

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

July 15, 2015

Report No.:

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Operation Name	Second Programmatic Sustained Growth and Income Convergence DPL CO
Region	LATIN AMERICA AND CARIBBEAN
Country	Colombia
Sector	General industry and trade sector (34%);Tertiary education (33%);General finance sector (18%);SME Finance (15%)
Operation ID	P154821
Lending Instrument	Development Policy Lending
Borrower(s)	COLOMBIA
Implementing Agency	
Date PID Prepared	July 14, 2015
Estimated Date of Appraisal	
Estimated Date of Board Approval	October 6, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
Other Decision {Optional}	<i>Teams can add more if they wish or delete this row if no other decisions are added</i>

I. Key development issues and rationale for Bank involvement

In recent years, Colombia's strong economic performance has contributed to poverty reduction and shared prosperity. According to Colombia's official poverty line¹ poverty rates decreased significantly in the last decade (from 49.7 to 29.5% between 2002 and 2014). Extreme poverty rates behaved similarly (decreasing from 17.7% in 2002 to 8.1% in 2014). Poverty reduction has been accompanied by progress in shared prosperity, with the income growth of the bottom 40% of the population reaching 6.3% over the period 2008-2014 compared to 4.2% for the total population. Many households in Colombia joined the middle class; many others are no longer poor, but vulnerable to fall back into poverty. These trends are mostly explained by sustained economic growth.

However, the Colombian government is aware of the important structural bottlenecks to sustained economic growth faced by the country and the strategic value of addressing those issues in an unfavorable external environment. For this reason the government has defined a

¹ Which is nearly four times the Bank's benchmark poverty line of US\$1.25 /day.

comprehensive program of policy reforms with implication to growth, income convergence and ultimately shared prosperity in the country.

II. Proposed Objectives

The Second Programmatic Sustained Growth and Income Convergence Development Policy Loan (DPL) continues to support the Colombian government's efforts to sustain economic growth and increase productivity. This DPL for US\$700 million is the last in a series of two single tranche operations supporting a program of structural reforms to promote long-term growth. The first DPL for US\$ 700 million was approved by the Executive Board of Directors on December 12, 2014.

The program development objective is to (i) improve the access to financial markets for road infrastructure investments and firms, (ii) improve training, build productive skills and improve its allocation and (iii) strengthen regulations that affect innovation and business efficiency, as means to support sustained growth and income convergence.

The supported DPL Series is fully consistent with both the FY12-FY16 Colombia Country Partnership Strategy (CPS), in particular the pillar of inclusive growth with enhanced productivity, and with the government's National Development Plan (2014-2018), in its strategic area of infrastructure and competitiveness and the pillar of education.

III. Preliminary Description

Despite solid fundamentals, Colombia's economy still faces various challenges to achieve sustainable, inclusive, and higher potential growth. During most of the 2000's, Colombia benefited from growing external demand, high commodity prices, and abundant FDI. These "tailwinds" have started to stall and -progressively- economic growth is likely to be driven by structural factors. Additional growth dividends from macro stability reforms are limited. However, the country faces considerable challenges to boost and sustain growth: (i) access to finance for firms and infrastructure investment is low and narrow compared to regional peers, limiting effective capital accumulation, and infrastructure provision; (ii) lack of adequate education and professional skills and skill matching mechanisms contribute to low levels of labor productivity, and weak labor market outcomes; (iii) the country lacks a coherent and integrated innovation financing system that will encourage productivity gains and sophistication of firms over time; and (iv) regulations and procedures increase business costs, limiting trade activities.

The Programmatic Sustained Growth and Income Convergence Development Policy Series contributes to Colombia's growth and convergence agenda by supporting the implementation of policy reforms in three main areas: (Pillar 1) fostering solutions to develop infrastructure financing and increasing access to finance for firms; (Pillar 2) improving the quality and allocation of productive skills; and (Pillar 3) increasing productivity by promoting innovation and an efficient regulatory environment.

Preliminary Prior actions Under DPL2
Pillar 1: Fostering solutions to develop infrastructure financing and increasing access to finance for firms
Prior Action 1: The GoC has provided incentives to credit institutions and other institutional investors to obtain

<p>funding to invest in projects under the 4G Program (Decree No. 1385, June 22, 2015; and Resolution No.4, April 24, 2015).</p>
<p>Prior Action 2: To improve firm’s access to credit, the GoC has: (i) further strengthened the collateral registry by reducing the time for the execution of guarantees and electronically linking the system with the vehicle registry (Decree, 2015 – expected July 2015); and created the Central Register of Electronic Invoices (Article 9 of the NPD 2014-2018) as a first step to promote factoring.</p>
<p>Prior Action 3: The GoC, through the SFC, issued complementary guidelines to Decrees 1242/1243: (i) establishing the new governing rules for the management of mutual funds (Fondos de Inversion Colectiva; and (ii) advising on the required adjustments of the internal policies, procedures and operating systems for the activity of custody of securities (Circular Externa 015 de 2014; Circular 026, September 15 2014 – SFC; Circular 031, November 21 2014; Circular Externa No. 005 de 2015).</p>
<p>Pillar 2: Improving the quality and allocation of productive skills</p>
<p>Prior Action 4: The GoC has strengthen the PES system by defining the institutional arrangements, responsibilities and information requirements for the implementation of the PES management and job placement tools. (Resolution 1397 of April 27, 2015, Resolution 129 of March 4, 2015) (Resolution 3418 of 14 August 2014) (Resolution 2605 June 25, 2014)</p>
<p>Prior Action 5: The GoC has improve the development of professional skills by creating the national framework of professional qualifications and competences, a system of transfers and credits connecting the different branches of tertiary education, and defining the Ministry of Education as responsible for implementing this systems. (Article 58 PND Law, May 2015).</p>
<p>Prior Action 6: The GoC has created a special regime for Indigenous Territories, including an indigenous educational system, and in particular a system of tertiary education for Indigenous Communities. (Decree 1953, of October 7, 2014)</p>
<p>Pillar 3: Promoting innovation and improving business regulation</p>
<p>Prior Action 7: The GoC has define criteria for formulation, selection and approval of innovation projects financed with royalty’s resources. In addition, the GoC has created an information platform to monitor royalties financed projects (MAPAREGALIAS). (Article 07, NDP Law, May 2015; and Agreements 0023, June 26, 2014 and Agreement 0027, 2015 from DNP).</p>
<p>Prior Action 8: The GoC has strengthen the system of tax benefits for innovation by defining the specific eligible expenses that could be granted fiscal benefits, including firm’s led innovation. (CONPES XX, July 2015).</p>
<p>Prior Action 9: The GoC unified the System of Competitiveness and Innovation with the System for Science Technology and Innovation at national and regional level as means to, improve the coordination and allocation of resources for productive development (Article 186, PND Law, May 2015).</p>
<p>Prior Action 10: The GoC has established a procedure for the drafting of regulations, in line with OECD best practices, which ensures legal coherence, avoids unnecessary regulations, and ensure sound and effective consultations (CONPES XXX, expected July, 2015).</p>
<p>Prior Action 11: The GoC facilitated international trade by: i) regulating Authorized Economic Operators, eligible to streamlined broader procedures; and ii) implementing an integrated transit of goods (TIM) with Ecuador. (Decree XXX, July 2015; Circular 22/DIAN, May, 2015)</p>

IV. Poverty and Social Impacts and Environment Aspects

The Government policies supported by this Second DPL are expected to have a positive poverty and social impact. The Poverty and Social Impact Assessment has been carried out, documenting these expected impacts from a social, gender and distributional perspective. In particular, in the Pillar 1, the policies that strengthen infrastructure financing and increase access to credit for firms are expected to have positive effects on employment (and formalization), to reduce transport and logistic costs, and to increase the engagement in entrepreneurial activities of the poor, and therefore contributing to the growth of the incomes of those in the bottom 40 percent of the income distribution. With respect to Pillar 2, the strengthening of the system for matching workers and vacancies is expected to increase the employability of the bottom 40 percent, as

these groups rely more on their own informal networks to find employment. In addition, strengthening the professional training system targeted to the unemployed is expected to increase the probability of employment for the poorest. Moreover, the creation of a special regime for Indigenous Territories that transfers resources for human capital formation for indigenous communities could increase access to general education and productive skills of these populations, while preserving cultural traces and norms. Within the Pillar 3, a better allocation of resources to fit regional priorities and a better information platform to monitor royalties financing are expected to impact the efficiency of spending of limited public resources. A proper implementation of incentives for research and development may potentially enhance growth, but the direct effects on poverty and inequality reduction are ambiguous. Finally, trade facilitation has positive indirect effects on poverty and shared prosperity, and may contribute to economic growth.

On the other hand, none of the policies supported by the proposed DPL are expected to have significant effects on Colombia's environment, forests and other natural resources. In some cases, however, indirect effects could potentially arise. Nevertheless, Colombia has a fairly robust environmental policy framework that is expected to be effective at mitigating possible adverse impacts of investment growth supported by the DPL.

V. Tentative financing

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development Borrower/Recipient IBRD	700
Others (specify)	
	Total

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