses[100] and (ii) limited accountability mechanisms.[101]

3.20 *Policy proposals.* To address the challenge of public management effectiveness, policies are required that: (i) strengthen the role of center-of-government institutions through the use of delivery units, measures to protect public investment funds,[102] and encouraging the use of payment for success;[103] and (ii) promoting digital government tools at all levels of government, with emphasis on transparency and accountability arrangements.

3.21 **Efficiency and quality of justice** (see CDC, paragraphs 3.49 to 3.55, and the CDC Update, paragraphs 55 and 56). The 1991 Constitution established the Constitutional Court, the National Prosecutor's Office, the High Judicial Council, and the principle of judicial protection of fundamental rights. In 1996, judicial processes were simplified and made more transparent, with the creation of oral trials, which were gradually implemented over the following years. Citizen security has improved considerably in recent years, with a reduction in the number of homicides, kidnappings, and extortions. The approval of a new police

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[97] Izquierdo, Pessino, and Vuletin eds. (2018). "Better Spending for Better Lives," IDB, Washington, D.C.

[98] Izquierdo, Pessino, and Vuletin eds. (2018). "Better Spending for Better Lives," IDB, Washington, D.C.

[99] More than 50% of inefficiencies in the use of physical and human capital in public investment are the result of weaknesses in public management.

[100] Institutional weaknesses include the following: (a) the proliferation of regulations and licensing requirements that need to be satisfied for each investment project at both the central government level and in departmental and local bodies; (b) controls and decisions that multiply and overlap without adequate coordination; and (c) prolonged citizen consultation processes.

[101] The World Bank indicator on voice and accountability is 36% of the average for the region.

[102] As indicated in the Bank's last Macroeconomic Report, "Building Opportunities for Growth in a Challenging World," this is particularly relevant in countries that are reviewing their fiscal policy frameworks or that have not adopted fiscal rules aimed directly or indirectly at protecting public investment.

[103] For example, social impact bonds and the Payment for Performance Fund (see footnote 36).

code is also a step forward in terms of safeguarding citizens' rights and the effectiveness of police action.[104] Border vulnerabilities have also required the allocation of significant resources to domestic security and caring for immigrants.[105] The increase in the surface area dedicated to the cultivation of narcotics crops is a worrying trend.[106] Enforcement of the law and prison sentences for those guilty of corruption have not led to any significant improvement in transparency indicators. Sex crimes and intrafamily and gender-based violence[107] continue to affect the whole of Colombian society. In light of these facts, citizen perceptions of the judicial system remain negative.[108] The causes of these challenges include the following: (i) process times and costs have improved, although there are still deficiencies;[109] (iii) the effectiveness of criminal investigations is weak;[110] (iv) there is evidence of corruption in the judicial system;[111] and (vi) levels of impunity for gender-based violence are high.[112]

3.22 *Policy proposals***.** To address the challenge of efficiency and quality in the justice system, there is a need to: (i) further develop the policy to alleviate congestion in the judicial system; (ii) modernize information technology and services infrastructure to support criminal investigation; (iii) foster public trust in the judicial system by increasing information and transparency and fighting corruption; and (iv) place priority on serving those in situations of greater risk and vulnerability.

3.23 **Alignment**. This strategic area contributes to the implementation of the Update to the Institutional Strategy 2010-2020 of the IDB Group with respect to the challenges of social exclusion and inequality and low productivity and innovation, including their objectives of: (i) creating a more distributive fiscal policy; (ii) strengthening the capacity of the State; (iii) providing inclusive infrastructure

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[104] The number of homicides per 100,000 inhabitants fell by 64% from 2002 to 2015, with similar trends seen in the number of kidnappings and extortions. Source: Universidad de los Andes, Center for Security and Drug Studies (CEDES), July 2017.

[105] Linares, R. (2019). Seguridad y política fronteriza: una mirada a la situación de frontera entre Venezuela y Colombia [Border security and policy: a look at the situation on the Venezuela-Colombia border]. Opera, 24, 135-156. Universidad del Externado, January-June 2019, Bogota.

[106] From 2016 to 2017, the net area dedicated to coca cultivation increased by 16%, to a total of 171,000 hectares (Source: United Nations Office on Drugs and Crime, 2018. "Colombia: Survey of territories affected by illicit crops 2017," United Nations, Bogota).

[107] Intrafamily violence against children and women remained level in 2017-2018, with an annual average of 10,560 and 42,440 cases, respectively (Source: National Institute of Legal Medicine and Forensic Science, December 2018 statistical report, Bogota). In 2017, there were a total of 98,999 suspected cases of gender and intrafamily violence, an increase of 5.4% over 2016 (93,614 reported cases) (Source: National Health Institute, Weekly Epidemiological Bulletin 21, May 2018, Bogota).

[108] According to the 2017 Gallup survey, 83% of Colombians have a negative image of the judicial system.

[109] See CDC, paragraph 4.34.

[110] Colombia's score for effectiveness is 0.2 (similar to the average for LAC, with the exception of Chile's score of 0.42), whereas the score for the high-income OECD countries is 0.62 (see CDC).

[111] According to Transparency International (2017), between 11% and 20% of those surveyed stated that they had paid bribes to both judicial officials and the police.

[112] According to the National Institute of Legal Medicine and Forensic Science, for example, 86% of intimate partner violence is inflicted on women. This figure has increased in absolute terms (5% from 2015 to 2017).

and infrastructure services; (iv) establishing smart institutional frameworks; and (v) strengthening institutional capacity and the rule of law.

C. Social mobility and consolidation of the middle class

3.24 A growing middle class is associated with growing demand for quality services (such as higher education and third-tier health care). This demand profile poses significant management and financing challenges for governments in their efforts to ensure the quality of service offerings. Consolidating the middle class also entails protecting its members from sliding back into poverty. In order to achieve this, the relevant safety net needs to be strengthened. The lines of action are as follows: (i) continue to support programs to reduce poverty and eliminate extreme poverty; (ii) reduce informality in the economy; (iii) consolidate a sustainable and inclusive pension and health system; and (iv) increase equitable access to quality basic services.

3.25 **Poverty** (see CDC, paragraphs 3.57 to 3.62, and the CDC Update, paragraphs 68 and 76). Despite significant progress over the last decade, Colombia still needs to make substantial efforts to eradicate poverty, which continues to affect 27% of the country's population.[113] Inequality is persistent, and around 7% of the population lives below the extreme poverty line, with a high incidence among the rural population. Data for 2018 show that although the national rate of extreme poverty was 7.2%, in rural areas it was 15.4%. The incidence of poverty is also higher among women heads of household and ethnic minorities.[114] There are problems with respect to targeting under the main social protection programs.[115] It is also estimated that around 150,000 immigrants are living in extreme poverty and are not receiving humanitarian aid.[116]

3.26 *Policy proposals.* To address the challenge of reducing poverty and eliminating extreme poverty, there is a need to: (i) expand the coverage of transfer programs and improve the focus on those living in extreme poverty, particularly in rural areas; (ii) increase subsidies to the extremely poor under the "Más Familias en Acción" [More Families in Action] (MFA) and "Colombia Mayor" [Older Colombia],

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[113] Analysis of poverty dynamics shows that upward mobility is still limited for many. Eighty percent of those living in extreme poverty in 2003 remained poor in 2013, while 42% of those in moderate poverty in 2003 also remained poor ten years later.

[114] The incidence of poverty among female and male heads of household is 29.6% and 25.7%, respectively. At the same time, departments with greater proportions of ethnic minorities in their populations have poverty rates above the national average of 27% (for example, Chocó (58,7%), La Guajira (52,6%), and Cauca (48,7%)).

[115] In the case of "Más Familias en Acción" [More Families in Action] (MFA) and other interventions to support the population with low SISBÉN scores, there is a lack of systematic exit rules triggered when beneficiaries transition out of poverty. The percentage of rural beneficiaries is estimated at only 47% for the MFA, 46.6% for the "Red Unidos" [United Network] program, and 36% for the Colombian Family Welfare Institute (ICBF). The MFA conditional cash transfer program, which targets all vulnerable families in the country, benefits around 2.8 million families. The Red Unidos social inclusion program targets the extreme poor and focuses on ensuring that this population is able to access public services, benefiting nearly 800,000 families. Lastly, the ICBF's early childhood development services benefit 1.7 million children and pregnant women. Rural beneficiaries of MFA, Red Unidos, and the ICBF account for 47%, 46.6%, and 36% of all beneficiaries, respectively. Although coverage in rural areas has increased, the country still needs to improve conditions for families in these areas.

[116] Based on Ministry of Finance calculations.

particularly in rural areas; (iii) improve targeting and enhance the coverage and quality of "Cero a Siempre" [Zero to Forever] programs and coordinate these with MFA;[117] (iv) target ethnic minorities specifically under transfer programs; and (v) improve the ability to monitor, support, and manage the exit of beneficiary households from social programs by ensuring interoperability in the information systems of these programs.

3.27 **Informality** (see CDC, paragraphs 3.63 to 3.69, and the CDC Update, paragraphs 56 to 60). Although there has been progress in reducing labor and enterprise informality, this phenomenon continues to act as a drag on productivity, the public finances, health system sustainability, and pension system coverage. It also mars the efficiency and coverage of Colombia's unemployment insurance system.[118] The phenomenon of informality is particularly evident among the new wave of immigrants, with more than 46% of employed immigrants working in the informal sector.[119] The factors responsible for the level of informality in Colombia include: (i) high turnover between the different labor modalities and a high proportion of temporary contracts and enterprise formalization;[120] (ii) high labor costs;[121] and (iii) skills gaps in the labor market and a weak vocational training system.[122]

3.28 *Policy proposals*. To address the challenge of reducing informality, policies should be supported to: (i) create incentives for formalization (taxation, integration of women and persons with disabilities into the workforce, and a favorable environment for business creation and growth); (ii) strengthen insurance mechanisms for the middle class that facilitate job transitions (unemployment insurance) and reentering the workforce while replacing protection models that raise the cost of hiring formal labor (severance pay);[123] and (iii) increase labor productivity through more relevant vocational training (to align job training with demand from businesses) and more effective employment services with greater coverage (to match job seekers with job vacancies).

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[117] One important measure has been the introduction of a new methodology for calculating the targeting mechanism under SISBÉN; this is based on an individual's imputed income, in recognition of the ability of households to generate income. In the specific case of early childhood services, coverage is expanding due to the commitment made in the wake of the peace accords to achieve universal early childhood care in rural and remote areas, using the ICBF's community- and family-based approaches.

[118] Unemployment Protection Mechanism.

[119] National Association of Financial Institutions (ANIF), October 2018, based on the Administrative Register of Venezuelan Migrants in Colombia (RAMV).

[120] One third of formal sector employees are engaged in temporary work, leading to high turnover among the different labor modalities.

[121] Key hurdles to hiring workers with permanent contracts in the formal sector include: (i) severance payments (40%); (ii) high nonwage costs (35%); and (iii) the level of the minimum wage (18%).

[122] In Colombia, 45% of firms consider inadequate education to be a serious constraint on their operations, and one in three Colombian companies is unable to fill their vacancies due to a lack of talent/skills in the workforce.

[123] Efficient management of the Unemployment Protection Mechanism would allow the financing of earnings equivalent to the minimum wage plus the social security contributions of 190,000 unemployed workers for a four-month period. If the funds currently administered by the "cajas de compensación" [family assistance funds] were reallocated efficiently, the number of beneficiaries would increase to 330,000 unemployed workers.

3.29 **Pension system** (see CDC, paragraphs 3.70 to 3.74, and the CDC Update, paragraphs 61 and 62). The current system suffers from problems of coverage, equity, sufficiency, and sustainability. Given that only half of all workers contribute to the system, few are able to meet the requirements for a contributory pension, and only 27% of over-65s receive a pension. The greying of the population and labor market informality may reduce this figure to 18% by 2075. The Average Premium Regime (RPM) is highly regressive and has implicit subsidies that favor wealthier pensioners. In the case of the Solidarity-based Individual Savings Regime (RAIS), there are issues of viability: 80% of pensioners select the programmed retirement option, thus absorbing the longevity risk. There are also problems with respect to horizontal inequity: even with an identical contribution history, workers retiring under the RAIS may have lower pensions than those retiring under the RPM and face greater risks with respect to returns. This leads to switching between the two regimes that is inefficient and puts pressure on the system. Lastly, the government spends 3.9% of GDP to cover the deficits in the RPM administered by Colpensiones and the special programs for the defense and education sectors. The reasons for low coverage include: (i) a pension system that is fragmented into various regimes with different rules and benefits, leading to switching between regimes that is inefficient and detrimental to members; and (ii) an onerous and deficit-prone system.

3.30 *Policy proposals*. To improve the pension system there is a need to: (i) expand coverage by broadening and increasing the amount of subsidies under the Colombia Mayor program and supplementing them with monthly allowances from the Periodic Economic Benefits (BEPS) program. The resources to achieve this objective would come from the savings generated in the contributory system by those who do not meet the requirements for a pension, and from lowering the costs of formal employment so as to increase contributor coverage; (ii) improve the operation of the Solidarity-based Individual Savings Regime (RAIS) by establishing a longevity insurance financed from a mutualization fund in the decumulation phase,[124] increasing competition among the AFPs,[125] and creating a stabilization fund that makes contributions during cycles of low AFP investment profitability, allowing greater certainty as to the amounts of future pensions; and (iii) improve the operation of the Average Premium Regime (RPM) by establishing a system of national accounts that provides actuarially fair pensions, and make institutional adjustments to ensure the future fiscal sustainability of the pension system. There would be several advantages to these measures: an improvement in the way Colombians share the risks of longevity, greater progressiveness of expenditure, greater comparability between the rules for defining RAIS and RPM benefits, and, in the long term, a significant decrease in

[124] Decumulation is the stage when the amounts accumulated in worker accounts begin to be used to finance a retirement product. The fund would operate under the principle of mutual insurance and could be financed with collective savings and/or national budget. This instrument would guarantee minimum pension levels, spread risks (interest rate, wage inflation, and recourse to the court system) and allow transparency of contingent liabilities and resources to fund them. This option requires the development of regulation and supervision to curb the moral risk inherent in a mechanism of this nature.

[125] Colombian Pension and Unemployment Fund Administrators.

the fiscal cost of the pension system. Eventually, the country should move toward integration of the contributory system. The improvements proposed here for the RPM and RAIS systems would make it possible to move toward an integrated, multipillar system or toward a contributory system based on just one of the two systems.

3.31 **Health system** (see CDC, paragraphs 3.75 to 3.80, and the CDC Update, paragraphs 63 to 67). Colombia's health system is based on an insurance model. Under this system, users are beneficiaries of health insurance that covers a mandatory benefit plan. There are two types of financing modalities for this insurance: (i) contributory, cofinanced by the employer and the employee or by self-employed workers; and (ii) State-subsidized, for unemployed citizens. This system has facilitated almost universal health coverage: 95.7% of the population are enrolled.[126] Challenges include the fiscal vulnerability created by the Constitutional Tribunal's measures, which force the system to provide high-cost treatment, medicines, and technologies. The latter is aggravated by the mechanism used to pay for these services.[127] Despite the high level of insurance coverage, there are challenges with respect to the effective coverage of health services. Early risk detection in the population is limited, for example: around one third of diabetes patients have not been diagnosed[128] and only 30.1% of women and 38.2% of men say they have had screening tests for the main chronic diseases in the last year.[129] In Colombia, 60% of maternal mortality is concentrated in the poorest 50% of the population (multidimensional poverty measure).[130] There is also a marked deficit in health infrastructure, 90% of which is concentrated in the country's metropolitan areas. Lastly, there are significant challenges in terms of strengthening the sector's information systems to improve their transparency and efficiency. Existing databases and systems are underutilized, lack adequate quality controls, and are not interoperable. Accordingly, challenges in the health system relate to: (i) the financial sustainability of the system;[131] (ii) the effective coverage of health services; (iii) the infrastructure deficit, particularly in rural areas; and (iv) information systems.

3.32 *Policy proposals.* To address the challenges in the health system, there is a need to: (i) reduce evasion and avoidance of the health insurance contribution; (ii) control spending on high-cost health services; (iii) improve effective access to health services, especially for chronic and transmissible diseases; (iv) strengthen health infrastructure in rural and isolated areas by building integrated service

[126] April 2019 data, Ministry of Health and Social Protection.

[127] There is no budgetary limit on reimbursements for the payment of these services, there are great variations in the unit cost of the services, and objections are received in the case of around 25% of reimbursements to health care outreach agencies (EPSs).

[128] Vecino, A., A.J. Trujillo, and F. Ruiz (2012). Undetected diabetes in Colombia. Int. J. Public Policy, Vol. 8, Nos. 4/5/6, pp. 362-373.

[129] Presión arterial y control de colesterol y para mujeres citología y mamografía [Blood pressure and cholesterol monitoring, and pap smears and breast exams in the case of women]. Source: IDB. Desde el Paciente [From the Patient]. 2018.

[130] Analysis of the Health Situation 2017, Ministry of Health and Social Protection (2018).

[131] The current deficit in the public health system is between 0.2% and 0.5% of GDP per year.

networks and encouraging private investment; and (v) strengthen information systems in the sector and promote their interoperability.

3.33 **Equitable access to quality basic services** (see CDC, paragraphs 3.81 to 3.86, and the CDC Update, paragraphs 19 to 26). Colombia has made significant progress in providing water and sewer and electricity services. Coverage is not universal, however. In particular, rural areas and the Caribbean and Pacific regions suffer from inequities and deficiencies in coverage. There are also problems of potability and continuity in water services,[132] and quality and coverage in electricity services.[133] The reasons for these gaps include: (i) lack of financing;[134] (ii) governance of utilities;[135] (iii) weaknesses in the arrangements for provision in rural areas;[136] and (iv) vulnerability to climate change.[137] [138] [139]

3.34 *Policy proposals.* To improve equitable access to basic services, there is a need to: (i) finance investment in water and sanitation infrastructure, ensuring the integrated management of water resources; (ii) modernize and update management and governance systems at utilities;[140] (iii) expand the supply of

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[132] Coverage rates for water and sewer services in urban areas are 99.8% and 97.8%, respectively, whereas in rural areas the figures are 86.5% and 77.5%. Coverage in the Pacific region is 10% less on average than in the rest of the country; this is also the case with rural areas in the Caribbean region, where coverage is only 58% (see CDC and CDC Update).

[133] Electricity coverage was 97.02% in 2017. There are still 431,137 homes without service, of which 223,668 are in interconnectable areas and 207,449 in non-interconnected zones (ZNIs). Achieving universal service coverage will require investments of Col$5 billion (Source: background papers for the 2018-2022 National Development Plan). There are still almost two million people in the country without access to electricity. According to data from the Institute for the Planning and Promotion of Energy Solutions for the Non-Interconnected Zones (IPSE), the ZNI currently account for 51% of Colombia's land area, including several departments where coverage in rural areas is less than 50%.

[134] Financial risk levels are high for 43% of providers, medium for 17%, and low for 40%.

[135] In water, 43% of providers are subject to high levels of financial risk, 17% to medium levels, and 40% to low levels.

[136] In electricity, for example, areas connected to the national grid (ZNI) have an installed generation capacity of 215 MW, of which only 8% is based on renewables and 92% on diesel plants with 438,129 users. The distribution networks that connect these users to the service are either improvised or do not meet the minimum technical requirements stipulated in the regulations.

[137] Over the period 1970-2012, more than 2,900 natural events were recorded that affected water and sanitation infrastructure, with 35% occurring from 2010 to 2012.

[138] The low coverage of safely-managed sanitation access is due to the absence of wastewater treatment. The lack of adequate urban wastewater treatment and/or disposal prior to discharge into rivers, lakes, or the sea harms the quality of these resources, limits their sustainable use, affects biodiversity, and endangers human health. Moreover, in Colombia only 17% of waste tonnage sent to landfills is recycled. There are still 89 improper disposal sites, and 321 landfills will reach the end of their useful lives in the next five years.

[139] According to studies conducted by the Institute of Marine and Coastal Studies and the Institute of Hydrology, Meteorology, and Environmental Studies (IDEAM), Colombia is highly vulnerable to the impact of climate change. This risk is correlated with the marked dependence of the National Interconnection System (SIN) on water resources for power generation, as almost 70% of installed generating capacity is hydroelectric. This concentration means that the system is vulnerable to critical hydrology scenarios, as in the case of the cyclical recurrence of the El Niño phenomenon.

[140] Reducing the fiscal cost of subsidies and inequities in the urban-rural sphere, while simultaneously fostering the circular economy with the aim of making greater use of solid waste and minimizing the amount of waste sent for final disposal.

power in ZNIs; and (iv) expand generation capacity based on renewable energies and natural gas.[141]

3.35 **Alignment**. This strategic area contributes to the implementation of the Update to the Institutional Strategy 2010-2020 of the IDB Group with respect to the challenges of social exclusion and inequality and low productivity and innovation, including their objectives of: (i) eradicating extreme poverty; (ii) providing inclusive infrastructure and infrastructure services; (iii) developing quality human capital; and (iv) gender equality and diversity. These initiatives also contribute to the strategic priority of supporting infrastructure investment (including social infrastructure)[142] included in IDB Invest's 2017-2019 Business Plan, as well as the IDB Lab priority of innovation for the inclusion of vulnerable populations.

1. Crosscutting themes

3.36 This strategy proposes to address the following challenges in a crosscutting manner: immigration, gender and diversity, disability, climate change, digitalization of the economy, and integration.

3.37 **Immigration** (see CDC Update, paragraphs 77 to 81). There are more than 1.3 million Venezuelan immigrants in Colombia, most of whom arrived in the last three years. Some 39% of these are undocumented.[143] The deterioration in the Venezuelan economy indicates that migratory inflows will continue in the immediate future. Immigration represents a challenge to the fiscal accounts, labor markets, health and education, and other areas.[144] Twenty-eight percent of this population is under 17 years of age. Around 600,000 immigrants have work permits. With regard to employment conditions, 24% of immigrants are employed in the informal sector, 22% are self-employed, 18% are unemployed, and only 1% have formal employment.[145] In terms of the social sector, only 27% of immigrants report having access to health services.[146] Fifty-two percent of the children of Venezuelans in Colombia are not studying.[147] The authors' estimates and those of the government project the fiscal impact of providing services to this population at 0.5% to 0.7% of GDP over the next three years.[148] The Bank has been actively engaged in public policy dialogues addressing the issue of immigration with the governments of Colombia and other countries of the region. Colombia's main challenge—as in the case of other countries with inward migration flows—is to integrate this population into its economy. This process will

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[141] This would also underpin the reliability, efficiency, and sustainability of Colombia's electricity sector in the long term with a view to diversifying the power generation matrix, stimulating changes in the availability of gas for generation, improving demand management through efficiency measures, and reforming the wholesale electricity market.

[142] These proposals for action are also aligned with the Business Plan Update approved in 2018 (document CII/GA-77-4).

[143] Undocumented immigrants.

[144] See CDC Update.

[145] National Association of Financial Institutions (ANIF), October 2018, based on the Administrative Register of Venezuelan Migrants in Colombia (RAMV).

[146] See CDC Update.

[147] https://migravenezuela.com/.

[148] Report of the Consultative Committee on the Fiscal Rule, 2019.

be complex, but will yield a demographic dividend and add impetus to the economy in the medium and long term, based on the availability of employment, buoyant domestic demand, and higher tax revenues.[149] The IDB Group will support Colombia's commitment to provide assistance to immigrants for integrating into the economy and society, including health and education, in addition to granting work permits to facilitate their integration into the labor market. The Bank has approved the use of resources from the Grant Facility to Support Countries with Large and Sudden Intraregional Migration Inflows, which will be available to supplement lending operations for those countries requiring it. Similarly, using financial operations in execution in Colombia, the Bank has begun to implement actions to support the country in addressing the needs of immigrants and their host communities. These include: (i) *education*: the design of school strategies and guidelines for integrating immigrant students and sociocultural inclusion, particularly in schools in rural or border areas; (ii) *health*: focusing funding on public health priorities[150] in departments with a high concentration of immigrants, as well as expanding health system coverage by financing services for vulnerable immigrants and increasing their enrollment in those services;[151] (iii) *formalization, employment, and entrepreneurship*: programs to train and certify human capital, integrating the immigrant population; (iv) *enterprise strengthening for internationalization*: business development, with special emphasis on enterprises led by women and those integrating the immigrant population; and (v) *basic services*: special emphasis on informal settlements, as well as access to water and sanitation programs in municipios with sudden increases in demand for services as a result of recent migratory inflow. The Bank will also provide support to the government in a variety of areas linked to immigration, including studies and statistical work that will help to improve diagnostic assessments for policy implementation.

3.38 **Gender, diversity, and disability** (see CDC update, paragraphs 4, 6, 11, 41, 75, and 75). Colombia faces challenges in the area of gender and diversity, with gaps in access to finance, entrepreneurship, health, work, education, gender violence,[152] and other areas.[153] For example, although women's participation in the labor market has grown and is above average for the region,[154] efforts must continue given that the unemployment rate (12.7%) for women is 70% higher than for men (7.4%).[155] Poverty rates are higher among poor households headed by women than among those headed by men.[156] There are also inequities with respect to minorities (mostly rural) in the areas of education, health, and

[149] For a discussion of the positive economic effects of immigration, see blogs.bid.org: "El veredicto es claro: la inmigración favorece a la economía" [The verdict is clear: immigration favors the economy].

[150] High blood pressure, measles, diabetes, malaria, dengue, malnutrition, and prenatal care.

[151] Pregnant women and children.

[152] See paragraph 3.21.

[153] See CDC Update.

[154] The women's employment rate (measured for women between 15 and 64 years of age) rose from 46% in 2001 to 56% in 2015.

[155] 2018 average. Source: DANE.

[156] The incidence of poverty for households headed by women was 29.7% in 2017, compared to 25.5% for those headed by men.

poverty.[157] In the area of disability, the Colombian government has made progress in recent years with respect to its policy for the economic and social inclusion of persons with disabilities (PwD).[158] Challenges persist in this area, however, such as: (i) the quality, timeliness, and relevance of care for PwD; (ii) the adoption of strategies to foster social, educational, and labor inclusion; (iii) strengthening of the institution responsible for coordinating and monitoring public policies; and (iv) the elimination of discriminatory practices. In response, the IDB Group proposes to support actions in both urban and rural areas that adopt an integrated approach to boosting the social, economic, and productive empowerment of women, indigenous populations, Afrodescendant populations, and young people. It will also help to strengthen policies for the social and productive inclusion of PwD, reducing the barriers[159] that impede the interaction of people with physical and/or intellectual disabilities, preventing them from participating fully and effectively in society on an equal footing.

3.39 **Climate change** (see CDC update, paragraphs 7, 11, 19, 24, 26, and 42). Natural capital has been affected by the rapid expansion of the agricultural frontier, armed conflict, urban development, and vulnerability to climate change. Firstly, the accelerating process of deforestation (particularly in post-conflict zones) has contributed to an increase in carbon dioxide emissions and a reduction in carbon stocks in vegetation.[160] Secondly, Colombia is highly vulnerable to adverse weather phenomena.[161] The IDB plans to support measures to both preserve and expand natural capital and promote climate change adaptation and natural disaster risk management. With a view to supporting the stabilization and consolidation of peace, it will also put special emphasis on municipios in areas affected by the armed conflict, responding to the challenges of: (i) deforestation and the loss of natural capital; (ii) rural poverty and regional development; and (iii) climate change mitigation and adaptation.

3.40 **Digital economy** (see CDC Update, paragraphs 44 to 50). Colombia has made substantial efforts to develop its digital infrastructure.[162] Nonetheless, the country faces significant challenges in terms of the use and ability to adapt to digital technologies. In particular, there are gaps in: (i) electronic government systems; (ii) development of digital innovation and entrepreneurship ecosystems and adoption of these technologies in the productive sector; and (iii) competition in the telecommunications sector.[163] Digitalization of the economy in turn creates

[157] See CDC.

[158] Statutory law 1618 of 2013 and CONPES document 166 of 2013.

[159] Physical, attitudinal, economic, regulatory, and environmental.

[160] See CDC Update, paragraph 7.

[161] Idem.

[162] See CDC and CDC Update.

[163] See CDC Update.

challenges in education and labor markets.[164] The IDB Group will continue supporting the country's digital transformation and ability to assimilate new technologies, particularly in public service delivery (digitalization of the State, education, health, justice, and security), the adoption and development of digital technologies in the productive and agricultural sectors, the promotion of highly skilled human capital, and formalization of the labor market.

3.41 **Economic integration** (see CDC, paragraph 2.20). Over the last 20 years, Colombia has implemented an aggressive strategy of trade liberalization and economic integration. Colombia currently has 16 trade agreements in force, with access to 62 markets and 1.5 billion consumers. It is also part of the Pacific Alliance, under which an array of gains have been made in trade, labor, and financial integration, and education.[165] However, the country's positioning in international markets lags far behind countries of similar size and development,[166] limiting the contribution of economic integration to the country's sustainable growth and productivity gains.[167] There are three main reasons for this phenomenon: (i) Colombian exports continue to exhibit a high degree of concentration in commodities and unsophisticated goods;[168] (ii) flows of foreign direct investment (FDI) received by the country are focused in extractive activities[169] with low value added, which means that FDI-related benefits cannot be fully developed;[170] and (iii) average costs and timeframes in the country for exporting and importing[171] have increased considerably, becoming an important hindrance to the country's competitiveness and to leveraging trade agreements.

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164 A study examining the occupations sought on the websites with highest traffic in five of the region's countries (Argentina, Colombia, Chile, Mexico, and Peru) finds that one quarter of the occupations on these websites are highly vulnerable to automation (routine cognitive tasks that are easily codifiable). These are occupations that require only a low level of education and experience high turnover. A dynamic segment of the labor market is thus exposed to the risk of technological transformation, and its occupations could disappear or be transformed into less routine tasks with higher interpersonal content. González-Velosa, C., and N. Peña (2019) "Demanda de Trabajo en América Latina: ¿Qué podemos aprender de los portales de vacantes online?" [Labor demand in Latin America: What can we learn from online job sites?] Forthcoming technical note. IDB.

165 See https://alianzapacifico.net.

166 The trade openness index—which measures imports and exports of goods and services as a proportion of GDP—is 34% in Colombia, compared to 46% in Peru, 55% in Chile, 77% in Mexico, and an average of 43% for LAC. World Bank DataBank.

167 See Andrián and Garay (2017). "Apertura comercial y crecimiento de la productividad total de los factores" [Trade openness and growth in total factor productivity]. IDB-PB-272, IDB, Washington, D.C.

168 Two thirds of goods exports are concentrated in oil, coal, coffee, and ferronickel.

169 According to Banco de la República data, more than 50% of FDI went to the oil/mining sector between 2010 and 2017. At the same time, FDI seeking production efficiencies—which has the potential to diversify the economy and insert it into global value chains—accounts for only 15% of total FDI received by the country. The proportion expected for countries with similar per capita income is estimated at 20% to 40%. World Bank, 2017.

170 These benefits include cutting-edge technology transfer, improved management practices, and, above all, the country's participation in global value chains.

171 According to the Trading Across Borders indicators in *Doing Business 2019*, Colombia has the highest documentary compliance times in the region for exporting and importing and the highest customs processing times, with export and import processes taking 112 hours on average. In comparison, average times for these processes in LAC are 62 hours, with countries such as Chile, Peru, and Mexico—Colombia's main competitors—taking 48 hours on average.

The IDB Group will support lines of action and dialogue aimed at promoting the internationalization of the Colombian economy by (i) fostering new export sectors; (ii) attracting and facilitating FDI that identifies productive sectors and has the potential to position the economy in global value chains;[172] (iii) optimizing the digitalization of external trade and investment processes, as well as the efficiency and effectiveness of the country's customs management; and (iv) locking in gains made in regional integration, particularly in the context of the Pacific Alliance.

IV. INDICATIVE FINANCIAL SCENARIO

4.1 **Financing requirements are expected to decline over the next few years.** Gross financing needs are projected to fall from 7.6% of GDP in 2019 to 3.9% in 2022.[173] Financing requirements are expected to be met through debt issuance on the international and domestic markets, as well as borrowing from bilateral and multilateral organizations.

4.2 **The IDB projects sovereign guaranteed loan approvals of US$3,969.7 million.** This amount, which is subject to Bank Ordinary Capital availability, is similar to the amount stipulated for the previous strategy period (2015-2018). The financial scenario envisages average annual approvals of US$992 million and average disbursements of US$1,018.5 million. In this context, net lending flows are expected to be positive over the strategy period. As a result, the debt with the IDB is projected to increase from 6.0% of total nonfinancial public sector (NFPS) debt in 2018 to 6.4% in 2022. As a proportion of public external debt, debt with the IDB is expected to climb from 14.5% in 2018 to 15.5% at the end of the strategy period.

V. STRATEGY IMPLEMENTATION

5.1 **Portfolio execution.** Although results have been satisfactory, portfolio execution is and will remain a major challenge for the IDB Group's operational work. Based on the operational lessons identified above, the IDB Group will therefore prioritize the execution of investment operations, incorporating, where appropriate, the institutional strengthening of executing and oversight agencies.[174] The IDB Group will also continue regular portfolio review with executing agencies, and keeping ongoing channels of communication open with the Ministry of Finance and Public Credit (MHCP) and the National Planning Department (DNP) has enabled it to improve the performance of troubled projects. These mechanisms have proven

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[172] For example, services, metals/machinery and automotive, agroindustry, chemicals, clothing.

[173] Based on the projected central government deficit in the medium-term fiscal framework and the schedule of central government debt repayments for the period 2019-2022.

[174] Accordingly, it will be crucial to program technical cooperation assistance strategically in the three areas offered by the Bank: (i) operational support; (ii) client support; and (iii) knowledge generation and dissemination. To this end, the proposal is to: (i) establish a mechanism for monitoring results and effectiveness in the use of technical cooperation; and (ii) promote an agenda of knowledge, lessons learned, and best practices with a focus on operations and complex issues.

to be efficient instruments for eliminating the bottlenecks arising in project execution.

5.2 **Country systems.** The Bank relies on the execution supervision of the following country systems for fiduciary management in operations: (i) the public procurement system: informational, national competitive bidding, shopping, and individual consultancies, and (ii) the public financial administration system: budget, treasury, accounting, and reporting. During the strategy period, the Bank will continue to support the government in strengthening the government control function with a view to potentially using it in Bank-financed operations. Technical assistance will be provided to reduce the gaps identified in the evaluation of the Office of the Comptroller General of the Republic based on application of the methodology "Supreme Audit Institution Performance Measurement Framework" (SAI-PMF, developed by the International Organization of Supreme Audit Institutions (INTOSAI)), and through training of the team that will conduct a pilot audit of a Bank-financed project. Dialogue will also be maintained with the General Accounting Office regarding the implementation of International Public Sector Accounting Standards. With respect to the government procurement system, in March 2019 the Bank's Board of Executive Directors approved the advanced use of the system in Bank-financed projects. In addition, the Bank will continue to work with the Government of Colombia in improving procurement management through implementation of an agenda for the use and strengthening of the national procurement system.

Matrix of country system use

<table>
<tr><th>Use of country systems</th><th>Baseline 2018</th><th>Expected use 2022</th><th>Actions planned under the country strategy</th></tr>
<tr><td>Budget</td><td>100%</td><td>100%</td><td>Monitoring of the operation of the Integrated Financial Information System (SIIF) Nación 2.</td></tr>
<tr><td>Treasury</td><td>100%</td><td>100%</td><td>Monitoring of SIIF Nación 2 operations.</td></tr>
<tr><td>Accounting and reporting</td><td>18%</td><td>25%[175]</td><td>As a fiduciary requirement in Annex III and the contractual condition in the special provisions of loan contracts, continue to include the parametrization of project budgets in the budget module of SIIF Nación 2, consistent with the classification set out in the table of costs of the single annex to the loan contract.
Maintain the dialogue with the General Accounting Office regarding the implementation of International Public Sector Accounting Standards.
Monitoring of SIIF Nación 2 operations.</td></tr>
<tr><td>Internal audit</td><td>0%</td><td>0%</td><td>No actions envisioned.</td></tr>
<tr><td>External control</td><td>0%</td><td>5%</td><td>Technical assistance to reduce the gaps identified in the evaluation of the Office of the Comptroller General based on application of the methodology “Supreme Audit Institution Performance Measurement Framework.”
Training of the team that will conduct a pilot audit of a Bank-financed project.</td></tr>
<tr><td>Information system</td><td>100%</td><td>100%</td><td>Monitoring of Electronic Public Contracting System (SECOP) operations.</td></tr>
<tr><td>Shopping</td><td>0%</td><td>20%</td><td rowspan="4">The Bank may expand its use of country systems if it is able to agree a validation proposal and roadmap with the government.</td></tr>
<tr><td>Individual consultants</td><td>0%</td><td>20%</td></tr>
<tr><td>National competitive bidding – Partial</td><td>0%</td><td>20%</td></tr>
<tr><td>National competitive bidding – Advanced</td><td>0%</td><td>20%</td></tr>
</table>

[175] The system functions that have been validated in relation to the use and application of the Accounting and Reporting subsystem in IDB projects will depend on fulfillment of the following conditions: (i) from the start of execution, project components and subcomponents should be disaggregated in the SIIF Nación II budget module, based on the classification set out in the Single Annex for Loan Contracts and Technical Cooperation Agreements in operations executed by central government entities; and (ii) the executing agency should be included in the national budget and be part of the central government.

In other executors of public spending that do not use SIIF Nación II due to legal frameworks that grant them budgetary and financial autonomy—such as local governments, decentralized or autonomous entities or bodies, fiduciary mandates, fund administrators, etc.—use of the national system is not feasible.

Based on the foregoing, use of the subsystem will not necessarily be expanded as it is linked to project execution arrangements. This is particularly the case given that, at the request of the Bank’s Vice Presidency for Countries, project execution should be prioritized over the model of execution itself.

5.3 **Coordination with other donors.** The Bank expects close collaboration with the following donors, among others: (i) the United Kingdom, in issues of infrastructure, productivity, the promotion of private sector participation, and climate change; (ii) Korea, in the information and communication technologies sector; (iii) the French development agency, in policy-based loans; and (iv) multilateral development banks (World Bank and European Investment Bank), in projects such as the Bogota Metro.

5.4 **Coordination within the IDB Group.** Coordination between the IDB, IDB Invest, and IDB Lab will observe the following parameters: (i) joint implementation of this strategy; (ii) the planning of joint missions to interact with the authorities and clients, particularly in areas that require policy reforms and/or offer clear synergies for working together in a complementary manner; (iii) organization of joint dissemination activities; and (iv) the maximization of operational synergies.

VI. RISKS

6.1 **Macroeconomic risk.** Colombia has grown over the last 15 years. As a result, the country has succeeded in rapidly narrowing different socioeconomic gaps. Growth has declined over the last five years, however, as a consequence of external shocks and against a backdrop of institutional weaknesses (see Section I). Nonetheless, there are risk factors linked to external shocks that could affect the continuity and sustainability of observed growth. Volatility in the international oil price, economic uncertainty among trading partners, and a more protectionist global trading environment could have a negative impact on economic activity in the country and on trade flows of goods and services. Similarly, uncertainty in international financial markets could adversely affect capital flows and increase the cost of public and private external financing. In addition, recent migration flows represent a fiscal challenge in the short term. In response to these risks, the 2019-2022 strategy proposes to: (i) boost domestic growth factors and facilitate the entry of Colombian exports into new markets by supporting less-developed sectors (such as agriculture) and financing private investment and infrastructure provision; and (ii) expand the headroom for countercyclical fiscal response through actions to strengthen public management capacities, particularly in terms of expenditure efficiency and increased tax revenue intake; and (iii) promote actions to accelerate the dividends generated by the socioeconomic integration of immigrants in the medium term (expansion in labor supply, more buoyant domestic demand, and higher tax revenue).

6.2 **Insufficient fiscal resources and risks relating to public investment execution.** The investments required by the country could be affected by fiscal limitations, particularly under a legal framework for fiscal convergence that—based on the fiscal rule—limits borrowing capacity. In this scenario, there may also be fiscal costs deriving from the migration shock and others that affect the availability of medium and long-term resources. As mitigation measures, the Bank proposes to increase tax revenue intake using several mechanisms. One of these is the strengthening of DIAN by implementing both electronic invoicing for the value-added tax and structural reforms to the institution. The Bank will also continue to support the government in expanding the tax base and strengthening public sector planning and strategic management. Lastly, the IDB Group will support private sector investments and guarantees, particularly with a view to expanding financing and creating infrastructure and public goods.

6.3 **Risks specific to non-sovereign guaranteed operations.** Non-sovereign guaranteed operations face specific risks stemming from the management capacities of potential clients and financial entities. This may affect the identification of potential clients, the cost of operations, and project preparation and execution times. To mitigate these risks, IDB Invest will seek to strengthen the management capacities of its direct clients, as well as those of the financial institutions that IDB Invest works with.

RESULTS MATRIX

Government (Strategic) Priorities*	Strategic Areas	Strategic Objective	Expected Outcomes	Indicator	Baseline**	Source
Sustainability; mining and energy; transportation; science, technology, and innovation; and connecting regions	**Increase economic productivity**	Spur innovation and development in business and agriculture	*Increase total R&D investment (public and private)*	Total R&D investment (% of GDP)	2016: 0.27%	Network of Science and Technology Indicators (RICYT)
			Expand private sector access to credit	Domestic credit to the private sector (% of GDP)	2017: 49.4%	World Bank: Worldwide Governance Indicators (WDI)
			Increase agricultural productivity	Agriculture value added (% of GDP)	2018: 6.2%	DANE
		Improve the quality of education	*Improve learning among secondary students*	PISA scores in reading and writing, mathematics, and science	2015: 425/700 390/700 416/700	OECD
		Raise the quality of infrastructure and urban development, reduce transaction costs in the economy, and improve the international positioning of goods produced in Colombia	*Strengthen/improve the quality of transportation infrastructure*	Paved road network in good or very good condition (% of total)***	2017: 39.6%	INVIAS
			Increase the use of urban transportation	Kms of road infrastructure targeted for urban transportation systems	2018: 1,071.9	DNP
Public services; peace, culture of lawfulness, victims, and stabilization; and efficient government	**Improve public management effectiveness**	Support a fiscal compact to improve State revenues	*Increase State revenues*	Central and subnational tax revenue (% of GDP)	2017: 16.7% Central: 14.2% Subnational: 2.5%	International Monetary Fund, Government Financial Statistics
		Raise the quality of expenditure and public investment management capacity at all levels of government	*Increase public management effectiveness*	Government Effectiveness Index****	2017: -0.7	World Bank, World Development Indicators
			Improve State accountability, transparency, and reporting mechanisms	Simple average of the indices for control of corruption, voice and accountability, and regulatory quality****	2017: 0.03	World Bank, World Development Indicators
		Increase the efficiency and quality of justice	*Improve the quality of justice*	Judicial Independence Index (1-7)****	2018: 3.0	WEF, Global Competitiveness Index database

Government (Strategic) Priorities*	Strategic Areas	Strategic Objective	Expected Outcomes	Indicator	Baseline**	Source
Pact for greater equity	**Increase social mobility and consolidate the middle class**	Continue to reduce poverty and eliminate extreme poverty	*Reduce extreme poverty*	Extreme poverty, total rate Extreme poverty, rural rate Extreme poverty, urban rate	2017: 7.4% 15.4% 5.0%	DANE
		Reduce informality in the economy	*Reduce informal employment*	Share of the population working in the informal sector	2018: 48.2%	DANE, Comprehensive Household Survey (GEIH)
		Consolidate a sustainable and inclusive pension and health system	*Increase pension system coverage*	Percentage of those employed making payments to the General Pension System	2018: 48.9%	Authors' calculations based on DNP-Sinergia and DANE, Comprehensive Household Survey (GEIH)
			Increase health system coverage	% of the population with health insurance Total % insured under the contributory health scheme Total % insured under the subsidized health scheme	2017: 94.6% 49.7% 50.0%	DANE, National Quality of Life Survey (ECV)
		Increase equitable access to quality basic services	*Increase electricity coverage among rural households*	% of rural households in the country with electricity supply	2017: 98.4%	DANE ECV
			Increase water coverage among rural households	% of households with access to piped water	2017: 62.0%	DANE ECV
	Crosscutting Sectors					
Equity for women and ethnic groups	**Gender and diversity**	Reduce social gaps with respect to ethnic minorities	*Reduce extreme poverty among ethnic minorities*	Extreme poverty rate for ethnic minorities (average for departments with a prevalence of more than 20% of the total)	2017: 16.1	DANE
		Reduce the employment gap for women	*Reduce the female unemployment rate*	Female unemployment rate (%)	2017: 12.7%	DANE
Sustainability	**Climate Change**	Preserve natural capital	*Reduce deforestation*	Annual rate of deforestation	2017: -0.38%	Institute of Hydrology, Meteorology, and Environmental Studies

Government (Strategic) Priorities*	Strategic Areas	Strategic Objective	Expected Outcomes	Indicator	Baseline**	Source
Pact for greater equity	**Immigration**	Reduce barriers to social integration	*Greater access to health and education services*	% of Venezuelan migrants belonging to the General Social Security Health System (SGSSS) Total enrollment among students born in Venezuela	2018: 5% 2018: 21,746	CONPES document 3950
Digital transformation	**Digital economy**	Reduce the digital gap in the economy	*Greater use of digital tools*	Average adoption of mature digital tools by companies Average adoption of advanced digital tools by companies*****	2017: 58.7% 2017: 7.1%	Ministry of Information and Communications Technologies, An ABC of digitalization
Pact to support our entrepreneurs and business people	**Economic Integration**	Reduce barriers to integration	*Reduce export costs*	Cost of exporting: border compliance******	2018: US$630	World Bank, Doing Business

* The National Development Plan has three major objectives that constitute its pillars: (i) a pact for transitioning to a Colombia without crime and corruption and with justice; (ii) a pact for supporting our entrepreneurs and businesspeople; and (iii) a pact for greater equity. The crosscutting lines relate to: (i) sustainability; (ii) mining and energy; (iii) public services; (iv) transportation; (v) science, technology, and innovation; (vi) the orange economy and culture; (vii) digital transformation; (viii) equality for women; (ix) ethnic groups; (x) persons with disabilities; (xi) peace, a culture of lawfulness, victims, and stabilization; (xii) efficient government; (xiii) connecting regions; and (xiv) emphasis on the regions.

** Frequency of indicators is annual.

*** The surface condition of the paved network is determined by means of a visual survey of the road surface and classification into one of the categories envisioned for each group of paved roads. The surface condition of a road is determined as follows:

1) **Very good.** Roads classified as very good require no more than routine maintenance as they are in good condition or of recent construction.
2) **Good.** These roads require routine maintenance and probably some surface treatment or patching to cover cracked areas covering less than 15% of the total area.
3) **Fair.** These require routine maintenance and probably asphalt reinforcement of a thickness proportionate to the volume of traffic.
4) **Poor.** Roads in poor condition require substantial surface rehabilitation.

5) **Very poor.** Roads in very poor condition require significant reconstruction at a cost that is similar to construction.

Source: Guía Metodológica para el Diseño de Obras de Rehabilitación de Pavimentos Asfálticos de Carreteras [Methodological Guidelines for the Design of Asphalt Road Pavement Rehabilitation Works], 2008. INVIAS

**** *Government Effectiveness* captures perceptions of the quality of public services; the quality of public administration and its degree of independence from political pressures; the quality of policy design and implementation; and the credibility of the government's commitment to these policies.

Control of Corruption captures perceptions of the extent to which State power is used for private benefit, as well as State capture by elites and private interests.

Voice and accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, association, and the media.

Regulatory quality captures perceptions of the government's capacity to design and implement sound policies and regulations that facilitate and foster private sector development.

The Judicial Independence Index captures perceptions of judicial independence from the influence of members of government, citizens, or companies.

***** Average adoption of mature digital tools by companies relates to the percentage of companies that: use computers, use the internet, have websites, have employees that access the internet regularly, use the internet for email, use the internet to obtain information on goods and services, use the internet to obtain information from the government, use the internet for electronic banking, use the internet to interact with government organizations, use the internet to provide services to clients, use the internet to deliver products online, receive purchase orders via the internet, place purchase orders for goods and services via the internet, use the internet for internal and external hiring, and the percentage of total sales made using electronic and digital commerce. The average adoption of advanced digital tools by companies relates to the percentage of companies with: cybersecurity systems, cloud computing, sensors/M2M/internet of things, robotics, 3D printers, virtual reality, big data, artificial intelligence, and blockchain.

****** The cost of border compliance includes the time and cost of obtaining, preparing, and presenting documents during port or border handling, customs clearance, and inspection procedures.

COUNTRY SYSTEMS MATRIX

Strategic objective	Expected result	Indicator	Unit of measure	Baseline	Base year	Main objective	Time distribution	Alignment to Corporate Results Framework
Increased use of country systems	Increased use of the accounting and reporting subsystem	Active portfolio using the accounting and reporting subsystem	% of the active portfolio	18%	2018	25%*	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased use of the external control subsystem	Active portfolio using the external control subsystem	% of the active portfolio	0%	2018	5%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased use of the shopping subsystem	Active portfolio using the shopping subsystem	% of the active portfolio	0%	2018	20%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased use of the individual consultancy subsystem	Active portfolio using the individual consultancy subsystem	% of the active portfolio	0%	2018	20%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased use of the partial national public bidding subsystem	Active portfolio using the partial national public bidding subsystem	% of the active portfolio	0%	2018	20%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased use of the advanced national public bidding subsystem	Active portfolio using the advanced national public bidding subsystem	% of the active portfolio	0%	2018	20%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality

Strengthening country systems	Implementation of the action plan resulting from the Supreme Audit Institution Performance Measurement Framework	Progress in implementing the action plan	% progress in implementing the action plan	0%	2018	75%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Implementation of the action plan resulting from the Supreme Audit Institution Performance Measurement Framework	Progress in implementing the action plan	% progress in implementing the action plan	0%	2018	75%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Executing agencies advised in the matter of green procurement	Support consultancies in green procurement	# consultancies contracted by the Bank	0	2018	4	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased the development of innovative procurement	Training workshops in innovative procurement	# workshops held	0	2018	4	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality

* System functions that have been validated for the use and application of the Accounting and Reporting subsystem in IDB projects will depend on fulfillment of the following conditions: (i) from the start of execution, project components and subcomponents should be disaggregated in the SIIF Nación II budget module, based on the classification set out in the Single Annex for Loan Contracts and Technical Cooperation Agreements in operations executed by central government entities; and (ii) the executing agency should be included in the national budget and be part of the central government.

In other executors of public spending that do not use SIIF Nación II due to legal frameworks that grant them budgetary and financial autonomy—such as local governments, decentralized or autonomous entities or bodies, fiduciary mandates, fund administrators, etc.—use of the national system is not feasible.

Based on the foregoing, use of the subsystem will not necessarily be expanded as it is linked to project execution arrangements. This is particularly the case given that, at the request of the Bank's Vice Presidency for Countries, project execution should be prioritized over the model of execution itself.

Indicative lending framework
Net flow, sovereign guaranteed loan operations (US$ million)

Variable	2015	2016	2017	2018	2019	2020	2021	2022	Average 2019-22	Total 2019-22
Approvals	941.4	969.3	1,010.7	1,038.0	910.0	1,080.0	989.9	989.9	992.4	3,969.7
Disbursements	1,062.6	1,094.6	1,035.0	839.6	1,050.0	1,008.0	1,008.0	1,008.0	1,018.5	4,073.9
Amortizations	567.4	473.0	492.0	484.0	524.5	504.1	504.1	504.1	509.2	2,036.8
Net flows	495.2	621.6	543.0	355.6	525.5	503.9	503.9	503.9	509.3	2,037.0
Subscriptions and contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net loan flows	495.2	621.6	543.0	355.6	525.5	503.9	503.9	503.9	509.3	2,037.0
Interest and fees	187.9	205.6	264.0	312.0	242.4	242.4	242.4	242.4	242.4	969.5
Net cash flow	307.3	416.0	279.0	43.6	283.1	261.5	261.5	261.5	266.9	1,067.5
IDB debt	8,720.3	9,341.9	9,884.9	10,240.5	10,766.0	11,269.8	11,773.7	12,277.5	11,521.7	
Multilateral debt	19,217.6	21,064.3	21,535.6	22,877.3	21,015.8	22,490.3	23,677.1	24,594.8	25,455.3	
External debt	64,252.3	69,259.9	70,085.8	70,622.6	67,645.9	72,391.9	76,212.1	79,165.9	81,935.7	
Total debt	149,873.3	146,988.3	164,446.7	169,575.5	163,296.0	174,752.8	183,974.8	191,105.1	197,791.4	
IDB debt/multilateral debt	45.4%	44.3%	45.9%	44.8%	51.2%	50.1%	49.7%	49.9%	50.2%	
IDB debt/external debt	13.6%	13.5%	14.1%	14.5%	15.9%	15.6%	15.4%	15.5%	15.6%	
IDB debt/total debt	5.8%	6.4%	6.0%	6.0%	6.6%	6.4%	6.4%	6.4%	6.5%	

Notes: (1) Projected approvals: CAN/CAN projection for 2019-2022; for 2021-2022, average for the 2015-2018 country strategy period. (2) Projected disbursements: for 2019, projection recorded in the system; for 2020-2022, average for the 2015-2018 country strategy period. (3) Projected amortizations, interest, and fees: based on IDB for the period to 2019; for 2020-2022, average for the 2015-2018 country strategy period. (4) NFPS debt (Source: Ministry of Finance and Banco de la República). Projections based on the debt sustainability analysis contained in the March 2019 Independent Assessment of Macroeconomic Conditions for the central government, plus a rate of variation added to the total NFPS debt. (5) Projection for IDB debt based on projected disbursements and amortizations. (6) Projection for other multilateral debt based on the average share of external debt in the 2014-2018 period (Source: Banco de la República).

Variable	2015	2016	2017	2018	2019	2020	2021	2022	Average 2019-22	Total 2019-22
Approvals	941.4	969.3	1,010.7	1,038.0	910.0	1,080.0	989.9	989.9	992.4	3,969.7
Disbursements	1,062.6	1,094.6	1,035.0	839.6	1,050.0	1,008.0	1,008.0	1,008.0	1,018.5	4,073.9
Amortizations	567.4	473.0	492.0	484.0	524.5	504.1	504.1	504.1	509.2	2,036.8
Net flows	495.2	621.6	543.0	355.6	525.5	503.9	503.9	503.9	509.3	2,037.0
Subscriptions and contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending flows	495.2	621.6	543.0	355.6	525.5	503.9	503.9	503.9	509.3	2,037.0
Interest and fees	187.9	205.6	264.0	312.0	242.4	242.4	242.4	242.4	242.4	969.5
Net cash flow	307.3	416.0	279.0	43.6	283.1	261.5	261.5	261.5	266.9	1,067.5
IDB Debt	8,720.3	9,341.9	9,884.9	10,240.5	10,766.0	11,269.8	11,773.7	12,277.5	11,521.7	
Multilateral debt	19,217.6	21,064.3	21,535.6	22,877.3	21,015.8	22,490.3	23,677.1	24,594.8	25,455.3	
External debt	64,252.3	69,259.9	70,085.8	70,622.6	67,645.9	72,391.9	76,212.1	79,165.9	81,935.7	
Total debt	149,873.3	146,988.3	164,446.7	169,575.5	163,296.0	174,752.8	183,974.8	191,105.1	197,791.4	
IDB debt/Multilateral debt	45.4%	44.3%	45.9%	44.8%	51.2%	50.1%	49.7%	49.9%	50.2%	
IDB debt/External debt	13.6%	13.5%	14.1%	14.5%	15.9%	15.6%	15.4%	15.5%	15.6%	
IDB debt/Total debt	5.8%	6.4%	6.0%	6.0%	6.6%	6.4%	6.4%	6.4%	6.5%	

Notes: (1) Projected approvals: CAN/CAN projection for 2019-2022; for 2021-2022, average for the 2015-2018 country strategy period. (2) Projected disbursements: for 2019, projection recorded in the system; for 2020-2022, average for the 2015-2018 country strategy period. (3) Projected amortizations, interest, and fees: based on IDB for the period to 2019; for 2020-2022, average for the 2015-2018 country strategy period. (4) NFPS debt (Source: Ministry of Finance and Banco de la República). Projections based on the debt sustainability analysis contained in the March 2019 Independent Assessment of Macroeconomic Conditions for the central government, plus a rate of variation added to the total NFPS debt. (5) Projection for IDB debt based on projected disbursements and amortizations. (6) Projection for other multilateral debt based on the average share of external debt in the 2014-2018 period (Source: Banco de la República).

ECONOMIC AND SOCIAL INDICATORS

Table 1.1: Selected macroeconomic indicators

	2014	2015	2016	2017	2018pr**	2019p**	Source
Real economy							
Real annual GDP growth	4.7%	3.0%	2.1%	1.4%	2.6%	3.1%	(i)
Gross fixed capital formation (real annual growth)	9.9%	2.8%	-2.9%	1.9%	1.5%	4.5%	(i)
Household consumption (annual growth)	4.6%	3.1%	1.6%	2.1%	3.6%	3.3%	(i)
Public sector—central government							
Revenue (% of GDP)	16.6%	16.1%	14.9%	15.6%	15.1%	16.3%	(ii)
of which: oil revenue (% of GDP)	2.7%	1.2%	-0.1%	0.2%	1.0%	1.1%	(iii)
Expenditure (% of GDP)	19.3%	19.2%	18.9%	18.9%	18.1%	19.1%	(ii)
Overall balance (% GDP)	-2.7%	-3.0%	-4.0%	-3.6%	-3.1%	-2.7%	(ii)
Primary balance (% of GDP)	-0.4%	-0.5%	-1.1%	-0.7%	-0.3%	0.1%	(ii)
Structural balance (% of GDP)	-2.3%	-2.2%	-2.2%	-2.0%	-1.9%	-1.8%	(ii)
Gross debt (% of GDP)	40.0%	43.9%	45.0%	47.6%	45.0%	45.9%	(ii)
Monetary and exchange rate							
Annual inflation (end-period)	3.7%	6.8%	5.7%	4.0%	3.2%	3.3%	(i)
Col$/US$ nominal exchange rate (period average)	2001.1	2749.1	3051.8	2952.1	2958.1	3169.2	(iv)
Real effective exchange rate (period average)	104.1	121.2	122.3	123.1	123.7	N/A	(iv)
Financial							
Credit to the financial sector (% of GDP)	40.2%	47.2%	47.1%	46.0%	45.1%	N/A	(v)
Financial system assets (% of GDP)	63.6%	68.8%	66.6%	65.1%	63.8%	N/A	(v)
External sector							
Trade balance (% GDP)	-1.6%	-5.4%	-3.9%	-1.95%	-2.15%	-2.30%	(iv)
Current account (% GDP)	-5.2%	-6.5%	-4.4%	-3.4%	-3.8%	-3.9%	(iv)
Foreign direct investment (% of GDP)	4.2%	4.0%	4.8%	4.7%	3.3%	2.8%	(iv)
Portfolio investment (% GDP)	4.9%	3.3%	3.1%	2.5%	0.10%	0.60%	(iv)
Social indicators							
Unemployment rate (annual average)	9.1%	8.9%	9.2%	9.4%	9.7%	9.9%	(i)
Poverty rate	28.5%	27.8%	28.0%	26.9%	27.0%	N/A	(i)
Gini coefficient	0.538	0.522	0.517	0.508	0.517	N/A	(i)

** 2018p: preliminary. 2019pr: projections. Source: MHCP, LatinFocus, and World Economic Outlook.

(i) DANE.
(ii) MHCP.
(iii) Asociación Colombiana del Petróleo [Colombian Oil Association] (ACP) and MHCP.
(iv) Banco de la República.
(v) Colombian Financial Superintendency.

MANAGEMENT'S RESPONSE TO THE COUNTRY PROGRAM EVALUATION: COLOMBIA 2015-2018

OVE recommendation	Management's response
Recommendation 1:	**Agreed.**
Even though the Bank's program is relevant in the current fiscal and economic context, the Bank, in dialogue with the government, should determine how to create intervention models that continue to be suitable going forward. If Colombia sustains high rates of economic growth, the Bank will eventually need to develop a different mix of instruments to maintain its role as a preferred development partner. For example, as the Bank continues to improve investment loan implementation, it could consider using results-based loans to finance government programs' expenditure frameworks, thereby potentially facilitating execution and lowering transaction costs. In addition, to deepen its relevance, the IDB Group could consider increasing the use of local currency loans when appropriate.	**Proposed actions:** The IDB Group's relevance in Colombia is due, in large part, to an outstanding level of dialogue and technical assistance, which encourages the government and the private sector to maintain a very active financial relationship with the Bank. The IDB Group's reputation is another incentive for the public and private sectors to forge a stronger relationship with the IDB and IDB Invest. During the 2019-2022 country strategy period, the IDB Group will incentivize the diversification of the instruments used in Colombia so that more options are available to the client. This effort is already under way. For example, the Bank and the Government of Colombia have agreed on a results-based operation as part of the 2019-2020 programming. Furthermore, IDB Invest already offers local currency loans for all sectors of the private sector and will continue to do so whenever appropriate and relevant. In 2018, for example, the IDB Group signed a contract for a loan in pesos from Financiera de Desarrollo Nacional to the IDB and IDB Invest, which has been used to provide financing in pesos to an infrastructure operation (Ruta del Cacao). In addition, the IDB has a local currency treasury that facilitates the financing of operations in pesos, such as Banco Mundo Mujer. With these two instruments, the IDB Group is equipped to offer short- and long-term loans at fixed, variable, or inflation-indexed rates, thereby covering the private sector needs that have been identified to date.
Recommendation 2:	**Agreed.**
Given the development gaps at the subnational level, the IDB Group should continue to seek an effective means of intervention in this area, taking into account Colombia's institutional and regulatory limitations. As part of this exercise, the IDB Group should consider subnational development intervention models that have been implemented in other countries and are appropriate for the Colombian context.	**Proposed actions:** The IDB has been supporting subnational governments with investment instruments (for example, through a conditional credit line for subnational investment projects) and technical assistance instruments (for example, with the Emerging and Sustainable Cities Initiative). The mechanism currently used by the Bank to finance subnational government investment projects, which at the time was proposed by the Government of Colombia, is currently being reviewed with the government. This review aims to develop a more effective way of supporting subnational governments so that they can obtain greater benefits from the Bank's financial conditions and technical assistance.

	It is also important to keep in mind that, pursuant to the Busan Resolution (Resolutions AG-9/15 and CII/AG 2/15), IDB Invest has a mandate to carry out the full range of operations that, until the merge-out, had been carried out by the IDB Group's non-sovereign guaranteed operation windows. This excludes operations with sub-sovereign governments, however, and the IDB will therefore continue to serve subnational governments.
Recommendation 3: The IDB Group could identify niches for supporting subnational development by means of financial instruments that combine public and private investment.	**Agreed**
	Proposed actions: The IDB Group country strategy with Colombia 2019-2022 will encourage the IDB and IDB Invest to work together at the subnational level to generate synergies that will maximize the impact of IDB Group investment. The IDB Group has promoted this type of collaboration with operations approved in key sectors under the purview of subnational governments, such as public utilities (for example, Hidroituango). Science, technology, and innovation is another sector in which the IDB Group is making strides in building synergies with its public and private sector arms at the subnational level. From the 2015-2018 period onward, the IDB has scaled up its support for the development of the RUTA N-tech hub at the Universidad de Antioquia in Medellín, while IDB Invest began developing a loan operation in 2019. The IDB and IDB Invest have also assisted the Colombian public and private sectors with the structuring and financing of public-private partnerships (Financiera de Desarrollo Nacional-4G concessions). Subnational entities will be encouraged to use this model, with the IDB supporting public entities and IDB Invest supporting the private sector.

Development Effectiveness Matrix

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX	
In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.	
The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."	
COUNTRY STRATEGY	
STRATEGIC ALIGNMENT *Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.*	
EFFECTIVENESS *This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.*	
Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The CDC clearly identifies the main development challenges prioritized by the EBP	Yes
- The CDC's main development challenges are based on empirical evidence	Yes
II. CS Priority Areas Diagnostics**	%
- identify the **priority area's** main constraints and challenges	100%
- identify the **main factors/**causes contributing to the specific constraints and challenges	100%
III. Results matrix*	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
IV. Vertical logic	
- The CS** has vertical logic	Yes
* The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expect results stem from the strategic objectives. ** CS includes the CDC	

CS Diagnostic:
As part of the country strategy a country development challenges diagnostic was presented (see CDC and Actualización of CDC). The CDC and its update diagnostic is comprehensive and based on empirical evidence. The CDC diagnostic identifies 3 priority areas for the Bank's intervention. Productividad de la Economía que promueva mayor capital físico y humano, más innovación y acceso al crédito; Mejorar la eficiencia del Estado y la sostenibilidad fiscal y; Promover la movilidad social y diminuír la pobreza.

-The diagnostic clearly identifies and dimensions, based on empirical evidence, priority area's specific constrains and challenges.
-The diagnostic clearly identifies and dimensions, based on .empirical evidence, the main factors or causes contributing to the specific constrains and challenges for the priority areas.
-The diagnostic provides policy recommendations for Bank actions, that are based in empirical evidence.

Results matrix: The section of the results matrix corresponding to the new strategic area includes 13 strategic objectives for Bank action, 32 expected results and 39 indicators to measure progress.

100% of the Strategic Objective(s) are clearly specified.
100% of the expected result(s) are clearly specified.
100% CS Objectives are directly related to the main constraints identified in the Diagnosis.
100% of the indicators used are SMART.
100% of the indicators have baselines.

Country Systems: Diagnostics are available for all financial management sub-systems. We will continue to use 100% of the sub-systems of budget and treasury, partly the sub-system of accounting and reports. In terms of procurement, there is a diagnosis of the information system available; We are expected to work on strengthening procurement sub-systems.

The CS has vertical logic.

RISKS. The main risks facing the implementation of the EBP are related to: (i) macroeconómicos vinculados a la sostenibilidad fiscal y a los shocks externos; y (ii) riesgo de ejecución relativo a una baja capacidad de los organismos ejecutores; y (iii) riesgos relativos a la ejecución de BID Invest.