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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

# COLOMBIA

# SUPPORT PROGRAM TO STRENGTHEN COLOMBIA'S INTEGRATION INTO GLOBAL VALUE CHAINS

**(CO-L1268)**

**LOAN PROPOSAL**

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## ABBREVIATIONS

| | |
|---|---|
| AEO | Authorized economic operator |
| CONPES | Consejo Nacional de Política Económica y Social [National Economic and Social Policy Council] |
| DANE | Departamento Administrativo Nacional de Estadística [National Administrative Department of Statistics] |
| DIAN | Dirección de Impuestos y Aduanas Nacionales [National Tax and Customs Directorate] |
| DNP | Departamento Nacional de Planeación [National Planning Department] |
| FDI | Foreign direct investment |
| GDP | Gross domestic product |
| GVC | Global value chain |
| IMF | International Monetary Fund |
| INC | Informe Nacional de Competitividad [National Competitiveness Report] |
| KBS | Knowledge-based services |
| LAC | Latin America and the Caribbean |
| MSMEs | Micro, small, and medium-sized enterprises |
| OECD | Organisation for Economic Co-operation and Development |
| PBP | Programmatic policy-based loan |
| PFP | Programa Fábricas de Productividad [Productivity Factories Program] |
| PNL | Política Nacional Logística [National Logistics Policy] |
| RUES | Registro Único Empresarial [Single Business Registry] |
| SIED | Servicio de Inversión Extranjera Directa [Foreign Direct Investment Facilitation Service] |
| SOFR | Secured Overnight Financing Rate |
| TFA | Trade Facilitation Agreement |
| UNCTAD | United Nations Conference on Trade and Development |
| VUI | Ventanilla Única de Inversiones [Investment Single Window] |

**PROJECT SUMMARY**

**COLOMBIA**

**SUPPORT PROGRAM TO STRENGTHEN COLOMBIA'S INTEGRATION INTO GLOBAL VALUE CHAINS**

**(CO-L1268)**

**Financial Terms and Conditions**

| **Borrower:** | | |
|---|---|---|
| Republic of Colombia | | |
| **Executing agency** | | |
| Ministry of Finance (MHCP) | | |
| **Source** | **Amount (US$)** | **%** |
| **IDB (Ordinary Capital):** | 200 million | 100 |
| **Total:** | 200 million | 100 |

| **Flexible Financing Facility** [a] | |
|---|---|
| **Amortization period:** | 19 years |
| **Disbursement period:** | 1 year |
| **Grace period:** | 6.5 years[b] |
| **Interest rate:** | SOFR-based |
| **Credit fee:** | [c] |
| **Inspection and supervision fee:** | [c] |
| **Weighted average life:** | 12.60 years |
| **Approval currency:** | U.S. dollar |

**Project at a Glance**

**Project objective/description:** The general objective of this programmatic series and its first operation is to foster Colombia's integration into global value chains with the aim of boosting economic growth. The specific objectives are to (i) help to attract and facilitate efficiency-seeking foreign direct investment; (ii) facilitate foreign trade operations; and (iii) strengthen the production and export capacity of micro, small, and medium-sized enterprises.

This is the first of two consecutive operations that are technically linked but financed separately as programmatic policy-based loan operations.

**Special contractual conditions precedent to the first and only disbursement of the loan:** Disbursement of loan proceeds is subject to fulfillment by the borrower, to the Bank's satisfaction, of the policy reform measures described in the Policy Matrix (Annex II) and Policy Letter, in addition to the other conditions established in the loan contract. (See paragraph 3.2.)

**Exceptions to Bank policies:** None.

**Strategic Alignment**

| | | | |
|---|---|---|---|
| **Challenges:**[d] | SI ☐ | PI ☒ | EI ☒ |
| **Crosscutting themes:**[e] | GE ☒ and DI ☐ | CC ☐ and ES ☐ | IC ☒ |

[a] Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[b] Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

[c] 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 the relevant policies.

[d] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[e] GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

# I. DESCRIPTION AND RESULTS MONITORING

## A. Background, problem addressed, and rationale

1.1 **Macroeconomic context.** In 2020, Colombia's economy experienced its deepest economic contraction in 100 years (-7.0%), with a sharp increase in unemployment (15.9%) and rising poverty.[1] Exports contracted by -21.4%, representing the second-worst export performance in Latin America and the Caribbean (LAC: -8.7%).[2] Foreign direct investment (FDI) flows fell -46% (LAC: -34.7%).[3] To mitigate the effects of the COVID-19 pandemic on Colombian households and businesses, the government implemented an array of measures, including payroll subsidies to protect formal sector jobs, cash transfer programs to support the most vulnerable households, and government guarantees for loans to small businesses to facilitate credit access. These efforts were accompanied by temporary suspension of the fiscal rule. The fiscal deficit reached 7.8% of GDP, with gross debt rising to 64.8% of GDP.[4]

1.2 The economy began to recover in 2021, with private consumption and public spending fueling growth of 10.6%. Unemployment, meanwhile, fell to 13.7%, although as of December 2021, 1.2 million of the jobs lost had yet to be regained.[5] To guide the fiscal consolidation process, a Social Investment Law[6] was passed that is expected to generate revenue of 1.4% of GDP, emphasizing public spending austerity and changes in corporate taxation. The fiscal deficit (7.1%) and gross debt (63.8%)[7] ended the year with declines that, while marginal, underlined the government's commitment to adjustments in the public finances. Banco de la República projections for 2022 point to growth of 5.0%,[8] followed by a deceleration to 2.9% in 2023.[9] The recovery has also affected the inflation rate, which rose to 5.62% in 2021 and is expected to increase further in 2022. This has led to an increase of more than 300 basis points in the annual benchmark interest rate, which now stands at 6.0%.[10]

1.3 **Against this backdrop of limited fiscal space and low domestic savings, Colombia must leverage its external sector to create the conditions for sustainable growth in the long term.** The reconfiguration of global value chains (GVCs)[11]—which commenced following the 2008/2009 crisis and accelerated with

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1 Extreme poverty increased by 5.5 percentage points and monetary poverty by 6.8 points (Medium-Term Fiscal Framework, 2021).

2 Behind Venezuela. United Nations Conference on Trade and Development (UNCTAD), 2021.

3 Banco de la República, 2021.

4 Medium-Term Fiscal Framework, 2021. In comparison, the 2019 fiscal deficit was 2.5%, and the debt stood at 48.3% of GDP.

5 National Administrative Department of Statistics (DANE).

6 Law 2,155 of 2021.

7 Ministry of Finance, February 2022.

8 The International Monetary Fund (IMF) projects growth of 5.8%.

9 Monetary Policy Report, April 2022.

10 Ibid.

11 International fragmentation of production aimed at improving efficiency and reducing production costs. Blyde, 2014. In this operation, a country's participation in GVCs is determined by measuring the percentage of external value added embedded in its exports.

the pandemic—provides an excellent opportunity to achieve this objective. In an effort to build more secure supply chains, multinational companies are considering relocating their operations or seeking new providers closer to their end markets.[12] This regionalization of GVCs represents an opportunity for Colombia to attract investment that consolidates the recovery and accelerates the country's international integration process. Participation in GVCs allows countries to exploit comparative advantages by specializing in one or more stages of production, and it therefore has the potential to enhance productivity and diversify trade and production. A 10% increase in a country's participation in GVCs leads to increases of 1.6% in labor productivity and as much as 14% in GDP per capita.[13] Likewise, companies that participate in GVCs are more productive,[14] adopt and transfer know-how and technology, demand more skilled workers, pay higher wages, and hire more women.[15]

1.4 **Colombia's participation in GVCs.** The country currently has 17 trade agreements in place, providing access to 62 countries and more than 1.5 billion consumers. Despite this, its openness to trade is relatively low[16] and its insertion in GVCs (8.7% in the 2015-2019 period)[17] has lagged compared both to other countries in the region (Mexico, 30%; Chile, 23%; Costa Rica, 18%) and to countries belonging to the Organisation for Economic Co-operation and Development (OECD) (26%). Moreover, Colombia's participation in intraregional value chains[18] (2.2% in 2015-2019) is lower than that of other Latin American and Caribbean countries such as Chile (7.8%), Costa Rica (4.4%), and Peru (3.5%). This weak performance in relation to GVCs is associated, inter alia, with the following factors.

1.5 **The need to improve legal certainty and reduce transaction costs for investors seeking new locations.** First, investors face constant regulatory changes[19] and legal interpretations by the central and subnational governments that can have an adverse impact on their investments.[20] The country ranks 108th out of 141 in terms of the efficiency of the legal framework in solving disputes, below Chile (50) and Costa Rica (72),[21] and it is also behind in terms of signing

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12 In June 2020, 75% of U.S. companies with factories abroad were considering locating part of their production in other countries (UBS Evidence Lab, 2020). In August 2020, 93% of companies surveyed reported having made plans to reconfigure their GVCs (McKinsey, 2020). In November 2021, 90% of those surveyed considered regionalizing GVCs to be a priority (McKinsey, 2021).

13 World Bank, 2020; IMF, 2020; optional link 1.

14 Colombian companies participating in GVCs are 38% more productive than other exporters and produce 80% of exports. D'Udine, Rocha, and Vigil, 2021.

15 Organisation for Economic Co-operation and Development (OECD), 2019; World Bank, 2020; optional link 1; Arenas, Espitia, and Winkler, 2021. For more information, see link.

16 International trade/GDP, 2020: 33.6%. Ecuador (43.3%), Peru (46.8%), Bolivia (56%), OECD (58.2%). World Bank, 2020.

17 External value added embedded in exports. Authors' calculations with data from UNCTAD-EORA.

18 External value added from the same region, embedded in exports.

19 Colombia has implemented 12 tax reforms in the last two decades.

20 Silva, Eduardo, 2021. Informe final: Diseño e Implementación de la Figura del Ombudsperson de Inversión en Colombia. There are 17 ongoing investor-State disputes in Colombia, compared with 2 in Chile and 12 in Mexico. More than 50% of disputes relate to legal uncertainty.

21 World Economic Forum, 2019.

investment agreements,[22] which provide predictability and security in the treatment of investments. Second, transaction costs are crucial to investor decisions, yet in Colombia they are above the regional average. The average number of hours taken to complete an administrative transaction in the country is 7.4 (LAC: 5.4).[23] Moreover, only 16% of procedures can be initiated and completed online.[24] Investments require between 12 and 41 administrative procedures on average, and the process can take between 69 days and 32 months, depending how regulated the sector is.[25]

1.6 These indicators have a negative impact on the country's business climate and competitiveness, discouraging high-productivity FDI[26] that could support economic diversification. As a result, typically more than 45% of FDI flows to Colombia (2010-2019) have been concentrated in the mining and energy sector.[27] Meanwhile, efficiency-seeking FDI represents only 15% of the total, whereas countries with similar per capita income capture between 20% and 40%.[28]

1.7 **High logistics costs and limited leveraging of trade agreements.** Companies participating in GVCs send five times more international shipments than exporters outside these chains, and they therefore require agile logistics at the border. In addition, companies in GVCs are more vulnerable to customs taxes and regulatory costs, as their dependence on imported imports is 30% higher.[29] In Colombia, logistics costs for companies engaged in external trade operations represent 36% of the value of sales.[30] The time required to process an export or import shipment is 112 hours—more than double the regional average (LAC: 55.3 hours for exports and 55.6 hours for imports) and 13 times the average length of time for OECD countries (12.7 hours and 8.5 hours).[31] Meanwhile, almost 80% of import tariff headings were subject to customs duties[32] and nontariff barriers in 2019,[33] raising the cost of access to inputs, capital goods, and technology.

1.8 At the same time, the country continues to face challenges in leveraging trade agreements. The share of nonmining and nonenergy products in exports to countries with trade agreements has risen by only 1.9 percentage points over the last 30 years.[34] With respect to agriculture, for example, Colombia has secured preferential tariff treatment for its exports across almost all continents, yet external sales remain concentrated in traditional products, mainly coffee, flowers, and

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22 Colombia has 7 bilateral investment treaties (Chile, 34; Mexico, 31; Peru, 27). UNCTAD, 2021. Colombia also has 13 double taxation agreements (Chile, 25; Mexico, 41).

23 Average for the main transactional public services in a country.

24 IDB, 2018.

25 IDOM, 2020.

26 Export-oriented FDI by companies seeking to reduce production/distribution costs within GVCs (Dunning, 2002).

27 Banco de la República, 2021.

28 World Bank, 2017.

29 Winker, Deborah, et al., 2021.

30 National Logistics Survey (ENL, 2020).

31 Doing Business, World Bank, 2020.

32 Average import duty in Colombia: 2.9%; Mexico, 1.2%; Peru, 0.7%; Chile, 0.4%. World Bank, 2019.

33 Garcia et al., 2019.

34 From 82% in 1991 to 83.9% in 2020. Ministry of Trade, Industry, and Tourism, 2021.

bananas, which accounted for 58% of sector exports in 2020.[35] In 2019, Colombia's agricultural exports were only 2.9 times higher than in 1992, compared with 7.4 times higher in Chile and 20 times higher in Peru.[36] This is partly the result of sanitary compliance barriers that limit effective access to international markets.

1.9 **Low productivity and diversification of the productive and export sectors.** Colombia's exports are less than half the level that would be expected given the size of its GDP and population,[37] and the complexity of its export basket has remained unchanged over the last 20 years.[38] Two-thirds of goods exports are concentrated in oil, coal, coffee, and ferronickel. High-tech manufactured goods account for only 2% of total exports,[39] while service exports account for less than 20%. Exports of knowledge-based services (KBS), which make intensive use of skilled labor and facilitate technology transfer, account for less than 3%.[40] In the wider region, in comparison, primary goods account for 25% of total exports on average and high-tech goods exports for 9%. In the OECD countries, 13% of exports on average are made up of high-tech goods, and KBSs account for more than 13% of their trade with the rest of the world.[41]

1.10 The low sophistication and diversification of the country's productive sectors is associated with low levels of productivity.[42] The micro, small, and medium-sized enterprises (MSMEs) that make up 99% of the country's business fabric[43] report lower levels of productivity[44] and internationalization[45] than large Colombian companies and MSMEs in other countries. The reasons for this weak performance include factors internal to the companies (e.g., low use and ownership of technology and quality standards; deficient management capabilities for business and export development; and poor management practices), as well as external factors (e.g., the excessive regulatory burden; dispersion and lack of specialization of business support tools; a deficient supply of technical assistance services to support quality; and hurdles in accessing international markets).[46] MSME access

[35] National Planning Department (DNP), 2021.

[36] Optional link 2.

[37] Actual exports per capita, 2015-2019: US$990; projected: US$2,029. Optional link 2.

[38] Colombia ranks 55th out of 133 countries in the Economic Complexity Index, having fallen seven places over the last decade. Economic Complexity Index, Harvard Growth Lab.

[39] Informe Nacional de Competitividad (INC) 2020-2021.

[40] KBS exports account for 0.51% of Colombia's GDP (LAC: 0.98% of GDP). Trade profiles, World Trade Organization, 2019.

[41] INC, 2020-2021; World Trade Organization Stats, 2019.

[42] National Productive Development Policy, 2016.

[43] Of the 1,633,081 companies registered with the Registro Único Empresarial [Single Business Registry] (RUES) in 2019, micro, small, medium, and large companies accounted for 92.3%, 5.7%, 1.5% and 0.5%, respectively. DNP, 2021.

[44] The labor productivity of a microenterprise in Colombia is equivalent to 16% of that of a large company. For small and medium-sized enterprises, the ratios are 43% and 51%, respectively. OECD-United Nations-United Nations Industrial Development Organization, 2019. OECD averages: 55%, 73%, and 85%. OECD, 2017.

[45] More than 20% of large companies in Colombia are exporters, compared with 0.5% of MSMEs. INC, 2020-2021. In OECD countries, between 20% and 40% of MSMEs are engaged in export activity. OECD, 2018.

[46] Política Nacional de Desarrollo Productivo, 2016; DNP, 2021; INC, 2020-2021.

to finance in Colombia is also limited compared to other countries at similar stages of development.[47]

1.11 **To leverage the opportunities provided by reconfiguring GVCs, the government has developed a policy agenda aimed at addressing the aforementioned challenges, focused on strengthening Colombia's integration into the world economy.** To strengthen this agenda, in August 2021 the government received the recommendations of an internationalization mission (optional link 2) supported by the IDB and other organizations. The mission recommended that Colombia strive for greater and more effective integration into global production and trade circuits, so as to accelerate its technological transformation process, eliminate productivity gaps, and thus achieve greater prosperity for Colombian citizens. To translate these recommendations into specific policy actions and turn internationalization into State policy, the government has just published an internationalization policy for regional productive development (optional link 5). This policy seeks to deepen the country's connection with the world, with a particular focus on internationalizing regional productive activities. It is aimed at capturing global talent and maximizing the contribution of the Colombian diaspora to internationalization; attracting foreign companies to strengthen the sophistication of the productive sectors and their integration into GVCs; reducing trade barriers and implementing improvements to logistics; promoting modern services exports; and strengthening the institutional framework to facilitate effective internationalization.

1.12 Against this backdrop, and consistent with both the mission recommendations and the government's internationalization policy, the strategy of this program is to create the conditions for maximizing the opportunities arising from the reconfiguration of GVCs, as a means of consolidating sustained growth in the country in the long term. This will be done by coordinating and strengthening the regulatory and policy frameworks to enhance the business climate, thus helping to attract productive investment and facilitate foreign trade operations. MSME production and export capabilities will also be improved so that this segment can participate successfully in the internationalization process, maximizing the impact on the local economy and employment.

1.13 **Attract and facilitate efficiency-seeking foreign direct investment, thus catalyzing participation in GVCs.**[48] To improve Colombia's insertion into GVCs, FDI needs to be diversified to include sectors with higher value added.[49] In Costa Rica, for example, efficiency-seeking FDI accounts on average for 33% of all FDI flows. Each additional US$1 of inbound productive FDI boosts the country's GDP by US$5 and nontraditional exports by US$14.[50] Because many countries are competing to attract this type of FDI, it is sensitive to investment policies and transaction costs.

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[47] According to the OECD, Colombia has the third highest real interest rate for MSMEs in a sample of 42 countries, behind only Brazil and Peru. Plan Nacional de Desarrollo, 2018-2022.

[48] Openness to FDI is positively correlated with higher levels of participation in GVCs. Buelens and Tirpak, 2017; Fernandes, Kee, and Winkler, 2020.

[49] For the purposes of this operation, annual changes in FDI in nonextractive sectors will be measured.

[50] Zolezzi et al., 2020.

1.14 In light of this, the government has designed a strategy focused on attracting efficiency-seeking FDI by reducing country costs and making the business environment more competitive. As part of this strategy, it has pursued a policy to streamline administrative procedures (Law 2052/2020; Decree 088/2022), making it mandatory for the executive branch to simplify, automate, and digitalize administrative procedures so as to make them more efficient and transparent and assist citizens and companies in complying with their obligations. Linked to this objective, the Investment Single Window (VUI)[51] (Decree 1644/2021) was created to centralize and digitalize the main investment procedures, reducing the time and cost associated with investing in the country. In addition, the Foreign Direct Investment Facilitation Service (SIED)[52] was created as an alternative dispute resolution tool for investment disputes. The IDB has provided technical and financial support for these two tools (loan 4929/OC-CO).

1.15 In terms of attracting investment, the regulations governing free zones were modernized in 2016 (Decree 278/2021), strengthening their role as a tool for the development of production and exports.[53] The new regime seeks to attract investment projects that support the transformation of Colombian production and exports, prioritizing the incentives for establishing these special zones in relatively less-developed regions and emphasizing high-tech industries, export services, technology parks, and agroindustry. The government also recently signed an investment promotion and protection agreement with Spain and a double taxation agreement with Uruguay, and the double taxation agreement with Italy and France has entered into effect. These instruments help to establish clear rules for the treatment of investments.

1.16 There is evidence showing that FDI flows increase when there is a predictable legal and regulatory framework, and that transparency, lower bureaucratic discretion, and access to dispute resolution mechanisms are important factors for investment decisions.[54] Similarly, recent studies show that improving the quality of institutions is essential for increasing a country's participation in GVCs.[55] Colombia now faces the challenge of implementing these reforms to attract and facilitate efficiency-seeking FDI. In particular, it will be critical to continue the process of targeting and strengthening the free zone regime to make it an effective tool for developing GVCs. Likewise, tools for facilitating investment, such as the VUI and SIED, must begin operating soon. The approval and entry into force of new agreements for investment protection and facilitation must also be prioritized by the government.

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[51] Investment single windows are platforms that centralize and digitalize procedures/permits for companies wishing to establish themselves or operate in a country. Costa Rica's VUI has reduced time frames for staff registration by 73%, business registration by 63%, and obtaining health permits by 62%. IDB, 2018.

[52] Thanks to Korea's investor-State dispute settlement mechanism, which handled and resolved 269 complaints in 2018, the value of reinvestment in the country rose by 69.5% from 2017 to 2018. Gomez, Daniela, 2021.

[53] International best practices indicate that free zones should be used not only as investment promotion tools, but as tools of industrial policy above all. UNCTAD, 2019; IDB, 2021.

[54] A reduction of one percentage point in regulatory risk increases by two percentage points the probability that an investor will establish or expand investments in a country. Global Investment Competitiveness Report 2019/2020, World Bank.

[55] Optional link 1.

1.17 **Reduce the cost of external trade to promote GVC competitiveness.** Another key factor for GVC insertion is the rapid and cost-efficient exchange of goods across borders. Here, the government has taken a decisive step toward modernizing the national customs system (Decree 360/2021) by eliminating barriers that limit foreign trade competitiveness. These efforts have been given added force by implementing a new computerized customs management information technology system, which has received technical and financial support from the IDB (loan 5148/OC-CO). In addition, Mutual Recognition Agreements on Authorized Economic Operators (AEOs) have been signed with Brazil and Uruguay, allowing AEOs to benefit from swift, differentiated treatment at the borders of these countries. These regulatory actions are complemented by the updated National Logistics Policy (PNL) (CONPES document 3982/2020), which has been supported by Bank financial and technical resources (loan 5229/OC-CO). This policy seeks to implement specific actions to comprehensively reduce logistics costs and time frames in the country (CONPES document 4015/2020).

1.18 Consolidating GVCs also depends on strengthening Colombia's regional and trade integration with a view to reducing the costs arising from tariff[56] and nontariff barriers. In this respect, the expanded free-trade agreement with Guatemala has entered into force, providing preferential access for rubber, textiles, and clothing. In addition, the strengthening of integration within the framework of the Andean Community has proceeded, including the digital exchange of trade documents, harmonization of technical regulations, and approval of the Andean digital agenda, aimed at promoting cross-border trade in services. In the Pacific Alliance, meanwhile, technical obstacles were eliminated to trade in personal care products and medical devices, and a trade agreement was signed with Singapore that will foster the creation of regional production chains. In addition, a Temporary Import Agreement (Law 2145/2021) was passed that allows the temporary import and export of goods free of taxes and customs duties, including inputs for cultural industries. Lastly, the country accelerated implementation of the Sanitary Diplomacy Strategy, which focuses on expediting compliance with sanitary requirements to allow agricultural exports to strategic markets. This effort has been successful in securing access for 49 agricultural products to markets in 23 countries since 2019.[57]

1.19 Several studies confirm that reductions in logistics costs are associated with an increase in high value-added exports in GVCs,[58] and that trade agreements have a positive impact on a country's participation in these chains.[59] The implementation of trade agreements is associated with a 12 percentage point increase in GVC trade between member countries, and the impact is even greater in higher value-

[56] Average cuts of 56% in customs duties in Latin America and the Caribbean from 1990 to 2010 led to an acceleration of 0.6 percentage points in average annual per capita GDP growth. IDB, 2019.

[57] Logros Gobierno de Colombia, 2020-2021.

[58] An improvement of one percentage point in the Logistics Performance Index published by the World Bank is associated with an 8% increase in high value-added exports within GVCs. Blyde, 2014; Kowalski, P., et al., 2015; Catalayud et al., 2021). A 10% increase in customs clearance times reduces exports by up to 3.8%. Volpe, 2017. Carballo et al., 2016; Carballo et al., 2019.

[59] Johnson and Noguera, 2016; Laget et al., 2018; Fernandes, Kee & Winkler, 2020.

added sectors such as auto parts and KBSs.[60] Colombia needs to accelerate the implementation of these reforms to reduce the time and cost associated with foreign trade, including deploying the information technology system to support the new customs regulations; implementing measurements that facilitate the optimization of logistics processes (particularly in agricultural logistics chains); ensuring continuity in efforts to deepen regional integration; and pressing ahead with implementation of the internationalization policy, which seeks to coordinate all of these actions across the country's regions to systematically increase the country's participation in GVCs.

1.20 **Promote productive and export development for effective GVC insertion.** To maximize the impact of GVCs, effective linkages need to be created between FDI and local producers by developing better local production capabilities and export promotion instruments. Productivity and competitiveness in a country's business fabric have a positive impact on its participation in GVCs.[61] Accordingly, the government has launched the National Industrial Policy, which includes crosscutting tools aimed at solving market, government, and coordination failures that dampen productivity and hinder MSME diversification. These are complemented by a vertical strategic axis that seeks to accelerate the development of activities with high potential for growth and internationalization, as in the case of KBSs. In terms of development of the crosscutting agenda, guidelines were established for coordinating the institutional supply of support programs and instruments to strengthen the business development ecosystem (Decree 1838/2021). In addition, the provision of traditional and alternative financial services for MSMEs has been stepped up. One of these alternative financing mechanisms is electronic factoring.[62] With issuance of regulations for the circulation and registration of electronic invoices as negotiable titles on the RADIAN platform[63] (Resolution 000085/2022), MSMEs are now able to trade their accounts receivable, creating a new source of financing and liquidity for these enterprises. The Bank provided technical and financial support for the implementation of electronic invoicing and the development of RADIAN (loan 3155/OC-CO). This crosscutting agenda has been strengthened with the publication of the Policy for Reactivation and Sustainable Growth (CONPES document 4023/2021). With regard to the productive sector, this policy proposes actions to increase the diversity and sophistication of MSME production by strengthening the capabilities of enterprises in this segment, including the need to expand the adoption of quality standards for domestic and international markets.

1.21 These policy guidelines have led to the development of a group of business support programs that seek to improve MSME production and export capacity through direct interventions in this segment. The Productivity Factories Program,[64] for example, is a technology extension program that seeks to build MSMEs'

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60 Orefice and Rocha, 2014.

61 Swann, Temple, and Sumar (1996); Taglioni and Winkler, 2016; OECD-United Nations Industrial Development Organization, 2019; Winker, Deborah, et al., 2021.

62 Only 1% of Colombian business people have used factoring, and factoring accounts for only 2.9% of GDP in the country (Chile, 9.9%; Peru, 5.9%). CONPES document 4005/2020.

63 RADIAN administers the registration, consultation, and traceability of electronic sales invoices circulating as negotiable securities within national territory. RADIAN currently has 114 authorized participants.

64 Companies served by the program as of November 2021: 1st, 2nd, and 3rd rounds: 3,113.

installed capacity in areas such as digital transformation, operational and/or labor productivity, and quality management, to assist them in achieving higher levels of sales, productivity, competitiveness, and profitability. The program has led to an average 32.8% increase in productivity indicators among the MSMEs targeted,[65] while approximately 80% report that their sales have increased.[66] Additionally, the program to build productive value chains[67] seeks to strengthen the ability of MSMEs to meet the standards and requirements demanded by anchor companies (both national and international), thus allowing them to participate in GVCs. Complementing these efforts, the Internationalization Factories Program[68] facilitates a variety of technical support services (design of export business model, international expansion, the creation of export consortia, etc.) to allow MSMEs to accelerate their export processes and enter new markets on a sustainable and competitive footing. According to preliminary estimates by the IDB, MSMEs served by the program are six percentage points more likely to export than non-beneficiary MSMEs.[69] Lastly, as part of the vertical productive development policy axis, the government has designed and implemented technical assistance programs tailored to the needs of KBS enterprises, in recognition of this sector's potential to generate value-added exports, investment, and employment.[70] The design and implementation of these programs was supported by the IDB (loan 4929/OC-CO).

1.22 IDB studies confirm that business strengthening and trade promotion programs have significant positive impacts on the level and type of export activity, and on export firms that face greater information hurdles (as is the case of MSMEs).[71] Consistent with the recommendations of program evaluations, the future challenge will be to scale up business support instruments, focusing efforts on increasing the quality of interventions and serving a larger number of enterprises.[72] Likewise, there is a need to consolidate and expand technical assistance programs to support the adoption of quality standards. Meeting these standards is a requirement for Colombia's productive sectors to operate, and it represents an opportunity to participate in international markets. Meanwhile, it will be critical to measure the impact of the Internationalization Factories Program in order to determine its effectiveness and design an evidence-based model for scaling it up. Similarly, MSME use and ownership of the RADIAN platform must be evaluated soon with a view to analyzing the development of electronic factoring in the country. Lastly, ongoing efforts are needed to implement methodologies that help to improve the coordination and efficiency of business support entities, programs,

65 According to Fedesarrollo (2021), the program has had a positive impact on the main business productivity problems.

66 This reflects the number of MSMEs served by the program (commercial management line of activity) that reported an increase in sales between 2019 and 2020, as the proportion of all MSMEs served.

67 Enterprises served by the program as of May 2022: 769 MSMEs.

68 Enterprises served by the program as of May 2022: 2020 competition, 360; 2021 competition, 205.

69 Preliminary impact evaluation estimates. IDB, 2022. This reflects the proportion of MSMEs served by the Internationalization Factories Program that exported goods in 2021 (DANE records), as compared with the control group (MSMEs not served by the program).

70 A KBS sector analysis carried out by the IDB concluded that Colombia's comparative advantages in the export segment include software, audiovisual, and animation and video games.

71 Volpe and Carballo, 2010.

72 Fedesarrollo, 2021.

and instruments, thereby strengthening the institutional ecosystem and improving public spending efficiency. The provisions of the Entrepreneurship Law and its regulations demonstrate the government's interest in ensuring such progress.

1.23 **Gender aspects of the operation.** According to the RUES, 51% of all sole proprietorships created in Colombia in 2020 were owned by women,[73] yet in the case of companies, only 14% of those created had high or medium participation by women in their ownership structures.[74] Women-led companies are concentrated mainly in the microenterprise and small business segments, and studies[75] show that they are generally less productive,[76] use less physical capital, and have less human capital than companies led by men. These differences affect their ability to access finance and markets and create jobs. A profiling exercise of women-led companies in Colombia[77] found that 97% of companies surveyed considered themselves to be microenterprises or small businesses and only 14% were involved in exporting. More than 55% used their own funds or those of a family member to finance their operations, and most highlighted the fact that a lack of access to formal training programs for improving management capabilities and the use and adoption of technology had adversely affected their business and exporting performance.

1.24 In light of these challenges, the government has developed a regulatory agenda that establishes the country as a regional benchmark in terms of the design of policies to promote female entrepreneurship. First, the Ministry of Trade, Industry, and Tourism has established a Gender Issues Committee (Resolution 0273/2021) to ensure that projects and programs in that sector have a sufficient focus on gender issues. An example of this are the Productivity Factory and Internationalization Factory programs, which provide technical assistance to strengthen the management and export capabilities of female entrepreneurs and also gather data disaggregated by gender.[78] Through its investment loan 4929/OC-CO, the Bank is supporting not only execution of the Internationalization Factories Program, but also analysis of the data gathered by this program to identify the most acute gender gaps and formulate relevant recommendations and program adjustments. Second, to reduce the economic impact of COVID-19, the Fondo Mujer Emprende [Women's Enterprise Fund] (FME) (Law 2069/2020) was created as an autonomous fund that uses public and private resources to provide both cofinancing for productive programs and projects (nonprofit component) and debt financing (profit-earning component) to promote growth and internationalization in women-led enterprises. The IDB provided technical support to operationalize the fund, as well as the methodology for structuring productive projects financed under the nonprofit component (operation ATN/MR-17474-RG). Likewise, in recognition of the fact that public procurement (more than 15% of GDP

73 A sole proprietor is an individual trader who exercises this activity habitually and professionally in their own name.

74 Gender statistics. RUES, 2020.

75 World Bank, 2010; Teignier and Cuberes, 2017.

76 Women-led companies are 11% less productive than those led by men. Islam et al., 2020.

77 IDOM, 2021; 476 female entrepreneurs were surveyed. Study carried out with technical and financial support from the IDB (operation ATN/MR-17474-RG).

78 In 2020, 128 women-led MSMEs were served under the two programs, accounting for 13.7% of all companies targeted.

in Colombia)[79] is an essential tool for promoting growth and access to business opportunities for women-led enterprises, the government included provisions in the Entrepreneurship Law and its associated regulations (Decree 2,860/2021) that establish differentiated requirements for women-led enterprises in public procurement processes; this should boost their participation in this market.[80] A government gender equity policy was recently issued (CONPES document 4080/2022) with the aim of coordinating these initiatives and ensuring their continuity and sustainability. In this way, the authorities seek to ensure that the country's international integration agenda is not only more competitive, but also more inclusive. In future, it will be essential to accelerate the implementation of these measures to strengthen the effective insertion of women entrepreneurs in GVCs.

1.25 **Rationale.** In improving Colombia's international insertion and consolidating economic growth in the country, the government faces the challenge of ensuring the swift, effective implementation and sustainability of the aforementioned set of regulatory tools. Accordingly, it has requested a programmatic policy-based loan (PBP) aimed at promoting the modernization, strengthening, and consolidation of the regulatory framework and facilitating coordination between investment, trade, and export development policies. This loan, for US$200 million from the Bank's Ordinary Capital, is the first of two operations that are technically linked but financed separately, consistent with document CS-3633-2. This structure is aimed at maintaining continuity in the dialogue regarding the identified reforms, while also allowing for the complexity of the measures promoted and the importance of monitoring their implementation.

1.26 **Sector knowledge, lessons learned, and the Bank's value-added.** The Bank has provided consistent support for internationalization policies in Colombia. Since 2014, it has been providing support to the National Tax and Customs Directorate (DIAN) for the implementation of a leading-edge electronic invoicing system that has strengthened DIAN's supervision work and reduced invoicing times and costs for companies, through an investment loan for US$12 million executed from 2014 to 2021 (loan 3155/OC-CO).[81] In 2019, it approved a program with the Ministry of Trade, Industry, and Tourism for US$24 million, aimed at developing KBS exports and attracting FDI into productive sectors (loan 4929/OC-CO). To date, 52% of the proceeds have been disbursed, impacting over 500 exporting MSMEs and implementing the VUI and the position of investor ombudsperson. In addition, as part of efforts to improve the country's business climate, the Bank is providing technical support, with a US$250 million investment loan approved in 2020 (loan 5148/OC-CO), for the modernization of tax and customs management in DIAN, with the aim of improving the efficiency and effectiveness of tax collection and the delivery of customs services. The Bank also has a long track record of support for efforts to reduce logistics costs in the country through implementation of the National Logistics Policy, with the DNP and the Ministry of Transportation: first with

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79 Colombia Compra Eficiente.

80 Women-led companies that participate in public procurement usually expand at a faster rate and contribute to GDP growth and improvements in women's participation in the labor force. Orjuela, Jasbleidy and Harper, Leslie, 2018.

81 Partial rating from the project completion report, 2022: satisfactory. As of May 2022, over 700,000 taxpayers were registered to invoice electronically.

an investment loan (loan 3130/OC-CO)[82] for US$15 million, executed from 2014 to 2022, which optimized transportation, logistics, and national goods distribution processes; and second with loan 5229/OC-CO for US$15 million, approved in 2021, which will address additional challenges related to strengthening transportation intermodality and trade facilitation. Complementing this operational support, the Bank has also provided more than US$4 million in nonreimbursable technical cooperation resources[83] to facilitate analysis and policy dialogue regarding the main obstacles to internationalization, as well as the formulation of effective responses. This has included support for the internationalization mission (particularly the analysis for the promotion of cross-border trade in services); updating of the internationalization strategy for the KBS sector; the feasibility study for implementation of the VUI; and the dialogue regarding new trends in trade facilitation.

1.27 At the regional level, the Bank has broad experience in the design and implementation of policy reform programs to modernize regulatory and institutional frameworks, as part of efforts to promote investment, trade, and innovation.[84] A recent impact evaluation in Uruguay found that the average stock of FDI between 2013 and 2017 was 7.2 percentage points higher than would have been expected in the absence of policy reform programs in these areas. In addition, lessons learned from these operations indicate that (i) policy reform operations tend to have a greater impact when executed in tandem with other Bank instruments; (ii) coordinating reforms and institutions across different sectors (investment, trade facilitation, transportation and logistics, productive development, gender) helps to ensure the comprehensiveness, effectiveness, and sustainability of internationalization policies; and (iii) the evaluation of reforms and programs promoted under a PBP is essential for strengthening and ensuring the effectiveness of this type of instrument. The following lessons learned were incorporated into the design of this program: (i) loans 3155/OC-CO, 4929/OC-CO, 5148/OC-CO, and 5229/OC-CO, together with the technical cooperation operations mentioned above, all help to operationalize the policy instruments linked to the reforms being promoted, thus helping to ensure their implementation and strengthen the value added embedded in the Bank's contribution. For example, these investment programs will implement the SIED, the VUI, the DIAN's computerized customs management system, the RADIAN system, and the KBS business strengthening programs, among others; (ii) this PBP is multisector in nature and seeks to strengthen the government's efforts to coordinate policies in the areas of investment, trade, and productive and export development, which are key to Colombia's effective integration into GVCs; and (iii) an impact evaluation will be designed and implemented for the trade promotion programs so that empirical evidence on their effectiveness can be obtained.

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82 Project completion report, 2022: satisfactory.

83 Operations ATN/OC-17157-RG, ATN/KK-16944-RG, ATN/OC-17357-CO, ATN/OC-17836-CO, ATN/OC-18605-RG, and ATN/OC-16812-RG.

84 Program for Strategic International Positioning of Uruguay, operation I (loan 2920/OC-UR), approved in 2013 for US$550 million; operation II (loan 3365/OC-UR) approved in 2014 for US$120 million; and operation III (loan 3418/OC-UR), approved in 2015 for US$247 million; Investment, Trade, and Innovation Framework Modernization Program, operation I (loan 4430/OC-UR) approved in 2017 for US$250 million; and operation II (loan 4857/OC-UR), approved in 2019 for US$250 million.

1.28 **Complementarity with other IDB Group operations.** In addition to the aforementioned operations, this programmatic series is complemented by the following: (i) the first operation of the Sustainable and Resilient Growth Program (loan 5398/OC-CO), approved in 2021 for US$700 million; and the second operation for US$300 million, currently being prepared (CO-L1274); this programmatic series will help to diversify investment to include sectors such as electric mobility and the circular economy; (ii) Financing to Support Colombia's Energy Transition (loan 5459/OC-CO), approved in 2021 for US$47 million, which will support the identification/structuring of financial instruments for investments in strategic green energy and electric mobility projects; (iii) Program for the Consolidation of Private Participation Arrangements in Infrastructure (loan 5286/OC-CO), approved in 2021 for US$15 million, which seeks to consolidate the government's capacities for promoting private participation mechanisms in economic and social infrastructure; (iv) the design of financial products and a sustainability strategy for the Women's Enterprise Fund (operation ATN/OC-19023-CO), a technical cooperation operation approved in 2021 for US$200,000, which will promote the design of new financial products to support funding for women entrepreneurs. All of these activities help to improve the country's business environment, strengthen incentives for investment in the sustainable and productive sectors, and improve business internationalization capabilities.

1.29 **Coordination with other multilaterals.** This operation complements the World Bank's technical assistance activities in the country. Specifically, in August 2021, the World Bank approved a program to finance development policies that support three key components of the government's economic reactivation strategy: (i) promotion of competition and improvement of the regulatory environment, highlighting the government's efforts to simplify procedures, enhance the quality of technical regulations, and adopt standard public procurement forms; (ii) promotion of innovation and digital finance, including tax benefits for MSMEs stemming from investment in research, technological development, and innovation projects, as well as promotion and regulation of collaborative financing activities; and (iii) entrepreneurship and internationalization, underscoring publication of the Entrepreneurship Law and extending the AEO trade facilitation program to port operators. The policy measures in both programs will target areas of policy that complement each other and are instrumental for achieving effective insertion into GVCs.

1.30 **Strategic alignment.** The program is aligned with the second Update to the Institutional Strategy (document AB-3190-2) and with the challenges of (i) productivity and innovation, as it will help to establish institutional frameworks for improving the business climate and delivering quality services; and (ii) economic integration, by fostering companies' participation in value chains and promoting the alignment of integration instruments and policies to minimize the costs of fragmented regulations and obtaining information and financing. It is aligned, furthermore, with the crosscutting themes of (i) gender equality, as it will promote the design and implementation of specific policies and instruments to support growth and internationalization in women-led companies; and (ii) institutional capacity and rule of law, as it will foster regulatory, governance, and technological modernization reforms aimed at removing obstacles to business productivity and growth. In addition, the operation is aligned with Vision 2025, Reinvest in the Americas: A Decade of Opportunity (document AB-3266), particularly in relation to the investment priorities of regional integration, support for MSMEs, and the economic empowerment of women, with the objective of reactivating the productive sector in the medium term. The operation is aligned with the Corporate Results Framework 2020-2023 (document GN-2727-12) through the following indicators: enterprises provided with technical assistance; integration agreements and regional cooperation initiatives supported; women beneficiaries of economic empowerment initiatives; and projects supporting economic integration.

1.31 The operation is aligned with the IDB Group Country Strategy with Colombia 2019-2022 (document GN-2972), namely, the strategic area of economic productivity, specifically with the objectives of: (i) promoting innovation and digital ecosystems by strengthening the digitalization of procedures and processes for investment and foreign trade, and (ii) promoting business financial inclusion; and the crosscutting theme of economic integration (improving and expanding the Colombian economy's participation in global and regional value chains). This operation is also consistent with the Integration and Trade Sector Framework (document GN-2715-11) in that it promotes attracting high-value FDI, reductions in logistics costs, the use of emerging technologies, and export development initiatives. Lastly, the program is included in the 2022 Operational Program Report (document GN-3087).

## B. Objectives, components, and cost

1.32 **Objectives.** The objective of the program is to boost economic growth by fostering Colombia's integration into global value chains. The specific objectives are to (i) help to attract and facilitate efficiency-seeking FDI; (ii) facilitate foreign trade operations; and (iii) strengthen the production and export capacity of MSMEs.

1.33 **Component I. Macroeconomic stability.** Maintain a macroeconomic environment consistent with program objectives and the guidelines set forth in the policy letter and policy matrix.

1.34 **Component II. Attract and facilitate productive FDI.** This seeks to support implementation of the regulatory reforms issued by the government, with a view to consolidating the country's policies to attract efficiency-seeking investment. To this end, the following measures are included: (i) issue regulations governing the digitalization and automation of administrative procedures, including business procedures regulated by the State; (ii) create the VUI, which will digitalize the main investment procedures; (iii) create the SIED for alternative dispute resolution with respect to investment; (iv) modernize the country's free zone regime, strengthening its role as a tool for the development of production and exports; (v) sign the reciprocal investment protection agreement with Spain; and (vi) sign the double taxation agreement with Uruguay and bring the agreement with Italy and France into force.

1.35 Triggers for the second operation include the following: (i) publish reports on progress toward the digitalization and streamlining of administrative procedures in executive branch entities; (ii) publish regulations for the VUI and launch of the first phase of the window; (iii) publish SIED regulations and launch the system; (iv) formulate recommendations for continuing the process of strengthening and targeting the free zone regime; (v) approve the reciprocal investment protection agreement with Spain; and (vi) approve the double taxation and investment cooperation and facilitation agreements with Uruguay.

1.36 **Component III. Deepen trade logistics, facilitation, and integration measures.** This seeks to strengthen the country's regional and trade integration process so as to reduce trade costs and better leverage trade agreements.

a. **Subcomponent III.1. Deepen trade logistics and facilitation measures.** These include (i) modernizing the customs regime, including substantive provisions to facilitate trade; (ii) signing the Mutual Recognition Agreements on AEOs with Brazil and Uruguay, thus helping to reduce customs clearance times and costs; and (iii) approving the loan to implement the new National Logistics Policy, which seeks to reduce logistics times and costs.

b. Triggers for the second operation are as follows: (i) award the contract to develop the Digital Services Integration Platform that will support implementation of the new customs management system; (ii) issue regulations to expand the AEO program to other participants in the logistics chain; and (iii) publish the results of the 2022 National Logistics Survey, the first report regarding the measurement of logistics costs in foreign trade operations, and the first phase of the agriculture infrastructure network and logistics services inventory, with a view to evaluating the impact of the reforms and informing policy decisions.

c. **Subcomponent III.2. Deepen measures to strengthen trade integration and leverage trade agreements.** These include: (i) deepen the trade agreement with Guatemala; (ii) strengthen integration in the Andean Community; (iii) strengthen integration within the Pacific Alliance, mainly by eliminating technical barriers to trade; (iv) sign the trade agreement between the Pacific Alliance and Singapore; (v) approve the temporary import agreement that facilitates the temporary import/export of goods free of taxes and customs duties; (vi) approve the Sanitary Compliance Plan for pork, which facilitates implementation of the Sanitary Diplomacy Strategy; (vii) obtain sanitary clearance for agricultural products in markets such as Brazil, Korea, the United States, and Japan; and (viii) publish the recommendations of the internationalization mission and the internationalization policy for regional productive development.

d. Triggers for the second operation include the following: (i) submit the progress report on negotiations to deepen trade agreements with the Central American and Caribbean countries; (ii) publish and disseminate new regulations for customs transit in the Andean Community; (iii) deepen trade facilitation measures under the Pacific Alliance by facilitating the digital transmission of customs declarations through the Single Window for Foreign Trade (VUCE) interoperability mechanism; (iv) approve the Pacific Alliance-Singapore trade agreement (Colombian approval); (v) bring the Temporary Import Agreement into effect; (vi) approve sanitary compliance plans for beef, chicken, fruit, and vegetables and formulate a strategy for promoting their implementation, ensuring that local agricultural producers are able to meet the sanitary standards required in international markets; (vii) submit a report on progress toward sanitary compliance for new agricultural products in Korea, Japan, and

Brazil (preferably); (viii) submit details of progress in implementing the internationalization policy, in the form of recommendations to adjust tariff and nontariff measures that limit productivity in priority sectors, design of an MSME support program for external trade and distribution, development of a strategy to promote professional services in GVCs, and implementation of the ProColombia-Regional Investment Promotion Agencies coordination strategy, aimed at promoting and attracting FDI to the country's regions.

1.37 **Component IV. Promote the development of production and exports.** This seeks to improve the supply of policy tools for strengthening MSME production and export capabilities, with a view to strengthening MSME participation in GVCs. The following measures are envisaged: (i) make the National Industrial Policy operational by implementing the third round of the Productivity Factories Program and the new program to build production chains; (ii) publish regulations aimed at coordinating and strengthening the business development ecosystem; (iii) publish regulations for registering electronic sales invoices as negotiable securities in the RADIAN system, thus allowing electronic factoring for MSMEs; (iv) publish policy guidelines for reactivating the productive sector, including actions to increase the adoption of quality standards for the domestic and international markets and implementation of the first round of the technical assistance program to support quality in MSMEs; (v) initiate the second round of the Internationalization Factories Program; (vi) implement technical assistance programs for improving the production and internationalization in KBS enterprises; (vii) create the gender issues and women's empowerment committee for the trade, industry, and tourism sector; (viii) structure and strengthen the Women's Enterprise Fund to provide reimbursable and nonreimbursable financial resources for companies led by women; (ix) adopt and issue regulations establishing differentiated criteria aimed at encouraging participation by women-led companies in the public procurement market; and (x) publish the public gender equity policy.

1.38 Triggers for the second operation include the following: (i) submit a results report covering implementation of the Productivity Factories Program and the program to build production chains; (ii) implement the Coordination for Competitiveness program aimed at optimizing and improving efficiency in the range of business development programs offered; (iii) implement an outcome evaluation for the first year of operations of the RADIAN platform to promote the use of electronic factoring by MSMEs; (iv) launch the second round of the technical assistance program to support quality in MSMEs; (v) design and implement an impact evaluation to generate evidence regarding the effectiveness of the Internationalization Factories Program; (vi) submit a results report for the first round of the three business strengthening programs for the KBS sector; (vii) formulate recommendations for implementing the gender issues committee in the trade, investment, and tourism sector so that it can coordinate and issue guidelines to promote the strengthening and internationalization of women-led companies; (viii) implement the for-profit component of the Women's Enterprise Fund that provides debt financing to stimulate growth in women-led companies; (ix) publish the OECD study with recommendations for simplifying the Single Suppliers Registry in order to facilitate MSME access to the public procurement market; (x) implement the cross-sector roundtable for harmonizing the supply of government programs to support the country's female entrepreneurs.

## C. Key results indicators

1.39 **Expected outcomes:** (i) increased FDI flows into nonextractive sectors and an increase in the number of investment attraction, implementation, and retention requests processed by the SIED; (ii) a return to the prepandemic level of logistics costs for companies engaged in foreign trade operations, as well as an increase in nonmining and nonenergy exports to countries with which Colombia has trade agreements (as a share of total nonmining and nonenergy exports); (iii) increases in the following: the proportion of MSMEs served by Colombia Productiva that report sales growth, the proportion of MSMEs served by ProColombia that export goods (compared with nonbeneficiary MSMEs), the number of participants authorized to use the RADIAN platform, and women-led MSMEs served by ProColombia and Colombia Productiva (as a proportion of all beneficiary MSMEs).

1.40 **Expected impact.** The impact of the reforms is expected to be an increase in Colombia's integration into GVCs with the aim of boosting economic growth.

1.41 **Beneficiaries.** The potential universe of beneficiaries encompasses 900 investors (both new and established) served by ProColombia on average each year; 41,310 companies engaged in foreign trade operations;[85] and 171,646 MSMEs with export potential.[86]

1.42 **Economic analysis.** In light of the recommendations of the 2011 Evaluability Review of Bank Projects[87] conducted by the Office of Evaluation and Oversight and the findings of the review of evaluation practices and standards for policy-based loans conducted by the Evaluation Cooperation Group (composed of the independent evaluation offices of the multilateral development banks),[88] pursuant to paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations (document GN-2489-5), an efficiency analysis of the use of financial resources is unnecessary.[89] It has therefore been determined and reported to the Bank's Board of Executive Directors that no economic analysis will be performed for this type of loan. Accordingly, this loan operation does not include an economic analysis and no such analysis is considered for purposes of measuring the evaluability score in the Development Effectiveness Matrix.

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[85] DIAN Directory, December 2020.

[86] According to the RUES, there were 1,625,444 MSMEs in 2019. According to the 2021 Large Survey of MSMEs carried out by the National Association of Financial Institutions, MSMEs are distributed as follows: industry, 30% (487,634); services, 36% (585,160); commerce, 34% (552,625). The same survey indicates that only 10% of industrial MSMEs (48,763) and 21% of those in services (122,883) have considered implementing internationalization plans. It is assumed that all companies that are considering doing so (171,646) may apply for assistance through the program's instruments.

[87] Document RE-397-1: Currently, the economic analysis section score is computed as the maximum between the CBA (cost-benefit analysis) and the CEA (cost effectiveness analysis). Yet neither a CBA nor a CEA is applicable to policy-based loans.

[88] *Good Practice Standards for the Evaluation of Public Sector Operations.* Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

[89] According to the ECG, policy-based loans should be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, since the size of the PBL is related to a country's financing gap, independent of the project's benefits.

# II. FINANCING STRUCTURE AND MAIN RISKS

## A. Financing instruments

2.1 **Financing instrument.** This is the first of two consecutive operations that are technically linked, but financed separately as PBP operations. Consistent with document CS-3633-2, "Policy-based Loans: Guidelines for Preparation and Implementation," the PBP modality is the most appropriate instrument as it (i) facilitates ongoing policy dialogue between the country and the Bank; (ii) allows monitoring of the reform process; (iii) provides flexibility for both the Bank and the country to adapt to new knowledge and/or events; and (iv) provides an opportunity to evaluate progress made under the first operation.

2.2 **Dimensioning.** This first operation is for up to US$200 million from the Bank's Ordinary Capital. Although this amount is not directly related to the costs of the reforms, it will help to meet the country's need for fiscal resources, as stipulated in paragraph 3.27(b) of document CS-3633-2. The operation represents 0.81% of the government's gross financing needs for 2022 and 3.22% of projected external disbursements.[90] The measures envisaged under the second operation were designed based on a two-year time frame for compliance. Inclusion of the second operation in the lending program with the country is subject to determination in the Bank's programming exercise with the country. Preparation of the second operation in the series is expected to commence at the end of 2023.

## B. Environmental and social safeguard risks

2.3 In accordance with Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation does not require classification. There are no environmental or social risks associated with this operation. The program will not finance any physical investments, and no activities are planned that may have negative consequences for natural resources. The proposed reforms are in fact expected to generate positive environmental and social impacts.

## C. Fiduciary risk

2.4 No fiduciary risks have been identified. Based on the existence of a responsible fiscal policy framework, the proposed financing instrument provides unrestricted funding for budget support. The borrower and recipient of the funds has satisfactory country financial management systems.

## D. Other key issues and risks

2.5 **Execution environment.** The following medium-level risks have been identified, relating to the execution environment for achieving program objectives:

a. **Institutional.** Potential difficulties in relation to interagency coordination due to the large number of government agencies involved in formulating and implementing internationalization policies. This could delay fulfillment of the triggers for the second operation. To mitigate the impact of this, the following actions are planned: (i) support for the DNP in its role as technical coordinator for the program, facilitating spaces for dialogue with the different government

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[90] No projection is available for external borrowing from multilaterals in 2022. As a percentage of actual multilateral debt as of March 2022, the operation would be equivalent to 0.53%.

entities involved in order to (a) promote understanding of good institutional coordination practices based on international experiences, and (b) evaluate progress and technical execution of the triggers and identify early warnings to help ensure that reforms are fulfilled on time and to standard; (ii) support for management of the Foreign Direct Investment Committee (IED-SIAFI committee) responsible for comprehensively analyzing, guiding, proposing, coordinating, and monitoring policies to promote, attract, and retain FDI; (iii) support for implementation of the internationalization policy approved by the National Economic and Social Policy Council (CONPES), which envisages interagency coordination mechanisms such as national and departmental internationalization roundtables aimed at strengthening the regional-central government dialogue on internationalization.

b. **Institutional and political.** A failure to implement policies due to limited fiscal space and the forthcoming change of government. To mitigate this risk, (i) the program has been structured such that the policy conditions for the first operation have already been fulfilled; (ii) the program is underpinned by State policies, which seek the more competitive and inclusive international integration of the Colombian economy. Examples are the policies on internationalization, logistics, and gender equity approved by CONPES, which set out the short, medium, and long-term strategic lines that will guide these policy agendas, as well as the responsible parties, the time frame for implementation, and the allocation of resources; and (iii) the Bank will provide support to the country through a nonreimbursable technical cooperation operation (ATN/OC-18676-CO) to facilitate and accelerate implementation of the triggers for the second operation, in addition to formulating recommendations for proposed guidelines consistent with the country's fiscal policy.

c. **Institutional.** Achievement of the objectives of the second operation could be compromised by a potential lack of commitment on the part of government entities to further developing the measuring, monitoring, and evaluation process for proposed reforms and programs (particularly those supporting MSME internationalization). To mitigate this risk, support will be provided to these entities (particularly ProColombia and the DIAN) to assist in the formulation and implementation of specialized impact or outcome evaluations that will allow technical assistance activities to be scaled up or improved based on their effectiveness. This support will include building technical capabilities for strengthening the institutions' internal monitoring and evaluation processes.

## III. IMPLEMENTATION AND MANAGEMENT PLAN

### A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower will be the Republic of Colombia. The executing agency is the Ministry of Finance (MHCP), which will implement the program in coordination with the National Planning Department (DNP). The latter will perform the role of technical coordinator with respect to the government entities responsible for fulfilling each of the policy actions. The executing agency, in coordination with the DNP, will be responsible for (i) promoting actions to achieve policy objectives; (ii) providing evidence of the fulfillment of the agreed policy conditions; and (iii) compiling and submitting to the Bank all of the information needed for the borrower and the Bank to monitor and evaluate program results. The MHCP will be the executing agency for all of the Bank's PBPs with the country. The DNP's institutional mission is to coordinate and support the planning and implementation of public policies in the country, and it will therefore provide technical leadership in the structuring and execution of the PBPs. The two institutions have sufficient technical and institutional experience to execute this type of loan.

3.2 **Special contractual conditions precedent to the first and only disbursement of the loan: Disbursement of loan proceeds is subject to fulfillment by the borrower, to the Bank's satisfaction, of the policy reform measures described in the Policy Matrix (Annex II) and Policy Letter, in addition to the other conditions established in the loan contract.** Fulfillment of the policy conditions will be confirmed by reference to the Means of Verification Matrix (required link 2). The Bank may request an external audit of the program where it deems this relevant.

## B. Summary of arrangements for monitoring results

3.3 **Monitoring.** A monitoring and evaluation plan has been prepared (required link 3) to monitor program outcomes. The plan consists of the following instruments: (i) the Policy Matrix (Annex II); (ii) the Means of Verification Matrix (required link 2); and (iii) the Results Matrix (Annex III). These provide the key parameters to be used for supervising and evaluating program outcomes. Fulfillment of policy commitments by participating government entities will be validated through the DNP. The borrower, the DNP, and the Bank will hold annual meetings to review fulfillment of the conditions required under the program and to verify progress with respect to the indicators in the Results Matrix.

3.4 **Evaluation.** The objective of the project evaluation will be to verify whether the planned outcomes and impacts have been achieved. It will be carried out once the time period indicated for fulfillment in the program monitoring and evaluation plan has lapsed (required link 3). Within a maximum of two years following disbursement under the final operation, the project team will prepare a project completion report based on the IDB guidelines in force.

# IV. POLICY LETTER

4.1 The policy letter submitted by the borrower (required link 1) describes the macroeconomic and sector policies that are being implemented by the government consistent with the policy measures to be supported under this project. The letter confirms the government's commitment to implement the agreed conditions, which are described in the Policy Matrix for the project.

| Development Effectiveness Matrix | | |
|---|---|---|
| Summary | CO-L1268 | |
| *I. Corporate and Country Priorities* | | |
| **Section 1. IDB Group Strategic Priorities and CRF Indicators** | | |
| **Development Challenges & Cross-cutting Issues** | **-Productivity and Innovation<br>-Economic Integration<br>-Gender Equality and Diversity<br>-Institutional Capacity and the Rule of Law** | |
| **CRF Level 2 Indicators: IDB Group Contributions to Development Results** | **-Enterprises provided with technical assistance (#)<br>-Amount of international trade supported ($)<br>-Regional integration agreements and cooperation initiatives supported (#)<br>-Women beneficiaries of economic empowerment initiatives (#)** | |
| **2. Country Development Objectives** | | |
| **Country Strategy Results Matrix** | **GN-2972** | **Productivity Increase (p. 1)** |
| **Country Program Results Matrix** | **GN-3087** | **The intervention is included in the 2022 Operational Program.** |
| **Relevance of this project to country development challenges (If not aligned to country strategy or country program)** | | |
| *II. Development Outcomes - Evaluability* | | Evaluable |
| **3. Evidence-based Assessment & Solution** | **8.7** | |
| **3.1 Program Diagnosis** | **1.4** | |
| **3.2 Proposed Interventions or Solutions** | **3.5** | |
| **3.3 Results Matrix Quality** | **3.8** | |
| **4. Ex ante Economic Analysis** | **N/A** | |
| **5. Monitoring and Evaluation** | **10.0** | |
| **5.1 Monitoring Mechanisms** | **4.0** | |
| **5.2 Evaluation Plan** | **6.0** | |
| *III. Risks & Mitigation Monitoring Matrix* | | |
| **Overall risks rate = magnitude of risks*likelihood** | **Medium Low** | |
| **Environmental & social risk classification** | **B13** | |
| *IV. IDB´s Role - Additionality* | | |
| **The project relies on the use of country systems** | | |
| Fiduciary (VPC/FMP Criteria) | | |
| Non-Fiduciary | **Yes** | **Strategic Planning National System, Monitoring and Evaluation National System.** |
| **The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:** | | |
| **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** | **Comprehensive support for the policies proposed by the policy reform program, through a combination of investment credit operations and non-reimbursable technical cooperation instruments. (POD ¶1.27, 1.28, 2.5(b))** |

***Evaluability Assessment Note:** The support program to strengthen the integration of Colombia in global value chains, has as its objective, of both the programmatic series and its first operation, to promote the integration of the country in global chain values (GVC) to boost economic growth. The specific objectives are: (i) facilitate the attraction and establishment of Foreign Direct Investment (FDI) for productive efficiency; (ii) facilitate foreign trade operations; and (iii) strengthen the productive and export capacities of micro, small, and medium enterprises (MSMEs). The executing agency for this loan is the Ministry of Finance and Public Credit (MHCP by its Spanish acronym).*

***The diagnostic is clear and identifies that in a context of reduced fiscal space and low domestic savings due to the economic crisis caused by COVID-19, Colombia has had to leverage its external sector to boost economic growth. However, the main problems that hinder the country's participation in global value chains (GVC) are the obstacles in terms of legal security, the high logistics and transaction costs faced by investors, the low use of trade agreements and low productivity and diversification of the productive and export apparatus. However, given the lack of information, it is difficult to quantify all the magnitudes of the deficiencies of some of the determinants of the problem raised above.***

***To achieve its objectives, the program is based on four components and has SMART result indicators to measure the expected objectives, as well as to monitor the implementation of the products that will be delivered during the program. However, in the case of outcome indicators, the targets are not fully supported by empirical evidence.***

***The project includes an impact evaluation for component IV, which seeks to support productive and export development. In particular, it evaluates the Fabricas de Internacionalización program using a quasi-experimental methodology. It is worth noting that this impact evaluation is based on a previously approved investment loan (CO-L1241) since some of the policy measures recognized or promoted by this program have an effect on the measures of effectiveness of the aforementioned investment loan.***

# POLICY MATRIX

**General objective:** The general objective of the program is to promote Colombia's integration into global and regional value chains with a view to driving economic growth. The specific objectives are to (i) help to attract and facilitate efficiency-seeking foreign direct investment (FDI); (ii) facilitate foreign trade operations; and (iii) strengthen the production and export capacity of micro, small, and medium-sized enterprises (MSMEs).

| Components/ policy objectives | Policy conditions for the first operation in the programmatic series | Fulfillment status of the policy conditions for the first operation in the programmatic series[1] | Triggers for the second operation |
|---|---|---|---|
| **Component I. Macroeconomic stability** | | | |
| Promote macroeconomic stability | 1.1 Maintain a macroeconomic environment consistent with program objectives and the guidelines set forth in the policy letter and policy matrix. | Fulfilled | 1.1 Maintain a macroeconomic environment consistent with program objectives and the guidelines set forth in the policy letter and policy matrix. |
| **Component II. Attract and facilitate productive FDI** | | | |
| Attract and facilitate efficiency-seeking FDI. | 2.1 Regulations issued governing the digitalization and automation of administrative procedures, including business procedures regulated by the State. | Fulfilled (Q1 2022) | 2.1 Publication of the following: (a) a report on progress in the digitalization and automation of the main administrative procedures in executive branch entities, prepared by the Ministry of Trade, Industry, and Tourism based on the Single Form for Reporting Management Progress (FURAG), as part of the measurement process for the Institutional Performance Index 2023; and (b) a report on the implementation of actions to streamline administrative procedures as of 31 December 2022, prepared by the Civil Service Department. |
| | 2.2 Investment Single Window (VUI) created to facilitate management of and compliance with the country's main procedures for investment. | Fulfilled (Q4 2021) | 2.2 (a) VUI regulations published; and (b) first phase of the VUI implemented. |
| | 2.3 Foreign Direct Investment Facilitation Service (SIED) created for alternative dispute resolution in the area of investment. | Fulfilled (Q4 2021) | 2.3 (a) SIED regulations published; and (b) implementation of the SIED based on appointment of a manager and liaisons in ProColombia and the Ministry of Trade, Industry, and Tourism. |
| | 2.4 Modernization of the country's free zone regime, strengthening its role as a tool for the development of production and exports. | Fulfilled (Q1 2021) | 2.4 Recommendations formulated for continuing the process of targeting and strengthening the free zone regime to make it an effective tool for developing global value chains. |
| | 2.5 Reciprocal investment promotion and protection agreement signed with Spain. | Fulfilled (Q3 2021) | 2.5 Reciprocal investment promotion and protection agreement with Spain approved. |

[1] This information is merely indicative as of the date of this document. In accordance with document CS-3633-2 (Policy based Loans: Guidelines for Preparation and Implementation), compliance with any specified disbursement conditions, including maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank when the borrower makes the corresponding disbursement request and will be reflected in a timely manner in the disbursement eligibility memorandum.

| Components/ policy objectives | Policy conditions for the first operation in the programmatic series | Fulfillment status of the policy conditions for the first operation in the programmatic series[1] | Triggers for the second operation |
|---|---|---|---|
| | 2.6 (a) Agreement signed between Colombia and Uruguay to eliminate double taxation in income and asset taxes and prevent tax evasion and avoidance; (b) agreement brought into effect between Colombia and Italy to eliminate double taxation in income taxes and prevent tax evasion and avoidance; and (c) agreement brought into effect between Colombia and France to avoid double taxation and prevent tax evasion and avoidance with respect to income and asset taxes. | (a) Fulfilled (Q4 2021)<br>(b) Fulfilled (Q4 2021)<br>(c) Fulfilled (Q1 2022) | 2.6 (a) Double taxation agreement signed between Colombia and Uruguay; and (b) investment cooperation and facilitation agreement signed between Colombia and Uruguay. |
| **Component III. Deepen trade logistics, facilitation, and integration measures** | | | |
| **Subcomponent III.1. Deepen trade logistics and facilitation measures** | | | |
| Facilitate foreign trade operations | 3.1.1 (a) Modernization of the customs regime approved; and (b) the corresponding regulations issued, with the aim of facilitating trade. | (a) Fulfilled (Q2 2021)<br>(b) Fulfilled (Q2 2021) | 3.1.1 Contract awarded for developing the Digital Service Integration Platform, which will facilitate implementation of the New Customs Management System and its integration with crosscutting services, thus supporting the integrated management of tax, customs, and foreign exchange operations. |
| | 3.1.2 Mutual Recognition Agreement on Authorized Economic Operators signed between (a) Colombia and Brazil and (b) Colombia and Uruguay. | (a) Fulfilled (Q2 2021)<br>(b) Fulfilled (Q4 2021) | 3.1.2 Regulations issued for expansion of the Authorized Economic Operators' program to other participants in the logistics chain. |
| | 3.1.3 Financing approved for implementation of the new National Logistics Policy, which seeks to reduce logistics times and costs. | Fulfilled (Q4 2020) | 3.1.3 Publication of the following on the DNP website: (a) the results of the National Logistics Survey 2022; (b) the first report on logistics costs in foreign trade operations in the country; and (c) the first phase of data-gathering and compilation of the inventory of agricultural logistics infrastructure in the country. |
| **Subcomponent III.2. Deepen measures to strengthen trade integration and leverage trade agreements** | | | |
| Reduce trade costs and better leverage trade agreements. | 3.2.1 Deepening of the trade agreement between Colombia and Guatemala brought into effect, governing market access for rubber latex, textile products, and clothing. | Fulfilled (Q2 2021) | 3.2.1 Progress report submitted to the Bank on negotiations to deepen trade agreements with the Central American and Caribbean countries. |
| | 3.2.2 Andean Community regional integration strengthened, based on:<br>(a) Signing of an agreement between Colombia and Peru for the issuance/receipt of electronic certificates of origin.<br>(b) Approval of the Andean technical regulations governing good practices in cosmetics manufacturing. | (a) Fulfilled (Q2 2021)<br>(b) Fulfilled (Q2 2021)<br>(c) Fulfilled (Q2 2022) | 3.2.2 (a) new regulations governing Community Customs Transit published on the Andean Community website; and (b) regulations disseminated to the public and private sectors. |

| Components/ policy objectives | Policy conditions for the first operation in the programmatic series | Fulfillment status of the policy conditions for the first operation in the programmatic series[1] | Triggers for the second operation |
|---|---|---|---|
| | (c) Publication of the Andean Digital Agenda, which will promote cross-border trade in services and e-commerce. | | |
| | 3.2.3 Regional integration strengthened within the Pacific Alliance, based on:<br>(a) Elimination of technical obstacles to trade in personal care products.<br>(b) Elimination of technical obstacles to trade in medical devices.<br>(c) Publication of a roadmap for the Pacific Alliance regional digital market, in order to promote e-commerce. | (a) Fulfilled (Q2 2021)<br>(b) Fulfilled (Q3 2021)<br>(c) Fulfilled (Q2 2021) | 3.2.3 Report submitted to the Bank confirming implementation of the digital transmission of customs declarations forms using the interoperability mechanism for Single Windows for Foreign Trade in the Pacific Alliance. |
| | 3.2.4 Trade agreement signed between the Pacific Alliance countries and Singapore. | Fulfilled (Q1 2022) | 3.2.4 Trade agreement between the Pacific Alliance countries and Singapore signed by Colombia. |
| | 3.2.5 International Temporary Import Agreement approved, allowing the temporary import and export of goods free of taxes and customs duties. | Fulfilled (Q3 2021) | 3.2.5 International Temporary Import Agreement brought into force in accordance with Article 241.10 of Colombia's Constitution. |
| | 3.2.6 Sanitary Compliance Plan for pork approved, launching the Sanitary Diplomacy Strategy. | Fulfilled (Q2 2021) | 3.2.6 (a) Sanitary compliance plans for beef, chicken, fruit, and vegetables approved; and (b) strategy formulated to strengthen risk analysis (management, evaluation, and communication) to facilitate implementation of the sanitary compliance plans. |
| | 3.2.7 Sanitary compliance certification obtained for agricultural exports to strategic markets, e.g.:<br>(a) Brazil: Hydrangeas<br>(b) Korea: Hass avocados<br>(c) United States: Capsicum (bell and chili peppers)<br>(d) Japan: Milk and dairy products | (a) Fulfilled (Q1 2021)<br>(b) Fulfilled (Q1 2021)<br>(c) Fulfilled (Q1 2021)<br>(d) Fulfilled (Q2 2021) | 3.2.7 Progress report submitted to the Bank on sanitary compliance for new agricultural products in strategic markets, preferably in Korea, Japan, and Brazil. |
| | 3.2.8 (a) Recommendations of the internationalization mission published; (b) public policy published on internationalization for regional productive development. | (a) Fulfilled (Q3 2021)<br>(b) Fulfilled (Q2 2022) | 3.2.8 Progress has been made in implementing the public internationalization policy through: (a) the formulation of recommendations to adjust tariff and nontariff measures that curtail productivity in priority sectors; (b) design of an MSME support program for foreign trade and distribution;<br>(c) development of a strategy to promote professional services in global value chains; and (d) implementation of the ProColombia-Regional Investment Promotion Agencies coordination strategy, aimed at promoting and attracting FDI to the country's regions. |

| Components/ policy objectives | Policy conditions for the first operation in the programmatic series | Fulfillment status of the policy conditions for the first operation in the programmatic series[1] | Triggers for the second operation |
|---|---|---|---|
| **Component IV. Promote the development of production and exports** | | | |
| Strengthen the production and export capacity of MSMEs. | 4.1 National Industrial Policy implemented through: (a) the Productivity Factories Program (PFP), Round III; and (b) the program for the promotion and generation of production linkages. | (a) Fulfilled (Q1 2021)<br>(b) Fulfilled (Q4 2021) | 4.1 Results report submitted to the Bank regarding the implementation of:<br>i. the PFP, benefiting at least 1,000 companies.<br>ii. the Productive Linkages Program, benefiting at least 1,000 companies. |
| | 4.2 Regulations issued to coordinate the institutional supply of support programs and instruments for strengthening the business development ecosystem. | Fulfilled (Q4 2021) | 4.2 Coordination for Competitiveness (ARCO) methodology implemented to optimize and improve efficiency in the range of business development programs offered by the government. |
| | 4.3 Regulations issued governing the registration of electronic sales invoices as negotiable securities in RADIAN. | Fulfilled (Q2 2022) | 4.3 Outcome evaluation implemented for the first year of operations of the RADIAN platform, identifying strengths and opportunities for improvement with a view to promoting the use of electronic factoring in the country. |
| | 4.4 (a) New policy guidelines approved to reactivate and promote sustainable growth in the productive sector, including actions to expand the adoption of quality standards for the domestic and international markets; and (b) first round implemented of the technical assistance program to support quality in MSMEs, under the Ministry of Trade, Industry, and Tourism's Quality for Growth strategy. | (a) Fulfilled (Q1 2021)<br>(b) Fulfilled (Q1 2022) | 4.4 Second round launched of the technical assistance program to support quality in MSMEs, focused on compliance with international quality standards. |
| | 4.5 Second round of the Internationalization Factories Program implemented. | Fulfilled (Q2 2021) | 4.5 Impact evaluation designed and implemented for the Internationalization Factories Program. |
| | 4.6 Specific programs for KBS sector companies implemented: (a) productivity for internationalization; (b) strengthening of cluster initiatives; and (c) production linkages between the traditional and services sectors. | Fulfilled (Q1 and Q2 2021) | 4.6 Results report submitted to the Bank for the first round of the three business strengthening programs for the KBS sector. |
| | 4.7 Gender Issues and Women's Empowerment Committee created for the trade, industry, and tourism sector. | Fulfilled (Q1 2021) | 4.7 Recommendations formulated for making the committee operational; the committee will seek to coordinate and issue guidelines in the entire trade, industry, and tourism sector to promote entrepreneurship and the strengthening and internationalization of women-led companies. |
| | 4.8 Women's Enterprise Fund structured and strengthened institutionally in order to promote, finance, and support strengthening women's businesses. | Fulfilled (Q4 2020) | 4.8 For-profit component of the Women's Enterprise Fund implemented, with the design of alternative, debt-based products and financial services for companies led by women. |

| Components/ policy objectives | Policy conditions for the first operation in the programmatic series | Fulfillment status of the policy conditions for the first operation in the programmatic series[1] | Triggers for the second operation |
|---|---|---|---|
| | 4.9 Regulations issued establishing differentiated criteria to encourage the participation of women-led companies in public procurement. | Fulfilled (Q4 2021) | 4.9 Publish the OECD study with recommendations for simplifying the Single Suppliers Registry, thus facilitating MSME access to the public procurement market. |
| | 4.10 Publication of the Public Policy on Gender Equity for Women: Toward Sustainable Development in the Country | Fulfilled (Q2 2022) | 4.10 Cross-sector roundtable operational to harmonize the supply of government programs aimed at supporting the country's female entrepreneurs. |

## RESULTS MATRIX[1]

| | |
|---|---|
| **Project objective:** | The specific objectives for this operation are to: (i) help to attract and facilitate efficiency-seeking foreign direct investment (FDI); (ii) facilitate foreign trade operations; and (iii) strengthen the production and export capacity of micro, small, and medium-sized enterprises (MSMEs). Achieving these objectives will support the general objective of promoting Colombia's insertion into global value chains (GVCs), with a view to driving economic growth. |

### GENERAL DEVELOPMENT OBJECTIVE

| Indicators | Unit of measure-ment | Baseline | Baseline year | Target | Expected year achieved | Means of verification | Comments |
|---|---|---|---|---|---|---|---|
| **GENERAL DEVELOPMENT OBJECTIVE: Promote Colombia's insertion into GVCs, with a view to driving economic growth** | | | | | | | |
| **Indicator 1:** External value added embedded in Colombian exports. | % | 8.71 | 2018 | 8.71 | 2024 | **Source:** United Nations Conference on Trade and Development-EORA **Responsible party:** National Planning Department (DNP) **Reporting party:** DNP | Measures Colombia's level of insertion into GVCs as a consumer of value created in other countries, which is then used to produce exportable goods.<br><br>The indicator for 2020 is expected to decline due to the impact of COVID-19. The target thus involves a return to pre-pandemic levels. |
| **Indicator 2:** Value of exports by sectors prioritized in the Growth Pacts. | US$ million | 10,252 | 2020 | 11,306 | 2024 | **Source:** Regional Opportunities Map (MARO) **Responsible party:** Colombia Productiva **Reporting party:** DNP | Measures Colombia's participation in GVCs based on increases in exports by priority sectors with high potential for growth, internationalization, and the creation of production linkages, consistent with the policy "Pact in action for growth and job creation." These sectors are processed foods, cocoa and derivatives, coffee and derivatives, beef, cosmetics and personal care products, pharmaceutical products, fruit, transportation industries, construction-related industries, dairy products, plastics, fish farming, basic chemicals, fashion goods, software, and business process outsourcing. |

[1] For further information on the baselines and targets for each indicator, see the monitoring and evaluation plan (required link 3).

## SPECIFIC DEVELOPMENT OBJECTIVES

| Indicators | Unit of measure-ment | Baseline | Baseline year | Year 4 (2024) | Project completion | Means of verification | Comments |
|---|---|---|---|---|---|---|---|
| **SPECIFIC DEVELOPMENT OBJECTIVE 1: Attract and facilitate efficiency-seeking FDI** | | | | | | | |
| **Indicator 1:** Nonextractive foreign direct investment (FDI), annual average.[2] | US$ million | 6,563 | 2020 | 9,006 | 2024 | **Source:** Balance of Payments, BanRep **Responsible party:** Ministry of Trade, Industry, and Tourism (MINCIT) **Reporting party:** DNP | The program is expected to facilitate a return to average prepandemic levels of nonextractive FDI. The target is projected using the moving average of FDI in the 2017-2019 period. |
| **Indicator 2:** Queries resolved by the Foreign Direct Investment Facilitation Service (SIED) per year as a proportion of the total number of queries received. | % | 0 | 2020 | 65% | 2024 | **Source:** SIED IT system **Responsible party:** MINCIT **Reporting party:** DNP | The indicator will measure use of the SIED and its response rate. Resolved queries are those processed and answered by SIED Level 1 (general service). |
| **SPECIFIC DEVELOPMENT OBJECTIVE 2: Improve the efficiency of foreign trade operations** | | | | | | | |
| **Indicator 1:** Logistics costs as a proportion of sales in companies engaged in foreign trade operations. | % | 36 | 2020 | 36 | 2024 | **Source:** National Logistics Survey, 2024. **Responsible party:** DNP **Reporting party:** DNP | Baseline: Logistics costs reported in the 2020 National Logistics Survey, which uses 2019 as the reference year. The indicator is expected to rise in 2020/2021 due to higher logistics costs stemming from tighter controls and biosecurity measures and rising freight transport costs. The target thus involves a return to pre-pandemic levels. |
| **Indicator 2:** Nonmining and nonenergy exports to countries with which Colombia has trade agreements, as a share of total nonmining and nonenergy exports. | % | 83.9 | 2020 | 84.4 | 2024 | **Source:** Calculated by the Office of Economic Studies, MINCIT **Responsible party:** MINCIT **Reporting party:** DNP | Measures the degree to which the country is leveraging trade agreements. |

2 BanRep defines the nonextractive sectors as follows: agriculture, hunting, forestry, and fishing; manufacturing; electricity, gas, and water; construction; trade; restaurants and hotels; transportation, storage, and communications; financial and business services; and communal services.

| Indicators | Unit of measure-ment | Baseline | Baseline year | Year 4 (2024) | Project completion | Means of verification | Comments |
|---|---|---|---|---|---|---|---|
| **SPECIFIC DEVELOPMENT OBJECTIVE 3: Strengthen the production and export capacity of MSMEs** | | | | | | | |
| **Indicator 1:** Proportion of MSMEs served by **Colombia Productiva** that report an increase in sales. | % | 82.8 | 2020 | 91.1 | 2024 | **Source:** Productivity Factories Program (PFP) **Responsible party:** Colombia Productiva **Reporting party:** DNP | Measures the number of MSMEs served by the **PFP (commercial management line of activity)** that report an increase in sales between 2019 and 2020, as a proportion of all MSMEs served by the program. |
| **Indicator 2:** Change in the proportion of MSMEs exporting goods (beneficiaries of the Internationalization Factories Program (IFP) versus the control group) | percentage points | 0 | 2020 | 6 | 2024 | **Source:** Impact evaluation **Responsible party:** ProColombia - IDB **Reporting party:** DNP | Measures the proportion of MSMEs served by the **IFP** that export goods (according to National Administrative Department of Statistics records), as compared with the control group (nonbeneficiary MSMEs). |
| **Indicator 3:** Participants authorized to use the RADIAN platform | # | 0 | 2020 | 19,500 | 2024 | **Source:** RADIAN **Responsible party:** National Tax and Customs Directorate **Reporting party:** DNP | Measures the number of participants authorized to use the RADIAN platform that seek liquidity through the sale/purchase of their electronic invoices. |
| **Indicator 4:** Number of women-led MSMEs served by ProColombia and Colombia Productiva as a proportion of all beneficiary MSMEs. | % | 13.7 | 2020 | 18.6 | 2024 | **Source:** PFP and IFP reports **Responsible party:** ProColombia, Colombia Productiva **Reporting party:** DNP | Measures the number of companies led or owned by women[3] that benefit from the IFP (ProColombia) and PFP (Colombia Productiva), as a proportion of all companies served by the two programs. |

[3] Women-led companies: one or more women occupy the positions of company president and/or general manager. Women-owned companies: at least 51% of the company is owned by one or more women. Where they meet these requirements, companies led or owned by women identify themselves as such on the registration form for each program.

## TRACKING INDICATORS

| Indicators | Unit of measure-ment | Baseline | Baseline year | Year 4 (2024) | Project completion | Means of verification | Comments |
|---|---|---|---|---|---|---|---|
| **SPECIFIC DEVELOPMENT OBJECTIVE 3: Strengthen the production and export capacity of MSMEs** | | | | | | | |
| **Indicator 1:** Number of MSMEs in the **knowledge-based services (KBS) sector** supported by **ProColombia** that report an expansion in their export business. | # | 26 | 2020 | – | 2024 | **Source:** IFP **Responsible party:** ProColombia **Reporting party:** DNP | Measures the number of MSMEs served by the **IFP for the KBS sector (2020 round)** that report an expansion in their export business in 2020. |
| **Indicator 2:** Number of women-led MSMEs supported by **ProColombia** that report an expansion in their export business. | # | 3 | 2020 | -- | 2024 | **Source:** IFP **Responsible party:** ProColombia **Reporting party:** DNP | Measures the number of women-led MSMEs served by the **IFP (2020 round)** that report an expansion in their export business in 2020. |
| **Indicator 2:** Number of women-led MSMEs in the KBS sector served by the **Internationalization for Productivity Program**, as a percentage of all companies served. | % | 0 | 2020 | _ | 2024 | **Source:** Productivity for Internationalization **Responsible party:** Colombia Productiva **Reporting party:** DNP | |

## OUTPUTS

| Outputs | Unit of measurement | Base-line year | Base-line | Project completion 2022 | Means of verification |
|---|---|---|---|---|---|
| **Component II. Attract and facilitate productive FDI** | | | | | |
| 2.1 Regulations published governing the digitalization of administrative procedures by public entities. | Regulations | 2020 | 1 | 1 | Decree 088 of 2022 |
| 2.2 Regulations published creating the Investment Single Window. | Regulations | 2020 | 0 | 1 | Decree 1644 of 2021 |
| 2.3 Regulations published creating the SIED. | Regulations | 2020 | 0 | 1 | Decree 1644 of 2021 |
| 2.4 Regulations published to modernize the free zone regime. | Regulations | 2020 | 0 | 2 | Decree 278 of 2021 |
| 2.5 Reciprocal investment promotion and protection agreement signed with Spain. | Agreement | 2020 | 0 | 1 | Agreement signed and published on the MINCIT website, 2021. |
| 2.6 Double taxation agreement signed with Uruguay, and double taxation agreements with Italy and France brought into force. | Agreements | 2020 | 0 | 3 | (a) Agreement with Uruguay signed, 2021; and (b) court decision and exchange-of-letters with Italy (2021) and France (2022). |
| **Component III. Deepen trade logistics, facilitation, and integration measures** | | | | | |
| **Subcomponent III.1. Deepen trade logistics and facilitation measures** | | | | | |
| 3.1.1 Regulations published to establish and regulate modernization of the customs regime. | Regulations | 2020 | 0 | 2 | (a) Decree 360 of 2021 and (b) Resolution 039 of 2021. |
| 3.1.2 Mutual Recognition Agreements on Authorized Economic Operators signed with Brazil and Uruguay. | Mutual Recognition Agreements | 2020 | 0 | 2 | (a) Mutual Recognition Agreement signed with Brazil and (b) Mutual Recognition Agreement signed with Uruguay, 2021. |
| 3.1.3 National Economic and Social Policy Council (CONPES) document adopted approving funding for implementation of the new National Logistics Policy. | CONPES | 2020 | 1 | 1 | CONPES document 4015 (2020) |
| **Subcomponent III.2. Deepen measures to strengthen trade integration and leverage trade agreements** | | | | | |
| 3.2.1 Administrative act issued confirming entry into force of the deepened free trade treaty with Guatemala. | Administrative act | 2020 | 0 | 1 | Administrative act of 26 March 2021 |
| 3.2.2 Regulations published strengthening Andean Community integration: (a) agreement signed for the digital transmission of Colombia-Peru certificates of origin; (b) technical regulations approved governing good practices in cosmetics manufacturing; and (c) Andean Digital Agenda published. | Regulations | 2020 | 0 | 3 | (a) Colombia-Peru agreement signed, 2021; (b) Andean Community Resolution 2206 of 2021; and (c) agenda published on the Andean Community website, 2022. |
| 3.2.3 Regulations published that strengthen integration within the Pacific Alliance: (a) decisions signed that eliminate technical obstacles to trade for personal care products and medical devices; and (b) a roadmap published for the regional digital market. | Regulations | 2020 | 0 | 3 | (a) Decisions 11 and 12 of 2021; and (b) roadmap for the regional digital market published on the Pacific Alliance website, 2021. |
| 3.2.4 Pacific Alliance-Singapore trade agreement signed. | Agreement | 2020 | 0 | 1 | Trade agreement signed between the Pacific Alliance and Singapore, January 2022. |
| 3.2.5 Regulations published approving the International Temporary Import Agreement. | Regulations | 2020 | 0 | 1 | Law 2145 of 2021 |

| Outputs | Unit of measurement | Base-line year | Base-line | Project completion 2022 | Means of verification |
|---|---|---|---|---|---|
| 3.2.6 Sanitary Compliance Plan for pork approved. | Sanitary Compliance Plan | 2020 | 0 | 1 | Minutes of the XXIII Session of the Cross-Sector Commission on Sanitary and Phytosanitary Measures, 2021. |
| 3.2.7 Sanitary compliance certificates obtained for agricultural products in Brazil, Korea, the U.S., and Japan. | Certificates | 2020 | 0 | 4 | Veterinary certificates and/or official notifications exchanged with trade partners, 2021. |
| 3.2.8 Policy documents published issuing guidelines in relation to public internationalization policy. | Policy documents | 2020 | 0 | 2 | (a) final mission report published on the DNP website, 2021; and (b) CONPES 4085 of 2022. |
| **Component IV. Promote the development of production and exports** | | | | | |
| 4.1 Documents submitted to the Bank that confirm implementation of the Productive Linkages program and the third round of the PFP program. | Documents | 2020 | 0 | 2 | (a) Resolution 102 of 2021; (b) report on companies benefiting under the program. |
| 4.2 Regulations published governing coordination of the range of business development programs offered by the government. | Regulations | 2020 | 0 | 1 | Decree 1838 of 2021 |
| 4.3 Regulations published governing the registration of electronic sales invoices as negotiable securities in RADIAN. | Regulations | 2020 | 0 | 1 | Resolution 000085 of 2022 |
| 4.4 Policy instruments approved that issue guidelines and implement policies to expand the adoption of quality standards. | Policy instruments | 2020 | 0 | 2 | (a) CONPES document 4023 of 2021; (b) report on results, technical assistance program to support quality in MSMEs. |
| 4.5 Report published confirming implementation of the second round of the IFP. | Report | 2020 | 0 | 1 | Report listing the beneficiary companies selected in the 2021 round. |
| 4.6 Reports published confirming implementation of the specific programs for KBS sector companies. | Report | 2020 | 0 | 3 | Report listing the beneficiary companies selected under Round I of the following programs: (a) productivity for internationalization; (b) strengthening of cluster initiatives; and (c) production linkages between the traditional and services sectors. |
| 4.7 Regulations published creating the Gender Issues Committee for the trade, industry, and tourism sector. | Regulations | 2020 | 0 | 1 | Resolution 0273 of 2021 |
| 4.8 Regulations published to strengthen the Women’s Enterprise Fund. | Regulations | 2020 | 0 | 1 | Law 2069 of 2020 |
| 4.9 Regulations published establishing differentiated criteria to encourage the participation of women-led companies in public procurement. | Regulations | 2020 | 0 | 1 | Decree 1860 of 2021 |
| 4.10 CONPES document approved containing the Public Policy on Gender Equity | CONPES documents | 2020 | 0 | 1 | CONPES document 4080 (2022) |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/22

Colombia. Loan ____/OC-CO to the Republic of Colombia
Support Program to Strengthen Colombia's Integration
into Global Value Chains

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 the Republic of Colombia, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Support Program to Strengthen Colombia's Integration into Global Value Chains. Such financing will be for the amount of up to US$200,000,000 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 ___ ____________ 2022)

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