

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

March 3, 2014
Report No.: AB7573

Operation Name	First Programmatic Sustained Growth and Productivity Gains Development Policy Loan
Region	LATIN AMERICA AND CARIBBEAN
Country	Colombia
Sector	(See project page)
Operation ID	P149609
Lending Instrument	Development Policy Lending
Borrower(s)	REPUBLIC OF COLOMBIA
Implementing Agency	
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Date PID Prepared	May 6, 2014
Estimated Date of Appraisal	September 7, 2014
Estimated Date of Board Approval	November 3, 2014
Corporate Review Decision	

I. Key development issues and rationale for Bank involvement

Colombia continues to consolidate as one of LAC's strongest performers as economic growth remains relatively stable, inflation and unemployment reach record lows, and strong economic performance has been accompanied by poverty reduction and shared prosperity. These results come as the country established an enhanced macroeconomic framework, enjoyed a commodity price boom, and improved its security conditions. Additionally, the Colombian government has accumulated a strong record of structural reforms towards social progress and macroeconomic stability (including, the Fiscal Responsibility Law, the Fiscal Rule, and a Comprehensive Tax Reform).

However, the Colombian government is also aware of the importance of addressing key bottleneck to sustained growth and productivity gains when less favorable external conditions are expected to arise. For this reason the government has defined a comprehensive program of policy reforms with implications for growth and productivity, that will help support continued gains in shared prosperity. This programmatic DPL series supports this program. The first proposed operation supports a first round of reforms currently under implementation, while the second operation is expected to support follow up actions that will help strengthen and consolidate the medium term goal of increasing growth and productivity.

II. Proposed Objective(s)

Colombia is a sophisticated client with whom the Bank has maintained a strategic partnership for many years, advancing and supporting efforts to sustain inclusive growth and increase productivity. This operation is the first in a series of two single tranche operations supporting a program of structural reforms to promote long term growth.

This operation supports key reforms under the GoC's program grouped in four pillars: pillar I supports actions to foster solutions to develop private infrastructure financing and increase access to finance for firms; pillar II includes actions improve the quality and allocation of productive skills; pillar III support actions promoting innovation, technology adoption and efficiency of firms; and pillar IV supports actions to streamline customs and border procedures to facilitate international trade.

The operation has been requested by the Colombian government and underscores the government's continued interest in engaging with the World Bank to strengthen economic activity and shared prosperity. The supported program is fully consistent with FY12-FY16 Colombia Country Partnership Strategy (CPS), particularly with the pillar of inclusive growth with enhanced productivity and with the government's current development strategy, particularly with the pillar of sustainable growth and productivity.

III. Preliminary Description

Despite solid fundamentals, Colombia's economy still faces various challenges to achieve sustainable, inclusive, and higher potential growth. During most of the 2000's, Colombia benefited from growing external demand, high commodity prices, and abundant FDI. These "tailwinds" have started to stall and –progressively- economic growth is likely to be driven by structural factors. Moreover, additional growth dividends from macro stability reforms are limited. However, the country faces considerable challenges to boost growth and enhance productivity gains: (i) in spite of recent unemployment decline, the rate is still very high and more than half of the workforce is informal; (ii) the country's education system lacks good quality, as a result, in the most recent results from PISA 2012, Colombia scored significantly other similar middle income countries from LAC; (iii) even though financial inclusion has increased, there is wide space to increase the access and use of financial products, particularly in rural areas ; (iv) the current infrastructure gap results on high logistics costs and on isolation of backward regions ; and (v) the country lacks a coherent and integrated innovation system that will encourage the increasing productivity and sophistication of firms over time.

The program of reforms supported by the proposed DPL series, and organized in the previously mentioned pillars, addresses each of these challenges:

- (1) The GoC employment strategy aims to provide public services that increase employability such as better fit job training, and matching workers and vacancies, in order to increase the human capital productivity. As a first step the GOC has integrated at

the Minister of Labor the design and implementation of an upgraded registry for unemployment and system for matching workers and vacancies

- (2) The GoC intends to improve the quality of productive skills by strengthening professional training and skill formation. Moving in that direction its program has i) promoted professional training to unemployed individuals; and ii) regulated the provision and financing of continued professional training
- (3) The GoC, with Bank support, is carrying out a reform program to foster the development of the local capital markets, to provide firms with more efficient financing mechanisms and promote infrastructure financing. Consequently, it has improved access to credit by regulating the use of movable assets as collateral in financial operations.
- (4) In line with the previously mentioned, the GoC has reformed the pension funds regulations and revised investment limits to facilitate investments in infrastructure and long term projects.
- (5) Lastly, the GoC is aware of the importance of having a long term program for promoting innovation, efficiency and ultimately sustained and inclusive economic growth. Therefore, it has strengthened innovation by i) defining the institutional arrangements and responsibilities for allocating royalties resources dedicated to innovation finance and ii) implementing an improved mechanism for the selection of innovation projects to be financed by these resources.

Finally, the fourth pillar of the operation supports government efforts to advance in trade facilitation by streamlining customs and border procedures. Accordingly, the GoC has issue a new customs statute, which modernizes and simplifies Colombia's customs regulation promoting a harmonization with international practices. However, for the Customs Statute reform to be successful, appropriate implementation is essential. Furthermore, the simultaneous inspection of maritime exports closes only one gap in the—overall comprehensive—Single Window of External Trade. The programmatic design of this operation allows continuous support of the government's ambitious intentions in the area of trade facilitation.

IV. Poverty and Social Impacts and Environment Aspects

The Government policies supported in this DPL are expected to have a positive poverty and social impact. Income growth and labor markets outcomes help explain 60 percent of Colombia's poverty reduction in the last decade. The actions supported by this operation intended to further increase growth and productivity and likely to have similar impacts on poverty reduction and share prosperity. The Poverty and Social Impact Assessment is being carried out, documenting these expected positive impacts from a social, gender and distributional perspective. Specifically, within Pillar I, policies that support infrastructure financing and increase access to credit are expected to have a positive impact, by increasing employment (and formalization), reducing consumer prices (lower costs of transport and logistics), and smoothing consumption of the poorest households. In terms of Pillar II, the recently implemented system for matching workers and vacancies is expected to increase the employability of the bottom 40 percent since they rely more on these services rather than their own networks to find a job. Moreover, strengthening the professional training system targeted to the unemployed is expected to increase the probability of employment of the poorest. Within Pillar III, higher spending in science and technology will

likely increase formalization and earnings in those economic sectors where the funds will be allocated. Finally, the prior actions in Pillar IV regarding trade facilitation will likely cut costs of logistics and increase access to market and affordable goods

On the other hand, none of the policies supported by the proposed DPL are expected to have significant effects on Colombia's environment, forests and other natural resources. In some cases, however, indirect effects could potentially arise. More specifically, prior action 1, which regulates the creation of financial instruments that help foster private financing to infrastructure projects, encourages credit to finance the implementation of projects that, if unregulated, could potentially have adverse environmental impacts. Nevertheless, Colombia has a fairly robust environmental policy framework that is expected to be effective at mitigating possible adverse impacts of investment growth supported by the DPL.

V. Tentative financing

Source:		(\$m.)
Borrower		0
International Bank for Reconstruction and Development		400
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	400

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