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COLOMBIA

MULTISECTOR CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS: FISCAL AND PUBLIC INVESTMENT EXPENDITURE STRENGTHENING IN SUBNATIONAL ENTITIES

(CCLIP - CO-X1018)

SECOND OPERATION UNDER THE MULTISECTOR CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS: FISCAL AND PUBLIC INVESTMENT EXPENDITURE STRENGTHENING PROGRAM FOR MUNICIPIOS, THEIR DECENTRALIZED AGENCIES, AND METROPOLITAN AREAS

(CO-L1155)

LOAN PROPOSAL

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ABBREVIATIONS

CCLIP	Conditional Credit Line for Investment Projects
DNP	Departamento Nacional de Planeación [National Planning Department]
ESCI	Emerging and Sustainable Cities Initiative
ESMF	Environmental and Social Management Framework
FINDETER	Financiera del Desarrollo Territorial S.A.
FPI	Fiscal Performance Index
ICA	Impuesto a la Industria y Comercio [Industry and Commerce Tax]
IFIs	Intermediary financial institutions

PROJECT SUMMARY

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<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3">Borrower: Financiera del Desarrollo Territorial S.A. (FINDETER)</td><th colspan="2">Flexible Financing Facility[a]</th></tr>
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<tr><td>Total:</td><td>US$150 million</td><td>100</td><td>Approval currency:</td><td>US Dollars from the Bank’s Ordinary Capital</td></tr>
<tr><th colspan="5">Project Outline</th></tr>
<tr><td colspan="5">Objective of the second operation under the CCLIP: To support improved fiscal and urban sustainability in five municipios by financing institutional strengthening and physical investment projects. The specific objectives are as follows: (i) improve fiscal performance in terms of revenue collection and public expenditure efficiency; (ii) improve urban planning, infrastructure, and services; and (iii) improve utilities access and quality.</td></tr>
<tr><td colspan="5">Special contractual conditions precedent to the first disbursement of the financing: Submission of evidence to the Bank’s satisfaction that: (i) the Credit Regulations for the second operation under the CCLIP have been approved by FINDETER’s Board of Directors and have come into force, under terms agreed upon in advance with the Bank; (ii) the Operating Regulations have been approved and have entered into force, under terms agreed upon in advance with the Bank; (iii) the executing agency has designated the minimum staff necessary to carry out program activities, in accordance with terms of reference agreed upon with the Bank; (iv) the final version of the Environmental and Social Management Framework has been submitted and has entered into force, in accordance with the Environmental and Social Management Report, which will be included in the Credit Regulations; and (v) at least one beneficiary agency has signed a credit contract with one of the intermediary financial institutions through which resources will be transferred to the beneficiary entity to implement program activities (paragraph 3.5).</td></tr>
<tr><td colspan="5">Exceptions to Bank policy: As with the first program under the CCLIP, in this second program the Republic of Colombia will guarantee only the payment of the debt service and the executing agency may use national legislation for procurement and contracting below the threshold for international competitive bidding and for the hiring of consultants with a cost of less than US$500,000 (paragraph 3.6).</td></tr>
<tr><td colspan="5">Project qualifies as[c]: SV ☐ PE ☑ CC ☐ IC ☐</td></tr>
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[a] Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower may request modifications in the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[b] The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank’s lending charges, in accordance with applicable policies.

[c] SV (Small and Vulnerable Countries), PE (Poverty Reduction and Equity Enhancement), CC (Climate Change, Sustainable Energy, and Environmental Sustainability), IC (Regional Cooperation and Integration).

I. DESCRIPTION OF THE PROJECT AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 **Progress and challenges in the decentralization process.** The 1991 Constitution promoted a process of decentralization of Colombia's political and administrative structures. Subnational entities (departments, districts, and municipios) received greater powers to execute public spending and transfers from the central government, but without the corresponding increase in taxation authority. This has deepened the subregional entities' vertical financial imbalances in recent decades.[1] This difference between executed expenditure and collected revenue has created a strong dependence on transfers from the central government, and has led to more vulnerable and less predictable local public finances. With decentralization, departments and municipios have taken on more responsibility for the development of their territories, and have consequently assumed a growing role in urban management, the promotion of economic development and technological innovation, environmental preservation, and the delivery of social services.[2] As the population grows and becomes more urban, the pressure on government expenditure to meet demand for public goods and services in urban centers also increases. This requires subnational entities to have greater capacity to raise their own resources and formulate and execute public investment programs. However, many subnational entities exhibit weaknesses in their handling of public finances, as well as in investment management and in the delivery of services under their responsibility. The limitations of subnational entities with respect to achieving more effective public management include: (i) weaknesses in subnational development planning and management systems, due to an absence of mechanisms for coordinating development plans with financial and investment programming; (ii) strong dependence on central government transfers, which represent approximately 40% of subnational entities' total revenue;[3] (iii) low revenue collection levels, with average effective tax rates that are significantly below nominal rates;[4] and (iv) low public investment effectiveness, due to limited capacity for project design, execution, and evaluation.[5] Lastly, most subnational entities suffer from serious deficits in infrastructure and utilities, which have a negative impact on citizens' quality of life and on local and regional development potential.

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1 Whereas spending executed by subnational entities went from 16.8% of total spending in 1984 to 43% in 2014, their own revenue rose from 20% to 22% of total fiscal revenue over the same period. Source: National Planning Department (DNP), based on the Single Subnational Government Form and subnational budget execution reports, Ministry of Finance: 2015 Medium-term Fiscal Framework and Central Government Fiscal Balance, 1994-2014.

2 Subnational entities execute a large share of Colombia's public spending, being responsible for around 73% of the country's total spending on education and 61% of health spending in 2011. Source: DNP, National Fiscal Policy Council, National Economic and Social Policy Council (CONPES) of the General Revenue-sharing System, and subnational budgetary execution reports.

3 Non-capital city halls: 62%; Capital city halls: 31%; departments: 36%. Source: Program to Consolidate Subnational Fiscal Responsibility II (loan 2744/OC-CO).

4 At the municipal level, effective rates are 5 per 1,000 for the property tax and 2 per 1,000 for the industry and commerce tax (ICA), compared to a potential of 16 per 1,000 and 10 per 1,000, respectively. Source: Loan 2744/OC-CO.

5 In 2011, only 42% of total allocated royalty resources were executed.

1.2 With the objective of improving fiscal management and public investment by Colombia's subnational governments, in December 2014 the Bank approved a Multisector Conditional Credit Line for Investment Projects (CCLIP) for Fiscal and Public Investment Expenditure Strengthening in Subnational Entities (CO-X1018), together with a first operation for the city of Barranquilla (3392/OC-CO).[6] This is a multisector CCLIP (under which an estimated eight operations will be executed) in that its development objectives will be met by financing projects in various sectors. The CCLIP's borrower and executing agency is Financiera del Desarrollo Territorial S.A. (FINDETER), with which the Bank has been implementing the Emerging and Sustainable Cities Initiative (ESCI)[7] in Colombia since 2012. During the programming of Bank operations with the country, the inclusion of a second operation under the CCLIP was agreed upon to support municipios (either individually or in groups) and their public utilities in the strengthening of their fiscal management capacities and the financing of investment projects. The proposed program is justified on the basis of the needs of the municipios in these areas, as well as more than 15 years of Bank experience in the subnational sector in Colombia.

1.3 The requirements for processing the second operation under the CCLIP (Proposed modifications to the Conditional Credit Line for Investment Projects (CCLIP), document GN-2246-4) establish that:

a. Its objectives and components must be consistent with the credit line's objectives and components;

b. The proposed operation was registered in the 2015B pipeline in November 2014, and was part of the Bank's programming dialogue with the country during preparation of the Country Programming Document for 2015. In mid-2015, given strong demand from local governments for the FINDETER credit line, the Government of Colombia, FINDETER, and the Bank agreed that moving forward with preparation of this second operation was a priority;

c. The executing agency has demonstrated a satisfactory level of performance in the sectors proposed for financing, and the required monitoring and evaluation system will be in operation during execution of the operation; and

d. In terms of the previous project under this CCLIP, (i) it is considered likely to achieve its development objectives; (ii) the borrower and executing agency have complied with contractual conditions in the loan contract and in Bank policies governing disbursements and the procurement of goods and services; and (iii) the operations reports have been prepared and submitted in a timely manner and to acceptable quality standards in terms of financial administration and operational control.

1.4 In accordance with document GN-2246-4, the Credit Line Agreement establishes the criteria for processing second and subsequent operations under CCLIPs for multisector loans. It also establishes the eligibility criteria for the beneficiary agencies' participation in the program. The proposed operation meets these criteria, as (i) the city halls of the five beneficiary cities under the program (Bucaramanga, Manizales, Montería, Pasto, and Pereira) have applied to the

[6] Eligibility is expected in November 2015.

[7] The initiative supports a diagnostic assessment of the main issues in intermediate cities and proposes a comprehensive action plan set within a framework of environmental, urban, and fiscal sustainability.

CCLIP Executive Committee to be included in the program; (ii) they have presented a comprehensive investment plan formulated within the framework of their development plan and aligned with the CCLIP areas of intervention (action plans for the cities of Bucaramanga, Manizales, Montería, Pereira, and Pasto);[8] and (iii) their medium-term macro fiscal frameworks demonstrate borrowing capacity of approximately US$550 million for the 2015-2020 period, which ensures the financial viability of the requested operation.

1.5 **Main long-term sustainability challenges for the beneficiary cities in the second operation.** The five beneficiary cities under the CCLIP's second operation have made significant strides over the 2011-2015 period in implementing programs and interventions to help improve residents' quality of life, particularly with respect to improved fiscal management, investment in road infrastructure and utilities, and the expansion of social services (especially health and education). Nonetheless, despite recent progress, the beneficiary cities face significant challenges in ensuring their long-term sustainability, as reflected in the different planning instruments available, such as the 2012-2015 municipal development plans, land use plans, and current sector master plans. These plans identify priority actions that have supported the development of city action plans under the ESCI. The action plans identify priority areas for intervention, grouped according to four dimensions of sustainability: (i) environmental; (ii) economic and social; (iii) urban; and (iv) fiscal and governance. Specific actions and projects for an estimated amount of more than US$2.5 billion were identified in the five cities, programmed over the short, medium, and long terms. Actions under the plans are being implemented with funding from various sources: the central government, departmental governments, the city halls' own resources, FINDETER, the World Bank, the IDB, the Development Bank of Latin America (CAF), and the commercial banks.

1.6 With a view to deepening implementation of the actions prioritized in the action plans, the city halls of the five beneficiary cities in the proposed program have requested support from the Bank and FINDETER to implement short- and medium-term actions contained in the dimensions of fiscal sustainability and governance, urban sustainability, and environmental sustainability. In this context, the actions that have been prioritized for Bank support aim to strengthen institutional capacities and the design and implementation of projects in the areas of: (i) fiscal management (in terms of bringing revenue generation closer to potential levels and managing public investment and spending more effectively and efficiently); (ii) urban planning and development; and (iii) investment in infrastructure and utilities. A profile has been prepared for each of the beneficiary cities that includes projects pre-identified by the city halls for Bank financing and assistance under the proposed program (city profiles for Bucaramanga, Manizales, Montería, Pereira, and Pasto).

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[8] Action plans were formulated for the five cities (Bucaramanga, Manizales, Montería, Pereira, and Pasto) under the ESCI.

1.7 **Municipal finances.** Fiscal performance in the beneficiary cities' municipios has been favorable in recent years,[9] translating into improvements in the Fiscal Performance Index (FPI) calculated annually by the National Planning Department (DNP). The average FPI of the five municipios rose from 73 in 2007 to 78 in 2013.[10] The increase in own tax collection stands out. It resulted from the property registry update process, which strengthened the property tax base, as well as higher revenue associated with the industry and commerce tax (ICA).[11] [12] Real tax revenue grew by 15% per year on average, enhancing the sustainability of operating expenses and increasing municipal investment, all within the framework of prudent debt policy regulated by the central government. On the public expenditure side, there was a significant investment effort on the part of the beneficiary city halls, reflected in annual average investment growth of 44% in real terms.[13] These growing investment volumes contributed to closing infrastructure gaps and making progress in the social development of the municipios.

1.8 The progress achieved will need to be sustained and deepened if fiscal and financial sustainability is to be consolidated in the medium term; in this regard, the beneficiary cities face multiple challenges. On the revenue side, although tax collection grew significantly, it accounted for only 28% of total revenue in 2013, underlining the high dependency on central government transfers.[14] The low share of own revenue is the result, among other things, of effective property tax rates that are lower than those authorized by law;[15] outdated property[16] and ICA[17]

[9] The FPI analyzes fiscal management in departmental and municipal governments by calculating a composite index based on (i) self-financing capacity in relation to operating expenditures; (ii) debt service coverage; (iii) dependence on transfers and royalties; (iv) generation of own revenue; (v) the magnitude of the investment; and (vi) savings capacity. The index is calculated on a scale of 0 to 100, where scores of close to 100 correspond to the best-performing subnational governments. According to Law 617 (2000), governments scoring above 80 are considered solvent.

[10] This implies an improvement of five percentage points—somewhat lower than the average increase of eight percentage points seen in the FPI for all Colombian municipios over the same period.

[11] According to data supplied by their finance departments, property tax revenue in the beneficiary cities grew on average by 18% per year in real terms from 2010 to 2014, while ICA collection in all municipios grew by 17% annually.

[12] This analysis of municipal finances relies on official data contained in the budget execution reports submitted annually to the DNP. These reports contain disaggregated data for municipal revenue and expenditures, expressed in nominal values. Real figures, expressed in constant 2014 Colombian pesos, were calculated by the project team.

[13] Median investment in the five municipios grew by 34% per year from 2010 to 2014, ranging from 24% average annual growth in Bucaramanga to 74% in the case of Montería.

[14] Own revenue as a share of total revenue was 44.3% in Bucaramanga, 44.9% in Manizales, 17.6% in Montería, 34.3% in Pasto, and 42% in Pereira. The ESCI methodology considers levels above 55% to be satisfactory.

[15] The law authorizes municipal councils to set property tax rates of up to 16 per 1,000 of the cadastral value.

[16] Deficiencies in property registries have been identified in the public finance literature as one of the main hurdles to effective management of property tax in Latin America (Sepúlveda and Jorge Martínez-Vázquez, 2009).

[17] In the case of the property tax, the accuracy of information in urban property registries is naturally eroded due to the dynamics of urban development and socioeconomic mobility. In the case of the ICA, the dynamics of local economies—with the continuous creation of new industrial and commercial enterprises—mean that taxpayer registries need to be updated.

tax bases and limited effectiveness of collection measures.[18] For its part, public expenditure is executed using information systems that are in need of improvement since their functionality is limited, there is only partial integration between the different modules, and institutional coverage is partial.[19] Capital expenditure is generally low[20] and there are weaknesses in developing quality pre-investment studies that would enable financing to be secured for public investments that make an effective contribution to local and regional development. Lastly, in some cases, municipal management is affected by functional structures and administrative processes that are inadequate for performing the roles assigned to these governments by law. Actions are therefore needed to optimize administrative organization and process management in a number of participating city halls.

1.9 **Urban development**. The five beneficiary cities exhibit weaknesses in planning instruments (with a lack of specific sector plans, updated land use plans, and use of technologies such as geographic information systems) and in public service provision (including public spaces, regularization of housing, mobility, and urban equipment), as well as high levels of inequality in access to these services (DNP, 2012).[21] For example, with the exception of Bucaramanga, the cities have well under 50 hectares of open space for every 100,000 inhabitants—the desirable level for reducing environmental impact and improving inhabitants' quality of life (Groth et al., 2008).[22]

1.10 Housing deficits are also significant—they are far above the national average (36%) in Montería, closer to the national average in Pasto and Bucaramanga, and lower in Manizales and Pereira. Lastly, roads are congested in the five beneficiary cities, and there are few incentives for alternative modes of transportation (Pereira Cómo Vamos, 2014). Table 1 shows relevant social and urban indicators for the beneficiary cities under the program.

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[18] Data in the ESCI diagnostic assessments of the Manizales, Montería, Pasto, and Pereira municipios indicate that the ratio of property tax collected to property tax billed stood at 87.8%, 45%, 69%, and 64.9%, respectively, in 2013; values above 85% are considered satisfactory.

[19] According to the ESCI, the systems used suffer to a significant degree from technological obsolescence: they generally lack basic integrated financial modules (treasury, budget, and accounting), and institutional coverage is also incomplete—a limitation that can be seen primarily in the case of decentralized municipal government agencies.

[20] In 2013, the share of capital spending within the total budget was 79.5% in Bucaramanga, 85.5% in Manizales, 94.5% in Montería, 19.2% in Pasto, and 81.7% in Pereira. The ESCI methodology considers levels above 89.5% to be satisfactory.

[21] DNP and World Bank, 2012. "Cities System: A visual approximation of the Colombian case". T. Samad, A. Panman, A. Rodríguez, and N. Lozano Gracia.

[22] Groth, Philip et al. (2008) *Quantifying the Greenhouse Gas Benefits of Urban Parks.* The Trust for Public Land.

Table 1. Social and Urban Indicators

Indicator	Satisfactory level, ESCI[23]	Bucaramanga	Manizales	Montería	Pasto
2015 population	-	527,913	396,075	44,301	439,993
Monetary poverty (%)	-	10.4	16.2	34.8	30.5
Gini coefficient	< 0.35	0.44	0.47	0.46	0.51
Green space (m^2 per inhabitant)	> 50	45.3	10.9	12.26	12.3
Housing deficit (%)	> 10	22.7	11.8	74.6	23.8
Average speed, main roads (km per hr)	> 30	39.2	25.4	17.0	12.1
Bicycle usage (% trips)	> 5	1.4	2.0	11.9	1.5

Source: ESCI action plans for the five cities. Manizales Cómo Vamos (2015), Pereira Cómo Vamos (2014).

1.11 **Utilities**. Although the five beneficiary cities show satisfactory results in terms of the coverage and quality of utilities, there are a number of critical features that need to be addressed, such as the expansion or renovation of water and sewerage networks, the clean-up of river basins and ravines, and the sustainability of solid waste management. With regard to potable water services, coverage is broad, yet there are deficits in access and in the condition of networks, necessitating the construction of treatment plants (for potable water and sludge) and associated conveyance lines. In some beneficiary cities, such as Manizales, a lack of protection works and channeling of underwater tunnels and viaducts means that services cannot be guaranteed in the medium term.

1.12 With respect to wastewater, there are high levels of pollution in the river basins and ravines that cross the urban perimeters of the cities of Manizales, Pereira, and Pasto. This is a consequence of the untreated wastewater that is currently discharged into the Chinchiná River in Manizales, the Consota and Otún rivers and the Dosquebradas gorge in Pereira, and the Pasto River. This situation is caused by a lack of wastewater treatment plants and sewer lines that allow organic contaminants to be removed. Table 2 shows relevant public utilities indicators for the beneficiary cities under the program.

Table 2. Public Utilities Indicators

Indicator	Satisfactory level, ESCI	Bucaramanga	Manizales	Montería	Pasto	Pereira
Electricity coverage (%)	> 95	99.8	100.0	99.5	99.5	100.0
Potable water coverage (%)	> 95	98.0 [24]	98.2	98.0	98.0	100.0
Sewerage coverage (%)	> 95	99.0	99.0	55.0	96.0	100.0
Wastewater treatment (%)	> 70	20.0	0.0	52.0	0.0	0.0
Adequate waste disposal (%)	> 95	100.0	100.0	80.0	99.5	100.0

Source: ESCI action plans for the five cities. Manizales Cómo Vamos (2015), Pereira Cómo Vamos (2014).

1.13 Based on a diagnostic assessment of each beneficiary city, the proposed program advocates a multisector intervention limited to three sectors—fiscal, urban, and public utilities—to finance strategic projects selected through a

[23] Level considered satisfactory according to the ESCI methodology.

[24] Coverage, metropolitan area.

process of medium- and long-term planning. The program proposes a flexible menu of interventions in these three sectors to respond to the specific preferences and needs of the cities. The projects pre-identified by FINDETER and the city halls for financing under the program have been prioritized in the ESCI action plans.

1.14 **Experiences and lessons learned**. The use of CCLIPs in the region points to the advisability of the Bank's direct involvement with subnational governments over the medium term. Experience suggests that the Bank can offer value added by supporting the formulation and implementation of a strategy for the sustainable development of subnational governments, involving simultaneous strengthening of their management capacity and assistance in the design, financing, and execution of their investment programs;[25] these elements have been incorporated into the design of the proposed operation.

1.15 **Strategic alignment.** Within the framework of the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9) (document AB-2764), the proposed program will contribute to the objective of poverty reduction and equity enhancement,[26] and it is aligned with the following sector priorities: institutions for growth and social welfare, and infrastructure for competitiveness and social welfare. Within the sector priorities, the program will contribute to the following regional targets: (i) a reduction in the incidence of waterborne diseases; (ii) an increase in paved road coverage; (iii) ratio of real to potential tax revenue; and (iv) public expenditure managed at the decentralized level as a percentage of total public expenditure. It will also contribute to the following outputs: (i) households with new or upgraded water supply; (ii) kilometers of interurban roads built or upgraded; (iii) public financial systems implemented or upgraded (budget, treasury, debt, and revenue); and (iv) municipal and other subnational governments supported. The proposed program will also contribute to the following dimensions of success established in the Decentralization and Subnational Governments Sector Framework Document (GN-2813-2): (i) subnational governments improve the efficiency and quality of expenditure and service delivery; and (ii) subnational governments improve own revenue collection and access to financing. Similarly, the operation supports the public sector management and financing component of the Sector Strategy for Institutions for Growth and Social Welfare (document GN-2587-2). Lastly, the

[25] The following projects have shown positive outcomes using this type of strategy: Support for the Management and Integration of Finance Administrations in Brazil (PROFISCO) (BR-X1005); the Bicentennial Cities Program in Chile (CH-X1001); and the Subnational Credit Line for Infrastructure, Public Services, and Institution-Strengthening in Mexico (ME-X1002). Some of the lessons taken into account in the current program relate to the importance of (i) adopting comprehensive arrangements that include institutional strengthening interventions and investments tailored to the needs of subnational governments; (ii) strengthening the capacities of subnational governments to increase the quality and effectiveness of investments through support for investment management units; (iii) promoting formal access to financing for infrastructure and utilities through credit instruments that take into account the diverse profiles of subborrowers; (iv) providing technical support (through multisector teams) for the development and execution of more complex investment plans by subnational governments; (v) strengthening fiscal management and modernizing property registries and collection systems to increase subnational governments' own revenue; and (vi) relying on country systems for managing and administering operations, thus avoiding duplication and reducing costs.

[26] Consistent with the guidelines for classifying lending program priorities (document GN-2650), the proposed operation is classified as a poverty-reducing loan due to its interventions to support urban development in disadvantaged areas, as well as access to water and sanitation.

proposed program is aligned with the following objectives of the National Development Plan 2014-2018 and the Country Strategy with Colombia 2015-2018 (document GN-2832); (i) improving State revenue; (ii) increasing public investment management capacity; and (iii) raising the quality of infrastructure and urban development.

1.16 **Consistency with the Bank's Public Utilities Policy (document GN-2716-6).** The public utilities projects to be financed must fulfill the requirements of the Bank's Public Utilities Policy. To this end, the following will be verified: (i) the relevant service will generate or receive sufficient funds to meet its financial commitments and cover the operating and maintenance costs of the systems related to the operation; and (ii) public utilities projects will be economically viable in accordance with the cost-benefit and cost-effectiveness evaluation methodologies used and accepted by the Bank. It will also be verified that the projects comply with national legislation on the economic analysis of investment projects and financial sustainability. National legislation is consistent with the Bank's policy, inasmuch as Colombia has a regulatory framework in the water and basic sanitation sector that promotes efficiency and transparency. The operating and maintenance costs of water and basic sanitation providers are covered by operating revenue, based on rates regulated by the water and basic sanitation regulation commission. The law stipulates that municipios must transfer budgetary resources to cover subsidies for users in residential areas. In cases where rate subsidies are granted, they will be targeted toward the most vulnerable and lowest-income groups. In addition, to the extent possible, the municipalities will receive help to replace rate subsidies for public utilities with income transfer mechanisms that are more direct and targeted toward the lowest-income population segments.

B. Objectives, components, and cost

1.17 The general objective of the second operation under the CCLIP is to support improved fiscal and urban sustainability in five municipios by financing institutional strengthening and physical investment projects. The specific objectives are as follows: (i) improve fiscal performance, in terms of revenue collection and public expenditure efficiency; (ii) improve urban planning, infrastructure, and services; and (iii) improve utilities access and quality. The program's components and main activities are described below:[27]

1.18 **Component 1. Improvement of fiscal management (US$20 million)**. The objective of this component is to improve fiscal performance. The component encompasses:

a. **Support for tax administration.** With the aim of increasing collection and strengthening capacity for management of municipal tax bases, this subcomponent will finance the following activities, among others: (i) updating

[27] Program activities may be supported under technical cooperation operation CO-T1410 (under preparation), which could assist in prioritizing projects, developing project economic analyses, and monitoring the outputs of the operation.

of the property registry,[28] urban street names, and socioeconomic classifications, with a view to increasing property tax collection;[29] (ii) consulting services to prepare a review of property tax rates, conduct censuses to update the ICA taxpayer base, improve property tax and ICA debt collection, and design and execute taxpayer awareness programs; and (iii) training for beneficiary entity staff in tax enforcement.

b. **Strengthening of public expenditure management.** This subcomponent may finance the following activities with the aim of improving expenditure management and public investment capacities: (i) development/optimization and expansion of the coverage of financial administration systems, encompassing (at a minimum) effectively integrated budget, treasury, and accounting modules; (ii) development and implementation of performance monitoring systems in decentralized city hall and/or metropolitan area agencies; (iii) development and implementation of investment project monitoring systems; and (iv) training of technical staff in expenditure management. To strengthen city hall management across its various areas of responsibility, this subcomponent may also finance administrative reform studies aimed at optimizing functional structures in the municipios and city hall processes.

1.19 **Component 2. Urban development (US$68 million).** The objective of this component is to improve subnational planning and the provision of infrastructure and urban services. The component encompasses:

a. **Support for urban planning.** To improve subnational planning capacities, this subcomponent will finance the following activities, among others: (i) update of land use and sector plans, such as public space plans, risk management plans, urban mobility plans, and neighborhood-level urban design plans, as well as technological instruments to develop these plans where necessary (including geographical information systems); and (ii) training for city hall staff in land-use planning issues and tools and soil management instruments.

b. **Improved provision of infrastructure and urban services.** Interventions include financing for investments in the following areas: (i) projects aimed at increasing the quality and quantity of urban public spaces,[30] such as the construction of neighborhood plazas and urban parks, restoration of market squares, recovery of green areas, and renovation of urban equipment

[28] In the case of Bogotá, the updating of 2.1 million properties in 2008 helped to expand the value of the property tax base by 47%, achieving an increase of 30% in potential collection coverage in the metropolitan area (see Ruiz and Vallejo, 2010, Using land registration as a tool to generate municipal revenue: Lessons from Bogotá). Sánchez and España (2014) demonstrate the average impact on revenue collection for all municipios from updating property registries, stemming from increases in both values and in the number of properties. Property tax revenue could potentially reach 1% of GDP (see Sánchez and España, 2014, *Cobrar como la ley manda: maximizando el potencial del impuesto predial en Colombia*, in J. Bonet, A. Muñoz, and C. Pineda (eds), *El potencial oculto: factores determinantes y oportunidades del impuesto a la propiedad inmobiliaria en América Latina*.

[29] Socioeconomic classification is also used to target subsidies. As a consequence, updating also helps to improve the effectiveness of municipal spending.

[30] Empirical experience suggests that the recovery of public spaces—particularly in central areas—helps to drive economic activity and has a positive impact on real estate values. See Ministry for Cities (Brazil) and the Spanish Agency for International Development Cooperation (2008): *Manual de Reabilitação de Áreas Urbanas Centrais*, Ministry for Cities, Brasilia.

(including sports fields and playgrounds, construction of facilities such as schools and health centers); (ii) comprehensive neighborhood improvement programs in low-income areas, including access improvement works, the provision of equipment, tenure regularization, and programs focused on the social integration of residents; (iii) works to optimize urban mobility, including improvements to the road network, pedestrian zones, and bicycle paths, as well as comprehensive control centers; and (iv) community spaces. This subcomponent will also finance pre-investment studies for interventions and the social programs associated with them.

1.20 **Component 3. Improvement of utilities (US$60 million).** The objective of this component is to improve utilities access and quality. The component will finance utility projects of city halls and/or eligible utility companies,[31] as identified in the program's Operating Regulations. This component envisions financing the following activities, among others: (i) projects to expand water and basic sanitation coverage; (ii) projects to expand coverage of wastewater collection and management, thus improving the quality of bodies of water; (iii) projects to finance the rehabilitation and maintenance of systems to improve quality in terms of continuity, potability, volume, and pressure; (iv) programs and projects to increase the coverage of solid waste collection and disposal; and (v) projects for the integrated planning of urban drainage. In addition, this component will finance the studies and designs necessary for physical investments.

1.21 **Administration, audit, monitoring, and evaluation (US$2 million).** Program funds will be used to finance the following: (i) any supporting consulting services required for program execution; (ii) the auditing contract; (iii) the communication strategy and actions; and (iv) monitoring and evaluations (midterm and final).

1.22 **Cost and sources of financing.** The total estimated cost of the second operation under the CCLIP is US$150 million, in the form of a loan from the Bank's Ordinary Capital, under the Flexible Financing Facility.

Table 3. Cost of the Second Operation under the CCLIP (US$ million)

Investment category	Cost
I. Components	
1. Improvement of fiscal management	20
2. Urban development	68
3. Improvement of utilities access and quality	60
II. Administration, audit, monitoring, and evaluation	
Program administration, audit, monitoring, and evaluation	2
TOTAL	**150**

[31] The literature and Bank evaluations confirm the effectiveness of this in increasing the beneficiary population's access to utilities, among other positive effects. See UN-Habitat (2011): Building Urban Safety through Slum Upgrading, United Nations Human Settlement Program, Nairobi; Soares and Soares (2005): The Socio-Economic Impact of Favela-Barrio: What do the Data Say? Office of Evaluation and Oversight (OVE), IDB, Washington, D.C.

C. Key outcome indicators

1.23 Outcome indicators include (i) the fiscal performance index, as measured by the DNP's FPI; (ii) market value per square meter in the areas of intervention (neighborhood improvement, public spaces built or improved, and roads built or rehabilitated); (iii) households with first-time or improved access to potable water services; and (iv) households with wastewater treatment.

1.24 **Economic viability.** An ex ante economic analysis was carried out for Components 2 and 3 of the program, using benefit-cost analysis. Two projects were analyzed under the urban development component and two under the component to improve utilities. The projects evaluated generated positive net benefits and internal rates of return in excess of 12%, demonstrating the economic viability of the proposed interventions. Sensitivity analyses were performed for the cost and benefit assumptions used, to analyze the impact of these on the results obtained. For a large majority of the scenarios considered to be of high probability, benefit-cost ratios for the projects analyzed were greater than one, confirming the robust nature of the projects' economic viability. As will be specified in the Credit Regulations, investment projects for which program financing is requested will need to demonstrate positive net present value.[32]

II. FINANCIAL STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 This second operation proposed under the CCLIP is structured as an investment loan with a disbursement period of five years. As a multisector CCLIP, each individual project financed under the program is independent; they are not based on previous projects and do not depend on these to achieve the objectives set.

B. Environmental and social risk

2.2 In accordance with the Environment and Safeguards Compliance Policy (document GN-2208-20 and Operational Policy OP-703), this operation does not require classification as it involves financial intermediation. To ensure satisfactory environmental management of this operation, FINDETER currently possesses an environmental risk analysis system that will be reinforced by implementation of the Environmental and Social Management Framework (ESMF) developed for this operation. The ESMF focuses on implementing Colombian environmental regulations and the Environment and Safeguards Compliance Policy (Operational Policy OP-703), with a view to ensuring implementation of satisfactory measures to mitigate and control social and environmental impacts and risks (including those related to implementing involuntary resettlement plans, which will follow the Involuntary Resettlement Operational Policy OP-710, where necessary). See the Environmental and Social Management Report for additional information.

C. Fiduciary risk

2.3 The fiduciary assessment concludes that FINDETER has sufficient capacity for fiduciary management of the loan; however, given the heavy workload of technical staff in FINDETER and the beneficiary agencies, there is a potential

[32] A discount rate of 12% will be used to calculate net present value.

risk of delays in procurement processes and financial management that could affect program execution. This risk will be mitigated by means of (i) specific fiduciary training; (ii) a clear definition of procedures to be applied in the Credit Regulations; and (iii) appointment of a minimum team of qualified staff to the program, with suitable experience and skills for the position.

D. Other project risks

2.4 Macroeconomic and public management risks have been identified that may affect the program's execution and scope. The former include cost increases as a result of inflation or appreciation of the Colombian peso, which could reduce the scope of the program's outputs. This will be offset by setting aside 20% of resources for contingencies. There is also a risk of a lack of coordination between FINDETER and the beneficiary agencies, which could lead to delays in program execution. As a mitigation measure, the program proposes two coordinators in FINDETER, one technical and one operational, to support coordination between program management and the activities carried out by the beneficiary agencies.

2.5 Program activities have been identified as low risk in terms of sustainability, given that (i) the actions to be financed under the operation have been prioritized in the ESCI action plans, which were prepared with the participation of the cities' main actors and were widely publicized; and (ii) projects have been pre-identified with technical designs and feasibility studies to phases III and II, in the amounts of US$50 million and US$195 million, respectively; these have a low probability of being deprioritized by the municipal administrations (the cities of Bucaramanga, Manizales, Montería, Pereira and Pasto). Additionally, in the case of utilities projects, utility companies are expected to retain their management and technical staff despite the change of government, contributing to the sustainability of the pre-identified activities.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of execution arrangements

3.1 **Borrower, executing agency, and guarantor**. The borrower and executing agency for the second operation under the CCLIP will be FINDETER, and the guarantor will be the Republic of Colombia. The beneficiary agencies will be the city halls of Manizales, Montería, Pasto, and Pereira, their utility companies, and the metropolitan areas in which they are located.

3.2 Within the framework of the program, FINDETER will have the following responsibilities, among others: (i) based on the investment plans presented by the beneficiary agencies, propose to the Bank the projects to be included in Components 1, 2, and 3 of the program (based on the criteria laid out in the Credit Regulations); (ii) submit the annual work plan to the Bank; (iii) verify that the activities of works supervision and execution monitoring are carried out; (iv) implement program financial management through consolidation of the financial records required by the Bank; (v) maintain an information system for reporting on the administration, recording, and payment of the consulting contracts under its responsibility; (vi) submit required financial reports and accounting information to the Bank and the external auditors; (vii) maintain a satisfactory system for filing supporting documentation for the eligible program expenditures under its responsibility, for verification by the Bank and external auditors.

3.3 In addition to the responsibilities listed in the previous paragraph, FINDETER will require the beneficiary agencies to carry out the following activities for execution of Components 1, 2, and 3 of the program: (i) prepare the investment plan for the execution of activities and submit it to FINDETER; (ii) provide the necessary information to FINDETER regarding selection and contracting processes for works, goods, and consulting services; (iii) supervise works and monitor execution; (iv) provide the necessary information to FINDETER regarding financial management of program activities; (v) maintain an effective system for filing supporting documentation related to activities financed with program funds, for verification by the Bank, FINDETER, and the external auditors; (vi) submit any other information required by FINDETER; and (vii) allocate the minimum support staff needed for program execution, as described in the Operating Regulations.

3.4 The Operating Regulations establish the criteria for a change in beneficiary agency in the event that eligibility conditions for entering the program are not met. The Credit Regulations will list the functions and profiles of the professional staff necessary for execution of the program in FINDETER and the beneficiary agencies. FINDETER will transfer resources to the beneficiary agencies through intermediary financial institutions (IFIs) selected by the beneficiary agencies and regulated by means of the rediscounting mechanism habitually used by the agency, at a rate that reflects the financial costs of funding plus a margin to cover its operating costs.[33] The relationship between FINDETER and the IFIs will be governed by a framework agreement between them that stipulates the IFIs' obligations to FINDETER as intermediaries for the resources. Credit institutions defined in the organic statutes of the financial system may act as IFIs in rediscounting operations with FINDETER. Based on a credit analysis of the beneficiary agencies, the IFIs will freely determine the amount of the subloan to the beneficiary agencies, as well as the characteristics of disbursements, the interest rates and fees, the repayment terms and frequency of installments, and grace periods. The Credit Regulations will be adapted to FINDETER's operating manuals for the placement of resources and will stipulate the conditions whereby they are channeled through the IFIs.

3.5 **Special contractual conditions precedent to the first disbursement of the financing: Submission of evidence to the Bank's satisfaction that: (i) the Credit Regulations for the second operation under the CCLIP have been approved by FINDETER's Board of Directors and have come into force, under terms agreed upon in advance with the Bank; (ii) the Operating Regulations have been approved and have entered into force, under terms agreed upon in advance with the Bank; (iii) the executing agency has designated the minimum staff necessary to carry out program activities, in accordance with terms of reference agreed upon with the Bank; (iv) the final version of the ESMF has been submitted and has entered into force, in accordance with the Environmental and Social Management Report, which will be included in the Credit Regulations; and (v) at least one beneficiary agency has signed a credit contract with one of the IFIs through which**

[33] In accordance with Law 57 of 1989, which created FINDETER, all of FINDETER's credit operations will be performed through the rediscounting system using credit agencies or IFIs.

resources will be transferred to the beneficiary agencies to implement program.

3.6 **Exceptions to Bank policy.** As in the case of the first program, for this second program the following partial waivers will apply, approved by the Board of Executive Directors for individual operations financed under the CCLIP: (i) of the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), so that the executing agency may apply national legislation for procurement and contracts[34] below the ICB threshold[35] and for consultant contracts costing less than US$500,000,[36] and (ii) of the policy on Guarantees Required from the Borrower (Operational Policy OP-303), whereby the Republic of Colombia only guarantees the payment obligations of this second operation.[37]

3.7 **Disbursements, procurement, and audit.** The loan will use the Bank's various disbursement methods. Procurement of goods, services, and contracting of consultants under the program (except as described in paragraph 3.6) will comply with the Bank's policies for the procurement of goods and works (document GN-2349-9) and the selection and contracting of consultants (document GN-2350-9). FINDETER will contract an auditing firm acceptable to the Bank to carry out annual fiduciary oversight during the execution period of the operation, in accordance with Bank policies.

B. Summary of arrangements for monitoring results

3.8 **Monitoring and evaluation.** The executing agency will be responsible for monitoring execution and evaluating program results based on the Monitoring and Evaluation Plan. Monitoring will be carried out by means of semiannual reports, which will use the output indicators in the Results Matrix and in other reports indicated in the loan contract and Credit Regulations (annual work plan, multiyear execution plan, etc.). Meetings will also be held with the Bank in which the following matters will be analyzed: (i) the projects structured; (ii) disbursement progress; and (iii) progress towards meeting output indicators.

3.9 Consulting services will be contracted to perform the following evaluations: (i) midterm, after 30 months of eligibility, or when 50% of the resources have been disbursed, to identify possible corrective actions; (ii) final, once 95% of the resources have been disbursed; and (iii) ex post economic, in the last six months of execution.

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[34] Provided the requirements established in the Bank's procurement policies are fulfilled, particularly with respect to: (i) eligibility in terms of the nationality of the firms and individuals and the origin of goods; and (ii) awards are made to the least cost bids.

[35] ICB will be obligatory for works with an estimated cost exceeding US$10 million equivalent per contract, and for goods with an estimated cost exceeding US$1 million equivalent per contract.

[36] Shortlists of consultants for services with an estimated cost of less than US$500,000 equivalent per contract may consist entirely of national consultants.

[37] The waiver is justified considering that FINDETER is a solvent and financially autonomous agency with broad financial capacity in relation to the obligations it assumes vis-à-vis the Bank. The activities under the program also fall within the jurisdiction of the subnational entities and not the Colombian government.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	**Aligned**		
Lending Program	**-Lending for poverty reduction and equity enhancement**		
Regional Development Goals	**-Incidence of waterborne diseases (per 100,000 inhabitants) -Paved road coverage (Km/Km2) -Ratio of actual to potential tax revenue -Public expenditure managed at the decentralized level as % total public expenditure**		
Bank Output Contribution (as defined in Results Framework of IDB-9)	**-Households with new or upgraded water supply -Km of inter-urban roads built or maintained/upgraded -Public financial systems implemented or upgraded (budget, treasury, accounting, debt, and revenues) -Municipal or other sub-national governments supported**		
2. Country Strategy Development Objectives	**Aligned**		
Country Strategy Results Matrix	**GN-2832**	**Increase the quality of expenditure and public investment management capacity at all levels of government. Increase equitable access to quality basic services.**	
Country Program Results Matrix		**The intervention is not included in the 2015 Operational Program.**	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	**Evaluable**	**Weight**	**Maximum Score**
	8.8		**10**
3. Evidence-based Assessment & Solution	**9.4**	**33.33%**	**10**
3.1 Program Diagnosis	**2.4**		
3.2 Proposed Interventions or Solutions	**4.0**		
3.3 Results Matrix Quality	**3.0**		
4. Ex ante Economic Analysis	**10.0**	**33.33%**	**10**
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	**4.0**		
4.2 Identified and Quantified Benefits	**1.5**		
4.3 Identified and Quantified Costs	**1.5**		
4.4 Reasonable Assumptions	**1.5**		
4.5 Sensitivity Analysis	**1.5**		
5. Monitoring and Evaluation	**7.1**	**33.33%**	**10**
5.1 Monitoring Mechanisms	**2.5**		
5.2 Evaluation Plan	**4.6**		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	**Medium**		
Identified risks have been rated for magnitude and likelihood	**Yes**		
Mitigation measures have been identified for major risks	**Yes**		
Mitigation measures have indicators for tracking their implementation	**Yes**		
Environmental & social risk classification	**B.13**		
IV. IDB´s Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting, Internal Audit. Procurement: Information System, Shopping Method, Contracting individual consultant, National Public Bidding.**	
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	**Yes**	**The Bank has provided assistance through the following technical cooperations: CO-T1348; CO-T1317, RG-T2491, RG-T2552.**	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

As a result of the early nineties reforms, Local Entities (LE) were granted greater authority in public spending implementation without parallel taxing powers. A large number of LEs have weaknesses in fiscal and investment management, and in providing local services. In order to assist in reducing these deficiencies, in December 2014 the Bank approved a Multisectoral Conditional Line of Credit for Investment Projects (CCLIP). This operation is part of this line and would support five municipalities (Bucaramanga, Manizales, Monteria, Pasto and Pereira). The program is not aligned with the Bank's Country Strategy (CS) with Colombia because a valid CS approved by the Board is not available.

The diagnosis documents that in these municipalities, tax revenue remains relatively low, spending is managed with weak systems, studies have poor quality and functional structures are inadequate. On the other hand, they show weaknesses in their management instruments and have significant gaps in the provision of urban services. The diagnosis and the evidence are presented adequately.

The proposed operation seeks to contribute to improved fiscal and urban sustainability in these five municipalities by financing institutional strengthening and physical investment projects, organized in three components: (i) Fiscal management improvement, (ii) Urban development, and (iii) Public services improvement. The results matrix has a clear vertical logic and presents six outcome indicators: fiscal performance index for the five cities, change in real estate market value (m2) due to various types of interventions, number of households with new or improved access to drinking water and percentage of households with wastewater treatment. A cost-benefit analysis was prepared for four projects, included in components 2 and 3, and an ex post cost-benefit analysis is proposed.

RESULTS MATRIX

Project Objective:	The general objective of the CCLIP's second operation is to support improved fiscal and urban sustainability in five municipios by financing institutional strengthening and physical investment projects. The specific objectives are as follows: (i) improve fiscal performance, in terms of revenue collection and public expenditure efficiency; (ii) improve urban planning, infrastructure, and services; and (iii) improve utilities access and quality.

EXPECTED OUTCOMES

Expected Outcomes	Unit of measure	Baseline[1]		Targets		Means of verification	Comments
		Value	Year	Value	Year		
Fiscal Performance Index (FPI)[2] for the five cities included in the program.	Index	Bucaramanga 83.0 Manizales 79.2, Montería 77.0, Pasto 75.0, Pereira 80.6	2013	Bucaramanga 91.3 Manizales 87.1 Montería 84.7 Pasto 82.5 Pereira 88.7	2020	Report on the fiscal performance of departments and municipios, 2013 fiscal year (National Planning Department – DNP) Report on the fiscal performance of departments and municipios, 2020 fiscal year (DNP)	These results relate to outputs under Component 1. Improvement of fiscal management, which is mandatory for all cities joining the program.
Change in the market value per m^2 of properties in neighborhoods in which comprehensive improvement projects are executed.	%	0	2015	10	2020	Expert appraisal of a random sample of properties in the beneficiary neighborhoods	This percentage is similar to the one used for the analysis of improved neighborhoods in Barranquilla and San Andrés, carried out on the basis of 2012 surveys by the National Administrative Department of Statistics (DANE)

[1] Though it is not yet absolutely certain which specific interventions will be included in the program, potential projects for each city have been pre-identified, and a link to the relevant document was included. Baseline and outcome indicators were established for the projects with the highest probability of being included in the program. These will be revised within 60 days of eligibility.

[2] This composite index, in which scores range from 1 to 100, consists of the following variables: (i) self-financing of operating expenditures; (ii) debt service coverage; (iii) dependence on central government transfers and royalties; (iv) generation of own revenue; (v) the magnitude of investment; and (vi) savings capacity.

Expected Outcomes	Unit of measure	Baseline[1]		Targets		Means of verification	Comments
		Value	Year	Value	Year		
Change in the market value per m^2 of properties close to public spaces built or improved under the program	%	0	2015	10	2020	Expert appraisal of a random sample of properties within a radius of two *manzanas* around each public space project	The area of influence is considered to be within a radius of two *manzanas* around the project. Studies of the impact of parks on property values indicate that such values are affected up to a distance of two to three *manzanas* away.[3] Road programs are measured with reference to the indicator for roads, and public space programs with reference to the indicator for public spaces. If the area of influence for two such projects overlaps in a city (no such projects have been pre-identified), then this will be treated as a neighborhood improvement program. In this case, outcomes should be measured with reference to the indicator for neighborhood improvement.
Change in the market value per m^2 of properties adjacent to roads built or rehabilitated under the program	%	0	2015	20	2020	Expert appraisal of a random sample of properties adjacent to roads built or rehabilitated under the program	This percentage is similar to the one used in the analysis for Barranquilla. Road programs are measured with reference to the indicator for roads, and public space programs with reference to the indicator for public spaces. If the area of influence for two such projects overlaps in a city (no such projects have been pre-identified), then this will be treated as a neighborhood improvement program. In this case, outcomes should be measured with reference to the indicator for neighborhood improvement.
Households with first-time or improved access to potable water services in cities with water supply projects	House-holds	0*	2016	15,770	2020	Municipal water company report	The baseline and target are for Bucaramanga and Manizales, as water supply and potable water treatment plant projects are planned for these cities.
Percentage of households with wastewater treatment in cities with wastewater treatment plant projects	%	0**	2016	100	2020	Municipal water company report	The baseline and target are for the city of Pereira, as construction of a wastewater treatment plant is planned for that city (where wastewater is discharged directly into the rivers and gorges).

[3] John Crompton, The Impact of Parks on Property Value: A Review of Empirical Evidence, Journal of Leisure Research, 2001.

OUTPUTS

Outputs	Estimated cost (US$000)	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification/ Data source/ Comments
Component I: Improvement of fiscal management										
Updated property registries	7,000	Registry	0	0	0	1	2	0	3	Department of Finance report with the new valuation data/ semiannual progress report
Studies of tax collection improvements completed	3,200	Studies	0	0	1	2	2	0	5	Progress reports and final delivery of consultancy outputs approved by the city halls. Semiannual progress report Studies of tax collection improvements include censuses, voluntary payment campaigns, studies of rate reviews, enforcement, and debt collection.
Integrated financial management system designed and implemented	4,000	System	0	0	0	1	2	0	3	Reports on progress and final delivery of consulting outputs approved by the city hall for the design and reports of the system for physical execution of projects as evidence of their implementation. Semiannual progress reports. Implementation of the integrated financial management system involves the development and launch of an integrated system with budget, treasury, and accounting modules.
System for monitoring decentralized agencies implemented	1,500	System	0	0	1	2	0	0	3	Reports on progress and final delivery of consulting outputs approved by the city hall for the design and reports of the system for physical execution of projects as evidence of their implementation. Semiannual progress reports. Implementation of a system for monitoring decentralized agencies involves development and launch of software allowing physical and financial monitoring of the city halls' decentralized agencies.

Outputs	Estimated cost (US$000)	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification/ Data source/ Comments
City hall documentation management system implemented	3,000	System	0	0	1	1	0	0	2	Reports on progress and final delivery of consulting outputs approved by the city hall for the design and reports of the system for physical execution of projects as evidence of their implementation. Semiannual progress reports. Implementation of a documentation system involves development and launch of software to enter, file, and search information.
Administrative reform studies completed	500	Studies	0	0	1	0	0	0	1	Report on progress and final delivery of consulting services outputs approved by the city hall. Semiannual progress reports. The studies comprise a diagnostic assessment and a proposal for functional structures and administrative processes that will enable city halls to perform the roles assigned to them by law.
City hall technical staff trained in preparing and executing public investment projects	800	Technical staff	0	10	10	10	10	10	50	Report on progress and final delivery of consulting services outputs approved by the city hall. Semiannual progress reports. The output includes at least 10 projects prepared and structured for submission to various sources of financing.
Component II: Urban development										
Urban plans* updated or designed.	1,500	Plans	0	0	1	1	1	2	5	Filing document for urban plans. City hall planning office Semiannual progress report. *Urban plans consist of: land-use and sector plans, such as open space plans, environmental risk plans, urban mobility plans, and neighborhood-level urban design plans.

Outputs	Estimated cost (US$000)	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification/ Data source/ Comments
Training workshops in urban plans completed for city hall staff	1,000	Workshops	0	0	2	2	1	0	5	Report on progress and final delivery of consulting services outputs approved by the city hall City hall planning offices Semiannual progress report
Public spaces built or improved	46,050	m^2	0	57,500	118,000	50,500	10,000	0	236,000	Municipal works records. City hall planning office Semiannual progress report The output includes neighborhood plazas, urban parks, marketplaces, open spaces, and corresponding equipment.
Number of low-income informal neighborhoods improved	17,450	Number	0	0	2	2	2	0	6	Municipal works records. City hall planning offices Semiannual progress report The output includes access improvement works, the provision of equipment, tenure regularization, and programs focused on the social integration of residents.
Kilometers of roads built or rehabilitated	2,000	km	0	0	0	0	0	10	10	Municipal works records, city hall planning office Semiannual progress report The output includes comprehensive improvements to the urban road network (with the inclusion of bicycle paths) and integrated traffic control centers.
Component III: Improvement of utilities										
Cubic meters of potable water produced quarterly	17,000	m^3	0	0	0	3,000,000	-	-	3,000,000	Municipal works records City hall planning office Semiannual progress report
Potable water networks built or rehabilitated	12,000	km	0	0	4	18.8	-	-	22.8	Municipal works records City hall planning office Semiannual progress report
Wastewater treatment plant built	31,000	Plant	0	0	0	0	1	0	1	Municipal works records City hall planning office Semiannual progress report

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Colombia
Project number:	CO-L1155
Name:	Second Operation under the Multisector Conditional Credit Line for Investment Projects: Fiscal and Public Investment Expenditure Strengthening Program for Municipios, their Decentralized Agencies, and Metropolitan Areas
Executing agency:	Financiera del Desarrollo Territorial S.A. (FINDETER)
Prepared by:	Miguel A. Orellana, Lead Fiduciary Specialist on Financial Management (FMP/CCO) and Gabriele del Monte, Fiduciary Specialist on Procurement (FMP/CCO).

I. EXECUTIVE SUMMARY

1.1 The fiduciary management capacity of Financiera del Desarrollo Territorial S.A. (FINDETER), was analyzed in September 2013 using the following tools: (i) Institutional Capacity Assessment System (ICAS); and (ii) the analysis of the entity's main institutional processes; and the detailed assessment of the executing agency's capacity to manage procurement (submitted in April 2013) was validated. FINDETER is currently executing loan 3104/OC-CO and technical cooperation agreement ATN/OC-14753-CO satisfactorily. The assessment concludes that FINDETER has sufficient capacity to carry out the project's financial management, administration of resources, and procurement. FINDETER's fiduciary risk in financial management and procurement is low.

1.2 FINDETER is a semipublic national company, organized as a credit institution, attached to the Ministry of Finance, and subject to oversight by Colombia's Superintendency of Finance. FINDETER's contractual activity is governed by the legal and regulatory provisions applicable to the performance of its activities under private law; it is also exempt from application of the General Government Procurement Statute, without prejudice to fulfillment of the principles of administrative duties and fiscal management.[1] In addition, the public procurement system it uses is considered appropriate from the regulatory viewpoint and consistent with internationally accepted practices. FINDETER uses its own financial information system for budget control, accounting, and treasury management.

1.3 The project does not include counterpart or other multilateral financing.

[1] The contractual regime applicable to FINDETER is understood pursuant to Article 15 of Law 1,150 of 2007. With respect to administrative duties and fiscal management, see Articles 209 and 267 of the Colombian Constitution, and on compliance with the rules on incompatibility and disqualifications, FINDETER is governed by the provisions of Articles 8 of Law 80 of 1993 and 18 of Law 1,150 of 2007.

II. Fiduciary Context of the Executing Agency

2.1 FINDETER will keep the project's accounting on its information system, which supports all budget, accounting, and treasury management activities. A staff member in the Office of the Chief of International Banking will be responsible for coordinating financial and administrative procedures relating to the project, such as budgets, treasury management, general accounting, and reporting. This office will be responsible for monitoring the program's operational and fiduciary management.

2.2 FINDETER keeps all of its activities documented, approved, and rendered official in an information system for the knowledge and consultation of the organization's entire staff. The internal control system is effective, and the entity's external control, as of the date of the assessment and for the 2014 fiscal year, was carried out by the firm PriceWaterhouseCoopers (PWC), which performs the fiscal audit. Similarly, it is subject to auditing by the Office of the Comptroller General (CGR), the government Accounting Office (CGN), the Office of the Attorney General (PGN), and the Superintendency of Finance. FINDETER has professionals in the fields of financial management, procurement, and contracting with experience in projects with multilateral banks, under multisector lending operations, through subloans to commercial banks, and in turn to eligible subprojects, with satisfactory performance.

2.3 In terms of procurement, the functions for the administration of procurement processes at the precontractual, contractual, and post-contractual stages are properly allocated by FINDETER. The staff involved in processing procurement procedures is stable. The Office of the Secretary General's Legal Department will be involved in processing procurement under FINDETER's responsibility. This department has been responsible for processing procurement financed with the proceeds of loan 3104/OC-CO and technical cooperation agreement ATN/OC-14753-CO.

2.4 The procedures and formality applied by FINDETER in administering the procurement cycle are generally good, and provide for effective monitoring of fulfillment of the procurement plan.

III. Fiduciary Risk Evaluation and Mitigation Measures

A. Financial management

3.1 Preparation and entry into force of the Credit Regulations, which spell out the mechanisms for coordinated execution of activities between FINDETER and the beneficiary agencies receiving funds under this operation.

3.2 Appointment of a general project coordinator to provide comprehensive coordination of all technical and operational aspects of execution.

3.3 Setup of a minimum project team in FINDETER and in the program beneficiary (beneficiaries), with experience working with multilateral banks, for financial, procurement, and contracting matters, and for general monitoring of activities.

3.4 Establishment of an agreement between FINDETER and the beneficiary agencies for the execution, reporting, and monitoring of this operation.

B. Procurement

3.5 Support for the coordinating unit by a staff member/consultant with experience in IDB-financed procurement, as well as the training of the project team in FINDETER in financial management and Bank procurement procedures.

3.6 Arranging with the Bank a detailed and comprehensive flowchart for intervention and approvals in the procurement and contract administration processes.

IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS PRECEDENT TO THE FIRST DISBURSEMENT

A. Financial management

4.1 It is expected that (i) FINDETER forms a team for program execution, comprising experienced, qualified professional staff with the profile agreed upon with the Bank, dedicated full-time to the project; (ii) FINDETER contracts the project's general coordinator; and (iii) the Credit Regulations take effect, and include the financial chapter under the terms and conditions previously approved by the Bank.

4.2 The executing agency will submit supporting documentation for expenses, using the exchange rate applicable for converting resources disbursed in U.S. dollars to Colombian pesos (monetization rate).

4.3 The project will submit audited financial statements annually.

B. Procurement

4.4 That the Credit Regulations for the program have taken effect, and include the procurement and contracting chapter under the terms and conditions approved by the Bank.

4.5 The executing agency will have a plan, approved by the Bank, for training and use of the Procurement Plan Execution System (SEPA) for FINDETER staff assigned to project execution.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

5.1 The program's procurement of goods and works, and contracting of consulting services will comply with the Bank's Policies (documents GN-2349-9 and GN-2350-9, of March 2011). International competitive bidding (ICB) will be obligatory for works with an estimated cost exceeding the equivalent of US$10 million per contract, and for goods with an estimated cost exceeding the equivalent of US$1 million per contract. Shortlists of consultants for services with an estimated cost of less than the equivalent of US$500,000 per contract may consist entirely of national consultants. However, given the financial mechanism used for this operation, it is suggested that the Board of Executive Directors grant a partial waiver of the application of the Bank's Policies (documents GN-2349-9 and GN-2350-9) so that the executing agency may use national legislation for the procurement of goods and works below the ICB threshold, and for the contracting of consultants whose estimated cost is less than US$500,000, provided that the requirements established in the Bank's procurement policies are respected, particularly in the following areas: (i) eligibility will be based on the nationality of firms and individuals and origin of goods; (ii) works, goods, and nonconsulting services will be awarded to the lowest cost bid; and (iii) bids will not be disqualified based on budgetary bands.

5.2 Procurement will be reviewed in the framework of the program's audit activities.

5.3 **Procurement execution**. Prior to commencing procurement, the executing agency will draw up a procurement plan for the first 18 months. This will be published in SECOP in accordance with current national rules. The relevance of the expenditure, i.e. the terms of reference, technical specifications, bidding documents, and budget, is the responsibility of the project team leader/sector specialist, and will always require prior no objection, with respect to the start of the procurement process, and according to the project team leader's operational requirements.

5.4 **Procurement of works, goods, and nonconsulting services.** Contracts generated and subject to ICB will be executed using the harmonized bidding documents for Colombia agreed upon with the Bank; while those generated and subject to national competitive bidding (NCB) will use Colombia's national legislation on state procurement and contracting, with the restrictions mentioned above.

5.5 **Selection and contracting of consultants**. (i) Consulting firms: for amounts over US$500,000, consultants will be selected and contracted using the harmonized standard request for proposals for Colombia agreed upon with the Bank; for amounts less than or equal to US$500,000, consultants will be selected using Colombian national legislation on state procurement and consulting according to the Bank's eligibility rules. For amounts over US$200,000, publication in UNDBOnline is compulsory; and (ii) direct contracting processes will be identified in the procurement plan and duly justified.

5.6 **Selection of individual consultants**: The executing agency will use Colombian national legislation on state procurement and contracting according to the Bank's eligibility rules.

Table 1. Thresholds for the procurement of goods, works, and consulting services

Works*		Goods*		Consulting Services	
ICB	NCB	ICB	NCB	International advertising	100% national shortlist
≥ US$10 million	US$350,000 - US$10 million	≥ US$1 million	US$50,000 - US$1 million	≥ US$200,000	≤ US$500,000

* Simple works and off-the-shelf goods whose value is below the threshold for ICB may be procured by shopping.

5.7 **Main procurement processes.** Procurement in the first 18 months is reflected in the procurement plan, attached as an annex, and does not involve technical complexity or procedures worthy of special mention.

5.8 **Recurring costs**. All the project's staff costs may be included under this heading. Staff will be hired under the executing agency's internal regulations and national law provided there is no conflict with the Bank's rules.

5.9 **Procurement supervision**. The initial review method is ex post for procurement subject to NCB for works, goods, and nonconsulting services, and contracting of consulting services for less than US$500,000, carried out by the executing agency using national legislation on state procurement and contracting, and ex ante for any possible procurement subject to ICB. Procurement will be reviewed in the framework of the program's audit activities.

5.10 Ex post review reports will not include physical inspection visits.

VI. RECORDS AND FILES

6.1 FINDETER has filing systems in which complete and orderly documentation on procurement procedures at all the precontractual, contractual, and post-contractual stages is kept. The rules on filing require that physical documents be stored for 10 years. FINDETER has an external service for inactive files that is administered using controlled documentary retention tables.

VII. FINANCIAL MANAGEMENT

A. Programming and budget

7.1 Due to FINDETER's partial government ownership, the loan proceeds will not be included in the national budget. Budget programming is put forward for each term and is approved in October of the immediately preceding year by the Board of Directors, which is chaired by the Ministry of Finance's Fiscal Support Bureau. Given FINDETER's budgetary structure, program resources will not be incorporated into the budget, but will be executed as special resources under administration rather than as the entity's own resources.

B. Accounting and information systems

7.2 The lead agency for Colombia's public accounting is the Office of the Comptroller General (CGN), which issues guidelines on how the accounts making up the National Public Budget should be kept, including semipublic entities. FINDETER will use its own information system for budget control, accounting, and treasury management. The accounting and reporting subsystem generates detailed reports classified by investment category. Records will be kept using the accrual method. However, the project's audited financial statements will be drawn up on a cash accounting basis and submitted annually to the Bank. In recording its operations and preparing its financial statements, the institution applies the standards prescribed by the CGN and, where not established by the latter, uses the rules established for national semipublic companies carrying out financial activities, set forth in Resolution 2,416 of 1997.

C. Disbursements and cash flow

7.3 Resources from external sources, like all FINDETER's resources, are executed through FINDETER's information system. For the project's treasury management, FINDETER will open a special (designated) bank account in foreign currency in the project's name for exclusive use of the project's funds. The disbursement method will be advances of funds, based on the liquidity needs over a maximum of six months; and the advances will be accounted for with 70% of the incurred expenses, taking into account that there will be five cities benefiting from the proceeds of the operation, in order to provide liquidity and the time needed for the operational requirements of such an accounting, in accordance with the "Financial Management Guideline for IDB-financed Projects" (document OP-273-6). In addition to the cash flow projection, disbursements requests will be accompanied by a reconciliation of the special account and a statement on the implementation status of technical and fiduciary performance commitments (as applicable). Expenses will be justified using the monetization rate.

D. Internal control and internal audit

7.4 FINDETER has an internal control office (OCI). FINDETER's internal control is based on the applicability of public internal control model NTC-GP1000, and the principles of self-regulation, self-management, self-supervision, and continuous improvement; it also includes risk maps prepared for each of the processes incorporated in the quality management system. Comprehensive auditing includes five systems: (i) integrated planning and management model, (ii) environmental management system, (iii) quality management system, (iv) internal control system (MECI), and (v) the risk management system, as well as the fiscal audit done by an independent audit firm. The OCI has professional staff to perform its work, and is part of the monitoring process for improvement plans from external audits and the Comptroller General's Office. Internal audit activities are pursued in accordance with audit standards. Investment projects are reviewed selectively in FINDETER according to the OCI's annual work plan. Internal and external audit reports have considered internal control to be effective.

E. External control and reports

7.5 External control of FINDETER is conducted by the Office of the Comptroller General, the Superintendency of Finance, and the Office of the Attorney General through selective, ex post, public audits, with the aim of verifying compliance with standards, proper use of resources, observance of processes and procedures, the achievement of targets and objectives, etc. As the Office of the Comptroller General is not currently eligible to audit Bank-financed projects, the project will use the services of an independent audit firm.

7.6 The project's financial statements and eligibility of expenses will be audited by an independent audit firm acceptable to the Bank, which will be contracted by FINDETER. Auditing services will be financed with the loan proceeds. The project's financial statements will be audited annually and submitted to the Bank within four months following the close of each fiscal year, pursuant to the previously agreed procedures and terms of reference. The reports required will be those established in the terms of reference, which will include a review of procurement, in addition to the Bank's actions and reviews. An independent private audit firm is required to audit this operation so as to guarantee the frequency and content of the reports, pursuant to document OP-273-6.

7.7 There is no national policy on disclosure of audit reports; nevertheless, under the disclosure and access to information policy in force, the project's audited reports will be published on the Bank's systems.

F. Financial supervision plan

7.8 Based on the results of the institutional capacity assessment, the financial specialist will carry out on-site and desk reviews of the annual and final audited financial statements. Financial supervision will be conducted on an ex post basis for FINDETER. The project auditor will verify that the resources are executed, in accordance with Bank policies and standards on fiduciary management and the conditions set forth in the Credit Regulations. At a minimum, the following activities are included in the supervision plan: (i) annual visits by the external audit firm to FINDETER and the beneficiary agencies for a full audit of disbursement processes, including the financed works and/or final beneficiaries; (ii) on-site visits to the locations where the loan proceeds were invested; and (iii) one visit to verify compliance with the internal control recommendations made by the project's external audit firm. Fiduciary supervision visits regarding financial management will include verification of the financial and accounting arrangements used in administering the project, as well as monitoring of the recommendations issued by the project's independent auditor.

G. Execution arrangements

7.9 The borrower and executing agency will be FINDETER, which will operate through a coordinator for execution of the project components. The coordinator will have the support of a technical team (comprising the relevant technical, administrative, and financial support areas). The project's operational and fiduciary management will be carried out by FINDETER, which will have a team experienced in multilateral banking matters, which supports the execution of other programs of this nature in the institution. The formation of both teams will be described in the Credit Regulations, which will also establish the details of the relationship between FINDETER and the operation's beneficiary agencies, which will be governed by an agreement between the parties.

7.10 Program executing arrangements are designed such that the beneficiary agencies themselves will implement program activities. Fiduciary, administrative, and operational processes are included in the procedures promoted by FINDETER through the cross-cutting support units responsible for these processes, which are concentrated in the Office of the General Secretary and the Vice President for Finance. The program also includes technical support from various FINDETER departments responsible for program execution.

7.11 The Credit Regulations will establish the details of the formation and functioning of the monitoring mechanisms for each of the components. More details of the execution arrangements are provided in the Proposal for Operation Development and will be developed in Credit Regulations.

H. Other financial management agreements and requirements

7.12 There are no fiduciary agreements or requirements beyond those mentioned above. However, the fiduciary agreements and requirements included in this annex may be adjusted as the project evolves, based on the updated analysis of risks and the institutional capacity assessment carried out during project execution.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/15

Colombia. Loan ____/OC-CO to Financiera de Desarrollo Territorial S.A. (FINDETER)
Second Operation under the Multisector Conditional Credit Line for Investment Projects: Fiscal and Public Investment Expenditure Strengthening Program for Municipios, their Descentralized Agencies, and Metropolitan Areas

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Financiera de Desarrollo Territorial S.A (FINDETER), as Borrower, and with the Republic of Colombia, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of a fiscal and public investment expenditure strengthening program for Municipios, their Descentralized Agencies, and Metropolitan Areas, which constitutes the second individual loan operation under the Multisector Conditional Credit Line for Investment Projects: Fiscal and Public Investment Expenditure Strengthening in Subnational Entities (CO-X1018), authorized pursuant to Resolution DE-204/14. Such financing will be for the amount of up to US$150,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ ________ 2015)

CO-L1155/CO-X1018
LEG/SGO/CAN/IDBDOCS-39945908