

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

March 3, 2014  
Report No.: AB7524

<b>Operation Name</b>	Second Programmatic Productive & Sustainable Cities Development Policy Loan
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	Colombia
<b>Sector</b>	Urban Transport (30%);Sub-national government administration (30%);General transportation sector (15%);Rural and Inter-Urban Roads and Highways (15%);Housing finance (10%)
<b>Operation ID</b>	P145766
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	REPUBLIC OF COLOMBIA
<b>Implementing Agency</b>	
	Ministerio de Hacienda y Crédito Publico Carrera 8, No. 6-64 Bogotá Colombia Tel: /Fax: (57-1) 381-5000 malmonac@minhacienda.gov.co
<b>Date PID Prepared</b>	March 3, 2014
<b>Estimated Date of Appraisal</b>	
<b>Estimated Date of Board Approval</b>	November 10, 2014
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

**I. Key development issues and rationale for Bank involvement**

As one of the strong performers of the LAC region, Colombia is a sophisticated client with whom the Bank has maintained a strategic partnership for many years, advancing and consolidating reforms that tackle challenging development issues both in urban and rural areas. This operation, the second of a series of two programmatic DPLs,<sup>1</sup> will be of extreme relevance to continue supporting the strengthening of the Government of Colombia's (GoC) policy framework on productive, sustainable and inclusive cities.

The proposed operation builds upon the reforms undertaken by the GoC and supported under the first Productive and Sustainable Cities DPL; as such, it is structured around the same four policy areas and medium term objectives. The objective of the program is to support the strengthening of the Government of Colombia's policy framework on productive, sustainable and inclusive cities.

<sup>1</sup> The first loan (P130972) for US\$150 million was approved in November 2012 and was fully disbursed in December 2012.

The Proposed Objective is linked to the GoC's priority of harnessing the benefits from urbanization, while guaranteeing that cities are the engines of productive, sustainable and inclusive economic growth. Specifically, under the first policy area (Sustainable and Inclusive Cities), the proposed operation aims to introduce a policy framework to strengthen urban and metropolitan management, address the externalities created by increased motorization and improve urban transport service provision, and mitigate vulnerability to natural disasters for the urban poor. Under the second policy area (Access to Affordable Housing,) the objective is to ensure access to affordable and secure housing for low-income households (those earning between 1 and 2 minimum monthly wages) by leveraging a combination of household savings and upfront subsidies with interest rate buy-down. This reform reflects the GoC's priority of developing differentiated schemes of housing provision depending on the target market, and aligned to market forces. The third policy area of this operation (Institutional Strengthening and Regional Coordination) aims to increase intra-jurisdictional coordination in planning and investment between municipalities and across levels of Government. Finally, under the fourth policy area (Urban Connectivity and Regional Infrastructure Finance), the reforms are expected to increase the economic efficiency of the urban system by improving connectivity between Colombian cities and external markets, and strengthen the framework for structuring transport infrastructure PPPs.

## **II. Proposed Objective(s)**

The objective of the proposed operation is to support the strengthening of the Government of Colombia's policy framework on productive, sustainable and inclusive cities. In line with priorities set by the Government, this Second Programmatic Productive and Sustainable Cities Development Policy Loan would support the implementation of reforms in four key areas: (a) sustainable and inclusive cities; (b) access to affordable housing; (c) institutional strengthening and regional coordination; and (d) connectivity across urban system and regional infrastructure financing.

### III. Preliminary Description

Specifically, the program will support policy and regulatory reforms that aim to: (a) introduce a policy framework to strengthen urban and metropolitan management, address the externalities created by increased motorization and improve urban transport service provision, and mitigate vulnerability to natural disasters for the urban poor (Policy Area 1); (b) promote the provision of affordable and safe low-income housing solutions (Policy Area 2); (c) strengthen the ability of subnational entities to coordinate and finance the structuring and implementation of regional and metropolitan development initiatives (Policy Area 3); and (d) improve the productivity of the system of cities through improved connectivity within the network of cities and between cities and ports to external markets (Policy Area 4). The program’s objective directly contributes to poverty reduction and shared prosperity agendas, insofar as the proposed policies enable more equitable access to economic and social opportunities for urban citizens, allowing the benefits of urbanization and growth to be shared more widely. The operation and proposed reforms build on a broader programmatic engagement that includes knowledge, convening, and financial services, all in support of sustainable, productive and inclusive cities in Colombia (Refer to Annex 4 – Sustainable & Productive Programmatic Knowledge Service).

The proposed operation is the second of a series of two programmatic DPLs, The US\$400 million DPL will disbursed once the operation goes into effect and is contingent upon the Government’s completion of prior policy actions.

Following good practice principles on conditionality, the operation’s policy matrix will use a limited number of prior actions that have been chosen according to their importance in achieving results and in close cooperation with the client. These actions are part of a comprehensive reform plan with a solid track record of implementation. The policy areas supported by this DPL and respective strategies and prior actions are described in the in more detail in the table below:

Objectives	Prior Actions for Loan Disbursement
<b>Policy Area 1: Sustainable and Inclusive Cities</b>	
<p><b>Objective</b> Establish a multi-sector policy framework that aims to increase the productivity, sustainability and inclusiveness of Colombia’s system of cities.</p>	<p><b>Prior Action 1.</b> <b>Prior Action 1_</b>The Borrower, through National Economic and Social Policy Council (CONPES), has approved a multi-sector policy framework based on the ‘system of cities’ approach, as evidenced by the Borrower’s CONPES document No. [xx] of [xx], 2014 [To be Approved]:</p>
<p><b>Objective</b> Facilitate improved access to basic services for low income households across Colombian cities.</p>	<p><b>Prior Action 2:</b> The Borrower, through MT, has issued a regulation for cities to adopt congestion or environmental charging schemes, as evidenced by the Borrower’s Ministerial Decree No. 2883 of December 11, 2013, duly published in the Borrower’s Official Gazette on December 11, 2013.</p> <p><b>Prior Action 3:</b> The Borrower, through MT, has set up a national technical standard for Electronic Vehicular Identification Systems (REV projects, or <i>Proyectos de Recaudo Electrónico Vehicular</i> for its Spanish acronym), as evidenced by the Borrower’s Decree No. 2846 of December 6, 2013, duly published in the Borrower’s Official Gazette on December 6, 2013.</p>

Objectives	Prior Actions for Loan Disbursement
<p><b>Objective</b> Increase the environmental efficiency of Colombian cities with stronger risk management systems and an improved framework for urban environmental management, urban redevelopment and the creation of public space.</p>	<p><b>Prior Action 4:</b> The Borrower, through MVCT, has issued [TDB: Decree or Resolution] that mandates municipalities to use a standardized methodology to collect information for the development of a National Inventory of Settlements in High Risk Areas (NISHRA), as evidenced by [xx] [To be Approved]:</p>
<p><b>Policy Area 2: Access to Affordable Housing</b></p>	
<p><b>Objective</b> Increase access to affordable housing for low-income households.</p>	<p><b>Prior Action 5:</b> The Borrower, through CONPES, has increased support for affordable and secure housing for the urban poor as evidenced by the approval of the affordable housing with <i>voluntary savings Program (Programa de Vivienda de Interes Prioritario para Ahorradores – VIPA)</i>, as evidenced by the Borrower’s CONPES Document No. 3746 of May 20, 2013</p>
<p><b>Policy Area 3: Institutional Strengthening and Regional Coordination</b></p>	
<p><b>Objective</b> Increase inter-urban and regional coordination on strategic development initiatives through the approval of fiscal incentives and coordination instruments.</p>	<p><b>Prior Action 6:</b> The Borrower has strengthened the legal framework for coordination of metropolitan areas as evidenced by the Borrower’s update of the Metropolitan Areas Law No. 1625 of April 2013, duly published in the Borrower’s Official Gazette on April 29, 2013:</p>
<p><b>Policy Area 4: Urban Connectivity and Regional Infrastructure Finance</b></p>	
<p><b>Objective</b> Increase the economic efficiency of urban system by improving logistics-based connectivity between Colombian cities and between Colombian cities and external markets.</p>	<p><b>Prior Action 8:</b> The Borrower has improved the planning and regulatory capabilities in the transport sector with the creation of the Transport Planning Unit and the Transport Regulatory Commission as evidenced by the Borrower’s Law No. 1682 of November 27, 2013, duly published in the Borrower’s Official Gazette on November 27, 2013.</p> <p><b>Prior Action 8:</b> The Borrower, through CONPES, has approved the policy for Colombia’s Fourth Generation of Road Concessions, as evidenced by the Borrower’s CONPES document No. 3760 of August 20, 2013:</p>

#### IV. Poverty and Social Impacts and Environment Aspects

##### Poverty and Social Impacts

The proposed program is expected to have overall positive poverty and social impacts. The team will review the expected effects of each prior action, with particular focus on those that could adversely affect the poor. Initial expected results are detailed in the section below:

- **Prior Action 1— ‘System of Cities’ CONPES Document:** Strengthening the efficiency and sustainability of cities is likely to benefit all citizens, including the urban poor. At the very least, it is unlikely to have negative impacts. The team will carry out a literature review to better understand potential impacts.

- **Prior Action 2— Congestion Charging Decree— & Prior Action 3—Vehicular Identification Decree:** To ensure that the congestion tax is not regressive, the share of the population likely affected by the congestion (those that own cars who live outside and work inside central business districts) should be primarily of higher income. During preparation, the team will analyze the population affected by the policy by income decile (in absolute and relative terms) and by poverty status. Since the user charges will lead to additional funds for public transit, the share of the population who use public transit will likely benefit from improved public transit provision. As the poor are usually more likely than the rich to be public transit users, and the rich are more likely than the poor to own vehicles, the team expects that the results will indicate that the poor will be net beneficiaries. To perform these calculations the team will rely on household survey data (with vehicle ownership), and income information. Additionally, data permitting, the team can estimate the environmental impact of the congestion tax based on the average carbon emission for kilometer traveled per person in either private or public vehicles.
- **Prior Action 4— Municipal adherence to standardized methodology for identifying municipal inventory of at-risk human settlements.** There exists extensive evidence that those living in at-risk areas are more likely to be poor. During preparation, the team will analyze household survey or census data and geo-referenced rainfall data to determine if this is the case. In this case, a municipal inventory of at risk human settlements that can help to better understand risk in order to plan and invest accordingly is expected to positively affect the poor disproportionately.
- **Prior Action 5— Affordable Housing with voluntary savings Program CONPES:** Quality housing involves not only shelter, but access to water, sanitation, and hopefully proximity to other public services. Additionally, it represents an important financial asset. As such, this policy action is expected to benefit the poor directly both in the short and long-term. During preparation, the team will review the effectiveness of this program, for example through simulation to determine the impact of different options of targeting mechanisms on monetary poverty, multi-dimensional poverty, and the Human Opportunity Index. To do so, the team will rely on household survey data. Furthermore, data permitting, the team can also study the impact of the program on health through an analysis of child mortality rates. These studies will show both potential short and long-term benefits of the program.
- **Prior Action 6— Metropolitan Areas Law:** With increased urbanization, it is crucial to establish coordination and information sharing across jurisdictions and administrative boundaries to ensure that resources are managed effectively and service delivery is both adequate and efficient.<sup>2</sup> Because the poor are usually the most effected by lack of coverage or low quality service delivery<sup>3</sup>, ensuring that there is coordination mechanisms in place in urban areas will likely benefit them. To analyze this policy action, the team will perform a literature review.
- **Prior Action 7— Infrastructure Law—& Prior Action 8—4G CONPES:** Based on the analysis performed by the 4G CONPES<sup>4</sup>, the team will estimate job creation, travel time savings, and vehicle operating costs for various income groups to determine the effect of

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<sup>2</sup> See World Bank, 2013, “Planning, Connecting, and Financing Cities—Now”; and see ed. R. W. Bahl, J. F. Linn, and D. L. Wetzel, 2013, *Financing Metropolitan Governments in Developing Countries*, the Lincoln Institute of Land Policy.

<sup>3</sup> Indeed, this is part of the definition of poverty in the multi-dimensional sense.

<sup>4</sup> See CONPES 3760

increased transport infrastructure on the poor and vulnerable. In addition to job creation through access to a wider geographical area in which to work, the team will also model the types of people likely to be employed in the ~180,000 new construction jobs to determine the direct employment effect of infrastructure projects on the poor and vulnerable. Moreover, the team will also try to simulate the effect of food prices in different regions based on a pure-pass through (or % discount) of the travel/operation savings for roads connected to this region. To do so, data on the origin and destination of goods and food sales (or consumption) by region will be used. Another, more general, regional analysis could be to analyze the effect on regional convergence applying the economic growth expected for connecting previously isolated areas. This would involve macro data at the regional level and the road network and proposed roads.<sup>5</sup>

## Environment Aspects

**Net positive environmental impacts are expected as a result of the implementation of the prior actions supported by this DPL.** The proposed operation includes innovative measures to address the negative externalities produced by increased motorization and congestion (both climate changes considerations and local pollutants); natural disasters and land degradation, as well as to strengthen the overall environmental management and protection framework.

**Environmental planning is a key pillar of the new ‘System of Cities’ framework in Colombia, (Prior Action 1).** Under the sustainability thematic area, the *Misión* has aimed to identify the key ecological structure of the ‘System of Cities’ as a basis for the definition of the policies required to increase environmental sustainability and mitigate climate change and disaster risk management.<sup>6</sup> Specifically the *Misión* suggests the formulation of National Water, Sanitation and Waste Management Master Plans to guide policy and investment decision-making, and to adopt norms on disaster risk management at agglomeration level to guide municipal Land-Use Plans.

**The Borrower’s Congestion Charging Decree (Prior Action 2) is transformational in that it allows Colombian cities to manage the negative externalities generated by higher levels of motorization through the implementation of pricing schemes to curb automobile use and put transport at the core of the low carbon development agenda.** This innovative and transformational policy discourages the use of private vehicles which will result in reduced congestion and enhanced urban mobility, leading to a reduction in GHG emissions and local pollutants from vehicle sources and reduced level of noise and acoustic contamination. Moreover, all resources collected from these pricing schemes will be earmarked to invest in improving public transit systems (its infrastructure and operation), and non-motorized modes of transit (walking and cycling). As, previously mentioned, this initiative will be complemented by the reforms brought by the Vehicular Identification Decree (Prior Action 3), which allows for the implementation through the use of technological applications, of amongst others, congestion charging schemes and electronic toll charges. As previous experience with charging schemes has indicated (London, Singapore, Stockholm), enhanced institutional capacity emerges as a

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<sup>5</sup> The network data used in CONPES 3760

<sup>6</sup> *Documento Técnico de Soporte*, p. 89.

challenge for the planning and implementation of these schemes, so the national and local government may have to devise strategies to strengthen such capacity.<sup>7</sup>

**With the Affordable Housing with Voluntary Savings Program CONPES (Prior Action 5) the GoC is moving ahead with a comprehensive reform to the housing sector with numerous potential environmental benefits.** The program targets the extreme poor who, without access to the program, are likely to locate in informal urban settlements with limited access to basic urban services. As such, the program has the potential to mitigate the growth of environmentally precarious urban settlements. Additionally, the policy will likely: (i) improve environmental and public health; (ii) enhance the well-being and quality of life of poor residents; and (iii) reduce water related diseases.

**Under the new Metropolitan Areas Law (Prior Action 6) metropolitan areas have increased responsibility on environmental regulation, which can be institutionally challenging.** This policy sets out that metropolitan areas should (i) have the powers and act as environmental authorities and (ii) support their respective municipalities with the works related to emergency or calamity situations.<sup>8</sup> In particular, further revamping of capacity will be necessary for metropolitan areas with less than one million inhabitants – these new entities will have to coordinate their work as environmental authorities with the Regional Autonomous Corporations (*Corporaciones Autónomas Regionales CAR*), which will require important political and institutional efforts involving adjustments of internal procedures and regulations, and management of natural resources (issuance of licenses and permits).

**The new Infrastructure Law (Prior Action 7) recognizes the importance of harmonizing and standardizing the environmental requirements in transport projects.** The law establishes new standardized procedures to expedite the environmental licensing process, while ensuring that environmental guidelines be observed throughout the project cycle and safeguarding the consultation process with communities. In particular, it calls for the formulation of a standard Terms of Reference for environmental management in transport projects (both highways and urban transport) to guarantee that a consistent environmental management framework is applied.<sup>9</sup> Additionally, the Law requires that all transport projects take into account technical measures to reduce the vulnerability of transport infrastructure to climate change. It is unclear whether the agencies responsible for implementing the proposed changes (*Autoridad Nacional de Licencias Ambientales* for road projects, and environmental authority at the subnational level) have the institutional capacity to do so, hence revamping of capabilities and institutional strengthening are key to materialize these changes.

**The Fourth Generation of Concessions CONPES (Prior Action 8) will bring positive environmental impacts associated with reductions in GHG emissions, due to more efficient connectivity, reduced travel times and improved vehicle performance.**<sup>10</sup> In addition, the 4G

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<sup>7</sup> Knowledge exchanges, such as the ones carried out with the Government of Singapore, Transport for London, and the US's Department of Transport are important strategies to bridge these institutional gaps.

<sup>8</sup> Law 1525 from 2013, Article 7.

<sup>9</sup> With respect to urban transport projects, the Bank has noted to government authorities drafting the Ministerial Decrees regulating the Infrastructure Law, that the Environmental Management Framework (*Lineamientos Ambientales para el Desarrollo, Implementación, y Seguimiento de Planes de Manejo Ambiental de Obras del Proyecto de Transporte Urbano en Colombia*) used for more than a decade in urban transport projects financed by the Bank, could be used as template framework for urban roads.

<sup>10</sup> The GoC estimates positive environmental impacts of COP15 billion of CO<sub>2</sub>e tons.

CONPES sets guidelines for the allocation of environmental risks (particularly the responsibility for obtaining and managing environmental licenses) in the new pipeline of road concessions. The clear allocation of these risks, as well as having them included in bidding documents and contracts is another positive aspect of the new policy document as it ensures the mitigation of environmental impacts not foreseen during the conceptual and design phase of the projects.

## V. Tentative financing

Source:		(\$m.)
Borrower		0
International Bank for Reconstruction and Development		400
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	400

## VI. Contact point

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