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# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 15-May-2020 | Report No: PIDA29492



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Colombia	P174118	COVID-19 Crisis Response DPF (P174118)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	25-Jun-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Colombia	Ministry of Finance and Public Credit		

**Proposed Development Objective(s)**

The DO of this operation is to help Colombia (i) support the capacity of the health system, (ii) provide income and nutrition support to poor and vulnerable households, and (iii) maintain liquidity and access to finance for firms, in response to COVID-19.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	700.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	700.00
World Bank Lending	700.00

**Decision**

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

Country Context

**The proposed stand-alone Development Policy Financing (DPF) operation, for US\$700 million, supports the government of Colombia’s response to the health, social and economic crisis caused by the COVID-19 pandemic.** Colombia declared a national health emergency on March 12, 2020, the day after the World Health Organization declared the novel coronavirus a global pandemic. Since then, the government has swiftly put in place (i) a comprehensive set of public health measures to stop the spread of the disease in the country and (ii) a package of



fiscal measures amounting to COP26.4 trillion (or 2.5 percent of GDP) to strengthen the capacity of the health system to manage the pandemic, mitigate the impact of the economic crisis on the poorest and most vulnerable households, and provide liquidity support to firms to keep them afloat, altogether limiting the economic and social fallout of the crisis. This operation supports the government's response to the crisis, which will help prevent an even deeper impact on the economy and household welfare. The development objective of this operation is to help Colombia (i) support the capacity of the health system, (ii) provide income and nutrition support to poor and vulnerable households, and (iii) maintain liquidity and access to finance for firms in response to COVID-19.

#### Relationship to CPF

**The proposed DPF is consistent with the World Bank Group's Country Partnership Framework (CPF) for Colombia for FY2016-21.** The CPF, which was discussed by the Board in April 2016, is built on three pillars: (i) fostering balanced territorial development; (ii) enhancing social inclusion and mobility through improved service delivery; and (iii) supporting fiscal sustainability and productivity. Cutting across all pillars, the CPF aims to "Assist in Constructing the Peace" in response to Colombia's historic opportunity to reach a Peace Accord. The proposed DPF is fully aligned with the second and third CPF pillar. The proposed DPF also builds on recent global experience as reflected in WBG guidance notes, including those prepared by the HD and EFI Practice Groups, on the policy response to the COVID-19 crisis. The recommended health policy response to the crisis focuses on (i) delivering public health and nutrition interventions, and (ii) strengthening health systems. The strategy aims to effectively control the spread of the virus as well as increase the capacity of the health system to manage the increased patient caseload. Among the key objectives of the recommended economic and social policy response are (i) the protection of the poorest and the most vulnerable; (ii) the prevention of a financial sector collapse; and (iii) support to jobs and firms. The operation supports prior actions that would contribute towards these objectives.

#### C. Proposed Development Objective(s)

**The DO of this operation is to help Colombia (i) support the capacity of the health system, (ii) provide income and nutrition support to poor and vulnerable households, and (iii) maintain liquidity and access to finance for firms in response to COVID-19.** These measures work together as a package of integrated actions to limit the social and economic fallout of the crisis. They also help lay the foundations for recovery by limiting the economic scarring that could otherwise occur at household and firm level, thereby facilitating the subsequent economic recovery. Several of the measures also contribute to longer-term structural reforms.

#### Key Results

**The measures supported by the proposed operation are expected to contribute to important results in each of the three pillars.** Under "support the capacity of the health system", this includes the reduction in the average time taken for registrations of new medical technologies and devices related to COVID-19; the injection of additional liquidity to health care providers; and the approval of bio-safety protocols that allow for the operation of individual economic sectors. Under the "provide income and nutrition support to poor and vulnerable households" pillar, measures would contribute to an expansion of the database for targeting social programs, and an increase in the number of individuals and households receiving monetary or school feeding support. Under "maintain liquidity and access to finance for firms", measures would contribute to an expansion in government guarantees and credit lines, including to MSMEs, and tax measures that provide temporary financial relief and support business continuity for firms.



## D. Project Description

**This operation supports the government’s response to the crisis, which will help prevent an even deeper impact on the economy and household welfare.** The operation supports prior actions under three pillars that represent the main components of the government’s response. These measures support mitigation of the immediate impacts of the crisis as well as lay the foundations for an effective recovery:

- Under Pillar I, “support the capacity of the health system”, the operation supports (i) the accelerated import of new technologies, applications, medicines, reagents, and equipment for the prevention, diagnosis, and treatment of COVID-19; (ii) targeted financial mechanisms to reduce financial pressures on health care providers resulting from the pandemic; and (iii) the development of biosafety protocols required for the carrying out of all of economic and social activity.
- Under Pillar II, “provide income and nutrition support to poor and vulnerable households”, the operation supports (i) creation of an expanded master database, cross-referencing the Identification System of Potential Beneficiaries of Social Programs (SISBEN) and other existing beneficiary registries with administrative records from public entities, to identify potential low-income and vulnerable households currently not registered for social programs; (ii) approval of crisis response cash payments to poor and vulnerable individuals; (iii) authorization for the Ministry of Finance and Public Credit to subscribe and modify agreements with financial service providers to extend the scope of payments to beneficiaries; and (iv) issuance of regulations for the implementation of the school feeding and pre-school feeding programs so as to mitigate the impact of facility closures on the nutrition of vulnerable children.
- Under Pillar III, “maintain liquidity and access to finance for firms”, the operation supports (i) the recapitalization of the National Guarantee Fund and the creation of special guarantee lines to ensure firms’ access to loans, including those linked to salary payments; (ii) the creation of new credit lines by Bancoldex, including to affected sectors and MSMEs; and (iii) a postponement in tax payments and an acceleration in tax refunds to firms.

## E. Implementation

**MHCP and DNP are responsible for collecting and monitoring information related to program implementation and progress towards the achievement of the results.** MHCP and DNP are responsible for coordinating necessary actions among the agencies involved in the reform program supported by this DPF, in particular, the National Planning Department, the MSPS, the Social Prosperity Department, the Colombian Institute for Family Welfare, the School Feeding Agency, the National Institute for Food and Medicine Surveillance, Bancoldex, and FNG. The World Bank has worked closely with MHCP and DNP to define results indicators that are clearly spelled out and measurable, and that have realistic targets even in the crisis context. The monitoring and evaluation of the operation will be also carried out through the ongoing policy dialogue and technical assistance in the context of the COVID-19 crisis response.

## F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

**The prior actions supported by this operation are estimated to have substantial poverty reduction effects in the short term, during which the crisis response interventions will operate.** The expansion of existing cash transfer program, the VAT refund, the *Ingreso Solidario* program and the school feeding programs are estimated to lead to a reduction in the poverty headcount rate of just over 1.3 percentage points, equivalent to 632,000 individuals. The impact that the concession of emergency credit lines will have on poverty depends on the uptake of credit by MSMEs and on the share of such credits used for payroll payment; under conservative assumptions on both, the additional reduction in poverty



headcount rates is estimated to be quite modest.

#### Environmental, Forests, and Other Natural Resource Aspects

**Overall, the prior actions supported by this DPF are not likely to have significant negative effects on the environment, forests, and other natural resources.** The DPF will support policies aimed at (i) supporting the capacity of the health system; (ii) providing income and nutrition support to poor and vulnerable households; and (iii) maintaining liquidity and access to finance for firms, in response of the COVID-19 crisis. The environmental analysis found that these prior actions are not likely to have significant negative effects on the environment, forests, and other natural resources. The environmental analysis found that these prior actions are not likely to have significant negative effects on the environment, forests, and other natural resources. However, the potential increase of medical hazardous waste was identified as a risk. This is mitigated by means of the robust national regulation on waste management and by the new guidelines for biohazardous waste management during the COVID-19 crisis. Positively, the DPF supports measures to halt the spread of the Pandemic COVID-19, reacting proactively to the protection of human health. It will also allow micro, small, and medium enterprises to maintain their operational activity, including environmental management of their operations. The areas that involve environmental risk, and the recommendations in each of those cases, were identified as part of the analysis.

#### G. Risks and Mitigation

**The overall risk to achieving the PDO is assessed as substantial.** The major risk that the DPL is facing relates to Colombia undergoing a deeper and longer than expected economic crisis due to the COVID-19 pandemic. While some mitigation measures can be put in place and are supported by this DPL, substantial risks remain in some areas. Risks will be monitored throughout the implementation period of the DPL.

**Given the severe economic impact of the COVID-19 outbreak across the globe, as well as uncertainty as to how quickly domestic economic activity can fully resume, the macroeconomic risk is rated as high.** There are two closely related macroeconomic risks for the country. On the one hand, while it will undoubtedly be significant, there is still uncertainty as to the length and depth of the global economic fallout from COVID-19, which will directly impact Colombia's short and medium-term growth prospects. On the other hand, the trajectory of the pandemic within Colombia will further impact how quickly the country is able to reactivate economic activity. These two factors will combine to determine the shape of Colombia's economic recovery. If downside risk materializes in both areas, the country may be stretched beyond its fiscal capacity to support households and firms affected by the crisis. As a result, long-lasting structural damage at the level of firms and labor supply could make it difficult to reactivate the economy once the pandemic recedes. The support to the temporary COVID-19 response measures through this operation will help the economy withstand the shock, including measures specifically designed to inform a balanced reopening of the economy that also mitigates risks to public health.

**Risks related to Sector Strategies and Policies are also rated substantial.** Related to macroeconomic risk is a substantial risk at the sector level. The Government has so far responded with a comprehensive package of measures to tackle this unprecedented crisis. However, these are unlikely to be sufficient on their own. Depending on the length and depth of the crisis additional measures are likely to be needed. Moreover, a robust package of measures will be needed to support reactivation of the economy to return Colombia as rapidly as possible to a strong growth path once the crisis has passed. The Government is cognizant of the need to design additional measures to support households and firms to weather the crisis and beyond, and subsequent operations of the World Bank currently under discussion will further support this



agenda.

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## APPROVAL

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### Approved By

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