RE-337

Country Program Evaluation: Colombia (1998-2006)

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CONTENTS

ABBREVIATIONS

BCS	Bank country strategy
CAF	Corporación Andina de Fomento [Andean Development Corporation]
CGR	Contraloría General de la República [Office of the Comptroller General]
CONFIS	Consejo Superior de Política Fiscal [Senior Fiscal Policy Council]
CONPES	Consejo Nacional de Política Económica y Social [National Economic and Social Policy Council]
CPE	Country Program Evaluation
DNP	Departamento Nacional de Planificación [National Planning Department]
FTA	Free trade agreement
IMF	International Monetary Fund
INURBE	Instituto Nacional de Vivienda de Interés Social y Reforma Urbana [National Social Housing and Urban Reform Administration]
ISS	Instituto de Seguros Sociales [Social Security Administration]
MAVDT	Ministerio de Ambiente, Vivienda y Desarrollo Territorial [Ministry of Environment, Housing, and Territorial Development]
MHCP	Ministerio de Hacienda y Crédito Público [Ministry of Finance and Public Credit]
NFP	nonfinancial product
NRTC	nonreimbursable technical cooperation
PBL	policy-based loan
PBP	programmatic policy-based loan
PCR	Project Completion Report
POS-UPC	Plan Obligatorio de Salud-Unidad de Pago por Capitación [Mandatory Health Plan-Capitation Payment Unit]
PPMR	Project Performance Monitoring Report
RAS	Red de Apoyo Social [social support network]
RSS	Red de Solidaridad Social [social solidarity network]
SGSSS	Sistema General de Seguridad Social en Salud [General Health Insurance System]
SISBEN	Sistema de Selección de Beneficiarios [Beneficiary Selection System]
SPS	Sistema de Protección y Seguridad Social [social protection and security system]

EXECUTIVE SUMMARY

The Country Program Evaluation (CPE) for Colombia analyzes the results obtained by the Bank during the period 1998-2006. The purpose is to improve the effectiveness of the Bank's programming and future operations in the country. Its conclusions reflect on trends in the country's development issues and the Bank's action in their regard. This approach makes it possible to highlight pending challenges and the Bank's potential contribution to addressing them on the one hand and, on the other, to identify the lessons learned from the Bank's activities to improve their linkage and impact in Colombia.

Trends in development issues: Colombia's challenges

Colombia has been making substantial progress. It is now a middle-income country and is on the way to being rated as a country free from investment risk. This progress has allowed it to achieve significant levels of growth, punctually repay its obligations while complying with fiscal accountability targets, increase private investment, and obtain positive results in poverty reduction. In all these areas, its achievements have been among the main objectives of the Bank's program and have converted the country into an important and reliable client.

Colombia has markedly reduced the vulnerabilities it faced at the start of the period. At least three improvements are worth underlining:

(i) Responsible fiscal management and compliance with its financial commitments, although the general government deficit and debt load are still considerable.

(ii) Growth in economic and social opportunities for Colombians and, consequently, a reduction in poverty, and particularly in extreme poverty, although the results in the areas of income equity and formal-sector employment are less impressive.

(iii) Progress in certain aspects of the institutional environment and business conditions, although they continue to depend heavily on the booming external context and advances in softening the economic impact of violence against the State.

The projected medium- and long-term risks point to some uncertainty over the sustainability of the anticipated trends. The key question is how to increase economic growth and link it to more equitable and sustainable results.

As far as the economic expansion is concerned, investment levels are still too low to maintain the sustained growth required to press ahead with the social agenda and create economic opportunities for Colombians. The problem is not access to external financing; it is attributable instead to such factors as:

(i) Low savings levels.[1]

(ii) Difficulties in obtaining more private investment to complement public investment.

(iii) Uncertainties regarding returns on investments.

(iv) Lower oil production.

In Colombia, growth continues to depend fundamentally on the internal economy. External openness is not sufficient and the export structure has not reflected significant growth in more innovative products with higher value added. Growth in trade has been associated with negotiations with the United States market, whose outcome is still uncertain. Increased trade with other countries will depend on improving the way new technologies are adopted into national production[2] and narrowing the gaps in physical infrastructure and human capital, which have not been quick to improve. This situation heightens the country's vulnerability to sudden adverse changes in the global economy, particularly given the importance of the results of public companies in closing the fiscal gap.

Insufficient investment in productive infrastructure and technology slows down growth in the potential product and internal competitiveness. When growth is high, as it is at present, this slow response acts as a core restriction to development.

The continuing low levels of education indicators and the shortcomings in the skills and abilities required of the workforce are a limitation to creating job opportunities. Employment rises with growth, but the incidence of informal labor has been maintained in relative terms, meaning that the gap persists. The informal sector invests little, has low productivity, and interferes with the operation of the formal economy, affecting growth potential. This situation, coupled with an insufficiently developed regulatory apparatus and the high cost of doing business, adds significant internal competitive disadvantages.

Other crucial factors for growth are an improvement in the efficiency and quality of public sector performance. The Colombian public sector could produce more and better without increasing the tax burden, mitigating the impact of budget inflexibility and the demands for a larger primary surplus. A higher tax burden has resulted in enough public savings to increase current spending, driven by the costs of social security, transfers, and internal security, but not by enough to make larger investments in infrastructure. These fiscal strictures place pressure on capital costs, feed the informal economy, and could potentially bring pressure to bear on monetary policy.

In terms of equity in the distribution of the fruits of growth, the country has been reducing the large contingent liability associated with poverty and inequities in access to social services (health care, education, housing, etc.) and has targeted its actions at the population suffering from extreme poverty and the consequences of the armed conflict.

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1 Even despite the recent recovery in private savings.

2 Actually, the unevenness of technological change in Colombia has resulted in low productivity.

Despite the progress made, inequality persists on account of the following factors:

(i) Regional differences in development opportunities.

(ii) Deficits in the quality of basic education and workforce skills.

(iii) Lack of equity and the shrinking value of labor income.

Compensatory social programs had a significant but limited impact. The transfers were one of the key factors which, together with remittances, explained the growth in average income and the reduction in inequality. However, they have not been sufficient to break the intergenerational transmission of poverty and social immobility.

In future, when demand-side subsidies are designed for these social programs, the benefits linked to the completion of general or technical secondary school, which currently present indicators below those of comparable middle-income countries, will need to be included in the analysis.

Returns on education are high and this justifies its inclusion as a development factor. Real wages fell for unskilled and informal-sector workers and rose for more highly skilled workers in the formal sector. The result has been wider inequality between the two labor market segments and reflects the lack of access to better job opportunities that influences the low productivity of workers today.

Results

The program made an important contribution to reducing the distortions caused by the 1999 crisis. Available financial instruments were used to cope simultaneously with the problems of liquidity in the context of a virtually closed capital market, and maintenance of the social expenditure necessary to compensate for the impact of the crisis on the very poor.

When the crisis began to ebb and economic growth and poverty reduction gained in importance, the relevance of Bank approvals was more closely linked to investments, restructuring the debt profile and, to a lesser extent, policy reform. In this stage, operations to improve the business environment to reactivate the economy and the internal competitiveness of services (attributable to government failures) grew in importance.

Most of the typical projects of the period that were reported on can be presented as moderate success stories. There was convergence between the issues dealt with by the projects and program expectations. A significant number of program objectives, however, never materialized, while others, although they took shape, did so with no national policy frameworks to sustain them. Therefore, execution undermined the relevancy of the original programming intent. Implementation of the program was justified more on account of the country's financing needs than on account of compliance with the consensual agenda.[3]

The program did not clearly specify the expected outcomes, when they would be achieved, or how much of an improvement from the baseline would result. The evaluability of the program was poor in this regard and the impact of changes in the economic cycle was not

[3] For further details see paragraphs 2.11-2.14, 4.69-4.71, and Annex II.

properly anticipated. The existence of better results frameworks in the projects compensated for these weaknesses in the program in judging the strategic results of the intents embodied in their objectives.

Monitoring and evaluation are routine functions in the government's investment programs, which the Bank supports to justify the results. However, independent ex post evaluation is not widely used, nor is validation of the suitability of the indicators for evaluating the effectiveness and efficiency of outputs and outcomes.

An analysis of the extent to which the recommendations of the previous CPE 1990-2002 (OVE, document RE-280) were followed is one way of gauging the course of the country's progress and the Bank's contribution to it (see the following table).

As to the recommendations regarding the development areas that were supposed to have been included in the programming, the country viewed them from the standpoint of a pro-market and anti-poverty agenda that complemented the efforts to achieve internal security and public sector reform. Significant progress was made in some cases, while significant challenges continue to exist in others, which were referred to in the preceding section and are summarized in the table.

Many of the areas in which recommendations were made were not assigned to the Bank. Its involvement was ad hoc or sporadic. In some cases, support was limited to nonfinancial products or technical cooperation. This confirms that involvement in the areas of work that the country requires can be improved, since the Bank is in a position to expand its thematic participation although, in future, the country will have fewer financial requirements and the Bank will encounter more competition from other sources.

Treatment of the recommendations in CPE 1990-2002 (OVE, document RE-280) in the new programming cycle

Recommendations		
A. Issues to be broached in the next Bank country strategy (BCS)	**The Bank's involvement**	**Progress by the country and prospects**
1. Debt dynamics		
a. Reconcile fiscal adjustment, debt sustainability, and investment programming	Marginal	The National Development Plan has been made compatible with the medium-term fiscal and spending frameworks, with progress in multi-year programmatic budgeting consistent with macrofiscal policy. Issue to be kept in mind: the inflexibility of public spending.
b. Manage change in the debt profile with the Bank	Important	Substantial progress has been made in the debt profile with the Bank and its counter-cyclical role has been confirmed. Consistency with the available financial instruments has also improved. In future, adaptation of the financial instruments and regulations and flexibility in resource management processes appear to be crucial.
c. Comply with the "golden rule" for borrowing from the Bank	Net benefits produced by interventions are not measured.	Management of the external debt and its integration with medium-term budget and fiscal programming has been modernized. The economic returns from borrowing are not measured.

d. Growth should be balanced with social objectives and debt management.	Important	Portfolio with the Bank concentrated largely on the objectives of mitigating the impact of the situation on social expenditure and restructuring the public external debt.
2. Reform the reforms		
a. Financial markets	Ad hoc, through the MIF.	Consolidation of the clean up of the banking system, new Superintendency of Finance, prudential regulations, risk management, and international accounting principles. Pending reforms are linked to autonomy in the formulation and issuance of regulations, risk management, and access to the capital market by small and medium-sized businesses.
b. Decentralization	Marginal in the fiscal area, centered on national transfers to beneficiaries and investments in large cities.	Subnational fiscal responsibility and transitory constitutional reform until 2008 of revenue sharing with the subnational governments, increased efficiency of compensatory social programs with national participation. Requires subsequent reforms in the rationalization of subnational government organization and powers.
c. Agriculture	Ad hoc and sporadic.	Centered on the development of trade (i.e. a free trade agreement with the United States) and on domestic security. The gap in infrastructure connecting production to markets and weakness in the regulatory and incentive frameworks for private sector participation continues to be important. Requires a deepening of pro-market reforms, fewer regional inequities, and investment.
d. Pensions	Did not participate; supported with nonfinancial products.	Reform 2003 (Law 797) reduces pension liabilities by changing unsustainable parameters, complemented with Law 860 that advances the transition but is not ratified by the legislature, extending it to 2010. The system is young and unstable and faces three challenges: 60% of jobs are in the informal economy (75% of the economically active population); just 15% of older adults have pensions; and similar institutional rules exist with different fiscal effects on pay-as-you go (RPM) and fully-funded pension systems (RAI). This is a serious problem that requires reforms to anticipate the risks.
e. Health care	Important	Major progress in implementing health system reform, with significant headway toward universal coverage. Challenges remain in moving from the subsidized regime to the contributing regime, rationalization of hospitals, and the minimum scale of services for the system's financial equilibrium.

f.	Taxation	Did not participate.	The consolidated fiscal deficit was reduced through growth in revenue, tax reform, and more efficient spending. However, the tax situation is fragile because closing the fiscal gap continues to depend on the operating results of public companies. Genuine tax revenues are low for the expected level of permanent spending.
B.	**Quality of Bank services**	**Actions**	**Bank progress and prospects**
1.	**Improve the evaluability of the next BCS**		
a.	Reasonable indicators with metrics for each strategic objective	Envisaged in the Bank's regulations and guidelines.	The evaluability of the BCS was insufficient as a tool for judging the expected outcomes of the programming intent.
b.	Based on an analysis of the preceding programming cycle	Envisaged in the Bank's regulations and guidelines.	The BCS was not based on adequate monitoring of progress measured by indicators for the previous programming objectives. Improvements were observed in addressing the risks that impacted Bank activities.
2.	**Improve the presentation of the results of individual projects**		
a.	Reasonable metrics for monitoring results, coordinated with the DNP	Envisaged in the Bank's regulations and guidelines.	Significant progress was made compared to the previous CPE. The Bank benefited from the improvement in the capacity of executing agencies and progress in national monitoring and evaluation systems, particularly those of the DNP.
b.	Information on progress in compliance with the development objectives	Envisaged in the Bank's regulations and guidelines.	In two-thirds of the interventions in the last program, the Bank's monitoring and evaluation system has compiled the information necessary to judge the expected outcomes. Work still needs to be done to improve measurement of the quality of the outcomes in terms of impact on the end beneficiaries.
3.	**Strengthen the evaluation capacity of the DNP**	Nonfinancial projects were planned and it was included as a topic on the DNP's agenda.	Marked progress was made in improving evaluation and information methodologies and standards. Major challenges remain, principally related to the independent validation of the quality of the performance indicators used and adoption of a programmatic performance evaluation that integrates investment projects with management of total spending for government products and programs.
4.	**Reduce the number of reservations contained in the audited financial statements (AFSs)**	Envisaged in the internal efficiency agenda of the Country Office.	Significant progress has been made in fiduciary risk over the period. With regard to compliance with the deadlines for the AFSs, progress has been made but the situation is far from perfect.

As to the recommendations to improve the quality of Bank services, progress was made in some areas, while problems remained in others. The main limitation continues to lie in the programming exercise with regard to anticipating and measuring the effectiveness of the outcomes of operations, analyzing impacts, and adequately acting on the lessons learned.

Despite the significant progress in the execution and supervision of operations, major challenges continue to exist. They are linked to the need to reengineer the Bank's activities and operational responsibilities to take greater account of national capacity, by developing innovative, more-competitive products that are adapted to demand.

Conclusions

At the present time, the development banks need to play a more effective role in Colombia that is better tailored to its needs. The country's lower credit risk exposure and sound macroeconomic policy mean that the success of the business plan with the Bank depends on the latter's capacity to diversify the portfolio, introduce innovations in financial products and in the ways in which it works with the country, and maximize the use of national management systems.

The efficiency and effectiveness of Bank services for mobilizing resources requires management that anticipates the risks and is measured by the performance of the budget programs it supports. This means that interventions would be less tied to government policies despite the growing importance of knowledge management and the Bank's role in building consensus on policy reforms.

Business with the country should not be programmed exclusively in an exercise that projects the portfolio in relation to the amounts required by the financial plan and the difficulties that could be posed by capital market access. Management in function of cycles also requires linkage to the country's strategic agenda to address the development challenges and a larger contribution from the Bank's technical services.

There is evidence of an improvement in the country's culture of evaluation and in its risk management. It could benefit from greater Bank cooperation in validation of evaluation indicators used, their integration into national statistics systems and the budget decision process in a consistent manner, and knowledge improvements. Advances in this direction would allow the Bank's supervision and evaluation activities to be delegated reliably and independently.

Colombia requires high levels of growth to generate the income needed to set social expenditures on a sustainable path. In addition to the social requirements, the country will face other sector demands that are equally strategic and that compete for limited resources. Those demands should be considered as a whole to obtain balanced results during the programming period. In the institutional sphere, it will be highly important to achieve suitable coordination and delimitation of functions between the central government and the subnational governments on the one hand and, on the other, to improve the efficiency and quality of the fiscal effort, given the inflexibility of public spending.

Lessons learned and recommendations

The Bank's program is defined in function of the country's vision and plans and in consonance with its borrowing strategy.[4] More recently, Bank approval of any lending

4 All these aspects have a series of preestablished fiscal, monetary, and debt targets.

program has called for compliance with certain medium-term fiscal and budgetary frameworks that include contingent liabilities.

Institutional consistency with the country's policies and actions is indispensable for the viability of the Bank's programming and implementation of the projects envisaged therein. This requirement makes it increasingly necessary for the Bank to shorten the time needed to adapt to the country's particular conditions and to make the country strategy more flexible and innovative instrumentally—aspects that contrast with the structural inflexibility and regulations of most of the multilateral development agencies (MDAs). In this context, the concept of 'project' becomes less important, while the national programs envisaged in the budgets become more so.

As its borrowing requirements ease, macroeconomic management and the elimination of vulnerabilities reduces the need to borrow while generating confidence and broadening access to other sources of financing. This expanded access to international capital markets raises competition for the Bank and heightens the country's negotiating capacity. Anticipating changes in the business cycle as the Bank's portfolio evolves will become fundamental.

The country interprets the efficiency of sources of financing on the basis of their contribution to optimizing a series of factors that operate simultaneously.[5] Such factors change over time and many are exogenous to the sources of credit, which are varied and which adapt at different speeds. In practice, a comparison in these terms stresses as a benchmark for decisions on financing, both their cost and the value added by the source to the country's strategic agenda. The objective function that the country optimizes influences the nature, timing, and depth of the dialogue, and introduces the need for flexibility and innovation in the financial instruments, given the greater uncertainty in the programming exercise.

Since the program will unfold in the context described, the following *recommendations* are offered with a view to *improving the effectiveness of the Bank's future business plans* with the country. Their purpose is to help *anticipate the requisites for developing a differentiated and more competent profile for the Bank in relation to the demands of the type of dialogue required by the country*.

First, achieving an expansive and stable business cycle will demand that the challenges reflect a development agenda different from the one that marked the preceding period. The focal point should be to maintain economic growth similar to its pace in recent years to make the social agenda sustainable and reduce poverty. This growth should be consistent

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5 The following factors stand out in this objective function: optimization of the basic cost-term-currency-access conditions equation, which reflects changes in sovereign risk and private debt in accessing capital markets; the goal of maintaining a large part of total borrowing in multilateral lending agencies (50% at present), in recognition of their counter-cyclical role and capacity to protect fundamental management of the unexpected impact of external volatility; the reduction in operating costs stemming from transactions and processes; knowledge and the quality of studies on topics that are priorities for the country; the adaptability of financial instruments to demand; responsiveness to institutional restrictions and changes in the external environment.

with greater total factor productivity where modern labor makes a more meaningful contribution to growth, with a more equitable share of the fruits.

On the productivity side, issues related to improving capital formation, reducing market failures, increasing private participation in investment, and improving the effectiveness of the public sector will be essential. From the standpoint of equity in progress, a reduction in regional inequalities in terms of opportunities and an improvement in the quality of education and workforce skills are necessary for balanced access to technological change and financial market resources. These aims presuppose that progress in internal security will continue and that financing for them rests on balanced budget performance that includes projected contingent liabilities and an increase in the relative degree to which expenditures are financed by tax revenues.[6]

Second, continuing to use innovative working modalities with the country, particularly with respect to:

(i) *Anticipating the impact of the economic cycle and incorporating it into the strategic agenda established with the country.*

The demand for resources, the priorities, the currency, or the lending instrument used for an operation vary with each stage of the cycle. The use of scenarios that project the impact of the country's business cycle on the program will help ensure that resources are approved for the purposes, modalities, and time frames requested. Also, it will be possible to adjust the disbursements for these operations to the country's financial absorption capacity.

Anticipating the effects of the business cycle on programming, approval, and execution of operations will lessen the risk of Bank's resources becoming pro-cyclical or of projects being carried out over protracted periods.

(ii) The development of knowledge not just for dialogue with the country or for the advisory services offered in areas of Bank involvement, but also *to improve efficiency and effectiveness in managing public resources in budget programs, although Bank financing is not required.*

The nonfinancial products and technical cooperation offered by the Bank and the MIF should be vehicles for transferring international *experience, innovation, and updated sector knowledge* when there is little capacity for effective management of services and investment processes (quality of spending) or problems in devising solutions to the core issues being addressed.

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6 The program under study did not strike a balance between competitive growth, stability, and social well-being in its execution. It failed to anticipate the impact of a change in the economic cycle or the risks to the sustainability of the social results that arose when the strategy to mitigate the crisis and the conflict was supplanted by a long-term development agenda (see footnote 3).

(iii) *Growth in the number of clients without sovereign guarantees*. This portfolio diversification is necessary to increase participation by the private and the public-private sectors, reduce the lag in infrastructure, and develop small and medium-sized businesses in the formal sector with good prospects that have difficulties in gaining access to capital markets on favorable conditions, and to reduce the inequality of opportunities found between subnational entities. A portfolio with clients of this kind requires sustainable subnational fiscal results with the capacity to repay debt, consolidate pending reforms, and a Bank that can manage greater risk.[7]

(iv) *The business plan with the country should determine the best modalities for currency operations and the pooling of loans, with a view to optimizing the objective function that the country plans to use*. Currency diversification will continue to demand external bond issues by the country, which further restricts an expansion of the program. The Bank is competitive in dollars but it should establish how to work in local currency and offer innovative financial instruments so that it does not become unattractive or just marginally competitive. Leaving the definition until the operation design phase detracts from the program's timeliness, adds complexity, and increases the risk of resources not being approved or of their becoming pro-cyclical.

Third, national institutional systems playing a larger role in the preparation, execution, and evaluation of operations, particularly with respect to:

(i) *Focusing the Bank's involvement and resources on country programs (programmatic approach) that form part of the medium-term budget would prevent the program from being executed exclusively in function of the disbursement timetable set out in the financial plan*. Otherwise, the program would be valued solely according to its opportunity cost compared to other sources of financing and not according to the extent to which it is harmonized with the additionality and net value added brought by the Bank.

The programmatic approach would address the need to make the Bank's fiduciary regulations more flexible, without affecting risk. For example, the ability to pool resources from all sources in executing budget programs needs to be adjusted. This has to do with the use of national purchasing and procurement systems, or redefining the way in which the expenses of investment operations are reported, or the resources to which the commitment fee is applied, etc.

(ii) *Stressing the linkage between the Bank's medium-term business plan and the budget framework, with importance being accorded to multiyear budgets, that measures program performance*. This will require the country to make

[7] This recommendation would mean reviewing the Bank's policies and instruments so that over time subnational governments are served more directly and effectively.

efforts to improve the classification and structuring of resources in pursuit of institutional activities, outputs, and targets.[8] [9]

(iii) *Including consideration of budget inflexibility in programming makes it relevant to incorporate goals for efficiency in the use of resources into the Bank-supported program*. Such rigidity acts as a brake on resource allocation decisions, and programming will have to coexist with this problem. Management through better institutions and reporting systems that provide timely measurements of spending performance will be essential.[10]

(iv) *Making more use of national institutional systems in the preparation, execution, and evaluation of operations, insofar as this is justified by technical capacity and safeguards*. The simplification of procedures of concern to the Bank should allow different degrees of freedom that permit standards to be adapted to solutions on a case-by-case basis and be less tied to a single solution applicable to all borrowers. Some country characteristics, such as the quality of its public service and public administration, and the institutional progress noted in certain sectors, make it less risky to work more freely and place more of an individual focus on the country[11]. In such cases, the Bank's activity should concentrate more on supervising

[8] The evaluation found that certain shortcomings would have to be overcome if such progress was to be made: (i) the absence of a classification of public expenditure and revenue in budget lines that allow them to be organized in pursuit of strategic goals and to meticulously estimate the cost of activities to produce them, as a way of influencing decisions on allocations and reporting on the use of resources; (ii) the failure of budgets to include the investment costs and current or recurrent costs that underlie public programs and products, which restricts performance evaluation and management of program outcomes; (iii) the national government's integrated financial administration system is not sufficiently developed for a computerized accounting base for budget evaluation and management of outcomes (this shortcoming is greater when extended to other levels of government such as the general government); and (iv) development of a more decentralized model, since the bulk of expenditures go to the regions, which would contribute to tighter social and political control of performance (this requires better institutional capacity in the municipalities).

[9] PRODEV has been assisting the country in its efforts to boost capacity for budget management by results. Some of the core restrictions identified in the evaluation, however, are not components of that operation.

[10] Implementation of this approach is facilitated by the country's willingness and progress toward giving priority to managing the *res publica* with a culture of results-based management.

[11] The evaluation found that substantial progress had been made and that national mechanisms of fiduciary control and debt management, financial administration and government control, output evaluation and monitoring systems, and program outcomes based on performance indicators, as well as other tools were routinely used. This confirms good experience and knowledge in several national sectors in which the Bank could reduce its activity and delegate functions it now performs and replace them with a risk management system and verification that national management and safeguards systems are functioning properly.

compliance with quality standards and ensuring the excellence of the outcomes indicators used and the independence of their measurements.[12]

Last, in Colombia, the challenges for improving the operational management of interventions are just as important for the effectiveness of business as the fruits of development[13]. Accordingly:

(i) The programming and its execution should incorporate targets for the transaction costs of working with the Bank.

(ii) The system of measuring the value and cost-effectiveness of outputs should be improved, showing the relationship between the net value of the benefits from the operations and the flow of expenses generated.

(iii) The idea should be conveyed that the value of the experience, the advisory services, and the knowledge comes from on-site technical services that are more balanced in development issues, with the participation of all key stakeholders in the country program.[14]

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[12] The absence of a strategy for more competitive involvement by the Bank makes it harder to justify the transaction costs of working with it. An improvement in risk anticipation and in control of the tangible results of its contribution and their consistency with the country's medium- and long-term fiscal framework will become a fundamental exercise in updating the business plan with the country and in promptly mitigating any imbalances that arise.

[13] The evaluation found that meeting the programmed deadlines for approval and execution of resources was one of the basic requirements for success in attaining an operation's development objectives. A program's success has to do, therefore, with the efficiency of the transactional aspects involved in bringing a program to fruition. The aspects are examined in chapter III. This makes defining the targets for transactional aspects, whose accountability depends on the country and the type of operation, a strategic component of programming.

[14] For example, the Bank's portfolio is heavily dependent on Ministry of Finance management of the financial plan. This influence contrasts with its scant participation in the programming exercise in setting sector and programmatic fiscal thresholds.

I. DEVELOPMENT CONTEXT AND CHALLENGES

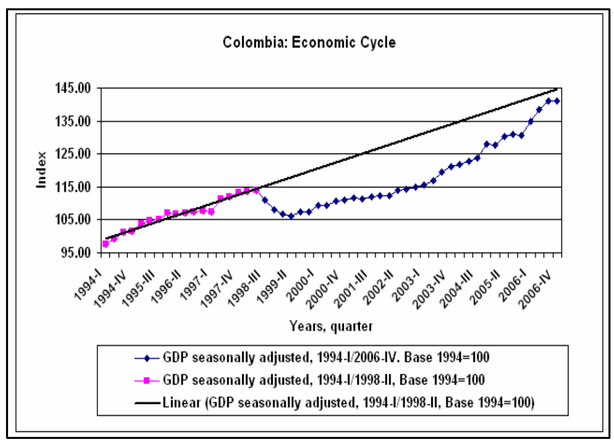
1.1 This chapter summarizes trends in development issues in Colombia in which the Bank was involved over the period 1998-2006 (see Annex I).[1] The five issues were: (i) high levels of poverty and income inequality associated with problems of access to basic services and other forms of social exclusion; (ii) sluggish economic growth which was insufficient to generate the resources necessary to deliver social services and other public obligations; (iii) imbalances in the public accounts that threatened the stability and sustainability of growth; (iv) limitations on balanced national growth posed by the actions of illegal armed groups (paramilitary and guerrillas associated with drug trafficking); and (v) low levels of efficiency in public administration and democratic governance.

1.2 A systemization of the Bank's program grouped the issues into three areas: (i) social development, poverty, and inequality; (ii) sustainable growth and competitiveness; and (iii) institutional capacity of the State and governance. Macroeconomic stability and fiscal balance were implicit issues, insofar as they were assumed to be prerequisites for sustainable growth and competitiveness. The problem of violence, too, played a key role in the context of social development.

A. Macroeconomic stability and fiscal balance

1.3 The recovery after the crisis that lasted from the third quarter of 1998 to the second quarter of 1999 has been vigorous (18 successive quarters of growth)[2] and the outlook is positive. Economic growth since the second quarter of 2002 restored GDP to pre-crisis levels and raised income by fourth quarter 2006 to levels that would have obtained without the crisis.[3] Use of the additional resources from growth, in a setting of fiscal prudence and macroeconomic discipline, led to progress in the area of security as well as in economic and social reform.[4]

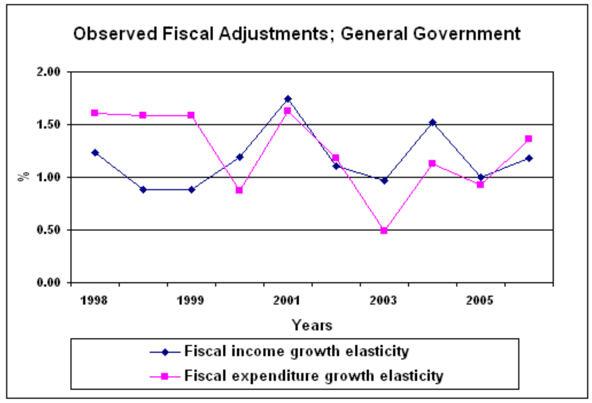
Graph 1.1



1.4 The economic recovery, coupled with the reduction in financial vulnerabilities,[5] improved the timing of an agenda of crucial long-term policy and economic reform.

1.5 The reforms include in particular: (i) reducing budget inflexibility by cutting off-budget transfers and contingent liabilities; (ii) undertaking a tax reform that assures a tax burden in line with a lower debt/GDP ratio, with genuine financing of recurrent costs (maintaining the progress made, improving control over evasion, and depending less on the net operating income of public companies, particularly the oil industry, are necessary objectives that require major legislation): (iii) anticipating fiscal pressure caused by the instability of the pension system;[6] (iv) consolidating the changes in transfer payments to the subnational governments (the 2001 constitutional reform which established the regulations lapses in 2008; legislative decree 04/07 outlined a new revenue-sharing arrangement that defines a situation which, without returning to the previous situation, will maintain current national programs for the subnational governments in line with the financial and fiscal program);[7] and (v) ensuring that the growth in current expenditures over primary expenditures that has occurred in the last two years does not create a new procyclical pattern at a time of high liquidity and does not take place at the cost of a reduction in capital spending.[8]

Graph 1-2



1.6 The country's competitive integration and development of a favorable business climate were sought through the development of trade (for example the free trade agreement with the United States, expansion of the Venezuelan market, and rules and incentives for private sector participation). *These efforts need to be complemented with internal security, public investment, and incentives for private sector participation in infrastructure, particularly infrastructure that connects production with markets*. To that end, the use of venture capital with new financial products should be explored.

1.7 In this context, it is crucial to reverse the outlook of declining oil production, which currently accounts for 20% of exports and is a significant source of fiscal income.[9]

1.8 *Growth is essential for the sustainability of social expenditure and the costs related to internal security, which continue to be crucial for confidence and the investment climate.*

1.9 Despite the progress made, the issues of better institutions and better performance in public expenditures continue to be a major hurdle. Public social expenditure has increased the coverage of services, with emphasis on the very poor, but little is known about its impact on the end beneficiaries.

B. Social development, poverty and inequality

1.10 ***Trends***. The 1991 Constitution established a frame of action for the government in developing social policy. It redefined Colombia as a social State of law, conferring a specific list of economic and social rights, and built a more complete model of decentralization that expanded the distribution of resources and sector responsibilities that were to be controlled by the subnational governments.[10]

1.11 In this context, *total social expenditure* as a percentage of GDP rose sharply, from 8% in 1995 to an average of 13.5% in the period 2001-2004, peaking in 2004 (14.2% or equivalent to US$15 billion a year or US$366.2 per capita). Colombia is one of the Latin American countries that has seen the fastest growth in public social expenditure in recent years, although it has not yet reached the average level of per capita spending in the region (US$540).[11]

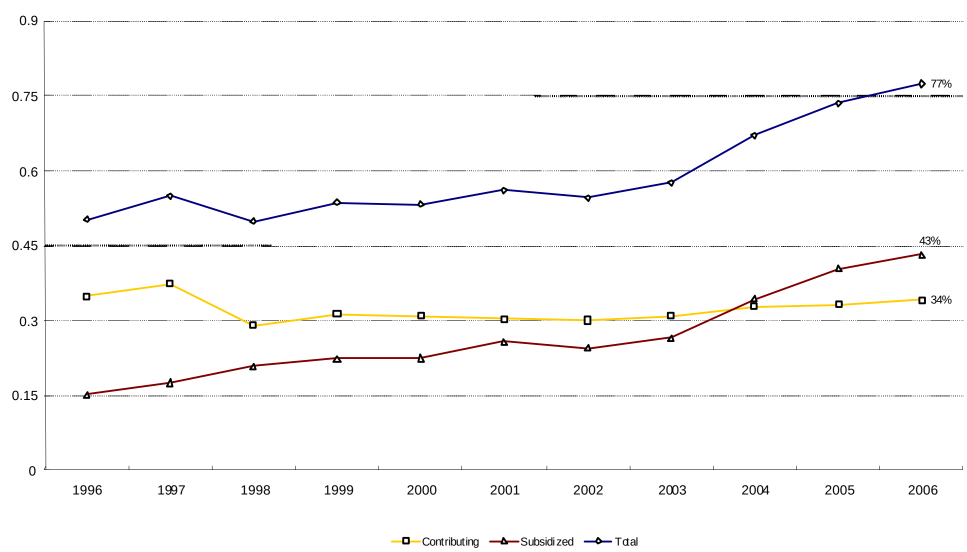
1.12 Colombia made headway in key areas of social development. This holds true of the coverage of health care and education services, the social safety net for the very poor, and some aggregate indicators. For example, an improvement in the human development index of 8.2% between 1990 and 2004 (13th place in Latin America); an increase in life expectancy from birth, which rose from 67.8 years in 1990 to 71.9 in 2004 (11th place); a reduction in infant mortality from 20.4 for every 1,000 live births in 2000 to 15.6 in 2005 (9th place); a reduction in maternal mortality from 104.9 per 100,000 live births in 2000 to 68.5 in 2005 (9th place); and expansion in the coverage of primary education (from 80.7% to 92% between 1995 and 2006) and secondary education (from 47.9% to 68% between 1992 and 2006).

1.13 The design and execution of social policies received broad support from the MDAs, particularly the IDB. The thrust of its action focused, on the one hand, on the implementation of a sector reform agenda in the areas of human capital formation, particularly health care and education and, on the other, on the design and construction of a social safety net for the low-income sectors hardest hit by the economic crises.

1.14 The reform agenda in the *health sector* included the adoption of a scheme of regulated competition for the delivery of services. The role of private providers and insurers was expanded to unprecedented levels in the region (Trujillo, Portillo, and Vernón 2005). Evidence points to clear progress in the coverage and use of the services although challenges persist in other areas.[12] In the *education sector* an ambitious reform agenda was embarked on in the first half of the 1990s. The main objective was to achieve universal coverage in basic education (first nine grades) through decentralized administration of ‘per capitation’ funding. It was necessary to address systemic problems of financing, bureaucracy, and quality of public education services. The results have led to slight improvements in coverage although some areas of sector shortcomings persist.[13]

1.15 ***Sector challenges***. Despite this headway, challenges persist that condition the agenda for public policy interventions. In the *health sector*, the objective of universal coverage, which is one of the most important in the reform, has not been attained. Membership in the contributing regime has stagnated, while membership in the subsidized regime has grown by more than expected. This poses a risk to the financial sustainability of the General Health Insurance System (SGSSS) and the attainment of universal coverage. *Rationalization of the network of public hospitals*, another of the bases for the system's financial sustainability, has been partly achieved. The difficulty in effectively regulating the transition from supply-side subsidies to demand-side subsidies has meant that the public hospitals have received a growing percentage of spending. This had led to unnecessary duplication in the use of resources and turned into the factor that has the greatest impact on growth in the subsidized regime (Acosta, Ramírez, and Cañón 2003). The financial balance of suppliers has been affected by the problem of *minimum scale in health services*. Adoption of the municipal level as the service platform is not optimal from the standpoint of scale and management of risk pools for smaller municipalities (Ruiz 2006). These problems make it unlikely that a financial balance can be struck on this level.

Graph 1-3
Colombia. Percentage of membership in the General Health Insurance System



Source: SIGOB, DANE

1.16 In the *education sector*, Law 715 of 2001 adopted the scheme of *capitation transfers*, directly linking subnational transfer payments to the size of the population served or to be served (and not to the historic costs of the national education systems). This form of transfer introduced a novel element of cost efficiency and rationalization. However, the institutional and policy restrictions on the subnational governments have prevented labor costs from declining. After the transition was completed, the amount of resources transferred to the subnational governments continues to have historic costs as the main standard of reference

(Gaviria 2004), reducing the potential gains in efficiency that were supposed to be introduced by the reform. More recently, the increase in funds in the general transfer payments system and savings in operating costs have permitted spending on infrastructure in the regions to recover.

1.17 The national government implemented reforms in the *housing sector* in 2003, related to creation of the Ministry of Environment, Housing, and Territorial Development (MAVDT), the liquidation of the National Social Housing and Urban Reform Authority (INURBE), and the creation of the National Housing Fund (FNV) under Decree 555 of 2003. As an adjunct, National Economic and Social Policy Council (CONPES) documents 3200 of 2002 and 3269 of 2004 were used to adjust the methodology for social housing subsidies, increasing coverage, streamlining the process, and guaranteeing that the authorized subsidy is used for the purchase, improvement, or construction of housing for low-income families.[14] The program evaluations have found progress:[15] (i) 100% of the stakeholders agreed that the problems of corruption that were typical of the previous system had been eliminated (Crece 2006); (ii) the changes made in the program in 2003 have improved the targeting of subsidies, with nearly 83% of the beneficiaries in beneficiary identification system (SISBEN) levels 1 and 2, and 74% with income below one monthly minimum wage; (iii) during the period 2002-2006, the sector institutions[16] provided subsidized financing for 81,400 housing solutions a year on average, for an average increase in coverage of 23% between 1998 and 2002.

1.18 Despite the above, new housing production in the formal market in Colombia (3.6 units for every 1,000 people) continues to be low compared to the accumulated shortage plus the annual increase in the number of new households,[17] and it is therefore necessary to continue strengthening the housing policy to attain the goal of building 210,000 houses a year by 2010.[18] With its current subsidy capacity, the system can only respond to the marginal demand from new households formed each year, but not to the existing deficit.[19] Today, 0.4% of the national budget is earmarked for the subsidy, which would need to be increased to 0.8% or 0.9% to cover the existing shortage or the structural problem will continue.

1.19 *Poverty and indigence*. Between 1990 and 2005[20] the *poverty and indigence* indicators have evolved in a slightly positive direction, with growth marked by volatility. The poverty rate fell during periods of growth and rose during the recession. The percentage of people living below the poverty line fell only slightly, from 52.9% in 1991 to 49.2% in 2005, while the percentage of people living in extreme poverty fell substantially, from 20.9% to 14.7% in the same period. During the 1998-1999 recession, the most severe in the last 50 years, the poverty indicator peaked at 57.7% in 1999.

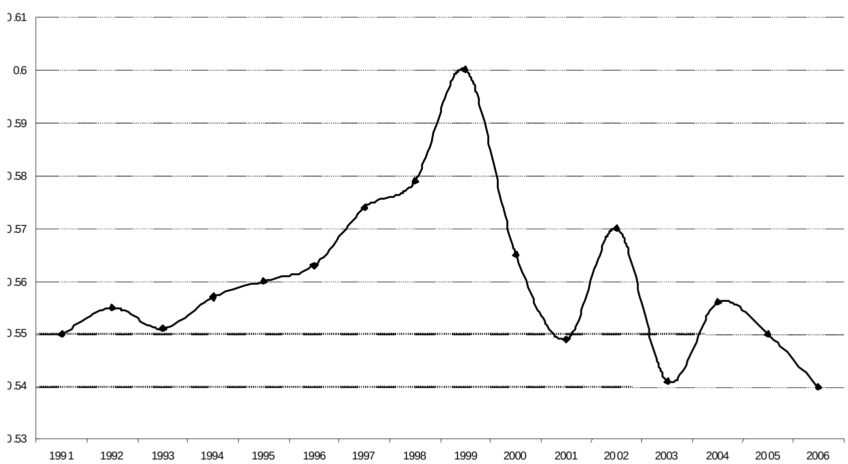
Table 1-1
Population with unmet basic needs (UBNs)

	1973	1985	1993	2005
Persons with UBN	70.5	43.2	35.8	27.6
Two or more UBNs	44.9	21.4	14.9	10.6
Inadequate housing	31.2	12.9	11.6	10.4
Inadequate public services	30.3	20.9	10.5	7.4
Critical overcrowding	34.3	19.0	15.4	11.0
Failure to attend school	31.0	11.2	8.0	3.6
High economic dependence	29.0	13.3	12.8	11.2

Source: DANE census

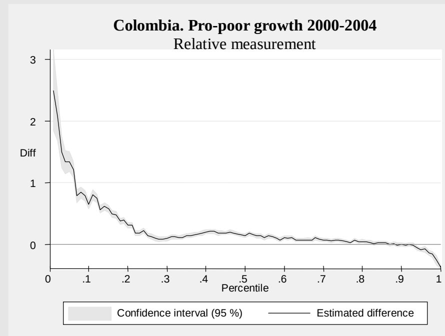
1.20 With the economic recovery, poverty returned to its pre-crisis levels. Inequality followed a similar trend.[21] The Gini index rose from 0.55 in 1991 to 0.60 in 1999, and was about 0.55 in 2005, a significant gap. Income inequality correlates to inequality in human capital distribution, owing to strong differences between regions, location, and ethic group (EQXIS-IDB 2007), as well as other factors.

Graph 1-4
Colombia. Inequality in total household income (Gini index)



Source: DANE, Poverty and Inequality Reduction Strategy Mission (MERPD) estimates

Box 1.1
Has recent growth in Colombia been pro-poor?



Economic growth is not always identified with better times for the most vulnerable part of the population. Low per capita income levels and growth in volatility can stamp an anti-poor bias on growth. In Colombia, different studies confirm that between 1989 and 2000, growth was less favorable to the poorest quintiles (CPE Colombia 1990-2002) and that the same held true in the growth periods between 1996 and 1997 and the early recovery between 2001 and 2002 (Sarmiento *et al.* 2005).

In the period 2000-2004, the results of the permanent household survey for those years reflect a different trend. There was an absolute increase in real per capita household income per distribution percentile, with a pro-poor bias. The rate of absolute growth in real per capita household income was higher in the group composed of the poorest of the poor. This result corroborates the improvement in the country's inequality indexes.

Pro-poor growth in 2000-2004 appears to be explained by the following factors: (i) growth in the provision of education and health care services; (ii) income transfer programs to the poorest and displaced populations; (iii) the improvement in social expenditure targeting mechanisms; and (iv) higher remittances from abroad to the poorest families. This pro-poor growth is not explained by labor income or productivity. The evolution of real wages appears to confirm this trend.

1.21 *Internal migration and armed groups*. Forty years of violence and problems with public order have meant that many families, particularly from rural areas and the most vulnerable sectors, have been forced to leave their homes. Although it is difficult to estimate the total number of families affected by this phenomenon[22] some demographic trends point to growing urbanization[23] that could partly be influenced by the net growth in displaced persons. The government has faced growing demand for social services for this population. The design and implementation of timely and effective social welfare policies must contend with this urban explosion, which is associated with displacements, particularly because of their *nontransitory* nature.

1.22 *Regional disparities and growth in national programs*. The deepening of decentralization pursuant to the 1991 Constitution expanded the powers delegated to the subnational governments in health care, education, and basic sanitation, and included the functions of management, administration, planning, coverage, and delivery of social services. *The difficulty faced by the decentralization model was the wide dissimilarities between the subnational governments with regard to their potential for generating own resources and their management and execution capacity* (EQXIS-IDB 2007). The asymmetries between the most populous and largest municipalities and departments and the more remote and rural zones are very great. More than a decade after the decentralization process began, deep regional disparities persist (Ruiz, Amaya, and Venegas 2006 and Florez and Soto 2006).

1.23 Asymmetry in managerial capacity and problems of governance in subnational governments, coupled with attention to the consequences of the crisis and the violence, *increased the influence of social programs that depended on the central government over a growing number of municipalities*. The government implemented a strategy to protect the poorest and most vulnerable population by developing tools for prevention and social welfare. Creation of the social protection and security system (SPS)[24] sought to cushion the very poor from the adverse impact of economic volatility and not to repeat the pro-cyclical trend in social expenditure during the crisis.[25]

1.24 In 2001, a constitutional amendment was passed that limited growth in central government transfers to subnational governments, in a period that coincided with marked growth in the influence of national programs at the municipal level. *Approval in 2007 of the new transfer payment system lends greater certainty to the size of the transfers envisaged in the Constitution, without jeopardizing the fiscal feasibility of central government programs*.

1.25 *Powers of the regions and the central government in the social sector*. Law 715 of 2001 made an effort to define the responsibilities assigned to the different regional spheres. Growth of social programs administered and executed by the central government, particularly in the small municipalities,[26] has led to a recovery of central government influence in remote parts of the country, through new forms of intervention. This achievement has involved challenges of coordination to reduce overlapping between the objectives, beneficiaries, or responsibilities of national programs and departmental or local government programs. There continue to be problems associated with the distribution of functions and jurisdiction between the central and subnational governments.[27]

1.26 *Sustainability of the social reforms.* The sector reform agenda and the deepening of the decentralization process led to greater coverage, use, and equity of health care and education services. However, *challenges persist that require significant levels of growth*[28] *to sustain the creation of genuine resources that are necessary to address the causes of regional fragmentation*. Also, the social welfare programs that have been effective in maintaining human capital have clear entry rules for beneficiaries but the exit rules are not clear. *The expansion of programs without clear exit criteria generates contingent liabilities that limit their financial sustainability. The absence of changes to the workings of the labor market, the high levels of informal labor, and the low productivity have prevented subsequent transfers from being replaced by labor income. This could have a negative impact on the labor market by discouraging the rate of participation in the workforce.*

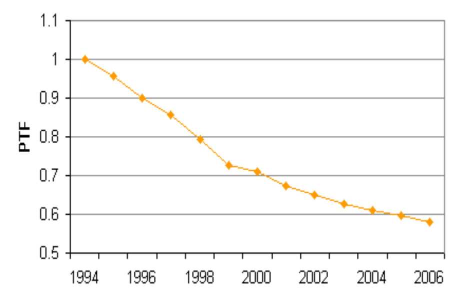
1.27 *Quality of social services*. Measurement of progress in broadening access to and coverage of education and health care has no equivalent counterpart in the measurement of services provided and their impact on well-being. Without a measurement of that impact, institutional quality is not strengthened by the perception of greater effectiveness nor is the perception reduced that the fiscal burden in these areas is an obstacle to growth. *The social agenda needs to make* *sustained efforts to transcend the issue of coverage, to deal with the issues of quality and certification.*

C. Sustainable growth and competitiveness

1.28 Sluggish economic growth over most of the period has resulted in poor productivity, slow growth in modern employment, and a high unemployment rate.

1.29 Insufficient economic infrastructure holds back the productivity and competitiveness of the economy. The country still lags behind in building up physical production capital, particularly in transport and electric power generation. The crisis of the late 1990s had a negative impact on public and private investment, which in turn affected the development, maintenance, and rehabilitation of infrastructure.[29] *Productive investment continues to be a serious restriction on the sustainability of the country's current growth levels*.

Graph 1-5
Total factor productivity

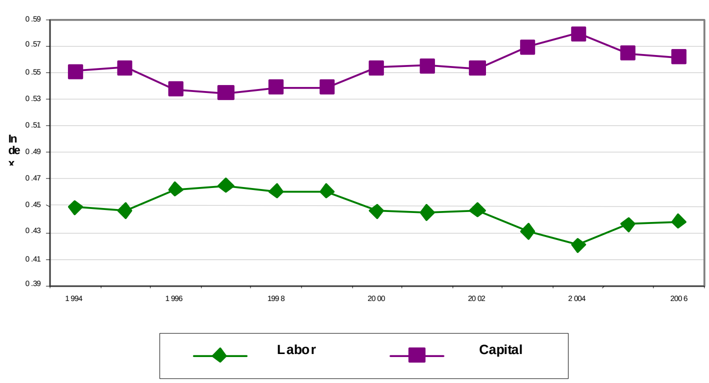


1.30 Growth in productivity[30] has presented a negative trend since the 1990s.[31] These results are not encouraging, since investment in capital formation tripled between 1994 and 2006. The main drop in productivity took place prior to 2000, as a result of the impact of the 1991 Constitution on investment and the crisis of the late 1990s. Subsequently, the drop was considerably attenuated by the improvement in capital productivity.

1.31 Despite this improvement in capital productivity, the contraction of the last two years seems to suggest a persistent failure in market functioning and large regional differences.

1.32 For its part, workforce productivity between 1999 and 2004 reflected slow growth in wages. The World Bank (2005a) reports that wages grew by less than 0.5% a year between 1984 and 2004 as a consequence of trends in salaries for more qualified workers because of their education. The wages of unskilled and semi-skilled workers declined by 10% and 25%, respectively, during that period.[32]

Graph 1-6
Employment and capital productivity

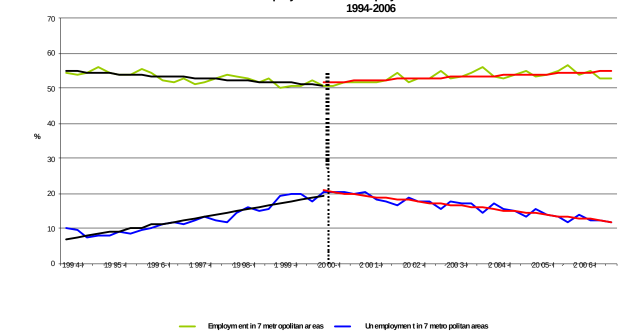


1.33 Demand for labor became more segmented and this caused the informal sector to grow, widening the gap in productivity between the formal and informal sectors, to drive down total productivity still further. The size of the informal sector continues to be stable, *and this has turned labor qualifications into a core restriction to development*.

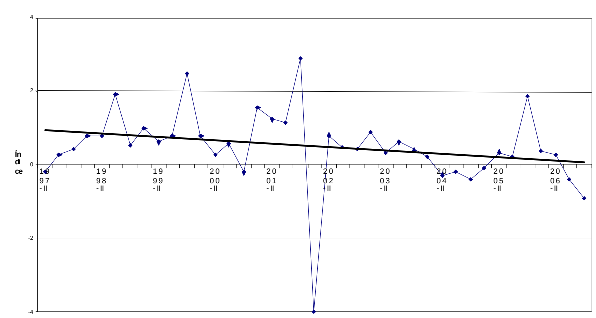
1.34 From the standpoint of the labor supply, the employment rate has stabilized, except for the drop during the crisis. It has since recovered to pre-crisis levels.

1.35 The recent creation of new jobs on the strength of new growth is lower than before the crisis. Employment-output elasticity tended to rise, averaging around 1 in the period 1998-2001 and falling to 0.32 on average in the period 2002-2006. These results underscore the fact that *labor market inflexibility has tended to gradually substitute capital for labor, which has been a factor in maintaining the low rate of formal-sector employment and the low labor productivity.*

Graph 1.7
Employment and unemployment in Colombia
1994-2006



Graph 1.8
Employment-product elasticity
1996-2006



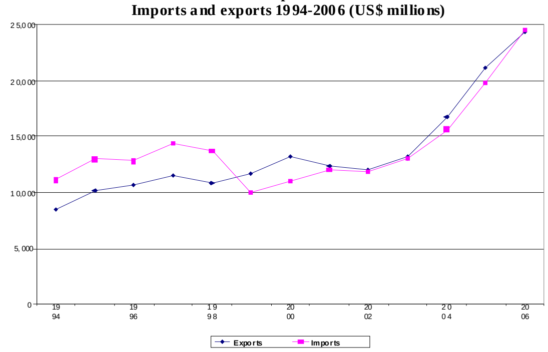
1.36 Unemployment is high and persistent over time. It fell somewhat in 2001 owing to the economic recovery despite increasing workforce participation. Yet, it continues to be higher than before the crisis, suggesting perhaps it has stabilized at a structurally higher rate.[33] Therefore, unemployment has tended to persist even when the economy recovers. Accordingly, *the need for quality human capital and changes to the functioning of the labor market are core restrictions to development.*

1.37 The results in the informal sector and the accumulation of capital, mainly in the modern sector, coincide with a sharp drop in employment-output elasticity and, taken together, explain why technological progress has contributed to inequality in labor income.

1.38 The external sector has been a constraint on economic growth because Colombia continues to be a relatively closed economy. It is even less open than middle-income countries with similar development.[34]

1.39 Natural resources and byproducts account for 70% of foreign sales.[35] This means that exports are not innovative and are highly dependent on international prices and conditions in foreign markets. *The external sector is therefore highly vulnerable to swings in international prices, which is exacerbated by insufficient investments in infrastructure.*[36]

Graph 1-9
Imports and exports 1994-2006 (US$ millions)



D. Institutional capacity of the State and governance

1.40 The 1991 Constitution has had a significant impact on institutional development and the decision-making process.[37]

1.41 The importance of rents and transfers to the subnational governments, social expenditure, and salaries and pensions limit the discretionary authority of the executive branch to offset budget imbalances and this leaves it little room to maneuver. The consequence is an increase in the transaction costs for legal and budgetary approvals and a stricter review of the constitutionality of laws by the Constitutional Court.

1.42 That court bases its rulings on a strict interpretation of the constitutional precept that Colombia is a social State of law, an assumption that is sometimes inconsistent with the fiscal impact sought.[38] As a result, it is hard to adapt fiscal policies, particularly when the economy must adjust to external shocks.

1.43 The executive branch's less influential role in monetary policy paved the way to more flexible management and stabilization since the 1999 crisis. However, the Ministry of Finance (MHCP) continues to sit on the board of directors of the Central Bank.

1.44 The recent constitutional reforms changed the parliamentary system, allowing the president to be reelected for a second term. Regional transfer payments were temporarily separated from current revenue, making it possible to consolidate the government's program and implement its policy agenda. The institutional reform was partially checked when the 2003 referendum rejected the reduction in the size of congress and the transfer of functions from subnational comptrollers to the Comptroller General of the Republic. The capacity of these areas of government to change was affected, since they no longer had a clear role in the new institutional framework.

1.45 Since the 1999 crisis, a series of changes were made in the national public administration (NPA) in addition to improving the fiscal results, have increased its efficiency and productivity. Significant progress was also made toward the objective of ensuring that the financial programming of the entities in the budgets was similar to their execution capacity, thus helping to remove inconsistency between having funds and not having the capacity to spend them efficiently.

1.46 The public administration renewal program implemented since 2003 has made progress in this direction, introducing *a culture of public management*. It consists of vertical reforms involving reorganization and the elimination of redundancy in the government apparatus, and cross-cutting reforms in different sectors and strategic management areas.[39]

1.47 The decentralization reforms matched the borrowing limits of the subnational governments to their ability to pay, while permitting a reduction (although temporary) in growth in transfer payments. The general transfer payment system reduced the discretionary authority of the subnational governments by applying stricter criteria to the central government's formula of subnational spending, which went mainly on health and education (Rezenda 2007). This turned attention from infrastructure which had been opened to private participation, and was also dependent on local surpluses.[40] The pension reforms, the Fiscal Accountability Act, and the new budget framework rounded out the context for progress in the area of public accounts.

1.48 The improvement in the fiscal area and increased access to international financing opened the door for an expansion of national programs with a regional impact. Implementation of those programs encountered weak execution capacity and scarcity of resources in most subnational governments and, in some cases, unreliable institutional integration. The better management of central programs, over and above what is transferred to the lower levels, increased the influence of the central government in regional issues.

1.49 This increase in central government influence occurred with successes in the social sector,[41] with the strengthening of 'democratic security' policy. Progress in security and the fight against violence required a greater State presence in those zones, which addressed the problem of displaced persons and, more recently, of demobilized combatants. Control over the country was tightened and this favored governance and enabled the government to develop more comprehensive institutional capacity.

1.50 The central government increasing influence in the regions changed the nature of monitoring and of responsibilities with functions in the local sphere. The distribution of functions between the central and subnational governments was more complex, tied as it was to uncertain distribution of resources (transitory constitutional change). Progress in fiscal discipline and restructuring in the regions faced the challenge of maintaining a balance while simultaneously reducing the regional disparities in the coverage of public services (Banco de la República de Colombia 2006). More substantial obligations of improving the quality of life and capital formation require higher revenues and better community control.

1.51 Only the large, heavily-populated cities with resources of their own (particularly Bogotá and Medellín, and Cali to a lesser extent) are able to finance their own programs and borrow on their own. Solid progress has been made there in citizen security and institution building, widening the gap between them and other poorer regions (such as the Pacific coast) that lack certified fiscal restructuring. In those zones, the results of intervention are poor.

1.52 The strategic challenge, therefore, is how to work sustainably with the subnational governments to reduce inequity and extend the successes in the large cities, which can often only be verified by experiences such as Bogotá's.[42]

1.53 In its development, the judicial branch has failed to keep pace with other branches of government. A lack of cooperation between the executive and judicial branches stands in the way of addressing the challenges in the justice system.[43] Despite some encouraging progress in the judiciary,[44] the challenge of reducing the problem of impunity linked to the lack of access to justice, serious technical problems in its administration, and the lack of confidence in the rulings of the courts continue to be major hurdles.[45]

1.54 In summary, efforts were concentrated in the strategic institutional areas of fiscal restructuring, security, reform of the national public administration, and the sustaining of the central government's social spending program. Significant advances were made in these institutional areas, but in each case the contribution was not balanced.

II. THE BANK'S PROGRAM

2.1 This chapter describes the programming intent and the way in which it was implemented. It evaluates: (i) relevance, i.e. the consistency between the development problems addressed by the program and the government's analysis and priorities; (ii) the consistency of the instruments used to attain the programmatic objectives; (iii) the capacity to anticipate the actions that materialized in the program; and (iv) linkage with the actions of other MDAs, which examines whether the division of labor optimized the Bank's comparative advantages.

A. The programming intent

2.2 The program financed the *strategy defined by the country* and the modalities and stages established by it. This approach was based on: (i) the consistency between the flow of program resources (and flows from other sources) and the short- and medium-term financial programming requirements; (ii) the support for reforms that ease the pressure of external conditions on the fiscal balance and the debt in the medium term; (iii) the resolution of violence and security issues; and (iv) protection of the most vulnerable from the impact of the crisis, with a view to building a more equitable society.

2.3 These aspects, together with the improvement in regulatory frameworks and the efficiency of institutional capacity, were the lynchpins for a sustainable economic and social recovery and a more favorable business climate (see Annex II).

2.4 The programming intent classified the country's strategic approach into three areas. They contained eight development topics and identified 30 objectives that constituted the specific outcomes being sought. They are summarized below.

Table 2.1
Programming intent

Area	Topics	Programmatic objectives
Poverty and inequality	1. Social welfare and protection for the very poor 2. Increased coverage, quality, efficiency (CQE) of social services	Institutional strengthening of the social welfare agency Social expenditure targeting Attenuate impact of fiscal adjustment and conflict Evaluate impact of social progress Increase CQE education Increase CQE health care Increase CQE water & sanitation Increase CQE social housing Increase employment & training for low-income youths
Governance	1. Strengthen management of the NPA 2. Strengthen local management capacity 3. Promote transparency and anti-corruption efforts 4. Support reform of the judicial branch	Efficiency in public services Improve governance Improve public finances Increase productivity in the NPA Administration of regional revenue and new sources of revenue Increase subnational managerial and planning capacity Strengthen government oversight bodies Information and measurement systems Corporate governance, private sector Administrative institutional framework and management Technical assistance for high courts Transparency and quality of information
Economic reactivation	1. Investment climate 2. Competitiveness	Internal conflict Clear ground rules Transportation infrastructure development Energy infrastructure development Better coverage & quality of basic infrastructure services Greater penetration of foreign markets and competitive supply of goods and services Better financial system performance Agricultural sector management Natural resources management

B. Execution of the intent

2.5 The Bank did not develop its intent using an analysis of the preceding programming cycle. The stock of projects in execution when the 2002-2006 BCS was defined did not form an intrinsic part of the intent. To consider this limitation, the present evaluation looked at all the projects approved in the last period plus those that, although they were approved earlier, were implemented and completed in the 2002-

2006 period. The grouping of individual interventions based on the topics in development and programmatic objectives was performed considering the Bank's sector categories, the content of the project documents, and consultations with interviewees.

2.6 *By strategic area*, 66% of the amount approved corresponded to the area of 'poverty and inequality', followed by 'reactivation and competitiveness' with 30%, and 'governance' with 4%.

Table 2.2
Execution of the Bank's intent by strategic area (2002-2006)

Strategic area	Total loans		Financial support PCAS		Investments		Reimbursable technical cooperation		Nonreimbursable technical cooperation		MIF		Nonfinancial product		Total	
	Nº	US$ Mill.	Nº	US$ Mill.	Nº	US$ Mill.	Nº	US$ Mill.	Nº	US$ Mill.	Nº	US$ Mill.	Nº	US$ Mill.	Nº	US$ Mill.
1. Poverty and inequality	14	2,707	5	2,007	8	690	1	10	17	3.5	-	-	3	-	34	2.711
2. Governance	8	159	-	-	8	159	-	-	6	1.6	1	1	9	-	24	162
3. Economic reactivation and business climate	8	1,246	3	1,000	4	241	1	5	6	1.7	20	10,8	6	-	40	1,259
Total	**30**	**4,113**	**8**	**3,007**	**20**	**1,090**	**2**	**15**	**29**	**7**	**21**	**12**	**18**	**n.a.**	**98**	**4,132**

2.7 *By instrument*, 99% of the total is loans, while nonreimbursable technical cooperation, the MIF, and nonfinancial products, taken together, make up the rest.

2.8 *By number of interventions*, the conclusions are different. Loans represent 30% of the total. Eight operations (8% of the total) account for 73% of the amounts approved, consisting mainly of flexible lending instruments in support of public finance equilibrium, the targeting of social expenditure, and competitiveness.

2.9 *By type of disbursement*, more than 70% of funds in the period 1998-2006 were provided through fast-disbursing, flexible lending instruments (78% in the period 2003-2006). The implicit programmatic objective of supporting the macrofiscal equilibrium to sustain social expenditure accounted for the lion's share (US$3 billion, US$2 billion for the social sector). The Bank's confidence in the country's ability to comply with its obligations and in the allocation of resources to core development issues is notable.

2.10 The use of more liquid Bank instruments continued even when the economic situation improved. At the time, the aim was to support debt restructuring and a reduction in borrowing costs when financing conditions were unfavorable.[46] The new instruments available to the Bank under the new lending framework helped to accelerate this transformation and to lower transaction costs.

2.11 Normally, implementation of the intent takes place after programming and its definition is more detailed. This often means that the specific objectives of operations may differ from, or not be included in, the intent. A comparison of program objectives ex ante with the development objectives of the interventions in which they were embodied sheds light on *the correspondence between the means approved and the ends expected in well-being.*

2.12 During the period, the objectives of the interventions mainly involved sustaining social expenditure, poverty reduction programs, health care reform, public finance reform, and financing broader integration into the global economy as a more competitive player.[47]

2.13 *Relatively broad political and institutional limitations existed on transforming a number of development objectives being sought by the intent into interventions*. They include restoration of governance, internal security, uneven capacity of the subnational governments to manage and administer resources, more efficient financing system for small and medium-sized enterprises (except for the MIF), judicial reform, agricultural development, and natural resource management. When the loans envisaged did not materialize, the gaps were filled in some cases by studies and technical-cooperation projects.

2.14 Despite being key elements in Colombia's competitiveness strategy, the topics of science, technology, and innovation did not form part of the BCS.

Table 2.3
Execution of the Bank's intent by objectives (2002-2006)[1/]

Area	Topics in development	Programmatic objectives	Instrument				Total instru/object
			Loans	Nonreimb. TC	NFP	MIF	
Poverty and inequality	1. Social welfare and protection for the very poor	Institutional strengthening of the social welfare agency	6	1			7
		Social expenditure targeting	6	8	1		15
		Attenuate impact of adjustment and conflict	5				5
		Evaluate impact of social progress	2	1			3
	2. Increase coverage, quality, efficiency (CQE) of social services	Increase CQE education	3				3
		Increase CQE health care	5	5	1		11
		Increase CQE water & sanitation	4				4
		Increase CQE social housing	2	1			3
		Increase employment & training for low-income youths	2	1	1		4
Governance	1. Strengthen NPA management	Efficiency in public services	4				4
		Improve governance	0				0
		Improve public finances	10		3		13
		Increase NPA productivity	1	1			2
	2. Strengthen local management capacity	Administration of regional income and new sources of income	0				0
		Increase subnational management and planning capacity	4	2	2		8
	3. Promote transparency and anti-corruption efforts	Strengthen government oversight bodies	2				2
		Information and measurement systems	1	1	4		6
		Corporate governance, private sector	1	1		1	3
	4. Support for judicial reform	Administrative institutional framework and management	0				0
		Technical assistance for high courts	0				0
		Transparency and quality of information	1	1			2

Area	Topics in development	Programmatic objectives	Instrument				Total instru/object
			Loans	Nonreimb. TC	NFP	MIF	
Economic reactivation	1. Investment climate	Internal conflict	0		3		3
		Consistent ground rules	1		1		2
	2. Competitiveness	Develop transportation infrastructure	4			1	5
		Develop energy infrastructure	3		1		4
		Improve coverage & quality of basic infrastructure services	2			1	3
		Expand foreign markets and competitive supply of goods and services	2	5		12	19
		Improve performance of the financial system	0		1	6	7
		Develop the agricultural sector	2	1			3
		Manage natural resources	1				1
		Total objectives by instrument	**74**	**29**	**18**	**21**	**142**

1/ Interventions approved or being carried out during the period.

2.15 Accordingly, a significant number of objectives bore no relation to the instruments used. In the remaining cases, the instruments were consistent with the objectives and focused on resolving the problems caused by imbalances at the start of the period. The instruments based on policy reforms were controversial, difficult to negotiate, and therefore partial and incomplete. In short, execution was not consistent with the intent, since partial compliance undermined the rationale of the original program model.

C. Relevance of the program

2.16 The country has been conditioning the Bank's role, its operations, and its areas of involvement; the percentage of borrowing; the operating windows it is interested in using; and the instruments used. This is supported by a complete institutional framework (National Development Plan, National Economic and Social Policy Council, Senior Fiscal Policy Council, projected fiscal frameworks, debt management system, etc.) that defines the underlying decision-making processes. Ultimately, these processes are what makes authorization of external borrowing feasible and opens up budget items to support the program.

2.17 In this context, it is irrelevant to ask about the pertinence of the program as it relates to country priorities, since nothing is defined or approved that does not form part of those priorities or is inconsistent with the government's policy priorities. Therefore, relevance can only be verified in terms of the program's relevance to the diagnostic assessment.[48]

2.18 The analysis of relevance then focused on verifying: (i) whether the programmatic objectives formed part of a diagnostic assessment of the development challenges shared with the country; (ii) whether, simultaneously, they were supported by public policies[49] adopted with an established institutional framework incorporated into the country's medium-term budget framework and its financial programming; and (iii) whether the flow of net benefits for development expected from the intent was projected. These aspects measure the value added by the Bank through a comparison of the long-term goals in the BCS and their baseline values.

2.19 With regard to the first objective, the programmatic objectives of the programs were consistent with the development problems and the government's strategy. Nevertheless, subsequent developments that arose when progress was made in restructuring the debt and the fiscal results were not anticipated. *The program was consistent and fluid in helping the country to improve its public finances and in targeting spending to the most vulnerable groups in response to the recession and the violence*. In the upswing of the cycle, progress in the other areas envisaged in the intent stumbled against the Bank's scant experience with lending instruments suited to this situation and difficulties in agreeing on the institutional and political conditions necessary to support them. Restructuring of the debt acquired under unfavorable conditions filled up the space, maintaining the amounts that were supposed to be approved.

2.20 With regard to the second objective—program support for public policies—the situation was different during and after the crisis. During the crisis, Bank support was timely and coordinated with other multilateral development organizations and foreign lending agencies and it was also built on the government's economic program. Afterwards, there were difficulties in understanding the constraints on national decisions, and therefore the approval of operations was neither fluid nor timely compared to the reforms adopted.

2.21 Several interventions identified in the last BCS were not based on preexisting policies adopted and agreed by consensus to back the design of program actions, even during project negotiations. *Obtaining national agreement on such policies was one of the main factors behind the delays and difficulties in approving operations, which affected the size of the Bank's operating program*. In several cases, the solution was that the policies were a product of the project and their approval was a condition for disbursements, particularly when supporting the restructuring of the foreign debt. This led to a loss of relevance in some strategic areas (for example, competitiveness, public administration and services, infrastructure, justice, oversight agencies, etc.), a situation that characterizes the current dialogue with the country.

2.22 The absence of public policies demanded technical cooperation, nonfinancial projects, and academic discussions that had not always been anticipated in the program. They were used for diagnostic assessments, the strengthening of national legislation, project designs, and project activities originally envisaged. The nonfinancial projects and the technical cooperation represented significant value added by the Bank's efforts throughout the period.

2.23 As to the third objective, in its programming the Bank did not measure the net benefits expected from the use of its resources nor did it adequately anticipate the risks related to the absence of public policy in the areas of the intent which, therefore, lacked institutional and budgetary priority. Moreover, the intermediate targets were established exclusively for outputs and not for outcomes, meaning that the influence of solving the problems that depended on the delivery of outputs was not anticipated. As the evaluability of the program was poor, the capacity to monitor and verify the outcomes of the intent was lost (see Chapter III).

2.24 Full information was therefore not available to justify the development effectiveness of the value expected from the programming. Nor did efficiency in operational management in implementing the business program form part of the program. Topics such as transaction costs in the delivery of products and delegation of operations to national administration and information systems were not covered in the intent.

2.25 *In short, the program as implemented does not allow for the relevance of the ex ante programming to be corroborated,* given the large number of operations with no preexisting policy frameworks, the poor evaluability of programming with regard to anticipating when the results would arrive and how significant they would be, and the failure to anticipate changes in the business cycle during the program.

D. The anticipation capacity of the intent

2.26 This section presents the findings regarding the extent to which the programming intent materialized in actions.

2.27 The degree to which the intent materialized appears to be a success if measured from the standpoint of the amounts programmed that were finally approved. The programming anticipation rate (programmed approved/total programmed) and the approval anticipation rate (programmed approved/total approved) topped 90%, except for the MIF, which appears to have been underrepresented in the program. When measured against the number of projects in the anticipated areas, however, the results are decided less favorable (approximately 50%).

Table 2.4
Rate of anticipation of the programming intent (2003-2006)

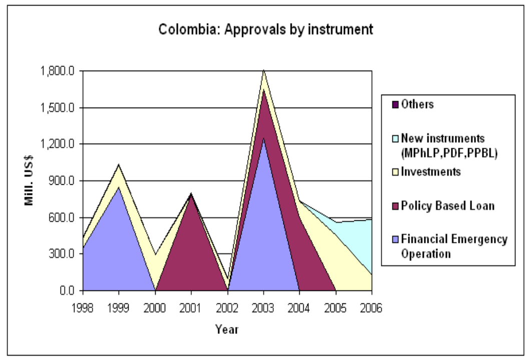
Instrument	Loans		NRTC		MIF		NFP	
	Nº	US$ Mill.	Nº	US$ Mill.	Nº	US$ Mill.	Nº	US$ Mill.
Programmed approved	8	3,815	11	3	2	2	6	n.a.
Programmed not approved	7	220	0	0	3	n.a.	5	n.a.
Approved not programmed	9	382	18	4	19	10	12	n.a.
Programming anticipation rate (%)	53.3	94.5	100.0	100.0	40.0	-	54.5	n.a.
Approval anticipation rate (%)	47.1	90.9	37.9	43.3	9.5	15.8	33.3	n.a.

1/ Includes PRI.

2.28 The foregoing indicates that the Bank's programming exercise is essentially limited to amounts, is barely able to anticipate changes in the business cycle, and is not flexible enough to incorporate alternative uses of resources. The program was prepared to anticipate the quantitative aspects required as a result of changes in financing requirements, rather than a long-term agenda. The MIF and the PRI were not anticipated in the exercise.

E. Program coherence

Graph 2.1



2.29 The program included a full-range of instruments available and coordinated its actions with other development stakeholders. The change in the lending instruments used in loans approved since 2004 is an indicators of this coherence. At that time, the availability of new lending instruments under the NLF made it feasible to approve a portfolio that did not use the traditional instruments available (policy-based loans and sector emergency loans). The difficulties in reaching agreement on the policy reform conditions with the Bank on account of the lack of internal viability were resolved with the new instruments. The Bank's lack of experience in adapting to them added further delays. The resources channeled into the debt restructuring objective made it possible to maintain the portfolio although its timeliness was undermined by the negotiations.

2.30 *The discussion about which type of lending instrument should be used for development issues has lost relevance in business with the country*. Colombia has established that prior to programming and carrying out a transaction, public plans and policies must be in place to support it, and be consistent with the medium-term fiscal frameworks. This conditions the types of instruments to be used.

2.31 This trend in instruments means that the programming cycle and future projects will be less conditioned to policies. The type and size of financing will depend increasingly on the efficiency with which the instruments can address the new conditions imposed by the relationship with the country. The importance of nonfinancial products and transfers of knowledge and experience will increase, and the importance of PBLs and traditional investment projects and conventional use of them will wane.[50]

2.32 The different stakeholders that support development face different realities and, with exceptions, they are seeking their own avenues for grappling with the restrictions posed by the form of work preferred by the country.

F. The country's view of relations with the MDAs

2.33 In a context in which all the stakeholders in development move within the country's institutional restrictions, the World Bank, according to the interviews with players in the country, appears to be more flexible with users and easier to reach agreements with on policy frameworks and outcomes. The World Bank also appears to have a better profile for adapting to these conditions, with more precise measurements of institutional restrictions and the tools to anticipate political and fiduciary risks.[51]

2.34 With regard to the IDB, it is felt that it acts and works with an incorrect view of the level of development in Colombia and does no perceive it as an emerging middle-income country. In various development issues that formed part of the intent, the country identified the World Bank with knowledge, while the IDB is seen as the supplier of resources but not of knowledge. Both Banks are associated with often unjustifiable, overly bureaucratic procedures that could be assigned to national responsibility.[52] The randomness and lack of continuity of the missions has often raised concern over their influence on knowledge about country issues. The complexity of the division of functions and responsibilities among the key players in international cooperation has been an element that has permanently influenced relations with the country. The country advocates a Bank that is more competitive with the other sources of financing in all aspects of their mutual relations.

2.35 Good coordination between the IDB and the World Bank was deemed to exist in the case of the emergency loan and the policy programs to surmount the crisis. This mobilized resources to pay the Bank, thus opening up possibilities for lending the amounts required. With no funding for sector operations, the impact of the financial flows required greater restructuring efforts when conditions changed.

2.36 The International Monetary Fund is identified with the best technical quality in its field. It examines the figures in depth and selects the key topics for its analysis very well. Having agreements and good relations with the IMF solves problems that could arise with certain operations, with the other international development agencies, or with the international financial system. Agreements or supervision by the IMF make working with the other players easier.

2.37 The Bank's activities were identified with supportive commitments on the highest level to assist with the most difficult problems in the cycle and their consequences. This always made a difference in the Bank's favor, by making its support more flexible and granting such support with fewer restrictions during hard times or crises.

2.38 The Andean Development Corporation (CAF) is seen as the least bureaucratic. Its work is not based on a process of missions that address the different quality requirements of the interventions. It has less demanding regulations for approving and executing operations more independently. It does not have monitoring and evaluation systems in its operating cycle such as those used by the Bank and this makes its role less demanding and contributes to timeliness. The CAF works by contracting high-level experts to design the interventions. They can immediately enter into good dialogue with government (they are generally former government officials). It imposes fewer conditions and is more pragmatic in adapting easily to the approval and disbursement of resources in flexible scenarios, as is now required, particularly in pooling its resources with national programs and not demanding sovereign guarantees from subnational governments.

III. PROGRAM IMPLEMENTATION

3.1 This chapter examines the efficiency with which the program was implemented. The evaluation focused on an analysis of four areas: (i) the transaction costs of working with the Bank; (ii) the cost-effectiveness of the activities and outputs promised; (iii) the value of the operation for the country; and (iv) the quality of Bank services.

A. Transaction costs

3.2 The evaluation examines two areas: (i) transaction delays in the project cycle; and (ii) the external costs that the country must invest to work with the Bank. These areas directly affect the flows of funds projected by the interventions, affecting their returns.[53] The results of the indicators are presented below:

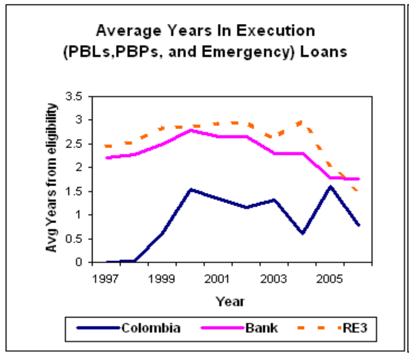
Table 3.1
Average execution time of operations (in months)

Colombia Total 1997-2006	PIPE START TO APPROVAL	APPROVAL TO SIGNATURE	APPROVAL TO FRST ELIG	FRST ELIG TO FIRST DISBURSEMENT	FRST ELIG TO ORIG FINAL DISB	FRST.ELIG.TO TOTALLY DISB.DATE
INVESTMENT_LOAN	17.8	3.0	8.6	2.8	42.9	65.7
PBLS_PBP_EME_LOAN	9.3	0.9	1.2	0.1	18.6	16.8
REIMBURSABLE_TC	25.0	2.0	10.5	1.8	38.5	36.5
Colombia 1997-2001	**PIPE START TO APPROVAL**	**APPROVAL TO SIGNATURE**	**APPROVAL TO FRST ELIG**	**FRST ELIG TO FIRST DISBURSEMENT**	**FRST ELIG TO ORIG FINAL DISB**	**FRST.ELIG..TO TOTALLY DISB.DATE**
INVESTMENT_LOAN	24.1	3.7	10.6	4.3	38.3	…
PBLS_PBP_EME_LOAN	9.2	0.4	0.4	0.2	17.4	…
REIMBURSABLE_TC	23.3	2.5	13.0	1.7	36.3	…
Colombia 2002-2006	**PIPE START TO APPROVAL**	**APPROVAL TO SIGNATURE**	**APPROVAL TO FRST ELIG**	**FRST ELIG TO FIRST DISBURSEMENT**	**FRST ELIG TO ORIG FINAL DISB**	**FRST.ELIG..TO TOTALLY DISB.DATE**
INVESTMENT_LOAN	13.9	2.6	7.1	1.7	46.3	…
PBLS_PBP_EME_LOAN	9.4	1.4	2.0	0.0	19.8	…
REIMBURSABLE_TC	30.0	0.0	3.0	2.0	45.0	…

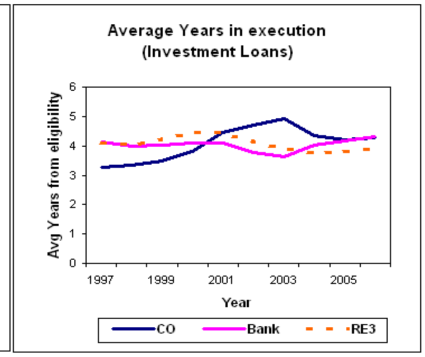
Banco Total 1997-2006	PIPE START TO APPROVAL	APPROVAL TO SIGNATURE	APPROVAL TO FRST ELIG	FRST ELIG TO FIRST DISBURSEMENT	FRST ELIG TO ORIG FINAL DISB	FRST.ELIG..TO TOTALLY DISB.DATE
INVESTMENT_LOAN	18.1	4.6	13.0	1.9	43.3	61.9
PBLS_PBP_EME_LOAN	10.1	2.1	4.4	0.1	22.6	25.3
REIMBURSABLE_TC	15.2	3.9	13.5	1.7	34.6	52.0

3.3 The *average project design time* from the profile to approval shows that the investment loans have improved significantly, falling from 24 months in the period 1997-2001 to 14 months in the period 2002-2006. Fast-disbursing operations continued to take nine months. The investment loans are similar to the Bank average, but the fast-disbursing loans take less than the average, while reimbursable technical-cooperation projects take considerably longer. The range is significant for investment loans and fast-disbursing loans (typical deviation of seven months).

Graph 3.1



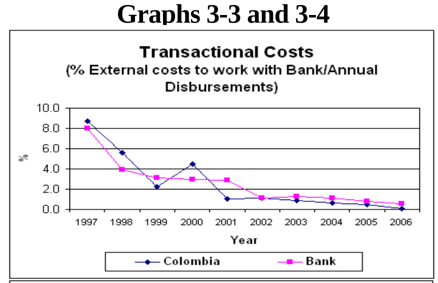
Graph 3.2

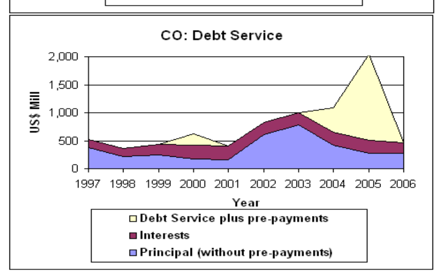


3.4 *The delay between approval and eligibility for the first disbursement is significant* for investment loans, although it has improved in recent years (falling from 11 months in 1997-2001 to seven in 2002-2006). The time taken for fast-disbursing operations is shorter, although it has tended to lengthen in recent years, from 0.4 months in 1997-2001 to two months in 2002-2006. Yet, both figures are one half the Bank average.

3.5 Average execution, measured by the time between *the date of eligibility of the first disbursement and the last disbursement* is 66 months for investment loans, which is higher than the Bank average of 62 months. The interval is smaller for fast-disbursing operations—less than 17 months compared to 25 on average in the Bank. For investment loans, execution continues to be longer than the period originally envisaged (by more than 40%) and this reduces the present value of the expected benefits. For fast-disbursing operations, however, the duration was shorter than programmed. Execution has tended to improve in recent years.

Graphs 3-3 and 3-4

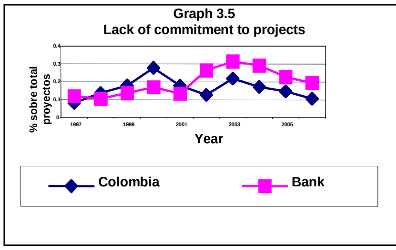


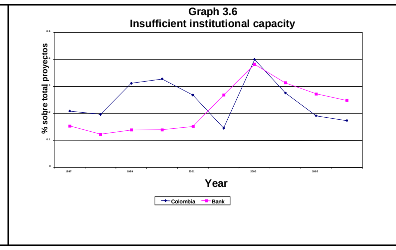


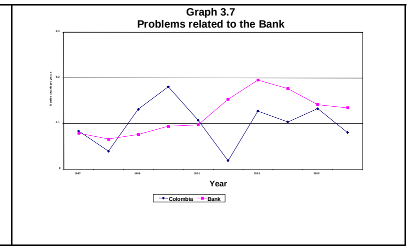
3.6 As for *the external costs of working with the Bank imposed on the borrower* (commitment fee, inspection and supervision fee, and others), they have been sharply reduced *as a percentage of annual disbursements*. They have fallen from 9% in 1997 to 0.1% at present. Since 2001, they have been below the Bank average. The salary costs of local personnel assigned to working with the Bank in Colombia should be added, but this information was not available.

3.7 In relation to *debt service*, the improvement in conditions and the 2005 prepayments lowered service to pre-crisis levels, changing the ratio between principal and interest, and eliminating the maturity peaks.

3.8 The most frequent problems in execution detected in monitoring and self-evaluation of operations (PPMRs) can be grouped into three main areas:[54] (i) lack of commitment by the country to projects; (ii) insufficient institutional capacity to implement them; and (iii) problems related to the Bank's execution procedures and policies.







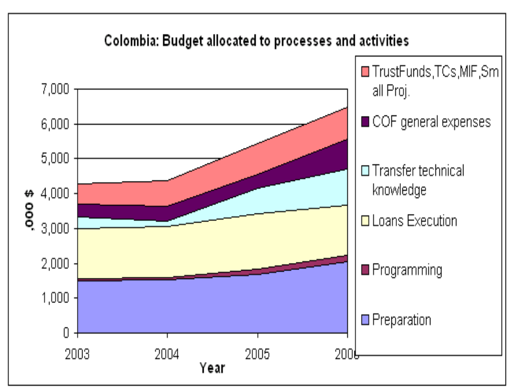
3.9 Two clear trends can be observed. First, significant progress has been made in these three areas in recent years, both for Colombia and for the Bank's average; second, these problems in Colombia (since 2002-2003) have been below the average for the Bank. At least, 10% of projects have problems with lack of commitment by the country related to Bank regulations, and insufficient institutional capacity affects 15% of current operations.

3.10 The specific problems behind these trends are: (i) restrictions on counterpart funds; (ii) national political problems; (iii) problems with interagency coordination; and (iv) insufficient institutional capacity of executing agencies. These factors affected 50% of the portfolio in the first program, but improved substantially in the current one. Progress has been made in other problem areas, although they were less relevant overall, such as delays caused by disagreements over the contractual conditions, contractor performance, and procurement difficulties. Factors with some significance that did not improve as problems declared in the PPMRs were the designs of project components and changes in the executing agencies.

B. Cost-effectiveness of activities and outputs

3.11 This section examines efficiency in delivering outputs. The productivity indicators used reflect the limitations of cost information systems in delivering program outputs. Since 2002, the Bank has been implementing a new accounting system (LAWSON), with a subsystem (OPUS) that can provide the direct costs of activities related to processes that deliver value to clients.

Graph 3.8



3.12 These costs arise from budget expenditures for programming activities, preparation of operations, execution, monitoring, evaluation, and administration. The information makes it possible to calculate the direct costs associated with operations in Colombia, gross operating costs, and total costs for the entire Bank.

3.13 The direct annual costs of activities assigned to products linked to the delivery of value to all the borrowing member countries according to the OPUS subsystem represented 54% of the Bank's gross operating costs and 28% of its total annual cost in the period 2003-2006.[55]

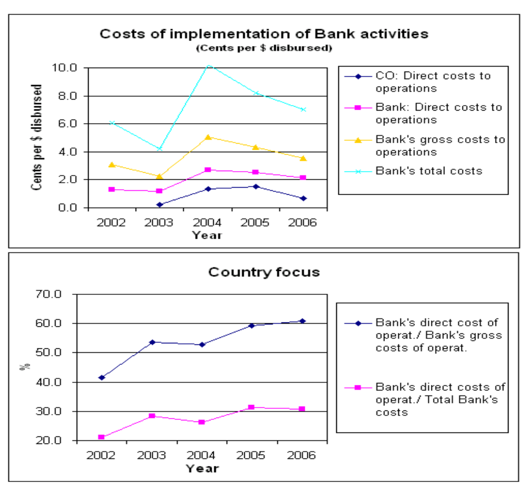
3.14 In view of the foregoing, a cost-effectiveness indicator was calculated, defined by the *absorption of costs by annual activities applied to outputs that deliver value directly to the country*. In other words, an indicator calculated on the 28% of the Bank's total cost. Since there is no information on the budget allocation, the calculation could only be based on the costing charged to project activities each year.

3.15 The activities that proportionally took the largest part of the cost in the period 2003-2006 are: (i) preparation of operations (33% with 30% accounting for costs at Bank headquarters); (ii) execution, which includes monitoring and self-evaluation of operations (26%, with 19% attributable to Country Office costs); and (iii) Country Office overhead (10%). By institutional origin, costs are divided more or less equally between Headquarters (49%) and the Country Office (51%), figures which can only be justified by the division of functions, the strategic weakness of the Country Office, or both. As a trend over the period, the direct annual cost of activities rose by 50%, owing mainly to: (i) growth in transfers to generate technical knowledge, in the form of conferences, seminars, studies, and sector notes (16% of that growth); (ii) preparation (13%) and Country Office overhead (11%); and (iii) technical-cooperation projects, the MIF, small projects and funds (7%). Execution remained unchanged, but the funds used for supervision and self-evaluation activities doubled. *The trends indicate a positive change in the cost structure*.

3.16 Turning to input absorption, 75% are basically explained by Bank staff and their social benefits; 14% by outsourcing of activities to individual consultants, firms, etc.; 6% by business travel; and 4% by other categories. The quality of the Bank's contribution, therefore, hinges essentially on the quality of *the staff assigned and how the country perceives that staff*.[56]

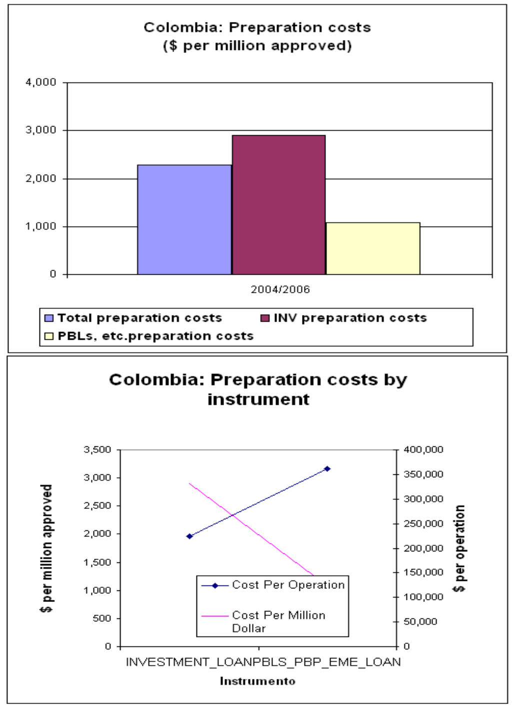
3.17 Another indicator of efficiency in the delivery of outputs to the country is the *ratio of the annual costs of implementation to total annual disbursements*. These calculations can only be made for the Bank's gross operating costs (direct and indirect activities) and for total costs, which add overhead.

Graphs 3.9 and 3.10



3.18 For the period 2003-2006, average direct implementation costs in Colombia were 0.6 cents per US$1.00 disbursed, compared to an average of 1.8 cents for the Bank as a whole. This same ratio, but calculated on the gross annual costs of Bank operations, rises to an average of 3.4 cents per US$1.00 disbursed. Last, the ratio to total Bank costs is double, at 6.7 cents per dollar disbursed, for an average contribution margin of 50%.

Graphs 3.11 and 3.12



3.19 Since 2004, there has been a downtrend in implementation costs for all the cost ratios calculated. *This efficiency improvement was not due to increased disbursements, but to the Bank's lower unit costs*. The greater relative importance of the cost of projects that provide value directly to clients in the period, in terms of total costs (from 20% to 31%) and the gross costs of operations (from 41% to 61%) suggest the Bank is more focused on substantive activities.

3.20 Last, another indicator of efficiency in implementation was the ratio of project preparation costs (from the initial profile to approval) for each US$1 million approved. For the obvious reason the costing system is new, the number of completed projects was not sufficient to draw hard conclusions on project execution costs.

3.21 For Colombia, project preparation costs in the period 2004-2006 was just over 2 cents per dollar approved and about 3 cents for investment loans (compared to the Bank average of 4 cents) and 1 cent for fast-disbursing loans. By lending instrument, there was an inverse ratio between the cost per dollar approved and the dollar cost per operation (US$233,938 for investment loans, compared to US$361,946 for PBLs, for example). It is too early to draw conclusions about these trends.

C. Value added delivered to the country from execution

3.22 This section examines whether execution delivers value to the country through the creation of assets, with the financing used for projects and the knowledge transferred to improve the use of production factors. Indicators were developed to capture this value from different angles.

Table 3.3

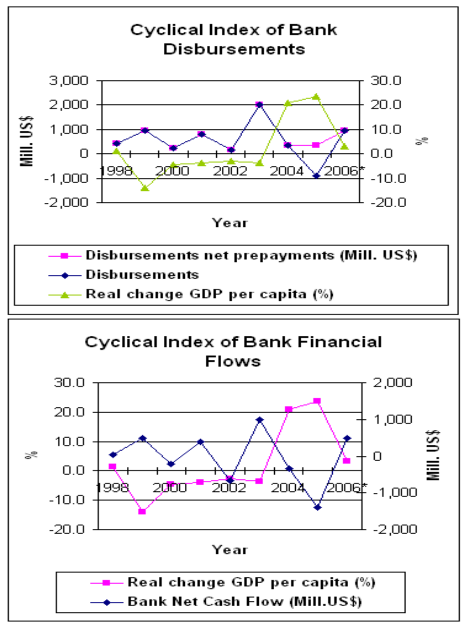
Net Cash Flows

Colombia	1997-2001	2002/2006	1997/2006
Principal (Without Prepayments)	-1,159.0	-2,362.2	**-3,521.2**
Intereses	-983.3	-1,093.2	**-2,076.5**
Credit Fee	-39.4	-8.9	**-48.3**
Other Income	-58.5	-15.1	**-73.5**
PrePayments	-27.3	-1,259.7	**-1,287.0**
Disbursements	2,705.0	3,820.6	**6,525.5**
NetCashFlow	**437.5**	**-918.4**	**-481.0**
NetLoanFlow	**1,518.7**	**198.7**	**1,717.4**
NetLoanFlow (W./Prepayments)	1,546.0	1,458.4	**3,004.4**

3.23 These calculations were limited owing to the dearth of relevant information. The main limitation was the widespread absence of measurements of the flows of net benefits both before and after the project. This prevented the value created by the intervention from being compared with the value envisaged in the original intent and whether that difference was sufficient to cover the resulting debt service flows (golden rule).

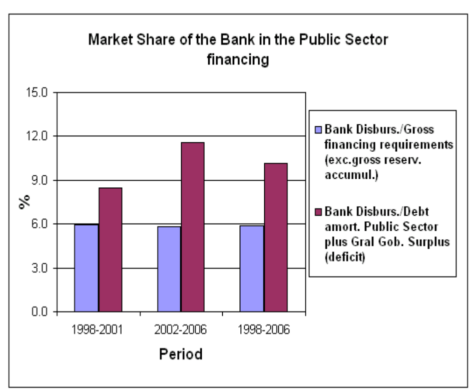
3.24 Since this information was not available, it was only possible to perform a partial analysis of value added through the net transfer of resources to the country. The indicator used for that purpose was changes in *annual net financial flows*. It suggests a positive net transfer from the Bank to the country in the last two programming cycles, except for the US$1.260 billion in unscheduled advances disbursed in 2005. In a period in which fiscal imbalance was significant, maintaining a positive net flow so as not to affect priority spending was important. When conditions changed, the contribution was also important for reprofiling the debt acquired in hard times.

Graph 3.13 and 3.14



3.25 Another way of looking at the value provided by the financial flows is by *their contribution to managing the country's business cycle*. This contribution can be measured by the ratio of the disbursement cycle to the net flows of funds cycle related to the country's cycle of economic activity. The Bank's counter-cyclical role is confirmed from the standpoints of actual disbursements and the net flow of funds. At present, the period is expansive, although the fiscal borrowing targets have not been fully achieved. Maintaining a neutral net flow of funds with the Bank that compensates for principal and interest would mean having annual disbursements at a floor of US$500 million on average to cover existing commitments. Departures from this level would depend on a series of factors that the Bank should regularly monitor and anticipate to avoid unjustified pro-cyclical performance that exacerbates undesirable trends.

Graph 3.15



3.26 In relation to the value transferred by *knowledge and the emergence of new ideas that have improved efficiency in the management of economic assets*, the growing importance the Bank's budget for exchanges and transfers has already be mentioned. Taken together, nonreimbursable technical-cooperation projects (more than 160 in the period under review) and the MIF's portfolio are a good indicator of this modality's contribution to value. The nonreimbursable technical-cooperation projects were frequent and numerous in the social areas, but not as much in such areas as competitiveness, public services, public-private initiatives or concessions, and infrastructure. *This led to a kind of asymmetry in the country's in-depth knowledge and limited the perception of the Bank's possibilities in those areas*.

3.27 Last, the relative importance of the share represented by disbursements in gross financing requirements (excluding reserves) was measured.[57] This indicator can be viewed as an approximate metric of the Bank's targeting in the country. The measurement indicates that Bank disbursements as a percentage of the country's gross annual financing requirements remained constant in the period 1998-2002 at 6%. The share of disbursements compared to the fiscal gap plus payment of principal on public sector debt was 10%, and rising: from 8.5% in 1998-2001 to 11.5% in 2002-2006.

3.28 *Put briefly, the Bank was not a minor player and maintained its weight in closing the gap in gross financing requirements, gaining in relative significance in covering the obligations of the nonfinancial public sector.*

3.29 Improvements in the delivery of outputs to the country increased the Bank's comparative advantages in execution. However, the indicators more often than not measure only the direction of the value created by interventions; they do not measure their effectiveness, since no baselines or targets were established for the transactional aspects of the portfolio.[58] Nor could they be compared with other MDAs. Significant challenges continue to exist linked to timeless and efficiency in the preparation of interventions, not so much to their execution.

3.30 One major shortcoming is the absence of calculations of the net future benefits produced by the interventions and therefore the value of their returns. Nor were any routine opinion studies found that explain the gap between the value added reported by executing agencies and the value added perceived by users, beneficiaries, and political and administrative leaders. Nor are there comparisons with comparator institutions.

3.31 It was considered important to include the opinions of relevant players collected during field work about the value added and the comparative advantages of using the Bank. Their views reflected the following needs:

- To introduce a more systematic and simpler operating process that relies more on national systems and technological support.
- To center activities monitoring on results and transfers of knowledge.
- To surmount the restrictions on pooling Bank resources with national resources and funds from other sources for public programs (for example, the problem with the government procurement system).
- To discuss the strategic program agenda more on a project-by-project basis to avoid having the BCS focus on lending quotas.

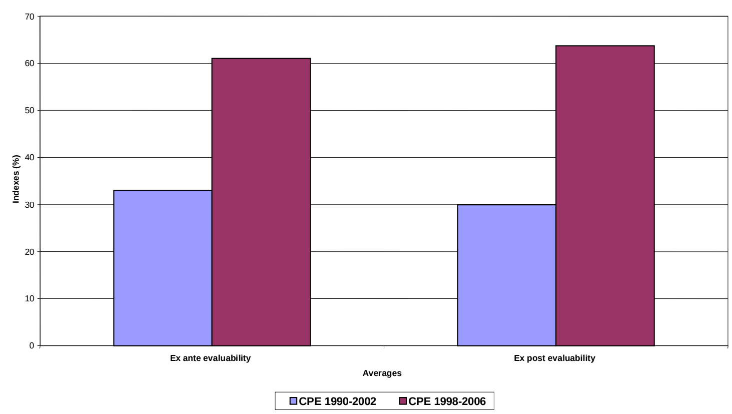
- To treat Colombia as an emerging middle-income country with reliable administrative capacity in certain sectors and delegate responsibilities to such sectors.
- To cut back execution through intermediaries and executing units to a minimum (they were not vehicles that significantly improved institutional capacity and, in some cases, they obscured inadequate management of funds).
- To diversify clients by finding solutions to the absence of guarantees, debt management (subnational governments and the private window) and borrowing in local currency as tools for reducing inequalities and improving the thematic balance of the program.

D. The quality of Bank services

1. Evaluability of the country program

3.32 Evaluability shows the extent to which the design of the program or its projects permit adequate monitoring and ex post evaluation of outcomes.[59] Both approaches, from the program or project standpoint, are used in the evaluation and the initial expectation is that they will converge. In other words, it is expected, a priori, that the development objectives of the projects will be consistent with the programmatic objectives.

Graph 3.16
Project evaluability indexes

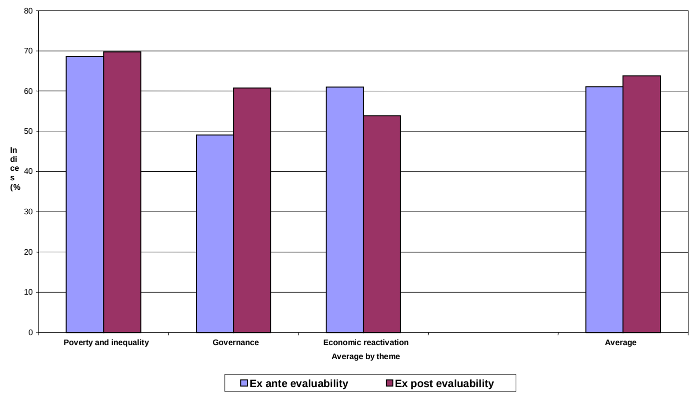


3.33 From the *standpoint of the projects*, evaluability was applied to the 20 projects approved since 2003. The results point to significant progress in this exercise compared to the previous CPE.[60] The ex ante evaluability index is 61%, compared to 33% in the previous CPE. The ex post evaluability index, which contains information on implementation, is somewhat higher: 64% compared to 29% in the previous CPE. *This confirms what the previous CPE said about tapping the potential of executing agencies and other sources in this area (DNP, executing agencies, national monitoring systems, CONPES, CONFIS, etc.) whose regular work can improve the focus on project results.*

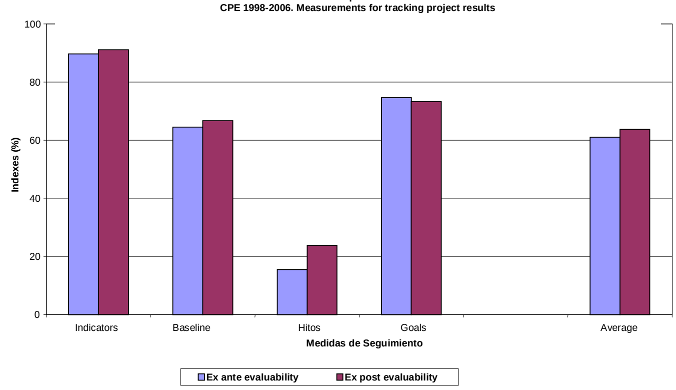
3.34 A breakdown of the evaluability indexes into their four areas reveals the greatest weakness lies in the absence of midterm targets for monitoring results. There was no specification of the time frames in which the outputs would be achieved, or of the order of activities in the project implementation rationale. This absence of targets lends uncertainty to the logical framework and makes supervision difficult. Although 90% of the objectives have indicators to verify and demonstrate the results, just 65% have a calculated baseline, although 73% have quantitative targets for project completion.

3.35 A breakdown of the evaluability indexes by strategic area also reflects differences that make the results in a given area more evaluable than in others.

Graph 3.18
Evaluability indexes by strategic area



Graph 3.17
CPE 1998-2006. Measurements for tracking project results



3.36 The best figures in the indexes correspond to the social sector. Since it receives close to 70% of the resources approved, this percentage value allows the results of the approved portfolio to be measured. For governance, the information obtained during implementation improved the low design evaluability. The opposite is true in the area of growth and competitiveness, where information deteriorates during execution.

3.37 From the *standpoint of the program*, the evaluability index of BCS 2002-2006 indicates that the capacity to benefit from the evaluation of results is low (41%).[61] The results framework for the program identified indicators in 60% of the cases, but constructed baselines for just 45% of objectives and 55% of targets. No midterm targets were set. In executing the intent, nearly 30% of the programmatic objectives (eight out of 30) in the strategic areas did not have activities whose success could be attributed to the Bank's involvement.

3.38 The existence of better project outcome frameworks improved the reliability of self-evaluation as to whether the development objectives and outcomes were achieved, thus compensating for program weaknesses. The BCS's low evaluability reduces its usefulness as a tool for judging the strategic outcomes expected by the intent.

Table 3.3
Country program evaluability, 2002-2006

Area	Ex ante involvement		Means for tracking the results				Ex post involvement	
	No. strategic areas	No. objectives per area	Indicators	Baseline	Midterm targets	Goals	No. strategic areas	No. objectives per area
Poverty and inequality	2	9	5	5	0	5	2	9
Governance	4	12	5	5	2	5	3	7
Economic Reactivation	2	9	3	3	1	3	2	6
Total	**8**	**30**	**13**	**13**	**3**	**13**	**7**	**22**

Source: Matrix linking activities to program development objectives

2. Focus on development effectiveness

3.39 This section examines the Bank's capacity to target programs and projects to development effectiveness.

3.40 The methodology consisted of observing whether it is possible to perform an evaluation of the impact of project outcomes. The same set of questions was applied to each project in the sample: (i) do they have the minimum information required to measure the effectiveness of the development objectives; (ii) do they finance or make budget provisions available for activities to compile information and evaluate outcomes; (iii) do information systems and sources associated with the project outcomes indicators exist; (iv) is there a functional relationship with the national statistics system for the permanent production of that information; (v) is information for the evaluation generated and used routinely (the baseline is defined, information is obtained during execution, etc.) by the country; (vi) does the information come from the Bank's own monitoring systems or knowledge; and (vii) is information generated for proposing an independent impact evaluation.[62]

Table 3-4
Compliance by project with impact evaluation criteria (number of projects)

Criteria	Total	By programming cycle		By strategic area		
		1998-2002	2002-2006	Poverty and Inequality	Governance	Economic reactivation
1. Do they have a minimum of information for measuring the effectiveness of the development objectives	23	9	14	13	8	2
2. Do they finance or make budget provisions for activities to compile information and evaluate results	24	9	15	13	8	3
3. Do information systems and sources associated with the project indicators exist	20	9	11	11	8	1
4. Is there a functional relationship with the national statistics system	13	6	7	7	5	1
5. Does the country make routine use of information on results	24	9	15	12	9	3
6. Does the information come from the Bank's monitoring systems	8	4	4	0	8	0
7. Is information generated for an independent impact evaluation	8	3	5	5	1	2
Total projects analyzed	**27**	**11**	**16**	**13**	**10**	**4**

3.41 The results indicate that:

- A minimum number of effectiveness indicators exist in 85% of projects.
- The compilation of information and evaluations is financed in 90% of projects
- National systems make routine use of information for evaluation in 90% of projects, although just one third are operationally linked to national statistics systems.
- Information on indicators from own systems is used in 85% of projects, demonstrating experience and close cooperation among the persons in charge.
- The Bank developed its own complementary monitoring systems in one third of projects, particularly in the area of governance, where fewer resources have been invested.
- The information allowed impact evaluations to be performed in just 30% of projects, mainly in the social sector.
- Evaluations are actually performed in an even smaller percentage.

3.42 The Bank's monitoring and self-evaluation activities basically depend on national performance information systems, except in the case of governance project indicators, where the Bank has developed parallel systems.

3.43 The analysis confirms that evaluation is a routine function of government programs and projects financing by MDAs. In the NPA, evaluation is integrated into the policy process as a tool of the executive branch, with three aims: (i) reporting on the progress of the government's development plan and medium-term goals; (ii) year-to-year monitoring of the targets for government products and the performance of the executing agencies responsible for delivering them; and (iii) subsequent evaluation of a limited number of investment projects defined by the government.[63]

3.44 Most ex post project evaluations were outsources and those conducted internally are revised academically and conceptually by specialists. To a lesser extent, evaluations are performed of projects for learning and knowledge (impact or causality), which are growing in number, many of them supported by the MDAs themselves, and the evaluation methodologies have been refined. Policies are rarely scrutinized by independent evaluation.

3.45 Since the evaluation of Bank results depends on national indicator systems, stricter independent evaluations are required for quality assurance. This is more important when the functional linkage of project performance indicators with the national statistics system is weaker, as in the present case.

3.46 Independent evaluations should report regularly on: the quality of national indicators used by the Bank to verify progress; their suitability for measuring effectiveness as well as coverage; and the number of services produced to attain them.

3.47 Last, the importance of applying results-based evaluation systems to budget programs (programmatic approach) and not just to investment projects, as presently happens, should be underlined.

3. Risk management

3.48 This section analyzes the Bank's capacity to anticipate and manage risks encountered in complying with project development objectives. The analysis was applied to a sample of 22 projects that were either completed or well advanced during the evaluation period.[64]

3.49 The evidence suggests that:

- In 16 of the 22 projects, risks arose during execution that threatened compliance with the development objectives.
- In 11 of the 16, compliance with the development objectives was affected (these cases were recognized in Management's self-evaluation, meaning that the risk analysis, at least ex post, was more complete).
- In 9 of the 16 projects that encountered risks, the Bank anticipated them in the design, but the outcomes were affected by factors not predicted in project documents.[65]

Table 3.5
Project risk management (number of projects)

Item	Total	By programming cycle		By strategic area		
		1998-2001	2002-2005	Poverty & Ineq.	Governance	Economic reactivation
1. Total sample of projects evaluated 1/	22	9	13	10	9	3
2. Projects with risks that actually occurred (ex post) 2/	16	8	8	7	7	2
3. Projects with risks that actually occurred (anticipated ex ante) 3/	9	4	5	4	3	1
4. Projects with risks that actually occurred (admitted in the self-evaluation) 2/, 4/	11	8	3	5	5	1

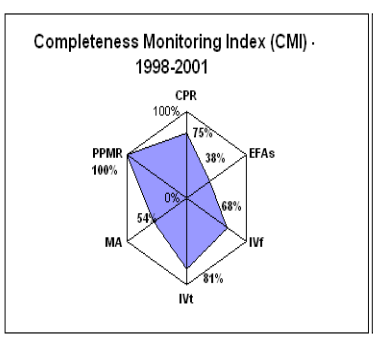
1/ Excluded the projects approved in 2006: CO-L1007, L-1011, L-1010, L-1014, and L-1017.
2/ Based on PCRs, PPMRs, interviews, or other evaluation reports, at the end of the period.
3/ Identified in the design.
4/ That had an impact on compliance with the development objectives and required actions to mitigate the risks.

4. Monitoring and self-evaluation

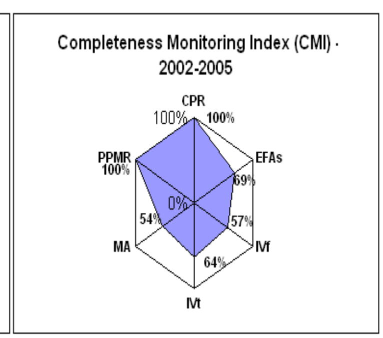
3.50 This section presents the results of the quality of monitoring and self-evaluation by Management.

3.51 The degree of compliance in the use of mandatory supervisory instruments was beneath the levels envisaged in the regulations. Of the supervisory activities envisaged, 81% were met in the period 2002-2005, an improvement over 1998-2001

Graph 3.19

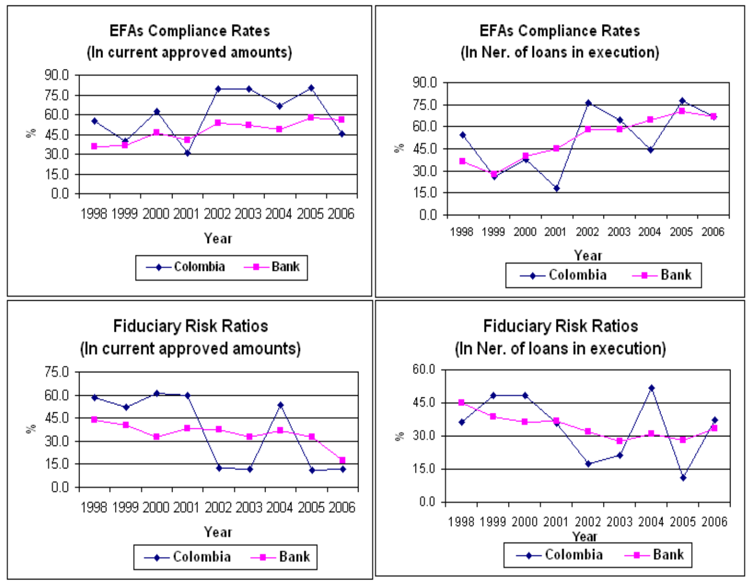


Graph 3.20



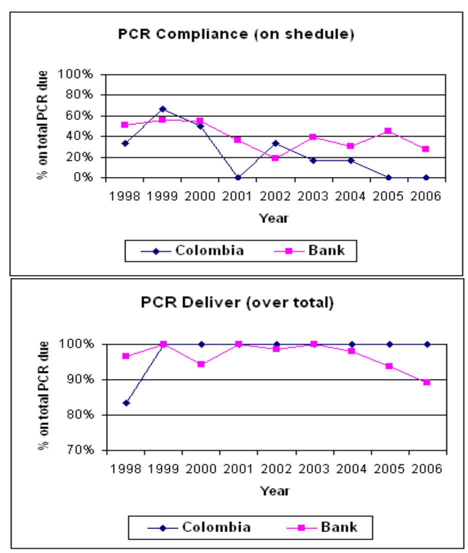
(74%) and the Bank average. The figures for PPMRs, the annual portfolio review missions, and the PCRs were 100% or very close. However, there was little compliance with the administration missions programmed for the projects and with the technical and financial inspection visits and the AFSs, although this improved in the most recent programming period.

Graphs 3.21, -22, -23, and 24



3.52 The fiduciary risks were measured using two annual indicators: the ratio of AFSs presented to the total number of statements to be presented and the ratio of fiduciary risks (defined as the sum of AFSs with reservations plus those not presented within six months after they are due) to all AFSs to be presented. The calculations were based on the amounts approved and the number of loans in execution. In terms of amount, the trends point to progress in presenting the AFSs on time, and the percentage (75%), although not perfect, exceeds the Bank average. The trends also show fiduciary risks fell from 60% at the start of the period to just over 10% at present.

Graph 3.25



3.53 Self-evaluation of results is mainly in the form of PPMRs and PCRs and the Bank makes little use of independent impact evaluations[66] that incorporate lessons learned and knowledge. Different executing agencies and beneficiaries interviewed said they had participated in the dynamics of self-evaluation and were presented with the PCRs, but did not know whether their views had been taken into account. The rating of progress and risks in execution is viewed as overly subjective.

3.54 There has been a sharp improvement in the PCR compliance rate. In the past over 40% were not completed on time; now the deadline is met 100% of the time.

IV. PROGRAM RESULTS

4.1 This chapter looks at project outcomes in the areas of Bank involvement. The analysis did not evaluate the impact of the outcomes based on "what ifs" although, had there been any, they would have been taken into account.

4.2 The methodology used was to compare the current situation of development objectives and institutional capacity with the situation envisaged at project approval.

4.3 The detailed analysis of evaluations can be consulted in Annex III. The analysis of the outcomes and the extent to which they are attributable to the Bank is organized into the four strategic areas mentioned in Chapter I.

A. Effectiveness of financial performance and public management

4.4 Improving the effectiveness of public finance management was one of the main objectives of the Bank program. The bulk of its portfolio took the form of flexible lending instruments, recognizing fiscal problems as one of the core restrictions to development. The country reciprocated with sound macroeconomic policies and substantive spending reforms insofar as its institutional constraints permitted.

4.5 The analytical verification of effectiveness was performed using indicators for the four development objectives in this area: (i) reduction of macroeconomic vulnerability; (ii) the use of the government's current revenue in providing high-quality public services and eliminate inequity in well-being; (iii) the contribution of spending on capital goods to reducing the physical and social infrastructure gap and the levels of education needed to sustain competitive economic growth; and (iv) improvements in the quality of public financial and fiscal management.[67]

4.6 *A reduction in macroeconomic vulnerability* is observed at the end of the period 1998-2006 due to consolidation of stability, improvement in fiscal results, and better debt management.[68] These elements created headroom for growth in spending, consistent with adequate public accounts management. The fiscal deficit was cut by one half and growth doubled, confirming the linkage between fiscal adjustment and faster growth.[69]

Table 4.1

Fiscal Adjustment and Growth

Concept	%
Fiscal Result 1998-2002 (Gral Gov.)	-4.7
Fiscal Result 2003-2006 (Gral Gov.)	-2.3
Fiscal Adjustment	2.4
Growth 1998-2002	2.7
Growth 2003-2006	5.1
Growth Acceleration	2.4

4.7 These trends coincided with an improvement in the quality of *public expenditure*. Growth took place with a reduction in urban poverty levels (and rural poverty to a lesser extent) and in unemployment. Attention to social costs increased and significant improvements were made in the security indicators, although confidence in the internal situation and the investment process continue to be key challenges. The coverage of education and health care services improved, thereby expanding the economic opportunities of the poor. There was not sufficient evidence to confirm that this better coverage and efficiency have raised the quality of public services.

4.8 These outcomes were not matched by a reduction in the *infrastructure gap*. Developments were more positive in services linked to problems of equity and violence (not marketable), which received considerable Bank funding, unlike human, physical, and productive resources (marketable).[70] The unsatisfactory trend in productivity and a widening infrastructure gap linked to competitiveness are examples of the situation described. Market regulations are numerous and complex, reflecting a still incomplete deregulation process. Although unfavorable investment trends have been reversed, investment levels are not sufficient to attain the rate of growth needed to sustain the social expenditure agenda over the long term and the production of marketables required to effectively tap new markets.[71]

4.9 Another development challenge is building *consensus on surmounting institutional obstacles* and completing the structural reforms[72], thus drawing on the benefits of the country's presently favorable conditions. Ignorance of those obstacles made it difficult to agree on the conditions of the Bank's PBLs, a factor underlying the country's current interest in programmatic operations or operations with approved sector reforms. Reducing the impact of fiscal inflexibility so that social and productive spending is sustainable will depend on such consensus.

4.10 From the standpoint of *financial management quality*, the fiscal and debt positions have improved, although vulnerabilities have not totally disappeared. One noticeable outcome is that a smaller fiscal deficit cushions the general government[73] with comfortable levels of external liquidity. When difficulties were experienced and access to financing did not justify traditional IMF intervention,[74] the role of the multilateral and regional banks (World Bank, CAF, and the IDB) was essentially to close the fiscal gaps without sacrificing social expenditure. As the situation improved, this role was important in improving the profile of debt contracted during the crisis.[75]

4.11 The conditions of these operations were politically viable, a process not always technically justified by the Bank. Difficulties in arriving at a consensus left pending agenda topics, such as reform of the reforms undertaken in the last decade.[76]

4.12 The quality of budget management has been improving. Today, public accounts management is based on medium- and long-term fiscal frameworks that demonstrate the sustainability over time of the resources needed to implement the strategic frameworks established in the National Development Plan.[77] This medium-term budget framework is complemented by a similar framework for public spending, which paves the way to incorporating a culture of management by results and risk management that did not previously exist. Moving multiyear budget frameworks are being devised to anticipate fiscal risk scenarios, as well as the impact of the economic cycle. A decision-making process that incorporates risk is an advance, since it avoids a return to a situation that was costly in terms of effort and resources.

4.13 Progress in modernizing fiscal management took place alongside renewed debt management engineering. Debt management was redefined based on financing and its overall contribution to the strategic objectives of public and fiscal management. The MHCP increased its presence, not just by establishing fiscal thresholds, but also by participating on an equal footing in preparing and implementing the Bank program. The instruments used, the level and timeliness of external financing, and the new financial products are the result of this progress.

B. Social development, poverty, and inequality

4.14 These areas lay at the heart of the Bank's strategic relations with Colombia in the recent past.

4.15 The guiding principles set out in the strategy papers are "to foster social development and ensure that society's most vulnerable are protected." The extent to which this objective was attained is expressed by a series of indicators in two strategic areas: (a) strengthening social assistance programs and assuring protection of the very poor; and (b) increasing the coverage, quality, and efficiency of social services.

Tab le 4-2
Strategic evaluation indicators for Colombia's social sector

Strategic objective	Areas of action	Indicator	Baseline (year)	Objective	Outcome	Trend
To foster social development and ensure that society's most vulnerable are protected	To strengthen social assistance programs and assure protection of the very poor	Poverty rate	60% (2000)	58% (2006)	49.2% (2005)	+
	To increase the coverage, quality, and efficiency of social services	Preschool, basic, and secondary school coverage	82% (2002)	92% (2006)	90% (2006)	-
		Percentage of municipalities evaluated with national tests for grades 5-9	35% (2002)	100% (2006)	100% (2006)	+
		No. of financially viable hospital systems with efficient services	21 (2002)	54 (2005)	135 (2006)	+
		Number of people covered by the subsidized regime	11.3 million (2002)	16.3 million (2006)	20 million (2006)	+
		No. of people with sewer service in rural areas	2.9 million (2002)	3.9 million (2006)	n/d	n/d

4.16 The outcomes indicators suggests that the goals attained "in the stipulated time" by the BCSs in the strategic areas of the social sector were satisfactory, with the exception of water and sanitation, where the Bank programmed but did not carry out interventions.[78]

4.17 In the areas in which it was involved, the Bank demonstrated leadership and relevance by becoming the most important strategic partner in sector reform and policy initiatives, particularly in the creation of social safety nets and health sector reform.

4.18 In relation to the *creation of social safety nets*, the Bank participated actively in the social support network (RAS),[79] under program CO-0247 and associated technical-cooperation projects.[80]

4.19 Under that program (CO-0247), the Bank contributed directly to the growth and strengthening of the social programs implemented by the central government, with varying outcomes. In temporary job creation for poor workers,[81] the goals were only partially achieved given that problems were encountered with design and implementation. In job training, about 82,000 youths were assisted (below the target of 100,000) and improvements were made in formal sector employment and income of the participants.[82] In employment subsidies, just 2.3% of the goal of creating 50,000 new jobs was accomplished. Last, in family subsidies, Families in Action surpassed the objectives for reducing school desertion and infant malnutrition but obtained unsatisfactory results in health education. Infant immunization levels were not measured despite being a core outcome in the original operation design.[83]

4.20 In the health sector, the Bank has been a relevant player. It participated initially with technical support (CO-0088) and then with financial support to broaden coverage of the subsidized regime (CO-0252), the restructuring and rationalization of public health service delivery (CO-0139), and the adoption of national policies for service delivery and the introduction of improvements to system quality (CO-L1017). Significant progress was noted in insurance coverage and the use and equity of the system. As universal coverage has not yet been achieved and challenges persist in efficiency and quality, the strategic commitment in the sector could be maintained.

4.21 In education, the Bank's contribution was limited and was not central to the sector reforms undertaken by the country. The new school system program: reform of education management and participation (CO-0142) of 1999 was the only relevant operation carried out. Its original objective was to bolster decentralized, autonomous management in the education sector. Passage of Law 715 made key elements of the program redundant, such as incentive-based resource distribution for decentralized institutions and support for subnational governments in adopting improvements in education supply (all-grade schools). This made it necessary to restructure the operation, which turned into technical support for modernizing the regional education departments by the central government, with alternative objectives in processes not central to sector reform.[84]

4.22 The social reform program (CO-0252) and the associated technical-cooperation project (CO-0261) achieved satisfactory results in reforming the targeting tool (SISBEN). The country was able to fulfill the conditions in health coverage and education sector restructuring, although a stabilization fund for social protection was not set up owing to a failure to build political consensus on the proposal.

4.23 The health care and social security reform program (CO-0265) to help the government improve the coverage, quality, equity, and sustainability of the General Health Insurance System (SGSSS) satisfied the conditions relating to higher enrolment in health insurance, the impetus for restructuring public hospitals, and the evaluation of and adjustments to the parameters of the Mandatory Health Plan-Capitation Payment Unit (POS-UPC), among other objectives. Yet, the improvement in the efficiency and financial sustainability of the Social Security Administration (ISS) was a failure and, after a number of years of poor performance, is now being shut down.[85]

4.24 The social emergency program (CO-0268), which is the largest, was the only one with the explicit objective of protecting the budget for social programs to cushion the impact of recession on the very poor and stay the course of the sector reform already under way. The project established a specific series of performance indicators with clear intermediate and final objectives.[86] In general, all the proposed indicators were attained or exceeded.

4.25 Operations in the areas of restructuring and rationalization of the public health service delivery[87] did not measure up to expectations.[88] Strengthening the national immunization program also had only partially satisfactory results.

4.26 In the housing sector, the Bank's participation has been marginal compared to the size of the country's unmet demand for low-cost housing.[89] The importance of its participation lay in the new family housing subsidy policy approved in 2002, which ushered in a new institutional framework to support the country in its efforts to provide low-income housing through an outsourcing arrangement.[90]

4.27 Through the urban social housing program (CO-0241 for US$150 million) the housing shortage in urban areas was addressed through subsidies. Monitoring the development results was hampered by the failure to implement the unified social housing information system envisaged in the loan.[91] Today, the system is developing under the Connectivity Agenda, but the program has not established efficient linkage with it.[92]

4.28 Accordingly, the outcomes of the operation can only be evaluated by the outputs (number of subsidies). During the period 2004-2006, the target of 71,000 subsidies was exceeded with a year still remaining in the operation[93] and benefited low-income families.[94] The midterm program evaluation indicates that positive impacts were achieved in terms of the quality of flooring, external walls, and roofs, and in access to water, sewer, and natural gas services connected to the public system. Importantly, the subsidy pays only for construction of a basic unfinished unit that adds protection and hygiene and addresses existing makeshift conditions. The cost of administering the subsidy, although it has fallen, is still inefficient, accounting for 6% of its value.

4.29 To back the new policy, CO-0241 has helped to support a more transparent system for subsidy allocation, some mechanisms have been established to guarantee better control and monitoring of the works, coverage and targeting have been improved, and so has effective delivery of the subsidies. During the program, support was provided for the national government's efforts to implement urban development policies, such as the adoption of land management plans[95] by the municipalities and the creation of some instruments for formulation of urban renewal projects.

4.30 A national rural housing program (CO-L1003 for US$30 million) was intended to improve the qualitative deficit in rural housing and ameliorate makeshift living conditions. It was given top priority and over 60% of resources were committed in the first two years.[96] The program has been hurt by the absence of the family housing subsidy information system, which was not initially linked to the urban social housing information system.[97] The targeting of families in SISBEN level 1 has become more efficient but the subsidy is more costly to administer than the urban subsidy—13% of its value.

4.31 Given the magnitude of unmet demand, the sustainability of the family housing subsidy will depend on the capacity to increase permanent social expenditure, while simultaneously improving access to microcredit, private sector participation in subsidized housing, and land planning to reduce the cost of housing solutions. There is also room to improve the efficiency and effectiveness of existing instruments and develop others to address areas not yet accorded priority treatment.

4.32 The Bank has contributed to a centralized model of managing and executing social programs, justified by the difficulties encountered by the subnational governments in building management capacity and strengthening governance. This introduced problems of coordination and the allocation of responsibilities to the different levels of government.

4.33 Last, three important issues should be underlined: first, the importance of high levels of sustained growth to build up genuine revenue that makes the country less dependent on borrowing (economic reactivation and employment are strategic for sustaining social expenditure in future); second, the existence of other sector demands besides social demands that are equally strategic and compete for limited resources (they should be considered together to obtain balanced results during the programming period); and third, the importance of coordination, coverage, and allocation of functions between the central and subnational governments in the institutional area, with a view to anticipating the effects of the political cycle.

C. Institutional capacity of the State and governance

4.34 Relations with the Bank in institutional areas were not the main trigger of the strategic program.

4.35 Its involvement was more closely related to fiscal restructuring and sustainable spending through liquid resources, rooted mainly in conditioned social development programs. It did not act on fiscal accountability or medium-term performance-based budget management reform.[98]

4.36 The Bank's contribution in this area was not up to the magnitude of the challenges targeted in the program objectives. The intent was ambitious, in seeking to tackle virtually all aspects of public management. The country opted for more specific support, concentrating on areas that did not work well. In some cases, the areas in which the Bank was involved were not the most important. In others, the Bank lacked a vision of how to manage the institutional constraints and budgetary inflexibility when it came to defining the type of intervention and assessing project execution capacity.[99]

4.37 In the public administration reform program (CO-0266), the contribution was significant as described below, as it was to some degree in the census and working approach to citizen security projects.[100]

4.38 In the public administration reform program the results were mixed. The contribution to the country was significant in terms of knowledge and good policies,[101] but not in terms of resources. Also, execution did not run smoothly. Its outputs and outcomes were largely conditions of the World Bank's structural adjustment programs[102] and the letters of intent with the IMF.

4.39 Support for the 2005 census (CO-L1008) was intended to provide novel technical responses to a controversial academic and political-institutional situation, adverse to accepting changes in long-standing principles governing demographic and socioeconomic surveys. The methodological and technological changes supported in this type of operation were unusual, particularly given the lack of experience and relevant background information. The results and their sustainability, with their ups and downs, that slowed the process, can be rated as satisfactory.

4.40 The main questionings (errors in coverage, insufficient control of technical validation of the process and its outcomes, and sociopolitical legitimization) mobilized more consistent and flexible government responses. This lowered the level of internal debate and uncertainty over the viability of using the census results. The results are now being used to adjust the system of regional transfers and territorial organization to the new reality. By not requiring parliamentary approval of census results, the political system established that it is free to adopt or reject the census as the basis for amending the system of representation.

4.41 The criticisms about the lack of continuity in independent monitoring to validate the quality of this innovative census process and its post-census technical validation, which were also weakness in the Bank-designed intervention, received acceptable responses soon after the program concluded.[103]

4.42 With regard to decentralization, the program lacked an effective focus that would improve local management while simultaneously removing its imbalances. This continues to be a pending challenge. The results of the subnational financial information system (FOSIT) were more favorable. Operations with the subnational governments either did not have adequate focus and tangible results (for example the Pacific coast program—CO-0059, and the program to support local governments),[104] or were concentrated in the big cities (Bogotá, Cali, and Medellín) with good specific results but without reducing the territorial imbalances or stemming internal migration. Here, a number of interventions were programmed but not carried out.

4.43 The issue of violence was more of a restriction than a program area and the contribution was concentrated in nonfinancial products.

4.44 Efforts to become involved in the judicial branch were not successful.[105] Interventions and action plans were programmed but never approved owing to the difference in the approach to negotiations with the country. However, the public perceives the justice system more favorably and significant progress was noted in criminal proceedings, judicial training, and conflict resolution, which are important results obtained by the country. Major challenges remain in the areas of access to justice, impunity, and the professional management of justice.[106]

4.45 Despite technological progress, it was not possible to justify the validity for the Bank of the external certification of the CGR (CO-0244) or of increasing its budget, which is necessary for government oversight systems, particularly in the citizen participation component. Something similar happened with the other MDAs.

4.46 The situation called for changes in the Bank's programs. Since the government and congress control the budget, the extent of funding and support for reforms in these sectors are good indicators for tracking their results. Although the judicial branch and the oversight agencies have improved their efficiency in recent years, this does not appear to have been the reason for the budget cuts in those agencies as a percentage of the total national budget, particularly in the case of the judicial branch.[107]

4.47 Acting with the government oversight agencies and expanding the use of the integrity index at the national and regional levels constituted effective technical progress in this program area.

4.48 Last, the failure of the congressional support program design (CO-0165) should be mentioned. Its complexity conditioned execution to areas that were not politically viable, when only economic and budgetary advisory services were required.

4.49 *In short, the Bank's work in the institutional area took a broad outlook that was well identified, but performed below expectations, except in the case of conditional flexible lending instruments for the macrofiscal balance*. There were program areas to which the country attached scant priority.

4.50 The country's message on the value added that can be achieved by linking the Bank's knowledge to these challenges is unclear, since it values the endogenous nature of its institutional changes. This stance is a risk for the Bank's strategic focus, since institutional aspects are important for achieving program results.

Whatever can improve the dialogue on the role of institutions in the efficiency and effectiveness of public policies and market reform is a key for sustaining long-term democratic governance. Improvements in the Bank's work, incorporation of exogenous influences, the restrictions imposed by budget systems on agenda development, national values, diversity in institutional capacity, and the political-administrative system's perception of work with the MDAs all need to be considered.

D. Growth and competitiveness

4.51 At the start of the period, the country had no competitiveness strategy or any institutional framework to make the most of the external openness that had been undertaken. The 1999-2001 BCS focused on this gap, making economic growth through higher productivity a main line of the program. The importance of this aspect was reflected in investment initiatives in education, training, and infrastructure. However, the backwardness of the productive apparatus, aggravated by recession, became apparent in this period, when the performance of the productivity indicators failed to improve.

4.52 The 2002-2006 strategy maintained economic reactivation as one of the main courses of action, through the promotion of competitiveness, support for development of the agricultural sector, and natural resource management. To promote competitiveness, the Bank was concerned with failures in market competition, a stable macroeconomic environment, reduction of the impact of security on investment, instability in the rules of the game, and improvement in the quality of human resources.

4.53 Most of its support (US$800 million) was channeled through operations with flexible lending instruments that implicitly facilitated the objective, when approved, of restructuring the country's debt profile. The PBLs were approved without a preexisting policy that set priorities or the path being charted for the sectors targeted for Bank action. This meant that the disbursement conditions for these operations were to create that policy. The pre-approval negotiations dragged on for more than 24 months, marked by numerous differences over the magnitude of the reforms and the areas for action.

4.54 As the country's access to external resources increased, the government's level of commitment to the reforms to boost competitiveness and to the PBL as a financial instrument waned. As a consequence, few policy reforms materialized, and the projects had only middling impact, with little coordination with one another.

4.55 The first PBL, subsequently transformed into a programmatic loan, was the competitiveness enhancement program (CO-L1007 for US$200 million) that sought to boost the *country's overall competitiveness*. Its activities were intended to cement the foundations of a competitiveness strategy and its results were conditional on the existence of a domestic agenda and negotiation of the FTA with the United States. The project was negotiated for more than two years and finally approved in July 2006. The domestic agenda and the CONPES 3439 document are the new institutional framework and guiding principles for competitiveness and productivity, approved immediately after stage one of the program was approved.[108]

4.56 It is too soon to evaluate compliance with the development objectives or even to evaluate the outputs (mostly policies), since they have not yet been achieved.[109] However, progress has been made toward the outputs, which will, in turn, contribute to the process of competitiveness. In particular, they are expected to help create public-private cooperation through discussion of the results of the domestic agenda.

4.57 The limitation of this operation was the imbalance between the magnitude of the actions envisaged and the desired impact.[110] The actions do not reflect the responses demanded by the impact on competitiveness in terms of reducing market failures (mainly in such areas as labor, finance, infrastructure, and science and technology).

4.58 The monitoring and evaluation indicators, such as the competitiveness for growth index, which was defined exogenously, were unsuitable. The construction of those indexes is at odd with purpose of the operation, since it considers areas not targeted by the operation. When it comes to competitiveness indicators, the Bank should follow those identified by the country, mainly related to productivity, and help to refine them.

4.59 Nor did the second PBL, the public utility sector program (CO-0270; for US$600 million), have an existing policy on *residential public utilities* or private participation in the sector. The negotiations faced similar problems concerning the institutional viability of the conditions and took more than two years to complete as well.

4.60 Here, too, it is too early to evaluate the outcomes of this operation, although important outputs have been achieved to improve the context of sector policies. CONPES documents were supported in the following areas: (i) private investment in the public utility development and financing; (ii) water and sewer services; and (iii) good corporate governance practices in public utility companies. There was no agreement between the Bank and the country on the use and methodology of the outcomes indicators[111] or the baselines, making monitoring and evaluation difficult.[112]

4.61 The Bank undertook few projects in the *financial sector*. In the 2002-2006 BCS, the sector was not identified as a priority area although it was considered a priority in the government's competitiveness strategy.

4.62 The financial sector reform program (CO-0232 for US$300 million) approved in November 1999 was relevant to the country's needs and was coordinated with the World Bank, which covered different aspects of the program. The loan was approved as a tool for surmounting the country's financial crisis. It was an emergency loan, given the country's problems in accessing flexible lending of other kinds, which resulted in a more onerous debt for the country.

4.63 The promised outputs were achieved as envisaged, except for the component related to first-tier public financial institutions, which developed more slowly owing to difficulties with the liquidation and privatization of the public banks. The development objectives were attained satisfactorily.[113] The objective of significantly reducing the first-tier public institutions did not reached the expected level by project completion, although the level subsequently improved.

4.64 Another limitation of the Bank's program in the area of growth and competitiveness was the lack of linkage with the efforts of different private sector windows, particularly in the case of the MIF.

4.65 The MIF's efforts in this area were significant and efficient as far as the amount of resources earmarked for these operations was concerned. The MIF provided significant support for the productivity and competitiveness of microenterprises and small and medium-sized businesses, for the streamlining of business management procedures, the development of regulatory frameworks, the facilitation of access to microcredit, capital market development, and the gearing of worker skills to labor market demand. Among its achievements, the program to facilitate business procedures (ATN/MT-7186-CO for US$3.1 million), designed in cooperation with the Bogotá Chamber of Commerce, stands out. It set up 35 centers to serve business in six cities, which considerably streamlined the procedures for starting a business. Initially, this process involved 18 steps and took about 64 days to complete; now a business can be established in three steps, in a maximum of three days. The operation was able to promote more efficient and transparent relations between companies and the public administration and private entities that provide registration and legalization services.

4.66 The program to support private participation and concessions in infrastructure, stage two (CO-0263 for US$5 million) sought to provide continuity for the initiatives begun in stage one.[114] The scope of development objectives was ambitious and contrasted with the activities envisaged in the operation for contracting consulting services and studies. Notable successes included preparation of bidding documents for awarding the concession of Bogota's El Dorado International Airport to private investors in January 2007. There was very little linkage between this operation and the public utility sector program (CO-0270) particularly regarding the regulatory fees that both addressed.

4.67 As for the competitiveness of subnational governments, the Bank did not contribute greatly to reducing inequalities. An operation to upgrade the secondary road system in Cundinamarca, assisted production with improved access to markets. This operation was a learning experience for the Bank in working jointly with the subnational governments, with all the benefits and risks that that entails. A new administration did not attach importance to the institution-building component or the road safety and maintenance subcomponents, which will have a negative impact on sustainability of the operation's success.

4.68 In short, the Bank supported *the construction of the institutional context and public policies to foster a suitable investment climate for boosting the country's competitiveness*.[115] In the micro sphere, *it helped to create this climate by establishing channels for increasing productivity and competitiveness in some sectors*.[116] Better linkage between interventions in the macro- and micro- spheres could have heightened their impact and efficiency.

4.69 The Bank programmed but did not carry out operations in the areas of worker training, science and technology, the infrastructure gap, and financial market integration. The growth and expansion of investment associated with globalization provided access to technical progress that increased inequality in labor income, despite the fact that per capita income has grown for all segments of the population. The growth in jobs in the informal sector and lack of progress in labor productivity suggest that access to technology and finance were factors that added to inequity, since only skilled, capital-intensive labor was rewarded, a factor that reduced employment-output elasticity. Hence, the areas that did not materialize continue to be fundamental in negotiations on a development agenda.

4.70 There was convergence between the areas addressed by the projects and those envisaged in the program. Yet, they fell short of programming expectations.[117] The lack of proportion between project scope and the amounts invested indicated the implicit objective of debt restructuring was truly relevant.

4.71 Higher productivity, competitiveness, and growth are the country's core objectives for ultimately sustaining its poverty reduction and social development strategy in the long term.[118] This priority contrasts with the scant importance attached to these areas in the Bank's program.

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Endnotes

1 Annex I presents a detailed analysis of the evolution of the country's development challenges and supports the description of the context given in this chapter. It also serves as the framework for evaluating the results of the Bank program.

2 For 33% growth between the lowest level in the second quarter of 1999 and the highest level in the fourth quarter of 2006.

3 The area between the second quarter of 1998 and the second quarter of 2002 (see Graph 1-1) reflects the country's loss of wealth attributable to the crisis, which increased vulnerability and inequity in Colombia. The area between the second quarter of 1998 and the fourth quarter of 2006, below the line, estimates the loss of income from failing to maintain the pre-crisis levels of growth.

4 Social protection for the most vulnerable was essential since their situation was aggravated by the impact of the crisis and the internal armed conflict that has affected the country for more than four decades.

5 Fiscal vulnerabilities were lessened by progress in management of public debt and international and monetary reserves, the dedollarization of assets, lower exchange exposure, regulation of credit through a better balance between money creation and demand, and financial supervision.

6 Spending on pensions has grown the fastest. The system's coverage ratios are among the lowest in the world, with significant inequality in benefits and access. The country's demographic trends project that the population over 60 years of age will double by 2025.

7 The transfer payments system continues to maintain large inequities between municipalities. This situation is due to existing discrepancies in terms of resources and management and administrative capacity, a situation that contrasts strongly with the success of the large municipalities.

8 Real primary spending has been higher than the historical economic growth rate adjusted by the moderating effect of the real increase in public revenues.

9 Proven reserves fell by 50% in the last 10 years. Unless significant new discoveries are made, it is highly likely that the country will have to begin importing oil again at the start of the next decade.

10 The constitution unified the regional distribution scheme, confirmed the election of governors, and established three different mechanisms for transfer payments to the subnational levels: the subsidy or transfer payment to the departments, transfers to the municipalities, and departmental and municipal shares in royalties and compensation from the use of nonrenewable natural resources (Bejarano 1999). It also established a mechanism whereby transfers to the provinces and municipalities were supposed to increase gradually from year to year, preserving their real value. The constitutional requirements for the regional distribution of fiscal resources strengthened a decentralization model with emphasis on administrative delegation, particularly in the health, education, and basic sanitation sectors. Law 60 of 1993 and Law 715 of 2001 established, in practice, the organizational rules for resources and competencies. Provisions were also issued for organizing the delivery of social services in the different regional spheres. Law 715 of 2001 established the general transfer payment system and determined the criteria for sector and regional distribution among the departments, districts, and municipalities.

11 See the document "Colombia social reform and equity program" (CO-L1014).

12 As for access to and use of health services, recent evidence indicates that in 2006, 77.4% of the population (43.3% in the subsidized regime and 34.1% in the contributing regime) belonged to the General Health Insurance System (SGSSS) compared to a membership rate of 56% in 2000. Also, recent evidence shows that the increase in health insurance coverage has led to more use of services by the insured and has had a pro-poor bias that has had positive impacts on system equity.

13 Net primary education coverage grew from 83.8% to 86% between 1992 and 2005, while in secondary education it grew from 47.9% to 66.9% in the same period. There was a reduction in the repeater rate in basic and secondary education from 7.1% to 5.8% between 1995 and 2004, while the dropout rate fell from 8.7% to 6.4% in the same period.

14 Decree 975 of 2004 introduced changes in the program to optimize its operation, particularly outsourcing the national government's family housing subsidy program.

15 A midterm evaluation was performed of 1483/OC-CO (the social housing program) by the National Planning Department, which will be published during the second half of 2007. The present document gives a preliminary presentation of some of the results.

16 Fonvivienda [National Housing Fund], Cajas de Compensación [Family Compensation Funds], Caja Promotora de Vivienda Militar [Military Housing Promotion Fund], and Banco Agrario [Agrarian Bank].

17 In 2005, close to 30% of urban households were estimated to have some kind of housing deficit (quantitative or qualitative). It is also estimated that close to 210,000 new households are formed each year in the country's urban areas.

18 Colombia II Centenario "Construir Ciudades Amables" [Colombia II Centenary. "Building Friendly Cities"].

19 While the new system can cover about 200,000 new households a year, the shortage in social housing stock is an estimated 1.5 million.

20 The most recent data available are for 2005.

21 Estimates for 2005 indicate that just 2.9% of total income went to the poorest quintile, while the wealthiest quintile obtained 61.7%. Despite recent progress, the indicators make Colombia one of the countries with greatest inequality in Latin America, already the region with the highest inequality in the world.

22 Figures from the President's Agency for Social Action and International Cooperation indicate that a total of 1,944,665 people (434,486 families) had been registered as displaced at the end of 2006.

23 According to the 2005 population census, 30.8% of the total population lived in the five largest metropolitan areas, which is 1.3% higher (approximately 550,000 more people) than the percentage in 1996.

24 The SPS includes the programs in the social support network (RAS), the administration and targeting of the SISBEN system and the programs from the old social solidarity network (RSS), and assistance programs for people displaced by the violence. The RAS and RSS programs are administered and executed by the President's Agency for Social Action and International Cooperation. The agency is a recent creation (2005). It reports directly to the country's president, and its purpose is to channel national and international resources to programs that provide regional assistance for vulnerable groups affected by poverty, drug trafficking, and violence. It started out by addressing the impact of the conflict, and has since expanded to its present size of more than 1,000 employees.

25 "In recent years, spending on the social welfare programs targeted to the population group affected by unemployment, extreme poverty, and the armed conflict, has been closely correlated with poor economic performance. The percentage of spending on social welfare out of total social expenditure remained constant during the first half of the 1990s, rose in 1995, and fell again at the end of the decade during the recession. During that period the poverty rate grew by 15%. The low level of financing for spending of this kind has led to drops in the coverage of programs precisely when it was necessary to maintain or expand them to offset the impact of the recession." Colombia social reform and equity program (CO-L1014).

26 The large cities, with significant resources of their own that are far larger than the transfers, have their own programs and are able to act with greater independence.

27 Mainly in the education, health, and basic sanitation sectors. The entry into force of the new transfer payment system in 2007 is helping to resolve these conflicts of jurisdiction.

28 Government projections indicate that the levels of growth required to attain the objectives established in the plan Visión Colombia II Centenario: 2019, which include the Millennium Development Goals, are cumulative annual growth averaging 6% until 2011 and 5.3% until 2019. These growth requirements exceed the government's current projections and historical trends.

29 From a total of 7.1% of GDP in 1997 before the crisis and during the boom in private sector participation, it fell to 4.1% in 2003.

30 Productivity was measured through the index for total factor productivity (TFP) which was built using the following formula:

$$TFP = \frac{Y}{K^{\alpha} L^{1-\alpha}}$$

where Y is GDP in constant US$ of 1995, L is the labor input, and K is the capital input, α is the share of capital in the net aggregate nominal value. This measurement assumes a Cobb-Douglas aggregate production function, with constant returns to scale, perfect competition, and optimization. $(1-\alpha)$ refers to input of the labor force in the net aggregate nominal value.

The initial level of capital is calculated using the perpetual inventory method: $K_0 = I_0 / (\delta + g)$, where g is the geometric growth rate of gross domestic investment for the period 1994-2006 and $\delta=0.05$ is the constant depreciation rate.

The stock of capital is estimated as: $K_t = (1-\delta) K_0 + I_t$, where K is physical capital stock, and I is gross domestic investment.

The source of the data used to calculate TFP was the Banco de la República.

It is important to recognize the different methodologies that can be presented in the calculation of TFP as noted in Aiyard and Dalgaard (IMF, 2005). If the employment rate is assumed to approximate L, the result shows that TFP recovered in 2004-2006. There is no justification, however, for considering such a recovery a trend. There diverging opinions on the benefits of using the employment rate, labor force, or the formal sector to calculate TFP. For consistency, the present evaluation presents the data using the labor force because of variations in methodology presented in estimates of employment and unemployment in Colombia during the period under review.

31 The results combine causes of different kinds: slow improvement in the technical capacity of the workforce, sector composition of employment and the product, reduction in private investment in infrastructure, and the existence of a large number of microenterprises and small and medium-sized businesses with low levels of technology.

32 Between 2001 and 2005, the youths in action subprogram of the social support network program (CO-0247) trained 80,000 low-income youths in the lowest SISBEN deciles to improve their employment prospects. The long-term objective of the subprogram was to boost the efficiency and effectiveness of the national workforce training program.

33 The World Bank study (2005c) indicates that the ratio between unemployment and productive activity has become asymmetrical, since unemployment appears to rise more during times when the economy slows than it falls when the economy rallies.

34 The degree of openness of Colombia's economy, measured as the sum of exports and imports as a percentage of GDP, has grown since the mid-1980s but is still below the growth exhibited by countries of similar sizes and levels of economic development.

35 Colombia has a high degree of specialization in goods such as coffee, coal, lignite, and peat, vegetables, fruit and nuts, and crude oil.

36 According to a recent study by the Bank (IDB/INT 2006), the country suffers from scant export emphasis and deficiencies in the quality of the exportable supply, problems that it needs to solve to improve its competitive position given the possible ratification of the free trade agreement by the United States congress.

37 The precepts reduced the power of the president, expanded the role of congress, and added other players, such as the Constitutional Court and a more independent board of directors for the central bank, with the objective of restoring representation and the legitimacy of governance.

38 Growth in the number of cases arising from the right of constitutional protection against Supreme Court rulings, coupled with the contradictions between the different courts, is seen as a limiting factor on the legal security of investment processes, an important challenge in the economic sphere.

39 They include public employment, e-government, legal management of the nation, and management by results. The results of the program include a drop in the operating costs of the NPA and public companies of 0.4% of GDP, together with sizeable savings and progress in terms of efficiency, effectiveness, and transparency.

40 Those resources, as mentioned earlier, were insufficient to maintain an adequate pace of investments in physical capital and, in some cases, led to major demands on public accounts.

41 Described in the corresponding section of this report.

42 The subnational situation is complex, with bright and dark spots: a consolidated fiscal situation and surplus that requires additional efforts to make it sustainable; growing capital formation requirements; and the absence of sovereign guarantees, since the national government sets limits on its guarantees, which reduces the borrowing capacity of the subnational governments.

43 These findings reflect conflicts with the judicial branch and the oversight agencies, accentuated by the failure to obtain approval in the constitutional referendum on the elimination of the Judiciary Council and the regional comptrollers' offices, which had been supported by the central government, which left the institutional area insufficiently developed.

44 More sentences have been handed down and there are fewer unresolved cases, although no information is available about the quality of the sentences or sentencing panels. Proceedings have been speeded up and the productivity of judges has improved.

45 The problem of impunity has three facets: apparent and formal (physical and organizational barriers that prevent cases from coming to court), and the procedural facet when they do.

46 Furthermore, surplus liquidity from the favorable situation and the improvement in access to credit markets enabled Colombia in April 2005 to prepay US$1.250 billion corresponding to the entire principal amount of an emergency loan disbursed in 2003.

47 Particularly in the case of small and medium-sized businesses through the MIF.

48 Verification of relevance implies two aspects: (i) the scope (and timeliness) of the analytical knowledge and work used to define the diagnostic assessment that supports the analysis of policies to optimize effectiveness in developing the program; and (ii) the consistency of the operating processes and implementation outputs.

49 In Colombia, public policies require a CONPES document. A CONFIS document is also required if necessary to analyze their fiscal feasibility. Borrowing authorization requires decisions of this kind by the executive branch. These documents establish the need for laws, decrees, or other rules of lower rank, and the institutional framework to carry them out, the information system, the prospective framework of objectives, and the budget treatment.

50 The trend can be seen clearly since 2004.

51 These aspects benefit the other development stakeholders.

52 The evaluation of the program outputs delivered (Chapter III) found evidence confirming some of these difficulties in coordination, and the Bank's efforts to minimize them.

53 A reduction in the costs associated with transactions delays translates into an increase in the present value of the flows of benefits expected from the projects and an improvement in the financial results.

54 See OVE Data Warehouse Technical Note No. 004. In the case of Colombia, the 19 problems identified were applied to a sample of 27 projects.

55 The direct costs associated with Bank interventions in Colombia amounted to nearly 4% of the Bank's total direct costs.

56 No representative field surveys were conducted to evaluate the country's perception of these aspects that could validate this execution characteristic. Isolated opinions were obtained from different players in the country during the field work.

57 Gross external financing requirements are defined as the sum of debt amortization, annual gross accumulated reserves, and the external current account deficit.

58 One byproduct of this evaluation was to overcome this restriction in the BCS, by measuring the current status of efficiency indicators that can serve as a baseline for future business plans.

59 These measurements were made using two numerical indicators: the first, the ex ante evaluability index, which establishes to what extent the objectives of projects or the program to be approved (separating the outputs and outcomes) include indicators, define their baseline values, the midterm goals and final goals; the second, the ex post evaluability index, which calculates the same as the former but includes information compiled by the Bank on progress toward the objectives during program implementation (the information contained in the PPMRs, the PCRs, and other monitoring tools).

The evaluability indexes are calculated by building a program or projects outcomes framework matrix, whose different rows compute the different dimensions of the evaluation. This methodology is not a theoretical model to explain the project or program rationale, nor does it evaluate their impact. It is a tool for measuring responsibility for evaluation of outcomes against an initial situation.

For the BCS, the outcomes matrix is broken down into objectives, arranged by strategic areas in the program document. Four dimensions are measured for each strategic outcome: the indicators, their value in the baseline, the midterm goals, and the final goals. For implementation, the information in the initial matrix constructed on the basis of a face value analysis of the country strategy is adjusted using the information on progress toward the strategic objectives. The procedure is similar for projects. Using outcomes framework matrices, a face value identification is made of whether a project contains, at the time of approval, sufficient information to be subsequently evaluated, and the capacity that the Bank demonstrates through the information compiled during implementation to measure the project's advance toward its objectives. As in the case of the BCS, the main thing is to have indicators calculated in the baseline and information on progress and changes in execution.

For simplicity's sake, each cell in a project's outcomes framework matrix has a value of 1 if information is provided and 0 if none is found in the documentation. The evaluability index summarizes the matrix information in the ratio defined as the sum of the cells with a value of 1 out of the total number of cells in all rows. If the ex ante evaluability index tends towards 0, the country program or the project will have low evaluability to demonstrate its subsequent outcomes and vice versa, if it tends towards 1. The ex post evaluability index is calculated in the same way, but using the information demonstrating progress toward the results during execution. The indicators so calculated demonstrate the quality of the program/project design for measuring outcomes, and the operation of the systems for monitoring and supervision of the Bank's results.

60 Document RE-208, Country Program Evaluation, Colombia 1990-2002, OVE, July 2003. Unpublished version. The report affirms that the development results envisaged in the Bank's program were not verifiable, except in the 1999 strategy, and that the real results were not demonstrable given that the subsequent strategies do not evaluate them and the information collected on the results of the projects was very scant.

61 Better evaluability of the program can be expected later, since on this level the indicators are more easily available from national statistical sources.

62 This analysis considered 27 projects.

63 It is not independent from the executive branch, which largely defines the work plan.

64 The projects approved in 2006 were excluded because it was premature to include them in this analysis. Compilation of information on this aspect was done through semi-structured interviews with executing agencies and officials, and an analysis of project documentation and its evaluation (see Annex IV).

65 This same information, examined over time or by strategic area, does not indicate noteworthy trends different from those contained in the aggregate information.

66 Less than would be permitted by the information compiled through the projects.

67 For example, measurement of the fiscal results and performance of public spending, transparency and quality of financial statements, anticipation of fiscal and institutional pressures affecting sustainability over time (fiscal risks), accountability that reports on the performance of the results being sought, etc.

68 Prolonging due dates, reducing the linkage of the debt to exchange risks, with measures to develop the domestic capital market and financial instruments and regulations; making early payments on debt that was inconvenient from the standpoint of access, simultaneously tapping the excess liquidity and international reserves which were at levels above those needed to maintain exchange flexibility; improving returns; lifting controls on investment flows, and taxes on foreign exchange.

69 The improvement in fiscal conditions was brought about by rationalizing spending, reducing transfers, and increasing revenues. When the country attains stability, spending patterns are associated with growth and financing requirements are less, which helps to increase confidence. Significant challenges lie ahead, linked to completing the treatment of microeconomic distortions.

70 This is essential in the oil sector, since it faces a prospective drop in production unless new reserves are found and its net income is a vital source of government revenue.

71 The exports to GDP ratio is low, around 20%, and non-traditional exports depend increasingly on Venezuela. Approval of a free trade agreement with the United States, which buys 40% of Colombian exports, would make the tariff reduction permanent and be key to improving the investment climate. The change in the makeup of the United States congress will affect its approval.

72 For example, the government's operational performance, the capacity to achieve sufficient parliamentary majorities for approval, budgetary inflexibility, and intervention by the Constitutional Court. The problem of pensions is also important given that they impose a growing burden on public finances, expansion of the tax base, and regulation of budget and off-budget transfers.

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73 Although it continues to be significant, the general government's fiscal deficit was halved, from an average of 4.7% of GDP in 1998-2002 to 2.3% in 2003-2006. On average, 1% of this drop is explained by the improvement in the fiscal results of subnational governments.

74 Since there was no balance of payments crisis.

75 During the crisis, the need for resources was sufficiently acute to obtain them on conditions that were not the most favorable, which resulted in a debt profile that needed to be restructured once the country became less vulnerable and improved its external exposure, and the risks of access to capital markets were reduced.

76 An aspect that was already pointed out as a development challenge in the previous CPE.

77 It was launched in the current government's strategic exercise.

78 Despite recognizing it as a strategic area for Bank action in Colombia, during the period covered by this evaluation, no operation was carried out in the water and sanitation sector. The last relevant operation in the sector was the program to expand the Cartagena sewer system (CO-0227) of 1998.

79 The RAS, together with the programs under the old social solidarity network (RSS) which have now been amalgamated into the Social Action Agency, make up the social protection and security system, including the programs to address the contingencies of displaced families and populations affected by the problems of violence and public security. The RSS includes programs for comprehensive support for the displaced population, eradication of illegal crops, infrastructure for peace, support for the victims of violence, forest guard families, and others.

80 The RAS included the Families in Action subprograms which make conditional subsidy payments to families; Jobs in Action, which provides temporary employment on works that require unskilled labor; Youths in Action, which provides job training for youths; and the employment subsidies program (PADE), which was incorporated under a contractual amendment in June 2004.

81 The goal of the IDB subprogram was to create 160,000 temporary jobs and raise the average income of the beneficiaries by 40% compared to the control group. IDB resources were used to temporarily contract about 150,000 workers, with an increase in income of 15.3% by the end of the program.

82 One year after training, when compared to the control group, the beneficiaries demonstrated a 5% improvement in employment probability, a 15% improvement in the probability of obtaining work in the formal sector, a salary that was 6% higher (21% if the difference-in-difference method is used), a 15% lower probability of being unemployed, and 3.7 months less time in finding work than the control group.

83 The percentage of students who dropped out of school was lower in the municipalities with the program, particularly in rural zones, where the rate was 10.06% lower than for the control group, where it was 16.43%. For children under 7, the chronic malnutrition rate (height-to-weight ratio) declined by 9 points compared to the control group. No significant difference from the control group was obtained in the area of health practices. The vaccination indicators were not taken as disbursement conditions and therefore they were not tracked.

84 The objectives of the component to modernize the operating structures of the district and municipal education departments have not been attained. In December 2006, just 16 departments out of a total of 63 had successfully completed the modernization process. However, despite the delays in execution and the circumstances that forced the reformulation, some partial results can be considered positive. For example, national tests known as SABER were administered in the country's 1,098 municipalities, national competitions were held for teachers, and significant progress was made in establishing information systems for control of enrolment, financial administration, human resources, and management of quality in the national education system.

85 Nevertheless, the efficiency of the public service was improved through a separation of the retirement and health functions and, among the latter, the separation between hospital service providers and the health insurer.

86 Objectives for spending on social welfare as a percentage of GDP; coverage of preschool, basic, and secondary education; information systems on the quality of education; vaccination rates; implementation of the health quality certification system; efficiency in the SGSSS; and improvements in the SISBEN targeting instrument.

87 The Bank promoted a support operation under the program for the reorganization, redesign, and modernization of health services (CO-0139) and its continuation (CO-L1017).

88 At the end of 2006, 88 health care providers in 13 departments out of a projected total of 132 health care providers in 20 departments had signed performance agreements under program criteria, with positive results for the financial sustainability of the institutions assisted.

89 The intervention is small. With the subsidy system, the formation of approximately 200,000 new households a year is being attended to, while the existing shortage of social housing is an estimated 1.5 million. About 20% of demand is expected to be covered, with the figure before these operations ranging from 10% to 12%. This is still a pressing problem, since the target population is growing.

90 The program formed part of the national government’s housing subsidy system through the National Housing Fund and of the outsourced system for applications, allocations, and disbursements through the Family Compensation Funds (CFFs).

91 No unified system is available to consolidate the processes of announcing the subsidies, submission of applications, beneficiary selection, administration, and supervision of the subsidies. This led to delays in disbursements of the subsidies to the detriment of the applicants, since their subsidies have to be used within 12 months. Nor is there any information in real time on the number of housing solutions produced by the loan.

92 In 2005, without presenting progress in the design of this information system, the MAVDT submitted a project on procedures for administering the family housing subsidy to the Connectivity Agenda of the Ministry of Communications, with a view to optimizing execution of the subsidy administration system by implementing the national government’s policy to automate procedures. The project was considered eligible and resources were approved to implement it.

93 The National Housing Fund allocated 72,868 social housing subsidies to families whose monthly income was below two minimum monthly wages.

94 One factor that affected the effectiveness with which the subsidy was targeted was CONPES 3400 of November 2005, which skewed the use of the funds that had originally been programmed. It eliminated the use of the regular cash stipend (bolsa ordinaria) in 2006 and redirected nearly 70% of those resources to a special cash stipend for the displaced population. Up to December 2006, an estimated 15% of the loan proceeds had been used to address the housing requirements of that population.

95 A land management plan is a master planning instrument. Currently 97% of municipalities have approved plans.

96 By August 2006, 7,148 subsidies had been granted to families, mainly for housing improvements, which were in progress.

97 When the information system was transferred to the Connectivity Agenda, the government decided to unify the systems.

98 With the recent exception of the cooperation program entitled medium-term action plan for development effectiveness (PRODEV), which it is still too early to evaluate but which represents an initial step towards recognizing the importance of this issue for Colombia, although it has taken a piecemeal approach, mainly concentrating on the unification of all expenditure monitoring systems.

99 For example CO-0059, CO-0142, CO-0165, CO-0244, CO-0266, CO-0270, CO-L1007, and CO-L1008.

100 There were programs and studies in this area that correctly raised the issue but the national government did not attach the same importance to it.

101 The contribution of the technical-cooperation project and the Bank’s nonfinancial products for the definition of CONPES was significant. Several of the loan components supported the definition and

implementation of policy actions in administrative reform, public employment, government procurement, e-government, asset management, legal management, and legal defense of government.

102 The World Bank's three structural adjustment loans for a total of US$550 million contain conditions that were components of the operation approved by the IDB. Something similar can be found in the agreements signed with the IMF.

103 The existence of an external technical audit, reconciliation of the census with other population statistics on the local level, which are not censuses but can serve as verification (for example SISBEN), the replacement of post-census sampling by including the demographic variables module in the household survey, and preparation of a documented technical report (still not presented) on the entire process to legitimize and extract lessons learned are some of the actions that back this assertion.

104 See the analysis of the project results in Annex III.

105 The most recent operation in that sector is with the Procuraduría General, a large and traditional organization, intended to combat corruption and misconduct by civil servants, but which does not form part of the judicial branch and has no judicial authority. Its role was designed for a time where there were no judges or attorneys and no Official Gazette to enlighten judges and the public. At present its work requires very close coordination, which is still very tentative, with the Fiscal General and the Contraloría General, to avoid overlapping of functions.

106 A program to support the strengthening of the high courts is planned for 2008, with Bank support. Reduction of impunity is a core aspect of Law 1151 of 2007.

107 The judicial branch's budget has shrunk in recent years as a percentage of the national budget from 1.88% to 1.34% (less than 0.4% of GDP). This lack of priority attached by the central government to the agencies of justice and oversight reflects the political conflicts that arose over the failed initiatives for constitutional reform in 2003.

108 Prior to CONPES 3439 and during the 1990s, there were different initiatives and actions in the area of competitiveness in the country. However, there was no CONPES document on this subject (see Annex I).

109 Progress in the outputs was established as triggers for the second operation and not for the disbursement of this first phase.

110 For example, the operation conditioned funding for the objective of enabling the workforce to respond to the needs of Colombia's productive apparatus under a FTA as evidence that the National Apprenticeship Service (SENA) allows free access on its portal to its standards for labor skills and evidence that training services are being outsourced. Attributing compliance with this objective to the Bank's action is debatable owing to the lack of proportion between the means and the end.

111 Some of the indicators identified, such as the regulatory satisfaction index, depend on surveys conducted as part of this operation, which should have been performed within three months after the workshop was held to launch the program. The surveys were not conducted and there are no plans to do so.

112 Two of the three disbursements contain partial waivers of compliance with the loan conditions, which is a response to inefficiencies during the negotiation process. The waivers were related to institutional and normative aspects and implementation of the plan to target subsidies for public utilities that encountered problems with technical and political feasibility in the design. These risks were insufficiently anticipated and could hamper implementation of the operation.

113 The main achievements were: (i) with regard to the operation of the financial sector, the introduction of rules on capital adequacy and prudential standards, new systems and principles for correcting efficiently, equitably, and in a timely manner problems affecting financial institutions in difficulty, a system of financial performance and solvency indicators for financial institutions coupled with corrective measures consistent with international standards, and institutional strengthening of the Superintendency of Banks and the Financial Institutions Guarantee Fund (FOGAFIN); (ii) with regard to the public banks, the first-floor public institutions—Caja Agraria, Banco Uconal, Banco del Estado and Banco Central Hipotecario—were liquidated; and (iii) with regard to financial intermediation by cooperatives, the situation of

cooperatives under the supervision of the Office of the Superintendent of Banks was resolved, the regulatory framework for the cooperative sector was improved, and the Cooperatives Guarantee Fund (FOGACOOP) was established.

114 The first stage of the project was active in the roads, energy, telecommunications, and transportation sectors. It increased private sector participation in the financing, construction, and/or operation, rehabilitation, and maintenance of infrastructure services, in the context of competitive market structures and efficient regulation.

115 It is still too soon to evaluate the results attributable to the Bank. They will be become apparent later on, but inefficiencies in reporting and monitoring systems designed to verify them need to be corrected.

116 It should be underlined that the country's achievements, with Bank support, in the macrofiscal, social, and citizen security areas have had a positive impact on fostering a climate for competitive development. The progress made in the internal conflict will have a direct impact on the business climate and hence on investment levels.

117 Particularly in the area of labor training, science and technology, reduction of the infrastructure shortfall, financial markets, and agricultural development, which are key topics for the development of trade and not just labels. These limitations make it more difficult to benefit from a potential FTA with the United States.

118 According to the postulates of the document Visión Colombia 2019.

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