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COLOMBIA

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

(CO-L1302)

LOAN PROPOSAL

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ABBREVIATIONS	
BanRep	Banco de la República
DANE	National Administrative Statistics Department
DIAN	National Tax and Customs Directorate
DNP	National Planning Department
ENL	National Logistics Survey
FDI	Foreign direct investment
FMLP	Fondo Mujer Libre y Productiva (Free and Productive Women's Fund)
GVC	Global value chain
IMF	International Monetary Fund
KIF	Korea Infrastructure Development Cofinancing Facility for Latin America and the Caribbean
MinCIT	Ministry of Commerce, Industry, and Tourism
MSME	Micro, small, and medium-sized enterprise
MTFF	Medium-Term Fiscal Framework
OECD	Organisation for Economic Co-operation and Development
PBP	Programmatic policy-based loan
SIED	Servicio de Facilitación de la Inversión Extranjera Directa (Foreign Direct Investment Facilitation Service)
UNCTAD	United Nations Conference on Trade and Development
VUI	Investment Single Window

PROJECT SUMMARY

COLOMBIA
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Financial Terms and Conditions

Borrower		
Republic of Colombia		
Executing agency		
Ministry of Finance		
Source	**Amount (US$)**	**%**
IDB (Ordinary Capital):	500,000,000	83.3
Korea Infrastructure Development Cofinancing Facility for Latin America and the Caribbean (KIF):[d]	100,000,000	16.7
Total:	600,000,000	100

	Flexible Financing Facility[a]	**KIF**
Amortization period:	19 years	15 years
Disbursement period:	1 year	1 year
Grace period:	6.5 years[b]	3 years
Interest rate:	SOFR-based	2.5%
Front-end fee:	N/A	0.1%
Credit fee:	[c]	N/A
Inspection and supervision fee:	[c]	N/A
Weighted average life:	12.3 years	N/A
Approval currency:	U.S. dollar	

Project at a Glance

Program objective/description: The general objective of this programmatic series and its second 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 productive 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 second 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: The first and only disbursement is contingent upon fulfillment of the policy reform conditions, as set forth in the Policy Matrix (Annex II), the Policy Letter, and the other conditions established in the loan contract (paragraph 3.2).

Exceptions to Bank policies: None.

Strategic alignment

Objectives:[e]	O1 ☐		O2 ☒		O3 ☒		
Operational Focus Areas:[f]	OF1 ☒	OF2-G ☒ OF2-D ☐	OF3 ☒	OF4 ☐	OF5 ☒	OF6 ☒	OF7 ☒

[a] Under the terms of the Flexible Financing Facility (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 the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

[d] These funds will be administered by the Bank under the KIF, pursuant to the agreement signed between the Government of the Republic of Korea and the Bank on 28 March 2015 and most recently amended on 26 August 2021 to increase the facility's resources.

[e] O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

[f] OF1 (Biodiversity, natural capital, and climate action); OF2-G (Gender equality); OF2-D (Inclusion of diverse population groups); OF3 (Institutional capacity, rule of law, and citizen security); OF4 (Social protection and human capital development); OF5 (Productive development and innovation through the private sector); OF6 (Sustainable, resilient, and inclusive infrastructure); OF7 (Regional integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 This operation is the second of a series of two operations under the programmatic policy-based loan (PBP) modality. For this series, an agreement was reached with the Government of Colombia to support a policy agenda focused on strengthening Colombia's integration into global value chains (GVCs)[1] in order to promote economic growth. The first operation (5556/OC-CO, US$200 million) was approved on 6 July 2022 and disbursed in August 2022. The policy measures proposed for this operation provide continuity to the objectives of the PBP and consolidate the reforms that Colombia has adopted to promote greater integration into the global economy.

1.2 **Macroeconomic context.** After a period of postpandemic growth in GDP, the economy experienced a slowdown in 2023 with annual growth of 0.6%, reflecting factors such as a steep decline in fixed investment (28.9%).[2] Despite this slowdown, the soundness of public finances was restored through a reduction in the government's fiscal deficit from 7% of GDP in 2021 to 4.3% of GDP in 2023, as well as a decrease in net debt from 60.1% to 53.8% of GDP, complying with the fiscal rule.[3] The current account deficit declined from 5.6% of GDP in 2021 to 2.7% of GDP in 2023,[4] attributable to a decrease in domestic demand that reduced imports. Exports also fell, although to a lesser extent, because of a drop in hydrocarbon prices. Although gross foreign direct investment (FDI) increased to record highs (4.7% of GDP), these flows were concentrated in the mining sector (+49%), while nonmining and nonenergy activities declined (-15.4%).[5]

1.3 In 2024, the economy is expected to grow by 1.4%,[6] driven by interest rate reductions, which will favor investments in sectors such as construction and manufacturing. Despite a decline in the fiscal deficit (5.6% of GDP), attributable to lower tax revenue,[7] and the net debt (55.3% of GDP), the government would continue to comply with the fiscal rule.[8] To do so, the government will significantly reduce public spending from 19.2% of GDP in 2023 to 18% of GDP in 2024. Meanwhile, the current account deficit will increase to 3% of GDP due to a recovery in demand and hydrocarbon prices.

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1 International fragmentation of production aimed at improving efficiency and reducing production costs. Blyde, 2014.

2 National Administrative Statistics Department (DANE, 2023).

3 Medium-Term Fiscal Framework (MTFF), June 2024.

4 International Monetary Fund (IMF), 2024.

5 Banco de la República (BanRep), Inversión Directa, June 2024.

6 Projections: IMF (April 2024: 1.1%); BanRep (May 2024: 1.4%); and Ministry of Finance (1.7%). For 2025, growth of 2.6% is projected.

7 Reduced tax revenue is attributable to: reduced income tax collections, increased tax evasion, and reduced oil revenues. MTFF, 2024.

8 MTFF, 2024.

1.4 **Given this situation, the government is promoting the country's productive and export transformation because of its potential to consolidate economic growth that is more balanced, sustainable, and resilient to external shocks in the medium term.** In the 2024 Medium-Term Fiscal Framework (MTFF), amid budget constraints, resources were prioritized to consolidate a reform agenda to increase FDI flows toward nonmining and nonenergy activities, reduce logistics costs, and strengthen the diversification and sophistication of the economy. The prioritization of this reform agenda will enable a more competitive, inclusive, and sustainable integration of the country into GVCs.

1.5 **Significance of global value chains.** Currently, approximately 50% of global trade is channeled through GVCs. Studies show that a 10% increase in a country's GVC participation could lead to increases of 1.6% in labor productivity and 14% in per capita GDP.[9] This is due to increased specialization of countries in one or more stages of production[10] and the transfer of technologies and good practices from leading global companies to the various links in the value chain.[11] At a company level, empirical studies show that companies that participate in GVCs are more productive,[12] adopt and transfer know-how and technology,[13] demand more skilled workers,[14] pay higher wages,[15] and hire more women[16] (optional link 2).

1.6 **Colombia's participation in GVCs.** The country currently has 18 trade agreements in place, providing access to 63 countries and more than 1.5 billion consumers.[17] Despite this, its openness to trade and its participation in GVCs have lagged. While the proportion of GDP from foreign trade has been recovering (from 33.6% in 2020 to 48% in 2022), it remains below the average for OECD countries (64%) and regional leaders such as Mexico (88%) and Costa Rica (80%). Moreover, Colombia's integration into GVCs is still lagging (5.8%,[18] 2020 to 2022) and associated with the supply of commodities, compared to OECD countries (32%) and countries such as Mexico (44.4%), Panama (34.7%), and Costa Rica (21%), which participate in manufacturing and services chains. The same applies to the regional value chains in which Colombia participates (1.1%,[19] 2020 to 2022).

1.7 **Determining factors of GVC participation.** The international fragmentation of production by relocating operations and searching for suppliers located closer to

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9 World Bank, 2020; IMF, 2020; optional link 6.

10 Antràs, 2020.

11 Poon, 2004; United Nations, 2015; Organisation for Economic Co-operation and Development (OECD), 2019; Humphrey and Schmitz, 2000; World Bank, 2020; optional link 6.

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

13 Humphrey and Schmitz, 2000; United Nations, 2015; Poon, 2004.

14 Shepherd and Stone (2012).

15 Lu et. al., 2019.

16 Rocha and Winkler (2019); World Bank, 2020.

17 Ministry of Commerce, Industry, and Tourism (MinCIT), 2023.

18 External value added embedded in exports. Authors' calculations with data from the United Nations Conference on Trade and Development (UNCTAD)-EORA.

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

the end market are determined by multiple factors.[20] Colombia's weak performance in relation to GVCs continues to be associated with factors such as:

a. **High transaction costs[21] and a challenging regulatory environment to attract investment.** Attracting productive FDI[22] has the potential to connect the country with GVCs.[23] However, according to several international indexes,[24] there is ample room to improve regulatory quality to help attract FDI. According to the National Planning Department (DNP), almost 20 regulations were introduced per day in 2023 (7,273 regulations),[25] more than half of which were not substantive and focused on administrative or procedural matters.[26] This results in many different procedures, making the investment process more complex. This process can require between 12 and 41 administrative procedures on average, and can take between 69 days and 32 months.[27] Moreover, investors face constant regulatory changes[28] and legal interpretations by the central and subnational governments[29] that can have an adverse impact on their investments.

   These indicators increase transaction costs and impact the country's legal certainty, discouraging FDI. In the past 10 years (2012-2022), FDI has represented, on average, 4% of GDP, below economies such as Chile (5.9%) and Costa Rica (4.5%).[30] This investment has also focused on mining and energy projects (28%) and financial services (21%),[31] sectors with few opportunities for production linkages. Moreover, FDI flows show high regional concentration, with Bogota, Medellín, and Barranquilla receiving 55% of these investments in the country.[32]

b. **High logistics and trade costs.** Companies participating in GVCs send five times more international shipments and are 30% more reliant on imported inputs than exporters outside these chains,[33] and are therefore more vulnerable

[20] Blyde, 2014, optional link 2, and optional link 6.

[21] Measures the number of procedures to start a business, obtain operating permits, or enforce a contract in accordance with local legislation.

[22] FDI by companies seeking to reduce production/distribution costs within GVCs (Dunning, 2002).

[23] Openness to FDI is positively correlated with higher levels of GVC participation. Buelens and Tirpák, 2017; Adarov and Stehrer, 2019; Kersan-Škabić, 2019; Fernandes, Kee, and Winkler, 2020.

[24] Worldwide Governance Indicators, World Bank, 2022. Government effectiveness: Colombia: 54/100; OECD: 77.4. Regulatory quality: Colombia: 56.7/100; OECD: 74.
World Competitiveness Ranking, 2024. Government effectiveness: Colombia: 64/67 economies; Chile: 30/67. Efficiency of business legislation: Colombia: 64/67; Chile: 23/67.

[25] 5,899 resolutions, 1,132 decrees, 157 administrative orders, and 85 laws.

[26] DNP, 2024. While the number of regulations issued in 2023 was above the average of the past 23 years (6,164 annual regulations), non-substantive regulations fell by 2.5% between 2022 and 2023.

[27] IDB, 2020.

[28] Colombia has implemented 13 tax reforms in the past two decades.

[29] Silva, Eduardo, 2021. Colombia has 17 open cases of international investor-State disputes, compared to 2 for Chile and 12 for Mexico. Of these cases, 50% are based on the lack of legal certainty from regulatory changes and/or arbitrary behavior.

[30] UNCTAD, 2024.

[31] BanRep, Inversión Directa, 2024.

[32] ACI Medellín, 2024.

[33] Winker, Deborah, et al., 2021.

to tariffs and logistics and regulatory costs.[34] According to the National Logistics Survey (ENL),[35] logistics costs for companies in Colombia accounted for 17.9% of sales, widely surpassing the average of 9.5% for OECD countries. These high logistics costs are mainly attributable to the high costs of domestic transportation (35.9%), resulting from poor infrastructure quality[36] and the large proportion of goods being transported by road,[37] even though this modality is less efficient with respect to times and costs.[38, 39] Moreover, foreign trade logistics still has low efficiency levels. On average, exporting costs US$812.20 per container and importing costs US$731.50, six times more than for OECD countries.[40] This is due to shortcomings in customs clearance[41] and port services, since 98.7% of foreign trade moves via ocean cargo.[42] According to the ENL, poor port logistics represent more than 35% of the costs of Colombia's exports and imports.

Colombia also faces high costs resulting from tariff and nontariff barriers. In Colombia, tariffs average 2.6%, above those of Peru (0.7%) and Chile (0.4%).[43] Moreover, 90% of tariff lines are covered by a type of nontariff barrier,[44] making access to inputs and capital goods more expensive. This, along with low regulatory harmonization of nontariff barriers between Colombia and the countries in the region,[45] negatively impacts the development of regional value chains. Nontariff barriers have a higher impact on agroindustrial exports,[46] particularly in the context of new sustainability requirements from trading partners to address climate change.[47]

34 Ibid.

35 ENL, 2022.

36 In the Logistics Performance Index, Colombia ranks 2.9 out of 5 in infrastructure quality. OECD average: 3.7 of 5.

37 Excluding coal and oil, 97% of goods are transported by road.

38 With one liter of fuel, the river mode covers 8.6 times the distance of the road mode; the rail mode, 3.5 times. Road freight costs 3.2 times as much as river freight and 2.3 times as much as rail freight. CONPES 3982.

39 Colombia is the country that would benefit most from improvements in transportation infrastructure and services compared to Brazil, Chile, Mexico, and Peru: a reduction of 1% in internal ad valorem transportation costs could increase Colombia's exports by up to 8%. IDB 2013.

40 ENL, 2022. OECD average: US$137, World Bank, 2020. Controlling for the characteristics of the export basket and target market, at the time of export, Colombia faces transportation costs that are 6.7% higher than the OECD average. Costa Rica (5.6%), Mexico (1% lower), IDB, 2024. One important determinant of transportation costs is the level of port efficiency. IDB, 2008.

41 In the 2023 Logistics Performance Index, Colombia's customs clearance score fell (2.21 out of 5). OECD average: 3.5 of 5.

42 DIAN, 2022.

43 World Bank, 2024.

44 Of tariff lines, 40% are affected by sanitary and phytosanitary measures and nearly 50% by technical barriers to trade. For Costa Rica, these percentages are 13% and 35%, respectively, while for Peru, they are 20% and 35%, respectively. Blyde, 2024.

45 For the Andean Community and the Pacific Alliance, 55% of the technical measures are different for the same products. Blyde, 2024.

46 Among agricultural exporters, 60% report that sanitary/phytosanitary agreements to reduce nontariff barriers are a key factor for trade promotion in the region. IDB, 2024.

47 Estimates show that the new regulations on deforestation from the European Union, associated with the Green Pact, could impact exports equivalent to 0.4% of Colombia's GDP. World Bank, 2023.

c. **Low productivity and diversification of the productive and export sectors.** The country's productive sector is concentrated in low-complexity activities.[48] Commerce, public administration, and mining exploitation represent more than 45% of GDP, while the manufacturing industry and services each account for less than 7%.[49] Two-thirds of goods exports are concentrated in oil, coal, coffee, and ferronickel,[50] while high-tech goods account for only 1%[51] of exports and knowledge-based services[52] for less than 6.4%.[53] This high concentration in commodities explains the pattern of low participation in GVCs.[54] At a regional level, Colombia's production and exports vary widely. Three of the country's 32 departments (the Bogota region, Antioquia, and Valle del Cauca) account for 55% of GDP and 30% of exports.[55]

The low sophistication and diversification of the country's productive sectors is associated with low levels of productivity.[56] The micro, small, and medium-sized enterprises (MSMEs) that make up 99% of the country's business fabric[57] report lower levels of productivity[58] and internationalization[59] 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; and poor environmental sustainability practices),[60] as well as external factors (e.g., limited access to production-oriented financing). The financing gap for MSMEs is equivalent to 12% of GDP (US$33 billion), with lack of credit history being the main barrier in access to finance.[61] Another reason for low growth in productivity is low institutional and coordination capacity. The lack of clarity about the responsibilities and rules for coordination among key actors results in inefficiencies and a lack of focus for programs to support productivity and internationalization. In addition, Colombia's productive supply is designed at a central level, due to the low

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48 Between 2001 and 2021, Colombia dropped from 43rd to 66th out of 132. Economic Complexity Index.

49 CONPES 4129.

50 DANE, 2023.

51 OECD average: 8%. World Bank, 2022.

52 Those that generate and convey knowledge, employ qualified staff, and use technology intensively.

53 OECD average: 17.1%. World Trade Organization, 2023.

54 Winker, Deborah, et al., 2021. To measure the program's impact, nonmining and nonenergy exports and services will be considered, as a proportion of total exports. The greater the sophistication of exports, the higher the integration into GVCs. Baseline for 2023: 51.9%. Compared to OECD: 89%.

55 MinCIT, July 2024.

56 DNP, 2016.

57 Of 1,740,168 active companies in 2023, 95% were microenterprises, 3.5% small enterprises, 0.8% medium-sized enterprises, and 0.3% large companies. MinCIT, 2023.

58 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 average: 55%, 73%, and 85%. OECD, 2017.

59 In Colombia, 20% of large companies are exporters, compared to 0.5% of MSMEs. Informe Nacional de Competitividad 2020-2021. In OECD countries, between 20% and 40% of MSMEs are exporters. OECD, 2018.

60 DNP, 2016; DNP, 2021; Informe Nacional de Competitividad, 2020-2021.

61 DNP/IDB, 2024.

capacity of departments to coordinate their competitiveness agendas.[62] As a result, policy instruments do not respond to territorial and business needs. Only 4% of the instruments available consider territorial differences, more than 52% address the same business need simultaneously, 62% lack sufficient resources, and more than 31% lack monitoring and evaluation systems.[63]

1.8 **The government has developed a long-term policy agenda aimed at addressing the aforementioned challenges, focused on strengthening Colombia's integration into the world economy.** With this objective, the first operation in the PBP series (5556/OC-CO) focused on improving the business climate to attract productive investment, facilitating foreign trade operations, and strengthening the production and export capacity of MSMEs. Impact evaluations from similar reforms in Uruguay promoted through a PBP series (2920/OC-UR and 3418/OC-UR) suggest that: (i) the average stock of FDI between 2013 and 2017 was 7.2 percentage points higher as a result of these programs;[64] and (ii) the reforms reduced customs clearance times by 24% between 2012 and 2018, promoting exports.[65] In addition, an impact evaluation for the Internationalization Factories Program,[66] promoted under the first operation in this series (5556/OC-CO), showed a 74% increase in the amount of exports from participating MSMEs and an improvement of 6 percentage points in their probability to export.[67] These results underscore the importance of these reforms for the objective of the PBP. To consolidate these benefits and redouble efforts to move forward with a more competitive integration of Colombia's economy into GVCs, the government has agreed to a more concise group of second-generation reforms aimed at more effectively addressing the country's internationalization challenges. Based on the priorities that the government established, the triggers for the second operation were modified, making it possible to include new policy conditions that directly contribute to achieving the objectives of the programmatic series. Therefore, the scope of the Policy Matrix for the second operation was adjusted (optional link 1).

1.9 **Progress and new commitments to reduce transaction costs and improve the business environment to attract productive FDI and catalyze GVC participation.** Attracting productive FDI[68] is essential to connect the country with GVCs.[69] This type of investment is sensitive to investment policy and transaction costs, since many countries compete to attract it.[70] 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.[71] A 1 percentage point

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[62] DNP, 2016; CONPES 4129.

[63] DNP, 2023.

[64] Impact evaluation of reforms to promote investment, IDB.

[65] Impact evaluation of reforms for trade facilitation, IDB.

[66] A program that facilitates technical support for MSMEs to export or diversify markets.

[67] Impact evaluation, IDB, 2022.

[68] The three-year rolling average for FDI in nonextractive and nonfinancial sectors will be measured. Baseline for 2021-2023: US$7.020 billion.

[69] Openness to FDI is positively correlated with higher levels of GVC participation. Buelens and Tirpák, 2017; Adarov and Stehrer, 2019; Kersan-Škabić, 2019; Fernandes, Kee, and Winkler, 2020.

[70] World Bank, 2017; UNCTAD, 2024.

[71] Optional link 6.

reduction in regulatory risk increases the probability for an investor to enter a country or expand their investments by up to 2 percentage points.[72] In addition, studies suggest that simplifying the number of procedures to start an international business in developing countries, to match the worldwide average (seven procedures),[73] would be associated with an average increase of 20% in the stock of FDI[74] (optional link 2).

1.10 The first PBP operation supported the government with the implementation of a strategy focused on attracting productive FDI by making the business environment more competitive. As part of this strategy, it promoted the regulations for the policy to streamline administrative procedures (Law 2052/2020; Decree 088/2022), which seeks to simplify and digitalize administrative procedures so as to make it easier for the private sector to comply with their obligations. Between 2022 and 2023, more than 1,420 streamlining actions were carried out, generating more than US$18 million in savings.[75] Moreover, regulations were prepared for the Investment Single Window (VUI), to centralize and digitalize investment procedures. The Foreign Direct Investment Facilitation Service (SIED) was created as an alternative dispute resolution tool for investor-State disputes (Decree 1644/2021). The regulations governing free zones were modernized (Decree 278/2021), promoting increases in FDI in free zones by more than 6.4% and in exports by more than 22% between 2021 and 2023.[76] In addition, agreements with Italy and France to avoid double taxation entered into effect, positioning these two countries among the main European investors in Colombia.[77]

1.11 The new government administration has reaffirmed the significance of FDI for the country's productive and export transformation and has focused its efforts on attracting investment in sectors such as clean energy, agroindustry, health services, and manufacturing (aeronautics, ship-building, and automotive) due to their potential to transfer technology, generate linkages with MSMEs, and promote quality employment and exports.[78] With the objective of generating enabling conditions to make these investments a reality, the second PBP operation will prioritize strengthening the following instruments: First, the VUI[79] will be launched and its operation and governance strengthened, making it mandatory for public and private entities to coordinate with this system, and structuring the public investment project that allocates government resources for its sustainability. In addition, the service and governance model of the SIED will be strengthened,

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72 Global Investment Competitiveness Report 2019/2020, World Bank.

73 World Bank, 2020.

74 UNCTAD, 2024. Other studies indicate that digitalization of procedures and improvements in the supply of information increase a country's FDI flows by up to 2%. Al-Sadiq, 2021, IMF Working Paper.

75 Civil Service Department, 2023; 2024.

76 The country currently has 120 free zones that have created a total of 152,000 jobs and generated US$11 billion in investments. MinCIT, 2023; DANE, Free zones, 2024; 2023 Free Zone Statistics in Colombia (publication pending).

77 France is the fifth-largest European investor in Colombia, creating 320,000 jobs. ProColombia, 2022. Italy is the seventh-largest. BanRep, 2023.

78 See the National Development Plan, PND 2022-2026. Among other reasons, these sectors were prioritized by the Colombian government because they exhibit higher levels of productivity (DANE, 2021) and opportunities for productive linkages (optional link 7, optional link 9, and Winker, Deborah, et al., 2021).

79 The program is expected to help digitalize at least 40 procedures by 2026 through the VUI.

making it a leader in addressing issues that investors face, including taxation, financial matters, and intellectual property, in order to prevent international disputes.

1.12 This operation will also continue strengthening the free zone regime as a tool for the development of sustainable production and exports, promoting good practices in business to implement internationalization plans and improve environmental and social performance.[80] Lastly, the signing of international instruments to provide legal certainty to investors and offer more attractive tax treatment will be strengthened through, for example, the signing of an agreement with Luxembourg to avoid double taxation and the standardization of tax treatment among Pacific Alliance countries.

1.13 **Progress and new commitments to reduce logistics and trade costs to promote GVC competitiveness.** Reductions in logistics costs are associated with an increase in a country's participation in GVCs. Evidence shows that an improvement of 1 percentage point in the Logistics Performance Index, which measures customs efficiency and logistics services quality, correlates with an 8% increase in high value-added exports in GVCs.[81] Reducing the costs related to tariff and nontariff barriers promotes the development of regional and global production chains. If Latin America and the Caribbean reduced its average tariff by half (to 3%), its GVC participation could increase by 7%.[82] The regulatory harmonization of nontariff barriers between Colombia and the countries in the region could increase intraregional trade flows by 17%[83] (optional link 2).

1.14 Along these lines, the first operation supported updates to the National Logistics Policy[84] (CONPES 3982) (optional link 8); and the customs regime (Decree 360/2021).[85] It also supported a reduction in tariffs, standardization of technical measures, and leveraging of trade agreements. For example, the operation facilitated preferential market access for rubber, textiles, and clothing for the Guatemalan market; made progress in harmonizing technical regulations for cosmetics manufacturing in the Andean Community, increasing Colombian exports to this bloc by more than 42% between 2021 and 2023;[86] and helped eliminate nontariff barriers for cleaning products and medical devices among Pacific Alliance countries, sectors with market potential of more than US$22 million for Colombia.[87]

1.15 The second operation is aimed at consolidating this progress. The modernization of customs regulations will continue, including advance declarations for imports,

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80 Manual de buenas prácticas para la implementación de criterios de sostenibilidad en ZF, MinCIT, 2024.

81 Blyde, 2014; Kowalski, P., et al., 2015; Catalayud et al., 2021.

82 World Bank, 2020.

83 Blyde, 2024. Decreasing regulatory distances by 50% among Latin American and Caribbean countries.

84 A new National Logistics Policy (CONPES 3982) was published, promoting transportation intermodality and trade facilitation, and financing was approved to contribute to its implementation.

85 Customs regulations were harmonized and unified, in addition to enabling electronic import and export declarations.

86 Integra IDB.

87 Atlas of Economic Complexity, 2024.

which have the potential to reduce cross-border logistics times by up to 50%.[88] The implementation of the National Logistics Policy will be strengthened by modernizing Colombia's port system (including optimizing operations and infrastructure, and adopting environmental standards); and optimizing the intermodality of cargo transportation, reducing transportation costs and emissions per unit transported.

1.16 It will also deepen trade and regional integration to reduce the costs arising from tariff and nontariff barriers. The Foreign Trade Policy for Internationalization (optional link 9) will be implemented, prioritizing increased integration between Colombia and Latin America and the Caribbean, Asia, and Africa.[89] As part of this strategy, the trade agreement with Costa Rica will be expanded to eliminate tariffs for the textile sector; the regulations for customs transit in the Andean Community will be implemented for the free movement of goods among its countries; the interoperability of the Single Windows for Foreign Trade in the Pacific Alliance will be strengthened; a trade agreement with the United Arab Emirates will be signed;[90] and a joint commission for trade and investment cooperation with Kenya will be established.[91] To complement this, tariff incentives will be introduced to promote production and investment in the creative and automotive sectors. In addition, the Colombia Exporta Sostenible (Sustainable Colombia Exports) strategy will be implemented to meet sustainability standards in agricultural exports. The Sanitary Compliance Plans, which establish the actions and resources needed to gain access to international markets for agricultural products, will be updated.[92]

1.17 **Progress and new commitments to promote the development of production and exports for effective integration into GVCs.** Productivity and competitiveness in a country's business fabric have a positive impact on its GVC participation. Companies with better management, productive, and export capacities, and quality standards establish more intensive connections with foreign companies.[93] The evidence collected by the IDB shows that programs for business strengthening and trade promotion are instrumental in generating effective linkages between FDI and local producers, with a particular impact on MSMEs, since they face higher information barriers.[94] In Costa Rica, local companies benefiting from supplier development programs increased their productivity levels by up to 23% and their sales by 67%.[95] The impact of these programs increases

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88 With advance declarations, the information about goods can be delivered prior to their arrival to domestic customs territory. DIAN, 2021.

89 Measured as the proportion of nonmining and nonenergy exports to Latin America and the Caribbean, Asia, and Africa compared to total nonmining and nonenergy exports. Baseline for 2023: 52.4%.

90 Colombia has trade opportunities of US$6.4 million for agroindustry, MinCIT, 2023; and opportunities to attract FDI in renewable energy and digital economy, MinCIT, 2024.

91 Colombia exported US$1.2 million to Kenya in 2023, notably industrial and agricultural machinery. There is potential to export palm oil, pharmaceutical products, and inorganic chemicals. ProColombia, 2023.

92 The access of new agricultural products to new markets will be measured, resulting from the implementation of the Sustainable Colombia Exports strategy and the Sanitary Compliance Plans. Baseline for 2023: 188.

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

94 Volpe and Carballo, 2010.

95 IDB, 2022.

when there is coordination in the institutional support offered to strengthen companies in various stages of development[96] and when the institutional framework operates in a coordinated manner, following a strategic objective[97] (optional link 2).

1.18 The first operation supported a number of policy instruments aimed at improving the production and export capacity of MSMEs. The Productivity Factories Program[98] benefited 4,676 MSMEs, increasing their productivity on average by 33%,[99] surpassing similar programs in countries such as Japan, the United States, and Chile.[100] The Internationalization Factories Program benefited 1,074 MSMEs,[101] increasing their exports by 74% and their probability of exporting by 6 percentage points.[102] In addition, technical assistance programs were implemented for the knowledge-based services sector, serving 432 MSMEs and reporting an 8% improvement on average in productivity indicators and positive changes in sales.[103] The first operation also strengthened the business ecosystem, eliminating more than 200 programs that were redundant or lacked results;[104] and promoting electronic factoring through the RADIAN platform.[105] As of May 2024, electronic factoring had been carried out for more than 3 million invoices, equivalent to US$15 billion.[106, 107]

1.19 Despite these efforts, Colombia still shows low value added in the production of goods and services and variability in regional production, limiting the benefits of international integration. To address these challenges, the government formulated a Reindustrialization Policy (optional link 7) aimed at closing productivity gaps, promoting sustainable business practices, and fostering production linkages. The second operation will promote the implementation of this policy through the following instruments: Programa Territorios Clúster, to cofinance regional production projects to make goods and services more sophisticated; Programa Productividad Verde, to strengthen business capacities for climate change adaptation and mitigation; Programa Calidad para la Reindustrialización, to cofinance the adoption of the quality standards; Programa para el Fortalecimiento del Parque Tecnológico Guatiguará, financed by the Korea Technopark Association, to promote the use and adoption of digital technologies; and Programa EnCadena-Mejores Proveedores (EnCadena-Better Suppliers

96 Volpe Martincus, 2010.

97 Hallak and López, 2022.

98 A program that provides tailored technical assistance to companies to improve their productivity and profitability indicators.

99 Productivity Factories, May 2024.

100 Fedesarrollo, 2021; Econometría, 2022; Economía Urbana, 2023.

101 Internationalization Factories, beneficiary companies from calls for participation in 2020, 2021, and 2022.

102 Impact evaluation, IDB, 2022. The positive results of the evaluation made it possible to hold two additional calls for participation, gather data disaggregated by gender, and start a program targeting female entrepreneurs, Ella Exporta (She Exports).

103 Knowledge-based services programs, Colombia Productiva, July 2024.

104 DNP, 2023.

105 RADIAN administers the registration, consultation, and traceability of electronic sales invoices circulating as negotiable securities within national territory.

106 RADIAN, 2024.

107 See summary of results achieved in the first operation.

Program), to improve the capacity of MSMEs to become aligned with global operational standards and facilitate the transfer of technologies and good practices for FDI to local industries. To complement this, the second operation will promote the narrowing of the productive financing gap for MSMEs, through new lines of credit for modernization of production-oriented assets, adoption of sustainable practices, and internationalization. The use and expansion of alternative credit rating models will also be promoted, based on electronic transaction data (such as those generated through the use of electronic invoicing), to expand access to formal credit for MSMEs.[108]

1.20 Lastly, this operation will promote coordination among national and regional entities and the private sector, to ensure that the support for the development of production and exports responds to business and territorial needs. Along these lines, a reform of the National System for Competitiveness and Innovation[109] will be promoted, integrating national-regional coordination authorities to develop business support instruments based on the levels of productivity and competitiveness in the departments. Support will also be provided to establish a National Network of Investment Promotion Agencies (Red Invest) made up of 14 regional agencies, to attract FDI that contributes to the productive transformation of the regions. In addition, continuity will be provided in implementing the methodology of the Coordination for Competitiveness[110] program aimed at optimizing the impact and efficiency of business development tools, unifying the functions of iNNpulsa Colombia and Colombia Productiva; and promoting impact evaluations to design or scale evidence-based programs. The impact evaluations prioritized will be for the Internationalization Factories Program (second and third rounds) and the EnCadena-Better Suppliers Program,[111] which will be supported by the Bank (required link 4).

1.21 **Rationale, main policy measures, and impacts.** The program is part of the Bank's ongoing work with the government to ensure that the internationalization of the Colombian economy becomes a growth engine (paragraphs 1.23, 1.25). The second operation in the programmatic series seeks to achieve the following impacts: (i) reduce transaction costs and improve legal certainty to attract and facilitate productive FDI, through reforms that promote simplification and digitalization of procedures (VUI/SIED) and competitiveness in the business environment (international agreements and free zones); (ii) reduce trade costs (logistics and associated with tariff and nontariff barriers) to facilitate foreign trade operations, through reforms in customs, logistics, and trade integration (modernization of the customs regime, implementation of the National Logistics Policy, and foreign trade policy); and (iii) strengthen the production and export capacity of MSMEs, through the implementation of innovative policy instruments with a gender approach (programs for supplier development, quality improvement,

108 DNP/IDB, 2024.

109 A public-private coordination mechanism aimed at increasing competitiveness, productivity, and innovation in the country.

110 The percentage of instruments for MSMEs with budgets of Col$1 billion (US$250,000) or more will be measured. A higher amount in this indicator shows greater targeting of resources on instruments with a larger scope or impact.

111 Measures the variation in the proportion of exporter MSMEs served by the Internationalization Factories Program, compared with the control group; and the proportion of MSME beneficiaries of the EnCadena Program that report an increase in sales.

environmental sustainability, and export training) and of institutional reforms that optimize the support offered to businesses. This second operation expands the implementation of the reforms promoted under the first operation (70% of the measures) and includes new policies (30%) aimed at redoubling efforts to promote a more competitive, sustainable, and inclusive integration of Colombia's economy into GVCs (optional link 1). The significance of these reforms has been documented in the empirical evidence discussed in previous paragraphs (paragraphs 1.5, 1.8, 1.9, 1.13, and 1.17) and in the theory of change annex (optional link 2).

1.22 **Completion of the programmatic series and pending challenges.** With the approval of this second operation, the programmatic series that started in 2022 can be completed, reflecting the commitment of the government and the Bank to the reform process. This economic growth program has promoted a comprehensive agenda of State public policies that has transcended administrations, aimed at ensuring that Colombia's integration into global and regional production chains translates into quality jobs, higher productivity, and sustained growth for all regions in the country. Given the sustainability of the reforms (paragraphs 1.23 and 2.6) and the risk mitigation actions associated with their implementation (paragraph 2.5), these reforms are expected to be scaled in the medium and long terms. However, pending challenges remain, several of which were mentioned in the latest IMF country report.[112] With respect to investment, it is important to continue making progress with fiscal consolidation and with the simplification and digitalization of procedures through the VUI, particularly at a subnational level; and promoting modernization and digitalization processes for entities such as the DIAN, the Colombian Agricultural Institute (ICA), and the National Food and Drug Oversight Institute (INVIMA).[113] With respect to trade facilitation and integration, it is essential to complete the infrastructure and logistics services projects included in the master plans for intermodal, river, and rail transportation, and in the port policy; consolidate the customs system, optimize the Single Window for Foreign Trade, and expand the interoperability of these systems nationally and regionally (Pacific Alliance and Andean Community); and expand the leveraging of trade agreements that improve market access and strengthen the country's economic integration. Lastly, with respect to the development of production and exports, it will be essential to continue strengthening the technical capacity and institutional coordination of the government at the central and subnational levels and with the private sector, to consolidate the reform process. As described below, the Bank has a wide array of support instruments to address many of the pending challenges.

1.23 **Value added by the Bank.** For more than two decades, the Bank has consistently supported internationalization policies in Colombia.[114] To contribute to the

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112 IMF Country Report 24/100, May 2024.

113 ICA and INVIMA issue sanitary and phytosanitary licenses and clearances to export or produce in the country.

114 The Bank has helped facilitate analysis and policy dialogue regarding the obstacles to internationalization, as well as the formulation of effective responses, through four investment loans (3155/OC-CO; 4929/OC-CO; 5148/OC-CO; and 5229/OC-CO), and many nonreimbursable technical-cooperation operations: ATN/OC-17357-CO; ATN/OC-17157-RG; ATN/KK-16944-RG; ATN/OC17357-CO; ATN/MR-17474-RG; ATN/OC-17836-CO; ATN/OC-18605-RG; ATN/OC-16812-RG; ATN/OC-18676-CO; ATN/OC-19286-CO; ATN/OC-19600-RG; ATN/OC-20187-RG; and ATN/OC-20824-CO.

achievements and sustainability of the second operation in the series, the Bank has made available a set of intervention instruments, including investment loans, technical cooperation operations, and technical support in key areas such as trade, investment, and export development. Currently, through an investment loan, the Bank is supporting the design and implementation of the VUI and the investor protection service, positioning Colombia as a pioneer in the region through reforms that improve the business climate (4929/OC-CO - conditions 2.1 and 2.2).

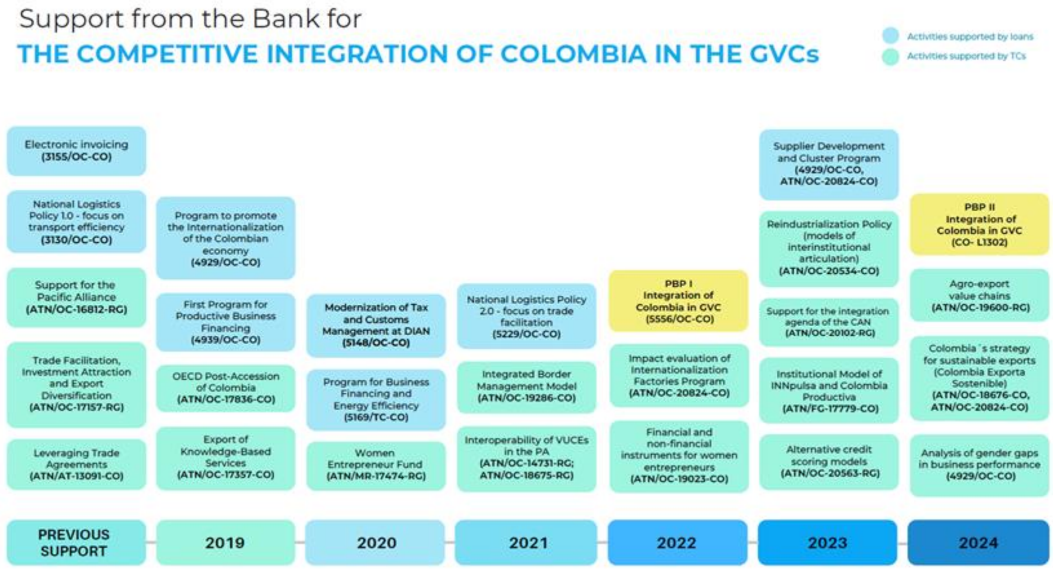
1.24 With respect to logistics and trade integration, the Bank is supporting the technological transformation of the DIAN, improving its tax and customs management (5148/OC-CO – condition 3.1.1). The Bank has also financed the implementation of the National Logistics Policy through several investment loans (3130/OC-CO;[115] 5229/OC-CO – condition 3.1.2), strengthening transportation intermodality and trade facilitation. In addition, it has provided technical and financial support to expand regional integration in the Andean Community (ATN/OC-20102-RG – condition 3.2.1); and the Pacific Alliance (ATN/OC-18675-RG – condition 3.2.1). Moreover, the Bank is supporting the identification of agrifood production chains with export potential (ATN/OC-19600-RG); and updates to the Sanitary Compliance Plans and implementation of the Sustainable Colombia Exports strategy (ATN/OC-18676-CO and ATN/OC-20824-CO – condition 3.2.3).

1.25 With respect to the development of production and exports, the Bank is providing comprehensive technical support for the Reindustrialization Policy, promoting models for multiactor coordination for the effective implementation of the policy at a territorial level (ATN/OC-20534-CO – conditions 4.1 and 4.2); implementing programs such as supplier development and cluster initiatives (4929/OC-CO - condition 4.1); and promoting the optimization and scaling of evidence-based business development instruments (ATN/FG-17779-CO; and ATN/OC-20824-CO – condition 4.3). Lastly, the Bank also has extensive experience promoting access to production-oriented credit (CO-O0004; 4939/OC-CO; 5169/TC-CO; and 5796/OC-CO); promoting alternative credit rating models (ATN/OC-20563-RG; and 3155/OC-CO[116] – condition 4.4); and supporting the design, implementation, and evaluation of financial and nonfinancial instruments for women entrepreneurs (ATN/MR-17474-RG; ATN/OC-19023-CO; and 4929/OC-CO - condition 4.5). See optional link 5 and required link 3.

[115] Project completion report, 2022: satisfactory.

[116] Project completion report, 2022; satisfactory.

Figure 1. Support from the Bank for the Competitive Integration of Colombia in GVCs



1.26 **Sector knowledge and lessons learned.** The Bank has extensive experience in the design and implementation of policy reform programs to modernize regulatory and institutional frameworks and promote investment, trade, productive development, and exports.[117] An impact evaluation in Uruguay found that, in Bank-supported reform programs, the average stock of FDI was 7.2 percentage points higher and customs clearance times were reduced by an average of 24%. The lessons learned from 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, 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, help to operationalize the policy reforms and instruments for the PBP series, helping to ensure their implementation and strengthen the value added by the Bank; (ii) this PBP is multisector[118] in nature and seeks to strengthen policies in the areas of investment, trade, and development of production and exports for Colombia's effective integration into GVCs; and (iii) impact evaluations will be implemented for

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[117] Program for Strategic International Positioning of Uruguay (2920/OC-UR, 2013, US$550 million; 3365/OC-UR, 2014, US$120 million; and 3418/OC-UR, 2015, US$247 million); Investment, Trade, and Innovation Framework Modernization Program (4430/OC-UR, 2017, US$25 million; 4857/OC-UR, 2019, US$250 million).

[118] Includes reforms supported by IFD/CMF (financial instruments and credit rating models); IFD/CTI (support for the reindustrialization policy and definition of the new institutional and operational models for Colombia Productiva and iNNpulsa Colombia); and INE/TSP (National Logistics Policy).

the business support programs so that empirical evidence of their effectiveness can be obtained.

1.27 **Coordination with other donors.** The operation consists of US$500 million financed by the IDB from Ordinary Capital and US$100 million in cofinancing from the Korea Infrastructure Development Cofinancing Facility for Latin America and the Caribbean (KIF). The Bank, working with the Colombian government, will explore the possibility of collaborating with the Korean government in future projects such as PBPs, investment loans, and knowledge-exchange initiatives. The main objective is sharing best practices from Korea and encouraging productive dialogue between Korea and Colombia. This may include programs for business support for MSMEs, free trade zones, and logistics development.

1.28 **Coordination with IDB Invest.** There is a strategic relationship in place with IDB Invest in two key areas, to help consolidate the reform process. First, IDB Invest's products portfolio has been disseminated among the investors served by ProColombia[119] indicating financing needs for establishing or expanding their operations in the country, especially in the agribusiness and renewable energy sectors. Thanks to this coordination, the IDB is positioning itself as a group that offers solutions to both the public sector to improve the business environment, and to the private sector, by contributing to the realization of their investments. In addition, IDB Invest and its clients will take part in the validation and continuous improvement of the services and electronic procedures offered by the VUI and the SIED, through specialized focus groups set up by the Ministry of Commerce, Industry, and Tourism (MinCIT) and ProColombia with support from the Bank.

1.29 **Strategic alignment.** The program is aligned with the IDB Group Institutional Strategy (CA-631), specifically with the objectives of: (i) addressing climate change, by fostering reforms that promote the adoption of sustainability standards in the productive and export sectors and logistics activity. Based on the multilateral development banks' joint methodology for tracking climate finance, an estimated 14.59% of the operation's resources are devoted to climate finance; and (ii) bolstering sustainable regional growth, by promoting a more competitive, inclusive, and sustainable integration of the country into global value chains. The program is also aligned with the following operational focus areas: (i) biodiversity, natural capital, and climate action; (ii) gender equality (optional link 5); (iii) institutional capacity, rule of law, and citizen security; (iv) sustainable, resilient, and inclusive infrastructure; (v) productive development and innovation; and (vi) regional integration. The operation is also aligned with the IDB Group Country Strategy with Colombia (2024-2027) (GN-3238) under the strategic area that seeks to "promote higher growth and productivity," by promoting reforms to improve the business climate to attract FDI; develop logistics infrastructure; simplify and digitalize foreign trade processes; and foster business growth and sophistication in order to contribute to Colombia's more competitive integration into global value chains. This operation is also consistent with the following sector framework documents: (i) Integration and Trade (GN-2715-11), by helping to attract FDI, reduce logistics costs, and develop exports; (ii) Innovation, Science, and Technology (GN-2791-13), by seeking to close gaps in business productivity; (iii) Long-Term Financing (GN-2768-12), by promoting access to

[119] National agency to promote exports, investment, tourism, and the country's image.

productive financing; (iv) Climate Change (GN-2835-13), by including environmental sustainability considerations; and (v) Gender and Diversity (GN-2800-13), by seeking to close gender gaps in the business environment. Lastly, the operation is aligned with the Employment Action Framework with a Gender Perspective (GN-3057, OP-2289-1) under the businesses and entrepreneurs area, category 1, through the support measures for MSMEs included under Component IV.

1.30 **Paris alignment.** The operation has been reviewed using the Joint MDB Assessment Framework for Paris Alignment and the IDB Group Paris Alignment Implementation Approach (GN-3142-1) and is deemed to be aligned with: (i) the adaptation goals of the Paris Agreement; and (ii) the mitigation goals of the Paris Agreement based on a specific analysis. This alignment is based on the following elements: the incentives for the automotive industry do not give a competitive advantage to combustion vehicles over electric vehicles, and are aimed at promoting investment in the latter; the Sustainable Colombia Exports program has a roadmap to meet the export requirements of the European Green Pact; and the Sanitary Compliance Plans include legal requirements for agricultural health. Therefore, the operation is consistent with the Nationally Determined Contributions and the Long-Term Strategies, and no committed emissions, transition, or stranded assets risks have been identified (optional link 4).

B. Objectives, components, and cost

1.31 **Objectives.** The general objective of this programmatic series and its second operation is to promote Colombia's insertion into global value chains (GVCs), with a view to driving economic growth. The specific objectives are to: (i) help to attract and facilitate productive 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).

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

1.33 **Component II. Attract and facilitate productive FDI.** This includes: (2.1) implementation of the Investment Single Window (VUI) as a tool to facilitate information, management of, and compliance with the procedures for the investment cycle, and strengthening of the system's operation, governance, and sustainability; (2.2) implementation of the Foreign Direct Investment Facilitation Service (SIED) as a mechanism for alternative dispute resolution with respect to investment, and strengthening of its service model and governance; (2.3) strengthening of the free zone regime as a tool for the sustainable development of production and exports; and (2.4) progress made with Colombia's adoption of international instruments to provide legal certainty and offer more competitive tax treatment to investors.

1.34 **Component III. Deepen trade logistics, facilitation, and integration measures.**

a. **Subcomponent III.1. Deepen trade logistics and facilitation measures.** This includes: (3.1.1) progress made in the process of modernizing the customs regime by adopting new measures to strengthen border control and reduce cross-border logistics times and costs; and (3.1.2) progress made in implementing the National Logistics Policy by modernizing port activity and making it sustainable, and preparing a transportation master plan that prioritizes projects and investment to promote multimodal transportation in the country.

b. **Subcomponent III.2. Deepen measures to strengthen trade integration and leverage trade agreements.** This includes: (3.2.1) publication and progress in implementing a new Foreign Trade Policy for Internationalization that prioritizes a new trade integration agenda with regional and subregional economic blocs in Latin America and the Caribbean, Asia, and Africa; (3.2.2) implementation of tariff incentives to promote production and investment in the creative and automotive sectors; and (3.2.3) introduction of the Sustainable Colombia Exports strategy and beginning of the process to update Sanitary Compliance Plans to promote agricultural exports, considering global sustainability standards.

1.35 **Component IV. Promote the development of production and exports.** This includes: (4.1) publication and progress in implementing the National Reindustrialization Policy aimed at strengthening the capacities of MSMEs to produce higher value added goods and services sustainably and with quality standards, through the intensive use of emerging technologies and by actively joining value chains; (4.2) strengthening of coordination and agreement mechanisms among national and regional entities and the private sector, to promote a more inclusive development of production and exports in the country's territories and help attract investment to the regions; (4.3) progress in implementing the methodology of the Coordination for Competitiveness program aimed at optimizing and increasing the efficiency of the design of business support tools and resources; (4.4) progress in developing instruments to narrow the productive financing gap for MSMEs, promoting new lines of credit and the use of credit rating models based on electronic transaction data, as a result of updated regulations governing electronic sales invoices and equivalent electronic documents; and (4.5) implementation of measures to promote growth and internationalization for women-run enterprises through the institutional and financial strengthening of the Free and Productive Women's Fund (FMLP), implementation of financial and nonfinancial instruments, and implementation of cross-sector coordination mechanisms to standardize and strengthen institutional services for female entrepreneurs.[120]

1.36 **Changes in policy triggers and rationale.** Of the triggers for the second operation that were included in the first operation, 86% were fulfilled satisfactorily (24 of 28) and 7% were partially fulfilled (2 of 28), showing the government's commitment to the PBP. The government and the Bank agreed to modify these

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[120] Optional link 5 contains additional information on the diagnostic assessment and the reforms planned to promote the growth and internationalization of women-run enterprises.

triggers in order to include 14 policy conditions in the second operation (optional link 1). The changes are aimed at prioritizing and targeting the policy reforms and instruments to accelerate and expand the expected outcomes for the programmatic series, as well as to increase the soundness and depth of the reforms to align them with recent recommendations from the Office of Evaluation and Oversight (OVE) (RE-582-2).

1.37 The main modifications are: (i) 13 original triggers (2.1, 3.1.2, 3.2.2, 3.2.3, 3.2.4, 3.2.7, 3.2.8, 4.4, 4.5, 4.6, 4.8, 4.9, and 4.10) were eliminated for the second operation, by incorporating them into other policy conditions or including them as triggers for new reforms, without impacting the fulfillment of the program's specific objectives; (ii) 11 policy conditions (2.1, 2.2, 2.3, 3.1.1, 3.1.2, 3.2.1, 3.2.2, 3.2.3, 4.1, 4.3, and 4.5) were rewritten to strengthen them and reflect updates, include new and stronger means of verification (laws and decrees), combine reforms into a single condition and/or better describe the expected outcome; (iii) 2 triggers (2.5 and 2.6) were not fulfilled because the timelines to sign a couple of international agreements were extended, so they were replaced and combined into a single policy condition (2.4), without impacting the scope of the proposed objectives; (iv) 1 new policy condition (4.2) was included because of its relevance to the fulfillment of specific objectives for the series, by fostering coordination mechanisms among national and regional entities and the private sector, to promote more inclusive business development in the country's territories; and (v) original trigger 4.3 regarding the evaluation of the RADIAN platform as the enabler of electronic factoring, although fulfilled, was replaced by a stronger condition (4.4) (supported by lines of credit and decrees), which includes new regulations and innovative instruments to promote access to productive financing for MSMEs.

C. Key results indicators

1.38 **Expected outcomes.** Achievement of the general development objective will be measured through an increase in the external value added embedded in Colombian exports (measures the country's level of integration into GVCs) and an increase in nonmining and nonenergy exports and services as a proportion of total exports. Achievement of the specific development objectives will be measured through: (i) the increase in FDI flows in nonextractive and nonfinancial sectors; and the increase in the proportion of digitalized investment procedures available through the VUI; (ii) the decrease in logistics costs for companies as a percentage of sales; the increase in the proportion of nonmining and nonenergy exports to Latin America and the Caribbean, Asia, and Africa; and the increase in the number of products meeting sanitary and/or phytosanitary compliance requirements for access to international markets; and (iii) the increase in the proportion of MSME beneficiaries of the EnCadena Program that report an increase in sales; the increase in the proportion of MSME exporters served by the Internationalization Factories Program, compared to nonbeneficiary MSMEs; the increase in the proportion of instruments for MSMEs with budgets of Col$1 billion or more; and the increase in the proportion of women-run MSMEs beneficiaries of the She Exports to Africa Program that report an increase in exports. The sources of information are updated periodically by the corresponding agencies; several, such as the VUI, the National Logistics Survey (ENL), and the EnCadena Program are financed by investment loans.

1.39 **Beneficiaries.** The potential universe of direct beneficiaries is: (i) the government of Colombia, which will benefit from higher revenues due to increases in private investments, exports, and business productivity, as well as higher efficiency as a result of reforms for digitalization of investment and foreign trade procedures; (ii) approximately 900 investors (both new and established) served by ProColombia per year, who will benefit from a more competitive business environment and lower transaction costs; (iii) 43,683 companies with foreign trade operations,[121] which will have better logistics services and lower costs for their international trade activities; and (iv) 211,504 MSMEs with export potential[122] and approximately 29,000 women-run MSMEs with export potential,[123] which can apply for the various instruments promoted by the program to improve their production and export capacities. In addition, citizens in general will be indirect beneficiaries, accessing more and better jobs, a wider supply of products and services at competitive prices, and the positive effects of having gender equality in the business environment.

1.40 **Economic analysis.** Based on the recommendations of the Office of Evaluation and Oversight in its 2011 Evaluability Review of Bank Projects[124] and the findings of the review of practices and standards for evaluation of policy-based loans prepared by the Evaluation Cooperation Group (composed of the independent evaluation offices of the multilateral development banks),[125] provided for in the Review of the Development Effectiveness Matrix for Sovereign-guaranteed and Non-sovereign Guaranteed Operations (GN-2489-5), an efficiency analysis of the use of financial resources is unnecessary.[126] 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 evaluability in the Development Effectiveness Matrix.

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121 DIAN Directory, 2023.

122 As of 2023, there were 1,727,987 MSMEs, according to MinCIT and the Single Business Registry (RUES). According to the 2022-2023 Survey of MSMEs carried out by the National Association of Financial Institutions, MSMEs are distributed as follows: industry, 30%; services, 30%; commerce, 30%; and construction, 10%. In addition, 20.9% of industrial MSMEs (108,344) and 19.9% of those in services (103,160) have considered implementing internationalization plans. It is assumed that all of the companies that are considering doing so (211,504) may apply for assistance through the program's instruments.

123 According to Confecámaras, in 2023, 13% of the companies set up as corporations were led by women, that is, 225,000 companies. A study by the OECD showed that only 13% of women-run enterprises in Colombia are exporters. Therefore, approximately 29,000 women-run enterprises would have the potential to export and apply for assistance through the program's instruments.

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

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

126 According to the Evaluation Cooperation Group, policy-based loans should be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, since the size of a PBL is related to a country's financing gap, independent of the operation's benefits.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 **Financing instrument.** This is the second of two consecutive operations that are technically linked but financed separately as programmatic policy-based loan (PBP) operations. Consistent with Policy-based Loans: Guidelines for Preparation and Implementation (CS-3633-2), 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 progress made in 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 second operation is for up to US$500 million from the Bank's Ordinary Capital and US$100 million from the KIF. 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 1.7% of the government's gross financing needs for 2024 and 10.5% of projected external disbursements.[127]

B. Environmental and social risks

2.3 This PBP operation is not expected to have significant and direct negative effects on the country's environment or its natural resources, and is therefore excluded from the scope of the Bank's Environmental and Social Policy Framework (GN-2965-23), pursuant to the provisions of its paragraph 4.7.

C. Fiduciary risks

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 has satisfactory country financial management systems that have been validated by the IDB guide to determine the level of development of Colombia's country systems for public financial management (GUS, 2022).

D. Other risks and key issues

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

a. **Institutional.** Potential difficulties in relation to interagency coordination due to the wide variety of national and territorial agencies involved in internationalization policies could delay the implementation of policy measures. To mitigate the impact of this, the following actions are planned: (i) supporting the DNP, in its role as technical coordinator for the program, with the implementation of the national-regional coordination models for effective implementation of policies; (ii) directly supporting the management of the new

[127] The exchange rate assumed is the one used in the 2024 MTFF for external disbursements.

issue-based committees of the reorganized National System for Competitiveness and Innovation, such as the committees for FDI facilitation, trade facilitation, and productive development, as well as the coordination of these committees with the new territorialization committee to ensure the rapid implementation and monitoring of policy instruments; and (iii) supporting the implementation of the Coordination for Competitiveness methodology as a tool that guides the development of evidence-based policy instruments, avoids redundancies, and improves expenditure efficiency.

b. **Institutional and political.** A failure to implement policies due to limited fiscal headroom, limited technical capacity, high turnover among agency officials, or a lack of commitment by the agencies to move forward with the process of measuring, monitoring, and evaluating the reforms. To mitigate this risk: (i) the program is supported by State public policies (CONPES) that define strategic lines, responsible parties, schedules, and resource allocation for their due implementation; (ii) the Bank supports the country through investment loans and multiple technical cooperation operations (paragraphs 1.22 to 1.28), to strengthen the technical capacity of agencies and facilitate the implementation of policy measures; (iii) the Bank, through this programmatic series, is helping to provide continuity to the reform process, despite changes in government officials; and (iv) the Bank will provide technical support to the borrower and the DNP to monitor implementation of the reforms in accordance with the monitoring and evaluation plan and to move forward with the necessary impact evaluations to enable the scaling or modification of the reforms based on their effectiveness.

2.6 **Sustainability.** The sustainability of the reforms is based on three basic pillars: (i) all of the program's measures are part of State policies that the country has been implementing for decades and are deepened by the commitment of the current government, as reflected in the 2022-2026 National Development Plan and the 2024 Medium-Term Fiscal Framework (MTFF); (ii) the program has support from laws, decrees, public policies approved by the National Economic and Social Policy Council (CONPES), and international agreements, ensuring the depth of the reforms and their alignment with the country's long-term agenda; and (iii) technical support from the Bank through multiple instruments (investment loans, technical cooperation operations, and technical dialogue) will contribute to the implementation and sustainability of the policy measures that this operation supports (paragraphs 1.22 to 1.28).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower is the Republic of Colombia. The executing agency is the Ministry of Finance, with support from the National Planning Department (DNP) in the role of technical coordinator. The executing agency, in coordination with the DNP, will be responsible for: (i) promoting actions to achieve policy objectives; (ii) providing evidence of fulfillment of the policy conditions; and (iii) compiling and submitting to the Bank the information needed to evaluate program results.

3.2 **Special contractual conditions precedent to the first and only disbursement of the loan:** The first and only disbursement is contingent upon fulfillment of the policy reform conditions, as set forth in the Policy Matrix (Annex II), the Policy Letter, and 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). If the Bank believes that it is relevant, it may request an external audit of the program.

B. Summary of arrangements for monitoring results

3.3 **Monitoring.** A monitoring and evaluation plan (required link 4) was prepared to monitor program results. The instruments that make up this plan are as follows: (i) Policy Matrix (Annex II); (ii) Means of Verification Matrix (required link 2); and (iii) Results Matrix (Annex III). The Bank will provide technical assistance to the borrower and the DNP to compile the outcome indicators needed to evaluate program results. 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 results indicators.

3.4 **Evaluation.** The objective of the program 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 elapsed (required link 4). The project team will prepare the program completion report, applying the IDB guidelines in effect, within two years following the disbursement for the second operation. In addition, pursuant to the monitoring and evaluation plan, four impact evaluations will be conducted to analyze whether the observed effects on the outcome variables are attributable to the program.

IV. POLICY LETTER

4.1 The policy letter (required link 1) describes the macroeconomic and sector policies that are being implemented by the government and are consistent with the programmatic operation. The letter confirms the government's commitment to implement the agreed conditions, which are described in the Policy Matrix.

Development Effectiveness Matrix		
Summary	CO-L1302	
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	**-Biodiversity, natural capital, and climate action -Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Sustainable, resilient, and inclusive infrastructure -Productive development and innovation through the private sector -Regional integration**	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-2972**	**Promote productive and export diversification**
Country Program Results Matrix		**The intervention is not included in the 2024 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	**10.0**	
3.1 Program Diagnosis	**2.5**	
3.2 Proposed Interventions or Solutions	**3.5**	
3.3 Results Matrix Quality	**4.0**	
4. Ex ante Economic Analysis	**N/A**	
5. Monitoring and Evaluation	**8.9**	
5.1 Monitoring Mechanisms	**2.9**	
5.2 Evaluation Plan	**6.0**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium Low**	
Environmental & social risk classification	**N/A**	
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**	**CO-T1612**

The general objective of the project Is to promote the integration of global value chains in Colombia to enhance growth. The specific objectives are: (1) facilitate the attraction and establishment of productive FDI ; (2) facilitate trade operations; and (3) strengthen productive and export capabilities of SMEs. As part of its theory of change, the project presents low export diversification given the low complexity of the economy (i.e., manufacturing and services with less than 7% each) as one of the main reasons behind Colombia's weak integration. To address the structural challenges described in the theory of change it would also be important to more fully complement the discussion with the broader issues that are partly addressed by some measures in the project, namely: implementation of public policy related to cluster development, low institutional capabilities, regulatory and coordination challenges.

The results matrix is comprehensive and provides relevant indicators for the wide range of measures in the program. It would be important to further reflect on attribution and how the activities of the project can effectively contribute in a tangible way to move the needle – and produce the desired impact – on the general indicators proposed during the project life cycle. For instance, many of the policies that can affect the aggregate export and FDI indicators proposed, such as incentives to foster productivity, investment in productive clusters, would necessarily imply structural changes in regulatory practice and policy implementation. Most of the structural changes proposed require a level of state capability, coordination and time that seem to extend beyond the project life cycle. For development effectiveness purposes, it would be more useful to have indicators that are more closely related to the actual policy measures being implemented.

The project further includes a relevant and rigorous impact evaluation of the Programa ENCADENA and the Programa Fábricas de Internacionalización.

POLICY MATRIX

General objective: The general objective of this programmatic series and its second 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 productive 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 programmatic operation	Policy conditions for the second programmatic operation	Fulfillment status of the policy conditions for the second programmatic 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.	1.1 Maintain a macroeconomic environment consistent with program objectives and the guidelines set forth in the policy letter and policy matrix.	Fulfilled
Component II: Attract and facilitate productive FDI			
Help to attract and facilitate productive FDI	2.1 Regulations issued governing the digitalization and automation of administrative procedures, including business procedures regulated by the State.	--	
	2.2 Investment Single Window (VUI) created to facilitate management of and compliance with the country's main procedures for investment.	2.1 Implementation of the VUI as a tool to facilitate information, management of, and compliance with the procedures for the investment cycle, and strengthening of the system's operation, governance, and sustainability.	Fulfilled (Q3 2024)
	2.3 Foreign Direct Investment Facilitation Service (SIED) created for alternative dispute resolution in the area of investment.	2.2 Implementation of the SIED as a mechanism for alternative dispute resolution with respect to investment, and strengthening of its service model and governance.	Fulfilled (Q3 2024)
	2.4 Modernization of the country's free zone regime, strengthening its role as a tool for the development of production and exports.	2.3. Strengthening of the free zone regime as a tool for the sustainable development of production and exports.	Fulfilled (Q2 2024)
	2.5 Reciprocal investment promotion and protection agreement signed with Spain.	--	
	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.	2.4 Progress has been made with Colombia's adoption of international instruments to provide legal certainty and offer more competitive tax treatment to investors.	Fulfilled (Q1 2024)

<table>
<tr><th>Components / Policy objectives</th><th>Policy conditions for the first programmatic operation</th><th>Policy conditions for the second programmatic operation</th><th>Fulfillment status of the policy conditions for the second programmatic operation</th></tr>
<tr><td colspan="4">Component III: Deepen trade logistics, facilitation, and integration measures</td></tr>
<tr><td colspan="4">Subcomponent III.1: Deepen trade logistics and facilitation measures</td></tr>
<tr><td rowspan="3">Facilitate foreign trade operations</td><td>3.1.1 (a) Modernization of the customs regime approved; and (b) the corresponding regulations issued, with the aim of facilitating trade.</td><td>3.1.1 Progress has been made in the process of modernizing the customs regime by adopting new measures to strengthen border control and reduce cross-border logistics times and costs.</td><td>Fulfilled (Q2 2024)</td></tr>
<tr><td>3.1.2 Mutual Recognition Agreement on Authorized Economic Operators signed between (a) Colombia and Brazil and (b) Colombia and Uruguay.</td><td>--</td><td></td></tr>
<tr><td>3.1.3 Financing approved for implementation of the new National Logistics Policy, which seeks to reduce logistics times and costs.</td><td>3.1.2 Progress has been made in implementing the National Logistics Policy by modernizing port activity and making it sustainable, and preparing a transportation master plan that prioritizes projects and investment to promote multimodal transportation in the country.</td><td>Fulfilled (Q4 2023)</td></tr>
<tr><td colspan="4">Subcomponent III.2: Deepen measures to strengthen trade integration and leverage trade agreements</td></tr>
<tr><td rowspan="4">Facilitate foreign trade operations</td><td>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.</td><td>3.2.1 Publication and progress in implementing a new Foreign Trade Policy for Internationalization that prioritizes a new trade integration agenda with regional and subregional economic blocs in Latin America and the Caribbean, Asia, and Africa.</td><td rowspan="4">Fulfilled (Q3 2024)</td></tr>
<tr><td>3.2.2 Andean Community regional integration strengthened, based on:
(a) Signing of an agreement between Colombia and Peru for the issuance/receipt of electronic certificates of origin.
(b) Approval of the Andean technical regulations governing good practices in cosmetics manufacturing.
(c) Publication of the Andean Digital Agenda, which will promote cross-border trade in services and e-commerce.</td><td>--</td></tr>
<tr><td>3.2.3 Regional integration strengthened within the Pacific Alliance, based on:
(a) Elimination of technical obstacles to trade in cleaning products.
(b) Elimination of technical obstacles to trade in medical devices.
(c) Publication of a roadmap for the Pacific Alliance regional digital market, in order to promote e-commerce.</td><td>--</td></tr>
<tr><td>3.2.4 Signing of a trade agreement between the Pacific Alliance countries and Singapore.</td><td>--</td></tr>
</table>

Components / Policy objectives	Policy conditions for the first programmatic operation	Policy conditions for the second programmatic operation	Fulfillment status of the policy conditions for the second programmatic operation
	3.2.5 International Temporary Import Agreement approved, allowing the temporary import and export of goods free of taxes and customs duties.	3.2.2 Implementation of tariff incentives to promote production and investment in the creative and automotive sectors.	Fulfilled (Q4 2023)
	3.2.6 Sanitary Compliance Plan for pork approved, launching the Sanitary Diplomacy Strategy. 3.2.7 Sanitary compliance certification obtained for agricultural exports to strategic markets, e.g.: (a) Brazil: hydrangeas (b) Korea: Hass avocados (c) United States: capsicum (bell and chili peppers) (d) Japan: milk and dairy products	3.2.3 Introduction of the Sustainable Colombia Exports strategy and beginning of the process to update Sanitary Compliance Plans to promote agricultural exports, considering global sustainability standards.	Fulfilled (Q2 2024)
	3.2.8 (a) Recommendations of the internationalization mission published; (b) public policy published on internationalization for regional productive development.	--	
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, Round III; and (b) the program for the promotion and generation of production linkages.	4.1 Publication and progress in implementing the National Reindustrialization Policy aimed at strengthening the capacities of MSMEs to produce higher value added goods and services sustainably and with quality standards, through the intensive use of emerging technologies and by actively joining value chains.	Fulfilled (Q3 2024)
	--	4.2 Strengthening of coordination and agreement mechanisms among national and regional entities and the private sector, to promote a more inclusive development of production and exports in the country's territories and help attract investment to the regions.	Fulfilled (Q4 2023)
	4.2 Regulations issued to coordinate the institutional offering of support programs and instruments for strengthening the business development ecosystem.	4.3 Progress in implementing the methodology of the Coordination for Competitiveness program aimed at optimizing and increasing the efficiency of the design of business support tools and resources.	Fulfilled (Q2 2024)

Components / Policy objectives	Policy conditions for the first programmatic operation	Policy conditions for the second programmatic operation	Fulfillment status of the policy conditions for the second programmatic operation
	4.3 Regulations issued governing the registration of electronic sales invoices as negotiable securities in RADIAN.	4.4 Progress in developing instruments to narrow the productive financing gap for MSMEs, promoting new lines of credit and the use of credit rating models based on electronic transaction data, as a result of updated regulations governing electronic sales invoices and equivalent electronic documents.	Fulfilled (Q1 2024)
	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.	--	
	4.5 Second round of the Internationalization Factories Program implemented.	--	
	4.6 Specific programs for knowledge-based services sector companies implemented: (a) productivity for internationalization; (b) strengthening of cluster initiatives; and (c) production linkages between the traditional and services sectors.	--	
	4.7 Gender Issues and Women's Empowerment Committee created for the trade, industry, and tourism sector.	4.5 Introduction of measures to promote growth and internationalization for women-run enterprises, through the: (a) institutional and financial strengthening of the Free and Productive Women's Fund (FMLP); (b) implementation of financial and nonfinancial instruments; and (c) introduction of cross-sector coordination mechanisms to standardize and strengthen institutional services for female entrepreneurs.	a) Fulfilled (Q2 2024) b) Fulfilled (Q1 2024) c) Fulfilled (Q4 2023)
	4.8 Women's Enterprise Fund structured and strengthened institutionally in order to promote, finance, and support the strengthening of women's businesses.	--	
	4.9 Regulations issued establishing differentiated criteria to encourage the participation of women-run companies in public procurement.	--	
	4.10 Publication of the Public Policy on Gender Equity for Women: Toward Sustainable Development in the Country.	--	

RESULTS MATRIX[1]

Program objective:	The specific objectives are to: (i) help to attract and facilitate productive 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	Base-line	Year Base-line	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.	%	5.91	2022	6.25	2026	**Source:** UNCTAD-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. **Target:** To estimate the target, compound annual growth was set at 1.4% for the indicator, driven by the reforms introduced under the program. **The counterfactual scenario** is -2.2% per year, corresponding to the compound annual growth rate for the indicator in the past five years (2018-2022). The program is expected to help reverse this trend and promote positive growth of 1.4%. Therefore, the effect of the intervention is 3.6 percentage points above the counterfactual scenario.
Indicator 2: Nonmining and nonenergy exports of goods and services, as a percentage of total exports.	%	51.9	2023	55.8	2026	**Source:** DNP - SINERGIA **Responsible party:** DNP **Reporting party:** DNP	Measures Colombia's participation in GVCs based on increases in exports for sectors with high potential for growth, internationalization, and the creation of production linkages. **Target:** Compound annual growth of 2.4% is expected for the indicator, driven by the reforms introduced under the program and consistent with the targets set by the government in the 2022-2026 National Development Plan. **The counterfactual scenario** is 0.05%, corresponding to the compound annual growth rate for the indicator in the past five years (2019-2023). The program is expected to help increase the historical trend by 2.35 percentage points, reaching the government's target.

[1] For further information on the baselines, targets, and counterfactual scenarios for each indicator, see the monitoring and evaluation plan (required link 4).

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Base-line	Year Baseline	Year 4 (2026)	End of operation	Means of verification	Comments
SPECIFIC DEVELOPMENT OBJECTIVE 1: Help to attract and facilitate productive FDI							
Indicator 1: Average annual nonmining, nonenergy, and nonfinancial FDI.	US$ millions	7,020	2023	7,460	2026	**Source:** Balance of Payments, BanRep **Responsible party:** Ministry of Commerce, Industry, and Tourism (MinCIT) **Reporting party:** DNP	Measures the rolling average for the 2021-2023 period for FDI, excluding the mining and energy (oil and mining exploitation) and financial sectors (financial intermediation auxiliary activities and real estate and rental activities). These two sectors are excluded because they do not contribute to GVC participation. In addition, FDI in the financial sector has recently shown high volatility.[2] **Target:** The target is the rolling average for nonmining, nonenergy, and nonfinancial FDI flows for 2024-2026. FDI is expected to have a compound annual growth rate of 2.05%, as a result of reforms that will help reduce transaction costs and improve legal certainty. **The counterfactual scenario** is 1.4% per year, corresponding to the compound annual growth trend for nonmining, nonenergy, and nonfinancial FDI in the past 10 years (2014-2023). Currently, economic analysis firms are projecting negative growth for total FDI in Colombia between 2023 and 2026.[3] Therefore, the program is expected to not only reverse potential negative growth but also promote positive growth by 0.65 of a percentage point above the counterfactual scenario.
Indicator 2: Percentage of digitalized procedures available through the Investment Single Window (VUI).	%	0	2023	32%	2026	**Source:** 2026 VUI report **Responsible party:** MinCIT **Reporting party:** DNP	The indicator measures the number of procedures implemented in the VUI conducted electronically, as a percentage of the total number of procedures mapped (124) for each of the 10 sector-based investment routes.[4] Having investors carry out more procedures electronically means lower transaction costs. **Target:** Projected based on the targets set by the MinCIT. The program is expected to help achieve the digitalization of at least 40 procedures by 2026.

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2 Between 2020 and 2021, it rose by 25%. Between 2021 and 2022, it rose by 152%, and then fell by 48% between 2022 and 2023.

3 Economist Intelligence Unit. Inward FDI flows (US$) projects a 6.4% decline in FDI between 2023 and 2026.

4 Presentación Ventanilla Única de Inversión – VUI. 7 July 2024.

Indicators	Unit of measure	Base-line	Year Baseline	Year 4 (2026)	End of operation	Means of verification	Comments
SPECIFIC DEVELOPMENT OBJECTIVE 2: Facilitate foreign trade operations							
Indicator 1: Total logistics costs for companies as a percentage of sales.	%	17.9	2022	17.2	2026	**Source:** National Logistics Survey, 2026 **Responsible party:** DNP **Reporting party:** DNP	Measures logistics costs as a percentage of total sales for companies. **Target:** The indicator is expected to decrease to a compound annual rate of 1% as a result of the program's estimated impacts. **The counterfactual scenario** estimates an annual increase of 2.1% in the indicator, to 19.5% in 2026. This is because the elimination of the fuel subsidies, starting in 2024, will double the price of diesel from its current amount.[5] Every increase (the first one in 2024) is estimated to result in an 8% annual increase in transportation costs,[6] which account for 35.9% of logistics costs. The program is expected to reverse this upward trend and enable a gradual decrease of 1% for the indicator.
Indicator 2: Nonmining and nonenergy exports to Latin America and the Caribbean, Asia, and Africa, as a percentage of total nonmining and nonenergy exports.	%	52.4	2023	55.3%	2026	**Source:** MinCIT - National Administrative Statistics Department (DANE) **Responsible party:** MinCIT **Reporting party:** DNP	Measures the strengthening of trade relations with Latin America and the Caribbean, Asia, and Africa, prioritized by the Foreign Trade Policy. **Target:** Projected by setting compound annual growth at 1.87% for the indicator, driven by the reforms introduced under the program. **The counterfactual scenario** is 0.51%, corresponding to the growth trend for the indicator in the past three years (2021-2023). The effect of the intervention is 1.36 percentage points above the counterfactual scenario.
Indicator 3: Total number of products with access (sanitary or phytosanitary) to international markets.	Number	188	2023	224	2026	**Source:** DNP - SINERGIA **Responsible party:** DNP **Reporting party:** DNP	Measures adherence to nontariff barriers by agricultural, fishery, and aquaculture products for access to foreign markets. **Target:** The target is the total number of agricultural products with access to markets in 2026. It considers the baseline. It is projected considering the government's official target for 2026 established in the 2022-2026 National Development Plan.

5 Decree 0763 of June 2024 establishes an increase in the price of diesel fuel from US$2/gallon to US$4/gallon.

6 Computations by the National Association of Foreign Trade (ANALDEX), based on the transportation prices published in the SICE-TAC system and the amount of the increase for diesel (ANALDEX 2024).

Indicators	Unit of measure	Base-line	Year Baseline	Year 4 (2026)	End of operation	Means of verification	Comments
SPECIFIC DEVELOPMENT OBJECTIVE 3: Strengthen the production and export capacity of MSMEs							
Indicator 1: Percentage of MSMEs served by **Colombia Productiva in EnCadena** that report an increase in sales.	%	0	2023	20	2026	**Source:** EnCadena results report **Responsible party:** Colombia Productiva **Reporting party:** DNP	Measures the percentage of MSMEs served by the **EnCadena-Better Suppliers Program for FDI** (or the applicable program) reporting an increase in sales between 2024 and 2025, compared to the total number of MSMEs served by the program. The indicator is measured at the beginning and the end of the program.
Indicator 2: Change in the proportion of MSMEs exporting goods (beneficiaries of the Internationalization Factories Program compared to the control group).	Percentage points	5.8	2022	6.8	2026	**Source:** Impact evaluation **Responsible party:** ProColombia - IDB **Reporting party:** DNP	Measures the proportion of MSMEs served by the Internationalization Factories Program that export goods (according to DANE records), compared with the control group (nonbeneficiary MSMEs).
Indicator 3: Percentage of instruments for MSMEs with budgets of Col$1 billion or more.	%	38	2024	40	2026	**Source:** Coordination for Competitiveness methodology, DNP - 2026 report **Responsible party:** DNP **Reporting party:** DNP	Measures the percentage of business support instruments with a budget of US$250,000 or more targeting MSMEs, compared to the total number of instruments targeting MSMEs. A higher amount in this indicator shows an enhanced targeting of resources on instruments with a larger scope or impact.
Indicator 4: Percentage of women-run MSMEs beneficiaries of the **She Exports to Africa Program** that report an increase in exports compared to the total number of companies served.	%	0	2023	25	2026	**Source:** ProColombia **Responsible party:** ProColombia, Free and Productive Women's Fund (FMLP) **Reporting party:** DNP	Measures the percentage of women-run MSMEs beneficiaries of the **She Exports to Africa Program** that report an increase in exports between 2024 and 2025 compared to the total number of companies served.

OUTPUTS

Outputs	Unit of measure	Baseline year	Base-line	End of project 2026	Means of verification
Component II: Attract and facilitate productive FDI					
2.1 Policy instruments demonstrating the implementation of the VUI; and the strengthening of its operation, governance, and sustainability.	Policy instruments	2023	0	2	(a) VUI portal; and (b) Decree 1104 of 2024, updating the operation and governance of the VUI; and public investment project for the sustainability of the VUI.
2.2 Policy instruments demonstrating the implementation of the SIED; and the strengthening of its service and governance model.	Policy instruments	2023	0	2	(a) Progress report on implementation of the SIED; (b) Decree 1104 of 2024, strengthening the SIED service and governance model.
2.3 Policy instruments strengthening the free zone regime.	Regulations	2023	0	2	(a) Law 2277 of 2022; and Decree 0047 of 2024; and (b) good practices manual to improve the environmental, economic, and social performance of free zones.
2.4 International agreements to avoid double taxation and provide legal certainty to investors.	Agreements	2023	0	2	(a) Treaty to eliminate double taxation with Luxembourg; and (b) Ruling C-316/22 declaring the constitutionality of the Treaty to Standardize Tax Treatment among Pacific Alliance countries.
Component III: Deepen trade logistics, facilitation, and integration measures					
Subcomponent III.1: Deepen trade logistics and facilitation measures					
3.1.1 Regulations published for modernization of the customs regime.	Regulations	2023	0	1	Decree 0659 of 2024
3.1.2 Policy instruments showing progress in the implementation of the National Logistics Policy.	Policy instruments	2023	0	2	(a) CONPES 4118 of 2023; and (b) 2021–2051 Multimodal Transportation Master Plan.
Subcomponent III.2: Deepen measures to strengthen trade integration and leverage trade agreements					
3.2.1 Policy instruments demonstrating the issuance and implementation of the new Foreign Trade Policy for Internationalization.	Policy instruments	2023	0	6	(a) Foreign Trade Policy document; (b) Agreement for the joint commission for cooperation with Kenya; (c) Decision 909 from the Andean Community; (d) Decision 15 signed with Costa Rica; (e) Trade agreement with United Arab Emirates; and (f) Report of progress with the interoperability of the Single Window for Foreign Trade in the Pacific Alliance.

Outputs	Unit of measure	Baseline year	Base-line	End of project 2026	Means of verification
3.2.2 Regulations implementing tariff incentives to promote production, investment, and exports in the creative sector; the automotive industry; and knowledge-based services and industrial goods.	Regulations	2023	0	2	(a) Ruling C-448/22 of 2022; and (b) Decree 1898 of 2023.
3.2.3 Strategy documents launching the Sustainable Colombia Exports initiative and starting the update of the Sanitary Compliance Plans.	Strategy documents	2023	0	2	(a) Roadmap for Sustainable Colombia Exports; and (b) Work plan for the process to update and strengthen the Sanitary Compliance Plans.
Component IV: Promote the development of production and exports					
4.1 Policy instruments demonstrating the publication of the new National Reindustrialization Policy and its implementation.	Policy instruments	2023	0	6	(a) CONPES 4129 of 2023; opening of calls for participation in the program; (b) Cluster territories; (c) Green productivity; (d) Quality for reindustrialization; (e) EnCadena-Better Suppliers; and (f) favorable technical report for the implementation of the Strengthening the Guatiguará Technopark project.
4.2 Policy instruments demonstrating the strengthening of coordination and agreement mechanisms among national and regional entities and the private sector, to promote more inclusive development of production and exports in the country's territories and help attract investment to the regions.	Policy instruments	2023	0	2	(a) Decree 2212 of 2023; and (b) Memorandum of Understanding for the creation of Red Invest.
4.3 Policy instruments demonstrating the implementation of the methodology of the Coordination for Competitiveness program aimed at optimizing and increasing the efficiency of the design of business support tools and resources.	Policy instruments	2023	0	2	(a) Decree 0709 of 2024; and (b) Report on the implementation of recommendations from the Coordination for Competitiveness methodology.
4.4 Policy instruments to narrow the productive financing gap for MSMEs.	Policy instruments	2023	0	2	(a) Lines of credit for MSMEs facilitated by Bancoldex and the MinCIT (competitive MSMEs, *Sostenible Adelante*, and Internationalization for Productivity); and (b) Decree 442 of 2023; Resolution 165 of 2023.

Outputs	Unit of measure	Baseline year	Base-line	End of project 2026	Means of verification
4.5 Policy instruments demonstrating the implementation of measures to promote growth and internationalization for women-run enterprises.	Policy instruments	2023	0	3	(a) Law 2294 of 2023, establishing the Free and Productive Women's Fund (FMLP); Schedule 5 of the commercial trust agreement between Fiducoldex and DAPRE to add US$20 million to the FMLP; (b) Financial instruments (agreement signed by the FMLP and Banco Agrario for the line of credit for women microentrepreneurs; agreement between Bancoldex and MinCIT for the line of credit for women microentrepreneurs; and nonfinancial instruments: agreement between ProColombia and the FMLP to implement the She Exports to Africa Program; and (c) minutes from the first meeting of the Cross-sector Committee for Women's Economic Autonomy and Entrepreneurship.

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

CO-L1302

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the referenced operation will be financed through:

Funding Source	Fund Code	Currency	Amount Up to
Korea Infrastructure Development Co - Financing Facility for Latin America and the Caribbean	KIF	USD	100,000,000

For operations financed by funds where the Inter-American Development Bank (IDB) does not control liquidity, the availability of resources is contingent upon the request and the receipt of the resources from the donors. Additionally, in case of operations financed by funds that require a post-approval agreement with the donor, the availability of resources is contingent upon the signature of the agreement between the Donor and the IDB. (i.e.: Project Specific Grants (PSG), Financial Intermediary Funds (FIF), and single donor trust funds).

DocuSigned by:
03944FADB5D449F...

Certified by: September 17, 2024 | 11:48 AM EDT

VoBo on behalf of Yonghee Chang

Initial
SY

Maria Fernanda Garcia Rincon
Chief
Grants and Co-Financing Management Unit
ORP/GCM

Date

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/25

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

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 aimed at cooperating in the execution of the Support Program to Strengthen Colombia's Integration into Global Value Chains II. Such financing will be for the amount of up to US$500,000,000 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 ___ ____________ 2025)

LEG/SGO/CAN/EZIDB0000366-1274791288-26485
CO-L1302 - OC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/25

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

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, acting as Administrator of the Korea Infrastructure Development Co-financing Facility for Latin America and the Caribbean (hereinafter, the "Facility"), 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 aimed at cooperating in the execution of the Support Program to Strengthen Colombia's Integration into Global Value Chains II. Such financing will be for an amount of up to US$100,000,000 from the resources of the Facility, 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 ___ ____________ 2025)

LEG/SGO/CAN/LEG/SGO/CAN/EZIDB0000366-1274791288-26486
CO-L1302 - KIF