PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

# COLOMBIA

# SUBNATIONAL PUBLIC INVESTMENT STRENGTHENING PROGRAM (CO-L1299)

# FOURTH INDIVIDUAL OPERATION FOR THE FINANCING OF THE "FISCAL AND PUBLIC INVESTMENT EXPENDITURE STRENGTHENING PROGRAM FOR SUBNATIONAL ENTITIES" UNDER THE MULTISECTOR CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CO-X1018)

## LOAN PROPOSAL AND CCLIP EXTENSION PROPOSAL (CO-X1018)

This document was prepared by the project team consisting of: Carlos Salazar Echavarría, Project Team Leader; Jason Hobbs, Alternate Project Team Leader (CSD/HUD); Alexandra Planas (INE/ENE), Alternate Project Team Leader; Juan Martínez (IFD/CMF); Manuel José Navarrete (INE/WSA); José Manuel Sandoval; Margarita Jiménez (CSD/CCS); Juanita Bernal (SCL/GDI); Patricio Crausaz; Vianca Tatiana Merchán; Carolina Escudero (VPC/FMP); Javier Jiménez (LEG/SGO); Stephanie Valle; María Cóvolo (VPS/ESG); Mónica Rojas; Daniela Pérez (CAN/CCO); Ana Rosa Echeverri (DSP/CCO); Silvia Pérez; Gabriel de Barros; Dianela Ávila; Catalina Romano; and Natalia López (CSD/HUD).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

## CONTENTS

| Annexes | |
|---|---|
| Annex I | Development Effectiveness Matrix (DEM) – Summary |
| Annex II | Results Matrix |
| Annex III | Fiduciary Agreements and Requirements |

**Links**

**Required**

1. Project execution plan
2. Monitoring and evaluation plan
3. Environmental and social review summary

**Optional**

1. Economic analysis
2. Climate change and sustainability
3. Program Credit Regulations
4. Theory of change
5. Territorial information
6. Technical analysis of needs and demand estimate
7. Testing-based readiness assessment
8. Verification of eligibility criteria
9. Compliance with the Public Utilities Policy
10. Strategic and institutional alignment
11. Gender and diversity considerations
12. A just energy transition in Colombia
13. Sources consulted
14. Preinvestment and Investment Fund

## ABBREVIATIONS

| | |
|---|---|
| CCLIP | Conditional credit line for investment projects |
| Col$ | Colombian pesos |
| CONPES | Consejo Nacional de Política Económica y Social (National Economic and Social Policy Council) |
| DAF | Dirección General de Apoyo Fiscal (Fiscal Support Directorate) |
| DANE | Departamento Administrativo Nacional de Estadistica (National Administrative Department of Statistics) |
| DNP | Departamento Nacional de Planeación (National Planning Department) |
| Findeter | Financiera de Desarrollo Territorial S.A. |
| FUT | Formulario único de trámites (single processing form) |
| HUD | Housing and Urban Development Division |
| ICAP | Institutional Capacity Assessment Platform |
| KfW | Kreditanstalt für Wiederaufbau |
| MDB | Multilateral development bank |
| OECD | Organisation for Economic Co-operation and Development |
| SARAS | Sistema de Análisis de Riesgos Ambientales y Sociales (Environmental and Social Risk Analysis System) |
| SGP | Sistema General de Participaciones (General Revenue Share-Out System) |
| SGR | Sistema General de Regalías (General Royalties System) |
| SIN | Sistema Interconectado Nacional (National Interconnected System) |
| TRM | Tasa Representativa del Mercado (Representative Market Rate) |

**PROJECT SUMMARY**

**COLOMBIA**

**SUBNATIONAL PUBLIC INVESTMENT STRENGTHENING PROGRAM**
**(CO-L1299)**

**FOURTH INDIVIDUAL OPERATION FOR THE FINANCING OF THE "FISCAL AND PUBLIC INVESTMENT EXPENDITURE STRENGTHENING PROGRAM FOR SUBNATIONAL ENTITIES" UNDER THE MULTISECTOR CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS**
**(CO-X1018)**

**LOAN PROPOSAL AND CCLIP EXTENSION PROPOSAL**

<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><th colspan="3">Borrower</th><th colspan="2">Flexible Financing Facility[(a)]</th></tr>
<tr><td colspan="3">Financiera de Desarrollo Territorial S.A (Findeter)</td><td>Amortization period:</td><td>25 years</td></tr>
<tr><td colspan="3">Guarantor</td><td>Disbursement period:</td><td>5 years</td></tr>
<tr><td colspan="3">Republic of Colombia</td><td>Grace period:</td><td>5.5 years[(b)]</td></tr>
<tr><td colspan="3">Executing agency</td><td>Interest rate:</td><td>SOFR-based</td></tr>
<tr><td colspan="3">Findeter</td><td>Credit fee:</td><td>[(c)]</td></tr>
<tr><td>Source</td><td>Amount (US$)</td><td>%</td><td>Inspection and supervision fee:</td><td>[(c)]</td></tr>
<tr><td>IDB (Ordinary Capital):</td><td>200 million</td><td>96.6%</td><td>Weighted average life:</td><td>15.25 years</td></tr>
<tr><td>Local:</td><td>7 million</td><td>3.4%</td><td rowspan="2">Currency of approval:</td><td rowspan="2">U.S. dollars drawn from the Ordinary capital</td></tr>
<tr><td>Total:</td><td>207 million</td><td>100%</td></tr>
<tr><th colspan="5">Project at a Glance</th></tr>
<tr><td colspan="5">The general objective of the multisector CCLIP is to cooperate with Findeter on fiscal and public investment expenditure strengthening in beneficiary entities.<br>The general objective of the fourth operation is to increase public investment in infrastructure for the provision of public goods and services and facilities in the subnational entities of Colombia. The specific objectives are: (i) to increase financing for the urban and regional development of subnational entities by providing financial support for the national development banks; and (ii) to build the capacity of the municipios to access finance for urban and regional development by supporting and improving the national development banks (paragraph 1.45).</td></tr>
<tr><td colspan="5">Modification of the term of the CCLIP: Pursuant to the borrower's request of 13 June 2023, the term of the CLIP is extended until 25 July 2025 (paragraph 2.6).</td></tr>
<tr><td colspan="5">Special contractual conditions precedent to the first disbursement of the financing: (a) The borrower has approved the Program Credit Regulations, which must include the environmental and social requirements for the program; and (b) as part of the program execution structure, an environmental specialist and a social specialist have been contracted/appointed to be responsible for the program's socioenvironmental management (paragraph 3.5). These conditions are necessary to establish the guidelines, structure, handbooks, and procedures to be followed by the executing agency for successful execution of the components (paragraphs 1.51 to 1.55). For other conditions precedent, see the environmental and social review summary (Annex B: Contractual conditions) (required link 3) and Annex III, Fiduciary Agreements and Requirements.</td></tr>
<tr><td colspan="5">Exceptions to Bank policies: Like the previous individual operations financed under the CCLIP, this operation will make use of the partial exceptions to Operational Policy OP-303, Guarantees Required from the Borrower, as approved by the Board of Executive Directors, such that, in the guarantee contract to be signed with the Bank, the Republic of Colombia guarantees only the payment obligations (see paragraph 3.6).</td></tr>
</table>

<table>
<tr><th colspan="8">Strategic Alignment</th></tr>
<tr><td>Objectives:[d]</td><td colspan="2">O1 ☒</td><td colspan="2">O2 ☒</td><td colspan="3">O3 ☐</td></tr>
<tr><td>Operational focus areas:[e]</td><td>OF1 ☒</td><td>OF2-GE ☒<br>OF2-DI ☐</td><td>OF3 ☒</td><td>OF4 ☐</td><td>OF5 ☐</td><td>OF6 ☒</td><td>OF7 ☐</td></tr>
</table>

(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 inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

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

(e) 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); and OF7 (Regional integration).

# I. Description and Results Monitoring

## A. Background, problem to be addressed, and rationale

1.1 **The country's economic context.** Colombia has shown notable macroeconomic strength in recent decades, characterized by stability and a robust institutional framework. The Colombian economy recorded growth through 2019, even during years of world economic contraction like 2009 and 2017. Colombia's GDP was on a steady growth trend until the first quarter of 2020, positioning the country as a stable and relatively strong economy. Yet economic activity has been slowing since 2023. On top of that, lower tax revenue intake in 2024 has restricted fiscal leeway. The government projects a fiscal deficit of 5.6% of GDP and a primary deficit and 0.9% of GDP in 2024. This lower revenue has forced spending cuts of 1.1% of GDP, to ensure compliance with the fiscal rule. These restrictions have also elevated financing needs, which are estimated at 8.5% of GDP for 2024. In these circumstances, ensuring the delivery of basic services and quality infrastructure—for which the country's subnational entities[1] are mainly responsible—has become particularly important, especially in regions with lower coverage and higher vulnerability, where access to competitive financing can guarantee continuity in service delivery in an environment of limited fiscal resources.

1.2 **Background.** Between 1950 and 2018 Colombia experienced rapid urban growth, with the urban population swelling from 38.3% to 75.5% of the total.[2] This occurred without proper planning,[3] and as a result the subnational entities (optional link 5) have deficits of public space[4] and housing,[5] difficulties for the final disposal of waste,[6] greater traffic congestion,[7] and increased greenhouse gas emissions and noise. Shortcomings in infrastructure, especially in terms of connectivity, have restricted subnational urban and economic development and competitiveness. According to the World Competitiveness Yearbook (2023), Colombia ranked 58th out of 64 economies. On the variables of connectivity, energy infrastructure, and access to water, it ranked 43rd, 53rd, and 58th, respectively.

---

1 Decentralized political units composed of 32 departments and 1,103 municipios. Depending on the size of the population, the level of current discretionary (unearmarked) income, and the percentage of those funds allocated for operating expenditures, they are divided into seven categories ("Special" and 1 through 4 for departments and 1 through 6 for municipios) (optional link 5).

2 OECD (2022), National Urban Policy Review of Colombia.

3 In 2021, 80% of the country's municipios and 85% of its departments did not have up-to-date land use plans, CONPES document 4007 of 2020.

4 Only Popayán, Santa Marta, and Soacha meet the national standard (CONPES document 3718 of 2012), and the fact that they do is attributable to their proximity to environmental reserves, rather than to successful urban planning. Cities such as Barranquilla, Cali, Ibagué, and Pereira have 4.3m$^2$ of public space per capita (National Planning Department [DNP], 2017).

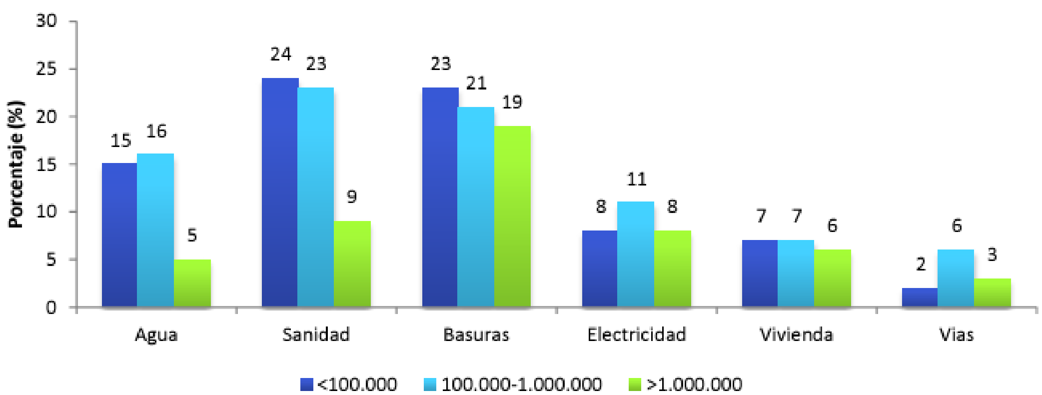
5 National deficit (2021): quantitative: 7.5%; qualitative: 23.5%. The departments with the largest deficits are Vichada (94.5%), San Andrés (90.9%), and Guainía (90.8%), while Bogotá (10.5%) and Risaralda (14.5%) have the smallest ones.

6 A full 90% of all waste is disposed of in sanitary landfills, 7% in open dumps, and 3% in contingency or temporary cells.

7 In Bogotá, nearly 7 million hours per year are spent in moving from one location to another (the average time spent in public transport in Colombia is 20 days/year) (DNP).

1.3 The insufficient public infrastructure[8] has thwarted efforts to expand and upgrade public utilities and other services,[9] adversely impacting the population's quality of life and local development, especially in the case of population groups that have historically suffered from inequalities, such as women, persons with disabilities, minority ethnic groups, and members of the LGBTIQ+ community. Consequently, priority needs to be placed on investments in expanding service coverage and modernizing the associated infrastructure. The estimated gaps thru 2035 calculated by the Cities System Mission indicate that water connections will need to be increased by 15% and 16% for small and medium-sized municipios, respectively, and by 5% for the large municipios. For sewers, the gap is 23% for small and medium-sized municipios, and 9% for large municipios. For waste disposal, the gap is 23% for small municipios and 19% for large municipios. The housing backlog stands at between 6% and 7% for all three groups. The electricity gap is 8% for both small and large municipios, and 11% for medium-sized municipios.

**Figure 1. Infrastructure gap (2035)**




Source: Fedesarrollo, 2014. "Financiación de la infrastructure en municipios del sistema de ciudades. Misión de Ciudades."

1.4 Table 1 shows the service coverage figures for various administrative capital cities, by category. (The cities in the special category[10] account for 30% of the country's population; those in categories 1 and 2 account for around 13%, and those in categories 3, 4, 5, and 6, taken together, account for 1.5%.) The figures indicate that coverage is primarily concentrated in the Andean region, while the coverage rate is low in the Pacífico, Amazonía/Orinoquía, and Guajira regions (Figure 1).

---

8 The fact that Colombia was ranked 66th on the World Economic Forum's 2017 Global Competitiveness Index, but had fallen to 84th place by the time the 2020 Index was published, attests to the persistent challenges that the country faces in terms of the development of its infrastructure (Trade.gov).

9 Article 430 of the Penal Code defines such services as any organized activity that meets needs of a general interest on a regular, ongoing basis and that is governed by a special legal regime and delivered by the State, either directly or indirectly, or by private persons.

10 Bogotá, Barranquilla, Bucaramanga, Cali, Cartagena, and Medellín. Portal Territorial de Colombia, DNP (2021).

Public utility coverage gaps are higher for households led by women,[11] who are also more exposed to violence, have fewer opportunities for autonomy, and must invest more time in gaining access to essential services.[12] Insufficient public utilities infrastructure is also associated with environmental risks in terms of the dumping of waste on land and in bodies of water, the use of energy sources that pollute the environment, and improper solid waste management, all of which can do harm to the health and well-being of surrounding communities. Hence the need to invest in inclusive, effective, and resilient infrastructure in order to make an equitable, sustainable contribution to the growth of the population, the expansion of access to essential public services and utilities,[13] and a better quality of life for the residents of urban areas and surrounding territories[14] (optional link 6).

**Table 1. Percentage and average coverage of public services, utilities, and facilities (capital cities)**

| Municipio/District | Population (DANE) | Category | Water distribution | Sewer | Rural energy | Broadband | Health | Secondary education |
|---|---|---|---|---|---|---|---|---|
| **National** | **52.215.203** | | **64.16** | **44.7** | **78.5** | **6.06** | **81.28** | **46.31** |
| Bogotá, Capital District | 7,873,316 | ESP | 98.5 | 98.5 | 43.05 | 28.83 | 100 | 62.02 |
| Medellín, Special Science, Technology, and Innovation District | 2,572,350 | ESP | 97.78 | 96.75 | 100 | 29.93 | 100 | 56.18 |
| Cali | 2,276,124 | ESP | 73.6 | 66.84 | 88.29 | 21.24 | 100 | 50.11 |
| Barranquilla, Special Industrial and Port District | 1,310,163 | ESP | 72.83 | 70.14 | 100 | 23.52 | 100 | 56.12 |
| Cartagena de Indias, Tourism and Cultural District | 1,043,185 | ESP | 43.04 | 41.09 | 14.74 | 18.84 | 100 | 60.59 |
| Bucaramanga | 610,125 | ESP | 80.44 | 80.25 | 100 | 27.21 | 100 | 58.59 |
| **Average for special-category capital cities** | | | **77.7** | **75.6** | **74.3** | **24.9** | **100** | **57.2** |
| Cúcuta | 798,411 | 1 | 80.4 | 80.4 | 96.35 | 15.9 | 100 | 54.72 |
| Villavicencio | 569,806 | 1 | 51.52 | 53.07 | 83.03 | 20.76 | 98 | 52.31 |
| Valledupar | 549,314 | 1 | 82.88 | 83.03 | 0.03 | 16.87 | 100 | 44.88 |
| Santa Marta, Tourism, Cultural, and Historic District | 548,202 | 1 | 20.69 | 16.95 | 0 | 19.53 | 100 | 50.98 |
| Ibagué | 539,745 | 1 | N/D | N/D | 100 | 28.06 | 100 | 58.41 |
| Montería | 518,608 | 1 | 90.18 | 80.15 | 95.09 | 13.22 | 100 | 52.81 |
| Pereira | 480,739 | 1 | 67.17 | 60.58 | 94.07 | 28.66 | 100 | 61.31 |
| Manizales | 451,812 | 1 | 95.86 | 95.71 | 80.49 | 22.77 | 96.94 | 49.99 |
| Pasto | 408,358 | 1 | 70.13 | 66.85 | 100 | 20.85 | 100 | 62.82 |
| Neiva | 375,660 | 1 | 91.92 | 91.92 | 100 | 25.42 | 87.51 | 49.53 |
| Popayán | 335,826 | 1 | 99.62 | 99.49 | 100 | 20.66 | 92.28 | 60.27 |
| Armenia | 306,147 | 1 | 100 | 98.42 | 100 | 30.35 | 100 | 60.73 |
| Yopal | 187,954 | 1 | 53 | 53.25 | 100 | 18.81 | 100 | 53.77 |

[11] The Multidimensional Poverty Index was 13.2% for households headed by women versus 11.2% for male-headed households.

[12] The greater distances that must be covered in order to obtain water or energy sources, to reach schools, or to obtain healthcare, along with poor lighting, put women at greater risk of sexual violence (IDB, 2020; IDB, 2023).

[13] Including infrastructure for caregiving services or services for dealing with situations involving a high degree of vulnerability, such as in the case of gender-based violence.

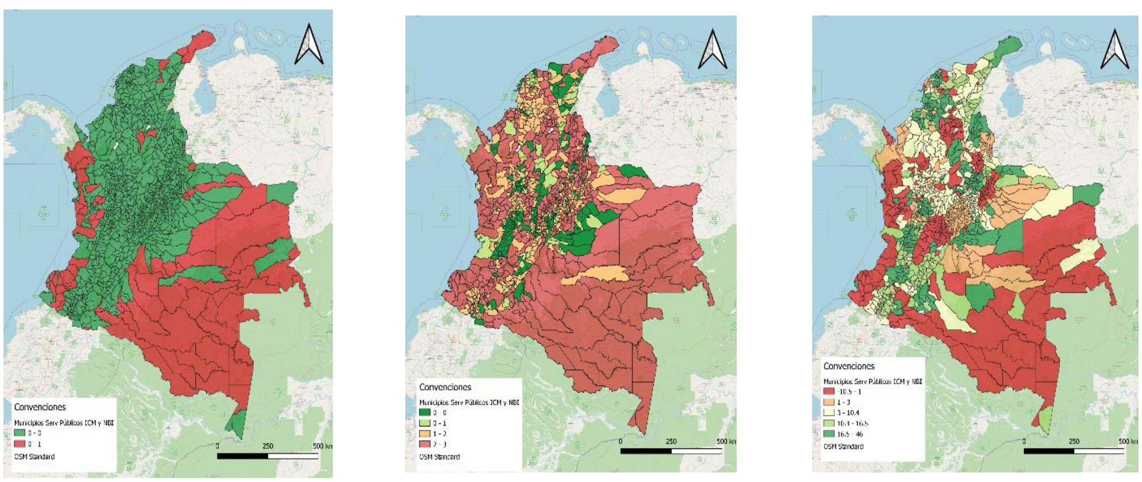
[14] Not only by providing access to infrastructure, but also by opening up employment opportunities and providing scope for more active participation in society under the more secure and equitable conditions that may be created as a result.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Tunja | 183,582 | 1 | 59.7 | 14.09 | 100 | 27.81 | 100 | 57.41 |
| Sincelejo | 306,168 | 2 | 83.61 | 75.61 | 74.86 | 14.52 | 100 | 55.31 |
| Florencia | 176,630 | 2 | 73.68 | 73.68 | 71.57 | 15.28 | 100 | 41.47 |
| **Average for category 1 and 2 capital cities** | | | **74.7** | **69.5** | **80.9** | **21.2** | **98.4** | **54.1** |
| Riohacha | 217,719 | 3 | 82.94 | 81.78 | 54.17 | 13.05 | 100 | 43.03 |
| Quibdó | 139,740 | 3 | 45.54 | 20.38 | 100 | 11.00 | 100 | 45.72 |
| Arauca | 97,771 | 4 | 58.35 | 59.4 | 100 | 10.63 | 100 | 43.95 |
| Leticia | 53,201 | 5 | 38.79 | 38.79 | 70.88 | 1.67 | 100 | 32.93 |
| Mocoa | 62,960 | 6 | 52.02 | 45.91 | 100 | 4.56 | 90.71 | 43.42 |
| San José del Guaviare | 59,555 | 6 | 35.44 | 34.69 | 97.97 | 2.11 | 100 | 37.96 |
| Puerto Inírida | 36,024 | 6 | 25.98 | 14.68 | 68.18 | 2.12 | 100 | 13.82 |
| Mitú | 33,167 | 6 | 100 | 100 | 18.48 | 0.22 | 77.75 | 18.09 |
| Puerto Carreño | 21,868 | 6 | 64.46 | 0 | 42.19 | 4.37 | 100 | 33.99 |
| **Average for category 3, 4, 5, and 6 capital cities** | | | **55.9** | **43.9** | **72.4** | **5.5** | **96.5** | **34.7** |

Source: Prepared by the authors based on "Medición de Desempeño Departamental y Municipal," Spatial Planning System (2022).

**Figure 2. Coverage of public utilities in subnational entities**

**Energy** | **Water and basic sanitation** | **Remaining service life of sanitary landfills**



Source: Prepared by the authors based on municipal finance information from the National Planning Department (DNP).

1.5 The Constitution of 1991 gave rise to a far-reaching political decentralization process in Colombia, whereby responsibility was handed over to the subnational entities for supplying[15] a wide range of public goods, services, utilities, and facilities in order to improve the population's general welfare and quality of life (optional link 5). This process was not, however, coupled with a sufficiently flexible fiscal decentralization process that would have allowed adapting the use of the available investment funds to meet local needs and improve the efficiency of social service delivery.[16]

---

[15] The subnational entities are in charge of supplying public utilities, education, healthcare, sports facilities, cultural assets, and activities in the areas of science, technology, and innovation; road construction and maintenance; and the execution of housing projects (Acts 2200/2022 and 136/1994).

[16] Alesina, A., et al., Decentralization in Colombia, September 2000.

1.6 Under Colombia's legal and regulatory framework, subnational entities have a number of different options in terms of funding sources. On the one hand, they can turn to internal sources, such as their own resources and national transfers from the General Revenue Share-Out System (SGP)[17] and the General Royalties System (SGR);[18] on the other hand, they can draw on external sources such as internal and external public borrowing, public-private partnership financing,[19] international cooperation funds, and grants. The subnational entities' revenues increased 10.9%[20] in 2022, but their ability to generate resources of their own is still quite limited, with 903 municipios (82%) and 20 departments (63%) relying on national transfers for 50% or more of their funding;[21] this source is quite inflexible, however, since 88.4% of those funds are earmarked for specific uses[22] (optional link 5). Meanwhile, a number of policy-related factors and institutional constraints make it difficult for subnational entities to increase their levels of borrowing. In the policy sphere, the decisions of administrative bodies (municipal councils and departmental assemblies) can facilitate or block the approval of borrowing quotas.[23] In addition, subnational entities in categories 3, 4, 5, and 6 often lack the technical capabilities they would need to design projects and complete the necessary procedural steps involved in obtaining credit to finance them.[24]

1.7 Subnational entities' own-resource generation capacity is limited by financial management constraints, as tax revenues are lower than they would be otherwise, owing to such factors as a failure to keep property tax rolls up-to-date, low effective tax collection rates,[25] and shortcomings in the processing of collection and billing functions.[26] Thus, the Program for the Adoption and Implementation of a Rural-Urban Multipurpose Cadaster (4856/OC-CO), which is being carried out by the IDB and the World Bank with the Government of Colombia, complements this conditional credit line for investment projects (CCLIP). Following the conclusion of

---

17 Funds transferred by the central government to the subnational entities in accordance with the Constitution (Articles 356 and 357) to finance services for which they are responsible in the areas of health, education, drinking water, and basic sanitation. Legislative Act 018 of 2024, now before the Congress of the Republic, would amend these articles to introduce an annual increase of 2.26%, so that the SGP reaches 46.5% of the national current revenue by 2035. Currently, this indicator stands at 20%. However, this increase is still intended mainly for current expenditure with little impact on investment. Since infrastructure requires significant, concentrated financing, this increase would be insufficient to cover its needs because the planned additional financing would not be enough for large-scale projects.

18 Revenues from the development of nonrenewable natural resources, which are not part of the general budget or of the transfer system. These funds may be used for preinvestment and investment operations.

19 Sistema de financiamiento municipal urbano de Colombia, Economic Commission for Latin America and the Caribbean.

20 Main sources: national transfers and SGR funds: 47.8%; own resources: 34.5%.

21 Índice de Desempeño Fiscal, 2022.

22 Distribution of 96% of national transfer funds: 58.5% for education; 24.5% for healthcare; 5.4% for drinking water and basic sanitation; 11.6% not earmarked. The remaining 4% corresponds to special allocations.

23 For example, see section 2.1.2 of Aspectos Jurídicos de las Operaciones de Crédito Público.

24 The document cited in footnote 23 maps out the various stages involved in a credit operation, in addition to the activities and outputs required to design projects corresponding to an eligible line of credit.

25 Act 44/1990 authorizes municipal councils to set property tax rates of Col$16/1,000 of assessed value.

26 Bonnet and Ayala (2016) estimate the amount lost as a result of inefficient collections (59.1%) at around Col$12.8 trillion. These foregone funds would have enabled the municipios to double its per capita expenditure of own resources.

the Peace Accord between Colombia and the FARC in 2016, the Government of Colombia began to work on developing a multipurpose property registry as a tool for improving spatial planning and management. Registry agents/operators were appointed to support subnational entities' efforts to update the cadasters using their own resources, SGR funds, or financial support from the central government for poorer or violence-affected areas. Most of the large and medium-sized subnational entities with borrowing capacity have now formalized these registry agents' positions and found ways of funding the work of updating the cadastre using sources that do not involve financing costs, while the smaller towns are awaiting financing from the national government.

**Table 2. Public debt of subnational entities (Col$ millions and percentages)**

| Level and type | 2022 | % GDP | 2023 | % GDP | Nominal change (%) | % of total 2022 | % of total 2023 |
|---|---|---|---|---|---|---|---|
| Departmental governments | 6,110,594 | 0.42 | 7,354,994 | 0.47 | 20 | 23 | 24 |
| Municipal governments (administrative capitals) | 11,154,806 | 0.76 | 12,736,895 | 0.81 | 14 | 42 | 42 |
| Municipal governments (not administrative capitals) | 4,710,119 | 0.32 | 5,313,905 | 0.34 | 13 | 18 | 18 |
| **Domestic debt** | **21,975,519** | **1.50** | **25,405,794** | **1.62** | **16** | **83** | **84** |
| Departmental governments | 344,945 | 0.02 | 230,881 | 0.01 | -33 | 1 | 1 |
| Municipal governments (administrative capitals) | 4,153,617 | 0.28 | 4,449,987 | 0.28 | 7 | 16 | 15 |
| Municipal governments (not administrative capitals) | 0 | 0.00 | 0 | 0.00 | 0 | 0 | 0 |
| **External debt** | **4,498,562** | **0.31** | **4,680,868** | **0.30** | **4** | **17** | **16** |
| **Total debt** | **26,474,082** | **1.81** | **30,086,662** | **1.91** | **14** | **100** | **100** |

Source: Fiscal Support Directorate (DAF), based on information from finance departments and single processing forms (FUT), 2024 (optional link 6).

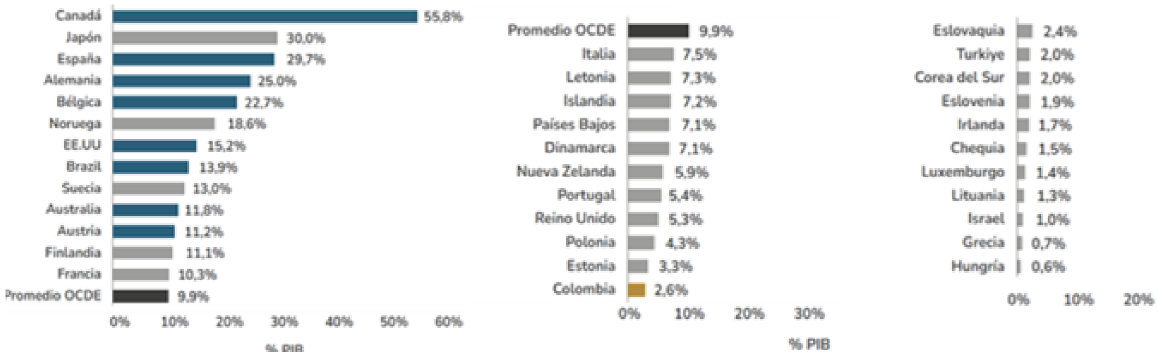
1.8 Subnational entities' access to public debt is highly concentrated. In 2022, 69% of all borrowing was accounted for by Bogotá, Barranquilla, Medellín, and the Department of Antioquia (three of the country's 1,103 municipios and just one of 32 departments, representing 37.8% of the Colombian population).[27] Capital cities such as Quibdó, Arauca, and Mocoa did not record any borrowing activity in 2021 or 2022 (optional link 5). The distribution of debt is skewed towards domestic credit,[28] with external borrowing accounting for only 16%, and city-issued bonds for the same amount (see Table 2). In 2021-2022 only Bogotá, Medellín, and Barranquilla borrowed any sums from external sources. The indebtedness rate of subnational entitles in Colombia is 2.6%, versus an average of 9.9% for countries belonging to the Organisation for Economic Co-operation and Development

[27] Source: National population and housing survey, National Administrative Department of Statistics (DANE) (2018). For the purposes of these calculations, the figures for Medellín were not included in the data for Antioquia.

[28] A full 83% of the debt is accounted for by just six entities (including Findeter, which accounts for 14%, all of it in the form of direct credit. Source: DAF based on information from the Financial Superintendency (2024).

(OECD) (see Figure 3). This suggests that the subnational entities could be borrowing more.

**Figure 3. Financial debt of subnational governments (percentage of GDP)**




Source: DAF based on information from the OECD, 2021 (optional link 6).

1.9 Subnational entities with limited technical capacity are not in a position to use the scant available resources to finance preinvestment work, which deters them from developing project proposals that would be good candidates for financing. In addition to the concentration of access to external public borrowing in just a few subnational entities (paragraph 1.8), funding for infrastructure projects is constrained by both a shortage of resources and the limited capacity for developing technically and financially viable project proposals (paragraph 1.33).[29] This makes it difficult for them to access funding from sources other than national transfers such as SGR funds,[30] public borrowing, international cooperation, grants, and public-private partnership financing, all of which are made available only for projects whose feasibility can be documented.

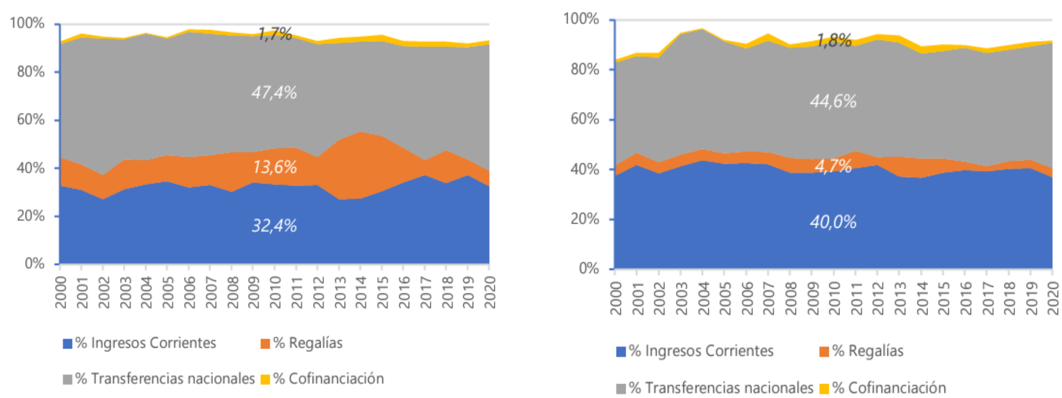
1.10 As a consequence of the subnational entities' shortage of own funds and their limited access to national transfers and to domestic and international credit (paragraph 1.6) (Figure 4), these entities are subject to severe financial constraints, and the resulting low levels of public investment result in deficits in the delivery of infrastructure to provide the necessary public goods, services, utilities, and facilities. This, in turn, is an obstacle to their urban and regional development.

[29] The bulk of public investment is made by special-category subnational entities (six municipios and three departments). By contrast, the 1,006 municipios in categories 5 or 6 lack the human resources to carry out preinvestment tasks such as the development of project concepts or preparation of technical designs, financial structuring, and the engagement of expert legal and financial services for arranging for loans and processing loan contracts.

[30] In 2000-2020, the SGR provided, on average, 13.6% of the departments' revenues and 4.7% of the municipios' incomes (see Figure 3).

**Figure 4. Percentage composition of departmental and municipal revenues[31] (averages 2000-2020)**

**Departments** **Municipios**




Source: United Nations Development Programme (UNDP)-Integrated National Financing Framework (INFF) (2022). Financiación territorial de los ODS. Based on DNP data.

1.11 **Problem addressed.** Underinvestment by subnational entities is limiting delivery of the necessary public goods, services, and utilities to promote urban and regional development (paragraphs 1.44 and 1.45). This problem has two main determinants that derive from the existing flaws in the domestic subnational credit market, including: (i) information asymmetries and imperfections that limit a good assessment of the risk profile of clients like financial intermediaries, public service and utility companies, subnational entities, and private sector companies; (ii) insufficient offerings of competitive long-term financing for subnational entities; and (iii) increasing externalities associated with climate change. Findeter's knowledge of subnational entities and commercial actors, gained from its extensive subnational penetration, have positioned it well for assessing the risk profile of its clients, identifying the most appropriate lending window. Likewise, given its structure and mandate, Findeter can support capacity-building by offering nonfinancial services.

1.12 **Determinant 1. Limitations on access to finance for urban and regional development.** The investment resources provided through national transfers are earmarked for such needs as education, health, and subsidies for water and sanitation services.[32] This reduces subnational entities' ability to finance their development plans. The financial structure of a large percentage of municipios and departments is such that these transfers represent the bulk of their revenues (paragraph 1.7) (optional link 6). This severely reduces their ability to implement long-term projects, since existing financing is tied to annual budgets that are too small to cover public investment requirements, especially in relation to infrastructure.

[31] **Current revenue**: Direct and indirect tax revenues and nontax revenues in the form of fees and fines. **Royalties:** See footnote 18. **National transfers:** See footnote 17. **Cofinancing:** Funding at the national or departmental level that finances a portion of a municipal project, with the relevant subnational entity providing counterpart funds.

[32] Fedesarrollo, 2017.

1.13 Access to finance from sources other than transfers varies in line with the level of the different subnational entities' institutional capacities. Entities with sufficient institutional capacity have a better chance of securing SGR resources and international cooperation funding because their technical and financial teams are able to develop proposals for viable projects. These subnational entities can also gain access to external credit, although only to a limited extent, owing to the strict requirements in place regarding sovereign guarantees and approvals from various bodies (Ministry of Finance and Public Credit and Congress). Domestic borrowing from public sector or commercial banks is more accessible, so subnational entities with sound finances can leverage resources for infrastructure projects financed with flows generated by fees and levies. This model generates sufficient capital for infrastructure investments and the future repayment of the associated debt.

1.14 However, subnational entities with limited institutional capacity have added difficulties in gaining access to domestic financing. They generally do not meet the minimum requirements for qualifying for loans, such as a credit history or a solid financial position, which constitutes a significant credit risk for commercial banks. Even when subnational entities do meet the eligibility requirements, many do not have proposals for projects that have been shown to be technically and financially viable, so they cannot secure financing. This is where the national development banking system can play a crucial dual role in dealing with market failures, improving access to finance, and supporting the technical structuring of bankable projects (paragraphs 1.15 and 1.31).

1.15 **Determinant 2. Lack of capacity of municipios in categories 3, 4, 5, and 6 to technically and financially structure projects.** This lack of capacity limits such municipios' access to various sources of financing such as credit markets, royalties, and international cooperation. Under Colombian law, subnational entities are free to explore these sources, but in order for them to actually gain access, they need to have a sound financial position and, above all, the ability to formulate viable projects. However, most subnational entities lack the capabilities they would need to carry out preinvestment processes. According to the National Planning Department (DNP) (2018), 58% of the municipios in Colombia lack sufficient capacity in the areas of development program planning, structuring, and execution, with the shortfall being critical in 16% of them and less severe in 42%. Furthermore, the Ministry of Finance and Public Credit has reported that 30% of the SGR funds for the current biennial period (2023-2024) have not been allocated, and a significant percentage of the funded projects have problems (poorly formulated in 30% of cases, and technical difficulties in 31%).

1.16 Findeter offers nonfinancial services in the form of project management expertise and technical assistance for institutional capacity-building of subnational entities, but these services have not succeeded in actually transferring capabilities to the subnational level. As a result, subnational entities with insufficient institutional capacity do not succeed in developing viable projects and therefore cannot gain access to different sources of financing. Instead, the funding provided in the form of royalties, international cooperation, and grants tends to be concentrated in the most institutionally robust subnational entities that have teams capable of structuring projects and tools like project banks.

1.17 This unequal access to finance is reflected in indicators such as the Municipal Performance Metrics,[33] which assess subnational entities' capacity for executing their development plans. Resource execution improved in 2022, but there is still a 48.9-point gap between the subnational entities with the most institutional capacity and those in category 5, especially in areas like resource mobilization. The municipios with better management capabilities stand out from the rest in terms of resource execution but still face challenges in the areas of resource mobilization and land use planning.

1.18 It is of crucial importance for municipios with low levels of institutional capacity to be able to structure bankable projects that will yield social, economic, and environmental benefits. This will help them gain access to nontraditional sources of financing for use in designing integrated sustainable, resilient projects that will produce better infrastructure works and significant value-added. Findeter's subnational presence and local knowledge enable it to work with the Bank as a focal point for promoting the adoption of international best practices in projects that internalize these criteria. The identification and pooling of demand for subnational projects could also be of help in securing the necessary financing.

1.19 A technical cooperation operation will support this effort by strengthening the institutions of municipios with weak capacity (paragraph 1.36). In addition, areas at Findeter have been identified that stand in need of improvement, including, in particular, coordination among its financial, technical, and commercial units and monitoring of resource execution. Approaches focusing on sustainability, climate change, gender, and diversity also need to be incorporated into its portfolio of financial services in order to optimize available lending opportunities.

1.20 **Programmatic approach.** In 2014 the Bank approved the CCLIP CO-X1018 for US$600 million, to provide Colombian subnational entities with access to soft loans structured through Findeter for financing the development of the management tools and instruments they needed and to supply them with additional funds for investment in conjunction with other tools designed to support subnational entities' management and performance. The aim was to provide more and better services to citizens and to spur regional development. Operations were thus approved and executed for US$100 million in 2014 and US$150 million in 2015 and 2016 (paragraph 1.38).

1.21 With Bank support and the CCLIP operations, Findeter has evolved from a financial institution into a national development bank, firmly establishing itself as a strategic partner in infrastructure financing for subnational entities. This transformation began in 2012 with the Emerging and Sustainable Cities Initiative,

---

[33] This system evaluates subnational entities' management performance in light of the results they achieve in terms of development, taking into account the municipios' initial capacity for attracting results-based investment. This metric is structured around six categories of municipios: Major cities, Group 1 (high level of capacity), Group 2 (medium-high level of capacity), Group 3 (medium level), Group 4 (medium-low level), and Group 5 (low level of capacity). The Municipal Performance Metric has two components: (1) management: the capacity to mobilize and execute investments, promote open government and transparency, and use land use planning tools; and (2) results: well-being in the areas of education, health, public services, and security. The scores go from outstanding (100), high (55 or over), and medium (45-55), to low (under 45).

under which 18 action plans[34] provided cities with a forward-looking instrument for subnational development extending beyond the terms of individual government administrations. It also facilitated access to technical cooperation resources for studies on climate change mitigation, vulnerability to disasters, and urban footprint growth, giving cities tools for evidence-based public policy decision-making. Findeter also implemented the “Ciudades Emblemáticas” program, benefiting 19 municipios with technical assistance for their comprehensive development and capacity-building for local teams through information platforms and funding calls. As part of its CCLIP commitment, it developed the Environmental and Social Risk Analysis System (SARAS) and a sustainability strategy, and created the Sustainability Directorate, strengthening its capabilities for sustainable projects. This evolution has allowed Findeter to engage in ongoing dialogue with the subnational entities, positioning itself as a key partner for infrastructure financing, and maximizing its access to new lending sources by building credibility. These actions promote the development of lending markets, and so will contribute to promoting the sustainability of the new operation in the long term.

1.22 The exhaustive evaluation of program execution made possible by the CCLIP underscored the need to align indicators with the actual operational features of these loan operations, which are tied to demand and employ a reimbursement-based model. Although the financial objectives have proven to be within reach, it has become clear that monitoring and supervision systems need to be improved from the bottom up in order to ensure consistency between execution and outcomes.

1.23 The first operation, which had a single city as beneficiary, showed that the terms and conditions needed to be adjusted for lending to subnational entities with a high level of borrowing capacity, and Findeter needed the authority to act as a first-tier bank in special situations. The second operation, which was expanded to all the country’s subnational entities, identified that the range of beneficiaries should be broadened, in order to adapt as investment priorities shifted from one election cycle to the next. For this reason, more subnational entities were added, increasing from three in the first operation and five in the second to a total of 29 between the two operations. The fiscal management focus was also sharpened, to align the objectives with the interests of the subnational entities, which were principally infrastructure investments. The third operation demonstrated the importance of reviewing the role of the CCLIP Executive Committee, so in this new phase its function has been defined in the different types of projects and at different stages. The Program Credit Regulations for this operation give the Executive Committee a consultative role, so it can serve all the subnational entities and their public service and utility companies without needing to be involved in the approval of each subloan. The relevance of the investment instrument was also evaluated, now opting for the global credit program, which allows the execution of resources according to the demand of the subnational entities and sets broader goals for increasing the financing for urban and regional development. Lastly, national laws and regulations were made applicable to high-impact projects, and six-monthly monitoring and planning committees were established, to track progress and plan

---

[34] Twenty-five municipios were benefited by incorporating several conurbations with an estimated 9.95 million inhabitants (19% of the country’s total population).

the portfolio of future projects, ensuring a more strategic approach to program execution.

1.24 This fourth and last operation will prioritize support for subnational entities with a low level of institutional capacity that have not yet been beneficiaries of the CCLIP. It pursues greater impact and scalability (paragraph 1.44) by serving municipios with larger infrastructure gaps, difficulties in access to finance, and limitations in structuring projects. One form of scalability will be through pre-investment financing, since the aim is to multiply the necessary resources for the final investment, regardless of source, and that phase represents approximately 2% to 5% of the total cost of the investment. The departments will also take on a greater role in supporting these municipios in their development. During implementation of the CCLIP, Findeter has been building up its own capabilities by creating and keeping the SARAS system up to date on an ongoing basis; identifying and putting priority on projects in regions with limited institutional capacities (ATN/OC-18371-CO); enhancing the technical assistance furnished by programs such as COMPASS to help urban water and sanitation companies to become more efficient and improve their management performance (ATN/CF-16250-CO); and designing a sustainability strategy for furthering action related to the sustainability priorities of the organization (ATN/PI-19384-CO). These efforts have strengthened capacity for managing risks, identifying projects that incorporate climate criteria (mitigation/adaptation), improving operational efficiency, and servicing projects in areas where needs are greatest. The gains made in these areas provide a firmer foundation for the more efficient implementation of the proposed operation, which will help to ensure that low-capacity subnational entities will be able to benefit from a more structured and sustainable approach, while maximizing the impact of their investments on the regional development process.

1.25 This program and operation 4856/OC-CO, which will implement a multipurpose cadastral system, are fully complementary. The introduction of that system will build the institutional capacity of the less developed subnational entities (paragraph 1.7), improve subnational management and planning, and enable these entities to make more efficient use of the opportunities for resource management and for securing financing offered by the proposed operation. The Energy Transition Support Program (CO-L1287), which is now in preparation and is to be financed by the Climate Investment Funds, is a pioneering initiative of IDB CLIMA that will also promote the decarbonization of the economy. This project will complement the present program's focus on sustainability by expediting the financing of projects for the just energy transition by companies interested in investing in energy initiatives at the subnational level. This course of action is aligned with the program's focus on inclusive, sustainable regional development. It will also strengthen the capabilities and instruments of the country's national development banks by helping them to prepare for entry into green capital thematic markets. The two projects will create strategic synergies for promoting a holistic approach to the promotion of regional development that will combine energy sustainability with improved subnational management and access to finance.

1.26 The sum of US$200 million for strengthening the financing of projects on investment in subnational entities has been agreed upon with the Government of Colombia for this fourth operation. Lessons learned (see optional link 7) will be incorporated into the operation in line with the CCLIP Operational Guidelines (GN-2246-15) and with the eligibility requirements stipulated in the contract.

1.27 **Rationale.** Insufficient investment of the subnational entities in Colombia has limited their ability to provide essential public goods, services, and utilities, which, in turn, has acted as a significant obstacle to urban and regional development. This deficit is reflected in a lack of critical infrastructure, such as road connectivity, public spaces, and basic utility upgrades, particularly in the case of water and sanitation. The problem is more severe in the subnational entities with the least capacity, which have difficulty in structuring viable projects and accessing finance from sources other than national transfers. In order to address this situation, this operation seeks to continue with the program for multisector investments in goods, public services, utilities, and facilities in the subnational entities of Colombia.

1.28 The global credit program is intended to strengthen Findeter's ability to support subnational entities that have weak capacity for developing viable projects by helping them to improve/introduce energy efficiency, gender equity, and carbon neutrality criteria in their operations and financial services. The introduction of a flexible model that can be adapted to fit subnational entitles' emerging needs will help to open up access to finance while enhancing their ability to implement sustainable projects. The program will also seek to mainstream gender in the financial services offered by Findeter, expand its green portfolio, and strengthen its environmental and social safeguard systems in keeping with its Responsible Action Policy and its Sustainability Strategy. This will also reaffirm Findeter's mandate as a strategic partner of the national government and the subnational entities in the planning, structuring, financing, and execution of sustainable projects for subnational transformation. Given the planned scale of the subloans (paragraph 2.3, optional link 6), the amounts involved, and the complex procedures involved in accessing external loans (paragraph 1.13), direct management by the Bank is not warranted for these types of individual operations.

1.29 During CCLIP implementation, the subnational entities have obtained financing for urban development projects (57.4% of total disbursements) focusing on road connectivity (39%), public spaces (13%), housing improvements (5%), and improvements in public utilities and services such as water distribution and basic sanitation (18%), and social services (7%). Even though the resources planned for use in fiscal strengthening were reallocated because the subnational entities did not want to take on debt in order to develop and update their property registries for a number of reasons including the implementation of the Program for the Adoption and Implementation of a Rural-Urban Multipurpose Cadaster (4856/OC-CO), that program is nonetheless complementary to this operation (paragraphs 1.7 to 1.25).

1.30 In accordance with the Constitution, the central bank has become the institution responsible for monetary policy, and three public banks have been established to administer its development funds: Financiera de Desarrollo Territorial (Findeter) deals with urban and regional infrastructure; Fondo para Financiamiento del Sector Agropecuario (Finagro) provides financing for the agricultural sector; and Banco de Desarrollo Empresarial (Bancóldex) finances nontraditional exports and microenterprises. Findeter's legal mandate includes financing for projects at all stages and technical advisory services for the design, structuring, execution, and administration of regional development investment projects in 12 sectors.[35] It offers two different modalities of long-term, local-currency financing: rediscounted loans through private financial intermediaries (a financial transaction whereby a financial institution provides resources to a financial intermediary for lending to an end-client) and direct loans to subnational entities without intermediaries. For the first modality, Findeter identifies projects and coordinates with private financial intermediaries, which, depending on the level of risk, either finance the credit entirely on their own, or finance part of it, with the rest being supplied by Findeter. For the second modality, direct loans are extended on the terms and conditions approved by the Findeter Board of Directors without the need for intermediaries.

1.31 Findeter financing addresses market failures, reduces the crowding-out effect, and promotes greater investment in infrastructure because: (i) the rediscounting leverages private sector funds for financing the infrastructure projects of subnational entities; and (ii) Findeter lends directly to subnational entities whose higher risk profile prevents them from borrowing from commercial banks. Findeter also facilitates access to credit for municipios, either through direct borrowing or through partnership/departmental mechanisms, so the municipios can be the end-beneficiaries of the credits, regardless of who acts as the borrower. Not only does this approach broaden access to finance for regional projects, it delivers financing to areas where private financing is insufficient or nonexistent without Findeter's involvement,[36] and Findeter plays a supplementary role by working with private financial intermediaries to finance lower-risk subnational entities. In this way, Findeter corrects market inefficiencies by facilitating access to credit in municipios that would otherwise be shut out from the investment opportunities necessary for their development.

1.32 Additionally, Findeter has reinforced its technical and operational capacities and its safeguards with IDB support, to provide technical assistance for the structuring and financing of projects (paragraph 1.23). This operation will continue to build on existing achievements and efforts to reach new milestones within the framework of the Corporate Strategy 2023-2026 by promoting inclusive regional and urban development, upgrading infrastructure, and advancing the energy transition (optional link 12). It will also mainstream best practices in the areas of gender, diversity, and climate change (paragraph 1.28).

1.33 In the current economic context (paragraph 1.1), the program is especially important for the Government of Colombia because it provides access to finance at a critical time with financial products that support more risk than those offered by the market. In addition, the collaboration with Findeter allows the development of mechanisms to ensure the continuity of service delivery, especially at the subnational level, in an environment of limited fiscal resources, alleviating fiscal pressures.

1.34 **Program design strategy and theory of change.** This operation will contribute to closing gaps in investment in infrastructure and the provision of public goods

---

[35] Health; education; energy development; fiscal reform; environment; information and communications technologies; urban development, construction, and housing; tourism; transport; cultural and creative industries; water and basic sanitation; and recreation, sports, and culture.

[36] Financiando Ciudades. DNP, 2012.

and services for the subnational entities' populations, in general, and for the populations of subnational entities in categories 3, 4, 5, and 6, in particular. Component 1 will be focused on developing markets for the financing of local infrastructure. This financing is to be offered with tenors of optimum utility for subnational entities, either in the form of direct loans or channeled through commercial banks, thereby providing subnational entities with sources of financing other than transfers or their own resources.

1.35 Strengthening the national development banking system through specific outputs such as training, the SARAS system update, and the Preinvestment and Investment Fund (optional link 14) will make a direct contribution to the improvement of subnational entities' access to finance on more favorable terms. Not only will these tools create a supportive environment for the diversification of sources of financing, they will also promote a more inclusive and sustainable form of urban and regional development. Component 2 will be focused on building Findeter's institutional capacity and improving its portfolio of nonfinancial mechanisms for assisting subnational entities, especially those that have not succeeded in obtaining long-term credit. By providing nonreimbursable funds for preinvestment, training, and other nonfinancial activities (paragraph 1.40), Findeter will furnish technical assistance that incorporates criteria of energy efficiency, carbon neutrality, and greater gender and diversity inclusion in its operations. These efforts will increase public investment in infrastructure, improve the provision of public goods and services, and build institutional capacity in the long term. Findeter and the Bank will hold six-monthly meetings for the purpose of planning the project portfolio.

1.36 As mentioned earlier, an effort will be made to provide nonreimbursable resources in this operation (paragraph 1.19) for capacity-building of Findeter and of beneficiary municipios seeking credit from Findeter through a technical cooperation operation for operational support to create installed capacity and strengthen development planning and public investment for urban and regional development.

1.37 Consistent with a model promoting the gradual transformation of the technical and financial capabilities of subnational entities, this project encourages, through the different Findeter windows, the transition from grant to debt funding, from concessional to commercial resources, and from public sector to private sector debt. This is fully reflected in the eligibility criteria.

1.38 **The Bank's experience.** The CCLIP CO-X1018 has enabled the Bank to engage with subnational governments while simultaneously strengthening their management capabilities and supporting the design, financing, and execution of investment programs. The Financing for Public Service Providers Program (CO-X1003) in Colombia emphasized the use of financial instruments suited to the profiles of subborrowers to fund public service and public utility infrastructure. There is also a long history of providing financing and technical assistance to the country's national development banking system (2768/OC-CO, CO-O004, ATN/OC-20073-CO; ATN/PI-19384-CO), to build institutional capacity for structuring projects and mainstreaming climate change, gender, and diversity in the financial sector.

1.39 **Lessons learned.** This operation will incorporate recommendations and lessons learned from the project completion report of the first and second operations

(3392/OC-CO and 3596/OC-CO) and from the execution of the third operation (3842/OC-CO), as described above (paragraphs 1.23 and 1.24). These include using the global credit loan instrument, defining indicators with available baseline information and clear mechanisms for measuring targets, providing technical assistance for subnational entity categories 3 to 6 to access credit, whether through direct lending or through rediscounting. Additionally, since the delays experienced during the Program to Support the Sustainable Development of the Department of the San Andrés, Providencia, and Santa Catalina Archipelago (3104/OC-CO) were partly due to the lack of sufficiently updated and detailed preinvestment studies at the time of approval of the investment projects, the Preinvestment and Investment Fund offers an effective way of overcoming these difficulties. Its design also incorporates lessons learned from the Bicentennial Cities operation (CH-X1001) in Chile and the Subnational Credit for Infrastructure operation in Mexico (ME-X1002), as these initiatives have demonstrated the importance of providing technical assistance to build subnational entities' capacity for improving the quality and effectiveness of investments. It will also incorporate learnings on the importance of: (i) establishing a unit within the national development banking system to support subnational governments in structuring projects, as demonstrated by the Productive Development Program for the Northeast Region (5837/OC-BR) in Brazil; (ii) promoting the quantification of environmental benefits for the purpose of tracking progress towards the fulfillment of environmental commitments, as demonstrated by Program 3563/OC-ME in Mexico and as will be done in this operation in order to strengthen the national development banking system's green portfolio; and (iii) establishing a project bank to support execution, taking as a reference point the Energy Efficiency and Business Financing Program (5169/TC-CO), key elements of which will be replicated in developing the platform for the identification and prioritization of projects to be financed.

1.40 **Nonfinancial additionality.** The Bank will work with the national development banking system to help it provide low-capacity subnational entities with innovative tools for overcoming their limitations and making their projects more efficient. An effort will be made to create a conducive environment for accessing new financial resources and for ensuring greater sustainability and equity in the distribution of investment funds. This will be done by: (i) supporting and training Findeter's technical team, to ensure that Preinvestment and Investment Fund projects are technically and financially viable and mainstream carbon neutrality, energy efficiency, gender, and diversity in their design; (ii) expanding capabilities for identifying and grouping projects through the financing of georeferenced platforms for systematizing subnational projects in the different regions where these entities are located, which will create economies of scale that reduce costs; (iii) training the sales force; and (iv) designing project typologies to facilitate financing for these subnational entities.

1.41 Other financial additionality activities will include: (i) targeted invitations for these subnational entities to apply for financing; (ii) development of higher-risk lending products; (iii) rate offsets based on sustainability criteria; and (iv) use of nontraditional debt instruments such as guarantees and loans based on arrangements for partnering with municipios or with higher-level subnational entities, public-private partnerships, or standalone agencies with their own separate assets that can be used to reduce aggregate default risk.

1.42 **Synergies.** Given the scope of some of the projects, it may be necessary to supplement Findeter's funding with additional financing from the private sector. Preliminary talks among the IDB, IDB Invest, and Findeter have identified opportunities for generating operational synergies using some of IDB Invest's complementary financial products, such as performance security for private developers executing works that have been contracted for directly by subnational entities and financing for investment plans of public service providers and technology services parks owned by subnational entities or concessioned to third parties. IDB Invest is interested in financing projects dealing with water and basic sanitation, educational institutions, and hospitals whose borrowing requirements are structured on the basis of public-private partnerships and which are in need of additional credit for the financial close of the operation.

1.43 Additionally, collaborative efforts could potentially be pursued with other multilateral banks like KfW, to strengthen Findeter in key areas, including risk analysis and project monitoring, operational optimization, and positioning of the Sustainability Directorate. These collaborations also seek to apply best practices, to minimize the risks of failure in project execution. Cofinancing of technical assistance is also planned, for capacity-building of beneficiary subnational entities (optional link 7).

1.44 **Strategic and institutional alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and aligned with the following objectives: (i) reduce poverty and inequality, by supporting sustainable regional growth; and (ii) address climate change, by investing in infrastructure and economic development. The program is also aligned with the following operational focus areas: (i) biodiversity, natural capital, and climate action; (ii) gender equality and inclusion of diverse population groups; (iii) institutional capacity, rule of law, and citizen security; and (iv) sustainable, resilient, and inclusive infrastructure. It is also aligned with the Housing and Urban Development Sector Framework Document (GN-2732-11) and the Long-Term Financing Sector Framework Document (GN-2768-12) (optional link 10). It is also aligned with the IDB Group Country Strategy with Colombia 2018-2022 (GN-2972),[37] which remains in effect until 30 October, and will contribute to the strategic objectives of: (i) raising the quality of infrastructure and urban development; (ii) raising the quality of expenditure and public investment management capacity at all levels of government; and (iii) increasing equitable access to quality basic services.

1.45 **Alignment with the priorities of the Government of Colombia.** The proposed program is aligned with the National Development Plan 2022-2026 in its focus on a biodiverse economy, land use planning, and preservation of nature, together with the promotion of greater inclusiveness. It also supports the objectives of improving local government capacity, strengthening social infrastructure, developing urban and regional public transportation systems, and promoting the productive and energy transition, to consolidate resilient subnational areas.

[37] The program is expected to align with the strategic pillar of boosting social and subnational inclusion identified in the new IDB Group strategy with Colombia 2024-2027, which was considered by the Board of Executive Directors on 10 October.

1.46 **Climate change commitments in national policies and international agreements.** Colombia has made clear commitments to address climate change in its national policies and in international agreements, particularly the Paris Agreement. In 2020, it updated its Nationally Determined Contribution with the ambitious goal of cutting greenhouse gas emissions 51% by 2030 relative to its projected emissions for that year. For the long term, Colombia has also committed to achieving carbon neutrality by 2050, thereby strengthening its commitment to sustainability and climate resilience with a focus on key sectors like energy, infrastructure, and natural resource management. This operation will support sustainable infrastructure with investments in key areas like water management, basic sanitation, renewable energy, and the just energy transition, by reducing dependence on fossil fuels and building the capacity of subnational entities to adapt to the effects of climate change.

1.47 **Paris alignment.** This 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: (i) aligned with the adaptation objective of the Paris Agreement based on a specific analysis; and (ii) aligned with the mitigation objective of the Paris Agreement based on a simplified analysis using the transaction-based approach for operations with financial intermediaries. Alignment with the adaptation objective of the Paris Agreement was based on the following: (i) a disaster and climate change risk assessment for all Category B subprojects in areas with a moderate or high threat level will be included in the relevant bidding documents; and (ii) as part of the SARAS, Findeter will use climate change scenarios and geo-visors to identify and document vulnerability risks for the projects and will request plans for mitigating those risks (optional link 2).

1.48 **Climate finance.** According to the joint MDB methodology for tracking climate finance, an estimated 31.03% of the total amount of the operation counts as climate finance, because the operation will finance infrastructure projects that promote energy efficiency, nonutility power generation from renewable sources, construction and maintenance of corridors for active mobility and bicycle paths, environmental and landscape reclamation in strategic urban ecosystems, and the modernization and expansion of clean, low-carbon public transportation systems. These investments provide for the implementation of sustainable technologies and upgraded urban and regional infrastructure for cutting greenhouse gas emissions, supporting climate change adaptation, and promoting the resilience of local communities (optional link 2).

1.49 **Compliance with the Public Utilities Policy.** The operation complies with the Bank's Public Utilities Policy (GN-2716-6) (optional link 9) since it seeks to promote access to public services and utilities, particularly for the less advantaged population, as well as to promote innovation for efficiency, access, and environmental sustainability, especially for a just energy transition. The program is expected to contribute to the financial, environmental, and social sustainability of the activities. Utility rates and subsidies are regulated by the commissions responsible for clean drinking water and basic sanitation and for electricity and natural gas.

## B. Objectives, components, and cost

1.50 **Objective.** Under the general objective of this CCLIP, which is to cooperate with Findeter on fiscal and public investment expenditure strengthening in beneficiary entities, in keeping with CONPES document 3787 of 2013, this operation seeks to increase public investment in infrastructure for the provision of public goods and services and facilities in the subnational entities of Colombia. The specific objectives are: (i) to increase financing for the urban and regional development of subnational entities by providing financial support for the national development banks; and (ii) to build the capacity of the municipios to access finance for urban and regional development by supporting and improving the national development banks.

1.51 **Component 1. Support for public investment to finance the urban and regional development of subnational entities (IDB: US$195 million).** Under this component, which is focused on the first specific objective of this operation, financing will be provided to subnational entities and their public utilities for investment projects dealing with public goods, services, utilities, and facilities[38] to improve their urban and regional development. The planned outputs of this component will contribute to the development of the local infrastructure financing market by helping to improve subnational entities' access to that market on better financial terms and conditions,[39] which will enable them to invest more in sustainable infrastructure. This component has three subcomponents:

1.52 **Subcomponent 1.1. Promotion of inclusive urban and regional infrastructure**, to meet present and future demand. Financing may be provided for activities including the construction and improvement of housing and the construction or improvement of roads and/or bicycle paths and other public spaces like public squares, public parks, green spaces, hard-surface areas, lots, etc.[40] under universal accessibility standards.

1.53 **Subcomponent 1.2. Improvement in public services, utilities, and facilities**, to provide fuller coverage of public utilities and public and social services through investment in infrastructure, in order to better meet the needs of communities. It

---

[38] This would include, on a preliminary basis: (1) **urban and regional infrastructure:** housing, roads and/or bicycle paths, and public spaces (streets, other transportation routes, plazas or squares, public parks, green spaces, hard-surface areas, lots, etc. – See the Civil Code; and (2) **public service and utility companies:** (i) land, water, and air transportation systems; water distribution systems; electrical power (including actions focusing on bringing about a just energy transition) and telecommunications; and (ii) hygiene and cleaning services; and (3) **facilities,** or, in other words, collective equipment, defined as spaces and structures whose purpose is to furnish social services, primarily in such areas as education, recreation, cultural activities, administrative tasks, supply, security, and health. Mayorga (2012).

[39] An analysis by the project team on a sample of projects financed by Findeter with Bank resources indicates that the terms granted to the subnational entities include repayment periods of 120 to 144 months with a grace period of 24 months. These terms are transferred to the subnational entities through commercial banks, which adjust their offerings to align with the terms established in the market. There is evidence to suggest that Findeter's involvement has gradually incentivized commercial banks to make their offerings more flexible in this segment by adopting more favorable terms such as longer tenors and grace periods that were previously unavailable. In this way, Findeter's value-added does not distort the market, since the rates are similar to commercial rates, but its greater willingness to assume risks enables it to design products targeting subnational entities with limited credit histories, in addition to offering technical support that commercial banks do not provide.

[40] See the Civil Code.

includes investment in land, sea, river, and air transportation infrastructure, water and sewer systems, electric power and telecommunications systems, and public hygiene and street sweeping services, along with improved facilities to meet social services needs, mainly in such areas as education, recreation, cultural activities, administrative tasks, supply, public safety, health, and caregiving.[41]

1.54 **Subcomponent 1.3. Financing for projects to promote a just energy transition**, to provide financial support through loans to subnational entities for eligible subprojects related to the energy transition such as nonconventional renewable energy sources, energy communities,[42] and energy storage; the deployment of advanced metering infrastructure; solutions to make the National Interconnected System (SIN) more flexible (transmission lines, distributed energy resources, etc.); energy efficiency projects; and electromobility assets and infrastructure such as the purchase of electric vehicles for use in public mass transit or integrated transportation systems. These activities can serve as a catalyst to contribute to accelerating the decarbonization of the economy.

1.55 **Component 2. Support for building the capacity of the country's municipios to secure financing for their urban and regional development processes by supporting and enhancing the national development banking system (Local counterpart: US$7 million).** This technical assistance component, which is focused on the second specific objective of this operation, will enable Findeter to build subnational entities' capacity for obtaining and channeling resources, thereby helping to develop the local infrastructure financing market as a means of achieving sustainable urban and regional development. Under this component, Findeter will channel its own resources and nonreimbursable international cooperation resources into: (i) strengthening subnational entities with weak capacity in project identification and the design of technically and financially viable projects so that they can secure financing from various sources for bankable, integrated projects that incorporate design criteria including energy efficiency, green infrastructure, carbon neutrality, and gender; and (ii) building its own capacity as a regional development bank by updating and expanding the SARAS system, further developing its gender-based operational strategies (paragraph 1.57), and undertaking innovative activities and making use of both nonfinancial tools (paragraph 1.40) and financial tools (paragraph 1.41) to better address existing market failures, mobilize alternative sources of financing for subnational entities, and identify their weaknesses and priorities for the development of solutions that maximize the relevance and timeliness of Findeter's products.

1.56 **Administration, auditing, monitoring, and evaluation (IDB: US$5 million).** These resources will finance: (i) consulting services to support program execution; (ii) engagement of audits; (iii) communications strategy and actions; and (iv) monitoring and evaluation.

1.57 **Gender and diversity.** The Bank will support Findeter's efforts to implement its gender and social inclusion policy by: (i) preparing a handbook and roadmap for

---

[41] Mayorga (2012).

[42] Projects in noninterconnected zones and in what are known as "energy communities" could cover the Amazonian region in Colombia in order to close gaps in access and promote the energy transition.

the implementation of gender- and diversity-related measures involved in the structuring, monitoring, and evaluation of projects financed by Findeter, which will include inclusive design standards for persons with disabilities and for care that specify the conditions to be met for investments in goods and facilities for public use; protocols for the prevention of gender-based violence in the execution of infrastructure projects; adjustments and activities to promote the employment of women in project execution; care-related infrastructure, particularly in the areas of health, education, and other public services and utilities; and a gender and diversity evaluation module for project execution (coordinated with the SARAS system); (ii) defining a strategy for improving the compilation of disaggregated data on gender- and diversity-related matters in selected sectors; (iii) designing and implementing a training process, to be paired with the handbook mentioned above, for Findeter's technical staff to support project structuring, monitoring, and evaluation and the design of financial and nonfinancial instruments; and (iv) including elements defined in the handbook as applicable to subnational projects in the guidelines for the provision of technical assistance to subnational entities. In addition, a platform will be developed for identifying potential projects for financing with emphasis on subnational entities with low levels of capacity and a majority indigenous population in order to increase their access to infrastructure, services, and utilities.

## C. Key results indicators

1.58 **Expected outcomes.** The expected outcomes of the operation are an increase in the available financing for urban and regional development processes in subnational entities, as reflected in a US$195 million increase in the relevant portfolio of the national development banking system for financing infrastructure development in subnational entities; 100% of credit granted by the national development banking system going to subnational entities for financing projects in priority sectors; improvements brought about by the operation in access to, or the quality of, public services and utilities for five municipios with low coverage rates; an increase of 10 MW in installed capacity for nonconventional renewable energy sources; and a total of 40 works for expanding or upgrading goods for public use in subnational entities. The municipios' capacity for accessing finance for urban and regional development will also be strengthened in an effort to attain the following targets: 30% of the projects aimed at benefiting municipios with weak institutional capacity will have financing; four agreements between subnational entities to support the efforts of subnational entities in categories 3, 4, 5, and 6 to obtain credit; and distribution of 100% of available nonreimbursable resources to projects for strengthening subnational entities' institutional capacity.

1.59 **Program beneficiaries.** The beneficiaries will be the national development bank responsible for urban and regional development (Findeter or another development bank) and the subnational entities and their public service and utility companies that meet the targeting and scaling criteria defined in the program Credit Regulations (optional link 3) and the eligibility criteria of CONPES document 3787 of 2013. The operation will put special emphasis on targeting resources for subnational entities with weak institutional capacities[43] that historically have not had access to long-term credit. (An estimated 30% of the subnational entities are expected to become beneficiaries.) Ultimately, the people living in these subnational entities will be the persons who benefit from improved, more inclusive and sustainable infrastructure.

## D. Viability analysis

1.60 **Technical viability.** The program is viable given the capacity of the executing agency for this CCLIP and its experience in the deployment of multilateral bank and international fund resources, as demonstrated by its satisfactory performance in the projects it has executed over the past five years. Its technical and financial staff are trained to manage new operations and will be supported by the Bank in planning the portfolio of projects to be financed with this operation. More detailed information will be included in the program Credit Regulations (optional link 3).

1.61 **Socioeconomic viability.** An economic analysis was performed using the cost-benefit methodology that included an evaluation of three types of investments that coincided with the project typology indicated by the needs study: (i) improvement and construction of public spaces; (ii) improvement and expansion of basic sanitation infrastructure; and (iii) energy efficiency. It assumed that the execution of the operation will begin in 2025. In order to gauge the long-run impact of the program, its benefits are estimated for periods 10, 30, and 25 years in length using a discount rate of 9%. The benefit-cost ratio for the program is estimated at US$1.55, US$2.33, and US$1.45 per dollar invested, respectively, with internal rates of return above 12%. Sensitivity analyses show that the program will continue to yield social and economic returns, even when more conservative values are assumed for various parameters (optional link 1).

1.62 **Socioenvironmental viability.** The program supports infrastructure investments that will finance, for example, the construction or upgrading of goods for public use, mobility infrastructure, housing improvements, the expansion of networks and of the service coverage of public utilities such as water and basic sanitation, energy (including measures aimed at promoting a just energy transition), solid waste disposal, and public transportation. The environmental and social review found that the subprojects to be financed under this operation will have a "substantial" level of socioenvironmental risk (paragraphs 2.6 to 2.9).

1.63 **Institutional viability.** The analysis using the Institutional Capacity Assessment Platform indicated that Findeter has a satisfactory level of institutional capacity and a low level of risk for the implementation of the program, has an adequate supporting organizational structure, and has strengths in the areas of financial administration and environmental and social management. However, challenges were identified in the areas of project direction, human resources management, and financial management. Proposed measures include: development of action plans for project monitoring that include performance measurement mechanisms; use of earned value management methodologies to measure performance with the

---

[43] Capacity levels are defined using the classification system (3-6) defined in Act 617 of 2000 (on the budget, decentralization, and the rationalization of public expenditure), which has to do with the size of the population, current discretionary (unearmarked) income, and the percentage of that revenue that is used for operating expenditures.

help of information uptake and the processing of statistical data; introduction of improvements based on lessons learned in regard to administrative and financial management, particularly with respect to the procedures, information, and resources needed to manage the operation; establishment of measurement mechanisms that can identify vacancies and the absence of personnel in strategic areas in order to manage rotations and workloads and ensure that staff are knowledgeable about the processes of the Bank and the operation; and the improvement of coordination among Findeter personnel in order to expedite procedures, approvals, and disbursements. Findeter has the necessary institutional and fiduciary capabilities to ensure the program's viability. Component 2 will include activities designed to strengthen the mainstreaming of climate change and gender in financial services.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

2.1 The global credit program provides greater access to finance, strengthening Findeter's ability to channel resources to subnational entities, particularly those with limited technical and financial capacities. It also provides greater flexibility for responding to subnational entities' emerging needs, which is critical for ensuring the viability of projects with criteria of energy efficiency, carbon neutrality, and gender mainstreaming, and for increasing those entities' ability to implement sustainable projects. This modality is aligned with the objectives of Operations Processing Manual, Section PR-203, which seeks to increase access to credit for subnational entities, build the capacity of intermediary financial institutions to attract and channel resources, and help to ensure the continued consolidation of the national development banking system's institutional support for the financing of subnational entities' urban and regional development projects.

2.2 Given the nature of the earlier operations under the conditional credit line for investment projects (CCLIP) and the lessons learned during their implementation (paragraph 1.39 and optional link 7), the global credit loan instrument provides the best fit with the nature of Findeter and its challenges as a national development bank because it is aligned with Findeter's internal processes as a vehicle for attracting and efficiently channeling resources to the public investments of subnational entities, while at the same time paving the way for the subnational impacts sought by the operation.

2.3 In this context, Findeter employs two main modalities for providing finance to subnational entities, adjusting to accommodate their diverse needs for access to resources (paragraph 1.30). The first modality is rediscounting loans through financial intermediaries, leveraging private sector funds for projects in different subnational areas. The second modality provides direct loans for those subnational entities requiring direct access to finance, facilitating terms tailored to their specific features. This combination of options, which will be used in this operation, allows Findeter to reach a larger number of municipios and departments, optimizing the use of resources and facilitating the execution of infrastructure projects in subnational areas requiring greater support.

2.4 **Program cost.** The operation will have a total amount of US$207 million, consisting of US$200 million from the CCLIP, chargeable against the Bank's

Ordinary Capital, and a local counterpart contribution of US$7 million with a five-year disbursement period. Based on estimated demand, eligible development projects amounting to between US$225 million and US$300 million have been identified, according to the development plans. The corresponding calculations yield a total of US$39 million (20%) for large- and medium-scale projects (between US$6 million and US$25 million); US$146.25 million (75%) for intermediate-scale projects (between US$1.5 million and US$2 million); and US$9.75 million (5%) for small-scale projects (between US$350,000 and US$400,000) (paragraph 1.51). It is estimated that around 30% of the projects to be financed will be located in subnational entities with weak institutional capacity (optional link 6). Findeter, as the borrower and executing agency, will finance investments in the identified sectors using the same model as the earlier CCLIP operations but with the addition of a sharp focus on this type of subnational entities.

**Table 3. Program estimated costs and financing (US$ millions)**

| Components | IDB | Local | Total | % |
|---|---|---|---|---|
| **Component 1.** Support for public investment to finance the urban and regional development of subnational entities | 195.0 | 0.0 | 195.0 | 94.2 |
| **Component 2.** Support for building the capacity of the country's municipios to secure financing for their urban and regional development processes by supporting and enhancing the national development banking system | 0.0 | 7.0 | 7.0 | 3.4 |
| Administration, auditing, monitoring, and evaluation | 5.0 | 0.0 | 5.0 | 2.4 |
| **Total** | **200.0** | **7.0** | **207.0** | **100.0** |

2.5 **Disbursement schedule.** The loan will be disbursed over a 60-month period. The execution period is based on the project execution plan (required link 1) and the institutional capacity of the executing agency. The disbursement schedule is shown in Table 4.

**Table 4. Disbursement schedule (US$ millions)**

| Source | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total | % |
|---|---|---|---|---|---|---|---|
| **IDB (Ordinary Capital)** | 39.0 | 66.0 | 60.0 | 23.0 | 12.0 | 200.0 | 96.9 |
| **Findeter (Counterpart)** | 1.0 | 2.0 | 2.0 | 1.0 | 1.0 | 7.0 | 3.4 |
| **Total** | 40.0 | 68.0 | 62.0 | 24.0 | 13.0 | 207.0 | |
| **%** | **19.32%** | **32.85%** | **29.95%** | **11.59%** | **6.28%** | | **100%** |

2.6 **Modification of the duration of the CCLIP.** Since the CCLIP was originally planned to run for an eight-year period ending on 25 July 2023, on 13 June 2023 the borrower requested a two-year extension. Consequently, counting from the date of the approval of this fourth operation, the CCLIP would remain in effect until 25 July 2025. The approval of this modification by the Bank's Board of Executive Directors will extend CCLIP CO-X1018 to include this fourth and last operation. The rationale is that US$200 million of the total approved amount (US$600 million) has not been disbursed, and the government has requested to use all the available resources. This modification would not involve any new sectors or any increase in the originally approved amount.

## B. Environmental and social safeguard risks

2.7 According to the Environmental and Social Policy Framework, this program is classified as an operation involving financial intermediaries because it entails an investment loan under the global credit modality.

2.8 The environmental and social impacts of the subprojects will occur mainly during the construction stage and, to a lesser extent, the operational stage. On a preliminary basis, the impacts have been identified on the basis of the activities that may be undertaken in different sectors and stages. Impacts on the physical environment and socioeconomic and cultural impacts are foreseen during the construction stage. No impacts on the natural habitat have been identified.

2.9 The program is classified as having a substantial level of environmental and social risk, owing to factors relating to cause and context whose likelihood of occurrence is moderate but whose relative seriousness would be substantial. Its risk classification for disasters and climate change is rated as "high," owing to the fact that the program scope takes in the entire country. Various natural hazards have been identified, with the most significant ones being volcanic activity, tremors, earthquakes, landslides, floods, droughts, and forest fires, based on the typologies of potential eligible subprojects/activities.

2.10 The program will employ the borrower's environmental and social framework, which is used for the environmental and social management of Findeter's current global investment portfolio. Subprojects/activities will be classified on the basis of the IDB's categories A, B, and C. The SARAS system proposes the following guidelines applicable all subprojects or activities under the program regardless, of their classification: (i) list of financial intermediaries working with SARAS validated by Findeter; (ii) form for the identification of environmental and social risks; (iii) form for the analysis of environmental and social risks; (iv) field visits of category B subprojects; (v) exclusion criteria; and (vi) specific eligibility requirements set in the program Credit Regulations, such as credit risk rating, criteria relating to technical and institutional capacity on sector issues, compliance with socioenvironmental policies, and others (optional link 3).

## C. Fiduciary risks

2.11 The analysis using the Institutional Capacity Assessment Platform concluded that Findeter has adequate systems, regulations, procedures, and trained personnel for the satisfactory financial and procurement management of the operation. However, medium-to-low fiduciary risks have been identified: (i) given the nature and institutional mandate of the executing agency, the public projects it finances are contracted and executed by subnational governments in accordance with national laws and regulations governing financial and procurement management. There is thus a risk that the projects may not meet the fiduciary requirements agreed upon with the IDB. This risk will be mitigated by the retention of specialized staff of the executing agency who have already participated in the execution of the CCLIP and by the prior validation of project eligibility by IDB specialists. (ii) the decision-making structure for lending is complex and may entail lengthy approval times for disbursements. This risk will be mitigated by streamlining this structure in the Credit Regulations.

## D. Other key issues and risks

2.12 Risks associated with execution have primarily been classified as medium-low, while medium-high institutional, economic, and financial risks have been identified. These risks and measures for their mitigation are described in Table 5. They will be covered in detail in the Risks Matrix and the Development Effectiveness Matrix.

**Table 5. Risks and mitigation measures**

| Taxonomy | Risk | Level | Mitigation measure |
|---|---|---|---|
| Political | If there is a change in local administrations, the political, expenditure, and investment priorities may change. | Medium-high | • An active rediscounting facility for projects in execution will reduce or mitigate discontinuities in local administrations that could otherwise affect projects in the pipeline.<br>• The recent changes in local governments will be leveraged to support new projects.<br>• A business strategy will be used with subnational entities in which the supply of resources is targeted to achieve compliance with legal or regulatory requirements.<br>• Events showcasing the services that Findeter can provide to subnational entities and public service and utility companies. |
| Economic and financial | If the national government's policies and priorities change, procurement processes may be delayed. | Medium-high | • Activities eligible for financing, especially those related to institution-strengthening, will be reviewed and adjusted to achieve an adequate degree of alignment and complementarity with resources that the Colombian government can provide to subnational entities either directly or in funds of the General Royalties System (SGR).<br>• The political, legal, and regulatory environment will be monitored, to align credit resources with investment priorities or needs. |

2.13 **Sustainability of the operation.** The institutional strengthening of Findeter will be of crucial importance in ensuring the operation's viability and long-term impact. During the execution of this operation, Findeter will broaden the range of access to its financial products and will reinforce its technical and operational project management capacity, with special emphasis on the management of innovative projects for subnational entities with weak institutional capacities. This will include improvements in the management of socioenvironmental risks, greater efficiency in project identification and in the implementation of the necessary steps to ensure the viability of such projects, and the incorporation of sustainability, gender, and diversity criteria into its portfolio of financial services. The SARAS also provides a system for the analysis of technical and operational risks (known by its acronym, SARTO) that can be used to identify potential problems with sustainability in projects at their operational or maintenance stages. The consolidation of these capacities will enable Findeter to maintain a range of financial products for ensuring that investments continue to have a positive impact on beneficiary communities over the long term. Borrowing proposals are authorized by the subnational entities' administrative bodies (municipal councils or departmental assemblies) based on municipal investment plans, which include sections on project operation and maintenance.

## III. IMPLEMENTATION AND MANAGEMENT PLAN

### A. Summary of implementation arrangements

3.1 **Borrower, executing agency, and guarantor.** Findeter will be the borrower and executing agency for the operation, as it was for the previous operations under this conditional credit line for investment projects (CCLIP). Findeter has executed loan operations 3392/OC-CO, 3596/OC-CO, and 3842/OC-CO satisfactorily and in compliance with the Bank's Policy on Eligible Borrowers (Operational Policy OP-301). The updated analysis using the Institutional Capacity Assessment Platform and the Risks Matrix indicate that Findeter has the capacity to execute this operation with the Republic of Colombia as guarantor.

3.2 Findeter has an international credit risk rating of BB+ and a national long-term rating of AAA from both Standard & Poor's and Fitch Ratings. As of 2023, Findeter had US$3.7 trillion in assets, US$3 trillion in liabilities, and US$41.5 million in earnings. The Office of the Vice President for Finance has done a satisfactory job in administering the resources for previous operations under this CCLIP and will perform the same duties for this operation. It will continue to follow the customary procedures (as specified in the program Credit Regulations, optional link 3) within the framework of its organizational, administrative, and financial structure and to serve as the interlocutor and coordinator for the program with the IDB. The International Banking Division, which reports to the Office of the Vice President for Finance, will work with the various administrative, operational, commercial, and financial offices and bodies to ensure that all stipulations and standards in the loan contract are met and that the operation's development objectives are achieved in accordance with the organization's internal procedures.

3.3 Findeter will be responsible for administering the funds, advising subnational entities on eligibility, planning the operation's execution, preparing financial reports, and commissioning annual audits. The Coordinating Office for Nonfinancial Risks will handle environmental and social issues and ensure that the relevant professional staff are properly trained.

3.4 **Eligibility of beneficiary subnational entities and projects.** All the subnational entities in Colombia and their public service and utility companies meeting the criteria of the Program Credit Regulations (optional link 3) are eligible for this program, although priority will be given to those with low levels of institutional capacity (categories 3 through 6). In order to qualify for resources under Component 1, subnational entities' borrowing capacity will have to have been favorably evaluated by Findeter, and they will have presented project proposals that match up the subcomponents of the program.[44] Projects must be aligned with the objectives and goals of the program, included in the investment plans of the corresponding subnational entity development plans, and formulated and registered in national- or local-level project banks. They must also have resource allocations approved by the corresponding governing bodies, meet the eligibility criteria specified in CONPES document 3787 of 2013, and adhere to the Bank's procurement and environmental and social policies. In addition to this, subnational entities in categories 3 to 6 will be able to access technical assistance for structuring of projects, as well as financing, individually or through regional partnership mechanisms, autonomous assets, or subnational entities at a higher level. Checks will be carried out to ensure that the investments are not on the Bank's list of excluded activities, and a project-specific evaluation will be conducted if necessary.

3.5 **Special contractual conditions precedent to the first disbursement of the financing: (a) The borrower has approved the Program Credit Regulations, (optional link 3) which must include the environmental and social requirements for the program; and (b) as part of the program execution structure, an environmental specialist and a social specialist have been contracted/appointed to be responsible for the program's socioenvironmental management. These conditions are necessary to establish the guidelines, structure, handbooks, and procedures to be followed by the executing agency for successful execution of the components (paragraphs 1.51 to 1.55). For other conditions precedent, see the environmental and social review summary (Annex B: Contractual conditions) (required link 3) and Annex III, Fiduciary Agreements and Requirements.**

3.6 **Exceptions to Bank policies.** As in the case of the previous individual operations financed under this CCLIP, this operation will make use of the partial waivers approved by the Board of Executive Directors for individual operations in relation to the Policy on Guarantees Required from the Borrower (Operational Policy OP-303) such that, in the guarantee contract to be signed with the Bank, the Republic of Colombia guarantees only its payment obligations.

3.7 The policy on Guarantees Required from the Borrower (GP-104-2) states that loans to national decentralized entities require the country's joint and several guarantee of: (i) repayment of principal and payment of interest and other financial charges; and (ii) compliance with contractual obligations related to project execution (performance-related obligations); and the provision of local counterpart resources. For this operation, the Republic of Colombia will grant a joint and several guarantee of the loan and all its financial obligations (payment of principal, interest, and other financial charges). Under Colombian law (Article 41 of Act 80), the guarantee contracts issued by the Republic of Colombia for loans to national

[44] Subloans exceeding the ceiling of US$25 million must have the Bank's no objection following a review of the executing agency's application by the Team Leader, after having consulted with the operation's fiduciary specialists, based on the determinations made during the six-monthly planning sessions and concerning the pipeline presented by Findeter. See optional link 3. In the case of eligibility conditions for public service and utility company projects, the link must be demonstrated between the investment project and the management and results plan, duly updated and approved by the relevant authority of the company.

decentralized entities can only guarantee the payment obligations. For this reason, the borrower's performance-related obligations are not covered by the guarantee and will be the exclusive responsibility of the borrower. This waiver has no repercussions on the Bank's risk profile, since a full sovereign guarantee remains in place for the repayment of the loan principal and payment of interest and other financial charges.

3.8 **Program Credit Regulations.** All conditions related to the program's implementation will be set out in the program Credit Regulations. This includes: (i) institutional capacities required of the executing agency; (ii) the procedures for granting and delivering resources to subnational entities; (iii) aspects of the execution of Component 1; (iv) environmental and social requirements (required link 3); and (v) special, complementary conditions supplementing those contained in the Regulations Governing Findeter Rediscounting Operations.

3.9 **Reimbursement of expenditures and retroactive financing.** The Bank may retroactively finance up to US$40 million (20% of the proposed loan amount), as a charge against the loan proceeds, and may recognize up to US$1.4 million (20% of the estimated local contribution) as part of the local contribution, in eligible expenditures made prior to the loan and pipeline approval date, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been made on or after 24 September 2024, but in no case will any expenditures be covered that were incurred more than 18 months before the loan approval date.

3.10 **Financial management, disbursements, and audits.** The financial management of the loan funds will adhere to the Financial Management Guidelines for IDB-Financed Projects (OP-273-12 or subsequent updated versions thereof). The preferred disbursement method will be reimbursement of expenditures made. Once an advance payment is made, any future advances will be contingent upon at least 80% of the total balances pending justification having been accounted for. The executing agency will submit a special-purpose financial statement within 120 days after the close of each fiscal year or the contractual date of the last disbursement. In the event that retroactive financing is to be provided, the request must be accompanied by an audited reasonable assurance report on the status of the expenditures in question. The external auditing services must be provided by an auditing firm deemed eligible by the Bank.

3.11 Because the resources for Component 1 will be in the form of a global credit loan, those funds will be used only for the provision of credits defined in the program Operating Regulations. Contracting operations undertaken by subnational entities that are financed by Findeter may be carried out in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (GN-2349-15[45] or subsequent updated versions thereof) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-15[46] or subsequent updated versions thereof) (Annex III).

[45] In particular the provisions included in paragraph 3.13 on Procurement in Loans to Financial Intermediaries.

[46] In particular the provisions included in paragraph 3.15 on Commercial Practices.

## B. Summary of arrangements for monitoring results

3.12 **Monitoring.** The program's progress will be monitored using the following tools: (i) semiannual project status reports on each output that will be prepared by Findeter and reviewed by the Bank; (ii) semiannual updates on the execution plan; (iii) monthly reports on the use and placement of disbursements; (iv) a final report prepared by Findeter for submission to the Bank within 90 days following the last justification of funds for the operation; (v) regular follow-up meetings between IDB and Findeter; (vi) financial audits conducted by an independent firm that is deemed acceptable by the IDB; and (vii) supervision on the ground by the Bank.

3.13 **Evaluations.** The monitoring and evaluation plan (required link 2) details the arrangements for the operation's evaluation. A midterm review will be conducted 90 days after 50% of the resources have been disbursed or when execution has been under way for 30 months, whichever comes first, to identify progress made as measured against the established output and outcome indicators and in terms of the processes involved. In addition, a final evaluation will be carried out using the operation's resources once the final disbursement has been made. This evaluation will verify that the operation's specific objectives have been achieved and will seek to determine the factors to which those achievements can be attributed. This will include a pre-post analysis and a qualitative theory-of-change evaluation that will provide evidence concerning the operation's effectiveness and the lessons to be learned from the modifications made to the program, which may serve as inputs for future CCLIPs. Lastly, an ex post economic analysis will seek to gauge the social profitability of the program activities.

3.14 The Bank will prepare a project completion report that will document the outcomes of the project's implementation.

## IV. ELIGIBILITY CRITERIA

4.1 **Eligibility of the fourth operation.** This operation meets the eligibility requirements established in the CCLIP loan contract (optional link 8) for the following reasons: (i) the execution of the preceding operation attained the expected overall performance level, as attested to by its classification in the Project Performance Monitoring Report and the validation of its satisfactory rating[47] by the IDB Country Office in Colombia. This rating included compliance with contractual loan conditions and the CCLIP agreement signed by the borrower, compliance with the Bank's policies on disbursements and the procurement of goods and services, the timely submission of financial statements and operational reports of an acceptable quality, the preparation of the midterm review, and assurances concerning the maintenance of the investments; (ii) the executing agency turned in a solid performance in executing the preceding projects; (iii) the findings of the institutional analysis indicate that the executing agency's institutional performance has been satisfactory; and (iv) the sectors that are to receive financing are aligned with the priorities established in the Bank's country strategy with Colombia and its institutional strategy.

4.2 The execution of the third operation under this CCLIP (3842/OC-CO) is nearing completion. The project team believes it is an appropriate time to embark upon this new operation, since the two operations are physically and financially independent of one another. Although the third operation's disbursements have not been completed, its execution is well advanced, and it is expected that it will have closed by the time the new operation is launched. The design of this new operation incorporates lessons learned from the previous operations conducted under this CCLIP (paragraphs 1.23 and 1.24).

[47] The 2021 and 2022 cycles of the Project Monitoring Reports for the third operation classified it as "problem" because priority was placed on executing the resources of the second operation. The components of the 2021-2022 execution plan were carried out in 2023, when the operation was automatically classified as "alert" because its financial execution exceeded the expected level, but CAN/CCO then reclassified it as "satisfactory" because of the rapid progress made in its execution during this period. That "satisfactory" classification remains in effect.

| Development Effectiveness Matrix | | |
|---|---|---|
| Summary | CO-L1299 | |
| *I. Corporate and Country Priorities* | | |
| **Section 1. IDB Group Institutional Strategy Alignment** | | |
| Operational Focus Areas | -Biodiversity, natural capital, and climate action<br>-Gender equality and inclusion of diverse population groups<br>-Institutional capacity, rule of law, citizen security<br>-Sustainable, resilient, and inclusive infrastructure | |
| [Space-Holder: Impact framework indicators] | | |
| **2. Country Development Objectives** | | |
| Country Strategy Results Matrix | GN-2972 | (i) Improve the quality of infrastructure and urban development, (ii) increase the quality of spending and the management capacity of public investment at all levels of government, and (iii) increase equitable access to quality basic services. |
| Country Program Results Matrix | GN-3207 | The intervention is 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** | 5.2 | |
| 3.1 Program Diagnosis | 1.9 | |
| 3.2 Proposed Interventions or Solutions | 0.0 | |
| 3.3 Results Matrix Quality | 3.4 | |
| **4. Ex ante Economic Analysis** | 6.5 | |
| 4.1 Program has an ERR/NPV, or key outcomes identified for CEA | 1.5 | |
| 4.2 Identified and Quantified Benefits and Costs | 3.0 | |
| 4.3 Reasonable Assumptions | 0.0 | |
| 4.4 Sensitivity Analysis | 2.0 | |
| 4.5 Consistency with results matrix | 0.0 | |
| **5. Monitoring and Evaluation** | 9.5 | |
| 5.1 Monitoring Mechanisms | 4.0 | |
| 5.2 Evaluation Plan | 5.5 | |
| *III. Risks & Mitigation Monitoring Matrix* | | |
| Overall risks rate = magnitude of risks*likelihood | Medium Low | |
| Environmental & social risk classification | FI | |
| *IV. IDB´s Role - Additionality* | | |
| The project relies on the use of country systems | | |
| Fiduciary (VPC/FMP Criteria) | Yes | Budget, Treasury, Accounting and Reporting, Internal Audit.<br><br>Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding. |
| 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 | ATN/OC-18371-CO; ATN/CF-16250-CO;ATN/PI-19384-CO. |

***Evaluability Assessment Note: The general objective of the program is to increase public investment in infrastructure to provide public goods, services, and facilities within Colombia's territorial entities (TEs). The specific objectives are: (i) to increase financing for urban and territorial development in TEs through financial support for the BND (National Development Bank); and (ii) to strengthen municipal capacities to access financing for urban and territorial development by supporting and enhancing the BND.***

***The project presents a comprehensive diagnostic and an accurate description of the challenges faced by the territorial entities in accessing financing for public infrastructure investment, including difficulties stemming from their own capacity limitations. Most of the outcome indicators included in the results matrix are SMART and have verification methods.***

***The economic analysis quantified the cost-benefit of three infrastructure projects that are candidates for financing through BND loans, as they fall within eligible sectors and represent the types of projects expected to be demanded by territorial entities, according to the demand study in the Technical Analysis Annex on Fiscal Strengthening and Public Investment Expenditure Needs. The cost-benefit analysis includes reasonable assumptions and an appropriate sensitivity analysis. All evaluated projects were found to have positive profitability according to the Net Present Value, with an Internal Rate of Return exceeding 12%. The aggregated analysis shows that the project is economically viable, with an IRR of 33.90%.***

***The monitoring and evaluation plan proposes to measure the intervention's effectiveness through an ex-post cost-benefit analysis, a before-and-after comparison, and a qualitative evaluation of the Theory of Change and effectiveness.***

# RESULTS MATRIX

| | |
|---|---|
| **Project objective:** | The general objective of the operation is to increase public investment in infrastructure for the provision of public goods and services and facilities in the subnational entities of Colombia. The specific objectives are: (i) to increase financing for the urban and regional development of subnational entities by providing financial support for the national development banks; and (ii) to build the capacity of the municipios to access finance for urban and regional development by supporting and improving the national development bank. |

## GENERAL DEVELOPMENT OBJECTIVE

| Indicators | Unit of measure | Baseline value | Baseline year | Target date | Target | Means of verification | Comments |
|---|---|---|---|---|---|---|---|
| **General development objective: Increase public investment in infrastructure for the provision of public goods and services and facilities in the subnational entities of Colombia** | | | | | | | |
| 1. Category 3, 4, 5, and 6 municipios with low water and/or sanitation service coverage rates | Number of municipios | 712 | 2024 | 2030 | TBD (see required link 2) | Reporting by the national development banking system | The target will be determined at the project launch workshop based on national development bank projections. See the monitoring and evaluation plan (required link 2). |

## SPECIFIC DEVELOPMENT OBJECTIVES

| Indicators | Unit of measure | Baseline value | Baseline year | End of project | Means of verification | Comments |
|---|---|---|---|---|---|---|
| **Specific development objective 1: To increase financing for the urban and regional development of subnational entities by providing financial support for the national development banks** | | | | | | |
| 1.1 Relevant portfolio of the national development banking system for increasing financing for urban and regional development | U.S. dollars | 1,646,810,000 | 2023 | 1,841,810,000 | Reporting by the national development banking system | See required link 2 |
| 1.2 Credit granted by the national development banking system to finance projects in eligible sectors of subnational entities | Percentages | 0 | 2024 | 100% | Reporting by the national development banking system | See required link 2 |
| 1.3 Municipios with low utility service coverage rates benefiting from improvements in access or quality of public utilities brought about by the operation | Number of municipios | 0 | 2024 | 5 | Reporting by the national development banking system | See required link 2 |

| Indicators | Unit of measure | Baseline value | Baseline year | End of project | Means of verification | Comments |
|---|---|---|---|---|---|---|
| 1.4 Installed capacity of nonconventional renewable energy sources | Megavolts (MW) | 0 | 2024 | 10 | Reporting by the national development banking system | See required link 2 |
| 1.5 Projects for the expansion or upgrading of goods for public use | Number of projects | 0 | 2024 | 40 | Reporting by the national development banking system | See required link 2 |
| **Specific development objective 2: To build the capacity of the municipios to access finance for urban and regional development by supporting and improving the national development bank** | | | | | | |
| 2.1 Funded projects benefiting Category 3, 4, 5, or 6 municipios | Percentages | 0 | 2024 | 30% | Reporting by the national development banking system | See required link 2 |
| 2.2 Conclusion of agreements between subnational entities for projects benefiting more than one municipio in Categories 3,4,5, or 6 | Number of agreements | 0 | 2024 | 4 | Reporting by the national development banking system | See required link 2 |
| 2.3 Nonreimbursable resources granted by the national development banking system for subnational entity institutional strengthening projects | Percentages | 0 | 2024 | 100% | Reporting by the national development banking system | See required link 2 |
| 2.4 Percentage of national development banking operations (measured in terms of value) that apply the Social and Environmental Risk Analysis System | Percentages | 30% | 2023 | 50% | Reporting by the national development banking system | See required link 2 |
| 2.5 Green financing disbursed by the national development banking system | Percentages | 4% | 2024 | 10% | Reporting by the national development banking system | See required link 2 |

## OUTPUTS

| Indicators | Unit of measure | Baseline value | Baseline year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | End of project | Means of verification | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Component 1: Support for public investment to finance the urban and regional development of subnational entities** | | | | | | | | | | | |
| 1.1 Program funds granted to the national development banking system for financing the urban and regional development of subnational entities | US$ millions | 0 | 2024 | 38 | 65 | 59 | 22 | 11 | 195 | Reported disbursements | See required link 2 |
| **Component 2: Support for building the capacity of the country's municipios to secure financing for their urban and regional development processes by supporting and enhancing the national development banking system** | | | | | | | | | | | |
| 2.1 Training provided to teams from the national development banking system on the inclusion of carbon neutrality, energy efficiency, and green carbon criteria in technically and financially viable projects whose development was made possible by the Preinvestment and Investment Fund | Number of training sessions | 0 | 2024 | 1 | 0 | 1 | 0 | 0 | 2 | Records on implementation of training activities | See required link 2 |
| 2.2 Updating of the Social and Environmental Risk Analysis System of the national development banking system | Number of systems updated | 0 | 2024 | 0 | 0 | 0 | 0 | 1 | 1 | Social and Environmental Risk Analysis System document | See required link 2 |
| 2.3 Design and adoption of a manual on the inclusion of the gender perspective in financial products | Number of manuals | 0 | 2024 | 0 | 0 | 0 | 0 | 1 | 1 | Finalization of the manual and report on its formal adoption by the national development banking system signed by the Vice President for Finance | See required link 2 |
| 2.4 Entry into operation of sustainability offices in the national development banking system | Number of offices | 0 | 2024 | 0 | 1 | 0 | 0 | 0 | 1 | Sustainability report of the national development banking system | See required link 2 |

| Indicators | Unit of measure | Baseline value | Baseline year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | End of project | Means of verification | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2.5 Departments registered with the platform for the identification of potentially bankable projects | Number of departments | 0 | 2024 | 5 | 0 | 0 | 2 | 3 | 10 | Platform accessible on the Intranet of the national development banking system | See required link 2 |
| 2.6 Training provided to the sales force for financial services funded by the multilateral banking system | Number of training sessions | 0 | 2024 | 2 | 1 | 1 | 1 | 1 | 6 | Records on implementation of training activities | See required link 2 |
| 2.7 Gender and diversity training provided to subnational technical assistance and implementation teams and to staff of the Sustainability Directorate | Number of training sessions | 0 | 2024 | 2 | 2 | 1 | 0 | 0 | 5 | Records on implementation of training activities | See required link 2 |
| 2.8 Financing provided for the Preinvestment and Investment Fund | US$ millions | 0 | 2024 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 5.0 | Reported disbursements | See required link 2 |

**Country:** Colombia **Division:** HUD **Operation no.:** CO-L1299 **Year:** 2024

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Executing agency:** Financiera de Desarrollo Territorial S.A. (Findeter)

**Operation name:** "Subnational Public Investment Strengthening Program (CO-L1299)." Fourth Individual Operation for the Financing of the "Fiscal and Public Investment Expenditure Strengthening Program for Subnational Entities" under the Multisector Conditional Credit Line for Investment Projects (CO-X1018).

## I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. **Use of country systems in the operation**[1]

| | | | |
|---|---|---|---|
| ☒ Budget | ☒ Reports | ☒ Information systems | ☒ National competitive bidding (NCB) |
| ☒ Cash flow | ☒ Internal audit | ☒ Price comparison | ☐ Other |
| ☒ Accounting | ☒ External control | ☒ Individual consultants | ☐ Other |

2. **Fiduciary execution mechanism**

| | | |
|---|---|---|
| ☒ | Special features of fiduciary execution | The executing agency will finance onlending operations for eligible subnational entities for the execution of infrastructure works (including works involving the use of nonconventional renewable energy sources, energy communities, and energy storage solutions) as indicated in paragraph 1.39(c) of this proposal for operations development. These works will be contracted for and executed by the corresponding subnational entities. This aspect of the operation's execution will therefore be analogous to a global credit loan operation. The executing agency's Office of the Vice President for Finance will be accountable to the Bank for the management of the entire operation. The management team will be composed entirely of Findeter staff members.<br><br>Given the above, the program Credit Regulations will include provisions concerning the implementation of environmental and social mitigation measures such as contractual assurances from the lender and from the borrowers in respect of the primary suppliers of solar equipment, taking into account market conditions and industry standards. |

[1] Any system or subsystem subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation thereof.

3. **Fiduciary capacity**

| | |
|---|---|
| Fiduciary capacity of the executing agency | The executing agency has sufficient institutional capacity to execute this fourth operation under the CCLIP for program CO-X1018. Opportunities for improvements have been identified and are discussed in the section on fiduciary risks. |

4. **Fiduciary risks and mitigation actions**

| Risk category | Risk | Risk level | Mitigation actions |
|---|---|---|---|
| Institutional | Given the special aspects of fiduciary execution in this case, projects deemed to be bankable by the relevant subnational entity may not meet the requirements of the IDB. | Medium-low | Retention of specialized staff of the executing agency who have already participated in the execution of earlier operations under this CCLIP and the ongoing provision of updates on IDB fiduciary requirements. |
| Institutional | The complexity of the decision-making structure relating to project financing and authorization of disbursement requests could result in significant delays in the operation's execution. | Medium-low | Streamlining, to the extent possible, of decision-making and authorization procedures regarding project activities. |

5. **Policies and guidelines applicable to the operation:** GN-2811-1; GN-2349-15, GN-2350-15; and GN-2259-1.

6. **Exceptions to policies and guidelines:** GP-104-2 regarding performance-related obligations.

## II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

| |
|---|
| **Special conditions precedent to the first disbursement:** There are no special fiduciary conditions. |
| **Exchange rate:** For the purposes of Article 4.10 of the General Conditions, the parties agree that the exchange rate to be used will be the rate stipulated in Article 4.10(b)(ii). For such purposes, the agreed exchange rate will be the rate on the effective date when the borrower or any other person or corporation with delegated authority to incur expenditures makes the respective payments to the subborrower, contractor, vendor, or beneficiary. This rate will apply to expenditures paid against advances of funds.<br><br>(b) For the purpose of determining the equivalency of expenditures incurred in local currency chargeable against the local contribution or the reimbursement of expenditures chargeable against the loan proceeds, the exchange rate to be used will be the rate in effect on the date of the reimbursement request for replenishment of payments.<br><br>(c) In both cases, the benchmark rate will be the Representative Market Rate (TRM) published by Banco de la República. |
| **Type of audit:** Special-purpose financial auditing. |

## III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

| | | |
|---|---|---|
| ☒ | Bidding documents | For the direct procurement of works, goods, and nonconsulting services by the executing agency in accordance with the Bank's Policies for the Procurement of Goods and Works (document GN-2349-15) subject to international competitive bidding (ICB), the Bank's standard bidding documents or those agreed. upon by the executing agency and the Bank for a particular procurement operation will be used. The selection and contracting of consulting services will be conducted in accordance with the Policies for the Selection and Contracting of Consultants (document GN-2350-15). The standard Request for Proposals issued by the Bank, or another document agreed upon by the executing agency and the Bank for a particular selection process, will be used. The review of technical specifications and the terms of reference for procurements during the preparation of selection processes will be the responsibility of the project's sector specialist. This technical review may be carried out ex ante and will be independent of the procurement review method employed. |
| ☒ | Projects involving financial intermediaries | For loans made under global credit programs and other operations in which resources are provided to financial intermediaries for use in subloans or another financing modality, it is to be indicated that agreements reached among the executing agency, its financial intermediaries, and the ultimate beneficiaries must include the appropriate clauses on practices prohibited by the Bank. Alternatively, if the circumstances make it impossible or impracticable to include those clauses in the relevant contracts, the project team will analyze other mechanisms for the adoption of acceptable controls and the due incorporation of the appropriate provisions regarding sanctions applicable to third parties. The design of those mechanisms will be coordinated with the Office of Institutional Integrity with support from the Legal Department and will be covered in the program Credit Regulations.<br>Procurement operations carried out by subnational entities that are financed with Component 1 resources are to be conducted in accordance with the Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (document GN-2349-15[2]) or updated versions thereof and the Policies for the Selection and Contracting of Consultants financed by the Inter-American Development Bank (document GN-2350-15[3]) or updated versions thereof. Procurement operations conducted by the executing agency that are chargeable to the budget line for administration, auditing, and monitoring and evaluation will be carried out in accordance with the above-mentioned policies (documents GN-2349-15 and GN-2350-15). |

[2] In particular the provisions included in paragraph 3.13 on Procurement in Loans to Financial Intermediaries.

[3] In particular the provisions included in paragraph 3.15 on Commercial Practices.

<table>
<tr><td>☒</td><td>Advance procurement and retroactive financing</td><td>The Bank may retroactively finance up to US$40 million (20% of the proposed loan amount), as a charge against the loan proceeds, and may recognize up to US$1.4 million (20% of the estimated local contribution) as part of the local contribution, in eligible expenditures made prior to the loan and pipeline approval date, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been made on or after 24 September 2024 (approval date of the proposed loan), but in no event will any expenditures be covered that were incurred more than 18 months before the loan approval date. (See documents GN-2349-15 and GN-2350-15, and the Bank Policy on Recognition of Expenditures, Retroactive Financing, and Advance Procurement, GN-2259-1).</td></tr>
<tr><td>☒</td><td>Procurement supervision</td><td>The supervision of procurement operations will be conducted by means of ex post reviews except in cases where ex ante reviews are called for. When procurements are carried out using the country system, the country’s supervisory system will be used. The method of supervision (i) ex ante, (ii) ex post, or (iii) country system] to be used will be determined on a case-by-case basis. Ex post reviews will be carried out each calendar year in accordance with the project supervision plan, subject to changes made during the execution period. Ex post review reports will include a sample verification procedure selected by the Bank; the verification of quality and adherence to specifications will be the responsibility of the sector specialist. The thresholds for ex post reviews are as follows:
<table>
<tr><th>Works</th><th>Goods / services</th><th>Consulting services</th></tr>
<tr><td>US$10 million</td><td>US$1 million</td><td>US$200,000<br>Firms<br>US$50,000<br>Individuals</td></tr>
</table>
</td></tr>
<tr><td>☒</td><td>Records and files</td><td>The executing agency has a publicly available system for the prompt publication of contract awards that is free of charge. That system may be accessed at: https://www.findeter.gov.co/.<br><br>The executing agency also uses an electronic system for archiving and recording supporting documentation for the procurement of works, goods, and consulting services (Electronic Public Contracting System (SECOP)), which is the computer platform for transactions conducted by government entities and suppliers.<br><br>Pursuant to Colombian law, the executing agency and subnational entities are required to ensure that all files are available for inspection by the Office of the Comptroller General of the Republic (CGR) for a minimum period of five years. In accordance with IDB policy, the executing agency and subnational entities must maintain all documentation of procurement operations financed by or reimbursed with loan funds for a minimum period of three years following the contractual date of the final disbursement.</td></tr>
</table>

## IV. Financial Management Agreements and Requirements

| | | |
|---|---|---|
| ☒ | Programming and budget | The budget for this operation will be administered in accordance with the practices and regulations of the executing agency provided that they do not run counter to the requirements established in the Financial Management Guidelines for IDB-financed Projects (OP-273-12) or the loan contract. The operation's budgetary programming will be the responsibility of the executing agency's Office of the Vice President for Sales and the Office of the Vice President for Finance, which will be in charge of communications with subnational entities eligible for financing under the facility and with liaisons for the National Planning Department and the Ministry of the Treasury and Public Credit, respectively. Projects in the pipeline that are identified and approved for financing by the relevant parties will serve as a basis for programming the loan disbursements. It is expected that challenges will be encountered with respect to execution owing to the amount of time that will be required to identify projects in the pipeline and secure high-level approval for their financing. |
| ☒ | Cash flow and disbursement management | The operation's cash flow will be managed in accordance with the practices and regulations of the executing agency provided that they do not run counter to the requirements established in the Financial Management Guidelines for IDB-financed Projects (OP-273-12) or the loan contract. The project's cash flow will be in keeping with the size of the portfolio of bankable projects identified and approved by the executing agency. The executing agency will open a designated account in a highly reputable commercial bank for the receipt and administration of loan resources. Disbursements will be made electronically using the financial module available in the client portal. The currency to be used for this operation is U.S. dollars, and the exchange rate to be used will be the actual rate in force on the date on which the approval currency or disbursement currency is converted into the local currency (option (b)(i) of Article 4.10 of the Loan Contract General Conditions). The exchange rate to be used for determining the equivalent of expenses incurred in the local currency for purposes of reimbursement from the loan funds will be the representative market rate on the day on which the disbursement request was prepared and submitted for approval by the executing agency's authorized signing officer for matters pertaining to the Bank. The operation will generally work with a sliding 12-month financial planning window. The preferred disbursement method will be reimbursement of payments made. If advance payments are to be made, the operation will be expected to account for 80% of the total balances pending justification. |
| ☒ | Accounting, information systems, and reporting | Accounts will be kept in accordance with Colombia's Accepted Financial Reporting Accounting Standards (NCIF), established in Act 1314 of 2009 and governed by Comprehensive Regulatory Decree 2420 of 2015 as amended by Decrees 2496 of 2015, 2131 of 2016, 2170 of 2017, 2483 of 2018, and 2270 of 2019, which are based on the International Financial Reporting Standards (IFRS). The pertinent regulatory framework includes the Basic Accounting and Financial Circular (External Circular 100 of 1993) and the Basic Legal Circular (External Circular 029 of 2014) of the Financial Superintendency of Colombia. |

| | | |
|---|---|---|
| | | The account books for the operation will use the executing agency's Dinamix enterprise resource planning module and the accrual basis accounting method. The executing agency will certify that expenditures corresponding to bankable projects that are chargeable to the financing facility are recorded in the subnational entities' accounts. The financial reports required by the Bank will be issued by the executing agency based on its own accounting records and those of the subnational entities receiving financing. The report containing the statement of subloans and expenditures financed by the facility will be subject to certification by the external auditor. |
| ☒ | Internal oversight and internal audit | The internal auditing of the project will be conducted in conjunction with the oversight of the activities of the executing agency in general by the executing agency's Office of Internal Oversight. |
| ☒ | External oversight and financial reports | The borrower and executing agency will select and contract the services of an external auditor in accordance with terms of reference previously agreed upon by the executing agency and the Bank. The terms of reference will establish the type of review, its timing, and its scope. The selected external auditor and the auditing standards to be applied must be acceptable to the Bank. Given the nature of this operation, an assurance report in compliance with International Standard on Assurance Engagements (ISAI) 3000 will be certified by the auditor. The type of financial report required for the external audit will be the subloan and expenditure statements of projects provided with financing charged against the financing facility that are used to justify the disbursement requests submitted to the Bank during the period covered by the audit. In addition, the executing agency will submit a copy of the report containing the company's general-purpose financial statements to the Bank. The auditing reports will be submitted to the Bank by 30 April of the year following the period covered by the audit. |
| ☒ | Financial supervision of the operation | The operation requires financial supervision focused on validating the eligibility of expenditures associated with the projects that are to receive financing charged against the financing facility. Assessments and on-site and desk reviews will be conducted under the responsibility of the financial specialist annually, subject to adjustments during the execution period. |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/24

Colombia. Loan ____/OC-CO to Financiera de Desarrollo Territorial S.A. (FINDETER)
Territorial Public Investment Strengthening Program. Fourth Individual Operation
for the Financing of the Fiscal and Public Investment Expenditure Strengthening
Program for Subnational Entities under the Multisector Conditional
Credit Line for Investment Projects (CCLIP) (CO-X1018)

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 Financiera de Desarrollo Territorial S.A. (FINDETER), as borrower, and with the Republic of Colombia, as guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Territorial Public Investment Strengthening Program, which constitutes the fourth individual operation under the Multisector Conditional Credit Line for Investment Projects (CCLIP) CO-X1018, approved by Resolution DE-204/14 on 15 December 2014. Such financing will be in the amount of up to US$200,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ____________ 2024)

LEG/SGO/CAN/EZIDB0000366-1274791288-26564
CO-L1299

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/24

Colombia. Modification to the Multisector Conditional Credit Line for Investment Projects (CCLIP) for the Fiscal and Public Investment Expenditure Strengthening Program for Subnational Entities (CO-X1018)

The Board of Executive Directors

RESOLVES:

To approve the amendments to the Fiscal and Public Investment Expenditure Strengthening Program for Subnational Entities (CO-X1018) (the "CCLIP"), approved by Resolution DE-204/14 on 15 December 2014, as described in document PR-____, and authorize the President of the Bank, or such representative as he shall designate, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Financiera de Desarrollo Territorial S.A. (FINDETER) to extend the CCLIP until 25 July 2025, thereby permitting the inclusion of the Territorial Public Investment Strengthening Program, which constitutes the fourth individual operation under the CCLIP.

(Adopted on _______________ 2024)

LEG/SGO/CAN/EZIDB0000366-1274791288-26684
CO-X1018 – Amendment