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INTERNATIONAL FINANCE CORPORATION

COUNTRY ASSISTANCE STRATEGY PROGRESS REPORT

FOR

THE REPUBLIC OF COLOMBIA

FOR THE PERIOD FY03-FY07

September 9, 2005

Colombia & Mexico Country Management Unit
Latin America and the Caribbean Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective August 23, 2005)

Currency Unit	=	Colombian Peso (COP)
2,304 COP	=	US\$1
1 COP	=	US\$0.000434

FISCAL YEAR

July 1 – June 30

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

AAA	Analytic Advisory Activity	IDP	Internally Displaced Population
AML	Anti-Money Laundering	IFC	International Finance Corporation
APL	Adaptable Program Lending	IGR	Institutional Governance Review
CAF	The Andean Development Corporation (<i>Corporación Andina de Fomento</i>)	IMF	International Monetary Fund
CAS	Country Assistance Strategy	IP	Implementation Progress
CASPR	Country Assistance Strategy Progress Report	LA	Latin America
CEA	Country Environmental Analysis	LIL	Learning and Innovation Loan
CEM	Country Economic Memorandum	MAFP	Public Financial Administration Modernization (<i>Modernización de la Administración de las Finanzas Públicas</i>)
CFAA	Country Financial Accountability Assessment	MDGs	Millennium Development Goals
CFT	Combating the Financing of Terrorism	M&E	Monitoring and Evaluation
CHMC	Colombian Housing Mortgage Corporation	MHCP	Ministry of Finance and Public Credit (<i>Ministerio de Hacienda y Crédito Público</i>)
CICP	Public Credit Interparliamentary Commission (<i>Comisión Interparlamentaria de Crédito Público</i>)	MIGA	Multilateral Investment Guarantee Agency
COINCO	Intersectoral Contracts Commission (<i>Comisión Intersectorial de Contratos</i>)	NGOs	Non-Government Organizations
CPAR	Country Procurement Assessment Report	OED	Operations Evaluation Department
CPPR	Country Portfolio Performance Review	PCF	Prototype Carbon Fund
DFID	Department for International Development	PER	Public Expenditure Review
DNP	Departamento Nacional de Planeación	PFM	Public Financial Management
DO	Development Objective	PIUs	Project Implementation Units
DPL	Development Policy Lending	PLaRSSAL	Programmatic Labor Reform and Social Structural Adjustment Loan
ELN	National Liberation Army (<i>Ejército de Liberación Nacional</i>)	QAG	Quality Assurance Group
ESSD	Environmental S Sustainable Development	RBM	Results-Based Management
ESW	Economic and Sector Work	REDI	Recent Economic Developments in Infrastructure
FARC	Revolutionary Armed Forces of Colombia (<i>Fuerzas Armadas Revolucionarias de Colombia</i>)	SBA	Stand-By Agreement
FDI	Foreign Direct Investment	SIIF	Integrated Financial Management System (<i>Sistema Integral de Información Financiera</i>)
FINDETER	Financiera de Desarrollo Territorial (<i>Financial Territorial Development</i>)	SIL	Specific Investment Loan
FIAL	Fiscal & Institutional Adjustment Loan	SINERGIA	National Evaluation System of Public Sector Performance (<i>Sistema Nacional de Evaluación de Resultados</i>)
FM	Financial Management	SMEs	Small & Medium Enterprises
FOGAFIN	Financial Guarantee Fund (<i>Fondo de Garantías Financieras</i>)	STA	Stand-By Agreement
FPSI	Finance, Private Sector & Infrastructure	TAL	Technical Assistance Loan
FSAL	Financial Sector Adjustment Loan	UN	United Nations
FTA	Free Trade Agreement	UNDP	United Nations Development Program
FY	Fiscal Year	US	United States
GDP	Gross Domestic Product	USAID	US Agency for International Development
GDLN	Global Distance Learning Network	VAT	Value Added Tax
GEF	Global Environment Facility	WBI	World Bank Institute
GOC	Government of Colombia		
IBRD	International Bank for Reconstruction & Development		
IDB	Inter-American Development Bank		

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**THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND THE INTERNATIONAL FINANCE CORPORATION
COUNTRY ASSISTANCE STRATEGY PROGRESS REPORT
FOR COLOMBIA FOR 2003-07**

I. COUNTRY CONTEXT

A. INTRODUCTION

1. The general outlook in Colombia is positive. While peace is still not certain, security conditions have improved significantly, generating greater public confidence, enhanced investor activity and higher economic growth. After a sharp contraction in 1999 reversed years of progress in reducing poverty, the economy has been growing strongly since 2002, with private investment rebounding to pre-crisis levels of 12 percent of GDP in 2004. Unemployment is at its lowest in six years and poverty levels, while still very high, are decreasing. Furthermore, the Government has succeeded in reaching demobilization agreements with guerrilla fighters and illegal self-defense forces¹ after years of previous failures.

2. Nevertheless, stretched by the costs of the violence and of statutory obligations such as public pension payments, the Government has had to be vigilant about restraining public spending and keeping public debt under control. After a very promising start and despite the Government's gains in other areas, the Uribe administration has faced weakened political support for adopting the full set of measures needed to address pressing structural issues. This has slowed the pace of reform, though the Government has recently been able to advance in some key areas such as pension reform and has also made progress across a broad spectrum of public policies geared toward achieving Colombia's Millennium Development Goals.

3. This Country Assistance Strategy (CAS) Progress Report documents the progress achieved in implementing the Bank's FY03-06 CAS, presented to the Board on December 24, 2002, and proposes a strategy for consolidating the Bank's partnership with Colombia over the coming two years (FY06-FY07). The report begins with an overview of the country context, assessing the economic, political and social changes that have taken place in the first half of the administration of President Uribe and expectations for the second half of its term. The report then outlines the partnership's further objectives and the Bank's program to support Colombia during the remainder of the CAS period. The document was prepared by a joint IBRD and IFC team, and includes inputs from MIGA. The proposed changes to the strategy have been discussed with the Colombian authorities and also reflect discussions with representatives of the business community, civic organizations, and development partners.

B. POLITICAL DEVELOPMENTS

4. **At the time that the current CAS was discussed in late 2002, the Colombians had just elected Alvaro Uribe with 53 percent of the popular vote.** This gave him the political momentum he needed to pass essential but unpopular reforms aimed at improving security and

¹ Illegal self-defense force is the official term used by the authorities; these groups have also been commonly referred to as paramilitaries or paramilitary forces.

socioeconomic conditions. With rising unemployment and poverty levels and with internal violence expected to intensify, the President needed to act quickly. The Bank's CAS was approved in response to the new Government's request for rapid assistance to implement an ambitious reform agenda.

5. When the new administration took office in 2002 the lack of peace and security was the most important issue facing Colombia as a nation. The country had been embroiled in a violent struggle for over 40 years, pitting the Government against well-armed guerilla organizations—the FARC and ELN—and a growing illegal self-defense force. Hundreds of thousands of citizens had lost their lives or homes in the violence, and large parts of the country were insecure. After nearly four years of effort by the Pastrana administration (1998-2002) to negotiate a peaceful solution, including the creation of a large demilitarized zone, little progress was made towards a lasting cease fire or agreement on viable negotiations agendas. Instead, violence and guerrilla warfare had increased over a decade.

6. The ongoing violence had taken an enormous toll on the economy and Colombian society. The FARC and the growing illegal self-defense groups were heavily funded by the cocaine trade (with Colombia producing a large share of the global cocaine supply), while the ELN and FARC were responsible for much of Colombia's notorious kidnapping. Over 100,000 people had died as a direct result of fighting in the last two decades, and another two million had lost their jobs, homes, and land. In addition, a million citizens, among them many of the best educated, had left the country altogether. Violence had been estimated to cost some 2 percentage points of GDP each year: the average Colombian income would have been 50 percent higher had the fighting stopped 20 years ago. Internal violence had dampened investment, and led to huge revenue losses—with sabotaged pipelines alone reducing government income by US\$500 million per annum.

7. Since coming to office in August 2002, President Uribe's approval rating has averaged over 70 percent, due largely to his success in improving security and economic growth. Improvements in the security situation include significant reductions in kidnappings, violent crime, and in the number of people displaced. In 2003, the President started negotiations with illegal self-defense groups and by 2004 a total of nearly 6,000 troops had been demobilized and reincorporated into civil society. The current number of demobilized stands at 12,000; 60 percent are individual demobilizations from the FARC and ELN while 40 percent are group demobilizations from the illegal self-defense forces. These successes have led to increased investor confidence, a return of capital that had previously left the country and an appreciable improvement in key social and economic indicators, as described in Box 1 below.

Box 1. Improvements in Security and Socio-Economic Indicators Since 2002.

- Colombia's homicide rate is the lowest in 19 years; decreasing by 33 percent between 2002 and 2004;
- Kidnappings were the lowest in a decade in 2004; a drop of nearly 50 percent from the previous year;
- Guerilla attacks on municipalities decreased by 80 percent from 2003 to 2004;
- The number of displaced families dropped from almost 50,000 families in 2003, to 35,000 in 2004;
- In 2002, 246 mayors left their municipalities after threats from violent groups. In 2003, 191 of them returned;
- The number of Colombians living below the poverty line declined by over 5 percentage points from 2002 to 2004 (to 52.6%);
- Over 1.4 m people moved out of poverty between 2002-2004, reducing the number of poor to approximately 23 million;
- Over 1.5 million moved out of *extreme* poverty between 2002-2004;
- Unemployment in 2004 was the lowest in six years;
- Inflation declined to 5.5 percent in 2004—the lowest in 30 years.

Source: Government of Colombia (Ministries of Education, Social Protection, National Planning, Defense), National Police, Red de Solidaridad Social, DANE and MERPD (Misión para el Diseño de una Estrategia para la Reducción de la Pobreza y la Desigualdad).

8. **Despite these achievements on the economic and security fronts, the administration has also faced some setbacks.** President Uribe's consistently high public approval ratings have not always brought success in passing reforms through Congress, where he holds a somewhat loose multi-party coalition. The inflection point in this administration came in 2003 when the public, in a national referendum, failed to agree to a constitutional amendment to close the deficit by mandated public expenditure reductions. This unanticipated defeat slowed or derailed a number of economic reforms, exacerbated by Constitutional Court setbacks in implementing economic policy changes.

9. **Another more recent event affecting the political atmosphere has been Mr. Uribe's bid to change the Constitution in order to allow him to run for re-election** when his term ends in 2006. This move has generated considerable debate within the country and has drawn some attention away from the administration's reform agenda. Though approved by Congress, the re-election bill still needs to be ratified by the Constitutional Court. A decision is expected by the third quarter of this year.

10. **The government intends to continue to advance key structural fiscal reforms.** Its main challenge will be to consolidate the reduction of its fiscal deficit and public debt. While the reform of the budget code was not approved in the last congressional session, a constitutional amendment to the pension regime did pass in June 2005². This amendment is expected to reduce the net present value of pension liabilities some 19 percentage points of GDP. Other reforms recently approved include the Capital Markets Law, Investor Confidence Law, Justice and Peace Law, a Securities Law which modernizes regulations applied to the securities market and a law to reduce the red tape associated with setting up new businesses. The significant drop in the fiscal deficit in 2004, due to external factors, has also influenced the pressure to reform. Further progress on reforms to reduce fiscal pressures is not expected until after the presidential elections in April 2006.

11. **Negotiations with illegal self-defense forces are expected to continue.** President Uribe has always stated that violence is a long-term challenge that can't be completed by one administration. Realistically, no solution can be expected in the near future and continued efforts by future administrations will be required. However, the security gains achieved in the past two years are unlikely to evaporate.

C. RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

12. **The Colombian economy has improved substantially since the CAS period began in 2003,** but underlying economic and fiscal vulnerabilities remain. The main challenge for Colombia is to solidify recent gains and advance the reform agenda to ensure sustainable growth.

13. **Real GDP growth has improved in the last two years,** rising to 4 percent in 2003 and 2004, after a decade of near-stagnation. As the economic expansion has taken hold, unemployment declined from 17 percent in 2002 to 12 percent in 2004. This recovery has been driven by improved security with attendant increases in investment and by output gains in the

retail, construction and industrial sectors. Total (public and private) investment increased from 14.8 percent of GDP in 2002 to 18.8 percent of GDP in 2004.

14. **The Government expects continued real GDP growth of 4 percent in 2005.** With only modest prospects for improvement in the factors underlying domestic demand (employment, internal peace, investment and credit), GDP is expected to grow around 4 percent for the next three years, but will depend on the success of Colombia's fiscal adjustment efforts, the strength of global economic expansion and the direction of global interest rates and oil prices.

Table 1. Key Economic Indicators

	2002	2003	2004	2005	2006	2007
Real GDP (%)	1.9	4.0	4.0	4.0	4.0	4.0
Inflation (%)	7.0	6.5	5.5	4.5	3.5	3.0
Current Account Balance (% of GDP)	-2.0	-1.5	-1.1	-2.7	-2.7	-2.6
NFPS Balance (% of GDP)	-4.1	-3.2	-1.4	-2.4	-2.1	-2.0
Primary Balance	0.4	1.7	3.4	2.7	2.7	2.7
Investment (% of GDP)	14.8	15.5	18.8	16.5	16.4	17.5
Public sector	7.6	8.5	8.0	7.2	6.8	6.7
Private sector	7.2	7.0	10.8	9.3	9.6	10.8

Source: Ministerio de Hacienda

15. **Inflation continues to decline.** Consumer price inflation declined to 5.5 percent in 2004—the lowest level in 30 years—and it is expected to decline to 4.5 percent by the end of 2005. Further gradual declines are anticipated in the coming years with the continuation of the Central Bank's inflation targeting framework.

16. **A new US\$613 million Stand-by-Agreement between Colombia and the IMF was signed at the end of April** to cover the next 18 months (until October 2006) so as to cover the transition to a new government. The agreement will be treated as precautionary, as a transition to the end of further IMF support.³

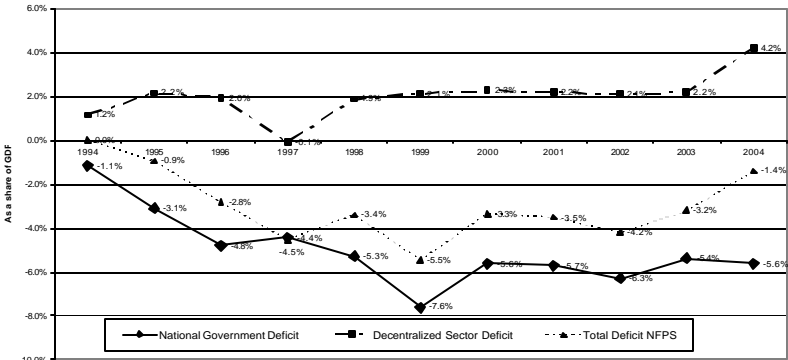
17. **Trade has expanded rapidly.** Merchandise exports have grown by a cumulative 40 percent over 2003-2004, largely as a result of oil sales and the global economic expansion that began in 2002. Increasing consumption has been accompanied by a growing demand for imports, with merchandise imports growing by a cumulative 31 percent over 2003-2004. The current account deficit declined slightly to about 1 percent of GDP in 2004 from 1.2 percent in 2003. The new IMF program foresees an expansion of the current account deficit to 2.7 percent of GDP during 2005 with a reversal in the trade balance. As of May, however, the trade balance remains positive. The real effective exchange rate appreciated by 4 percent over the 2002-2004 period. International reserves have been stable in recent months following increases during late 2004 and early 2005.

18. **Fiscal management has been characterized by both substantial progress and remaining challenges.** Overall fiscal performance has been much better than anticipated at the start of the CAS period. The combined public sector fiscal deficit decreased from 3.7 percent of GDP in 2002 to just over 1.3 percent in 2004—well below the IMF standby target of 2.5 percent. However, the central government deficit was 5.6 percent of GDP, up from 5.4 percent in 2003,

³ In January 2003, the IMF approved a two year Stand-By Agreement of US\$2.3 billion. The government treated the arrangement as precautionary and did not draw on it. Colombia met and exceeded the program's targets

and is expected to rise to 6.1 percent in 2005 (Figure 1). The combined public sector deficit was much smaller than the central government deficit because the former incorporates substantial budget surpluses in three categories: subnational governments, state-owned enterprises, and the social security system. Initial figures for the first quarter of 2005 suggest that the central government's budget deficit was 2.2 percent, compared to 1.7 percent during the same period last year. The increase was primarily due to an acceleration of the execution of the investment budget and does not necessarily jeopardize the target for the year of a 6.1 percent central government deficit (or a consolidated government deficit of 2.5 percent agreed to with the IMF) as long as spending slows during the rest of the year.

Figure 1. Fiscal Deficit of the Non Financial Public Sector, 1994-2004 (2004 is projected)



Source: Ministerio de Hacienda

19. **The Uribe Administration has made some progress on the revenue front.** In December 2002, Law 788 was approved, a reform supported by the Bank under the FIAL program;⁴ this was followed in December 2003 by Law 863.⁵ These laws helped generate an increase in revenue of 0.7 percent of GDP in 2003 and a further 1.1 percent of GDP in 2004—albeit at the price of certain distortions in the tax system.⁶ Efforts have been made to contain expenditures following the defeat of the 2003 referendum, however about 96 percent of the budget is earmarked, thus making it difficult to adjust spending. The two main areas of substantial structural expenditure increase were the transfers to sub-national governments and to the pension system. Efforts are underway to address both:

- **A 2001 constitutional reform began the process of putting subnational transfers on more sustainable path, but it is not complete.** Prior to the reform, transfers to states had grown from less than 2 percent of GDP in 1997 to nearly 6 percent in 2002. The reform capped the growth rate of transfers temporarily, but is set to expire in 2009 implying that transfers could jump from 5.1 percent to over 7 percent of GDP in that year if current rules are not amended.⁷

⁴ Fiscal Institutional Adjustment Loan (FIAL).
⁵The law eliminates some VAT exemptions and expands the VAT tax base, reduces income tax wage exemptions, and phases out corporate tax exemption for various capital gains.
⁶The main distortions are from temporary measures—the surtax on corporate income tax and the wealth assessment—and from the tax on financial transactions.
⁷ This estimate assumes that fiscal revenues do not decline by 2008. However, under the current tax code there are some taxes and provisions that are set to be eliminated by 2008, which, if not replaced, will imply a revenue decline of slightly more than 0.5

- **Although Colombia's pension system underwent reform in 1993, it still requires large central government transfers to remain solvent.**⁸ In June 2005, the Congress passed a constitutional amendment designed to improve the sustainability of the pensions system.⁹ Although the amendment was weakened somewhat prior to passage, these measures could reduce pension system liabilities from 162 percent of GDP to about 143 percent.

20. **In summary, although its fiscal stance is much improved compared with two years ago, Colombia's situation is still vulnerable.** Improvements in 2004 can be attributed mainly to the favorable external environment, in particular to high oil prices, low interest rates and global growth, but there have also been capital inflows that substantially appreciated the peso, as well as an increase in the surpluses of subnational governments. For the central government's fiscal balance to be sustainable in the medium to long-run, the authorities cannot be complacent even in the midst of a better than expected fiscal outturn in 2004. Continued fiscal reforms are necessary to ensure long-term fiscal and debt sustainability and reduce near-term vulnerabilities to changes in market sentiment.

Debt Sustainability¹⁰

21. **The debt dynamics and country risk factors suggest that financing risks are manageable under most scenarios,** including a replay of the 1998-2001 crisis, provided the country takes the necessary steps to sustain primary surpluses of 2.5 to 3 percent. Nonetheless, the next two years will be challenging and the government will need to remain committed to continued fiscal reforms.

22. **The Colombian government has acknowledged the importance of designing and implementing a clear strategy for public debt management aimed at reducing both market risks and costs of funding.** Foreign exchange risk still remains a significant source of vulnerability, with 38 percent of Colombia's total central government debt denominated in foreign currency.

23. Under a hypothetical confluence of adverse economic shocks this year—a 30 percent devaluation, a 200 basis point hike in interest rates across the yield curve, and a fall in real GDP growth to about -2 percent—Colombia's public debt to GDP ratio would rise to around 60 percent by 2007. This certainly would put considerable fiscal pressure on the government, but it is not explosive and could be contained by maintaining a primary balance of 2.1 percent of GDP—within the historical experience of Colombia. Colombia's prior history of prudent fiscal and monetary policy, its US\$13 billion in international reserves, lack of debt defaults or restructuring in over 60 years, floating exchange rate and strong political and economic support

percent of GDP. If the overall revenue falls, then transfers to the regions would be slightly over 6 percent of GDP by 2009, instead of the 7 percent estimated above.

⁸ Law 100 addressed issues of low contributions and generous retirement benefits; however, it did not take into consideration demographic changes and increased some of the costs of the pension system.

⁹ Among its key elements are the following: (i) the Constitution requires that the pensions system be financially sustainable; (ii) special regimes are to be eliminated; (iii) pension issues may not be part of any collective bargaining agreements; (iv) the '14th month' salary will be abolished for all new retirees that earn more than 3 times the minimum salary and, beginning in 2011, for those earning less than 3 times the minimum salary; and (v) a cap equivalent to 25 minimum wages will be placed on individual pension entitlements for those retiring with less than 14.4 years in government service.

¹⁰ See Annex C1 for a fuller analysis of Colombia's debt sustainability and Annex C2 for a description of the Government's debt management strategy.

from the United States and other bilateral and multilateral creditors suggest the country could be expected to maintain its creditworthiness in the event of a near-term crisis—provided it maintains fiscal restraint.¹¹

D. POVERTY REDUCTION AND THE MDGs

24. **In 2004, the Government launched an initiative to develop a “National Strategy for Poverty Reduction and Inequality in Colombia”** intended to lay out a long-term vision for fighting poverty through year 2020. This strategy will provide an updated analysis of poverty and inequality in the country and is expected to cover, among other issues, the following: (i) macroeconomic policy; (ii) labor policy; (iii) international trade agreements; (iv) land ownership; (v) rural poverty; (vi) social protection; (vii) internal violence (viii) natural disasters and the environment; and (ix) housing for the poor. This effort is being led by the Department of National Planning and assisted by the World Bank and other bilateral and multilateral agencies (e.g., UNDP, IDB, DFID). The Government hopes this strategy paper will stimulate public dialogue on poverty issues and eventually create an overarching framework for policy interventions and future donor support.

25. **The Millennium Development Goals were the benchmark to be used for assessing the progress of this CAS.** The MDG table in Annex C3 shows that Colombia is *ahead* of the world average for all seven MDG global targets except for poverty and education (where it is equal to the world average) and *on track* in achieving its national MDGs in all categories except maternal health.

¹¹ The fact that Colombia has had such a long history without debt defaults or restructuring (unlike many other countries, it sidestepped the 1980s debt crisis and was one of the few Latin American countries never to require Paris Club agreements), and the fact that it has avoided dependence on inflation financing, suggest that the market may be tolerant of a transitory spike in debt. Moreover, although some other Latin American countries before their crises had debt stocks (as a share of GDP) comparable to Colombia, the compositions were quite different. Most of their debt was denominated in foreign currency, and had a fixed exchange rate, while less than half of Colombia’s debt is denominated in foreign currency, and its exchange rate floats. Several of these countries had also experienced negative growth for several years prior to its crisis, while Colombia has been growing by almost 4 percent over the last two years. In comparison with Mexico in 1994, before its financial crisis Colombia had a very small percentage of short-term debt.

II. WORLD BANK GROUP ASSISTANCE STRATEGY

A. PROGRESS IMPLEMENTING THE CAS

26. **The strategy and instruments laid out in the 2002 CAS remain valid in today's context.** This core of the strategy is to support Colombia's quest for peace and it is implemented through three pillars: (i) achieving fast and sustainable growth; (ii) sharing the fruits of growth; and (iii) building efficient, accountable and transparent governance.

27. Assistance has been centered around four programmatic development policy loans to support the government's reform agenda in the fiscal, financial, environmental and social sectors.¹² Complementing this, the Bank has also provided investment lending and grants in education, water, transportation infrastructure, rural development, renewable energy, urban services, assistance for forcibly displaced populations, and environment and natural resource management. Development policy lending totaled US\$1,350 million while investment lending was US\$957 million.¹³

28. Analytical and Advisory Activities (AAA) have addressed broad themes—as with the 2004 Public Expenditure Review (PER), the CPAR, CFAA, CEM—and have also covered areas directly linked to investment lending (e.g. studies on Agricultural Competitiveness, Land Policy, Rural Finance, and Recent Economic Developments in Infrastructure).

29. **CAS implementation has been very good and the Bank's overall assessment of Colombia's progress is positive.** Colombia's economic performance and progress on policy reforms have allowed the country to remain in a high-case scenario. The Bank's decision to provide significant upfront support has been recognized as an important factor in helping the new administration sustain momentum for its ambitious reform program during a very critical period.

30. **Lessons learned during CAS Implementation.** One of the issues raised by the Colombian authorities during annual Country Performance Portfolio Reviews (CPPRs) was that Bank restrictions on the types of project expenditures it can finance created unnecessary inefficiencies with few obvious benefits. In 2004 Colombia became the first country to implement the Bank's new Expenditure Eligibility Policy, which allowed the Bank to finance 100 percent of expenditures, including previously excluded taxes and recurrent costs—an advance very much appreciated by the Colombian authorities and project staff.¹⁴

31. **Another challenge discussed in the annual portfolio review was the unpredictable pace of the reform** process as well as delays in securing parliamentary committee approval for

¹² Respectively these are the Fiscal and Institutional Adjustment loan series (FIAL), the Financial Sector Adjustment Loans I & II (FSAL) the Programmatic Development Policy Loan for Sustainable Development (SusDevDPL) and the Programmatic Labor Reform and Social Structural Adjustment (PLaRSSAL) loan series.

¹³ This comprises a 59% to 41% ratio of policy to investment lending. The 50:50 ratio envisioned when the CAS was endorsed in 2002 was subsequently modified to allow up to 60 percent for development policy lending in order to respond better to the needs of the borrower.

¹⁴ This policy was introduced with the Board's approval of two new operations in FY05; Peace and Development and Integrated Mass Transport.

proposed Bank operations.¹⁵ This led the Bank and Government to make concerted efforts to engage with Congress more actively, beginning with an influential seminar for parliamentarians hosted by the Bank and the Ministry of Finance in March 2005.¹⁶

32. The uncertainty related to the pace of reform and parliamentary approval for Bank operations created difficulties in managing the pipeline and led to one of the main lessons of this CAS period; **in order to implement a lending program that best addresses Colombia’s needs as a creditworthy middle income country, the Bank needs the flexibility to be able to respond quickly to changing circumstances.** It has been crucial to be able adjust the size and timing of policy loans in response to the *actual* vs. *expected* pace of reforms, (all adjustments fell within the CAS strategy and lending envelope). For example, when the fourth loan of the FIAL series was cancelled due to unanticipated delays in securing congressional approval for key reforms, the Bank’s support was increased for operations in other sectors where reforms had moved ahead more quickly than initially expected (DPLs for labor/social sector reform and business efficiency/competitiveness).

33. Another related lesson emerging over this CAS period is that managing the portfolio on the basis of exposure limits is much more efficient and effective than managing on the basis of a strict ratio for adjustment vs. investment lending. Key issues discussed during the 2004 CPPR are summarized below.

Table 2. CPPR Action Plan

Thematic Issues	Agreements
Fiscal Space & Cash Flow	<ul style="list-style-type: none"> • New parameters for financing investment projects approved; • Continue meetings between the Bank, MHCP and DNP to discuss fiscal space.
Interparliamentary Commission	<ul style="list-style-type: none"> • An overall view of the Bank and its value-added as a multilateral organization will be presented to members of the Interparliamentary Commission.
Special Accounts	<ul style="list-style-type: none"> • New operations may have special account; • Three pilot projects under implementation will be evaluated to assess if having a special account has an impact on their performance; • Projects still not in SIIF¹⁷ should be included immediately; MHCP will continue efforts to guarantee that SIIF is ready to be implemented; • Special accounts will be concentrated at Banco de la República.
PIUs	<ul style="list-style-type: none"> • The Bank supports the Government’s policy to phase out PIUs and internalize project implementation within Government Ministries.
Funds Administrators	<ul style="list-style-type: none"> • Strengthen the institutional capacity of the executing agencies so as to reduce the use of Funds Administrator Units.
Policy vs. Inv Ratio	<ul style="list-style-type: none"> • Monitor exposure rather than investment to policy ratio.

B. PORTFOLIO MANAGEMENT AND PERFORMANCE

34. **Colombia's financial management performance was analyzed as part of a joint Bank/IDB Country Financial Accountability Assessment (CFAA), completed during FY05.** The CFAA pointed to important advances but also noted remaining weaknesses in public financial management. The country has made progress in modernizing and automating its PFM and information systems, especially with regard to the implementation of the Integrated

¹⁵ Bank projects need to be approved by an Interparliamentary Commission before they can be presented to the Board. Over time, delays in getting approvals increased, making it very difficult to manage delivery schedules.

¹⁶ This two-day seminar highlighted pending reforms and the important role that Congress plays in economic and social policy-making, and provided information on the Bank’s role in Colombia and the impact that Congress has on its operations.

¹⁷ Colombia’s Integrated Financial Management System

Financial Management System (SIIF), which is supported by the Bank's *MAFP II* project. However, budget formulation remains fragmented, preventing it from being used as a strategic governance tool. This and other continuing problems have limited the quality and effectiveness of public financial management, leading the Bank to confer on Colombia a country fiduciary risk rating of 'moderate'.¹⁸

35. The administration of projects financed with World Bank resources has generally been satisfactory, although Government fiscal adjustments have caused problems in counterpart resources. In recent years, as a result of the CPPR process, significant advances have been made in terms of: (i) establishing simpler Financial Monitoring Reports, based on government accounting systems, across all projects; (ii) increasing direct government management of project and trust funds rather than employing international agencies or separate Project Implementation Units (PIUs);¹⁹ (iii) improving government management of trust fund resources; and (iv) clarifying procedures in relation to Special Accounts, and establishing a process of joint Bank/Government monitoring of loan disbursement procedures.

36. Bringing about improvements in national procurement practices has been a slower process. In 2005 the Bank together with IDB and Government of Colombia updated the CPAR done in 2001. The report found that despite some advances in modernizing the national system for competitive bidding, country procurement practices were still not aligned with international norms. The report concluded that a number of improvements were needed before national systems could be used in Bank funded operations.²⁰ The CPAR found that Bank-assisted project procurement is carried out in accordance with Bank policies and procedures, and procurement performance under these projects is generally satisfactory. The CPAR included an action plan approved by Government and some of the proposed actions are now included in the work plans of CINCO, the Intersectoral Contracts Commission.

37. Portfolio performance is amongst the best in the region and has remained satisfactory throughout the CAS period. At the end of FY05, only two projects were rated unsatisfactory (4.1 percent of commitments). In addition, the percentage of projects in the Colombia portfolio considered to be "at risk" was 11 percent, compared to 22 percent for the LAC region.²¹ The average annual disbursement ratio was 19.9 percent at the end of FY05 and proactivity and realism ratios have remained in line with Bank best practice.

38. The CAS envisioned a maximum lending program of US\$3.3 billion for the period starting in the second half of FY03 through to the end of FY06. At the end of FY05, IBRD was on track with commitments totaling US\$2.3 billion. Colombia's portfolio currently comprises

¹⁸ The moderate rating was based on a fiduciary risk assessment framework consisting of 10 good practice principles and 20 benchmarks for assessing adherence to them, as developed by Britain's Department for International Development (DFID). The CFAA team assessed how actual practice in Colombia measures up against these principles.

¹⁹ There are fewer PIUs today than one year ago. The MAFP II project has eliminated its PIU. The new Integrated Mass Transport and Peace and Development Projects approved in FY 05 do not have PIUs, and are well incorporated into their sponsoring ministries.

²⁰ Improvements include the approval of the proposed bill to reform Law 80-93, a more efficient system of internal controls, introducing e-procurement, developing standard bidding documentation and strengthening CINCO (the Intersectoral Contracts Commission).

²¹ Projects at Risk are those projects which are rated Unsatisfactory on achievement of Development Objectives or Implementation Performance and/or those possessing three or more Quality Assurance Group flags.

18 projects in various stages of implementation, for a net commitment amount of US\$1.3 billion—of which US\$1.1 billion remains undisbursed. A 50:50 ratio between investment and development policy loans envisioned when the CAS was endorsed in 2002 was subsequently modified to allow up to 60 percent for development policy lending in order to respond better to the needs of the borrower. This 60:40 ratio has been maintained over the CAS period, but going forward, the mix of lending instruments will be managed according to country needs within an overall framework of prudent exposure growth rather than according to a specific ratio.

39. Colombia's IBRD exposure has risen from US\$2 billion in FY01 to about US\$3.7 billion in FY05, which represents 3.5 percent of the overall IBRD portfolio. Under the high case Colombia's exposure is projected to reach US\$4.9 billion at end FY07, representing 4.6 percent of the overall portfolio.

C. THE CAS STRATEGY GOING FORWARD

40. **It is proposed to extend the CAS period by one year** to allow the new administration enough time to prepare a new CAS, which would be presented to the Board early in FY08.

41. **The Government and the Bank agreed to maintain the CAS's original objectives and its three pillars of support, while expanding two areas of assistance**—Monitoring and Evaluation (M&E) and support for the Government's strategy to build the foundations for peace. In CAS terms, this latter area would constitute a separate Peace Pillar, reflecting the improved climate for reconstruction and reconciliation created by the Government's Democratic Security program.

42. **The New Peace Pillar.** The Government has asked the Bank to provide its global expertise to assist in the development and implementation of its peace-building strategy. This support will be sequenced, beginning with further analytical support and grants to help the Government continue to define viable approaches to assist violence-affected communities. These experiences and design lessons will be translated into operations in FY07 and/or during the next CAS cycle. This effort will draw on assistance the Bank is already providing and will be supported by the Bank's Conflict Prevention and Reconstruction Unit (see Annex C4. Peace Pillar IV for details of the proposed strategy).

43. **Monitoring and Evaluation Support.** The Government is eager to implement performance-based management in the public sector, and has asked for Bank support in improving the national monitoring and evaluation system.²² Support for monitoring and evaluation is already taking place within Bank operations and during the remainder of this CAS period, the Bank will broaden this assistance (see Annex C4. Pillar III: Governance Section for details of proposed monitoring and evaluation activities).

44. **A detailed discussion of the outcomes of Bank operations and AAA under each of the four CAS Pillars is found in Annex C4, along with a description of the operations and**

²² SINERGIA is the National Evaluation System of Public Sector Performance whose mandate is to measure and track public administration performance, to generate information for public resource allocation, and to improve the effectiveness of the National Development Plan formulation and implementation.

AAA planned for the remainder of the CAS period. The high-case lending and AAA program proposed for the remainder of the CAS period is summarized below.

Table 3. Bank AAA and High-Case Lending Program for FY06-07.²³

FY	AAA Program	Lending Program	US\$ millions
2006	Peace Programmatic I : Demobilization and Reintegration of Ex-combatants	Business Efficiency & Productivity DPL I	250
	Financial Sector Reform	Prog. Labor & Social Sector Reform III	150
	Policy Notes for Incoming Administration	Sustainable Development Investment	7
	Support to National Poverty Reduction Strategy	La Guajira Water	150
	Country Environmental Analysis	Disaster Vulnerability Reduction II	100
	Competitiveness Study	Social Safety Net	87
		Subtotal	744
2007	Peace Programmatic II: Assistance to Displaced and Other Vulnerable Groups	Sustainable Development DPL II	200
	Regional Development	Business Efficiency & Productivity DPL II	300
	Institutional and Governance Review (IGR)	Judicial Sector Development Project	50
	Decentralization & Sub-National Investment	Bogotá Urban Services II	100
	Social Safety Net Study	Rural Education APL II	30
		Social Service Delivery	75
		Support to National Information Monitoring & Evaluation Systems	10
		Antioquia Second & Technical Education	20
		Peace & Development APL II	150
		Transportation II	150
		Health Reform Investment	100
	Subtotal	1185	

D. CAS SCENARIOS AND TRIGGERS

45. Colombia has achieved the benchmark triggers needed to remain in the high case lending scenario since the CAS was discussed by the Board (see Box 2 below). Thus, the **Government and the Bank have agreed to maintain the current triggers and high case lending program of up to US\$1 billion per year** during the remainder of the CAS period (through FY07). Assistance levels will continue to be calibrated to the triggers below, with weakened performance reducing lending from the high case to the base case of US\$600-850 million per year or less, depending on the extent of slippage. Should the reform program completely stall or the security situation substantially deteriorate, the Bank would move to a low case of US\$ 225m million per year or less, with a focus on poverty and social development operations. This possibility is considered unlikely at this point in time, although the accession of a new administration in August 2006 introduces uncertainties.

²³ Based on Lessons Learned regarding flexibility in portfolio management (see paras 32 & 33) the amounts and timing of the DPLs may be adjusted (within cases and the CAS envelope) based on the pace of reforms.

Box 2. High-Case Triggers

Macroeconomic Sustainability:	Current Status as of end FY05	Achieved
<ul style="list-style-type: none"> Satisfactory macroeconomic performance, as demonstrated by continued implementation of the government's program supported by the IMF. Stand By arrangement, together with the maintenance of a primary surplus sufficient to ensure public debt sustainability.²⁴ 	IMF Program being implemented, new stand by agreement signed April 2005.	✓
<p>Structural Reforms:</p> <ul style="list-style-type: none"> In the Public Sector, reforms will reduce rigidities of expenditure by reducing permanent budget entitlements; and reducing exemptions in the value-added and income taxes. In the financial sector, approve and implement amendments to the Banking Law, including a more efficient bank resolution system. 	FIALI-III prior actions were met. Pension reform passed June 2005. Banking Law 795/2003 approved.	✓ ✓
<p>Social Sustainability:</p> <ul style="list-style-type: none"> Satisfactory completion of the implementation of the <i>Red de Apoyo Social</i> program. Passage by Congress of the proposed social protection/labor reform/pension legislation and issuance of enabling regulations for its implementation. 	Completed. Triggers and prior conditions of FIAL and PLARSSAL I & II series completed.	✓ ✓
<p>Portfolio Performance:</p> <ul style="list-style-type: none"> A disbursement ratio of not less than 15 percent; Satisfactory percentage ratings of not less than 80 percent of projects. 	Disbursements rate averages 19.9 percent over course of CAS period. Only two projects are rated unsatisfactory (4.3 percent of commitments).	✓ ✓

E. ACTIVITIES OF IFC, MIGA AND OTHER DONORS

46. **In Colombia, the Government takes a strong lead in donor coordination and management of international cooperation and multilateral partnerships.** The Bank's strategy of focusing on growth, equity, peace-building, and governance is consistent with that of other multilateral donors, and its investment and AAA complements the assistance provided by other donors. Programs of IDB, CAF, USAID and the UN system are summarized in Annex C6.

47. **IFC Assistance.** IFC has focused on: (i) improving access to finance; (ii) investing in companies that promote growth and employment; (iii) infrastructure investment; and (iv) supporting environmentally and socially sustainable business practices and corporate governance. Highlights of IFC's activities during this CAS period include development of the mortgage market, launching of a number of innovative financial products (e.g. the first Peso-denominated bond and the increased use of partial guarantees), and support to companies in the manufacturing and financial sectors. The increased use of guarantees and the issuance of domestic bonds have been instrumental for the development of local capital markets, which have become a viable alternative to the banking sector, particularly for longer tenors. They have also helped to improve the debt profile of many Colombian companies. In this context, IFC supported the regional expansion of a leading privately-owned Colombian multinational, helping the company improve efficiency and upgrade the environmental standards of its existing facilities. IFC also provided financing to assist a leading privately-owned paper manufacturer to expand operations in the region, as well as refinance its existing debt and upgrade its environmental standards. Finally, IFC provided partial credit guarantee to a water and sewerage company.

²⁴ Debt sustainability is defined here to mean the stabilization of the Debt/GDP ratio, not including contingent liabilities.

48. In the mortgage sector, IFC provided a partial credit guarantee to the Colombian Housing Mortgage Corporation (CHMC), a secondary mortgage company, for the issuance of Latin America's first non-performing mortgage loans securities. This investment has been instrumental in establishing a bridge among capital markets and the mortgage banking industry. IFC also provided support to Davivienda, a leading mortgage originator for local bond issues. For FY03-05, IFC committed US\$158 million. As of end-June 2005, IFC's exposure (outstanding balances) stood at US\$290 million. The quality of the portfolio also improved markedly, with the elimination of non-performing loans.

49. **Going forward**, IFC will continue to support: (i) the strengthening and deepening of financial sector institutions and local financial markets to better serve the needs of local companies, including SMEs and micro enterprises (ii) the development of infrastructure, including potential public-private partnerships and support to sub-national entities in the provision of infrastructure, in coordination with the Bank as warranted; (iii) investment in extractive industries; and (iv) the modernization of Colombian businesses to help improve their competitiveness and support their expansion both domestically and abroad. See Annex B3 for a full description of IFC's program.

50. **MIGA Activities.** Between the end of FY01 and the end of FY04, MIGA's exposure in Colombia decreased from US\$192 million, representing 3.7 percent of MIGA's gross portfolio, to US\$62.4 million, representing 1.2 percent of MIGA's portfolio. This decrease came about mainly as a result of pre-payment of loans originally used to finance foreign investment projects covered by MIGA. MIGA recently signed a three-year contract with the Chamber of Commerce of Bogotá to provide technical assistance in developing a promotional network and regional investment promotion capacity, and has also been working on a business plan for investment in Bogotá. In terms of guarantees, MIGA has continued to receive requests for coverage, particularly focusing on the expropriation, and war and civil disturbance coverage lines provided by MIGA. See Annex B3 for a fuller description of MIGA support to Colombia.

F. THE RISKS OF THE PROPOSED STRATEGY

51. **Most of the risks identified in the 2002 CAS are still valid, though it is important to note that none have materialized to date** other than the difficulties securing congressional approval for some key reforms. **The current debate about a second Presidential term may affect the pace of implementation of difficult reforms**, while the outcome of the election could cause instability and/or deviations from the current reform path. However, the high level of approval for President Uribe signals widespread consensus on the current policy framework, making it unlikely that there would be major reversals in strategy, even with a change in government.

52. The risks described in the 2002 CAS are presented below, along with actual outcomes, followed by an assessment of the potential realization of these risks during the remainder of the new CAS period.

Table 4. Risks Identified in the 2002 CAS

Risks in 2002 CAS	Actual Outcomes 2002-2005	Risks for 2005-07
The violence associated with illegal drug activity could escalate which would negatively impact the implementation of the Bank's program.	Violence decreased. President's program resulted in significant security gains.	Could increase leading up to election, but the significant security gains of the last two years are not likely to be reversed.
Congress could block or alter policy initiatives, or the Constitutional Court could reverse key legal reforms.	Some reforms were stalled or diluted (e.g. budget reform). The CAS and programmatic triggers were nonetheless met, and several major reforms have been passed, including pension reform passed in June 2005.	Additional movement on reforms is not expected during the lead up to Presidential election in 2006.
The fiscal situation may deteriorate.	The fiscal situation has improved, and Bank/IMF support of the Government's fiscal adjustment program has helped mitigate these risks.	Possible, especially if oil prices drop, but Colombia is expected to be able to absorb shocks and manage its debt during this period.
External risks could be augmented if the adverse economic conditions currently affecting Latin America prove to be deeper and longer than originally anticipated.	The external environment proved very favorable from 2002-04 (oil prices, interest rates, and the economic recovery of Colombia's two main trading partners, the US and Venezuela).	Although Colombia's debt dynamics are likely to remain manageable foreign exchange risk still remains a source of vulnerability, with 38 percent of Colombia's total central government debt denominated in foreign currency.

CAS ANNEX B3 (IFC) - COLOMBIA

FY2003- 2005

As of June 30, 2005

	2003	2004	2005
IFC Commitments (US\$m)*	72	27	59
SECTOR (%)*			
Oil, Gas and Mining	48.7		
Pulp and Paper			84.5
Utilities	25.4		
Industrial and Consumer Products		82	
Finance and Insurance	25.9	18	15.5
TOTAL	100	100	100
INVESTMENT INSTRUMENTS (%)			
Loans	100	100	100
Equity	0	0	0
Other			
TOTAL	100	100	100

Proposed IFC Program for FY2006-2008

Going forward, IFC will continue to support: (i) the strengthening and deepening of financial sector institutions and local financial markets to better serve the needs of local companies, including SMEs and micro enterprises (ii) the development of infrastructure, including potential public-private partnerships and support to sub-national entities in the provision of infrastructure, in coordination with the Bank as warranted; (iii) investment in extractive industries; and (iv) the modernization of Colombian businesses to help improve their competitiveness and support their expansion both domestically and abroad.

Financial Sector Support. IFC will continue to support the consolidation of the banking sector and provide technical assistance to develop financial markets, facilitate SME access to long-term finance and support the development of micro enterprises through investment and non-investment products.

Infrastructure. IFC would work closely with the Bank to finance transportation (roads, airports, ports and railroads) and electricity generation and transmission projects, with emphasis on establishing frameworks for public-private partnerships at the national and municipal levels.

Extractive Industries. IFC's strategy for oil and gas in the next years aims to support local medium sized companies via equity and long term financing, while assuring that the projects meet high environmental, social, and governance standards, and that revenues from the projects are used transparently and effectively. In the gas sector, IFC would support the privatization program, as well as opportunities for private investment that have been created by a new contract model that reduces the state's share of hydrocarbon production. IFC would also focus on the refining sector to help increase capacity.

Local Businesses. Large and medium size corporations (Tier I and Tier II) are increasing their access to local financial and capital markets due to the overall economic recovery and the strengthening of the local financial sector. In addition, these companies need to respond to the competitiveness requirements of the FTA. IFC will continue supporting them via equity and long-term financing to facilitate their expansion overseas and help the consolidation of certain sectors. IFC's focus would be on export manufacturing (e.g. galvanized steel, food and agribusiness), as well as cement, retail chains and the petrochemical sector.

CAS ANNEX B3-B4 (MIGA) - COLOMBIA

FY2003- 2005

As of June 30, 2005

MIGA Guarantees:

MIGA Outstanding Exposure (Gross Exposure, \$ million)

	2003	2004	2005
Sectoral Distribution			
Finance	0.0	0.0	0.0
Infrastructure	62.4	62.4	62.4
Mining	0.0	0.0	0.0
Oil & Gas	0.0	0.0	0.0
Agribusiness/Manufacturing/Services/Tourism	0.0	0.0	0.0
MIGA's Risk Profile			
Transfer Restriction	20.0	20.0	20.0
Expropriation	0.0	0.0	0.0
War & Civil Disturbance	62.4	62.4	62.4
Breach of Contract	0.0	0.0	0.0
MIGA's Gross Exposure in Country			
% Share of MIGA's Gross Exposure	1.2%	1.2%	1.2%
MIGA net Exposure in Country	31.2	31.2	31.2
% Share of MIGA's Net Exposure	1.0%	1.0%	1.0%

Non-Guarantee Services

Technical Assistance Currently Underway:

FY05: Signed a technical assistance agreement with the Chamber of Commerce of Bogota to create a regional investment promotion agency: It will be a three-year seven-phase technical assistance program with the CCB. MIGA presented a draft of the business plan for Invest in Bogota in November 2004. The project is currently on standby awaiting the approval of the Consejo Distrital of Bogota. MIGA anticipates approval in June of 2005.

Technical Assistance Completed

FY03: 14 October-November 2, 2002 Provided investment promotion training to the country's promotional network including COINVERTIR staff and promotional personnel from the leading regional IPAs and Free Zones. The team 1 also finalized the FDI Exchange agreement with the local counterpart in Colombia and followe-up on MIGA's capital increase request with the Ministry of Finance. During the mission, the environment and potential for investment guarantees were evaluated as well as opportunities identified. Given the political environment, MIGA has not committed to any further assistance in the short term, beyond this training.

Over the past two years, MIGA received and responded to several requests for assistance from COINVERTIR, the national investment promotion agency. MIGA assistance has included an informal strategic assessment of the agency's institutional capability, and a roundtable with the board of directors to discuss the future of the agency. In addition, a MIGA team assisted COINVERTIR in the development of a three-year business plan and promotion strategy in the apparel and textile sectors, to be presented to the Government and the private sector for buy-in and funding. In 2005 COINVERTIR merged with ProExport and MIGA is awaiting contact from the new management to decide on further steps.

CAS Annex B4 - Summary of Nonlending Services - Colombia

As of August 15, 2005

<i>FY</i>	<i>Product</i>	<i>Cost</i> <i>(US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
FY02	Poverty Selected Topics	100	G, B	KG, PS
	Social Sector Review	150	G, B	KG, PS
	Agro-Ecology	80	G, B	KG, PS
	Higher Education Strategy	50	G, B	KG, PS
FY03	The Economic Foundation of Peace	245	G, B	KG, PS
	CO Violence, Sust Peace & Development	45	G, B	KG, PS
	CO - Coffee Sector Work	45	G, B	KG, PS
	Achieving Fast and Sustainable Growth	45	G, B	KG, PS
	CO Rural Finance	100	G, B	KG, PS
	CO Sharing the Fruits of Growth	45	G, B	KG, PS
	Building a Government of Quality	45	G, B	KG, PS
FY04	CO Rural Finance II	81	G, B	KG, PS
	Country Financial Accountability Assessment	130	G, B	KG, PS
	Afro-descendants, Soc. Incl. MDGs	81	G, B, PD	KG, PD, PS
	Agricultural Competitiveness	81	G, B, PD	KG, PS
	Improv Pub Expenditure Ef	45	G, B	KG, PD
	Recent Economic Development in Infrastructure	200	G, B	KG, PD
	Public Training Reform Issues	88	G, B	KG, PD
	Land Policy in Transition	120	G, B,	KG, PS
FY05	Country Economic Memorandum (CEM)	171	G, B	KG, PD
	Labor Reform Agenda	175	G, B, PD	KG, PS
	Education Study	85	G, B, PD	KG, PD, PS
	Country Procurement Assessment Report	90	G, B	KG, PS
FY06	Country Environmental Analysis	176	G, B, PD	KG, PD, PS
	Competitiveness Study	176	G, B	KG, PS
	Policy Notes for Incoming Administration	176	G, B	KG, PS
	Financial Sector Reform	91	G, B	KG, PS
	Peace Programmatic I: Demobilization & Reintegration of Ex-comb	91	G, B, PD	KG, PS, PD
	Support for Development of a Nat Poverty (NLTA)	91	G, B	KG, PS
FY07	Peace Programmatic II: Assistance to Displaced & Other Vulnerable	91	G, B, PD	KG, PS, PD
	Regional Development	91	G, B, PD	KG, PS, PD
	Institutional and Governance Review (IGR)	91	G, B	KG, PS
	Decentralization & Sub-National Investment	176	G, B	KG, PD, PS
	Social Safety Net Study	91		

a. G=Government, D=donor, B=Bank, PD=public dissemination.

b. KG=Knowledge generation, PD=public debate, PS=problem-solving.

CAS Annex B5 - Colombia Social Indicators

As of August 15, 2005

	<u>Latest single year</u>			<u>Same region/income group</u>	
	1970-75	1980-85	1997-03	Latin America & Carib.	Lower- middle- income
POPULATION					
Total population, mid-year (<i>millions</i>)	25.4	31.7	44.6	534.2	2,655.2
Growth rate (<i>% annual average for period</i>)	2.4	2.1	1.8	1.5	0.9
Urban population (<i>% of population</i>)	60.0	65.2	76.5	76.6	49.7
Total fertility rate (<i>births per woman</i>)	5.0	3.7	2.5	2.5	2.1
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	64.0	..	..
Urban headcount index	..	..	55.0	..	..
Rural headcount index	..	..	79.0	..	..
INCOME					
GNI per capita (<i>US\$</i>)	560	1,150	1,830	3,260	1,480
Consumer price index (<i>1995=100</i>)	1	11	240	..	..
Food price index (<i>1995=100</i>)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	57.599998	..	..
Lowest quintile (<i>% of income or consumption</i>)	..	..	2.70	..	..
Highest quintile (<i>% of income or consumption</i>)	..	..	61.8	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (<i>% of GDP</i>)	..	..	6.7	3.3	2.6
Education (<i>% of GNI</i>)	..	..	..	4.5	4.0
Social security and welfare (<i>% of GDP</i>)	..	2.7	2.3	..	..
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	..	87	94	91
Male	..	..	87	94	92
Female	..	..	86	95	91
Access to an improved water source					
<i>(% of population)</i>					
Total	..	..	92	86	81
Urban	..	..	99	94	94
Rural	..	..	71	65	70
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	51	92	91	78
DPT	..	61	91	88	84
Child malnutrition (<i>% under 5 years</i>)	..	17	7	..	11
Life expectancy at birth					
<i>(years)</i>					
Total	62	67	72	71	69
Male	60	64	69	68	67
Female	63	70	75	74	71
Mortality					
Infant (<i>per 1,000 live births</i>)	69	39	18	28	32
Under 5 (<i>per 1,000</i>)	108	56	21	34	40
Adult (<i>15-59</i>)					
Male (<i>per 1,000 population</i>)	262	237	238	222	214
Female (<i>per 1,000 population</i>)	209	162	115	125	135
Maternal (<i>per 100,000 live births</i>)	..	..	130	..	..
Births attended by skilled health staff (<i>%</i>)	..	..	86	..	..

CAS Annex B5. This table was produced from the CMU LDB system.

05/16/2005

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

CAS Annex B7- Colombia - Key Exposure Indicators

As of August 15, 2005

Indicator	Actual			Estimate			Projected		
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US\$m) ^a	36248	33201	32979	37733	40858	42247	43997	..	..
Net disbursements (US\$m) ^a	..	..	2417	2939	213	933	1015	..	..
Total debt service (TDS) (US\$m) ^a	..	..	6160	4523	8233	7950	8135	..	..
Debt and debt service indicators (%)									
TDO/XGS ^b	221.4	215.5	195.9	183.2	213.0	224.8	216.7	..	..
TDO/GDP	44.2	40.7	41.2	38.7	41.9	43.2	42.1	..	..
TDS/XGS	..	..	36.6	22.0	42.9	42.3	40.1	..	..
Concessional/TDO	2.5	2.8	3.4	2.8	..	..	..	..	..
IBRD exposure indicators (%)									
IBRD DS/public DS	8.3	7.1	6.4	10.9	8.0	9.4	9.2	..	..
Preferred creditor DS/public DS (%) ^c	20.3	26.6	28.8	38.7	29.5	39.1	42.0	..	..
IBRD DS/XGS	2.2	2.2	2.1	2.0	2.0	2.3	2.3	..	..
IBRD TDO (US\$m) ^d	2006	2348	3241	3490	4426	4988	5547	..	..
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	..	..
IDA TDO (US\$m) ^d	7	6	5	5	4	3	2	..	..
IFC (US\$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US\$m)									

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

CAS Annex B7- Colombia - Key Exposure Indicators

As of August 15, 2005

Indicator	Actual			Estimate			Projected		
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US\$m) ^a	36248	33201	32979	37733	40858	42247	43997
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Debt and debt service indicators (%)									
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TDO/GDP	44.2	40.7	41.2	38.7	41.9	43.2	42.1
TDS/XGS	36.6	22.0	42.9	42.3	40.1
Concessional/TDO	2.5	2.8	3.4	2.8
IBRD exposure indicators (%)									
IBRD DS/public DS	8.3	7.1	6.4	10.9	8.0	9.4	9.2	..	..
Preferred creditor DS/public DS (%) ^c	20.3	26.6	28.8	38.7	29.5	39.1	42.0	..	..
IBRD DS/XGS	2.2	2.2	2.1	2.0	2.0	2.3	2.3	..	..
IBRD TDO (US\$m) ^d	2006	2348	3241	3490	4426	4988	5547	..	..
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	..	..
IDA TDO (US\$m) ^d	7	6	5	5	4	3	2	..	..
IFC (US\$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US\$m)									

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

CAS Annex B8 - Colombia
Operations Portfolio (IBRD/IDA and Grants)
As of August 15, 2005

Closed Projects **165**

IBRD/IDA *

Total Disbursed (Active)	217.28
of which has been repaid	3.54
Total Disbursed (Closed)	10295.08
of which has been repaid	8517.91
Total Disbursed (Active + Closed)	10512.36
of which has been repaid	8521.45
Total Undisbursed (Active)	1122.68
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	1122.68

Active Projects

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions					Difference Between Expected and Actual Disbursements ^{a/}	
		Supervision Rating			IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
		Development Objectives	Implementation Progress								
P088857	CO (CRL2) TAL to support the 2nd PSAL	S	S	2005	2				1.85	0.52	
P082167	CO - Agricultural Transition Project	#	#	2005	30				30.00		
P051306	CO 1st APL PEACE AND DEV	S	S	2004	30				28.90	7.45	
P082973	CO APL1-Water & Sanit. Sector Support	S	S	2005	70				70.00	0.00	
P074726	CO Bogota Urban Services Project	S	S	2003	100				66.82	28.16	
P044140	CO CARTAGENA WTR SUPPLY & SEWERAGE ENV.	S	S	2000	85				48.89	48.89	
P082466	CO Integrated Mass Transit Systems	S	S	2004	250				237.00	16.00	
P057369	CO Judicial Resolution Improvement Prj.	S	S	2002	5			1.10	1.59	2.69	0.77
P041642	CO PRODUCTIVE PARTNERSHIPS	S	S	2002	32			10.00	13.40	11.37	0.12
P040109	CO PUBLIC FINANC. MANAGEMENT PROJECT II	S	S	2001	35.47				22.70	22.70	
P081397	CO Prog Dev Policy Ln for Sust. Dev	#	#	2005	150				150.00		
P050578	CO RURAL EDUCATION	S	S	2000	20				8.17	8.17	
P057326	CO SIERRA NEVADA SUSTAINABLE DEVELOPMEN	S	S	2000	5				0.86	0.78	-0.27
P065937	CO WATER SECTOR REF ASSISTANCE PROJECT	S	S	2002	40				26.50	23.75	
P068762	CO- COMMUNITY WORKS (MANOS A LA OBRA)	MS	MU	2000	100			66.98	4.18	71.16	3.36
P082429	CO-(APL1)Disaster VulnerabilityReduction	#	#	2005	260				260.00	0.18	
P074138	CO-Higher Education - Improving Access	S	S	2003	200				138.94	16.75	
P077757	CO: CUND/MARCA EDUCATION QUALITY IMPROVE	S	U	2004	15				12.87	4.17	
P063317	GEF CO-HIGH ANDES	S	S	2001				15.00	6.87	3.71	
P054125	MP/CO ODS PHASE OUT	S	S	1999				8.65	6.07	-2.20	1.60
Overall Result					1429.47		23.65	78.08	1135.62	264.26	5.59

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

CAS Annex B8 (IFC) - Colombia
Statement of IFC's
Held and Disbursed Portfolio (amounts in US Dollar Millions)
As of June 30, 2005

Approval Fiscal Year	Institution Name	LN Cmtd+IFC	ET Cmtd+IFC	QL+QE Cmtd-IFC	GT Cmtd-IFC	RM Cmtd-IFC	All Cmtd-Part	LN Out-IFC	ET Out-IFC	QL+QE Out-IFC	GT	RM	All Out-Part
											Out-IFC	Out-IFC	
2003	AAA	0.00	0	0	18	0	0.00	0	0	0	18	0	0
2002	BCSC	0	7.00	0	0	0	0	0.00	7	0	0	0	0
2002	Bavaria	61.76	30	0.00	0.00	0	103.57	62	30.00	0.00	0.00	0	103.57
1969/1985/1988/1993/1995	CF del Valle	0	2.79	0	0	0	0	0.00	3	0	0	0	0
2001	CHMC	0.00	8.85	2.10	20.99	0	0.0	0.00	4.02	2.10	4.11	0	0
2004	Cartones America	22.00	0	0	0	0	0.0	20	0	0	0	0	0
2004	Carvajal S.A.	35.00	0	15.00	0	0	0.0	0	0	0	0	0	0
1974/2001	Cementos Caribe	2.70	3.86	0	0	0	5.2	2.70	4	0	0	0	5.18
1995/1999	Corfinsura	0.00	0	20.45	0	0	0.0	0	0.00	20.45	0.00	0	0
2003	DAVIVIENDA I	0.00	0	0	19.43	0	0.0	0	0	0	19	0	0
2002	Inversura	0	15.00	0	0	0	0.0	0.00	15	0	0	0	0
2002	Omimex Oil	24.00	0	5.00	0	0	0.0	5	0.00	5.00	0.00	0	0
1987	PRODESAL	0	0.59	0	0	0	0.0	0.00	1	0	0	0	0
1977/1989/1992/1994/1996	Promigas	1.25	1.09	0	0	0	0.0	1.25	1	0	0	0	0
1994/1995/2002	Promisan	0	0.20	0	0	0	0.0	0.00	0	0	0	0	0
2002	Proteccion	0	10.00	0	0	0	0.0	0.00	10	0	0	0	0
2002	SIG	56.00	0	0	0	0	0.0	56	0	0	0	0	0
2001	Tolcemento	3.33	0	0	0.00	0.00	7	0	0		0	0	0
Total Portfolio:		206.04	79.38	42.55	58.66	0.00	115.86	146.41	74.55	27.55	41.78	0.00	108.75

Colombia — CAS Matrix FY03-05 — High Case - Follow up

Diagnostic	Policy and Strategy	World Bank Group's Support Instruments		Status as of August 30,2005	
		Financial	Non-Financial	Financial	Non-Financial

CAS Objective: Achieving Fast and Sustainable Growth

Macroeconomics

Large and persistent fiscal imbalances have led to an unsustainable public debt burden. The public sector faces large future fiscal liabilities.	The main objective of the WBG's strategy in terms of the macroeconomic framework will be to support Colombia's continued fiscal adjustment, including the quality of the adjustment.	Prog. Fin. Sector Adj. Loan I (FY03); Prog. Fin. Sector Adj. Loan II (FY04); Prog. Fiscal and Inst. Adj. Loan I (FY01); Prog. Fiscal and Inst. Adj. Loan II (FY04); Prog. Fiscal and Inst. Adj. Loan III (FY05); Prog. Fiscal and Inst. Adj. Loan IV (FY06).	Public Expend Rev (PER) (FY03); Cty Economic Memo (CEM) (FY05); Tax Policy and Admin Study (FY03); Public Debt Management Assessment (FY03).	Prog. Fin. Sector Adj. Loan I (FY03); Prog. Fin. Sector Adj. Loan II (FY05); Prog. Fiscal and Inst. Adj. Loan I (FY03); Prog Fiscal and Inst Adj. Loan II (FY04); Prog Fiscal and Inst. Adj. Loan III (FY05);	Improve Publ Expend Eff (FY04); Cty Economic Memo (CEM) (FY05);
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Financial Sector

A number of financial institutions in the hands of the government need to be restructured and/or privatized. Disposition of assets in the hands of the government needs to be more rapid and efficient. Bank management and resoultion framework is weak.	The WBG will support government actions aimed at winding up, restructuring, and/or privatizing several financial institutions in the hands of the government (e.g., BANCAFE and Granahorrar) to avoid further fiscal drain.	Prog. Fin. Sector Adj. Loan I (FY03); Prog. Fin. Sector Adj. Loan II (FY04); Possible IFC support through individual transactions (FY03-05).	Financial Sector Review (FY04); Cty Economic Memo (CEM) (FY05).	Prog. Fin. Sector Adj. Loan I (FY03); Prog. Fin. Sector Adj. Loan II (FY05);	Country Financial Accountability Assessment (CFAA) (FY04); Cty Economic Memo (CEM) (FY05); Financial Sector Reform (FY06).
Judicial procedures to enforce guarantees and foreclosure of properties are too slow. Bankruptcy procedures need to be streamlined.	The WBG will support a reform of judicial procedures that affect credit and financial system operations, as well as reforms that strengthen commercial arbitration and other mechanisms that would help reduce the economic burden of legal and judicial processes.	Prog. Fin. Sector Adj. Loan I (FY03); Prog. Fin. Sector Adj. Loan II (FY04); Productivity and Small & Micro Enterprises (FY04).	Financial Sector Review (FY04); Cty Economic Memo (CEM) (FY05); Possible IFC TA (in collaboration with the Bank) (FY03-05).	Prog. Fin. Sector Adj. Loan I (FY03); Prog. Fin. Sector Adj. Loan II (FY05); Judicial Sector Development (FY07).	Country Financial Accountability Assessment (CFAA) (FY04); Cty Economic Memo (CEM) (FY05).
Capital markets are still under-developed. Supervisory framework for the insurance industry is still relatively weak.	Implementation of a comprehensive strategy to foster capital markets development, including a new capital markets law, with clear disclosure and transparency rules. Strengthen the legal framework and supervisory guidelines.	Prog. Fin. Sector Adj. Loan I (FY03); Prog. Fin. Sector Adj. Loan II (FY04); Possible IFC support through individual transactions (FY03-05).	Financial Sector Review (FY04); Cty Economic Memo (CEM) (FY05).	Prog. Fin. Sector Adj. Loan I (FY03); Prog. Fin. Sector Adj. Loan II (FY05);	Cty Economic Memo (CEM) (FY05); Country Financial Accountability Assessment (CFAA) (FY04); Financial Sector Reform (FY06).
There are still gaps in the legal, regulatory and supervisory framework to combat money laundering and terrorist financing (AML/CFT framework).	The WBG will assist the government in assessing its AML/CFT regime and strengthening the legal, regulatory and institutional framework for combating money laundering and the financing of terrorism.	Prog. Fin. Sector Adj. Loan I (FY03); Prog. Fin. Sector Adj. Loan II (FY04).	Financial Sector Review (FY04); Cty Economic Memo (CEM) (FY05).	Prog. Fin. Sector Adj. Loan I (FY03); Prog. Fin. Sector Adj. Loan II (FY05).	Cty Economic Memo (CEM) (FY05); County Financial Accountability Assessment (CFAA) (FY04);

Colombia — CAS Matrix FY03-05 — High Case - Follow up

Diagnostic	Policy and Strategy	World Bank Group's Support Instruments		Status as of August 30,2005	
		Financial	Non-Financial	Financial	Non-Financial

CAS Objective: Achieving Fast and Sustainable Growth (continue)

Infrastructure to Foster Competitiveness and Improve Services to the Poor

Lack of basic water and sanitation services, shelter, secondary and community roads, telephone services and electricity has se	The WBG will support initiatives to: (i) turn around the erosion of infrastructure which resulted from dwindling budget allocations for maintenance and guerilla-inspired sabotage; (ii) expand the transport and communications systems; and (iii) increase access to infrastructure by the poor.	Bogota Urban Services Loan (FY03); Rural Diversific. Loan (FY04); Urban Transport Loan (FY04); Water and Sanitation Loan (FY05); Slum Upgrading (FY06); Jeparachi Carbon Offset (PCF) (FY03); Rio Amoya Environ Services (PCF) (FY04); Possible IFC support through individual transactions.	Urban Strategy Study (FY04); Cty Economic Memo (CEM) (FY05); Disaster Management Study (FY05).	Bogotá Urban Services Loan (FY03); Agric Transition Loan* (FY05); Integrated Mass Trans System* (FY04); Water and Sanitation APL (FY05); La Guajira Water (FY06); Transportation II (FY07); Bogotá Urban Services II (FY07); Jeparachi Carbon Offset (PCF) (FY03); Rio Amoya Environm Services (PCF) (FY04); Rio Frio Carbon Offset (PCF) (FY06).	Recent Econ Develop in Infrass (FY04); Cty Economic Memo (CEM) (FY05); Country Environ Analysis (FY06); Regional Development (FY07).
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Increase Productivity Through Private Sector Development

Impediments currently constraining the achievement of the potential of the private sector include inadequate regulatory and competition frameworks, and cumbersome administrative procedures governing the establishment and operation of firms.	The WBG will work towards the implementation of a comprehensive PSD strategy. In particular, IFC will continue to have strong role in this area.	Productivity and Small and Microenterprises (FY04). IFC investments, lending and guarantee operations.	Cty Economic Memo (CEM) (FY05); SMU & Micro-Enterprise Development Study (FY04); Knowledge Management to Enhance Productivity and Competitiveness (FY06).	Business Efficiency & Prod I (FY06); Business Efficiency & Prod II (FY07).	Cty Economic Memo (CEM); Competitiveness Study (FY06).
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Rural Development

Lack of integration in supply and marketing chains to and from rural areas. Gaps in private sector provision of services to producers. Lack of off-farm opportunities in rural areas and limited access to land for small farmers. Generally weak infrastructure.	WBG assistance will be targeted towards strengthening local leadership and organizations in rural areas and generating increased confidence in the national institutions in rural areas. The WBG will also support community-driven development.	Peace & Development (FY04); Rural Diversification (FY04); Rural Education APL II (FY05); Protection for the Displaced (FY04);	Cty Economic Memo (CEM) (FY05)	Peace & Development APL (FY04); Agricultural Transition (FY05).	Cty Economic Memo (CEM) (FY05); Land Policy in Transition (FY04); Agricultural Competitiveness (FY04).
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Environmental and Natural Resource Management

Legal framework for environmental management and licensing mechanisms needs to be more strategic and rapid, taking into account the financial sustainability of environmental institutions. Natural capital has not yet been properly valued.	The WBG will review the existing EIA and licensing system, the new Licensing Law, and provide recommendations for making this system more strategic and rapid. The WBG will continue to support projects that offer the possibility of reducing carbon emissions.	Jeparachi Carbon Offset (PCF) (FY03); Amoya Env Services (PCF) (FY04); Environmental SAL (FY05); Natural Disasters Prevent (FY05); Sierra Nevada (GEF) (FY04); Adapt to Climate Change (GEF) (FY05); National Parks Fund (GEF) (FY05); Strengthen. Indigenous People for Sust. Use of the Amazon (FY05).	Rio Environmental Impact Assessment/Licensing Framework Study (FY04); Financial Sustainability of Environment Management Institutions (FY04); Valuation of Natural Capital in the Amazon Basin (FY06).	Sustainable Develop SAL (FY05); Disaster Vulner Reduc II (FY06); Sustainable Develop Invest (FY06); Sustainable Develop DPL II (FY07); Jeparachi Carbon Offset (PCF) (FY03); Rio Amoya Env Services (PCF) (FY04); Rio Frio Waste Mgmt (PCF) (FY05); Furatena Agroindustry (PCF) (FY05); Rio Frio Carbon Offset (PCF) (FY06); National Protected Areas Cons. TF (GEF) (FY06); Adaptation to Climate Change (GEF) (FY06).	Country Environm Analysis (FY05);
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Colombia — CAS Matrix FY03-05 — High Case - Follow up

Diagnostic	Policy and Strategy	World Bank Group's Support Instruments		Status as of August 30,2005	
		Financial	Non-Financial	Financial	Non-Financial
CAS Objective: Sharing the Fruits of Growth					
Education					
There is considerable scope for enhancing equity in coverage/quality and sector efficiency, within an environment characterized by the need to reinforce the process of decentralization, and efforts to reduce internal conflict and violence.	The WBG will support decentralizing basic education and targeting selected areas with the poorest inhabitants, important indigenous and African-Colombian populations, and displaced rural communities (Pasto Education, Antioquia Education, Rural Education).	Prog. Labor & Social Sec Ref I (FY04); Prog. Labor & Social Sec Ref II (FY05); Cundinamarca Education (FY03); Higher Education (FY03); Rural Education APL II (FY05); Decentralizing Education (FY06); Human Capital Protection (FY05);	Social Sect Effic Study (FY03); Education Study (FY05); Cty Economic Memo (CEM) (FY05).	Higher Education (FY03); Cundinamarca Education (FY04); Prog. Labor & Social Sec Ref I (FY04); Prog. Labor & Social Sec Ref II (FY05); Prog. Labor & Soc Sec Ref TAL (FY05); Prog. Labor & Social Sec Ref III (FY06); Social Safety Net (FY06); Rural Education APL II (FY07); Antioquia Secondary & Tech Educ (FY07).	Education Study (FY05); Cty Economic Memo (CEM) (FY05); Higher Education Study (FY03).
Health					
The reform initiatives of the early 1990s had positive effects on coverage, access, quality and equity, but further reforms are necessary to create a financially sustainable system that provides incentives for greater efficiency.	WBG support is initially focusing on policy dialogue and actions being promoted under the ongoing FSAL and Social Sector SECAL. Proposed studies in health care financing, hospital restructuring and social sector efficiency.	Prog. Labor & Social Sec Ref I (FY04); Prog. Labor & Social Sec Ref II (FY05); Health Investment (FY05); Human Capital Protection* (FY05); Possible IFC transaction support (FY04-05).	Social Sect Effic Study (FY03); Economic Memo (CEM) (FY05); Health Restructuring Study (FY04).	Cty Prog. Labor & Social Sec Ref I (FY04); Prog. Labor & Social Sec Ref II (FY05); Prog. Labor & Soc Sec Ref TAL (FY05); Social Service Delivery (FY07); Health Reform Investment (FY07).	Higher Education Study (FY03); Cty Economic Memo (CEM) (FY05); Social Safety Net Study (FY06);
Social Protection					
Colombia has traditionally relied on economic growth to provide a social safety net. The country has yet to implement a comprehensive safety net policy, capable of providing counter-cyclical financing.	The WBG is supporting a major revamping of the social protection system. The Social Sector SECAL is supporting the development of a social risk management system, piloting decentralized provision of services, and promoting citizen oversight.	Prog. Labor & Social Sec Ref I (FY04); Prog. Labor & Social Sec Ref II (FY05); Human Capital Protection* (FY05); Social Safety Net "Hogares Multiples" (FY06).	Social Safety Net Study II (FY06); Cty Economic Memo (CEM) (FY05); Social Sect Effic Study (FY03);	Prog. Labor & Social Sec Ref I (FY04); Prog. Labor & Social Sec Ref II (FY05); Prog. Labor & Soc Sec Ref TAL (FY05); Social Safety Net (FY06); Social Service Delivery (FY07).	Cty Economic Memo (CEM) (FY05); Labor Reform Agenda (FY05); Social Safety Net Study (FY07).
The indigenous and Afro-Colombian communities have traditionally been excluded from mainstream decision-making processes in the country.	The WBG strategy includes continuing programs which include the participation of indigenous and rural Afro-Colombian communities in natural resource management, biodiversity conservation and climate change projects.	Jepirachi Carbon Offset (PCF) (FY03); Amoya Environ Serv (PCF) (FY04); Sustainable Development SAL (FY05); Protection for the Displaced (FY04); Sierra Nevada (GEF) (FY04); Adapt to Climate Change (GEF) (FY05); National Parks Fund (GEF) (FY05); Conservation & Sustainable Use of the Colombian Amazon (FY05).	Rio Environmental Impact Assessment/Licensing Framework Study (FY04); Financial Sustainability of Environ Mgmt Instit (FY04); Indigenous and Afro-Colombian Communities Study (FY05); Valuation of Natural Capital in the Amazon Basin (FY06).	Jepirachi Carbon Offset (PCF) (FY03); Rio Amoya Environ Serv (PCF) (FY04); Sustainable Development SAL (FY05); Rio Frio Waste Mgmt (PCF) (FY05).	Afro-descendants, Socl Incl. MDGs (FY04).
Forced Displacement					
During the last decade, the escalation of the armed conflict lead to increased numbers of displaced people in rural areas.	Support the design, implementation, evaluation and dissemination of pilot operations to assist the internally displaced populations (IDP).	Protection for the Displaced (FY04); Use of Japanese Social Development Fund and Post-Conflict Fund grants for activities targeted at internally displaced persons.	Indigenous and Afro-Colombian Communities Study (FY05); Growth for Tackling Inequalities Study (FY04).		Afro-descendants, Socl Incl. MDGs (FY04); Peace Programmatic I (FY06); Peace Programmatic II (FY07).
Labor Markets					
Labor rigidities in Colombia, such as overly strict minimum wage restrictions and limitations on firing workers, affect the level of employment and increase the divide between formal and informal labor.	The main objective of the WBG strategy in this area will be to help to make the labor market flexible, to facilitate sharing the fruits of economic growth and reduce transaction costs of the formal sector.	Prog. Labor & Social Sec Ref I (FY04); Prog. Labor & Social Sec Ref II (FY05).	Social Safety Net Study II (FY06); Labor Reform Study* (FY03);	Prog. Labor & Social Sec Ref I (FY04); Prog. Labor & Social Sec Ref II (FY05); Prog. Labor & Soc Sec Ref II TAL (FY05).	Labor Reform Agenda (FY05); Social Safety Net Study (FY07).

Colombia — CAS Matrix FY03-05 — High Case - Follow up

Diagnostic	Policy and Strategy	World Bank Group's Support Instruments		Status as of August 30,2005	
		Financial	Non-Financial	Financial	Non-Financial

CAS Objective: Building Efficient, Accountable and Transparent Governance

Anticorruption

Successive administrations have implemented presidential programs designed to combat corruption and have had, in general, limited success.	Building on the results of a corruption survey carried out in early 2002, the WBG will help the administration broaden the scope of Colombia's anticorruption program.	Anti-Corruption LIL (FY04); Corruption (FY06).	Anti-Corruption LIL (FY04); Country Financial Accountability Assessment (FY03); Country Procurement Assessment Report (FY05).	Support to National Information M&E Systems (FY07).	Country Financial Accountability Assessment (FY04); Country Procurement Assessment Report (FY05).
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Judicial Reform

The authorities have already introduced oral procedures to reduce congestion and delays in the judicial system. However, this strategy involves significant organizational and logistical reforms, and requires effective management and strong leadership.	Some of the building blocks for the WBG strategy include improvement of the timeliness, quality and productivity of the judiciary's conflict resolution system through peaceful means, and enable more effective and lower cost of enforcement.	Judicial Development (FY05).		Judicial Sector Development Loan (FY07)	
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Results-Oriented Public Sector Reform and Budget Management

Presidential Directive No.10 of August 10, 2002 sets out short- and medium-term objectives in areas such as human resource management, anticorruption, procurement and performance budgeting, among others.	The WBG will support initiatives to carry out fundamental reforms in the way resources are allocated and results monitored.	Prog. Fiscal & Institut Adj. Ln I (FY03); Prog. Fiscal & Institut Adj. Ln II (FY04); Prog. Fiscal & Institut Adj.Ln III (FY05); Prog. Fiscal & Institut Adj. Ln IV (FY06).	Public Expenditures Review (FY03); Cty Financial Account. Assess (FY03); Cty Procurement Assess Rep (FY05); Cty Economic Memo (CEM) (FY05);	Prog. Fiscal & Institut Adj Ln I (FY03); Prog. Fiscal & Institut Adj Ln II (FY04); Prog. Fiscal & Institut Adj Ln III (FY05);	Improve Public Expenditure Eff (FY04); Cty Financial Account. Assess (FY04); Cty Procurement Assess Rep (FY05); Cty Economic Memo (CEM) (FY05); Public Training Reform Issues (FY04); Supp to Nat Poverty Red. Strat (FY06); Policy Notes for Incom Admin (FY06); Instit Governance Review (FY07); Decentral & Subnat. Inv (FY07).
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CAS Annex C1

AN ANALYSIS OF COLOMBIA'S NEAR-TERM DEBT SUSTAINABILITY AND COUNTRY RISK CHARACTERISTICS

Prepared by the Colombia and Mexico Country Management Unit¹

A. INTRODUCTION

1. **This note evaluates Colombia's near-term debt sustainability for the purpose of helping the Bank better manage its own portfolio risk as well as providing a crucial input into Colombia's development strategy in the context of its fiscal constraints.** The LCC1 CMU is currently updating Colombia's Country Assistance Strategy (CAS) for the remainder of the current period (FY03-06) and into the year of the next presidential administration. Because the CAS envisages ongoing lending operations in Colombia that will lead to increased Bank exposure to the country, this analysis is being undertaken to better understand what the potential financial risks are for the Bank.

2. **The next two years will be both politically and economically challenging for Colombia, but debt dynamics and country risk factors suggest that financing risks are manageable.** Even under a hypothetical confluence of adverse economic shocks this year—a 30 percent devaluation, a 200 basis point hike in interest rates across the yield curve, and a fall in real GDP growth to -2 percent—Colombia's public debt to GDP ratio may hit a peak slightly above 60 percent by 2007. This level is certainly high and will put considerable fiscal pressure on the government, but is not explosive and could be contained by maintaining a primary balance of 2.1 percent of GDP, which is within the historical experience of Colombia. Moreover, Colombia's prior history of prudent fiscal and monetary policy, over US\$13 billion in international reserves, a lack of debt defaults or restructuring in over 60 years, a floating exchange rate and strong political and economic support from the United States and other bilateral and multilateral creditors, suggests that the country is fairly well situated to avoid a crisis, or weather a storm, should conditions deteriorate in the near term.² However, important risks remain and fiscal policy will need to remain restrained.

3. **The overall macroeconomic environment has been strong over the last year and, as a result the fiscal performance was much better than expected.** The public sector deficit fell

¹ Analytical work was primarily developed by Christian Gonzalez, Economist, with support and contributions from David Gould, Senior Economist, and Steven Webb, Lead Economist.

² The fact that Colombia has had such a long history without debt defaults or restructurings (indeed, unlike many other countries, it sidestepped the 1980s debt crisis and was one of the few Latin America countries never to have a Paris Club), and the fact that the country has avoided dependence on inflation financing, suggest that the market may be tolerant of a transitory spike in debt. See Reinhart, Rogoff, and Savastano (2002) for a discussion of factors that determine debt intolerance.

Moreover, although Argentina before the crisis of 2001 had a similar debt stock as a share of GDP as Colombia, the composition was quite different. More than 90 percent of Argentina's debt was denominated in foreign currency, and it had a fixed exchange rate. Colombia has less than half of its debt denominated in foreign currency and has a floating exchange rate. In Argentina, one of the most important contingent liabilities came from the deficits of the subnational governments, in Colombia, the local governments have been creating fiscal surpluses over the last three years. Also, Argentina had experienced negative growth several years prior to its crisis, while Colombia has been growing by almost 4 percent over the last two years. In comparison with Mexico in 1994, Colombia has a very small percentage of short term debt and, unlike Mexico at the time, has a floating exchange rate.

to 1.3 percent of GDP in 2004, compared to the target of 2.5 percent agreed to with the IMF—and the non-financial public sector debt to GDP ratio fell to 46.6 percent, compared to expectations of over 49 percent. Inflation fell to 5.5 percent in 2004, the lowest since the late 1960s, and country credit spreads are at about 310 bps (August 2005).

4. **Nonetheless, despite the better than expected fiscal outcomes last year and the fact that important progress on fiscal reforms have been made since 2002, fundamental fiscal pressures remain, particularly due to large transfers to the regions and the pension system.** While a change to the pension regime was passed by Congress in June 2005 and is expected to reduce the present net value of pension liabilities some 19 percentage points of GDP (from 162 percent of GDP to about 148.4 percent), budgetary benefits will only start to accrue significantly after 2010. Additional progress on reducing fiscal pressures is not expected until after the presidential elections in April 2006.

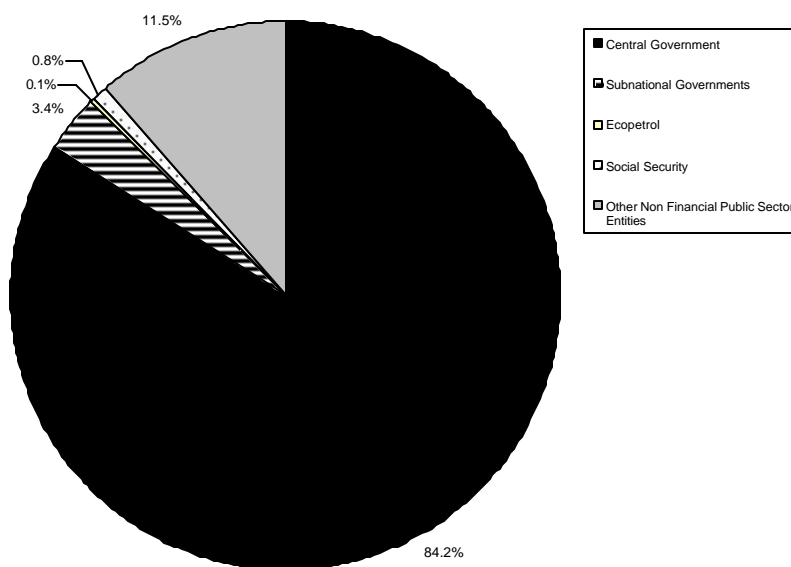
5. **Colombia has little room for fiscal policy error and important uncertainties remain on the horizon.** It cannot be assumed that the favorable external economic environment in 2004, including historically low interest rates, strong growth, and high export prices, will equally favorable in the coming year. Total external debt service (public and private) as a percent of exports of goods, services, and income, while having fallen from a high of above 67 percent in 2002 to more manageable levels of less than 40 percent now, remains one of the highest in Latin America (just below Argentina's 42 percent). Moreover, insurgency and violence, although much lower over the last few years, may increase in the months approaching the presidential election, though it is hoped that the recent passage of the "Peace and Justice Law" in Colombia will provide increased incentives for fighters to give up their arms in exchange for reduced sentences.

B. STRUCTURE OF COLOMBIA'S PUBLIC AND EXTERNAL DEBT

6. **While about half of Colombia's public debt is external, the majority is in fixed rate instruments and will not be due until 2007. Consequently, while the debt is subject to exchange rate risk, it is relatively insensitive to changes in international interest rates, at least until 2007.** The most recent figures show that Colombia's stock of non-financial public debt is about 51.2 percent of GDP (net of assets public debt was about 47.6 percent of GDP), of which 22.5 percent of GDP is external debt and 28.7 percent of GDP is domestic debt (See Figures 1 and 2).³ Over the last two years, the authorities have made important progress in reducing their exposure to external debt and, hence, foreign exchange risk by reducing its level from 28.6 percent of GDP at the end of 2003 to its current level of 22.5 percent. Of the external debt, about 99 percent of it has a maturity of greater than one year (medium and long term debt, which is about 22 percent of GDP), and 90 percent of this is dollar denominated (about 20 percent of GDP). Also, 38.9 percent of it is contracted with multilaterals (8.8 percent of GDP), while debt to official bilateral, commercial creditors and bonds accounts for 2.7 percent, 6.9 percent and 51.5 percent, respectively. About 50 percent of external debt is contracted under a fixed interest rate. Of the domestic debt, about 10.8 percent is contracted with commercial banks (about 2.8 percent of GDP).

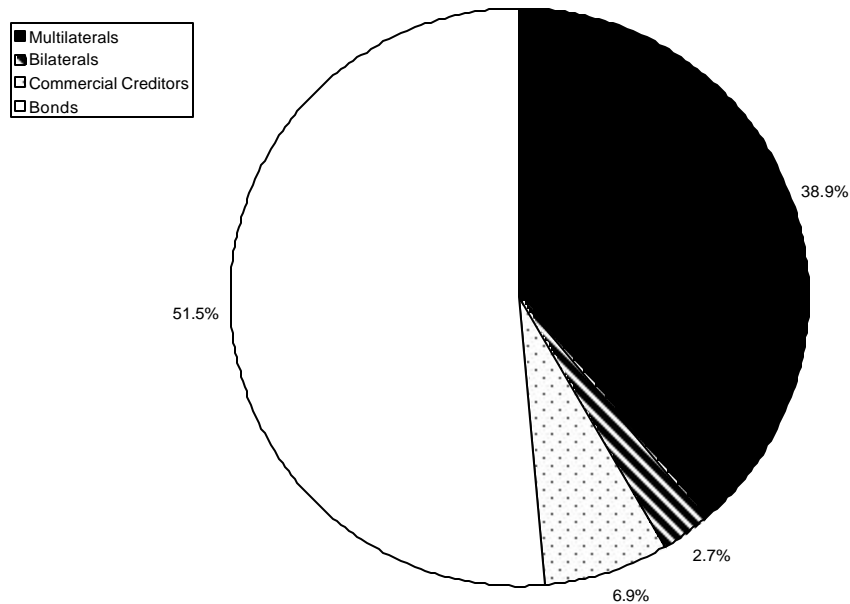
³ Latest data available is for the first quarter of 2005.

Figure 1. Composition of Non-Financial Public Sector Debt.



Source: Ministry of Finance.

Figure 2. Composition of External Public Sector Debt.



Source: Ministry of Finance

7. Given the size of the total external debt and recent peso appreciation (some 30 percent above its long-run average), Colombia is most vulnerable to debt distress under potential shocks to the exchange rate. Colombia's total external debt is about 33.8 percent of GDP (about 22.5 percent of GDP is public external debt, and about 11.3 percent of GDP is

private external debt). Also, its total external debt service as a share of exports of goods, services and income is close to 32 percent.

C. KEY RISKS IN THE EXTERNAL ENVIRONMENT

8. **Worldwide, growth may moderate in 2005 and 2006, led by a slowing of the expansion among developed countries. Slowing growth in the G7 is likely to dampen external demand for Colombia's exports and slow growth.** In the United States, as the output gap closes, productivity growth is projected to slow and unit labor costs are expected to rise. U.S. growth is expected to slow from 4.3 percent in 2004 to slightly above 3 percent in 2005 and 2006. Rising domestic demand in addition to external inflationary pressures from commodity prices—particularly oil—will likely induce the Federal Reserve to continue to tighten interest rates. This, plus the maturation of the investment cycle, a tailing off of fiscal stimulus, and the impact of higher oil costs, will contribute to slowing growth. Similar factors explain the anticipated slowdown in Japan, where output is expected to increase at about trend rates.

9. In contrast, because of the later start to this recovery and the fact that investment is only now beginning to recover, Europe's growth is expected to continue gaining momentum through 2005 and into 2006, notwithstanding fiscal tightening and a slowdown in the rate of growth of world demand. Nonetheless, overall estimates suggest that the hike in oil prices already observed can be expected to dampen output in 2005 by over 0.5 percent of GDP.

10. **Although a substantial rise in oil prices is not the most likely scenario, given new sources of supply and reduced oil intensities in the world economy, there remains considerable scope for higher oil prices, particularly given the current sensitivity of oil markets to localized disruptions in production.** Indeed, OPEC excess capacity is estimated to have fallen from 4.6 million barrels per day in 2001 to only 1.4 million barrels per day currently. Moreover, oil prices remain well below past peaks. Corrected for inflation and expressed in 2003 dollars, oil prices averaged more than \$72/barrel in 1980, and actually reached more than \$100/barrel in November of the previous year. Viewed from this perspective, further hikes would not be unprecedented.

11. **Stable or higher oil prices will help support Colombia's exports and fiscal balances in the near-term,** both directly because of higher oil exports, and indirectly through stronger demand from Venezuela, Colombia's second largest export market. During 2004, the U.S. and Venezuela absorbed nearly half of Colombia's total exports; forty percent of the country's exports have been sold in the United States and nine percent in Venezuela.

12. **Nonetheless, exports of petroleum products is a vulnerability and accounts for some 27 percent of Colombia's total export revenue.** This is a source of external vulnerability in the near-term if oil prices decline and in medium term because oil production is declining in Colombia and the country is expected to become a net importer of oil by 2010-11.

13. **Capital inflows to Colombia have risen substantially due to sharply increased foreign direct investment, but are not expected to be as robust in 2005.** FDI surged last year as substantial resources were channeled to the mining and oil sectors. During the 2004 FDI rose to \$3 billion, or 67 percent higher than in 2003. The mining and petroleum sectors absorbed 42 percent and 35 percent of FDI, respectively. Net equity investment was about \$2.4 billion 2004, but is expected to fall to about \$1.5 billion in 2005 as investment in the oil sector moderates.⁴

⁴ Investment in the oil sector will decline because oil prices are expected to decline in 2005.

14. **The most significant external risks to Colombia (though not necessarily likely) are a rapid fall in the U.S. dollar and a rise in U.S. interest rates (due to higher than expected inflation and a possible current account correction) and the possibility a sharp correction in the flow of capital to emerging markets after last year's jump.** Capital flows to emerging markets rose to a seven year high in 2004, a 32 percent increase from 2003. A sharp correction in market sentiment towards emerging markets, and/or a jump in G7 interest rates could significantly cut capital inflows, raise the cost of capital for Colombia, and put pressure on public debt financing as 2007 approaches and a large share of external debt becomes due.

CAS Annex C2

PUBLIC DEBT MANAGEMENT IN COLOMBIA

Prepared by the Banking and Debt Management Department (BCFBD)

1. Colombia's central government debt management strategy in recent years has focused on reducing its market risk and cost of funding. In particular, the strategy has explicitly stated the need to decrease the foreign currency exposure, by increasing the share of domestic currency denominated debt.

2. When analyzing the currency risk of central government debt, the definition of external and domestic debt by domicile of investor does not capture full currency risk for three reasons: (i) peso-denominated Eurobond issuance, (ii) US dollar-indexed domestic debt and (iii) non-residents are able to buy domestic-issued securities. Table 1 presents central government's debt in terms of currency: domestic currency debt increased from 47 percent in 2001 to 59 percent in February 2005, while the proportion of foreign currency debt decreased from 53 percent to 41 percent in the same period. This policy may continue into the future, but there are no formal targets as such; in conversations with the authorities, a target ratio of 40:60 foreign to domestic currency was mentioned informally.

Table 1: Currency Composition of Central Government Debt (2001-2005)

	01-Dec	02-Dec	03-Dec	04-Dec	05-Feb
USD	44%	43%	42%	37%	34%
EURO	7%	6%	6%	6%	6%
GBP	0%	0%	0%	0%	0%
JPY	2%	2%	2%	1%	1%
Subt.Forex	53%	52%	50%	44%	41%
UVR*	12%	14%	15%	15%	15%
COP	35%	35%	36%	41%	44%
Subt.dom.curr.	47%	48%	50%	56%	59%
Total	100%	100%	100%	100%	100%

* Inflation indexed units

Source: DGCPT, MoF.

3. The authorities have had an external debt benchmark in place during the past 8 years or so, which can be described as follows:

Currency: 83% USD, 13% EURO, 4% JPY
 Duration: 3.5 years
 Fixed/floating mix: 70 percent fixed, 30 percent floating
 Refinancing limit: Not more than 15 percent of principal amortizations coming due in any given year

4. This benchmark has been roughly adhered to during the past few years, with some deviations. For example, in February 2005, the external debt's currency composition was 81% USD, 14% EURO 2% JPY and 3% COP⁵, and duration was 3.8 years (Table 2), which is a fairly conservative standard.

⁵ When the benchmark was created in the late 90s, there was no possibility of issuing peso-denominated debt in the Eurobond market.

Table 2: Average Life and Duration

		Dec-01	Dec-02	Dec-03	Dec-04	Feb-05
Total	Average life (years)	5.3	5.1	5.5	5.1	5.2
	Duration Macaulays (years)	N.A	3.1	3.3	3.0	3.1
External Debt	Average life (years)	6.3	6.3	7.2	7.0	6.9
	Duration Macaulays (years)	N.A	3.9	4.2	3.8	3.8
Domestic Debt	Average life (years)	4.4	4.2	3.9	3.7	3.9
	Duration Macaulays (years)	N.A	2.3	2.3	2.4	2.5

Source: DGCPT, MoF

5. Debt with fixed interest rate represented 66 percent of total external debt, while semi-variable interest rate debt (a portion of multilateral debt) was another 14 percent and the share of floating interest rate debt was 20 percent (Table 3). These proportions have been held fairly constant during recent years.

Table 3: Interest Rate Profile

	Dec-02		Dec-03		Dec-04		Feb-05	
	Internal	External	Internal	External	Internal	External	Internal	External
Fixed	44%	65%	48%	65%	53%	65%	56%	66%
Variable	10%	22%	8%	20%	6%	21%	6%	20%
Inflation Indexed	46%		43%		40%		39%	
Semi-Variable		13%		15%		14%		14%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%

Source: DGCPT, MoF

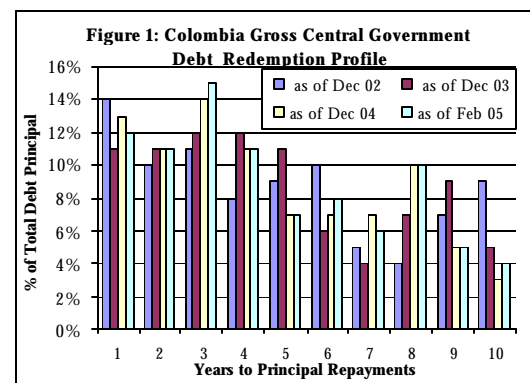
6. The amortization schedule has been kept relatively smooth during recent years, with payments coming due in any given year never exceeding 15 percent of total debt -and usually maintained at lower levels (Table 4 and Figure 1).

Table 4: Amortization Profiles

(% of principal coming due in each period)

Dec-04	External	Domestic	Total	Feb-05	External	Domestic	Total
2005	9%	17%	13%	2005	8%	15%	12%
2006	9%	13%	11%	2006	8%	12%	11%
2007	10%	17%	14%	2007	10%	18%	15%
2008	12%	11%	11%	2008	12%	10%	11%
2009	8%	6%	7%	2009	8%	7%	7%
2010	7%	7%	7%	2010	8%	9%	8%
2011	6%	7%	7%	2011	5%	7%	6%
2012	7%	14%	10%	2012	7%	13%	10%
2013	6%	4%	5%	2013	6%	4%	5%
2014	5%	2%	3%	2014	5%	3%	4%

Source: DGCPT, MoF



Source: DGCPT, MoF, (Note Figure 1 refers to external debt only)

7. There is no formalized, written strategy and benchmark for domestic debt, but an implicit strategy can be inferred from the domestic debt profile of the past five years.

- As mentioned, debt denominated in local currency has steadily grown and by February 2005 represented 59 percent of total debt, with 44 percent in Colombian pesos and another 15 percent in Units of Constant Value (UCV) indexed to inflation.

- The domestic debt's indicators of average maturity -namely, an average life of 3.9 years and a duration of 2.5 years⁶, while slightly lower than those of the external debt, are superior to those of many emerging market countries attempting to develop their domestic debt markets.
- The proportion of nominal fixed interest rate denominated debt has increased from 44 percent in 2002 to 56 percent in February 2005, which shows a growing confidence on the part of investors. While inflation-indexed bonds are still issued, USD-indexed bonds have been discontinued.
- The maturity profile is somewhat more concentrated in the shorter term than in the case of external debt, but the aggregate effect is one where less than 15 percent of total principal comes due in any one period. The Colombian authorities have been carrying out a number of exchange transactions which have smoothed amortizations and lengthened maturities.

8. The Colombian authorities have moved towards their formal and implicit targets through transactions which include the following:

- Currency and interest rate swaps with commercial banks;
- Debt exchanges which have allowed them to extend maturities in the domestic market, and in some cases, switch from external debt to domestic debt in the process;
- Prepayment of external debt (mechanism of issuing TES to buy USD from the central bank with which to prepay external debt);
- Issuance of international bonds denominated in Colombian pesos.

9. They have also worked with the World Bank on the various components necessary for strengthening the domestic debt market, such as a new framework for the market makers, changes in the regulatory framework (e.g. new risk regulation for financial intermediaries, supervision and controls), and more recently, strengthening the money market with special emphasis on the development of repo and treasury bill markets.

10. The authorities also requested World Bank assistance to improve the institutional arrangements within the MoF for debt issuance and management, and as a result a merger took place between the Directorate General of Public Debt and the Directorate General of the Treasury, as both units were issuing domestic debt with different objectives, which did not contribute to the design and implementation of a unified strategy and instead fragmented the market. Colombia is a leader in terms of the registration and management of the government's contingent liabilities, on which they have been working for the past decade, partly with the help of the World Bank.

11. The Central Bank is now the only supplier of liquidity in the market since the Ministry of Finance has its liquidity deposits at the Central Bank.

⁶ Average life of a debt portfolio refers to the average length of time an amount on loan remains outstanding, while duration of a debt portfolio is to the present value-weighted time to maturity of its cash flows

Annex C3

COLOMBIA'S MILLENNIUM DEVELOPMENT GOALS

MDG Targets	Colombia Monitoring Indicators	Colombia's Current Position	Position of the World
<p><u>Poverty</u> Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day and the proportion of people who suffer from hunger</p>		Population below minimum level of dietary energy consumption decreased from 17 percent in 1990 to 13 percent in 2003.	Population below minimum level of dietary energy consumption decreased from 20 percent in 1992 to 16 percent in 2002.
<p><u>Education</u> Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete primary schooling.</p>	<p>Primary enrollment increases from 76.02 percent in 1992 to 100 percent by 2015 and</p> <p>Secondary enrollment ratio increases to from 59 percent in 1992 to 93 percent in 2015.</p>	<p>Primary enrollment ratio in Colombia increased to 88.1 percent in 2003.</p> <p>Enrollment in secondary schools increased from 59.1 percent in 1990 to 74.4 percent in 2003.</p>	Primary enrollment increased from 84 percent in 1990 to 87 percent in 2001.
<p><u>Gender Equality</u> Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels of education no later than 2015.</p>		<p>The ratio of female to male enrollment in primary and secondary schools has increased from 101.4 in 1994 to 103.7 in 2003.</p> <p>The share of women employed in the non-agricultural sector has increased from 46.1 percent in 1997 to 49.2 percent in 2003.</p>	<p>The ratio of female to male enrollment in primary and secondary education has increased from 87 in 1990 to 93 percent in 2000.</p> <p>The share of women employed in the non-agricultural sector has increased from 35 percent in 1990 to 37 percent in 2002.</p>
<p><u>Reduce Child Mortality</u> By 2005, reduce by two-thirds the mortality rate of children under 5 years of age</p>	<p>Decrease of under-5 mortality rate to 17 per 1000 by 2015 (rate was 37.4 per 1000 in 1990).</p> <p>Immunization rates for measles reaches 95 percent by 2015</p>	<p>The under-5 mortality rate in Colombia decreased from 37.4 per 1,000 in 1990, to about 28.2 per 1,000 in 2004.</p> <p>Immunization rates for measles for children between 12-23 months old has increased from 75 percent in 1997 to 92 percent in 2003.</p>	Worldwide, the under-5 mortality rate was 86 per 1,000 in 2003.
<p><u>Improve Maternal Health</u> Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.</p>	Maternal mortality rate falls to 45 for every 100,000 live births by 2015. Baseline 100 for every 100,000 live births in 1998	In Colombia, maternal mortality rate was 99 per 100,000 live births in 2003	Worldwide, there were 407 maternal deaths per 100,000 live births in 2000.
<p><u>COMBAT HIV/AIDS Malaria and Other Diseases</u> Halt by 2015 and begin to reverse the spread of HIV/AIDS.</p>	Prevalence rate of HIV does not rise beyond 1.2 percent by 2015.	In 2004, the prevalence rate of HIV/AIDS among adult population was 0.7 percent.	In 2001, the worldwide prevalence rate of HIV/AIDS among adults was 2 percent.
<p><u>Ensure environmental sustainability.</u> Halve, by 2015 the proportion of people without sustainable access to safe drinking water.</p>	<p>Increase from 94.6 percent in 1993 to 99.4 percent in 2015 of Colombia's population living in urban areas access to an improved water source.</p> <p>Increase from 41.1 percent in 1993 to 81.6 percent in 2015 of Colombia's population living in rural areas access to an improved water source.</p>	<p>In 2003, 97.4 percent of Colombia's population living in urban areas and 66 percent living in rural areas had access to an improved water source.</p> <p>In 2003, about 88.1 percent of the population had access to water.</p>	Worldwide, in 2002, 82 percent of the population had access to water.

Annex C4

PROGRESS TOWARD CAS OBJECTIVES BY PILLAR AND PLANS FOR FY06-07

1. The breakdown below summarizes Bank assistance across the four CAS Pillars (presented by sector) and indicates plans for FY06-07.

Pillar I: Sustainable Growth¹

2. **Sector Issues.** Colombia leads its peers in provision of **infrastructure** for basic social service delivery but lags behind in the provision of infrastructure to support productive activities. Deficiencies remain in paved roads, internet access, and electricity generation capacity, which are below the levels needed to nurture Colombia's competitiveness, compromising the country's ability to benefit from the upcoming FTA with the United States.² Many of the infrastructure deficiencies have been caused or exacerbated by violence and insecurity. Fiscal constraints add to the difficulty of meeting the infrastructure challenge, and argue for an investment focus increasingly targeted toward productive infrastructure, while maintaining gains in social infrastructure.

3. **All of the infrastructure operations envisioned in the CAS have been approved or are in the pipeline.** In AAA, a study on *Recent Economic Developments in Infrastructure* (REDI) launched by the Bank in 2004, looked at the role of infrastructure in competitiveness and poverty reduction. It provided a comprehensive view of infrastructure quality and coverage, set an agenda for future actions and presented a framework for public/private sector involvement in infrastructure. The AAA on *Logistics for Competitiveness*, delivered in FY05, follows on the REDI study by identifying the specific infrastructure and regulatory bottlenecks the country needs to address to fully benefit from the upcoming FTA.³

4. In **transport**, the successful *Bogotá Urban Transport Project* has led to the *Integrated Mass Transit* project, which extends bus rapid transit systems to other medium-sized cities. Ongoing **water** projects and the new *Water and Sanitation Sector Support Project* are bringing efficiency improvements through public sector capacity building combined with private sector participation. The Bank is also helping FINDETER provide private credit to urban service providers, while the *Bogota Urban Services Project* provides social infrastructure to 600,000 of the poorest residents of the city. A new *Transport* project is also planned for FY07.

5. **Financial Sector Reform.** During the first two years of the CAS period, the Bank Group's support to government in this area has focused on consolidating the financial sector stabilization that took place in the wake of the 1999 crisis. This agenda has been addressed through IBRD's two FSAL loans and IFC assistance.⁴ For the remaining CAS period, the Bank and Government are shifting to a broader focus on competitiveness and growth issues, primarily through the Development Policy loans on *Business Efficiency and Productivity*.

¹ Programs under this Pillar are managed by; FPSI, ESSD IFC, MIGA.

² The FTA will bring considerable additional pressure on Colombia's ports, airports and eventually border crossings.

³ These include ports, airports, roads, the trucking industry, product quality and logistics in general.

⁴ There are eleven outputs and/or outcomes listed on page 25 of the 2002 CAS under Financial Sector goals. Nine of these initiatives have been completed or are underway. Pending items such as assessing Colombia's AML/CFT regime and judicial procedures related to credit and financial systems are being addressed in the upcoming DPL Business Efficiency and Productivity loans.

6. **The Financial Sector Adjustment Loans I & II have supported Government actions to further consolidate reforms** initiated in the aftermath of the 1999 banking crisis—reforms aimed to prevent or manage future crisis, including in particular, strong risk-based supervision and credit risk management. Law 795 of 2003, the principal reform instrument, established procedures to dispose rapidly of assets acquired by FOGAFIN, (the deposit insurance agency that rescued borrowers, depositors and bankers during the crisis) and a review of the role of second-tier institutions has also been initiated. The new Securities Law strengthens security market supervision, reduces transaction costs and requires better information disclosure. The Bank's support focused on increasing access to financial services in support of growth. This will be done through the new DPL series which will address, among other issues, the reform of judicial systems procedures affecting credit and financial system operations (issues flagged in the original CAS).

Box 1. Results of the Financial Sector Adjustment Program

The main accomplishment of the FSAL program has been the return of stability to the banking sector particularly regarding its solvency level.

- The banking sector is now adequately capitalized and has recovered from the crisis;
- Capital Adequacy Ratios have increased from 11% to 14%;
- Asset quality has improved. Non performing loans in the system have decreased from 16% to 8%;
- After the severe contraction in credit during the crisis, since 2003 credit portfolios have been increasing all quarters at least at 10% real growth rates on an annualized basis;
- The Government debt issuance program has been established with issuances in the entire range of the yield curve taking place according to schedule.

7. Two development policy loans to increase productivity and business efficiency are also planned, focusing on improving economic competitiveness in the context of the FTA. These loans will support the next wave of financial sector reforms, and will increase the productive sector's access to financial services. Investment lending and AAA will emphasize infrastructure provision in support of enhanced productivity and access. Analytical support on improving access to financial services for a broader range of enterprises and the general population will be provided through the AAA on *Financial Sector Reform* in FY06.

8. **Private Sector Development.** The CAS strategy to support private sector development was to help the Government “foster a productive business environment and remove impediments currently constraining private sector performance”. Important analytical support to this strategy was provided by the 2005 study “Doing Business-Removing Obstacles to Growth” co-sponsored by the Bank and IFC,⁵ which identified Colombia as the second-fastest reformer in the world with respect to business regulatory improvement. The study also showed, however, that the private sector continues to face uncertainties and delays in the legal and judicial system as well as poor coordination between the government agencies responsible for fostering domestic and foreign investment.⁶ Access to finance is a problem for large parts of the economy, and the cost of capital for SMEs remains high.

9. An investment loan of US\$100 million and one ESW to support Small & Micro Enterprises were envisioned in the CAS. These were subsequently dropped at the request of the Government, and assistance to SMEs will be provided through the upcoming DPLs on *Business Efficiency and Productivity*. A study on “*Knowledge Management for Productivity and*

⁵ The World Bank, Oxford University Press 2005.

⁶ As a result, it takes an average of 43 days to start a business in Colombia—better than the regional average of 70 days, but much worse than in countries such as Turkey and Australia (9 and 2 days respectively). The cost of creating collateral is higher than in the region, and the average time to resolve bankruptcies is 3 years (as against 3.7 for the region as a whole).

Competitiveness” was also in the CAS. However, the Government requested that the CAS’s original emphasis on the Knowledge Economy be refocused on immediate financial sector reforms needed to deal with the challenges of competitiveness, in light of the upcoming FTA. IFC support to the Private Sector is summarized in paragraphs 79-82.

10. **Natural Disaster Management.** Due to its location, Colombia is highly prone to natural disasters. In the last 25 years it has suffered from six major earthquakes, three volcanic eruptions, major landslides and recurrent flooding. It is estimated that a major earthquake in Bogotá could result in losses in excess of US\$10 billion⁷ and would have serious repercussions for Colombia’s economy. Given this vulnerability, Colombia is shifting its focus from emergency response to a more comprehensive disaster risk management approach. A *Disaster Vulnerability Reduction loan* (APL) recently approved by the Board provides risk financing and insurance instruments to counter catastrophic loss. This will be complemented by subsequent loans focusing on building local government capacity in disaster and risk management.

11. **Rural Development.** When the CAS was written, Colombia’s rural economy was stagnating. Productivity had not increased in a decade, the coffee sector was facing unprecedented competition in international markets and only illegal crops promised sustained profitability. A large percentage of the rural population remained poor and lived under the shadow of illegal armed groups. More than 60 percent of the approximately 10 million rural inhabitants still live below the poverty line. It is estimated that some 74 percent of the extreme poor and 57 percent of all poor are rural residents.

12. In addition to improved security in rural areas, this situation called for policy initiatives that would boost the sector’s competitiveness, such as developing competitive rural financing systems, diversifying production, structural transformation of the coffee industry and land tenure reform. The Bank sought to support these goals with three investment projects—*Peace and Development*, *Protection for the Displaced* and *Rural Diversification*.

13. Lending for rural development has been much lower than anticipated in the CAS mainly due to fiscal constraints and a change in Government priorities. At the request of the Colombian authorities, the *Peace and Development* (US\$70 million) and *Protection for the Displaced* (US\$55 million) projects were scaled down and merged into a single operation with a total budget of US\$30 million. This significant reduction in Bank financing was partly compensated for by a US\$70 million grant from the European Union to support poor and vulnerable populations through the Peace Laboratories.

14. The *Rural Diversification* project was also scaled down, due to the Government’s fiscal space concerns, support of other donors and the authorities’ decision to remove components related to access to land and support for the coffee sector. The project was reduced from a planned US\$200 million to US\$30 million and its focus narrowed to the promotion of agricultural technology and improving competitiveness through sanitary and phytosanitary measures.⁸ Rather than its proposed APL format the project (now renamed the *Agricultural Transition* project) became the first of a potential series of repeater SILs.

⁷ A recent IADB study put this estimate of Possible Maximum Loss of a one in 200 year earthquake event at US\$20 billion.

⁸ The agricultural technology component was originally considered in the CAS, while the sanitary and phytosanitary component was added at GOC request, reflecting the importance attached to this area as crucial to enhance competitiveness and break into OECD markets.

15. Three lending operations closed successfully during this CAS period: the *Magdalena Medio LIL*, the *Peasant Enterprise Zone LIL*, and the *Agriculture Technology Development* project. The on-going *Productive Partnerships* project was restructured in FY04 in light of Government funding constraints, and has been rated as satisfactory since then.

16. While lending volumes were lower than expected, **the Bank has carried out more AAA on rural issues than anticipated in the CAS.** The three reports delivered in 2004, on *Agriculture Competitiveness*, *Rural Finance* and *Land Policy*,⁹ were very well received by the Government, attracted considerable attention in the media and informed the design of the *Agricultural Transition* project. Additional dissemination of these studies is foreseen to ensure a continuing dialogue on land, rural finance, and competitiveness. The first AAA dedicated to *Indigenous and Afro-Colombian Communities and Social Inclusion* was also delivered in FY05.

17. **Environmental and Natural Resource Management** Over the past two decades, Colombia has taken numerous steps to build institutional capacity to protect and manage its natural resources. However, the country continues to face serious degradation of its land, air, and water resources, compromising its potential for sustainable economic growth. To address these challenges, the Government has introduced broad-based reforms to mainstream environmental management into sectoral policy—in line with its commitment to meet Millennium Development Goal Number 7. The CAS proposed support for the Government’s environmental reform agenda through a series of development policy loans now renamed the *Sustainable Development DPL* series. Complemented by a *Sustainable Development Investment Project*, these loans were intended to help improve the effectiveness and efficiency of the National Environmental System and to integrate principles of sustainable development into key sectors.

18. The first *Sustainable Development DPL* was approved in late FY05, for US\$150 million with an accompanying investment project (US\$7 million), approved in early FY06. A *Country Environmental Assessment* (CEA) was conducted in parallel and contributed to the DPL and investment project design by providing an analytical basis for deciding how best to improve institutional structures for environmental management.¹⁰ As envisioned in the CAS, the Bank’s program has also taken advantage of opportunities under the Kyoto Protocol by accessing funding sources such as the Global Environment Facility (GEF) and the Prototype Carbon Fund (PCF) which have thus far financed the *Jepirachi Carbon Offset* project, and the *Rio Amoya Environmental Services* project.

19. **Pillar I Future Program FY06-07:** The following operations in the environmental sector are expected to be approved during the remainder of the CAS period; *Sustainable Development DPL II*, and grants for a *Rio Frio Carbon Offset* project (PCF) and *Adaptation to Climate Change* project (GEF), both of which seek to reduce carbon emissions while fostering important technology transfers to the renewable energy sector. In addition, a grant for the *National Protected Areas Conservation Trust Fund* project (GEF) will complement an

⁹ The studies were presented at a World Bank-GOC workshop, “La Hora del Campo”, which took place in Bogota with high-level Government participation and 1,500 representatives from the main civil society organization attending.

¹⁰ Cornerstones of the CEA include assessments of (i) the cost of environmental degradation in Colombia; (ii) institutional capacity for environmental management in Colombia; (iii) the effectiveness of the existing policy, legislative and regulatory framework in addressing environmental concerns and; (iv) a public environmental expenditure review. Furthermore, a broad survey of societal perceptions was carried out to assist the government in identifying the country’s priority environmental concerns, as well as the sectors from which they stem.

innovative portfolio of natural resource management projects, strengthening biodiversity conservation and protected areas management, ensuring delivery of environmental services to parts of the country that provide water to 25 million Colombians, and support the nation’s hydropower capacity. All operations and AAA planned under Pillar I for the remainder of the CAS period are listed below.

Table 1. Pillar I Lending Program & AAA for FY06 –FY07

FY	AAA	Lending	US\$ millions
2006	Financial Sector Reform Country Environmental Analysis (CEA) Competitiveness Study	Disaster Vulnerability Reduction APL II	100
		La Guajira Water	150
		Business Efficiency & Productivity DPL I	250
		Sustainable Development Investment Project	7
2007	Regional Development	Bogotá Urban Services II	100
		Transportation II	150
		Sustainable Development DPL II	200
		Business Efficiency & Productivity DPL II	300
Total Loans			1257
Grants			
<i>National Protected Areas Conservation Trust Fund (GEF)</i>			15
<i>Rio Frio Carbon Offset (PCF)</i>			2
<i>Adaptation to Climate Change (GEF)</i>			8
Total Grants			25

Pillar II: Sharing the Fruits of Growth

20. **Sector Issues.** Colombia’s agenda for the **education** sector includes promoting improvements in the quality of education as well as widening primary and secondary coverage. With education expenditures higher than in most other LA countries, quality concerns have translated into attention to efficiency measures (school infrastructure, curriculum materials and better targeting to the poor). In **health**, coverage and quality increased in the 1990s, but reforms are still needed to create a financially sustainable system. Colombia has never had an effective social safety net—the consequences of which became painfully evident during the macroeconomic crisis of 1999, when the Government established a temporary Social Support Network for poor families. Since then, the Government has been developing a **social protection** system capable of providing financing to poor families in times of crisis or shocks.

21. **Development Policy Lending.** Of the US\$617 million in new lending approved for this Pillar through FY05, US\$400 million was devoted to two programmatic loans in support of the Government’s multi-sectoral reforms in the health, education and labor sectors. This *Programmatic Labor Reform and Social Structural Adjustment* series (PLaRSSAL I & II) was successfully completed in FY05, complemented by a US\$2 million TAL operation. Based on the success of these operations, where targets were exceeded, the Government has requested a third-phase PLaRSSAL for FY06.

Box 2. Results of the PLaRSSAL Program

- Increased access of more than 350,000 poor children to ICBF nutrition services between 2002 and 2004 (target: 300,000);
- 92 percent coverage rates for DPT, polio, and Triple Viral for children age 0-1 (target: 90 percent);
- Creation of an unemployment subsidy program with 41,000 beneficiaries;
- One million newly poor persons affiliated under the subsidized health insurance regime (target: 500,000);
- 257,000 additional children enrolled in school (target: 200,000);
- Student achievement testing in 91 percent of municipalities (target: 90 percent);
- Impact evaluations of 5 social programs (target: 2 programs).

22. **Investment Lending.** The Bank has thus far **approved US\$ 215 million** for two investment projects to support the sector reforms above. **In education**, investments focused on decentralizing services, improving quality and targeting the poorest areas. The first education investment project approved in this CAS period was the *Higher Education Project* which supports increased access and equity in the tertiary education sector. This was followed by the *Cundinamarca Education Project* in FY04, which supports quality and efficiency goals at the local level. This decentralized approach will be followed up in the *Antioquia Secondary and Technical Education Project* in FY06. Furthermore, the second phase of a *Rural Education APL*, now serving 212 municipalities, is planned for FY07. **In health**, the achievements under the PLaRSSAL series will be deepened under the *Health Reform Investment Project* (US\$100 million) proposed for FY07 which aims to improve financing mechanisms, hospital efficiency and public health programs. Support for local government in the provision of both health and education services would be provided through the proposed *Social Service Delivery Project* (FY07).

23. **In social protection**, the Bank has been supporting Government efforts to build an effective safety net since 2000 and has since approved several operations to help develop a comprehensive social policy and risk management system.¹¹ To follow up on these investments, a *Social Protection Investment Loan* is planned for FY06, to consolidate and strengthen the overall social protection system for the poor. A *Social Safety Net Study* will also be prepared in FY06.

24. **AAA** delivered during this CAS period has provided analytical support to the sector reforms promoted through the PLaRSSAL loans. In education, incentives to improve efficiency in spending were complemented by a *Contracting Education Services Study*, which analyzed national and international alternatives for provision and financing of education. The *Public Training Reform* ESW proposed options for improving the performance of the National Training Institute (SENA).

25. The CAS also identified the legal and regulatory framework of the Colombian labor market as one of the key constraints to the poor being able to earn higher incomes. This led to the definition of a labor reform agenda to increase growth and reduce inequity. A *Labor Markets Study*, together with the PLaRSSAL loan series, supported this reform agenda. Since proposed labor legislation was passed very quickly by the incoming Uribe administration, the focus of the study shifted to assessing the impact of the reform effort; and identifying additional policy constraints

26. **Future Program.** Operations and AAA planned under Pillar II for the remainder of the CAS period are listed below.

¹¹ These projects, which were approved prior to this CAS, include a Social Sector Adjustment Loan, *Community Works Project*, which provided support for temporary employment in community-based public works to over 200,000 people and a *Human Capital Development Project* which provided conditional transfers to poor rural women and their children. This operation was co-financed by IDB and has brought significant results; e.g. the incidence of malnutrition was only 8.7 percent among the treatment group but was as high as 12.2 percent among the control group. Similarly, the average school attendance rate was 85 percent among the treatment group and but only 77 percent among the control group. Moreover, the impact evaluations initiated under this operation have generated increasing support for M&E in Colombia, including at the Presidential level.

Table 2. Pillar II: Lending Program and AAA for FY06–FY07

FY	AAA	Lending	US\$ million
2006		Prog. Labor & Social Sector Reform III	150
		Social Safety Net	87
2007	Social Safety Net Study	Health Reform Investment	100
		Rural Education APL II	30
		Social Service Delivery	75
		Antioquia Second and Technical Education	20
		Total	462

Pillar III: Governance

27. **Public Sector Reform.** The Bank worked closely with other development partners to prepare a series of *Fiscal and Institutional Adjustment Loans* (FIAL I-IV), to be approved between FY03 and FY06, for around US\$900 million. This loan series had two central objectives—to improve the provision of public services and to enhance efficiency and accountability in public expenditure. *FIAL I* (US\$300 million) was disbursed by early 2003. It reflected a rich policy dialogue with the administration and supported a set of important policy actions undertaken in 2002. These included passage of a tax reform law, regulations to improve procurement, and legislation to support the legal defense of the state, as well as the launching of constitutional reforms meant to strengthen fiscal management. *FIAL II* (US\$150 million, FY04) built on the actions of *FIAL I* and supported important measures such as the enactment of the fiscal responsibility law and the full implementation of the 2002 tax reform.

28. The third loan of the series—*FIAL III*—was delayed and scaled back when some reforms important to long-term fiscal sustainability were stalled (e.g. bills to reform the procurement and budget codes)¹² while transfers to the pensions system and subnational governments increased. Despite the generally good progress of the FIAL program and improvements in the overall fiscal balance, concerns about the speed of implementing some reforms led to the scaling down of the *FIAL III* from US\$150 million to US\$100 million in FY05. During the CPPR and CAS PR discussions the Government and Bank agreed that the reforms needed to trigger *FIAL IV* were not likely to be in place by FY06, and decided to redirect funds earmarked for *FIAL IV* to operations where reforms were moving more quickly (resulting in plans for a third *PLaRSSAL* loan and the *Business Efficiency and Productivity DPL* series). A new *Country Economic Memorandum*, focused on competitiveness and the impact of the pending FTA, has been delivered to the government and is now under review. A *Public Expenditure Review* was also finalized in 2005.

Box 3. Results of the FIAL Program

- Two important tax reforms that reduced distortions in the tax system and brought tax rates to international standards, yielding approximately 1.9% of GDP in additional fiscal revenue by end-2004;
- Implementation of fiscal responsibility legislation, which establishes medium-term fiscal planning and maintains debt levels within sustainable limits;
- Improvements in public sector administration in asset management and public sector procurement, generating substantial savings through improved use of public sector assets and greater transparency in procurement; and
- A successful pilot exercise in performance contracts with two public sector entities.

29. For the remainder of the CAS period, the Bank remains committed to supporting Colombia's agenda to improve long-run fiscal performance through current and upcoming AAA

¹² An initial version of the new procurement code was submitted to Congress in 2002, revised, and then withdrawn from Congress in mid-2004. Another version was resubmitted in August 2004, and has yet to undergo the initial debates in the legislature. The reforms to the budget code, which were originally forecast to be passed by Congress by December 2003, were rescheduled to December 2004 and had still not been approved at the close of the June 2005 Congressional Session.

and policy dialogue. Dissemination of the recently completed CEM will include discussion of the key fiscal risks faced by the country. The upcoming Policy Notes will include notes on fiscal issues and an Analysis of Decentralization & Sub-National Investment will analyze another key dimension of long-run fiscal performance and improved public investment. Finally, the upcoming Institutional and Governance Review will explore the institutional factors that affect fiscal performance and examine the obstacles faced in moving some fiscal reforms forward, in order to develop strategies for overcoming these in the future.

30. **Judicial Sector.** In spite of progress of the last decade, the Colombian judicial sector continues to face serious challenges, and demands for new management models are growing. At the time of CAS formulation, Colombia's private sector and civil society were demanding more effective judicial administration, and one of main goals under the Governance Pillar was to support Government efforts to improve court services delivery.

31. The instrument selected to provide this support was the *Judicial Conflict Resolution Improvement Project* (FY03, LIL), intended to help improve the timeliness, quality and productivity of Colombia's conflict resolution system. The project has moved beyond traditional judicial training and has introduced important changes. For example, judges are now evaluated on the basis of performance indicators with in-kind incentives provided for improved team performance. A follow-up *Judicial Sector Development Project* planned for FY07 will address various judicial sector priorities articulated in the National Development Plan.

32. **Anticorruption.** Colombia's rating on perceptions of corruption produced by Transparency International was a 3.8 out of 10 in 2004, which put it in 60th place out of 146 countries, at about the same level as Brazil, Slovakia, Cuba, Ghana, Mexico, and Thailand¹³. This is an improvement from earlier ratings (2.2 in 1997 and 2.9 in 1999) but still gives Colombia a ranking of "fairly/modestly corrupt".¹⁴ Since 2001 the Government has been implementing a Presidential program for the modernization, efficiency, and transparency of the State, including the fight against corruption. Efforts include a draft law to strengthen the capacity of the State to design preventive actions and the judicial system's ability to investigate/sanction corrupt practices; and the development of transparency and monitoring agreements with the governors, mayors, regional corporations interested in implementing anticorruption policies.

33. The 2002 CAS outlined a strategy based on an initial LIL which explored innovative ways to combat corruption, to be followed by a larger investment operation in FY06. Significant preparatory work was undertaken for the LIL, but ultimately a lack of government support prevented the project from being executed. The subsequent investment operation forecast for FY06 was then dropped from the CAS pipeline at the request of the Government. The reasons given were limited fiscal space, a lack of a clear institutional home for the project, and uncertainty as to whether a new administration inheriting the project would have the same commitment to the anticorruption activities of the eventual loan. For the remainder of this CAS period, no specific anticorruption investments are planned with the World Bank, though the

¹³ Chile's rating is the best in Latin America at 7.4; Uruguay was with 6.2 followed by Costa Rica with 4.9. The worst rated Latin American countries were Argentina (2.5), Ecuador (2.4), Venezuela (2.3), Bolivia (2.2), and Paraguay (1.9).

¹⁴ The World Bank's Governance Research Indicators show Colombian governance to be of average quality. In comparison to Colombia's cohort of lower middle-income countries, Colombia rates below its comparators in voice, accountability, rule of law and control of corruption. It rates higher than its comparators on quality of regulation and government effectiveness.

Government expects to continue activities funded by other donors and its own resources and improved governance will continue to be an important theme in Bank projects.

34. **WBI.** Much of WBI activity under the current CAS has been linked to the Governance pillar. A total of approximately 2800 representatives from Colombian government agencies, civil society organizations, academia, and the private sector have participated in WBI learning programs. These included courses on governance, environmental management, rural development, trade, and corporate social responsibility. WBI will continue to support the GDLN Center in Colombia and will provide monitoring and evaluation support on request, in collaboration with OED (see paragraph below).

35. **New M & E Component.** Monitoring, Information and Evaluation support is already being provided through ongoing and upcoming Bank operations (namely MAFFP II, the PLaRSSAL and FIAL loan series, the ongoing Human Capital Development and Community Works projects, plus the Social Safety Net loans anticipated in FY06). However, during the remainder of this CAS period the Bank will step up its activities in response to the Government’s increased emphasis and commitment to results-based monitoring and evaluation. Colombia’s national evaluation system (SINERGIA) comprises three components: (i) monitoring of presidential goals and public policy; (ii) launching selected impact evaluations; (iii) and social control and dissemination. Multi-sector efforts are underway with the National Planning Department to assess and strengthen SINERGIA and the government plans to complete its strategic plan for improving the system in early FY06.¹⁵ This strategy will be used to define World Bank collaboration for the remainder of the CAS period, which is expected to also include technical support from OED and WBI and an investment loan. The Bank will continue to support the integration of results-based management (RBM) within central government ministries and subnational governments¹⁶. It will also help the Government carry out impact evaluations of public programs, promote widespread access to M&E information, and better link M&E results with the budgeting process.

Table 3. Pillar III Lending Program and AAA for FY06 –FY07

FY	AAA	Lending Program	US\$ Millions
2006	Policy Notes for Incoming Administration Support to National Poverty Reduction Strategy		
2007	Institutional and Governance Review (IGR) Decentralization & Sub-National Investment	Judicial Sector Development Loan Support to National M & E Systems	50 10
	Total		60

New Pillar IV: Peace Pillar

36. **The Bank has been supporting Colombia to build the foundations for peace since the mid-1990s**, beginning with the *Integrated Youth Development Project*, the *Peasant Enterprise Zones Project* and the *Magdalena Medio Regional Development LILs*.¹⁷ The most successful strategies within these projects were subsequently scaled up through the *Peace and Development APL* approved in 2004. Assistance to the displaced and violence-affected rural poor has also been provided through the *Sierra Nevada Sustainable Development* project and components of other sectoral operations such as the *Rural Education Project* (which included

¹⁵ The MAFFP II is the main source of financing for SINERGIA and will expire at the end of this calendar year.
¹⁶ Pilots for RBM at the subnational level are already underway within the Ministry of Social Protection in Pasto and Medellin
¹⁷ These projects focus on the reduction of war-related vulnerability, prevention of displacement and attention to displaced families willing to return home or relocate to new areas.

education for peaceful coexistence), and the upcoming “*Familias en Accion*” Project. In addition two Post-Conflict Grants were approved to protect the assets of the displaced (*Protection of Patrimonial Assets PCF Grant I, May 2003 for US\$809,658*) and promote conflict prevention and restoration of trust among communities (*Education for Peace in Conflict Environments PCF Grant, Feb 2005 for US\$250,000*).

37. **The Government has now requested the Bank to deepen its assistance in building the foundations for peace, and has proposed that a fourth “Peace Pillar” be added to the current CAS.** Bank support under this fourth pillar would be phased, focusing initially on knowledge sharing, targeted studies and grant assistance which, together with experience from current operations, would provide the Government with viable strategies that could be scaled up into lending operations in late FY07 and/or in the next CAS.¹⁸

38. Preliminary discussions with Government indicate priority would be given to generating lessons on the following issues: (i) how to rebuild state presence and strengthen local governance in newly secure regions; (ii) promoting security for private sector investments in rural areas; (iii) protecting assets of the poor, particularly land; (iv) expanding assistance beyond ex-combatants and the displaced to other vulnerable sectors of the society. Specific studies under discussion include: (i) an analysis of national and global experience in the demobilization and social/economic reintegration of ex-combatants;¹⁹ (ii) an assessment of the situation of other vulnerable groups such as children/orphans, youth, women and particular ethnic groups affected by violence and; (iii) international best practice on how to build the capacity of local administrations previously paralyzed by violence to build social capital, promote development and effectively provide public goods and services.

39. On the grant/lending side, a second phase of the *Protection of Patrimonial Assets Grant* is proposed, along with a potential second phase of the *Peace and Development APL* and a GEF grant related to *Cultural Diversity and Peace*.

Table 4. Pillar IV Lending, Grants and AAA for FY06 –FY07

FY	AAA	Lending/ Grants	US\$ Millions
2006	Peace Programmatic I : Demobilization and Reintegration of Ex-combatants	Protection of Patrimonial Assets of IDPs Grant	1
2007	Peace Programmatic II: Assistance to Displaced and Other Vulnerable Groups	Peace and Development APL II	150
		Cultural Diversity and Peace Grant (GEF)	9
Total			160

¹⁸Concessional financing for post conflict assistance that has at least a 35 percent grant component would also allow for a bit more fiscal leeway in that this spending would not be included in the country's quarterly public sector deficit target as agreed with the IMF (up to a maximum of 0.5 percent of GDP or US\$500 million for 2005 as a whole). See Colombia Stand-By Agreement with IMF, Annex II, Colombia Technical Memorandum of Understanding, page 61, April 2005 See Colombia Stand-By Agreement with IMF, Annex II, Colombia Technical Memorandum of Understanding, page 61, April 2005.

¹⁹This could include (i) an analysis of Colombia’s experience with the reinsertion of ex-combatants and/or (ii) documentation of current approaches used by local, regional and national NGOs, bilateral agencies, UN system agencies and international NGOs to reintegrate ex-combatants and rebuild social capital and the presence of the state.

Annex C5

OVERALL BANK AAA AND LENDING PROGRAM FOR FY03-07²⁰

FY	AAA	Lending Program	US \$(M)
2003	Economic Foundation of Peace	Prog. Fiscal and Institutional Adj Loan I	300
	Violence, Sustainable Peace & Development	Prog. Financial Sector Adj Loan I	150
	Coffee Sector Work	Higher Education	200
	Achieving Fast & Sustainable Growth	Bogotá Urban Services	100
	Rural Finance		
	Sharing the Fruits of Growth		
	Building a Government of Quality	Subtotal 03 (Q3&Q4)	750
2004	Rural Finance II	Prog. Fiscal and Institutional Adj Loan II	150
	Country Financial Account Assessment (CFAA)	Cundinamarca Education	15
	Afro-Colombian Descendants & Social Inclusion	Prog. Labor & Social Sector Reform I	200
	Agricultural Competitiveness	1 st APL Peace & Development	30
	Improving Public Expenditure Efficiency	Integrated Mass Transit Systems	250
	Public Training Reform		
	Land Policy in Transition		
Recent Economic Development in Infrastructure (REDI)	Subtotal 04	645	
2005	Country Economic Memorandum (CEM)	Prog. Financial Sector Adj. Loan II	100
	Country Procurement Assessment Report (CPAR)	Prog. Labor & Social Sector Reform II	200
	Contracting Education Services	Prog. Labor & Social Sector Reform II TAL	2
	Labor Reform Agenda	Prog. Fiscal and Institutional Adj Loan III	100
		APL 1 Water and Sanitation Loan	70
		Disaster Vulnerability Reduction	260
		Sustainable Development DPL	150
		Agricultural Transition	30
	Subtotal 05	912	
2006*	Peace Programmatic I: Demob & Reintegration of Ex-combatants	Business Efficiency & Productivity DPL I	250
	Financial Sector Reform	Prog. Labor & Social Sector Reform III	150
	Policy Notes for Incoming Administration	Sustainable Development Investment Loan	7
	Support for Development of a National Poverty	La Guajira Water	150
	Country Environmental Analysis (CEA)	Disaster Vulnerability Reduction APL II	100
	Competitiveness Study	Social Safety Net	87
	Subtotal 06	744	
2007*	Peace Programmatic II: Assistance to Displaced & Other Vulnerable Groups	Sustainable Development DPL II	200
	Regional Development	Business Efficiency & Productivity DPL II	300
	Institutional and Governance Review (IGR)	Bogotá Urban Services II	100
	Decentralization & Sub-National Investment	Transportation II	150
	Social Safety Net Study	Rural Education APL II	30
		Social Service Delivery	75
		Antioquia Secondary and Tech Education	20
		Support to National M&E Systems	10
		Health Reform Investment	100
		Peace & Development APL II	150
		Judicial Sector Development Loan	50
		Subtotal 07	1185
		Subtotal FY03-05	2,307
		Subtotal FY06-07	1,929
		TOTAL FY03-07	4,236

²⁰ This table includes AAA and lending, but excludes grants which are covered under the description of Pillar I and IV.

Annex C6

ACTIVITIES OF OTHER DONORS

1. **In Colombia, the Government takes a strong lead in donor coordination and management of international cooperation and multilateral partnerships.** The Bank's strategy of focusing on growth, equity, peace-building, and governance is consistent with that of other multilateral donors, and its investment and AAA complements the assistance provided by other donors.

2. **The Inter-American Development Bank (IDB)** is Colombia's largest multilateral donor, followed closely by the World Bank and the Andean Development Corporation (CAF), with all three agencies providing approximately US\$1 billion per year each in development assistance. IDB's current portfolio under implementation totals US\$2 billion, and is split evenly between policy based loans and infrastructure and social development. IDB's country strategy shares the World Bank's focus on sustainable growth, poverty and inequality reduction, and strengthening and modernizing the State. Currently, the IDB and Bank are both supporting the *Familias en Acción* and *Jovenes en Acción* projects as well as assisting the Ministry of Education to modernize the Secretariat of Education.

3. **The Andean Development Corporation (CAF)** approved nearly US\$4 billion for Colombia between 2000 – 2004; three quarters of which went to infrastructure investments (mostly in transportation, energy and water) with the remaining support going to the business sector and public administration. CAF, the World Bank and the Ministry of Education are collaborating on projects related to technical and technological education. This year CAF plans to lend Colombia US\$900 million, of which US\$150 million is to partially finance the government's Regional Highway and Infrastructure Development Plan.

4. **USAID provides** roughly US\$120 million in grant assistance per year in the following areas: (i) reduction of illicit crop production; (ii) humanitarian assistance to displaced persons; and (iii) democracy and good governance. USAID has also launched a capacity building program to help Colombia maximize potential benefits from the pending FTA with the United States. USAID's work on issues like the FTA, justice and governance and support of internally displaced people coincides with the three pillars of the Bank's CAS.

The United Nations System has 16 agencies operating in Colombia and supports programs in virtually all sectors. UNDP focuses on poverty reduction, the promotion of democratic governance and the reduction of the violence, and is working together with the IDB and the World Bank in supporting the design of the Poverty and Inequality Reduction Strategy for Colombia 2004 – 2015. UNDP supports peace programs under the REDES (Reconciliation and Development) program, which complements the Bank's Peace and Development project in areas such as Montes de Maria.