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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
PROGRAM DOCUMENT FOR A PROPOSED LOAN
IN THE AMOUNT OF EUR 716.5 MILLION (US\$800 MILLION EQUIVALENT)

TO
THE REPUBLIC OF COLOMBIA
FOR THE
FIRST PROGRAMMATIC TERRITORIAL DEVELOPMENT DEVELOPMENT POLICY FINANCING

November 2, 2016

Social, Urban, Rural and Resilience Global Practice
Governance Global Practice
Colombia and Mexico Country Management Unit
Latin America and the Caribbean Region

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COLOMBIA - GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of *September 30, 2016*)

COP 2,942.56 = US\$1.00

US\$1.00 = EUR 0.89561596

ABBREVIATIONS AND ACRONYMS

4G	Fourth Generation
ADR	Rural Development Agency (<i>Agencia de Desarrollo Rural</i>)
ANT	National Land Agency (<i>Agencia Nacional de Tierras</i>)
ART	National Agency for Renovation of the Territory (<i>Agencia Nacional de Renovación del Territorio</i>)
BOP	Balance of Payments
CAR	Regional Autonomous Corporation (<i>Corporación Autónoma Regional</i>)
CCE	National Procurement Agency (<i>Colombia Compra Eficiente</i>)
CIEFP	Public Finances Statistics Inter-sectorial Commission (<i>Comisión Intersectorial de Estadísticas de Finanzas Públicas</i>)
CONPES	National Economic and Social Policy Council (<i>Consejo Nacional de Política Económica y Social</i>)
COP	Colombian Peso
COT	Territorial Development Commission (<i>Comisión de Ordenamiento Territorial</i>)
CPF	Country Partnership Framework
CREE	Income Tax for Equality (<i>Impuesto sobre la renta para la equidad</i>)
DANE	National Administrative Statistics Department (<i>Departamento Administrativo Nacional Estadístico</i>)
DNP	National Planning Department (<i>Departamento Nacional de Planeación</i>)
DPF	Development Policy Financing
EOT	Territorial and Land Use Scheme (<i>Esquema de Ordenamiento Territorial</i>)
FARC	Revolutionary Armed Forces of Colombia (<i>Fuerzas Armadas Revolucionarias de Colombia</i>)
FCL	Flexible Credit Line
FDI	Foreign Direct Investment
FONADE	Regional Development Bank (<i>Fondo Financiero de Proyectos de Desarrollo</i>)
FUT	Single Territorial Form (<i>Formulario Único Territorial</i>)
GDP	Gross Domestic Product
GNP	Gross National Product
GoC	Government of Colombia
IBRD	International Bank for Reconstruction and Development
IGAC	Geographical Institute Agustin Codazzi (<i>Instituto Geográfico Agustín Codazzi</i>)
INCODER	Colombian Institute for Rural Development (<i>Instituto Colombiano de Desarrollo Rural</i>)
IMF	International Monetary Fund
LDP	Letter of Development Policy

LOOT	Organic Law governing the Territorial Planning (<i>Ley Orgánica de Ordenamiento Territorial</i>)
MADR	Ministry of Agriculture and Rural Development (<i>Ministerio de Agricultura y Desarrollo Rural</i>)
MADS	Ministry of Environment and Sustainable Development (<i>Ministerio de Medio Ambiente y Desarrollo Sostenible</i>)
MHCP	Ministry of Finance and Public Credit (<i>Ministerio de Hacienda y Crédito Público</i>)
MDI	Ministry of Interior (<i>Ministerio del Interior</i>)
MVCT	Ministry of Housing, Cities and Territory (<i>Ministerio de Vivienda, Ciudad y Territorio</i>)
NDP	National Development Plan
OECD	Organisation for Economic Co-operation and Development
PA	Programmatic Approach
PBOT	Basic Territorial and Land Use Plans (<i>Plan Básico de Ordenamiento Territorial</i>)
PFM	Public Financial Management
PGN	Nation's General Budget (<i>Presupuesto General de la Nación</i>)
PGOT	Territorial and Land Use Planning General Policy (<i>Política General de Ordenamiento Territorial</i>).
PSIA	Poverty and Social Impact Assessment
POD	Departmental Territorial and Land Use Plan (<i>Plan de Ordenamiento Departamental</i>)
POT	Territorial and Land Use Plan (<i>Plan de Ordenamiento Territorial</i>)
RAS	Reimbursable Advisory Services
ROA	Return on Assets
ROE	Return on Equity
SDR	Special Drawing Rights
SECOP	Colombia's Electronic System for Public Procurement (<i>Sistema Electrónico de Contratación Pública</i>)
SGP	General Revenue-Sharing System (<i>Sistema General de Participaciones</i>)
SGR	General Royalties System (<i>Sistema General de Regalías</i>)
SNC	National Cadastral System (<i>Sistema Nacional de Catastro</i>)
SNG	Subnational Governments
SNR	Superintendence of Notaries and Registry (<i>Superintendencia de Notariado y Registro</i>)
SoC	System of Cities
USD	United States Dollar
VAT	Value Added Tax

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COLOMBIA

FIRST PROGRAMMATIC TERRITORIAL DEVELOPMENT DEVELOPMENT POLICY FINANCING

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SUMMARY OF PROPOSED LOAN AND PROGRAM

COLOMBIA

FIRST PROGRAMMATIC TERRITORIAL DEVELOPMENT DEVELOPMENT POLICY FINANCING

Borrower	Republic of Colombia
Implementation Agency	National Planning Department (DNP)
Financing Data	IBRD Loan Terms: IBRD Flexible Loan; commitment linked with a fixed spread and bullet repayment Amount: EUR 716.5 million
Operation Type	First in a series of two single tranche programmatic Development Policy Financing (DPF) operations
Program Development Objective(s)	Support the efforts of the Government of Colombia (GoC) to: (i) Strengthen institutions for land management and territorial planning; and (ii) Improve subnational financial management and investment prioritization.
Result Indicators	<p>Pillar I – Strengthened land management systems and institutions and improved territorial planning</p> <ul style="list-style-type: none"> (i) Percentage of the area covered by the cadastre pilot program for which new cadastral information has been collected (Baseline: 0 in 2016; Target: 70% in 2018) (ii) Number of administrative agreements through which the national government has delegated functions to local governments following an evaluation of local capacity (Baseline: 0 in 2016; target: 2 in 2018) (iii) Number of plots in rural areas with formalized property rights through the new process Baseline: 0 in 2016; Target: 40,000 in 2018) (<i>Of which number of plots in rural areas with formalized property rights for women will be monitored</i>) (iv) Percentage of total co-financed rural development projects that have a territorial focus (Baseline of 16% in 2016; Target: 100% in 2018) (v) Number of territorial and land use plans prepared/updated under the <i>POT Modernos Program</i> (Baseline of 0 in 2016; Target: 80 in 2018) <p>Pillar II – Improved fiscal information, investment prioritization and strengthened financial management of subnational expenditures</p> <ul style="list-style-type: none"> (vi) Number of new <i>Contratos Plan</i> signed (Baseline: 0 in 2016; Target: 8 in 2018) (vii) Number of reports prepared and submitted by municipalities to national authorities (Baseline: 233 in 2016; Target: 190 in 2018) (viii) Percentage of national public entities reporting according to the new accounting standards (Baseline: 0 in 2016; Target: 90 percent in 2018) (ix) Number of standard investment projects designed and available for SNGs to adopt (Baseline: 0 in 2016; Target: 50 in 2018)

Overall risk rating	Moderate
Climate and disaster risks (required for IDA countries)	<p><i>(i) Are there short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)?</i> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <p><i>If yes, (ii) summarize briefly these risks in the risk section and what resilience measures may help address them?</i></p>
Operation ID	P158520

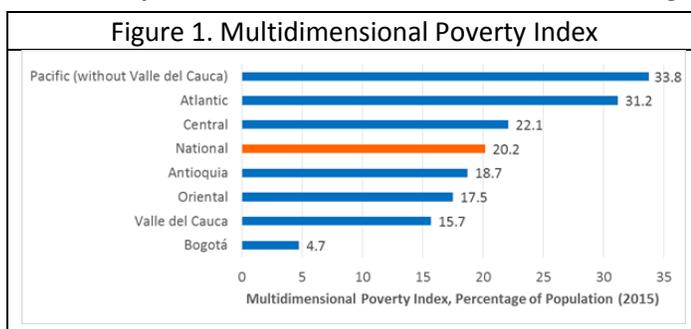
**IBRD PROGRAM DOCUMENT FOR A PROPOSED
FIRST PROGRAMMATIC TERRITORIAL DEVELOPMENT DEVELOPMENT POLICY LOAN
TO THE REPUBLIC OF COLOMBIA**

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This Program Document presents a proposed Development Policy Loan in the amount of EUR 716.5 million to the Government of Colombia (GoC), the first in a series of two single-tranche programmatic Development Policy Financing (DPF) operations.** The objective of the programmatic DPF is to support the efforts of the Government of Colombia to: (i) *strengthen institutions for land management and territorial planning; and (ii) improve subnational financial management and investment prioritization.* The proposed operation builds on, and complements a portfolio of current and previous World Bank operations and analytical work in the areas of urban and rural development, land management, decentralization, financial management and subnational governance.

2. **Colombia’s strong economic growth performance over the past decade was not widespread across all of its territory, thus perpetuating historical inequalities.** Colombia has been one of the stronger

performers in the region during the last decade in terms of economic growth. Yet, large gaps in poverty rates and standards of living between urban and rural areas, across regions and even within departments and municipalities remain.¹ For example, the multidimensional poverty index (2015), which compounds household level indicators on education, health, access to services and the characteristics of dwellings, reflects large disparities across regions (Figure 1). Regions face disparate challenges, depending on location, economic specialization, environmental features and incidences of social unrest and armed conflict. Regional poverty “divergence” persists despite sustained growth, with more affluent departments experiencing larger declines in moderate and extreme poverty rates than poorer ones. Despite efforts aimed at redistributing wealth through oil royalties, the absence of policies to integrate rural and urban areas, a weak institutional set-up, limited investment in rural areas and limited local institutional capacity have contributed to widening regional gaps.²



Source: DANE, 2015.

3. **Territorial development has been constrained by years of violence and armed conflict.** The conflict is entrenched in rural areas and coexists with dimensions of criminality, including drug trafficking, extortion and kidnapping. Decades of conflict have destroyed physical, human, and social capital with important implications for regional growth. Violence and conflict are concentrated in rural areas and in

¹ Colombia, with a unitary government, has 32 departments (*departamentos*) and 1,102 municipalities. The geographic diversity and the distinct way in which Colombia was populated resulted in the formation of six regions. While they do not represent official jurisdictions, they are widely recognized by shared commonalities in climate, culture, endowments and challenges. These regions are: *Caribe, Llanos, Pacifico, Centro-Oriente, Centro-Sur-Amazonia, and Eje Cafetero y Antioquia*. Annex 10 presents more information about intergovernmental fiscal relations in Colombia.

² Some of the poorest departments – such as Sucre, Magdalena and Cordoba – are also those that ranked the lowest in the GoC’s Integral Performance Index that measures local government capacity

regions with abundant natural resources and limited state presence. Pervasive underdevelopment, lack of adequate infrastructure, and expropriation risks have prevented these local populations from engaging in productive activities. Lack of land titles and inefficient use of rural land pose an important obstacle to economic growth, preventing access to finance and productive investment, and limiting tax revenues.³ Studies suggest that the cost of the conflict has been high, bringing losses of between 2 and 4.5 percent of GDP in the 1980s and 1990s, and reducing GDP growth by 0.3 to 0.5 percentage points per year.⁴

Box 1. Intergovernmental Fiscal Relations in Colombia

Colombia is a unitary country divided into 32 departments and 1,102 municipalities headed by popularly elected officials and locally elected representative assemblies (for *Departamentos*) and councils (for *Municipios*). Departmental assemblies are responsible, amongst other things, for approving the Department's annual budget. Public spending by subnational governments (SNGs) accounted for approximately 8.1 percent of GDP in 2011, of which about 3 percent comes from own tax revenues and the remainder⁵ from central government transfers.

The General Participation System (*Sistema General de Participaciones*, SGP) and the Royalties System (*Sistema General de Regalías*, SGR)⁶ are the two main central government's transfer systems to SNGs. The SGP funds are transferred to SNGs pursuant to articles 356 and 357 of the Constitution to finance services under the SNGs' jurisdiction—mainly health, education, and water and sanitation. The SGR includes the systems of revenues, transfers, institutions, procedures, and regulations that, according to articles 332, 360, and 361 of the Constitution and Law 1530 of 2012, govern the distribution and transfer to the SNGs of revenues from nonrenewable natural resources.

The SGR was reformed in 2012⁷ to improve regional equity and management of resources. The new law calls for joint management bodies (*Órganos Colegiados de Administración y Decisión*) between the national Government and SNGs, with the goal of improving the efficiency of the decision-making process relative to the use of royalties, including the possibility of suspending transfers to underperforming SNGs. Execution of SGR resources has consistently been slow and there is evidence of irregular quality of project design and investment atomization.

4. The proposed operation supports the GoC's medium-term agenda towards a more integrated territorial development. The National Development Plan (NDP) 2014-2018 outlines a program of reforms to strengthen territorial development, hereby reducing gaps between leading and lagging regions. This is a key element of the Government's post-conflict and peace agenda. The NDP comprises reforms at two levels: (i) policies and institutions at the national level to improve land management and territorial planning, and (ii) policies at the sub-national level to improve the efficient allocation of resources and project execution. The proposed operation supports reforms to establish the enabling environment and the regulatory framework for integrated territorial development, such as the reform of the national cadaster, the creation of key land management institutions and the reform of processes for subnational investment prioritization, coordination and execution.

³ An estimated two-thirds of rural land are held without title.

⁴ Arias et al. 2014. Costos económicos y sociales del conflicto en Colombia. *Universidad de Los Andes, Facultad de Economía*.

⁵ Around 60 percent of the total resources were managed by SNGs for 2000-09. Source: 2012 IDB flagship report "*More than Revenue: Taxation as a Development Tool*." (Banco Interamericano de Desarrollo (2012). "Recaudar no basta: los impuestos como instrumento de desarrollo." Eds. Corbacho, Ana; Fretes Cibils, Vicente, y Lora, Eduardo. BID. 2012. Washington, D.C.

⁶ According to the previous law, royalty resources were distributed only to entities that produced or transported natural resources. Law No. 1530/12 changed the distribution criteria.

⁷ See Constitutional Amendment No. 5 of 2011, Law 1530 of 2012.

5. **The operation also builds upon the current peace and post-conflict agenda and is well aligned with the objectives of the World Bank Group’s Colombia Country Partnership Framework (CPF) FY2016-2021.** Since 2012, the GoC engaged in peace talks with the country’s largest rebel group, the Revolutionary Armed Forces of Colombia (Fuerzas Armadas Revolucionarias de Colombia, FARC). The first point within the agreements is a “Comprehensive Rural Reform” to address the unbalanced economic development between rural and urban areas.⁸ It stresses the need for programs to enable formalization of land rights, promote access to land and increase rural productivity; the creation and updating of the rural cadastre and the improvement of infrastructure and service provision in rural areas. Despite a recent plebiscite on the agreement reached at the Havana peace talks not obtaining a majority vote, the Government has expressed its commitment to work with the different parties on possible modifications to the agreement to reach consensus.⁹ While there are no official estimates on the costs associated with the agenda for peace building, some estimates suggest costs could be as high as US\$13 billion per year. A large proportion of such costs will be funded from the national budget.¹⁰ This operation supports pillar 1 of the Country Partnership Framework’s for the period 2016-2021 (Report No. 101552-CO) discussed by the Executive Directors on April 7, 2016; which aims at fostering balanced territorial development. The operation further supports the CPF’s cross-cutting area of “constructing peace”.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

6. **Following a decade of strong expansion, growth started to slow in 2014-15 amid falling oil prices.** The country’s economy grew, on average, by 4.8 percent per year between 2004 and 2014, making it one of the strongest performers in Latin America. This expansion was underpinned by important macroeconomic and structural reforms. Growth rates were still strong in 2014 (4.4 percent), albeit down from 4.9 percent in 2013. Output growth moderated more markedly in 2015, to 3.1 percent. Growth has been led by domestic demand, primarily private consumption and investment, although gross capital formation slowed considerably after years of strong expansion. On the supply side, growth in 2015 was led by financial services, commerce and construction, partially compensating for the slump in the extractives sector. Throughout the last decade, growth was accompanied by a decline in the unemployment rate, which dipped below 9 percent in 2015.

7. **The deterioration of the terms of trade resulted in a widened current account deficit.** Oil exports, which had accounted for over 50 percent of total exports in 2012-14, declined by 51 percent in US\$ terms, while total exports fell by 35 percent in 2015. As a result, the current account deficit rose to 6.5 percent of GDP in 2015, from 5.2 percent in 2014. Colombia’s flexible exchange rate regime acted as the first line of defense to the external price shock. The peso depreciated from an average of COP 2,000/US\$ in 2014 to a low of COP 3,435 in February 2016 (before falling back to COP 2,974 in August). While import compression has been significant, the export response to the depreciation has so far been more limited. Hydrocarbon exports continued their strong decline, while the reduction in other exports

⁸ The peace talks and subsequent peace agreement negotiated recently in La Habana, contained a five point agenda: policy for integral agricultural and rural development; political participation; end of the conflict; drug trafficking; and victims’ reparations. A sixth point includes issues of implementation, verification and countersignature. These points attempted to address both the causes (e.g. rural reform and political participation) and the effects (e.g. victims’ reparations) of the conflict.

⁹ On October 2, 2016, Colombians voted in a national referendum to answer the question: “Do you support the final agreement for the end of conflict and building a lasting and stable peace?”. The “NO” vote prevailed, with 50.2 % of votes.

¹⁰ El Tiempo. September 8, 2016. <http://app.eltiempo.com/economia/sectores/proceso-de-paz-colombia-espera-us-3300-millones-en-donaciones-para-el-posconflicto/16696312> Last accessed on September 15, 2016

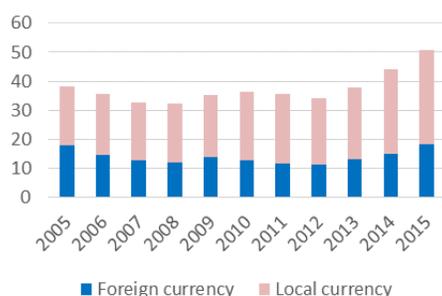
slowed and a number of manufacturing exports (such as vehicles and auto parts, glass and wood products) began to grow again. Net FDI slowed from 4.2 percent of GDP in 2012 to 2.7 percent in 2015, driven mainly by a decline in investments in the extractive sector. External loans took a more pronounced role in financing the balance of payments over the last two years. Forex buffers remain solid, with international reserves at US\$47 billion in July 2016, representing over 10 months of imports or 3.2 times external short-term debt.

8. **The Central Bank initiated a cycle of monetary policy tightening to rein in inflation.** The pass-through effect of the exchange rate depreciation to domestic prices, coupled with rising food prices due to the drought caused by the El Niño phenomenon and a strike by truck drivers in mid-2016, led to a strong acceleration in inflation, from an average of 2.9 percent in 2014 to 9 percent in July 2016. In an effort to gradually bring inflation back to within the target range of 2-4 percent, the Central Bank gradually raised interest rates from 4.5 percent in September 2015 to 7.75 percent in August 2016. The monetary authorities remain strongly committed to price stability policies.

9. **The Colombian financial sector is dominated by banks, which report solid financial indicators despite the economic slowdown.** Colombia's financial system has a banking sector comparable to countries of similar per capita GDP, size, and demographics—although capital market intermediation to the private sector remains below potential. With monetary tightening over the last 12 months, the fast credit growth to the private sector has decreased slightly from 18.1 percent (year-on-year) in December 2015 to 10.8 percent in May 2016. In February 2016, the credit rating agency Standard and Poor's (S&P) revised to negative the outlook rating of Colombia's three biggest banks (Bancolombia, Banco de Bogotá and Davivienda) in line with its negative outlook on the sovereign. Overall, financial soundness indicators remain solid, despite some deterioration in the last year. The banking system remains well capitalized, with a Capital Adequacy Ratio of 16 percent in May 2016, albeit down from 17 percent in 2014. Profitability remains relatively high with the ratio of Return on Equity at 13.7 percent, partly reflecting the concentration of the banking sector. Non-performing loans have increased slightly in recent months, from 2.9 percent in December 2015 to 3.3 percent in August 2016. Colombia has introduced capital and liquidity regulations that are aligned with international standards, although the key issue of supervision of conglomerate holdings remains a challenge to be addressed.

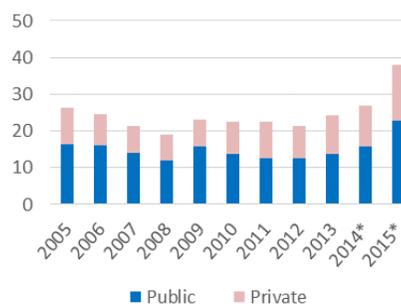
10. **The drop in oil revenues has created significant fiscal pressures.** Oil-related fiscal revenues for the Central Government fell by 2.1 percent of GDP between 2013 and 2015. At the same time, additional expenditure pressures have come to the fore, with interest payments on debt increasing from 2.2 percent of GDP in 2013 to 2.6 percent in 2015. Efforts to maintain the fiscal deficit at manageable levels has come partly from the public investment side, but there is not much space for further drastic reductions in this category over the medium term without harming growth prospects. The conclusion of the Peace Agreement would also imply additional public spending. Thus, while the fiscal consolidation path mandated by the Fiscal Rule requires a deficit reduction of 2.9 percent of GDP between 2016 and 2022 (equivalent to a reduction from 2.2 percent of GDP in 2015 to 1 percent by 2022 in structural terms), the added fiscal pressures require the creation of even more fiscal space.

Figure 2: COL: Gross public debt (% of GDP)



Source: IMF and World Bank staff calculations.

Figure 3: External debt (% of GDP)



*Preliminary.

Source: Central Bank and World Bank staff calculations.

11. **To maintain fiscal sustainability, the Colombian authorities initiated revenue and expenditure reforms in 2014.** To ensure continued compliance with the Fiscal Rule in the context of lower oil prices, the country enacted a tax reform in 2014, which raised the corporate income tax and extended a number of temporary taxes, thereby raising non-oil revenues by an estimated 0.6 percent of GDP in 2015. The law also established an expert commission to study further tax reform options, including reducing evasion and making the tax system more equitable and efficient. On the expenditure side, the Government reduced the budget envelope by COP 6.2 trillion (a 0.8 percent of GDP reduction vis-à-vis the approved budget) in 2014. Similar budget cuts were implemented in 2015, reaching COP 9 trillion (1.1 percent of GDP). These measures helped to contain the deficit of the Central Government at 3 percent of GDP (2.2 percent in structural terms) in 2015. The Non-financial Public Sector deficit reached an estimated 3.4 percent of GDP in 2015, as municipal and departmental governments stepped up spending and ran small deficits.

12. **External debt has risen in recent years, driven by the larger fiscal deficits and the depreciation effect on foreign currency denominated debt.** Gross public debt fluctuated between 30 and 40 percent of GDP for much of the last decade, before increasing to 44.2 percent of GDP in 2014 and 50.6 percent in 2015 in the wake of the oil price decline and the peso depreciation (Figure 2). Private external debt was also affected by the depreciation, increasing by 4 percent of GDP between 2014 and 2015. Total external debt reached 37.9 percent of GDP by end-2015, with public debt accounting for about two-thirds of it (Figure 3).

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

13. **Colombia is expected to experience a gradual but steady recovery starting in 2017.** The reduction in exports due to low oil prices will continue to weigh on growth in the short term. The Government's expenditure rationalization and higher interest rates will keep investment demand tamed, but the 4G infrastructure program will support investment recovery in late 2017 and 2018. A successful conclusion of the peace process could provide a further boost to economic activity over the projection period. Structural reforms to support competitiveness and diversification would help the recovery accelerate over the medium term. As a result, growth is expected to recover from 2 percent in 2016 to 3.0 percent in 2017 and 3.5 percent in 2018.

14. **The current account will gradually improve.** In the short term, improvements in the current account deficit will come from further import compression, although a gradual and lagged export response in non-traditional exports is expected over the projection period, especially in manufacturing

and agricultural products. The current account deficit is expected to be primarily financed by net FDI and portfolio inflows, with the gap being filled with external financing. Colombia also continues to have access to a precautionary Flexible Credit Line (FCL) arrangement with the International Monetary Fund (IMF), which encompasses about US\$11.5 billion in contingent financing.

15. **Inflationary pressures will subside towards the end of 2016.** Price increases will begin to slow down in response to three factors: (i) the interest rate hikes; (ii) the end of the El Niño-induced drought; and (iii) the stabilization of the exchange rate. It is expected that inflation will remain above the Central Bank's target range in 2016, and that it will converge towards 4 percent by the end of 2017. The Central Bank will continue its strong commitment to price stabilization and act as needed.

Table 1: Colombia: Key Macroeconomic Indicators, 2012-2018

	2012	2013	2014	Est. 2015	Proj. 2016	2017	2018
Real sector	Annual percentage change, unless otherwise indicated						
Real GDP	4.0	4.9	4.4	3.1	2.0	3.0	3.5
Contributions:							
Consumption	3.9	3.7	3.5	3.0	1.7	2.2	2.6
Investment	1.3	1.8	2.7	0.8	-0.1	0.7	0.9
Net exports	-1.4	-0.7	-2.4	-1.2	0.4	0.2	-0.1
Unemployment rate (nat. def.)	10.4	9.6	9.1	8.9			
GDP deflator	3.0	2.0	2.1	2.6	3.7	3.6	3.3
CPI (average)	3.2	2.0	2.9	5.0	7.5	4.8	3.2
Fiscal accounts (Central Government)							
Revenues	16.1	16.9	16.6	16.2	14.9	15.5	16.0
Expenditures	18.4	19.2	19.1	19.1	18.8	18.8	18.7
Fiscal balance (CG)	-2.3	-2.3	-2.4	-2.9	-3.9	-3.3	-2.7
Fiscal accounts (Non-Financial Public Sector)	Percent of GDP, unless otherwise indicated						
Revenues	28.3	28.1	27.7	26.7	26.4	26.6	27.0
Expenditures	28.2	29.1	29.4	30.1	29.0	29.2	29.5
Fiscal balance (NFPS)	0.1	-1.0	-1.7	-3.4	-2.6	-2.6	-2.5
Gross public debt*	34.1	37.8	44.2	50.6	50.2	49.8	48.9
Selected monetary accounts	Annual percentage change, unless otherwise indicated						
Base money	10.0	15.3	7.0	18.4			
Credit to private sector	16.3	12.1	14.7	15.5			
Policy interest rate	4.25	3.25	4.50	5.75			
External sector	Percent of GDP, unless otherwise indicated						
Current account balance	-3.1	-3.2	-5.2	-6.5	-5.5	-5.0	-4.5
Imports GNFS (% change, real)	9.1	6.0	7.8	3.9	-1.5	0.8	2.3
Exports GNFS (% change, real)	6.0	5.2	-1.3	-0.7	0.0	2.5	3.6
Foreign direct investment (net)	4.2	2.3	3.3	2.7	4.1	3.0	2.9
Gross reserves (US\$ billion, eop)	37.5	43.6	47.3	46.7			
In months of next year's imports	6.4	7.0	9.2	10.5			
As % of short-term external debt	363	362	331	320			
External debt	21.3	24.2	26.8	37.9			
Terms of trade (% change)	3.1	-2.0	-3.4	-16.9			
Exchange rate (COP/US\$, average)	1,798	1,869	2,000	2,744			
Memo items							
Nominal GDP (US\$ million, current)	369,385	380,169	378,624	291,592	268,919	279,538	298,352
Nominal GDP (COP billion, current)	664,240	710,497	757,506	800,849	847,095	898,156	958,605
Oil production (hundred thousand barrels/day)	944	1,010	990	1,004	921	913	908
Oil price (Brent spot price, US\$/barrel)	112.0	108.9	98.9	52.4	39.7	53.2	59.9

*Includes Ecopetrol. Source: Banco de la Republica, MHCP, Departamento Administrativo Nacional de Estadísticas (DANE), IMF and World Bank staff estimates.

Table 2: Colombia: Key Fiscal Indicators, 2012-2018 (Central Government)

	2012	2013	2014	Prelim. 2015	Proj. 2016	2017	2018
Total revenues	16.1	16.9	16.6	16.2	14.9	15.5	16.0
Tax revenues	14.3	14.2	14.3	14.5	14.1	14.8	15.4
Net income tax and profits	6.6	6.3	5.0	4.6	4.3	4.4	4.7
Value-added tax	5.5	4.9	5.1	5.2	5.4	5.8	6.0
International trade	0.5	0.5	0.5	0.5	0.4	0.4	0.5
Financial transactions tax	0.8	0.8	0.9	0.9	0.8	0.8	0.8
Stamp and other taxes	1.0	1.6	2.8	3.3	3.2	3.4	3.4
Non-tax revenues	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Capital revenues	1.6	2.5	2.2	1.6	0.7	0.6	0.5
o/w Ecopetrol dividends	1.1	1.9	1.4	0.5	0.1	0.0	0.0
Total expenditures	18.4	19.2	19.1	19.1	18.8	18.8	18.7
Current expenditures	14.5	14.6	14.8	15.1	15.6	15.7	15.4
Wages and salaries	2.1	2.1	2.3	2.3	2.4	2.4	2.3
Goods and services	0.8	0.9	0.8	0.8	0.7	0.6	0.5
Interest	2.4	2.3	2.2	2.6	3.2	3.2	3.1
Current transfers	8.7	9.2	9.4	9.4	9.4	9.4	9.5
Other	0.5	0.1	0.0	0.0	0.0	0.0	0.0
Capital expenditures	3.9	4.5	4.3	4.0	3.2	3.1	3.3
Fixed capital formation	2.8	3.2	3.0	2.7	1.8	1.5	1.8
Capital transfers	1.1	1.3	1.3	1.3	1.4	1.6	1.5
Primary balance	0.1	0.0	-0.2	-0.3	-0.7	0.0	0.4
Overall fiscal balance	-2.3	-2.3	-2.4	-2.9	-3.9	-3.3	-2.7
Financing needs	6.5	5.7	7.1	7.5	7.7	6.7	5.5
Overall fiscal balance	2.3	2.3	2.4	2.9	3.9	3.3	2.7
Amortizations	3.0	2.8	2.9	3.3	2.0	2.4	2.3
Other*	1.2	0.6	1.7	1.3	1.8	1.0	0.5
Memo items							
Non-oil Central Government tax revenue	12.7	12.7	13.1	13.9	14.1	14.5	14.8
NFPS revenues	28.3	28.1	27.7	26.7	26.4	26.6	27.0
NFPS expenditure	28.2	29.1	29.4	30.1	29.0	29.2	29.5
Non-financial Public Sector (NFPS) balance	0.1	-1.0	-1.7	-3.4	-2.6	-2.6	-2.5

* Includes arrears, judicial claims, and savings. ^As defined by the Fiscal Rule which became effective in 2012.

Source: Ministerio de Hacienda y Crédito Público, IMF and Bank staff estimates.

Table 3: BOP Financing Requirements and Sources, 2013-2018

	2013	2014	2015	2016	2017	2018
Financing requirements	35,854	45,587	42,858	38,739	41,783	39,288
Current account deficit	12,326	19,593	18,925	14,893	13,931	13,419
External debt amortization	16,582	21,557	23,518	23,732	27,910	25,869
Medium and long term	6,272	9,584	9,278	9,162	12,470	10,115
Short term	10,310	11,973	14,240	14,570	15,440	15,754
Gross reserve accumulation	6,946	4,437	415	114	-58	0
Financing sources	35,854	45,587	42,858	38,739	41,783	39,288
FDI (net)	8,557	12,426	7,891	10,921	8,424	8,670
External debt disbursements	29,173	31,190	32,531	29,805	34,913	31,211
Medium and long term	17,200	16,950	17,960	14,365	19,159	16,183
Short term	11,973	14,240	14,570	15,440	15,754	15,027
Other capital flows (net)	-1,876	1,971	2,436	-1,987	-1,554	-593

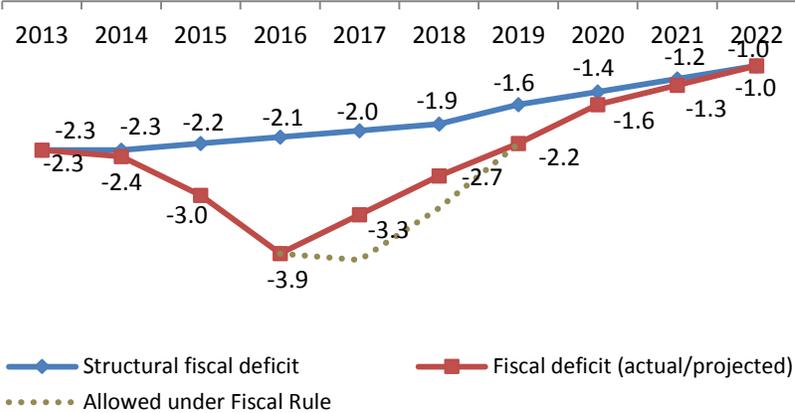
Source: Banco de la Republica, MHCP, IMF and World Bank staff estimates.

16. **The Fiscal Rule will continue to anchor fiscal policy, but additional fiscal measures to comply with it are necessary.** The Government has introduced another set of measures to improve revenue mobilization and reduce expenditures beginning in 2016. These include efforts to reduce tax evasion.¹¹ It also started implementing a reduction of COP 6 trillion (0.7 percent of GDP) in the 2016 budget envelope.

¹¹ Mainly through the enactment of the Anti-Contraband Law and the implementation of VAT electronic invoicing.

This includes a 2.5 and 2 percent reduction in the wage bill and general expenditures compared to the approved budget (the former are wage containment measures since the aggregate spending in this line item is slightly higher than in 2015). These measures, which are supported by the Fiscal Sustainability and Competitiveness DPF series, will help the Central Government meet the deficit target of 3.9 percent of GDP in 2016 (2.1 percent in structural terms). However, further fiscal consolidation efforts will be needed over the next 2-3 years, particularly on the revenue side, to ensure continued compliance with the Fiscal Rule, which requires a reduction in the fiscal deficit by 2.9 percent of GDP (1.1 percent in structural terms) between 2016 and 2022 (Figure 4). While the Government is expected to continue to control and rationalize expenditures, as needed, improving revenue collection is critical, especially considering the fiscal costs of the unfolding peace process and the need to maintain a healthy level of public infrastructure investments. The tax reform proposal that was submitted to Congress on October 19, 2016 includes reforms to the personal and corporate income taxes, the VAT, and selected excise and subnational taxes, among others. The Government estimates that the reform proposal would generate 0.8 percent of GDP in additional revenues for the Central Government in 2017, to increase to 2.7 percent of GDP by 2022. These estimates are reflected in the macroeconomic and fiscal projections presented in Tables 1 and 2.

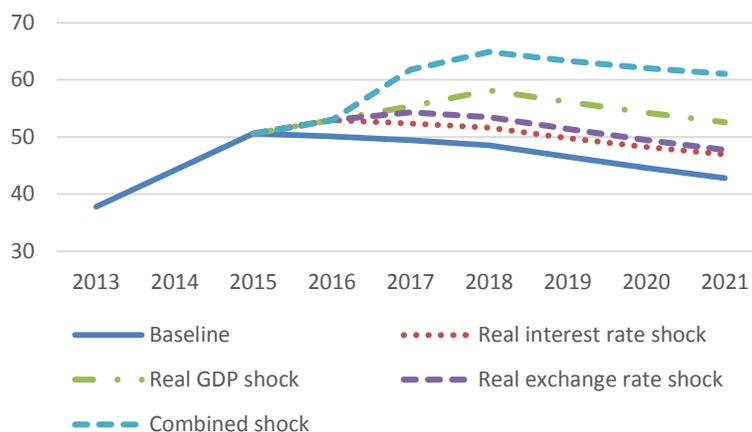
Figure 4: Adjustment path under the Fiscal Rule (2013-2022)



Source: MHCP.

17. **The debt sustainability analysis indicates that public debt is expected to peak in 2015 and to follow a declining path thereafter in the baseline case and in the alternative scenarios.** In the baseline scenario, the public debt-to-GDP ratio is projected to remain around 50 percent in 2016 and then decline gradually, from 50.6 percent of GDP in 2015 to 45 percent in 2020. Because a large share of public debt is in local currency and on fixed terms, shocks to the interest (to maximum historical levels) and exchange rates (24 percent real devaluation) have a modest impact on the debt trajectory, with public debt initially increasing to 52.7 percent and 54.6 percent of GDP before falling to 48.6 and 49.8 percent, respectively, by 2020. Lower GDP growth in 2017 and 2018, equivalent to half of the projected rate, would lead to an increase in public debt to 58.5 percent of GDP by 2018. A combined macro-fiscal shock could push public debt up to 65.4 percent of GDP in 2018, before declining to 62.4 percent by the end of the projection period. On the other hand, if historical growth and fiscal trends continued, public debt would decline more rapidly than under the baseline scenario. These results suggest that public debt sustainability is resilient to a range of different shocks, and that debt levels would return to below 50 percent of GDP during the projection period (Figure 5).

Figure 5: Debt Sustainability Analysis (public debt, % of GDP)



Source: World Bank staff estimates

18. **The risks to the economic outlook stem from both external and domestic factors.** Despite the emerging signs of a recovery in manufacturing exports, Colombian exports remain sensitive to oil price developments. It is estimated that a decline in the oil price to US\$25 a barrel, combined with a 10 percent decline in volumes, would result in a reduction in the value of exports of 35 percent.¹² In addition, further actions toward monetary policy normalization in the United States in late 2016 and 2017 will continue to generate volatility for emerging economies in capital markets, which can affect oil-exporting economies like Colombia. While Colombia has maintained its investment grade rating, market perceptions of Colombia’s sovereign risk have deteriorated since the beginning of the oil price fall (Standard and Poor’s downgraded its outlook to negative in February, and Fitch followed in July 2016). A significant reduction in FDI or portfolio investment could increase balance of payments pressures. The approval of the structural tax reform will be important to manage macroeconomic risks. Failure to approve the reform would result in further expenditure cuts, the brunt of which would be borne by public investment, thus affecting medium-term growth. It would also jeopardize compliance with the Fiscal Rule, which would negatively affect market confidence. Domestically, the needed fiscal and monetary tightening may dampen economic activity more than expected, and thus continued implementation of structural reforms will be needed to create conditions for steady recovery over the medium term. Reforms to improve productivity and competitiveness are important in this respect. In the short run, the macroeconomic outlook could also be affected by a prolonged impact of the El Niño phenomenon, which has affected agricultural production and driven up food price inflation. Finally, a successful conclusion of the ongoing peace process will be critical; failure to reach an agreement could represent risks to the medium-term growth outlook.

19. **Reasonable macroeconomic buffers, access to international financial markets, and a strong track record in macroeconomic management place Colombia in a strong position to mitigate the potential impact of further economic shocks.** Colombia’s macroeconomic policy framework is sustainable over the medium term and adequate for the proposed operation.

¹² IMF (2016).

2.3 IMF RELATIONS

20. **In June 2016, the IMF Board approved a new precautionary Flexible Credit Line (FCL) for Colombia.** This is a successor arrangement to the 2015 FCL, which was cancelled ahead of its expiry date to accommodate higher access in the face of increased global risk.¹³ The FCL is a two-year arrangement in an amount equivalent to SDR 8.18 billion (about US\$11.5 billion), and is treated by the authorities only as a precautionary measure. The IMF Board's review concluded that Colombia has a track record of very strong policy frameworks and that the authorities are firmly committed to undertaking further initiatives to strengthen the resilience of the economy and boost competitiveness and growth. This view was also reflected in the May 2016 Article IV staff report, which acknowledges the role of the Government's monetary and fiscal tightening efforts, the soundness of the financial system and the resilience of corporate and household balance sheets in the smooth adjustment, while also recognizing the downside risks to the outlook. The IMF and World Bank teams maintain close collaboration on the monitoring of the macroeconomic framework and support to structural reforms to sustain growth.

3. THE GOVERNMENT'S PROGRAM

21. **Integrated territorial development is a top priority for Colombia.** The 2014-2018 National Development Plan (NDP), "*Todos por un Nuevo País*" ("Everyone for a New Country") proposes a new territorial development approach to reduce the large territorial imbalances, including, for the first time, territorial targets for reducing disparities in living standards. The NDP is structured as a matrix with three main pillars: (i) Colombia at peace; (ii) equitable Colombia without extreme poverty; and (iii) Colombia, the best educated; and five cross-cutting strategies: (a) competitiveness and strategic infrastructure; (b) social mobility; (c) transformation of rural areas; (d) security, justice and democracy for peace building; and (e) good government.¹⁴ For the first time, specific objectives geared at reducing the largest gaps between each region and the national average are included under each pillar (see annex 9). This territorial approach is aligned with the GoC's efforts towards accession to the Organisation for Economic Co-operation and Development (OECD) that was initiated in 2013 and follows the OECD's recommendations (see Annex 8 for a summary of the OECD territorial review).

22. **The Government has put forward a comprehensive program of reforms.** With support from the World Bank and other development partners, the *Misión del Sistema de Ciudades* and *Misión para la Transformación del Campo*¹⁵ led comprehensive reviews of the recent trends and key constraints in urban and rural areas. Both exercises emphasized the importance of moving beyond the traditional rural-urban classification typically used in planning instruments towards a classification that recognizes the diversity of the territory. For this goal to be achieved, a robust, up-to-date and systematic land information and management system is required. The new system should serve as the basis for large-scale land formalization, particularly for rural and conflict-prone areas. These findings are being integrated into a Territorial and Land Use Planning General Policy (*Política General de Ordenamiento Territorial, PGOT*) that is currently under development. The PGOT will shape medium- and long term strategic land use policy, with the main objective of achieving territorial convergence in access to services and infrastructure. The NDP also calls for the creation of a new rural framework to address structural challenges of the sector,

¹³ Colombia has had access to FCL arrangements since 2009, renewed every 2 years.

¹⁴ The NDP is the document that provides strategic guidelines for public policies formulated by the President of Colombia. The NDP 2014-2018 was approved and published in June 2015 (see Ley 1753 of 2015 at *Diario Oficial* of June 9, 2015).

¹⁵ The *Misión para el Sistema de Ciudades* was a high-level initiative launched in 2012 to define a national urban policy toward 2035. The *Misión para la Transformación del Campo* aimed to better understand the challenges of rural development.

while also enabling the peace building development agenda. To achieve this goal, the GoC has reformed the main institution responsible for the execution of rural projects creating in its place specialized institutions with clear mandates, adequate staff and budgets. In sum, the GoC is seeking to transform the set of policies and institutions that help to determine how key resources such as land and investments are planned, prioritized and/or executed. The overarching objective is to move away from the sector-specific bias and the urban vs rural dichotomy, and towards integration amongst sectors, coordination amongst levels of government and efficiency in the execution of scarce public resources.

23. The Government's program includes key reforms to strengthen critical public sector functions at the subnational level. Over the last two decades, SNGs have taken on important expenditure responsibilities. From 1995 to 2010, the share of subnational expenditures as a percentage of total expenditures went from 18.5 to 29 percent.¹⁶ The General Revenue-Sharing System (*Sistema General de Participaciones*, SGP) has led to the deepening of the decentralization process by expanding the coverage of education and health services, while also contributing to better subnational planning and efficiency. The new General Royalties System (*Sistema General de Regalías*, SGR) created a framework conducive to better regional equality and better management of resources.¹⁷ Currently, the National Planning Department (*Departamento Nacional de Planeación*, DNP) is developing an integrated national public investment platform, which aims to enhance transparency and efficiency in the use of the investment funds by consolidating the existing mechanisms for managing project investment under one common system.¹⁸ The Government also has an explicit program to enhance key public sector management processes at the subnational level. These include public accounting, budget and procurement reforms that are intimately linked to the capacity to increase the efficiency and effectiveness of public investment projects and programs. The Government is also improving the quality of the regional fiscal information through the Single Territorial Form (*Formulario Único Territorial*, FUT)¹⁹. All these initiatives are in line with the OECD recommendations to improve the quality of regional fiscal and budget information to allow for a more efficient allocation of resources based on regional needs, risks, and gaps.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

24. The reforms supported by this DPF are closely linked with the strategic priorities set by the 2014-2018 NDP. The proposed operation will help achieve the national development goals of narrowing the gaps in living standards across regions by supporting a set of reforms at the national and subnational levels that will enable: improved land management and strengthened property rights; integrated planning and prioritization of investments; increased investments in rural areas; enhanced management of public investments; and increased fiscal resources at the subnational level. Annex 9 provides a summary of the links between the Government program and this operation.

¹⁶ World Bank (2014:81). *Colombia Policy Notes: Towards Sustainable Peace, Poverty Eradication and Shared Prosperity*. Washington, DC: World Bank.

¹⁷ Law 1530 (2012) revised the royalties system to provide more equity in the distribution of revenues from natural resources.

¹⁸ The design of the platform has been financed by a loan from the Inter-American Development Bank, the "Program to Strengthen the Public Investment System" (Co-L1126).

¹⁹ The FUT is the GoC's main instrument for collecting fiscal and budgetary information from subnational governments. This fiscal information is the basis for major internal and external reporting, calculations for fiscal position in the country and fiscal risks, and it is used for resource allocation and regional policymaking.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

25. **At the national level, there are four main challenges in the *institutions*²⁰ for integrated territorial development.** First, is the lack of robust and accurate information representing the existing territorial assets (e.g. land tenure, ownership, use, accessibility), and the necessary institutional set up to manage this information. This deficiency impedes effective land use planning and the implementation of infrastructure investments, in particular for much needed initiatives to promote the productive use of rural land. Furthermore, it limits the ability to accurately determine property rights, prevents the development of well-functioning land markets and opens the doors to speculation and land grabbing, which can intensify sources of conflict. Fiscal and budget information is also incomplete and un-systematized, and the institutional processes associated with its collection burdensome, thus complicating decision-making and preventing the resource allocation of regional investment projects and programs. Second, the weak institutional structure and limited presence of the National Government in rural areas has, for a long time, contributed to the widening gap in standards of living across territories and in particular, between urban and rural areas. Third, the absence of a framework for integrated multi-level territorial planning and investment prioritization limits activities' development objectives to the municipal boundaries, and sometimes even to the urban areas, thereby limiting the potential for rural-urban linkages that can promote regional growth. Fourth, the institutional processes involved in key functions related to the design, execution and evaluation of public investment (e.g. budgeting, accounting, public procurement) are fragmented, duplicated or incomplete, and their lack of adherence to international standards severely affecting the efficiency and effectiveness of resources flowing to the regions.

26. **The program of reforms supported by the proposed DPF reflects two critical building blocks to advance towards integrated territorial development by strengthening: (1) the underlying territorial development framework, and (2) subnational governments' capacity to implement the territorial framework.** Recognizing the multilevel nature of territorial development and the importance of more balanced territorial development for current growth and peace building strategies, the GoC is taking actions at several levels. First, at the national level, it is building a new institutional framework, strengthening policies and institutions and providing the necessary enabling legal environment for its implementation. These policy actions are included in Pillar 1. Second, it is empowering SNGs to operationalize this framework by enhancing the available instruments to facilitate better management of local and regional resources. These policy actions are included in Pillar 2.

PILLAR 1: STRENGTHEN INSTITUTIONS FOR LAND MANAGEMENT AND TERRITORIAL PLANNING

- ***Multi-Purpose Property Cadastre Policy***

Prior Action 1: The Government has approved a comprehensive property cadastre policy, which: i) Re-defines the roles and responsibilities of institutions and levels of government to separate regulatory and implementation responsibilities; ii) Defines standards and methodologies for surveying, recording, and valuation of properties to transform the fiscal cadastre into a multiple-purpose one; and iii) Mandates the updating of cadastral information of all the land parcels in Colombia.

²⁰ *Institutions*, defined in the WDR 2008 as all policies that are spatially blind, i.e. designed without specific places in mind, are the bedrock of balanced territorial development.

27. **The current state of the property cadastre represents a key constraint to integrated territorial development.** It has been widely documented that Colombia's land resources are under-utilized and inequitably distributed, incurring in significant costs for society through unrealized agricultural growth potential, environmental degradation, poverty, conflict and social dislocation. The lack of complete land records in rural areas further complicates any effort to address such challenges. There is no cadastral record for 26 percent of the total rural land and 66.5 percent of the plots for which cadastral information exists have information that is outdated by five years or more. Given that most municipalities rely heavily on the property taxes as an own revenue source, the lack of an updated cadastre represents a key challenge to provide SNGs with the fiscal space to carry out local capital investment projects and decrease their dependence on central transfers.

28. **Similar to other countries in the region, the land administration system is a dual system.** Physical characteristics of land parcels are recorded in the cadastre maps and information systems under the Geographic Institute Agustín Codazzi (IGAC), and information on tenure, ownership and transactions is recorded in the property registry, under the Superintendent of Notaries and Registries (SNR). These two land information systems are not harmonized, limiting formalization and the efficiency and reliability of property transactions. Information is not systematized (there are no unique standards for cadastral surveying), cartography is outdated and lacks the required scale for planning and prioritization of investments. Moreover, since cadastral data have traditionally been used solely for tax collection purposes, important information for planning and prioritization of investments is currently lacking (such as land use, accessible infrastructure, and ownership). Improved territorial development requires, as a first step, building an integrated land administration system, where cadastre and registry data are consistent and up to date, and include a complete record of the territory.

29. **The new national property cadastre policy provides the enabling conditions for the design, implementation, use, and maintenance of a multi-purpose cadastre for the first time.** The NDP mandates the creation of a multi-purpose cadastre system to guarantee full alignment between physical and legal records and to provide a complete record of all parcels in the country and recommends the creation of a National Land Management System with the national cadastre and property registry information as main inputs. The policy document for the adoption of a multi-purpose cadastre (CONPES Document 3859, 2016)²¹ further defines the specific objectives of the new policy, namely to design and establish within a ten year period (2016-2025) a multi-purpose cadastral system that will: (i) adequately characterize the physical conditions of the territory under a systematized and standard methodology, (ii) guarantee the full alignment between physical and legal property information, (iii) document and record market-related land values to enable functional land markets, and (iv) incorporate provisions to ensure technical, financial and institutional sustainability in the long term.

30. **The new policy entails strengthening of institutional arrangements of cadastral functions.** Currently, IGAC, officially mapped to the National Administrative Statistics Department, serves as head of the cadastre system, sets the standards and is responsible for their implementation at the national level in urban and rural areas, with the exception of the decentralized cadastrals of Bogotá, Medellín, and Cali, and the Department of Antioquia. The current institutional setup has several shortcomings: (i) potential

²¹ The National Council for Economic and Social Policy (CONPES) is a governmental advisory body responsible for setting Colombia's policies on economic and social development. The CONPES is presided by the President and integrated by all sectorial ministries. A CONPES document is the result of the deliberative process and decisions adopted by the council and generally provides direct executive orders to create reform, conduct policies and/or programs and public investment plans and set the basis upon which the national budget is presented to Congress for the specific subject.

conflict of interest for IGAC to act as both the policy body and implementation agency, (ii) lack of a consolidated land-related database that incorporates information compiled by multiple government agencies, resulting in fragmentation, increased costs and diseconomies of scale, and (iii) lack of clarity over the role of SNGs in terms of updating and financing cadastral information. The new policy calls for an institutional reform whereby IGAC will be formally mapped to DNP, and will become mainly a policy body setting standards with enforcement capabilities. Over time, SNGs and the private sector will increasingly take the lead on the implementation and operation of local cadastres while IGAC maintains oversight and information at aggregate level. Given the ambitious goals and the lack of recent precedent, eleven cadastre pilots in an equal number of municipalities will be carried out to inform the implementation arrangements that will be rolled out throughout the country between 2016 and 2025.

31. **Improved cadastral records are expected to yield important benefits.** They will enable large scale formalization of tenure²² and provide key inputs for regional investment prioritization. They will allow for better targeting of rural development initiatives.²³ Finally, they will contribute to raising SNGs' own-source revenues. In addition, by facilitating collection of environmental and natural resource data, updated cartographic information, standardized use of cartographic scale, and more comprehensive and precise information on the boundaries of protected areas, natural resources, and high risk areas, this Prior Action will bring about climate change co-benefits in terms of climate change adaptation. Annex 7 provides further details about the challenges of the Colombian cadastral system and the scope of the multi-purpose cadastre policy reforms.

32. **Indicative Triggers & Expected Results. (1)** *The Government has submitted for parliamentary approval the national legislation (Ley del Estatuto Catastral) defining the technical, institutional and financial standards for the multi-purpose cadastre.* It is expected that by late-2017 the GoC, through IGAC, will finalize the national legislation which will guide the operationalization of the national cadastre, including the technical specifications, institutional roles and responsibilities, and the rules for the system's long-term financial sustainability. The Statute will also formalize the institutional reform whereby IGAC will act as the main land administration policy body, set the standards, and provide enforcement. The new institutional arrangements will include provisions about the roles and responsibilities of SNGs and the private sector. Additionally, significant progress in bridging the gap between geographic (cadastral) and legal (property registry) information is expected to be made through the approval of the Decree for Rectification of Areas and Borders.²⁴ Expected results: improved cadastral records.

33. **(2)** *The Government has approved the policy framework for delegating to subnational governments key functions and responsibilities for land management.* This framework will be established as part of the National Program for the Delegation of Functions (*Programa Nacional de Delegación de Competencias Diferenciadas*, PNCD). The PNCD was established in Article 180 of the NDP 2014-2018 to delegate key functions and responsibilities from the national government to SNGs and other public territorial entities, aiming to ensure a more efficient delivery of public services. This delegation will take

²² Colombian regulation recognizes different typologies of land tenure informality (for example in public vs. private land, or if informal transactions have occurred or not). Different legal frameworks, procedures, instruments exist to address each typology. In this document, the term formalization includes all the steps and procedures to obtain a registered land title and ensure legal certainty of property rights for all typologies.

²³ Such as the current scheme of subsidies for access to land for small agricultural landowners and the special framework for public land (whereby the State allows the use of public land for small agricultural workers for productive purposes).

²⁴ The Decree will allow the validation of borders between neighbors through administrative acts, serving as the basis for legal changes in the cadastre and property registry. This will allow for the standardization of land tenure information, enables faster property regularization processes, and a more consistent relationship between cadastral and property registry data.

place provided that the administration requesting it meets the financial, technical, regulatory and institutional criteria established. The delegation is expected to be formalized through an administrative agreement. Progress will be monitored and evaluated by the national government and a negative evaluation could result in the revocation of the delegation. The functions that can be delegated, as defined by the NDP, include the development, updating, and maintenance of decentralized multipurpose cadastres in municipalities with population above 500,000. Expected results: systematic process for delegation of key land management functions and responsibilities to SNGs in place and fully operational.

- ***New institutional set-up to improve rural and land administration***

34. **Today, rural Colombians are poorer, have lower access to basic services, more limited access to productive assets, lower capacity to generate income, and deeper gender disparities relative to the urban population.** Only 36 percent of rural households have formal access to land, and in most cases, the size of their parcels is too small for production to be sustainable. Agricultural land is highly concentrated; 70 percent of agricultural productive units have less than 5 hectares and occupy less than 5 percent of the total area included in the census, while 0.4 percent of the units have more than 500 hectares, representing 40 percent of the area.²⁵ The high concentration of land is evidenced in a Gini coefficient of around 0.8-0.9. Further, over 60 percent of rural parcels are informal, and almost half of municipalities have less than 50 percent of their rural land owners formally registered.

35. **Three constraints have perpetuated the conditions found in rural areas: (i) limited and unreliable data for rural land management; (ii) high informality; and (iii) disarticulated sectoral interventions for rural development.** The lack of a complete and accurate inventory of all land territory has limited the ability of the government to manage public land and allocate it to the most appropriate uses or to the most in need.²⁶ The GoC has taken important steps since 1960 towards the distribution of public lands, yet there are still 60,000 pending requests.²⁷ High informality and limited availability of public and transparent information on land transactions has exacerbated the challenges and further constrained the development of a well-functioning rural land market. Finally, disarticulated interventions across sectors, with over twelve ministries leading independent actions and programs in rural areas, have led to fragmented projects that have little impact on rural productivity and quality of life of rural households, while also having high operating costs.

36. **Reforming the institutional framework for rural development was necessary to allow for better-coordinated and more effective government intervention.** The reform limits the role of the MADR to the formulation, monitoring and guidance of agricultural and rural development policy, while direct execution of investment projects will become the responsibility of new agencies thereby clarifying the roles and incentives. Importantly, within the MADR, a new Directorate has been created (*Dirección de la Mujer Rural* created under Decree 2369, December 2015) which will be responsible for the design, formulation and evaluation of gender-informed programs. Specifically it will help to address the main challenges faced by rural women in Colombia, namely unequal access to land, limited access to technical assistance, and financing constraints for rural production.

²⁵ Censo Nacional Agropecuario 2014.

²⁶ A study by IGAC suggests that while 13 percent of the land is being underutilized when considering its environmental characteristics and productive potential, up to 15.6 percent of land is being over exploited.

²⁷ Over 19 million hectares have been given to over 500,000 thousand households between 1960 and 2012. Censo Nacional Agropecuario 2014.

Prior Action 2: The Government has established the institutional framework to, inter alia: (i) implement access-to-land programs for rural productivity and equity, and (ii) support the process for rural land formalization, through the creation of the National Land Agency (ANT).

37. **The creation of the National Land Agency (*Agencia Nacional de Tierras, ANT*), centralizes the inventory and management of state-owned land.** The establishment of the ANT addresses some of the main challenges of INCODER, namely, lack of capacity, lack of mandate to build a consolidated information system for land management, and absence of a role in formalization of private rural property. The main objectives of the ANT are to implement rural land policy by supporting large-scale formalization of land rights in rural areas, and to increase access to land for the rural poor/vulnerable through access-to-land programs. Together with IGAC and SNR, and using the multi-purpose cadastre as key input, the ANT will contribute to building and facilitating public access to information needed to build understanding of rural land markets, and become the main institution responsible for managing and administering public land. With the creation of the ANT, Colombia will have for the first time in its history an institutional authority guiding the process of land tenure formalization for private lands and for managing land funds. This will include those that may be created for the administration of recovered parcels resulting from judicial or administrative forfeiture, the conveyance of private lands by the state, the recovery of unlawfully occupied public land, and the constitution of land reserves.²⁸ By creating the conditions for improved rural and land management, and facilitating land access for the rural poor,²⁹ the ANT will support the peace consolidation process, addressing some of the main sources of conflict.

38. **Indicative Trigger & Expected Results.** *The Government has approved the regulatory framework for expedited resolution of land disputes.* Currently the rural property formalization initiatives are disperse, costly, and time consuming. The new regulatory framework will allow massive systematic formalization and create an expedited process for extra-judicial dispute resolution for cases that may be simple to resolve and would not require a full judicial process. The new framework will provide the systematic linkage of property registration to the new multipurpose cadastre, i.e. making cadastral information valid for registration purposes. Expected results: strengthened institutional and regulatory framework for access to land and formalization processes in place and fully operational.³⁰

Prior Action 3: The Government has strengthened the institutional framework for rural development through the creation of the Rural Development Agency (ADR), which will plan, structure, co-finance, and implement rural development projects.

39. **The establishment of the Rural Development Agency (*Agencia de Desarrollo Rural, ADR*) will contribute to a more effective use of resources and a better-integrated approach to rural development.** The limited articulation between ministries and other national entities that execute projects in rural areas has led to fragmented and ineffective interventions in the territory. Private operators executing fragmented projects for rural development contracted by MADR represent 47 percent of the total

²⁸ This process is regulated through Law 160 of 1994. The ANT will be taking on these programs.

²⁹ Colombia has a long tradition of regulation supporting the protection of women, indigenous, and other ethnical minorities land rights (e.g. Law 160 of 1994 art: 12, 24, 40, 85, 86, 87; Law 21 of 1991; art 13, 14-19). Law 160 of 1994 and civil law makes mandatory to provide the property title to both members of the couple, even in cases of informal/common law marriage.

³⁰ Colombian regulation recognizes different typologies of land tenure informality. Different legal frameworks, procedures, and instruments exist to address each typology. In this document, the term formalization includes all the steps and procedures to obtain a registered land title and ensure legal certainty of property rights for all typologies.

operational expenses of the agricultural sector -- or 20 percent³¹ of all the resources assigned to the sector. The creation of the ADR provides an opportunity to align the efforts of the different public institutions and coordinate the implementation of integrated rural development projects. The ADR will execute rural and agricultural policies with a territorial focus and consistent with the policy and strategic vision defined by the MADR. In addition, the ADR will structure, co-finance and implement agricultural and rural plans and projects at the national and regional levels. In particular, it will support capacity building at the local level for the planning, design, implementation and monitoring of agricultural and rural development programs and projects, contributing to the strengthening capacity of territorial entities and local associations.³² The creation of the ADR will contribute to improve planning and project prioritization as well as better coordinated investments for rural development. In addition, it is expected to provide capacity building of rural households through technical assistance programs that are part of a comprehensive rural development project.

40. **Indicative Trigger & Expected Results:** *The Government has approved the regulatory framework for the development of comprehensive territorial rural development plans and projects. These *Proyectos Integrales de Desarrollo Agropecuario y Rural* will include prioritization and formulation criteria as well as institutional roles and duties among sectors and government levels with an emphasis on enhancing coordination. Expected results: strengthened institutional and regulatory framework for integrated rural development in place and fully operational.*

- ***Strengthened Territorial Planning***

Prior Action 4. The Government has approved a new territorial planning policy, which enables: (i) the development of territorial & land-use plans at Departamento-level to foster regional integration, and (ii) the updating of municipal land-use plans under a new methodology that incorporates urban-rural linkages.

41. **Colombia has a long tradition of territorial planning at the local level.** The territorial development law of 1997 (Ley 388/1997) empowered municipalities to plan and regulate land use through the preparation and implementation of Territorial and Land Use Plans (*Planes de Ordenamiento Territorial*, POT). POTs are powerful territorial management instruments that give municipal governments the mandate to integrate spatial and socio-economic characteristics of the territory within their administrative boundaries. Importantly, they guide policies and investments at the local level. POTs demarcate urban and rural areas, define areas for urban expansion, orient the location of future infrastructure, and define the urban management tools and the financing schemes to be used for each intervention, allowing municipalities to align investments with development projections. To ensure that medium- and long-term visions are incorporated into the territorial planning process, POTs are valid for a 12-year period. The first generation of POTs prepared are coming up for renewal this year.³³

³¹ Misión para la Transformación del Campo.

³² To complement the role of the ADR in areas that require special attention given the peace building agenda, the GoC has also created the Territory Renewal Agency (*Agencia de Renovación del Territorio*, ART). The mandate of this new agency is to coordinate the involvement of national and local authorities in prioritized rural areas strongly affected by the armed conflict. The agency will lead the implementation of plans and projects to promote the economic and social revival of these territories, as well as to help build the subnational institutions necessary to foster sustainable development.

³³ POTs are approved by the local municipal council. The guidelines to develop them and the complexity of the sections and analysis to be included vary according to the size of the municipality and the potential complexity of territorial dynamics. Today, 95 percent of the municipalities in Colombia have approved POTs. In this document, POTs refer to all three types of plans.

42. **Shortcomings persist that limit the ability of planning instruments to act as enablers for a more integrated territorial development.** The typical urban–rural dichotomy under which these plans are prepared and the lack of supra-municipal instruments results in the absence of a territorial perspective for land use and investment decisions. Despite the legal framework opening the door for voluntary coordination between municipalities,³⁴ there is no planning instrument at the supra-municipal level to provide regional cohesion in the organization of the territory.

43. **While urban areas have a comprehensive set of tools for planning, managing and financing territorial development, rural areas lack similar instruments.** Only 3 percent of the POTs include a territorial approach that brings together urban and rural areas into land use and investment plans. While some POTs include detailed spatial plans for urban areas (with land use plans and identified infrastructure needs), as well as tools for managing and financing redevelopment (e.g. land value capture instruments), comparable levels of detail are often missing for rural areas and hence instruments for planning and managing are not well developed. This is in part a result of the fact that guidelines for rural land use planning were only regulated in 2015,³⁵ and hence not available when the first generation of POTs was being developed in the early 2000s.

44. **To address these challenges, the GoC approved a new territorial planning policy through the Modern POTs (*POTs Modernos*) Program.** The Program addresses the lack of multi-level planning instruments and promotes better integration between urban and rural land planning through the following reforms: First, the introduction of Departmental Territorial and Land Use Plans (*Plan de Ordenamiento Departamental, PODs*), which will issue territorial planning guidelines at a supra-municipal level for the first time in the country’s history.³⁶ PODs will provide general guidance to POTs and will also allow the identification of projects or sectors where regional coordination is needed and where association between municipalities is essential. Second, at a local level, the introduction of guidelines for the new generation of POTs³⁷ will address shortcomings of earlier POTs in terms of uneven coverage of rural and urban area plans, enabled by recent regulation from 2014/2015 for the planning of rural land³⁸, and mandate the inclusion of risk management considerations³⁹. *POTs Modernos* will also ensure alignment with regional and national development initiatives, allowing for better prioritization of strategic investment projects in the territory. Third, it will provide technical assistance to strengthen municipal capacity to develop POTs, as well as guidelines for institutional coordination arrangements for the review and approval of PODs. In a first phase, the national government will provide support for 89 pilots of PODs and POTs. The POD pilots will inform the development of the regulatory framework for PODs. In addition, the new territorial ordering policy supported by this Prior Action, includes two of the objectives of Colombia's green growth strategy. Better coordinated territorial and land use planning will yield climate change co-benefits in terms of climate change adaptation.

45. **Indicative Trigger & Expected Results.** *The Government has adopted the regulatory framework for the implementation of department-level land use planning (PODs).* This effort will be supported by the

³⁴ The Organic Law governing Territorial Planning in Colombia (LOOT - Law 1454 of 2011), provides the legislative basis for coordination between municipalities, in the form of voluntary associations, to address issues that cross municipal boundaries.

³⁵ Law 388 of 1997 lays out the legal framework for land use planning of both urban and rural areas. However, the Law was only regulated for planning of rural land in 2015, through Decree 1077.

³⁶ Law 1454 of 2011 enables *Departamentos* to develop PODs.

³⁷ Over 80 percent of municipal POTs are due to be updated in the next two years.

³⁸ Decree 1077, of 2015 regulating the planning of rural land.

³⁹ Decree 1907 of 2014 regulating the inclusion of risk management in POTs.

national-level Territorial Development Commission (COT), which will facilitate coordination between all agencies that have mandates on land use management and investments at the territorial level.⁴⁰ The COT will also develop institutional agreements for the formulation of PODs, providing a supra-municipal institutional structure and arrangements for integrated territorial planning at the regional level. Expected results: improved territorial planning at Departmental and municipal levels.

PILLAR 2: IMPROVE SUBNATIONAL FINANCIAL MANAGEMENT AND INVESTMENT PRIORITIZATION

46. **Effective territorial development needs strong management of subnational expenditures.** Lack of quality and timely regional fiscal information, absence of institutional coordination among levels of Government and weak regional public procurement policies have been the main causes for ineffective and inefficient regional investment, creating project atomization, lack of prioritization and swift execution. The Government is setting in motion a new set of policies and institutional changes that tackle these fundamental bottlenecks along four public sector management dimensions to enhance the planning, execution, and monitoring and evaluation capabilities of subnational governments. These reforms are critical to enhance the subnational governments' ability to effectively implement the new territorial development framework. Reforms focus on four areas: i) improving planning and execution of regional investments; ii) improved fiscal reporting by SNG; iii) harmonizing accounting and budget standards; and iv) promoting the adoption of standard investment projects by subnational governments to speed up the design and execution.

- **Improved Planning and Execution of Regional Investments**

Prior Action 5: The Government has adopted a new policy that strengthens the Memoranda of Understanding between national and sub-national governments (Contratos Plan) by: (i) Requiring prioritization of investments with highest impact potential in area of higher needs, (ii) Creating a Regional Fund⁴¹ to speed-up project execution, and (iii) Ensuring co-financing of investments from subnational governments.

47. **Integrated territorial development requires efficient allocation of resources across the territory, and strong coordination amongst institutions.** Strengthening policies and institutions for planning is a key step for fostering integrated territorial development and inclusiveness, but alone cannot ensure that resources are allocated toward higher impact investments. Institutional shortcomings at SNG level and lack of coordination that prevent regional convergence should also be addressed. Lack of coordination among levels of government is worsened by the multiplicity of sources of funding. In the past two decades, Colombia has experienced an important process of decentralization and nowadays the three levels of Government execute funds for different sectors without a clear regulatory framework that clarifies functions and roles. Moreover, funds flowing to the SNG have different sources that are managed under different rules (these include the national budget, SGP and SGR).

⁴⁰ The COT is led by the Minister of Interior, and includes participation from the Ministries of Housing, Environment, Agriculture, the Regional Environment Corporations (CARs), and IGAC. DNP acts as the Technical Secretariat of the COT.

⁴¹ The *Fondo Regional* will support the execution of the *Contratos Plan* and will integrate resources from different sources with the goal of addressing current bottlenecks for the implementation. Most importantly, it will accelerate the transfer of funds to the executing agency and simplify the financial management function. The fund will also allow a much better access to information on the final use of the regional funds, and therefore, stronger results based management and accountability. It is also expected that the new *Contratos Plan* will finance selected POT and PODs.

48. **In order for public investment to help reduce territorial gaps, articulation between the different levels of government is critical.** Voluntary cooperation structures and national government incentives can play a critical role in fostering greater coordination. The *Contratos Plan* or “contract-plans” are the mechanisms the Government created during the last administration as a response to the challenges regarding the coordination in the use of public investment funds between the national and subnational governments.⁴² A *Contrato Plan* is a formal and signed memorandum of understanding (*acuerdo de voluntades*) between the different government levels of a department or region that includes an agreed medium-term program of investments for territorial development to be co-financed by the GoC and SNGs involved as well as other actors like the private sector. Based on the experiences of countries such as France, the Government piloted seven *Contratos Plan* in 9 departments and 272 municipalities. The pilot exercise confirmed the potential of the tool to strengthen decentralization, improve planning and promote regional development. However, the pilots also provided evidence that further improvements are needed, including to the definition of their scope and focus as well as to its operation. Projects included under *Contratos Plan* are currently dispersed and lack the resources and implementation arrangements for their timely execution. Forthcoming reforms to the *Contratos Plan* tool will aim to improve the lack of programmatic vision, dispersion of investment funds, vague scope, weak design and execution of projects, and lack of a monitoring and evaluation framework to provide clear accountability of the funds.

49. **The GoC has reformed *Contratos Plan* in order to increase their regional focus, impact and effectiveness; incorporating lessons from the pilot phase.** The new policy for *Contratos Plan* includes three main new features: (i) focus on specific priority areas based on regional need as defined, among other instruments, by the POT and POD; (ii) stronger governance structure and accountability including the requirement of an approved CONPES document before signing a *Contrato Plan*; and (iii) co-financing requirements for each level of government.⁴³

50. **The new regulation also creates a regional fund (*Fondo Regional*) in order to integrate resources from different sources with the goal of addressing current bottlenecks for the implementation of the contract-plans, but most importantly, be able to execute these projects much faster.** The fund will be managed by the regional development agency FONADE (*Fondo Financiero de Proyectos de Desarrollo*) that is under DNP’s management and will support the execution of the *Contratos Plan* by accelerating the transfer of funds to the executing agency and simplifying the financial management function. In addition, the regional fund will allow a much better access to information on the final use of the regional funds and, therefore, stronger results based management and accountability. Finally, the 2014-2018 NDP calls for the territorial expansion of the instrument. There are seven new agreements under negotiation, and the goal for 2017 is to sign them up.

51. **The new *Contratos Plan* will provide stronger institutional coordination between the GoC and the subnational governments, therefore contributing to increased investment in regional projects and territorial development.** They will also contribute to strengthening public investment management through the availability of clearer targets and program scope. The new *Contratos Plan* will support regional investment projects better aligned to local needs, prioritizing the ones with highest impact potential. In addition, the new Regional Fund will contribute to increasing efficiency by reducing execution time, and consolidating resources to allow stronger results-management and accountability in the use of

⁴² The *Contratos Plan* was further regulated by the 2012 Law 1454 and the Decree 819.

⁴³ CONPES Document 3822, 2014. Available at <https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/3822.pdf>

the fund. Finally, the fund will promote larger leveraging of resources through incentives to co-finance regional investment projects.

52. **Indicative Trigger & Expected Results.** *The Government has adopted the institutional arrangements to operationalize the Regional Fund.* The fund will increase the amount of resources bundled under the instrument, ultimately multiplying the impact of public investments directed at promoting regional convergence. Expected results: improved planning, coordination, prioritization and faster execution of regional investment projects.

- **Improved fiscal reporting by subnational governments**

Prior Action 6: The Government, through the legislature, has enacted Organic Law 1753 which centralized the fiscal risk oversight of subnational governments in the MHCP through the unification of reporting requirements to improve the quality of regional fiscal data.

53. **The GoC has developed a new policy to improve the quality of fiscal and budget information in order to strengthen subnational fiscal control and improve regional policy making, treating the generation and use of territorial information as an *institution* with its own rules, processes, and social purpose.** During the 1990s and because of the fiscal crisis triggered in part by subnational finances, the Government designed a new legal, regulatory and institutional setting to enhance fiscal management and control in the regions.⁴⁴ This new setting has been instrumental in contributing to the overall strong sound macro fiscal management over the last two decades and raising the country's fiscal ratings. Yet, several improvements are pending. The OECD recommends the development of territorial statistics and information systems as well as institutional coordination for data generation and usage in order to improve territorial development and regional policymaking.

54. **The Government has acknowledged the critical importance of good quality and timely territorial data and statistics (e.g. fiscal, budgetary, georeferenced) for the allocation of regional funds' resources, planning, risk management and prioritization.** Through the newly established Inter-sectorial Commission for Public Finance Statistics (*Comisión Intersectorial de Estadísticas de Finanzas Públicas, CIEFP*)⁴⁵ hosted in MHCP, the Government is leading a number of critical initiatives to improve the quality of fiscal data and statistics including the accounting and budget reform and the adherence to international standards. Following this new information policy, the Government is reforming the institutional functioning involved in collecting regional information and simplifying the reporting requirements for SNGs. One of the goals of the 2014-2018 NDP is to reduce the number of reports municipalities have to submit to national government agencies. Subnational governments are legally required to provide the GoC with expenditure

⁴⁴ Colombia experienced a debt crisis in the late 1990s threatening fiscal sustainability. In 1999, a new bankruptcy law (Law 550) focused on private corporations also included provisions for bankruptcy protection procedures for highly indebted SNGs that could not work out a voluntary rescheduling with creditors. In 2000, Congress approved reforms geared toward limiting the growth of transfers and imposing strict budget constraints on SNGs through a subnational insolvency framework and spending limits. These new rules are referred to as the Fiscal Insolvency Framework (*Esquema de Saneamiento Fiscal*) allow the central Government to establish Debt Restructuring Agreements and Fiscal and Financial Performance Agreements with SNGs to correct fiscal imbalances. The new framework heavily relied on having sound fiscal information.

⁴⁵ The Public Finances Statistics Inter sectorial Commission (*Comisión Intersectorial de Estadísticas de Finanzas Públicas, CIEFP*) was established to design policies, strategies and objectives to achieve the harmonization of public financial and fiscal information, and to guarantee the application of consistent and compatible methodologies as well as the adherence to international standards in order to provide the country's policy makers with complete, quality and timely fiscal information. The CIEFP is composed by MHCP, DNP, CGN, DANE and CGR.

information, including on public investment, in order to receive transfers of funds from the center. However, data requests are currently fragmented, lack consistency and transparency, and thus not conducive to greater accountability. Furthermore, complying with reporting requirements demands great efforts from municipal and departmental governments that have often limited capacity to design and implement public investment projects to begin with. A study conducted by the World Bank has highlighted several shortcomings of this process.⁴⁶

55. **The Fiscal Support Directorate (*Dirección de Apoyo Fiscal*, DAF) in the MHCP is in charge of coordinating the process of collecting fiscal information data from SNG, in compliance with the fiscal territorial responsibility legal framework.** The DAF coordinates the process of compiling all the necessary fiscal data at the national and subnational levels through the Single Territorial Form (*Formulario Único Territorial* or FUT), with which it then reports internally and externally on the fiscal position of 1,102 municipalities and 32 *Gobernaciones*. This information is paramount for the Government's preparation of macroeconomic projections and risk calculations, and is also used by policy makers to assess the regional needs as well as to target and plan regional investment.

56. **While the FUT has become a pillar of the new information policy, it still has important shortcomings.** From the institutional point of view, the current set up includes too many actors (MHCP, DNP, CGR, CGN, DANE, Ministry of Interior) that creates a confusing governance structure, making the process inefficient and creating duplications (e.g. the same information is requested from and reported by SNGs more than once and often in different formats). The process is also burdensome, particularly for SNGs that report through the CGN portal (CHIP), which then submits the information to the DAF in MHCP. These shortcomings affect the quality and timeliness of fiscal information.

57. **To address some of these problems, the Government has issued the Decree 1536 that improves and centralizes the FUT's management, and simplifies the process.** The FUT will now serve as the only mechanism for reporting on regional fiscal data, avoiding duplications. It will extend its coverage to other public entities, and include a predefined chronogram that will enhance fiscal monitoring, fiscal reporting, as well as the accountability of all actors involved. An additional decree will clarify the specific institutional roles and responsibilities and the governance structure. Specifically, the MHCP will serve as the new Technical Secretariat, leading all the operational work, and carrying out quality control with their own systems. The DNP will lead the FUT Inter-sectoral Commission, responsible for strategic developments to improve and simplify the FUT and other reports requested to SNG. In addition, DNP will lead the design and implementation of the Integrated Transactional Financial Territorial Information System (*Sistema Integrado y Transaccional de Información Financiera Territorial*), a public financial IT cloud platform where SNGs will upload, and report their fiscal information. The new governance structure and simplified institutional roles are expected to have an immediate effect on the quality of the information reported through the FUT (e.g. data precision, timeliness, coverage) by centralizing and simplifying fiscal data collection. In the medium term, the adoption of the public financial IT cloud platform by SNGs will simplify the overall reporting mechanism, thereby reducing the administrative burden, freeing up resources for them to use for other purposes, and contributing to further quality enhancements.

⁴⁶ At the municipal level alone, municipalities were required to fill out 47 types of reports from 12 different national agencies in 2014. This amounted to a total of 233 reports submitted per year. This information is contained in the World Bank-conducted study on the reporting requirements faced by Colombian municipalities (2016) that was financed through the Programmatic Approach for Public Sector Governance in Colombia (P143384).

58. **Indicative Tigger & Expected Results.** *The Government has issued the guidelines for the adoption of an Integrated Transactional Financial Territorial Information System (Sistema Integrado y Transaccional de Información Financiera Territorial) at the national level that will allow capturing subnational information in real time.* This is expected to lessen the burden of reporting and serve as a tool for internal planning and budgeting at the local level. Expected results: improved quality and timeliness of subnational fiscal information.

- **Harmonized Accounting and Budget Regime across agencies and levels of government**

Prior Action 7: The Government has harmonized the public sector accounting practices to a single national standard regime across government entities, including subnational governments, to be applied on a mandatory basis from January 1, 2017, to enable comparability of data across all sectors and levels of government.

59. **The current public accounting regime is outdated and lags behind the systems in OECD countries and the region.** Lack of harmonization of concepts between accounting and budget is still the major challenge to ensure the quality and timeliness of information. Financial information for fiscal reporting is not integrated (i.e. budget *vis-à-vis* actual spending and investment). Key concepts, such as fixed capital are valued using various methodologies hindering the quality, reliability and timeliness of fiscal statistics. Currently, the registry of actuals requires high level of accounting knowledge - not present at operational level - because of the complexity in accounting methods and lack of harmonization. Given the transformation of information needed, entities generally require around three months to consolidate information, most of which is done manually. These conditions result in poor costing, benchmarking and miss-informed resource allocations, particularly at the regional level.

60. **To reduce this gap, the GoC is leading a number of initiatives to promote the harmonization of the public accounting regime nationwide.** The National General Accounting Office (*Contaduría General de la Nación*, CGN) has made continued progress towards convergence with International Public Sector Accounting Standards (IPSAS) since the adoption of an accrual-based public accounting regime in 2007. Most recently, the CGN has reformed the accounting regime in order to establish three different accounting models, of which one constitutes the regulatory framework for general government entities, in alignment with IPSAS. This model will be mandatory for all budgetary public sector entities, including subnational governments, by January 31, 2017.

61. **Specifically, the GoC aims to harmonize the chart of accounts with the budget classification rules (classifiers) across the national and subnational levels in order to allow for the allocation of resources based on pre-established results and priorities, and to implement results-based budgeting.** The development of a standard accounting system and single chart of accounts is a critical step to reform the budget classification system, which is currently fragmented and lacks consistency. Typically, it also precedes the effective creation of a results-based system. The chart of accounts is not only important for classifying and recording financial transactions; it is critical for effective budget management, including monitoring and reporting on budget execution, costing programs and for effective resource allocation. As expressed by the IMF, the structure of the budget—in particular the budget classification—and the chart of accounts have a *symbiotic* relationship.⁴⁷ The GoC aims to reform its system in order to enable multidimensional reporting and analysis, integrate operating and investment budget targets and results, and improve the comprehensiveness of program classification.

⁴⁷ See “*Chart of Accounts: A Critical Element of the Public Financial Management Framework*”, IMF (2011).

62. **Together with the budget reforms underway, these changes put Colombia on the right path toward being able to integrate public financial information.**⁴⁸ Harmonizing accounting standards with budget programmatic classifiers will improve the comparability, timeliness and quality of fiscal information across government levels. It will also contribute to (i) better resource allocation by facilitating linking funding to results, (ii) proper costing of projects and programs (and thus enabling the costing of public services and products), (iii) benchmarking exercises and strengthening evaluations and accountability of regional projects and programs.

63. **Indicative Trigger & Expected Results.** *The Government has approved a new Chart of Accounts that improves the harmonization between accounting and budget (particularly for investment) as a first step towards full convergence to international accounting and fiscal information standards (IPSAS and IMF's 2014 GFSM) at both the national and subnational levels.* Through an upcoming reform to Decree 568 of 1996, the GoC intends to advance towards the full convergence with IPSAS and the IMF's 2014 Government Finance Statistics Manual (GFSM) for compiling and presenting budgetary information at both the national and subnational levels. Expected results: improved comparability, timeliness and quality of fiscal information across sectors and levels of government.

- ***Design and regional adoption of Standard Investment projects for SNG as part of the new public procurement policy for the national and subnational governments***

Prior Action 8: The Government has enabled the use of standard project designs by subnational governments to reduce the time and cost in the procurement and execution of regional and municipal investment projects.

64. **Colombia's new procurement policy will enhance the impact of regional investments and public sector accountability.** Public procurement represents approximately US\$11 billion at national level, corresponding to approximately 70,000 contracts and around 13 percent of GDP and over 35 percent of total government expenditure (more or less in line with OECD averages)⁴⁹. Understanding public procurement's importance for public finances, transparency and accountability and regional integration, the current Government has singled out public procurement as a strategic objective.

65. **The creation of the national procurement agency (*Colombia Compra Eficiente* or CCE) in 2013 (Decree 4170) was an important advance,⁵⁰ but significant challenges remain, particularly at the subnational level.** Since 2011, CCE, in coordination with DNP, has pioneered the use of *acuerdos marco de precio* or framework price agreements, a demand aggregation instrument aimed at increasing value for money in the public procurement of commonly purchased goods and services. Through this instrument, the Government granted SNGs with the authority to establish framework agreements for

⁴⁸ On the budget side, DNP, in collaboration with MHCP, has already modified the manual of classification of investment (*Manual de Clasificación de la Inversión Pública, July 2016*) to include program classifications, and these have already been adopted in the preparation of the 2017 budget that will be contained in the forthcoming 2017 budget laws (*Ley Orgánica de Presupuesto 2017 y Decreto de Liquidación del Presupuesto 2017*). The SGR Steering Commission (*Comisión Rectora del Sistema General de Regalías, CRSGR*) has also officially adopted the new program classifications for investment projects financed through the Royalties System. See: Acuerdo No. 039 de la Comisión Rectora del Sistema General de Regalías (agosto 2016).

⁴⁹ Source: OECD National Accounts Statistics as reported in the OECD (2013), Colombia: Implementing Good Governance, Annex B: Public Procurement in Colombia, Towards Efficient Public Procurement in Colombia: Making the Difference.

⁵⁰ See <http://sintesis.colombiacompra.gov.co/normatividad/documento/14208>.

public procurement at the subnational level.⁵¹ In 2013-2014, CCE estimates that savings resulting from reduced prices totaled COP 130 billion (around US\$43 million) at the national level.⁵² However, as documented by DNP, there is a large heterogeneity among SNGs' fiscal and procurement capacities.⁵³

66. **The Government has institutionalized the use of standard investment projects.** Apart from expanding the use of framework agreements within subnational governments, through CONPES document 3856, the Government is currently implementing the use of standard projects to support SNGs in the design and implementation of regional investments.⁵⁴ Standard projects are pre-defined investments that can be replicated across the territory. The rationale for the development of these projects is that a large percentage of regional investment is allocated to certain outputs that can be replicated and scaled up with minimal variations (adapting to certain geographical, cultural differences). This is the case of basic infrastructure projects such as construction of local schools, local health facilities, basic water and sanitation, community and cultural centers. This strategy will enable SNGs and the national government to: (i) design regional investment projects quickly and efficiently, reducing the risks associated with planning and execution and saving time and costs related to studies and design; (ii) set minimum, nationwide standards for service delivery across the country contributing to reduced regional inequality; and (iii) execute infrastructure projects more efficiently and in a more transparent manner. The reforms are expected to result in the faster and cheaper design and implementation of investment projects, and in enhanced transparency and accountability of public expenditures at the subnational level. DNP has calculated that for the years 2017 and 2018, this strategy will save more than 700,000 million pesos⁵⁵ (more than US\$200 million) thanks to the cost and time savings associated to standard projects and also for the use of framework contracts established by CCE.⁵⁶

67. **Indicative Trigger & Expected Results.** *The Government has enabled the adoption of the centralized e-procurement platform SECOP 2 by departmental and municipal governments.* Colombia's newest Electronic System for Public Procurement (*Sistema Electrónico de Contratación Pública*) SECOP 2 was officially launched in 2015 and will be deployed over the next years reaching all public entities including SNG. SECOP 2 is a transactional e-procurement platform in which all public entities can carry out the full process of public procurement of goods and services online, from planning to final execution. Suppliers, buyers and public citizens will have access to the system. The SECOP 2 will host most of the procurement modalities; the instruments to aggregate demand, while hosted by SECOP 2, will be carried out through the virtual shop platform (*Tienda Virtual del Estado Colombiano*). Expected results: improved quality and reduction in time in the design, procurement and execution of investment projects at the regional and municipal levels.

⁵¹ Decreto 1510 (2013), Decreto 1082 "por medio del cual se expide el Decreto Único Reglamentario del Sector Administrativo de Planeación Nacional" (2015).

⁵² Resultados y Ahorros derivados del funcionamiento de la Tienda Virtual del Estado Colombiano (CCE, 2014 and 2015).

⁵³ The ratio of total amount of operational costs to total fiscal resources is considered a measure of low fiscal capacity (DNP 2013).

⁵⁴ Decree 173 (2016) mandates the use of standard projects by SNG once they are made available by DNP. During the first phase (2016) a total number of 26 standard projects including procurement, terms of reference, guidelines and contract documents will be ready for use. During the second phase in 2017, an additional 16 will be finalized including six that are for science, technology and innovation. Finally, during the third phase in 2018, a further eight will be done to complete a total of 50 ready for use.

⁵⁵ Source: DNP calculations, CONPES Document 3856 on Policy for the Standardization of Investment Projects 2016-2018 (April 25, 2016). Available at <https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/3856.pdf>

⁵⁶ By 2018, a total of 50 *standard project designs* will be available for SNG to adopt and use for any investment project, independently from the financing source (e.g. SGR, SGP). DNP has calculated that for 2017 and 2018, and only for the SGR, the adoption of the initial set of 26 standard projects will allow savings of approximately COP 700,000 million, over US\$200 million. Going forward, after 2018 once all 50 standard projects are approved the annual savings could reach almost 20% of the current total SGR annual budget. It is expected that at least for the SGR from 2018 on, 27 percent of total number of investment projects (currently the full portfolio is around 10,000 projects) financed by SGR will be done using standard investment project designs.

68. **The policy actions supported under this first programmatic DPF are grounded in sound analytical work as described in Annex 6.**

4.3 LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

69. **The proposed operation is closely aligned with the objectives of the World Bank Group's Colombia Country Partnership Framework (CPF) FY2016-2021, discussed by the Executive Directors on April 7, 2016 (Report No. 101552-CO).** This DPF will support Pillar 1 of the CPF, which aims at fostering balanced territorial development, and will also contribute to the objective of strengthening public management capacity. In addition, it will support the cross-cutting area of constructing peace by helping to balance uneven territorial development.

70. **The proposed operation complements a robust package of lending and advisory operations from the WB to the GoC and builds on previous engagement.** This operation builds on the previous DPFs, notably the Programmatic Productive and Sustainable Cities DPF series (P130972, P145766). The DPF series complements a series of ongoing investment financing operations and technical work forming a strong portfolio that will support the costly process of building peace in Colombia.

- *Technical Assistance:* this operation builds on prior knowledge services such as technical assistance to inform the land cadastre reform. The Subnational Institutional Strengthening Project (P123879) is financing several pilots of the multi-purpose land cadastre. The Bank is also providing technical assistance through the Multi-Donor Trust Fund for Peace and Post-conflict (P160524) to fully implement these pilots and generate lessons for the main rollout in coordination with the proposed Bio-carbon fund and the Sustainable Low-Carbon development in the Orinoquía Region Project (P160680). The DPF is also closely aligned with programmatic knowledge services for Sustainable Regional and Urban Development (P156821), which supports the GoC and selected local governments to strengthen regional and urban planning instruments.
- *Financial Assistance:* This operation builds on the Bank's engagement with the GoC over recent years to strengthen critical public management capacities at the subnational level including through the Subnational Institutional Strengthening Project.
- *Complementary DPFs:* This operation is being prepared in parallel to and is complementary to the First Fiscal Sustainability and Competitiveness DPF, which focuses on fiscal consolidation measures and competitiveness-enhancing structural reforms. These are important reforms to contain the fiscal deficit in a context where the space to reduce public investments is limited, given that the implementation of the peace process will require additional spending. To achieve this, the authorities are committed to strong expenditure controls and measures, tax policy and administration reforms, and the prudent management of fiscal risks stemming from contingent liabilities. The current operation complements this DPF by focusing on parts of the peace process implementation associated with territorial development and improved resource allocation and control at the subnational level.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

71. **The Government program supported by the proposed operation derives from a complex process of consultations.** The policies supported by this DPF are embodied within the 2014 -2018 NDP which is the result of a complex consultation process and is sanctioned as law.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

72. **The overall poverty and social impacts of the policies supported by this DPF are expected to be positive although moderate, operating mainly through indirect mechanisms.** The prior actions are expected to have positive impacts on welfare. Policies under Pillar 1 are likely to have positive effects promoting a reduction of regional socio-economic inequalities through improved territorial management and planning at the subnational level, a better provision of public services and local public goods, as well as by developing and protecting local property rights. In particular, the revamping of the institutional framework for land and rural development is expected to contribute to improve the livelihoods of rural population, and its overall impact will depend on the efficiency gains brought by the new agencies. The development of a new multipurpose cadastre is not expected to have direct effects on welfare in the short-run. However, since the cadastre will be linked to the national registry, this prior action is expected to strengthen property rights in the medium run, reducing risks for households particularly those poor and vulnerable. In addition, the multipurpose cadastre is expected to increase the collection of property taxes, generating, in turn, additional revenues to local governments that could improve the provision of public goods and services and enhance fiscal autonomy of SNGs. Prior actions under Pillar 2 are expected to foster local economic growth through a positive impact of local public investment, as well as through: (i) improved coordination across levels of government, (ii) better quality of fiscal and budget data for policy making and more effective regional resource allocation and decision-making, and (iii) a new procurement policy that will allow more efficient design and implementation of regional investment projects. The welfare effect of these prior actions is expected to be positive, but its ultimate distributional effect will depend on the elasticity between local public investment and local economic growth. Increased investment would however, have a positive impact on access to basic services, which could have an important effect on multidimensional poverty. Annexes 4 and 5 document the Poverty and Social Impact Assessment (PSIA) from a social, gender and distributional perspective, relying on quantitative analysis and relevant academic literature.

5.2 ENVIRONMENTAL ASPECTS

73. **Colombia has a high and increasing level of damages from natural disasters, compared with its peers.** It has the world's 10th highest economic risk of two or more hazards, including both low-frequency/high-impact events. Colombia also has Latin America's highest rate of recurrent events, with an average of more than 600 reported disasters each year. Total losses over the 2005-2014 period were the fourth highest in Latin America, after Haiti, Cuba, and Brazil. The natural disaster risks of flooding, drought, storms and sea level rise are likely to worsen with climate change. Therefore, one of Colombia's main challenges regarding environmental sustainability is disaster risk management in the face of worsening natural disasters and climate change (including adaptation to climate change, particularly in the agricultural sector).

74. **Prior Actions 1 and 4 are likely to bring about climate change co-benefits through several channels.** By facilitating collection of environmental and natural resource data (Prior Action 1), the cadastre will support sustainable land and economic development, enhanced natural resource management and disaster risk management. The multipurpose cadastre will update cartographic information, standardizing the use of cartographic scale, linking and providing more comprehensive and precise information on the boundaries of protected areas, natural resources, and high-risk areas. In addition, the objectives of the new territorial ordering policy (Prior Action 4) include two of the objectives

of Colombia's green growth strategy, namely to: (i) protect and ensure the sustainable use of the natural capital, improve the quality of life, and environmental governance; and (ii) achieve resilient growth and reduce the vulnerability to disaster risks and climate change. Better coordinated territorial and land use planning is, hence, expected to bring about climate change co-benefits. Therefore, 2 of the 8 Prior Actions, or 25 percent of the loan, are expected to have climate change co-benefits.

75. **The Prior Actions supported by this operation are not likely to have significant negative effects on the environment, forests and other natural resources.** The environmental analysis found that the overall net direct and indirect environmental effects of the DPF would be positive, with two of the prior actions having likely neutral effects. Prior Action 1 is estimated to contribute to an enhanced land tenure system and an improved characterization of the territory, environmental factors, and natural resources by facilitating the collection of environmental and natural resource data as part of the cadastre. The creation of the entities associated with Prior Actions 2 and 3, were assessed to have a neutral environmental, or potentially positive indirect effect, as the future operations and activities of ANT and ADR should promote more environmentally sustainable development assuming these agencies are properly staffed, budgeted and implement existing legislation, policies and guidelines. The environmental effect of Prior Action 4 is expected to be positive as it should enhance regional territorial planning by addressing the shortcomings of earlier land-use plans (POTs) and by implementing the green growth strategy contained in the NDP 2014-2018 (two of the main objectives of the green growth strategy are reflected in the *POT-Modernos*). Prior Action 5 should have positive environmental effects given an improved coordination mechanism among different levels of government and assuming better and informed decisions, including environmental aspects, on public investments are made. Prior Actions 6, 7, and 8 are estimated to be neutral in terms of their environmental effects. The environmental analysis identified some potential risk for negative environmental effects due to possible indirect outcomes associated with some prior actions. However, these associated environmental risks are deemed to be uncertain or low, in terms of probability of occurrence and relatively low in terms of likely magnitude of environmental impact and are not considered to be significant. There is existing environmental legislation and institutions to mitigate these potential indirect risks, which should be partially enhanced with the implementation of agencies and activities associated with the prior actions. The Bank and/or GoC will follow-up on aspects of these indirect risks. See Annex 4 for a summary of the Environmental Analysis, including a brief description of how Colombia's environmental systems could mitigate potential negative effects.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

76. **The national-level PFM systems show advanced levels of performance that are moving toward good international practices, according to the most recent reports from the IMF and Bank.**⁵⁷ A new Public Expenditure and Financial Accountability Assessment was carried out in late-FY2015; the final report was presented to the GoC in October 2016 and the GoC has agreed to make it publicly available. Notwithstanding, there remain areas for further strengthening of PFM systems, such as budget management and integration with administrative management systems. In 2012, a new financial and administration system (*Sistema Integrado de Información Financiera* [SIIF II]) was put into operation, and an effort is under way to adopt a Unified System of Investment and Public Finance. The GoC has increased

⁵⁷ See IMF 2012, World Bank 2013, and the Public Financial Management and Procurement Report (Public Expenditure and Financial Accountability 2009).

the coverage of SIIF II and is working on its integration with the different PFM tools.⁵⁸ Colombia has an effective track record of implementing PFM reforms. Salient features of the PFM systems include: (i) the budget is comprehensive, well documented, and implemented as planned, with actual expenditures deviating only slightly from planned levels; the Government has published its annual budget in a timely fashion;⁵⁹ (ii) revenue and expenditure controls are comprehensive, and there is a continuous effort to improve them; and (iii) the consolidated public accounts are prepared within six months after the end of the fiscal year.

77. The GoC is implementing an accounting and auditing reform agenda to adopt and implement international accounting (International Financial Reporting Standards and International Public Sector Accounting Standards) and auditing standards (International Standards on Auditing). In the last three years, there have been significant developments toward implementing this reform, including issuing the new regulation for public sector entities (October 2015) to be adopted in January 2017. The new framework will be used to consolidate public accounts for the year ending on December 31, 2017, and will enhance the Government's fiscal and financial reporting for decision-making.

78. Disbursement arrangements. Once the DPF becomes effective and the Borrower complies with any withdrawal tranche release conditions, following the Borrower's request, the Bank will deposit the funds into an account denominated in U.S. dollars at the Central Bank (*Banco de la República*) for subsequent credit into the Treasury Single Account of the MHCP, thus becoming available to finance budgeted expenditures. The MHCP will provide the Bank with a written confirmation of the transaction within the 30 days after the funds are disbursed by the Bank. If the Bank determines at any time that an amount of the loan was used to make a payment for an excluded expenditure, the Borrower shall promptly, upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank; and amounts refunded to the Bank upon such notice shall be cancelled from the loan.

79. There is no evidence that the banking control environment into which the DPF proceeds would flow is inadequate. This assessment is based on a review of the 2015 external audit report of the *Banco de la República*, the latest IMF Central Bank safeguards assessment (2012), and the 2016 IMF Article IV Consultation. Because the Borrower's PFM systems and the fiduciary arrangements for this financing are assessed as adequate, the Bank will not require an audit of the Bank account and no additional fiduciary arrangements are considered necessary.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

80. The DNP will be responsible for the overall implementation of the proposed DPF series and for reporting progress and coordinating actions among the concerned entities. The Territorial and Public Investment Sub Directorate within DNP will lead the actions of this operation, closely monitoring implementation of the program in cooperation with the MADR, IGAC, CCE, as well as other relevant line ministries and government agencies. DNP's Public Policy Monitoring and Evaluation Directorate, which is responsible for the National Evaluation System of Management and Results (SINERGIA) will collect and report on information related to results and indicators to the Bank. Several of the proposed indicators are already being monitored by the Government as they are part of the 2014-2018 NDP.

⁵⁸ These include the NDP, the fiscal rules, the Public Investment Program, the MTFE, the Medium-term Expenditure Framework, the Operative Annual Investment Plan, and the financial plan.

⁵⁹ Law 1769 of November 24, 2015.

81. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

82. **The overall risk of the operation is assessed as *Moderate*.** The key risks identified are: (i) political and governance risks arising from potential setbacks to the peace process, (ii) implementation capacity, and (iii) macroeconomic risks.

83. **Political and governance.** While no major changes are expected in the political environment before the 2018 elections, the result of the recent plebiscite has introduced uncertainty about popular support to the peace agreement as currently designed. The Government's continued efforts to work with all parties to reach consensus on the revisions to the peace agreement helps to mitigate this risk. Moreover, the package of reforms included in the proposed operation are technically sound and essential to achieve equitable growth in Colombia, and its implementation is not dependent on the achievement of a formal peace agreement.

84. **Macroeconomic.** A worse than expected deterioration in the macroeconomic and fiscal conditions and/or a slower recovery could negatively impact central and subnational government finances and reduce resources for subnational investment. This risk could be intensified in light of the implementation of the peace agreements, in particular if the anticipated fiscal reforms do not proceed as planned. Colombia's strong track-record on macroeconomic and fiscal management which has resulted in reasonable buffers help to mitigate this risk.

85. **Institutional capacity for implementation and sustainability.** The GoC is complementing the policies proposed in this operation with several capacity building programs to support subnational governments, which can help to mitigate this risk.

Risk Categories	Rating (H, S, M or L)
1. Political and governance	M
2. Macroeconomic	M
3. Sector strategies and policies	L
4. Technical design of project or program	L
5. Institutional capacity for implementation and sustainability	M
6. Fiduciary	L
7. Environment and social	L
8. Stakeholders	L
9. Other	
Overall	M

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions for DPF 1 and Indicative Triggers for DPF 2		Results Indicators for the Programmatic DPF series
Prior Actions (DPF 1)	Indicative Triggers (DPF 2)	
<p>PDO: To support the efforts of the Government of Colombia (GoC) to: Strengthen institutions for land management and territorial planning; and Improve subnational financial management and investment prioritization</p>		
<p>Prior Action 1: The Government has approved a comprehensive property cadastre policy which: Re-defines the roles and responsibilities of institutions and levels of government to separate regulatory and implementation responsibilities, Defines standards and methodologies for surveying, recording and valuation of properties to transform the fiscal cadastre into a multiple-purpose⁶⁰ one, and Mandates the updating of cadastral information of all the land parcels in Colombia.</p> <p>Responsible Agency: National Planning Department (DNP).</p>	<p>Indicative Trigger 1: The Government has submitted for parliamentary approval the national legislation (<i>Ley del Estatuto Catastral</i>) defining the technical, institutional and financial standards for the multi-purpose cadastre.</p> <p>Responsible Agency: Geographical Institute Agustin Codazzi (IGAC)</p>	<p>Expected Result: Improved cadastral records.</p> <p>Percentage of the area covered by the cadastre pilot program for which new cadastral information has been collected.⁶¹</p> <p><i>Baseline 2016: 0</i> <i>Target 2018: 70 %</i></p>

⁶⁰ The existing cadastre in Colombia captures the physical characteristics of land parcels for fiscal purposes exclusively. In contrast, a multipurpose cadastre collects additional information related to the parcel (such as land use, densities, socio-economic category) and interacts with existing relevant infrastructure systems (infrastructure, environmental), enabling the cadastre system to serve as a tool for planning and territorial development, and to inform investment prioritization.

⁶¹ The GoC, through DNP in coordination with the Geographical Institute Agustin Codazzi (IGAC) and the Superintendent of Notaries and Registries (SNR), will carry out eleven pilot projects as part of the first phase of the implementation of the new cadastre policy defined in CONPES Document 3859. The objective of these pilots is to inform the detailed implementation arrangements that will be rolled out throughout the country between 2017 and 2023. The pilots will test the surveying and appraisal methodologies and specifications and the procedures for operability, as well as assess the reliability of the estimated costs. Methodologies will be gradually adjusted throughout the pilot phase to inform the program's scaling up at national level. The pilots will cover all 390,991 parcels in rural areas of ten municipalities (Santa Marta, San Vicente del Caguán, Lebrija, San Carlos, Armenia, Puerto Gaitán, Topiapi, Dibulla, Puerto Leguizamo, Buenaventura) and the urban area of Barranquilla, representing 2.1 percent of all parcels of the country (equivalent to 6.2 million hectares).

	<p>Indicative Trigger 2: The Government has approved the policy framework for delegating to subnational governments key functions and responsibilities for land management.</p> <p>Responsible Agency: National Planning Department (DNP)</p>	<p>Expected Result: Systematic process for delegation of key land management functions and responsibilities to subnational governments in place and fully operational.</p> <p>Number of administrative agreements through which the national government has delegated functions to local governments following an evaluation of local capacity.</p> <p><i>Baseline 2016: 0</i> <i>Target 2018: 2⁶²</i></p>
<p>Prior Action 2: The Government has established the institutional framework to, <i>inter alia</i>: (i) implement access-to-land programs for rural productivity and equity, and (ii) support the process for rural land formalization, through the creation of the National Land Agency (ANT).</p> <p>Responsible Agency: Ministry of Agriculture and Rural Development (MADR), National Planning Department (DNP)</p>	<p>Indicative Trigger 3: The Government has approved the regulatory framework for expedited resolution of land disputes.</p> <p>Responsible Agency: Ministry of Agriculture and Rural Development (MADR)</p>	<p>Expected Result: Strengthened institutional and regulatory framework for access to land and formalization processes in place and fully operational.⁶³</p> <p>Number of plots in rural areas with formalized property rights through the new process.</p> <p><i>Baseline 2014: 0</i> <i>Target 2018: 40,000⁶⁴</i> <i>(Of which number of plots in rural areas with formalized property rights for women will be monitored)</i></p>

⁶² Out of a total of 7 municipalities with population over 500,000 and which currently do not have an independent cadastre.

⁶³ Colombian regulation recognizes different typologies of land tenure informality (for example in public vs. private land, or if informal transactions have occurred or not). Different legal frameworks, procedures, instruments exist to address each typology. In this document, the term formalization includes all the steps and procedures to obtain a registered land title and ensure legal certainty of property rights for all typologies.

⁶⁴ For comparison purposes, in 2015, 11,456 plots were formalized. This target would imply a doubling in the rate at which plots are formalized compared to previous years.

<p>Prior Action 3: The Government has strengthened the institutional framework for rural development through the creation of the Rural Development Agency (ADR), which will plan, structure, co-finance and implement rural development projects.</p> <p>Responsible Agency: Ministry of Agriculture and Rural Development (MADR), National Planning Department (DNP)</p>	<p>Indicative Trigger 4: The Government has approved the regulatory framework for the development of comprehensive territorial rural development plans and projects.</p> <p>Responsible Agency: Rural Development Agency (ADR)</p>	<p>Expected Result: Strengthened institutional and regulatory framework for integrated rural development in place and fully operational.</p> <p>Percentage of total co-financed rural development projects that have a territorial focus. <i>Baseline 2016: 16%⁶⁵</i> <i>Target 2018: 100%</i></p>
<p>Prior Action 4: The Government has approved a new territorial planning policy, which enables: (i) the development of territorial & land-use plans at <i>Departamento</i>-level⁶⁶ to foster regional integration, and (ii) the updating of municipal land-use plans under a new methodology that incorporates urban-rural linkages.</p> <p>Responsible Agency: National Planning Department (DNP)</p>	<p>Indicative Trigger 5: The Government has adopted the regulatory framework for the implementation of department-level land use planning (PODs).</p> <p>Responsible Agency: National Planning Department (as technical coordinator) with Ministry of Environment (MADS), Ministry of Interior (MDI), and Ministry of Housing, City and Territory (MVCT)</p>	<p>Expected Result: Improved territorial planning at Departmental and municipal levels.</p> <p>Number of territorial and land use plans prepared/updated under the <i>POT Modernos Program</i>. <i>Baseline 2016: 0</i> <i>Target 2018: 80</i></p>

⁶⁵ The 16% baseline is calculated based on projects fully financed by Incodeer in 2015 through the investment project "Support for rural development projects with a territorial focus". Out of 210 projects, only 35 were integrated rural development projects with a territorial focus. The territorial focus represents a move away from the traditional approach that used to support mainly individual producers in a fragmented manner. Four components must be included in these new projects for them to be considered integral and with a territorial focus. These components are: technical assistance, access to productive assets, land readiness/preparation, and articulation with the production chain and production priorities of the territory.

⁶⁶ *Departamento* is the second administrative level in Colombia (between national and municipal governments).

<p>Prior Action 5: The Government has adopted a new policy that strengthens the Memoranda of Understanding between national and sub-national governments (<i>Contratos Plan</i>⁶⁷) by :</p> <p>Requiring prioritization of investments with highest impact potential in areas of higher needs, Creating a Regional Fund⁶⁸ to speed-up project execution, and Ensuring co-financing of investments from subnational governments.</p> <p>Responsible Agency: National Planning Department (DNP)</p>	<p>Indicative Trigger 6: The Government has adopted the institutional arrangements to operationalize the Regional Fund.</p> <p>Responsible Agency: National Planning Department (DNP)</p>	<p>Expected Result: Improved planning, coordination, prioritization and faster execution of regional investment projects.</p> <p>Number of new <i>Contratos Plans</i> signed. <i>Baseline 2016: 0</i> <i>Target 2018: 8</i>⁶⁹</p>
<p>Prior Action 6: The Government, through the legislature, has enacted Organic Law 1753 which centralized the fiscal risk oversight of subnational governments in the MHCP through the unification of reporting requirements to improve the quality of regional fiscal data.⁷⁰</p>	<p>Indicative Trigger 7: The Government has issued the guidelines for the adoption of an Integrated Transactional Financial Territorial Information System (<i>Sistema Integrado y Transaccional de Información Financiera Territorial</i>) at the national level that will allow capturing subnational information in real time.</p>	<p>Expected Result: Improved quality and timeliness of subnational fiscal information.</p>

⁶⁷ *Contratos Plan* are formal signed agreements between the national government and subnational governments (SNG) to channel regional public investment based on territorial needs. The revised *Contratos Plan* policy includes a set of features to enhance weaknesses documented during the pilot phase. The new *Contratos Plan* will have a strong programmatic vision and clear scope, focus and priority set on high impact regional projects (including in conflict-affected areas), overall stronger review of project design and a stronger monitoring and evaluation framework to provide clear accountability of the funds. Please refer to CONPES document 3822 of 2014 for more details on *Contratos Plan*.

⁶⁸ The *Fondo Regional* will support the execution of the *Contratos Plan* and will integrate resources from different sources with the goal of addressing current bottlenecks for the implementation. Most importantly, it will accelerate the transfer of funds to the executing agency and simplify the financial management function. The fund will also allow a much better access to information on the final use of the regional funds, and therefore, stronger results based management and accountability. It is also expected that the new *Contratos Plan* will finance selected POT and PODs.

⁶⁹ Because *Contratos Plan* can be signed between different administrative units and levels and for various sectors, it is not possible to determine a universe for this indicator. To provide a sense of the magnitude of the target, between 2012 and 2013, 7 “old generation” *Contratos Plan* were signed.

⁷⁰ Prior to this reform, multiple agencies requested various financial information from subnational governments, which amounted to a reporting burden of approximately 250 reporting events, according to a World Bank study conducted in 2016. With this reform, information requests are centralized at one national government entity and reporting requirements unified, which will improve the quality of fiscal data and strengthen the national government’s fiscal risk oversight of subnational governments. The reporting will be further simplified by the introduction of the Integrated Financial Territorial Information system.

<p>Responsible Agency: National Planning Department (DNP), Ministry of Finance (MHCP)</p>	<p>Responsible Agency: National Planning Department (DNP)</p>	<p>Number of reports prepared and submitted by municipalities to national authorities.⁷¹</p> <p><i>Baseline 2016: 233</i> <i>Target 2018: 190</i></p>
<p>Prior action 7: The Government has harmonized the public sector accounting practices to a single national standard regime across government entities, including subnational governments, to be applied on a mandatory basis from January 1, 2017, to enable comparability of data across all sectors and levels of government.</p> <p>Responsible Agency: National Accounting Authority (CGN), Ministry of Finance (MHCP), National Planning Department (DNP)</p>	<p>Indicative Trigger 8: The Government has approved a new Chart of Accounts that improves the harmonization between accounting and budget (particularly for investment), as a first step towards full convergence to international accounting and fiscal information standards (IPSAS and IMF's 2014 GFSM) at both the national and subnational levels.</p> <p>Responsible Agency: National Accounting Authority (CGN), Ministry of Finance (MHCP), National Planning Department (DNP)</p>	<p>Expected Result: Improved comparability, timeliness and quality of fiscal information across sectors and levels of government.</p> <p>Percentage of national public entities reporting according to the new accounting standards. <i>Baseline 2016: 0</i> <i>Target 2018: 90%</i></p>
<p>Prior Action 8: The Government has enabled the use of <i>standard project</i> designs⁷² by subnational governments to reduce the time and cost in the procurement and execution of regional and municipal investment projects.</p>	<p>Indicative Trigger 9: The Government has enabled the adoption of the centralized e-procurement platform SECOP 2 by departmental and municipal governments.</p> <p>Responsible Agency: <i>Colombia Compra Eficiente</i> (CCE), National Planning Department (DNP)</p>	<p>Expected Result: Improved quality and reduction in time in the design, procurement and execution of investment projects at the regional and municipal levels.</p>

⁷¹ Indicator taken from the NDP and data updated with the World Bank review of municipal reporting requirements (September 2016). The unit reported is not the number of reports, rather total number of reporting events (*evento de reporte*) to adjust for reports with a periodicity of less than one year (e.g quarterly reports count as four reports).

⁷² *Standard projects* are referred to pre-defined investment projects that can be replicated using prototypes with common technical standards across the territory in different environment with small variations. The rationale for the development of these projects is that a large percentage of regional investment is allocated in certain outputs that can be replicated and scaled up with minimal variations (adapting to certain geographical, cultural differences). This is the case of basic infrastructure projects such as construction of local schools, local health facilities, basic water and sanitation, community and cultural centers, and so on.

Responsible Agency: <i>Colombia Compra Eficiente</i> (CCE), National Planning Department (DNP)		Number of standard investment projects designed ⁷³ and available for SNGs to adopt. <i>Baseline 2016: 0</i> <i>Target 2018: 50</i>
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⁷³ While estimating a universe of project designs is not possible, DNP has estimated that for the years 2017 and 2018, and only for the SGR, the adoption of standard projects will allow savings of approximately COP 700,000 million, over US\$200 million. By 2018, a total of 50 *standard project designs* will be available for SNG to adopt and use for any investment project, independently from the financing source (e.g. SGR, SGP). Going forward, after 2018 once all 50 standard projects are approved the annual savings could reach almost 20% of the current total SGR annual budget. It is expected that at least for the SGR from 2018 on, 27 percent of total number of investment projects (currently the full portfolio is around 10,000 projects) financed by SGR will be done using standard investment project designs.

ANNEX 2: LETTER OF DEVELOPMENT POLICY



Bogotá D.C., 25 de octubre de 2016

Doctor
Jim Yong Kim
Presidente
Grupo Banco Mundial
Washington, D.C.

Asunto: Carta de Política DPL Fortalecimiento del
Ordenamiento Territorial y de las Finanzas Subnacionales

Estimado Dr. Kim:

El Gobierno de Colombia es consciente del permanente reto que enfrenta tomando decisiones de política pública para profundizar su desarrollo y que al mismo tiempo le permitan preservar la estabilidad macroeconómica y mantener la inserción del país en la economía internacional.

La economía colombiana goza de una credibilidad reconocida a nivel mundial gracias al buen manejo que ha dado a sus políticas fiscal y monetaria. Mantuvo un crecimiento económico promedio anual de 4,8 % entre 2010 y 2014, siendo el crecimiento del 2014 (4,6 %) el más alto de las economías más grandes de la región (LAC6); para el 2015, el crecimiento anual fue de 3,1 % y para el 2016 esperamos 2,5 %, a pesar de la caída de los precios del petróleo pero gracias a la dinámica de la industria y del sector de servicios financieros -principalmente. Gracias a esta dinámica de crecimiento, el PIB per cápita ajustado por el poder de paridad de compra de los colombianos se ha más que duplicado desde el año 2000 (según el Fondo Monetario Internacional este se ubicó en US\$ 13.846 en el 2015) y se ha logrado reducir de manera importante la tasa de pobreza de 37,2 % en 2010 a 27,8 % en el 2015.

Por otro lado, la estabilidad macroeconómica y las políticas contra cíclicas que hemos adoptado le han permitido a la economía colombiana financiar las tasas más altas de inversión de su historia reciente. En 2015 la inversión como porcentaje del PIB alcanzó el 29,4 %, casi 5 puntos porcentuales por encima del valor observado en 2010 (24,5 %). Adicionalmente, y como consecuencia del manejo responsable e independiente que tiene la política monetaria en Colombia, logramos sobrellevar el efecto de los fenómenos climáticos sobre los precios de los alimentos y cerrar el 2015 con una tasa de inflación de 6,77 %, la cual esperamos no supere el 6,5 % en 2016.

En materia de empleo, en el 2015 alcanzamos una tasa de desempleo de 8,9 % para el total nacional, la más baja desde que los datos son comparables, y reducir la tasa de informalidad del 56,1 % en 2013 al 50,1 % en agosto de 2016.

Desde el punto de vista fiscal, y gracias a la adopción de una Regla Fiscal en 2011, hemos logrado garantizar la estabilidad macroeconómica y la sostenibilidad de las finanzas

públicas. En virtud de la misma, y para hacer frente a los efectos sobre los ingresos del Gobierno Nacional Central que generó el shock del sector petrolero a nivel mundial (reducción equivalente al 3,4 % del PIB entre 2013 y 2016), pudimos adoptar un conjunto de medidas que nos han permitido hacer un ajuste fiscal ordenado en los últimos años.

Las entidades territoriales en Colombia administran recursos significativos para su desarrollo. En 2015 el recaudo tributario territorial fue del equivalente al 3,3 % del PIB, su porcentaje más alto desde el año 2000, equivalente a su vez al 17,5 % de la tributación total del Estado. Por su parte los recursos del Sistema General de Regalías recaudados durante el año 2015 ascendieron a 7,1 billones de pesos y a 3,9 billones de pesos aproximadamente en lo que va corrido del 2016.

No obstante lo anterior, sabemos que para lograr un crecimiento económico sostenido a largo plazo, un desarrollo económico equitativo e inclusivo que haga realidad la construcción de una Colombia en paz, y una ejecución eficaz y eficiente de los recursos públicos a cargo de las administraciones municipales y departamentales, es necesario avanzar, entre otras, en el diseño e implementación de políticas públicas relacionadas con el fortalecimiento de las capacidades territoriales, la articulación entre los niveles de gobierno, el diseño e implementación de los instrumentos de planeación y ordenamiento territorial, la actualización catastral con multipropósito, la gobernanza multinivel, los esquemas de competencias diferenciadas y el fortalecimiento de las finanzas subnacionales. Es por esto que el Plan Nacional de Desarrollo (PND) 2014-2018: "Todos por un nuevo país" manifestó el compromiso del Gobierno de Colombia por contribuir a reducir las brechas socio-económicas y de gestión entre las entidades territoriales.

En línea con lo anterior, hemos venido formulando iniciativas para fortalecer y modernizar la gestión de los gobiernos territoriales y mejorar la prestación de servicios, así como incrementar las capacidades del mismo Gobierno nacional para dar respuesta efectiva a las necesidades de desarrollo de los territorios. Tal es el caso de la estrategia de fortalecimiento de las capacidades institucionales de las Entidades Territoriales, estrategia financiada parcialmente con recursos del Banco Mundial a través del préstamo 8320-CO, la cual apoyará procesos de asistencia técnica y acompañamiento a la gestión territorial; asimismo, las intervenciones del programa se adaptarán a las particularidades territoriales y se definirán mecanismos para su adopción por parte de las entidades.

En ese sentido, el Gobierno reconoce la importancia de avanzar en el desarrollo de instrumentos de política pública, reglamentaciones, normativas o actos administrativos, así como en la consolidación de arreglos institucionales que faciliten la articulación de las acciones y los recursos de las entidades nacionales dirigidos al desarrollo económico y sostenible de los territorios. Es por esta razón que el Gobierno de Colombia ha solicitado el apoyo del Banco Mundial, a través de un Programa de Préstamos de Políticas de Desarrollo bajo la modalidad DPL, que permita seguir adelantando reformas estratégicas claves para el fortalecimiento del ordenamiento territorial y las finanzas subnacionales.

Gracias al acompañamiento técnico y financiero del Banco, las acciones de política que logramos concretar en el marco de la que será la primera fase del préstamo son: i) la

adopción de una política pública para la implementación de un catastro multipropósito; ii) el establecimiento de una institucionalidad pública para la administración de tierras; iii) el establecimiento de una institucionalidad para el desarrollo rural; iv) la definición de una nueva política pública para la planeación territorial; v) la adopción de nuevos contratos plan y la creación de un fondo que soporte la cofinanciación de la nación a los territorios; vi) la integración y optimización de los reportes de gastos subnacionales; vii) la armonización del régimen de contabilidad público nacional y subnacional; y, viii) la estandarización de proyectos tipo.

En cuanto a la primera acción de política, el Gobierno aprobó una nueva política para el catastro nacional a través de la redefinición de las responsabilidades de las instituciones de los diferentes niveles de gobierno para solucionar conflictos de intereses y alinear incentivos encaminados a la sostenibilidad financiera de las entidades subnacionales. Asimismo, definimos estándares y metodologías para mapear, recolectar y valorar información relacionada con las propiedades y predios a catastrar y lograr integrarlo en un catastro multipropósito que permita hacer más indicado y eficiente el uso del suelo en los territorios; lo anterior, a través del CONPES 3859 de junio 13 de 2016.

La segunda acción de política tiene que ver con la creación de la Agencia Nacional de Tierras (ANT) la cual se configura como la máxima autoridad de tierras de la Nación. De acuerdo con lo dispuesto en los decretos 2363 de diciembre de 2015, 419 de 2016 y 2365 de diciembre de 2015, la ANT tiene como función primordial ejecutar la política de ordenamiento social de la propiedad rural, lo que implica la gestión de la tierra como activo productivo, el logro de la seguridad jurídica sobre la tierra, la promoción del cumplimiento de la función social de la propiedad y la administración de predios rurales a cargo de la Nación.

La tercera acción de política está relacionada con la creación de la Agencia de Desarrollo Rural (ADR), la cual tiene como función primordial la ejecución de la política de desarrollo agropecuario y rural con enfoque territorial a través de los procesos de estructuración, cofinanciación y ejecución de planes y proyectos de desarrollo rural y agropecuario de iniciativa nacional, asociativa o territorial. Tal como lo establecen los decretos 2364 de diciembre de 2015 y 2365 de diciembre de 2015, la ADR también apoyará los procesos de fortalecimiento de la gestión del desarrollo rural y agropecuario, contribuyendo a la mejora de la calidad de vida de los pobladores rurales y a aumentar la competitividad.

La cuarta acción de política se refiere al diseño de una política pública plasmada en el documento CONPES de Planes de Ordenamiento Territorial (POT)/ Planes de Ordenamiento Departamental (POD) Modernos enfocada al fortalecimiento de la planeación territorial. A través de la misma, el Gobierno nacional busca fortalecer a las autoridades de planeación subnacionales en la formulación de la segunda generación de instrumentos de planeación territorial municipal, teniendo en cuenta las deficiencias reglamentarias y en la implementación de la primera generación de esos instrumentos, formulados en más del 80 % del país hace más de doce años. Igualmente, busca incentivar el desarrollo de planes de ordenamiento a nivel supra municipal, es decir a nivel departamental, con el fin de consolidar los principales instrumentos orientadores de la

planificación, la gestión y el desarrollo integral del territorio y promover la integración regional.

Con la quinta acción de política se permitirá la adopción de nuevos Contratos Plan y la creación de un fondo que permitirá la priorización de inversiones en áreas con altas brechas de desarrollo. La creación de este fondo también permitirá agilizar los procesos asociados a la ejecución de proyectos estratégicos, así como fortalecer la gestión orientada a resultados, en el marco de los Contratos Plan; lo anterior, a través de la emisión del Decreto 740 de mayo de 2016.

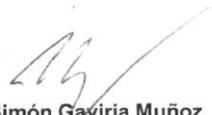
La sexta acción de política persigue el objetivo de centralizar la recolección de información financiera y fiscal de las entidades nacionales y subnacionales por medio de la unificación de los parámetros de reporte de las entidades a través del Departamento Nacional de Planeación (DNP), en concordancia con lo establecido en el artículo 188 de la Ley del PND 2014 – 2018 y el Decreto 1536 del 29 de septiembre de 2016. En esta misma dirección, la séptima acción de política promueve la armonización del régimen de contabilidad pública de las entidades públicas, incluyendo a los gobiernos subnacionales, a través de la emisión de la Resolución 533 de octubre de 2015.

Finalmente, la octava acción de política hace referencia a la adopción de una política nacional (CONPES 3856 de abril de 2016) para implementar la estrategia de estandarización de proyectos tipo con la cual se busca mejorar la calidad y eficiencia de la inversión pública, solucionando las debilidades en materia de estructuración de proyectos que enfrentan las entidades públicas nacionales y subnacionales. La estrategia se enmarca en el plan de austeridad inteligente que adelanta el Gobierno nacional y que está dirigido a asegurar la sostenibilidad de las finanzas públicas, mejorar la eficiencia en la asignación de los recursos y la provisión de bienes y servicios públicos de acuerdo a las necesidades específicas de cada región.

Con base en todo lo anterior, hacemos manifiesta la importancia de haber profundizado aún más la cooperación técnica con el Banco Mundial en materia de fortalecimiento del ordenamiento territorial y las finanzas subnacionales, como componentes centrales de la estrategia de convergencia regional y cierre de brechas socio-económicas y poblacionales. Esperamos seguir contando con el acompañamiento del Banco en esta materia tan relevante y pertinente para la construcción de una Colombia en paz.

Agradeciendo su atención, reciba un cordial saludo,


Mauricio Cárdenas Santamaría
Ministro
Ministerio de Hacienda y Crédito Público


Simón Gaviria Muñoz
Director General
Departamento Nacional de Planeación

Translation - Letter of Development Policy



Bogotá, D.C., October 25, 2016

Dr. Jim Yong Kim
President
World Bank Group
Washington, D.C.

Subject: Letter of Development Policy (LDP) on Strengthening
Territorial Development and Subnational Finances

Dear Dr. Kim:

The Government of Colombia is mindful of the constant challenge it faces in making public policy decisions that will further its development while at the same time preserving macroeconomic stability and maintaining the country's position in the international economy.

The credibility of the Colombian economy is recognized at the global level thanks to sound management of fiscal and monetary policies. Between 2010 and 2014, Colombia maintained an average annual economic growth rate of 4.8 percent, and in fact its 2014 rate of 4.6 percent ranked among the highest in the region (LAC6). Despite the fall in oil prices, the dynamism of the industry and the financial services sector in particular still made it possible to achieve an annual growth rate of 3.1 percent in 2015 and anticipate a growth rate of 2.5 percent in 2016. Because of this growth, GDP per capita, adjusted for the purchasing power parity of Colombians, has more than doubled since 2000—to a level of US\$13,846 in 2015, according to the International Monetary Fund. At the same time, the poverty rate has fallen from 37.2 percent in 2010 to 27.8 percent in 2015.

Furthermore, macroeconomic stability and counter-cyclical policies have made it possible for Colombia's economy to sustain the highest investment rates in its recent history. In 2015, investment as a percentage of GDP was 29.4 percent—almost 5 percentage points above the level for 2010 (24.5 percent). In addition, through responsible and independent management of monetary policy in Colombia, we have been able to overcome the effect of climate phenomena on food prices. Thus, we were able to close out 2015 with a 6.77 percent inflation rate, which we expect will not exceed 6.5 percent in 2016.

With regard to the job market, in 2015 we were able to achieve an overall national unemployment rate of 8.9 percent, the lowest level since comparable data have been available, and the informal employment rate has fallen from 56.1 percent in 2013 to 50.1 percent as of August 2016.

In the fiscal area, we guaranteed the macroeconomic stability and sustainability of public finance with the adoption of Fiscal Regulations in 2011. This achievement enabled us to withstand the effects of the

worldwide shock to the oil sector (a loss equivalent to a 3.4 percent reduction in GDP between 2013 and 2016) through a series of measures that have ensured orderly fiscal adjustments over recent years.

The territorial entities in Colombia administer sizable resources for their development. In 2015, tax revenue collected in the territories amounted to the equivalent of 3.3 percent of GDP, the highest percentage since 2000. Territorial taxes represented 17.5 percent of all tax revenue collected by the Government. In addition, resources collected during 2015 through the General System of Royalties came to 7.1 billion Colombian pesos, plus approximately 3.9 billion pesos so far in 2016.

Despite these accomplishments, we know that in order to achieve sustained long-term economic growth, inclusive and equitable economic development that will make it possible to build Colombia in peace, and effective and efficient execution of the public resources managed by municipal and departmental administrations, it will be necessary to make headway in areas such as the design and implementation of public policies aimed at capacity building at the territorial level, coordination between the levels of government, the design and implementation of territorial planning and development tools, updated multi-purpose cadastres, multi-level governance, differentiated competence schemes, and strengthened subnational finances. For this reason, the National Development Plan 2014-2018: “All for a new country” emphasizes the commitment of the Colombian Government to work toward bridging social and economic gaps and eliminating managerial discrepancies between the country’s territorial entities.

In line with the above, we have been formulating initiatives to strengthen and modernize management in the territorial governments and improve the delivery of services, while at the same time increasing the capacity of the national Government itself to respond effectively to the development needs of the territories. An example is the strategy for institutional capacity building in the territorial entities, financed in part by World Bank resources under Loan 8320-CO, which will fund technical assistance processes and provide support for territorial management. Program interventions will be adapted to the particular territorial realities and mechanisms for their adoption by the entities will be defined.

Thus, the Government recognizes the importance of emphasizing the development of public policy instruments, regulations, standards, and administrative acts, as well as the consolidation of institutional arrangements that facilitate coordination of the actions and resources of national entities aimed toward sustainable economic development of the territories. It is for this reason that the Government of Colombia has requested the support of the World Bank, through a Program of Development Policy Loans under the DPF modality, which will enable it to move forward with key strategic reforms for strengthening territorial development and subnational finances.

With World Bank technical and financial support, the policy actions that we expect to carry out within the framework of the first phase of the loan are (i) adoption of a public policy on the implementation of a multi-purpose cadastre; (ii) establishment of a public institutional entity for land management; (iii) establishment of a public institutional entity for rural development; (iv) definition of a new public policy on territorial planning; (v) adoption of new agreements within the *Contratos Plan* framework and creation of a fund to support national co-financing for the territories; (vi) integration and optimization of reports on subnational expenditures; (vii) harmonization of the national and subnational public accounting systems; and (viii) standardization of project types.

In the case of the first policy action, the Government has approved a new policy for the national cadastre that redefines the responsibilities of the respective institutions at the different levels of government for dealing with conflicts of interest and outlining incentives aimed at ensuring the financial sustainability of

the subnational entities. We have also set standards and defined methodologies for mapping, collecting, and assessing information related to the properties and other areas to be included in the cadastre, to be integrated into a multi-purpose cadastre that will permit more appropriate and efficient land use in the territories (the foregoing enshrined in policy document CONPES 3859 dated June 13, 2016 of the National Council on Economic and Social Policy [*Consejo Nacional de Política Económica y Social* CONPES]).

The second policy action creates the National Land Agency [*Agencia Nacional de Tierras* ANT], which has been established as the highest land authority of the Nation. According to the provisions of Decrees 2363 and 2365 of December 2015 and Decree 419 of 2016, the primary function of ANT is to execute policy regarding the social development of rural property, which includes land management as a productive asset, the attainment of secure legal title to the land, promotion of fulfillment of the social role of land ownership, and the administration of rural properties entrusted to the Nation.

The third policy action creates the Rural Development Agency [*Agencia de Desarrollo Rural* ADR]. Its main function is to execute agricultural and rural development policy from the territorial perspective through national, associative, or territory-level structuring, co-financing, and execution of rural and agricultural development plans and projects. As stipulated in Decree 2364 and 2365, both of December 2015, the ADR will also support processes related to strengthening of the management of rural and agricultural development with a view to contributing to improved quality of life for the rural population and increasing competition.

The fourth policy action refers to designing a public policy based on the CONPES document on Modern Territorial Land Use Plans [*Planes de Ordenamiento Territorial Modernos* POTs] and Modern Departmental Land Use Plans [*Planes de Ordenamiento Departamental Modernos* PODs]. The policy focuses on the strengthening of land use planning. Under this policy, the national government seeks to strengthen the capacity of subnational planning authorities in the use of second-generation municipal territorial planning instruments, mindful of shortcomings in the regulation and implementation of the first generation of these instruments, formulated more than 12 years ago in 80 percent of the country. It also intends to incentivize the development of land use plans at the supra-municipal level—in other words, at the departmental level—with a view to consolidating the main guiding instruments for territorial planning, management, and integrated territorial development and promoting regional integration.

The fifth policy action paves the way for the adoption of new *Contratos Plan* agreements and creation of a fund that will make it possible to prioritize investments in areas that have major development gaps. Creation of this fund will also facilitate processes associated with the execution of strategic projects and strengthen results-based management within the *Contratos Plan* framework (the foregoing enshrined in Decree 740 of May 2016).

The sixth policy action seeks to centralize the collection of financial and fiscal information from national and subnational entities by standardizing their reporting parameters through the National Planning Department (DNP), pursuant to Article 188 of the National Development Planning Law 2014-2018 and Decree 1536, dated September 29, 2016. Along these same lines, the seventh policy action promotes standardization of the public accounting system in government agencies, including those at the subnational level, based on Resolution 533 of October 2015.

Finally, the eighth policy action deals with the adoption of a national policy (set forth in policy document CONPES 3856 of April 2016) to implement the strategy for the standardization of project types with a view to improving the quality and efficiency of public investment by addressing the weaknesses that national

and subnational public agencies encounter in structuring projects. The strategy is part of the national government's larger plan for "intelligent austerity" aimed at ensuring the sustainability of public finance, improving efficiency in the allocation of resources, and providing public goods and services based on the specific needs of each region.

The foregoing summary underscores the value we place on enhanced technical cooperation with the World Bank in the area of strengthening territorial development and subnational finances, which are key components of the strategy for regional convergence and the closing of socioeconomic and population gaps. We look forward to the continuing support of the World Bank in this area, which is so important and relevant for the reconstruction of Colombia in the context of peace.

Sincerely,

/ s /

Mauricio Cárdenas Santamaría
Minister
Ministry of the Treasury and Public Credit

/ s /

Simón Gaviria Muñoz
Director General
National Planning Department

ANNEX 3: FUND RELATIONS ANNEX

International Monetary Fund
Washington, D.C, 20431 USA

Press Release No. 16/279
FOR IMMEDIATE RELEASE
June 13, 2016

IMF Executive Board Approves New Two-Year US\$11.5 Billion Flexible Credit Line Arrangement for Colombia

The Executive Board of the International Monetary Fund (IMF) today approved a successor two-year arrangement for Colombia under the Flexible Credit Line (FCL) in an amount equivalent to SDR 8.18 billion (about US\$11.5 billion) and canceled the previous arrangement (SDR 3.87 billion, about US\$5.4 billion). The Colombian authorities stated their intention to treat the new arrangement as precautionary and do not intend to draw on it.

Following the Executive Board's discussion on Colombia, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chairman of the Board, issued the following statement:

"Colombia has a track record of very strong policy frameworks, including an inflation-targeting regime, a flexible exchange rate, effective financial sector supervision and regulation, and a fiscal policy guided by a structural balance rule. The authorities are firmly committed to maintaining these policies and undertaking further initiatives to strengthen the resilience of the economy and boost competitiveness and growth.

"Colombia's macroeconomic policies have provided flexibility to deliver a coordinated and gradual response to the large decline in oil prices. Exchange rate flexibility continues to be the main shock absorber, while the fiscal rule allows for a smooth adjustment of expenditure to a weaker medium-term oil outlook. The ongoing monetary policy tightening cycle will gradually bring inflation back to the target range, and the banking and corporate sectors remain in good financial health. International reserves are adequate for normal times.

"Nevertheless, global risks have risen with the potential to increase the severity of shocks that Colombia could suffer, despite the strength of its fundamentals and policy frameworks. The new arrangement under the Flexible Credit Line (FCL), with higher access, will provide added buffers and continue to play a significant role in supporting the authorities' policies in the presence of these increased downside risks. It will also provide policy flexibility and serve as a temporary insurance that reinforces market confidence. The authorities intend to continue to treat this facility as precautionary and to phase out its use as risks to the global outlook and commodity prices substantially recede."

Background:

Colombia's first FCL arrangement was approved on May 11, 2009 (see Press Release No. 09/161) and was renewed on May 7, 2010 (see Press Release No. 10/186), May 6, 2011 (see Press Release No. 11/165), June 24, 2013 (see Press Release No. 13/229), and June 17, 2015 (see Press Release 15/281). The FCL was established on March 24, 2009 and further enhanced on August 30, 2010 (see Press Release No. 10/321). The FCL is available to countries with very strong fundamentals, policies, and track records of policy implementation and is particularly useful for crisis prevention purposes. FCL arrangements are approved

for countries meeting pre-set qualification criteria (see Press Release No. 09/85). The FCL is a renewable credit line, which could be approved for either one or two years. Two-year arrangements involve a review of eligibility after the first year. If the country draws on the credit line, the repayment period is between three and a quarter and five years. There is no cap on access to Fund resources under the FCL, and access is determined on a case-by-case basis. Qualified countries have the full amount available up-front, with no ongoing conditions. There is flexibility to either draw on the credit line at the time it is approved, or treat it as precautionary.

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Per World Bank OP 8.60, an environmental analysis was carried out to assess whether the policy reforms supported by the operation are likely to cause significant adverse or positive effects on the environment, forests, and other natural resources. For those policies that may have likely significant environmental effects, whether adverse or positive, it analyzes the systems for reducing such adverse effects while enhancing positive effects and identifying potential gaps in these systems. As applicable, it provides recommendations to incorporate environmental considerations in the programmatic DPF. The methodology applied for the environmental analysis is based on two World Bank documents: the toolkit, “Assessing the Environmental, Forest, and other Natural Resource Aspects of Development Policy Lending”, and the Good Practice Note 4, “Environmental and Natural Resource Aspects of Development Policy Lending”. The first step of the analysis involved the assessment of evidence from each prior action, in terms of its potential significant environmental effects, following the criteria and categories established in the toolkit. Policy actions estimated to have no effect were excluded from further analysis, while policy actions estimated as uncertain or with potentially some negative effects were analyzed further. The assessment of the country’s system was based on secondary data review and on information gathered from interviews with government authorities in Colombia.

The results of the environmental analysis found that the Prior Actions supported by this operation are not likely to have significant negative effects on the environment, forests and other natural resources. The DPF will provide support to the government’s initiatives to address key issues of the comprehensive rural reform, including the special attention to the protection of the environment and natural resources. The environmental analysis found that the overall net direct and indirect environmental effects of the DPF should be positive, with two of the prior actions having likely neutral effects. The environmental analysis identified some potential for indirect environmental negative effects due to possible indirect outcomes associated with some prior actions. However, the associated environmental effects are not deemed significant as their probability of occurrence and likely magnitude are deemed low. A summary for each prior action is presented below.

The detailed analysis on Poverty and Social impacts is included in Annex 5.

Prior actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
<p>Prior Action 1: The Government has approved a comprehensive property cadastre policy which: Re-defines the roles and responsibilities of institutions and levels of government to separate regulatory and implementation responsibilities,</p>	<p><i>Yes, positive environmental effects expected.</i></p> <p>The PA should contribute to an enhanced land tenure system and an improved characterization of the territory, environmental factors, and natural resources by facilitating the collection of environmental and natural resource data as part of</p>	<p><i>No expected effects in the short run.</i> The new multipurpose cadastre is a project that involves several stages. Since the cadastre will be linked to the national registry, this prior action is expected to strengthen local property rights in the medium run. The multipurpose cadastre is also expected to increase the</p>

<p>Defines standards and methodologies for surveying, recording and valuation of properties to transform the fiscal cadastre into a multiple-purpose one, and Mandates the updating of cadastral information of all the land parcels in Colombia.</p>	<p>the cadastre. The cadastre should provide data/information to support effective land development, sustainable economic development, agricultural efficiency, and enhanced environmental management and disaster risk management. The multipurpose cadastre will update cartographic information, standardizing the use of cartographic scale, linking and providing more comprehensive and precise information on the boundaries of protected areas and of indigenous and Afro-Colombian communities, natural resources, and economic activities (especially in rural areas, such as mining, forestry, specific livestock activities, and agricultural practices). The final set of environmental variables to be collected by the multi-purpose cadastre remains to be defined. Thus, it is recommended for the Bank to follow-up during implementation and confirm the inclusion of environmental variables in the cadastre. By facilitating collection of environmental and natural resource data as well as updated cartographic information, standardized use of cartographic scale, and more comprehensive and precise information on the boundaries of protected areas, natural resources, and high risk areas, this prior action will bring about climate change co-benefits in terms of climate change adaptation.</p> <p>The implementation of the cadastre, however, may have indirect negative environmental effects if people who were occupying land without titles would try to compensate for future losses by overexploiting forest resources and neglecting soil protection. However these potential indirect adverse effects are uncertain, and would likely be limited to specific plots of isolated lands, and were not estimated to be significant. In addition, there</p>	<p>collection of local property taxes, broadening revenues of local governments.</p>
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	<p>are existing mitigation measures, such as incentives provided by the National Land Agency (Prior Action 2), the Rural Development Agency (Prior Action 3), and the High Council of Rural Planning for peasant farmers to formalize their land titles. Farmers could receive technical and financial assistance if private property is consistent with its social and ecological functions. Finally, Law 160 of 1994 allows for the provision of subsidies from the GoC to peasant families for the acquisition of land; provided that the land complies with the environmental and renewable resource conservation policy.</p>	
<p>Prior Action 2: The Government has established the institutional framework to, <i>inter alia</i>: (i) implement access-to-land programs for rural productivity and equity, and (ii) support the process for rural land formalization, through the creation of the National Land Agency (ANT).</p>	<p><i>No, the direct environmental effect of the creation of the agency is neutral.</i></p> <p>The indirect effect due to the ongoing ANT operations and activities could be positive on the environment, as it expected to promote more environmentally sustainable development assuming these agencies are properly staffed, budgeted and implement existing legislation, policies and guidelines. The ANT will manage public lands to increase opportunities of landless farmers and other vulnerable groups to access land. The ANT will manage access to land to foster the use of land in line with the social function of the property and data from the cadastre (prior action 1). The ANT will follow all applicable laws and regulations, which presently include requirements related to the use of environmentally sensitive land.</p> <p>There could be an indirect adverse environmental effect as land (or its rights) and underground natural resources (e.g., oil and gas, mineral) could be granted by the state to private mining operators under different legal regimes. The transfer of land to mining activities may lead to socioenvironmental conflict but also to natural resource degradation, as</p>	<p><i>No significant distributional effects in the short run.</i> Potential positive welfare effects in the medium term assuming that efficiency gains from ANT exceed both the fiscal and opportunity cost of those resources devoted to its operation</p>

	<p>local communities would may currently hold rights for this land, may be forced to find other areas, which may not be suited for agriculture and ranching activities. The loss of land could also force families to find other sources of income, which may include illegal mining and illicit crop cultivation, exacerbating deforestation, as well as water and soil pollution and associated adverse effects on public health. These potential indirect adverse effects are uncertain, and are not estimated as significant. The GoC is implementing an inter-sectoral agenda that includes key environmental protection measures and an inter-ministerial coordinated effort to reduce pollution from mining activities, which includes the Mining Consultation Roundtable.</p>	
<p>Prior Action 3: The Government has strengthened the institutional framework for rural development through the creation of the Rural Development Agency (ADR), which will plan, structure, co-finance and implement rural development projects.</p>	<p><i>No, the direct environmental effect of the creation of the agency is neutral.</i></p> <p>The ongoing operation and activities of ADR may indirectly produce positive environmental effects by promoting more environmentally sustainable rural development assuming it properly staffed, budgeted and implement existing legislation, policies and guidelines. The ADR is responsible to implement rural development in coordination with subnational governments. It should contribute to the strengthening of the capacity of territorial entities to plan, implement, and monitor agricultural and rural development programs and projects within the framework of environmental legislation and regulations that protect forests, soil, and watersheds. The different directorates that compose the ADR have a mandate to include environmental criteria in their plans and projects.</p> <p>However, there could be potential adverse indirect environmental effects, given that potential</p>	<p><i>No significant distributional effects in the short run.</i> Potential positive welfare effects in the medium term assuming that efficiency gains from ADR exceed both the fiscal and opportunity cost of those resources devoted to its operation.</p>

	<p>agricultural promotion by ADR could lead to the degradation of land and water, as well as to deforestation. There may be potential indirect environmental adverse effects, given that agricultural promotion can lead to the degradation of land and water, as well as to deforestation. These potential indirect adverse effects are uncertain, and are not estimated as significant. The country's environmental regulatory framework and systems have mitigation measures in place related to of these potential negative effects. The ADR will undertake capacity building activities and this would include environmental management aspects. As part of the continued dialogue with the GoC, the Bank will promote to ADR the use of sustainable agroforestry systems and payment of ecosystems services, commercial reforestation of cattle grazing areas, and agro-biodiversity programs to support diversification of production.</p>	
<p>Prior Action 4: The Government has approved a new territorial planning policy which enables: (i) the development of territorial & land-use plans at <i>Departamento</i>-level to foster regional integration, and (ii) the updating of municipal land-use plans under a new methodology that incorporates urban-rural linkages.</p>	<p><i>Yes, positive environmental effects expected.</i></p> <p>Positive environmental effects are anticipated as the new policy should enhance regional territorial planning by addressing the shortcomings of earlier land-use plans (Planes de Ordenamiento Territorial-POTs) and by implementing the Green Growth Strategy contained in the National Development Plan 2014-2018. Two of the main objectives of Colombia's green growth strategy are reflected in the new policy: (i) protect and ensure the sustainable use of the natural capital, improve the quality of life, and environmental governance; and (ii) achieve resilient growth and reduce the vulnerability to disaster risks and climate change. The new policy will also enhance the general municipal plan, by strengthening environmental protection measures; the conservation of natural resources; the identification of reserve areas for</p>	<p><i>Yes, moderate positive distributional effects in the medium term.</i> The strengthening of land use-plans is expected to promote transparency of land planning, to enhance correspondence between national and subnational policies, and to potentially help reduce regional socio-economic gaps.</p>

	<p>the conservation and protection of the cultural, historic, and architectural patrimony; and the identification of high-risk zones for human settlement. Better coordinated territorial and land use planning is expected to bring about climate change co-benefits in terms of climate change adaptation.</p> <p>However, the implementation of the policy could also induce indirect adverse environmental effects as changes in land uses might force people to find other areas for farming that may not be adequate, generating environmental impacts on soil, water, and forests. This environmental risk is considered low and these potential indirect adverse environmental effects are not considered significant.</p>	
<p>Prior Action 5: The Government has adopted a new policy that strengthens the Memoranda of Understanding between national and sub-national governments (<i>Contratos Plan</i>) by :</p> <p>Requiring prioritization of investments with highest impact potential in areas of higher needs, Creating a Regional Fund to speed-up project execution, and Ensuring co-financing of investments from subnational governments</p>	<p><i>Yes, positive environmental effects are expected.</i></p> <p>The <i>Contratos Plan</i> should result in improved coordination mechanism among different levels of government and thus better and informed decisions on public investments (including related to environmental and natural resource aspects). The agreements between the central government and subnational governments are for medium-term investment programs for territorial development. The programs include social and economic development projects such as water and sanitation, energy and natural gas plants and networks.</p> <p>Lower incidence of infectious diseases associated with inadequate potable water and sanitation can be a positive indirect effect of this Prior Action. Other indirect positive impacts could include: (i) lower GHG emissions due to increased use of renewable technologies, and (ii) reduction of</p>	<p><i>Yes, moderate positive distributional effects.</i></p> <p>The implementation of <i>Contratos Plan</i> is expected to have a positive effect on public sector investment at subnational level, which in turn could create a multiplier effect to foster regional economic grow</p>

	<p>indoor air pollution (due to the use of solid fuels for cooking).</p> <p>However, other projects (e.g., infrastructure, tourism, industry) could have negative environmental impacts. Current environmental legislation provides the preventative and mitigation measures to manage these potential negative environmental impacts. The National Authority for Environmental Licenses (ANLA), the CARs, are in charge of the environmental licensing and permitting process, depending on the type of project, as specified in Decree 2820. All projects in Colombia are required by Colombian legislation to meet applicable Colombian environmental legislation and associated permitting process, which is fairly robust. Thus, these potential indirect negative environmental effects are not considered to be significant.</p>	
<p>Prior Action 6: The Government, through the legislature, has enacted Organic Law 1753 which centralized the fiscal risk oversight of subnational governments in the MHCP through the unification of reporting requirements to improve the quality of regional fiscal data.</p>	<p><i>No environmental effects are expected from this prior action.</i></p> <p>The prior action aims at simplifying the reporting requirements for municipal and departmental governments to reduce the various types and formats of reporting requirements for municipal and departmental governments.</p>	<p><i>Yes, expected moderate indirect positive welfare effects.</i> Potential positive effects on local economic growth through improved government accountability and governance.</p>
<p>Prior action 7: The Government has harmonized the public sector accounting practices to a single national standard regime across government entities, including subnational governments, to be applied on a mandatory basis from January 1, 2017, to enable comparability of data across all sectors and levels of government.</p>	<p><i>No environmental effects are expected from this prior action.</i></p> <p>The prior action allows the application of a single definition of program budget for the investment side of the budget, following international standards. The GoC intends to adopt the International Public Sector Accounting Standards (IPSAS) and the IMF's 2014 Governance Finance Statistics Manual (GFSM).</p>	<p><i>Yes, expected moderate indirect positive welfare effects.</i> The harmonization of public sector accounting is expected to have positive impacts in local economic growth through improved quality of the fiscal and public budget information.</p>

<p>Prior Action 8: The Government has enabled the use of <i>standard project designs</i> by subnational governments to reduce the time and cost in the procurement and execution of regional and municipal investment projects.</p>	<p><i>No adverse environmental effects are expected from this prior action.</i></p> <p>This prior action allows standardization of projects aimed at improving quality, transparency and efficiency of public investment through strengthening of project design efforts faced by subnational and national public entities. SECOP 2 is a transactional e-procurement platform in which all public entities can carry out the full process of public procurement of goods and services online, from planning to final execution. Suppliers, buyers and public citizens will have access to the system. These reforms are expected to result in the faster and cheaper design and implementation of investment projects, and enhanced transparency and accountability of public expenditures at the subnational level. Colombian legislation requires all projects to comply with applicable Colombian environmental legislation and associated permit requirements.</p>	<p><i>Yes, expected moderate indirect effects in welfare.</i> The implementation of standard projects is expected to promote efficiency gains in public investment and a better accountability in the use of public resources, and thus positively affect local economic growth.</p>
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ANNEX 5: POVERTY AND SOCIAL IMPACT ASSESSMENT (PSIA)

- 1. The PSIA follows the Bank guidelines and is designed to provide an assessment of the potential effects of the government program supported by this DPF “Strengthening Territorial Development” on poverty, shared prosperity, territorial inequality and other social outcomes.** This PSIA documents the expected impacts of each prior action on territorial development, for instance in closing welfare gaps between regions and enhancing the coordination among different subnational levels of government, with potential positive effects on poverty and growth of incomes of those in the bottom 40 of the income distribution. Moreover, the analysis describes the potential effects of the policy actions on several dimensions of welfare beyond poverty and income inequality, including territorial inequality, local growth, and labor market outcomes. As part of this PSIA, quantitative analyses specific to the policies supported by this operation were developed, along with a literature review of previous studies relevant to the prior actions. Useful information to define parameters and assumptions to perform the quantitative analysis, as well as to organize the literature review, was gathered from previous evaluations by the World Bank and other multilateral organizations, as well as from academic research papers.
- 2. The set of prior actions aimed at building a new framework for territorial development, strengthening policies and institutions, and providing the legal enabling environment necessary to implement it, are likely to have positive welfare effects.** These potential effects would be mostly indirect and operate specially through improved provision of public services and local public goods. Moreover, these policies are expected to promote reduction of regional socio-economic inequalities as these may be targeted mainly towards lagged regions.
- 3. Prior actions that aim at strengthening public sector management of subnational expenditures are expected to have a positive effect on local economic growth by fostering higher and more efficient local public investment.** The potential welfare effects of these actions at the local level could also enhance coordination across levels of government and simplified processes for collecting information for decision-making and improved budgetary tools for resource allocation. In addition, prior actions also aim to improve quality of fiscal and budget data for policymaking and a more effective regional resource allocation and decision-making. In sum, the distributional impacts of these actions are expected to be positive but indirect, although they will depend on the elasticity between local public investment and economic growth.
- 4. This PSIA summarizes the main results of the ex-ante evaluations of the potential effects on welfare of the actions supported under this operation.** Preliminary findings suggest that the policy changes supported by this operation are expected to have moderate but positive effects on welfare, working mainly through indirect mechanisms, such as strengthening the property rights systems, liberating resources at the subnational level for investment in public goods and services, and enhancing the coordination among different subnational levels of government. In particular, the policy actions regarding the improvement of the financial management and public investment at the subnational level are likely to contribute to a more adequate management of local resources, which could be welfare enhancing if such resources are then allocated in productive investment.

Prior Action 1: The Government has approved a comprehensive property cadastre policy which: i) Re-defines the roles and responsibilities of institutions and levels of government to separate regulatory and implementation responsibilities; ii) Defines standards and methodologies for surveying, recording and valuation of properties to transform the fiscal cadastre into a multiple-purpose one; and iii) Mandates the updating of cadastral information of all the land parcels in Colombia.

5. **The development of a new multipurpose cadastre is not expected to have significant direct effects on poverty or shared prosperity in the short-run.** The new multipurpose cadastre is a long term project that involves several stages, from the design of the cadastre, to its actual linking to the national registry, passing through the update of property values. The implementation of a multipurpose cadastre implies structural changes in the methodological, technical, institutional, technological and operational aspects of the current cadastral model. For instance, it involves the creation of a new basic mapping system, with the scale parameters and appropriate representation. Moreover, it also involves the adoption of procedures of massive sweep of properties to resolve in an agile and cost-effective way the formalization problems of property, particularly in rural areas.⁷⁴ However, the development of the multipurpose cadastre is not expected to have direct impacts on welfare during the initial phases of design and early implementation, in the short-run.

6. **The implementation of the multipurpose cadastre might contribute to foster the fiscal autonomy of subnational governments and the spread of property rights.** The multipurpose design allows the economic valorization of identified and individualized land, facilitating the equitable land tax administration and efficiency in terms of settlement and collection of property taxes, virtually eliminating the separation between this system and registry. The integration and interoperability of the cadastre with other land information systems, a characteristic of a multipurpose cadastre, opens the possibility to obtain complete information of the properties in terms of: rights, restrictions, responsibilities, and spatial and administrative units. Once the multipurpose cadastre policy translates into updated property values, it might increase the tax revenues of local governments, broadening local revenues and promoting local fiscal autonomy, which may ultimately enhance the provision of public good and services. Moreover, the implementation of the new multipurpose cadastre can facilitate the spread of well-defined property rights in the medium to long run, particularly by strengthening the property rights of those households without title of their properties. Since these households are disproportionately in poverty or are vulnerable to falling back into poverty, the policy is expected to have a positive distributional effects in the medium run, as it would reduce exposure to risks of poor and vulnerable households. Importantly, empirical evidence suggests that a stronger property rights system is also associated with female empowerment and higher participation in household decision-making. However, due to updated property values, this policy might also be associated with increases in property taxes in the medium to long-run. Under a no-tax-evasion scenario, it may lead to a reduction in disposable income for households across all income deciles. Assuming a uniform increase in property values for all properties, this policy would be progressive in absolute terms (with respect to the *status quo*) as households that belong to the higher deciles of the income distribution already pay more taxes, since they live in properties with higher values. Under this same scenario, this policy may be regressive in relative terms, as poorer households would pay more taxes

⁷⁴ DNP 2016. "Política para la adopción de un catastro multipropósito rural-urbano." Documento CONPES 3859. Bogotá D.C., 13 de junio de 2016. Available at https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/3859_CatastroMultip.pdf

as a proportion of their total income. Ultimately, a comprehensive assessment of higher property values would have to consider additional parameters. Such parameters could include: (i) rate of evasion and ownership of housing by income decile⁷⁵; (ii) the elasticity of government spending on the provision of public goods to local government tax revenues; and (iii) the distribution of property values versus households' income.

7. The overall objective of the multipurpose cadastre⁷⁶ implementation policy is to move towards a single national information system that allows to link cadastre with registry. Moreover, a multipurpose cadastre would serve as an input for decision-making for land-use planning and for effective implementation of land policy, including the restitution, formalization, and administration of public lands and agricultural processes. The existing cadastre in Colombia captures the physical characteristics of land parcels exclusively for fiscal purposes. In contrast, a multipurpose cadastre collects additional information related to the parcel (such as land use, densities, socio-economic category) and interacts with existing relevant infrastructure systems (infrastructure, environmental), enabling the cadastre system to serve as a tool for planning and for territorial development, as well as an instrument to inform investment prioritization. From a tax revenues perspective, the most useful piece of information the cadastre manages is the cadastral value of each parcel, which serves as base for the property tax. This means that the multipurpose cadastre efforts to reduce the lags in the property's values database may raise the base for the property tax, which property owners might perceive as a change in taxation rules.⁷⁷

8. The implementation of a comprehensive medium-term property cadastre can help to spread well-defined property rights enhancing economic activity. The multipurpose cadastre is a tool that allows identifying, characterizing and accurately measuring the properties that make up the territory. Therefore, it helps to ensure the legal security of property, and promotes its formalization, with positive expected impacts on welfare.⁷⁸ In the absence of secure property rights, the incentives for investment or innovation are limited. Firms and individuals that experience lower security will invest less in productive activities, leading to misallocation of resources and thwarting growth. According to the literature, adequately defined property rights can affect economic activity through several channels. First, strengthened property rights reduce expropriation risks, bringing down the probability that individuals are not able to realize the fruits of their efforts and investments. Second, enhanced property rights reduce the need to incur in economically unproductive costs to secure or defend property. Third, well-defined property rights enable asset mobility as a factor of production, thus fostering the realization of gains from trade. The fourth way property rights promote economic activity is by allowing the use of property as a support for other transactions.⁷⁹ The new multipurpose cadastre is expected to reduce the uncertainty faced by vulnerable households through the enhancement of property rights. However, a positive effect of a multipurpose cadastre on individuals, through property rights, requires two complementary conditions:

⁷⁵ Although updated property taxes may also have an effect on value of rentals if owners transfer part of the higher taxes to tenants.

⁷⁶ For the development of multipurpose cadastre, the subnational governments are required to fulfill specific conditions, for instance having more than 500,000 inhabitants, and showing financial solvency, among others.

⁷⁷ Uribe, M.C. (2009) "Land Information updating, a *de facto* tax reform. Bringing up to date the cadastral database of Bogota." MIMEO.

⁷⁸ DNP 2016. "Política para la adopción de un catastro multipropósito rural-urbano." Documento CONPES 3859. Bogotá D.C., 13 de junio de 2016.

⁷⁹ Besley, T. and Ghatak, M. (2010). "Property rights and economic development" in Handbook of Development Economics. Volume 5, pages 4039-5061 (2010). Edited by Dani Rodrik and Mark Rosenzweig.

First, the information on the cadastre should allow information exchange and consistency with a property registry. Second, the information gathered through the multipurpose cadastre should be consistent with the requirements of the registry database.

9. Property rights play an important role fostering economic development, in particular in developing countries. O’Driscoll and Hoskins (2003) argue that development and property rights are intricately linked, for instance the importance of having well-defined and strong property rights for development is now widely recognized. A private property system gives individuals the exclusive right to use their resources as they see fit. In addition, the dominion over their property leads owners to take full account of all the benefits and costs of employing those resources in a particular manner. The process of weighing costs and benefits promotes efficient outcomes, which translates into higher standards of living for everyone.⁸⁰ From an empirical perspective, Galiani and Schargrodsy (2005) evaluate the effects of a property rights reform in squatters in Argentina finding positive impacts of property rights on housing investment, household size, and child education.⁸¹ Ford (2008) explores the relationship between farmer’s tenure security and land investment for a sample of Peruvian farmers who were part of a state-led land titling program. The study found a positive effect of titling on the probability of making investments, as well as on the value of investments for both groups of parcels, but also prove that the impact of titling is greater for parcels with previously low levels of tenure security. This effect could be almost entirely attributed to changes in farmer's willingness to invest and not to better access to credit.⁸² Similarly, Field and Torero (2006) assess the effect of an urban land titling program in Peru finding that property titles are associated with increases in approval rates on public sector loans (although, they find no evidence on the likelihood of getting a loan from the private sector).⁸³ More recently, Janvry *et al.* (2015) analyze the effects of a 1990s program that revamped the land rights regime in Mexican agricultural communities, finding suggestive evidence that formal land rights have a positive impact on economic performance by facilitating the reallocation of labor between sectors of the economy. These results adds to the literature on property rights which focuses on investment and increased access to credit as key pathways between rural land reform and economic growth.⁸⁴ However, as Besley and Ghatak (2010) point out, the impacts of the creation of effective property rights are heterogeneous, so they should not be considered as a magic bullet to cure all economic problems.⁸⁵

10. The impacts of the implementation of a multipurpose cadastre and the strengthening of the property rights system might be larger in the rural areas of Colombia. According to the SCD of Colombia,

⁸⁰ O’Driscoll Jr., G.P. and Hoskins, W.L. (2003). “Property rights: The key to economic development” Policy Analysis, No. 482. August 7, 2003.

⁸¹ Galiani, S., & Schargrodsy, E. (2005). “Property rights for the poor: Effects of land titling”. Business School Working Paper No. 06/2005. Universidad Torcuato Di Tella.

⁸² Fort, R. (2008). “The homogenization effect of land titling on investment incentives: evidence from Peru”. NJAS - Wageningen Journal of Life Sciences, Volume 55, Issue 4, 2008, Pages 325-343, ISSN 1573-5214, [http://dx.doi.org/10.1016/S1573-5214\(08\)80024-3](http://dx.doi.org/10.1016/S1573-5214(08)80024-3).

(<http://www.sciencedirect.com/science/article/pii/S1573521408800243>)

⁸³ Field, E. and Torero, M. (2006). “Do property titles increase credit access among the urban poor? Evidence from a nationwide titling program”. Harvard University. Working Paper available at: <http://www.economics.harvard.edu/faculty/field/files/FieldToreroocs.pdf>

⁸⁴ de Janvry, A., Emerick, K., Gonzalez-Navarro, M. and Sadoulet, E. (2015). "Delinking Land Rights from Land Use: Certification and Migration in Mexico." American Economic Review, 105(10): 3125-49. DOI: 10.1257/aer.20130853

⁸⁵ Besley, T. and Ghatak, M. (2010). “Property rights and economic development” in Handbook of Development Economics. Volume 5, pages 4039-5061 (2010). Edited by Dani Rodrik and Mark Rosenzweig.

farmers without title to their land earn on average about 45 percent less per capita than those with formal titling (Leibovich et al. 2013). With the right enabling conditions, smallholder farmers in Colombia could reach similar levels of efficiency and profitability as large producers (Forero et al. 2013; Leibovich et al. 2013). Secure access to land and formal property rights are important to reach higher levels of efficiency, profitability and income; while, at the same time, investment in basic services and infrastructure that allow farmers and ranchers to bring their products to markets also plays an essential role. Throughout the 1990s and early 2000s, decentralization led to underinvestment in roads, technical assistance, and housing programs in Colombia (Ocampo, 2014). In particular, post-conflict zones face special challenges and will need additional support.

11. Similarly, the strengthening of the property rights system can have positive impacts on female empowerment and participation in household decision-making. Wiig (2013) studies the case of Peru where the government implemented joint property rights between spouses and cohabitants on 57% of 1.5 million formalized agricultural plots, to assess the influence on decision-making in 1,280 rural households, interviewing man and woman separately.⁸⁶ Women living in communities with titled plots participated in 70.2% of the household decisions that were effectuated, compared to 64.9% in the communities without titled plots. Moreover, the effect is strongest for agricultural decision-making and land-related investment.⁸⁷ Ali *et. al.* (2014) assesses the short-term impact of a pilot land regularization program in Rwanda using a geographic discontinuity design. Their results suggest that land tenure regularization aided female empowerment in Rwanda and female-headed parcels almost tripled their investments in soil conservation. Legally married women were significantly more likely to have their informal rights documented and secured (although, the authors also observed erosion of rights by female spouses who are not legally married).⁸⁸ In addition, the empowerment of women through the development of property rights also affects the everyday consumption decision process in the household. For instance, Wang (2014) finds that when women received ownership rights in China, there were large decreases in household consumption of cigarettes and alcohol, which are male-favored goods, and improvements in girls' weight-for-age highlighting the potential importance of the individual that receives the ownership rights for bargaining outcomes within the household.⁸⁹

12. The multipurpose cadastre is expected to serve as an instrument to increase local property tax revenues that may in turn strengthen local fiscal capacity and increase the availability of resources to fund the provision of local public goods, enhancing overall welfare. The new cadastre policy is envisioning the cadastre as a multidimensional institution, but will nevertheless also have a substantial positive effect in its traditional fiscal use. A multipurpose cadastre linked to an update of the values of properties in the registry could raise the subnational government revenues from property taxes. As the municipalities start updating the property values, it is expected that local revenues across the country will

⁸⁶ A historical coincidence during the land reform of the 1960–70s made only some communities eligible for plot titling, while the process was exogenous and independent of both household and community characteristics.

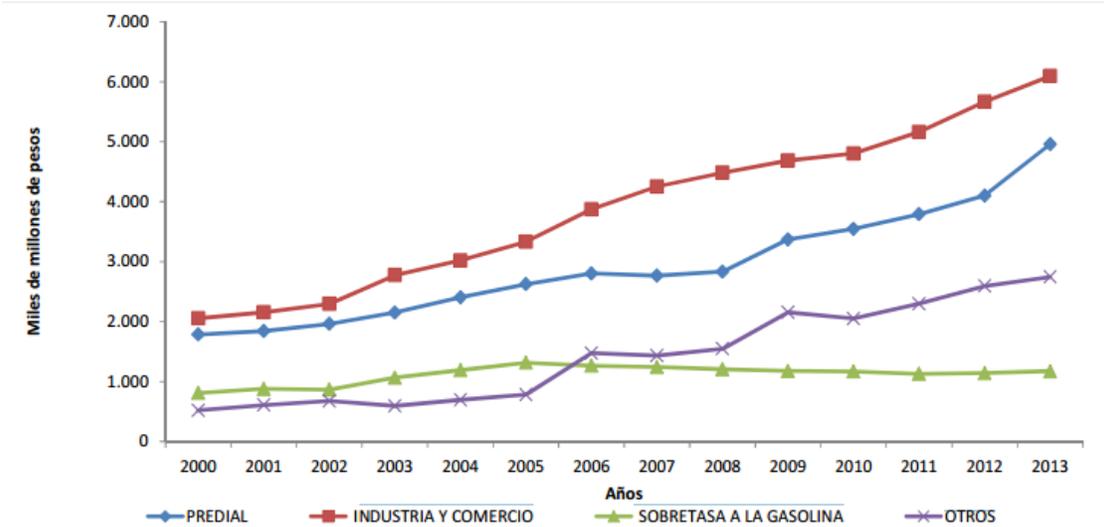
⁸⁷ Wiig, H. (2014) "Joint Titling in Rural Peru: Impact on Women's Participation in Household Decision-Making", *World Development*, Volume 52, December 2013, Pages 104-119, ISSN 0305-750X, <http://dx.doi.org/10.1016/j.worlddev.2013.06.005>. (<http://www.sciencedirect.com/science/article/pii/S0305750X13001587>)

⁸⁸ Daniel Ayalew Ali, Klaus Deininger, Markus Goldstein (2014). "Environmental and gender impacts of land tenure regularization in Africa: Pilot evidence from Rwanda". *Journal of Development Economics*, Volume 110, September 2014, Pages 262-275, ISSN 0304-3878, <http://dx.doi.org/10.1016/j.jdeveco.2013.12.009>

⁸⁹ Wang, S-Y (2014). "Property rights and intra-household bargaining" *Journal of Development Economics*. Volume 107, March 2014, Pages 192–201. [doi:10.1016/j.jdeveco.2013.12.003](http://dx.doi.org/10.1016/j.jdeveco.2013.12.003)

substantially increase. According to data from the Ministry of Planning (DNP), as of 2013 property taxes were the second main source of fiscal revenues for municipalities in Colombia (Figure 1). The potential increase of fiscal revenues could be used to finance local public goods and services, with potential beneficial effects on the wellbeing of Colombians.

Figure 1. Aggregate municipal revenues by income source, 2013



Source: DNP (2013). Desempeño fiscal de los departamentos y municipio 2013.

13. The link between cadastre and registry may lead to increases in local property taxes in the medium to long run. Strategies to mitigate the potential negative effects of higher property taxes for poor households include current legal provisions through the Law 44 of 1990 and Law 1450 of 2011, which contains considerations of progressivity for property taxation. In particular, the article 23 of Law 1450 of 2011 states that each district should determine differentiated and progressive property taxes based on criteria such as the socioeconomic level, the use of land in urban areas, and the cadastre appraisal. Similarly, the Law includes special safeguards for low income households (from strata 1, 2, and 3), such as lower bounds for the minimum value of property taxes and limits to the annual increases in property taxes. Even though it is not possible to extrapolate it perfectly, the case of Bogotá constitutes a relevant case study on the implementation of “mitigation” mechanisms to avoid that tax increases harm the low-income households in the context of Colombia. In Bogotá, the significant lag on the cadastre database called for the implementation of schemes such as increase-ceilings to prevent dramatic increases in property tax driven by up to date cadastral values.⁹⁰

14. The implementation of a comprehensive medium-term property cadastre could lead to increases in property taxes in the medium and long run with potential distributive impacts. In order to assess the effects of a potential change in property taxes, this PSIA proposes a preliminary incidence analysis.

⁹⁰ Uribe, M.C. (2009) “Land Information updating, a *de facto* tax reform. Bringing up to date the cadastral database of Bogota.” MIMEO.

According to Atkinson and Stiglitz (2015)⁹¹ an incidence analysis requires to calculate the general equilibrium of the economy before the change in taxation, and then to recalculate the equilibrium after such change; assuming that the changes will provide a description of the incidence of the tax. In such a way, it is possible to say whose income has gone up or down and by how much, as well as what prices have changed. In most situations, even the welfare (measured through income or consumption patterns) of individuals who were not directly taxed will change.

15. This PSIA analyzes the expected distributional impacts of an increase in property taxes due to an update on housing valuation product of the implementation of the multipurpose cadastre. The incidence analysis of a potential increase in property taxes relies on a partial equilibrium model that captures the first order effects of property tax increases. The basic model proposed uses the expenditure pattern of the households and the relative incidence of the property taxes, following Araar and Verme (2012)⁹² and Kpodar (2006).⁹³ However, certain caveats and limitations must be considered to apply and interpret the results of this analysis. For instance, the analysis accounts only for first order impacts of changes in property taxes; thus, it does not consider any behavioral responses from the households or the authorities. Partial equilibrium models like the one proposed here only capture the short-run effects of policies, such that they only provide an upper bound to the impact on household's wellbeing, before any potential behavioral response or mitigation mechanism takes place. Moreover, the design and implementation of the multipurpose cadastre is a process that involves several stages, such that the actual update of property values due to the new cadastre, and the corresponding increases in property taxes might not take effect within the next 3 or 5 years. However, the analysis assumes that the property and income distribution is similar to the one observed in 2014.

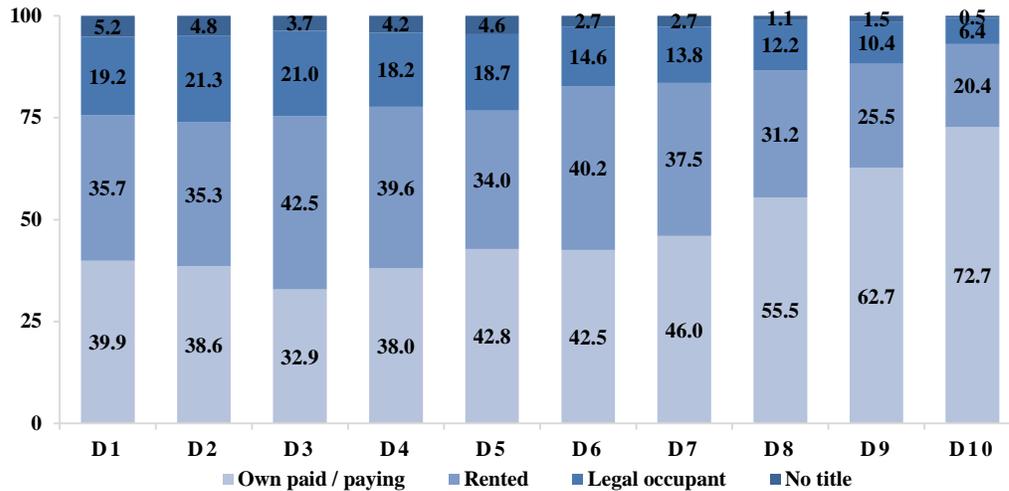
16. A partial equilibrium analysis suggests that increases in property taxes through higher property values could reduce households' disposable income in the long run. Figure 2 is based on information from the Life Quality Survey (ECV for its name in Spanish, *Encuesta de Calidad de Vida*) of 2014 and shows that the composition of household property varies importantly across the income distribution. The Figure 2 classifies households as homeowners (which includes both individuals who fully paid and who are still paying for their household), tenants (rent the house they are occupying), legal occupants (lives in the house with permission of the owner, but does not pay rent) and home owners without a legal title. Homeowners and tenants are the most important categories, representing 75 to 78 percent of the households in the first four deciles of the income distribution (bottom 40), and increasing to more than 93 percent in the highest income decile. Being a legal occupant represents about one fifth of the households in the first five income deciles, but decreases as incomes goes up, representing only 6.4 percent of the households in the highest income decile. Owning a house without title is the least important category across all income levels, falling from 5.2 percent in the lowest decile to 0.5 percent in the highest income decile. As a caveat, it should be mention that people might underreport the fact that they own a house without having a legal title to it, so the participations reported should be considered as lower bounds for the actual share of this group.

⁹¹ Atkinson, B.A. and Stiglitz, J.E. (2015:132-134). "Lectures on Public Economics. 2E". Princeton University Press.

⁹² Araar, A. y Verme, P. (2012:14). "Reforming Subsidies: A too-kit for policy simulations".

⁹³ Kpodar, K., 2006, "The Distributional Effects of Oil Price Changes on Household Expenditures: Evidence from Mali". IMF Working Paper 06/91.

Figure 2. Distribution of Household Property by Income Decile, 2014

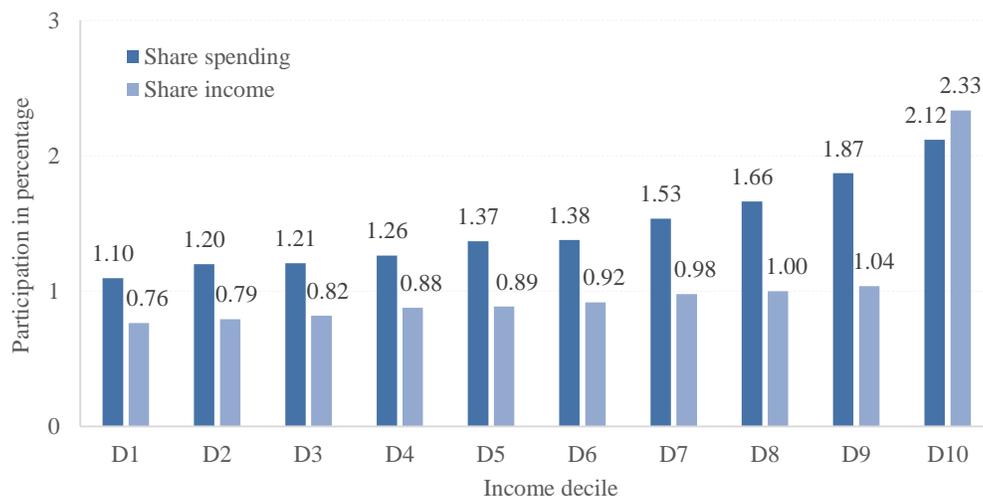


Source: Own elaboration base on the Encuesta de Calidad de Vida (2014).

Note: The figures aggregates owners who already fully paid for their houses and the ones who are still paying under a single category “Own paid/paying”.

17. **The PSIA analyzes the incidence of property taxes across the different income deciles by assessing the incidence with respect to the average expenditure.** Figure 3 depicts the incidence of property taxes with respect to household income or expenditure increases with income level. Note that, as shown by Figure 2, house ownership is considerably higher for the wealthier income deciles. To evaluate the effects on poverty and shared prosperity it is useful to assess the relative incidence of property taxes in household budget, in particular among the individuals in the bottom 40 of the income distribution (four lowest deciles in Figures 2 and 3). Figure 3 shows the participation of property taxes with respect to the household income and spending, divided by income decile. As we can observe, the participation of the tax seems to increase with the income decile, either as part of the income or of the total household expenditure. The picture shows how the participations seems relatively constant between the second and the sixth income decile, while it increases considerably in the highest.

Figure 3. Share of Property Tax with respect to Household Income and Expenditure by Income Decile, 2014



Source: Encuesta de Calidad de Vida (2014).

18. **The implementation of a comprehensive multipurpose property cadastre is expected to lead to updates in property valuations and increases in property taxes, which would be progressive in absolute terms.** Figure 3 shows that households in the higher deciles pay more property taxes as a proportion of their income or expenditures. Potential updates on property taxes would also imply higher tax bill for wealthier households. Nevertheless, it is important to notice that under a scenario of no tax evasion, higher property taxes may become regressive in relative terms, since they may represent a higher percent of the incomes of households in the bottom of the income distribution. However, according to Figure 2, since ownership is lower in the lowest deciles but the participation of “no title” is higher, titling regularization could lead to more “property owners.”

Prior Action 2: The Government has established the institutional framework to, inter alia: (i) implement access-to-land programs for rural productivity and equity, and (ii) support the process for rural land formalization, through the creation of the National Land Agency (ANT).

Prior Action 3: The Government has strengthened the institutional framework for rural development through the creation of the Rural Development Agency (ADR), which will plan, structure, co-finance and implement rural development projects.

19. **The establishment of government agencies to foster rural development could improve socio-economic outcomes in rural areas.** The GoC is reorganizing the existing institutional framework by the liquidation of INCODER (*Instituto Colombiano para el Desarrollo Rural*), the restructuring of the Ministry of Agriculture and the establishment of the Rural Development Agency (*Agencia de Desarrollo Rural, ADR*), and the National Land Agency (*Agencia Nacional de Tierras, ANT*). Assignment of land affects equity and efficiency, determining among other aspects the households' ability to generate subsistence and income, their social and economic status, their incentives to exert effort and make investments, and their access

to financial markets and consumption-smoothing mechanisms.⁹⁴ The effectiveness of institutions such as norms, property rights and political systems depend on the effective functioning of other arrangements in the institutional structure in order to be conducive to innovation and growth.⁹⁵ The potential positive welfare effects of the establishment of new agencies assume that their expected efficiency gains would exceed both the fiscal and opportunity cost of those resources devoted to their operation.

20. The ADR is the entity responsible for implementing the policies of agricultural and rural development with a territorial approach formulated by the Ministry of Agriculture and Rural Development.⁹⁶ The ADR performs its functions at a national level, relying on territorial technical units. The ADR has the responsibilities of structuring, co-financing and implementing comprehensive plans and projects for agricultural and rural national development as well as to strengthen the management of agricultural and rural development and help improve the living conditions of rural populations and competitiveness of the country.

21. In addition, the ANT is responsible for the land administration as a resource for rural development.⁹⁷ The ANT will aim to implement the policy of social order of rural property made by the Ministry of Agriculture and Rural Development. Moreover, the ANT also has the responsibility to manage the land access policy and its legal security, as well as to consolidate and protect property rights in the field areas. The ANT should manage access to land as a productive factor, and manage the rural lands that belong to the GoC.

22. Several studies portrait the need to strengthen institutions in Colombia, to facilitate rural development. According to the literature, institutions governing the functioning of land markets could potentially reduce transaction costs associated with land exchanges, increase the magnitude and distribution of the benefits generated by these exchanges, and enhance incentives for rational economic agents to undertake efficiency-enhancing transfers and land-improving investments.⁹⁸ According to the World Bank (2014)⁹⁹ unequal distribution, informality (lack of titles), and inefficient use of land conspire to pose an important obstacle to growth, social and political stability, as well as to durable peace in Colombia. These three concepts (unequal land distribution, informality, and inefficient use) are separate elements but are highly correlated in rural areas of the country. For large landholders, inefficient land use leads to extensive cattle ranching with extremely low stocking rates per hectare (Ocampo, 2014).¹⁰⁰ An estimated two thirds of lands in rural areas are held without title. Large landholders would also encourage

⁹⁴ Deininger, K. and Feder, G. (2001). "Land Institutions and Land Markets." In *Handbook of Agricultural Economics*, Volume 1, Edited by B. Gardner and G. Rausser.

⁹⁵ Lin, J.Y., and Nugent, J.B. (1995). "Institutions and Economic Development", in *Handbook of Development Economics*, Vol III, Edited by J. Behrman and T.N. Srinivasan.

⁹⁶ Decree No. 2364, from December 07 of 2015.

⁹⁷ Decree No. 2363, from December 07 of 2015.

⁹⁸ Deininger, K. and Feder, G. (2001). "Land Institutions and Land Markets." In *Handbook of Agricultural Economics*, Volume 1, Edited by B. Gardner and G. Rausser.

⁹⁹ World Bank (2014:81). *Colombia Policy Notes: Towards Sustainable Peace, Poverty Eradication and Shared Prosperity*. Washington, DC: World Bank. Doi:

<http://documents.worldbank.org/curated/en/2014/09/23942684/towards-sustainable-peace-poverty-eradication-shared-prosperity>

¹⁰⁰ Ocampo, J. A. (2014:6). "*Saldar la deuda histórica con el campo: Marco conceptual de la Misión para la Transformación del Campo*." Departamento Nacional de Planeación, Bogotá, DC, Colombia, October 2014.

informality (see Balcazar and Rodríguez, 2013),¹⁰¹ through their resistance to paying taxes on the value of their holdings. Moreover, since land is one of the best collateral assets available, clear property rights and greater ease of their exchange are likely to affect the emergence and efficiency of financial markets. This implies that land markets have an essential role in the broader process of economic development.¹⁰² In addition, according to Colombia's Systematic Country Diagnosis (SCD) of 2014, due to the high level of informality and lack of access to finance, the rural areas in Colombia show lower investment, lower tax revenues, and lower growth. For smaller landholders, informality constrains bind in an opposite way. Informality, rather than keeping producer costs down, restricts the ability to invest by cutting off access to credit, insurance, and other forms of capital. Small producers without secure land holdings are thus put at a disadvantage and tend to suffer from disproportionately high rates of poverty (Perry et al. 2013).

Prior Action 4: The Government has approved a new territorial planning policy, which enables: (i) the development of territorial & land-use plans at Departamento-level to foster regional integration, and (ii) the updating of municipal land-use plans under a new methodology that incorporates urban-rural linkages.

23. The strengthening of land use-plans is expected to promote transparency of land planning, potentially helping to reduce regional socio-economic gaps. The PODs and POTs could play an important role in fostering the economic potential of subnational areas, enhancing correspondence between national and subnational policies, reducing uncertainty about future land use, and improving efficiency and performance of subnational entities. The process of implementation of a modern land use planning and supra municipal approach is an opportunity to strengthen government efforts of regional development, in order to reduce territorial gaps in the provision of quality services in health, education, public services, infrastructure and connectivity, as proposed by the BPND.¹⁰³ However, policy and land use plans and regulations could also have countervailing effects, generating both negative and positive impacts, resulting in forces that may generate influences on regional economic growth and development, which are dynamic in nature and exhibit very complex paths over time.¹⁰⁴

24. At a broader level, the main objective of the POTs *Modernos* program is to facilitate the articulation of a multilevel national planning system to enhance the design of articulated policies with departments and municipalities. The POTs are the main instruments of territorial planning and of land management; while the POD are the main departmental instrument embodying the vision of the departments on territorial occupation. There are potential positive effects from the enhanced coordination brought by the POD, in particular the improved outcomes that could be achieved by internalizing negative spatial spillover effects of policies implemented in a single municipality, in contrast with the outcomes produced from coordination across municipality boundaries. Similarly, a more consistent territorial development framework across national and subnational levels reduces the uncertainty with respect to future developments and the use of land.

¹⁰¹ Balcazár, Á. and Rodríguez, C. 2013. "Tierra para uso agropecuario" in Políticas para el desarrollo de la agricultura en Colombia, edited by J. J. Perfetti, A. Balcazár, A. Hernández, and J. Leibovich, 65-116. Bogota, Colombia: FEDESARROLLO.

¹⁰² Deininger, K. and Feder, G. (2001). "Land Institutions and Land Markets." In *Handbook of Agricultural Economics*, Volume 1, Edited by B. Gardner and G. Rausser.

¹⁰³ Bases del Plan Nacional de Desarrollo. "Todos por un nuevo país." 2014-2018.

¹⁰⁴ Kim, J.H. (2011:43). "Linking Land Use Planning and Regulation to Economic Development. A Literature Review." *Journal of Planning Literature*, 26(1) 35-47. DOI: 10.1177/0885412210382985

25. The design and implementation of territorial policy and land-use plans and regulations is expected to improve efficiency and performance of subnational entities. The economic literature points out some of the channels how territorial development and land use planning can promote economic prosperity, these include:

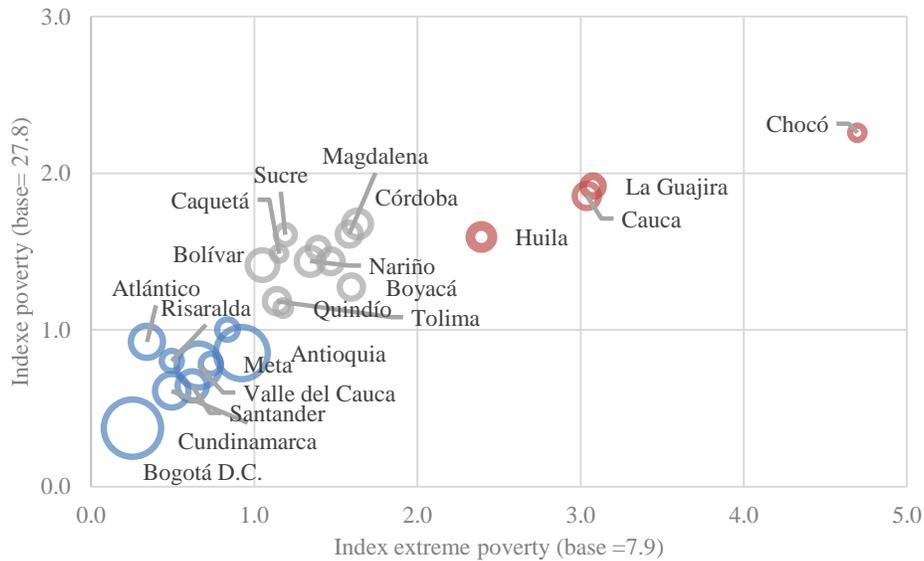
- by eliminating negative externalities, preserving public goods, and improving amenities;
- by encouraging compact development, associated with higher efficiency in public services provision;
- by improving transportation outcomes or broadening the options for travel choices that have significant implications for local economies; and,
- by reducing the uncertainty and transaction costs involved in land development.¹⁰⁵

26. Territorial inequality is one of the main challenges to further the downward trends in poverty and income inequality observed in Colombia over the past decade. Figure 4 shows a geographical division in terms of poverty grouping the departments into three categories based on their levels of poverty and extreme poverty. (i) *Departamentos* with poverty and extreme poverty levels below the national value, several of these departments are the most populated. (ii) *Departamentos* with poverty levels between 1 and 2 times the national value, with medium size in terms of population. (iii) *Departamentos* with relatively higher extreme poverty compared with their total poverty, where the levels of extreme poverty are between 2 and 4.5 the national average. In 2015, departments with relatively high levels of poverty like Choco, Cauca and Magdalena were able to achieve important poverty reductions; while the national poverty fell less than 1 percentage points, these departments experienced reductions larger than 2.6 percentage points. In the case of extreme poverty, Choco and Cauca achieved reduction of 2 and 1.5 percentage points while the national average reduced by 0.1 percentage points. However, a longer-term analysis of the evolution of poverty at the department level reveals that during the 2002- 2015 period some of the poorest departments, such as Cauca, Choco, and Guajira had relative smaller declines in poverty rates. Similarly, the Pacific and Atlantic regions have not closed the gap in multidimensional poverty with Valle del Cauca or Bogotá. The urban-rural divide is also persistent in monetary and multidimensional poverty measures.¹⁰⁶ This contrast stems from differential access to sanitation infrastructure, health services, quality education, road infrastructure and security particularly in departments distant from main city centers and/or affected by violence.

¹⁰⁵ Kim, J.H. (2011:43). "Linking Land Use Planning and Regulation to Economic Development. A Literature Review." *Journal of Planning Literature*, 26(1) 35-47. DOI: 10.1177/0885412210382985

¹⁰⁶ DANE (2015). *Boletín Técnico: Pobreza Monetaria y Multidimensional en Colombia 2015*. Bogota, D.C., 2 de marzo 2016. Cód.: DIE-020-PD-01-r7_v2 Fecha: 18/12/2015

Figure 4. Poverty inequality in Colombia, 2015



Source: World Bank staff calculations using GEIH MESEP-DANE.

27. Despite Colombia’s recent record of significant reductions in poverty and improvements in social indicators, achieving a balanced territorial development remains as one of the main challenges that the country faces to continue its recent progress. One of the defining characteristics of Colombia is the uneven territorial development of the country that can be tracked to deep historical roots and poses an important challenge for continuing with the social gains observed in recent years¹⁰⁷. Moreover, the recently completed SCD for Colombia argues that the uneven territorial development in Colombia is one of the defining characteristics of the country, showing deep historical roots, which in turn conditions the achievement of poverty eradication and shared prosperity in a sustainable way.¹⁰⁸

A stronger institutional development at the subnational level, embodied in a stronger commitment to the POTs Modernos program, could promote a reduction of regional socio-economic gaps. The economic consequences of land use planning and regulation may highly depend on the institutional context.¹⁰⁹ In the case of Colombia, previous studies suggest that current regional inequality could be partially explained by long-run institutional differences. Cortes and Vargas (2012:6)¹¹⁰ indicate that the root causes of regional inequality in Colombia are related to underlying institutional differences that have been perpetuated over years, dating back to colonial times, which manifest themselves as differences in

¹⁰⁷ See, for instance, García-Jimeno (2005)¹⁰⁷ and Cortes and Vargas (2012)¹⁰⁷, who argue that historical differences have partially determined diverse paths of economic development in the long run

¹⁰⁸ World Bank (2015:7). “Colombia. Systematic Country Diagnostic”. The World Bank Group. June 21, 2015. According to the World Bank (2015:9). “This differential access is due to lack of economic convergence, explained by lack of investment in rural areas in the past and which is only partially compensated through oil royalties because of limited local institutional capacity to design and implement projects and policies”. World Bank (2015). Colombia Systematic Country Diagnostic. June 21, 2015. World Bank.

¹⁰⁹ Kim, J. H. (2010). “Land use planning as information production and exchange: An empirical analysis of the uncertainty reduction effect.” Regional Economics Applications Laboratory Discussion Paper 10-T-5. <http://www.real.illinois.edu/d-paper/10/10-T-5.pdf>

¹¹⁰ Cortes, D. and Vargas, J.F. (2012:6). “Inequidad regional en Colombia”. Serie Documentos de Trabajo. No. 127, Universidad del Rosario – Facultad de Economía. October, 2012. Available at: <http://repository.urosario.edu.co/bitstream/handle/10336/10980/10081.pdf>

terms of presence and capacity of the state and governance, the rule of law and the monopoly of the use of violence, and property rights. Even though institutional development might not have a direct impact on poverty reduction, there could be positive, although indirect, effects of stronger local institutions on local economic activity.

28. Improved plans of land use at both the municipal and the *Departamento* level could provide better information to guide a more efficient allocation of resources across regional priorities and reduce the uncertainty regarding future land use. The new framework for land use planning has the potential of improving information transparency and could have positive effects on general wellbeing by reducing uncertainty regarding the future use and development of land and territories. The definition of pillars for territorial policy and plans for the use of land facilitates a better alignment and coordination between different agencies; for instance, to enhance the provision of public services. However, the poverty and social impact of this prior action will depend on the effects of the improved allocation of resources on local public goods enjoyed by the poor.

29. The literature on urban planning and regional economics identifies a set of complex links between land use and socio-economic outcomes. In particular, Kim (2011) suggest causal links of land use on regional economies through (i) changes in the development patterns and spatial structure reformation; (ii) land market efficiency improvements; (iii) supply constraints and price increases in property markets; and, (iv) labor market shifts.¹¹¹ These multiple channels indicate a complex set of causal links and the possibility of countervailing effects. Similarly, the literature on urban economics highlights the need of more urban planning in the developing world.

Prior Action 5: The Government has adopted a new policy that strengthens the Memoranda of Understanding between national and sub-national governments (Contratos Plan) by: (i) Requiring prioritization of investments with highest impact potential in area of higher needs; (ii) Creating a Regional Fund to speed-up project execution, and (iii) Ensuring co-financing of investments from subnational governments.

30. The implementation of *Contratos Plan* is expected to have a positive effect on public sector investment at subnational level fostering a better public investment prioritization and accountability, which in turn could foster regional economic growth. The *Contratos Plan* are an instrument that aims to coordinate funding sources to ensure that investments have a greater impact at territorial level. The *Contratos Plan* are agreements with programmatic goals between the National Planning Department and the departments, which allow the Central Government to provide fiscal closings to local and regional investment projects, and are expected to boost territorial associativity. In addition, with the objective of simplifying the execution of resources committed on the *Contratos Plan* and eliminate potential bottlenecks, there are plans to create a single account (managed by a financial institution) following the logic of a single-till, to consolidate incomes from different sources.

¹¹¹ Kim, J.H. (2011). "Linking Land Use Planning and Regulation to Economic Development. A Literature Review." *Journal of Planning Literature*, 26(1) 35-47. DOI: 10.1177/0885412210382985

31. **The expected socio-economic impact of *Contratos Plan* could be maximized through enhanced design and operation that adapts lessons learned on similar initiatives, for instance the French “*Contrat de Plan Etat-Region*” (CPER).** In the case of France, where a similar instrument was implemented since the 1980s, Albertini et al. (2007) argue that the CPER became an essential policy to support the land use planning, contributing to the balanced development of the regions with the goal of achieving sustainable development and the competitiveness of territories. This instrument, which started more than 30 years ago, gradually gained financial weight, and has spread to wider areas of public areas. The CPER has emancipated increasingly from their original addressing of infrastructure coordination issues, moving now towards all the areas of sustainable development.¹¹² However, there are some nuances in the French case that should be taken into account before applying it directly to the Colombian context. First, the degree of institutional development both at the national and subnational levels in France is more advanced than for the case of Colombia. In addition, there is an important heterogeneity in the methodologies for impact evaluation and assessment of the CPER during the period 2000-2006. In the case of Colombia, there are currently 7 *Contratos Plan* in the implementation phase (Arauca, Santander, Boyaca, Sur del Tolima, Norte del Cauca y Nariño) as pilot programs, and two additional ones (Amazonas y Norte de Santander) are in preliminary implementation stage. These pilots showed that the *Contratos Plan* are useful instruments for the articulation between the nation and the territory around common development goals, as well as to promote multilevel governance.¹¹³ The objective of DNP in the short term is to be able to discuss and agree on 5 *Contratos Plan* and initiate conversations on 3 more.

32. **Improving regulatory efficiencies can support economic growth and development.** The policy of implementation of the *Contratos Plan* and the associated regional fund is a strategic instrument the government can use to manage the economy and implement policies. The *Contratos Plan* could move the policy design towards a more executive model, where the parties involved have individual weights (governors/mayors, sectors and DNP), and define larger sectoral plans to be applied in the territories. While *Contratos Plan* could move the plane of management to an integrated mode, which reduces management efforts but increases coordination costs (which are borne by the governance of the *Contratos Plan*).¹¹⁴ Through the *Contratos Plan* framework, the Colombian government can maximize its influence on regulatory policy and deliver regulations which contribute to social well-being through a more effective framework.¹¹⁵ Evidence suggests the quality of regulation is strongly associated to economic growth and productivity (Djankov et al. 2006; Jacobzone et al. 2010; Jalilian et al. 2007).¹¹⁶ In addition, better quality of regulatory policy can also minimize corruption opportunities and reduce its negative economic and social impact (Djankov et al. 2002).¹¹⁷

¹¹² Albertini, J.B., Le Dolley, V., Alouis, F., Lespiaucq, A. (2007). “Les contrats de projets Etat-Regions”. DIACT.

¹¹³ DNP (2014). “Contratos Plan: Lineamientos de Política y Plan de Expansión 2014-2018.” Documento CONPES 3822. Bogota D.C 22 de diciembre de 2014. Available at: <https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/3822.pdf>

¹¹⁴ Cortes, D. and Pico, J. (2016:15-16). “Diseño de la evaluación de los Contratos Plan (CT).” MIMEO. Bogota, 29 de Marzo de 2016.

¹¹⁵ OECD. 2011. *Regulatory Policy and Governance: Supporting Economic Growth and Serving the Public Interest*. OECD Publishing.

¹¹⁶ Djankov, S., C. McIesh, and R. M. Ramalho. 2006. “Regulation and Growth.” *Economics Letters* 92.3: 395–401.

Jacobzone, S., F. Steiner, E. Lopez Ponton, and E. Job. 2010. *Assessing the Impact of Regulatory Management Systems: Preliminary Statistical and Econometric Estimates*. OECD Working Papers on Public Governance N. 17. OECD Publishing, Paris.

Jalilian, H., C. Kirkpatrick, and D. Parker. 2007. “The Impact of Regulation in Developing Countries: A Cross Sectional Analysis.” *World Development* 35 (1): 87–103.

¹¹⁷ Djankov, S., R. La Porta, F. Lopez-De-Silanes, and A. Shleifer. “The Regulation of Entry.” *The Quarterly Journal of Economics* 117.1 (2002): 1–37.

Prior Action 6: The Government, through the legislature, has enacted Organic Law 1753 which centralized the fiscal risk oversight of subnational governments in the MHCP through the unification of reporting requirements to improve the quality of regional fiscal data.

Prior Action 7: The Government has harmonized the public sector accounting practices to a single national standard regime across government entities, including subnational governments, to be applied on a mandatory basis from January 1, 2017, to enable comparability of data across all sectors and levels of government.

33. **Prior Actions 6 and 7 are aimed at improving the processes for collecting financial and fiscal information at the subnational level, simplifying reporting requirements and harmonizing accounting standards, and are expected to improve the quality of fiscal and budget information for policy design and decision-making.** Prior Action 6 is expected to improve the quality of subnational fiscal data by strengthening institutional arrangements and simplifying financial reporting, which will foster fiscal oversight by the GoC. In addition, Prior Action 7 is expected to improve financial and accounting information across government levels, increase the impact of investments on territorial equity and improve the allocation of resources across municipalities and departments. Greater transparency and accountability are critical for fostering long-run economic growth and social well-being,¹¹⁸ since they ensure that there is available information to measure the authorities' performance and ensure that the government is held accountable for spending, such that the social contract can be upheld.

34. **Information requests on public expenditure and investment are currently fragmented, and not harmonized, thus not conducive to greater accountability and generating an excessive burden on subnational governments.** According to recent studies, Colombia presents institutional coordination shortcomings for the collection, processing, validation and submission of public spending information.¹¹⁹ In most subnational governments, the process of preparing the information is manual and intensive in the use of time and other resources.¹²⁰ The DNP is reforming the process of collecting information and simplifying the reporting requirements for subnational governments to reduce the number of reports municipalities have to submit to national government agencies. It is expected that these changes will allow for more accurate and timely public investment data, contributing to improving coordination across levels of government and a significant reduction of the reporting requirements that subnational governments currently face. Improved public investment information could promote a more strategic allocation of resources on higher-impact projects and ultimately enhance growth at the subnational level, with

¹¹⁸ Several authors have linked the concepts of transparency to good governance and strong institutional development, finding empirical evidence of positive effects of institutions on national income. See for instance Acemoglu, D., Johnson, S., and Robinson, J.A. (2002). "Reversal of fortune: Geography and institutions in the making of the modern world income distribution." *Quarterly Journal of Economics*, 118, 1231-1294; or, Acemoglu, D., Johnson, S., and Robinson, J.A. (2005). "Institutions as fundamental determinants of long-run growth." In P. Aghion, and S. Durlauf (Eds.). *The Handbook of Economic Growth* (Vol. 1A, pp.385-472). Amsterdam: North-Holland.

¹¹⁹ Informe Final con recomendaciones y conclusiones: Entregable 8. Proyecto Fortalecimiento de la Gestión de las Finanzas Públicas en Colombia. Bogotá, July 13 of 2015.

¹²⁰ As part of the Programmatic Approach for Public Sector Governance in Colombia, the World Bank conducted a study on the reporting requirements faced by Colombian municipalities. "*Reportes de los municipios para el nivel central de gobierno en Colombia: Diagnóstico y recomendaciones*" (forthcoming).

expected positive effects on poverty. At the same time, the availability of better fiscal information increases the pressure for government officials to improve the effectiveness and efficiency of their spending.

35. The current accounting regime in Colombia is outdated and lags behind the systems in other Latin American countries. Subnational governments are legally required to provide expenditure information, including public investment to the central government, to receive transfers of funds for the GoC. However, complying with reporting requirements demands great efforts from municipal and departmental governments that have often limited capacity to design and implement public investment projects to begin with. At the municipal level alone, municipalities were required to fill out 47 types of reports from 12 different national agencies in 2014, for a total of 233 reports submitted per year. A study conducted by the World Bank has highlighted several shortcomings of this process, including: i) little use of the reports across municipalities; ii) inefficient and costly data collection processes; iii) lack of coordination among national government agencies, which creates duplications and overlaps; and iv) inadequate institutional arrangements and resources of municipalities to meet the reporting requirements. Several studies have identified that the harmonization of concepts between accounting and budget is still a major problem to ensure the quality and timeliness of information in Colombia. The GoC is leading a number of initiatives to promote the harmonization of the accounting regime nation-wide. The National General Accounting Office (*Contaduría General de la Nación*, CGN) has made continued progress towards convergence with International Public Sector Accounting Standards (IPSAS) since the adoption of an accrual-based public accounting regime in 2007. Recently, the CGN has reformed the accounting regime in order to establish a regulatory framework for general government entities, in alignment with IPSAS. This model will be mandatory for all budgetary public sector entities, including subnational governments, by January 1, 2017.

36. Enhancing harmonization of financial and fiscal information fosters governance, as well as transparency and accountability in the execution of public budget, which helps to ensure that funds are spent efficiently and in accordance with public policy design. Enhancing governance is important for poverty and shared prosperity since governance influences how this prosperity is distributing among the population, by shaping the functioning of markets and the outcomes of distribution. Two of the most important instruments for redistributive policy are the provision of public goods and services, and fiscal policies for public spending and revenue collection. Through these policies that allocate and redistribute resources the GoC has the potential to enhance equity. Moreover, the capacity of a government to provide opportunities to all individuals strongly relies on its ability to provide quality public services, such as health and education. These services are particularly important for the poor and disadvantaged, since this population is the most likely to be excluded in the presence of market failures. However, the delivery of these services requires resources to be raised and redistributed. Governance can also affect investment and efficiency by fostering socially beneficial collective action to coordinate investment decisions and promote cooperation to solve potential market failures; or by creating an environment in which firms or individuals feel secure in investing their resources in productive activities, and have the incentives to use them efficiently.

37. The GoC is developing a new policy to improve the quality of fiscal and budget information in order to strengthen fiscal control and improving policy making. Through the newly established the Public

Finances Statistics Inter-sectorial Commission (*Comisión Intersectorial de Estadísticas de Finanzas Públicas, CIEFP*)¹²¹ hosted in MHCP, the GoC is leading critical initiatives to improve the quality of fiscal data and statistics including the accounting and budget reform and the adherence to international standards. This policy is expected to have positive impacts in terms of enhancing transparency and accountability, as both public officials and citizens will have better information at their disposal for decision making and public scrutiny, respectively. Transparency and inclusion in the use of resources may improve credibility for the subnational levels of the Colombian government.¹²² A more transparent regulatory framework that also considers citizens' views can enhance credibility for public policies. This in turn may allow greater foreign investment and stimulate economic growth. According to Kolstad and Wiig (2009), transparency serves to achieve accountability and has the potential of curbing corruption, by allowing that authorities are held responsible for their actions.¹²³

38. The availability of better information for public investment decision making at the subnational level is expected to have positive impacts on the allocation of limited fiscal resources, especially at the subnational level. Unifying reporting requirements and harmonizing public sector accounting allow for improved expenditure allocation and is instrumental to increase the effectiveness and efficiency of government expenses. The concentration of wealth and the gap between the provision of private and public services can lead to perceptions of unfairness, since low quality public services tends to shift the demand of the bottom 60 towards private services, weakening their willingness to contribute to the fiscal system, leaving the rest of the population with low-quality services. Improved information could promote a more strategic allocation of resources on higher-impact projects and potentially enhance GDP per capita at the subnational level, as well as to boost poverty reduction. This policy is expected to improve the overall allocation of resources, transparency and accountability, as well as facilitate the coordination between the country and the subnational territories, with expected positive impacts on the efficient use of public resources and potential indirect positive effects on individual welfare.

Prior Action 8: The Government has enabled the use of standard project designs by subnational governments to reduce the time and cost in the procurement and execution of regional and municipal investment projects.

39. The standardization of projects will reduce the administrative costs for SNGs and thus promote faster design and implementation of investment projects; enhancing the transparency and accountability of public expenditures at the subnational level. The size of the operational costs respect to resources is a traditional measure of efficiency of public resources and a bad sign of good fiscal capacity (DNP 2013). As figure 5 shows, there is a huge heterogeneity in terms of fiscal capacity, more than 900

¹²¹ The Public Finances Statistics Inter sectorial Commission (*Comisión Intersectorial de Estadísticas de Finanzas Públicas, CIEFP*) was established to design policies, strategies and objectives to achieve the harmonization of public financial and fiscal information, guarantee the application of consistent and compatible methodologies and adherence to international standards in order to provide the country policy makers with complete quality and timely fiscal information. The CIEFP is composed by MHCP, DNP, CGN, DANE and CGR.

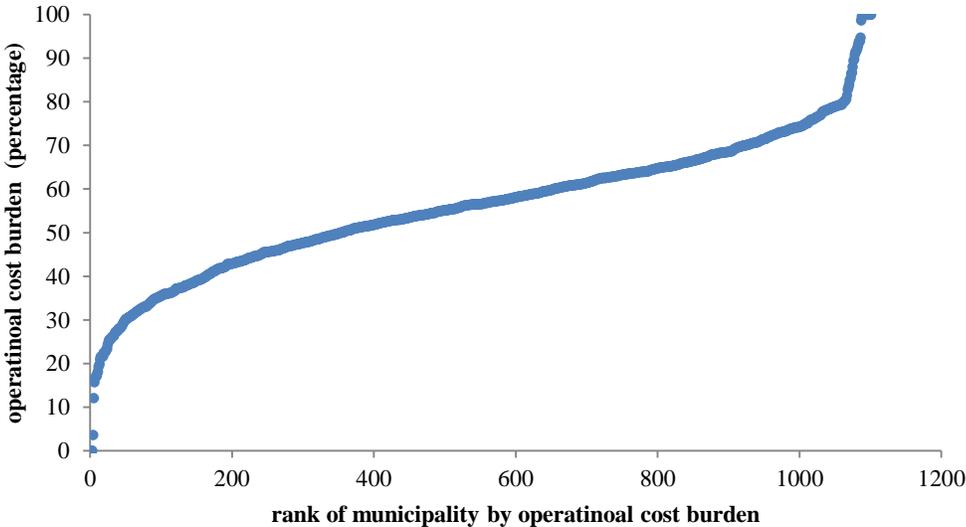
¹²² For instance, overall the country ranks 43 out of 60 countries for government transparency. Quality of legal and regulatory framework - 33/60; Capacity of decision for the government - 42/60. World Competitiveness Yearbook (WCY) for International Institute for Management Development (IMD).

¹²³ Kolstad, I. and Wiig, A. "Is transparency the key to reducing corruption in resource-rich countries?" *World Development*. Volume 37, Issue 3, March 2009, pp.521-532.

out of 1,102 municipalities spend more than 40% of its free-usage resources¹²⁴ on operational costs (including staff and public procurement). This heterogeneity requires policies to help less efficient municipalities to reduce its cost burden in order to devote more resources to public investments to promote local economic growth and to improve the provision of local public goods.

40. The definition of common standards for investment projects is expected to have positive impacts on the spending of limited fiscal resources. This prior action aims at the harmonization of guidelines and requirements for investment projects, that is expected to improve the overall allocation of resources, transparency and accountability, as well as facilitate the coordination between the country and the subnational territories, with expected positive impacts on the effectiveness of public investment and potential indirect positive effects on individual welfare.

Figure 4. Operational cost as percentage of resource with free destination



Source: DNP 2013. Dirección de desarrollo territorial sostenible (DDTS).

Note: Municipalities (13 municipalities) with a burden above 100 were excluded.

41. The potential gains due to economies of scale, standardization of procedures and improvement in the transparency and accountability of public resources is expected to foster more efficient public spending. The implementation of the new procurement policy at the subnational level could led to greater transparency in public spending, improving the accountability of subnational governments and strengthening the social contract between subnational authorities and the population.¹²⁵ Moreover, the standardization of procedures generate additional savings due to efficiency gains, in addition to economies of scale product of the aggregation of the demand similar as with the national level public spending.

¹²⁴ Free-usage resources refers to the part of total budget that does not have to be invest on specific sectors and activities according to the law of public investments.

¹²⁵ Informe No. 76920-CO (2013:77). “Fortalecimiento de la Capacidad Fiscal para la Promoción de la Prosperidad Compartida. Préstamo para Políticas de Desarrollo”.

ANNEX 6: ANALYTICAL UNDERPINNINGS

Table 1: DPF Prior Actions and Analytical Underpinnings

Prior actions	Analytical Underpinnings
Prior Action #1	<ul style="list-style-type: none"> • The World Bank Colombia Rural Land Policy Note (2010) maintained that the cadastral system is not up-to-date, the cadastre and the registry are not systematically integrated, and many informally occupied parcels are not captured by the cadastre because there is no legal mandate to map and regularize them. • The USAID Institutional Analysis for Efficient and Sustainable Land Administration in Colombia (2013) suggested that the continuation of Colombia’s separated approach to cadastre, registry, restitution, formalization of tenure on private property, and titling of state lands will result in slow implementation of government policy, high transaction costs, and continued insecurity of tenure.
Prior Actions #2 and 3	<ul style="list-style-type: none"> • USAID Land and Rural Development Program “Mission for Territorial Transformation” (2015) noted that the institutional fragmentation with the existence of multiple agencies and institutes with rural formalization mandates led to poor results in the fight against rural informality. • The World Bank-financed Land Governance Assessment Framework (LGAF, 2013) observed that rural land formalization would be successful if the predecessor of the National Land Agency, the Colombian Institute of Rural Development (INCODER), were to abandon its rural development functions. • Misión para la Transformación del Campo: recognized the need for a territorial approach to rural development, and identified institutional weaknesses in the sector, recommending the creation of ANT.
Prior action #4	<ul style="list-style-type: none"> • OECD (2014): OECD Territorial Reviews: Colombia 2014. Paris: OECD Publishing: stressed the importance of a revised territorial approach to reduce the gaps in standards of living and the importance of the harmonization of planning and expenditures at the regional level. • World Bank (2013): Colombia Urbanization Review Amplifying the Gains of Urbanization, Washington, DC, World Bank. –highlighted the role of cities as part of a system and acknowledged the importance of building rural-urban linkages to expand the benefits from economic concentration to the rest of the territory. Stressed the need for interjurisdictional coordination for enhanced provision of services. • Misión para la Transformación del Campo: recognizes that territorial planning and sectoral planning have not been aligned, bringing challenges for multi-level planning that includes relationships between the national, departmental, and municipal levels, leading in many cases to overlapping and fragmentation of functions and responsibilities across levels. Questioned the links between rural and urban areas and highlighted the need for policies that move away from this dichotomy and support regional development. • Misión de1 Sistema de Ciudades: suggested that a strategy for territorial development of rural areas should align environmental, social, and productive objectives as well as enhance the links between rural and urban areas. Recognized the need of new instruments that improve territorial planning to ensure the sustainable and equitable use of land. Noted the importance of strengthening the links between territorial units and across levels of government.

<p>Prior action #5</p>	<ul style="list-style-type: none"> World Bank (2014): Colombia Policy Notes: Toward Sustainable Peace, Poverty Eradication and Shared Prosperity. Washington, DC: World Bank. Chapter 12 of this technical note underscores the need to promote standardized and coordinated approaches to core public management functions and processes as well as procurement rules and standards, in order to improve coordination among levels of government. OECD (2014): OECD Territorial Reviews: Colombia 2014. Paris: OECD Publishing. This review analyzes governance tools to coordinate public investment across levels of Government in Colombia, including the “contratos-plan” The contratos-plan are found to be an instrument for improving the public sector’s capacity for regional development in lagging territories in Colombia.
<p>Prior action #6</p>	<ul style="list-style-type: none"> The World Bank “Reportes de los municipios para el nivel central de gobierno en Colombia: diagnóstico y recomendaciones” (2016) takes stock of the number of reports Colombian municipalities are required to submit to central GoC entities and estimates the administrative and financial burden for municipal governments, and highlights the lack of institutional coordination affecting the quality of fiscal data for reports such as the FUT. The final report of the SECO-funded “Proponer estrategias para mejorar la calidad de la información reportada por las entidades territoriales en el Formulario Único Territorial (FUT) y el uso y la utilidad del Sistema de Información del Formulario Único Territorial (SISFUT)” project (2015) includes recommendations for the reform of the FUT so as to increase institutional coordination, improve the quality and timeliness of data and enhance the strategic use of information. OECD (2013): Colombia: Implementing Good Governance, OECD Publishing, Paris; DOI: http://dx.doi.org/10.1787/22190414, The report recommends the Government to improve knowledge on the need of territorial communities and the performance of regional policy by improving evidence based policy making by national and SNG and by organizing national data within a territorial framework and creating outcome based indicators on regional performance. OECD (2014): OECD Territorial Reviews: Colombia 2014. Paris: OECD and World Bank (2014): Colombia Policy Notes: Toward Sustainable Peace, Poverty Eradication and Shared Prosperity. (Chapter 12), World Bank: Both reviews highlight as one of the key pillars the development of better data for policy making and regional resource allocation and territorial development.
<p>Prior action #7</p>	<ul style="list-style-type: none"> IMF (2011), Fiscal Affairs Department, “Chart of Accounts: A Critical Element of the Public Financial Management Framework”, https://www.imf.org/external/pubs/ft/tnm/2011/tnm1103.pdf; This technical note highlights the critical importance that the Chart of Accounts plays for effective budget management and fiscal data integration, and thus costing of programs, financial reporting and resource allocation. The World Bank Opportunities for Budget Management Reform in Colombia (2013) stressed the need for harmonizing budget classifiers with accounting classifications. Robinson, Marc (2007), Performance Budgeting, Linking Funding and Results, IMF. This book explains how international experience confirms that strong accounting standards and programmatic classifiers are foundations for performance budgeting and advanced policy making. World Bank Reimbursable Advisory Services (RAS) to support the accounting reform with the “Public Sector Accounting Reform phases I and II (P148732 and P155509)” and the support to develop programmatic classifications for the budget through the “Conceptual Design and Implementation of a Results-based Public Investment Management Model (P154144).” These projects highlight the international experience in reforming accounting standards and adopting programmatic

	<p>classifiers, as well as harmonizing accounting and budget standards in order to implement stronger policy making mechanism and move towards results based budgeting and management.</p> <ul style="list-style-type: none"> • Castro, Manuel Fernando (2009): Insider Insights: Building a Results-Based Management and Evaluation System in Colombia. IEG Evaluation Capacity Development Working Paper Series No.18. This paper noted that “basic steps like defining program classifications of the budget and results-based budget presentational exercises can be influential when it comes to promoting a greater results orientation in expenditure”.
<p>Prior action #8</p>	<ul style="list-style-type: none"> • OECD (2013): Colombia: Implementing Good Governance, OECD Publishing, Paris; DOI: http://dx.doi.org/10.1787/22190414, Annex B: Public procurement in Colombia analyses the advantages of, and recommends the country (i) adopting the e procurement platform, (ii) focus on efficiency gains across the levels of government (national, SNG) using tools like framework agreements, standard projects and standardization of procurement practices and focus on results as opposed to rule compliance. • OECD (2016), <i>Towards Efficient Public Procurement in Colombia: Making the Difference</i>, OECD. http://dx.doi.org/10.1787/9789264252103-en. This report highlights the importance that tools like standard projects (e.g. standardizing tendering process) and framework contracts can play in increasing competition and efficiency in the public procurement at the national and subnational level. Also, the adoption of the single e procurement platform and the information derived from it will substantially improve regional decision making and accountability. • World Bank and Inter-American Development Bank (2009): Status of the Public Procurement Reform in Colombia that highlights the importance of consolidating all procurement information systems in a single system that collects the information required to monitor the procurement system’s performance and produce analytical, statistical and control data for policy making and accountability. • Schapper, P. and Veiga Malta, Joao N; “Public Procurement Reform in Latin America and the Caribbean”, World Bank (2011). This report highlights the importance of the revised focus of procurement legislation and regulation in terms of standards and results rather than procedures. It highlights the push for a modern procurement policy that promotes frameworks that seek to drive behavior towards adherence to standards that link procurement directly to good governance and government policy (as opposed to mere compliance). • OECD (2007): Integrity in Public Procurement: Good Practice from A to Z. Paris: OECD Publishing. The report highlights a framework to promote integrity, transparency and accountability in national procurement based on international experience.

ANNEX 7: TERRITORIAL DEVELOPMENT AND THE NEW CADASTRE IN COLOMBIA

Section I: Introduction

1. This Annex sets forth the important interrelationship of the cadastre for territorial development in Colombia. First, this Annex presents a diagnostic of specific challenges of the Colombian cadastral system, which in its current state represents a key constraint to a more equitable territorial development. Then it briefly explains the potential use of a well-functioning cadastre for poverty reduction and improving equity, before defining the scope of the Government of Colombia's (GoC) multi-purpose cadastre policy reforms. This Annex focuses on the GoC's four-pronged approach for the multi-purpose cadastre, including the institutional linkages that will be necessary for the success of said reforms. Finally, it explicates the implementation arrangements, timeframe, and financing plans for the multi-purpose cadastre.

2. **The GoC has built a broad program to understand, evaluate, and address bottlenecks to a more balanced and integrated territorial development.** A significant component to this program is the implementation of a multi-purpose cadastre that is complete, up-to-date, reliable, consistent with the property registry, and integrated with other information systems. A cadastre is most often defined as a database that contains the boundaries and location of parcels as defined by surveys and recorded on maps. In Colombia, it has traditionally been used for taxation purposes in urban areas. The GoC has decided to take an approach that enables the cadastre to perform functions other than serving as a depository of geographical information solely for taxation purposes. The GoC intends for the multi-purpose cadastre to enhance property rights, contribute to fiscal strengthening, and strengthen strategic planning and territorial development.

3. **A multi-purpose cadastre can act as a powerful tool for planning and territorial development, it can create the enabling conditions for investment prioritization and more balanced territorial growth.** The challenges that the multi-purpose cadastre reforms aim to resolve include the absence of solid information to enable territorial planning, which stems from the lack of robust, accurate and georeferenced information that accurately represents the territory (e.g. tenure, ownership, use, accessibility). Moreover, this lack of accurate information limits the ability of property registries to accurately determine property rights, prevents the development of well-functioning land markets and opens the doors to speculation and land grabbing, which can intensify sources of conflict. The institutional setup to manage and make this information available, presents a hurdle for land use planning and the implementation of infrastructure investments, in particular for much needed initiatives to promote the productive use of rural land.

4. **A systematic multi-purpose cadastre program, as proposed by the GoC, will record all parcels and rights (including use rights, adverse possession, etc.) and begin the process to formalize land tenure for all.** The cadastre and land rights are a key input to any territorial planning process and the systematic cadastre program will provide a key data set for local governments and national authorities to plan for territorial development that will support the peace process and the National Development Plan (NDP). The new national policy provides the enabling conditions for the design, implementation, use, and maintenance of a multi-purpose cadastre for the first time in Colombia. The NDP law (2015) mandates the creation of a multi-purpose cadastre system– requiring physical surveying of the entire country - to guarantee the full alignment between physical and legal records and to provide a complete record of all parcels, which is essential to support territorial planning and investment prioritization. Importantly, the

NDP puts forward the need for the creation of a National Land Management System with the national cadastre and registry information as main inputs. The policy document for the adoption of a multi-purpose cadastre (CONPES document 3859, 2016) further defines the specific objectives of the new policy, namely to design and establish within a ten year period (2016-2025) a multi-purpose cadastral system that will: (i) adequately characterize the physical conditions of the Colombian territory under a systematized and standard methodology, (ii) guarantee the full alignment between physical and legal property information, (iii) document and record market-related land values in order to enable functional land markets, and (iv) incorporate provisions to ensure technical, financial and institutional sustainability in the long term.

Section II. Diagnostic of Current Situation

5. **Similar to other countries in the Region, the land administration system in Colombia is a dual system:** with physical characteristics of land parcels (area, boundaries and any existing buildings) recorded in the cadastre maps and information systems under the Geographic Institute Agustín Codazzi (IGAC), and information on tenure, ownership and transactions recorded in the property registry, which is the responsibility of the Superintendent of Notaries and Registries (SNR). Currently, these two land information systems are not harmonized, limiting formalization (today informality is high, at 60% in rural areas) and the efficiency and reliability of property transactions. Furthermore, information is not systematized (there are no unique technical standards for cadastral surveying), cartography is outdated and lacks the required scale for planning and prioritization of investments. Moreover, since cadastral data have traditionally been used solely for tax collection purposes¹²⁶, important information useful for planning and prioritization of investments is currently lacking (such as land use, accessible infrastructure, ownership, and price).¹²⁷

6. **The current state of the Colombian cadastre represents a key constraint to a more equitable territorial development.** It has been widely documented that Colombia's land resources are underutilized and inequitably distributed in ways which incur significant costs for society through unrealized agricultural growth potential, environmental degradation, poverty, conflict and social dislocation. Several studies (IGAC, 2003, Malagon 1998, Accion Social) show that 62.3% of the country's territory presents a conflict with its potential or biophysical best use. In addition to land misuse, land distribution in Colombia remains highly unequal. Empirical studies of Colombia's rural sector show that about 1% of the parcels cover more than half (53.8%) of the available land; while about 90% of the parcels share approximately one fourth of the land. A further difficulty is the lack of complete land records in rural areas in Colombia. Today there is no cadastral record for 26% of the total rural land of the country¹²⁸ and 66.5% of the plots for which cadastral information exists have information that is out of date by five years or more. Given that most municipalities rely heavily on the property taxes to increase their own resources, the lack of an updated cadastre represents a key challenge to raising local resources needed to provide SNGs with the fiscal space to carry out local capital investment projects and decrease their dependence on central

¹²⁶ This explains why around 27% of the territory has never been surveyed as many of these plots had little or no expected tax collection.

¹²⁷ The *Superintendencia de Notariado y Registro* (SNR) remains as the main authority for property registration. A national Cadastral Committee, formed by IGAC, SNR and DNP is being created to ensure coordination across the three entities as the updating of the cadastre is rolled out.

¹²⁸ The plots without any cadastral information span over 80 municipalities, mostly in the Departments of Chocó, Amazonas, Vaupés, Guainía y Nariño. These regions include 81% of the indigenous territories (*Resguardos Indígenas*), collective property territories, afro-descendants, and many of the protected areas of the Country.

transfers.¹²⁹ There is evidence in Colombia that the update of the cadastre has in some cases substantially impact tax collection in the short term.¹³⁰

7. **Specific Challenges.** The Colombian cadastre is not fully complete nor is it up-to-date, and it does not collect important land management information. Part of the challenges lies in the fact that the national cartography and mapping is neither up-to-date nor sufficiently detailed in order to satisfy the requirements for cadastral surveying. The lack of mapping that is up-to-date and adaptable for different institutional users is a significant barrier for establishing and maintaining the cadastre, as well as processes of municipal land use planning.¹³¹ Moreover, the Colombian cadastre is separate from the Property Registry, and both systems are considered imprecise and not fully linked. In Colombia, legal information of real estate property (including land) is considered valid if it is registered in the Registry Offices of Public Records [in Spanish, *Oficinas de Registro de Instrumentos Públicos (ORIP)*]. Furthermore, in Colombia, no single state agency collects and maintains systematic and comprehensive information of the different forms of land tenure. Property registries only deal with documents supporting property and other rights. There is no legal obligation to register in those registries different forms of ownership.

8. **Challenges in the Cadastre's Economic Functions.** Land and property valuations, for the most part, do not reflect the fair value of the properties. This bottleneck relates to issues with the methodology of economic valuation of the properties. Valuation guidelines are considered antiquated and do not reflect the economic condition of a given property, or the determinants and dynamics of the land and real estate markets. In the overwhelming majority of cases, valuations are well below their commercial value. The GoC has identified that two of the main challenges that impede fair and meaningful valuation are: (i) the lag and/or obsolescence of cadastral surveying; and (ii) Law 242 of 1995 which establishes the country's inflation rate as the maximum annual adjustment of assessed valuation, which does not necessarily reflect the dynamics of the housing and land markets. The significantly lower assessed valuations limit the ability of municipalities to raise funds through property taxation, which is detrimental to local tax authorities and the maintenance of municipal cadastral information.

9. **Despite the progress in recent years, there has been not enough effort to broaden local revenues and promote local fiscal autonomy.** In Colombia, municipalities and departments raise about 3 percent of GDP through tax revenue, with the remainder provided by the General Participations System (*Sistema General de Participaciones - SGP*), central Government transfer arrangements, and other funding sources such as non-tax revenues and the *Sistema General de Regalias (SGR)*, the royalties on natural resources. Both, the World Bank and the OECD, have consistently highlighted the importance of

¹²⁹In 2012, SNG own-revenue represented about 3.5% of GDP, as compared to total revenues (net of transfers) representing 23.1% of GDP – i.e. subnational own revenues represented approximately 15% of total revenues. Breaking this figure down at the departmental and municipal levels, departments own revenues represented about 1.0% of GDP in 2012, while municipal own revenues accounted for 2.5% of GDP (i.e. departmental own revenues represented about 4% of total revenues (net of transfers), while municipal own revenues accounted for approximately 11%. That same year, municipal property tax revenue accounted for 0.6% of GDP – which is about 30 percent of their own-tax revenue that year (which was 2.0% of GDP), and 10.5% of municipal total revenues (also including transfers, royalties, cofinancing, and other sources), which represented 5.7% of GDP in 2012. Source: DNP, DANE, and Banco de la Republica data in “Decentralizing Revenue in Latin America: Why and how.” Eds. Vicente Fretes Cibils and Teresa Ter-Miassian. IADB (2015).

¹³⁰As documented by DNP, the municipality of Tenjo (Cundinamarca) updated the cadastre in 2013 and saw an increase in the taxable base (*base gravable*) of 199% which increased collection in 64% during the first year—from 5,707 million pesos in 2012 to 9,378 million pesos in 2013—and a further 19% the following year, reaching 11,172 million pesos during 2014.

¹³¹In an initial diagnostic exercise, the following agencies were identified as generating land-related information systems of databases with little or no articulation: DANE, MinAmbiente, CARs, sub-national governments, National Mining Agency, Geological Services and Ecopetrol.

establishing incentives and providing support to enhance tax collection at sub-national level as well as improving the performance of municipal property tax by updating cadastral and land values¹³². Property tax collection in Colombia is around 1.5 percent of GDP (2010) only slightly below the average for OECD countries. However, this tax represents approximately 20 percent of the overall local tax collection and most small and medium municipal tax administration authorities have weak management and control capacity. Stronger tax administration remains a core local public management function that needs to be improved in those municipalities. The new cadastre policy envisions the cadastre as a multidimensional activity, but will nevertheless also have a substantially positive impact on its traditional fiscal use. As the municipalities start updating the property values, it is expected that local revenues across the country will substantially increase. Most likely this increase will be very heterogeneous, and it is expected to be linked to the institutional tax administration capacity of the different municipalities

10. A well-functioning cadastre system can contribute to poverty reduction and improve equity. As it is an instrument /tool of a wider land policy, these positive impacts are possible in a context of conducive land governance that increases land tenure security. Cross-country econometric research has argued that security of property rights does have a significant impact on overall growth¹³³, but also that initial access to assets affects subsequent outcomes¹³⁴. Also, communities with greater tenure security spend less time defending their properties informally. Moreover, an efficient cadastre and property registration system can enable land markets, both sale and rental, to reach maximum productivity, especially when in conjunction with sound credit and labor markets. In Nicaragua, greater tenure security through registered titles helped bring the level of households' investment close to the optimum and increased the value of land by almost 30 percent¹³⁵. In Costa Rica, there are estimates of a positive correlation of 0.53 between farm income and title security.

Section III. Government of Colombia Strategy

11. **The primary function of a multi-purpose cadastre is to bring together different data sets into a single unified one and to strengthen institutional linkages, in order for the multi-purpose cadastre to be used as a strong planning tool for territorial development.** An essential such first step towards territorial development requires an integrated land administration system, where cadastre and registry data are consistent and up to date, and include a complete record of the territory. Moreover, the cadastre should provide an accurate characterization of the existing physical characteristics of the land which can subsequently allow for alignment with the property registry, and capture economic characteristics of plots.

12. **The CONPES document, approved on June 13th, 2016, specifies the action plan, tentative budget allocation required, and the new institutional arrangements to implement the new policy.** Given the ambitious goals and the lack of recent precedent for the creation of a multi-purpose cadastre system, the

¹³² World Bank (2014), *Colombia Policy Notes*;

<http://documents.worldbank.org/curated/en/112491468028508507/pdf/ACS109000REVIS0tes0text0120220140qr.pdf> ;

OECD (2014), *OECD Territorial Reviews: Colombia 2014*, OECD Publishing, <http://dx.doi.org/10.1787/9789264224551-en>

¹³³ Keefer, P., and Knack, S. (2002). "Polarization, Politics, and Property Rights: Links between Inequality and Growth." *Public Choice* 111(1-2): 127-54.

¹³⁴ Deininger, K., and Squire, L. (1998) "New Ways of Looking at Old Issues: Inequality and Growth." *Jornal of Development Economics* 57(2): 259-87; and Rodrik, D. (1998) "Where did all the Growth Go? External Shocks, Social Conflict, and Growth Collapses." Working Paper: no. 6350-27. National Bureau of Economic Research, Cambridge, MA.

¹³⁵ Deininger, K., (2003) "Land Policies for Growth and Poverty Reduction", A World Bank Research Report, p.47.

GoC, through DNP will carry out eleven cadastre pilots in an equal number of municipalities.¹³⁶ The objective of these pilots is to inform the detailed implementation arrangements that will be rolled out throughout the country between 2017 and 2025. The key aspects to be tested under the pilots are: (i) surveying methodology and standards, (ii) implementation mechanism (implementation is expected to occur with significant private sector participation and hence partnership arrangements will be tested), (iii) available information and variables to be included in order to define the exact information layers to be included, and (iv) costs and identification of efficiency measures that could be adopted during the pilot scale-up phase. Once the pilots are finalized (mid-2017, expected), methodological standards and implementation mechanisms will be approved and issued by IGAC, and implementation of the national multi-purpose cadastre system will be rolled-out to the rest of the country. Total estimated costs for full roll-out is US\$820 million¹³⁷.

13. The CONPES document for the multi-purpose cadastre sets forth the following general objective for the reform: “To design and implement a multi-purpose cadastre system that is complete, up-to-date, reliable, consistent with the property registry, and integrated with other information systems; to enhance property rights (garantias del derecho de propiedad), to contribute to fiscal strengthening, to strengthen strategic planning and territorial development.”

14. To achieve its general objective, the GoC has adopted a four-pronged approach with related specific objectives:

- (i) *Economic Dimension:* To estimate property values that accurately reflect the physical and economic conditions of the parcels, through the identification, adoption and implementation of technical standards under the multi-purpose cadastre.
- (ii) *Physical/Geographical Dimension:* Achieve full legal and physical identification and description of public and private land in the country, under the international standards adopted by the cadastral authority.
- (iii) *Legal Dimension:* Ensure the inter-relationship between the cadastre and the property registry, having integrated and unified standards in these matters
- (iv) *Institutional Dimension:* Strengthen the cadastral institutional framework for the proper functioning of the multi-purpose cadastre, and the adequacy of mechanisms to improve access and interoperability of land and property information.

¹³⁶ The GoC, through DNP in coordination with the Geographical Institute Agustin Codazzi (IGAC) and the Superintendent of Notaries and Registries (SNR), will carry out eleven pilot projects as part of the first phase of the implementation of the new cadastre policy defined in CONPES 3859. The objective of these pilots is to inform the detailed implementation arrangements that will be rolled out throughout the country between 2017 and 2023. The pilots will test the surveying and appraisal methodologies and specifications and the procedures for operability, as well as assess the reliability of the estimated costs. Methodologies will be gradually adjusted throughout the pilot phase to inform the program’s scaling up at national level. The pilots will cover all 390,991 parcels in rural areas of ten municipalities (Santa Marta, San Vicente del Caguán, Lebrija, San Carlos, Armenia, Puerto Gaitán, Topiapí, Dibulla, Puerto Leguizamo, Buenaventura) and the urban area of Barranquilla, representing 2.1 percent of all parcels of the country (equivalent to 6.2 million hectares). The Bank is supporting the implementation of the pilots under the Subnational Strengthening Project (P123879).

¹³⁷ IGAC Presentation “Proyecto de Política Pública en materia de Catastro Multi-propósito”, delivered on October 30, 2015.

15. To achieve the above objectives, the GoC has devised an action plan, which among other activities, includes: the definition of updated mapping, the adoption of methodologies for the physical characterization of all (public and private) parcels; the multipurpose interoperability (not only with the system of property registry but with other relevant information systems, such as environmental, mining, basic infrastructure, land use conflicts, etc.); the identification and legal clarification of property rights; the strengthening of the institutional capacity of cartographic, cadastral and property registry entities; the issuance of a comprehensive legal framework that is up-to-date, unified, and modern to facilitate the establishment and implementation of a multi-purpose cadastre in both rural and urban areas; and, equally, the adjustment in the property valuation methodologies and updating of the basis for the definition of property tax (*impuesto predial*). The action plan is structured around four strategies, which respond to the problems of the current cadastral system and are centered along the economic, physical, legal, and institutional dimensions.

16. **Challenges related to the Cadastre's Institutional Set-up.** In terms of institutional bottlenecks, currently, IGAC, officially mapped to the National Administrative Statistics Department (*Departamento Administrativo Nacional Estadístico, DANE*), serves as head of the cadastre system, sets the standards and is responsible for their implementation at the national level, both for urban and rural areas. The only exceptions to IGAC's central management arrangement involves the cadastres for the cities of Bogotá, Medellín, and Cali, as well as the cadastre for the Department of Antioquia, which are all decentralized. The current system has several shortcomings: (i) potential conflict of interest for IGAC to act as policy body and implementation agency, (ii) lack of a consolidated land-related database that incorporates information compiled by multiple government agencies, thereby resulting in fragmentation, increased costs and diseconomies of scale¹³⁸, and (iii) lack of clarity over the role of subnational governments in terms of updating and financing of cadastral information. The current institutional set-up has led to fragmentation in cadastral and registry datasets both within institutions and between different levels of government. The new policy calls for an institutional reform whereby IGAC might be mapped to the DNP or the Finance Ministry. IGAC will become the cadastral authority setting standards with monitoring, inspection and enforcement capabilities. Over time subnational governments and the private sector will increasingly take the lead on the implementation and operation of local cadastres while IGAC maintains oversight and information at an aggregate level. The main institutions responsible for land administration, their respective mandates, and their relationship to the multi-purposed cadastre are presented in the table below.

¹³⁸ In an initial diagnostic exercise, the following agencies were identified as generating land-related information systems of databases with little or no articulation: DANE, MinAmbiente, CARs, sub-national governments, National Mining Agency, Geological Services and Ecopetrol.

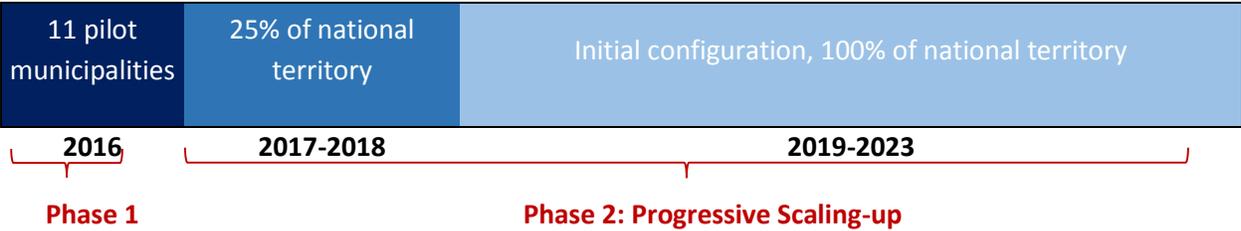
Institution	Relationship to multi-purpose cadastre
<p>Geographical Institute Agustin Codazzi (IGAC) <i>Instituto Geográfico Agustín Codazzi</i></p>	<p>Cadastral authority that regulates, monitors and controls the cadastral inventory. The cadastral survey might be conducted by delegated and decentralized subnational governments or by private parties.</p> <p>Lead the national cartography plan to update the base maps of the country.</p> <p>Ensure the inclusion of the Land Administration Domain Model - LADM standard, ISO 19152.</p> <p>Review the current property valuation methodology and redefine its standards.</p> <p>Support the preparation of the draft Cadastre – Property Registry statute.</p> <p>Support the establishment of the National Land Management System <i>Sistema Nacional de Administración de Tierras - SNAT</i>.</p> <p>Manage and monitor the National Register of Surveyors <i>Registro Nacional de Reconocedores Prediales - RNRP</i>.</p> <p>Support the delegation process of the cadastral inventory to sub-national governments, under the Program for delegating key functions and responsibilities <i>Programa de Competencias Diferenciadas</i>.</p> <p>Setting up the real state observatory.</p>
<p>Superintendence of Notaries and Registry <i>Superintendencia de Notariado y Registro – SNR</i></p>	<p>Ensure the inclusion of the Land Administration Domain Model - LADM standard, ISO 19152.</p> <p>Support the preparation of the draft Cadastre – Property Registry statute.</p> <p>Support the establishment of the National Land Management System <i>Sistema Nacional de Administración de Tierras - SNAT</i>.</p>
<p>Public Notaries <i>Notarías Públicas</i></p>	<p>Implement the requested actions for the cadastre – registry interrelationship.</p>
<p>Local Public Records Registry Offices (ORIP) <i>Oficinas de Registro de Instrumentos Públicos</i></p>	<p>Implement the requested actions for the link between the cadastre and the property registry.</p>
<p>National Land Agency (ANT) <i>Agencia Nacional de Tierras</i></p>	<p>Ensure the inclusion of the Land Administration Domain Model - LADM standard, ISO 19152.</p> <p>Support the preparation of the draft Cadastre – Property Registry Statute.</p> <p>Support the establishment of the National Land Management System <i>Sistema Nacional de Administración de Tierras - SNAT</i>.</p>
<p>National Planning Department (DNP) <i>Departamento Nacional de Planeación</i></p>	<p>Lead the cadastral pilots phase and set up the roll-out of the nationwide cadastral operation.</p> <p>Lead the development of the procedures to delegate cadastral competencies to sub-national governments under the Program for delegating key functions and responsibilities <i>Programa de Competencias Diferenciadas</i>.</p> <p>Lead the preparation of the draft Cadastre – Property Registry Statute.</p> <p>Lead the establishment of the National Land Management System <i>Sistema</i></p>

	Nacional de Administración de Tierras - SNAT. Ensure the inclusion of the Land Administration Domain Model - LADM standard, ISO 19152.
Third parties (private, public or academic)	Implement the cadastral operation, including the inventory, maintenance and updating of the real estate information.

Section IV. Implementation of the Multi-Purpose Cadastre

17. **The GoC recognizes that cadastral surveying of the entire country through a multi-purpose approach is an ambitious task.** It involves significant changes in various aspects of public policy and institutions, involves the adoption of a new cadastral model that is based on good international practice in mapping, technology, systems interoperability, surveying, and maintenance. Moreover, it involves the development of new methodologies and procedures for cadastral surveying and associated activities, such as regularization, in the field. For all of these reasons, the implementation of the multi-purpose cadastre will run in two phases: (i) Pilot phase (2016); and (ii) Progressive Scaling-up (2017 to 2023). These phases include the cadastral surveying of 25% of Colombia’s territory using the multi-purpose approach between 2016 and 2018, and for the whole country, between 2019 and 2023 (Graph 2).

Graph 2. Implementation Phases of the Multi-purpose Cadastre



Source: DNP, 2016.

18. **Phase 1: Pilot Phase (2016 to mid 2017).** The first phase for the implementation of multipurpose cadastre aims to pilot projects in order to test the proposed methodologies, technical specifications, and procedures as well as assess the costs of this approach. Furthermore, it will assess the operational models that involve third parties, including the private sector and sub-national entities that have been delegated cadastral competencies. Throughout the pilot phase, methodologies will be adjusted and the planning for the scale-up at the national level will be fully developed.

19. **The eleven municipalities¹³⁹ selected for the implementation of the pilot phase are representative of the geographic conditions of the country, particularly in rural areas,** and were chosen according to technical criteria established by DNP and IGAC, giving priority to rural areas with high incidence of armed conflict and taking into account land tenure typologies and local geographic variables. The selected municipalities correspond to an estimated 390,991 parcels in rural areas of ten municipalities, and the urban area of Barranquilla, covering 2.1% of all parcels of the country.

¹³⁹ The eleven municipalities are: Santa Marta, San Vicente del Caguán, Lebrija, San Carlos, Armenia, Puerto Gaitán, Topiapi, Dibulla, Puerto Leguizamo, Buenaventura y Barranquilla. It should be noted that Barranquilla and other municipalities will enter the Pilot Phase through the delegation of cadastral competencies and it will assume the Project costs with its own resources.

20. **IGAC, SNR, and ANT, in coordination with DNP, have committed to collaborating closely for the success of the Pilot Phase.** Complementary to this process, a panel of national and international experts will accompany the process in order to monitor progress, provide technical advice, and guarantee the adoption of high quality standards and practices. Once the Pilot Phase is completed, and after the necessary review and validation of the cadastral results by IGAC, the outputs will be added progressively to the cadastral database, linked to SNR. In the same sense, ANT and SNR will prioritize land tenure regularization in the piloted areas.

21. **Phase 2: Progressive Scaling-up (2017-2023).** As a result of the Pilot Phase, a plan for the Progressive Scaling-up of the multi-purpose cadastre will be drafted with the goal of covering the entire territory of Colombia by 2023. Once the pilots have been implemented in 2016 (phase 1), the progressive scaling-up of the project will commence (phase 2). As part of this phase, a timeline for the progressive scaling-up will be devised by region, with the first target being the completion of the multi-purpose cadastre in 25% of Colombia's territory by 2018. In the scaling-up phase priority will be given to rural municipalities that have been highly affected by conflict, and those that are part of strategic plans of the GoC. As part of progressive scaling-up, it is expected that the entire territory will be covered between 2019 and 2023, including both urban and rural areas, in a process that will be closely linked with land tenure regularization.

22. **Costs and Financing Plan.** The GoC estimates that the cost of implementing the multipurpose cadastre in a period of eight years (2016-2023) will reach 2.6 billion pesos. This represents an average cost of ca. \$ 371,000 million pesos a year. Financing the cadastral operation will involve resources from the central and sub-national governments. The GoC further contemplates the use of financing from international cooperation. International cooperation resources will be managed under the technical guidance of DNP.

ANNEX 8: COLOMBIA'S OECD ACCESSION: TERRITORIAL POLICY

On May 29th, 2013, the OECD Council adopted the Resolution of the Council on Strengthening the OECD's Global Reach which contained a decision [C(2013)58/FINAL] to open accession discussions with Colombia and set up a Roadmap that sets the terms, conditions, and process for its accession. In order to allow the Council to take an informed decision on its accession, Colombia is undergoing in –depth reviews from 23 technical committees that includes the *Territorial Development Policy Committee (COT)*. This committee includes a number of working areas, mainly (i) regional development strategies and planning, and performance data, (ii) subnational governance and multi-level governance and coordination, (iii) subnational institutional capacity and delivery of services and public investment, and (iv) regulatory and fiscal framework.

The Territorial Review produced by the working group had a number of key policy recommendations that the country is working on, with the support from the Bank. The key challenges and actions identified are: (i) to improve the quantity and quality of regional statistics, and formulate a territorial classification that helps tailor policies to places, (ii) to reform the planning process by streamlining objectives, regionalizing policy design and implementation, and better connecting capital investment with current expenditure, (iii) to encourage scaling up of investment and policy delivery in territories by maximizing the use of existing regional development bodies and (iv) to reform central government transfers to sub-national governments, re-evaluate subnational taxation, and reframe the oversight process. The main policy recommendations are: to organize statistics within a spatial framework and improve the territorial classification of urban and rural, strengthen a place-based approach both in the National Development Plan (NDP) and industrial policy, scale up policies and investment for regional development, improve local finance to provide sub-national authorities with more autonomy and responsibility, and adopt a control system focused on results rather than rules that engages citizens.

The World Bank has a number of instruments supporting this agenda. The investment lending operation under implementation “*Subnational institutional strengthening project* (P123879) provides support in the implementation of: (i) contract plans (*Contratos Plan*), (ii) cadastre pilots in municipalities, (iii) Territorial and Land Use Plans (POTs) in selected municipalities, (iv) technical assistance to strengthen core municipal management areas, and (v) incentives systems for increasing municipalities performance. Also, the Reimbursable Advisory Services (RAS) on “*Conceptual Design and Implementation of a Results-based Public Investment Management Model*”(P154144) has provided a comprehensive revision of the Public Investment Management (PIM) system and improvement of the control framework and the development of methodologies to identify and apply standard investment projects.

As of the end of 2015, a number of missions and workshops had been carried out, leading to a series of assessment reports and 10 out of 23 clearances from individual Committees, including Agriculture, Statistics, Education, Financial Markets, Competition, Scientific and Technological Policy, Consumer Policy, Health, Regulatory Policy, and Territorial Policy. The country is hoping to end 2016 with most of the committees' clearances, necessary prior to beginning the official accession process, which requires the approval of both the OECD Council and the Colombian legislature (expected in 2017 or 2018).

Source: Bank team elaboration based on OECD, Government of Colombia's official public documents and statements and World Bank documents; *OECD Territorial Reviews: Colombia 2014*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264224551-en>

ANNEX 9: LINKS BETWEEN THE DPF SERIES AND NDP 2014-2018

National Development Plan	Link to Proposed Operation
Pillars	
<p>Colombia in Peace</p> <p><i>Objective 2:</i> Integrate the territory and its communities in order to contribute to the closing of gaps, promoting connectivity for productive inclusiveness and access to public goods, social services and information</p> <p><i>Objective 3:</i> Reduce social and territorial inequalities between urban and rural areas, through the integral development of the rural sector as a guarantee for equal opportunity</p>	<p>PDO: To support the efforts of the Government of Colombia (GoC) to advance towards integrated territorial development through</p>
<p>Equitable Colombia and Without Extreme Poverty</p> <p><i>Objective 3:</i> Reduce territorial gaps in the provision of quality services in health, education, public services, infrastructure and connectivity</p> <p><i>Objective 4:</i> Promote inclusive territorial development of the country and its regions</p>	
Cross-cutting Strategies	
<p>Social Mobility</p> <p><i>Objective 5:</i> Promote planning and articulation between housing, water and sanitation sectors under the concept of livable and sustainable cities together with strategic actions on urban mobility</p>	<p>Pillar 1: Strengthened land management systems & institutions and improved territorial planning</p> <p><i>Comprehensive property cadastre policy (PA 1)</i></p> <p><i>New territorial planning policy (PA4)</i></p>
<p>Transformation of Rural Areas</p> <p><i>Objective 1:</i> Rearrange the use of land to grant greater access to landless producers and small land owners, an efficient use of land and property rights under a green growth approach</p> <p><i>Objective 5:</i> Create an integral and multisector institutional arrangement with local presence based on the needs of rural dwellers that allows to close welfare and opportunity gaps among rural regions</p>	<p>Pillar 1: Strengthened land management systems & institutions and improved territorial planning</p> <p><i>Comprehensive property cadastre policy (PA 1)</i></p> <p><i>New institutional set-up to improve rural and land administration (PA2 and PA3)</i></p> <p><i>New territorial planning policy (PA4)</i></p>
<p>Good Government</p> <p><i>Objective 1:</i> Strengthen the articulation between the central and the subnational governments</p> <p><i>Objective 2:</i> Reinforce the fight against corruption, transparency and accountability</p> <p><i>Objective 3:</i> Promote administrative efficiency and effectiveness</p> <p><i>Objective 4:</i> Optimize information management</p> <p><i>Objective 5:</i> Optimize management of public investment</p>	<p>Pillar 2: Improved fiscal information, investment prioritization and strengthened financial management of subnational expenditures</p> <p><i>Strengthen coordination and efficiency of regional investments (PA5)</i></p> <p><i>Strengthen fiscal oversight of subnational expenditures (PA6)</i></p> <p><i>Harmonize public sector accounting practices (PA7)</i></p> <p><i>Standard Investment projects for SNG (PA8)</i></p>