



## 1. Program Information

**Country**  
Colombia

**Practice Area (Lead)**  
Macroeconomics, Trade and Investment

**Programmatic DPF**

**Planned Operations**  
0

**Approved Operations**  
0

**Operation ID**  
P158739

**Operation Name**  
CO Fiscal and Growth DPL 1

**L/C/TF Number(s)**  
IBRD-87160

**Closing Date (Original)**  
30-Mar-2018

**Total Financing (USD)**  
699,690,960.00

**Bank Approval Date**  
16-Mar-2017

**Closing Date (Actual)**  
30-Mar-2018

	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	600,000,000.00	0.00
Revised Commitment	600,000,000.00	0.00
Actual	699,690,960.00	0.00

**Country**  
Colombia

**Practice Area (Lead)**  
Finance, Competitiveness and Innovation

**Operation ID**  
P162858

**Operation Name**  
Colombia Fiscal and Growth DPL2 ( P162858 )



<b>L/C/TF Number(s)</b> IBRD-87160,IBRD-89610,TF-B0606	<b>Closing Date (Original)</b> 21-May-2020	<b>Total Financing (USD)</b> 750000000.00
<b>Bank Approval Date</b> 21-May-2019	<b>Closing Date (Actual)</b> 21-May-2020	
	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	718,500,000.00	31,500,000.00
Revised Commitment	718,500,000.00	31,500,000.00
Actual	718,500,000.00	31,500,000.00

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## 2. Program Objectives and Pillars/Policy Areas

### a. Objectives

The program document (PD2, para. 31) for the second Colombia Fiscal and Growth Development Policy Loan (DPL2) stated the program development objectives (PDOs) as to: “(i) support fiscal sustainability measures and improved contingent liabilities management; (ii) foster productivity and growth in non-extractive sectors by strengthening the policy framework for trade facilitation, business regulation, innovation and green growth; and (iii) support regularization and integration of migrants.” PDO1 and PDO2 were similar to those in PD1 (para. 28), except that “sustainability” replaced “consolidation in PDO1 and “green growth” replaced “investment and competition” in PDO2. These adjustments “reflected shifts in Colombia’s policy priorities...to align with the priorities of the presidential administration that began in 2018” (ICR, para. 15). (“Green growth” was an explicit pillar of the National Development Plan [NDP] on which the program was based, but was only implicit in environmental taxes included in DPL1; a further explicit action was added in DPL2.) PDO3 was added in DPL2 in response to a surge of migrants from Venezuela.

For the purposes of this ICRR, the PDOs are taken as:

- PDO1: Support fiscal sustainability by reducing expenditures and contingent liabilities and increasing tax revenues.
- PDO2: Foster productivity and growth in non-extractive sectors by strengthening the policy framework for trade facilitation, business regulation, innovation and green growth.
- PDO3: Support regularization and integration of migrants.



## b. Pillars/Policy Areas

For the purposes of this ICRR, the Pillars are taken as those stated in PD2 (section 4.2), identical to the PDOs:

- Pillar 1: Support fiscal sustainability measures and improved contingent liabilities management.
- Pillar 2: Foster productivity and growth in non-extractive sectors by strengthening the policy framework for trade facilitation, business regulation, innovation and green growth.
- Pillar 3: Support regularization and integration of migrants.

## c. Comments on Program Cost, Financing and Dates

The Colombia Fiscal Sustainability, Competitiveness, and Migration Development Policy Financing series (“Fiscal and Growth DPL1 and DPL2”) consisted of two single-tranche operations disbursed over two-and-three-quarter years (2017-2020), totaling USD 1,418,196,960 of IBRD loans and USD 31,500,000 of grant funds from the Global Concessional Financing Facility (GCFF), a trust fund supporting middle-income countries significantly affected by refugee shocks (ICR, para. 12). The second operation was delayed in order to obtain the trust funding. It closed as expected on 21 May, 2020.

## 3. Relevance of Design

### a. Relevance of Objectives

#### Relevance to country context

Although Colombia had experienced “robust” GDP growth and macroeconomic stability in the decade prior to the first operation, key weaknesses were the lack of productivity gains and heavy reliance on extractives (ICR, paras. 2-3). Falling oil prices in 2014 highlighted the need for measures to ensure fiscal sustainability and diversify into non-extractive sectors capable of productivity gains. PDOs 1 and 2 were directly and appropriately responsive to these conditions. Triggers and prior actions (PAs) under PDO2 addressed key constraints on productivity growth, which were identified as “market failures, burdensome regulation, lack of economic diversification and insufficient incentives to innovate” (ICR, para. 3).

The country context changed during the first operation with a surge in migrants and Colombians returning from Venezuela in the wake of the latter’s collapsing economy. PDO3 was appropriately added to respond to the resulting pressures on public services and the longer-term opportunities from integrating migrants into the labor market. The second operation was postponed in order to obtain funding from the GCFF to support these measures.

#### Relevance to CPF and country development strategy

- The series built upon the reform agenda of several previous DPFs, which had supported adoption of the fiscal rule, tax policy reforms, reform of the General System of Royalties, social security liability management, improvement of firms’ access to finance, and innovation and trade facilitation reforms.



The programmatic DPF modality was chosen because the client valued the continuity of the support it provided to the institutional reform agenda and the technical support embedded in the operational design and preparation” (ICR, para. 6).

PDOs 1 and 2 were consistent with three of the six cross-cutting strategic themes of the Government’s National Development Plan (NDP) 2014-18: competitiveness; good governance; and green growth (PD1, para. 25). PDO2 in particular addressed measures defined in the NDP “to increase productivity, diversify the economy and enable a business environment conducive to growth by reducing regulatory costs, eliminating barriers that prevent access to markets and strengthening the innovation capacity of firms” (PD1, para. 27).

PDO1 was closely aligned with the third pillar of the World Bank Group’s Country Partnership Framework (CPF) for FY2016-21: “supporting fiscal sustainability and productivity” (PD1, para. 74).

**b. Relevance of Prior Actions**

**Rationale**

The two operations had a total of 20 prior actions (PAs; 10 in each) in 12 clusters of reforms, including a total of 36 subactions (21 in DPL1 and 15 in DPL2).

Table 1: Pillars, Objectives, and Prior Actions for Colombia Fiscal Sustainability, Competitiveness and Migration DPF Series

Primary Prior Actions	Follow-up Actions
<b>PDO/Pillar 1: Support fiscal sustainability</b>	
<i>Reduce expenditures and contingent liabilities</i>	
PA1 (DPL1): The government has adopted measures to reduce its Executive Branch’s recurrent expenditures in the context of the 2016 national budget, including: (i) the implementation of cutbacks in general operating expenses ( <i>gastos generales</i> ) and communication costs; (ii) the establishment of a set of limitations for hiring new personnel, including a freeze in overall personnel numbers, as evidenced by Presidential Decree No. 1 dated February 10, 2016 and published in the Official Gazette on February 10, 2016.	PA2 (DPL2): The Borrower has adopted measures to further reduce its Executive Branch’s general operating expenditures ( <i>gastos generales</i> ) in the context of the 2019 National Budget, as evidenced by the National General Budget Law 1940 (art 81) dated November 2018, published in the Official Gazette on November 26, 2018.
PA3 (DPL1): The government has established a set of rules to improve the funding of public pension liabilities at the subnational level, including: (i) the requirement of registering public pension liabilities in FONPET on a regular basis and by administration sector; (ii) the procedure for transferring funds across said sectors to ensure adequate funding coverage; and (iii) the conditions for using any excess sectoral savings, as evidenced by Decree No. 630 issued by the Ministry of Finance and	



Public Credit dated April 18, 2016 and published in the Official Gazette on April 18, 2016.	
<i>Increase tax revenues</i>	
PA4 (DPL1): The government has adopted a tax reform, which, inter alia, (i) increases the general VAT rate from 16% to 19%; (ii) establishes a single Corporate Income Tax, and lowers overall corporate tax rates; (iii) applies the Personal Income Tax to dividends; (iv) establishes a single tax (“ <i>monotributo</i> ”) for small traders; and (v) increases the rates of the tobacco and liquor and wine taxes, as evidenced by Law No. 1816 dated December 19, 2016, and Law No. 1819 dated December 29, 2016, and published in the Official Gazette on December 19 and December 29, 2016, respectively.	PA5 (DPL2): The Borrower has issued the following decrees as part of the implementation of the 2016 tax reform regulating: (i) the tax treatment of dividends and shares, as well as the caps on total deductions and exemptions for personal income, as evidenced by government’s Decree 2250 dated 29 of December 2017 and published in the Official Gazette 50461 on 29 of December 2017 to increase progressivity of the tax system; and (ii) the liquor and wine tax, as evidenced by the government’s Decree 719 dated April 26 2018 and published in the Official Gazette 50576 on April 26 2018.
PA6 (DPL1): The government has adopted the following environmental taxes: (i) a carbon tax on fossil fuels proportional to their CO2 emissions, and (ii) a tax on plastic bags, as evidenced by Law No. 1819, dated December 29, 2016 and published in the Official Gazette on December 29, 2016.	PA 7 (DPL2): The Borrower has issued regulations for the national carbon tax and its operationalization, as evidenced by Decree No. 926 published in the Official Gazette on June 1, 2017, and Resolution No. 1447, issued by the Ministry of Environment and Sustainable Development, on August 1, 2018 and published in the Official Gazette on August 2, 2018.
PA8 (DPL1): The government has adopted measures for preventing, controlling and sanctioning contraband, money laundering and tax evasion, as evidenced by Law No. 1762 dated July 6, 2015 and published in the Official Gazette on July 6, 2015.	PA10 (DPL2): The Borrower has issued the following regulations as part of the implementation of the 2016 tax reform: (i) regulation redefining qualification criteria for the not-for-profit entities’ special tax regime, as evidenced by Decree No. 2150 published in the Official Gazette on December 20, 2017; (ii) regulation mandating the use of electronic invoicing by Large Taxpayers, as evidenced by Resolution No. 000010 issued by the National Tax and Customs Administration on February 6, 2018 and published in the Official Gazette on February 13, 2018; and (iii) regulation for the detailed reporting requirements for the new transfer pricing regime, as evidenced by Decree No. 2120 published in the Official Gazette on December 15, 2017.
PA9 (DPL1): The government has established the regulatory framework which lays the foundations for the subsequent adoption and usage of electronic invoices, including, inter alia: (i) conditions and procedures for issuing, receiving and processing electronic invoices; and (ii) rules for their circulation as legal title, as evidenced, respectively, by Decree No. 2242 issued by the Ministry of Finance and Public Credit and dated November 24, 2015, published in the Official Gazette on November 24, 2015, and Decree No. 1349 issued by the Ministry of Commerce, Industry and Tourism dated August 22, 2016 and published in the Official Gazette on August 22, 2016.	
<b>PDO/Pillar 2: Foster productivity and growth in non-extractive sectors –</b>	
<b>Strengthen policy framework for:</b>	
<i>Trade facilitation</i>	
PA11 (DPL1): The government has adopted: (i) a customs regulatory framework (“ <i>regulación aduanera</i> ”) to, inter alia,	PA12 (DPL2): The Borrower has adopted a set of regulations to ensure legal certainty, improve



<p>improve risk management practices in connection with custom controls and establish standard procedures for the electronic processing of customs documents; (ii) procedures for using scanners to inspect goods transiting at the country’s maritime terminal as evidenced, respectively, by Decree No. 390 issued by the Ministry of Finance and Public Credit and dated March 7, 2016, published in the Official Gazette on March 7, 2016 and the Resolution No. 84 issued by the Intersectoral Committee for the Implementation and Monitoring of Non-Intrusive Inspection Systems (<i>Comisión Intersectorial Para la Implementación y Seguimiento de Los Sistemas de Inspección No Intrusiva</i>) and dated July 31, 2015.</p>	<p>risk management and implement paperless customs that include: (i) clarifying the role and responsibilities of public and private stakeholders along the trade logistics chain and fighting smuggling through a more efficient sanctions mechanisms; (ii) simplifying sanitary and phytosanitary requirements for imports of food products and introducing a risk management system for food products with different level of risks, as evidenced, respectively by the Government’s Decree No. 349 dated February 20th, 2018 issued by the Ministry of Finance; by the Decree No. 2478 issued by the Ministry of Health and dated December 28 2018.</p>
<p><i>Business regulation</i></p>	
<p>PA13 (DPL1): The government has adopted measures to foster competition including, inter alia: (i) incentives to promote collaboration of cartel members in detecting and investigating anti-competitive agreements; and (ii) a fixed term and objective criteria for the selection and appointment of the director of the Superintendence of Industry and Commerce (<i>Superintendencia de Industria y Comercio</i>) whose responsibilities include, inter alia, the carrying out of competition oversight activities, as evidenced, respectively, by Decree No. 1523 issued by the Ministry of Commerce, Industry and Tourism and dated July 16, 2015, published in the Official Gazette on July 16, 2015, and Decree No. 1817 issued by the Administrative Department of the Public Function and dated September 15, 2015, published in the Official Gazette on September 15, 2015.</p>	
<p>PA14 (DPL2): The Borrower has adopted measures streamlining the registration of new firms, including, inter alia: (i) the simplification of the procedures through the establishment of a single window for registering new firms; (ii) the establishment of a mechanism to identify and eliminate cumbersome regulations, as evidenced respectively in the Decree No. 1875 of 2017, dated and published on November 17, 2017 and Presidential Directive 07 of 2018, dated and published on October 1, 2018.</p>	
<p><i>Innovation</i></p>	
<p>PA15 (DPL1): The government has approved a national development policy for productivity development aimed to, inter alia, promote efficient use of public resources by recommending a number of measures, including: (i) a cost-benefit analysis for new projects; and (ii) a periodic review of public expenditures relating to projects in the areas of</p>	



<p>science, technology and innovation, as evidenced by CONPES No. 3866, dated, and published in the web page of DNP, on August 8, 2016</p>	
<p>PA16 (DPL1): The government has established the criteria and procedures for identifying projects entitled to access specific tax incentives under the existing fiscal legislation and within the established fiscal deductions' cap as evidenced by Decisions No. 13, 14 and 15 of the National Council of Tax Benefits for Science, Technology and Innovation (<i>Consejo Nacional de Beneficios Tributarios en Ciencia, Tecnología y Innovación</i>), dated, respectively, December 31, 2015, February 26, 2016 and March 22, 2016.</p>	<p>PA17 (DPL2): The Borrower improved the rules for the definition of priorities areas to be funded by the Royalties Fund for STI and improved the transparency and efficiency of the project selection process as evidenced by the Government's Decree No. 1467 dated and published on August 6, 2018.</p>
<p><i>Green growth</i></p>	
<p>PA18 (DPL2): he Borrower has established guidelines to improve efficiency of energy management at the firm level by, inter alia, regulating the sale of surplus energy deriving from the auto-generation of energy at a small scale, as evidenced by the Borrower's Decree No. 348, dated and published on March 1, 2017 (that regulates Law No. 1715 of 2014).</p>	
<p><b>PDO/Pillar 3: Support regularization and integration of migrants</b></p>	
<p>PA19 (DPL2): The Borrower has adopted measures to regularize the legal status of irregular Venezuelan migrants into the national economy, to facilitate their access to the labor market and basic services such as education and health, as evidenced by the Borrower's Decree No.1288, dated and published on July 25, 2018.</p>	<p>PA20 (DPL2): The Borrower has approved a medium term National Policy (up to 2021) to, inter alia, develop a roadmap for the integration of migrants from Venezuela that includes health, education, water and sanitation, support for children, and housing services as well as, services to productively integrate them into labor markets, as evidenced by the CONPES No.3950, dated and published on November 23, 2018.</p>
<p>Total: A total of 12 identifiable subobjectives/clusters of actions, with 36 individual actions/subactions. DPO 1: 10 PAs with a total of 21 actions/subactions DPO 2: 10 PAs with 15 actions/subactions</p>	

The PAs were adequately based on lessons learned from previous experience and on prior technical work. The design drew on lessons from the Fiscal Sustainability and Growth Resilience DPF series (FY12/13) and the Enhancing Fiscal Capacity to Promote Shared Prosperity DPF12 (FY14) showing that “cross-sectoral support through a DPF is an effective tool to address the client’s cross-cutting challenges; [and that] DPFs can serve as a vehicle for deepening the policy dialogue on fundamental issues,” as well as the important role of World Bank technical support (PD1, para. 29). In particular, Pillar 1 was “linked to the activities conducted under the previous and ongoing programmatic knowledge services on fiscal issues, including on



tax policy and contingent liabilities,” and Pillar 2 to the “knowledge services on innovation and competitiveness, including the Reimbursable Advisory Services (RAS) supporting the innovation public expenditure review” (PD1, para. 75).

The program documents (PD1 and PD2) generally provided a clear, detailed rationale for each PA and the expected results – though the latter with reference to the specific results indicator more than the PDO or desired outcome. Given the variation in the relevance of several of the results indicators (see Section 4 below), this undermines the quality of some of the evidence presented in the ICR. The ICR (para. 23 and Table 2) did a good job of compiling these into a “Theory of Change” indicating how the PAs were expected to contribute to the PDOs (while noting that this “could have been better explained in the program documents” with respect to Pillar 2).

### **PDO1: Support fiscal sustainability by reducing expenditures and contingent liabilities and increasing tax revenues**

PA1 (measures to reduce Executive Branch recurrent expenditures...including cutbacks in general operating expenses and communications costs, and establishment of limitation for hiring new personnel) and PA2 (measures to further reduce the Executive Branch’s general operating expenditures) directly contributed to PDO1 by reducing government expenditures, with a clearly stated rationale and results chain (PD1, paras. 30-31). Given the drop in oil revenues, stringent measures to reduce expenditures were needed to comply with the Fiscal Rule stipulating a structural deficit of no more than 1 percent of GDP by 2022 (PD1 paras. 13-14 and footnote 1). With limited scope for further reductions on the public investment side, achievement of fiscal sustainability objectives required significant reduction of recurrent expenditures. The executive branch accounted for 30 percent of total government personnel expenditures. The targeted reduction of 0.3 percent of GDP in personnel expenditures (RI 1) represented 40 percent of the cut in the aggregate budget envelope of 0.7 percent of GDP as decreed in March 2016 (PD1, para. 32), and together with the actions to cut general operating expenses of the Executive Branch accounted for the bulk of the expenditure reductions needed for progress toward maintaining fiscal sustainability. PA1: Highly satisfactory. PA2: Highly satisfactory.

PA3 (government has established rules to improve funding of public pension liabilities at the subnational level, including: (i) registering public pension liabilities; (ii) procedure for transferring funds across sectors to assure adequate coverage; and (iii) conditions for using any excess sectoral savings) was designed to improve the tracking and funding of subnational public pension liabilities, which are a key contingent liability (ICR, Table 2), representing 7 percent of GDP (PD1, footnote 15). PD1 (paras. 35-37) clearly articulated the role of the “Fondo Nacional de Pensiones de las Entidades Territoriales (FONPET) as a long-term savings vehicle to ensure the adequate funding of the subnational pension liabilities” and the importance of monitoring and mechanisms to utilize savings in addressing the risks “associated with unfunded subnational pension liabilities and with subnational governments’ financial obligations in the health sector.” Thus, the actions made major contributions to the conditions necessary to achieve the contingent liabilities management objective of PDO1. PA3: Satisfactory.

PA4 (tax reform, including: (i) increase in general VAT rate from 16% to 19%; (ii) single Corporate Income Tax, with lower overall rates; (iii) apply Personal Income Tax to dividends; (iv) single tax for small traders; and (v) increases in tobacco and liquor and wine taxes) and PA5 (implementation of the 2016 reforms regulating: (i) treatment of dividends and shares; and (ii) liquor and wine tax) were justified in PD1 (para. 40) as needed to address Colombia’s relatively low tax-to-GDP ratio due to “shortcomings of the tax system including: (i) high marginal rates on narrow bases, with many loopholes and limited progressivity (e.g., on income taxes); (ii) some under-taxed bases (particularly on consumption items); and (iii) high rates of tax evasion across the



board.” Although some measures were more about “improving efficiency and maintaining equity in the system” than revenues per se, overall they were estimated to “generate an estimated 1.9 percent in additional tax revenue by 2022” (PD1, para. 42), thereby making a substantial contribution to the PDO1 objective of fiscal sustainability. PA4: Satisfactory. PA5: Satisfactory.

PA6 (adopting a carbon tax on fossil fuels and a tax on plastic bags) and PA7 (issuing regulations for the carbon tax and its operationalization) were aimed at raising revenues by addressing Colombia’s relatively low rate of revenue collection from environmentally-related taxes (PD1, para. 43). The rationale was based primarily on experience of other countries with such taxes, leading to the expectation that these taxes would eventually contribute to revenues when operationalized (but without Colombia-specific estimates). Although the revenue objective of this tax reform was emphasized, PD1 (para. 43) noted that “tax policy is one of the tools to help achieve [the] goal...to reduce greenhouse gas emissions” (thereby contributing to the “green growth” objective that was introduced explicitly in DPL2, as part of PDO2). PA6: Moderately satisfactory. PA7: Moderately satisfactory.

The high rates of tax evasion were addressed through PA8 (government has adopted measures for preventing, controlling and sanctioning contraband, money laundering and tax evasion), PA9 (regulatory framework for subsequent adoption and usage of electronic invoice), and PA10 (issuing regulations for: (i) redefining qualification criteria for the not-for-profit entities’ special tax regime; (ii) mandating the use of electronic invoicing by Large Taxpayers; and (iii) reporting requirements for the new transfer pricing regime). PD1 (paras. 46-49) explained how PA8 would address the high estimated tax losses due to contraband and evasion and PA9 would “reduce compliance costs while strengthening fiscal controls.” Although the electronic invoicing regulations would take time to reach fruition, these measures were expected to make a significant contribution directly to PDO1 by increasing revenues in the medium to long term and to reduce the VAT gap (the difference between potential and actual VAT collections, expressed as a share of potential collections) by 9 percentage points within the period of the DPL series (PD1, para. 51). [However, the latter estimate did not take into account the adverse incentive of the increased VAT rate on tax evasion, and the associated results indicator had to be modified.]

PD8: Satisfactory. PD9: Satisfactory. PD10: Satisfactory.

### **PDO2: Foster productivity and growth in non-extractive sectors by strengthening the policy framework for trade facilitation, business regulation, innovation and green growth**

PA11 (adoption of (i) a customs regulatory framework to, inter alia, improve risk management practices in connection with custom controls and establish standard procedures for the electronic processing of customs documents; and (ii) procedures for using scanners to inspect goods transiting the country’s maritime terminal) and PD12 (adoption of a set of regulations to ensure legal certainty, improve risk management and implement paperless customs that include (i) identifying the roles and responsibilities of stakeholders and...more efficient sanctions mechanisms and (ii) simplifying sanitary and phytosanitary requirements for imports of food products and introducing a risk management system) were intended to address the high costs and risks that made Colombia trade well below what its per capita income level and the LAC average would predict (PD1, para. 53). The proposed measures were expected to “reduce the time and costs associated with border compliance and simplify...requirements for food products, [thereby] improving access to markets and tilting incentives toward non-extractive sectors” (ICR, Table 2). PD1 (para. 54) provided a clear explanation of how the specific measures would help bring Colombia into alignment with international practices and reduce time and costs. The measures appeared to be necessary steps to lay the groundwork



for the PDO2 objective of facilitating trade and growth in non-extractive sectors. PA11: Moderately satisfactory. PA12: Moderately satisfactory.

PA13 (adoption of measures to foster competition, including: (i) incentives to promote collaboration of cartel members in detecting and investigating anti-competitive agreements; and (ii) a fixed term and objective criteria for the selection and appointment of the director of the Superintendence of Industry and Commerce) was motivated to address relatively weak enforcement of regulations against cartels and price-fixing by enhancing whistleblower incentives and the independence of the Supervisor responsible for competition oversight. PD1 (paras. 60-61) articulated the expected results chain leading to improved enforcement and competition. However, delays in new competition legislation (PD2, p. 18) led to dropping triggers for these measures in DPL2 in favor of a focus on registration of new businesses. PA13: Moderately satisfactory.

PA14 (adoption of measures streamlining the registration of new firms, including (i) simplification of procedures through the establishment of a single window for registering new firms; and (ii) the establishment of a mechanism to identify and eliminate cumbersome regulations) was introduced in DPL2 to stimulate entrepreneurial dynamism (which is associated with GDP growth) by simplifying the process for registering new firms (to address Colombia's relatively low ratio of new firms to active population) and strengthening measures to reduce the "regulatory barriers and restrictions imposed by redundant and inefficient regulations" (PD2, paras. 53-54). These measures directly addressed major constraints on competition and growth, especially for smaller enterprises. PA14: Satisfactory.

PA15 (approval of a national development policy for productivity development aimed to promote efficient use of public resources by: (i) a cost-benefit analysis for new projects; and (ii) a periodic review of public expenditures relating to projects in the areas of science, technology and innovation [STI]) was intended to address market failures and the high level of "productivity misallocation" across firms and sectors in Colombia through measures to equalize access to productivity-enhancing STI (PD1, para. 67 and p. 57). This was a reasonable step to lay the groundwork for improving productivity-enhancing factors in public expenditures. PA15: Moderately satisfactory.

PA16 (establish the criteria and procedures for identifying projects entitled to access specific tax incentives under the existing fiscal legislation and within the established fiscal deductions cap) and PA17 (improve the rules for the definition of priorities areas to be funded by the Royalties Fund for STI and improve the transparency and efficiency of the project selection process) were designed to implement the STI policy framework and address Colombia's relatively low investment in STI by improving the incentives and "expanding and diversifying the number of companies with access to these incentives" (PD1, paras. 71-72). PD1 (para. 72) set forth how the measures were expected to favor "highly innovative" firms and "expand emphasis on sectors beyond extractives," thereby contributing significantly to the PDO to foster productivity and growth in those sectors. PA16: Satisfactory. PA17: Satisfactory.

PA18 (guidelines to improve efficiency of energy management at the firm level by, inter alia, allowing the sale to the grid of surplus energy deriving from the auto-generation of energy at a small scale) was introduced in DPL2 to promote both greater competitiveness (by lowering costs to firms of electricity, which was priced relatively high in Colombia compared to neighbors) and to help meet environmental commitments (by decreasing greenhouse gas emissions from electricity generation). This was to be accomplished through "regulation of the processes and rules to allow firms to connect to the grid and to sell their energy surplus" (PD2, para. 59). Although the expected contribution of increased auto-generation capacity of electricity by firms was only a fraction (less than 1 percent) of total national installed capacity, the cost mitigation would have a (modest) "positive impact on firm competitiveness by reducing the costs of production for Colombian



firms, especially for those that are in more energy-intensive sectors” (PD2, para. 60). PA18: Moderately satisfactory.

**PDO3: Support regularization and integration of migrants**

PA19 (adopt measures to regularize the legal status of irregular Venezuelan migrants into the national economy, to facilitate their access to the labor market and basic services) and PA20 (approve a medium term National Policy to, inter alia, develop a roadmap for the integration of migrants from Venezuela that includes health, education, water and sanitation, support for children, and housing services, as well as services to productively integrate them into labor markets) were introduced under a new pillar in DPL2 to address the recent “unprecedented” surge in migrants from Venezuela, a large share of them “irregular” (in addition to returning Colombians). This was not only in line with Colombia’s open-borders and humanitarian approach, but also contributed significantly to program growth objectives, because “recent studies suggest that migrants can contribute positively to economic growth in receiving countries, but that...depends on the policy” (PD2, para. 63). Furthermore, the focus on labor market integration (in addition to humanitarian and services aspects) meant that these actions contributed importantly to the other objectives of the series, as well as PDO3.PA19: Satisfactory.PA20: Satisfactory.

**Rating**

Satisfactory

**4. Relevance of Results Indicators**

**Rationale**

The results indicators (RIs) were generally placed within well-articulated results chains that measured the achievement of the PAs and their links to the stated objectives. Five of the 14 RIs were introduced in DPL2 (two in connection with the new third pillar on migrants). However, the large number of subactions (36 across 20 PAs in the two operations) meant that some of the RIs were supposed to measure implementation of as many as 2-4 PAs and 6-9 subactions. For example, RI 4 represented the net revenue effect of nine different tax reform measures, some of them intended to discourage usage of fossil fuels and plastic bags (which was not monitored). Although five of the initial nine RI targets were revised upward in PD2 (Annex 1), high overachievement of many targets (especially with respect to measures taken to improve the enabling environment for non-extractive sectors) suggests that the capabilities to implement may have been underestimated (or risks overestimated). The sources of data are well documented in footnotes in the ICR.

Two of the 14 RIs are rated Highly Satisfactory; ten as Satisfactory or Moderately Satisfactory; and two as Moderately Unsatisfactory.

**Table 2: Results indicators by Objective and PAs; baseline and target values; status and achievement**

Results indicator (RI)	Associated PAs	RI Relevance	Baseline (2015)	Target (2019)	Actual at target date	Actual as % of targeted change	RI Achievement rating
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<b>Objective 1: Support fiscal sustainability</b>							
<i>Reduce expenditures and contingent liabilities</i>							
1. Reduction in central government personnel expenditures (% of GDP)	1-2	S	3.1%	2.8%	2.8%	100%	High2.
2. Increase in use of FONPET savings for subnational contributions to the subsidized health regime	3	S	COP 0	COP 3.7 trillion (2016-9)	COP 3.712 trillion	100.3%	High
<i>Increase tax revenues</i>							
3. Increase in non-oil central government tax revenue (excl. equity tax & CREE) as % of GDP	4-7	MS	12.5%	13.0%	13.4%	156%	High
4. Reduction in VAT evasion: gap as % of potential	8-10	MU	22.2%	23.1%	23.6% (2018) 23.2% (2019)	Not achieved a/	Modest
5. Increase in number of new income tax taxpayers [introduced in DPL2]	8-10	S	0	420,000 (2016-9)	748,476 (2016-8)	178%	High
<b>Objective 2: Foster productivity and growth in non-extractive sectors</b>							
<i>Trade facilitation</i>							
6. Reduction in customs clearance import times (average hours across all modes)	11-12	S	23.85	20	22.4	37.7%	Modest
<i>Regulation</i>							
7. Increase in number of firms applying to leniency program and collaborating in antitrust investigation	13	MS	4	7	13	300%	High
8. Increase in number of firms registered online through new electronic single window	14	S	0	12,000	42,349	353%	High
<i>Innovation</i>							
9. Increase in number of programs that are revised on the basis of CONPES	15	MU	0	18	265	1472%	High
10. Value of projects registered in the PAED that are approved by OCAD [introduced in DPL2]	15	MS	COP 326.1 billion	COP 410 billion	COP 899.99 billion	684%	High
11. Increase in share of fiscal incentives granted by the National Council of Fiscal Incentives for STI to firms from	16-17	MS	16%	24%	67%	638%	High



sectors other than mining and energy [introduced in DPL2]							
<i>Green growth</i>							
12. Increase in the installed capacity of auto-generated (and co-generated) electricity [introduced in DPL2]	18	MS	86.6 MW	198.64 MW	254.9 MW	150%	High
<b>Objective 3: Support regularization and integration of migrants</b>							
13. Increase in number of Venezuelan migrants on the RAMV who have been issued with a PEP [introduced in DPL2]	19	HS	0	280,000 of whom 125,000 women	281,596 139,586 women	100.6% 111.7%	High
14. Increase in number of Venezuelan migrants receiving services from the National Employment Agency [introduced in DPL2]	20	S	0	50,000 of whom 25,000 women	76,744 22,771 women <u>b/</u>	153% 91%	High

a/ The original

target of a reduction to 11 percent was revised upward to a slight increase due to an increase in the VAT rate during the program (ICR, para. 42). However, the measured increase exceeded even the revised target increase. The stated result of reducing tax evasion was not achieved (quite the opposite); however, the overall objective of increasing VAT revenues was achieved (from 3.5 to 3.9 percent of GDP; ICR, para. 42). Hence the fiscal sustainability objective for Objective 1 can be considered to be partially achieved.

b/ Excludes registrants with SENA, which were not disaggregated by gender; nevertheless, they likely exceeded the 2,229 needed to meet the threshold of at least 25,000 women registered with both agencies (ICR, footnote 35), given that the overall target was surpassed by 53 percent.

Source: ICR, Table 1.

**Relevance of RIs for Objective 1: Support fiscal sustainability by reducing expenditures and contingent liabilities and increasing tax revenues**

RI 1 (reduction in central government personnel expenditures as a percentage of GDP) directly measured a major determinant of progress toward the objective of improving fiscal sustainability by limiting the growth of expenditures. . (However, when expressed relative to GDP, it is possible that the ratio could rise or fall due to other determinants of GDP, making it difficult to attribute the result to the tax-related actions. Taking this as a percentage of total government expenditures would have provided a more accurate indicator of the impact of the PAs, perhaps accompanied by a separate indicator of total government expenditures as a percentage of GDP to track achievement of the overall objective.) The baseline data and target were credible, with data readily available and used to monitor progress. RI 1: Satisfactory.

RI 2 (increase in the use of FONPET savings for subnational contribution to the subsidized health regime) directly measured the reduction in the risk of unfunded pension liabilities with respect to health. While health represented only a portion of total pension liabilities, it was a particularly vulnerable area (relative to general administration and education) due to inadequate information and “rapid expansion in health insurance coverage in the last two decades, especially in the subsidized regime” (PD1, para. 36). Hence it was a suitable



indicator of overall progress. Data were available, and the target was revised substantially upward “in the second operation to reflect faster-than-expected progress during 2016-18” (ICR, para. 40). RI 2: Satisfactory.

RI 3 (increase in non-oil central government tax revenue as a percentage of GDP) directly measured the contribution of the revenue side to the objective of fiscal sustainability. It was a reasonable aggregate indicator of the net revenue effect of four PAs with nine sub-actions regarding a range of different tax regimes and rates (including some that might lower revenues or simply improve efficiency), but there was no basis for tracking the success of individual tax measures. While data were available, the baseline figure was revised between DPL1 and DPL2 (from 14.0 to 12.5 percent), and the overall target was reduced accordingly (nevertheless, the targeted increase rose from a gain of 0.3 percentage points to 0.5 percentage points). RI 3: Moderately Satisfactory.

RI 4 (reduction in VAT evasion: gap as a percentage of potential revenues) was used as a proxy for the cumulative effect of a number of measures in PAs 8-10 aimed at improving incentives, reforming regulations and toughening sanctions in order to enhance compliance with taxation requirements and reduce evasion. Although in principle reducing tax evasion would increase revenue collection, other things being equal, the indicator could not isolate the impact of the actions to reduce evasion (and hence increase revenues) from the opposite effect of the increase in the VAT rate. The only adjustment was to change from the initial target of a reduction in tax evasion to limiting the increase in tax evasion that was expected due to the adverse incentive of the higher rate. A thorough review of experiences in other countries provided evidence that a rise in the VAT rate would lead to increased evasion, although there was no basis for estimating the level of increase in tax evasion that would have occurred without the measures in PA 8-10, so the indicator could not represent the degree of success against a counterfactual (only against the observed initial increase in evasion). Furthermore, the indicator did not capture the ultimate objective of increasing tax revenues -- which the ICR (para. 42) recognized in noting that an increase in VAT collection (as a percentage of GDP) was in fact achieved, even though the indicator target was not. The RI4 baseline was adjusted upwards in DPL2 (from 20.1 percent in PD1 to 22.2 percent in PD2, without explanation), while the target went from a substantial decrease in tax evasion to a modest increase, as a result of the increase in the VAT rate. RI 4: Moderately unsatisfactory.

RI 5 (increase in the number of new income taxpayers; introduced in DPL2) was a reasonable proxy for the effects PAs 8-10 aimed at streamlining taxation procedures. It was clearly correlated with the objective of increasing tax collection (PD2, para. 47), since more taxpayers would be associated with more revenues at any given rate. The baseline data and target were credible and monitorable. RI 5: Satisfactory.

### **Relevance of RIs for Objective 2: Foster productivity and growth in non-extractive sectors by strengthening the policy framework for trade facilitation, business regulation, innovation and green growth**

RI 6 (reduction in customs clearance import times) measured the impact of the various regulatory reforms under PAs 11-12. The importance of moving to a risk-based system and conforming to international standards was clearly articulated (PD1, paras. 53-54; PD2, paras. 48-50). The baseline was adjusted slightly between DPL1 and DPL2, and the target reduction was made substantially less ambitious, “to account for backtracking in 2017 and 2018” (the original target reduction was 6.53 hours, reduced to 3.85 hours; ICR, para. 44). The relevant data were available and monitored systematically, even into 2021 (ICR, para. 44). RI 6: Satisfactory.

RI 7 (increase in the number of firms applying to the leniency program and collaborating with antitrust investigation) was intended to monitor the impact of competition policy measures under PA13 on the participation of firms in investigations into cartels in order to sanction their anti-competitive practices (PD1,



paras. 60-61). Although not a direct measure of competitiveness, it was a reasonable indicator of progress toward enforcing competition policies. The baseline and target were credible and monitorable. RI 7: Moderately satisfactory.

RI 8 (increase in the number of firms registered online through the new electronic single window) was an indicator of results of simplifying and streamlining registration of new businesses (under PA14 and a trigger in DPL1) through measures to “reduce costs and save time [and] make procedural requirements more transparent and easier to access” (PD1, para. 65). The focus on entry of new firms was based on the premise (drawing on research) that “young establishments in Colombia grow much faster and create more jobs than old firms” (PD1, para. 64), and thus are especially likely to contribute to the objective of fostering productivity and growth in non-extractive sectors. The data for online registrations were readily monitorable. The target was appropriately revised upward in DPL2 to include all firms, including registration of previously informal entrepreneurs (PD2, footnote 51). RI 8: Satisfactory.

RI 9 (increase in the number of programs that are revised on the basis of CONPES) was a reasonable indicator of progress in implementing measures under the new National Policy for Productive Development that were intended to improve productivity and innovation in public expenditures and programs, although it does not directly measure the actual results of the revisions (a complementary indicator of such results would have been desirable). The baseline of nil was clear, but measurement of the target was a problem: the “methodology was not in place at the time the first or second operation was approved,” and indeed “was changed after the second operation was approved” (ICR, footnote 30 and para. 36). RI 9: Moderately unsatisfactory.

RI 10 (value of projects registered in the PAED that are approved by OCAD; introduced in DPL2) was intended to monitor progress toward involving the local private sector in investment decisions to help “identify, develop and prioritize effective investments to promote innovation and reduce the risk of government failures” (PD2, para. 57), in line with the Departmental Plans and Strategic Agreements (PAED). It measured the extent to which project approvals by local authorities were being brought in line with national policies regarding science, technology and innovation, to help reduce the wide variation in productivity growth (PD2, paras. 56-57). While not a direct measure of the desired outcome, it represented a step in a reasonably articulated results chain. The baseline and measurement were straightforward, with a modest target based on uncertainty as to how well local authorities would respond (ICR, para. 48). RI 10: Moderately satisfactory.

RI 11 (increase in share of fiscal incentives granted by the National Council of Fiscal Incentives for STI to firms from sectors other than mining and energy; introduced in DPL2) was designed to reflect the shift in incentives for investment in STI toward non-extractive sectors, under PAs 16-17. While the indicator only tracks implementation at the first stage of awarding incentives, rather than the actual expected increase in investment in productivity-enhancing STI, it was based on a pilot study and “complements actions supported under the Second Programmatic Sustained Growth and Income Convergence Development Policy Loan” (PD1, para. 72), indicating a reasonable results chain and a commitment to continuing support for implementation to achieve the objectives. RI 11: Moderately satisfactory.

RI 12 (increase in the installed capacity of auto-generated and co-generated electricity; introduced in DPL2) served a dual purpose by monitoring the impact of improved incentives under PA 12 on electricity generated by firms – which was expected both to improve competitiveness through more reliable supply, lower costs or sale of surplus, and to reduce greenhouse gas emissions through more efficient use of electricity capacity. Although the expected results chain was well articulated (PD2, para. 60), there was no direct indicator of the actual impact on firm-level efficiency and productivity of increased in-firm generation capacity. While the baseline and target



appeared credible, the target “was already met at the time the [second] program was being developed” (ICR, para. 50). RI 12: Moderately satisfactory.

### **Relevance of RIs for Objective 3: Support regularization and integration of migrants**

RI 13 (increase in the number of Venezuelan migrants on the RAMV [registry] who have been issued with a PEP [special Permit of Permanence]; introduced in DPL2) directly tracked the legalization and integration of Venezuelan migrants into the Colombian labor market, with potential positive effects on growth and productivity through “harnessing the medium-term growth-enhancing potential of migration” (PD2, para. 3). Hence it represented potential contribution to PDO1 as well as achievement of PDO3. It included a sub-indicator for women, representing a gender dimension. The data were readily available and regularly monitored. RI 14: Highly satisfactory.

RI 14 (increase in the number of Venezuelan migrants receiving services from the National Employment Agency; introduced in DPL2) monitored implementation of Colombia’s “open borders policy and implementing good practices in the provision of services to migrants and support to host communities, from education to health to employment services and humanitarian aid” (PD2, para. 3). It included a sub-indicator for women, representing a gender dimension – although the fact that registrants with SENA were not disaggregated by gender compromised this aspect of the indicator. It was directly related to the third PDO introduced in DPL2, though not so much to the original focus of the series on fiscal sustainability and competitiveness. RI 14: Satisfactory.

### **Rating**

Moderately Satisfactory

## **5. Achievement of Objectives (Efficacy)**

### **OBJECTIVE 1**

#### **Objective**

Support fiscal sustainability by reducing expenditures and contingent liabilities and increasing tax revenues [PAs 1-10, RIs 1-5]

#### **Rationale**

Four of five targets were fully met or exceeded. One target was not achieved, with an efficacy rating of Modest.

RI 1: The revised (downward) target of reducing central government personnel expenditures to 2.8 percent of GDP was achieved, “in the context of a sustained, incremental reduction in central government spending as a share of GDP during the same period” (ICR, para. 39). Thus the specific actions and indicator contributed to the overall objective of enhancing fiscal sustainability by reducing government expenditures. Rating: High.



RI 2: Despite substantial upward revision in the target “to reflect faster-than-expected progress during 2016-18” (ICR, para. 40), the increase in the use of FONPET savings to finance subnational contributions to the subsidized health regime slightly surpassed the target. This represented substantial progress toward managing the risk of contingent liabilities from pension obligations at the subnational level. Rating: High.

RI 3: Both the revised target level for non-oil central government revenues (of 13.0 percent of GDP; excluding the income tax for equity) and the implied increase (of 0.5 percentage points) were exceeded. The increase in the VAT rate during implementation accounted for 0.3 percentage points of the increase (see next paragraph). Total tax revenues increased from 13.6 percent of GDP in 2016 to 14.0 percent in 2019 – though this was actually below the 2015 figure of 14.5 percent (ICR, para. 41). Rating: High.

RI 4: The original objective of reducing tax evasion was not achieved, and indeed was changed to a target of a modest increase, in light of the expected increase in evasion due to the increased VAT tax rate. Staff suggested that “the increase in the VAT rate from 16 to 19 percent may have contributed to an increase in evasion to 23.6 percent in 2017, even as VAT revenues increased from 5.2 percent of GDP in 2015 to 5.5 percent of GDP in 2017” (PD2, para. 47). PD2 (para. 47) noted that “tax administration reform momentum has been slower than envisaged at the start of the DPF series which may have also contributed to the increase in the evasion rate.” Some progress toward the revised tax evasion gap target of 23.2 percent was made in 2019, reaching 23.1 percent (ICR, para. 42). A rating of Modest progress is given on the basis of the complementary data on revenues provided in the ICR, as well as RI 3, and some indication that the rise in evasion after the rate increase may have been moderated. Nonetheless, the ultimate outcome objective of the tax reforms was increased revenues, and the net effect of the higher rate was an increase in VAT revenues (as well as overall revenues, as measured by RI3). Rating: Modest.

RI 5: The target for new income taxpayers was greatly exceeded (even without data for 2019), indicating strong success of the measures taken to simplify enrollment, especially for small traders and previously informal operators. Rating: High.

## Rating

Satisfactory

## OBJECTIVE 2

### Objective

Foster productivity and growth in non-extractive sectors by strengthening the policy framework for trade facilitation, business regulation, innovation and green growth  
[PAs 11-18, RIs 6-12]

### Rationale

Six targets were exceeded, most by substantial amounts. One (customs clearance times) was only partially achieved.



RI 6: The targeted reduction in the average hours for customs clearance of imports was only partially achieved, even though the target had been lowered. . The coordination needed to implement the various measures taken to streamline customs requirements and procedures (PAs 11-12) proved more complex, and had less direct impact on timing than anticipated, Furthermore, while introduction of scanners improved efficiency, the increased detection of irregularities slowed down processing. Rating: Modest.

RI 7: The number of firms applying for leniency and collaborating in antitrust investigations increased by 9, three times the targeted increase. This contributed to the objective of raising productivity through greater competition by enhancing investigations into cartels. Rating: High.

RI 8: Establishment of an electronic single window for registering companies was highly successful, as indicated by new registrations of more than 3.5 times as many firms as expected, even after substantially raising the target in DPL2 to cover all firms (not just joint-stock companies). The target was focused on five major cities, where the single window was operated by the Chambers of Commerce; “the rollout in cities other than Bogotá un 2019 may have contributed to the overachievement” (ICR, para. 46). Implementation was supported in DPL2 by a decree and a Presidential directive streamlining online firm registration. Rating: High.

RI 9: The number of programs involving STI that were revised in line with the policies issued by the National Council for Economic and Social Policy (CONPES) far exceeded expectations. Part of the excess represented additional revisions in 2019 compared to the target year of 2018, indicating an accelerating upward trend that furthered the objective of promoting innovation in non-extractive sectors. The ICR (para. 47) provided complementary confirmation that “political will for streamlining programs...was stronger than expected ex ante.” Rating: High.

RI 10: The value of projects registered under Departmental Plans and Strategic Agreements (PAED) that were approved by the OCAD (body for administrative decisions) as adhering “to the new procedures for project selection (using an open, competitive process)” reached more than double the target and greatly exceeded the expected rate of increase (ICR para. 48). This represented greater than expected willingness of local authorities to apply prescribed cost-benefit criteria, thereby furthering the objectives of competition and productivity. Rating: High.

RI 11: The shift in the share of fiscal incentives granted by the National Council of Fiscal Incentives for STI from mining and energy to non-extractive sectors reached two-thirds by 2019, greatly exceeding the targeted increase from 16 percent to 24 percent. These incentives promoted the objective of raising productivity and growth in non-extractive sectors. Rating: High.

RI 12: The increase in electricity auto- and co-generated by firms substantially exceeded the target (indeed, the target was already met at the time of DPL2, but was not raised). Although there is general evidence that “improving efficiency of energy management at the firm level will improve firm competitiveness by lowering average costs of production and by reducing operation and maintenance costs” (PD2, para. 59), no direct evidence was provided that these expected results were in fact being achieved in firms that increased their generation capacity. Rating: High

**<<NOTE: Rating for RI 12 is based on overachievement of target that was already achieved as of DPL2 but not adjusted upward. Could consider downrating to Substantial on that basis and absence of any direct evidence that efficiency/productivity were actually improved – though that would have required**



*a special study, given the absence of any standard indicator. In any case, changing the rating for RI 12 would not affect the overall rating for Objective 2. >>*

### **Rating**

Satisfactory

## **OBJECTIVE 3**

### **Objective**

Support regularization and integration of migrants  
[PAs 19-20, RIs 13-14]

### **Rationale**

Both RIs were fully achieved.

RI 13: The number of migrants granted a Special Permit of Permanence (PEP) achieved the target, and the proportion of women was even higher than targeted. This achieved the stated objective of regularizing the status of migrants and integrating them into the labor market – with likely benefits also to the overall growth objective. The figures reported represent only one out of nine phases of implementing the PEP, reaching an even greater number (ICR, para. 51). Rating: High.

RI 14: The number of migrants receiving services from the National Employment Agency substantially exceeded the target, meaning that they were being well integrated into health, education, water and sanitation, child support and housing services, as well as into labor markets. The number of women served by the Public Employment Service (which accounted for 65% of the total migrants served) fell just short of the overall target of 25,000 women, but the number of women among the 27,140 served by the National Learning Service (which did not track data by gender) certainly exceeded the gap of 2,229 needed to achieve the target for women (ICR, para. 52). Rating: High.

### **Rating**

Highly Satisfactory

## **Overall Achievement of Objectives (Efficacy)**

### **Rationale**



Two objectives are rated Satisfactory, one Highly Satisfactory

## Overall Efficacy Rating

Satisfactory

## 6. Outcome

### Rationale

The Satisfactory rating for relevance of PAs was based on their sound design to build on initiatives and lessons from previous fiscal DPF operations and (in most cases) to carry the agenda forward in successive, manageable steps. The rationale for each action was well articulated (though the chain of further actions and results to achieve objectives was not as well clarified).

The Satisfactory rating for efficacy resulted from 12 out of 14 targets being fully achieved, several of them exceeded by substantial margins. Although the reduction in tax evasion under PDO 1 was not achieved, the VAT increase that may have inhibited this result (although progress was still slower than expected) nevertheless contributed to the key objective of increasing revenues. Trade facilitation measures to reduce customs clearance times proved the least efficacious (for reasons that were not clear), despite lowering of targets.

With both relevance of PAs and efficacy rated as Satisfactory, the overall outcome is likewise rated Satisfactory.

### a. Rating

Satisfactory

## 7. Risk to Development Outcome

**Pandemic risk:** The Covid-19 pandemic has produced “severe, unprecedented shocks related to the need to protect the health and economic well-being of the population...[widening] the central government deficit from 2.5 percent of GDP in 2019 to 7.8 percent in 2020, reflecting a combination of lower revenues and increased spending related to the pandemic response” (ICR, para. 73). Although implementation of the DPL series was not greatly disrupted, the drops in GDP (by 6.8 percent in 2020) and employment greatly “increased risks to the sustainability of some development outcomes” (ICR, para. 13). To help mitigate these risks, “the World Bank has assisted Colombia in addressing the economic and health effects of the pandemic in subsequent lending and ASA” (ICR, para. 13).

**Political risk:** Public opposition to sales tax hikes in 2021 was much more severe and longer-lasting than expected, triggering protests and strikes. Congress revised the fiscal reform program in September 2021 to “take a more gradual approach to fiscal consolidation” (ICR, para. 73). Furthermore, although government support for reforms to improve the business environment had remained strong even during the pandemic, it was not yet clear (as of the ICR) whether the new administration that took office in August 2022 would be as



committed. The hope is that the “policies recently approved and instruments implemented” would be sufficient to maintain momentum on competitiveness under the new regime (ICR, para. 74).

**Migration risk:** The risk to continued pursuit of the third objective, regularizing and integrating migrants, is considered low, in that the government of Colombia recognizes “that properly managed migration is a development opportunity” [and] “continues to prioritize migration” (ICR, para. 75). Nevertheless, “a continuation of the large flows of migrants from Venezuela would put the support systems under further stress,” (ICR, para. 75), and could undermine public willingness to support continued implementation of pro-migrant policies.

**Environment risk:** No evidence is yet available on the extent to which increased auto- and co-generation of electricity by firms have the desired effects on improving efficiency of energy use and thereby reducing carbon emissions.

## 8. Assessment of Bank Performance

### a. Bank Performance – Design

#### Rationale

#### Lessons from prior experience:

The overall approach was based on lessons from previous development policy finance operations regarding their effectiveness “as a vehicle for deepening the policy dialogue on fundamental issues” and addressing “cross-cutting challenges” (in particular, from the Fiscal Sustainability and Growth Resilience DPF series [FY12/13] and the Enhancing Fiscal Capacity to Promote Shared Prosperity DPF12 [FY14]; PD1, para. 29). (See section 3.b above.)

The rationale for each policy action was well documented on the basis of prior analytical work, in particular by OECD, the World Bank, the Tax Commission, IMF, and academic studies (PD1 and PD2, Table 5). “The WBG was highly engaged in technical work in all three pillars of the series,” and “provision of TA and ASA in the policy areas covered by this series were instrumental in developing an integrated approach to the WBG’s assistance to Colombia” (ICR, para. 78).

#### Results chain:

The ICR (para. 23 and Table 2) presented a “theory of change” describing how each PA was expected to contribute to the program objectives, drawing on the detailed explanation in PD1 and PD2 of the rationale underlying each PA. Although “the theory of change under pillar 2...perhaps could have been better explained in the program documents” (ICR, para. 23), the relationship between PAs and the intended outcomes was generally evident.



**Risk identification and mitigation:**

“The first operation focused on political and governance, macroeconomic, and institutional capacity risks” (ICR, para. 68), which it assessed as moderate, though needing some strengthening (PD1, paras. 92-93). PD1 “did not mention migration as a risk, despite the government of Colombia’s policy response to the outward migration from Venezuela starting in 2015” (ICR, para. 68).

**Stakeholder consultation:**

Many of the reforms supported in this series were designed to help implement the “NDP 2014–2018 [which] was developed in consultation with the civil society and a wide range of governmental and nongovernmental agencies” (PD1, para. 76). “The reforms supported by this program followed Colombia’s existing system for consultation on specific regulations,” particularly the tax reforms, which “were widely discussed in public fora and reflected inputs from many different actors,” including meetings with “private sector representatives and members of Congress” to obtain feedback on the draft law (PD1, paras. 76-77).

**Coordination with Development Partners:**

“During the process of preparing the DPF series, the World Bank collaborated with the IMF and IFC.... Particularly with the IMF on the review of macroeconomic developments, including fiscal projections and the analysis of debt sustainability” (PD1, para. 79). “The World Bank worked closely with the IFC to provide TA related to pillar 2 prior during the preparation of the two operations, continuing this arrangement during implementation” (ICR, para. 69).

Coordination with other development partners was not discussed and cannot be assumed.

**Rating**

Satisfactory

**b. Bank Performance – Implementation**

**Rationale**

**Monitoring:**

The results framework was adequately monitored and adjusted as needed to changed circumstances.

Additional monitoring and complementary support was provided through “simultaneous technical assistance, ASA, and lending activities in similar policy areas, [including] a series of policy notes...technical and analytical support on fiscal consolidation...ongoing technical assistance on reforms related to competitiveness and productivity; and analysis of the social, sectoral and economic impacts of Venezuelan migrants on Colombia” (ICR, para. 71).



There were, however, some “minor shortcomings in the supervision of the series,” including the failure to produce an Implementation Status and Results Report during the more than 12 months between Board approvals” (ICR, para. 72).

**Adaptation:**

Introduction of PDO3 and PAs 19 and 20 was a significant adaption in response to changes in the country context due to the surge in migration from Venezuela, complemented by seeking concessional funding from the GCFF to support implementation. Although this resulted in a delay of the second operation, it demonstrated the flexibility of the DPL series approach.

PD2 (para. 93) focused on the social risk and stakeholder risks (especially insecurity) due to the surge in migration flows, which it assessed as substantial. The addition of PDO3 to the second operation represented an adaption and mitigation to the growing risks posed by the intensification of migration from Venezuela.

Four indicative triggers were dropped and two revised in DPL2, and three PAs added (two for the new PDOs on migrants), “to reflect economic and social developments in Colombia and align with the reform priorities of the administration under the president elected in 2018 and under the NDP for 2018-2022” (ICR, para. 24).

Two of the targets were revised upward (RI 2 and RI 8), and four downward (RIs 1, 3, 4 and 6) on the basis of experience during DPL1.

**Rating**

Satisfactory

**c. Overall Bank Performance**

**Rationale**

Both design and implementation are rated as Satisfactory.

**Overall Bank Performance Rating**

Satisfactory

**9. Other Impacts**

**a. Social and Poverty**

The ICR suggested that “most of the PAs of the series had neutral or positive effects on poverty in the short term...[and] either positive or marginally negative distributional impacts” (of tax reforms), but without specific evidence. It is premature to have evidence on the longer-term effects (generally expected to be positive, apart



from the “detrimental impacts on poverty and fiscal conditions” due to the Covid-19 pandemic; ICR, paras. 54-55).

**b. Environmental**

No evidence is yet available.

**c. Gender**

The data on regularization and integration of migrants (RIs 13-14) indicated that women were adequately included in receiving services and permits enabling them to work and that these were delivered successfully.

**d. Other**

The second operation was able to mobilize supplementary grant funding to help cope with the influx of migrants.

The ICR (para. 63) indicated that “the series had no significant unintended outcomes or impacts.”

**10. Quality of ICR**

**Rationale**

The ICR provides a compact summary of the context at appraisal and rationale for the series, explains the evolution of the PDOs, and gives a coherent narrative of the series and the results. It thoroughly discusses the prior actions and their relevance to a “theory of change” (results chain). The relevance and measurability of the RIs is summarized, with credible data (including sources provided in 38 footnotes). The ICR is consistent with the guidelines in discussing achievement of objectives, other outcomes, Bank performance, risks and lessons (although the latter are fairly generic).

**a. Rating**

Substantial

**11. Ratings**

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Satisfactory	Satisfactory	



Bank Performance	Satisfactory	Satisfactory
Relevance of Results Indicators	---	Moderately Satisfactory
Quality of ICR	---	Substantial

## 12. Lessons

**Flexibility of programmatic DPF enables timely adjustment to emerging policy challenges, such as a surge in migration** (ICR, para. 76). The DPF series was adapted to address the major challenge to services and labor markets from a surge in migration from Venezuela that required urgent policy action. Although seeking grant funding for this purpose came at the cost of some delay in the second operation, the supplementary funds enabled effective implementation, building on actions and institutions already being supported.

**Strong government commitment is crucial for effective implementation of critical legislation and institutional reforms, based on clear objectives established in coordination with the World Bank.** Strong government ownership, based on “strong coordination between the World Bank and the Government of Colombia in establishing objectives and defining the RIs” (ICR, para. 77) yielded timely passage of legislation underpinning many of the actions, enabling substantial overachievement of many targets that were set in the less certain environment before enabling laws had taken effect. Conversely, the ICR (para. 74) indicated some uncertainty as to “whether the momentum [on competitiveness] will be as strong under the new administration taking office in August 2022” while expressing optimism that the “policies recently approved and instruments implemented” would be sufficient to maintain “momentum on competitiveness...under a new administration.”

## 13. Project Performance Assessment Report (PPAR) Recommended?

No