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PROJECT PERFORMANCE ASSESSMENT REPORT

WHAT WORKS

COLOMBIA

Business Productivity and Efficiency Development Policy Loans I-III

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PROJECT PERFORMANCE ASSESSMENT REPORT

COLOMBIA

BUSINESS PRODUCTIVITY AND EFFICIENCY DEVELOPMENT POLICY LOANS I–III

(IBRD-73340, IBRD-74130, IBRD-75340)

June 26, 2017

Human Development and Economic Management
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = Colombian peso (Col$)

2004	US$1.00	Col$2,626
2005	US$1.00	Col$2,321
2006	US$1.00	Col$2,358
2007	US$1.00	Col$2,078
2008	US$1.00	Col$1,966
2009	US$1.00	Col$2,156
2010	US$1.00	Col$1,898
2011	US$1.00	Col$1,848
2012	US$1.00	Col$1,798
2013	US$1.00	Col$1,869
2014	US$1.00	Col$2,001
2015	US$1.00	Col$2,746

All dollar amounts are U.S. dollars unless otherwise indicated.

Abbreviations and Acronyms

CONPES	Consejo Nacional de Política Económica y Social
DDO	deferred drawdown option
DPL	development policy loan
FCL	flexible credit line
GDP	gross domestic product
ICR	Implementation Completion and Results Report
IEG	Independent Evaluation Group
PPAR	Project Performance Assessment Report

Fiscal Year

Government: January 1–December 31

Director-General, Independent Evaluation:	Ms. Caroline Heider
Director, Human Development and Economic Management:	Mr. Auguste Tano Kouame
Manager, Country Programs and Economic Management:	Mr. Pablo Fajnzylber
Task Manager:	Ms. Xiaolun Sun

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Principal Ratings

	ICR*	ICR Review*	PPAR
Outcome	Satisfactory	Moderately satisfactory	Moderately satisfactory
Risk to Development Outcome	Moderate	Moderate	Moderate
World Bank Performance	Satisfactory	Moderately satisfactory	Moderately satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion and Results (ICR) report is a self-evaluation by the responsible World Bank global practice. The ICR Review is an intermediate IEG product that seeks to independently validate the findings of the ICR.

Key Staff Responsible

First Business Productivity and Efficiency Development Policy Loans (IBRD-73340 IBRD-74130, IBRD-75340)

Project	Task Manager or Leader	Division Chief or Sector Director	Country Director
Appraisal	Juan Carlos Mendoza	Susan Goldmark	Isabel M. Guerrero
Completion	Eva Gutierrez	Lily L. Chu	Gloria Grandolini

Second Business Productivity and Efficiency Development Policy Loans (IBRD-74130)

Project	Task Manager or Leader	Division Chief or Sector Director	Country Director
Appraisal	Juan Carlos Mendoza	Susan Goldmark	Isabel M. Guerrero
Completion	Eva Gutierrez	Lily L. Chu	Gloria Grandolini

Third Business Productivity and Efficiency Development Policy Loans (IBRD-75340)

Project	Task Manager or Leader	Division Chief or Sector Director	Country Director
Appraisal	Juan Carlos Mendoza	Susan Goldmark	Isabel M. Guerrero
Completion	Eva Gutierrez	Lily L. Chu	Gloria Grandolini

IEG Mission: Improving World Bank Group development results through excellence in independent evaluation.

About this Report

The Independent Evaluation Group (IEG) assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the World Bank's self-evaluation process and to verify that the World Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20–25 percent of the World Bank's lending operations through fieldwork. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or World Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, interview World Bank staff and other donor agency staff both at headquarters and in local offices as appropriate, and apply other evaluative methods as needed.

Each PPAR is subject to technical peer review, internal IEG panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible World Bank country management unit. The PPAR is also sent to the borrower for review. IEG incorporates both World Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the World Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: http://ieg.worldbankgroup.org).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current World Bank country and sectoral assistance strategies and corporate goals (expressed in poverty reduction strategy papers, Country Assistance Strategies, sector strategy papers, and operational policies). *Relevance of design* is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared with alternatives. The efficiency dimension is not applied to development policy operations, which provide general budget support. *Possible ratings for outcome:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, highly unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for risk to development outcome:* high, significant, moderate, negligible to low, and not evaluable.

World Bank Performance: The extent to which services provided by the World Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan or credit closing, toward the achievement of development outcomes). The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for World Bank performance:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, and highly unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for borrower performance:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, and highly unsatisfactory.

Preface

This is the Project Performance Assessment Report (PPAR) of the Colombia Business Productivity and Efficiency Loans, a programmatic series of three development policy loans implemented over FY06–11. The three loans were approved between October 2005 and April 2008, and closed between May 2006 and June 2011. The loan amounts were $250 million, $300 million, and $550 million, respectively, with the third loan granted with a deferred drawdown option. All three loans were disbursed and closed on schedule.

The Independent Evaluation Group (IEG) prepared this report, which assesses whether the development objectives and outcomes of the program were achieved by the target date and sustained beyond. It is based on interviews, documents, and data collected during a mission to Colombia in April 2016, during which government officials, external development partners, and business groups, academics, nongovernmental organizations, civil society groups, and other stakeholders were consulted. The evaluation also draws on in-depth interviews of World Bank and International Monetary Fund staff, including current and former members of the Colombia country teams in Washington, DC, and Bogotá. The cooperation and assistance of all stakeholders and government officials are gratefully acknowledged, as is the support of the World Bank office in Bogotá.

The assessment aims first to serve an accountability purpose by verifying the program's success in achieving the intended outcomes. Secondly, as part of a cluster of PPARs on development policy loans with deferred drawdown option, the report draws lessons to inform the design and implementation of this type of instrument in Colombia and other World Bank Group client countries.

Following standard IEG procedures, the report is sent to the government officials and agencies in Colombia for review and feedback. No comments are received.

Summary

This Project Performance Assessment Report (PPAR) evaluates the Colombia Business Productivity and Efficiency Loans, a programmatic series of development policy loans (DPLs) to Colombia implemented in FY06–11. The three loans were approved in October 2005, December 2006, and April 2008 and closed in May 2006, June 2007, and June 2011, respectively. The loan amounts were $250 million, $300 million, and $550 million, with the third loan granted with the deferred drawdown option (DDO).[1] All three loans were disbursed immediately upon effectiveness, and closed on schedule. The PPAR reviews the performance of these operations based on IEG and Operations Policy and Country Services guidelines on program evaluations.

The DPL series had two development objectives: (i) facilitating the operation of businesses and promoting investments to boost productivity and employment levels and (ii) consolidating the financial sector and capital markets as pillars of economic growth to address the needs of individuals and the productive sector. The objectives were highly relevant to country conditions both at the time of entry and closing, and well aligned to government and World Bank Group strategies.

Design of the program had modest relevance. The program benefited from substantial World Bank analytical work, and thus addressed the relevant issues. However, some of the prior actions were relatively weak, while others lacked coherence with the overall program. To cover a larger set of issues, the programmatic series staggered the reform actions, which allowed each operation to address fewer issues but meant one-off support for some important reforms that required long-term engagement to yield results.

The overall outcome of the program is rated moderately satisfactory. With respect to consolidating the financial system and capital markets, the sustained engagement led to substantial progress in the financial sector including banking supervision and commercial bank provisioning, financial inclusion, money market development, and stabilization of fiscal transfers.

However, competition and access to credit remained limited. Capital markets, though grown, remain small, with few nonfinancial companies issuing debt, the money market continues to be dominated by government paper, and information is lacking on money laundering. In terms of facilitating the operation of businesses and promoting investments, the program provided intermittent support on a wide range of issues, contributing to improved quality standards and technological innovations and expanded port capacity, but leading to limited advances in most areas: progress in reducing transaction costs for businesses, providing a stable legal framework for investment, facilitating nontraditional exports, and improving electricity supply and trucking services fell short of expectations.

The risk to development outcomes is rated moderate. The program achieved uneven results, but they are likely to be maintained in most instances. Among the areas where significant progress has been made, the Superintendencia Financiera has become a stronger institution, there has been considerable expansion of financial services to the unbanked population, and Colombia has developed the institutional infrastructure to

continue to improve its quality standards. These advances are unlikely to be reversed. In some of the other areas, a lack of commitment to pursue the more difficult reforms may slow down the reform progress and even cause temporary reversals.

Key Lessons

- **The experience of this DPL program suggests that in-depth knowledge and government buy-in are essential in Colombia for designing reform programs with substance.** In general, the prior actions of this program reflect well what the World Bank knew about Colombia. In the financial sector, the reforms selected exemplify the World Bank's deep understanding of the problems that had to be solved to strengthen the financial system and the impact of the reforms is beginning to be felt. On the other hand, lack of political commitment to tackle the fundamental problems in Colombia's foreign trade sector—weak institutions and entrenched protectionism—meant that the reform actions supported under this program addressed secondary issues. Consequently, the impact of the actions pursued was limited.
- **Staggering interventions by policy areas presented trade-offs between the breadth and depth of the program.** While the approach appeared attractive by allowing the World Bank to tackle a larger number of issues while staying focused at each given moment, it also meant limited attention to some issues and one-off support in some areas. The design of the program could have paid greater attention to assessing the implications of such trade-offs for achieving the program's objectives, especially the risks to development outcomes in the long run. The experience with this DPL program suggests that staggering interventions to cover more ground is likely to produce modest relevance and shallow impact.

Auguste Tano Kouame
Director
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1. Background and Context

Macroeconomic Developments

1.1 During 2006–07, the Colombian economy performed relatively well. Its growth rate exceeded 6 percent per year, while inflation hovered above 5 percent, far below its historical levels but exceeding the target range of 3.5–4.5 percent set by Banco de la República, Colombia's central bank. Growth was underpinned by improved domestic security and a large increase in private investment, domestic and foreign. Rapid growth and fiscal discipline contributed to reducing public debt ratios, thereby reducing macroeconomic vulnerabilities. In addition, changes in external debt composition, from dollar to peso-denominated debt, reduced Colombia's exposure to exchange rate and rollover risks. Sound exchange rate and monetary policies allowed the accumulation of significant international reserves.

1.2 However, in 2008 and 2009, Colombia's growth rate slowed to 3.5 and 1.7 percent, respectively, as a result of weakening commodity prices and decelerating world economy. Inflation fell from 7.6 percent in 2008 to 3.4 percent in 2009. Although monetary policy tightened, fiscal policy was expansionary, with public expenditure rising 2.9 percentage points of gross domestic product (GDP) between 2008 and 2009. At the same time, Banco de la República intervened on the foreign exchange market in several instances and adopted a wider band for interventions by the end of 2008, allowing the peso to depreciate by 13 percent between January 2008 and June 2009. Commercial banks, which were in good financial conditions with low levels of nonperforming loans and sufficient provisions, continued to have access to external credit lines, albeit with shorter maturities and higher interest rates.

1.3 The authorities also moved to preclude potential problems in accessing international capital markets. To mitigate the crisis risks, Banco de la República established a flexible credit line (FCL) with the International Monetary Fund in May 2009 for special drawing rights (SDR) 7 billion (about $10.5 billion) and renewed the FCL arrangement four times during May 2010–June 2015 for a total of SDR 21 billon.[2] This was followed by a two-year arrangement under the FCL for SDR 8.18 billion approved in June 2016, with the authorities stating "their intention to treat the new arrangement as precautionary, and [they] do not intend to draw on it."[3]

1.4 To finance the budget, the authorities borrowed from the World Bank through development policy loans (DPLs), especially in 2008 ($2.17 billion) and 2014–15 ($3 billion) to cover the larger risks arising from the financial crisis of 2008–09 and the fall in commodity prices in 2014–15. Strained relations with Venezuela also contributed to the large external borrowing in 2008–09: in response to Colombia's attacks on the Revolutionary Armed Forces of Colombia (FARC) guerrillas, the Venezuelan government threatened to close the border, impose restrictions on Colombian exports, and send troops to the frontier. Venezuela's economic policy turned out to be a potent threat to Colombia's exports, which fell from $2.7 billion in 2006 to $1 billion in January–November 2015.

Business Productivity and Efficiency

1.5 A long-running issue with economic development in Colombia is that factor accumulation, rather than productivity gain, have accounted for its observed growth over much of the past two decades. During 1980–2000, productivity grew by a modest 0.43 percent per year thanks to physical and human capital accumulation, while total factor productivity declined at 1.85 percent per year (OECD 2013). The low levels of productivity can be traced to unclear and volatile business regulations, restrictive trade policies and cumbersome customs procedures, a shallow financial sector that went through severe crisis in the late 1990s and early 2000s, underdeveloped innovation system (Agapitova et al 2002, OECD 2014a) due to inadequate public and private investment, and deficient infrastructure in certain transport segments.

1.6 To address these constraints, the government undertook various reforms. In the 2000s, for example, the authorities sought to simplify the procedures and reduce the number of steps for completing government procedures. By 2005, the World Bank's *Doing Business* report rated Colombia as the second-fastest reformer in the world. Similarly, the government tried to boost the country's competitiveness and trade by reducing customs procedures and processing time. One of the measures undertaken was the creation in December 2004 of the Ventanilla Única de Comercio Exterior, through which the Ministry of Trade processes about 60 percent of all paperwork for imports.

1.7 In the financial sector, after the 1999 crisis the government undertook major reforms by restructuring state-owned banks, strengthening banking supervision and overall financial sector oversight by merging bank and stock market regulators into Superintendencia Financiera, and developing a regulatory framework for the insurance industry and the capital markets. These efforts were largely successful, especially in restoring the financial soundness of the banking sector.

1.8 Major change also took place in the infrastructure sector, where in the early1990s the government delegated the management of the state-owned ports to private operators. That led to substantial gains in labor productivity and reduced the time needed for loading and unloading merchandise in ships.[4] By contrast, little progress was achieved in improving road infrastructure until recently, a major barrier being the system of public procurement for road construction and maintenance. Many of these obstacles have been overcome with the creation of the National Infrastructure Agency, thereby opening the way to develop a modern road infrastructure in the next five years.

1.9 The World Bank Group has been supporting private and financial sector development in Colombia since 1980. The country assistance strategy of FY03–06 and the country partnership strategy of FY2008–11 sought to help promote the development of a well-functioning financial system that can serve the productive sector and the population at large, and remove the impediments to private sector growth through adequate regulatory and competition frameworks and streamlined administrative procedures governing the establishment and operation of firms. The World Bank and the International Finance Corporation collaborated to provide substantial support for the financial sector restructuring in the 2000s.

1.10 On transport infrastructure, World Bank support has concentrated in urban transport rather than on roads, although the country partnership strategy planned to help structure toll road concessions, with the International Finance Corporation focusing on private sector participation and the World Bank providing technical assistance to the government. The country partnership strategy also proposed support for reforms in road, port, and electricity infrastructure.

2. Objectives, Design, and Their Relevance

2.1 The development objective of the DPL series was "to support sustainable growth and the alleviation of poverty by (i) facilitating the operation of businesses and promoting investment to boost productivity and employment levels, and (ii) consolidating the financial sector and capital markets as pillars of economic growth to addresses the needs of individuals and the productive sector" (World Bank 2005, 2006, 2008b).

2.2 To achieve this objective, the World Bank prepared a programmatic series of three DPLs, which covered five policy areas in a staggered manner (table 2.1). The emphasis of the DPL series was on financial sector and capital markets development, which is reflected in the fact that all three operations addressed issues in this area, while only one operation each touched on business environment and infrastructure.

Table 2.1. Policy Areas Covered under Development Policy Loans 1, 2, and 3

Policy Area	DPL1	DPL2	DPL3
Business environment	●		
Trade and competitiveness	●	●	
Financial sector and capital markets	●	●	●
Innovation and quality standards		●	●
Infrastructure and logistics			●

Note: DPL = development policy loan.

2.3 The program document of the DPL1 anticipated that the entire program would be carried out over three years. DPL1 and DPL2 were designed as one-year loans, but DPL3, which was approved shortly after the adoption of the streamlined DPL DDO by the World Bank Group's Board of Executive Directors, added a DDO for its disbursement.[5]

2.4 This effectively extended the implementation period of the three-year programmatic DPL series by two additional years, with the potential of an extension of another three years with the DDO's renewal feature.[6]

Relevance of Objectives

2.5 The relevance of objectives is rated high.

2.6 The objectives had high relevance to Colombia's development context as it addressed a long-running problem in the country. Productivity had been falling in Colombia since 1980, and the program sought to help address problems that prevented productivity gains. The series' objectives were in line with the government's long-term development plan (Visión Colombia 2019) and its National Development Plan 2002–06 (Hacia un Estado Comunitario), which was formally adopted through Law 812 of 2003. The DPL focused on the following three of the National Development Plan's objectives: (i) support sustainable growth and employment-generating activities by reducing barriers to entrepreneurial activity, thereby promoting bilateral and regional trade agreements, fostering technological innovation, and improving infrastructure; (ii) reduce income inequalities by promoting economic growth, efficient social expenditures and safety nets; and (iii) increase the transparency and efficiency of the state.

2.7 The DPL series' objectives were also aligned with the country assistance strategy of FY2003–06 and the country partnership strategy of FY2008–11. Both strategies supported three essential areas: (i) achieving fast and sustainable growth; (ii) sharing the fruits of growth; and (iii) building efficient, accountable, and transparent governance. The bulk of the DPL program supported the growth agenda.

Relevance of Design

2.8 The relevance of design is rated modest.

2.9 As reflected in the prior actions in each policy area, the program touched on relevant issues, which benefited from the World Bank's analytical work and consultations with stakeholders. However, some actions lacked coherence with the overall program or were relatively weak. The topic of fiscal transfer to subnational governments, for instance, was not related to business productivity and efficiency and was not envisioned for the programmatic series initially. It appeared without clear explanation in DPL3 under financial system strengthening, with which it shared little synergy. In trade and competitiveness, the actions supported (setting up a one-stop shop for processing import and export documents) seemed unlikely to produce significant impact on international trade competitiveness because they targeted secondary issues in the context of Colombia's complex institutional arrangement and numerous trade barriers.

2.10 The program staggered prior actions by policy areas, with a clear focus on the financial sector (tables 2.1 and 2.2). While there is merit in having each loan cover only a limited number of issues, the approach meant that the program provided one-off support to some important policy reforms that required sustained efforts to see results. Such is the case of business environment and infrastructure and logistics areas, even though both are known to face substantial problems as identified by World Bank analysis, studies by Consejo Privado de Competitividad, a Colombian think tank (CPC 2014, 2015), and the World Economic Forum reports (2006 and subsequent years). The lack of depth and continuity in the program support's in these areas weakened its ability to achieve its objectives.

Table 2.2. Number of Prior Actions in Development Policy Loans 1, 2, and 3

Policy Area	DPL1	DPL2	DPL3	Total
Business environment	2			2
Trade and competitiveness	1	1		2
Financial system and capital markets	6	6	1	13
Fiscal management			1	1
Innovation and quality standards		2	2	4
Infrastructure and logistics			4	4

Note: DPL = development policy loan.

2.11 It is noteworthy that when DPL3 was under preparation in late 2007 and early 2008, the government did not need World Bank financing immediately, but wished to expand Colombia's financial cushion out of concerns over the strained economic and diplomatic relations with Venezuela and the rising uncertainties in the global economy. As the streamlined DPL DDO policy guideline had just been approved by the World Bank Group's Board and offered more disbursement flexibility at no additional cost, the government requested a larger loan for DPL3 ($550 million vs. $250 million for DPL1 and $300 million for DPL2) and a DDO for its disbursement. Reflecting the separation of International Bank for Reconstruction and Development financing modalities from program content, the Program Document did not discuss how the added resources and the longer disbursement period would contribute to achieving the program's objectives. The Implementation Completion and Results report (ICR) did not reflect on these issues.

3. Implementation

3.1 The program was implemented between October 2005 and June 2011, during which the Colombian economy grew at 4.9 percent per year with annual inflation averaging 5.4 percent. All the prior actions were met. The loans were executed according to plan and closed on the original closing date. The DPL3 was the first World Bank loan to make use of the streamlined DDO instrument. Since the pricing of the DDO at that time was identical to that of a regular DPL, the instrument provided the government with more disbursement options (timing and amount) at no additional cost. Eventually, the government decided to withdraw the entire loan proceeds immediately upon effectiveness in December 2008 due to concerns of the impact of the global financial crisis.

3.2 Information on supervision is scant. For the DPL3, two supervision reports were filed during the program implementation period. The second Implementation Status and Results report notes that "it is being somewhat problematic to obtain the indicators for monitoring progress." No report of that nature exists for the other DPLs. The back-to-office reports on the project portal inform about economic developments in the country, identification missions for forthcoming DPLs, advisory work to the government in the financial sector, financial stability and money laundering, and an off-shore financial zone in San Andrés Island. They do not mention any implementation problems and do not discuss monitoring and evaluation aspects of this program, focusing instead on future loans and the conditions the World Bank would request to proceed with them.

4. Achievement of Objectives

4.1 For this evaluation, the objective of consolidating the financial sector and capital markets is assessed against the results achieved in policy area 3, while that of facilitating the operation of business and promoting investment is assessed against results in the other four policy areas. The tables of monitoring indicators in the program documents of DPL2 and DPL3 provided a similar mapping for those two operations (World Bank 2006, table 11; 2008b, table 6).

Objective 1: Facilitating the Operation of Businesses and Promoting Investment to Boost Productivity and Employment Levels

4.2 The efficacy of objective 1 is rated modest.

POLICY AREA 1: BUSINESS ENVIRONMENT

4.3 In this area, the program expected to reduce transaction costs, facilitate entrepreneurial activities, and provide a stable legal framework for direct investment. To this end, the program supported the issuing of Ley Antitrámites 962 of 2005, a law to rationalize bureaucratic procedures, and the policy document Consejo Nacional de Política Económica y Social (CONPES) 3292 establishing a strategy for interinstitutional collaboration to rationalize procedures.

4.4 **Regulations.** To carry out its program, the Colombian government established a unified system, the Sistema Único de Información de Trámites (SUIT), to record the procedures requested by the central and local governments, and by persons executing public administrative functions for enterprises and individuals. The information gathered through the system is published on http://www.suit.gov.co/, which shows that the program reduced the number of procedures at the national level by 15 percent, below the target of 50 percent. The number of procedures fell from 2,676 in 2004 to 2,181 in 2011 (Colombia, DAFP 2011), but rose to 2,287 in 2016 (Colombia, DAFP 2016a).

4.5 The DPL program correctly targeted national procedures, which was the more onerous part of the problem,[7] but its results framework did not distinguish between procedures for enterprises and procedures for individuals. Consequently, it could not address properly how regulations affected the business environment.

4.6 **Legal stability contracts.** Since the 1990s, successive governments have reformed tax laws frequently, generating insecurity about tax policy and discouraging investment. During the Uribe administration, the congress approved Law 963 on July 8, 2005, which sought to bring stability through so-called legal stability contracts.[8] The ICR for the three DPLs did not inform on the impact of this law on investments, and much less on the structure of the Colombian tax system.

4.7 The system that the World Bank supported succeeded in granting special benefits for some companies, but its benefits to the society are not clear. The mechanism has become one of the most distortionary mechanisms for horizontal tax equity (see Comisión de Expertos 2015a, 23; 2015b, 10, 21). The public at large does not have information on the fiscal costs of the system nor who benefits from it. In its medium-term fiscal framework, the Ministry of Finance does not calculate the fiscal cost of the contracts, but just the deduction for investments in fixed assets under these contracts amounted to 0.08 percent of GDP (Comisión de Expertos 2015b, 65). Although the Santos administration stopped approving new contracts, the law continues to be a problem for reforming tax policy.

4.8 A study by Galindo and Meléndez (2010) found that tax incentives implemented in 2004 for firms investing in fixed assets were ineffective for promoting investments. The study refers to a general tax stimulus that benefited all investors, an institutional arrangement more transparent than the stability contracts approved on a case-by-case basis. There is thus support for the argument that the legal stability law has allowed companies to apply for the contracts to capture rents (that is, tax exemptions) after having decided to invest.

POLICY AREA 2: TRADE AND COMPETITIVENESS

4.9 To strengthen competitiveness and to promote trade, the DPL program supported (i) establishing an electronic platform in the Ministry of Foreign Trade, Industry, and Tourism to serve as a single window, the Ventanilla Única de Comercio Exterior, to process all the documents required to export and import goods and services; (ii) simplifying container inspection processes; (iii) issuing a policy directive establishing the basis for a productivity and competitiveness policy; and (iv) issuing 10 regional and 10 sector reports by the Departamento Nacional de Planeación (National Planning Department) on the internal agenda (Agenda Interna). The results for these actions would be measured by (i) an increase in nontraditional exports from $9.1 billion in 2004 to at least $10 billion and (ii) at least 90 percent of nontraditional foreign trade to be processed through the Ventanilla Única. No results were defined for inspecting containers (see section on infrastructure).

4.10 Nontraditional exports expanded, rising from $9.1 billion in 2004 to $16.6 billion by end of program in 2011, exceeding the program's target of 14.2 percent. It reached a peak of $18 billion in 2012 but declined to $14 billion by 2015. However, it is difficult to assess how much of the improvement in the performance of nontraditional exports came from improved general conditions of the world economy and how much from the policy reforms supported by the DPL program (that is, single window, and policy directives and sector and regional plans). In this regard, there is no evidence that the creation of Ventanilla Única has helped to significantly expedite customs clearance. For importers and exporters who only need authorization from the Ministry of Trade (the minority of agents), Ventanilla Única is a convenient way to process import and export approval. However, Ventanilla Única only processes 57 percent of imports (by value), which comprises 45 percent of the items in the tariff schedule, and for the other importers and exporters, Ventanilla Única has become an additional step after they have secured other permits in the red tape of the foreign trade sector (García, Collazos, and Montes 2015, section V and table 14).

POLICY AREA 4: INNOVATION AND QUALITY STANDARDS

4.11 The program sought to improve quality standards and foster technological innovations. In particular, the program supported government efforts to (i) improve the quality of its infrastructure for metrology (CONPES 3346), (ii) establish a policy for the system of sanitary and phytosanitary measures (CONPES 3375), and (iii) provide financial resources to strengthen metrology infrastructure. The expected results for quality standards had been exceeded by a wide margin by 2008, with the number of firms with ISO-9000 certificates nearly tripled and the number of entities with accredited conformity assessment increasing 17-fold.

4.12 The program also supported developing a new policy framework for innovation and technology, as well as increasing relevant budgetary allocations for 2007–08. Three specific outcomes were expected:

4.13 **The budget for science, technology, and innovation (STI)** would reach 0.5 percent of GDP. The result fell short of the target as investment for STI during 2006–11 varied between 0.4 and 0.49 percent of GDP, with the highest value reached in 2006 and 2008 (OCyT 2016, 20).

4.14 **The Administrative Department of Science, Technology, and Innovation (Colciencias) would provide research and learning assistance** by offering financial assistance to 200 research groups and contingent loans for doctoral studies to 150 additional students per year. These targets were met. Over the period 2006–10, Colciencias granted 1,210 scholarships and loans, of which 462 were granted in 2010 (OCyT 2016, table 2.10).

4.15 **Colciencias would also grant innovation incentives** to 150 enterprises per year. There was no definition of the incentives to be offered, and the ICR did not report on this indicator. In 2010 and 2011, Colciencias approved 175 and 152 applications, respectively, for deductions for investment and donations, exemptions from the value-added tax, and deduction for the software industry (OCyT 2016, figure 10.3). It is not clear how many enterprises submitted the applications.

POLICY AREA 5: INFRASTRUCTURE AND LOGISTICS

4.16 To enhance the performance of Colombia's productive infrastructure, the program supported the strengthening of private sector participation in electricity, ports, and trucking.

4.17 **Electricity.** To meet firms' energy requirements, the program supported steps to provide more stable signals to new private sector investment in the energy sector. In 2006, the Regulatory Commission of Energy and Gas issued a new power scheme to implement the auction of energy supply. This was followed by additional regulations to develop the new scheme. The target was to eliminate blackouts by program close. This did not happen.

4.18 The ICR reported that service interruption declined by 12 percent, from 3.08 to 2.71 hours (without indication of unit of time), between 2007 and 2010. Data from a recent report by the Inter-American Development Bank show, however, that the length of interruptions in electricity service increased from 20 to 29.5 hours per user per year during 2010–13, and the frequency of interruptions increased from 38 to 41 incidences per customer per year during the same period (BID 2016, 48).[9] Interruptions varied widely by company, ranging between 8 and 172 hours per year in 2013. Although some companies improved their performance, most now serve smaller markets than before. Service gaps between urban and industrial zones and rural areas remains significant.

4.19 **Ports.** To address the issue of saturated port concessions and lower-than-expected efficiency standards, the program supported the definition of new schemes to expand port operations and improve logistics services. The expected result was a 10 percent increase in Colombia's container handling capacity by the end of the program. The ICR reported on the number of days to export and import containers, which decreased substantially from 34 and 48 days for export and import, respectively, in 2007, to 14 days for both in 2010. More recent calculation by the Banco de la República based on Customs data indicates continued progress: the number of days for port clearance fell from 8–9 days in 2009, to 5.8–6.2 days in 2015 when measured by the median. In addition, there is indication that port handling capacity increased between 2008–10 and 2014–16, when the number of containers handled by the port operator (Sociedades Portuarias) grew by 75 percent from 1.3 million to 2.2 million.

4.20 The program also supported the adoption of a policy to facilitate simultaneous inspection of freight. Progress in this area would be measured by a reduction of the number of containers physically inspected to 30 percent (from an undefined baseline). The ICR reported values of 35 percent for exports and 25 percent for imports at the end of 2010. Data from the World Bank's Logistic Performance Index shows that while physical inspection of import shipments fell, the percentage of shipments subject to multiple inspections doubled. Nevertheless, the Logistic Performance Index suggests an improvement in clearance procedures between 2009 and 2012 and between 2011 and 2014.[10]

4.21 **Trucking.** To facilitate a more efficient logistics system and better quality of service, the program supported the policy on freight transport by road, issued in CONPES 3489 of 2007. Improved sector efficiency and service quality would be measured by an increase in the annual average kilometers per truck by 15 percent, a reduction in the average truck age from 24 to 22 years, and an increase in private sector participation in the roads sector (no target defined). The ICR reported that between 2004 and 2010 average truck age decreased by four years, and the private sector was involved in building 700 extra kilometers of road. There was no information on the distance driven per truck. These results indicate progress, but the indicators offer only partial evidence of improved freight efficiency or service quality.

Objective 2: Consolidating the Financial Sector and Capital Markets as Pillars of Economic Growth to Address the Needs of Individuals and the Productive Sector

4.22 The efficacy of objective 2 is rated substantial.

POLICY AREA 3: FINANCIAL SYSTEM AND CAPITAL MARKETS

4.23 The review associates this objective with policy area 3. This policy area was the core of the DPL series. It tackled issues in seven subareas: financial sector supervision and loan loss provisioning, competition and access to credit, financial inclusion, capital markets, money markets, money laundering, and fiscal transfers. The program defined prior actions in all these areas, but did not specify expected outcomes regarding fiscal transfers, and several indicators lacked baselines or targets. To rate efficacy of this policy area the review gives equal weight to each of the seven subareas.

Supervision and Provisioning

4.24 The program sought to strengthen the supervision of the financial sector and commercial bank provisioning. To this end, the program supported (i) merging banking and securities supervision functions into a single financial supervisor (Superintendencia Financiera), (ii) increasing the legal and budgetary independence of the single financial supervisor, (iii) establishing an early warning system for pension funds, and (iv) enhancing the role of internal comptrollers and external auditors in the risk management of banks and other supervised entities. Through these reforms, it was expected that prudential performance would be improved and capital base in the banking system would be stronger, with banks operating above minimum capital ratios. The ICR reports that commercial banks reached an average capital adequacy ratio of 14.1 by program close in 2010 (from a baseline of 12.8 percent in 2004) and all banks operated over the 9 percent capital ratio set by the Basel rules.

Competition and Access to Credit

4.25 The program sought to improve access to financial services through increased competition in the financial sector and stronger legal underpinnings for the supply of credit. This was to be promoted through the issuance of a midterm road map by the Ministry of Finance for selected reforms in the financial sector. To increase the supply of credit and access to financial services, the legislature approved a law on credit information, and the authorities mandated the disclosure of fees and payments to credit card issuers and authorized the establishment of correspondent banking arrangements whereby third parties, by pairing with a bank, offer services that are usually provided by credit institutions.

4.26 The expected outcome was an increase of total credit to the private sector from 23 percent to 27 percent of GDP between 2004 and 2010, provided that international conditions and the macroeconomic environment remain favorable. This was achieved as credit to the private sector reached 34 percent of GDP at the end of 2010 (World Bank 2011). Updated data from Banco de la República are slightly different, but also indicate substantial growth: net credit to the private sector increased from 19 percent of GDP in 2004 to 29 percent and 42 percent of GDP in 2010 and 2015.

4.27 This result, however, has little direct relation with the prior actions, which sought to increase competition in credit supply. The indicator is influenced more by the country's overall economic condition than improvements in the credit information system. The World Bank was aware of the problems posed by selecting this indicator, as shown by its proviso on international conditions and macroeconomic environment.

Financial Inclusion

4.28 The program sought to promote access to financial services for the poor by supporting laws and regulations for the Cajas de Compensación[11] and the Fondo Nacional de Garantías.[12] For the Cajas, the congress approved a law allowing them to lend for housing finance and the Ministry of Finance issued a decree regulating their activities. For the Fondo de Garantías, the Ministry of Finance issued a decree to strengthen its prudential regulation. Moreover, the program supported government regulations capping risk-adjusted predatory lending interest rates, exempting basic savings accounts for the poor from any financial transactions tax, mandating financial companies to "know your customers," and allocating budget resources to subsidize, on a declining basis, opening commercial bank branches in underserved areas. The results of these actions would be measured by financial sector depth by income levels and geographical distribution. Neither the World Bank nor the executing agency monitored financial sector depth, and the ICR did not report on other measures of financial inclusion.

4.29 Available information on microcredit is mainly on its supply.[13] Data from Banco de la República show that microcredit increased from 0.22 percent of GDP in 2004 to 0.73 percent and 1.3 percent of GDP in 2010 and 2015, respectively. As a proportion of total gross loans, microcredit rose from 1.2 percent in 2004, to 3.2 percent in 2015 (see appendix table B.3). Recent cost-reducing innovations, such as electronic savings accounts and accounts with simplified processes, aim to improve access of vulnerable populations to the financial system. In 2009, the government started to use the financial system to pay conditional transfers for some beneficiaries of the Familias en Acción program; in 2011 the practice of paying subsidies through electronic deposit became generalized. These innovations increased access to bank accounts: by the end of 2014 electronic savings accounts exceeded 3.3 million and electronic deposits reached 2.1 million users (Cadena and Quintero 2015, 31).

4.30 These data suggest that financial inclusion has improved over the past 10 years thanks to economic growth, use of new technology to reach lower-income groups, and provision of social transfers through the financial system. Nevertheless, more needs to be done to improve poor people's access to the financial system. A longitudinal survey of Universidad de los Andes, for example, found that only 26 percent of the households in the lowest income stratum (out of six strata) had access to bank accounts and there were wide variations between male and female-headed households (54 vs. 38 percent), urban and rural households (22 percent vs. 45 percent), and across regions (37 percent for Atlantic vs. 54 percent for Bogotá) (Cadena and Quintero 2015).

Capital Markets

4.31 The program sought to strengthen capital markets by improving investor protection rules, facilitating the creation of private equity funds, reducing transaction costs of new issuances, and adopting regulations to implement the new Securities Law

(Law 964, July 2005). Seven decrees were issued in 2005 and 2006 to regulate the capital markets and the Law 964. It was expected that by program close, at least three private equity funds would have been established, and annual issuance of fixed income securities would increase to at least 18 and that of equities would increase to 3. These targets were exceeded; by the end of 2010, 11 equity funds had been established and 26 new fixed income securities and 4 equities had been issued.

4.32 These indicators, while suggesting an expansion of the capital market, were poor measures of its depth. To a large extent, the results reflected the overall expansion of the Colombian economy since 2004, and the resultant increase in the nominal value of the financial system's assets and in credit supply and demand. The structure of the financial system has not changed, with credit establishments accounting for 44 percent of the system's assets, followed by trust funds (28 percent) and pension funds (17 percent). A recent report by Colombia's stock exchange (Bolsa de Valores de Colombia 2015), shows that the annual value of private debt issuance increased from Col$4 trillion in 2006–07 to Col$9 trillion in 2012–14. Excluding term deposit certificates, the outstanding stock of private debt was only 6.6 percent of GDP in 2014, far below Chile's 40 percent. The report notes that the private debt issued in 2006–14 was concentrated in financial entities, some highly rated segments (AAA or AA+), and bonds. Among companies issuing debt, 15 of the 30 financial entities issued new debt every two years, while 45 of the 60 nonfinancial entities undertook only one debt issuance. No commercial paper has been issued since 2011.

Money Markets

4.33 The program sought to support the development of money markets to increase the liquidity of the secondary market for government debt. One measure was the definition of a legal framework for repurchase agreements and buy-backs. The program also supported two studies to understand the limitations of the existing money markets and securities-based lending, and to diagnose the restrictions on the issuance and liquidity of short-term government paper in primary and secondary markets. It was expected that these efforts would lead to a deepening of the secondary markets for government debt securities, a concentration of the repo market in Banco de la República through the establishment of a Single Treasury Account, an increase in repo operations from 90 to 95 percent of the contracts, and reduced use of sell or buyback operations.

4.34 The results matrix did not define how "a deepening of the secondary markets" would be measured, but the ICR reported that daily turnover for securities with short maturity (less than a year) increased from 3 percent in 2005, to 7 percent in 2010. The expected increase in the concentration of the repo market was achieved with the treasury single account Account operated by the Banco de la República since 2005. However, the target for increased repo market contracts was not achieved. Recent data indicate that 9 percent of the total trading value (Col$15 out of Col$173 trillion) in short-term government paper in December 2015 was traded in the Bolsa de Valores de Colombia (Superintendencia Financiera de Colombia 2015, Bolsa de Valores de Colombia 2016). Indeed, transactions in short-term government paper are the most important activity on the Bolsa de Valores, accounting for 80 percent of the total value traded.

Money Laundering

4.35 The program sought to strengthen the government's capacity to combat money laundering and the financing of terrorism. This was to be achieved by improving the regulatory framework, criminalizing the financing of terrorism, and strengthening the budgetary and institutional capacity of the Financial Intelligence Unit in the Ministry of Finance. The expected outcomes were to minimize the reputational, legal, and operational risk of money laundering to the integrity of the financial system and to enable the authorities to impose sanctions as necessary. As noted by the ICR, this indicator was too vague to permit proper assessment of program results. The agency working on the issue under the Ministry of Finance could not provide information to the IEG mission on what they knew.

Fiscal Transfers

4.36 The central government expenditures were in danger of explosive growth if the revenue-sharing agreement (Sistema General de Participaciones) with subnational governments continued as mandated by law. To prevent this, the congress introduced a legislative act in 2007, ruling that the growth of transfers be unbundled from the growth of the economy. Fiscal behavior of subnational governments was closely monitored after this. These combined measures brought down the aggregate level of subnational debt and provided temporary relief. This action was included as a prior action in DPL3, although the program did not define an outcome for it.

4.37 After the amendment, the government established growth targets for real transfers: no more than 4 percent in 2008 and 2009, 3.5 percent in 2010, and 3 percent between 2011 and 2016 (Colombia, DNP 2008, 8). Although the target for 2008–09 was missed (actual growth was 6.1 percent), growth rate of real transfers has stayed below 1 percent since then, thereby meeting the government targets.

5. Ratings

Overall Outcome

5.1 The overall outcome is rated moderately satisfactory.

5.2 Both objectives of the DPL series had high relevance. Program design was modestly relevant because although the policy areas were informed by significant previous studies on the reform needs for Colombia to improve its business productivity and efficiency, the program was overly ambitious by covering too wide a range of issues. This resulted in limited support in some reform areas that required sustained attention. Consequently, progress was substantial in strengthening the financial system, where the World Bank provided continuous support through all three loans. By contrast, there was uneven progress in facilitating trade and investment: good advances in the areas of innovation and quality standards as well as port capacity and clearance procedures were overshadowed by limited achievement in business environment, trade regime, power supply, and logistics services.

Risk to Development Outcome

5.3 The risk to development outcome is rated **moderate.**

5.4 The program achieved mixed results, but results are likely to be maintained in most instances. Among the areas where significant progress has been made, the Superintendencia Financiera has become a stronger institution; it will continue to strengthen its capacity for risk-based supervision and risk prevention. Colombia has also advanced in terms of branchless banking, e-payment, e-wallet, and so on to expand financial services to the unbanked population. This progress is unlikely to be reversed. Similarly, the progress achieved on quality standards is likely to be maintained, as the country is fully aware their importance and has developed the institutional infrastructure to manage them.

5.5 Lack of commitment to pursue the more difficult reforms may slow down the progress in some areas and cause temporary reversals in others. Business regulations, for example, have seen several rounds of simplification initiatives in the past because the reform momentums were not maintained. On trade and competitiveness, Ventanilla Única works well and will continue to be used to process part of the import and export trade, but will have limited impact on trade because the government does not have the political will to tackle the more difficult issues in the trade regime. The same problems exist in logistics too, where good progress in port and road infrastructure will not translate into improvements in transport services as long as the present monopolistic structure continues. In addition, the current fiscal problems and large deficits in current account may jeopardize further government support for research and development, or slow down the development of capital markets in the medium term.

World Bank Performance

5.6 The World Bank performance is rated moderately satisfactory.

QUALITY AT ENTRY

5.7 The quality at entry is rated moderately satisfactory.

5.8 The World Bank had substantial knowledge about the issues covered by the three loans, especially in the financial sector. This was gained from in-depth analytical work and its long-term engagement with Colombia, which ensured a good understanding of how the country worked and what problems the program was likely to face during implementation. The World Bank chose to intervene in areas where problems were substantial, and some of the reforms were supported by other World Bank operations to enhance their impact. On the other hand, in some cases (such as trade) the prior actions targeted issues that were not the most critical for achieving program objectives. The third loan had a DDO, which responded to the government's need for more flexible use of a larger loan.

5.9 However, the program covered a wide range of issues, which meant limited depth in several policy areas. Given that addressing all policy issues in each loan might have overburdened program design, implementation, and supervision, the alternative could have been fewer policy areas covered but sustained support throughout the life of the program. The program documents did not discuss this trade-off but examined the political economy considerations of the reforms. Its analysis suggested that there was unlikely to be political support for deeper reforms, so the World Bank settled for a program of many reforms of limited depth, except for financial system strengthening.

5.10 The design of the program covered well fiduciary, environmental, policy, institutional aspects, and its implementation arrangements well. The design fell short, however, in its results framework, including the quality of the results indicators and the monitoring and evaluation arrangements. The World Bank had ample opportunity to improve the outcome indicators, but failed to do so, thus missing the opportunity to learn about the program's impact. With the indicators selected, it is difficult to conclude the program has had a significant impact, if any, in several areas.

QUALITY OF SUPERVISION

5.11 The quality of supervision is rated moderately satisfactory.

5.12 The World Bank's supervision efforts varied during program implementation. Typically, in a programmatic DPL supervision is done as the World Bank prepares the next operation in the series. However, documentation of the supervision activities and findings is scant and does not permit monitoring of, and learning from, the program's implementation and results. The Program Document of DPL3 took stock of the initial impact of the series and presented good progress of the program as measured by five indicators (World Bank 2008b, table 2). However, three of the five targets (value of nontraditional exports, foreign direct investment, and total capitalization of banking sector) had been exceeded by 2005, when DPL1 was approved, and the remaining two had been met or exceeded by 2006, when DPL2 was approved. This raises questions over the appropriateness of these indicators and targets for gauging impact of the DPL program. The World Bank did not revise the indicators and targets to make them more meaningful.

Borrower Performance

5.13 The borrower performance is rated satisfactory.

5.14 The DPL program derived from a broad consultation process that was born from the preparation of the Productivity and Competitiveness Agenda (Agenda Interna), the Visión 2019¸ and public forums on the financial sector. The government fully owned the reforms supported by the program, many of which went through lengthy debates in the congress before they became laws. These processes involved both internal consultations within the government and consultations with broad groups of civil society at the national and regional levels and diverse economic sectors to identify their strengths and weaknesses. Many of the reforms crystallized in CONPES documents, a government forum for economic and social policy chaired by the president with participation of the relevant ministries.

5.15 The Ministry of Finance was responsible for overall program implementation, the Departamento Nacional de Planeación was in charge of the business environment agenda, and the Financial Regulation Directorate under the Ministry of Finance was in charge of the program for the financial system and capital markets. These agencies—together with Superintendencia Financiera, Ministry of Trade, Industry, and Tourism, Ministry of Transport, and Colciencias—worked together to implement the prior actions and achieve the program's development objectives. The authorities fell short in implementing the program's monitoring and evaluation framework and in keeping close track of the results of the program.

Monitoring and Evaluation

5.16 Monitoring and evaluation is rated modest.

5.17 **Monitoring and evaluation design.** The program defined its objectives clearly but did not spell out a proper results chain. Some objectives did not have indicators for gauging their achievement (such as in the areas of money laundering and fiscal transfers). For those that did, some indicators were not appropriate for measuring achievement of the objectives because they were either of a broader or narrower scope than the objectives for suggesting whether the program had the impact claimed or whether the objective was achieved. This observation applies to all the areas of the program, but is most notable in the financial sector, which was the core of the program. Furthermore, all the targets were defined for "the end of program," which was initially the end of 2008, since the entire DPL program was to be carried out over three years, but was extended to June 2011 with the DDO added to DPL3. No adjustment was made to account for the extended program implementation period. The ICR reported on progress achieved by December 2010 against the original targets.

5.18 **Monitoring and evaluation implementation**. The ICR summarized well the problems around program monitoring and evaluation: high turnover of World Bank and government staff, difficulties in accessing the files of the program in the World Bank and government agencies, and Implementation Status and Results Reports not being produced or lacking proper results indicators. This is unfortunate, since Colombia has good and solid information extending over 30 to 50 years in some of the areas the loans covered. The program documents defined additional monitoring indicators for each policy area, but there is no indication that the information was collected as planned.

5.19 **Monitoring and evaluation utilization**. There is no evidence of attempts to verify the logic and causality of the results chain, as attested by maintaining the same results indicators for five years when more appropriate ones were warranted.

Social and Environmental Impacts

5.20 The Program Documents expected that the programmatic DPL series would have a positive, though nonquantifiable, impact on poverty reduction through fostering sustainable economic growth. In particular, it was expected that the program would help address informality by enhancing business environment and lowering the cost of being part of the formal economy, by extending financial access for the poor, and by addressing the risk of money laundering to ensure the integrity of the remittances transfer sector. The ICR reiterated the importance of growth on poverty reduction, but provided no further comment on the impacts of this program in this regard, noting that many factors of economic growth and poverty reduction were beyond the scope of this program.

5.21 The Program Documents did not anticipate a significant effect of the program on the environment. Nevertheless, the Program Documents of DPL2 and DPL3 noted that increased economic activity—which were the ultimate development outcomes from the World Bank–supported policies under this programmatic DPL series—might have environmental implications that would require careful management. In particular, the expected expansion of port capacity and energy supply would require improved environmental regulations and management plans. The World Bank's Programmatic Sustainable Development DPL series was to help improve the effectiveness and efficiency of the national environmental system. The ICR did not discuss these issues.

6. Lessons

6.1 **The experience of this DPL program suggests, once again, that in-depth knowledge and government buy-in were essential in Colombia for designing reform programs with substance**. In general, the prior actions of this program reflect well what the World Bank knew about Colombia. For example, in the financial sector, the reforms selected exemplify the World Bank's deep understanding of the problems that had to be solved to strengthen the financial system. The impact of the reforms is beginning to be felt even if the results indicators were inadequate for assessing properly the program's contribution. On the other hand, lack of political commitment to tackle the fundamental problems in Colombia's foreign trade sector—weak institutions and entrenched protectionism—meant that the reform actions supported under this program addressed secondary issues. Consequently, the impact of the actions pursued was limited.

6.2 **Staggering interventions by policy areas presented trade-offs between the breadth and depth of the program**. While the approach appeared attractive by allowing the World Bank to tackle a larger number of issues while staying focused at each given moment, it also meant limited attention to some issues and one-off support in some areas. The design of the program could have paid more attention to assessing the implications of such trade-offs for achieving the program's objectives, especially the risks to development outcomes in the long run. The experience with this DPL program suggests that staggering interventions to cover more ground is likely to produce programs of modest relevance and shallow impact.

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[1] DPL3 in this programmatic series was the first World Bank loan to make use of the streamlined DPL DDO instrument, approved by the World Bank’s Board of Executive Directors in January 2008. Although pricing was identical to that of a regular DPL, the instrument provided the government with more disbursement options (timing and amount) at no additional cost. The DPL DDO extends the drawdown period by two years, with the potential for a further extension of three more years. The World Bank’s DPL DDO guidelines separate IBRD financing modalities from program content.

2 The Fund factsheet on FCLs states, “The flexible credit line (FCL) was designed to meet the demand for crisis-prevention and crisis-mitigation lending for countries with very strong policy frameworks and track records in economic performance.” For countries to qualify, the Fund assesses if the country (i) has very strong economic fundamentals and institutional policy frameworks; (ii) is implementing, and has a sustained track record of implementing, very strong policies; and (iii) remains committed to maintaining such policies in the future” (https://www.imf.org/external/np/exr/facts/pdf/fcl.pdf). So far, five countries have used the FCL: Colombia, FYR Macedonia, Mexico, Morocco, and Poland.

3 An outstanding arrangement of SDR 3.87 billion was cancelled at the same time. https://www.imf.org/external/np/sec/pr/2016/pr16279.htm.

[4] With a labor force of less than 20 percent the size of COLPUERTOS’ (the government enterprise in charge of managing ports) the four main ports of Buenaventura, Cartagena, Barranquilla, and Santa Marta reduced the combined waiting time and time to load and unload ships from 20 days to less than 2 days in 1999, and less than one day in 2015.

[5] The DPL DDO was introduced in 2001 as a risk management tool supporting core structural programs in countries that are eligible for International Bank for Reconstruction and Development assistance and are not making full use of the World Bank’s financial resources (World Bank 2001). In 2008, changes to the pricing of DPL DDOs and the drawdown procedures reduced the cost of the instrument to borrowers and provided borrowers with greater certainty regarding the availability of DPL DDO funds (World Bank 2008a).

[6] The drawdown period of the DPL DDO is three years, which may be renewed for an additional period of up to three years.

[7] Departamento Administrativo de la Función Pública (DAFP) reports that in the 32 departments, the number of procedures totaled 25,722 in 2016 (Colombia, DAPF, 2016b).

[8] The contracts ensured investors that subsequent changes in the norms would not apply to them if the changes harmed their interests.

[9] Two indicators are used to measure the interruption of electricity services: System Average Interruption Duration Index measures the average length of interruption in the electricity service, and System Average Interruption Frequency Index measures the number of interruptions in the service that a customer can have per year.

[10] See the World Bank’s Logistic Performance Index (2010 and 2014), http://lpisurvey.worldbank.org/domestic/environment_institutions/2012/C/COL#chartarea.

[11] Cajas de Compensación are private nonprofit organizations created to improve the living standard of families of Colombian workers. Cajas return, through subsidies and services, part of the employers’ contributions to social security. http://www.comfenalcoantioquia.com/Default.aspx?tabid=238&id=161.

[12] Fondo Nacional de Garantías was created in February 1982 with the Instituto de Fomento Industrial, Corporación Financiera de Desarrollo, and the Asociación Colombiana de Medianas y Pequeñas Industrias (Acopi) as shareholders. The Fondo started by serving small and medium-size industries, but expanded to

serve exporters, and in 1992 to other sectors. Now, it also guarantees credit for trade and services, https://www.fng.gov.co/sobre-el-fng/historia.

[13] Banco de la República publishes statistics on microcredit and Fondo Nacional de Garantía produces annual reports with data on guarantees and their regional distribution.

Appendix A. Basic Data Sheet

FIRST BUSINESS PRODUCTIVITY AND EFFICIENCY DEVELOPMENT POLICY LOANS (IBRD-73340)

Key Project Data (US$, millions)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	250	250	100
Loan amount	250	250	100

Actual Disbursements

	FY06
Appraisal estimate (US$, millions)	250
Actual (US$, millions)	250
Actual as % of appraisal	100
Date of final disbursement: December 14, 2005	

Project Dates

	Original	*Actual*
Initiating memorandum	04/07/2005	04/07/2005
Negotiations	09/16/2005	09/16/2005
Board approval	10/27/2005	10/27/2005
Signing	11/23/2005	11/23/2005
Effectiveness	12/12/2005	12/12/2005
Closing date	05/15/2006	05/15/2006

Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (World Bank Budget Only)	
	Staff Weeks (number)	*US$ 000s (including travel and consultant costs)*
Lending		
FY05	18	95.13
FY06	29	105.62
FY07	0	0.14
Total:	**47**	**200.89**
Supervision		
FY05		0.00
FY06	14	54.61
FY07	10	43.50
Total:	**24**	**98.11**

Task Team Members

Name	*Title (at time of appraisal and closure, respectively)*	*Unit*	*Responsibility/Specialty*
Supervision			
	Jeannette Estupinan	LCSFM	Sr. Financial Management Specialist
	Jose M. Martinez	LCSPT	Sr. Procurement Specialist
	Mary Morrison	OPCFC	Sr. Operations Officer
	Yaye Seynabou Sakho	LCSPE	Sr. Country Economist
	Constantinos Stephanou	FPDFS	Sr. Financial Sector Specialist

SECOND BUSINESS PRODUCTIVITY AND EFFICIENCY DEVELOPMENT POLICY LOANS (IBRD-74130)

Key Project Data (US$, millions)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	300	300	100
Loan amount	300	300	100

Actual Disbursements

	FY06
Appraisal estimate (US$, millions)	300
Actual (US$, millions)	300
Actual as % of appraisal	100
Date of final disbursement: December 21, 2006	

Project Dates

	Original	*Actual*
Initiating memorandum	05/11/2006	05/11/2006
Negotiations	10/31/2006	10/05/2006
Board approval	12/05/2006	12/05/2006
Signing	Not available	Not Available
Effectiveness	12/21/2006	12/21/2006
Closing date	06/30/2007	06/30/2007

Staff Time and Cost

	Staff Time and Cost (World Bank Budget Only)	
Stage of Project Cycle	***Staff Weeks (number)***	***US$ 000s (including travel and consultant costs)***
Lending		
FY06	14	60.81
FY07	28	119.06
FY08	0	0
Total:	**42**	**179.87**
Supervision		
FY06	0	0
FY07	0	2.91
FY08	5	30.25
Total:	**5**	**33.16**

Task Team Members

Name	*Title (at time of appraisal and closure, respectively)*	*Unit*	*Responsibility or Specialty*
Supervision			
	Jeannette Estupinan	LCSFM	Sr. Financial Management Specialist
	Jose M. Martinez	LCSPT	Sr. Procurement Specialist
	Cidalia Brocca	CTRDM	Finance Analyst

THIRD BUSINESS PRODUCTIVITY AND EFFICIENCY DEVELOPMENT POLICY LOANS (IBRD-75340)

Key Project Data (US$, millions)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	550	550	100
Loan amount	550	550	100

Actual Disbursements

	FY08
Appraisal estimate (US$, millions)	550
Actual (US$, millions)	550
Actual as % of appraisal	100
Date of final disbursement: October 9, 2008	

Project Dates

	Original	*Actual*
Initiating memorandum	12/04/2007	12/04/2007
Negotiations	03/07/2008	03/07/2008
Board approval	04/08/2008	04/08/2008
Signing	09/26/2008	09/26/2008
Effectiveness	10/07/2008	10/07/2008
Closing date	06/30/2011	06/30/2011

Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (World Bank Budget Only)	
	Staff Weeks (number)	*US$ 000s (including travel and consultant costs)*
Lending		
FY07	0	23.79
FY08	0	203.57
Total:	**0**	**227.36**
Supervision		
FY07	0	0
FY08	0	4.06
Total:	**0**	**4.06**

Task Team Members

Name	*Title (at time of appraisal and closure, respectively)*	*Unit*	*Responsibility/Specialty*
Supervision			
	Jose Guilherme Reis	PRMTR	Lead Trade Economist
	Tito Yepes Delgado	LCSHS-DPT	Consultant

Appendix B. Macroeconomic and Financial Sector Indicators

Table B.1. Main Macroeconomic Indicators, Colombia 2004–15

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
A. Growth and inflation												
1. GDP growth (percent)	5.3	4.7	6.7	6.9	3.5	1.7	4.0	6.6	4.0	4.9	4.4	3.1
2. Inflation (percent GDP deflator)	7.3	5.6	5.8	5.0	7.6	3.4	3.9	6.7	3.0	2.0	2.1	2.6
B. Fiscal (percent of GDP)												
1. Consolidated nonfinancial public sector												
a. Expenditure	26.2	25.9	28.1	28.2	26.3	29.1	29.2	28.6	27.9	28.9	31.3	
b. Fiscal balance	-1.0	-0.2	-0.8	-1.0	0.1	-2.4	-3.1	-1.8	0.4	-0.8	-2.0	
2. Central government												
a. Expenditure (total payments)	17.4	17.5	18.1	17.7	17.8	18.4	17.6	18.0	18.4	19.2	19.1	19.2
b. Fiscal Balance (total)	-4.5	-4.0	-3.4	-2.7	-2.3	-4.1	-3.9	-2.8	-2.3	-2.3	-2.4	-3.0
C. Money and interest rates												
1. Monetary base (% change end of year)	19	18	19	20	17	10	13	14	10	14	15	17
2. M1 (% change – end of year)	16	18	18	12	12	8	18	11	6	17	12	10
3. Nominal interest rates – implicit (percent)												
a. Lending rate	12.6	9.5	8.6	10.6	12.5	12.3	9.1	10.8	12.7	12.1		
b. Deposit rate	5.5	4.5	4.2	5.2	6.3	5.3	2.9	3.5	4.7	3.8		
4. Real interest rates (percent)												
a. Lending rate	4.9	3.7	2.7	5.2	4.6	8.6	5.1	3.9	9.4	9.9		
b. Deposit rate	-1.7	-1.0	-1.5	0.1	-1.2	1.8	-0.9	-3.1	1.6	1.8		
5. Loan loss provision costs (percent)	-2.72	0.7	0.63	1.41	2.87	2.53	1.45	1.57	2.32	2.11		
D. Trade and exchange rate												
1. Exchange rate (pesos per US dollar)	2,626	2,321	2,358	2,078	1,966	2,156	1,898	1,848	1,798	1,869	2,001	2,746
2. Terms of trade	111	126	132	139	147	139	161	185	174	162	148	111
3. International reserves (months of imports)	5.5	5.1	4.6	4.8	4.7	5.7	5.1	4.5	4.6	5.5	5.9	7.5
4. Current account (percent of GDP)	-0.7	-1.3	-1.8	-2.9	-2.6	-2.0	-3.0	-2.9	-3.1	-3.2	-5.1	-6.4
E. External debt and operations with IMF and World Bank												
1. Public (percent of GDP)	22	17	16	14	12	16	14	13	13	14	16	23
2. Private (percent of GDP)	11.7	9.8	8.5	7.6	6.9	7.1	8.8	9.9	8.8	10.5	11	15.2

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
3. Operations with the IMF (billion SDRs—dates arrangement was in place—SB in 2004-06 and FCL thereafter)	1.55	0.41	0.41	0.00	0.00	6.97	6.97	2.32	3.87	3.87	3.87	3.87
4. World Bank loans (US$, billions)	0.58	0.95	0.58	0.65	2.17	0.67	0.78	0.69	0.61	0.67	1.60	1.40

Sources: Banco de la República, direct information for fiscal, and www.banrep.gov.co for all other values but lending and deposit rates, which come from Table 1 of Daude Christian and J. Pascal (2015), "Efficiency and Contestability in the Colombian Banking System," OECD Economics Department Working Papers, 1203, OECD Publishing, Paris. http://dx.doi.org/10.1787/5js30twjgm6l-en.
Note: FCL = flexible credit line; IMF = International Monetary Fund; SB = Superintendencia Bancaria; SDR = special drawing rights.

Table B.2. Transfer through Sistema General de Participaciones, 2002–16

	Total SGP [pesos-nominal]	Total SGP, $US, billions	Annual growth (percent)	Total SGP [real] 2005=100	Total SGP [billions of real dollars of 2005]	Annual growth (percent)	GDP deflator	Real SGP 2005=100	Exchange rate
2002	11,650,928,676,178								
2003	12,706,901,737,565		9.1						
2004	13,800,474,706,155	5.3	8.6	14,567,441,776,079	6.3		94.7	98	2,626
2005	14,835,510,309,235	6.4	7.5	14,835,510,309,235	6.4	1.8	100.0	100	2,321
2006	16,401,565,722,927	7.0	10.6	15,506,075,729,354	6.7	4.5	105.8	105	2,358
2007	17,666,526,786,379	8.5	7.7	15,900,619,994,246	6.9	2.5	111.1	107	2,078
2008	19,744,983,872,079	10.0	11.8	16,522,898,559,437	7.1	3.9	119.5	111	1,966
2009	22,103,764,429,894	10.3	11.9	17,887,182,949,895	7.7	8.3	123.6	121	2,156
2010	23,018,833,305,199	12.1	4.1	17,936,030,717,227	7.7	0.3	128.3	121	1,898
2011	24,429,357,846,808	13.2	6.1	17,835,613,694,588	7.7	−0.6	137.0	120	1,848
2012	26,135,644,862,911	14.5	7.0	18,527,569,030,844	8.0	3.9	141.1	125	1,798
2013	27,972,353,494,492	15.0	7.0	19,442,186,664,460	8.4	4.9	143.9	131	1,869
2014	28,162,367,962,677	14.1	0.7	19,164,720,673,780	8.3	−1.4	146.9	129	2,001
2015	30,836,736,475,832	11.2	9.5	20,460,932,758,531	8.8	6.8	150.7	138	2,746
2016	30,298,619,931,608	10.1	-1.7	18,614,702,964,902	8.0	−9.0	162.8	125	3,000
Average 2004–16	22,008,117,245,983	10.6	7.0		7,531	2.2			
Average 2008–16	25,855,851,353,500	12.3	6.3	18,487,982,001,518	7,966	1.9			

Source: https://sicodis.dnp.gov.co/ReportesSGP/SGP_Historicos.aspx (accessed July 15, 2016).
Note: SGP = Sistema General de Participaciones.

Table B.3. Microcredit: Total and as Percent of Gross Loans and GPD, 2004–15

	Microcredit loans (US$, billions)	Percent of gross loans	Percent of GDP
2004	0.25	1.2	0.2
2005	0.46	1.7	0.3
2006	0.63	1.8	0.4
2007	0.89	1.7	0.4
2008	1.19	1.8	0.5
2009	1.64	2.5	0.7
2010	2.11	2.6	0.7
2011	2.88	2.9	0.9
2012	3.62	3.0	1.0
2013	4.15	3.2	1.1
2014	4.40	3.1	1.2
2015	3.73	3.2	1.3

Source: The peso value microcredit and total loans can be downloaded from http://www.banrep.gov.co/es/agregados-monetarios-crediticios.
Note: GDP = gross domestic product.

Table B.4. Colombia Development Policy Loans 1, 2, and3: Objectives, Prior Actions and Expected Outcomes

POLICY AREA		**PRIOR ACTIONS**		
	DPL1 (P094301)	**DPL2 (P095213)**	**DPL3 (P105029)**	**EXPECTED PROGRAM OUTCOME [INDICATOR - DESCRIPTION]**
A. Competitiveness	**I - ENHANCE BUSINESS ENVIRONMENT AND PROMOTE TRADE AND COMPETITIVENESS**	**I. BUSINESS ENVIRONMENT**		

POLICY AREA		PRIOR ACTIONS		
	DPL1 (P094301)	**DPL2 (P095213)**	**DPL3 (P105029)**	**EXPECTED PROGRAM OUTCOME [INDICATOR - DESCRIPTION]**
Regulation	**Reduce transaction costs and facilitate entrepreneurial activities through:** (a) Enactment of a Law to Rationalize Bureaucratic Procedures (*Ley Antitrámites);* and (b) issuance of CONPES policy document 3292 dated June 2004 establishing the strategy or interinstitutional collaboration to rationalize bureaucratic procedures particularly regarding business activities. Provide a stable legal framework for direct investment through the enhancement of a Legal Stability for Investors Law under which investors in major new projects can purchase government guarantees that certain applicable rules will not change.			1. Total number of administrative procedures for businesses have been reduced by 50 percent as reflected in the monitoring system established in CONPES 3292 2. The annual value of nontraditional exports has increased to at least $10.0 billion from $9.1 billion in 2004, with at least 90 percent of nontraditional foreign trade processed through the Ventanilla Única mechanism. 3. Increased Foreign Direct Investment, to at least $3.3 billion per year from $3.0 billion in 2004
		II. STRENGTHENING COMPETITIVENESS		
Trade	**Streamline foreign trade activities** through the issuance by the Ministerio de Comercio, Industria y Turistmo of Decree 4149 dated December 10, 2004, establishing a *Ventanilla Única* as a one-stop electronic platform to process all documentation to export and import goods and services, and simplifying container inspection processes.	**Support the implementation of regional and sector competitiveness plans** through: (a) the issuance of a CONPES policy directive that establishes the bases for the development of a productivity and competitiveness policy, including the institutional framework; (b) the issuance of an interministerial decree establishing the roles and responsibilities of government agencies and programs involved in formulating, implementing and monitoring competitiveness policy; and (c) issuance by Departamento Nacional de Planeación (DNP) on its web page of at least 10 regional and 10 sector reports from the Agenda Intema.		The annual value of nontraditional exports has increased to at least $10.0 billion from $9.1 billion in 2004, with at least 90 percent of nontraditional foreign trade processed through the Ventanilla Única mechanism. Increased Foreign Direct Investment, to at least $3.3 billion per year from $3.0 billion in 2004

POLICY AREA		PRIOR ACTIONS		
	DPL1 (P094301)	**DPL2 (P095213)**	**DPL3 (P105029)**	**EXPECTED PROGRAM OUTCOME [INDICATOR - DESCRIPTION]**
B. Financial system and capital markets	**II. INCREASE THE SOUNDNESS AND DEPTH OF THE FINANCIAL SYSTEM**	**III. STRENGTHENING THE FINANCIAL SYSTEM AND CAPITAL MARKETS**	**I. STRENGTHEN FISCAL MANAGEMENT AND THE FINANCIAL SYSTEM**	
Supervision and provisioning	**Strengthen provision** by (a) adopting a plan, approved by Ministerio de Hacienda y Crédito Público, to support the ongoing merger process of the Superintendencia Bancaria (SB) and the Superintendencia de Valores (SV) to create a new Superintendencia Financiera (SF); (b) implementing, by SB, of an early warning system for pension funds; and (c) issuance by SB of circulars 047 and 052 of 2004 enhancing the role of internal comptrollers and external auditors in risk management of banks and other institutions supervised by SB.	**Strengthen supervision of the financial sector** through the adoption and implementation of a CONPES Document 3399 dated November 28, 2005, that mandates: (a) an evaluation of the effectiveness of the merger process of the banking and securities; and (b) the preparation of the required legal or regulatory documents to increase the legal and budgetary independence of the merged superintendence.		3. Improved prudential performance and capital strengthening in the banking system, with institutions operating above minimum capital ratios without the need for any government-funded capitalization intervention
Competition and access to credit		**Increase financial sector competitiveness** through the issuance by (a) Ministerio de Hacienda y Crédito Público (MHCP) of a midterm road map for reform in the financial sector, supported by sound analytical underpinnings, to address the needs for increased access and diversity of financial product as evidenced by a letter from the Minister		1. Increased financial sector depth, reflected in total credit to the private sector rising to 27 percent, from 23 percent of GDP in 2004
		Improve the legal framework underpinning the supply of credit and promote transparency and access to financial services through (a) the submission to the Legislature of a Credit Information Draft Law (Proyecto de Ley de Habeas Data) bill No. 27s dated July 21, 2006; (b) the issuance by MHCP of Decree 2233 dated July 7, 2006, authorizing the creation of corresponsales bancarios; and (c) the issuance by MHCP of Decree 2230 dated July *6* 2006		

POLICY AREA		PRIOR ACTIONS		
	DPL1 (P094301)	**DPL2 (P095213)**	**DPL3 (P105029)**	**EXPECTED PROGRAM OUTCOME [INDICATOR - DESCRIPTION]**
		mandating the disclosure of fees of payment and credit cards issuers		
Financial inclusion	**Promote sound financial access** thorugh (a) enactment of Law 920/2004 allowing the provision of housing finance by *Cajas de Compensación* to members in a framework of adequate prudential regulation; (b) issuance of MHCP of a decree regulating the financial activities to be carried out by *Cajas de Compensació*n; and (c) issuance by MHCP of Decree 1324 dated 28 April 2005 strengthening the prudential regulation of the Fondo Nacional de Garantías.		**Foster access to financial services for the poor** through: (a) the issuance, by MHCP, of Decree No. 519 of 2007 dated February 26, 2007, which liberalizes the interest rate regime of capital markets by establishing risk-adjusted predatory lending interest rate caps; (b) The enactment, by the Borrower’s legislative branch, of fiscal reform law No. 1111 dated December 27, 2006, which exempts the basic savings accounts for the poor from any financial transaction tax; (c) .The issuance, by the Borrower’s Superintendence of Finance, of circular (Carta Circular) No. 37 dated August 9, 2006, which establishes know your-customer regulations with a view to removing undue barriers for access to financial services (particularly savings accounts for lower-income individuals) and differentiating between mandatory and optional requirements; and (d) The enactment, by the Borrower’s legislative branch, of the 2007 budget law No. 1110 dated December 27, 2006, which allocates budgetary resources to subsidize, on a declining basis, the opening of banking branches in underserved areas of the Borrower’s territory.	2. Financial sector depth is monitored by income level of beneficiary and geographic distribution

POLICY AREA		**PRIOR ACTIONS**		
	DPL1 (P094301)	**DPL2 (P095213)**	**DPL3 (P105029)**	**EXPECTED PROGRAM OUTCOME [INDICATOR - DESCRIPTION]**
Money laundering	**Lower the impact of illegal activities on the financial sector** by strengthening the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regulatory framework through the issuance of Decree 3420 (2004) reorganizing the *Comisión de Coordinacion Interinistitucional Contra el Lavado de Activos.*	**Reduce the risk of money laundering and financing of terrorism** through: (a) the submission to the legislature of draft law 208 dated December 19 2005 criminalizing the financing of terrorism and (b) the issuance by MHCP of Decree 2515 dated July 22 2005 strengthening the budgetary and institutional capacity of the Financial Intelligence Unit		4. The risk to the integrity of the financial system derived from money laundering and terrorism financing activities has been minimized and the legal and regulatory tools necessary to impose sanctions have been used effectively in any cases where AML/CFT rules have been violated
Capital markets	**Strengthen capital markets development and supervision** through the enactment of Securities Law that includes improved investor protection rules and upgraded supervisory powers for the SV **Promote new issuances and the development of new capital markets products** through (a) issuance of a resolution by the Sala de Valores establishing the framework to facilitate the creation of Private Equity Funds and (b) implementing an automatic prospectus generating system to lower transactions costs of new issuances.	**Foster the development and integrity of capital markets through the issuance of decrees by MHCP regulating the Securities Law and establishing new SF supervisory powers** with respect to: (a) Qualifications and registry requirements for financial market intermediaries (Decree 3 139 dated September 2006); (b) Self-regulation of market participants (Decree 1565 dated May 19 2006); (c) Investor Protection Rules (Decree 4759 dated December 30 2005); (d)Agricultural commodities exchanges (Decree 15 11 dated March 15 2006); (e) custody and settlement and payment of foreign exchange (Decree 700 dated March 8 2006); (f) Foreign issuers (Decree 1564 dated May 19 2006); and (g) Tender Offers (OPAs - Decree 1941 dated June 14 2006)		5. Increased issuance of private sector securities in the capital markets reflected in 18 fixed income and 3 primary equity issuances annually, against 14 and 2 respectively in 2004 6. At least three private equity funds have been established 7. Secondary markets for debt securities have deepened, especially at the short end of the curve, due to the new Títulos de Deuda Pública issuance strategy and to new rules for primary dealers that forces market makers to create liquidity at both ends of the yield curve
Money markets	**Strengthen the domestic money markets and government debt secondary markets by** (a) finalizing a study of the situation and limitations of the existing money markets with emphasis on repos and other securities-based lending and (b) finalizing a study on diagnosing of current restrictions for the issuance and	**Support the development of a sound money market** through the issuance by MHCP of Decree 4708 dated December 27 2005, establishing the legal characteristics of repos and buy-backs.		8. The repo market has concentrated in the Banco de la República, as the single treasury account was moved to this institution. The great majority (95 percent) of these contracts is 'repo' operations, up from around 90 percent now, and the use of sell-buy-back operations has gradually dropped, with positive effects for overall money markets liquidity levels.

POLICY AREA		PRIOR ACTIONS		
	DPL1 (P094301)	**DPL2 (P095213)**	**DPL3 (P105029)**	**EXPECTED PROGRAM OUTCOME [INDICATOR - DESCRIPTION]**
	liquidity of short-term government bonds (TES) in primary and secondary markets.			
Fiscal management			**Strengthen fiscal management through** the enactment by Congress of legislative act (*Acto Legislativo*) No. 4 of 2007 published in the Borrower's *Diario Oficial* No. 46,686 (July 11, 2007), to limit and stabilize the growth rate of fiscal transfers to subnational governments by amending selected articles of the Borrower's Constitution.	
C. Innovation and quality standards		**IV. IMPROVE QUALITY STANDARDS AND FOSTER TECHNOLOGICAL INNOVATION**		
		Improve the quality and conformity assessment framework to enhance competitiveness in international markets through: (a) issuance of a CONPES document establishing guidelines to create independent accreditation and metrology agencies to facilitate international recognition; (b) issuance of CONPES document 3375 dated September 5, 2006 establishing the national policy for the system of sanitary and phytosanitary measures in order to improve the health and innocuity conditions of national food and agricultural products and to facilitate their admission to international markets; and (c) submission to Congress of the 2007 national budget including an increase, with respect to 2006, of at least 6 times in the resources devoted to strengthening the metrology infrastructure.	**Strengthen the quality [of] institutional framework through** 1. The enactment, by the Borrower's legislative branch, of law No. 1151 dated July 24, 2007, which establishes a National Development Plan Law setting forth, inter alia, the institutional framework that will enable the improvement of industry quality standards. [framework to implement CONPES 3446]. **Foster innovation and technology policies through:** (a) The enactment, by the Borrower's legislative branch, of law No. 1151 dated July 24, 2007, which, in relevant sections thereof, establishes the Borrower's National Development Plan, setting forth therein a new innovation and technology policy framework; and (b) the enactment, by the Borrower's legislative branch, of section No. 0320 respectively in (a) the 2006 Budget Law No. 998 dated November 29,	1. Number of firms with ISO-9000 certificates increased by 20 percent. [from DPL2] 2. The number of accredited conformity assessment entities increased by 70% 3. Total investment in STI increased above 0.5% of GDP 4. At least 200 research groups in STI receiving financial assistance per year from Colciencias 5. At least 150 enterprises benefitting from Colciencias innovation incentives per year 6. At least 150 additional students receiving contingent loans for doctoral studies per year from Colciencias

POLICY AREA		PRIOR ACTIONS		
	DPL1 (P094301)	**DPL2 (P095213)**	**DPL3 (P105029)**	**EXPECTED PROGRAM OUTCOME [INDICATOR - DESCRIPTION]**
			2005; (b) the 2007 Budget Law No. 1110 dated December 27, 2006; and (c) the 2008 Budget Law No. 1169 dated December 5, 2007, all evidencing the increase in the 2007 and 2008 budgetary allocations for science and technology to support the implementation of the Borrower's National Development Plan.	
		Strengthen the foundations of science, technology and innovation policies through an evaluation of ongoing support mechanisms and institutions involved in technology support and transfer to the productive sector		
D. Infrastructure and Logistics		**IV. STRENGTHENING OF INFRASTRUCTURE AND LOGISTICS**	**III. STRENGTHENING OF INFRASTRUCTURE AND LOGISTICS**	
		It only established trigger conditions for DPL3	**Strengthen private sector participation in infrastructure through** (a) the adoption, by the Borrower's Energy and Gas Regulation Committee (CREG), of the resolution No. 071 dated October 3, 2006; the resolution No. 086 dated November 1, 2006; the resolution No. 112 dated December 19, 2006; the resolution No. 031 dated April 20, 2007; the resolution No. 094 dated November 09, 2007, which together establish the necessary steps to implement the auction of energy supply by the end of 2007; (b) the conclusion by the Borrower's ministry of transport, pursuant to CONPES document No. 3342 dated March 14, 2005 issued by DNP, of several memoranda of understanding with, respectively: (i) the Sociedad	1. Firms' energy requirements have been met as reflected in the absence of blackouts 2. Port's capacity for handling of containers has increased by 10%; 3. Annual average kilometers per truck have increased in 15% (from current 60,000 kms to 70,000 km) 4. Average truck age decreases from 24 years (current) to 22 years; 5. The percentage of containers physically inspected has been reduced to 30%; 6. Increase participation of the private sector in the roads sector.

POLICY AREA		PRIOR ACTIONS		
	DPL1 (P094301)	**DPL2 (P095213)**	**DPL3 (P105029)**	**EXPECTED PROGRAM OUTCOME [INDICATOR - DESCRIPTION]**
			Portuaria Regional de Santa Marta SA (dated July 8, 2007); (ii) the Sociedad Portuaria Regional de Barranquilla SA (dated July 26, 2007); and (iii) the Sociedad Portuaria Regional de Buenaventura SA (dated August 2, 2007), to carry out actions leading to the definition of the new scheme for ports operation, with the objective of securing their required expansion and improving logistic services; (c) the issuance, by DNP, of CONPES document No. 3469 (April 30, 2007), which facilitates import/export logistics (inspección simultánea); and (d) the issuance, by DNP, of CONPES document No. 3489 for the trucking industry dated October 1, 2007, which facilitates a more efficient national logistics system.	

Source: Policy matrix in program documents for DPLs1, 2, and 3. The subheadings under each policy area were not in the policy matrices, but were added to facilitate the assessment of the program.
Note: DNP = Departamento Nacional de Planeación; SB = Superintendencia Bancaria; SF = Superintendencia Financiera; SV = Superintendencia de Valores.

Appendix C. List of Persons Met

Name	***Title***	***Organization***
Issam A. Abousleiman	Country Manager	World Bank
Eduardo Somensato	former Country Manager	World Bank
Eva Gutierrez	Lead Financial Sector Specialist	World Bank
Jose Guilherme Reis	Practice Manager	World Bank
Carolina Renteria	former Director, DNP	World Bank
John Factora	Senior Operations Officer	World Bank
Viviana Lara Castilla	Former Directora General de Crédito Público y del Tesoro Nacional	Ministerio de Hacienda y Crédito Público
Carolina Rojas	former Deputy in Dirección de Crédito Público	Ministerio de Hacienda y Crédito Público
Lina Maria Mondragon	Subdirección de Crédito Público	Ministerio de Hacienda y Crédito Público
Fabian Diaz	Professional	Ministerio de Hacienda y Crédito Público
Dora Lucia Solano	Professional	Ministerio de Hacienda y Crédito Público
Ivan Villa	Professional	Ministerio de Hacienda y Crédito Público
Harold Mera	Professional, Division of External Financing	Departamento Nacional de Planeación
Ana Fernanda Maiguashca	Co-Director	Banco de la República
Juan Pablo Zarate	Co-Director	Banco de la República
Pamela Andrea Cardozo Ortiz	Subgerente-Subgerencia Monetaria y de Inversiones Internacionales	Banco de la República
Esteban Gomez González	Subgerencia Monetaria	Banco de la República
Jorge Hernan Toro Cordoba	Subgerente de Investigaciones	Banco de la República
Carlos Varela	Subgerente of Economic Studies	Banco de la República
Enrique Montes	Division of Foreign Trade	Banco de la República
Jorge Ramos	Professional, Subgerencia de Estudios Económicos	Banco de la República
Adolfo Cobo	Professional, Subgerencia de Estudios Económicos	Banco de la República
Leonardo Villar	Director	FEDESARROLLO
Natalia Salazar	Subdirectora	FEDESARROLLO
Sergio Clavijo	Presidente	Asociación Nacional de Instituciones Financieras
Luz Mery Muelas Cáceres	Professional	ASOBANCARIA

Name	*Title*	*Organization*
Andres Quijano	Professional	ASOBANCARIA
Hernan Jaramillo	Former dean, Faculty of Economics	Universidad del Rosario
Juan Miguel Gallegos	Professor, Faculty of Economics	Universidad del Rosario