PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK GROUP

COLOMBIA

IDB GROUP COUNTRY STRATEGY WITH COLOMBIA 2024-2027

OCTOBER 2024

This document was prepared by Laura Giles Álvarez (CAN/CCO), Kelvin Suero (CAN/CCO), Rhina Cabezas (CAN/CAN), Cristhian Larrahondo (CAN/CCO), María Cecilia Acevedo (DSP/SPK), Adriana María Valencia Jaramillo (DSP/SPK), Isabela Echeverry (DIS/CCO), Vianca Merchán Paladines (VPC/FMP), Patricio Crausaz (VPC/FMP), Carolina Escudero (VPC/FMP), and Laura Alonso (CAN/CAN), under the supervision of Miguel Coronado (CAN/CAN), Ramiro López-Ghio (CAN/CCO), and Osmel Manzano (CAN/CAN), with contributions from Hugo Flórez Timorán (VPC/VPC), Priscilla Gutiérrez (VPC/VPC), Ana Rosa Echeverri (DSP/CCO), Emmanuel Abuelafia (CAN/CAN), José Luis Ortiz Hoyos (SCL/SPH), Carolina Méndez (SCL/EDU), Carlos Salazar (CSD/HUD), Jason Hobbs (CSD/HUD), Juanita Bernal (SCL/GDI), Juan Martínez (IFD/CMF), Daniel Stagno (IFD/CTI), Alejandra Villota (INT/TIN), Alexandra Planas (INE/ENE), Agustina Calatayud (INE/TSP), Natalia Ariza (INE/TSP), Mario Sanginés (IFD/FMM), Francesco De Simone (IFD/ICS), Sandra Naranjo (IFD/ICS), Edgardo Mosqueira (IFD/ICS), José Manuel Sandoval (CSD/CCS), Lina Barbosa (CSD/CCS), Rafael Isidro Parra-Peña (CSD/RND), Manuel José Navarrete (INE/WSA), Carolina González (SCL/LMK), Waldo Tapia (SCL/LMK), Ancor Suárez-Alemán (VPC/VPC), Mateo Vásquez (SCL/GDI), Karen Mendoza (CAN/CCO), Daniela Pérez Cano (CAN/CCO), Ilana Grimberg (INO/BPR), Paula Castillo (DSP/SPK), Marcelo Paz (DSP/SPK), Juan Flores (DSP/SPK), Pilar Amador (RMG/RMC), Cristiane Ronza (RMG/ESR), Christel Saab (RMG/ESR), Rodrigo Sanz (RMG/ORM), Daniela Serrano (RMG/RMC), Javier Ortiz (RMG/RMG), and Alfredo Rodríguez (RMG/RMG).

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ABBREVIATIONS

AFD	Agence Française de Développement (French Development Agency)
CAF	Development Bank of Latin America and the Caribbean
CCLIP	Conditional Credit Line for Investment Projects
CDC	Country Development Challenges
CO_2	Carbon dioxide
CONPES	Consejo Nacional de Política Económica y Social (National Social and Economic Policy Council)
DANE	Departamento Nacional Administrativo de Estadística (National Administrative Department of Statistics)
FDI	Foreign direct investment
ICPR	Independent Country Program Review
KfW	Kreditanstalt für Wiederaufbau (Credit Institute for Reconstruction)
LAC	Latin America and the Caribbean
LGBTQ+	Lesbian, gay, bisexual, transgender, queer, and other sexually and gender diverse people
MSMEs	Micro, small, and medium-sized enterprises
NDC	Nationally determined contribution
OECD	Organisation for Economic Co-operation and Development
p.p.	Percentage point
PPP	Public-private partnership
RAISIG	Amazon Network of Georeferenced Socio-environmental Information
SECO	Swiss Economic Cooperation and Development
SMEs	Small and medium-sized enterprises
SNCP	Sistema Nacional de Contratación Pública (National Public Procurement System)
TFP	Total factor productivity
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

Country context

In the last decade, Colombia achieved significant economic and social improvements. Between 2010 and 2019, it grew at an average rate of 3.7%, compared to 2% in Latin America and the Caribbean (LAC), and it reduced both multidimensional poverty from 29.7% to 17.5% and inequality (measured by the Gini index) from 0.546 to 0.513. However, the pandemic led to a sharp contraction and loss of social and economic gains. Despite recovering and converging toward its potential gross domestic product (GDP), the Colombian economy only continues to have approximately one third of the average GDP per capita of the Organisation for Economic Co-operation and Development (OECD) countries. This reflects various structural challenges: high levels of both social and territorial inequality; high dependence on hydrocarbons and a low level of economic diversification, contributing to low productivity and growth; institutional capacity gaps in revenue collection and digitalization; and high vulnerability to the effects of climate change and erosion of natural capital.

Strategic areas and strategic selectivity framework

The objective of the Inter-American Development Bank (IDB) Group country strategy with Colombia 2024-2027 is to promote sustainable and inclusive growth through interventions in the following strategic areas: (i) boost social and territorial inclusion; (ii) promote greater growth and productivity; and (iii) strengthen fiscal execution and public management. Components that support climate action and the protection of biodiversity and natural capital will be included in crosscutting fashion. This document is the first pilot of the new country strategy guidelines developed by the IDB Group. The strategic areas were selected under the new strategic selectivity framework, guided by the principles of the 2022-2026 National Development Plan "Colombia, Potencia Mundial de la Vida" (Colombia, World Power of Life), the country's long-term policies, the IDBStrategy+, and A New Vision for Country Strategies (PP-1381).

Expected impact

Implementation of the country strategy will be measured through indicators harmonized with the new 2024-2030 IDB Group Impact Framework for new approvals and existing operations. The objectives of the country strategy will be to: (i) improve the quality of and access to health and education services; (ii) increase access to services in urban areas, with an emphasis on water and sanitation; (iii) promote the social inclusion of diverse population groups and reduce gender-based violence; (iv) foster increased financial inclusion as well as greater business growth, sophistication, and innovation; (v) promote greater integration of the economy into global value chains; (vi) support decarbonization of the energy matrix and the transportation sector; (vii) boost tax revenue collection; and (viii) improve the government's strategic management, with an emphasis on expanding contingent coverage for natural disaster and pandemic emergencies, and strengthen digital government.

Country strategy implementation

The IDB Group will provide support through new operations with impact potential, technical assistance, and projects in execution. Emphasis will be placed on synergies among the IDB Group windows and on leveraging resources with other donors and through strategic partnerships. The country strategy includes lessons learned from portfolio performance, such as: subnational projects with arrangements that consider the required interagency coordination between national and local agencies; prioritize dialogue with the communities in projects taking place in regions with high levels of insecurity and social conflict; and deepen differentiated actions with greater cultural relevance in operations that benefit rural and Indigenous populations. The main risks for implementation of the country strategy concern: (i) macroeconomic; (ii) environmental; (iii) social; and (iv) execution factors. These risks will be mitigated through the actions described in Section V.

Strategy validity period

The IDB Group country strategy with Colombia 2024-2027 will become effective upon approval by the Bank's Board of Executive Directors and will remain in effect until 31 December 2027.

I. Country Context and Outlook[1]

1.1 **Colombia is on a path to postpandemic recovery but continues to face challenges in converging to the per capita growth rates of high-income countries.** Between 2010 and 2019, average real GDP growth in Colombia was 3.7%, exceeding the 2% rate in Latin America and the Caribbean (LAC).[2] While the country made significant economic and social strides in the last decade, the pandemic laid bare the fragility of these achievements by giving rise to the highest unemployment rate in the country's recent history (21.9% seasonally adjusted rate in May 2020) and to a 15.6% shrinkage of the middle class population between 2019 and 2020.[3] As of 2024, Colombia is on a path of convergence to its potential GDP growth (about 3%). Despite this, its GDP per capita continues to stand at one third of the average in Organisation for Economic Co-operation and Development (OECD) countries[4] as a result of structural challenges, which are described below.

1.2 **Colombia has the highest inequality of any LAC country.**[5] There are sharp disparities between population groups and regions in the country, adversely affecting growth and undermining economic opportunities.[6] In the social sphere, unmet basic needs or the incidence of monetary poverty are relatively more severe for women and diverse population groups (such as Indigenous peoples and Afro-descendants) as compared to the national average.[7] In addition, unemployment continues to be an important challenge for the country. In 2023, the national unemployment rate was 10.2% (12.8% for women, with a gender gap of 2.6 percentage points (p.p.)),[8] and informality was persistently high at 56.4%.[9] At the same time, pension coverage was only 28%.[10]

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1 The CDC (link 1) provides a detailed description and includes the data sources.

2 For purposes of this paragraph, the decade is understood to refer to the 2010-2019 period in view of the impact of the pandemic in 2020.

3 According to employment and social classes data from the National Administrative Department of Statistics (DANE).

4 OECD. Nominal gross domestic product.

5 According to the World Bank's Gini index, inequality in Colombia in 2022 was measured at 0.548, followed by Brazil's 0.520.

6 According to the OECD, greater inequality limits economic growth and impairs opportunities. OECD (2015), In It Together: Why Less Inequality Benefits All, OECD Publishing, Paris.

7 In 2018, according to DANE, 50.7% of the Indigenous population and 57.3% of the Black, Afro-Colombian, Raizal, and Palenquera community had unmet basic needs, compared to 14.3% of the country's total population. Indigenous men (62.5%) and women (64.6%), and Afro-descendant men (45%) and women (48.8%), had higher monetary poverty in 2022 than the country's men (35.7%) and women (37.6%) overall. The female ratio in poor households was 114% in 2020, indicating that poverty affects women to a higher degree.

8 There is also an unemployment gap with the migrant population. The Comprehensive Household Survey (GEIH) shows that, as of June 2023, 21% of the migrant population that had arrived in Colombia less than one year earlier was unemployed, exceeding the national unemployment rate.

9 According to informal employment and social security data from DANE. This figure is the average for 2023.

10 This figure refers to individuals above age 65 who received a contributory pension in 2021. If noncontributory pensions are included, the coverage rises to 57%, according to the IDB's Labor Markets and Social Security Information System (SIMS).

1.3 **In territorial terms, a recent IDB study on inequality identifies four versions of Colombia.**[11] The results of social, economic, and environmental indicators suggest that there are four sets of departments: those comparable to high-income countries, those comparable to upper middle-income countries, those comparable to lower middle-income countries, and those comparable to low- income countries (Figure 1). In addition, there are sharp disparities in the entrepreneurial ecosystem,[12] with cities such as Bogota, Medellín, or Manizales leading in human capital, infrastructure, and technology while other regions lack even official data for formulating public policy.

1.4 **The economy is not well diversified and is highly dependent on hydrocarbons.** The country's exports have been concentrated mainly in hydrocarbons and coal, resulting in poor economic diversification. In 2023, hydrocarbon and coal exports accounted on average for 50% of total exports. The economy has been closely tied to fluctuations in international oil prices, with periods of higher growth during price rises and of lower growth during price declines. Thus, for example, the country's average economic growth was 5% in the 2010-2014 period and 2.4% in the 2015-2019 period, while the average price of oil[13] dropped from US$91.90 per barrel to US$53 per barrel between these two periods (Figure 2).[14] This limited diversification reflects, among other factors, business environment and innovation challenges.

Figure 1. Territorial inequality

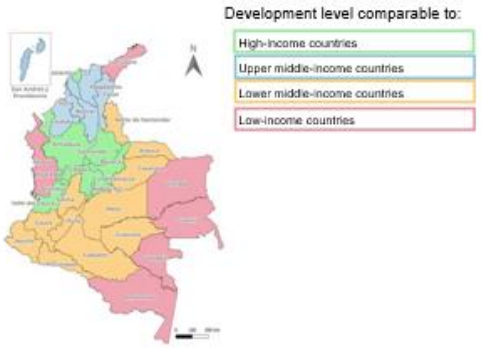
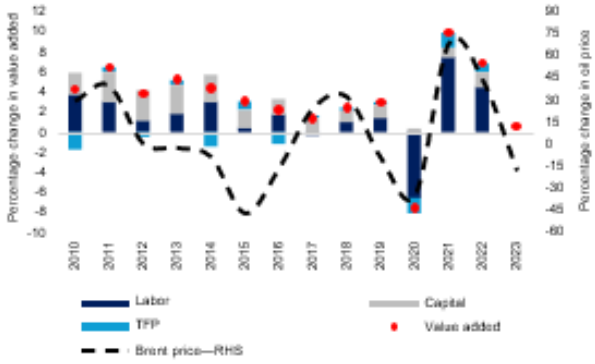


Figure 2. Value added to growth and Brent prices



Sources: Avila et al. (2023), DANE, and International Energy Agency.

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[11] Giles et al. (2024). Desigualdades territoriales en Colombia: Realidades y Perspectivas (Territorial Inequalities in Colombia: Realities and Outlook). InterAmerican Development Bank.

[12] Grupo de Ecosistemas Inteligentes de América Latina (Latin American Intelligent Ecosystems Group) (GEIAL) Report 2023, Federico and Kantis; and Índice Subnacional de Emprendimiento (Subnational Entrepreneurship Index) (ISE) 2024, Universidad del Rosario, Fundación Bolívar Davivienda, Consejo Privado de Competitividad (Private Competitiveness Council) (CPC), and iNNpulsa Colombia.

[13] Price of West Texas Intermediate (WTI) - Cushing, Oklahoma, Dollars per Barrel, Annual, Not Seasonally Adjusted. Taken from the Federal Reserve Economic Data (FRED).

[14] Given the economy's dependence on hydrocarbons and the country's climate goals, it is important to consider how an energy transition process can be supported. In this regard, CONPES Document 4075 (link here) underscores the importance of incentivizing knowledge and innovation in energy transition; generating greater competitiveness and economic development in the energy sector; and developing an energy system with low greenhouse gas emissions to reduce the impact on climate change.

1.5 **There is room for improvement in a business environment that reflects market failures and has negative externalities on productivity, which fails to contribute to the country's growth.** Colombia earns a score of 6/10 on the business environment indicator of the Economist Intelligence Unit (EIU), compared to the 7.5/10 average of OECD countries. This score reflects market failures such as lack of innovation,[15] gaps in specialized human capital,[16] and absence of financial depth.[17] Specifically, the Colombian capital market has limited depth (3.5/5 versus an average of 4.1/5 in OECD countries on the EIU financial depth indicator) (Figure 3). The capital market fails to fully satisfy financing needs due to risk aversion and information asymmetries, which limit credit access, particularly for small businesses and emerging industries. This adversely affects the potential for business growth and sophistication, leading to negative externalities on productivity. As a result, the average contribution of total factor productivity (TFP) to growth has been negative since 2010 (Figure 2).[18]

1.6 **There are persistent institutional capacity gaps in revenue collection and government digitalization.** Despite efforts to improve tax collection, the country collects only two thirds as much as the average in OECD countries, limiting the government's ability to provide goods and services. In addition, the country continues to lag behind some of its peers in terms of government digitalization. According to the 2022 United Nations E-Government Survey's Online Service Index, Colombia (with a score of 0.74) ranks last in the group of countries with the highest index values. This means that the country's status in this index can easily decline if overtaken by countries joining the group with higher scores. For example, Peru joined this group in 2022 with a score of 0.80, higher than Colombia's. This situation reflects a digital infrastructure in need of improvement and a slow pace of technology adoption that undermines the efficiency and effectiveness of the public sector. In turn, this could have harmful effects on transparency and perceived corruption.[19]

1.7 **Colombia is one of the world's most biodiverse countries; however, it faces various environmental challenges.** Colombia is home to 10% of the planet's biodiversity and 53% of its territory is covered by natural forests, notably the Amazon. Despite this, the country currently faces severe environmental challenges, including: (i) deforestation,[20] which has increased in recent years

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15 In 2020, Colombia invested 0.3% of GDP in research and development (R&D), compared to 0.6% of GDP in LAC and 2.7% of GDP in the OECD (information available here). This low level of spending on research and development affects the capacity of businesses to innovate and adopt technologies, and only a small percentage of businesses innovate, as discussed in Section II.

16 There are shortcomings in the availability of specialized human capital, particularly in emerging sectors or in terms of a knowledge-based economy.

17 All relevant information is available here.

18 Information taken from the DANE.

19 Digital government has proven to be an effective tool for reducing corruption by increasing transparency and accountability in government operations (Fan, Y., Z. Zhang, and Q. Yue (2009). E-Government, Transparency and Anti-corruption. 2009 International Conference on Management of e-Commerce and e-Government (ICMECG).

20 According to Global Forest Watch, between 2001 and 2023 the country lost 5.4 million hectares of tree cover, equivalent to a 6.6% decline. The deforestation rate in Colombia has climbed in recent years (a 40% increase in the first quarter of 2024 with respect to 2023). This loss of tree cover contributes to the loss of biodiversity and affects the Indigenous communities that depend on forests.

(Figure 4);[21] and (ii) the effects of climate change, such as rising temperatures, climate variability, and water scarcity, which are already having a negative impact on the country's productivity and growth, altering frequency and recurrence patterns and intensifying the adverse impacts of extreme events.[22]

Figure 3. Private sector and market failures

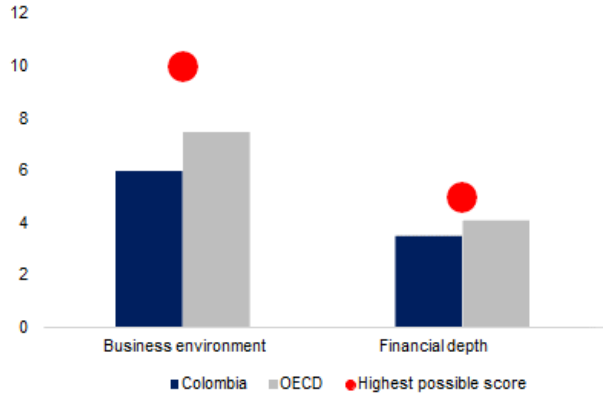
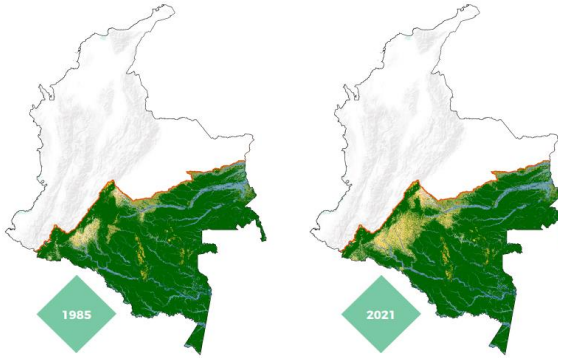


Figure 4. Degradation of natural vegetation



Sources: Economist Intelligence Unit and RAISG's MapBiomas.

1.8 **Under the 2022-2026 National Development Plan, the government has established five priority areas.** Approved in 2022, the National Development Plan is aimed at transforming Colombia into a potential world power of life. It proposes actions to tackle the challenges described in the preceding paragraphs through five broad areas: 1. Human right to food; 2. Land-use planning around water; 3. Human safety; 4. Productive economy for life and fight against climate change; and 5. Regional convergence. These actions are aligned with the strategic areas of this country strategy, as will be described in Section II.

II. IDB Group Country Strategy with Colombia

A. Strategic selectivity framework

2.1 **A more selective country strategy.** This document is the first pilot of A New Vision for Country Strategies (PP-1381), and it proposes strategic areas for IDB Group work with Colombia in the 2024-2027 period. These were chosen following a selective prioritization process, emphasizing interventions with high impact and results potential and abiding by the principles of the Bank's IDBStrategy+, which has provided the basis for A New Vision for Country Strategies (PP-1381). In addition, with a view to maximizing the impact of the interventions, the country strategy includes lessons learned from the portfolio's performance, such as: subnational projects with arrangements that consider the required interagency coordination between national and local agencies; prioritize dialogue with the communities on projects taking place in regions with high levels

[21] According to the Amazon Network of Georeferenced Socio-environmental Information (RAISG), between 1985 and 2021 Colombia recorded the fourth largest deforestation of any country in the Amazon region, with a loss of 2.4 million hectares.

[22] Ingeniar (2021). Study on Climate Change Risks and Adaptation Measures for Colombia's E2050 Long-term Strategy – Phase 1).

of insecurity and social conflict; and deepen differentiated actions with greater cultural relevance in operations that benefit rural and Indigenous populations (Section IV).

2.2 **Summary of the strategic selectivity framework.** Selection of the strategic areas was also the outcome of consultation processes with civil society stakeholders (see link) and the government. In addition, it considered the lessons learned from the 2019-2022 country strategy and the Office of Evaluation and Oversight (OVE) recommendations set out in the Independent Country Program Review (ICPR): Colombia, 2019-2022 (Section IV). The prioritization process unfolded in several phases, beginning with a review of the government's priorities established in the 2022-2026 National Development Plan, the country's long-term policies set out in the development plans of various prior government administrations,[23] the institutional priorities established in the Bank's IDBStrategy+, and an analysis of the country's development challenges (see link). The priority areas were gradually pared down and support issues were identified to improve results by using the four types of analysis described in the following paragraphs:

2.3 **Country diagnostic assessment.** The first step was to make an initial selection of potential strategic areas based on: (i) an exhaustive analysis of development challenges in Colombia (see link); and (ii) an analysis of results based on evidence from the existing literature and available assessments by the Bank, the government, and other relevant institutions in the country. The results of an analysis of the government priorities set out in the 2022-2026 National Development Plan, long-term policies for the country set out in the development plans of various prior government administrations, and IDB Group priorities established in the IDBStrategy+ yielded an initial list of 26 potential priority issues, grouped into three broad areas, which could be selected for this new country strategy.

2.4 **Strategic positioning.** The second step was to carry out an analysis of past IDB Group approvals and presence in comparison to other development actors in the country, including multilateral, bilateral, and cooperation financing agencies, as well as local actors (universities, research centers, civil society, private sector, national development banks, and government agencies). The results of this analysis identified: (i) strategic areas, out of those that had been preselected, in which the IDB Group has a comparative advantage and should be prioritized; (ii) areas in which the IDB Group will maintain a presence through dialogue; and (iii) opportunities for collaboration to maximize the impact of this country strategy, described in the following paragraph.

2.5 **Key results on strategic positioning.** The results of this study highlight the Bank's leadership in the investment loan segment, as well as the growing importance of IDB Invest in the country and the niche carved out by IDB Lab as the only player in its market segment. They also highlight the longstanding presence of the IDB Group in a large number of sectors. These results underscore the opportunity to be more selective in IDB Group interventions, prioritizing the continuation and closing of currently open programmatic policy-based and investment loan series. In addition, the Bank can be a more effective catalyst of resources in sectors in which it has a strong presence (such as in inclusion, health,

[23] For example, issues of growth and productivity, education, health, inclusion, territorial development, environment, and climate change have repeatedly been highlighted under various national development plans over the last decade.

and global value chains) or in strategically important areas (such as the Amazon region), boosting future results. At the same time, IDB Invest has an opportunity to continue to expand its support for development through the country's private sector by means of financial instruments and business advisory services. The results of this study reduced the list of potential issues for the 2024-2027 country strategy from 26 to 16. In addition, they identified potential actors among civil society stakeholders whose collaboration is to be sought during this strategy period (for more information, see Section IV).

2.6 **Performance based on operational data.** The historical portfolio information made it possible to evaluate the performance and results of, and lessons learned from, the portfolio in Colombia and identify enabling and limiting factors for maximizing the impact of the IDB Group in the country. This analysis was divided into several components. First, a multidimensional operational indicator[24] was used to identify key sectors for addressing the development challenges, particularly in the design of new operations. The results of this exercise led to the final selection of the eight sectors included in this country strategy and to the conclusion that action plans (to be agreed upon with the country's authorities in the course of the portfolio reviews) would be developed to address the operational challenges identified in the urban development and housing, water and sanitation, and citizen services sectors with a view to strengthening their performance. Second, thought was given to areas of public-private synergies, identifying specific issues on which joint action among the three IDB Group windows will be prioritized. These will be: closure of gaps in access to public services in nontraditional areas (such as education, health, and water and sanitation) through mechanisms for private sector participation; financial inclusion; decarbonization of transportation; and the Amazon (for more information, see Section IV).

2.7 **Risks.** This exercise enabled an early identification of risks involved in implementing this country strategy, including economic, environmental, social, and execution risks. These risks were identified through a new taxonomy based on the IDB Risk Taxonomy (GN-2547-15). In addition, the results of this analysis enabled a precise and detailed identification of the mitigation measures summarized in Section IV of this document. These measures are primarily focused on an early detection of major risks, active coordination with the relevant authorities to inform subsequent actions, and the use of IDB Group tools such as the Framework to Support Populations in Situations of Fragility, Conflict, and Criminal Violence: 2024-2027 (GN-3199-2, CII/GN-541-2) to support implementation and explore how to coordinate with, and more actively engage, civil society stakeholders and other relevant actors.

B. Strategic areas

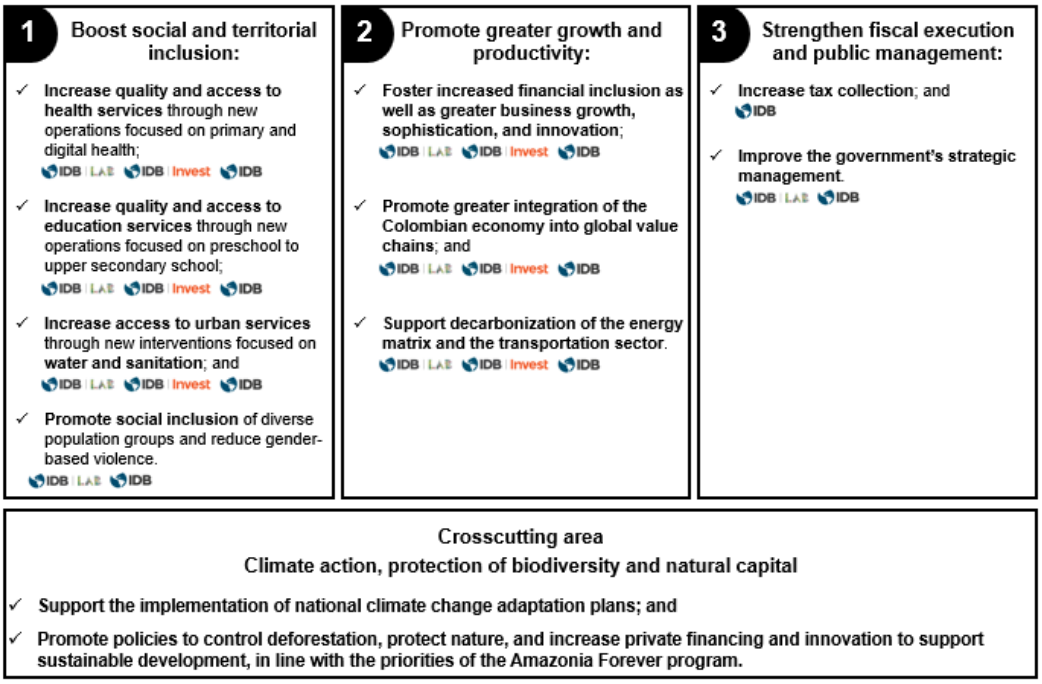
2.8 **Summary of the strategic areas of the 2024-2027 country strategy.** Pursuant to the strategic selectivity framework described in the preceding paragraphs, the

[24] This indicator is comprised of 11 subindicators for each project: cumulative extensions exceeding 24 months, undisbursed balance in excess of 55%, operation pending confirmation of legal validity, past-due expiration date, partial cancellation, projects in alert or problem status under progress monitoring reports over the last three cycles, eligible and pending the first disbursement, unsatisfactory safeguards, low contribution to the country strategy objectives according to the Office of Evaluation and Oversight's ICPR, unsatisfactory or partially unsatisfactory ratings in the project completion reports, and programming dialogue with the authorities.

strategic areas selected for working with Colombia in the 2024-2027 period are the following: (i) boost social and territorial inclusion; (ii) promote higher growth and productivity; and (iii) strengthen fiscal execution and public management. The strategic objectives are: first, improve quality and access to health and education services, increase access to water and sanitation services in urban areas, and promote the social inclusion of diverse population groups; second, foster increased financial inclusion as well as greater business growth, sophistication, and innovation; third, promote greater integration of the economy into global value chains and support decarbonization of the energy matrix and the transportation sector; and fourth, boost tax revenue collection and improve the government's strategic management capacity, including governance of natural disaster risk management.

2.9 **In addition, elements that support climate action and protection of biodiversity and natural capital will be included in crosscutting fashion.** These actions will be included in each of the strategic areas and will support forward movement by the authorities toward the goals established in the E2050 and the nationally determined contribution (NDC), the Kunming-Montreal Global Biodiversity Framework, the 2024 United Nations Biodiversity Conference (COP16), and the national sectoral plans. The country strategy will also prioritize impact actions included under the IDB Group's Amazonia Forever program.

Figure 5. Strategic pillars and crosscutting area



2.10 **IDB Group support** will be provided by financing new sovereign guaranteed and non-sovereign guaranteed operations with high impact potential (see Annex II) through dialogue and technical assistance as well as through the project portfolio in execution. The latter will provide critical awareness of the impact of interventions approved and implemented in recent years, considering that many of the results of this country strategy will have originated in this portfolio. Special emphasis will

be placed on the synergies among the various IDB Group windows as well as on the leveraging of resources with other donors and through strategic partnerships. Lastly, work will be done to close identified knowledge gaps in key areas for dialogue and support the monitoring and evaluation of results.[25] The strategic areas under the 2024-2027 country strategy are aligned with the 2022-2026 National Development Plan,[26] the IDBStrategy+,[27] the New Vision and Business Model for IDB Invest (CII/CCA-221), the 2024 IDB Invest Business Plan,[28] and the IDB Lab Business Plan (MIF/GN-270-1).[29]

Area I. Boost social and territorial inclusion

Why is this important?

2.11 **Quality and access to health and education services remain a challenge, with disparities across population groups and regions.**[30] In health, the concentration of supply, infrastructure deficit, and geographical barriers impede effective access to services, particularly primary health services. All told, 28% of the rural population has no access to health providers within a 30-minute radius by automobile, and 6.9% of the Indigenous population did not seek health care because of the distances to be traversed (more than three times longer than for the rest of the population).[31] According to the National Institute of Health, public health events such as malaria and dengue outbreaks are more prevalent among the Afro-descendant and Indigenous populations, which respectively account for 32% and 29% of cases nationwide. In addition, the absence of specific regulations to enable interoperability and the flow of information increases administrative costs. In education, access to preschool, primary, and secondary education is limited and unequal.[32] Furthermore, the transition from basic secondary to upper secondary school is low: in 2021, net coverage of upper secondary education was 49% nationwide but 11% in Guainía, the department with the country's second largest proportion of Indigenous peoples.[33] At the same time, in terms of quality, there are challenges at all education levels: 30.7% of upper secondary schools are category D, according to the rating system devised by the Colombian Institute for

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25 The areas of support for knowledge generation have been identified on the basis of an exhaustive study of evidence from IDB Group documents, the National Planning Department, and other relevant sources in the country. While the IDB Group will make an effort to generate knowledge in certain areas, other issues may also be worked on based on dialogue with the authorities and needs arising during this country strategy period.

26 (i) Land-use planning around water and environmental justice; (ii) regional convergence; (iii) human security and social justice; and (iv) productive transformation, internationalization, and climate action.

27 They are aligned with the three priority objectives and the seven focus areas of IDB Strategy+.

28 This plan will cover the transition between the two business models for IDB Invest.

29 The IDB Lab verticals include: (i) agriculture and natural capital; (ii) essential service infrastructure; (iii) financial inclusion; (iv) education, talent, and employment; and (v) health.

30 An emphasis on the most excluded regions will help to reduce territorial inequalities in the country.

31 Report available here.

32 In 2021, net preschool education coverage was 62% nationwide and 31% in rural areas such as Vaupés. Net primary and basic secondary school coverage nationwide was 88% and 78% respectively, but net basic secondary school coverage in Vichada, Vaupés, and Guainía was 28%, 33%, and 37%, respectively. Access inequality is also the case in higher education, as only 14.2% of the country's ethnic group population between the ages of 25 and 34 has a higher education degree, compared to 30.5% of the same age group in the total population. Based on Ministry of Education information, available here.

33 According to Ministry of Education information, available here.

Educational Evaluation.[34] Improving the coverage and quality of education will require more financing, which could increase fiscal pressure.

2.12 **The health and education sectors require more resources.** On the one hand, the health sector requires additional resources equivalent to 1.9% of GDP between 2022 and 2030[35] to address the expected rise in expenditures in the coming years. On the other, Colombia spends US$4,357 per student in upper secondary school, well below the OECD average of US$12,312.[36] In terms of infrastructure development with private sector participation, the country is noted for having an enabling environment for the development of public-private partnerships (PPPs).[37] Addressing the health and education challenges through this instrument, however, will require strengthening the capacity of lead agencies and institutional coordination to identify, prioritize, structure, and manage projects.[38] There is also an opportunity to move forward on providing health services by means of technology solutions through private sector innovation.

2.13 **In urban areas, the lag in access to services makes it difficult for cities to contribute to the country's growth.** Colombia underwent a rapid urbanization process in recent decades; by 2022, 80% of the population was living in urban areas.[39] However, some population segments, primarily in the urban periphery, experience shortcomings in service access and quality, such as in water and sanitation services. Drinking water poses some type of risk in 44% of urban area municipios.[40] In addition, only 52% of municipal wastewater is treated and the installed water collection and treatment capacity is insufficient.[41] Solid waste management also remains a challenge. For example, in 2022 the Special Administrative Unit for Public Services (UAESP) reported 743 critical waste dumping points in Bogota alone.[42] Lastly, in urban areas, this sector is vulnerable both to natural hazard disasters and climate change. In 2020, it was estimated that one third of the urban population was affected by water stress, and this is expected to remain the case and worsen as a result of climate change.[43]

2.14 **Inequality and exclusion continue to be major challenges in Colombia, and psychological and physical aggression prevails in certain population groups.** Colombia has the highest inequality of any LAC country in terms of income distribution, and it has sharp social and territorial disparities. The inequalities translate into lags in certain regions of the country and among various

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34 The rating ranges from A+ (best) to D (worst). Information source available here.

35 Based on calculations by researchers at Banco de la República. Study available here.

36 Average OECD expenditure on upper secondary education. Secondary education is a term used by the OECD as a homogeneous measure across countries; it covers students 15 to 18 years of age.

37 Economist Impact. 2022. Evaluating the environment for public-private partnerships in Latin America and the Caribbean: The 2021-2022 Infrascope. New York, NY.

38 IDB. 2022. Country Development Challenges: Colombia. Available here.

39 World Bank staff estimates based on the United Nations world urbanization outlook.

40 According to the report by the Superintendency of Public Utilities. In addition, the access gaps are greater in the case of certain population groups. According to the 2018 census, more than 43% of the ethnic group population (Indigenous peoples and Afro-descendants) lacks water supply, almost four times more than the general population.

41 National Municipal Wastewater Management Plan 2020-2050.

42 According to a report by the Bogota Mayor's Office.

43 Information taken from the World Bank.

population groups, including women, Indigenous peoples, Afro-descendants, migrants, LGBTQ+ individuals, and people with disabilities.[44] Psychological and physical aggression is also prevalent. In 2022, more than 68,000 cases of violence against women were reported in Colombia,[45] along with more than 5,500 cases of violence against LGBTQ+ individuals.[46] Migrant women are particularly vulnerable to human trafficking and smuggling. Between 2013 and 2020, there were 686 recorded cases of human trafficking in the country. Of these cases, 82% involved trafficked women[47] and 13% involved migrants. In addition, the migrant population continues to face challenges in access to public services; thus, 32.1% of migrants in urban areas reported not being registered in the Sistema General de Seguridad Social en Salud (National Health Insurance System).[48]

2.15 **Prevailing inequalities surrounding remunerated and unremunerated work disproportionately affect women.** On average, women spend 10.8 hours a day on direct unpaid care work for their own household, compared to only 5.5 hours a day for men.[49] In Colombia, approximately 50% of people with disabilities require permanent care and are for the most part cared for by members of their own household due to the insufficient availability of institutional services and support.[50] Furthermore, gaps in labor force participation for various populations continue to be broad: 24.8 percentage points (p.p.) for women, 42.7 p.p. for people with disabilities,[51] and 11.7 p.p. for migrants.[52]

What will we do?[53]

2.16 **Interventions in this area will be aimed at boosting social and territorial inclusion** and will have the following strategic objectives: (i) improve the quality of

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44 Inequality refers not only to differences in income distribution among individuals. There is also horizontal inequality (inequality in economic, social, political, or cultural status dimensions within culturally defined groups). Taken from Stewart, F. (2008). Horizontal Inequalities and Conflict: Understanding Group Violence in Multiethnic Societies. Basingstoke, Hampshire: Palgrave Macmillan, cited by Funjika, P. and R.M. Gisselquist, 2020. Social mobility and inequality between groups. UNU-WIDER.

45 Ministry of Health and Social Protection 2022. Sistema de Vigilancia en Salud Pública (Public Health Surveillance System) (SIVIGILA). Cases of gender violence reported to the Public Health Surveillance System. This situation affects areas with a high proportion of Indigenous population. For example, the two departments with the highest homicide rates per 100,000 female minors are located in the Amazon region.

46 Including homicides, threats, police violence, discrimination, and harassment. Corporación Caribe Afirmativo 2023. No se mata lo que no se olvida: informe sobre la situación de los derechos humanos de las personas LGBTQ+ en Colombia 2022 (What is not forgotten cannot be killed: 2022 report on the state of human rights for LGBTQ+ individuals in Colombia).

47 International Organization for Migration. 2020.

48 According to DANE information in Pulso de la Migración.

49 DANE, 2022. National Time Use Survey 2020-2021.

50 For example, merely 1% of households that have a member (or members) with disabilities receive paid support to care for a household member, and only 1.8% of households that have a member (or members) with disabilities have access to government services such as community homes, kindergartens, child development centers, community mothers, or extracurricular courses. DANE, 2022. El diamante del cuidado frente a la experiencia de la discapacidad en Colombia: Una aproximación a los requerimientos diferenciales de las personas con discapacidad y de sus propios cuidadores en 2021 (The caregiving diamond and the disability experience in Colombia: An approach to the different requirements of people with disabilities and their caregivers in 2021).

51 DANE, 2024, Mercado Laboral Según Sexo y Mercado Laboral Población en Condición de Discapacidad (Labor Market by Gender and Labor Market for Population with Disability) T.M. Mar-May.

52 Comprehensive Household Survey, June 2023.

53 See Annex II for the projected sovereign guaranteed loan program.

and access to health and education services, particularly for the most excluded groups and areas. Specifically, the new interventions will focus on primary and digital health and on preschool through upper secondary education; (ii) increase access to services in urban areas. The new interventions will focus on water and sanitation; (iii) promote social inclusion of diverse population groups, including women, Indigenous peoples, Afro-descendants, people with disabilities, LGBTQ+ individuals, and migrants, and reduce gender-based violence.

2.17 **Support better quality and access to health services for the most excluded areas and groups through new operations focused on primary health services and digital solutions.** In the health sector, these actions will be aimed at expanding access to primary and digital health services, seeking to improve tracking indicators such as maternal mortality and access to digital systems, e.g., interoperable electronic health records. Specifically, this will be achieved through infrastructure,[54] software, greater interoperability between different systems, support for sector professionals, and interventions that improve user access. Actions will support the establishment of basic health teams in prioritized territories, focusing on maternal and perinatal health care while also considering people with disabilities, Indigenous peoples, Afro-descendants, and individuals with diverse sexual orientations and gender identities.

2.18 **Support greater access to and the quality of education services[55] for the most excluded areas and groups, with new operations focused on preschool to upper secondary school.** In education, the interventions will focus on improving the school survival rate[56] by boosting the education system's coverage, quality, and retention rates,[57] strengthening it from preschool to upper secondary school through teacher training, extracurricular programs, institutional strengthening, and materials which, depending on the context, may entail a territorial and cultural relevance approach for the Indigenous and Afro-descendant populations.[58] The IDB and IDB Invest will strengthen public-private coordination in health and education by supporting the authorities in structuring and financing projects with private sector participation. Lastly, the interventions will seek to improve and boost quality and access to higher education services through the existing project portfolio.

2.19 **Strengthen the management and delivery of services in urban areas, highlighting water and sanitation.** The actions will be aimed at improving the

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54 In the case of public-private partnership projects, the intent will be to foster activities related to and aimed at strengthening the capacity to prepare PPP projects (preinvestment) and improving the regulatory, institutional (with an emphasis on interagency coordination), planning, and financing environments to enable efficient, inclusive, and sustainable public-private projects and collaboration.

55 Encompassing all education levels (through the legacy portfolio in the case of higher education), but with a selective focus on preschool to upper secondary school in operations approved under the new country strategy.

56 Percentage of students who, having been enrolled in the first grade of primary school at age 6, graduate after 11 years of school.

57 This will include support for the development of basic, technical, and social emotional abilities as well as the digital abilities that are taught under the curriculum.

58 When relevant, and based on the context of the work, the materials and training will have an inclusion approach. According to the Lineamientos Política de Educación Superior Inclusiva (Guidelines for an Inclusive Higher Education Policy), relevance means that the learning content and processes should acknowledge the diversity, access conditions, and permanence of Indigenous peoples and Afro-descendants and the territories they inhabit.

institutional and investment capacity of public and private sector operators to provide drinking water and sanitation services, finance investment plans, and expand the service network. This will be achieved by strengthening corporate governance and improving the quality of service delivery and operational management. Efforts will also be made to expand the scope of the IDB Group's work in tandem with national development banks and subnational service providers. The existing project portfolio will provide continuity in terms of increasing and improving quality and access to water and sanitation services in rural areas, such as Quibdó. At the same time, continuity in broadband access and connectivity projects will be provided through IDB Invest.

2.20 **Promote greater inclusion of women, Indigenous peoples, Afro-descendants, people with disabilities, the LGBTQ+ population, and migrants, and reduce gender-based violence through an intersectional approach.** The actions will be aimed at supporting reforms to increase social and economic inclusion (see Section IV for more information on the reforms), strengthen institutional capacity, and bolster prevention strategies and paths to assistance for gender-based violence, discrimination, human trafficking, and migrant smuggling, under an ethnic-racial approach for Indigenous peoples and Afro-descendants and a differentiated approach for people with disabilities, among other population groups. Policy reforms will be promoted to support implementation of the National Care System and coordination of care for people with disabilities, older adults, and children, among others. Other prioritized actions will be aimed at improving migration-related institutional management.[59] In addition, projects will be promoted that contribute to greater financial independence for women, diverse groups,[60] and the migrant population through increased job opportunities and access to financial services.

2.21 **The role of the private sector in fostering greater inclusion.** IDB Invest will leverage solutions with the private sector with a view to boosting social inclusion by financing businesses, financial institutions (banks and nonbanks), and social infrastructure projects with private sector participation. Through the existing project portfolio, IDB Invest will also continue to promote growth of the public housing portfolio with gender bonds. At the same time, IDB Lab will focus on the high impact potential entrepreneurship sector, identifying operations that expand access to services[61] as well as new technologies such as artificial intelligence to reduce gender and diversity biases.[62] Building on the work done in recent years, IDB Invest will continue to provide advisory services to businesses in multiple sectors to improve their performance, competitiveness, and sustainability with regard to digital transformation, climate change, gender, diversity, and inclusion, with an emphasis on micro, small, and medium-sized enterprises (MSMEs), and PPPs.

2.22 **Dialogue and knowledge generation areas.** Due to the strategic importance of these areas, the IDB Group will maintain a dialogue and technical assistance in

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[59] Management that will consider migratory diversity.

[60] Indigenous peoples and Afro-descendants, people with disabilities, and LGBTQ+ individuals.

[61] CO-T1766 Impact Scale Buenaventura: Afro women ethnic entrepreneurs building the Viche Route in Colombia's Pacific coastal region.

[62] CO-G1049 QuantilAI Algorithmic Audit (to reduce gender bias in the traditional financial sector) and CO-G1050 Quipu: Promoting Social Inclusion for Women Microentrepreneurs.

the areas of social protection and skill development in sectors with demand potential, fostering formality and promoting greater labor inclusion for the most excluded groups.[63] In the knowledge area, given the identified evidence gaps, actions will prioritize knowledge generation in inclusion policies and their impact, in health and education efficiency, and in issues of territorial inequality.

Area II. Promote higher productivity and growth[64]

Why is this important?

2.23 **Higher productivity fosters growth.** Growth in Colombia is constrained by productivity. As discussed in Section I, this is the result of factors that include limited access to credit and low business sophistication and growth, and reflects the need to boost the country's inclusion in global value chains.[65]

2.24 **Challenges in credit access and in business innovation, sophistication, and growth restrict national production.** MSMEs account for 99.5% of the country's business sector and produce 35% of the national GDP.[66] However, these enterprises face challenges that limit their productivity, sophistication, and innovation, adversely impacting their survival and growth. Gaps in credit access for businesses continue to be substantial, particularly in rural areas, in certain regions of the country, and in population segments such as women and youths.[67] The main credit barriers are information asymmetries, high transaction costs, high collateral requirements, insufficient financial and business skills, and the low digital capacity of financial intermediaries serving poor and vulnerable sectors.

2.25 **Most businesses in Colombia engage in low-knowledge, low-technology, and low-complexity activities, with few resources being allocated to innovation and the internationalization of products or services.**[68] The supply of business support instruments in the country is scattered, atomized, and unspecialized, with scant emphasis on critical issues designed to boost productivity, such as technology adoption, quality assurance, integration into value chains, and access to international markets.[69] The challenges in the business

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63 Including labor inclusion of the LGBTQ+ population, fostering financial independence for women, and improving care-related social protection services.

64 The diagnostic assessment and recommendations included in this strategic area are consistent with CONPES Document 4129 (link here).

65 Other factors include gaps in human capital, which will be worked on under Strategic Area 1 of this country strategy.

66 Registro Único Empresarial y Social (Single Business and Social Registry) – Confecámaras.

67 All told, 22.7% of businesses in Colombia identify access to financing as the greatest obstacle to growth and investment (compared to 17.5% in Latin America). These difficulties are more pronounced for smaller and younger businesses. According to the World Economic Forum (2023), the total financing gap for women-led MSMEs is US$1.7 billion.

68 Only 11% of manufacturing companies invested in science, technology, and innovation in 2020. The labor productivity of a microenterprise in Colombia is 16% of that of a large company. In small and medium-sized enterprises, the relative proportion is 43% and 51%, respectively. OECD-UN-UNIDO, 2019. OECD average: 55%, 73%, and 85% OECD, 2017. In addition, in 2020, only 51.9% and 54.1%, respectively, of industrial and commercial companies offered training to their personnel in any software, technology tool, or methodology (for more information, see here).

69 According to the publication Metodología de Articulación para la Competitividad, ArCo (Coordination Methodology for Competitiveness).

fabric contribute to the highly concentrated nature of the country's production, which is focused on natural resources and low-complexity goods.

2.26 **Colombia continues to face challenges to regional and global integration.** Colombia is still poorly integrated into global value chains (5.8% in 2020-2022[70]) when compared to OECD countries (26%), and its participation in intraregional linkages[71] (2.2% in 2015-2019) is lower than that of other LAC countries such as Chile (7.8%), Costa Rica (4.4%), and Peru (3.5%). This is due to the limited sophistication and diversification of the production and export apparatus,[72] the concentration of foreign direct investment (FDI) in the mining and energy sector (marked by low technology transfer and job creation levels),[73] the high logistic costs of foreign trade, which in turn reflect deficiencies in the road, rail, port, airport, and logistic infrastructure,[74] and the limited use of trade and regional agreements,[75] among other factors.

2.27 **Colombia's long-term growth must be greener.** In view of the country's high dependence on hydrocarbons and its environmental commitments, an energy transition process is needed to contribute to greener long-term growth.

2.28 **The effects of climate change could increase logistic costs.** Trade costs could rise if, as expected, the existing infrastructure gaps worsen as a result of the country's vulnerability to disaster risk and climate change (particularly in the case of the critical infrastructure portfolio), making it crucial to ensure investment in maintenance and in new and resilient infrastructure.[76]

2.29 **Energy and transportation are two of the sectors that contribute the most to greenhouse gases.** Fossil fuel consumption in the energy sector (including transportation) is close to 66.6% (natural gas, oil, and petroleum products),[77] and this sector is responsible for more than 30% of greenhouse gas emissions.[78] In Colombia, the transportation industry is the largest energy consumer and

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70 Foreign value added contained in exports. Authors' calculations with UNCTAD-Eora data.

71 Foreign added value originating in the same region and incorporated into exports.

72 All told, 57% of total goods exports are concentrated in oil, coal, coffee, and ferronickel (DANE, 2023). Service exports account for 17% of all external sales, which are mainly (60%) concentrated in tourism. High-technology exports account for a mere 1.3% of total exports, while external sales of knowledge-based services, which make intensive use of skilled labor and enable technology transfer, account for less than 6% of the country's total exports.

73 More than 41% of the FDI flows received by Colombia have historically been concentrated in the mining and energy sector (Banco de la República, 2023). This includes the oil sector, mining and quarrying, and electricity, gas, and water.

74 The logistic costs of exports from the ports of Buenaventura and Cartagena respectively amount to 39% and 32% of the value of the merchandise (Encuesta Nacional Logística, 2022)

75 The share of nonmining and nonenergy exports to countries with trade agreements has increased by a mere 1.9 p.p. over the past 30 years. Ministry of Commerce, Industry, and Tourism, 2021.

76 While arrangements such as PPPs are an option for reducing the tax burden in the short or medium term, it is essential to strengthen project preparation capacity as well as coordination among the various institutions associated with PPPs at both the national and subnational levels.

77 World Energy Outlook, 2022.

78 Climate Watch, 2022

generates 43% of carbon dioxide (CO_2) emissions resulting from the burning of fossil fuels.[79]

2.30 **Greater investment is required to consolidate an energy matrix and transportation decarbonization process that can lead to further reductions in greenhouse gases.** This outlook reflects insufficient investment in nonconventional renewable energy, in specialized staff, in transmission infrastructure, in electric vehicle deployment and the associated charging infrastructure, and in better quality public mass transportation systems to help close territorial and population gaps in energy access and use, particularly for women, Indigenous peoples, and Afro-descendants.[80] In addition, high costs and regulatory and market barriers impair the potential effect of the power and transportation sectors (which are key to the decarbonization process) on fulfillment of Colombia's 2020 NDC, which entails a commitment to reduce greenhouse gases emissions by 51% with respect to the reference scenario for 2030.[81] At the same time, the country's energy matrix and its transportation infrastructure are highly vulnerable to climate change.[82]

What will we do?[83]

2.31 **Actions in this area will promote greater production and export diversification** through the following strategic objectives**:** (i) foster increased financial inclusion and greater business growth, sophistication, and innovation; (ii) promote greater integration of the Colombian economy into global value chains; and (iii) support decarbonization of the energy matrix and the transportation sector.

2.32 **Foster financial inclusion.** To foster greater financial inclusion of production system actors, the IDB Group will promote financing instruments, emphasizing early-stage and smaller businesses,[84] businesswomen, and underserved populations, including in rural areas.[85] IDB Invest will also endeavor to work with larger businesses. To achieve these objectives, the IDB Group will work with organizations that promote increased impacts in terms of financial inclusion, such as Bancóldex and other bank and nonbank institutions, and through innovative financing instruments such as gender or climate bonds. In addition, it will

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79 Calatayud, A. et al. (2023). Transportation 2050: Pathways to Decarbonization and Climate Resilience in Latin America and the Caribbean. Inter-American Development Bank.

80 Energy poverty is higher for households that self-identify as belonging to an ethnic group (65.8%) and for households with children and adolescents (19.9%) (Promigas, 2023). In addition, lack of access to energy sources particularly affects women, since they are often responsible for a household's energy resources. In turn, this increases their work burden and poses risks to their health (CIF, 2016).

81 Document available here.

82 Climate events such as the El Niño phenomenon, which give rise to variable availability of water resources, jeopardize the energy supply. Thus, in dry periods that resulted in low reservoir levels such as in 2015 and 2016, thermal generation sources covered as much as nearly 40% of the demand for energy, leading to a higher generation cost and higher greenhouse gas emissions.

83 See Annex II for the proposed programming.

84 This will be done, for example, through co-participation in new seed capital funds, financing projects, and credit guarantee projects, as well as by expanding the portfolio of banks serving businesses of this type and providing alternative instruments such as through leasing and factoring companies, in addition to identifying fintechs that provide innovative services in unserved market segments.

85 For example, by financing the supply chain.

strengthen the mainstreaming of gender and diversity in the financial sector.[86] Lastly, working through the existing project portfolio, IDB Lab will continue to promote financial and digital inclusion for microenterprises.

2.33 **Business growth, sophistication, and innovation.** To support business innovation, sophistication, and growth, the Bank will launch financial and nonfinancial instruments[87] aimed at helping to develop technology-intensive and environmentally sustainable business models. IDB Invest will work through loans and guarantees to companies in the corporate sector, as well as through advisory services and market creation and improvement initiatives. IDB Lab will further pilot innovative financial lines in green energy communities.[88]

2.34 **The IDB Group will also strengthen the capacity and instruments of agencies and programs specialized in fostering entrepreneurship and innovation.** Support will also focus on areas that promote investment in production modernization and sophistication, decarbonization of economic activities, and diversification of production, recognizing the country's productive and regional heterogeneity and promoting gender equity in these processes. Building on the work done in recent years, the IDB Group will make use of the existing project portfolio and efforts originating in the private sector to provide continuity on tourist infrastructure expansion initiatives that foster business model sustainability, facilitate the adoption of climate-smart agricultural practices, and support the financial inclusion of MSMEs as well as their adoption of digital tools.[89]

2.35 **Promote a more competitive integration of the country into regional and global value chains, reduce trade costs, and attract FDI.** The IDB Group will prioritize investments that reduce logistic costs by increasing and improving road, rail, port, and airport services and infrastructure as well as by simplifying and digitalizing logistic processes at the border. This will be supplemented by support for private sector investment initiatives aimed at promoting greater integration into regional and global value chains. The Group will also encourage deepening Colombia's trade integration with the countries in the region by supporting reforms aimed at strengthening integration into global value chains (see Section IV for more information),[90] as well as measures aimed at promoting regulatory convergence[91] and interoperability of the foreign trade information systems. The

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86 Through access to financing for women-led businesses, strengthening gender policies among financing companies, generating gender-disaggregated financial information, and generating appropriate financing products for the LGBTQ+, Indigenous, and Afro-descendant population.

87 Including business support projects and technological and management capacity training projects.

88 For example, CO-G1052: LAC-E-COOP – CFA Green financing pilot to promote community clean energy solutions for production uses.

89 IDB Lab will follow up on projects such as "Social Entrepreneurship Program: Enhancing the Market for Voluntary Biodiversity Credits by Implementing Digital Tokens under an Integrity Protocol" to explore the voluntary offset market through biodiversity tokens, and "Sunco: Electrifying Development in Dispersed Rural Areas" to expand access to energy in rural communities.

90 Aspects of trade integration all along the production chain will be considered, from local production to the internationalization of production.

91 Including harmonizing technical regulations and sanitary and phytosanitary measures in accordance with World Trade Organization guidelines.

IDB Group will promote improving the business climate to attract productive FDI[92] that is knowledge transfer- and technology-intensive, while at the same time promoting policy instruments aimed at closing productivity gaps and adopting world class operating standards. This will enable the production and export sector to link up with production chains, maximizing the impact of FDI.[93] Lastly, through the existing project portfolio, the IDB Group will continue to expand the country's road network with a view to boosting local integration.

2.36 **Support decarbonization of the energy matrix.** This will be done through investments in infrastructure and technology that support the country's energy transition and resilience to climate change, including power generation, transmission, and distribution, efficient energy management, and support for zero- and low-emission mobility, particularly but not limited to electric and green hydrogen mobility. The IDB Group will work to achieve this under a social inclusion, gender, and diversity approach, including boosting women's employment and the use of these energy sources by the Indigenous and Afro-descendant population. To carry this out, the IDB Group will work with key actors in the financing ecosystem, such as Financiera de Desarrollo Nacional. In addition, the IDB Group will foster the development of more solid and exhaustive standards for creating energy efficiency, including in new construction and in industry.[94]

2.37 **Support decarbonization of the transportation sector.** The IDB Group will support: development of mass transportation systems, such as bus rapid transit (BRT) and metros; demand management policies; renewal of urban transportation fleets; modernization of the freight vehicle fleet; and development of regulations aimed at boosting the decarbonization of air, water, and ground transportation. Lastly, the Bank's infrastructure operations will endeavor to follow the standards of accessibility for people with disabilities. At the same time, IDB Invest will emphasize investments in electric mobility and the associated charging infrastructure projects, thereby helping to reduce carbon emissions and improve local air quality.

2.38 **Dialogue and knowledge areas.** In view of their strategic importance, the IDB Group will maintain a dialogue and provide technical assistance in the agriculture and sustainable tourism sectors, promoting increased productivity in the agriculture sector and fostering tourism as a key sector in the process of diversifying the Colombian economy, with an emphasis on the production, environmental, and social nexus capable of promoting this sector. The Bank will also emphasize knowledge promotion and evidence generation in: innovation and growth of actors that participate in production processes, financial and production inclusion, and in the developments and results of decarbonization processes in both energy and transportation.

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92 This will be done, for example, by simplifying and digitalizing the main procedures for investing in the country through the implementation of an Investment Single Window and establishment of the office of investor advocate for alternative resolution of investment disputes, among other steps.

93 For example, through specialized supplier development and production linkage programs.

94 Including the potential use of incentives to build structures and housing under low carbon emission standards in terms of the use and transportation of construction materials, techniques, and technology.

Area III. Strengthen fiscal execution and public management

Why is this important?

2.39 **The tax collection rate is low and the taxation system is deficient in terms of equity, efficiency, and decentralization.** Colombia continues to collect merely two thirds of the average in OECD countries.[95] Despite reforms implemented in recent years, which have resulted in an increase in collection, the tax system displays limited efficiency and equity. The personal and corporate income tax structure[96] provides for exemptions and preferential treatment which, coupled with high evasion and avoidance levels,[97] support a progressive taxation system[98] that fails to incentivize formality and requires continuous strengthening of the tax administration. Moreover, the system's equity is diminished by the absence of a gender perspective[99] in the design of tax policies and, despite efforts to align fiscal policy and management with climate objectives, decarbonization incentives remain low.

2.40 **Despite recent progress, the government continues to offer a limited supply of digital services and faces digital security challenges.** Despite the increased availability of digital public services and procedures in recent years, work remains to be done. The United Nations 2022 E-Government Development Index ranks Colombia 70th out of 193 countries.[100] While rating Colombia as having a high e-government development level, it identifies opportunities for improvement, particularly in telecommunications infrastructure, where investment in digital infrastructure needs to be increased. There are also challenges in system interoperability and stemming from limited digital culture and skills in government. Furthermore, a regional diagnostic assessment conducted by the Bank found that some Colombian government transaction portals, such as gov.co and Sisbén (Identification System of Potential Social Program Beneficiaries),[101] fail to meet all digital accessibility standards, including components that particularly affect the use of digital services by people with visual or auditory disabilities. Cyberattacks have also been on the rise. According to the Password Managers 2020 Cybersecurity Exposure Index,[102] Colombia ranks 54th out of 108 countries globally and is the fifth most exposed country in South America despite its moderate exposure rating. Limited continuity of initiatives, scant and still incipient coordination among

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95 According to OECD data.

96 These exemptions have been reduced in recent reforms.

97 Rasteletti and Saravia (2023) estimate that value-added tax evasion was equivalent to 1.6% of GDP prior to the pandemic. In addition, a study published by the Economic Commission for Latin America and the Caribbean (ECLAC) cites a corporate income tax evasion rate of 2% of GDP. Tax Expenditure and Evasion in Value-added Tax in Latin America and the Caribbean. Mimeo; ECLAC (2020) Fiscal Panorama of Latin America and the Caribbean.

98 Pessino, Rasteletti, and Lustig. 2023. Distributional Effects of Taxation in Latin America. Mimeo.

99 Prior to 2022, the National Tax and Customs Directorate (DIAN) did not perform statistical analyses of the tax data under a gender approach, and only in the second quarter of 2023 was a Differentiated and Gender Approach Unit created within DIAN. In addition, there are some implicit biases in fiscal policies, such as personal income tax exemptions for pension fund income that are mostly favorable for men rather than women (IDB, 2023. CO-L1283).

100 According to United Nations data.

101 Pallero, S. and S. Márquez (2024). Report on digital accessibility of governmental websites in Latin America and the Caribbean (in preparation). Inter-American Development Bank.

102 Password Managers. Cybersecurity Exposure Index 2020.

authorities and actors, limited sharing of information for decision-making purposes, and scattered monitoring and analysis mechanisms are contributing factors to this challenge.

2.41 **Colombia is highly vulnerable to natural disasters.**[103] More than 80% of the country's population and assets are exposed to two or more threats.[104] In addition, the decline of natural resources—deterioration of water sources and deforestation—is a national challenge for the ecosystems as well as for the country's social and economic development.[105]

What will we do?[106]

2.42 **In view of this diagnostic assessment, the interventions in this area will increase tax collection and improve the government's capacity** by pursuing the following strategic objectives: (i) increase tax collection; (ii) improve the government's strategic management, with emphasis on supporting the country in its response to natural disasters, by expanding contingent coverage for natural disaster and public health emergencies, and on digital government.

2.43 **Increase collection under the tax system.** This will be done by supporting tax reforms aimed at increasing collection, reducing evasion, and enhancing the progressivity and equity of the taxation system (see Section IV for more information). The Bank will foster actions that take into account gender and climate change considerations in the taxation system, such as studies on taxation with a gender approach and disaggregated information, and institutional strengthening to implement gender policies. In addition, the Bank will promote boosting property tax collection based on data from the multipurpose cadaster and will foster improving the capacity of municipios to finance local investment projects.

2.44 **Improve the government's strategic management.** Priority will be given to policy and investment actions aimed at boosting the availability of digital public services and strengthening the interoperability of digital government, as well as to change management and digital talent. This will include a gender equity and universal accessibility perspective that takes into account the needs of people with disabilities, older adults, and other diverse population groups. In addition, the IDB Group will seek to reinforce the approach to digital security, strengthening governance and capacity in the various sectors and applying models, standards, and work frameworks with an emphasis on essential and public sector services. Building on the work done in recent years, the IDB Group will provide continuity through the existing project portfolio to the areas of efficiency, implementation, and coordination of public service delivery; efficiency, effectiveness, and transparency of the judicial sector from a gender perspective; and support for greater public-private integration through the adoption of results-based financing instruments for the delivery of public goods and services.[107]

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[103] With population groups that are more vulnerable to these situations, such as women (World Bank, 2021).

[104] OCDE (2019). Risk Governance Scan of Colombia, Chapter 2: National Context for Disaster Risk Management in Colombia.

[105] All told, 79% of the country's protected areas experienced an increase in deforestation following the 2016 peace agreement.

[106] See Annex II for the proposed programming.

[107] Technical cooperation operation CO-T1734: Social Impact Bonds, Phase II: Scaling Up Results-based Finance Interventions in Colombia and Peru.

2.45 **In this area, the Bank will also support the government in boosting its resilience to natural disasters and in climate change action by promoting financial instruments to manage disaster-related contingent tax liabilities and providing institutional support.** This will be achieved through more green financing in the country and an increase in stable, cost-efficient, and easily accessible contingent financing to cover extraordinary public expenditures aimed at caring for the population affected by natural disasters. This work will be supplemented with institutional support in identifying, designing, and implementing disaster response actions and strengthening the management capacity of the agency implementing such actions. All of these activities will incorporate a gender and diversity approach that acknowledges the different effects of these events on women and diverse population groups such as Indigenous peoples and Afro-descendants.

2.46 **Dialogue and knowledge areas.** The IDB Group will maintain a dialogue and provide technical assistance in the areas of public expenditure quality and fragility, criminal violence, and conflict. Efforts will also be made to promote knowledge in the areas of digital services, data management, cybersecurity, and digitalization systems, as well as in fiscal and macroeconomic effects of policies.

Crosscutting issues: Protect biodiversity and advance toward a decarbonized and climate-resilient economy

2.47 **Climate risks continue to increase in Colombia's various regions, and this is beginning to have adverse effects on the country's natural capital, water resources, and biodiversity.** Colombia is one of the world's most biodiverse countries: it is home to 10% of the planet's biodiversity and 53% of its territory is covered by natural forests, notably the Amazon.[108] However, its climate change risks are severe and incremental. The rise in temperatures and changes in other climate dynamics will have significant implications for food security, production activities, power generation, and both human and ecosystem health indicators, primarily affecting certain population groups that historically have been subject to discrimination.[109] The environment and social inclusion play an important joint role, since women and Indigenous groups are significant players in the fight to protect the planet and the territory through reforestation and restoration activities, care for water sources, and promotion of bioeconomy initiatives, among other actions. Although Colombia is committed to ambitious mitigation and adaptation goals under its NDC and its long-term strategy (E2050), the financing gap is estimated at 1.04% of GDP per year.[110]

2.48 **Actions aimed at protecting biodiversity and advancing toward a decarbonized and climate-resilient economy will be incorporated into the strategic areas in crosscutting fashion.** This will be achieved through more green financing for the country in the social as well as the business and fiscal areas

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[108] As also highlighted by the Ministry of Foreign Affairs.

[109] For example, the available evidence shows that women tend to experience higher levels of gender-based violence during a natural disaster and suffer disproportionate impacts in terms of access to sexual and reproductive health care services or in school attendance and employment results (World Bank, 2021).

[110] To meet the climate challenge set out in the 2020 NDC, Colombia will need to invest at least 1.2% of GDP per year in order to advance toward its climate goals. Since the current investment is close to 0.16% of GDP, the financing shortfall is 1.04% of GDP. Data taken from the Bases del Plan Nacional de Desarrollo 2022-2026 (Foundations of the 2022-2026 National Development Plan).

and in both the public and private spheres. The Bank will support the promotion of policies to control deforestation and protect natural capital, as well as the identification of strategic areas of intervention. It will also foster operational capacity to originate and supervise operations and design new non-sovereign guaranteed instruments.

2.49 **Support the implementation of national plans to combat the negative effects of climate change by supporting the public and private sectors in the first strategic area.** The IDB Group will increase green financing, supporting the country's capacity for in the social and business and fiscal areas. In the strategy's first strategic area, the IDB Group will support policies as well as public and private sector investment initiatives that incorporate the social-environmental nexus and just energy transition and are related to the country's NDC, its Long-term Climate Strategy E2050, and relevant sectoral plans.[111] In addition, it will promote adaptive social protection mechanisms to promote social and territorial inclusion and address risks associated with climate change and environmental degradation. In terms of knowledge issues, the IDB Group will promote studies and projects that measure the level and impact of climate risk in different sectors.

2.50 **Support the implementation of national plans to combat the negative effects of climate change by supporting the public and private sectors in the second and third strategic areas.** In the strategy's second strategic area, the IDB Group will promote public and private financing mechanisms for sustainable production investments that foster and are aligned with the national climate change targets.[112] IDB Lab will place special emphasis on promoting interventions focused on technology and innovation and their unexplored potential for climate change issues. Lastly, in the third strategic area, the IDB Group will foster climate action-related tax measures and will support the country in boosting its resilience to the effects of natural disasters.

2.51 **The Bank will promote actions aligned with the IDB Group program Amazonia Forever.**[113] These actions will support reducing the deforestation rate, increasing public and private financing, fostering innovation, sharing knowledge, and improving regional coordination to control deforestation, protect nature, and support sustainable development. This will be accomplished through initiatives that are aligned with the pillars of the IDB Group's Amazonia Forever program and support the implementation of actions within the Kunming-Montreal Global Biodiversity Framework and the 2024 United Nations Biodiversity Conference (COP16). In the knowledge area, the Bank will continue to promote the generation of evidence on the Amazon region, fostering new data sources and sector analyses that can contribute information on environmental, social, and production issues and that consider gender and diversity perspectives.

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[111] This includes promoting actions related to the development and implementation of the country's Gender and Climate Change Action Plan.

[112] For example, through new thematic bond issues, intensified adoption of a green finance approach in the financial system, new investments that foster climate change adaptation by businesses, and increased financing of private sector projects for decarbonization of the energy matrix and transportation.

[113] The work in the Amazon region may encompass an area delineated on the basis of hydrographic, biogeographic, or political-administrative concepts in line with the definitions of the Amazonia Forever program. The work in this region may also include areas in the country that have ecological, social, or productive importance for the Amazon region.

2.52 **Specific interventions in biodiversity and natural capital protection by strategic area. I**n the first strategic area, the Bank will promote inclusive actions aimed at improving sustainable management of forests, water, and soil as well as protecting biodiversity, while considering the needs of women and ethnic populations, including both Indigenous peoples and Afro-descendants. IDB Invest will endeavor to strengthen inclusion in access to infrastructure and financial services in the Amazon region. In the second strategic area, the Bank will promote actions aimed at boosting the bioeconomy and the development of startups focused on natural capital and markets that contribute to ecosystem restoration actions.[114] IDB Invest will foster the production of sustainable goods and services as well as the creation, integration, and growth of value chains. In the third strategic area, the Bank will work on green taxonomies to guide investments in biodiversity.

C. Reforms

2.53 **The IDB Group will support the Government of Colombia in implementing key, impactful policy reforms.** The selection of the proposed reforms to be supported during this country strategy period responds to three key factors that reflect their relevance and potential impact. First, these are crucial reforms for the country, as they address strategic policies for tackling development challenges in each of the three areas of this country strategy: promotion of equality, greater trade integration through value chains, and optimization of tax policy. Second, as second phases of ongoing programmatic series, these reforms consolidate the work led by the IDB as they contribute to the successful completion of reforms initiated in previous phases, thus ensuring a significant and high quality impact. Lastly, these reforms focus on key areas where the IDB has provided close support to national authorities through extensive technical assistance, other lending, and where there is clear potential to attract cofinancing from other actors. The following paragraphs describe in detail the work the IDB has done in each of the proposed areas for reform, the policies promoted in the first phase of each series, and the ongoing support provided by the IDB.

2.54 **Context of social inclusion policies.** The Bank is a partner committed to promoting equity measures, thereby addressing one of the country's most persistent and difficult challenges. These measures have targeted population groups that face longstanding inequalities, with a view to boosting their access to social opportunities and reducing gender-based violence, as well as crimes such as human trafficking and migrant smuggling. In 2023, to support the country in addressing these challenges, the Bank approved the Program to Strengthen Equality and Equity Policies for Women and Diverse Populations in Colombia (CO-L1291), which pioneered the introduction of measures designed to include LGBTQ+ individuals and promote gender equality. In addition, the program helped to create the Ministry of Equality and Equity.

2.55 **Expected impact of the support for social inclusion policies during this country strategy period.** During the validity period of this country strategy, the Bank will continue to assist Colombia in promoting this type of pioneering policies and reforms through the second operation of the programmatic series. An impact is expected to be generated through: (i) national implementation of the Gender-based Violence Monitoring System; (ii) approval of two CONPES

[114] Awake Travel (CO-T1761) for the monitoring of biodiversity in regenerative tourism, and Pantera Makers (CO-T1762) to establish a business accelerator in the Amazon region.

(National Economic and Social Policy Council) documents: on the National Care System and on guaranteed rights for the LGBTQ+ population; (iii) strengthening of management mechanisms to prevent, address, and monitor cases related to gender-based violence and prejudice-based violence, human trafficking, and migrant smuggling; and (iv) implementation of measures to ensure equity for women in sectors such as health, justice, and the environment.

2.56 **Importance of the Bank's work in supporting social inclusion policies in Colombia.** These areas of reform are part of a comprehensive IDB strategy launched in 2021 to consolidate the country's equality and equity sector and which has positioned the Bank as a key partner in this sector. In recent years, the Bank has provided extensive technical assistance and advisory services together with other donors, such as the French Agency for Development (AFD) and Germany's Credit Institute for Reconstruction (KfW), contributing to the design of the aforementioned reforms. Specifically, the Bank has provided: (i) technical support for analyzing lessons learned from prior work and available evidence;[115] (ii) assistance and follow-up to government teams by means of interagency exchange and coordination platforms, moving forward on the development of intersectoral policies and programs; and (iii) support in preparing and monitoring technical outputs such as studies for the development of public policies, pilots for the implementation of projects for equality, and others.[116]

2.57 **Policies that reinforce Colombia's trade integration through global value chains: context.** Over the course of more than two decades, the Bank has actively supported internationalization policies in Colombia[117] as a core component in helping to close productivity gaps and consolidate the country's sustained long-term growth. The first operation in the programmatic series Support Program to Strengthen Colombia's Integration into Global Value Chains (CO-L1268) was approved in 2022. The impact of this program was: (i) support for the publication of regulations governing the digitalization of procedures at public agencies, creation of the Investment Single Window and Foreign Direct Investment Facilitation Service, and modernization of free zones; and (ii) an investment promotion and protection treaty with Spain and double-taxation agreements with France, Italy, and Uruguay.

2.58 **Expected impact of supporting policies that reinforce global value chains under this country strategy.** There are still pending tasks in terms of inclusively integrating Colombia into comprehensive value chains and promoting productive foreign direct investment. In view of this context, the Bank plans to prepare a second operation under the programmatic series to consolidate implementation of the reforms included in the first. The expected impact will be to: (i) reduce the costs

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[115] Program to Enhance Sustainability and Inclusiveness in the Colombian Health Care System (2020), Program to Support Policy Reforms for the Social and Economic Inclusion of the Venezuelan Migrant Population in Colombia (2021), Program for the Digital Transformation of Justice in Colombia (2021), and Sustainable and Resilient Growth Program II (2022).

[116] ATN/OC-15731-CH, CO-T1701, ATN/OC-19071-RG, and ATN/OC-15731-CH.

[117] The Bank has facilitated support through four investment loans: 3155/OC-CO, 4929/OC-CO, 5148/OC-CO, and 5229/OC-CO; a policy-based loan: 5556/OC-CO; and multiple nonreimbursable technical cooperation operations: ATN/CC-11933-RG, ATN/AT-13091-CO, ATN/OC-14731-RG, ATN/OC-17357-CO, ATN/OC-17157-RG, ATN/KK-16944-RG, ATN/OC-17357-CO, ATN/MR-17474-RG, ATN/OC-17836-CO, ATN/OC-18605-RG, ATN/OC-16812-RG, ATN/OC-18676-CO, ATN/OC-19286-CO, ATN/OC-19600-RG, ATN/OC-20187-RG, and ATN/OC-20824-CO.

of doing business through policies to simplify and digitalize procedures, a new free zone system, and new international agreements to improve tax competitiveness; (ii) continue to reduce trade costs by modernizing the customs system and accelerating the implementation of national logistics, port, and foreign trade policies; and (iii) make the country's productive structure more knowledge- and technology-intensive by implementing the National Reindustrialization Policy, launching supplier development, quality improvement, and environmental sustainability programs, and instituting institutional reforms aimed at maximizing the availability of business support.

2.59 **Importance of the Bank's work in supporting policies on global value chains in Colombia.** In recent years, the Bank has been providing substantial support to the sector through extensive technical cooperation operations, promoting important measures for the country such as regulatory harmonization, interoperability of foreign trade information systems, and generation of regional production chains with the Andean Community and the Pacific Alliance. The Bank has also been doing extensive work through investment loans, the results of which will benefit from the policies promoted during this country strategy period. These operations include support for the technological transformation of the National Tax and Customs Directorate (CO-L1245), launch of a cutting-edge electronic billing system (CO-L1138), and implementation of the National Logistics Policy (CO-L1109 and CO-L1263).

2.60 **Policies aimed at boosting tax collection, progressivity, and simplicity of the tax system: context.** Another key challenge facing the country has to do with low tax collection levels. Colombia collects a mere two thirds of the average in OECD countries,[118] which impairs the effectiveness of the tax system and diminishes the government's capacity to act. This poses a formidable challenge to the country's public policy, as evidenced by the various tax reforms implemented in recent years. The tax system also displays low levels of efficiency, equity,[119] and progressivity, which do not encourage formality.[120] The Bank has been working for decades in this sector and is one of the key actors in the relevant dialogue with the authorities. In addition, in 2023, the Bank supported the design of the first operation in the programmatic policy-based loan series Program to Support Sustainable and Equitable Fiscal Policies (CO-L1283). The program provided crucial support for the tax reform approved by the government, which raised collection from 14.4% of GDP in 2022 to 16.7% of GDP in 2023,[121] and its impact was: (i) increased streamlining of income tax exemptions; (ii) creation of a permanent wealth tax; (iii) elimination of ineffective tax benefits and incentives; (iv) expansion of the Simplified Tax Regime; (v) creation of a tax on single-use plastics; and (vi) expansion of the tax base and increase in carbon tax rates.

2.61 **Expected impact of supporting policies aimed at boosting tax collection under this country strategy.** The Bank plans to continue to support the policy

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[118] According to OECD data.

[119] Pessino, Rasteletti, and Lustig. 2023. *Distributional Effects of Taxation in Latin America*. Mimeo.

[120] Before 2022, the DIAN did not conduct statistical analyses of tax information with a gender approach. In fact, it only created a Gender and Differential Approach Unit in the second quarter of 2023. Moreover, there are some implicit biases in tax policies, such as the exemption of personal income tax from pension fund benefits, which primarily favors men (IDB, 2023. CO-L1283).

[121] 2024 Medium-term Tax Framework. Available here.

reforms promoted in the programmatic series opened in 2023, contributing to increased collection and to the country's climate commitments under the NDC. The expected impacts include: (i) a new territorial tax reform; (ii) an analysis of the value-added tax exemptions and waivers to low-income groups; and (iii) the design of a mandatory rule to set prices for petroleum-based liquid fuels.

2.62 **Importance of the Bank's work in supporting policies that boost tax collection.** This programmatic series is part of the Bank's ongoing work with the Government of Colombia to support fiscal management. This has been accomplished through extensive nonreimbursable technical assistance,[122] which has resulted in the implementation and use of the Fiscal Sustainability for Latin American and Caribbean Countries (FISLAC) platform to improve macro fiscal analyses and the development of a methodology to analyze the incidence of tax policy and social expenditure, and the Bank has supported the tax reform regulation process for the fiscal impacts of climate change adaptation and mitigation. In addition, a dialogue has been conducted through loan operations, including the Program to Support the Modernization of the National Tax and Customs Directorate (CO-L1245) and others,[123] which will benefit from the support for these reforms.

III. EXPECTED IMPACT

3.1 **The implementation of this country strategy will be measured through a series of indicators that comprise a results framework, in line with the new 2024-2030 IDB Group Impact Framework.** The results framework, to be found in Annex I, contains metrics that are harmonized across the IDB Group to provide for a consistent measurement of the interventions' impact and identification of areas for improvement. The results framework is divided into two levels: (i) impact indicators linked to the new areas that have been selected using the strategic selectivity framework described in the preceding section (13 indicators); (ii) impact indicators for the existing portfolio (9 indicators), which is expected to yield the best results since, given the nature of Bank interventions, the results of operations take several years to materialize.[124] Collectively, these indicators measure the contribution of the IDB Group to the country' development.

A. Boost territorial and social inclusion

3.2 **To improve quality and access to health services,** the Bank will work to reduce the maternal mortality rate and increase the percentage of subnational entities that have the electronic health record interoperability mechanism in place.

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[122] Including: ATN/OC-17173-CO, ATN/OC-17555-RG, ATN/OC-19742-RG, ATN/MC-15512-CO, ATN/OC-18643-CO, ATN/OC-17693-CO, ATN/OC-18398-RG, ATN/AC-17318-RG, ATN/OC-18802-CO, ATN/OC-19662-CO, ATN/OC-19672-RG, ATN/AC-18114-RG, ATN/FC-19789-BR, ATN/FC-19754-PE, ATN/FC-19824-PR, ATN/FC-19609-SU, and ATN/FC-19927-RG.

[123] Program to Support the Modernization of the National Tax and Customs Directorate (CO-L1245), Sustainable and Resilient Growth Program I and II (CO-L1264 and CO-L1274), and Program to Deepen Fiscal Reform in Colombia I and II (CO-L1142 and CO-L1227).

[124] For this reason, the impacts of operations approved in a certain country strategy period are often measurable only years after the end of that period. This fact has been taken into consideration in this country strategy, which accordingly includes impact indicators for the portfolio currently in execution.

3.3 **To improve quality and access to preschool to upper secondary school services,** the Bank's goal will be to increase the school survival rate[125] for students in the targeted school districts.

3.4 **The interventions will improve the coverage and quality of drinking water and of wastewater and solid waste collection in urban areas.** This will be measured by the increase in households with new or improved access to drinking water and wastewater services in cities in which the IDB Group has sewerage and aqueduct projects.[126] In addition, the gap in access to drinking water, basic sanitation, and electrification services on the Colombian Pacific coast will be reduced, expanding the number of Quibdó households with an improved connection to the drinking water and sewerage system or through networks. The Bank will also work to increase access to broadband mobile connectivity, expanding the number of new beneficiaries with access to the 4G broadband mobile network in 517 municipios.

3.5 **To promote the social and economic inclusion of Indigenous peoples, Afro-descendants, people with disabilities, the LGBTQ+ population, and migrants,** the Bank will endeavor to: (i) narrow the gender gap in unemployment and increase the percentage of women victims of gender-based violence who receive physical and mental health care; (ii) increase the number of women beneficiaries of mortgage loans through gender bonds; and (iii) continue to work to increase the accuracy level of the credit risk algorithm to reduce selection biases.

B. Promote higher growth and productivity

3.6 **Expand financial inclusion and access to credit for women-led and/or women-owned microenterprises.** This will be accomplished by boosting the sales-per-employee rate at MSME beneficiaries of subloans provided under Balcódex programs. In addition, there will be an increase in the number of loans disbursed by means of gender bonds to micro and small enterprises led and/or owned by women.[127]

3.7 **To boost Colombia's integration into global value chains, reduce trade costs, and generate higher FDI flows**, the Bank will work to generate higher annual FDI levels and reduce logistic costs as a percentage of sales at businesses that

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[125] Percentage of students who, having been enrolled in the first grade of primary school at age 6, graduate after 11 years of school.

[126] IDB Invest transaction 14722-01 is expected to contribute to this area. This indicator is also expected to be measured through the global credit financial instrument under operation CO-L1299, currently in the design stage. Due to the nature of the instrument, the demand for the investments and their geographic location have yet to be determined, and will only be specified during the operation's implementation.

[127] The impact is expected through IDB Invest transaction 13166-01. The project consists of issuing a gender bond denominated in Colombian pesos. In addition, through IDB Invest, the IDB Group will seek to increase the number of loans disbursed to MSMEs, including women-led MSMEs, in the Colombian bank and nonbank ecosystem, and to expand financing to more than 1.5 million unbanked individuals in the lowest income quintiles by using funds from a sustainability-linked bond, by growing the portfolio of Colombian banks directly supporting these population segments, and by issuing IDB Invest sustainable bonds that contribute to this strategic area (13158-01, 13166-01, 12621-01, 13158-01, and 13929-01).

engage in foreign trade activities. To boost local integration through road connectivity, the length of the country's road network will be increased.[128]

3.8 **To support the decarbonization of the energy matrix and the transportation sector,** the IDB Group will seek to reduce or prevent CO_2 emissions through IDB Invest-financed projects aimed at increasing the electric public transportation fleet and financing for electric and hybrid private vehicles[129] as well as expanding renewable energy generation,[130] and through the IDB to Financiera de Desarrollo Nacional, and reduce greenhouse gas emissions in the area of influence of line 2 of the Bogota metro system.

C. Strengthen fiscal execution and public management

3.9 **Boost the government's tax revenue and improve its strategic management.** The IDB Group will seek to boost tax revenue for Colombia's central government. At the same time, it will work to improve the government's strategic management performance. The effectiveness, efficiency, and transparency of the judicial system will be enhanced by enabling greater connectivity in the prioritized subnational courthouses. Resource efficiency and development effectiveness will be improved and better social outcomes will be promoted by using results-based financing models, increasing the domestic resources mobilized by the government and the private sector in results-based financing for social impact bonds.

3.10 **The Bank will bolster the government's financial resilience to catastrophes and foster the raising of green financing.** First, the Bank will increase the ex ante financial coverage to cover contingent tax liabilities associated with natural disasters, extreme climate events, epidemics, and pandemics. Second, the green financial resources mobilized by the IDB Group for Colombia will be expanded.

IV. STRATEGY IMPLEMENTATION

A. Lessons learned

4.1 The implementation of the previous country strategy generated lessons at a strategic level that will guide implementation of the 2024-2027 strategy.[131]

4.2 **At the strategic level,** worth noting are the following lessons and mitigating measures for this country strategy:

4.3 **Programming delays due to fiscal commitments.** The authorities' commitment to compliance with the fiscal rule limited public investment expenditure and led to delays in programming Bank operations. During this country strategy period, the Bank will confirm the relevant tax allocation with the government before starting the preparation of operations, and will promote the use of Conditional Credit Lines for Investment Projects (CCLIPs), which provide a long-term support framework,

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[128] In addition, IDB Invest will continue to work to expand port capacity while promoting the highest social and environmental standards through transactions 11895-05, 12252-01, 12378-01, 13760-01, 14094-01, and operation CO-L1159.

[129] Transactions 13896-01 and 13993-01.

[130] Transactions 14121-01, 13918-01, and 13420-01.

[131] Information based on the project completion reports completed during the country strategy period, the semiannual portfolio meetings, and the Independent Country Program Review (ICPR): Colombia, 2019-2022, among other sources.

and the channeling of resources through the development bank system, whose independent institutions imbue the tax allocation process with greater flexibility.

4.4 **Operations in rural and Indigenous communities.** The operations in rural and Indigenous communities posed challenges arising from their original design, which failed to consider in depth the characteristics and context of these communities.[132] In view of this, during the design and implementation of such operations, the Bank will reinforce differentiated and culturally relevant actions such as: consultation plans adapted to the cosmic world view of the Indigenous population, advice from cultural mediators to facilitate dialogue with the communities, and communication and dissemination strategies that consider linguistic particularities.

4.5 **Response flexibility.** During the COVID-19 pandemic, the IDB Group displayed flexibility in responding to the short-term challenges without affecting the long-term support agreed upon with the country.[133] Under this country strategy, and in line with the ICPR: Colombia 2019-2022, the Bank will promote the use of financial instruments[134] that can help to buffer the potential impact of a severe or catastrophic natural disaster or public health event on the country's public finances. At the same time, IDB Invest will continue to use diagnostic and advisory instruments to proactively address environmental, social, and governance issues so as to maintain constructive relationships with stakeholders, reduce operating costs, and systematically address risks, including those related to natural disasters. Lastly, IDB Lab will prioritize the use of nonreimbursable (debt or equity) instruments in advanced ecosystems to support innovations entailing a greater contribution to development or capable of having demonstration effects throughout the region.

4.6 **Diversification in the impact mechanisms.** IDB Invest displayed comparative advantages and demonstrated capacity in diversifying impact mechanisms through infrastructure projects, the business sector, and the financial sector, and is now one of the largest providers of multilateral private financing in the country. It also provided value added in advisory services aimed at strengthening the institutional capacity of potential clients. Moreover, IDB Invest expanded financing to MSMEs and other traditionally underserved population groups through development partners in various sectors and through innovative instruments with growing demand, such as social and sustainable bonds.

4.7 **At the operational level,** worth noting are the following lessons and mitigating measures for this country strategy:

4.8 **Implementation of operations at the subnational level.** The implementation of operations with subnational entities as executing agencies or coexecuting agencies was slow, mainly due to the limited institutional capacity of these entities and the interagency coordination required for interventions of this type.[135] In view

[132] Program for the Adoption and Implementation of a Rural-Urban Multipurpose Cadaster (CO-L1164), Program to Support the Improvement of Educational Paths in Targeted Rural Areas (CO-L1229), Rural Water Supply and Wastewater Management Program (CO-L1105), and Renewable Energy Financing Program for the Non Interconnected Zones (CO-L1161).

[133] Independent Country Program Review: Colombia, 2019-2022.

[134] Contingent Credit Facility for Natural Disaster and Public Health Emergencies.

[135] Second Operation under the Multisector Conditional Credit Line: Fiscal and Public Investment Expenditure Strengthening Program for Municipios, their Decentralized Agencies, and Metropolitan Areas (CO-L1155) and Strategic Public Transportation Systems (CO-L1091).

of this, when subnational projects are being formulated, in addition to the institutional capacity assessment conducted by the Bank, the relevant Operating Regulations will describe: (a) implementation mechanisms that take into account the various forms of interagency coordination required between national and local entities for the implementation and supervision of these operations; and (b) the institutional agreements between the parties (i.e., memorandum of understanding, collaboration agreements, etc.) describing the roles, information exchange, and monitoring systems required for projects of this type. The Bank will also promote actions supporting increased institutional capacity to implement these operations.

4.9 **Delays in complex activities due to required procedures.** There were delays in starting projects and works entailing complex activities. These delays were due to the time and procedures involved in processing expropriations, obtaining permits, managing licenses, conducting studies, and carrying out consultations with the communities.[136] During this country strategy, the Bank will strengthen its analysis of the aforementioned procedures in the programming stage to ensure that they have been completed prior to approval of the operations.

4.10 **Security and conflict.** Projects in hard-to-reach areas or in regions with high insecurity and social unrest posed challenges other than those identified in the original design, affecting the pace of implementation and the attainment of results.[137] In view of this, the design of operations with these characteristics will prioritize dialogue with the communities, security measures to be agreed upon with the counterparts, and adjustments to the procurement and implementation plans to incorporate these realities and the relevant mitigation actions. In addition, as part of this exercise, the IDB Group will initiate a dialogue with the authorities and they will jointly evaluate the applicability of the actions set out in the Framework to Support Populations in Situations of Fragility, Conflict, and Criminal Violence: 2024-2027 (GN-3199-2, CII/GN-541-2) in regions such as the Pacific or the Amazon.

4.11 **Programmatic policy-based loan series.** Some of the programmatic policy-based loan series approved during the 2019-2022 country strategy period were never completed due to changes in the priorities of the new government administration.[138] In view of this, and based on a dialogue with the country, this country strategy will prioritize completing the open programmatic series (as noted by the Office of Evaluation and Oversight in the case of Colombia) to endeavor to ensure that the reforms envisaged in these operations are implemented during the term of the current administration. The reforms to be supported under this country strategy, namely, value chains, equality, and tax policy, have been carefully

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[136] Program for Support of Sustainable Development in the Department of the Archipelago of San Andrés, Providencia, and Santa Catalina (CO-L1125) and the Project for the Implementation of the Mocoa Sewer Master Plan (Stage 1) (CO-L1232).

[137] Program for Support of Sustainable Development in the Department of the Archipelago of San Andrés, Providencia, and Santa Catalina (CO-L1125) and Program for the Adoption and Implementation of a Rural-Urban Multipurpose Cadaster (CO-L1164) and Water, Basic Sanitation, and Electrification Program for the Colombian Pacific Region (CO-L1156).

[138] The following are the programmatic policy-based loan series under which only the first of the two envisaged operations was approved: Program to Strengthen Policies for the Social and Productive Inclusion and Employment of Persons with Disabilities (CO-L1252), Productive Development and Creative Economy Support Program (CO-L1254), and the Program to Support Policy Reforms for the Social and Economic Inclusion of the Venezuelan Migrant Population in Colombia (CO-L1272).

selected on the basis of dialogue, joint work, and technical support provided over the course of recent years, as described in the preceding section.

4.12 **Synergies among the three IDB Group windows on public-private partnerships.** In terms of public-private partnerships (PPPs), more synergy work is needed between the IDB Group windows. This country strategy proposes specific actions within the IDB Group Synergies Framework, with a view to establishing roles and clear rules for the public-private sector, reinforcing the preinvestment processes and designing arrangements that allow for diversifying investor profiles, and mobilizing capital market resources.[139]

B. Synergies

4.13 **During the validity period of this country strategy, the three windows of the IDB Group will actively coordinate on three issues** associated with the various strategic areas described in Section II:[140] (i) the delivery of education, health care, water, and sanitation services by means of arrangements that foster public-private cooperation, such as credit lines, credit access mechanisms, and support for the design and structuring of PPPs (strategic area I under this country strategy); (ii) financial inclusion (strategic area II); (iii) decarbonization of transportation (strategic area II); and (iv) the Amazon region (crosscutting theme). In addition, the IDB Group will continue to promote a collaboration culture in all its activities.[141]

4.14 **Delivery of education, health care, water, and sanitation services.** The IDB Group will facilitate greater institutional coordination of promoters and entities, as well as explore measures to strengthen the capacity to structure PPPs and other mechanisms for private sector participation in these sectors (such as credit lines, financing access mechanisms, and bond structuring). At the same time, the IDB Group will support the country in building crosscutting capacities to generate projects, improve the institutional capacity of subnational agencies, manage fiscal risk, and develop additional financing mechanisms.

4.15 **Financial inclusion.** The IDB Group will explore the use of public guarantee instruments to mitigate the perceived portfolio risk of small and medium-sized enterprises (SMEs) and unserved populations on the part of banks and nonbank financial institutions. This will make it possible to expand IDB Invest support for these population groups. The IDB Group will promote knowledge generation in reforms for institutions that play a key role in financial inclusion and the credit system (such as finance, promotion, and development institutions, cooperatives, and Banca de las Oportunidades), with a view to extracting lessons learned that can be incorporated into the design of policies and into private sector actions. Lastly, the IDB Group will identify regulatory barriers on which to work through sandboxes, building on prior efforts and lessons learned on fintech issues.

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[139] Public-Private Partnerships (PPPs) for Infrastructure: Spotlight on Colombia. DEBrief 6, IDB Invest.

[140] The identified areas are the result of a selectivity exercise which does not preclude identifying and developing new synergies in the coming years. These synergies were identified in accordance with criteria such as potential impact and latent private sector contributions that face regulatory obstacles which can be unlocked through the appropriate policies. The objective of these synergies is to better use the resources and experience of the IDB Group, thereby increasing the impact potential (IDB Group Synergies Framework, GN-3159-3, CII/GN-521-3).

[141] The work of the different windows of the IDB Group is mutually complementary. The work of IDB Invest to promote development through market solutions complements the work of the IDB to create the enabling environment and prepare new areas for private investment.

4.16 **Decarbonization of transportation through electromobility.** The Bank will promote studies for the introduction of zero-emission fleets and mobility, will explore options for preinvestment in and analysis of infrastructure and asset alternatives (charging stations, vehicles, etc.), and will analyze vehicle financial incentives and financing options.

4.17 **Amazon region.** The IDB and IDB Invest will coordinate efforts to implement the regional program Amazonia Forever in line with the Kunming-Montreal Declaration and COP16, while IDB Lab will expand its support to entrepreneurial innovation within the framework of the five verticals in Colombia's Amazon region. These efforts include identifying factors to support the development of biodiversity and entrepreneurship markets; studying and supporting value chains linked to the bioeconomy, including logistic and infrastructure considerations; and developing a coordination agenda between the Green Coalition and the Amazonia Finance Network.

C. Partnerships

4.18 **Partnerships and coordination with other development actors.**[142] The IDB Group will promote partnerships with other actors to: (i) identify opportunities to leverage greater resources through cofinancing; (ii) promote greater technical assistance and knowledge generation through the support of other actors with a track record on the selected issues; and (iii) coordinate with civil society stakeholders to maximize the scope of the IDB Group actions in the country.

4.19 **To promote higher cofinancing,** the IDB Group will work with actors with whom it has already actively coordinated in financing projects or in close sectoral dialogue. These include the World Bank (which partnered with the Bank in a joint health care program (CO-L1286) in 2022) in the health care area; AFD and KfW in the social protection area (in 2023, the Bank and KfW jointly designed the program on equality and equity policies (CO-L1291)); the Korea Institute of Finance (KIF) (with which the Bank is programming a cofinancing to support global value chain policies) in the areas of global value chains and energy; and the World Bank, the European Investment Bank, and the Development Bank of Latin America and the Caribbean (CAF) (which have been partnering with the Bank in cofinancing support for the Bogota metro) in the transportation area. At the same time, IDB Invest will continue to deploy efforts to expand the mobilization of third-party resources under market conditions in the strategic areas of action. In addition, it will continue to expand its partner base for mobilization, supporting the expansion of financial solutions to generate an increased inflow of cofinancing agents from the private sector.

4.20 **In technical assistance and knowledge,** the IDB Group will coordinate and seek avenues for collaboration with actors that have a track record and presence in the sector and can boost the IDB Group's impact in the country. These include the United States Agency for International Development (USAID) and Universidad del Rosario in the urban development and subnational work area; USAID and the Spanish Agency for International Development Cooperation (AECID) in activities such as the 2023 Finance in Common Summit, and the European Union in financial inclusion in the dialogue and analysis for the development of green emissions; USAID, KfW, AFD, and Denmark in energy; Swiss Economic

[142] This paragraph includes some of the actors identified for partnerships, but the number of actors may turn out to be larger during the implementation of the country strategy.

Cooperation and Development (SECO), which works with IDB Lab, in the use of results-based interventions; the Swedish International Development Cooperation Agency (Sida), United Kingdom, Germany (including the German Agency for International Cooperation (GIZ)), and USAID in climate change; and the World Bank, Sida, United Kingdom, Norway, World Wildlife Fund (WWF), Global Environmental Fund (GEF), SECO, CAF, and ICESI University in biodiversity (where the Bank is leading the cooperation development group's territorial roundtable for the Amazon region).

4.21 **With regard to civil society stakeholders,** the IDB Group will aim to maximize the scope of its own impact in various areas, actively coordinating with foundations, nongovernmental organizations, and the private sector. This will include Fundación Luker in education; Red Ciudades Cómo Vamos in urban development; Build Change, Humanas, and Fundación Corona in social inclusion; Asobancaria, Asociación de Fundaciones Familiares y Empresariales (Family and Business Foundations Association), Asociación Nacional de Empresarios (National Business Association), Acopi, Fenalco, chambers of commerce (especially the Buenaventura Chamber of Commerce), accelerators, and social enterprises in business development and growth; and The Nature Conservancy, Wildlife Conservation Society (WCS), Fondo Colombia Sostenible (Sustainable Colombia Fund), Fundación Etnollano, Organización Nacional Indígena de Colombia (Colombian National Indigenous Organization), Biodiversity Action Fund, the International Finance Corporation, and the World Bank. All of this coordination will be carried out within the framework being implemented by the IDB Group with civil society as of 2024.[143]

D. Country systems for fiduciary management

4.22 **Use of country systems.**[144] During the country strategy period, the IDB Group will continue to support the Colombian government in strengthening the country's supreme audit institution for conducting financial audits of IDB-financed projects, expanding the pilot audit of results-based loan 5170/OC-CO (CO-L1248) to cover the second results-based loan operation in the health care sector (CO-L1286) as well as other investment operations.

4.23 **Office of the Comptroller General of the Republic and National General Accounting Office.** The staff in the Office of the Comptroller General of the Republic will be trained and a special-purpose auditing guide will be implemented for such purpose. Support will be provided to the National General Accounting Office toward compliance with its strategic objectives of: (i) generating accounting information for the public interest; (ii) producing accounting information on sustainability in the public sector; and (iii) strengthening the public financial management systems, consistent with international standards.

4.24 **Government procurement system.** With regard to the government procurement system, in 2019 the Bank approved the use of the National Public Procurement

[143] This framework includes strategic work, consultations for the country strategy, and territorial work with various actors.

[144] For fiduciary management of operations in Colombia, IDB-financed projects rely on the following public financial management country systems: budget, treasury, accounting, and reporting; as well as on the public procurement systems, which include the information system, national competitive bidding, shopping, consulting firms, and individual consultants.

System (SNCP) in Colombia.[145] This led to the signing of an agreement between the Bank and Agencia Nacional de Contratación Pública - Colombia Compra Eficiente (national public procurement agency) for use of the SNCP in the portfolio of Bank operations in the country, setting out the coverage, types of contracts, and implementation and monitoring actions.

4.25 **Public procurement.** The government recently amended the legal framework for public procurement. In view of this, the Bank will conduct a monitoring exercise to establish an action plan focused on increasing the use of the SNCP in the IDB operations portfolio. This will entail (i) assessing the status of implementation of the agreement; and (ii) establishing a strategy aimed at promoting forward movement on increased use of the SNCP.

E. Strengthening of the country's monitoring and evaluation capacity

4.26 **Colombia has a solid regulatory framework governing the planning, budget, and monitoring and evaluation functions.** Several entities, including the National Planning Department, the Ministry of Finance and Public Credit, the Departamento Administrativo de la Función Pública (Administrative Department of Public Service), the Procuraduría General de la Nación (Office of the Attorney General of Colombia), and the Office of the Comptroller General of the Republic, have constitutional or legal mandates on monitoring and evaluation matters, with occasional partial overlaps.

4.27 **Appropriate coordination and feedback mechanisms.** The existence of appropriate mechanisms for coordination and feedback among these entities would help to strengthen the system, create synergies, and bolster the strengths of the various entities. Worth noting are the government's efforts to connect the evaluation and planning functions, as well as the implementation of the project-based budget now in its initial stages.

4.28 **There is an opportunity to improve the content of the budgetary exercise using the information obtained in the planning and monitoring and evaluation processes, thereby reinforcing the connection between these two systems.** The value chain of planning, budget, and monitoring and evaluation can be bolstered and strengthened by leveraging Colombia's solid institutional framework. First, the Bank will initiate a dialogue with the authorities regarding their objectives in terms of results-based management and budgeting. Initiatives with potential, such as project-based budgeting or alignment of the evaluation cycle with the budget cycle, may be deepened. In addition, fostering use of the results already being produced by the monitoring and evaluation system would help to inform and improve the quality of public policy. Second, the Bank will promote reviewing the coordination processes between the entities responsible for monitoring and evaluation and the authorities with a view to strengthening the monitoring and evaluation system, including governance. Lastly, the ongoing generation of evidence in areas needed for the country's public policy and described in Section II (such as innovation, financial inclusion, decarbonization of energy or transportation, and the Amazon) will provide important inputs for supporting the monitoring and evaluation agenda, especially regarding issues on

[145] See documents GN-2538-15 and GN-2538-26 and the memorandum entered into between the Bank and Colombia Compra Eficiente.

which past analyses have not been sufficiently exhaustive due to lack of information.

V. RISK OUTLOOK[146]

A. Macroeconomic factors

5.1 **Risks:** The main macroeconomic risks during the validity period of this country strategy include fiscal risks associated with external and foreign-exchange factors. Firstly, the authorities remain committed to the fiscal rule, which determines annual fiscal limits. However, if revenue collection is lower than projected, an expenditure adjustment becomes necessary, and this could affect the fiscal headroom for public investment. Secondly, while inflationary pressure has subsided, it remains high. This could affect the project budgeting costs and require additional support to the authorities until prices come down and the contractionary monetary policy begins to ease. Thirdly, in the last two years, Colombia's foreign exchange rate volatility has been one of the continent's largest, which could affect project budgeting and implementation.

5.2 **Mitigation measures:** During the implementation of the country strategy, the Bank will: (i) identify early on any project-related budget item or expenditure that could be subject to change (due to budgetary constraints, inflationary effects, or the exchange rate), and develop mitigation plans[147]; (ii) closely monitor the implementation of projects to identify potential cost changes tied to exchange rate variations and inflationary pressure, and determine the appropriate action.

B. Environmental and climate factors

5.3 **Risks:** Colombia is highly vulnerable to natural disasters that could affect the ability to implement projects or lead to requests for support beyond those envisaged in this document. Furthermore, the country has made a commitment to reduce its greenhouse gas emissions by 51% by 2030. However, given the country's economic dependence on fossil fuels, advancing toward these objectives within the stipulated time could have substantial fiscal, economic, and social consequences, adversely affecting the fiscal headroom for projects or creating animosity on the part of certain impacted population groups.

5.4 **Mitigation measures:** During the implementation of the country strategy, the Bank will: (i) continue to support the country in preparing natural disaster mitigation and response action by designing contingent liability instruments and response plans, among other means (see Section II); and (ii) consider sector participation strategies and ensure an inclusive approach with stakeholders in projects linked to the country's nationally determined contribution goals.

C. Social factors

5.5 **Risks:** Certain interventions are implemented in complex environments, as attested to by the great social diversity, precedents of armed conflict, and presence of organized crime in various regions of the country. This can hinder the design and implementation of projects. At the same time, there is a risk that the projects

[146] This country strategy identifies risks based on a new IDB Risk Taxonomy (GN-2547-15).

[147] The government constantly monitors collection dynamics and evaluates budgetary and cash strategies to improve efficiency in the use of public resources that can support such monitoring.

will fail to achieve their expected results or have a negative impact on vulnerable population groups, potentially aggravating the existing social context.

5.6 **Mitigation measures:** Firstly, the Bank will strengthen the design of and implementation arrangements for these interventions, using the actions of the Framework to Support Populations in Situations of Fragility, Conflict, and Criminal Violence: 2024-2027 (GN-3199-2, CII/GN-541-2). Secondly, the Bank will seek to align these interventions to the greatest possible extent with the requirements for protection and inclusion of vulnerable individuals/population groups set out in the IDB Environmental and Social Policy Framework (ESPF) (GN-2965-23).

D. Implementation factors

5.7 **Risks:** The main risks include delays in the implementation of Bank operations. Three risks have been identified in relation to the implementation of operations. The first risk is activation of the provisions set out in the Law on Electoral Guarantees during the four months prior to the elections scheduled to take place during this country strategy period. These provisions entail restrictions on public procurement, which could slow some procurement processes by executing agencies in Bank-financed operations. The second risk is that a turnover of key staff in public entities could create delays in the implementation of projects. The third risk is that challenges in the implementation of subnational projects could require longer implementation time frames for projects planned under this country strategy. These three risks could lead to fewer project results, limiting project effectiveness and impact.

5.8 **Mitigation measures:** During the implementation of the 2024-2027 country strategy, the Bank will: (i) identify, together with the country's relevant authorities, the potential effects of enforcing the Law on Electoral Guarantees in the case of operations financed with external loans, with a view to creating a shared understanding of these effects and maintaining an appropriate pace of implementation; (ii) work in coordination with the country's authorities to establish measures aimed at maintaining implementation in a context of key staff turnover; (iii) further systematize lessons learned from subnational interventions and establish actions aimed at addressing the particularities of each project; and (iv) work with the authorities to ensure a monitoring and evaluation process that can produce and provide feedback for project design and implementation.

ANNEX I. RESULTS MATRIX[148]

Government priority	Strategic area	Strategic objective	Expected impact	Indicator	Baseline	Source
Human security and social justice	Boost social and territorial inclusion	Increase quality and access to health services through new operations focused on primary and digital health care	Quality and access to primary and digital health care services increased in the most excluded areas	Maternal mortality ratio (# per 100,000 population, nationwide)	2021 83.2	National Administrative Department of Statistics
				Percentage of subnational entities[149] that have the electronic health records interoperability mechanism in operation at the departmental level	2023 0%	Ministry of Health and Social Protection
		Increase quality and access to education services through new operations focused on preschool to upper secondary school	Quality and access to preschool and basic primary, basic secondary, and upper secondary school services improved in the targeted areas	School survival rate[150] of students in the targeted school areas (as a percentage of total students)	2016 23.6%	Program monitoring system; Annex C600 and the National Education Management and Information System (SIMAT) – Colombian Institute for Educational Assessment (ICFES)
		Improve access in urban areas through new interventions focused on water and sanitation	Quality coverage of drinking water and of wastewater and solid waste collection improved in urban areas	Households with new or improved access to drinking water and wastewater services in the cities in which sewerage and aqueduct projects have been implemented[151]	2016 0	Municipal water utility report

[148] The cycle of this country strategy is three years (2024-2027). Consequently, there may not be any major evidence of improvements in the national indicators, and any evidence in the legacy portfolio indicators may be partial.

[149] Service providers may be found at any level. The term refers to political-administrative territorial units such as departments, municipios, districts, and Indigenous territories. Numerator: number of subnational entities with the interoperability mechanism in operation (i.e., with at least two providers from a network of health care providers in the subnational entity exchanging health record data). Denominator: total number of subnational entities (corresponding to the country's 32 departments and the capital district of Bogota).

[150] Percentage of students who, having been enrolled in the first grade of primary school at age 6, succeed in graduating after 11 years of school. The calculation consists of the product of pass rates in each year of basic primary through upper secondary school. Schools will be selected in the framework of the Program to Support the Improvement of Educational Paths in Targeted Rural Areas II, and the measurement will be made at the close of operation CO-L1229.

[151] This indicator is expected to be measured through the global credit financial instrument under operation CO-L1299, currently in the design stage. Due to the nature of the instrument, the demand for the investments and their geographic location have yet to be determined, and will only be specified during the operation's implementation.

Government priority	Strategic area	Strategic objective	Expected impact	Indicator	Baseline	Source
			Gap in access to drinking water, basic sanitation, and electrification services in Colombia's Pacific coast region reduced[152]	Households in Quibdó connected to:[153] - an improved drinking water system - an improved sewerage network	2015 Water: 0 Sewerage: 0	Operator's annual report to UNGR
			Broadband mobile access and connectivity improved[154]	Beneficiaries of new or improved access to 4G broadband mobile network in 517 municipios	2020 7,488,000	Development effectiveness matrix -IDB Invest
		Promote social inclusion of diverse population groups and reduce gender-based violence	Women, Indigenous peoples, Afro-descendants, people with disabilities, LGBTQ+ population, and migrants with increased social and economic inclusion	Gap in the unemployment rate between women and men (percentage points, nationwide)	2023 Gender gap in the unemployment rate 4.6 p.p.	National Administrative Department of Statistics
			Gender-based violence reduced	Percentage of women victims of gender-based violence who are under physical and mental health care due to suspected physical, psychological, and/or sexual violence[155]	2021 77%	Ministry of Health and Social Protection
			Growth of the social interest housing portfolio promoted[156]	Number of current loans to women beneficiaries of social housing through gender bonds[157]	2019 70,927	Development effectiveness matrix - IDB Invest

[152] Expected impact through portfolio operation CO-L1156.

[153] This indicator will be measured in the market under portfolio operation CO-L1156.

[154] The impact is expected through IDB Invest operation 12799-01, the objective of which is to provide first-time access in 177 municipios and support a network upgrade in 340 municipios (which already have Internet, but not 4G).

[155] (Number of female victims of physical, psychological, and/or sexual violence reported to SIVIGILA and under physical health care/Total number of women reported to SIVIGILA due to physical, psychological, and/or sexual violence *100) + (Number of female victims of physical, psychological, and/or sexual violence reported to SIVIGILA and under mental health care/Total number of women reported to SIVIGILA due to physical, psychological, and/or sexual violence *100) /2. SIVIGILA is the National Public Health Surveillance System.

[156] The impact is expected through IDB Invest operation 12114-02.

[157] Number of outstanding loans in the portfolio of the eligible financial intermediary institution at the end of the reporting period. Includes access to financing for women-led SMEs and support for women in the purchase of social interest housing through gender bonds. This corresponds to IDB Invest operation 12114-02.

Government priority	Strategic area	Strategic objective	Expected impact	Indicator	Baseline	Source
			Development of alternative data-based financial products increased[158]	Accuracy level of the credit risk algorithm[159] (AUC-ROC score: 0-1)	2023 0.70	Executing agency CO-G1050
Productive transformation, internationalization, and climate action	Promote higher growth and productivity	Foster increased financial inclusion and greater business growth, sophistication, and innovation	Financial inclusion increased	Growth rate of sales per employee at SME beneficiaries of subloans arising from Balcódex programs[160]	2020 0%	Management Information System (SIG) – Bancóldex
			Credit access to women-led and/or women-owned microenterprises in Colombia increased[161]	Value of current loans issued through gender bonds to micro and small enterprises led and/or owned by women (in Colombian pesos)	2019 680,536,000	Development effectiveness matrix -IDB Invest
		Boost Colombia's integration into global value chains	Economy more integrated into global value chains, lower trade costs, and higher foreign direct investment flows	Annual foreign direct investment (percentage of GDP)	2022 4.8%	Banco de la República
				Logistic costs as a percentage of sales in companies that engage in foreign trade (national average)	2020 36%	National Logistics Survey (National Planning Department)
			Road connectivity and local integration improved	Length of the country's road network (km)	2021 205,740	International Road Federation
		Support decarbonization of the energy matrix and the transportation sector	Greenhouse gas emissions reduced in power generation and in the transportation sector	CO_2 emissions reduced or avoided (cumulative) as a result of subprojects financed by Financiera de Desarrollo Nacional (FDN)[162]	2024 0	FDN annual reports on subprojects financed with resources from the operation
				CO_2 emissions reduced or avoided (cumulative) by means of financing for the private sector in renewable energy and electromobility projects[163]	2020 0	Development effectiveness matrix -IDB Invest

[158] Expected impact through IDB Lab portfolio operation CO-G1050.

[159] This refers to how well the model rates individuals based on their risk profile. It is measured by calculating the AUC-ROC curve of the model used by the institution, and the possible values range from 0 to 1, 1 being a perfect score.

[160] The impact is expected through operations CO-L1228, CO-L1255, CO-L1258, and CO-L1289.

[161] The impact is expected through IDB Invest operation 13166-01. The project consists in the issuance of a gender bond denominated in Colombian pesos. Value of outstanding loans to women-led or women-owned micro and small enterprises in the portfolio of the eligible financial intermediary institution at the end of the reporting period.

[162] Support the decarbonization of the economy by accelerating financing for just energy transition projects and strengthening FDN's capacity and instruments to potentially gain access to thematic green capital markets at the necessary scale.

[163] Expected impact through IDB Invest portfolio operations 14121-01, 13918-01, 13420-01, 13993-01, and 13896-01.

Government priority	Strategic area	Strategic objective	Expected impact	Indicator	Baseline	Source
Regional convergence	Strengthen fiscal execution and public management	Boost tax collection	Tax revenue boosted	Central government tax revenue (percentage of GDP)	2022 14.8%	Ministry of Finance and Public Credit
		Improve the government's strategic management capacity	Judicial system effectiveness, efficiency, and transparency increased[164]	Connectivity enablement at prioritized subnational courthouses (number of courthouses, cumulative)	2023 0	Judicial branch, Superior Judiciary Council
			Financial resilience to catastrophes increased	Ex ante financial coverage for contingent tax liabilities associated with natural disasters, extreme climate events, epidemics, and pandemics[165]	2024 $0	Ministry of Finance and Public Credit
			Resource efficiency, development effectiveness, and social outcomes improved through results-based financing models[166]	Domestic resources mobilized by the government and the private sector in results-based financing for social impact bonds (US$)	2023 0	Executing agency
			Green financing in Colombia mobilized by the IDB Group	Green financial resources mobilized by the IDB Group for Colombia (climate finance as a percentage of the country's total approvals)	2023 29% of approvals	IDB Climate Finance Tracking Group, CCS/CSD; IDB Invest; IDB Lab (IDB Climate Finance Overview Report)

Source: Prepared by the authors.

[164] Expected impact through portfolio operation CO-L1256.

[165] This is measured even if no emergency has materialized, but is used in real terms only if a qualifying emergency has occurred. What is being measured here is the ex-ante coverage, i.e., how well prepared the country is to face this type of unforeseen fiscal expenditure in the event of an emergency, since the ex-ante coverage does increase even if the event does not occur.

[166] Expected impact through IDB Lab portfolio operation CO-T1734.

ANNEX II. PROJECTED SOVEREIGN GUARANTEED LOAN OPERATIONS 2024-2027[167]

Strategic area	Strategic objective	Program
Boost social and territorial inclusion	Improve quality and access to health care services through new operations focused on primary health	Digital Transformation Program for Effective Health Care Access in Colombia (CO-L1298)
	Improve quality and access to education services through new operations focused on preschool to upper secondary school	Program to Support the Improvement of Educational Paths in Targeted Rural Areas II
	Improve access to services in urban areas through new interventions focused on water and sanitation	Program to Strengthen Subnational Public Investment[168] (CO-L1299)
	Promote the social inclusion of population groups and reduce gender-based violence	Program to Strengthen Equality and Equity Policies for Women and Diverse Populations in Colombia II (CO-L1304)
Promote higher growth and productivity	Foster increased financial inclusion and greater business growth, sophistication, and innovation	Program to Foster Greater and More Inclusive Access to Productive Financing in Rural Areas of Colombia Program to Improve Integration and Sustainable Development in the Amazon Region
	Boost Colombia's integration into global value chains	Support Program to Strengthen Colombia's Integration into Regional and Global Value Chains II[169] (CO-L1302)
	Support decarbonization of the energy matrix and transportation sector	IDB CLIMA: Energy Transition Support Program (CO-L1287) Territorial Connectivity Improvement Program – Tranche I[170] (CO-L1294)
Strengthen fiscal execution and public management	Boost tax collection	Program to Support Sustainable and Equitable Fiscal Policies II
	Improve the government's strategic management capacity	Strengthening of the Superintendency of Public Utility Services Contingent Loan for Natural Disaster and Public Health Emergencies[171] (CO-O0018)

[167] Operations subject to formal validation by the Colombian Ministry of Finance and Public Credit as part of the programming dialogue with the Bank.

[168] Fourth individual operation under the CCLIP Fiscal and Public Expenditure Strengthening in Subnational Entities (CO-X1018).

[169] This operation completes the programmatic series, being the second and last operation of the series. The first operation was approved in 2022 (CO-L1283).

[170] First operation under the CLIPP: Territorial Connectivity Improvement Program (CO-O0016) for US$600 million.

ANNEX III. DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX	
In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the availability of all Bank development products. **The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."**	
COUNTRY STRATEGY: Colombia	

STRATEGIC ALIGNMENT
Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.

EFFECTIVENESS
This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and buildup of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)*	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the **priority area's** specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the **main factors** or causes contributing to the specific constraints and challenges	100%
- That provide corresponding **policy recommendations**	100%
III. Results matrix**	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes

* This analysis includes any potential diagnostic document used to inform.

** The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expect results stem from the strategic objectives.

ANNEX IV. COUNTRY SYSTEM MATRIX

Strategic objective	Expected result	Indicator	Unit of measure	Baseline	Base year	Main objective	Time distribution	Alignment with Corporate Results Framework
Strengthening of country systems	Updated assessment of the public financial management systems under the PEFA methodology, including gender and climate modules	Final report on the PEFA diagnostic assessment++	Number of diagnostic assessments completed	0	2024	1	End of country strategy period	-Institutional capacity and rule of law -Productivity and innovation -Social inclusion and equality
	Office of the Comptroller General of the Republic trained in implementing good practices and international standards regarding improvement of the auditing process	Final reports on technical support for the implementation of technical good practices and international standards	Number of strengthening interventions completed	0	2024	2	End of country strategy period	- Institutional capacity and rule of law -Productivity and innovation -Social inclusion and equality
	National General Accounting Office trained in implementing good practices and international standards in accounting reports for sustainability and transparency	Final reports on technical support for the implementation of good practices and international standards	Number of strengthening interventions completed	0	2024	2	End of country strategy period	- Institutional capacity and rule of law -Productivity and innovation -Social inclusion and equality
	Development gaps in the Colombia Compra Eficiente system identified	Final report on development gaps with respect to international standards	Number of strengthening interventions completed	0	2024	1	End of country strategy period	- Institutional capacity and rule of law -Productivity and innovation -Social inclusion and equality

ANNEX V. INDICATIVE LENDING FRAMEWORK

The sovereign guaranteed lending framework provides for approvals of approximately US$2.9 billion to US$3.5 billion between 2024 and 2027. This range has been determined based on the country's financing needs,[172] dialogue with the authorities at the strategic level, and operational dialogue maintained by the sectors working in the country. The IDB Group will continue to provide technical support in the strategic areas and explore loan opportunities in local currency to reduce exchange rate risk. To expand the reach of the results, the IDB Group will also explore fostering financing through the national development banks and subnational service providers, and will seek to leverage resources through strategic partnerships. These resources will be added to the IDB Invest and IDB Lab amounts for Colombia for the country strategy period. In addition to positioning the Bank as a strategic partner in terms of technical support and knowledge generation for the country, the expected approvals and respective disbursements should allow the Bank to maintain a share of 4.8% to 4.9% of Colombia's total debt and 17% to 17.5% of the country's total external debt.

[172] From 2024 to 2027, the Colombian government's gross and external financing needs will, on average, be 5.4% of GDP and 16.3% of GDP, respectively. The planned disbursements will cover 2.8% to 3.8% of the government's gross financing needs and 0.9% to 1.3% of its external financing needs during the country strategy period. The projections of financing needs were taken from the 2024 Article IV Consultation Staff Report, available here.