INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR A

PROPOSED SECOND PROGRAMMATIC DEVELOPMENT POLICY LOAN FOR

SUSTAINABLE DEVELOPMENT

IN THE AMOUNT OF US$200 MILLION

TO

THE REPUBLIC OF COLOMBIA

May 4, 2007

Sustainable Development Department
Colombia and Mexico Country Management Unit
Latin America and the Caribbean Region

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Republic of Colombia - Government Fiscal Year
January 1 - December 31

Currency Equivalents
(Exchange Rate Effective as of April 23, 2007)

Currency Unit = Colombian Peso (COP)
2,149.00 COP = US$1.00
US$0.000465 = COP 1

Weights and Measures
Metric System

ABBREVIATION AND ACRONYMS

AAU  Autoridad Ambiental Urbana (Urban Environmental Authority)
CAR  Corporación Autónoma Regional (Regional Autonomous Corporation)
CAS  Country Assistance Strategy
CEA  Country Environmental Analysis
CFAA Country Financial Accountability Assessment
CONPES Consejo Nacional de Política Económica y Social (National Council on
      Economic and Social Policy)
COP  Colombian Pesos
CTA  Consejo Técnico Asesor (Technical Advisory Council)
DNP  Departamento Nacional de Planeación (National Planning Department)
DPL  Development Policy Loan
EIA  Environmental Impact Assessment
GDP  Gross Domestic Product
GNP  Gross National Product
HIPC Heavily Indebted Poor Countries
IBRD International Bank for Reconstruction and Development
IDB Inter-American Development Bank
IDEAM Instituto de Hidrologia, Meteorologia y Estudios Ambientales (Institute of
      Hydrology, Meteorology and Environmental Studies)
IFC  International Finance Corporation
IMF  International Monetary Fund
MAVDT Ministerio de Ambiente, Vivienda y Desarrollo Territorial (Ministry of
      Environment, Housing, and Territorial Development)
MDGs Millennium Development Goals
MEM  Ministerio de Energía y Minas (Ministry of Energy and Mines)
MHCP  Ministerio de Hacienda y Crédito Público (Ministry of Finance and Public
       Credit)
MPS Ministerio de Protección Social (Ministry of Social Protection)
PAT  Plan de Acción Trienal (Triennial Action Plan)
PER  Public Expenditure Review
PGAR  Plan para la Gestión Ambiental Regional (Regional Environmental
       Management Plan)
PGIRS  
Plan para la Gestión Integral de Residuos Sólidos (Integrated Plan for Solid Waste Management)

PHRD  
Japan Policy and Human Resources Development Trust Fund

PNP  

POMCA  
Plan de Ordenamiento y Manejo de las Cuencas Abastecedoras de Agua (Watershed Management Plan)

SDR  
Special Drawing Rights

SINA  
Sistema Nacional de Ambiente (National Environmental System)

SusDevDPL  
Programmatic Development Policy Loan for Sustainable Development

SusDevDPL I  
First Programmatic Development Policy Loan for Sustainable Development

SusDevDPL II  
Second Programmatic Development Policy Loan for Sustainable Development

SusDevDPL III  
Third Programmatic Development Policy Loan for Sustainable Development

UNDP  
United Nations Development Programme

Vice President: Pamela Cox
Acting Country Director: Makhtar Diop
Sector Director: Laura Tuck
Sector Manager: Abel Mejia
Task Team Leader: Juan C. Belaustegui goitia

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CONTENT
ANNEXES

Annex 1: Letter of Development Policy ................................................................. 49
Annex 2: Operation Policy Matrix ........................................................................ 65
Annex 3: Fund Relations Note ................................................................................ 71
Annex 4: Colombia at a Glance ............................................................................. 73
Annex 5: Maps ........................................................................................................ 75

IBRD No. 35509  Colombia: Departments and Urban Areas
IBRD No. 35510  Colombia: Jurisdictions of Local and Regional Environmental Authorities

The SusDevDPL II was prepared by an IBRD team consisting of Abel Mejia, Juan Carlos Belaustegui, Angela Armstrong, Peter Brandriss, Santiago Sandoval (LCSEN), Juan Carlos Alvarez (LEGLA), Manuel Vargas (LCSFM), David Rosenblatt (LCSPR), and Christian Yves Gonzalez (LCSPE). This operation was undertaken under the general guidance of Makhtar Diop (Acting Country Director, LCC1C), Laura Tuck (Sector Director, LCSSD), and Ethel Sennhauser (Sector Leader, LCSSD). Peer reviewers were Dan Biller (EASOP), Muthukumara Mani (ENV), and Anil Markandya (Consultant).
**LOAN AND PROGRAM SUMMARY**

**COLOMBIA**

SECOND PROGRAMMATIC DEVELOPMENT POLICY LOAN
FOR SUSTAINABLE DEVELOPMENT

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Republic of Colombia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing Agency</td>
<td>Ministry of Finance and Public Credit, Ministry of Environment, Housing and Territorial Development, and the National Planning Department</td>
</tr>
<tr>
<td>Amount</td>
<td>US$200 million</td>
</tr>
<tr>
<td>Terms</td>
<td>Fixed-Spread Loan (FSL), US dollar denominated, payable in 16.5 years, including 5.5 years grace period, with custom repayment schedule, at the standard variable rate for US dollar FSLs.</td>
</tr>
<tr>
<td>Tranching</td>
<td>Single tranche</td>
</tr>
<tr>
<td>Description</td>
<td>The Sustainable Development DPL Program (comprising of three operations, SusDevDPL I, SusDevDPL II, and SusDevDPL III) supports the government of Colombia’s efforts to move toward achievement of the Millennium Development Goals (MDGs), particularly Goal 7 which seeks to ensure environmental sustainability. Specifically, the program has the following objectives: (i) improving the effectiveness and efficiency of the National Environmental System (SINA); and (ii) integrating principles of sustainable development into key sectors, with a particular emphasis on protecting the most vulnerable groups.</td>
</tr>
<tr>
<td>Benefits</td>
<td>Although the SusDevDPL Program emphasizes improved urban environmental management, it also supports improved natural resources management. The program supports developing a results-based framework for planning and monitoring progress of the SINA toward goals directly linked with sustainable development and achievement of the MDGs; improvements in interinstitutional coordination and increased public participation in decision-making; and preparation of critical policies and regulations related to air quality, water quality, solid waste management, and environmental licensing. The SusDevDPL Program has clear poverty implications, given that environmental degradation disproportionately affects the poor and most vulnerable populations, and thus increases...</td>
</tr>
</tbody>
</table>
Improvements in air quality, water quality, and hygiene in urban centers will lead to decreased morbidity and mortality from diarrheal diseases, acute respiratory illnesses and other health effects, and allow for reductions in avertive expenditures to address health risks. Increased accountability, transparency, and improved public participation will provide the most vulnerable groups a voice in environmental decisionmaking.

The following risks have been identified: (i) fiscal pressures, which have lead to cuts in spending related to environment programs; (ii) coordination risks, given that significant multisectoral collaboration is needed to mainstream improved environmental management into key sectors; (iii) institutional risks, given that there may be vested interests (e.g., pollution-intensive industries) in derailing the reform process; and (iv) political risks internal to MAVDT due to a high turnover rate of the ministry’s senior officials.

Throughout the reform program, actions are being taken to mitigate these risks, including: (i) focused efforts to improve the effectiveness and efficiency of investments in the National Environmental System (SINA); (ii) institutional strengthening of SINA institutions, including the National Planning Department, to support consensus-building in environmental decisionmaking within priority sectors; and (iii) Bank assistance via the associated Sustainable Development Investment Project, which is supporting consultation, monitoring and evaluation of SINA efforts, and targeted investments aimed at strengthening environmental management in priority sectors.

| Operation ID Number | P095877 |
I. INTRODUCTION

1. This document proposes a Second Programmatic Development Policy Loan for Sustainable Development (SusDevDPL II) of US$200 million to the government of Colombia. This development policy loan (DPL) is the second in a series of three loans supporting the government’s efforts to achieve the Millennium Development Goals (MDGs). It particularly supports Goal 7 which seeks to ensure environmental sustainability, Target 9 which aims to integrate the principles of sustainable development into country policies and programs, Target 10 which aims to reduce the proportion of people without sustainable access to safe drinking water and sanitation, and Target 11 which aims to achieve a significant improvement in the lives of the urban poor.

2. Furthermore, by addressing the urban environmental issues that affect the most vulnerable segments of the population (air pollution and inadequate water supply, sanitation, and hygiene), the program supports achievement of Goal 4 which seeks to reduce child mortality by addressing the principal threats to children under five (morbidity and mortality related to respiratory illnesses and diarrheal diseases). The objectives of the SusDevDPL Program are to (i) improve the effectiveness and efficiency of the National Environmental System (SINA) and (ii) integrate principles of sustainable development into key sectors such as water resources management and urban air quality, with a particular emphasis on reducing harmful effects on the most vulnerable groups.

3. The first loan (SusDevDPL I), completed in FY06, supported initial steps in the government’s interdisciplinary sustainable development program. These actions included developing a results-based framework for planning and monitoring the progress of SINA toward goals linked directly to sustainable development and the MDGs; modifying SINA’s Technical Advisory Council (CTA) to improve interinstitutional coordination and increase public participation in environmental decisionmaking; preparing policies to address urban environmental problems; drafting a water resources management law; developing an action program for establishing a national policy on air pollution; and issuing decrees on environmental licensing and solid waste management.

4. The prior actions completed by the government for SusDevDPL II include (i) establishing a baseline in Regional Autonomous Corporation (CARs) and Department jurisdictions to monitor six sustainable development objectives linked to the MDGs (as set out in Decree 1200 of 2004); (ii) approving a package of reforms to improve administration, planning, and management of water resources; (iii) implementing an action plan to improve laboratory accreditation and dissemination of water quality monitoring protocols; (iv) implementing a technical assistance program to close at least 75 open dumps (to date more than 200 have been closed); (v) establishing, validating, and applying a consistent protocol for
air quality monitoring based on an analysis of monitoring networks; and (vi) developing an emissions inventory protocol for fixed and mobile sources and initiating implementation of the protocol in major urban centers.

5. Additional key actions undertaken by the government include (i) submitting the 2006-2010 National Development Plan for Congressional approval (as law), which contains guidelines for a national strategy on environmental health;¹ (ii) establishing a system of indicators to evaluate implementation of the National Policy on Sustainable Development (CONPES No. 3343); (iii) conducting a midterm evaluation of progress on the SusDevDPL Program; (iv) disseminating the results of three policy-based Strategic Environmental Assessments (SEAs) on water quality, mining, and fuel quality; (v) enhancing the effectiveness of the SINA working group as reflected by improved linkages between national and regional priorities; (vi) implementing the new environmental licensing scheme (Decree 1220 of 2005); (vii) implementing a plan to strengthen the design, monitoring, and execution of environmental policies within the National Planning Department (DNP) and the Ministry of Environment, Housing, and Territorial Development (MAVDT); (viii) strengthening the organizational structure of MAVDT to promote environmental health, sustainable urban development, integrated water management, and planning, control, and monitoring of environmental management; (ix) implementing new regulations for the final disposal of solid waste, including development of norms and guidelines for closing open dumps; and (x) establishing new norms on air quality (Resolution No. 601 of 2006) and noise pollution (Resolution No. 627 of 2006) as well as an Intersectoral Advisory Commission for the Prevention and Control of Air Pollution (Decree 244 of 2006).

¹ This action has recently been exceeded; the 2006-2010 National Development Plan was approved by Congress on May 4, 2007.
II. COUNTRY CONTEXT

A. RECENT ECONOMIC DEVELOPMENTS IN COLOMBIA

6. Colombia’s economy has recovered since the start of the current CAS period (2002-2006).² The near stagnation of the economy during the four years prior to the CAS has since given way to a sustained economic recovery and a strengthening of consumer confidence. The turnaround is partly due to the much improved global economic environment: world growth has accelerated, the cost of international credit has fallen, and the prices of Colombia’s primary exports have risen. Domestic factors, particularly the improved security situation and stable macroeconomic policies, have also driven the country’s recovery. Improving conditions are reflected by a 7.6 percentage point increase in private investment as a share of GDP since 2002, and an increase in the rate of real economic growth from 1.9 percent in 2002 to 6.8 percent in 2006. Colombia’s unemployment rate dropped from over 17 percent in 2002 to less than 11 percent in December 2006. Inflation has stayed under control; falling from 7.0 percent in 2002 to 4.5 percent in 2006.

Table 1: Key Economic Indicators for Colombia

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth (%)</td>
<td>1.9</td>
<td>3.9</td>
<td>4.8</td>
<td>5.2</td>
<td>6.8</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>7.0</td>
<td>6.5</td>
<td>5.5</td>
<td>4.9</td>
<td>4.5</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>-1.7</td>
<td>-1.2</td>
<td>-0.9</td>
<td>-1.5</td>
<td>-2.1</td>
</tr>
<tr>
<td>CPS balance (% of GDP)</td>
<td>-3.6</td>
<td>-2.7</td>
<td>-1.3</td>
<td>0.0</td>
<td>-0.8</td>
</tr>
<tr>
<td>Primary balance</td>
<td>1.0</td>
<td>2.5</td>
<td>3.3</td>
<td>3.7</td>
<td>3.6</td>
</tr>
<tr>
<td>External debt/GDP (%)</td>
<td>52.6</td>
<td>46.2</td>
<td>36.6</td>
<td>30.8</td>
<td>27.9</td>
</tr>
<tr>
<td>Investment (% of GDP)</td>
<td>15.0</td>
<td>16.6</td>
<td>18.3</td>
<td>20.7</td>
<td>24.6</td>
</tr>
<tr>
<td>Public sector</td>
<td>7.2</td>
<td>6.7</td>
<td>6.0</td>
<td>6.2</td>
<td>7.7</td>
</tr>
<tr>
<td>Private sector</td>
<td>7.9</td>
<td>10.0</td>
<td>12.3</td>
<td>15.7</td>
<td>15.5</td>
</tr>
</tbody>
</table>

Sources: DNP, MHCP, BdR.
<sup>a</sup> Estimated values
<sup>b</sup> CPS means combined public sector, which includes the central government, subnational governments, social security, public enterprises, the Central Bank, and the Oil Stabilization Fund Balance.

7. Fiscal concerns persist, particularly budget rigidities, but the public sector deficit has improved substantially. The combination of domestic economic growth, improved international conditions, peso appreciation (which reduces the cost of servicing foreign currency-denominated debt), and revenue-enhancing policy reforms has improved the fiscal accounts. Policy reforms have concentrated on the revenue side. In 2002, Congress approved Law 788 which sought to increase revenues and reduce tax distortions through the elimination of several targeted exemptions. Overall, the reform brought additional revenues of 0.7 percent of GDP in 2003 and about 1.1 percent in 2004. As a result, the general government deficit decreased from 4.9 percent of GDP in 2002 to 2.4 percent of GDP in 2006. Although this figure is still high, the government has been introducing a series of measures to improve the

² The CAS Progress Report extended the CAS period through fiscal 2007.
balance of the regional governments and public enterprises. As a result of the combination of all these measures, the combined public sector deficit decreased from 3.7 percent of GDP in 2002 to an almost zero-balance in 2005 and a low 0.8 percent of GDP in 2006.

8. Budget and legal rigidities have slowed the progress of policy reforms on the expenditure side. These rigidities affect two main areas in which expenditures have continued to grow: transfers to subnational governments and the pensions system. In 2002, the enactment of Law 715 limited the growth rate of transfers to subnational government mandated under the Constitution, but this measure is set to expire in 2008. From 2009, the share of federal revenues transferred to subnational entities would return to the share prior to Law 715, and the growth rate of transfers thereafter would be calculated based on the weighted average of the previous four years’ current revenue. President Uribe submitted a bill to reform the transfers system last year. The bill aims to limit the growth of transfers. Through a Technical Assistance Loan and additional IADB funding, the government is undertaking a study to determine the social impacts of Law 715, in preparation for this discussion.

9. Transfers to the main state-run pension system will continue to expand over the next decade, as payouts greatly exceed new contributions. A constitutional reform, enacted in June 2005, made considerable progress in reducing pension liabilities over the medium term by eliminating a series of special regimes for certain state employees and imposing ceilings on benefits in the public sector pension system. The reform reduced the net present value of pension liabilities by 19 percentage points of GDP (from 162 percent of GDP to about 143 percent). The original bill aimed for almost twice this reduction, but was altered in Congress.

B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

10. In the absence of major external shocks, the economy is expected to continue growing at a pace similar to the average of recent years. Since prospects for significantly improving the factors supporting domestic demand (internal peace, investment, and credit) and external demand (exports and foreign direct investment) are modest, it is likely that annual GDP growth will be between 4 and 6 percent through 2011. The expected current account deficit for 2007 is 2.3 percent of GDP. This drop is mostly explained by a fall in total exports of goods and non-factor services. In coming years, FDI flows are expected to continue to be strong or even increase as long as the current positive security conditions are in place and, in addition, if the U.S. and Colombia approve the Free Trade Agreement (FTA). Further reforms to improve the business environment would also help this process.

11. Despite the almost 7 percent growth rate that the country achieved during 2006, we expect that the economy will grow in the 4-6 percent range over the next three years. Domestic demand has been growing faster than GDP, inflation has accelerated and the current account deficit has widened moderately. The main external risks would be a slowdown in the global economy, in particular, a slowdown in key trading partners like the United States or Venezuela. Adverse commodity price shocks would be another risk. To reduce external risks, the government has reduced the foreign currency share of its public debt and overall external

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3 Loan 7260, approved November 2004.
debt of both the public and private sector is low at about 30 percent of GDP. In addition, international reserves have increased substantially and now stand at US$16.3 billion.

12. In 2007 the combined public sector deficit is likely to remain around its current level. On the one hand, the Ministry of Finance announced that they expect greater tax revenue and lower debt servicing expenditure, due to successful debt management operations, which will result in a fall of the central government deficit. The decentralized public sector, on the other hand, is expected to see its combined surplus fall again primarily because Ecopetrol is expected to increase investment outlays substantially bringing its balance from a surplus to a deficit in 2007. The combined public sector deficit is projected to be around 0.9 percent of GDP.

13. The fiscal outlook is positive, but there are some risks. Uneven progress in the reform of fiscal transfers may imply higher than expected growth of transfers both to subnational governments and the pension system. There is also substantial pressure to increase expenditures on social programs and regional infrastructure. Although the tax reform approved in late 2006 reduced the tax base, so far it appears that improved tax administration has prevented any decline in tax revenues.

14. Colombia’s present level of gross public debt, at about 43 percent of GDP (down from a peak of 56.7 percent in 2002) remains relatively high. But it appears manageable in the near term even when considering possible adverse economic shocks. Many recognize (including the government) that debt needs to decline further as a share of GDP, due to its high fiscal cost and the financing vulnerabilities to which it exposes the county. The government’s target is to reduce the level of debt around 41.6 percent of GDP by 2017, but given the favorable external environment and the rescheduling of the debt they could easily reach a level of 33.5 percent of GDP. Bank staff estimates show that with a primary balance of over 2 percent of GDP, which is a level that has been sustained in the past four years, the government could achieve this more ambitious target.

<table>
<thead>
<tr>
<th>Table 2: Macroeconomic Projections for Colombia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicator</strong></td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
</tr>
<tr>
<td>Inflation (%)</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
</tr>
<tr>
<td>CPS balance (% of GDP)</td>
</tr>
<tr>
<td>Gross public sector debt (% of GDP)</td>
</tr>
</tbody>
</table>

The explicit government target is to reduce the net of assets public debt to 28 percent of GDP. The definition of net of assets of public debt is the difference between gross public debt and all domestic and foreign assets (including M3).
III. THE GOVERNMENT'S PROGRAM AND PARTICIPATORY PROCESSES

15. Over the past five decades, the government of Colombia has engaged in a number of activities to protect the environment, ranging from restructuring the legal and regulatory landscape to strengthening institutional capacity for protecting and managing natural resources and environmental quality. During this time Colombia's environmental management framework has focused on three main priorities: (i) river basin management and conservation of water bodies, (ii) reforestation, and (iii) conservation of biodiversity. The government has made important advances in these areas, including establishing a system of national parks and forestry reserves that covers more than a quarter of the national territory.

16. However, with increasing urbanization new environmental challenges have arisen that have yet to be fully addressed. These challenges include the impacts of human activities on the environment, such as (i) localized environmental health problems associated with inadequate household water and sanitation and indoor air pollution; (ii) urban and regional air pollution, inadequate waste management, and contamination of rivers, lakes, and coastal areas; and (iii) natural resource degradation and global environmental problems. This environmental degradation threatens the well-being of current and future generations, particularly the most vulnerable segments of the population (children and the poor) who are disproportionately affected.

17. An analysis of the cost of environmental degradation shows that the most significant environmental costs to the country are associated with inadequate water supply, sanitation and hygiene, and ambient and indoor air pollution (Larsen 2004). The burden of these costs falls most heavily on poor children under the age of five. The cost of impacts associated with these principal causes is estimated to equal about 2.8 percent of GDP, mainly from increased mortality and morbidity caused by waterborne diseases (particularly diarrheal illness), respiratory infection, and cardiopulmonary disease. The 2006–2010 National Development Plan (PND) notes that air pollution is the environmental problem that concerns Colombian citizens the most due to its effects on public health, well-being, and productivity.

18. To address these challenges, the Colombian government has embarked on an extensive environmental reform program, outlined in a chapter of the PND dedicated exclusively to environmental management strategy (see Box 1). The objective of this strategy is to (i) ensure that integrated water management takes into consideration the country's ecosystems, productive processes, natural resources, and human needs, as well as the social, economic, and cultural aspects of development; (ii) reduce vulnerability among the poor and create opportunities to improve quality of life and public health; (iii) take advantage of economic opportunities while protecting and conserving natural resources; and (iv) promote conservation and sustainable development to preserve the benefits and services that the environment provides.

19. Many of the strategies and reforms included in the PND's environmental program build on the groundwork of the SusDevDPL Program's first operation and are fully aligned with the actions supported under the second operation and planned for the third operation. The first operation focused on the initial steps of building a results-based framework for planning and monitoring progress toward sustainable development goals, improving interinstitutional coordination mechanisms, and beginning to prepare critical decrees. The second operation
focuses on the development and passage of sustainable development policies, while the third
focuses on the results of implementing those policies.

20. The PND particularly builds on the first operation's support for (i) developing a
methodology to help the CARs prepare Triennial Action Plans to address regional priorities;
(ii) forming a SINA working group to facilitate discussion of the correlation between national
and regional priorities; (iii) issuing a plan by DNP and MAVDT to strengthen the design,
implementation, and monitoring of environmental policies; and (iv) creating action plans for
the formulation of policies on air pollution control and integrated urban environmental
management.

21. In relation to the second operation, the PND calls for improving interinstitutional
coordination within SINA, consolidating the role of MAVDT and DNP in formulating and
monitoring environmental policies, developing a national protocol for monitoring air quality,
strengthening 15 networks for monitoring air quality, and establishing an inventory of
emissions from fixed and mobile sources.

22. The PND also calls for development of policies and actions that are aligned with the
activities planned under the third operation, including (i) an Urban Environmental Policy,
which will clarify the roles and responsibilities of the Urban Environmental Authorities
(AAUs) and CARs; (ii) an Integrated National Action Plan on Climate Change; (iii) a
National Water Policy, which establishes objectives and strategies for efficient water use,
including preventing water pollution; (iv) conducting SEAs on environmental health and
energy; and (v) a National Policy on Environmental Health that will help protect the most
vulnerable segments of the population and mitigate the environmental problems that impose
the highest costs to society.

23. Consultations were held during preparation of the SusDevDPL and the Country
Environmental Analysis (CEA), which provides an analytical foundation to both the
SusDevDPL Program and the PND's environmental management strategy. The preparation
and dissemination of the CEA benefited from close client engagement and wide stakeholder
consultation, including interviews with national and local government officials, academics,
and civil society. A survey of more than 2,600 Colombians helped determine the
environmental priorities of diverse sectors and stakeholders, including governmental
authorities, civil society representatives, and various ethnic groups. To disseminate the
findings of the CEA, the ministry hosted a national workshop in August 2004 that brought
together more than 150 individuals from over 50 organizations representing bilateral and
multilateral lending institutions, the public and private sectors, and civil society. Additional
consultations were carried out during preparation of key aspects of the DPL Program and
MAVDT has consulted widely with relevant sectoral ministries and stakeholders during the
development of actions linked to the second operation (establishment of monitoring baseline
for sustainable development indicators, conducting a program to close open dumps,
implementation of new environmental licensing scheme, carrying out policy-based SEAs on
water quality, mining, and fuel quality).

24. In addition, the objectives and strategies of the PND were widely consulted throughout
the country during the plan's preparation. Under the guidance of the National Development
Council, the plan benefited from the engagement of regional authorities as well as
representatives from diverse economic sectors (energy, transport, and finance, among others) and civil society. The PND is aligned with the country’s longer-term development plan, Visión Colombia II Centenario: 2019, which was prepared under Uribe’s first administration through broad-based consultations with civil society.

25. In 2005, the Colombian government requested the Bank’s continued support for two pillars of the country’s environmental policies: (i) improving the effectiveness and efficiency of SINA and (ii) integrating principles of sustainable development into key sectors such as water, transport, energy, and health. These two elements figured prominently in the environmental strategy of President Uribe’s first administration and will continue to be key priorities in his second administration, as reflected in the PND recently approved by Congress.

Box 1. Colombia’s 2006–2010 National Development Plan

The 2006–2010 National Development Plan, or PND, (Plan Nacional de Desarrollo 2006-2010 Estado Comunitario: desarrollo para todos) includes a chapter on “Environment and Risk Management to Promote Sustainable Development” that introduces strategies and reforms aimed at integrating the principles of sustainable development into the planning process and harmonizing the actions and resources of the various branches and levels of government. This will help safeguard quality of life and create conditions favorable for sustained economic growth and social development by promoting sustainable production and consumption, reducing risk, and preventing environmental degradation.

The PND identifies the following principles to support harmonization of environmental management: (i) transparency, to strengthen governance; (ii) efficiency, to optimize technical, financial and human resources; (iii) articulation of institutional functions, to help integrate the responsibilities of diverse SINA actors so that complement one another; (iv) participation, to foster consensus among SINA actors in the design and planning of actions; (v) environmental sustainability, to preserve the natural resource base needed for economic and social development; (vi) territorial focus that takes the particular natural, cultural, and economic dynamics of each region into account so that economic benefits and social welfare are maximized; and (vii) equity in recognizing the priorities of different segments of society and protecting the interests of the most vulnerable.

Based on these principles, environmental management strategy is focused on:

(i) Environmental planning in territorial management. The PND calls for the promotion, support, and strengthening of sustainable processes for regional development. It also stresses incorporating environmental and cultural considerations into decisions on land use and occupation and promotes development and implementation of policies on land use and land management. Since about 75 percent of the population lives in urban centers, the PND particularly promotes establishing criteria for rationalizing urban expansion within a regional perspective and developing productive sectors while minimizing their pollution. To help achieve this, the PND calls for development of an Urban Environmental Policy that will define the roles and responsibilities of the AAUs and CARs. In addition, the PND calls for the development of an Integrated National Action Plan on Climate Change.

(ii) Integrated water resource management. The PND calls for a National Water Policy to guide integrated water resources management, establish objectives and strategies for efficient water use, define policy objectives for preventing water pollution and protecting water quality, and develop the necessary economic and legal instruments. The PND also stresses harmonization of norms and instruments related to wastewater management and the continued use of water basin management plans (POMCAs) as a fundamental tool for ensuring sustainability of water supplies. In addition, the

5 The National Development Council is a civic organization created under the Constitution to enhance civil society’s participation in the development of the National Development Plan (see www.cnpcolombia.org).
structure of the Vice Ministry of Environment will be strengthened to better support and implement the integrated water resources management strategy.

(iii) *Knowledge, conservation, and sustainable use of biodiversity.* The PND promotes development of a national biodiversity inventory that is systematized and available to the public. It also stresses the definition of a national system of protected areas as well as a strategy for its financial sustainability. In addition, the PND calls for the development of new economic and financial instruments and promotes growth and job creation in bio-commerce to strengthen Green Markets.

(iv) *Sustainable and competitive productive processes.* To support sustainable development of key economic sectors, the PND calls for strategic environmental assessments (SEAs) of infrastructure, transport, energy, tourism, and environmental health. For this purpose, MAVDT will prepare SEA guidelines to support the development of sectoral policies, plans, and programs. The PND also calls for development and implementation of interministerial and intersectoral agendas to strengthen environmental mainstreaming.

(v) *Prevention and control of environmental degradation.* The PND sets forth a National Policy for Environmental Health that aims to protect the most vulnerable segments of the population and targets the problems that impose the highest costs. The PND also calls for development of national air quality monitoring protocols, strengthening of 15 air quality monitoring networks, and creation of inventories of emissions from fixed and mobile sources.

(vi) *Strengthening environmental governance.* The PND calls for review and clarification of the roles and responsibilities of SINA actors, to help reduce conflicts and improve interinstitutional coordination. In addition, it calls for a review of the institutional structure of MAVDT and DNP to increase their capacity and give them a stronger role, particularly in incorporating environmental criteria into sectoral policies.

A. IMPROVING THE EFFECTIVENESS AND EFFICIENCY OF THE NATIONAL ENVIRONMENTAL SYSTEM (SINA)

A.1 Background

26. Over the past thirty years, Colombia has undertaken a number of policy initiatives and strengthened its institutional capacity to ensure the protection and management of natural resources. In 1973 Colombia enacted the first integrated legislation for natural resources in Latin America. The two legislative pillars of Colombia’s environmental management system are the Constitution of 1991 and Law 99 of 1993. One of the key purposes of the 1991 constitutional reform was to establish a more decentralized and participatory government. To that end, the Constitution gives departments, municipalities, and CARs autonomy to plan and administer local policy (in coordination with national planning), pass local decrees and ordinances, and impose taxes to generate revenue at the local and regional level. The Constitution envisions a government with extensive planning responsibilities, including those related to environmental protection. It creates a National System of Planning and requires the president to draft a National Development Plan and present it to Congress. The territorial governments are also required to develop plans in consultation with the national government, under the advice of territorial planning councils.

27. Law 99 created Colombia’s National Environmental System (*Sistema Nacional Ambiental, SINA*) and the Ministry of Environment (MinAmbiente). The ministry was intended to consolidate key environmental management functions dispersed throughout the
national government and serve as the cornerstone of SINA, which in turn would improve coordination of environmental management among a range of public and private stakeholders. In keeping with the 1991 Constitution, SINA was to be descentralized, democratic, and participatory. Law 99 defines SINA as a “set of orientations, norms, activities, resources, programs, and institutions that allow the implementation of general environmental principles” around a model of sustainable development. SINA’s governance and management instruments include legal norms such as environmental laws, presidential decrees, enforcement actions, environmental licensing, command-and-control regulations, voluntary agreements, and economic instruments such as effluent fees. Under Law 99, MinAmbiente was mainly responsible for planning national environmental policy while the regional authorities, including the CARs and AAUs, were mainly responsible for implementing it.

28. In 2003 MinAmbiente and the Ministry of Economic Development were merged, creating a new Ministry of Environment, Housing, and Territorial Development (MAVDT). MAVDT’s principal roles in SINA are establishing national policy, developing regulations, controlling fiscal resources, and general planning and coordination of environmental management. Similarly, in 2004 the DNP was restructured to merge the Office of Environmental Policies and the Office of Urban Development and Special Regional Programs in a single Office of Urban Development and Environmental Policy.

29. From 1995 to 2003, the total combined operating and investment budget of MinAmbiente, the CARs, the Administrative Unit for National Parks, and environmental research institutions is estimated to have been about US$1.98 billion, or an average of $220 million per year. The average annual environmental expenditure of these organizations during that period is estimated at about 0.3 percent of GDP. Nearly 35 percent of these expenditures were directed at river basin management, conservation of water bodies, water supply, and wastewater treatment, and another 18 percent went to biodiversity and green markets, global environmental problems, and reforestation. Expenditures on institutional strengthening and enforcement accounted for 40 percent of expenditures.

30. The CARs accounted for 81 percent of total estimated environmental expenditures between 1995 and 2003, while the MAVDT accounted for 10 percent. From 1995 to 2000 spending by the CARs increased by more than 50 percent, driving a substantial increase in total expenditures despite a decline in MAVDT spending during that period. However, from 2000 to 2003 the CARs’ expenditures fell again, to about 125 percent of their 1995 levels, while those of the MAVDT recovered to a level slightly higher than in 1995.

31. The revenue generated by the CARs themselves increased by 89 percent between 1995 and 2003. These revenues accounted for 78 percent of their operating budget and 86 percent of their investment budget. However, the distribution of CAR resources is very uneven, with 82 percent concentrated in only 8 of the 33 CARs. In addition, per capita spending by the CARs varies from as little as C$3,040 to as much as C$84,660.

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6 CARs use a variety of mechanisms to raise revenue, including property taxes, electricity taxes, effluent fees, compensatory fees, water use fees, licenses and permits, fines and sanctions, the sale of goods and services, profits on investments, and inter-institutional agreements.
32. Despite progress on strengthening institutional capacity within the SINA, Colombia still faces serious challenges related to environmental degradation, which affects public health and welfare and compromises the country’s potential for sustainable economic growth. A recent analysis of the costs of environmental degradation in Colombia indicates that the most significant costs are associated with inadequate water, sanitation, and hygiene (1,960 billion pesos) and ambient and indoor air pollution (1,915 billion pesos). In addition, the annual costs of natural disasters are estimated at 1,750 billion pesos. Further, SINA requires real and measurable impact indicators to promote linkages between national and regional priorities, as well as to increase understanding of the impacts of key sectors on the environment.

33. Lack of cross-sectoral planning contributes to imbalances in budgetary priorities. For example, a recent audit of the MAVDT found that biodiversity conservation, reforestation, watershed management, and other rural environmental issues accounted for three-quarters of the ministry’s investment budget even through more than 70 percent of the population lives in urban areas and is exposed to significant urban environmental health risks. Priority setting across subsectors and programs would be greatly enhanced by improvements in data collection and environmental indicators. However, even with current information sources, greater attention to setting priorities across environmental subsectors would help improve the effectiveness of environmental management in Colombia.

34. Given the challenges faced by SINA, the environment strategy outlined in the 2006–2010 National Development Plan focuses on guaranteeing sustainable growth and reducing poverty by improving cross-sectoral planning through incorporation of environmental considerations into its policies for priority sectors (health, water, energy, and transport, among others) and giving attention to the environmental problems that affect the most vulnerable segments of the population. These priorities also reflect the government’s commitment to achieving the MDGs. The PND also calls for strengthening SINA by improving data collection, indicators, and intersectoral coordination.

35. In addition, the recent discussion document prepared by the DNP, Visión Colombia II Centenario: 2019, identifies the need to (i) improve the quality and use of environmental information; (ii) strengthen the design and implementation of environmental policies and regulations; (iii) improve the technical and administrative capacity of organizations; (iv) strengthen mechanisms to facilitate interinstitutional coordination and public participation; (v) increase transparency; and (vi) improve equity.

36. SusDevDPL I helped develop the groundwork for the institutional strengthening strategies and reforms identified in the government’s development plans. Under SusDevDPL I, guidelines for a National Sustainable Development Policy were approved by the CONPES. The CONPES policy document serves as the umbrella document for the SusDevDPL Program and sets in motion a series of actions to improve environmental governance and urban environmental management planning.

37. SusDevDPL I helped develop a system of indicators (Presidential Decree 1200 of 2004) to measure performance of environmental investments in the ten-year Regional Environmental Management Plans (PGARs) and Triennial Action Plans (PATs) that each CAR is required to submit to the MAVDT. The PGAR provides the CAR’s analysis of the principal challenges facing the region, its strategy for managing environmental resources,
investment priorities, financial requirements, and sources, and its tools for monitoring and evaluation.

38. The Triennial Action Plan, prepared in consultation with stakeholders, municipalities, and civil society representatives, details the CAR’s strategy for achieving the goals set forth in the PGAR. Decree 1200 of 2004 includes six sustainable development objectives and 15 impact indicators to evaluate the CARs’ environmental management. These sustainable development objectives are directly linked with the MDGs and balance both urban and rural concerns. Of these six objectives, four support improved natural resources management (e.g., forest conservation, diminishing water shortage risks, optimizing the use of renewable natural resources, and increasing income and employment using sustainable production methods), while the other two aim to reduce environmental health impacts and vulnerability to natural disasters. These objectives and their corresponding indicators promote better linkages between national and regional priorities and strengthen the focus on results and impacts linked to the environment.

A.2 Actions supported by SusDevDPL II

39. Building on the foundations of SusDevDPL I, the MAVDT and DNP have established a system of indicators to monitor and evaluate implementation of the National Policy on Sustainable Development (CONPES 3343 of 2005). In particular, this indicator system helps monitor the impacts of environmental degradation on public health, the development of instruments for integrated water resource management, improvements in environmental governance, establishment and functioning of the SINA working group, and improvements to the environmental licensing scheme.

40. In addition, a monitoring baseline has been established for the six sustainable development objectives of Decree 1200 of 2004. This is expected to improve data collection and management by the CARs and other national and regional institutions which are responsible for monitoring the 15 indicators associated with the sustainable development objectives. These indicators include hectares of protected area, deforestation rate, percentage of population at risk of water shortages, water scarcity index, energy intensity, water consumption in productive sectors, tons of solid waste adequately disposed in landfills, morbidity and mortality due to acute respiratory infection, morbidity and mortality due to severe diarrheal disease, morbidity and mortality caused by dengue, and number of people affected by natural disasters each year, among others. To ensure that the CARs’ data is consistent with data currently collected by the country’s research institutes, information-sharing agreements have been established between these institutes and the National Institute of Health (in the Ministry of Social Protection). In addition, the MAVDT, the CARs, and other national and regional entities have agreed on the methodologies and formats for collecting and reporting the status of these indicators.

41. The PND also calls for a National Policy on Environmental Health. Waterborne bacterial diseases and ambient and indoor air pollution pose the highest environmental costs to the country, equivalent to about 2.8 percent of GDP, mainly from increased child morbidity and mortality. Diarrhea, which accounts for approximately 7.3 percent of child mortality, is the most common and widespread waterborne disease. Air pollution is also a significant problem, with particulate matter alone responsible for an estimated 6,000 premature deaths
and 7,400 new cases of chronic bronchitis in Colombia every year. To address these problems and inform policy development, the government is conducting SEAs of the areas that impose the highest costs. The policy-based SEA on water quality and pollution prevention, carried out during preparation of SusDevDPL II, will support the development of this Environmental Health Policy. In addition, an SEAs on ambient air pollution planned for SusDevDPL III are also expected to provide important inputs toward the policy's preparation.

A.3 Perspectives for SusDevDPL III

42. Building on the results of SusDevDPL II, the government has committed in the medium term to (i) implement a system for monitoring and evaluation of regional and local environmental management based on the six sustainable development objectives in Decree 1200 of 2004; (ii) design and approve a National Policy on Environmental Health that covers the areas of water quality and urban and indoor air quality, and considers the results of policy-based SEAs; and (iii) strengthen MAVDT's Climate Change Unit to meet the environment goals of the 2006–2010 PND.

B. IMPROVED INTERINSTITUTIONAL COORDINATION AND INCREASED PUBLIC PARTICIPATION IN ENVIRONMENTAL DECISIONMAKING

B.1 Background

43. As described previously, SINA consists of numerous actors, coordination and planning mechanisms, legal norms, mechanisms for implementing and enforcing policy, financial resources, and mechanisms for public participation. In addition to the MAVDT and the CARS, SINA includes representation from the public and private sectors, regional authorities, other governmental institutions, research institutes, and civil society organizations.

44. Law 99 of 1993 created a Technical Advisory Council (CTA), headed by the Vice Minister of Environment, to advise the Minister on the design of national environmental policy and regulations as well as on international initiatives of interest to Colombia. The CTA includes representatives from the MAVDT, public and private universities, and the agricultural, mining, petroleum, and manufacturing sectors. Law 99 also defined the system for issuing environmental licenses.

45. The 1991 Constitution envisioned a central role for individual citizens and NGOs in formulating and implementing environmental policy. In addition to having a right to a healthy environment, citizens have an express duty to protect natural resources and the environment. The Constitution enables them to do that by filing three types of actions: (i) a popular action to protect the collective right to a clean environment; (ii) a compliance action to assure that laws—including environmental laws—are upheld; and (iii) an action requesting injunctive relief to prevent violation of fundamental rights, including the right to a clean environment when environmental deterioration threatens human health. The Constitution also specifically requires adoption of statutes that guarantee community participation in decisions that affect the environment through the right to petition public authorities, public hearings, open meetings, referendums, and standard participation in elections.
46. To increase transparency, improve governance, enhance intersectoral coordination, and ensure that the most vulnerable communities have a voice in environmental decisionmaking, SusDevDPL I supported the definition of roles and responsibilities within the CTA via the issuance of Decree 707 of 2005. The decree sets out the procedures for selecting CTA members, indicates the minimum professional and academic standards required for CTA members, and establishes issue-based working groups composed of a broad cross-section of society (such as universities, user groups, private sector, civil society, indigenous communities, Afro-Colombian communities, NGOs, etc.) to advise the CTA on specific issues. In addition, SusDevDPL I supported the issuance of Presidential Decree 1220 of 2005 to modify the environmental licensing scheme to improve transparency, accountability, and public participation. Similarly, the decree clarifies procedures for environmental impact assessments and the process for obtaining environmental licenses, and defines steps for monitoring and evaluation of licenses and environmental management plans.

47. SusDevDPL I also supported the formation of a SINA working group, via Resolution 0449 of 2004, to establish institutional mechanisms for periodic discussion of the congruence between national and regional priorities, continuous consultation and organizational learning, assessment of the effectiveness of CARs, and conflict resolution between CARs and the MAVDT. The working group represents the MAVDT within the Board of Directors of the CARs, coordinates the provision of technical assistance and financing from the MAVDT and other SINA actors to the CARs, supports the development of the regional Triennial Action Plans, and reports back to the MAVDT on CAR performance vis-à-vis the progress made toward PAT objectives. In addition, SusDevDPL I supported improvements in environmental governance via the issuance of Presidential Decree 3345, which represents a significant step in improving procedures for the election of CAR Directors and provides more accountability in SINA by enhancing public participation and transparency. Decree 3345 defines the guidelines to be followed for the election processes.

48. As part of SusDevDPL I, the DNP and the MAVDT issued an action plan for strengthening the design, implementation, monitoring, and evaluation of environmental policies. In 2005 an assessment was carried out to determine the institutional strengthening needs of both the MAVDT and the DNP to improve the design, monitoring, and execution of environmental policies. It was determined that to improve the effectiveness of MAVDT’s new institutional structure it was necessary to strengthen its organizational capacity for integrated management of environment, housing, water and sanitation, and regional development, its formulation and articulation of strategic policies, its implementation and oversight of environmental and territorial development policies, and its coordination with the entities responsible for implementing policies and reforms.

49. For the DNP, which has an advisory role in developing long-term environmental policies and programs for the country’s economic, social, and environmental development, the primary institutional strengthening needs identified included improving long-term environmental planning, integrating environmental considerations into policies, planning processes, and regulations, improving coordination among sectors, and increasing the capacity of DNP’s Environmental Policy and Sustainable Development Group to coordinate environmental policy within the department.
B.2 Actions supported by SusDevDPL II

50. Building on the actions of SusDevDPL I and in support of the PND, which stresses the implementation of SEAs to support the sustainable development of key economic sectors, SusDevDPL II supports the execution of policy-based SEAs on water quality, mining, and fuel quality. To ensure broad-based support for these policy recommendations, interministerial and intersectoral working groups have been formed, with participation from the Ministry of Social Protection, the Ministry of Mines and Energy, and the Ministry of Transportation. The policy recommendations from these SEAs have been fully consulted and agreed with these key stakeholders.

51. With SusDevDPL II’s support, the MAVDT and DNP have implemented plans to strengthen the design, monitoring, and execution of environmental polices. MAVDT has developed manuals for internal procedures and guides for the formulation and oversight of policies, strengthened its information system for monitoring the water and sanitation sector, and conducted five internal training workshops on its environmental management information system. To improve coordination with executing agencies, it conducted five regional training seminars on updated environmental norms, published this information on its web page, and conducted a training workshop on air quality management instruments. As part of this plan, DNP has developed guidelines for conducting SEAs and strengthened the management and oversight of investments in the environment sector. In addition, DNP has created an Intersectoral Coordination Committee for Environment and Sustainable Development Policies. Implementation of the DNP and MAVDT institutional strengthening plans has been a coordinated effort by both agencies, along with research institutes such as IDEAM.

52. The SINA working group established within MAVDT has also supported coordination of national environmental policy between the ministry, the 33 CARs, 6 AAUs, and 5 research institutes. This working group has helped the CARs develop their Triennial Action Plans (PATs) and ensure that they are consistent with the PGARs and Territorial Development Plans (POTs). The CARs have projected that they will spend about $1.9 billion to implement these plans, of which $1.5 billion will be directed toward integrated water resource management, conservation, biodiversity, sustainable development, and urban environmental management. The working group has also helped the CARs develop a uniform budgeting system so that they can provide information on environmental investments and expenditures in a standard and consistent format. The SINA working group has also played an important role in helping the CARs develop councils to jointly manage areas that span multiple CARs or that require collaboration between CARs and other government entities. Cases in which governing bodies at the national, regional, and local levels have created joint management mechanisms include the Santa Marta Regional Environmental Council, joint agreements for the department of Cesar and for development of a regional project in Magdalena, and an Intersectoral Coordination Committee to manage coastal erosion and identify viable technical, economic, and environmental alternatives in conjunction with DIMAR. The SINA working group has also strengthened horizontal cooperation among the CARs by supporting meetings at which they can address regional environmental concerns, define joint solutions, and share and learn from successful experiences.

53. SusDevDPL II also supported implementation of the government’s modified licensing scheme to improve transparency, accountability, and public participation in environmental
licensing under Decree 1200 of 2005, Decree 2762 of 2005, and Decree 50 of 2006. Building on the actions supported by SusDevDPL I, under SusDevDPL II the government conducted national and regional workshops to disseminate these new licensing procedures. As a result, a broad consensus was achieved among regional and urban environmental authorities as well as sectoral ministries (Agriculture and Mines and Energy) on the benefits of the new licensing scheme.

B.3 Perspectives for SusDevDPL III

54. For SusDevDPL III, the government has committed to (i) develop an Urban Environmental Policy that will clarify the roles and responsibilities of CARs and AAUs and implement mechanisms to improve transparency and (ii) implement a plan to adapt the DNP’s new structure so that it can better manage environmental policies and meet the environment goals of the 2006–2010 PND.

C. INTEGRATING PRINCIPLES OF SUSTAINABLE DEVELOPMENT INTO KEY SECTORS

C.1 Integrated water resources management

55. Colombia has a relative abundance of water resources. It has a national average freshwater supply of more than 2,100 cubic kilometers, equivalent to a supply of about 50,000 cubic meters per capita, which is several orders of magnitude greater than most other Latin American countries. However these resources are unevenly distributed, with considerable differences in regional and seasonal flow variations and in environmental vulnerability among river basins. In addition, increasing demand, overexploitation of groundwater, and pollution have created problems of water availability in some areas. According to the Colombian Institute of Hydrology, Meteorology, and Environmental Studies (IDEAM) more than 14 million inhabitants could face water shortages in the future (IDEAM 2004).

56. There are more than 2.5 million hectares of wetlands and almost 2 million hectares of floodplains in Colombia. They serve an important role in recharging and discharging aquifers, controlling floods, retaining nutrients and sediments, filtering contaminants, producing biomass, maintaining fauna and flora, stabilizing coastlines and microclimates, facilitating aquatic transport, and providing recreation and tourist attractions. They are a vital to water production, agriculture, fisheries, forests, and wildlife.

57. These environmental benefits have diminished with time due to years of poor management of the wetlands, which have been affected by problems such as draining of marshes and contamination. Construction of infrastructure and effluents from agriculture, fishing, and domestic sources have contributed to altering important wetland ecosystems, including the Ciénaga Grande de Santa Marta, the Zapatosa and Teca Systems, the Ciénaga Virgen, Tota Lake, and the small lakes of Cocha and Fúquene. At the same time, Colombia has made considerable progress in restoring some wetland ecosystems.

58. Pollution is another important problem that affects Colombia’s water resources, compromises their ecological benefits, and limits their use for water supply and recreation. Many important rivers, such as the Bogotá, Cali, Pasto, Pamplonita, Combeima, and Otún, are
highly contaminated as a result of direct discharge of untreated effluents, primarily from industrial sources. To address the problem of water pollution, wastewater treatment plants have been constructed in cities such as Medellin and Bucaramanga.

59. In recent decades, a variety of uncoordinated efforts managed by various ministries have been carried out with respect to integrated water resource management, potable water, and basic sanitation services. As a result, departments, municipalities, and environmental authorities have made dispersed investments in reforestation and water basin management with little correlation to actual water supply needs, and significant investments have been made in wastewater treatment with little impact on improving water quality. In addition, there are conflicts of interest in the allocation of water management responsibilities to CARs. Current water legislation (primarily the Natural Resources Code and Decree 1541 of 1978) ranks priorities for water use but does not indicate what the practical implications of that ranking should be in cases of water conflicts.

60. To address the above-mentioned concerns, the government prepared and presented for Congressional approval a draft water resources management law as part of SusDevDPL I. The law addressed issues relating to (i) water quality and control of pollution from point and nonpoint sources; (ii) regulations for management of water runoff and urban drainage; (iii) allocation of water rights; (iv) reduction of vulnerability to natural disasters; (v) management of marine and coastal resources; and (vi) conservation of important water ecosystems. The draft law defined institutional responsibilities (such as the National Water Council, which includes participation from numerous governmental institutions); planning instruments (the National Water Plan and watershed management plans); priorities in the assignment of water rights and water use; length of water concessions; means for controlling water pollution; rights and responsibilities over the use of groundwater resources; protection of natural ecosystems, and in particular coastal and marine resources; use of economic and fiscal instruments to support integrated water resources management (for example the “polluter pays” principal and user fees); and means for promoting public participation in decisions regarding the water sector.

61. Colombia’s escalating solid waste problem also contributes to the deterioration of surface and groundwater resources. In 2005, Colombia was generating about 27,500 tons of solid waste per day, most of which was being deposited in the country’s 700 open garbage dumps, in uncontrolled landfills, and in registered landfills that were rarely operated in a satisfactory manner. A lack of clear minimum technical specifications as well as deficient interinstitutional mechanisms for adequate closure of open dumps and construction of new landfills, resulted in weak compliance and enforcement.

62. Decree 1713 of 2002 required municipalities and districts to create Integrated Plans for Solid Waste Management (PGIRs) that include the socioeconomic, environmental, institutional, technical and operational information needed for long-term planning of solid waste management and disposal. Under this decree and associated Resolution 1045 of 2003, municipalities were required to submit their waste management plans for approval by their city councils by September 2005. Resolution 1045 established a methodology for formulating the PGIRs, which must include objectives and specific goals and programs, and take into account demographic projections of waste generation, urban expansion, and soil uses for each
municipality. However, due to lack of resources, institutional and technical capacity, and clear management accountability, implementation of these efforts has been difficult.

63. To support solid waste management efforts, SusDevDPL I, through Presidential Decree 838 of 2005, helped the government to promote and facilitate the planning, construction, and operation of sanitary landfills and to establish norms for their operation.

C.1.1 Actions supported by SusDevDPL II

64. Congressional approval of laws in Colombia requires ratification in four debates, which must be concluded within the span of two consecutive legislative periods. These periods begin each year on July 1 and run through June 30 of the following year. The draft water resource management law was presented to Congress in April 2005 and was ratified in its first debate in June 2005 (the 2004–2005 legislature). Therefore the law required three more debates during the 2005–2006 legislature. However, the government withdrew the draft law in May of 2006 when it became clear that these additional debates would not be completed due to factors beyond the project’s control during that legislative period. These factors included the congressional and presidential elections that took place in 2006, as well as the long debates and approval process centered on the Forestry Law.

65. Despite these delays, the government has confirmed its commitment to meeting the objectives of the law through a series of water resource management reforms supported under SusDevDPL II. Building on the extensive analytical work carried out in preparation for the SusDevDPL Program, the 2006–2010 PND mandates (i) development of a National Water Resource Policy that defines priorities and goals, including prevention of water pollution, improvement of water quality, and development of economic and legal instruments; and (ii) strengthening the Vice Ministry of Environment’s structure to improve integrated water resources management. To provide for improved planning and administration of water resource management, SusDevDPL II also supports (i) issuance of a Presidential Decree for watershed management and planning; (ii) issuance of a Presidential Decree for the planning and development of a registry of water uses and users, with the objective of providing legally secure rights to users and information for decisionmaking and planning; (iii) issuance of a Presidential Decree to establish an information system; (iv) MAVDT’s issuance of a Directive requiring CARs to establish a water accounts system that tracks the collection and use of water fees. This water accounts system is a requirement for 2007 budget authorizations; and (v) definition of limits on discharge of wastewater into marine and coastal waters. Table 3 illustrates how the above reforms supporting water resource planning, administration and management would achieve the same objectives of the draft water resource management law. Table 4 shows the durability of Colombian decrees that currently govern water resources management.

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7 In Colombia, laws can only be considered during two consecutive legislatures, which run from July 1 through June 30 each year. If a law is not approved during the two legislatures, a new project must be presented to Congress. This was the second legislature in which the Water Law was considered.
Table 3. Development Objectives of Draft Water Resource Management Law

<table>
<thead>
<tr>
<th>Development objectives</th>
<th>Water law actions supporting objectives</th>
<th>Actions under reform package supporting objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation of water rights</td>
<td>Law 365 of 2005 calls for the development of the following planning instruments:</td>
<td>- 2006-2010 National Development Plan</td>
</tr>
</tbody>
</table>
|                         | - **National Water Resource Plan**  
  o Defines national water resource priorities and goals, and responsibilities of national, regional, and local authorities.  
- **Watershed Management Plans**  
  o Defines regional environmental authorities (required for all watersheds).  
  o Establishes/defines water uses and modes of access by concession, by law, or by permit, eliminating permits for temporary activities, as well as access/water usage by association.  
  o Reiterates obligation of environmental authorities to monitor water resource availability with respect to supply, demand, prior authorized concessions, required water flows provided to communities, and flow rates to guarantee sustainability of ecosystems, such that authorities have clear knowledge of resources available to concession. (This information will be consolidated in a management information system, administered by IDEAM.)  
|                         | In addition, Law:  
  o Supports harmonization of the processes and procedures related to requesting and authorizing concessions.  
  o Provides for the review of concessions, their renewal, as well as the grounds for their termination.  
  o Uniforms the criteria related to authorized concession periods in order to improve the planning of productive sectors and provide legal security and better clarity on returns on investment.  
  o Establishes guidelines for consolidating the **water resource information system**.  
  o Defines competencies of MAVDT in formulating information policies and of IDEAM in the administration of information and in the establishment of monitoring and oversight programs.  
  o Establishes the obligation of reporting information in a consistent and accurate manner for water resource users, and to support planning and decisionmaking processes, as well as the obligation of regional environmental authorities in monitoring regional water resources.  
|                         | - **Watershed Management and Planning Decree**  
  o Oriented regional environmental authorities' management of watersheds by defining priority watersheds.  
- **Decree for the Planning and Development of a Water Uses and Users Registry**  
  o Develops a Water Uses and Users Registry as a fundamental tool to guarantee legal security to users and to improve the administration of water resources.  
- **Decree Establishing Information System**  
  o Requires integration of existing information systems and consolidation and standardization of the collection, registration, management, and access to a broad range of data, models, systems, studies, regulations, and protocols to inform and facilitate management of water resources.  
  o Defines responsibilities for developing and implementing information system, including IDEAM's obligation to develop the respective protocols.  
  o Requires holders of water use licenses, permits, and concessions to collect and provide information on their water use to the respective authorities and requires the regional and urban environmental authorities to monitor water resources within their jurisdiction using the protocols and standards established by the SIRH. |
### Development objectives

<table>
<thead>
<tr>
<th>Water law actions supporting objectives</th>
<th>Actions under reform package supporting objectives</th>
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</thead>
<tbody>
<tr>
<td><strong>Control of water pollution and quality</strong></td>
<td><strong>- Directive Establishing Water Accounts System</strong></td>
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<tr>
<td>- <em>Water Accounts System</em></td>
<td>- Requires CARs to establish a water accounts system that tracks the collection and use of water fees. (This accounts system was a requirement for 2007 budget authorizations.)</td>
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<tr>
<td>o Provides for greater transparency and efficiency in the application of funds collected from water fees, by establishing system to monitor income, expenditures, and investments to monitor efficiency of regional water resource management.</td>
<td>- Provides for greater transparency and efficiency in the application of funds collected from water fees, by establishing system to monitor income, expenditures, and investments to monitor efficiency of regional water resource management.</td>
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<tr>
<td>- Regulates aspects pertaining to the conditions for authorizing permits, among them, the provision that wastewater permits are authorized when the interested party complies with quality standards that the environmental authority establishes for wastewater, in accordance with water resource quality goals defined in a participatory planning process.</td>
<td><strong>- 2006-2010 National Development Plan</strong></td>
</tr>
<tr>
<td>- Establishes the requirement of reviewing, updating, and defining water quality standards that should be considered depending on how the water resource is utilized.</td>
<td>- Mandates development of National Water Resource Policy that defines priorities and goals, including water quality objectives and guidelines on water pollution control (including economic instruments), and commits to updating and defining parameters and standards for water quality, depending on use.</td>
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<tr>
<td>- Provides incentives for the reuse of wastewater, such that those that generate them will not be charged pollution fees (tasas retributivas) and those that receive them will not be charged usage fees (tasas por uso)</td>
<td>(This would require a modification to the Law on Public Services, No. 142 of 1994, as it implies the addition of a new sanitation service.)</td>
</tr>
<tr>
<td><strong>Regulations on run-off water management and urban drainage</strong></td>
<td>- Institutional analysis conducted, reviewing division of management responsibilities, alternatives for financing, and proposals for required regulations.</td>
</tr>
<tr>
<td>- Responds to uncertainties regarding management responsibilities for urban drainage and guarantees a source of resources that will bring about investments that municipalities require to manage urban drainage. Urban drainage would thus constitute a complementary activity to household sewerage, allowing the Water Quality Regulatory Commission to also regulate it.</td>
<td><strong>- 2006-2010 National Development Plan</strong></td>
</tr>
<tr>
<td><strong>Reduction of vulnerability to natural disasters</strong></td>
<td>- Calls for incorporation of risk considerations into POTs;</td>
</tr>
<tr>
<td>- Aims to fill legal gaps/uncertainties re. responsibilities of environmental authorities and other regional agencies with respect to development of analyses of risks associated with water resources.</td>
<td>- Mandates development of sectoral risk maps to be used for the development of contingency and vulnerability reduction plans; and</td>
</tr>
<tr>
<td>- Calls for development of programs to reduce these risks (the content of which would be consistent with the POT, PAT, municipal development plans, and municipal contingency plans, utilizing the National System of Attention to and Prevention of Disasters as a general framework).</td>
<td>o Calls for the expansion and updating of monitoring networks and early warning systems.</td>
</tr>
<tr>
<td>Development objectives</td>
<td>Water law actions supporting objectives</td>
</tr>
<tr>
<td>------------------------</td>
<td>----------------------------------------</td>
</tr>
</tbody>
</table>
| Management of marine and coastal resources | - **Marine and Coastal Waters Plan**, developed by MAVDT in coordination with CCO, DIMAR, and INVEMAR  
  o Plan will be the basis of the National Coastal and Maritime Development Plan that should be developed in coordination with CCO. This planning instrument should also be incorporated in the appropriate sections of the National Water Resource Plan, to help ensure the integrated management of water resources.  
  o Also regulates aspects pertaining to the conditions for authorizing permits, among them, the provision that wastewater permits are authorized when the interested party complies with quality standards that the environmental authority establishes for wastewater, in accordance with water resource quality goals defined in a participatory planning process. | - **2006-2010 National Development Plan**  
  o Calls for continuing incorporation of integrated coastal zone management guidelines into POTs for coastal areas;  
  o Development of management instruments, such as permissible discharge limits;  
  o Mandates an integrated water resource action plan that identifies roles and responsibilities; and  
  o Commits to National Water Resource Policy that updates and defines parameters and standards for water quality, depending on use.  
  - MAVDT has defined limits on discharge of wastewater into marine and coastal waters  
  - **Decree Establishing Information System** calls for INVEMAR to develop procedures for the operation of the integrated water resource information system, particularly information related to marine and coastal water resources; monitor marine and coastal water resources and provide periodic updates to the integrated information system; and support regional environmental authorities with their marine and coastal management responsibilities. |

| Conservation of important water ecosystems | - Supports conservation of water ecosystems. The **POMCAS** take into consideration and define priorities for the conservation, protection, and renewal of strategic ecosystems, such as wetlands, plains, running waters, springs in accordance with the priorities identified under the watershed management plans.  
  - Defines responsibilities of diverse agencies responsible for promoting knowledge of groundwater resources, in order to achieve a more effective management, in particular, in the most critical areas and/or in the areas with greatest demand. **INGLEMINAS** is responsible for investigations/prospecting, as well as the characterization of water supply, at a national and regional level, while environmental authorities are responsible for their areas of jurisdiction. | - **All Decrees** are aimed at supporting the conservation of ecosystems. The **POMCAS** take into consideration and define priorities for the conservation, protection, and renewal of strategic ecosystems, such as wetlands, rivers, streams, lakes, and springs.  
  - In regions with important groundwater resources, **INGLEMINAS** (responsible for investigations/prospecting at a national and regional level) and **IDEAM** will conduct detailed regional inventories that will be incorporated into the corresponding POMCA, to ensure sustainable usage. |
Table 4. Colombia’s Decrees Governing Water Resources Management

<table>
<thead>
<tr>
<th>Decree</th>
<th>Issue</th>
<th>Years in effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decree 1875 of 1979. Establishes standards for pollution prevention in marine areas and other environments. Issued by the President of the Republic under special authority granted by Law 10 of 1978</td>
<td>Marine and coastal resources</td>
<td>28</td>
</tr>
<tr>
<td>Decree 1876 of 1979. Adopts measures on issues of natural resources in marine areas</td>
<td>Marine and coastal resources</td>
<td>28</td>
</tr>
<tr>
<td>Decree 1877 of 1979. Established standards for integrated use of marine resources</td>
<td>Marine and coastal resources</td>
<td>28</td>
</tr>
<tr>
<td>Decree 1594 of June 26, 1984. Partially implements Title I of Law 9 of 1979 as well as Articles 18, 19 and 107 of Decree-Law 2811 of 1974 regarding water use and liquid wastes. The following articles and paragraphs were declared null by the Consejo de Estado en Sentencia of August 14, 1992: Articles 65, 100, 101, 106, 107, 114, 115, 118, 121, 122, 123, 124, and 127; the paragraphs of Articles 72, 73, 100, 115, 118, and 121.</td>
<td>Water pollution</td>
<td>23</td>
</tr>
<tr>
<td>Decree 1600 of 1994. Partially implements the National Environmental System (SINA) in relation to national environmental research and information systems.</td>
<td>Renewable Natural Resources Information System</td>
<td>13</td>
</tr>
<tr>
<td>Decree 3102 of 1997. Implements Article 15 of Law 373 of 1997 regarding installation of equipment, instruments, and systems for reducing water use.</td>
<td>Rational water use</td>
<td>9</td>
</tr>
<tr>
<td>Decree</td>
<td>Issue</td>
<td>Years in effect</td>
</tr>
<tr>
<td>------------------------</td>
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</tr>
<tr>
<td>Decree 1311 of 1998.</td>
<td>Rational water use</td>
<td>9</td>
</tr>
<tr>
<td>Decree 224 of 1998.</td>
<td>Strategic aquatic ecosystems</td>
<td>9</td>
</tr>
<tr>
<td>Resolution 1096 of 2000.</td>
<td>Adopts technical regulations the Water and Basic Sanitation Sector RAS.</td>
<td>7</td>
</tr>
<tr>
<td>Decree 698 of 2000.</td>
<td>Strategic aquatic ecosystems</td>
<td>7</td>
</tr>
<tr>
<td>Decree 398 of 2002.</td>
<td>Water and sanitation</td>
<td>5</td>
</tr>
<tr>
<td>Decree 1604 of 2002.</td>
<td>Watersheds</td>
<td>5</td>
</tr>
<tr>
<td>Decree 1667 of 2002.</td>
<td>Strategic aquatic ecosystems</td>
<td>5</td>
</tr>
<tr>
<td>Decree 1729 of 2002.</td>
<td>Watersheds</td>
<td>5</td>
</tr>
<tr>
<td>Decree 3100 of 2003.</td>
<td>Environmental fees</td>
<td>4</td>
</tr>
<tr>
<td>Decree 155 of 2004.</td>
<td>Environmental fees</td>
<td>3</td>
</tr>
<tr>
<td>Decree 456 of 2004.</td>
<td>Water and sanitation</td>
<td>3</td>
</tr>
<tr>
<td>Decree 3440 of 2004.</td>
<td>Environmental fees</td>
<td>3</td>
</tr>
<tr>
<td>Decree 4742 of 2005.</td>
<td>Environmental fees</td>
<td>2</td>
</tr>
<tr>
<td>Decree 1900 of 2006.</td>
<td>Watersheds</td>
<td>1</td>
</tr>
<tr>
<td>Decree 2570 of 2006.</td>
<td>Accreditation of laboratories to conduct water quality analysis</td>
<td>1</td>
</tr>
</tbody>
</table>
66. The reforms outlined in Table 3 provide important advantages in the planning, administration and management of water resources in comparison with the draft water resource management law. For example, the package of decrees and other reforms does not require regulations for their implementation as in the case of the law. In addition, complementary actions, such as strengthening the Vice Ministry of Environment via the creation of a Water Resource Office to implement these reforms, should be able to accomplish more than the water law as a single instrument.

67. Among these reforms, defining the methodology for the water uses and users registry and the preparation of the National Water Plan represent two important milestones in the country's administration of water resources. The decree for development of the registry builds on assistance provided to the MAVDT by government officials in Peru and Mexico, who shared their experiences in developing water users registries. The National Water Resource Plan defines national water resource priorities and assesses trade-offs that must be made in assigning scarce resources. It also examines the balance between water resource availability and demands.

68. SusDevDPL II also supports implementation of an action plan to improve laboratory accreditation and dissemination of water quality monitoring protocols. This plan supports improvements in planning, oversight, and control of water quality and the harmonization of data collected at the local, regional and national levels to support improved decisionmaking and administration. During preparation of SusDevDPL II, an assessment of laboratory capacity was conducted in conjunction with IDEAM to identify accreditation requirements and needs. In addition, technical assistance was provided to environmental authorities to strengthen the analytical capacity of laboratories.

69. Finally, SusDevDPL II supports the provision of technical assistance to help municipalities implement their PGIRSS and close open garbage dumpsites. Training workshops on the preparation of PGIRSSs were provided to municipalities with less than 50,000 inhabitants, and to date approximately 500 municipalities have prepared and adopted their PGIRSSs and another 606 municipalities are in the process of preparing them. In July 2005, the MAVDT launched the “Colombia without Open Dumps Program.” In conjunction with the Superintendency of Public Household Services, the MAVDT has provided technical assistance to municipalities in identifying regional landfills to use in place of closed garbage dumps. Although it was envisioned during preparation of the SusDevDPL I that at least 75 of the country’s 700 open dumps would be closed under the second operation, to date more than 200 have been closed, far surpassing the agreed target. This program supports the implementation of Decree 838 of 2005 and associated Resolution 1390 of 2005, which facilitate the planning and operation of sanitary landfills and establish norms for closing and/or technically transforming inadequate disposal sites.

C.1.2 Perspectives for SusDevDPL III

70. Building on the results of SusDevDPL II, the government has committed in the medium term to adapt the MAVDT’s new Water Resource Unit to ensure an appropriate institutional framework for implementing the reforms supported under the second operation.
C.2 Improving urban air quality

71. Ambient air pollution is one of the most widespread and serious problems in both cities and rural areas, and is linked to approximately 6,000 premature deaths per year. Although levels are moderate in most cities, the fact that close to 50 percent of the population lives in cities with more than 100,000 inhabitants creates substantial aggregate health effects, associated mainly with particulate matter. These effects include cardiopulmonary diseases and lung cancer in adults and acute respiratory illness, particularly in children, as well as death from related diseases such as pneumonia.

72. Urban air pollution from transportation and industry has increased, with the most critical conditions occurring in the country's industrial corridors, especially Bucaramanga, Medellin, and Baranquilla. Although several major pollutants, including ozone, are of concern in Colombia's urban areas, the most serious health effects are caused by respirable particulate matter smaller than 2.5 microns in diameter (PM$_{2.5}$).

73. The MAVDT is responsible for enacting national regulations for air pollution control based on technical information provided by IDEAM, while regional environmental authorities are responsible for their enforcement. However, most of the regional authorities have been incapable of carrying out their air pollution management responsibilities. Furthermore, few cities collect air quality data, and at present none collects data on PM$_{2.5}$. Improving data collection is needed to help define standards, especially for particulate matter. SusDevDPL I supported the government in designing and implementing a new air pollution control policy to promote improved data collection and reduction of the pollutants most harmful to public health. In addition, a national action plan for air pollution control was approved (CONPES 3344) that emphasized (i) measurement of key pollutants that are associated with significant health impacts (such as PM$_{2.5}$); (ii) research to better understand the causal links between health impacts (such as cardiopulmonary diseases and lung cancer) and pollutants; and (iii) promotion of measures to mitigate these health impacts. In addition, SusDevDPL I supported the development of a national policy and action plan (CONPES 3305) on integrated urban environmental management that includes (i) an evaluation of existing mass transit systems, (ii) promotion of new public transportation systems, (iii) land use planning to reduce urban sprawl and redensification of municipalities to improve delivery of urban services, and (iv) reduction of risks related to natural disasters.

C.2.1 Actions to be supported by SusDevDPL II

74. Building on the national action plan related to air pollution, the SusDevDPL II supports the issuance of one decree and two resolutions to support the implementation of a new air pollution control scheme. Decree 244 of 2006 establishes the National Intersectoral Technical Commission for the Prevention and Control of Air Pollution (CONAIRE) to ensure intersectoral coordination of policies, plans, and programs to prevent and control air pollution. The Minister of Environment, Housing and Territorial Development heads the commission, which is comprised of representatives from the following institutions: Ministry of Mines and Energy, Ministry of Transportation, Ministry of Social Protection, National Planning Department (DNP), and Institute of Hydrology, Meteorology and Environmental Studies (IDEAM). The commission has an advisory role and is responsible for recommending measures to harmonize regulations and environmental decisions into planning and projects.
carried out by economic sectors in order to ensure sustainable development. CONAIRE reviews urban development and sectoral policies and regulations that impact air quality to propose necessary modifications to prevent and control air pollution. It also reviews information needs and technical requirements to strengthen the oversight of health impacts associated with air pollution. Lastly, it promotes the dissemination and publication of environmental health and air quality information as well as participatory processes.

75. Resolution 0601 of 2006 establishes air quality standards with pollution limits for TSP, PM$_{10}$, SO$_2$, NO$_2$, O$_3$, and CO, while Resolution 0627 of 2006 establishes national emission standards for noise pollution, with a view to minimize the public health risks associated with ambient air pollution. In addition to defining air quality standards, Resolution 0601 also defines procedures for air quality monitoring and programs for reducing air pollution. In particular, it requires environmental authorities to measure PM$_{2.5}$ in cities where it poses probable health concerns. The resolution obliges the monitoring of air quality in accordance with the recent monitoring protocol developed by IDEAM. The SusDevDPL II also supported the development of this protocol, based on a diagnostic study of the country’s monitoring networks, which contains specifications for the location and design of monitoring networks, sampling techniques for contaminants, and monitoring conditions. The protocol also provides information on the resources necessary for installing and operating air quality monitoring stations. Under the SusDevDPL II, this air quality protocol has been validated and applied in four city air quality networks (Bogotá, Pereira, Sogamoso, and Bucaramanga). Lastly, the resolution mandates that environmental authorities inform the public of air quality levels, comparing these levels with the maximum permissible levels at least every three months. In those areas that exceed air pollution limits, the respective environmental authority with support from transportation and health authorities is required to develop a program to reduce air pollution.

76. To further strengthen air quality management, MAVDT and IDEAM conducted studies to characterize particulate matter and develop a protocol for emissions inventories. These studies provided greater understanding of the impact of meteorological conditions on pollutant dispersion as well as the health impacts of air pollution. These studies, protocols, and eventual emissions inventories will provide a powerful tool for designing pollution control programs and taking effective action when cities exceed air pollution limits. The emissions protocols were developed in parallel with the air quality protocols to ensure compatibility between the two, as part of an integrated air quality management system.

C.2.2 Perspectives for SusDevDPL III

77. For SusDevDPL III, the government has committed to designing and approving a national policy for air pollution control. An SEA on urban air quality, to be conducted during preparation of SusDevDPL III, is expected to provide technical inputs toward the policy’s preparation, as well as to support institutional agreements for the policy’s implementation.
IV. BANK SUPPORT TO THE GOVERNMENT’S PROGRAM

A. LINK TO COUNTRY ASSISTANCE STRATEGY

78. The proposed Second SusDevDPL continues the pragmatic approach initiated under the first operation of supporting the government’s efforts to achieve the MDGs by (i) improving the effectiveness and efficiency of the National Environmental System (SINA) and (ii) integrating principles of sustainable development into key sectors. SusDevDPL II directly contributes to the following CAS objectives (CAS Report No. 25129, dated December 24, 2002, and CAS Progress Report No. 32999, dated September 9, 2005):

79. Achieving Fast and Sustainable Growth. Putting the economy back on a rapid, sustainable growth path requires (i) exploiting the synergies between economic growth and environmental management and (ii) strengthening institutional and regulatory arrangements for providing basic services. SusDevDPL II supports policies that mainstream environmental considerations into key sectors and improve coordination and strengthen consensus among key stakeholders, while also supporting development of appropriate fiscal instruments for achieving environmental goals.

80. Building Efficiency, Accountability, and Transparency in Governance. SusDevDPL II supports actions that (i) strengthen SINA with respect to environmental decisionmaking and policy implementation, (ii) improve the collection, management, and use of environmental data to help set priorities, (iii) improve coordination between the MAVDT, DNP, CARs, and other SINA actors, and (iv) enhance public participation in decisionmaking.

81. In addition, Colombia’s National Planning Department has used the findings of the CEA to help design programs and policies, particularly in terms of enhancing sustainable development strategies. The 2006-2010 PND includes a pillar on sustainable development that calls for policies based on the CEA’s findings. In the next Country Partnership Strategy (CPS), the Bank expects to continue supporting the government’s efforts under this pillar through proposed operations such as the SusDevDPL III, Disaster Vulnerability APL III, Water and Sanitation Infrastructure APL II, as well as a number of GEF operations.

B. COLLABORATION WITH THE IDB AND OTHER DONORS

82. During preparation of the SusDevDPL Program the Bank has coordinated closely with the Andean Development Corporation and the Inter-American Development Bank. The DPL Program is designed to complement the IDB’s Urban Social Housing Project and the IDB’s second program to support the National Environmental System (SINA II), which aims to support sustainable development by strengthening national and regional environmental institutions. Based on joint World Bank–IDB discussions with the government on synergies between SusDevDPL and SINA II, it was agreed that the IDB project would focus specifically on (i) reforestation linked to watershed management and protected areas and (ii) cleaner production for the manufacturing sector.
83. During the preparation of the SusDevDPL II, the Bank has also closely coordinated with officials from the Dutch Embassy in Colombia, who are also working with MAVDT, DNP, and MHCP to prepare a grant-financed environmental program that will support institutional strengthening within SINA as well as the Colombian government’s conservation efforts. Joint team meetings have been held throughout preparation with MAVDT, DNP, embassy, and Bank officials to ensure that activities under the SusDevDPL Program and the Dutch sectoral program are complementary. While the SusDevDPL Program places emphasis on strengthening SINA’s effectiveness and efficiency, supporting environmental health improvements, and addressing urban environmental challenges, the Dutch program gives greater weight to sustainable natural resource management.

C. RELATIONSHIP TO OTHER BANK OPERATIONS

84. The proposed loan is the second of three operations that constitute the Colombia Sustainable Development DPL Program. SusDevDPL I, consisted of one tranche of $150 million that was disbursed in October 2005. SusDevDPL I successfully supported the initial stage of policy reforms, which the proposed second operation will build on to ensure sustainability, deepen reforms, mainstream environmental concerns into key sectoral development agendas, and improve the effectiveness and efficiency of environmental management processes.

85. Activities under SusDevDPL II that will support environmental mainstreaming in transport, water, energy, and other sectors are fully consistent with several Bank projects and will reinforce the sustainability of project results by promoting an adequate framework that includes required sector policy reforms. These Bank projects include:

- **Bogotá Urban Services Project.** This $100 million loan aims to improve (i) urban livability by increasing access, coverage, quality, reliability, and interagency coordination of transportation, water, sanitation, and related basic services, particularly for residents in low-income areas and (ii) the city’s mobility by providing better access to the public transport system, and improving road safety, traffic management, and transport planning. Among the beneficiaries are about 600,000 low-income residents who live in 14 of the city’s poorest zones. In addition, the Institutional Strengthening component aims to improve the delivery of urban services through activities that will help ensure the social, environmental and financial sustainability of the works undertaken by the project.

- **Integrated Mass Transit System Project.** This $250 million loan supports the expansion and/or construction of bus rapid transit systems in medium and large cities to improve mobility along the most strategic mass transit corridors, improving the standard of living of millions of Colombians by decreasing time and costs of public transport. The project is supporting (i) development of high quality and sustainable bus rapid transit systems; (ii) accessibility improvements for the poor through more feeder services to and from poor areas, as well as through fare integration to decrease the cost for users who take more than one bus to travel on the same route; and (iii) increased institutional capacity at
the national level in order to develop integrated urban transport policies and at the local level to improve urban transport planning and transport management.

- **La Guajira Water and Sanitation Infrastructure and Service Management Project.** This $90 million loan supports the first phase of the $150 million Water and Sanitation Infrastructure and Service Management Program APL. Phase I will increase service quality for water supply, sanitation, and wastewater treatment in urban areas for 300,000 consumers and improve the sustainability of service by (a) supporting utility institutional performance through the government of Colombia’s “Specialized Operator” policy, and (b) delivering the necessary water and sanitation infrastructure.

- **Water Sector Reform Assistance Project.** This $40 million loan supports the reform of municipal water utilities in underserved rural and urban areas of the Caribbean coast by involving the private sector in utility management and expanding water and sewerage services to more people, especially the poor. In addition to supporting innovative public-sector participation schemes, the project provides technical assistance to guide municipal leaders as they incorporate the private sector in the management and operation of their water utilities. To obtain subproject support, water utilities are eligible for project support only if a large proportion of their users are low-income households.

- **Water and Sanitation Sector Support Project.** The $70 million loan aims to improve the supply of efficient and sustainable municipal water, sewerage, and wastewater treatment services in Colombia by providing capital investment subsidies in connection with expansion of coverage and improvement of service quality in poor areas. The project supports (i) investments to improve services through targeted capital grants in small- and medium-size cities and in some high poverty peri-urban areas of large cities serviced by public utilities; (ii) increased involvement of the private sector in medium-size cities through the introduction of performance-based management arrangements with specialized operators; (iii) water supply delivery and sanitation investments in Colombia’s underserved rural areas, including investments in water sourcing through wells and septic and latrine disposal; and (iv) improved financial viability and accountability of participating municipalities while strengthening their implementation capacity.

- **Sustainable Development Investment Project.** This $7 million loan finances targeted actions and investments to support the development and implementation of the DPL Program’s policy reforms. Specifically, the Sustainable Development Investment Project supports policies and programs that address environmental problems affecting the quality of life and well-being of Colombians (such as air pollution and inadequate hygiene) and that strengthen the process of formulating, coordinating, and overseeing regional and local environmental management and policies.

86. The Bank’s work on environmental issues in Colombia likewise builds on opportunities provided under the Kyoto Protocol to the United Nations Framework Convention on Climate Change through sources such as the Prototype Carbon Fund (PCF). The Jepirachi Carbon Offset Project and the Rio Amoya Environmental Services project, both financed by the PCF, offer the possibility of reducing carbon emissions while fostering important technology transfers to the renewable energy sector.
D. LESSONS LEARNED

87. The principal lesson gained from the preparation of SusDevDPL I is the importance of building a reform program on the basis of extensive analytical work. The analytical work conducted as part of the Country Environmental Analysis (CEA) and in preparation for the first operation provided a thorough examination of environmental priorities and an understanding of the country’s institutional framework for environmental management. The actual process of carrying out the analysis was equally important, as it helped build consensus among stakeholders on reforms to the SINA. The preparation and dissemination of the CEA benefited from close client engagement and wide stakeholder consultation, from the government officials responsible for setting environmental policies and programs to poor and marginalized groups that are most vulnerable to environmental degradation.

88. The Ministry of Environment was an active partner during preparation of the CEA, helping to supervise some analytical studies and ensuring that consultants had the key background information needed to conduct their analyses. The ministry also helped garner the viewpoints of all relevant stakeholders during preparation of the studies, most of which benefited from interviews with national and local government officials, academics, and civil society. A survey of more than 2,600 Colombians throughout the country helped determine the environmental priorities of diverse sectors and stakeholders, including governmental authorities, civil society representatives, and various ethnic groups. The CEA provided a basis for the structure of the SusDevDPL Program and Sustainable Development Investment project, and helped ensure that reforms under the SusDevDPL are based on the best available information.

89. By ensuring this wide scope of engagement and dissemination, the results of the CEA have had a significant impact on the development of government policies and on public awareness of environmental priorities. For example, for the first time ever Colombia’s leading newspaper carried a front-page story on the country’s environmental priorities and the costs imposed by environmental degradation. By comparing annual environmental costs with the costs of the country’s ongoing civil war, the article helped raise awareness of the magnitude of environmental degradation. During recent elections, some politicians called for reductions in ambient air pollution in the country’s largest cities, citing the findings of the CEA. In addition, Colombia’s National Planning Department has used the findings of the CEA to help design programs and policies, particularly in terms of enhancing their sustainability strategies. Both the medium-term National Development Plan and the long-term “Vision for the Second Centennial: 2019” (Visión Colombia II Centenario: 2019) specifically call for policies based on the findings of the CEA, and the CEA was also one of the key inputs to the National Sustainable Development Policy (CONPES 3343 of 2005).

90. A second lesson learned is that actions requiring a sustained commitment from stakeholders in the legislative branch pose an additional risk, particularly due to the lawmaking process. Given that these stakeholders manage reforms from a multitude of sectors, with varying levels of national priority, there is a greater risk that the processing of these reforms will be delayed until more urgent laws are approved.

91. Finally, despite the risks associated with interinstitutional coordination, this coordination has helped strengthen reforms under the SusDevDPL Program. Coordination among line ministries, as well as vertically between national and regional authorities, has
enriched policy development in the areas of air quality, water quality, and environmental health, as well as data collection required for the monitoring of SINA’s progress toward goals linked with sustainable development and the MDGs.

E. ANALYTICAL UNDERPINNINGS

92. The program rests on a solid analytical foundation that includes the policy notes prepared by the World Bank for the new administration (Colombia 2006-2010: A Window of Opportunity) and other economic and sector work, in particular the recent Country Environmental Analysis (CEA). The CEA was carried out in parallel with the preparation of the first Sustainable Development DPL to provide the Colombian government with an analytical framework to support its efforts toward achieving the MDGs, with its findings expected to support the design and implementation of policies focused on protecting the most vulnerable groups, especially poor children under age of five. By achieving this objective, the CEA has provided a basis for the structure of the SusDevDPL Program. Table 5 illustrates how the SusDevDPL Program is supporting the CEA’s key findings. Cornerstones of the CEA include (i) an assessment of the cost of environmental degradation in Colombia; (ii) a broad assessment of the institutional capacity for environmental management in Colombia; and (iii) an assessment of the effectiveness and efficiency of existing policy, legislative and regulatory frameworks to address environmental concerns. In addition, a broad survey of societal perceptions was carried out to assist the government in identifying the country’s priority environmental concerns, as well as the sectors from which they stem.

93. The analysis of the cost of environmental degradation conducted as part of the CEA (Larsen 2004) shows that the most costly problems associated with environmental degradation are urban air pollution; inadequate water supply, sanitation and hygiene; natural disasters (such as flooding and landslides); land degradation; and indoor air pollution. The burden of these costs falls most heavily on vulnerable segments of the population, especially poor children under age five. The effects of environmental degradation associated with these principal causes are estimated to cost more than 3.7 percent of GDP, mainly due to increased mortality and morbidity and decreased productivity.

94. The review of Colombia’s institutional capacity for environmental management in Colombia examined, inter alia, the distributional responsibilities among national, regional and local environmental authorities, as well as cross-sectoral and interinstitutional coordination mechanisms. It also reviewed the SINA’s monitoring capacity and ways in which stakeholder interests are balanced in the decisionmaking process. The assessment identified the following problems within the SINA: (i) inadequate or inappropriate regulations, such as emissions standards adopted from industrialized countries with little or no modification; (ii) limited technical capacity in MAVDT and some CARs; (iii) inadequate enforcement, for example the CARs collect only one-third of the effluent fees charged to polluters; (iv) inadequate data on environmental quality and institutional performance; (v) lack of priority setting across environmental subsectors and programs; and (vi) inadequate mechanisms for public participation.

95. The analysis of environmental expenditures shows that current expenditures can be better aligned with the priorities of lower-income groups or with the most pressing problems associated with the cost of environmental degradation (Canal 2004). In 2001, the CARs
allocated 28 percent of their investment funds to projects involving protection of flora and fauna and only 5 percent to pollution control projects other than wastewater treatment plants. Although data are limited and must be interpreted cautiously, the highest share of CAR investments appear to focus on the construction of wastewater treatment plants, followed by water basin management, reforestation, and conservation.

96. The results of a 2004 survey of public perceptions about environmental problems in Colombia, which included a sample of 2,600 individuals from a wide range of regions, sectors, government agencies, civil society organizations, and ethnic groups (CNC 2004), complemented the analysis of the cost of environmental degradation. Approximately 80 percent of respondents identified air pollution as the top environmental problem, but there were significant differences in the perception of priorities among income groups. Whereas low-income groups identified air pollution, noise, and natural disasters as major problems, upper-income groups tended to perceive global environmental impacts (such global warming and loss of biodiversity) and inappropriate land use in urban areas as high priorities.

97. In addition to the CEA, other studies and reports that have contributed to the design of this program range from the Public Environmental Expenditure Review conducted by the Economic Commission for Latin America and the Caribbean (ECLAC) to studies commissioned by the government to assess the effectiveness of various SINA institutions, as well as broad institutional assessments at the request of the government by international authorities, including *Institutional Reforms in Colombia*.

Table 5. SusDevDPL II’s Support of CEA Policy Options

<table>
<thead>
<tr>
<th>Key Issue</th>
<th>Policy Options identified in CEA</th>
<th>Actions supported under SusDevDPL II</th>
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<tr>
<td>Need for strategic and systematic tools for priority setting</td>
<td>• Install and implement systems to monitor and evaluate environmental management and the extent to which the objectives of environmental priorities are efficiently met. • Periodic evaluations of progress on the implementation of policies to tackle environmental priorities, with support of data, results, and experiences accumulated through intersectoral coordination and learning.</td>
<td>• Establishment of a monitoring baseline in CARs and other national and regional entities with respect to the sustainable development objectives described in Decree 1200 of 2004. (Decree establishes a system of performance indicators to measure impact and results of environmental investments at the regional level. These indicators are linked with the MDGs in particular Goals 7 and 4) and serve to promote and improve the linkage between national and regional priorities.) These indicators will also be monitored at the national level. • Establishment of a system of indicators to evaluate implementation of the National Policy on Sustainable Development. • Execution of plan to strengthen the design, monitoring, and execution of environmental policies within DNP and MAVDT. • Adequate functioning of the SINA working group, as demonstrated by the improvement in linking national and regional priorities, reduction in conflicts between MAVDT and CARs, and level of organizational learning.</td>
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### Key Issue

**Need for strengthening institutions' capacity to address environmental priorities, particularly in environmental health**

- Mainstream environmental considerations in policy formulation by strengthening SINA institutions' capacity in priority areas through strategic environmental assessment (SEA) of environmental health

- National Development Plan submitted for Congressional approval (as law), mandating guidelines of a national strategy on environmental health and SEAs in environmental health to inform national strategy.

### Policy Options identified in CEA

- Formulate and implement actions to promote compliance with drinking water quality standards.
- Design and implement a “safe water” program that includes components dealing with handwashing and point-of-use disinfection of drinking water.
- Facilitate private sector participation in water supply and sanitation.
- Modify laws and regulations on parameters of effluent standards so that toxic and hazardous substances are regulated.

### Actions supported under SusDevDPL II

- Revise and establish national standards for PM2.5 and PM10 in priority areas and update emission standards for mobile and nonpoint sources to reflect new scientific and technological advances.
- Implement air pollution control interventions, such as promoting the improvement of fuel quality in transport and industry sectors, expanding the use of natural gas to replace coal and oil, and establishing measures to control emissions from stationary, mobile, and nonpoint sources.

### High cost of environmental degradation associated with waterborne diseases

- Revise and establish national standards for PM2.5 and PM10 in priority areas and update emission standards for mobile and nonpoint sources to reflect new scientific and technological advances.
- Implement air pollution control interventions, such as promoting the improvement of fuel quality in transport and industry sectors, expanding the use of natural gas to replace coal and oil, and establishing measures to control emissions from stationary, mobile, and nonpoint sources.

### High cost of environmental degradation associated with air pollution

- Revise and establish national standards for PM2.5 and PM10 in priority areas and update emission standards for mobile and nonpoint sources to reflect new scientific and technological advances.
- Implement air pollution control interventions, such as promoting the improvement of fuel quality in transport and industry sectors, expanding the use of natural gas to replace coal and oil, and establishing measures to control emissions from stationary, mobile, and nonpoint sources.

- Associated investment loan providing technical assistance and investments to support implementation of a program to promote improved hygiene.
- New Vice Ministry of Water and Sanitation has established an Office for Operational Management and an Office for Strategic Investments.

- Resolution 601 of April 2006 provides national air quality standards for PM10, SO2, NO2, O3, and CO. It also requires that environmental authorities begin measuring PM2.5 when they identify probable health concerns.
- Issuance of resolutions to support new air pollution scheme to promote behavioral changes that would reduce urban air pollution. (Resolution 601 of 2006 calls for use of cleaner fuels and other emissions control measures in areas that exceed air quality standards.)
- Policy on fuel quality disseminated and agreed among key stakeholders.
  - Third operation (SusDevDPL III) will support design and approval of a national policy for air pollution control.

- Associated investment loan is financing improvements in air quality monitoring networks in Colombia’s largest cities (targeted at improved

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33
<table>
<thead>
<tr>
<th>Key Issue</th>
<th>Policy Options identified in CEA</th>
<th>Actions supported under SusDevDPL II</th>
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<tbody>
<tr>
<td>Morbidity and premature deaths associated with indoor air pollution</td>
<td>• Promote the use of cleaner fuels in areas that predominantly use fuelwood in an accessible, safe, and cost-effective manner.</td>
<td>• Policy on fuel quality disseminated and agreed among key stakeholders.</td>
</tr>
<tr>
<td>Requirements for improved urban environmental conditions</td>
<td>• Devise concrete ways of integrating environment into urban planning and management tools after reviewing the legal and regulatory framework of environmental and urban legislation.</td>
<td>• Third operation (SusDevDPL III) will support the development of an urban environmental policy by improving the effectiveness of existing planning, management, and financing instruments for urban development and promoting actions and strategies that improve the quality of life in urban areas.</td>
</tr>
</tbody>
</table>
V. THE PROPOSED SECOND PROGRAMMATIC DEVELOPMENT POLICY
LOAN FOR SUSTAINABLE DEVELOPMENT

A. OPERATION DESCRIPTION

98. The general programmatic framework for this operation is given by the policy matrix that was developed during preparation of the SusDevDPL I. This matrix consists of two broad thematic areas, namely improving the effectiveness and efficiency of SINA, and integrating principles of sustainable development into key sectors, with a particular emphasis on protecting the most vulnerable groups. The commitments under the program are listed in the Program Matrix (Annex 2). The first operation focused on developing a results-based framework for planning and monitoring progress of the SINA toward goals linked with sustainable development and achievement of the MDGs, improving interinstitutional coordination, and increasing public participation in decisionmaking processes, and initiating preparation of critical laws and decrees related to water resources management, air quality, solid waste management, and environmental licensing. The second operation focuses on the development and passage of sustainable development policies.

99. During SusDevDPL I negotiations, the Colombian government and the Bank defined a list of proposed actions to be implemented by the government prior to Board presentation of the SusDevDPL II. These triggers focused on developing a strategic planning and monitoring framework for sustainable development, reducing the cost of environmental degradation associated with water resource management, and reducing the cost of environmental degradation associated with air pollution. Box 2 presents the triggers for SusDevDPL II and actions taken by the Colombian government to meet them. In addition, Box 3 shows how the operation adheres to good practice principles for conditionality.

<table>
<thead>
<tr>
<th>Box 2. SusDevDPL II Triggers</th>
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<tbody>
<tr>
<td>Policy Area</td>
</tr>
<tr>
<td>Results-based framework for planning and monitoring progress of the SINA toward goals directly linked with sustainable development and achievement of the MDGs</td>
</tr>
</tbody>
</table>
| Critical decrees, laws and policies that embody principles of sustainable development (e.g., air quality, water quality, solid waste management, and environmental licensing) | • Congressional approval of a new water resource management law. | • Package of reforms approved and/or issued to improve administration, planning, and management of water resources, including:
  - MAVDT directive issued, requiring CARs to establish a water accounts system that tracks water resources income and expenditures as a condition for 2007 budget authorization
  - MAVDT proposal for Water Resource Management Office within Vice Ministry of Environment submitted to Programa de Renovación de la Administración Pública en Colombia
  - 2006-2010 National Development Plan presented to Congress, mandating development of National Water Resources Policy that includes policy guidelines for water pollution prevention, and modification of Vice Ministry of Environment’s structure to strengthen integrated water resources management
  - Decree for watershed management and planning approved by Presidency
  - Decree for development of water uses and users registry approved by Presidency
  - Decree establishing information system approved by Presidency
  - 2006-2010 National Development Plan approved by Congress as law, exceeding agreed prior action
|   | • Implementation of Action Plan to improve laboratory accreditation and dissemination of water quality monitoring protocols. | • Diagnostic study of analytical capacity of CAR laboratories conducted; action plan prepared
• Action plan implemented; water quality monitoring protocols disseminated
|   | • Implementation of technical assistance program to close open dumps in at least 75 municipalities | • Technical assistance program implemented at municipal and regional level; 75 open garbage dumps closed
• Additional 208 garbage dumps closed and/or converted to landfill to date
|   | • Consistent protocol for air quality monitoring developed, based on analysis of monitoring networks. | • Diagnostic study of country’s monitoring networks completed
• Resolution 0601 of 2006 issued, which requires monitoring of air quality in accordance with protocol
• Protocol established, validated, and applied in four city air quality networks
|   | • Emissions inventory protocol for fixed and mobile sources developed and implemented in major urban centers, including Bogotá, Medellín, Cali, Bucaramanga, and Barranquilla. | • Studies characterizing particulate matter completed
• Protocol developed and implementation initiated in Bogotá, Medellín, Cali, and some municipalities in the departments of César and Cundinamarca and the jurisdiction of Corantioquia.
Box 3. Good Practice Principles on Conditionality

Principle 1: **Reinforce Ownership**
The SusDevDPL II is fully aligned with the government’s environmental management strategy contained in the 2006-2010 PND. The operation also rests on a solid analytical foundation that includes the Country Environmental Analysis (CEA). MAVDT was an active partner during the CEA’s preparation, which benefited from close client engagement and wide stakeholder consultation. By ensuring this wide scope of engagement and dissemination, the results of the CEA have had a significant impact on the development of government policies, including the PND environmental management strategy, and underpin the DPL series.

Principle 2: **Agree up front with the government and other financial partners on a coordinated accountability framework**
The Bank’s support is summarized in a brief and focused policy matrix that was widely discussed and agreed with government officials. Although no other donors are currently providing budget support to these reforms, the Dutch government has expressed interest in providing programmatic support in the environment sector that complements the actions and emphasizes the objectives of the SusDevDPL Program.

Principle 3: **Customize the accountability framework and modalities of Bank support to country circumstances**
Bank support does not include any sensitive policy reforms; rather support is fully aligned with the sustainable development goals included in the 2006-2010 PND presented to Congress which aims to strengthen the SINA and integrate environmental considerations into key economic sectors.

Principle 4: **Choose only actions critical for achieving results as conditions for disbursement**
The Bank’s policy matrix uses a limited set of prior actions for the second operation of the SusDevDPL Program (6 in total). These prior actions are focused on the development and passage of reforms supporting the government’s medium-term development program.

Principle 5: **Conduct transparent progress reviews conducive to predictable and performance-based financial support**
The proposed one-tranche operation is timed to the country’s budget cycle, with timing agreed in discussions with MHCP based on the current review of the operation’s prior actions. The policy matrix contains a limited number of outcome indicators, which will be assessed as part of the operation’s implementation and are closely linked to the supported policy actions.

B. ADDITIONAL KEY ACTIONS UNDERTAKEN BY THE COLOMBIAN GOVERNMENT UNDER SUSDEVDPL II

100. SusDevDPL II focuses on advancing the reform efforts that were initiated under the first operation. In addition to the triggers, other actions supported by the second operation include (i) submission of National Development Plan (PND) to Congress with guidelines for a national strategy on environmental health and guidelines on water pollution control, including economic instruments; (ii) establishment of a system of indicators to evaluate implementation of the National Policy on Sustainable Development (CONPES 3343); (iii) midterm evaluation of progress on the SusDevDPL Program; (iv) dissemination of the results of three policy-based Strategic Environmental Assessments (SEAs) relating to water quality, mining, and fuel quality; (v) adequate functioning of SINA working group, as demonstrated by improvement in linking national and regional priorities, reduction in conflicts between MAVDT and CARS, and level of organization learning; (vi) implementation of a new environmental licensing scheme (Decree 1220 of 2005); (vii) implementation of a plan to strengthen the design, monitoring, and execution of environmental policies within DNP and MAVDT; (viii) strengthening the organizational structure of MAVDT to promote

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8 This action has recently been exceeded; the 2006-2010 National Development Plan was approved by Congress on May 4, 2007.
environmental health, sustainable urban development, integrated water management, and planning and monitoring of environmental management; (ix) implementation of regulations for the final disposal of solid waste, taking into consideration legal, economic, and financial instruments; and (x) issuance of a least two resolutions to establish and implement new air pollution control scheme to promote behavioral changes to achieve reduction of urban air pollution.

C. LOAN AMOUNT AND TRANCHING

101. The proposed US$200 million loan will be made to the Republic of Colombia. The loan is expected to be disbursed in a single tranche immediately upon effectiveness.

D. TRIGGERS FOR SUSDEVDPPL III

102. The Bank partnership with the Colombian government is expected to continue under a third operation, upon meeting the triggers listed in Box 4 below.

<table>
<thead>
<tr>
<th>Box 4. Triggers for the Third Programmatic SusDevDPL</th>
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<tr>
<td>As part of the series of programmatic operations, the government has agreed on the following prior actions as key indicators for moving to the third operation in the series:</td>
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<tr>
<td>1. Approval and implementation of a National Policy on Environmental Health that covers the areas of water quality and urban and indoor air quality, and considers the results of policy-based SEAs.</td>
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<tr>
<td>2. Installation and functioning of a system to monitor and evaluate both national and regional environmental management based on the six sustainable development objectives described in Decree 1200 of 2004.</td>
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<tr>
<td>3. Development and approval of an Urban Environmental Policy that clarifies the roles and responsibilities of CARs and AAUs and mandates implementation of mechanisms for improved transparency.</td>
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<tr>
<td>4. Implementation of a plan to adapt DNP’s and the Vice Ministry of Environment’s new structure to better manage environmental policies and meet the environment goals of the 2006-2010 PND.</td>
</tr>
<tr>
<td>5. Adapt the Water Resources Unit in MAVDT in line with new water resource management reforms, to ensure an appropriate institutional framework to support their implementation.</td>
</tr>
<tr>
<td>6. Design and approval of a national policy for air pollution control, utilizing results of SEA on urban air quality.</td>
</tr>
<tr>
<td>7. Strengthen MAVDT’s Climate Change Unit to meet the environment goals of the 2006-2010 PND.</td>
</tr>
</tbody>
</table>
VI. OPERATION IMPLEMENTATION

A. POVERTY AND SOCIAL IMPACTS

103. The provisions of OP8.60 apply to the SusDevDPL II and the operation is expected to have a significantly positive poverty and social impact. In general terms, improvements in environmental sustainability are expected to benefit the poor. As described below, the poor are the segment of the population most at risk from the impacts of environmental degradation, particularly in terms of health and productivity. Waterborne bacterial diseases and ambient and indoor air pollution pose the highest costs, accounting for approximately 2 percent of GDP, due primarily to increased child morbidity and mortality. Diarrhea, which accounts for approximately 7.3 percent of child mortality, is the most common and widespread waterborne disease and is more prevalent in rural zones populated by the poorest segments of the population. In fact, there are approximately 2.9 cases of diarrheal illness per child each year. Air pollution is also a significant problem, with particulate matter alone responsible for an estimated 6,000 premature deaths and 7,400 new cases of chronic bronchitis in Colombia every year. Therefore, the poor are expected to benefit in the form of improved environmental and health conditions that improve their potential for more productive work days and a better quality of life. In addition, the proposed project aims to ensure that the most vulnerable segments of society have a seat at the table with respect to the design and implementation of policies that affect them.

104. Indoor air pollution almost exclusively affects poor households that use solid fuels for cooking and lack improved stoves that reduce emissions and minimize exposure to particulate matter. While the correlation between poverty and ambient air pollution is more difficult to quantify, the Journal of Epidemiology and Community Health (Samet and White 2004) notes that a growing body of studies “are beginning to provide a coherent and not surprising picture: persons having less socioeconomic status seem to be at increased risk from urban air pollution.” This may be due to both greater exposure as a result of living in more polluted areas and spending more time outdoors, as well as greater vulnerability to the effects of air pollution because of previous exposure, poorer underlying health conditions, and less access to health services.

105. Diarrheal illness tends to affect the poor more frequently because it is more prevalent in households with less rigorous hygiene practices and lower access to improved water supply and sanitation, which typically correlate with poverty. The poor also are more likely to live near point-sources of water pollution, including leaching from solid waste sites. And although the rate of diarrheal illness in Colombia is slightly higher in rural areas than in urban centers, the total number of cases in urban areas is more than twice that of rural areas (Larsen 2004). As noted in the World Bank’s 2003 report, Colombia: The Economic Foundation of Peace, “while the coverage rate of water supply, sewerage, and solid waste collection services is high in the major cities, in absolute numbers, hundreds of thousands of families are still inadequately served, most of which belong to the poorest income strata.” The report also notes that these high coverage rates often mask qualitative gaps and serious deficiencies in the services provided.
106. The Bank’s November 2004 report on The Urban Poor in Latin America notes that in Latin America the urban poor perform significantly worse than the non-poor on all health indicators (in Colombia the urban poor perform even worse than the rural poor on some indicators). The report adds that while the reasons for this are not completely accounted for, “one of the main causes appears to be the physical environment—lack of access to basic infrastructure, hygienic practices and pollution.” It also cites evidence that industrial waste disproportionately affects the health of the urban poor, as well as “strong anecdotal evidence” of greater negative impacts of air pollution on the urban poor.

107. The actions supported by the SusDevDPL II will help the government address these environmental health risks, through the monitoring of those air pollutants that are most harmful to public health, the implementation of emissions inventories, and the development of policy guidelines to improve both water and fuel quality. In addition, the SusDevDPL will foster accountability, transparency, and greater public participation through the implementation of the new environmental licensing scheme.

B. ENVIRONMENTAL ASPECTS

108. The provisions of OP8.60 on Development Policy Lending apply to the SusDevDPL II. The project is expected to have significant positive impacts on the environment and natural resources. It plays an important role in helping to mainstream environmental considerations in key sectors (e.g., water, energy, transportation) in Colombia and in the country’s overall approach to development. In particular, the project takes a pragmatic approach to supporting the government of Colombia’s efforts to achieve the MDGs by (i) improving the effectiveness and efficiency of the National Environmental System (SINA) and (ii) integrating principles of sustainable development into key sectors, with a particular emphasis on protecting the most vulnerable groups.

109. Since the raison d’être of the operation itself is to support the government in mainstreaming environmental considerations into a number of key sectors, the operation’s design is proactive with respect to internalizing environmental concerns. This occurs at distinct levels. At the sectoral level, three policy-based SEAs have supported the integration of environmental concerns in the context of sectoral policy development for water, mining, and transport and has facilitated interinstitutional agreements and commitments among various stakeholders to address the respective environmental concerns (e.g., water and fuel quality). Other positive impacts on the environment are expected to derive from improved environmental management at the national and local levels, in which the program places particular emphasis in assuring improved transparency and accountability with respect to governmental oversight and decisionmaking processes.

110. The government’s commitments to improved environmental management and the SusDevDPL Program can be evidenced by the 2006-2010 National Development Plan, which was recently submitted to Congress. For the first time in three administrations, the PND includes a chapter dedicated to the government’s environmental management strategy. This strategy draws from the SusDevDPL Program and the findings of the CEA and mandates a
number of actions included in the second SusDevDPL operation and planned for the third operation.

111. Lastly, although the closure of open garbage dumps necessitates the management of potential harmful impacts, such as groundwater pollution, and limiting access to these sites, the government is taking full action to address these potential impacts. There are guidelines in place to support the closure of open dumps (e.g., Resolution 1390 of 2005 which establishes guidelines for their closure and/or technical transformation to sanitary landfills), and no issues have arisen in their implementation. In addition, technical assistance has been provided to environmental authorities in the application of these guidelines. However, many of the country’s current sanitary landfills are approaching the end of their useful life posing a future risk to adequate waste disposal. The government recognizes this risk and under the associated Sustainable Development Investment Project, MAVDT has contracted technical, legal, and financial specialists to help design a regional sanitary landfill program to ensure that solid waste is disposed of adequately. In addition, the government has recently requested additional support, via a Bank loan, to support the implementation of this regionalization program.

C. IMPLEMENTATION, MONITORING AND EVALUATION

112. Although MAVDT is responsible for coordinating actions under the SusDevDPL, implementation of the program’s actions is a shared responsibility among DNP, other line ministries, CARs, AAUs, and research institutes. MAVDT, however, has primary responsibility for reporting progress on the program’s implementation.

113. The Bank team will supervise SusDevDPL II with a particular emphasis on ascertaining whether the government is carrying out the program with a focus on development impact and due diligence to achieve development objectives in conformity with the legal agreements. Bank staff will assess and monitor the adequacy of the institutional arrangements by which the Colombian government implements the actions indicated in the Policy Matrix, and verify fulfillment of program actions and compliance with legal covenants. The Bank team will focus on the impact outcomes of the program and the adjustments that need to be made to the operation as it evolves, to take into account the latest country developments, stakeholder support, and feasible options for realizing the program development goals. The Bank team will monitor actions and review implementation progress of SusDevDPL II, as well as subsequent actions in the government’s program. Before proceeding with the SusDevDPL III, the Bank team will assess the Colombian government’s progress in implementing the expected actions for the second operation, with a particular emphasis on the triggers presented above.

D. FIDUCIARY ASPECTS

114. In general, Colombia’s fiduciary environment for DPL operations is considered adequate. Important progress has been made recently in its Public Financial Management (PFM) systems, as summarized in Box 5.
Box 5: Public Financial Management

Colombia has made important progress toward improving transparency and enhancing accountability in its public financial management (PFM) systems. Key developments include the adoption of a presidential anticorruption plan in 2002, enactment of a Fiscal Transparency and Responsibility Law in 2003, and the rollout of an e-government approach to increase the provision of reliable and timely information, and the efficiency in services provided to citizens.

It is worth highlighting the implementation of the Integrated Financial Management System (SIIF). SIIF—which includes budget, treasury, and accounting modules—records and incorporates timely and reliable information on the expenditure process. In early 2006, the government fully implemented direct payments to suppliers, thereby improving the management of cash on hand and in banks, and increasing transparency of the system. The government has also clarified responsibilities for managing expenditures among different levels of government, introduced modern accounting concepts and procedures, and began implementing a program to strengthen and integrate the financial information systems for local governments (Programa para el Fortalecimiento del Sistema de Información Financiera Territorial, FOSIT).

Fiscal control is vested in the external and internal control systems. The Office of the Comptroller General of the Republic (CGR) and the regional comptrollers are in charge of external audits, and each public entity has an internal control unit. The CGR has improved its performance in recent years, achieving ISO 9000 certification in 2003.

However, there are still a number of areas of opportunity. Budget earmarking is still significant, making the budget extremely rigid. In terms of information systems, despite progress with SIIF, there are still multiple systems in use that are not fully integrated, resulting in an incomplete picture of management of public finances and introducing inefficiencies in public administration. On the procurement side, current legislation is still to be reformed, procurement planning is limited, information is not integrated with the budget execution modules, there are multiple access points for public procurement information, the government does not have a website that centralizes procurement related policies, documents and regulations, procurement plans, invitations to bid, or purchase orders. Implementation of a transparent and efficient e-procurement system is still in progress.

Looking ahead, discussions are underway with the Government in the context of CPS preparation about the possibility of up-dating the country diagnostics.

E. DISBURSEMENT AND AUDITING

115. Upon compliance with release conditions, the Bank will disburse the loan proceeds into an account of the Central Bank (Banco de la República, BdR) denominated in US dollars. BdR will immediately credit the disbursed amounts to an MHCP National Treasury Account, thus becoming available to finance budgeted expenditures under the national integrated financial information system (SIIF). Upon request from the Bank, MHCP will provide written confirmation of the mentioned transaction.

116. An IMF central bank safeguards assessment of the BdR found no systematic vulnerabilities in the safeguards of the BdR as of 2003. Nothing further came to the attention of the DPL preparation team that caused it to believe that the control environment into which the loan proceeds will flow is other than adequate.

117. Because of the described conditions, no additional fiduciary arrangements (e.g. dedicated accounts subject to audit) are deemed necessary for this DPL.
F. RISKS AND RISK MITIGATION

118. Fiscal Risks. Through external or internal shocks the fiscal situation may deteriorate, which would jeopardize the macroeconomic situation. The World Bank program is intended to lessen this risk by demonstrating active, visible support to the government’s proposed fiscal and public sector adjustments. The macroeconomic situation may also be weakened by external factors such as economic instability. Therefore, it will be essential to maintain a close working relationship with the client.

119. Coordination Risks. The Program Document for the SusDevDPL I identified coordination as a potential risk, given that this is the first DPL in Colombia to support the government’s sustainable development program. It also pointed to the relative weakness/lack of experience in public environmental management in Colombia that might result in inadequate coordination and negotiation during the program’s sectoral reform discussions. This risk has been alleviated to a large extent during program implementation, with the coordination carried out between MAVDT, DNP, and sectoral line ministries in the development of policies that support sustainable development (e.g., fuel and water quality policies) and a well-funded and effective capacity building program within MAVDT and DNP. The benefits are widely recognized and the 2006-2010 PND calls for further interinstitutional and multisectoral coordination efforts (e.g., via SEAs and common agendas) to integrate sustainable development considerations into additional sectoral policies, such as health, transportation, and tourism.

120. The SusDevDPL I Program Document also pointed to the program’s reliance on CARs to participate actively in the implementation of reforms. It was noted that their relative autonomy posed an additional risk to ensure alignment of actions between the national government and these regional agencies. During preparation of the SusDevDPL II, the implementation of the SINA working group has successfully reduced this risk, helping to ensure that the CARs’ Triennial Action Plans are consistent with approved Territorial Development Plans as well as to promote horizontal cooperation between CARs. Coordination risks are also expected to be alleviated via the approval of the Decree for the Planning and Development of a Water Uses and Users Registry under SusDevDPL II, which improves legal clarity in cases where CARs share management responsibility of a single waterbasin. This risk is expected to be alleviated further as program implementation continues; under the SusDevDPL III, the government has committed to developing an Urban Environmental Policy that will clarify the roles and responsibilities of CARs and AAUs and improve accountability.

121. Given the multisectoral nature of the program’s reforms, the SusDevDPL I Program Document also noted that planned reforms in the water sector faced the political risk of not being passed. This risk is now considered to be low; decrees and other reforms to improve the administration and planning of water resources management supported under the SusDevDPL II have been presented to the Office of the Presidency for approval and have undergone a socialization process with interested parties (e.g., CARs, private sector). These reforms provide legal security to users and information for decisionmaking and planning. MAVDT has created an office to oversee implementation of these reforms. In addition, the 2006-2010 PND mandates (i) development of a National Water Resources Policy to support implementation of
these reforms to help prevent water pollution and develop economic and legal instruments, among other actions; and (ii) development of a Water Pollution Control Policy that updates and defines water quality parameters. This risk is expected to be alleviated further as program implementation continues. Under the third operation of the SusDevDPL Program, the government has committed to adapting and strengthening the Water Resource Office in line with new water resource management reforms to ensure that an appropriate institutional framework supports their implementation.

122. **Institutional Risks.** The main institutional risk comes from special interest groups who may oppose certain reform processes. However, given the successes to date in implementing the program’s consensus-building mechanisms, this risk is considered to be low. The program supports consultation and evaluation to mobilize government and civil society in support of the programs, generally supporting the credibility, sustainability, and effectiveness of policy actions, and overcoming resistance from special interests. The risk is being addressed by measures that include an enhanced communications strategy for the sector and dissemination of guidelines on a new environmental licensing scheme, promoting greater public participation, and other participatory mechanisms.

123. **Political risks.** There has been a high turnover of senior officials within the MAVDT. While this creates a moderate to high risk of loss in momentum to complete the reforms supported by this program, there has been low turnover of key technical officials supporting the program’s implementation. This risk is also mitigated via the design of the program, which anchors the formulation of sustainable development strategies on consensus-building among different stakeholders and further strengthens the basis for continuity of policies.

124. In conclusion, this second operation of the Programmatic SusDevDPL is considered low-risk, since all actions will have been met by Board presentation. The Program Document for the first operation considered the Program to be high-risk, high-reward. However, given the mechanisms for interinstitutional and multisectoral coordination currently in place and supported by the DPL Program, the SusDevDPL Program is now considered medium-risk, high-reward. In addition, these mechanisms are now mandated under the government’s 2006-2010 PND, providing further certainty.
References


———. 2004b. The Urban Poor in Latin America. Washington, DC.


45
ANNEXES

Annex 1: Letter of Development Policy
Annex 2: Operation Policy Matrix
Annex 3: Fund Relations Note
Annex 4: Country at a Glance
Annex 5: Maps
Bogotá, abril 23 de 2007

Señor
PAUL WOLFOWITZ
Presidente
BANCO MUNDIAL
Washington, D. C.

Estimado Señor Wolfowitz:

Con el fin de asegurar la sostenibilidad ambiental, el gobierno del Presidente Álvaro Uribe, se encuentra comprometido con un conjunto de reformas institucionales y de política en materia de Desarrollo Sostenible, que permitirán que el Gobierno de Colombia avance en el cumplimiento de los Objetivos de Desarrollo del Milenio, en especial los relacionados con el objetivo No. 7, el cual busca asegurar la sostenibilidad ambiental y los objetivos 1 y 4, que persiguen reducir la pobreza y la mortalidad infantil, respectivamente. Por lo anterior el Gobierno Nacional solicita el apoyo financiero del Banco, así como la asistencia técnica y el acompañamiento permanente en la ejecución de las medidas de política que hacen parte del Segundo Crédito Programático de Desarrollo de Políticas de Desarrollo Sostenible.

El compromiso del Gobierno en materia ambiental está respaldado por el buen desempeño macroeconómico que experimenta nuestro país y que sirve de base para estas políticas. En efecto, se ha estabilizado la deuda pública y se ha reducido el déficit fiscal de manera gradual: el déficit del Sector Público Consolidado pasó de 1,3% del PIB en 2004 a equilibrio fiscal en el 2005, y a 0,8% del PIB en 2006, superando ampliamente las metas pactadas con el Fondo Monetario Internacional. Además, el Congreso aprobó el año pasado importantes iniciativas como la reforma tributaria, la reforma a la Ley 100 o de Seguridad Social, la capitalización de ECOPETROL, y el trámite en primera vuelta legislativa de la reforma a las transferencias.

Por medio de los cambios en la legislación colombiana se ha garantizado la continuación de una política fiscal sana y la transparencia de los mercados. En el 2006 el mercado interno de deuda pública estuvo caracterizado por un comportamiento a la baja en las tasas de interés de los títulos. De hecho las principales tasas de referencia del mercado registraron una disminución, entre ellas, la tasa de TES con vencimiento en 2020 se ubicó en promedio en 8,97% en 2006 menor que la registrada en 2005 (9,49%). Actualmente, y después de un corto periodo de reversión en la tendencia debido a la incertidumbre que generaron en los mercados de capitales internacionales (China y en algunos países asiáticos) las perspectivas de la economía estadounidense, las tasas se mantienen estables y no se han registrado fuertes ajustes hacia el alza.
La ejecución de todos estos cambios en la legislación y el desarrollo del plan económico para fortalecer las finanzas públicas han surtido efecto, considerando los logros en crecimiento económico que se han obtenido durante los últimos años. Una evidencia de los excelentes resultados es el crecimiento del PIB de 6,8% en 2006, mayor que el registrado en 2005 (4,7%). Igualmente, este resultado se encuentra por encima del crecimiento observado en América Latina (5,5%). Este crecimiento se debe especialmente al aumento de la demanda interna del país, que se vio favorecida por el aumento de la inversión, la cual creció 26,9% en el 2006 y ha sido uno de los componentes más dinámicos de la demanda interna. Adicionalmente, el consumo final de los hogares también registró un crecimiento favorable (6,7%), dadas las mejores condiciones económicas y la mayor confianza del sector privado en la situación económica del país. También, el incremento en las exportaciones contribuyó positivamente al crecimiento del PIB. Finalmente, la inflación sigue registrando una tendencia decreciente y se ubicó en 4,48% en 2006, cumpliéndose así la meta de inflación establecida por el Banco de la República (4,5%).

Las perspectivas de crecimiento para el año 2007 siguen siendo positivas, teniendo en cuenta el buen desempeño del sector industrial, ya que la producción manufacturera registró un incremento anual de 14,2% en el primer bimestre de 2007. Por su parte, en igual período, el sector comercio sigue registrando un comportamiento favorable, ya que las ventas del comercio minorista presentaron un crecimiento anual de 14,7%. La construcción también presenta resultados positivos, considerando la buena dinámica de las licencias de construcción y los préstamos hipotecarios. Además, en el transcurso de 2007, el aumento en la confianza de los consumidores y el incremento sistemático en la importación de bienes de capital, estrechamente relacionadas con el desempeño de la inversión, permiten esperar un buen comportamiento de la demanda interna. Por otra parte, las perspectivas favorables de crecimiento económico de nuestros principales socios comerciales permitirán un aumento de la demanda externa junto con su impacto positivo en las exportaciones y en el crecimiento del producto.

Finalmente, hacia el mediano plazo y como se presenta en el Marco Fiscal, el Gobierno tiene una estrategia fiscal consistente y robusta que busca la sostenibilidad en las finanzas públicas a través de la generación de los balances primarios que garanticen llevar la deuda neta del sector público no financiero a niveles de 30% del PIB en el 2015.

Este préstamo programático tiene contempladas nuevas acciones para su segunda parte, la cual está programada para ser evidenciada en el primer semestre del 2007. El apoyo del Banco Mundial en el desarrollo de políticas para el desarrollo sostenible en la primera fase del Programa, permitió alcanzar importantes logros, entre los cuales se destacan: (i) la formulación de lineamientos de Política Nacional para el Desarrollo Sostenible que hacen énfasis en el compromiso del Gobierno para alcanzar los Objetivos de Desarrollo del Milenio (documento CONPES 3343 de 2005), así como el documento CONPES de Lineamientos para Optimizar la Política de Desarrollo Urbano (CONPES 3305 de 2004), (ii) el establecimiento de un sistema de seguimiento y monitoreo al impacto de la gestión que adelantan los entes ejecutores de la política nacional ambiental, a través de la expedición
del Decreto 1200 de 2004, (iii) la formulación e implementación de un Programa de Fortalecimiento Institucional del Departamento Nacional de Planeación (DNP) y del Ministerio de Ambiente, Vivienda y Desarrollo Territorial (MAVDT) en el diseño y seguimiento de políticas ambientales, y (iv) el diseño y aprobación de un plan de acción para la implementación de una Política Nacional para el Control de la Contaminación del Aire (documento CONPES 3344 de 2005).

Las acciones más relevantes de esta segunda etapa del Programa se centran en fortalecer y complementar los procesos emprendidos por el Gobierno en la primera fase que comprenden: (i) fortalecer la coordinación entre el Gobierno Nacional y las Corporaciones Autónomas Regionales (CAR) para lograr los Objetivos de Desarrollo del Milenio relacionadas con el medio ambiente, con el establecimiento de una línea base para monitorear los resultados e impactos de la gestión de las CAR, (ii) promover la incorporación de consideraciones ambientales en las políticas sectoriales mediante la elaboración de evaluaciones ambientales estrategicas, (iii) expedición de normatividad sobre calidad del aire y desarrollo de protocolos para el monitoreo de la calidad del aire y de emisiones atmosféricas, (iii) cierre de más de 70 botaderos a cielo abierto de residuos sólidos, (iv) implementación de un plan de acción para la acreditación de laboratorios ambientales y (v) expedición de un conjunto de regulaciones y medidas de política relacionadas con el manejo integral del recurso hídrico.

El interés del Gobierno de Colombia por asignar la debida importancia a la atención de los problemas ambientales se ha visto resaltado en el Plan Nacional de Desarrollo (PND) de la segunda administración del Presidente Álvaro Uribe. Por primera vez en las últimas tres administraciones, el PND cuenta con un capítulo exclusivamente dedicado al tema ambiental y a los recursos naturales, lo cual dará carácter obligatorio a los compromisos allí apuntados. En este sentido, el Gobierno destaca la importancia de este Programa en el fortalecimiento de la agenda de gestión ambiental del país y en la formulación del reciente PND.


El capítulo ambiental recoge los frutos de cuatro años de cooperación intersectorial para el medio ambiente, y busca avanzar en la integración de consideraciones ambientales en los procesos de planificación del desarrollo, de manera que se promuevan modalidades sostenibles de producción y consumo, se prevenga la degradación ambiental y sus costos, y se aseguren oportunidades de desarrollo a las generaciones futuras.
Igualmente el Capítulo 5 del Plan busca garantizar una unidad de propósitos de los distintos actores del Sistema Nacional Ambiental (SINA), para lo cual se presentan una serie de criterios orientadores que establecen, entre otros: (i) que la gestión ambiental nacional ha de estructurarse en torno a la gestión integral del agua; (ii) que esta debe contribuir a reducir la vulnerabilidad de los grupos más pobres y a la creación de oportunidades para mejorar el nivel de vida de la población; y (iii) que la gestión ambiental ha de contribuir a que el país aproveche las oportunidades que ofrece un mundo en transformación.

A partir de los anteriores criterios, el PND establece que la gestión de los actores públicos y privados del Sistema Nacional Ambiental (SINA) se orientará al desarrollo de las siguientes estrategias: (i) Planificación ambiental en la gestión territorial, incorporando los determinantes ambientales y culturales en las decisiones de uso y ocupación del territorio, e incorporando y manejando el riesgo de origen natural y antrópico en los procesos de ordenamiento, (ii) gestión integrada del recurso hídrico, desde sus etapas de ordenamiento y planificación hasta su eficiente utilización, (iii) conocimiento, conservación y uso sostenible de la biodiversidad, (iv) promoción de procesos productivos competitivos y sostenibles, que mejoren el desempeño ambiental y faciliten el acceso a los mercados nacionales e internacionales, (v) prevención y control de la degradación ambiental, fortaleciendo los instrumentos que atiendan de manera directa sus principales causas y promuevan una cultura de la prevención, y (vi) fortalecimiento y ajuste del sistema nacional ambiental, especialmente de los procesos de planificación, regulación, seguimiento, control y evaluación, de coordinación interinstitucional, de generación, intercambio y uso de la información para la toma de decisiones de política ambiental y en la inclusión de criterios ambientales en las políticas sectoriales, así como en la definición precisa de competencias y jurisdicciones.

Las reformas de política incorporadas en la segunda etapa del Programa han surgido de un amplio intercambio de ideas entre los equipos del Banco y del Gobierno, incluyendo al Ministerio de Hacienda y Crédito Público, al Departamento Nacional de Planeación y al Ministerio de Ambiente, Vivienda y Desarrollo Territorial. Como resultado de este diálogo, se ha logrado conformar un programa que permitirá al Gobierno avanzar hacia el logro de los Objetivos de Desarrollo del Milenio.

Con base en los resultados de la primera operación en términos del avance hacia el logro de los Objetivos de Desarrollo del Milenio, y en total concordancia con los objetivos y estrategias de política ambiental previstos en el Capítulo 5 de la propuesta de Ley del Plan Nacional de Desarrollo 2006-2010 “Estado Comunitario Desarrollo para Todos”, en continuación se presentan las principales medidas de política acordadas para la segunda etapa del crédito. Las acciones se agrupan en torno a los dos objetivos principales de política que persiguen las reformas: (i) mejorar la eficiencia y efectividad del SINA, y (ii) promover la integración de los principios del desarrollo sostenible en sectores estratégicos.

En materia de seguimiento a la eficiencia y efectividad del SINA, se han acordado las siguientes acciones encaminadas al fortalecimiento de la gobernabilidad del SINA: (i) establecimiento de un sistema de indicadores para evaluar la implementación de las
directrices de política en materia de desarrollo sostenible que contempla el documento CONPES 3343 de 2005, (ii) evaluación de medio término del avance del Crédito Programático de Desarrollo de Políticas de Desarrollo Sostenible, y (iii) establecimiento de una línea base para el monitoreo de los indicadores de impacto previstos en el Decreto 1200 de 2004 respecto de seis objetivos de desarrollo sostenible.

Teniendo en cuenta la importancia de efectuar un adecuado proceso de seguimiento a la implementación del documento CONPES 3343 de 2005, el MAVDT y el DNP han definido un conjunto de indicadores que dan cuenta de las principales líneas de política que fija el CONPES en materia de desarrollo sostenible. Dado que la mayor parte de estos lineamientos de política corresponden con las reformas que persigue alcanzar el crédito, la medición de los resultados y avances de este último constituyen un insumo de la mayor importancia en el seguimiento de la implementación de las políticas del CONPES 3343. Del mismo modo, y dado que una de las principales fuentes de financiación de las medidas del CONPES 3343 la constituye el Crédito BIRF 7335-CO, los informes de avance del Programa de Inversión para el Desarrollo Sostenible - IDS también constituyen un insumo para adelantar el proceso de seguimiento en cuestión.

La evaluación de medio término del Programa permitió corroborar en qué medida las reformas de política promovidas han incidido en el fortalecimiento de la gobernabilidad del SINA, y en especial en la coordinación que debe efectuar el MAVDT con los entes ejecutores de la política ambiental, de manera que la gestión ambiental regional debe apuntar hacia el logro de los Objetivos de Desarrollo del Milenio.

El MAVDT viene adelantando desde el 2005 una agenda de trabajo interinstitucional con las entidades encargadas de la generación y reporte de información de índole ambiental y sectorial (v. g. energía, salud pública, entre otros), con el fin de establecer en el 2007 una línea base para el seguimiento de los indicadores de desarrollo sostenible que contiene el Decreto 1200 de 2004 y los fundamentos de un sistema de monitoreo y seguimiento del impacto socio-económico de la gestión ambiental a nivel nacional. Con esta línea base se tendrá el punto de partida para la puesta en marcha del sistema que permita evaluar desde el nivel nacional el impacto de la gestión ambiental que desarrollan las CAR. Se debe tener presente que para la mayor parte de los indicadores del Decreto 1200 (con excepción de los relacionados con salud pública), ha sido necesario partir de la definición de hojas metodológicas que establezcan las fórmulas matemáticas y los procesos de generación y reporte de información asociados a las variables que conforman estos indicadores.

De otra parte, y con el fin de avanzar en los procesos de coordinación intersectorial que deben darse al interior del SINA en relación con el diseño de políticas para temas estratégicos de la política ambiental de Colombia, se están desarrollando tres procesos de Evaluación Ambiental Estratégica (EAE) que vienen siendo adelantados por el MAVDT con recursos del Programa IDS (crédito BIRF 7335-CO). Estas EAE se relacionan con los siguientes temas: (i) prevención de la contaminación hídrica, (ii) programa de aprovechamiento sostenible de minerales en la sabana de Bogotá mediante procesos de planificación integrada y (iii) calidad de combustibles. Se espera que la presentación de
estos tres ejercicios de EAE, genere posteriores discusiones a nivel de los comités temáticos, conformados estos sobre la base de la convocatoria a un conjunto más amplio de representantes de grupos de interés. Entre los ejercicios de EAE desarrollados se destaca el del sector de combustibles, dada la amplia convocatoria y el alto nivel de participación de los diferentes representantes del sector energético y de transporte. Este ejercicio aporta a su vez valiosos insumos para el diseño de la Política Nacional de Calidad de Aire, así como de la expedición de una Política Ambiental Urbana, que hacen parte de la tercera etapa del Programa.

Respecto del trabajo del Grupo SINA, creado para la coordinación de políticas y procesos de planeación con las CAR, se demostrará que se han fortalecido los procesos de coordinación entre las prioridades de la política nacional ambiental y las prioridades de la gestión ambiental regional que deben ser atendidas por las CAR, así como la reducción en los conflictos entre el MAVDT y las CAR y el nivel de aprendizaje organizacional alcanzado.

El MAVDT y el DNP darán continuidad a la ejecución de las líneas de acción previstas en el Plan de Fortalecimiento Institucional presentado al Banco en el 2005, simultáneamente con la ejecución de los recursos del Programa de Inversión para el Desarrollo Sostenible (IDS) que apoyan su implementación. La ejecución del Plan mostrará evidencias en el fortalecimiento de las siguientes áreas: (i) promoción de la salud ambiental, (ii) desarrollo urbano sostenible, (iii) manejo integral del agua, (iv) planeación, control y monitoreo de la gestión ambiental. Paralelamente el DNP viene trabajando en una propuesta estructural de fortalecimiento para la atención de los asuntos de política ambiental y su internalización efectiva en las dependencias de la entidad. Se ha previsto que una propuesta específica sobre el particular será incluida como parte de las medidas de política de la tercera fase de este crédito programático.

En relación con la segunda gran línea de acción del Programa, que tiene por objetivo, integrar principios de desarrollo sostenible en sectores estratégicos, se ha previsto un conjunto de medidas de desarrollo legal, regulatorio, institucional y en algunos casos, de metas físicas, en materia de manejo integral del agua, control de la contaminación del aire y manejo de residuos sólidos.

Para el tema del manejo del recurso hídrico, el Gobierno expedirá un conjunto de regulaciones y reformas que tratan asuntos estratégicos para orientar la gestión integral del agua en Colombia. Las reformas incluyen. (i) Decreto sobre cuencas hidrográficas, (ii) Decreto por el cual se reglamenta el registro de usuarios del recurso hídrico y se dictan otras disposiciones, (iii) Decreto para establecer un sistema de información para el recurso hídrico y, (iv) Directrices para la elaboración de los presupuestos de las CAR para la
vigencia 2007. Del mismo modo, el Gobierno incluyó en el PND remitido para aprobación al Congreso Directrices para el desarrollo de una Política Nacional de Recursos Hídricos que defina prioridades y objetivos, incluyendo la prevención de la contaminación del agua y el desarrollo de instrumentos legales y económicos, y de una Política de Control de la Contaminación que actualice y defina parámetros y estándares de control. El MAVDT y el IDEAM implementarán un Plan de Acción para mejorar los procesos de acreditación de laboratorios ambientales y la difusión de los protocolos de monitoreo de la calidad del aire preparados por el IDEAM. Finalmente, el MAVDT diseñará guías relacionadas con la prevención y control de la contaminación hídrica.

Con apoyo de los recursos del Programa IDS, el MAVDT continuará ejecutando las estrategias previstas en el documento CONPES 3305 de agosto de 2004, denominado “Lineamientos para Optimizar la Política de Desarrollo Urbano”. De otra parte, y en armonía con los compromisos contenidos en el documento CONPES 3344 “Lineamientos para la formulación de la política de prevención y contaminación del aire”, el IDEAM expedirá un Protocolo Nacional para el Monitoreo de la Calidad del Aire, basado en el trabajo analítico de diagnóstico de las redes de monitoreo existentes en Colombia, así como un Protocolo Nacional para el inventario de fuentes fijas y de fuentes móviles de emisión. Con la expedición de estos protocolos se establecerán metodologías y procedimientos unificados de medición a nivel nacional, los que, entre otros beneficios, permitirán comparar los niveles de calidad del aire que se registran en las principales ciudades del país.

Como medida de política resultado de la implementación del Documento CONPES 3344 de 2005, a través del Decreto 979 del 3 de abril de 2006 y la Resolución 601 del 04 de abril de 2006 se expedieron nuevos estándares nacionales sobre calidad del aire, que incluyen valores de referencia para el parámetro PM-10 Para la definición de los nuevos estándares de calidad y el análisis de los efectos socio-económicos de la contaminación del aire, el IDEAM tuvo en cuenta los resultados de los análisis de los costos de degradación ambiental incluidos en el CEA (Country Environmental Analysis). Simultáneamente, y en materia de ruido, el MAVDT expidió la Resolución 627 07 de abril de 2006, por la cual se establece la norma nacional de emisión de ruido y ruido ambiental

En materia de residuos sólidos, el MAVDT documentará la capacitación en la asistencia técnica para el cierre de al menos 75 botaderos a cielo abierto de residuos sólidos, como resultado del Programa de Asistencia Técnica que adelanta el Viceministerio de Agua y Saneamiento desde el 2005.

La actual administración está resuelta a llevar a cabo el programa descrito en este documento y agradece el apoyo técnico y financiero del Banco Mundial. Por lo anterior, agradecemos la consideración por parte del Directorio del Banco, de un Crédito Programático de Desarrollo de Políticas para el Desarrollo Sostenible por US $200 millones para el año fiscal 2007.
Cordialmente,

JUAN LOZANO RAMÍREZ
Ministro de Ambiente, Vivienda y Desarrollo Territorial

CAROLINA RENTERÍA RODRÍGUEZ
Directora General
Departamento Nacional de Planeación

OSCAR IVAN ZULUAGA ESCOBAR
Ministro de Hacienda y Crédito Público
Annex 1: Letter of Development Policy (English)

Mr. Paul Wolfowitz
President
The World Bank
Washington, D.C.

Dear Mr. Wolfowitz:

With the goal of ensuring environmental sustainability, the government of President Alvaro Uribe has committed to a group of institutional and political reforms on sustainable development that will allow the government of Colombia to move toward achieving the Millennium Development Goals, particularly those related to Goal 7, which seeks to ensure environmental sustainability, and Goals 1 and 4, which aim to reduce poverty and infant mortality rates. Therefore, the national government is requesting financial support from the Bank as well as technical assistance and ongoing collaboration in executing the policy measures included in the Second Programmatic Development Policy Loan for Sustainable Development.

The Colombian government’s commitment to addressing environmental issues is supported by the country’s good macroeconomic performance, which serves as a solid foundation for these policies. Public debt has been stabilized and the fiscal deficit has been gradually reduced: the Consolidated Public Sector deficit went from 1.3 percent of GDP in 2004 to zero in 2005 and 0.8 percent in 2006, easily exceeding the goals agreed with the International Monetary Fund. Moreover, last year Congress approved several important initiatives, such as tax reform, reform of Law 100 on Social Security, capitalization of ECOPETROL, and the first legislative debate of the fiscal transfer reform bill.

Changes in Colombian law have guaranteed the continuation of sound fiscal policy and market transparency. In 2006 the internal market for public debt was characterized by a trend toward decreasing interest rates for bonds. In fact, the principal market-reference interest rates showed a decline, including the rate for TES (Treasury Bonds) maturing in 2020, which averaged 8.97 percent in 2006 as opposed to 9.49 percent in 2005. Currently, and after a short period of rising rates due to uncertainties in international capital markets (China and some other Asian countries) caused by projections for the U.S. economy, rates have remained stable, with no strong increases recorded.

All these legislative changes and development of the economic plan to strengthen public finances has produced results, considering the gains in economic growth achieved in recent years. One indication of these excellent results is an increase in the rate of growth of the GDP 4.7 percent in 2005 to 6.8 percent in 2006, which is higher the overall rate for Latin America.
(5.5 percent). This growth is mainly due to an increase in Colombia’s internal demand, aided by an increase in investment, which grew 26.9 percent in 2006 and has been one of the most dynamic components of internal demand. In addition, domestic consumption has shown strong growth (6.7 percent) due to better economic conditions and greater private-sector confidence in the country’s economic situation. Increased exports have also contributed to GDP growth. Finally, inflation continues its downward trend, reaching 4.48 percent in 2006, which met the Central Bank’s inflation goal of 4.5 percent.

Prospects for growth in 2007 continue to be positive, considering the solid performance of the industrial sector, with manufacturing production in the first two months of 2007 increasing at an annual rate of 14.2 percent. For its part, the commercial sector continued showing strong results during that period as well, with retail sales growing at an annual rate of 14.7 percent. The construction and building sector is also doing well, as reflected by growing numbers of building permits and home loans. In addition, increasing consumer confidence and steady growth in imports of capital goods, which is closely tied to investment returns, support expectations for strong internal demand during 2007. Furthermore, favorable prospects for economic growth for our principal commercial partners will allow an increase in external demand, which would have a positive impact on exports and GDP growth.

Finally, in the medium term and as reflected in the Fiscal Framework, the government has established a consistent and robust fiscal strategy focused on attaining public finance sustainability by generating primary balances that guarantee bringing nonfinancial net debt in the public sector to 30 percent of GDP by 2015.

This programmatic loan includes new actions in its second phase that are scheduled to be completed by the first quarter of 2007. The World Bank’s support in developing policies for sustainable development during the first stage of the Program allowed important advances to be made. Some that stand out are (i) formulation of guidelines for a National Sustainable Development Policy that emphasizes the government’s commitment to achieving the Millennium Development Goals (CONPES 3343 of 2005) as well as the Guidelines to Optimize Urban Development Policy (CONPES 3305 of 2004); (ii) issuance of Decree 1200 of 2004 establishing a system to monitor the management impact of the agencies responsible for implementing national environmental policies; (iii) formulation and implementation of an Institutional Strengthening Program for the National Planning Department (DNP) and the Ministry of Environment, Housing, and Territorial Development (MAVDT); and (iv) design and approval of an action plan to implement a National Policy for Air Pollution Control (CONPES 3344 of 2005).

The most significant actions during the second stage of the Program involve strengthening and complementing the processes started by the government during the first stage, including (i) strengthening coordination between the national government and the Regional Autonomous
Corporations (CARs) to achieve the Millennium Development Goals related to the environment, with establishment of a baseline to monitor the results and impacts of the CARs’ environmental management; (ii) promoting incorporation of environmental concerns into sectoral policies by means of carrying out strategic environmental assessments; (iii) developing regulations on air quality and protocols for monitoring air quality and pollutant emissions; (iv) closing more than 70 open solid-waste dumps; (v) implementing an action plan for accreditation of environmental laboratories, and (vi) issuing a set of regulations and policy measures regarding water resources management.

The Colombian government’s interest in giving environmental issues the attention they deserve has been highlighted in the National Development Plan (PND) of President Alvaro Uribe’s second administration. For the first time in the last three administrations, the PND includes a chapter devoted exclusively to the environment and natural resources, giving mandatory status to the commitments set out in the plan. In doing so, the government highlights the importance of this Program in strengthening the country’s environmental management agenda and formulating the recent PND.

The proposed National Development Plan 2006–2010: “Community State: Development for All,” and the Foundations of the Plan, specifically through Chapter 5, “Environment and Risk Management to Promote Sustainable Development,” promote an appropriate articulation of the economic, social, and environmental provisions set forth in the National Policy Letter. The Plan was presented to the Congress in March 2007 and is expected to be passed into law by the end of June 2007.

The environment chapter represents the fruit of four years of intersectoral cooperation on environmental issues and seeks to advance the mainstreaming of environmental concerns into the development planning process in a way that promotes sustainable production and consumption practices, prevents environmental degradation and its costs, and ensures development opportunities for future generations.

Likewise, Chapter 5 of the Plan seeks to guarantee that the goals of the different actors within the National Environmental System (SINA) are unified and to this end sets out a series of guiding criteria establishing, among other things, that (i) national environmental management must be structured around integrated water resources management; (ii) environmental management should help reduce the vulnerability of the poorest groups and create opportunities for them to improve their quality of life; and (iii) environmental management must contribute to the country’s ability to benefit from the opportunities offered by a changing world.

Based on these criteria, the PND establishes that public and private actors within the SINA will guide development according to the following strategies: (i) environmental planning in territorial management that incorporates environmental and cultural factors into decisions
about land uses and occupation and manages natural and human risk factors in the process of land planning and administration; (ii) integrated management of water resources, from the organization and planning stage to the final stage of efficient use; (iii) understanding, conservation, and sustainable use of biological diversity; (iv) promotion of competitive and sustainable production processes that improve environmental performance and facilitate access to national and international markets; (v) control and prevention of environmental degradation by strengthening instruments aimed directly at primary causes and by promoting a prevention mentality; (vi) adjustment and strengthening of the National Environment System, especially in the stages of planning, regulation, monitoring, oversight, and evaluation, interinstitutional coordination, generation and use of information for environmental decisionmaking, inclusion of environmental criteria in sector policies, and precise definitions of responsibilities and jurisdictions.

The policy reforms included in the second stage of the Program have arisen from an ample exchange of ideas among the Bank, the government, the Ministry of Finance and Public Credit, the National Planning Department, and the Ministry of Environment, Housing, and Territorial Development. As a result of this interchange, a program has been developed that will allow the government to advance toward achieving the Millennium Development Goals.

Based upon the results of the first operation in terms of progress toward achieving the Millennium Development Goals, and in complete accordance with the environmental objectives and strategies included in Chapter 5 for the proposed National Development Plan 2006-2010, “Community State: Development for All,” the principal policy measures agreed for the second stage of the loan are presented below. The actions are grouped according to the two main policy objectives of the reforms: (i) improving the efficiency and effectiveness of SINA and (ii) promoting integration of sustainable development principles into key sectors.

In regard to monitoring SINA’s efficiency and effectiveness, the following actions were agreed with the aim of strengthening SINA’s governance: (i) establishment of a system of indicators to evaluate implementation of the sustainable development policy directives contained in CONPES 3343 of 2005; (ii) midterm evaluation of progress under the Programmatic Development Policy Loan Program for Sustainable Development; and (iii) establishment of a baseline for monitoring the impact indicators outlined in Decree 1200 of 2004 for six sustainable development objectives.

Bearing in mind the importance of carrying out adequate monitoring of the implementation of CONPES 3343 of 2005, the MAVDT and the DNP have defined a group of indicators that take into consideration the main policies established by CONPES 3343 in the area of sustainable development. Since most of these policy guidelines correspond to the reforms sought by the loan, measurement of the results and progress of the loan is a highly important input for monitoring implementation of the policies of CONPES 3343. Likewise, and given
that IBRD Credit 7335-CO is one of the main sources of financing for the measures in CONPES 3343, the progress reports for the Sustainable Development Investment Project are also an input for the monitoring process.

Midterm evaluation of the Program allowed for the validation of the impact of policies that aim to strengthen the SINA's governance, especially in regard to coordination efforts by the MAVDT among the entities carrying out environmental policies and working toward achievement of the Millennium Development Goals.

Since 2005 the MAVDT has been carrying out an interinstitutional agenda with the agencies responsible for generating and reporting environmental and sectoral information (such as public health, energy, and others), with the goal of establishing in 2007 a baseline for monitoring the sustainable development indicators contained in Decree 1200 of 2004 and the foundations for a system to monitor the socioeconomic impact of environmental management at the national level. This baseline will provide the departure point for putting in place a system to evaluate at the national level the impact of environmental management by the CARs. It should be remembered that for most of the indicators in Decree 1200 (with the exception of those related to public health) it has been necessary to define methodological formats that establish the processes required in generating and reporting information associated with the variables that make up these indicators.

On the other hand, and in order to advance in the intersectoral coordination that should take place within SINA to design policies for strategic aspects of Colombia’s environment policy, three Strategic Environmental Assessments (SEAs) are being carried out by the MAVDT utilizing resources from the Sustainable Development Investment Project (IBRD Credit 7335-CO). These SEAs are related to (i) prevention of water pollution, (ii) a program of sustainable development of mineral resources in the Bogota savanna through integrated planning, and (iii) fuel quality. It is hoped that the presentation of these three SEA exercises will generate continued discussions among thematic committees, formed on the basis of a meeting of a larger group of stakeholder representatives. Among the SEAs conducted, the one on the fuel sector particularly stands out given the wide intersectoral participation as well as the high level of participation by the different representatives of the energy and transport sectors. This activity also provides valuable inputs for designing a National Air Quality Policy and for issuing an Urban Environment Policy, both included as part of the third stage of the Program.

In regard to the work of the SINA Group, created to coordinate policies and planning processes with the CARs, coordination has been strengthened between national environmental policy priorities and the regional environmental management priorities for which the CARs are responsible, conflicts between the MAVDT and the CARs have been reduced, and a higher level of organizational learning has been attained.
The MAVDT and the DNP will provide continuity in carrying out activities planned by the Institutional Strengthening Plan presented to the Bank in 2005, together with execution of resources from the Sustainable Development Investment Project that supports the Plan’s implementation. The Plan’s implementation provides evidence of strengthening in the areas of (i) promoting environmental health, (ii) sustainable urban development, (iii) integrated water resources management, and (iv) planning, oversight, and monitoring of environmental management. In parallel, the DNP has been working on an institutional strengthening proposal to address environmental policy issues and their effective mainstreaming into the agency’s offices. It is planned that a specific proposal in this regard will be included as part of the policy measures in the third phase of the DPL Program.

The MAVDT will demonstrate implementation of an improved environmental licensing system at the national level that will include development of new regulations for citizen participation, greater efficiency in procedures for oversight and monitoring of the responsibilities established by the licenses, reduction in processing times, and ISO 9001 quality certification of internal management processes.

Regarding the second major line of action in the Program, which has the objective to integrate sustainable development principles into key sectors, a group of measures is planned for legal, regulatory, and institutional development and in some cases physical goals, related to integrated water resources management, air pollution control, and solid waste management.

In the area of water resources management, the government will issue a group of reforms and regulations that address key issues for guiding integrated water resource management in Colombia. The reforms include (i) a decree on waterbasins, (ii) a decree to establish a registry of water users and other provisions, (iii) a decree to establish a water resources information system, and (iv) guidelines for establishing CARs’ 2007 budgets. Similarly, in the PND submitted for congressional approval, the government included guidelines for developing a National Water Resources Policy that defines priorities and goals, including prevention of water pollution and development of legal and economic instruments, as well as a Pollution Control Policy that updates and defines parameters and standards for pollution control. The MAVDT and IDEAM (Institute for Hydrology, Meteorology, and Environmental Studies) will implement an action plan to improve accreditation processes for environmental laboratories and disseminate monitoring protocols for air quality drawn up by IDEAM. Finally, the MAVDT will design guidelines for prevention and control of water pollution.

With financial support from Sustainable Development Investment Project, the MAVDT will continue to carry out the strategies included in CONPES 3305 of August 2004 titled “Guidelines for Optimizing Urban Development Policy.” Moreover, and in harmony with the directives contained in CONPES 3344, “Guidelines for Formulation of an Air Pollution Control and Prevention Policy,” IDEAM will issue a national protocol for air quality
monitoring based on the analytical and diagnostic work of existing monitoring networks in the country and also a national protocol for the inventory of emissions from fixed and mobile sources. These protocols will set forth consistent methodologies and procedures for measurement at the national level, which will provide among other benefits the ability to compare air quality between the major cities in Colombia.

As a policy measure resulting from implementation of CONPES 3344 of 2005, through Decree 979 of April 3, 2006 and Resolution 601 of April 4, 2006, new national air quality standards were issued, including value references for PM$_{10}$. To define the new quality standards and analyze the social and economic effects of air pollution, IDEAM took into account the results of the analysis on the cost of environmental degradation included in the Country Environmental Analysis (CEA). At the same time, regarding the issue of noise pollution, the MAVDT issued Resolution 627 of April 7, 2006, which establishes national emission standards for noise pollution.

Regarding solid waste management, the MAVDT will document the technical assistance provided for closing at least 75 open solid-waste dumps as a result of the Technical Assistance Program undertaken by the Vice Ministry of Water and Sanitation since 2005.

The current administration is resolved to go forward with the Program described in this document and is grateful for the technical and financial support of the World Bank. For the reasons detailed above, we express our appreciation to the Bank’s Board of Directors for considering a Programmatic Development Policy Loan for Sustainable Development in the amount of US$200 million for fiscal year 2007.

Cordially,

Juan Lozano Ramírez
Minister of Environment, Housing, and Territorial Development

Carolina Rentería Rodríguez
Director General, National Planning Department

Oscar Ivan Zuluaga Escobar
Minister of Finance and Public Credit

63
### Annex 2: Operation Policy Matrix

<table>
<thead>
<tr>
<th>Key Issues and Objectives</th>
<th>DPL I</th>
<th>DPL II</th>
<th>DPL III</th>
<th>Outcome Indicators for Program</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prior Actions (Completed)</td>
<td>Planned Triggers/Prior Actions&lt;sup&gt;a&lt;/sup&gt; (per Program Document)</td>
<td>Actual Prior Actions&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Planned Triggers</td>
</tr>
<tr>
<td><strong>Sub-objective: Improving the effectiveness and efficiency of SINA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>A.1. Strategic Planning and Monitoring Framework for Sustainable Development</strong></td>
<td>Design, approval by COMPES, and preparation of guidelines for a National Sustainable Development Policy (COMPES No. 3343), which includes (i) review of priorities to be addressed in the national environmental program based on periodic analytical work; (ii) institutionalization of a program of monitoring and evaluation of regional environmental management based on national environmental priorities; (iii) periodic analytical work to set priorities (such as cost of environmental degradation studies and analysis of effectiveness, efficiency, and equity of environmental policies); (iv) mechanisms to strengthen ministerial participation in the National Environmental Council, as an inter-sectoral forum to discuss priorities; (v) promotion of organizational learning, i.e. mechanisms to periodically review and learn from the experiences of implementation of environmental policies; and (vi) definition of appropriate intersectoral indicators for sustainable development.</td>
<td>Design, preparation and approval by COMPES of guidelines of a national strategy on environmental health.</td>
<td>National Development Plan submitted to Congress for approval (as law); guidelines of a national strategy on environmental health prepared to inform national policy on environmental health mandated in Plan.</td>
<td>Approval and implementation of a National Policy on Environmental Health that covers the areas of water quality and urban and indoor air quality, and considers the results of policy-based SEAs.</td>
</tr>
<tr>
<td><strong>Emphasize the country’s commitment to the Millennium Development Goals, particularly Goal 7, Target 9. (Implemented by DNP and MAVDT)</strong></td>
<td>Establishment of a system of indicators to evaluate the implementation of the National Policy on Sustainable Development. (COMPES No. 3343)</td>
<td>Midterm evaluation of progress on SusDevDPL Program, with respect to: (i) identification of priorities; (ii) revision of priorities based on analytical basis; (iii) achievement of results of mechanisms of intersectoral coordination and other mechanisms to ensure broad participation; (iv) level of institutional learning; and (v) definition and use of monitoring and evaluation indicators. This evaluation will also include challenges associated with the implementation of the policy and corresponding recommendations to improve implementation.</td>
<td>Midterm evaluation of progress on the SusDevDPL Program with respect to (i) identification of priorities; (ii) revision of priorities based on analytical basis; (iii) achievement of results of mechanisms of intersectoral coordination and other mechanisms to ensure broad participation; (iv) level of institutional learning; and (v) definition and use of monitoring and evaluation indicators. This evaluation will also include challenges associated with the implementation of the policy and corresponding recommendations to improve implementation.</td>
<td>Monitoring &amp; Evaluation system established and operational, providing timely input into environmental management decision-making.</td>
</tr>
</tbody>
</table>

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<sup>a</sup> Only those items in bold are planned triggers.

<sup>b</sup> Only those items in bold are prior actions.
<table>
<thead>
<tr>
<th>Key Issues and Objectives</th>
<th>DPL I</th>
<th>DPL II</th>
<th>DPL III</th>
<th>Outcome Indicators for Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-objective: Improving the effectiveness and efficiency of SINA</td>
<td></td>
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</tr>
<tr>
<td><strong>A.1 Strategic Planning and Monitoring Framework for Sustainable Development</strong> (continued)</td>
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<tr>
<td>Improve effectiveness of CARs as sustainable development agencies. (Implemented by MAVDT and CARs)</td>
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<tr>
<td>Issuance of Presidential Decree on methodology to prepare Three Year Action Plans (PATs) for the CARs that address regional priorities and are results-based. The results-based indicators for environmental quality span indicators for deforestation and conservation, green markets, rationalization and optimization of consumption of renewable natural resources, reduction in health impacts associated with environmental factors, reduction in vulnerability risk associated with natural disasters, amongst others. These indicators serve to promote a better linkage between national and regional priorities and to strengthen the focus on results and impacts linked to the environment, rather than on institutional processes.</td>
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<tr>
<td>Establishment of a monitoring baseline in the ten most-populated CARs with respect to the six sustainable development objectives described in Decree 1200 of 2004.</td>
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<tr>
<td>Implementation of a system to monitor and evaluate both national and regional environmental management based on the six sustainable development objectives described in Decree 1200 of 2004.</td>
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<tr>
<td>Improved identification of national environmental priorities, as verified in annual review of PATs.</td>
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<tr>
<td>Increased access to information, as evidenced by public disclosure of progress toward achieving sustainable development objectives defined in PATs.</td>
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<tr>
<td><strong>A.2 Improved intersectoral coordination and increased public participation in environmental decisionmaking</strong></td>
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<tr>
<td>Improve effectiveness of CARs as sustainable development agencies. (Implemented by)</td>
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<tr>
<td>Formation of SINA working group in order to establish institutional mechanisms for periodic discussion of congruence between national and regional priorities, continuous consultation and organizational learning, assessment of effectiveness of CARs, and conflict resolution between CARs and MAVDT. Issuance of Presidential Decree to optimize the Technical Advisory</td>
<td></td>
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<tr>
<td>Presentation to the Technical Advisory Council of the results of three process-based policy Strategic Environmental Assessments (SEAs) relating to (i) water resources management; (ii) environmental health; and (iii) fuel quality. SEAs will include identification of priority areas and responsibility agreements among environmental authorities and other stakeholders.</td>
<td></td>
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<tr>
<td>Dissemination of the results of three process-based policy Strategic Environmental Assessments (SEAs) relating to (i) water quality; (ii) mining; and (iii) fuel quality. SEAs include identification of priority areas and responsibility agreements among environmental authorities and other stakeholders.</td>
<td></td>
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<tr>
<td>Development and approval of an Urban Environmental Policy that clarifies roles and responsibilities of CARs and AAUs and implementation of mechanisms for improved transparency.</td>
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<tr>
<td>Improved identification of environmental priorities as a result of increased use of SEAs and other instruments to mainstream environmental and social considerations into policy formulation process.</td>
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<tr>
<td>Approval of policies by CONPES based on results of policy-based SEAs.</td>
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<tr>
<td>Improved accountability</td>
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<td></td>
</tr>
</tbody>
</table>

*Only those items in bold are planned triggers.*

*Only those items in bold are prior actions.*
<table>
<thead>
<tr>
<th>Key Issues and Objectives</th>
<th>DPL I: Prior Actions (Completed)</th>
<th>DPL II: Planned Triggers/Prior Actions$^*$ (per Program Document)</th>
<th>DPL II: Actual Prior Actions$^f$</th>
<th>DPL III: Planned Triggers</th>
<th>Outcome Indicators for Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAVDT as well as CARS and/or CTA)</td>
<td>Council (Consejo TécnicoTécnico Asesor, CTA) to serve as a forum for cross-sectoral coordination on environmental matters and for ensuring the establishment of a mechanism to allow the most vulnerable Borrower’s potentially affected groups have a voice to participate in environmental decisionmaking processes on relevant issues</td>
<td>Adequate functioning of SINA working group, as demonstrated by the improvement in linking national and regional priorities, reduction in conflicts between MAVDT and CARs, and level of organizational learning.</td>
<td>Adequate functioning of SINA working group, as demonstrated by the improvement in linking national and regional priorities, reduction in conflicts between MAVDT and CARs, and level of organizational learning.</td>
<td>and clearer definition of roles among CARs and AAUs. MAVDT and DNP have defined a financial strategy for SINA agencies to ensure a more equitable distribution of resources.</td>
<td></td>
</tr>
</tbody>
</table>

A.2 Improved intersectoral coordination and increased public participation in environmental decisionmaking (continued)

- Improve licensing system to more efficiently and effectively tackle national and regional environmental priorities and is more efficient (Implemented by MAVDT and CARs).
- Improve technical capacity of key SINA staff (Implemented by MAVDT, DNP and CARs).

| Issuance of a Presidential Decree to modify the environmental licensing scheme to improve transparency, accountability and public participation. Issuance of a Presidential Decree that establishes an open process of election of the Directors of the Regional Autonomous Corporations (CARs). In this process, the managing council of the respective CARs will evaluate the merit, capacity, experience and skills required for the position and conduct interviews of finalists, with the goal of selecting the most suitably qualified individuals to exercise the functions of the Director. Issuance by DNP and MAVDT of a plan for strengthening the design, implementation, monitoring and evaluation of environmental policies, in accordance with Decrees 195 of 2004, and 216 of 2003, respectively. |
|---------------------------------------------------------------|--------------------------------|--------------------------------|--------------------------|-----------------------------|
| Implementation of a new environmental licensing scheme (Decree 1220 of 2005). Implementation of plan to strengthen the design, monitoring and execution of environmental policies within DNP and MAVDT. Based on the new organizational structure of MAVDT, demonstrate evidence of strengthening for (i) promotion of environmental health; (ii) sustainable urban development; (iii) integrated water management; and (iv) planning, control and monitoring of environmental management. |
| Implementation of a new environmental licensing scheme (Decree 1220 of 2005). Implementation of plan to strengthen the design, monitoring, and execution of environmental policies within DNP and MAVDT. Based on the new organizational structure of MAVDT, demonstrate evidence of strengthening for (i) promotion of environmental health; (ii) sustainable urban development; (iii) integrated water management; and (iv) planning, control; and monitoring of environmental management. |
| Implementation of a plan to adapt DNP’s and Vice Ministry of Environment’s structure to better meet the environment goals of the 2006–2010 PND and manage environmental policies. |
| Improved environmental governance, as evidenced by increased transparency, accountability, and public participation in the process of issuing environmental licenses under the new environmental licensing scheme. MAVDT and DNP have institutionalized instruments for improved environmental management, such as procedural manuals and monitoring systems of (i) environmental expenditures, (ii) sustainable development indicators linked to MDGs, and (iii) water accounts and availability. To improve monitoring, environmental management monitoring systems also adopted by municipalities. |

$^*$ Only those items in bold are planned triggers.

$^f$ Only those items in bold are prior actions.
<table>
<thead>
<tr>
<th>Key Issues and Objectives</th>
<th>DPL I Prior Actions (Completed)</th>
<th>DPL II Planned Triggers/Prior Actions (per Program Document)</th>
<th>DPL II Actual Prior Actions</th>
<th>DPL III Planned Triggers</th>
<th>Outcome Indicators for Program</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sub-objective:</strong> Integrating principles of sustainable development in key sectors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>B.1. Reduce cost of environmental degradation associated with water resources management (Implemented by MAVDT and CARs).</strong></td>
<td>Presentation of draft Water Resources Management Law to Congress setting requirements on (i) allocation of water rights; (ii) control of water pollution and quality; (iii) regulations on runoff water management and urban drainage; (iv) reduction of vulnerability to natural disasters; (v) management of marine and coastal resources; and (vi) conservation of important water ecosystems. Issuance of Presidential Decree for the final disposal of solid waste.</td>
<td>Congressional approval of a new Water Resources Management Law. Implementation of Action Plan to improve laboratory accreditation and dissemination of water quality monitoring protocols. Implementation of regulation for the final disposal of solid waste, taking into consideration legal, economic and financial instruments. Implementation of technical assistance program to close at least 75 open dumps. Design and approval by CONPES of a national policy relating to control of water pollution, including economic instruments.</td>
<td>Approval and/or issuance of key reforms to improve administration, planning and management of water resources. Implementation of Action Plan to improve laboratory accreditation and dissemination of water quality monitoring protocols. Implementation of regulation for the final disposal of solid waste, taking into consideration legal, economic and financial instruments. Implementation of technical assistance program to close more than 200 open dumps. National Development Plan submitted to Congress for approval (as law); guidelines on water pollution control, including economic instruments, developed to inform national water resource policy mandated in Plan.</td>
<td>Adapt Water Resources Unit in MAVDT in line with new water resource management reforms, to ensure appropriate institutional framework to support their implementation.</td>
<td>Increase in % of municipalities with medium and high water scarcity indexes that have implemented POMCAs (BASELINE CY 2005: 0; In CY 2006, 1 municipality (Guateque) with a high water scarcity index implemented a POMCA.) Proxy indicators for reduction of waterborne diseases: Improve water quality (particularly pathogenic and toxic substances) of urban water bodies, compared with baseline. (BASELINE CY1999: total BOD discharged from point sources 624,746 tons) Increase in % of children and mothers with appropriate hygiene behavior, compared with baseline. (BASELINE CY2005: 20.7% of observed households wash hands at critical times)</td>
</tr>
</tbody>
</table>

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5 Includes (i) approval by Presidency of Decrees for Watershed Management and Planning, Water Uses and Users Registry, and Establishment of Information System; (ii) ratification of National Development Plan in at least the first of three debates, required for Congressional approval of Plan as law; (iii) issuance of directive by MAVDT requiring CARs to establish a water accounts system; and (iv) MAVDT’s submission of proposal to Programa de Renovación de la Administración Pública en Colombia to create Water Resource Management Office within Vice Ministry of Environment.

6 IDEAM (2002)

7 Skat - Swiss Resource Centre and Consultancies for Development (2006). Investigación de Comportamientos de Lavado de Manos en Colombia. Based on structured observations of 500 households throughout the country with low socioeconomic status and at least one child under the age of five.
<table>
<thead>
<tr>
<th>Key Issues and Objectives</th>
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<th>DPL II</th>
<th>DPL III</th>
<th>Outcome Indicators for Program</th>
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</thead>
<tbody>
<tr>
<td><strong>Sub-objective: Integrating principles of sustainable development in key sectors</strong></td>
<td></td>
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<td></td>
<td>Decrease in the number of open waste dumps by 25%, compared with baseline (BASELINE CY 2005: 700 open waste dumps; TARGET CY 2007: 525 open waste dumps). Decrease heavy metals and toxic compounds in leachates that are discharged into urban and peri-urban water bodies by 25%.</td>
</tr>
<tr>
<td><strong>B.2. Reduce cost of environmental degradation associated with air pollution (implemented by MAVDT, Ministries of Transport and Energy, CARs, and municipalities).</strong></td>
<td>Design and approval of CONPES for the implementation of an action plan for the formulation of a new air pollution control policy, which emphasizes (i) measurement of key pollutants that are associated with significant health impacts (such as PM2.5); (ii) research to better understand the causal links between health impacts (such as cardiopulmonary diseases, lung cancer) and pollutants; and (iii) promotion of measures to mitigate these health impacts in both rural and urban settings. Design, approval of CONPES, and preparation and implementation of an action plan for the management of the integrated urban environmental policy.</td>
<td><strong>Consistent protocol for air quality monitoring developed, based on diagnosis of seven monitoring networks.</strong></td>
<td><strong>Consistent protocol for air quality monitoring developed, based on analysis of monitoring networks. National Development Plan submitted to Congress for approval (as law) mandates development of protocol. Emissions inventory protocol for fixed and mobile sources developed and implemented in seven cities, including Bogotá, Medellín, Cali, Bucaramanga, and Barranquilla, among others.</strong></td>
<td><strong>Design and approval of a national policy for air pollution control.</strong></td>
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<td><strong>Issuance of at least two decrees to establish and implement new air quality monitoring protocols.</strong></td>
<td></td>
<td><strong>Indicators related to reduction of air pollution:</strong> Regulatory instruments in place that promote reduction in transport-related TSP, PM2.5, and ozone precursors in cities with more than 500,000 inhabitants. Air quality monitoring network for PM2.5 fully operational. Air pollution control strategy implemented.</td>
</tr>
<tr>
<td>Key Issues and Objectives</td>
<td>DPL I Prior Actions (Completed)</td>
<td>DPL II Planned Triggers/Prior Actions (per Program Document)</td>
<td>DPL II Actual Prior Actions</td>
<td>DPL III Planned Triggers</td>
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</tr>
<tr>
<td>Sub-objective: Integrating principles of sustainable development in key sectors</td>
<td>pollution control scheme to promote behavioral change in line with reduction of urban air pollution. and implement a new air pollution control scheme to promote behavioral changes that help reduce urban air pollution.</td>
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<tr>
<td>B.3. Reduce cost of environmental degradation associated with water resources management and natural disasters (implemented by MAVDT and CARs)</td>
<td>Presentation of draft Water Resources Management Law to Congress setting requirements on (i) allocation of water rights; (ii) control of water pollution and quality; (iii) regulations on runoff water management and urban drainage; (iv) reduction of vulnerability to natural disasters; (v) management of marine and coastal resources; and (vi) conservation of important water ecosystems. <em>(Repeated for clarity)</em></td>
<td>Congressional approval of new Water Resource Management Law. <em>(Repeated for clarity)</em></td>
<td>Approval and/or issuance of key reforms to improve planning, administration, and management of water resources. <em>(Repeated for clarity)</em></td>
<td></td>
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<tr>
<td></td>
<td>Design, approval of CONPES, and preparation and implementation of an action plan for the management of the integrated urban environmental policy. <em>(Repeated for clarity)</em></td>
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*Indicators linked to reduction of impacts caused by natural disasters:
Reduction in the number of persons and property in areas identified as vulnerable to floods and landslides, compared with baseline. (BASELINE CY2005: 600,000)*

*DesInventar database, the Social Studies Network for Disaster Prevention in Latin America (La RED).*
Colombia exited from formal Fund support on November 2, 2006, as the precautionary Stand-By Arrangement approved in April 2005 came to a successful conclusion. The third and final review under the arrangement was completed in October 2006, together with the 2006 Article IV consultation. Colombia has no outstanding credit from the Fund and has accepted Article VIII, Sections 2, 3, and 4.

Economic performance in 2006 was strong. Real GDP grew by 6.8 percent, on account of strong domestic demand, particularly investment, while inflation fell to 4.5 percent, as targeted. With strong revenue growth and spending discipline, the combined public sector (CPS) deficit amounted to 0.9 percent of GDP, below the target of 1.5 percent of GDP, lowering public debt to 42¼ percent of GDP. The current account deficit widened to 2.2 percent of GDP (1.6 percent in 2005), financed largely by net foreign direct investment. Foreign exchange intervention increased net international reserves by US$0.4 billion to US$15.4 billion (150 percent of short-term external debt).

The economic outlook for 2007 is positive. Real GDP is expected to rise by 5.5 percent in 2007, led by domestic demand and exports, and inflation is targeted to be within the range of 3½ to 4½ percent. The current account deficit is projected to remain stable at 2.3 percent of GDP in 2007. This favorable outlook is largely the result of the authorities’ policy strategy of fiscal reform and consolidation, low inflation with exchange rate flexibility, and strengthening of the financial system.

The authorities have begun to address the inflationary pressures arising from the strong growth. Monetary policy has reacted to the risk of overheating. Since April 2006, the central bank has raised its policy interest rate by 225 basis points to 8.25 percent, and has reaffirmed its commitment to achieving the inflation target for 2007. The government has reduced the target for the CPS deficit in 2007 to 0.9 percent of GDP, from its original target of 1.7 percent of GDP. The tighter fiscal stance has helped contain the growth in demand and ease the burden on monetary policy.

The flexible exchange rate regime continues to serve Colombia well. It has supported real economic growth by allowing relative prices to adjust to external shocks and reducing the volatility of domestic interest rates. Staff believes that less reliance on foreign exchange market intervention would allow the flexible regime to work more effectively and would provide a clearer signal about the stance of monetary policy.

The prospects for continued macroeconomic stability and sustained growth over the medium-term are favorable. Real GDP is projected to rise by 4.5 percent a year in 2008 and beyond, and annual inflation is targeted to fall to the range of 2–4 percent. Despite declining oil export receipts, the current account deficit is projected to range from 2½–3 percent of GDP, keeping external debt below 30 percent of GDP. Fiscal policy is expected to stay on a
path consistent with a further decline in public debt over the medium term. This reduction in debt will strengthen the economy and build resilience.

There is continued progress on structural reforms. Financial supervision is being strengthened. Recent reforms have simplified Colombia’s complex and distortionary tax code and have increased the commercial orientation of Ecopetrol, the national oil company. A reform of intergovernmental transfers, critical for the credibility of future fiscal policy, is now being discussed by Congress.
### Annex 4: Colombia at a Glance

#### POVERTY and SOCIAL

<table>
<thead>
<tr>
<th>Year</th>
<th>Colombia</th>
<th>Latin America &amp; Carib.</th>
<th>Lower-middle-income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Population, mid-year (millions)</td>
<td>45.6</td>
<td>551</td>
<td>2,475</td>
</tr>
<tr>
<td>GNI per capita (Atlas method, US$)</td>
<td>2,300</td>
<td>4,008</td>
<td>1,918</td>
</tr>
<tr>
<td>GNI (Atlas method, US$ billions)</td>
<td>105.0</td>
<td>2,210</td>
<td>4,747</td>
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</tbody>
</table>

Average annual growth, 1999-05

<table>
<thead>
<tr>
<th>Category</th>
<th>Colombia</th>
<th>Latin America &amp; Carib.</th>
<th>Lower-middle-income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (%)</td>
<td>1.6</td>
<td>1.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Labor force (%)</td>
<td>2.8</td>
<td>2.2</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Most recent estimate (latest year available, 1999-05)

<table>
<thead>
<tr>
<th>Category</th>
<th>Colombia</th>
<th>Latin America &amp; Carib.</th>
<th>Lower-middle-income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty (% of population below national poverty line)</td>
<td>49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban population (% of total population)</td>
<td>73</td>
<td>78</td>
<td>49</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>73</td>
<td>72</td>
<td>70</td>
</tr>
<tr>
<td>Infant mortality (per 1,000 live births)</td>
<td>18</td>
<td>27</td>
<td>33</td>
</tr>
<tr>
<td>Child malnutrition (% of children under 5)</td>
<td>7</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Access to an improved water source (% of population)</td>
<td>111</td>
<td>119</td>
<td>114</td>
</tr>
<tr>
<td>Literacy (% of population age 15+)</td>
<td>112</td>
<td>121</td>
<td>115</td>
</tr>
<tr>
<td>Male</td>
<td>112</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>111</td>
<td></td>
<td></td>
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</tbody>
</table>

#### KEY ECONOMIC RATIOS and LONG-TERM TRENDS

<table>
<thead>
<tr>
<th>Year</th>
<th>1985</th>
<th>1995</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (US$ billions)</td>
<td>34.9</td>
<td>62.5</td>
<td>98.1</td>
<td>122.9</td>
</tr>
<tr>
<td>Growth of capital and GDP (%)</td>
<td>17.5</td>
<td>19.0</td>
<td>19.2</td>
<td>20.4</td>
</tr>
<tr>
<td>Exports of goods and services/GDP</td>
<td>13.8</td>
<td>14.5</td>
<td>21.5</td>
<td>21.4</td>
</tr>
<tr>
<td>Gross domestic savings/GDP</td>
<td>20.3</td>
<td>19.4</td>
<td>18.8</td>
<td>19.3</td>
</tr>
<tr>
<td>Gross national savings/GDP</td>
<td>16.7</td>
<td>21.3</td>
<td>18.0</td>
<td>18.2</td>
</tr>
<tr>
<td>Total debt/GDP</td>
<td>40.8</td>
<td>27.1</td>
<td>38.7</td>
<td>30.0</td>
</tr>
<tr>
<td>Total debt service/exports</td>
<td>39.8</td>
<td>31.5</td>
<td>33.7</td>
<td>26.0</td>
</tr>
<tr>
<td>Present value of debt/GDP</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Present value of debt/exports</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>(average annual growth)</td>
<td>4.3</td>
<td>5.2</td>
<td>4.7</td>
<td>6.6</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>2.3</td>
<td>0.0</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>8.2</td>
<td>4.4</td>
<td>10.0</td>
<td>5.5</td>
</tr>
</tbody>
</table>

#### STRUCTURE of the ECONOMY

<table>
<thead>
<tr>
<th>Year</th>
<th>1985</th>
<th>1995</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>17.5</td>
<td>15.9</td>
<td>12.2</td>
<td>12.3</td>
</tr>
<tr>
<td>Industry</td>
<td>35.6</td>
<td>31.7</td>
<td>33.7</td>
<td>34.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>22.0</td>
<td>15.9</td>
<td>16.5</td>
<td>15.4</td>
</tr>
<tr>
<td>Services</td>
<td>47.0</td>
<td>53.0</td>
<td>54.1</td>
<td>53.4</td>
</tr>
<tr>
<td>Household final consumption expenditure</td>
<td>69.0</td>
<td>65.4</td>
<td>62.6</td>
<td>61.9</td>
</tr>
<tr>
<td>General govt final consumption expenditure</td>
<td>10.7</td>
<td>15.2</td>
<td>18.8</td>
<td>18.8</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>12.5</td>
<td>21.0</td>
<td>22.1</td>
<td>22.2</td>
</tr>
<tr>
<td>(average annual growth)</td>
<td>1.0</td>
<td>1.1</td>
<td>2.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Industry</td>
<td>4.0</td>
<td>1.8</td>
<td>6.8</td>
<td>5.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.3</td>
<td>2.1</td>
<td>7.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Services</td>
<td>4.5</td>
<td>2.2</td>
<td>3.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Household final consumption expenditure</td>
<td>4.1</td>
<td>1.4</td>
<td>6.0</td>
<td>4.7</td>
</tr>
<tr>
<td>General govt final consumption expenditure</td>
<td>6.2</td>
<td>3.2</td>
<td>1.1</td>
<td>4.8</td>
</tr>
<tr>
<td>Gross capital formation</td>
<td>7.2</td>
<td>-0.8</td>
<td>15.6</td>
<td>25.6</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>13.3</td>
<td>1.3</td>
<td>19.8</td>
<td>21.7</td>
</tr>
</tbody>
</table>

Note: 2005 data are preliminary estimates. Group data are to 2004.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.
Colombia

**PRICES and GOVERNMENT FINANCE**

<table>
<thead>
<tr>
<th></th>
<th>1985</th>
<th>1995</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic prices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(% change)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer prices</td>
<td>24.0</td>
<td>20.9</td>
<td>5.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Implicit GDP deflator</td>
<td>24.9</td>
<td>18.9</td>
<td>7.6</td>
<td>5.7</td>
</tr>
<tr>
<td><strong>Government finance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(% of GDP, includes current grants)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current revenue</td>
<td>9.2</td>
<td>11.4</td>
<td>14.3</td>
<td>15.0</td>
</tr>
<tr>
<td>Current budget balance</td>
<td>1.7</td>
<td>0.8</td>
<td>-4.6</td>
<td>-4.0</td>
</tr>
<tr>
<td>Overall surplus/deficit</td>
<td>0.1</td>
<td>-2.2</td>
<td>-5.4</td>
<td>-4.8</td>
</tr>
</tbody>
</table>

**TRADE**

<table>
<thead>
<tr>
<th>(US$ millions)</th>
<th>1985</th>
<th>1995</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total exports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FOB</td>
<td>3,917</td>
<td>10,223</td>
<td>16,442</td>
<td>20,815</td>
</tr>
<tr>
<td>Coffee</td>
<td>1,746</td>
<td>1,832</td>
<td>949</td>
<td>1,471</td>
</tr>
<tr>
<td>Petroleum</td>
<td>451</td>
<td>2,185</td>
<td>4,207</td>
<td>5,599</td>
</tr>
<tr>
<td>Manufactures</td>
<td>843</td>
<td>3,505</td>
<td>6,616</td>
<td>7,587</td>
</tr>
<tr>
<td><strong>Total imports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIF</td>
<td>4,131</td>
<td>13,853</td>
<td>16,748</td>
<td>21,204</td>
</tr>
<tr>
<td>Food</td>
<td>180</td>
<td>1,239</td>
<td>1,554</td>
<td>1,874</td>
</tr>
<tr>
<td>Fuel and energy</td>
<td>498</td>
<td>372</td>
<td>262</td>
<td>544</td>
</tr>
<tr>
<td>Capital goods</td>
<td>1,326</td>
<td>5,030</td>
<td>5,534</td>
<td>7,702</td>
</tr>
<tr>
<td><strong>Export price index (2000=100)</strong></td>
<td>10</td>
<td>45</td>
<td>42</td>
<td>44</td>
</tr>
<tr>
<td><strong>Import price index (2000=100)</strong></td>
<td>8</td>
<td>43</td>
<td>39</td>
<td>36</td>
</tr>
<tr>
<td>Terms of trade</td>
<td>127</td>
<td>102</td>
<td>107</td>
<td>122</td>
</tr>
</tbody>
</table>

**BALANCE of PAYMENTS**

<table>
<thead>
<tr>
<th>(US$ millions)</th>
<th>1985</th>
<th>1995</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports of goods and services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4,642</td>
<td>12,294</td>
<td>19,479</td>
<td>24,392</td>
<td></td>
</tr>
<tr>
<td><strong>Imports of goods and services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4,989</td>
<td>18,024</td>
<td>19,812</td>
<td>24,887</td>
<td></td>
</tr>
<tr>
<td><strong>Resource balance</strong></td>
<td>-347</td>
<td>-3,730</td>
<td>-333</td>
<td>-495</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>-1,710</td>
<td>-1,596</td>
<td>-4,332</td>
<td>-5,456</td>
</tr>
<tr>
<td><strong>Net current transfers</strong></td>
<td>461</td>
<td>949</td>
<td>3,727</td>
<td>4,089</td>
</tr>
<tr>
<td><strong>Current account balance</strong></td>
<td>-1,596</td>
<td>-4,528</td>
<td>-938</td>
<td>-1,871</td>
</tr>
<tr>
<td><strong>Financing items (net)</strong></td>
<td>1,365</td>
<td>4,526</td>
<td>-1,603</td>
<td>142</td>
</tr>
<tr>
<td><strong>Changes in net reserves</strong></td>
<td>231</td>
<td>2</td>
<td>2,541</td>
<td>1,729</td>
</tr>
</tbody>
</table>

**Memo:**
- Reserves including gold (US$ millions): 2,313, 8,453, 13,540, 14,957
- Conversion rate (DEC/local US$): 142.3, 912.8, 2,828.8, 2,320.8

**EXTERNAL DEBT and RESOURCE FLOWS**

<table>
<thead>
<tr>
<th>(US$ millions)</th>
<th>1985</th>
<th>1995</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total debt outstanding and disbursed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14,284</td>
<td>25,048</td>
<td>37,910</td>
<td>36,875</td>
<td></td>
</tr>
<tr>
<td><strong>IBRD</strong></td>
<td>2,401</td>
<td>2,548</td>
<td>3,490</td>
<td>3,975</td>
</tr>
<tr>
<td><strong>IDA</strong></td>
<td>18</td>
<td>11</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total debt service</strong></td>
<td>1,972</td>
<td>4,345</td>
<td>7,863</td>
<td>7,481</td>
</tr>
<tr>
<td><strong>IBRD</strong></td>
<td>318</td>
<td>604</td>
<td>408</td>
<td>392</td>
</tr>
<tr>
<td><strong>IDA</strong></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

**Composition of net resource flows**
- Official grants | 20 | 74 | 0 | 0 |
- Official creditors | 924 | -423 | 64 | -722 |
- Private creditors | 376 | -2,257 | -1,297 | -262 |
- Foreign direct investment (net inflows) | 1,023 | 968 | 2,975 | 5,569 |
- Portfolio equity (net inflows) | 0 | 165 | 0 | 0 |

**World Bank program**
- Commitments | 400 | 207 | 582 | 953 |
- Disbursements | 589 | 236 | 455 | 705 |
- Principal repayments | 165 | 415 | 256 | 218 |
- Net flows | 424 | -177 | 188 | 487 |
- Interest payments | 153 | 191 | 162 | 174 |
- Net transfers | 271 | -368 | 46 | 312

**Inflation (%):**

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>5.9</td>
</tr>
<tr>
<td>2005</td>
<td>7.6</td>
</tr>
</tbody>
</table>

**Export and import levels (US$ mill.)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>16,442</td>
<td>949</td>
</tr>
<tr>
<td>2005</td>
<td>20,815</td>
<td>1,471</td>
</tr>
</tbody>
</table>

**Current account balance to GDP (%):**

<table>
<thead>
<tr>
<th>Year</th>
<th>Current account balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>-3.3%</td>
</tr>
<tr>
<td>2005</td>
<td>-4.7%</td>
</tr>
</tbody>
</table>

**Composition of 2005 debt (US$ mill.):**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A - IBRD</td>
<td>3,975</td>
</tr>
<tr>
<td>B - IDA</td>
<td>6,536</td>
</tr>
<tr>
<td>C - IMF</td>
<td>1,900</td>
</tr>
<tr>
<td>D - Other multilateral</td>
<td>20,966</td>
</tr>
<tr>
<td>E - Bilateral</td>
<td>5,784</td>
</tr>
<tr>
<td>F - Private</td>
<td>220</td>
</tr>
<tr>
<td>G - Short-term</td>
<td>45</td>
</tr>
</tbody>
</table>

Development Economics 4/18/07