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PROJECT PERFORMANCE ASSESSMENT REPORT

COLOMBIA

MUNICIPAL DEVELOPMENT PROJECT
(LOAN 3336-CO)

URBAN INFRASTRUCTURE SERVICES DEVELOPMENT PROJECT
(LOAN 4345-CO)

June 19, 2006

Sector, Thematic and Global Evaluations
Independent Evaluation Group

Currency Equivalents (annual averages)
Currency Unit = Colombian Peso (Col$)

Year	US$	Col$	Year	US$	Col$	Year	US$	Col$
1987	1	243	1994	1	845	2001	1	2,230
1988	1	299	1995	1	912	2002	1	2,504
1989	1	383	1996	1	1,037	2003	1	2,878
1990	1	502	1997	1	1,141	2004	1	2,628
1991	1	633	1998	1	1,426	2005	1	2,232
1992	1	759	1999	1	1,756			
1993	1	863	2000	1	2,088			

Abbreviations and Acronyms

CAS	Country Assistance Strategy
DNP	National Planning Department (*Departamento Nacional de Planeación*)
ELN	National Liberation Army (*Exercito de Liberacion Nacional*)
FARC	Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*)
FEDESARROLLO	Foundation for Higher Education and Development *(Fundación para la Educación Superior y el Desarrollo)*
FFDN	Urban Development Fund (*Fondo de Financiación de Desarrollo Urbano*)
FINDETER	Local Development Fund (*Financiera de Desarrollo Territorial SA*)
IBRD	International Bank for Reconstruction and Development.
ICR	Implementation Completion Report
IADB	Inter-American Development Bank
IGAC	National Geographic Institute (*Instituto Geografico Agustin Codazzi*)
IEG	Independent Evaluation Group (formerly OED)
OED	Operations Evaluation Department (currently IEG)
PPAR	Project Performance Assessment Report
RISR	Resources for Social and Regional Investment Program *(Recursos para Inversiones Sociales y Regionales)*

Fiscal Year

Government: January 1 – December 31

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IEG Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the 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 about 25 percent of the Bank's lending operations. 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 Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by IEG. To prepare PPARs, IEG staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader IEG studies.

Each PPAR is subject to a peer review process and IEG management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the 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

The time-tested evaluation methods used by IEG are suited to the broad range of the World Bank's work. The methods offer 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 (more information is available on the IEG website: http://worldbank.org/oed/eta-mainpage.html).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: 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 to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Contents

Boxes

This report was prepared by Roy Gilbert, who assessed the projects in October 2005. Romayne Pereira provided administrative support.

COLOMBIA: MUNICIPAL DEVELOPMENT PROJECT (LOAN 3336-CO)

Principal Ratings

	ICR	*ICR Review**	*PPAR*
Outcome	Satisfactory	Moderately Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	Modest	Modest	High
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The ICR Review is an intermediate Independent Evaluation Group (IEG) product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	Vincent Gouarne	Graham Smith	Ping-Cheung Loh
Completion	Thakoor Persaud	Jeffrey Gutman	Olivier Lafourcade

COLOMBIA: URBAN INFRASTRUCTURE SERVICES DEVELOPMENT PROJECT (LOAN 4345-CO)

Principal Ratings

	ICR	*ICR Review**	*PPAR*
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	Substantial	Substantial	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The ICR Review is an intermediate Independent Evaluation Group (IEG) product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	Eleoterio Codato	Krishna Challa	Andres Solimano
Completion	Bruce Ferguson	John Henry Stein	Isabel Guerrero

Preface

This is the Project Performance Assessment Report (PPAR) for the following municipal and urban development projects in Colombia:

- **Municipal Development Project** (Ln 3336-CO), for which the World Bank approved a loan of US$60 million on May 30, 1991. The loan was closed on December 31, 2000, three years later than planned, when US$1.8 million undisbursed were cancelled.

- **Urban Infrastructure Service Development Project** (Ln 4345-CO), for which the Bank approved a loan of US$75 million on June 11, 1998. The loan was closed on June 30, 2004, twelve months later than planned, by which time US$26.2 million was cancelled.

The report is based on a review of project documents, including Implementation Completion Reports, Staff Appraisal Reports, Memoranda to the President, legal documents and project files, and on discussions with Bank staff involved in the projects. An IEG mission visited Colombia in October 2005 to review project results and met with over 45 persons including officials of the central, provincial and local governments, agencies involved in project implementation, non-government organizations and other donors. Field visits were carried out to project sites in six municipalities in the northern and central regions of the country where the mission met with intended beneficiaries of the projects. We gratefully acknowledge the courtesies and attention given by these interlocutors as well as the excellent logistical support provided by the Bank's country office in Bogotá.

Following standard IEG procedures, copies of the draft PPAR was sent to government officials and agencies for their review. Their comments are attached as Annex B to this report.

Summary

This is a Project Performance Assessment Report (PPAR) of two projects intimately associated with Colombia's decentralization reform giving greater sub-sovereign responsibility for urban development. These were the Colombia: Municipal Development Project (Ln 3336-CO) the "First Project" and the Colombia: Urban Infrastructure Service Development Project (Ln 4345-CO), the "Second Project". They were prepared and implemented over the 1991-2004 period, one of intense decentralization, a severe macro and fiscal crisis in 1998-99 and also ongoing insurrection. Both projects nevertheless made important and relevant contributions to Colombia's recent development. A new Constitution in 1991 provided Colombia's local authorities and entities—municipalities, departments (state-level), and their private and public utilities—with large central government transfers. The projects helped bring some order to this politically driven process, and nurse the newly created local credit market—for municipalities and these entities—through the 1998-99 crisis.

The objectives of the two projects, to broaden urban service coverage and to expand and consolidate this local credit market, were highly relevant to Government of Colombia (GOC) and Bank priorities in support of decentralization. Both projects had similar and simple designs, using the Local Development Fund (FINDETER), created under the First Project, to rediscount long-term commercial bank loans to local borrowers to finance investments in local services. FINDETER itself, as recipient of technical assistance under the First Project, provided technical assistance to local authorities and entities under the Second Project. The First Project was co-financed by the Inter-American Development (IADB), but IADB and the Bank agreed to finance separate, but parallel operations thereafter, to simplify procurement management for the Borrower.

The circumstances for project implementation could hardly have been more challenging—sudden decentralization, the fiscal crisis, even an earthquake, and the ongoing insurgency. Initially, demand for project funding was brisk, but slowed considerably after the 1998-99 macro crisis. Together, the projects invested more than US$300 million in urban and educational infrastructure in nearly 200 municipalities (nearly one fifth of the total). With slackening demand for credit, the Second Project was completed on a smaller scale, and one third of the original loan amount was cancelled.

On the whole, project results were good. Urban services for the poor improved in Colombia over the life of these projects. The coverage of basic sanitation, like that provided by the projects, for the lowest quintile of the income distribution rose from 77.4 percent in 1993 to 83.0 percent in 2003. IEG mission visits to several cities noted project-specific service improvements behind these figures. The visits also confirmed profitability for (now creditworthy) service providers, albeit at the price of higher charges for all users. But IEG found few economic rates of return (ERRs) estimates to measure the efficiency of individual subproject investments.

The local credit market in Colombia shrunk after 1998-99, but the Second Project prevented even greater shrinkage. Without significant subsidies to new borrowers, INDETER's own loan portfolio continued to grow, and market share rose from 11 percent in 1990 to 48 percent (of a smaller market) in 2004. A significant yet unexpected result of the projects was the establishment of a credit rating industry in Colombia that,

following international standards, has rated local authorities and entities more than one hundred times, with eight cities awarded investment grade rating (BBB or higher).

Still, many creditworthy local authorities and entities in Colombia are reluctant to get into debt. Municipal treasurers and entity finance directors told IEG how they thought debt is basically bad, and moreover unnecessary to finance further investment in the good quality services they believed they offered. This is in spite of indicators of poor service quality such as very high rates of unaccounted-for water and lack of treatment of raw sewage of large urban settlements, for instance.

But the project did build considerable capacity among the main players in the local credit market. On average, cities improved their fiscal performance, although with considerable variance around the mean. The First Project helped the expansion of cadastres, an important base for better property tax collection by municipalities. FINDETER's own capacity to finance local services was considerably enhanced by both projects. An (albeit smaller than expected) FINDETER has even returned to modest profitability after loss-making set in with the 1998-99 crisis and its aftermath. Commercial banks in Colombia made positive assessments of FINDETER's role. But FINDETER's success has brought it a number functions to administer GOC matching grant programs that may be in conflict with its role as a lender in this market.

The ***overall outcome*** of the Municipal Development Project (Ln3336) is rated Satisfactory, as the operation achieved its highly relevant urban service improvements and capacity building. ***Sustainability*** is rated Likely, given the practical irreversibility of Colombia's decentralization. ***Institutional Development Impact*** is rated High because the project wrought significant changes in the way that decentralization made the use of local resources more efficient. ***Bank performance*** was Satisfactory, thanks to effectiveness of its design and supervision support to Colombia at a critical time. ***Borrower performance*** is rated Satisfactory too, for GOC's effective support to FINDETER.

The ***overall outcome*** of the Urban Infrastructure Services Development Project (Ln4345) is rated Satisfactory, since it helped prevent a rapid contraction of the local credit market following the 1998-99 crisis, and consolidated market operations. ***Sustainability*** is rated Likely and ***Institutional Development Impact*** is rated Substantial for the continued efficient use of local resources, even if there were few innovative changes in the way of doing business. ***Bank performance*** and ***Borrower performance*** are rated Satisfactory since both parties worked effectively to steer the project to a successful conclusion in very difficult country circumstances unforeseen at the outset.

Experience with these projects highlights the following lessons:

- Policy and programs should continue to focus upon urban services improvements that local authorities and entities must want to make and finance, if strengthened local credit markets are to be effectively put to work.
- The market for local sub-sovereign credit may be shallower than commonly believed.
- To be profitable *and* still affordable to the poor, local urban services must operate very efficiently in order to keep costs down.

Vinod Thomas
Director-General
Independent Evaluation Group

1. The Context of Decentralization in Colombia – Background

1.1 The 1991-2004 period covering the implementation of the two projects reviewed here saw the most significant decentralization of political authority and public finance from central government to local authorities[1] in the history of Colombia. Bringing governance to local authorities in areas of the country controlled by insurgents—whose activities intensified in the early 1990s—was behind the push for decentralization. The potential contribution of Colombia's municipalities toward building peace through local investment in social capital was recognized by the Bank too (Solimano 2000 p. 61). The 1991 Constitution, formalizing local democratic elections, increasing central-local fiscal transfers and enhancing local responsibilities for public services, was its main driver. It also established the number of poor unserviced people as a criterion for allocating transfers and matching grants, but also earmarked them for specific purposes. More than half was for health and education services, for instance. Law 142/94 made municipal responsibility for providing urban services explicit, requiring that local utilities adopt commercial business practices and encouraging privatization and local regulatory commissions. Extra resources were important for municipalities that had typically spent three times more than they raised through their own revenues—mainly property taxes. But, with few exceptions, local authorities at the municipal level especially were too weak in 1991 to take on and administer the new responsibilities. They would clearly benefit from project support in building municipal institutional capacity, bolstering property tax collections and strengthening their sub-project preparation and financing capabilities, issues correctly identified by the Bank's project appraisal in 1991.

1.2 Municipal tax revenues in Colombia rose from just 0.8 percent of GDP in 1990 to 2.1 percent in 2005. The 1991 Constitution mandated that the local share of central government revenues increase from 36.5 percent in 1991 to 46.5 percent by 2001. The increase of overall revenues allowed more local debt that rose from 8.5 percent of GDP in 1991 to a peak of 9.6 percent in 1999, but fell back to 6.1 percent in 2004. In that year, local authorities as a whole reported a fiscal surplus of 0.63 percent, in contrast to the deficits of the 1990s. In 2004 they accounted for more than half of public sector investment in the country, up from just one third in 1990 (World Bank 2005 p. 26).

1.3 In late 1998 and early 1999, however, Colombia suffered a severe macro economic and fiscal crisis and financial meltdown that led to a 4.2 percent decline of GDP in 1999. Many different causes were cited: increased insurgency in the country; the decentralization process itself (IMF 1999; Wiesner 2003 p.11); central government profligacy (Dillinger 1999 p.2; World Bank 2005 p. 98). Whatever the cause, the Government of Colombia's (GOC) response included an emergency tax on all financial transactions and a halt to lending altogether to the least creditworthy local authorities and entities—those classified as "red" by the Ministry of Finance (MOF) under the so-called "traffic light" Law 358/97. The result of these and subsequent measures was to see liquidity in the Colombian economy—measured by M1—increase by 75 percent during the 1998-2004 period. Banks, including FINDETER, found it difficult to place their loans

[1] In this report, we use the generic term "local authorities and entities" to cover municipal and departmental (i.e. state) governments (including the districts of Bogotá, Baranquilla, Cartagena and Santa Marta) and private and public utilities working for them. Together, these are called *entidades territoriales* in Colombia.

in such circumstances—evidently not propitious times for local credit to municipalities and entities sponsored by the two projects reviewed here.

1.4 Nevertheless, these two Bank financed projects—the Municipal Development Project (Ln3336), called the "First Project" in this report and the Urban Infrastructure Services Development Project (Ln4354) called the "Second Project"—helped the decentralization process along and attenuated some of its more pernicious fiscal effects. Colombia's Local Development Fund (FINDETER), the main player in both projects, was itself a product of decentralization, having been spun off in 1989 from an older National Urban Development Fund (FFDU), one of the rediscount windows of the Colombia's much larger Central Mortgage Bank (BCN). Thus, at the outset of decentralization, FINDETER was poised to help drive a more efficient local use of resources to improve public services. It was ready to receive timely assistance from the Bank and also the Inter-American Development Bank (IADB) for that purpose.

1.5 All this took place in a highly urbanized country. Already by 1991, 71 percent of Colombians lived in cities, a proportion that rose to today's 75 percent, making for a total current urban population of 35.4 million. Most of these people already enjoyed urban services at the beginning of this period. According to UN Habitat figures for 1990, the year before these projects, 98 percent had improved water supply, while 95 percent had improved basic sanitation. By 2002, when the projects were nearly completed, coverage had increased in each case by one percentage point. Clearly, there was not much room for improving overall coverage, but service quality was wanting, as the IEG mission found.

2. More Urban Services and Credit – Objectives and Design

2.1 Despite similar designs to finance FINDETER rediscounting of commercial bank loans to local borrowers, there was a difference of emphasis between the objectives of the two projects. The First Project aimed at increasing local services, while the Second Project sought to expand the local credit market for municipalities and their entities (details Box 1). While the shift toward more attention to finance was needed, the IEG assessment found that this should not have supplanted attention in the formal project objectives to the ongoing need to improve service quality, in Colombian cities. This evaluation gives equal attention to the results obtained in upscaling and improving the quality of both local urban services on the one hand and local credit on the other.

2.2 Both aspects—services and credit—were highly relevant to the policies and priorities of both the Bank and GOC throughout the period under review and still today. The report of "large infrastructure deficits" in the First Project's SAR may have been overstated, though. Today, it is more relevant to improve the quality of existing services in Colombia's cities, where performance indicators—such as unaccounted-for water, for instance—are low, than expand coverage. Also today, an expanded and consolidated credit market (to help finance these services) remains as highly relevant to current Bank and GOC's priorities of macroeconomic stability and fiscal balance. It was also relevant in 1990 to Bank concerns about avoiding excessive local debt through growing decentralization. Improving urban services was a priority at the heart of the decentralization driven by the 1991 Constitution itself, and fully supported by the Bank's 1991 Public Sector Expenditure Review, that called for more provision of urban services locally, avoiding any duplication by central government. GOC's ongoing efforts to improve urban services assure the current relevance of these objectives, These still figure strongly in the 2005 Country Assistance Strategy (CAS) for Colombia, although less prominently, in the Bank's later 2005 Public Expenditure Review. Sound financing and credit practices are still at the heart of GOC's efforts today to sustain Colombia's hard won fiscal sustainability.

Box 1. Summary of Objectives and Components

Objectives	***Components*** *(with final costs in US$ millions)*
MUNICIPAL DEVELOPMENT PROJECT (LOAN 3336)	
- to remove infrastructure bottlenecks and improve the coverage and operation of local government services, especially for low-income groups - to improve the financial performance of Local Authorities and Entities* - to strengthen the institutional capabilities at the national and regional level to provide technical support to Local Authorities and Entities* and improve the skills of their personnel. - to improve the municipal resource base by strengthening the capability for cadastre definition and update. - to contribute to the institutional improvement of the water sector companies (added through LA Amendment of 12/97).	A line of credit through FINDETER to finance local sub-projects to improve urban infrastructure and local services and to strengthen beneficiary institutions (appraisal cost 158.2 million; actual cost 181.3 million). Institutional development for FINDETER through staff training, equipment, MIS, dissemination of materials and project preparation guidelines (appraisal cost 4.0 million; actual cost 4.0 million). Training and institutional support program for several different agencies (appraisal cost 10.0 million; actual cost 11.3 million) Cadastre development with IGAC (appraisal cost 16.0 million; actual cost 7.4 million) Water supply and sanitation (appraisal cost 0.0 million; actual cost 4.3 million).
URBAN INFRASTRUCTURE SERVICES DEVELOPMENT PROJECT (LOAN 4345)	
- to contribute to the expansion and solidification of the credit market for public autonomous and private providers of local public services by enhancing the Borrower's capacity to finance infrastructure in sectors under the jurisdiction of the Local Authorities and Entities*	A line-of-credit through FINDETER to finance local sub-projects in urban infrastructure (water supply and sewerage, urban transport, drainage, flood control, solid waste management, bus terminals and river wharves, market places, parks and green areas, slaughterhouses, local telecommunications, education and health, gas distribution, (and others approved by the Bank and FINDETER) (appraisal cost 125 million; actual cost 97.9 million).
*Instead of "Local authorities and entities", the legal documents used the term "Project Entities" for the First Project and "Territorial Entities" for the Second Project. As in the rest of this report, these cover municipal and departmental (i.e. state) governments (including the districts of Bogotá, Baranquilla, Cartagena and Santa Marta) and private and public utilities working for them.	

2.3 The project design for both operations was simple and appropriate to the purposes laid out in the objectives. In both cases, the design consisted of FINDETER using external borrowing (from the Bank and IADB) to rediscount loans made by private commercial banks to public local authorities and local private entities—together called *entitades territoriales* in Colombia—for investments in urban services (up to 100 percent of the loan amount in each case). Rediscounting in this way did not expose FINDETER to possible default by local authorities and entities. That risk was taken by commercial banks that quickly learned about the credit profiles of their local borrowers. FINDETER's risk, of course, lay with the commercial banks themselves, but they had never defaulted in these operations. Local borrowers secured their loans by pledging their (rapidly growing) transfers from central government as collateral. Project financed loans were for up to 12 years maturity, more than twice the 5 year maximum term offered by commercial banks without FINDETER rediscounting. Interest rates, initially at the long-term deposit rate plus a five percentage point spread shared equally between FINDETER and the banks, were initially attractive to the local authorities and entities. FINDETER was free to adjust interest rates in response to market conditions. Later, in response to slackening demand, FINDETER lowered its spread to a 1.75-3.00 percentage point range, the higher end being for longer term loans.

2.4 Rediscounting was an appropriate tool for the declared aims of the projects. It gave FINDETER oversight over the type of local investments made—that was of little interest to the commercial banks. It also gave commercial banks, unused to long-term lending to local authorities and entities, the confidence to move into a new market. Moreover, it did not crowd out private sector finance, since commercial banks were at the heart of the lending operations. In important respects, both projects complied with the Bank's OP 8.30 on Financial Intermediary Lending, particularly with respect to the careful eligibility criteria and financial analysis for selecting FINDETER as financial intermediary. For the first project the appraisal included detailed financial projections of the then new agency and reference to the reduction in subsidies resulting from the shift from grant to loan funding. The second project appraisal included a retrospective assessment of the quality of FINDETER's portfolio and further projections. These assessments ultimately helped ensure that FINDETER's financial intermediation was carried out in an efficient and sustainable manner. Having recently met, in difficult market circumstances, its covenanted minimum 5 percent average return on invested capital, FINDETER demonstrated its sound financial performance under these projects.

2.5 The external funding and implementation arrangements for the two projects reviewed here were quite different from one another. The First Project was cofinanced by an IADB loan of US$40 million in addition to the World Bank's US$60 million, and the borrower was GOC. The Second Project was financed by a US$75million Bank loan and FINDETER itself had become the borrower, with a GOC sovereign guarantee. Complications of applying both Bank and IADB procurement rules during the implementation of the First Project were cited by the Bank as reasons for IADB not continuing to cofinance with the Bank, but instead financing its own stand-alone follow-on operation with FINDETER through a US$60 million loan. IADB continues to be very active in Colombia's decentralization through a US$400 million loan to GOC to support subnational fiscal reform—in collaboration with the Bank as cofinancing to a US$400 million Bank Structural Fiscal Adjustment Loan (Ln7092), approved in December 2001.

3. Responses to Volatile Demand - Implementation Experience

3.1 The circumstances for implementing these projects could scarcely have been more daunting. Sudden, constitutionally determined decentralization, an untried executing agency (whose first loan was made just nine months before Board approval of the first Bank loan), a severe fiscal and macroeconomic crisis, a major earthquake in the project city of Armenia. All this was during an ongoing insurgency throughout the country.

Nevertheless, implementation went well and progress reporting, project accounting, financial audits and environmental assessments were all pursued diligently. All these normal requirements of implementation were spelled out explicitly in the projects' operational manuals. Monitoring and evaluation of both projects was carried out efficiently by FINDETER, leading to a broad set of outcome indicators as reported throughout this PPAR.

3.2 Despite a slow start, demand for financing under the First Project became brisk and 88 percent of the loan was disbursed by the original closing date. This was despite initially cumbersome procedures of loan and rediscounting approvals. Nevertheless, project closing was extended a further three years—during which only 8 percent more of the loan was disbursed—for more technical assistance to water companies and to complete the morose cadastre component. This delay meant having to guide a project—that should have already been completed before it—through the protracted fiscal crisis.

3.3 By completion in 2000, the First Project had enabled investments of US$208 million in 179 municipalities (16 percent of the total) that were reasonably free of the insurgency. Violent conflict, that peaked in 1992 as the First Project was getting under way, particularly targeted the more dynamic municipal administrations that were less accommodating to the demands of insurgents (Hommes 1995 p.10). The project's encounter with rebels was an inevitable and, indeed, purposeful by-product of decentralization's aim of bringing official governance to all regions of the country. The IEG mission met with project personnel who had been held captive by the FARC guerrillas for extended periods. But it did not prevent implementation. Despite this, more than 150 sub-projects were financed—several benefiting more than just one municipality. 60 percent of all sub-projects were for urban streets and water supply. Sub-projects from other sectors, such as health centers, abattoirs, telephone networks and urban parks were also financed, but on a smaller scale. Even so, the average sub-project was more than double that expected and privately run utilities were more prominent among final local borrowers than anticipated.

3.4 As the Second Project became effective in 1998 just as the fiscal crisis hit Colombia, demand for its financing fell immediately. Suddenly, GOC was in no fiscal position to bail out weak borrowers, as had traditionally been the case, making creditors—apart from FINDETER—run. Soon, GOC controls to squeeze credit made all local lending more difficult (Wiesner 2003 p. 48). Among the key measures, Law 358/97 placed a ceiling on local debt service, being no higher than 40 percent of savings, and Law 617/00 tightened local fiscal discipline, while Law 819/03 enshrined the fiscal responsibility of local authorities. To help compensate for this, FINDETER had considerably speeded loan processing, through what they called "automatic rediscounting" that ensured much quicker local access to loan funds once approved. Local borrowers with whom the IEG mission met all found the new procedures to be very effective. Nevertheless, by the original closing date, just 52 percent of the second loan had been disbursed, leading to the cancellation of US$26 million, one third of the Bank commitment. Nearly all the outstanding balance of the truncated loan was disbursed during the one year extension. Violent conflict, which peaked again in 2001, also dampened demand and limited the project's geographical reach. By 2002, the violence had forced 246 mayors (22 percent of Colombia's total) to flee their municipalities. With greater security, 191 of them returned home by 2003. In these very difficult circumstances, the project supported nearly US$100 million of local investments through 60 local subprojects.

3.5 Unusually for financing aimed at local urban services, 62 percent of the sub-projects funded by the Second Project were for education, particularly in very creditworthy universities, rather than the schools mentioned in the PAD. Education, it should be remembered, was a GOC priority in decentralization. The remaining 38 percent, more conventionally for this kind of operation, went to traditional urban infrastructure, particularly water supply and basic sanitation. This result represented a shift away from the priority given to basic urban services under the First Project.

3.6 There can be little doubt that project implementation was not helped by additional responsibilities given to FINDETER during the life of these two operations. As early as 1994, the Bank and IADB expressed concern that FINDETER's newly acquired responsibility for managing GOC's matching grants programs, for instance—that continues to the present day—negatively affects project performance for two reasons. First, it distracts FINDETER from its rediscounting role in the local credit market, and secondly the matching grant funding often competed with (and evidently undermined) loans offered by commercial banks for the same purposes.

4. More Services but a Smaller Market - Project Results

URBAN SERVICE IMPROVEMENTS

4.1 As mentioned earlier, both projects contributed to the increased coverage of urban service provision in one in six of Colombia's municipalities—an explicit objective of the First Project. Sub-projects inspected during IEG mission field trips had clearly improved the lives of low income groups. For the country as a whole, data show that service coverage for those in the lowest quintile of the income distribution improved significantly between 1993 and 2003; 80.4 percent to 91.4 percent for Electricity; 77.4 per cent to 83.0 percent for Basic Sanitation; and 17.8 to 32.9 percent for fixed line telephony (FEDESARROLLO 2004 p.49). On the downside for consumers, all income groups now have to pay much more for these services. Household expenditures on services rose as follows between 1997 and 2003: 82.9 percent for electricity; 53.9 percent for drinking water; 204.3 percent for basic sanitation; and 81.0 percent for fixed line telephones. One negative result for families in the lowest quintile is that 12.3 percent of their total household expenditure now goes for drinking water—when a maximum of 5 percent is the typical parameter for this share in Bank financed water projects. IEG frequently heard complaints from low-income residents about the high cost of these services. Thus both projects did bring urban services to low-income groups, albeit at a high cost to them—even though the Second Project did not specifically target the poor.

4.2 Observations made by the IEG mission during site visits confirmed these broader findings. In Colombia's fourth largest city, Barranquilla, on the country's northern coast (population 1.9 million), the Second Project financed FINDETER's rediscounting of a commercial bank loan to the local private water utility, to extend the water supply network to the south-western zone of the city where 304,000 low-income people live and now have a reliable, but expensive service. This was a profitable operation for the utility that encountered no difficulties in servicing the loan. In Pereira, a city of 0.6 million inhabitants in Colombia's coffee country, the First Project similarly financed investments to extend the local telephone network to a poorer neighborhood where it added 28,900 more connections. Random checks showed that it was functioning well in this neighborhood, as users themselves confirmed to the IEG mission. In the center of the same city, the Second Project financed extensive street repaving. In Cartagena, an important historical port on Colombia's northern coast (population 1.0 million), the Second Project made an (unconventional) urban service investment to build substantial extensions (including a library) to the University of Cartagena campus. During the IEG mission visit, the new facilities were well used by mostly low-income students, attracted by the low fees charged. On the other hand, the borrower, the University's Special Funding Board *(Junta de Estampilla)*, was very wealthy, given its earmarked receipt of one percent of all construction investments in the Bolivar Department (state) of which Cartagena is the capital. While making this Board very creditworthy for project financing, the efficiency of this earmarking for the overall economy must be questioned, having led in the past to the construction of a large university hospital building (not financed by the project) which has remained unused since its completion five years ago.

4.3 At the broader sub-project level, questions arise about the efficiency of the project investments when economic rates of return (ERRs) were reported for so few of them. For the First Project, ERRs were not systematically estimated either at appraisal or completion, even though the kind of sub-projects foreseen lent themselves to this kind of analysis. The ICR of the First Project gives as reasons for the lack of ERRs: frequent staff turnover; difficulty of locating initial analyses; and problems in estimating current benefits—all indicators of weak project management. For the Second Project, the appraisal estimated an ERR of 31.8 percent, while none was estimated at completion (although the ICR does not explain—nor could the IEG mission—why this was not done).

4.4 The quality of some of these services is in doubt. Otherwise efficient utilities report very high levels of unaccounted-for water, for instance, inevitably boosting the costs of the service that were easily observed on the ground. Also, large cities like Pereira (population 0.6 million) continue to be without sewage treatment in an ecologically sensitive zone for tourism and agriculture.

IMPACT UPON THE LOCAL CREDIT MARKET

4.5 As the local credit market in Colombia shrunk significantly since the 1998-99 crisis, we cannot conclude that the Second Project contributed to the market expansion and solidification that the project intended.[2] As mentioned earlier, MOF data show that debt held by local authorities fell from 9.6 percent of GDP in 1999 to 6.2 percent of GDP

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[2] The effects of the First Project (Ln3336), implemented during the period of fastest growth of the local credit market, are not considered here because the earlier expansion has been lost and expanding local credit was not an explicit objective of that operation.

in 2004—a smaller share than when decentralization got under way 1991 (MOF 2004 p.5). In recent years, the decline of local credit even led to negative capital flows to the Departmental (state) level as repayments exceed new disbursements (Ibid.). In US dollar terms, the shrinkage of the local credit market measured by banking claims on local government was even greater, falling from US$2.4 billion in 1999 to US$1.4 billion in 2004 (IMF 2005).

4.6 Without the Second Project, however, the shrinkage may have been even worse. While the market as a whole contracted, the project helped ensure that FINDETER's lending continued to grow (against the broader downward trend), thereby helping the local credit market survive the 1998-99 crisis. As a direct result of these projects, FINDETER's loan portfolio grew more than twenty-fold from US$29.9 million equivalent in 1990 (the first year of operations) to US$643.9 million in 2004. Continuing to grow while the overall market was shrinking meant that FINDETER's market share expanded from 11 percent in 1990 to 48 percent in 2004. Being responsible for nearly half the market, meant that FINDETER brought resilience to a local credit market to help it weather and survive the storm of 1998-99—a valuable result of the project.

4.7 Through its interviews with local borrowers, the IEG mission noted reluctance among creditworthy borrowers, whether municipalities or utilities, to get further into debt. To them debt appears to be a bad thing in itself, something to be avoided or paid off quickly if unavoidable. Even for a small, creditworthy city, such as Santa Rosa de Cabal (population 59,000, some 200 kilometers east of the capital Bogotá), local officials explained to IEG that did not see why they should borrow since they had no investment projects in need of debt financing. They felt that service provision was already adequate and not in need of further investment, so why get into debt? Similarly, the *Águas de Manizales* utility, proudly told IEG that they had not taken any new loans since 2000, even though 45 percent of their water supply was unaccounted-for (non-revenue) water—when good practice is to keep this below the 20-25 percent range. But consumers still paid—with complaints, of course—the high prices resulting from this inefficiency. Clearly, local authorities and entities inundated with offers of credit by banks—pre-approved to the tune of 13 million in Manizales, for example—should be more aware of the need to improve the services they provide. They have to want to improve their services. At this writing with liquidity in the economy still high, banks (including FINDETER) have to make great efforts to place loans, but local authorities and entities, too, have to make greater efforts to provide better quality services.

4.8 Both projects nevertheless did help make a number of improvements to the local credit market. The projects' twelve years experience of rediscounting credit for local authorities and entities acquainted both borrowers and lenders with the ins and outs of the financial analysis necessary to justify such operations. Commercial banks began long-term local lending for the first time, even though such lending today still amounts to no more than two percent of their lending portfolios. The projects also helped nurture a creditworthiness culture, at least through highlighting eligible borrowers and showing what weaker local authorities and entities had to do to become creditworthy. The projects introduced tight arrangements to guarantee loans through pledges of local transfers, which ensured that there were no non-performing loans. If there is a downside, especially considering decentralization's aim of bringing governance to innermost reaches of

Colombia's rebel controlled interior, it is the undue concentration of credit. The ten largest cities—Bogotá, Cali, Baranquilla, Medellin, Manizales, Ibague, Cartagena, Cucutá, Pereira, and Armenia—alone account for 81 percent of the total local debt outstanding.

4.9 A significant yet largely unexpected result of these projects was the establishment of a credit rating industry in Colombia that covers local borrowers. For these, credit ratings grew out of Colombia's so-called "traffic light" law *(Ley de Semáforos)* of 1997, that required MOF grade all local authorities and entities according to a "red-yellow-green" rating, indicating their eligibility for credit. Since then, two specialized credit rating agencies, affiliated to international operators, have rated local authorities and entities more than one hundred times. At this writing eight cities have investment grade credit ratings in Colombia, namely: Bogotá (AAA); Medellin (AAA); Envigado (AA); Pereira (A+); Floriblanda (A); Cucutá (A); Dosquebrados (A-); and Pasto (A-). Local borrowers recognize the importance of credit ratings and are aware that improvement in their ratings can ease their access to credit and lower the cost of it to them.

4.10 Although smaller that at its peak in 1998-99, the local credit market in Colombia today is of higher quality, thanks to the projects. Although the IEG mission detected some skepticism still in GOC toward local credit, where a few GOC officials believe that many local authorities and entities present a high credit risk, principally because of their poor financial management. While that remains true in several instances, the market can, at least, readily identify them and exclude the non-creditworthy from accessing loans. Perhaps more important still is that, after the IMF once considered the rapid 1991-1997 decentralization as being partly responsible for the 1998-99 fiscal crisis, MOF can conclude today that "excess" local authority debt no longer poses a threat to the stability of the Colombian economy, nor to the process of decentralization itself. Of course, how to bring smaller local authorities and entities into the market still remains a key challenge.

CAPACITY BUILDING

4.11 Both projects made significant achievements at both the local and national levels. The First Project did make some inroads into improving the financial performance and management capabilities of some local authorities and entities as intended, although the impact was less far reaching geographically than hoped for. Its national level results were mixed too. The Second Project enhanced FINDETER's capacity to finance local infra-structure, as intended, but to a degree undermined by the success of FINDETER itself—the agency had to take on board a host of competing GOC matching grants programs.

4.12 Among project cities that improved their financial performance thanks to the project interventions was Pereira, a borrower under both projects and recipient of technical assistance and training—in the fields of budgeting, revenue generation and cadastre—through the First Project. By 1997, the city successfully issued 5-8 year bonds that were readily subscribed. Today, the city retains a near-investment grade BB+ credit rating. The IEG learned of another good project result in the city of Baranquilla, a city that had been swamped by short-term debts in the mid 1990s, but was able to pay them all off by 2001, while an active participant in the Second Project. Other project cities visited by the IEG mission, on the other hand, had a weaker performance. Thus Manizales reported only lackadaisical collections of local taxes, while delinquency levels in Cartagena continued to increase, having reached an accumulated US$318 million equivalent on property taxes alone. While it is difficult to know which cases are representative of Colombia's local authorities, a recent Bank report paints a pessimistic scenario. It reports that more than 90 percent of Colombia's municipalities collected 30 percent or less of their potential revenues from local taxes. Even so, local taxes have remained a constant share of (rising) local transfers over the 1990-2002 period (World Bank 2005, p.97). But according to a recent report on Colombia, local authorities as a whole generated a current surplus of US$1.1 billion equivalent in the first three quarters of 2005, after reporting (declining) deficits until 2003 (CONFIS 2005).

4.13 Still, there is still a long way to go to enhance decentralized development in Colombia, and much additional effort is needed, all of which these two projects alone could not be expected to do. This may explain why, in the borrower ICR of the Second Project (p.39), FINDETER paints a negative scenario of local authority problems that lie ahead, mentioning: (i) most have a growing fiscal deficit and are unable to finance current expenditures from their own revenues; (ii) growing debt; (iii) excess of personnel; and (iv) unpayable pension obligations. Progress in the first two areas at least has been important. The IEG mission heard the argument of several interlocutors that a mayor's mandate needs to be extended beyond its present three years, for local administrations to be able to see through longer-term reforms and improvements that will tackle these problems.

4.14 The growth of local authorities' own revenues, expanding at a similar rate to the rapidly growing transfers themselves, points to a positive overall result from the First Project's efforts to improve the municipal resource base through cadastre definitions and updates. Across cities, performance was quite varied, with some prospering while others doing little to translate cadastre updates into actual property tax collection. The implementation of this component through Colombia's Geographical Institute *(Instituto Geografico Agustin Codazzi - IGAC*) was slow—the main cause of the three year delay in completing the First Project—and IGAC did not adopt the commercial spirit to its work as the project hoped, even though it exceeded the project's target of registering or renewing 4.5 million titles by 57 percent, by covering seven million properties. A stand-alone IADB project did help IGAC, but only one third of its US$38.5 million loan has been disbursed. Still, the achievement of the national target of 100 percent coverage by 2011 has been brought forward to 2006. But, other work by the Bank points to a different, less successful result. A recent Bank report recommended greater efforts to update cadastres in Colombia, given what it regarded as inadequate information on property values in the country—especially not updated frequently enough, say every year—obviously not a recommendation that would have been made had even better results been obtained (World Bank 2005 p. 27).

4.15 FINDETER's own capacity to finance local services and to oversee decentralized development in Colombia was considerably enhanced by both projects. As noted earlier in this report, FINDETER's loan portfolio stood at US$643.9 million equivalent, more than twenty times greater than in 1990, its first year of operations. Project expectations had been for even faster growth, however. The SAR of the First Project forecast total

FINDETER assets of Col$503 billion by 1995 (in 1990 prices), whereas the actual amount was only Col$115 billion (in 1990 prices). The PAD of the Second Project, issued before the 1998-99 crisis, expected FINDETER's assets to grow in real terms by 20 percent per annum over five years. Actual growth was instead only 2.6 percent per annum. Ironically from today's perspective, in which FINDETER accounts for nearly half the local credit market, the designers of the First Project wanted to ensure that FINDETER maintained (its just 11 percent) market share in what they expected (reasonably at that time) to be a very rapidly growing market. FINDETER's slower than expected growth was primarily the result of the contraction of the broader market.

4.16 An important consequence of this was to make FINDETER's resource mobilization, considered a critical matter at the time of both project appraisals, less crucial. Fearing that FINDETER might become over-leveraged, the designers of the First Project held FINDETER to a maximum debt:equity ratio of 10:1. In reality, FINDETER's debt:equity ratio was less than 1:1 in 1995, and only recently rose to 2:1 in 2004, following additional borrowing from IADB. Among the two reasons for the limited growth of FINDETER debt are the generous equity holdings by GOC—92 percent of the total and strong repayment flows from earlier FINDETER lending (as a revolving fund). FINDETER reported 100 percent repayment by banks and the banks 100 percent repayment by local borrowers, thanks to repayments being directly debited from GOC transfers to them. Even so, FINDETER did issue Col$40 billion bonds in 1994 when liquidity was tight in Colombia, and only 22 percent was subscribed. Not surprisingly, no further bonds were offered, even though the appraisal of the Second Project still reckoned such bond issues would provide important opportunities to raise capital. While FINDETER could easily be more highly leveraged, there is little need for this at the present time of limited demand in the local credit market.

4.17 Much has been made in the past about the high foreign exchange risk that FINDETER faces from its Bank and IADB debt, but the IEG mission was able to confirm that such exposures currently represent no more than 12.7 percent of all liabilities. Even these are hedged through forward non-delivery mechanisms and overseas account holdings. Little wonder, then, that FINDETER enjoys the highest AAA credit rating in the Colombian markets.

4.18 FINDETER has proved resilient and returned to a modest profit in 2004 of just 17 percent of operating income (against a margin of 89 percent in 1990). This was after incurring losses following the 1998-99 crisis, when many financial intermediaries fared much worse—three medium-sized credit institutions taken over by the authorities and ten more even had to close. FINDETER's early profitability came from significant subsidies in receiving repayments on erstwhile FFDU loans to local authorities, without having to service FFDU's own foreign loans. Another measure of FINDETER's financial capacity, total asset turnover, operating income divided by assets, shows a decline from 17 percent in 1990 to 11 percent in 2004 (having peaked to 29 percent in 1995).

4.19 The IEG mission visited commercial banks in Bogotá that had made loans to local authorities and entities, both with FINDETER rediscounting and without it. For them, FINDETER's participation brought several advantages, notably: (i) additional resources (for longer term lending particularly); (ii) the technical evaluation and approval of the proposed sub-projects; (iii) greater familiarity with the local authority client; and (iv) triangulating credit rating agencies assessments. They appreciated the rapid loan processing made possible by FINDETER's pre-approved "automatic discounting", a great improvement over earlier cumbersome and protracted processing. The only downside for the banks, but an important one, was that FINDETER's resdiscounting raised the cost of lending, making it more difficult to place loans and eating into their profits. Naturally, and as it should be, commercial banks are looking to make more and more loans to local borrowers without the intermediation of FINDETER.

4.20 In some respects, FINDETER became a victim of its own success. Becoming a very solid and reliable GOC financial intermediary and agent for decentralization, the government encumbered FINDETER with more and more responsibilities to administer several other GOC programs. These included matching grant programs for local authorities, such as the large Resources for Social and Regional Investment Program *(RISR – Recursos para Investimientos Sociales y Regionales)* that invested US$101 million equivalent in 2004 of matching grants for sub-projects—including health, basic sanitation, water supply and roads—also eligible for *loans* under the two projects reviewed here. By investing in smaller municipalities only, RISR may have avoided duplicating loan discounting programs, but at the same time it may have delayed entry of smaller cities into the domain of financial responsibility. FINDETER has other similar responsibilities for other smaller programs and GOC trust funds covering municipal development, basic sanitation, royalties, and fiscal adjustment. Possible conflicts between these programs and decentralization reform and their distracting FINDETER from that effort were noted by the Bank and IADB as early as 1995 and continue to be of concern.

4.21 As the First Project intended, national level capabilities to oversee decentralization and support local authorities and entities in Colombia were strengthened (by both projects). Through the work of FINDETER, the projects helped overcome distrust of local institutions traditionally held by GOC authorities and also by commercial banks. Even if it did not expand as much as hoped, the local credit market in Colombia became well understood at the national level thanks to the projects. Some unfriendliness towards decentralization, typically felt by those central agencies that relinquish power, resources and influence, may still exist. But the better regulated post 1998-99 market is now more widely recognized in Bogotá as a means of overcoming the social costs of neglect and eventually bringing peace to all parts of the country.

5. Conclusions and Lessons

Ratings

5.1 ***Municipal Development Project (Ln 3336-CO):*** Project objectives were and remain today **highly relevant** to Colombia's ongoing decentralization process and reform, correctly seen as a cornerstone to the country's future peace and development. The ***efficacy*** in achieving the majority of these objectives was **substantial**, especially with the results for low-income beneficiaries in the participant cities and the stronger financial performance, particularly of the larger ones. ***Efficiency,*** too, was **substantial**, given the large scope of the impact for a relatively small resource outlay, although efficiency might have been demonstrably even higher, had the proper economic analysis been carried out of all sub-project investments. With these results, the ***overall outcome*** of the project is rated **satisfactory**. ***Sustainability*** is rated **likely**, since the decentralization process is likely to remain irreversible so long as Colombia does not slip deeper into civil war. ***Institutional development impact*** is rated **high**, given the significant change the project helped bring to decentralization, enabling local resources to be used more efficiently. ***Bank performance*** is rated **satisfactory**, for the readiness of the (design and supervision) assistance offered to Colombia at a critical time of its pursuit of decentralization in an uncertain security environment. ***Borrower performance,*** too, is rated **satisfactory**, particularly for GOC's successful focus and effort on consolidating its relationship with local authorities, entities and private operators and banks through FINDETER.

5.2 ***Urban Infrastructure Services Development Project (Ln4345-CO):*** Project objectives were and remain **substantially relevant** to Colombia's ongoing priorities for decentralization, but they would have been even more so, had they still focused upon the continuing priority of improving the quality of local services for low-income urban groups. The ***efficacy*** and the ***efficiency*** in achieving these objectives was on balance **substantial**; even though unable to sustain the expansion of the local credit market against the exogenous forces containing it, the project did succeed in preventing what would have been an even sharper fall without it. Thus, the ***overall outcome*** of the project is rated **satisfactory**. The achievements of fiscal stability in particular should help ensure that the ***sustainability*** of the project benefits will be **likely**. ***Institutional development impact***, is rated **substantial**, since the project helped ensure the continued efficient use of local resources through times of crisis in Colombia, even if it did not bring innovative changes to the way of doing business. Finally, both ***Bank performance*** and ***Borrower performance*** are rated **satisfactory** since both parties worked effectively to steer the project to a successful conclusion in difficult country circumstances that were entirely unforeseen at the outset.

LESSONS

- Policy and programs need to continue to focus upon urban service improvements that local authorities and entities must want to make and to finance, if strengthened local credit markets are to be put effectively to work. Local authorities and entities have to want to improve the coverage and quality of their urban service provision if there is to be a demand for local credit to finance improvements that are needed. Without such a demand for improvements, even consolidated and potentially well-functioning credit markets will languish and eventually contract.

- The market for local sub-sovereign credit may be shallower than commonly believed. Demand-side factors, such as any lack of demand for service improvements (just mentioned), a small number of creditworthy borrowers, and the need for fiscal responsibility, can all conspire to constrain the growth of the local credit market. Supply-side factors, notably the willingness of banks to lend to local borrowers, do not seem to offer such a constraint.

- To be profitable *and* still affordable to the poor, local urban services must operate very efficiently in order to keeps costs down. Otherwise, profitability can be maintained only if inefficiencies—such as through non-revenue water—are charged through higher prices to customers, forcing low-income groups among them to devote an undue share of household income to pay them.

Annex A. Basic Data Sheet

MUNICIPAL DEVELOPMENT PROJECT (LOAN 3336-CO)

Key Project Data *(amounts in million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	188.2	208.3	111%
Loan amount	60.0	60.0	100%
Cofinancing	44.0	na	-
Cancellation	-	1.8	-

Project Dates

	Original	*Actual*
Departure of Appraisal Mission	06/01/1989	06/01/1989
Board approval	05/30/1991	05/30/1991
Signing	11/08/1991	11/08/1991
Effectiveness	10/15/1991	05/15/1992
Closing date	12/31/1997	12/31/2000

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	N^o Staff weeks	*(thousands of US$)*
Identification/Preparation	108.4	195.3
Appraisal/Negotiation	84.7	171.9
Supervision	114.3	267.1
ICR	5.0	17.0
Total	312.4	651.3

Mission Data

	Date (month/year)	Count	Specializations represented	Performance rating Impl. Progress	Dev. Obj.
Identification/ Preparation	08/85	N/A			
	10/85	N/A			
	05/86	1	Economist		
	06/87	2	Economist; Urban Specialist		
	12/87	2	Economist; Institutional Development Specialist		
	03/88	3	Economist; Urban Specialist; Sanitary Engineer		
	09/88	4	Economist; Urban Specialist; Sanitary Engineer; Institutional Development Specialist		
Appraisal/ Negotiation	09/89	3	Sanitary Engineer; Urban Specialist; Economist		
	12/89	5	Sanitary Engineer; Urban Specialist; Institutional Development Specialist		
	07/90	1	Sanitary Engineer		
	10/90	2	Urban Specialist, Economist		
Supervision	03/92	2	Municipal Engineer; Urban Specialist	HS	S
	10/92	3	Institutional Development Specialist; Urban Specialist; Water Engineer	S	S
	06/93	3	Institutional Development, Urban Specialist; Water Engineer	S	S
	02/94	3	Economist, Sanitary Engineer, Water Engineer	S	S
	09/94	3	Economist, Sanitary Engineer, Water Engineer	S	S
	04/97	2	Economist, Urban Specialist	S	S
	11/97	3	Economist; Urban Specialist; Municipal Engineer	S	S
	10/99	3	Municipal Engineer; PE; Sanitary Engineer	S	S
	06/00	3	Economist; PE; Sanitary Engineer	S	S
ICR	08/00		Economist; Sanitary Engineer	S	S

URBAN INFRASTRUCTURE SERVICES DEVELOPMENT PROJECT (LOAN 4345-CO)

Key Project Data *(amounts in million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	125.0	97.85	78%
Loan amount	75.0	48.85	65%
Cofinancing	-	-	-
Cancellation	-	26.15	-

Project Dates

	Original	*Actual*
Appraisal Mission	05/21/1998	05/21/1998
Board approval	06/11/1998	06/11/1998
Signing	07/31/1998	07/31/1998
Effectiveness	11/03/1998	12/22/1998
Closing date	06/30/2003	06/30/2004

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	N° Staff weeks	*(thousands of US$)*
Identification/Preparation	69.5	192.5
Appraisal/Negotiation	25.9	81.4
Supervision	61.4	294.3
ICR	8.3	101.5
Total	103.7	669.7

Mission Data

	Date (month/year)	Count	Specializations represented	Performance rating Implem. Porgress	Dev. Objective
Identification/ Preparation	05/12/1997				
Appraisal/ Negotiation	05/21/1998				
Supervision	10/16/1998	3	Team Leader (1); Engineer (1); Operations Assist. (1)	S	S
	06/17/1999	2	Task Manager (1); Projects Officer (1);	S	S
	03/30/2001	4	Consultant (1); Senior Economist (1); Lead Urban Specialist (1); Projects Officer (1)	U	U
	04/10/2003	2	Task Manager (1); Financial Analyst (1)	S	S
	10/03/2003	2	Task Manager (1); Financial Specialist (1)	S	S
	03/13/2004	3	Task Manager (1); Former Task Manager (1); Consultant (1)	S	S
ICR	08/17/2004	3	Task Manager (1); Financial Specialist (1); Consultant (1)	S	S
	11/15/2004	3	Task Manager (1); Financial Specialist (1); Consultant (1)	S	S

FINDETER
Financiera de Desarrollo Territorial S.A.

Bogotá D.C, Junio 12 de 2006

300-03-00108

BANCO MUNDIAL
Misión residente en Colombia
2006 JUN. 16
RECIBIDO

Doctor
MIGUEL LOPEZ-BAKOVIC
Representante Residente
Banco Mundial

ASUNTO: Colombia: Programa de Desarrollo Municipal – PDT (Préstamo No. 3336-CO); Proyecto de Infraestructura Urbana (Préstamo No. 4345-CO); Evaluación sobre los resultados de los proyectos

Apreciado Doctor López:

Hemos recibido su oficio fechado el pasado 10 de mayo de 2006 en el cual nos adjuntan una versión preliminar del Informe de Evaluación de los proyectos del asunto.

Al respecto nos permitimos adjuntar nuestros comentarios frente a dicho informe, como anexo al presente documento, y agradecemos que la versión final del mismo sea remitida a FINDETER.

Sin más particulares por el momento, nos suscribimos de usted.

Atentamente,

MATEO DE LOS RIOS VELEZ
Vicepresidente Financiero y de Operaciones

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FINDETER

PROGRAMA DE DESARROLLO MUNICIPAL PDT
PROYECTO DE INFRAESTRUCTURA URBANA.
COMENTARIOS ACERCA DE LOS RESULTADOS DE LOS PROYECTOS IMPLEMENTADOS POR EL BANCO MUNDIAL A TRAVÉS DE FINDETER.

Proyectos por analizar:

PROYECTO DE DESARROLLO MUNICIPAL
Cuantía del préstamo: US$60 Millones, el 30 de Mayo de 1991.

PROYECTO DE DESARROLLO DE SERVICIOS DE INFRAESTRUCTURA
Cuantía del préstamo: US$75 Millones, el 11 de Junio de 1998.

ANÁLISIS Y COMENTARIOS

Al observar los resultados arrojados por la Evaluación Ex post realizada por el banco Mundial, respecto a los proyectos de desarrollo municipal y de servicios de infraestructura, ejecutados con los recursos provenientes de su línea de crédito; es para nosotros importante, presentar algunos comentarios que permitan sentar posición, respecto a los alcances y contribución realizadas con estos proyectos.

Inversión Socioeconómica

La capacidad expansiva generada con la implementación de políticas de inversión, por parte de las entidades gubernamentales e intergubernamentales, ha permitido a los organismos encargados de su ejecución, focalizar acciones de optimización productiva en sectores y en áreas especialmente sensibles. Esta optimización sectorial, genera alternativas de crecimiento, al promover la creación de empleo y mejorar los indicadores de distribución del ingreso y calidad de vida de la población.

Al observar el caso de los proyectos de desarrollo municipal y de servicios de infraestructura desarrollados por Findeter, a través de la línea de crédito del Banco Mundial; esta situación no se hace particularmente distinta.

Los resultados alcanzados en términos institucionales y de gestión estuvieron por encima de las expectativas presentadas al inicio de la ejecución de los proyectos. Tal es así, que esta evaluación arroja resultados inesperados –en términos positivos- que contribuyen a potencializar el alcance de estos recursos.

FINDETER

En el mismo sentido, y pese a ser proyectos realizados en períodos y con objetivos particularmente distintos, los resultados generales fueron satisfactorios; esto, pese a una dinámica económica compleja y a unas condiciones de mercado difíciles para cualquier operador.

Fortalecimiento del Mercado de Crédito

De las observaciones encontradas con esta evaluación, se resalta la poca disposición para fortalecer el mercado de crédito local.

Hasta el día de hoy, se han venido presentado mejoras sustanciales, tanto la calidad del crédito ofrecido por los distintos agentes financieros, como en su disposición a los operadores locales. Esto obedece, al establecimiento de una mayor gestión administrativa y de control en la ejecución de recursos por parte del gobierno central; sumado a las mejores condiciones macroeconómicas copresentes en la actualidad.

La contribución realizada por Findeter para el logro de este objetivo, ha radicado en el aumento de los servicios de redescuento y de administración de recursos; lo que amplia nuestro espectro a aquellos agentes de naturaleza privada. Con ello, hemos logrado aumentar las opciones de inversión en distintos niveles, logrando consolidar nuestra gestión institucional con perspectiva de futuro.

En el mismo sentido, hemos modificado nuestras responsabilidades frente a las contraídas en ese período; separando la administración de los programas de donaciones de contrapartida del Gobierno, de nuestra agenda. Esto, ha redundado en la consolidación de los indicadores socioeconómicos, perfilando a nuestra entidad como una de las más importantes en materia de generación de beneficios a nivel productivo.

De esta forma, y dado que los resultados presentados fueron satisfactorios, según esta valoración, Findeter continua generando instrumentos técnicos y financieros que permiten facilitar la realización de proyectos para el mejoramiento de la calidad de vida de la población; contribuyendo al mismo tiempo al logro de los propósitos y mandatos institucionales emitidos a escala gubernamental.

Finalmente, es para nosotros de suma importancia observar que los objetivos planteados en estos proyectos, respecto a la generación de valor agregado, han sido llevados a cabo mediante la prestación de nuestros servicios.

FINDETER

Esperamos con esto, seguir contribuyendo, al cumplimiento de las metas organizacionales y misionales generadas por el Banco Mundial, ya que tienen relación directa con el objeto social que hemos desempeñado durante más de 15 años.

[English translation of Borrower Comments]

FINDETER

Bogotá, June 12, 2006 30-03-00108

Dr. Miguel Lopez-Bakovic

Resident Representative

World Bank

SUBJECT: Colômbia: Municipal Development Project (Ln.3336-CO); Urban Infrastructure Services Development Project (Ln.4345-CO)

Dear Dr. Lopez:

We have received your letter dated May 10, 2006 to which you attached a draft evaluation report (PPAR) of the above projects.

With regard to this, please allow us to add our annexed comments upon this report. We would appreciate the final version being sent to FINDETER.

We remain sincerely yours,

[Signed]

Mateo de los Rios Velez

Financial and Operational Vice-President

MUNICIPAL DEVELOPMENT PROJECT

URBAN INFRASTRUCTURE SERVICES DEVELOPMENT PROJECT.

COMMENTS ON THE RESULTS OF THE PROJECTS IMPLEMENTED BY THE WORLD BANK THROUGH FINDETER

Projects evaluated:

MUNICIPAL DEVELOPMENT PROJECT

Loan amount: US$60 million, May 30, 1991

URBAN INFRASTRUCTURE SERVICES DEVELOPMENT PROJECT

Loan amount: US$75 million, June 11, 1998

ANALYSIS AND COMMENTS

In noting the results of the ex-post evaluation undertaking by the World Bank of these two projects funded by Bank loans, it is important for us to present some comments to establish our position regarding their achievements and contributions.

Socio-economic Investments

Capacity building through implementing investment policies of government and inter-governmental entities has permitted executing agencies to focus upon actions to optimize productivity in sectors especially in sensitive areas. This sectoral optimization generates alternatives of growth, in promoting employment creation and improvements in indicators of income distribution and the quality of life of the population.

In looking at these two projects developed by FINDETER with Bank funding, their situation is not especially different.

The results achieved in institutional and management terms were greater than expected at the beginning of project implementation. Thus, the evaluation found unexpected results—positive ones—that contributed to making the best use of the resources available.

In the same way, in spite of being projects undertaken at different times with particularly distinct objectives, the general results were satisfactory. This was so in spite of a complex economic dynamic and some market conditions that were difficult for any operator.

Strengthening the Credit Market

From the observations found in this evaluation, the limited disposition to strengthen the local credit market is highlighted.

Up to the present time, there have been substantial improvements in the quality of credit offered by different financial intermediaries and in the disposition of local operators. This result follows the establishment of greater administrative and financial control in the use of resources by central government, as well the better macro-economic conditions at present.

FINDETER's contribution to achieving this objective is rooted in the increase of the services of rediscounting and resource management, broadening the scope to include private sector intermediaries. With this we have managed to increase the options for investment at various levels, thereby consolidating and institutional management with a perspective for the future.

In the same way, we have modified our responsibilities, compared with those given us at the time of the projects, through separating the management of Government grant-funded programs on our agenda. This had a bearing upon the improving socio-economic indicators, shaping our entity (FINDETER) as one of the most important with respect to generating benefits at the level of production.

In this way, and given that the demonstrated results were satisfactory, according to the Bank's evaluation, FINDETER continues to develop technical and financial instruments that facilitate the implementation of projects to improve the quality of life of the population, contributing at the same time to the achievement of the government's institutional purpose and mandate.

Finally, it is of great importance for us to observe that the objectives formulated for these two projects, with respect to their value added, have been fulfilled through the provision of our services.

We hope with this to continue contributing to the organization and mission goals generated by the World Bank, given that these goals are directly related to the social objective we have followed for more than 15 years.

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