Report Number: ICRR0024088

1. Operation Information

Operation ID P175801	**Operation Name** Competitiveness and Recovery DPF
Country Colombia	**Practice Area (Lead)** Finance, Competitiveness and Innovation

Non-Programmatic DPF

L/C/TF Number(s) IBRD-92890	**Closing Date (Original)** 30-Jan-2023	**Total Financing (USD)** 500,000,000.00
Bank Approval Date 23-Sep-2021	**Closing Date (Actual)** 30-Jan-2023	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	500,000,000.00	0.00
Revised Commitment	500,000,000.00	0.00
Actual	500,000,000.00	0.00

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2. Program Objectives and Pillars/Policy Areas

a. Objectives

According to the Program Document (page 3), the program development objective of the Colombia Competitiveness and Recovery Development Policy Loan was to encourage a high-productivity and sustainable recovery from the COVID-19 crisis by improving regulation for private sector-led recovery, promoting innovation and digital finance, and fostering entrepreneurship and internationalization.

Even though the overarching objective was to "encourage a high productivity and sustainable recovery from the COVID-19 crisis", the DPF aimed to cumulatively address the structural constraints that hinder productivity, which were further exacerbated by COVID-19 and thus put the economy on track for sustainable recovery. Thus, the operation aimed to improve regulation for private sector-led recovery, promote innovation and digital finance, and foster entrepreneurship and internationalization. For the purpose of this review, IEG thus assesses the program objectives as:

1. To improve the regulation for private sector-led recovery
2. To promote innovation and digital finance
3. To foster entrepreneurship and internationalization

b. Pillars/Policy Areas

The program had three pillars.

Improving Regulation for Private Sector-Led Recovery supported reforms to foster private sector activity through better regulation, broadened access to green capital markets, and increased competition and transparency in public procurement.

Promoting Innovation and Digital Finance supported reforms to boost investment in science, technology, and innovation, including investments with an environmental sustainability focus, and to increase the use of digital platforms to raise capital through crowdfunding and to effect payments.

Fostering Entrepreneurship and Internationalization supported reforms to promote enterprise creation and growth and, at the same time, to stimulate international integration through trade facilitation.

c. Comments on Program Cost, Financing and Dates

Program Cost. The program was estimated to cost US$500 million at appraisal.

Financing. The program was financed by a US$500 million development policy loan from the IBRD to the Republic of Colombia. The financing was fully disbursed.

Dates. The program was approved on September 23, 2021, become effective on October 28, 2021, and closed as scheduled on January 23, 2023.

3. Relevance of Design

a. Relevance of Objectives

Following the Colombia COVID-19 Crisis Response Development Policy Financing, approved in June 2020 to support the health and social response to COVID-19, and the Colombia Resilient and Sustainable Infrastructure for Recovery Development Policy Financing, approved in September 2020 to sustain critical infrastructure services, this operation – the Colombia Competitiveness and Recovery Development Policy Loan – was designed to focus on a private sector led economic recovery from the pandemic.

Binding Constraints to Development. The program objectives were relevant to the diagnostics highlighting the binding constraints to growth, inclusion, and sustainability.

- The *Colombia Systematic Country Diagnostic 2015* outlined the following key constraints, which were related to the program objectives: (a) total factor productivity growth in non-extractive activities was low because of limited exposure by enterprises to domestic and external competition; (b) support from the financial sector to individuals and small firms was inadequate; (c) the provision of productive skills was lacking; (d) trade openness was limited; and (e) disaster risk management and adaptation was inadequate in the face of worsening natural disasters and climate change.
- The *Colombia Systematic Country Diagnostic Update 2022 - Together for a Better Future* reiterated or restated the previous diagnostics and articulated additional key constraints to development: (a) market competition was weak and held back productivity and innovation; (b) infrastructure weaknesses were a further obstacle to productivity and growth; (c) digital access by households and firms was uneven; (d) the country faced formidable challenges in protecting biodiversity, adapting to climate change, and meeting ambitious national commitments for reducing greenhouse gas emissions.

Country Priorities. The program objectives were responsive to the country's development priorities, articulated in strategy documents drafted to guide policy and programs for economic recovery from the crisis.

- The *Política para la Reactivación y el Crecimiento Sostenible e Incluyente (*Policy for Reactivation and Sustainable and Inclusive Growth) articulated five pillars to develop the capacities of households, enterprises, and the government for accelerated, resilient, and sustainable economic reactivation: Mitigation of Poverty and Economic Vulnerability; Mitigation of Human Capital Loss; Grtaer and More Sustainable Growth; Institutional Capacities and Citizen Trust; and Acceleration of Digital Enablers. The program objectives were consistent with many plan objectives, including: (a) increasing public and private investment in science, technology, and innovation; (b) increasing innovation and technology adoption by implementing applied research programs; (c) prioritizing resource use of the General Royalties Fund; (d) facilitating access to finance by promoting the development of factoring and crowdfunding; (e) expanding technical assistance programs for productive and digital transformation processes; and (f) promoting global integration by reducing costs and streamlining procedures for importing and exporting.

Bank Group Country Strategy. The program objectives were relevant to the Bank Group country strategy in Colombia at appraisal and at closing.

- The *Country Partnership Framework for the Republic of Colombia for the Period FY16-21* (CPF FY16-21) committed Bank Group support for the country's development priorities organized around three "pillars": Fostering Balanced Territorial Development, Enhancing Social Inclusion and Mobility through Improved Service Delivery, and Supporting Fiscal Sustainability and Productivity. The program objectives were aligned with the third CPF pillar, specifically with the CPF Objective 6 - Improved Business Environment and Innovation to Boost Productivity and CPF Objective 7 - Deepened Financial Intermediation for Productive Purposes.
- The *Country Partnership Framework for the Republic of Colombia for the Period FY24-27* (CPF FY24-27) committed Bank Group support for the country's development priorities organized around three "high-level objectives": Promote Equitable Territorial Development and Social Inclusion, Advance the

Sustainable and Inclusive Transformation of the Economy, and Strengthen Resilience to Climate Change and Promote Low-Carbon Transitions. The program objectives were aligned with the first high-level outcome, specifically with Objective 3 - Enhance digital, electricity and transport connectivity; with the second high-level outcome, specifically with Objective 5 - Deepen financial intermediation and inclusion and Objective 6 - Improve productivity and innovation; and with the third high-level outcome, specifically with Objective 7 - Develop resilient and low carbon infrastructure and Objective 8 - Mobilize and deploy climate finance.

Bank Group Crisis Response and Recovery Strategy. The program objectives were aligned with the Bank Group strategy, both in response to the crisis and in its aftermath.

- The *World Bank Group COVID-19 Crisis Response Approach Paper - Saving Lives, Scaling-Up Impact, and Getting Back on Track* (2020) promoted four pillars: Saving Lives; Protecting the Poor and Vulnerable; Supporting Business Growth and Job Creation; and Strengthening Policies, Institutions, and Investments for Rebuilding Better. The program objectives were relevant to the third pillar, specifically with the strategy "to maintain the private sector so that viable firms do not exit as a result of the pandemic," and to the fourth pillar, specifically with the strategy "to maintain a line of sight to long-term goals to regain the momentum on the twin goals of economic recovery and poverty reduction in recovery."
- The *From COVID-19 Crisis Response to Resilient Recovery - Saving Lives and Livelihoods while Supporting Green, Resilient, and Inclusive Development* (2021) promoted the Green, Resilient, and Inclusive (GRID) approach to a more sustainable recovery. The program objectives were aligned with the green element – "the investment in solutions that sustain natural capital, including the climate, to ensure that today's solutions are resilient and do not undermine tomorrow's growth."

b. Relevance of Prior Actions

Rationale

Objective 1 - To encourage a high-productivity and sustainable recovery from the COVID-19 crisis by improving regulation for private sector-led recovery
PA1 - The Republic of Colombia has taken measures aimed at reducing the cost of doing business by: (a) mandating the simplification, automatization and digitalization of administrative procedures and information obligations on businesses; and (b) institutionalizing the steps required for improving the quality and predictability of technical regulations that directly impact production and marketing costs, as evidenced, respectively, by Law No. 2052, published in the Official Gazette on August 25, 2020, and Decree No. 1468, published in the Official Gazette on November 12, 2020.
PA2 - The SFC has adopted measures to ensure transparency and integrity of the market for green finance by developing the taxonomy of Green Bonds in securities issuances as well as instructions on the minimum information that the prospectus for issuance of these bonds should contemplate, as evidenced by SFC External Circular No. 028/2020 dated September 7, 2020, and published in the SFC's website.

PA3 - The Republic of Colombia has taken measures to facilitate an increase in competition and transparency in public procurement by mandating the National Agency of Public Contracting (Colombia Compra Eficiente) to adopt mandatory standard bidding documents in the contractual activity of all entities subject to the General Contracting Statute of the Public Administration, as evidenced by Law No. 2022, published in the Official Gazette on July 22, 2020.
Objective 2 - To encourage a high-productivity and sustainable recovery from the COVID-19 crisis by promoting innovation innovation and digital finance
PA4 - The Republic of Colombia has taken measures to promote investment in innovation by regulating the use by MSMEs of tax credits for up to 50 percent for investment in research, technological development, and innovation, as evidenced by Decree No. 1011, published in the Official Gazette on July 14, 2020.
PA5 - The Republic of Colombia has taken measures to promote investment in green innovation by increasing the allocation of science, technology and innovation resources from the General Royalties System for projects related to the environment and sustainable development or to non-conventional renewable energies oriented to energy transition and reduction of carbon emissions, as evidenced by Articles 9-11, 22(5), 50(b) and Chapters IV and V of Title IV of Law No. 2056, published in the Official Gazette on September 30, 2020, and Decree No. 1821, published in the Official Gazette on December 31, 2020.
PA6 - The Republic of Colombia has enabled the development of digital finance by increasing the limits of financing through crowdfunding platforms, as evidenced by Article 12 of Decree No. 1235, published in the Official Gazette on September 14, 2020.
PA7 - The Republic of Colombia has improved the regulatory framework for digital transactions by establishing requirements to increase the efficiency and transparency of the low-value payment system, as evidenced by Decree No. 1692, published in the Official Gazette on December 18, 2020.
Objective 3 - To encourage a high-productivity and sustainable recovery from the COVID-19 crisis by fostering entrepreneurship and internationalization
PA8 - The Republic of Colombia has enacted the Entrepreneurship Law to support high-growth entrepreneurship by unifying public resources and programs to support the development of the entrepreneurship ecosystem within iNNpulsa Colombia, formalizing the initiative for the creation of centers for entrepreneurship and innovation (CEmprende), facilitating financial access for high-growth enterprises, and mandating the introduction of complementary measures to strengthen entrepreneurs' export capabilities and promote MSMEs and entrepreneurship development (particularly of innovative, green and climate mitigating initiatives), as evidenced by Articles 1, 2, 5-7-9, 12, 13, 25, 30-38, 42-44, 46-48, 50-52, 55, 57, 58 and 74-83 of Law No. 2069, published in the Official Gazette on December 31, 2020.
PA9 - The Republic of Colombia has approved a regulatory framework to further female entrepreneurship by creating and consolidating the autonomous trust fund Fondo Mujer Emprende to provide differentiated technical and financial support to women entrepreneurs and establishing incentives for the creation, formalization and strengthening of MSMEs led by women, as evidenced by Legislative Decree No. 810, published in the Official Gazette on June 4, 2020; Article 47 of Law No. 2069, published in the Official Gazette on December 31, 2020; and Law No. 2125, published in the Official Gazette on August 4, 2021.
PA10 - The Republic of Colombia has adopted measures aimed at reducing the cost and time for firms to trade and facilitate their integration in global value chains through the extension of the Authorized Economic Operator Program (AEO) to operators of port installations, as evidenced by Resolution No. 48 dated May 15, 2020, published in the Official Gazette on November 4, 2020.

Objective 1 - To encourage a high-productivity and sustainable recovery from the COVID-19 crisis by improving regulation for private sector-led recovery

- Despite recent efforts by the Government to streamline and simplify business regulations and administrative procedures -- exemplified by the *Estado Simple, Colombia Agil* (Simple State, Agile Colombia) program, started in 2018 -- private economic activity remained hampered by regulation, with Colombia ranking 123rd of 141 countries on the "burden of government regulation," 110th on "domestic competition, and 57th on the "overall competitiveness index" at the time of appraisal (World Economic Forum, 2019, *The Global Competitiveness Report 2019*). The objective to improve regulation for private sector-led recovery supported prior actions to reduce the cost of doing business, broaden access to green finance (i.e., structured financial activities that ensure a better environmental outcome), and strengthen competition and transparency in public procurement.
- **PA1** strove to reduce the cost of doing business, by streamlining and digitalizing administrative procedures and improving technical regulations that impacted production and marketing. Although Colombia had reduced the number of business regulations from 8,064 in 2017 to 5,513 in 2019, the regulatory framework remained burdensome overall --- non-substantial regulations (those of an administrative or procedural nature, and without "general effects") remained at 55 percent in 2019; some 32 percent of all administrative procedures at the national level that were part of the *Sistema Unico de Informacion de Tramites* (Single Registry for Administrative Procedures) required physical interaction (as opposed to online processing), and 91 percent, at the sub-national level; and the country badly needed a "whole of government" system to improve business regulations (OECD, 2013, *Regulatory Policy in Colombia*). The first of two PA1 measures, Law 2052/2020, the *Ley de Racionalizacion de Tramites* (Administrative Simplification Law), required: (a) periodic reviews of regulations; (b) the automation, digitalization, and online conduct of administrative procedures; (c) the promotion of alternative compliance methods (simple notifications, automatic authorizations, and indefinite licenses); and (c) more transparency and access to information. The second measure, Decree No. 1468/2020, adopted "better regulatory practices" following European Union Guidelines (European Commission, 2017, *Better Regulation Guidelines*): (a) forward regulatory planning; (b) ex-ante regulatory impact assessment and public consultation; and (c) ex-post impact evaluation. Administrative simplification would reduce the time and cost of complying with administrative procedures while "better regulatory practices" would bring greater predictability, transparency, and trust to the regulatory process. The expected result from these regulatory innovations would be a lower regulatory burden on individuals and businesses, measured as higher savings from regulation compliance costs. The relevance of PA1 is rated **satisfactory**.
- **PA2** sought to increase access to green finance, by establishing the regulatory framework for the issuance of green bonds. Green bond sales had surged to COP 2.36 trillion in 2016-2019 but still lacked an appropriate financial regulatory and supervisory framework that was well aligned with the country's climate change risk mitigation and adaptation goals. SFC External Circular 028/2020, issued by the *Superintendencia Financiera de Colombia*: (a) created a green taxonomy - a framework and system that determined whether an investment could be considered and designated as environmentally sustainable; and (b) defined the minimum information requirements that green bond prospectuses must disclose to the market, consistent with the *Green Bond Principles* (2021, 2022) developed by the International Capital Market Association, including the use of funds, project appraisal and selection, fund management, the publication of annual reports, the determination of impacts, and the use of external auditors. The issuance of the SFC circular and the accompanying *Good Practice Guide for the Issuance of Green Bonds* would make Colombia the first Latin American and Caribbean country to

establish a regulatory regime for green bonds, laying the foundation for further development of green finance, strengthening the integrity and transparency of the capital market, and supporting national climate change policy objectives. The expected result would be higher green bond issuance in the domestic market. The relevance of PA2 is rated **satisfactory**.

- **PA3** aimed to raise competition and transparency in public procurement, by mandating the use of standard bidding documents (SBDs). In Colombia, where spending on public procurement was 30 percent of government expenditures and 10 percent of GDP in 2017 (OECD, 2020, *Government at a Glance - Latin America and the Caribbean*), public procurement lacked consistency and standardization across agencies and levels of government, resulting in weak competition (e.g., tenders were tailored to favor certain bidders in public transport works), poor transparency, and high costs to participants (Gade et al., *Case Study 6 - Open Contracting Reforms in Colombia*, in Bajpai and Myers, 2020, *Enhancing Government Effectiveness and Transparency*). Law No. 2022/2020 required the *Colombia Compra Efficiente* (National Agency of Public Contracting), the governing body for public procurement, to mandate the use of standard bidding documents in contracting by all agencies subject to the General Contracting Statute of the Public Administration: (a) the SBDs would cover all aspects of the procurement process, including bidding procedures, bid security, validity of bids, standards and technical specifications, conditions of contract, and payment terms and methods; (b) the SBDs would apply to public works, design and engineering services, and supervision services and studies; (c) the *Colombia Compra Efficiente* would set the procedures and the schedule for the implementation of SBDs; and (d) it would train national and specially subnational agencies in the use of SBDs. By providing a standardized framework for the procurement of works, goods, and services, SBDs would help ensure fairness, efficiency, and transparency in the procurement process. The expected result would be a reduction in the regulatory burden, in the form of higher savings by bidders from compliance costs when SBDs were used. The relevance of PA3 is rated **satisfactory**.

Objective 2 - To encourage a high-productivity and sustainable recovery from the COVID-19 crisis by promoting innovation innovation and digital finance

- Many indicators showed Colombia lagging in investment in those scientific and technological assets considered important in driving productivity differences across firms globally (The Competitiveness Research Network, 2020, *Firm Productivity Report - May 2020*). Investment in research and development was 0.28 percent of GDP in 2019 (versus 0.62 percent of GDP in the Latin American and Caribbean region); gross government expenditures on research and development was 0.28 percent of Gross Domestic Product (GDP) in 2019 (versus 2.38 percent among the member countries of the Organization for Economic Cooperation and Development); mobile broadband subscriptions were 52 per 1,000 population (100th among 141 countries); and more than 80 percent of businesses did not have the equipment to make or receive digital payments, hindering e-commerce. The objective to promote innovation and digital finance supported prior actions to enable investment in innovation, in general, and in green innovation, in particular, and especially by MSMEs; to expand sources of finance for MSMEs; and to encourage the use of digital payments.
- **PA4** aimed to promote investment in innovation, by enabling MSMEs to better leverage available tax benefits for investment. Colombia has had a three-decade history of extending tax benefits to encourage investment, with the most recent Law No. 1995/2019 extending tax credits for up to 50 percent of the amount invested by MSMEs in research, technology, and innovation projects or for salaries of employees who were doctorate degree holders. Decree No. 1011/2020 sets the procedures by which these tax credits could be used flexibly by the MSMEs to: (a) offset national taxes (e.g., the value added tax); or (b) convert the tax credits into *titulos de devolucion de impuestos* (tax refund titles), which could be traded in the secondary market; or (c) pay taxes in the next fiscal year. Tax incentives

are effective to increase spending by enterprise on research and development, with smaller firms more responsive to these incentives than larger firms (Appelt et al., 2016, *R&D Tax Incentives: Design, Incidence, and Impact*, OECD Policy Paper 32). The added flexibility allowed by this prior action should motivate MSMEs to invest even more in science, technology, and innovation projects, and additionally help ease liquidity constraints at MSMEs during the pandemic. The expected result would be greater investment by MSMEs in science, technology, and innovation projects that were leveraged by the tax incentives. The relevance of PA4 is rated **satisfactory**.

- **PA5** aimed to promote investment in green innovation, by increasing allocations from the *Sistema General de Ragalias* (General Royalties System) for environment and sustainable development projects and for non-conventional renewable energy projects. The low share of spending on research and development (in total government expenditures) had hampered the country's ability to generate environment-related innovations (0.39 per capita in 2016, compared to 21.2 for the OECD countries). The country's royalty regime -- the *Sistema General de Ragalias,* consisting of income earned from the exploitation of non-renewable energy sources (some 2 percent of GDP) -- was an important source of funding for science and technology projects, with some 9.5 percent allocated to the *Fondo de Ciencia, Tecnologia e Innovacion* (Science, Technology, and Innovation Fund) since 2012. Law 2056/2020 and Decree 1821/2020 refocused the *Sistema General de Ragalias* toward supporting private sector investment in climate-resilient and low-carbon projects: (a) the allocation to science, technology and innovation was increased to 10 percent -- an incremental COP 84,851 million (US$24 million) in 2021-2022; (b) the allocation would be computed before deductions (normally 5.5 percent of the allocation); (c) at least 2 percent of the allocation is dedicated to research or investment in environment, sustainable development, and non-conventional renewable energy; and (d) resources will be allocated through public, open, and competitive calls for projects at the national level. The expected result would be an increase in the total value of private sector projects approved for *Sistema General de Ragalias* co-financing that were associated with environment, sustainable development, and renewable energy (energy transition and reduction of carbon emissions). The relevance of PA5 is rated **satisfactory**.
- **PA6** aimed to provide additional sources of financing for MSMEs, by raising the financing limits on crowdfunding platforms. More than 60 percent of MSMEs did not have access to finance, including those that preferred non-formal sources and excluded themselves from the formal system due to complicated procedures, excessive costs, and lengthy credit decisions (*Asociacion National de Instituciones Financieras*, 2019, *SME Survey*). The Government had previously ramped up efforts to facilitate access to formal finance by MSMEs -- Decree 817/2020 allowed *sociedades por acciones simplificados* (simplified stock companies) to issue debt securities under a *segunfo mercado* (hybrid issuance) regime. Meanwhile, current regulations governing crowdfunding (i.e., the practice of funding a project or venture by raising money from a large number of people, typically via the internet) had a maximum issuance limit of COP 9,000 million. Decree No. 1235/2020 raised the crowdfunding maximum from COP 9,000 million to COP 50,000 million (the minimum issuance under the hybrid issuance regime), effectively bridging the gap for firms that fell between the two limits. The prior action would improve access to finance for MSMEs. The expected result would be an increase in the volume of financing obtained through crowdfunding platforms. The relevance of PA6 is rated **satisfactory**.
- **PA7** aimed to foster digital finance, by improving the regulatory framework for low-value digital payments. Although the number of fintech startups involved in payments and remittances had grown one-and-a-half times since 2016 and 60 percent of payments gateways had the technology for digital payments, Colombia had one of the lowest numbers of businesses able to receive electronic payments in the Latin America and the Caribbean region. More than 96 percent of payments under US$50 was still made in cash and more than 80 percent of businesses did not have the equipment to receive or make payments otherwise, impeded as well by barriers including the *gravamem de los movimientos*

financieros (tax on financial movements) of COP 4 for every COP 1,000 transacted. Decree No. 1692/2020 provided a comprehensive framework for low-value digital payments, incorporating key principles: (a) inter-operability -- payments service providers cannot block payment orders or fund transfers by competing providers in the same system; (b) access -- mobile digital payment apps will be made widely available, including for *Ingresio Solidario* (Solidarity Income) cash transfers by the Government; and (c) security -- good governance practices. The expected result would be a higher percentage of adults who made payments or purchases online. The relevance of PA7 is rated **satisfactory**.

Objective 3 - To encourage a high-productivity and sustainable recovery from the COVID-19 crisis by fostering entrepreneurship and internationalization

- Colombia faced significant impediments to entrepreneurship and internationalization, which would otherwise help propel productivity and growth. Entrepreneurial activity was elevated (31.1 percent of adults had started or ran a new business), but failed to generate sustainable business activities (only 5.5 percent owned or managed established businesses) (Bosma et al., 2020, *Global Entrepreneurship Monitor - 2019/2020 Global Report*), dragged down by a high regulatory burden, the lack of entrepreneurial, innovation, and digital skills, and limited access to finance. Meanwhile, non-tariff barriers (covering 80 percent of tariff items in 2019), border issues (112 hours for border compliance versus 13 hours in the OECD countries), and limited participation in global value chains (a narrow focus on commodities) limited the potential gains from trade -- exports of goods and services remained practically unchanged at 38.1 percent of GDP in 2019 from 34.8 percent of GDP in 1990. The objective to foster entrepreneurship and internationalization supported prior actions to support "high growth" entrepreneurship, entrepreneurship by women, and international trade facilitation.
- **PA8** aimed to support "high growth" entrepreneurship, by reforming the entrepreneurial ecosystem (i.e., the network of relations that supports the creation and growth of new ventures). Government efforts to support entrepreneurship suffered from atomization and duplication – some 79 institutions offered 497 policy instruments, and 247 of the policy instruments had budgets of less than COP 1,000 million. Law No. 2069/2020, the Entrepreneurship Law, restructured the entrepreneurial ecosystem: (a) all national agencies supporting entrepreneurship would transfer their functions to *iNNpulsa Colombia*, acting as the national agency implementing entrepreneurship, business innovation, and business development programs; (b) *iNNpulsa Colombia* would create centers for entrepreneurship, *CEmprende*, to provide business incubation and business acceleration services, access to business labs, and financing; (c) the Government would create programs to promote and support green businesses, especially in rural areas experiencing environmental degradation; (d) the *Fondo Nacional Garantias* (National Guarantee Fund) would expand its portfolio to cover equities, debt securities, and collective investment funds (crowdfunding); and (e) the Government would pursue other measures to promote entrepreneurship and MSMEs (which contribute 40 percent of GDP and 71 percent of formal employment). By strengthening the institutional framework for public support of entrepreneurship around *iNNpulsa Colombia*, supporting the development of entrepreneurial skills, and expanding financing schemes, the Entrepreneurship Law would help strengthen business ventures, boosting their sales, employment, and productivity. The expected result would be a rise in the number of "dynamic enterprises" (enterprises that increased their sales or employment by at least nine percent per year or their profitability by at least five percent per year) from among those supported by *iNNpulsa Colombia's* acceleration programs. The relevance of PA8 is rated **satisfactory**.
- **PA9** aimed to advance female entrepreneurship. Women were less likely than men to own or lead businesses, had lower access to finance, assets, and skills (Bosma and Kelley, 2019, *Global Entrepreneurship Monitor - 2018/2019 Global Report*)), had limited participation in public procurement

(International Trade Centre, 2020, *Value for Women and Open Contracting Partnership*), faced legal and regulatory barriers and constraining cultural and social norms, and were disproportionately impacted by the pandemic (Cuesta and Pico, 2020, *The Gendered Poverty Effects of the COVID-19 Pandemic in Colombia*). To promote female entrepreneurship, the Government had adopted a three-pillar strategy -- generate information on female entrepreneurs, promote access to business development services and to finance, and create customized support programs. Three measures implemented the strategy. Legislative Decree No. 810/2020 initially created the autonomous trust fund *Fondo Mujer Emprende a*s an emergency instrument to address the larger negative impact of the pandemic on women. Law No. 2069/2020 integrated the *Fondo Mujer Emprende* into the formal structure of the enterprise support system, giving the fund a permanent mandate and enabling it to receive COP 20 billion from the *Presupuesto General de la Nacion* (national general budget) in 2021. And Law No. 2125/2021 provided incentives for the creation, formalization, and strengthening of MSMEs led by women. These targeted support measures would promote female entrepreneurship, the expected result of which would be an increase in the number of women-led enterprises supported by co-financing and technical assistance programs extended by *iNNpulsa Colombia* and the *Servicio Nacional de Aprendizaje* (National Training Service). The relevance of PA9 is rated **satisfactory**.

- **PA10** aimed to foster internationalization, by cutting international trade costs and facilitating integration into global value chains. Colombia ranked lower than average in Latin America and the Caribbean on the *Doing Business* trading across border indicator, which measured the time and cost (excluding tariffs) of documentary compliance, border compliance, and domestic transport in exporting or importing a shipment of goods. Yet, trade facilitation had become increasingly critical to exporters and importers that were plugged into global value chains (some 15 percent of all trading firms) (World Bank, 2020, *Colombia Trade Engagement*). The Government had previously launched several initiatives to address these constraints, including by expanding the use of prior-approval processing and release, balancing border controls with trade facilitation, and improving coordination between customs and other border control agencies. Resolution No.49/2020 extended one of these programs, the Authorized Economic Operator Program, to firms in the logistics and transport chains (e.g., port installations and port operators). Launched in 2011 and patterned after similar programs globally (World Customs Organization, 2020, *Compendium of Authorized Economic Operator Programmes*), Colombia's program authorized customs-to-business partnerships (involving some 229 firms since) to secure the supply chain and facilitate legitimate low-risk trade. The extension, consistent with the World Customs Organization's *Framework of Standards to Secure and Facilitate Global Trade,* would further reduce the time and cost to trade across borders. The expected result would be an increase in the value of trade that was covered by the Authorized Economic Operator Program and related to global value chains. The relevance of PA10 is rated **satisfactory**.

The prior actions were appropriate for realizing the intended objectives. All the ten prior actions were rated as satisfactory. Overall, the relevance of design is rated as **satisfactory**.

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

Objective 1 - To improve regulation for private sector-led recovery

- **RI1** - A rise in savings from compliance costs would signify a reduction in the regulatory burden faced by enterprises. The *Departamento Administrativo de la Funcion Publica* (Public Administration Department) used a method similar to the Standard Cost Model (of regulatory monetary burdens) to develop the measure used for this operation -- compliance cost savings arise from: (a) reducing the time to complete an administrative procedure; (b) eliminating the need to be physically present to deliver documents or to pay fees; (c) eliminating the costs for the transport or shipment of documents; (d) reducing fees; and (e) eliminating all other costs related to compliance. The relevance of RI1 is rated **satisfactory**.
- **RI2** - The number of green bond issuances that complied with the Green Bond taxonomy and the *Good Practice Guide for the Issuance of Green Bonds* was intended to measure the impact of adopting a clear regulatory and supervisory framework for issuing green bonds. Rather than the number of green bonds issued, the value of green bonds sold would have been a superior measure, particularly when viewed in the context of the amount of green finance required to fund the country's climate action initiatives. The relevance of RI2 is rated **moderately satisfactory**.
- **RI3** - The average number of bids per public bidding process in all the sectors where standard documents were mandatory was adequate to measure the result of introducing the use of standard bidding documents in public procurement. An increase in the average number of bids would reflect greater competition in government procurement. The relevance of RI3 is rated **satisfactory**.

Objective 2 - To promote innovation innovation and digital finance

- **RI4** - The yearly investment by MSMEs in science, technology, and innovation projects that leveraged on tax incentives was adequate to measure the impact of easing the rules by which investors could use these tax benefits earned for investment in science, technology, and innovation projects. With studies attesting to the efficacy of tax benefits in motivating investments in innovation, particularly by MSMEs, a rise in MSME investment in innovation projects leveraged by tax incentives would reflect progress with the effort to promote innovation. The relevance of RI4 is rated **satisfactory**.
- **RI5** - The total value of projects presented by the private sector that are approved for *Sistema General de Ragalia* co-financing and are associated with environmental, sustainable development and renewable energy projects oriented to energy transition and reduction of carbon emissions was adequate to measure the result of reorienting the *Sistema General de Ragalia* toward green financing. An increase in the value of such projects would reflect progress with the objective to promote innovation. The relevance of RI5 is rated **satisfactory**.
- **RI6** - The volume of financing through crowdfunding platforms was adequate to measure the result of raising the ceiling on the amount that could be raised through crowdfunding. A rise in the crowdfunding volume would indicate some headway with the objective of promoting digital finance. The relevance of RI6 is rated **satisfactory**.
- **RI7 - Original** - The percentage of adults who make payments or purchases online was designed to measure the impact of improving the regulatory and supervisory framework for digital payments. After the publication of the baseline number in December 2020, the Ministry of Finance

and Public Credit stopped measuring this indicator, leaving the project without any data to measure the achievement of the target at closing. Consequently, the relevance of RI7 - Original is rated **unsatisfactory**. The Bank proposed two alternative measures at ICR preparation. **RI7 - Alternative 1** -- the share of people aged 15 and above that made or received digital payments -- would be drawn from the Bank's Global Findex Database. **RI7 - Alternative 2** -- the percentage of people over 18 years of age who made purchases through the Internet -- would be drawn from the *Encuesta de Tecnologías de la Información y las Comunicaciones en Hogares* (Survey of Information and Communications Technology in Homes). The relevance of RI7 - Alternative 1 and the relevance of RI7 - Alternative 2 are **moderately satisfactory**.

Objective 3 - To foster entrepreneurship and internationalization

- **RI8** - The number of dynamic enterprises participating in acceleration programs offered by *iNNpulsa Colombia* would measure the impact of three reform measures, including the consolidation of public programs and resources supporting entrepreneurship within *iNNpulsa Colombia,* the creation of *CEmprendes* (centers of entrepreneurship and innovation), and the expansion of the portfolio of the *Fondo Nacional Garantias* which provided credit guarantees to enterprises. "Dynamic enterprises" were those that increased their sales or employment by at least nine percent per year or their profitability by at least five percent per year, according to the *Plan Nacional de Desarollo 2018-2022* (National Development Plan 2018-2022). A higher participation rate by these enterprises in the *iNNpulsa Colombia* acceleration program -- which partnered with private investors to provide seed capital to innovative startups -- would reflect the efficacy of the reform measures. The relevance of RI8 is rated **satisfactory**.
- **RI9** - The number of women-led enterprises supported through technical assistance and/or co-financing programs offered by *iNNpulsa Colombia* and the *Servicio Nacional de Aprendizaje* would measure the result of adopting a regulatory framework to support female entrepreneurship, integrating the *Fondo Mujer Emprende* into the formal structure of the enterprise support system, and providing incentives for women-led MSMEs. Like RI8, a higher participation rate by the women-led enterprises in the *iNNpulsa Colombia* and the *Servicio Nacional de Aprendizaje* technical assistance and co-financing programs would reflect the efficacy of the reform measures. The relevance of RI9 is rated **satisfactory**.
- **RI10** - The global value chain-related trade value covered by the Authorized Economic Operator Program aimed to measure the result of extending the Authorized Economic Operator Program to port installations. According to the ICR (page 11), the indicator was computed as the ratio of the trade value of Authorized Economic Operator Program-certified firms that both exported and imported to the total trade value of all firms that both exported and imported. While the the indicator would undeniably reflect the impact of extending the Authorized Economic Operator Program, it is unclear that the indicator measured global value chain-related trade as well, in the manner that global value chains are understood -- as the international fragmentation of production, where the different stages of the production process are located across different countries (World Bank, 2020, *World Development Report 2020 - Trading for Development in the Age of Global Value Chains*). It would appear from the definition that indicator measured Authorized Economic Operator-certified trade, but not necessarily global value chain-related only. The relevance of RI10 is rated **moderately satisfactory**.

Results Indicator	Associated Prior Action	Relevance Rating	Baseline	Target	Actual Value	Actual Change in	Achievement Rating

						Results Indicator Relative to Targeted Change, in Percent	
Objective 1 - To improve regulation for private sector-led recovery							
RI1 - Reduction in regulatory burden measured as total savings in compliance costs, in COP million	PA1	Satisfactory	0 (2020)	179,468 (2022)	188,478 (Dec 2022)	105	High
RI2 - Number of green bond issuances that comply with the Green Bond taxonomy and guidelines	PA2	Moderately Satisfactory	0 (2019)	4 (2022)	1 (Dec 2022)	25	Negligible
RI3 - Average number of bids per public bidding process in all the sectors where standard documents are mandatory	PA3	Satisfactory	3 (2019)	7.5 (2022)	19 (Dec 2022)	253	High
Objective 2 - To promote innovation innovation and digital finance							
RI4 - Yearly investment by MSMEs in STI projects leveraging on tax incentives, in COP million	PA4	Satisfactory	168,000 (2020)	285,000 (2022)	477,000 (Dec 2022)	167	High
RI5 - Total value of projects presented by the private sector that are approved for SGR co-financing and are associated with environmental, sustainable development and	PA5	Satisfactory	4,845 (2019)	21, 232 (2022)	30,343 (2021-22)	142	High

renewable energy projects oriented to energy transition and reduction of carbon emissions, in COP million							
RI6 - Volume of financing through crowdfunding platforms, in COP million	PA6	Satisfactory	8,000 (2020)	40,000 (2022)	73,733 (Dec 2023)	184	High
RI7 - Original - Percentage of adults who make payments or purchases online	PA7	Unsatisfactory	20 (2020)	40 (2022)	n.a. (Measurement stopped by Government)	..	Negligible
RI7 - Alternative 1 -Share of people aged 15 and above that made or received digital payments (Source: WB Global Findex Database)	PA7	Moderately Satisfactory	37.33 (2017)	74.6*	52.11 (2021)	70	Modest
RI7 - Alternative 2 -Percentage of people over 18 years of age who made purchases through the Internet (Source: ENTIC Hogares)	PA7	Moderately Satisfactory	21.6 (2020)	43.2*	24.9 (2021)	58	Modest
Objective 3 - To foster entrepreneurship and internationalization							
RI8 - Number of dynamic enterprises participating in acceleration programs offered by iNNpulsa	PA8	Satisfactory	508 (2020)	3,000 (2022)	3,030 (Dec 2022)	101	High
RI9 - Number of women-led enterprises supported through technical	PA9	Satisfactory	2,230 (2020)	10,178 (2022)	10,683 (Dec 2022)	105	High

assistance and/or co-financing programs offered by iNNpulsa and SENA							
RI10 - The GVC-related trade value covered by the AEO Program, in percent	PA10	Moderately Satisfactory	12 (2019)	14 (2022)	40.5 (Dec 2022)	289	Substantial

* While the ICR (pages 28-29) proposes RI7 - Alternative 1 and RI7 - Alternative 2 as alternate results indicators to RI7 - Original (the measurement of which was discontinued by the Government after December 2020), it does not offer numerical targets for these alternate measures. This ICR Review assumes that the targets would be twice the baseline values (i.e., the same target-to-baseline ratio specified for the original indicator, RI7 - Original).

The results framework was mostly appropriate with clear, feasible, and measurable indicators. Some indicators had moderate shortcomings, as noted above. Overall, the relevance of results indicators is rated as satisfactory.

Rating

Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To improve regulation for private sector-led recovery

Rationale

Theory of Change. The overarching objective was to "encourage a high productivity and sustainable recovery from the COVID-19 crisis". The DPF aimed to cumulatively address the structural constraints that hinder productivity which were exacerbated by the COVID-19 pandemic and thus put the economy on track for sustainable recovery. The operation aimed to (i) improve regulation for private sector-led recovery; (ii) promote innovation and digital finance; and (iii) foster entrepreneurship and internationalization.

A simplification and digitalization of business regulatory processes and government administrative procedures would reduce the regulatory compliance costs faced by enterprises, easing the costs of doing business and facilitating business activity in the ramp-up toward economic reactivation. The recovery effort would also be boosted by developing green finance, which could be facilitated by clarifying the regulatory and supervisory framework for issuing green bonds, thereby imparting integrity and transparency onto the green finance capital market. Additionally, reforming public procurement practices by universally adopting standard bidding documents would strengthen competition among works contractors, goods suppliers, and service providers and improve transparency in government procurement. Stronger competition, greater transparency, and improved regulation should spur a more vigorous private sector response to the national economic recovery effort.

Outcomes. In the baseline, regulatory compliance costs were burdensome, Colombia had yet to issue a green bond, and standard bidding documents were barely used in public procurement.

Following the enactment of Law No. 2052/2020, which simplified and digitalized administrative procedures and improved the predictability of technical regulations affecting production and marketing, the total savings in compliance costs reached Colombian peso (COP) 188,478 million by closing, exceeding the target of COP 176,048 million. The savings consisted of: (a) COP 127,321 million (68 percent of the total savings), from the reduction in processing time; (b) COP 25,739 million (14 percent), from the reduction in transportation costs (reduction in travel); and (c) COP 14,241 million (8 percent), from the elimination of travel time.

With SFC External Circular No. 028/2020, which established the regulatory framework for the sale of green bonds, the number of green bond issuances that complied with the Green Bond taxonomy and the *Good Practice Guide for the Issuance of Green Bonds* reached one by closing, from none in the baseline, only partially achieving the target of four. Four bonds were submitted, but only one was issued, reflecting, in part, a poor macroeconomic environment, heightened political uncertainty, and tightened financial conditions in 2019-2022 (when debt sales, and by only two corporates, declined 85 percent to COP 292 billion, or US$70 million). The ICR reports that early 2023 may have seen a turnaround, with eight green emissions authorized, and with securities issuers submitting thematic emission proposals to the *Superintendencia Financiera de Colombia* for approval.

After Law No. 2022/2020 required the use of standard bidding documents, the average number of bids per public bidding in all the sectors where standard bidding documents were mandatory increased from three in the baseline to 19 by closing, exceeding the target of 7.5. More than 7,400 procurement processes were reviewed, some 59 percent of which were conducted through public tender. There was an average of 19 bidders at the closing stage, when the agencies applied the contractual instrument "Standard Documents." The ICR adds that continuing diligence monitoring by the *Colombia Compra Eficiente* indicated that 600 tender processes were reviewed in fiscal year 2023, of which 289 required the use of standard bidding documents; for these cases, the average number of bidders was 7.5.

The targets were exceeded except for the issuance of green bonds. The achievement of the objective is rated as **moderately satisfactory**.

Rating

Moderately Satisfactory

OBJECTIVE 2

Objective

To promote innovation and digital finance

Rationale

Theory of Change. With enterprises lagging in investment in science, technology, and innovation, four measures aimed to spur investment in innovation, in general, and green innovation, in particular, as well as in digital finance, both on the funding and the payments sides. A liberalization of the terms by which tax incentives earned from innovation projects could be used by investors and a reorientation by the Government of the *Sistema General de Ragalias* toward climate-resilient and low-carbon projects would raise investment in science, technology, and innovation, including by MSMEs. Separately, a liberalization of the ceiling on crowdfunding and the adoption of a clear regulatory framework for digital payments would raise the volume of financing obtained and payments made through digital channels.

Outcomes. In the baseline, investment by MSMEs in science, technology, and innovation projects that leveraged on tax incentives stood at COP 168,000 million, the value of science, technology, and innovation projects in climate resilience that were co-financed by the *Sistema General de Ragalia,* at COP 4,845 million, the amount of financing that were raised through crowdfunding, at COP 8,000 million, and the percentage of people aged 15 and above who made or received digital payments, at 37.3 percent.

With Decree No. 1011/2020 injecting greater flexibility into the use of tax incentives for science, technology, and innovation investment, the yearly investment by MSMEs in science, technology, and innovation projects that leveraged on tax incentives rose from in COP 168,000 million in the baseline to COP 477,000 million by closing, exceeding the target of COP 285,000 million. The share of MSMEs participating in the tax benefits program (tax deductions, tax discounts, and tax credits) rose from 15 percent (195 of 1,500 firms) in the baseline to 23 percent (477 of 2,100 firms) by closing, underlining the importance of tax credits as a means of promoting investment by MSMEs in innovation. An impact evaluation of the tax benefits program found that 77 percent of participating firms recorded productivity improvements from innovation activities, according to the ICR, citing the findings of the consulting firm *Encuesta Econometria Consultores y Technopolis Group*.

With Law No. 2056/2020 and Decree No. 821/2020 refocusing the *Sistema General de Ragalias* toward investment in climate-resilient and low-carbon projects, the total value of science, technology, and innovation projects that were submitted by the private sector, approved for co-financing by the *Sistema General de Regalías*, associated with environmental, sustainable development and renewable energy projects, and oriented toward energy transition and reduction of carbon emissions, rose from COP 4,845 million in the baseline to COP 30,343 million by closing, exceeding the target of COP 21,232 million. The ICR provided the following details: (a) six projects were approved, three under the innovation category and three under the research and experimental development category; (b) five projects focused on agriculture and rural development and one on environmental and sustainable development; (c) three projects were executed by universities; (d) the six projects were located in five regions (four in the least developed regions). The ICR adds that co-financing by the *Sistema General de Regalías* supplied 25 percent of the financing of joint digital and climate innovations and 10 percent of green transition innovations.

After Decree No. 1235/2020 increased the limits allowed on crowdfunding, the volume of financing mobilized through crowdfunding platforms rose from in COP 8,000 million in the baseline to COP 73,733 million by closing, exceeding the target of COP 40,000 million, The ICR reported that, among crowdfunding platforms, the online crowdfunding platform for MSMEs *a2censo* had emerged as a leading alternative financing vehicle for MSMEs -- with 180 campaigns, COP 80,483 million funded, 11,555 investors, 60,177 investments, a 28 percent conversion rate (the rate at which a campaign converts visitors into backers), and a 63 percent reinvestment rate over 2019-2023 -- providing additional evidence (i.e., additional to RI6) that innovative financing mechanisms have emerged to facilitate access to finance.

According to alternative measures, the passage of Decree No. 1692/2020, which aimed to improve the regulatory framework for low-value digital payments, boosted the use of digital payments, achieving implied targets albeit partially. There was no data at closing to measure the percentage of adults who made payments or purchases online, the baseline value of which was 20 percent and, the target, 40 percent. Since the publication of the baseline data in December 2020, the Ministry of Finance and Public Credit had ceased to collect and report this data. The percentage of people aged 15 and above who made or received digital payments -- the first alternative measure -- increased from 37.3 percent in 2017 to 52.1 percent in 2021. There was no target set for this alternative measure. However, if the intent was to double the baseline value (as in RI - Original), then the target would be 74.6 percent -- in which case, the achievement of RI7 - Alternative 1 would be rated as modest. The percentage of people over 18 years of age who made purchases through the Internet -- the second alternative measure, drawn from the *Encuesta de Tecnologías de la Información y las Comunicaciones en Hogares* (Survey of Information and Communications Technology in Homes) -- increased from 21.6 percent in 2020 to 24.9 percent in 2021. There was no target set for this alternative measure either. However, if the intent was to double the baseline value (as in RI - Original), then the target would be 43.2 percent -- in which case, the achievement of RI7 - Alternative 2 would be rated modest as well.

Most of the targets were exceeded. For digital payments, the original results indicator for which was no longer measurable at closing, the alternate measures suggest a modest achievement. The achievement of the objective is rated as **satisfactory**.

Rating

Satisfactory

OBJECTIVE 3

Objective

To foster entrepreneurship and internationalization

Rationale

Theory of Change. A restructuring of the entrepreneurial ecosystem -- the consolidation of public programs and resources within *iNNpulsa Colombia,* the creation of *CEmprendes* (centers of entrepreneurship and innovation), and the expansion of the portfolio of *Fondo Nacional Garantias* -- would help foster entrepreneurship. Similarly, the creation of a framework for female entrepreneurship -- the integration of the *Fondo Mujer Emprende* trust fund, the provision of differentiated support to women entrepreneurs, and the extension of incentives for MSMEs led by women -- would help advance the enterprise development objective, focusing on a gender dimension as well. Separately, the expansion of the Authorized Economic Operator Program to port installations would help overcome impediments to internationalization posed by inadequacies with logistics and transport, and issues with border control.

Outcomes. Participation by enterprises in the *iNNpulsa Colombia* acceleration program was limited in the baseline, as was the participation of women-led enterprises in the *iNNpulsa Colombia* and the *Servicio Nacional de Aprendezaje* co-financing and technical assistance programs. Meanwhile, the value of trade related to global value chains was meager in the baseline, relative to potential.

With the passage of Law No. 2069/2020, which aimed to restructure the entrepreneurial ecosystem, the number of dynamic enterprises (enterprises that increased their sales or employment by at least 9 percent per year or their profitability by at least 5 percent per year) participating in acceleration programs offered by *iNNpulsa* rose from 598 in the baseline to 3,030 by closing, exceeding the target of 3,000. The ICR supplied additional details -- the accelerated ventures (a) generated over COP 1.6 trillion of sales, (b) produced 17,293 jobs at entry and 21,966 at closing, and (c) contributed 4,673 additional jobs (1.5 new jobs per company).

Following Legislative Decree No. 810/2020, Law No. 2069/2020, and Law No. 2125/2021, which collectively sought to advance women entrepreneurship, the number of women-led enterprises supported through technical assistance and/or co-financing programs offered by *iNNpulsa* and the *Servicio Nacional de Aprendezaje* (National Technical and Vocational Training Service) rose from 2,230 in the baseline to 10,683 by closing, exceeding the target of 10,178.

With the extension, under Resolution No. 49/2020, of the Authorized Economic Operator Program to logistics and transport firms, the value of trade related to global value chains and covered by the Authorized Economic Operator Program rose from 12 percent in the baseline to 40.5 percent by closing, exceeding the target of 14 percent. However, the way the indicator was defined and calculated was imperfect, as it pertained to trade that was Authorized Economic Operator-certified but not necessarily global value chain-related only. Hence, the rating for the achievement of the target must be downgraded.

All the targets were exceeded, except that a moderate shortcoming with the third indicator downgrades the associated achievement rating. The achievement of the objective is rated as **satisfactory**.

Rating

Satisfactory

Overall Achievement of Objectives (Efficacy)
Rationale

The degree of achievement of the objective to improve regulation for private sector-led recovery is rated moderately satisfactory. The degree of achievement of the objective to promote innovation and digital finance is rated satisfactory. The degree of achievement of the objective to foster entrepreneurship and internationalization is rated satisfactory. The overall achievement of the objectives is rated **satisfactory**.

Overall Efficacy Rating
Satisfactory

6. Outcome

Rationale

The relevance of the prior actions in achieving the program development objectives is rated satisfactory. The relevance of the results indicators in measuring and signaling that the prior actions have achieved or are achieving the objectives is rated satisfactory. The outcome of the operation is rated **satisfactory.**

a. Rating

Satisfactory

7. Risk to Development Outcome

The program outcomes will likely be sustained in the near to medium term, supported by government development efforts, private sector investment, and international development assistance.

- The *Plan Nacional de Desarollo, 2022-2026* (National Development Plan, 2022-2026), with an emphasis, in the economic front, on "productive transformation, internationalization, and climate action," reinforces and advances many of the reforms supported by this operation, including: establishing fair, equitable, and inclusive carbon markets (related to PA2); directing resources toward strategic investments in science, technology, and innovation (related to PA4); exploring alternative financing instruments for reindustrialization (related to PA6); boosting the national digital industry (related to PA7); and striving for carbon neutrality and climate resiliency (related to PA8).
- The *Nuevo Compromiso por el Fututo de Colombia* (New Commitments to the Future of Colombia), an investment plan with the private sector, pledges COP 163 trillion (around 16 percent of GDP) in investment over 2021-2030 in key areas, including those supported by this operation -- COP 19.6 billion (some 12 percent of the package) in "green and clean growth."
- Bank operations, approved since the closing of this program, provide continuing support to the country in related areas: (a) the Green and Resilient Development Policy Operation, approved in 2022, aims to accelerate climate action by advancing the low-carbon energy transition, promoting sustainable land use, and building resilience and adaptation to climate change; (b) the Green and Resilient Development Policy Operation II, approved in 2024, adds a fourth pillar to accelerating climate action -- expanding climate finance; and (c) the Equitable and Green Path Development Policy Financing, approved in 2023, aims to promote more equitable and green fiscal policies, productive and social inclusion for vulnerable groups, and inclusive and green private sector development.
- Downside external risks to the country's near-term economic prospects -- which may raise development outcome sustainability issues -- are mitigated by a new two-year arrangement approved in April 2024 by the International Monetary Fund (IMF) under the Flexible Credit Line (FCL) for SDR 6.1335 billion (US$8.1 billion) and designed for crisis prevention. Colombia had maintained access to the FCL instrument since 2009, and this -- the country's tenth FCL arrangement -- is treated as a precautionary measure that should boost market confidence and provide insurance against downside risks by extending a large upfront access with no ex-post conditionality, according to the IMF.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

Analytic Underpinning. The program and prior actions were informed by analytical work produced by the Bank, the Government, and other institutions (see Section 3.A - Relevance of Objectives, and Section 3.B - Relevance of Prior Actions). Apart from those cited in the preceding sections, numerous other studies and reports informed the program design (Program Document, Table 4 - Prior Actions and Analytical Underpinnings, pages 49-54).

Collaboration with Development Partners. The Bank consulted and collaborated with other development partners in the preparation of this program. The International Monetary Fund and the Bank reviewed the macroeconomic setting for the program. The International Finance Corporation and the Bank collaborated on the design of prior actions related to the business environment (PA1), green finance (PA5), digitalization for fundraising (PA6) and for payments (PA7), MSME finance (PA8 and PA9).

Operational Risks and Mitigation Measures. The Bank considered the political and governance risk to be substantial. Measures to foster competition in public procurement, tap crowdfunding, promote digital financial services, and facilitate exports would intensify competition in the economy, but also challenge incumbents and vested interests in key industries. The Bank considered the strong political ownership of the program to be a mitigating factor, exemplified by the vigorous activities of three Government task forces -- on employment, on internationalization, and on capital markets -- to advance reform measures. Winners from the reforms -- small firms, innovators, new exporters -- would also act as a countervailing force. The Bank also appraised macroeconomic risk to be substantial. Designed in early 2021 as a recovery program from the economic effects of the COVID-19 pandemic, the operation faced the risk that the pandemic could worsen and exacerbate the economic crisis. Joint work by the Bank, the Government, and other development partners to secure fiscal buffers and support private enterprises would help mitigate the macroeconomic risk. The Bank approved a US$700 million loan in June 2020 for the COVID-19 Crisis Development Policy Financing to maintain liquidity and access to finance for firms, apart from providing income support to poor and vulnerable households and assisting the health system. The International Finance Corporation opened credit lines to help existing clients access short-term financing through trade guarantees and risk-sharing facilities. Meanwhile, the Multilateral Investment Guarantee Agency designed a fast-track response package focused on credit enhancement, capital optimization programs, as well as the procurement of medical supplies and services. The Agency also approved a US$385 million guarantee to the state-owned *Banco de Desarrollo Empresarial de Colombia* to support loans to businesses for working capital.

The Bank performance at design is rated **satisfactory**.

Rating

Satisfactory

b. Bank Performance – Implementation

Rationale

Supervision. The Bank maintained an active policy dialogue with the *Departamento Nacional de Planeacion* (National Planning Department) about the reforms supported by this operation. The Bank produced policy notes on innovation-led entrepreneurship, the financial sector, and internationalization. It delivered advisory services and analytics related to productivity, recovery by firms from the crisis, and climate action by private parties. It also provided technical assistance to *iNNpulsa* on the use of public procurement to promote female entrepreneurship, and to the *Superintendenci Financiera de Colombia* and the *Ministerio de Hacienda y Crédito Público* (Ministry of Finance and Public Credit) on the development of carbon markets and the expansion of the Green Taxonomy to include biodiversity, adaptation, and water resources.

Monitoring. The Bank coordinated with the *Departamento Nacional de Planeacion* to set the monitoring and reporting plan for this operation. Records of all technical discussions during preparation proved useful in reviewing the substance of the prior actions, the definition of the results indicators, and achievement of the program targets. However, the process could have been more efficient if monitoring had been more systematic, according to the ICR. Specifically, the Bank acknowledged that fielding supervision missions early during implementation would have facilitated monitoring and reporting. The shortcoming is not significant.

The Bank performance during implementation is rated **satisfactory**.

Rating

Satisfactory

c. Overall Bank Performance

Rationale

The Bank's performance at design is rated satisfactory. The Bank's performance during implementation is rated moderately satisfactory. Overall, the Bank's performance is rated **moderately satisfactory**.

Overall Bank Performance Rating

Satisfactory

9. Other Impacts

a. Social and Poverty

The ICR did not present any assessment of the actual social and poverty impacts of this operation, but only reiterated the expected effects cited at appraisal (ICR, page 31, and Program Document, pages 58-60).

b. Environmental

The ICR did not present any assessment of the actual environmental effects of this operation, but only reiterated the expected effects cited at appraisal (ICR, pages 31-32, and Program Document, pages 60-61).

c. Gender

d. Other

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10. Quality of ICR

Rationale

The ICR is consistent with OPCS guidelines on ICRs for development financing operations and includes highly informative discussions of the relevance of the prior actions and the relevance of the results indicators. The efficacy assessment is outcome-oriented and based on the degree of achievement of the results targets. The comments and notes in the Results Framework Table (Annex 1) are helpful. The ICR presents ample evidence to support its assessment of the Bank's performance at design. The ICR draws lessons that would be valuable to development policy operations that support reform opportunities in the aftermath of a crisis.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Satisfactory	
Relevance of Results Indicators	---	Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

Two lessons are drawn from the ICR, with some adaptation.

Addressing the economic impact of a shock can offer opportunities to advance vital policy reforms. In this operation, the economic recovery strategy from the adverse economic and social effects of the COVID-19 pandemic focused on the pivotal role of the private sector in driving reactivation and enhancing productivity, a basic tenet long recognized by a succession of strategy documents including the *Plan Nacional de Desarollo 2016-2020* (National Development Plan 2016-2020) and the *Política para la Reactivación y el Crecimiento Sostenible e Incluyente* (Policy for Reactivation and Sustainable and Inclusive Growth) . The reactivation objective motivated multifaceted efforts to: establish formal and competitive enterprises -- by simplifying the business regulatory environment; facilitate the productive transformation of firms -- by fostering investment in science, technology, and innovation; streamline interactions with the public sector -- by instituting competitive and transparent public procurement practices; harness the benefits of international trade -- by upgrading logistics and liberalizing border controls; and, attract investments towards productivity enhancement -- by supporting digitalization and green innovation. These private sector development reforms were vital to help Colombia manage the lingering effects of the crisis and, more importantly, to set the foundation for a stronger development path in the near to medium term.

A continuing and consistent Bank analytical services and technical assistance program lays the foundation for a credible country structural reform program. Many of the reform measures supported by this operation -- notably, regulatory reform, entrepreneurship, and internationalization -- were underpinned by a long-running program of analytical and advisory services and technical assistance extended by the Bank Group to Colombia over several years before the crisis. The engagements benefitted this operation in several ways: they produced a credible set of reform proposals that were informed by expert analytical work; they helped engage key stakeholders and mobilize political support for the reform measures; and they helped guide policy dialogue between the Bank and other development partners, on one hand, and the Government and key stakeholders, on the other, about the country's medium-term development path. Moving forward, a recent advisory and analytical service engagement, Leveraging Private Sector Contribution to Climate Action in Colombia, has produced a set of diagnostics and policy recommendations to drive the transition to a low carbon economy, transform transition risks into opportunities, and create incentives for firms to innovate. As in the past, this analytical service engagement will guide future climate action measures, a theme also highlighted by this operation.

13. Project Performance Assessment Report (PPAR) Recommended?

No