



1. Project Data:		Date Posted : 12/20/2004	
PROJ ID: P083905		Appraisal	Actual
Project Name : Colombia Programmatic Fiscal and Institutional Adj Loan II (FIAL II)		Project Costs (US\$M)	150
Country: Colombia		Loan/Credit (US\$M)	150
Sector(s): N/A		Cofinancing (US\$M)	
L/C Number: L7201		Board Approval (FY)	4
Partners involved :		Closing Date	02/24/2004

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2. Project Objectives and Components

a. Objectives

Overall program objectives were to: (1) address fiscal rigidities by promoting reforms necessary to attain the substantial fiscal adjustment underlying sustainable macroeconomic stability; and (2) improve provision of public services and establish institutional basis for higher efficiency and accountability in public expenditure .

b. Components

- Overall fiscal commitment: Maintain a macroeconomic framework consistent with the objectives of the program .
- Tax reform: Promulgate necessary by-laws and regulations to implement Law 788 (passed as a condition of FIAL I).
- Tax administration: Install new information system to detect evasion; audit more than half of large taxpayers; conduct at least 80 tax and customs audit visits .
- Budget management: Approve National Council of Economic and Social Policy (CONPES) document 3252, setting a strategy for central government budget reform including : reduction of permanent entitlements and earmarked revenues; regulation of the use of forward budgeting; and establishment of controls over expenditure aggregates . In addition, Congress to approve the 2004 budget law, including (a) medium term fiscal outlook; (b) calculation of tax expenditures and contingent liabilities; and (c) functional presentation of the government sector, integrating current and capital expenditure .
- Development of incentives for efficiency gains: Submit for a vote reallocating royalty transfers to finance education . Also, achieve additional efficiencies from resolution issued to allocate resources from the application of Law 21 for the benefit of education .
- Defense against legal claims: CONPES to issue new policy for legal defense of the state from unwarranted litigation .
- Strengthening public sector procurement: CONPES to promulgate principles governing public procurement and a strategy for developing e-procurement; pass legislation establishing an agency to oversee this area .
- Asset management: The medium term objective in this area is to develop an efficient and sustainable real estate asset management system . CONPES was to issue an initial document establishing the basic principles and strategic planning for asset management, including institutional framework, MIS, and rules and procedures .
- Management contracts for government agencies: GOC to sign pilot management agreements with the National Service for Training (SENA), and the Colombian Institute for Family Welfare (ICBF).
- Management of public sector reform (monitoring and evaluation): CONPES to establish overall strategy of public sector reform and recommended indicators of public sector productivity and effectiveness (M&E system for the state reform process).
- Fiscal responsibility: The Borrower to enact Law requiring: (a) annual presentation of: (i) a medium-term fiscal framework with deficit targets linked to debt sustainability; (ii) a report of fiscal results to Congress, and (iii) a financial plan including measures to fully compensate for fiscal slippage the previous year; (b) restrictions on future spending obligations of national and sub-national governments; and (c) the obligation to include the fiscal impact and source of financing within any new national law affecting taxes or expenditures .

c. Comments on Project Cost, Financing and Dates

FIAL I, in the amount of US\$150 million, is the second of a planned series of four quick -disbursing programmatic loans, which could cumulatively amount to US\$900 million. It was approved on 11/20/03, became effective on 11/24/03 when it fully disbursed, and closed on its originally scheduled closing date of 2/25/04.

3. Achievement of Relevant Objectives:

By the nature of programmatic lending, nearly all of the components listed above were achieved before the loan was

approved (see section 5 for significant exceptions). However, the contribution of these actions toward the achievement of the program objectives was somewhat less than envisioned :

Objective 1: Address fiscal rigidities by promoting reforms necessary to attain the substantial fiscal adjustment underlying sustainable macroeconomic stability .

Shortcomings in achievement of some components partially slowed progress toward Objective 1 (sec. 5, numbers 1, 2, and 3a). On the positive side, data presented in the ICR (Annex 1) show that gains in tax revenue attributable to reforms in tax policy and administration (0.73% of GDP in 2003 and 1.23% in 2004) are broadly on track with the envisioned average annual increase of 0.7% of GDP.

Objective 2: Improve provision of public services and establish institutional basis for higher efficiency and accountability in public expenditure .

Shortcomings (sec. 5, numbers 3b and 3c) partially detract from other achievements toward this objective . Data in Annex 1 reflect a slow start to the expected expenditure -side savings; an acceleration in savings will be needed to achieve the expected annual reduction in current expenditures of 0.7% of GDP over the term of the program (2003-2006).

4. Significant Outcomes/Impacts:

- 550 integrated tax and customs audits visits took place, exceeding the envisioned 80 visits.
- Indicators to monitor productivity and the effectiveness of reforms are in place and operational .

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. The Fund program had to be renegotiated because the failure of a Referendum to contain expenditures and a court verdict mandating retroactive salary increases for public sector workers caused a higher 2003 deficit than envisioned (-2.7% of GDP compared to -2.5%).
2. The CONPES policy approved for the legal defense of the state was too general and GOC data too limited, and consequently little progress was made in this area .
3. Shortcomings outside the ambit of the Executive limited the benefits achieved by this loan :
 - a. Failure of referendum on expenditure containment measures, and decision of Constitutional Court on salary increase for public sector workers (as noted above)
 - b. Failure of referendum on reallocating royalty transfers to finance education
 - c. Failure of Congress to pass legislation establishing an agency to oversee public procurement

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Moderately Satisfactory	While good progress has been made toward meeting program objectives, a number of significant shortcomings (sec. 5) indicate a rating of moderately satisfactory. In particular, progress toward establishing a reformed legal framework for the budget continues to be hampered by obstacles emerging from the legislature, judiciary, and public (referendum). FIAL II is the 2nd of 4 planned programmatic loans. To a significant extent, the Program is "back-loaded," with FIAL I and II focused on the legal and institutional framework, and FIAL III and IV more heavily oriented toward outcomes. OED ratings of FIAL I and II are subject to revision depending on results achieved in FIAL III and IV .
Institutional Dev .:	Modest	Modest	Shortcomings, including those listed in section 5, item 3, indicate a rating of modest.
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

No lessons of broad applicability have as yet emerged from this operation (or from this series of operations). It will become clearer as the subsequent loans progress whether the program design of instituting long -term structural reforms while at the same time requiring the Borrower to meet specific fiscal adjustment targets is effective .

8. Assessment Recommended? Yes No

Why? This operation is the second in a planned series of 4 programmatic loans. To a significant extent, the Program is "back-loaded," with the 2 earlier operations focused on establishing the legal and institutional framework and the 3rd and 4th loans more heavily oriented toward outcomes . It would be very interesting to see to what extent this approach was successful .

9. Comments on Quality of ICR:

The ICR is very good and presents considerable substantive material describing the progress made . In particular, Table 1 addresses the loan's contribution toward achievement of program objectives .