

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**COLOMBIA**

**SUSTAINABLE COLOMBIA PROGRAM**

**(CO-L1166)**

**LOAN PROPOSAL**

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<b>REQUIRED</b>	
1.	<a href="#">Multiyear Execution Plan and Annual Work Plan</a>
2.	<a href="#">Monitoring Plan and Impact Evaluation Plan</a>
3.	<a href="#">Environmental and Social Management Report</a>
4.	<a href="#">Procurement Plan</a>
<b>OPTIONAL</b>	
1.	<a href="#">Economic Evaluation – Hilacha/Hilaza Mango Production Project</a>
2.	<a href="#">Economic Evaluation – Tahiti Lime Project</a>
3.	<a href="#">Project Operating Regulations</a>
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7.	<a href="#">Bibliographic References</a>
8.	<a href="#">Institutional Capacity Assessment of the DAPRE</a>
9.	<a href="#">Safeguard Policy Filter</a>

## ABBREVIATIONS

ACPC	Alta Consejería para el Posconflicto, Derechos Humanos y Seguridad [High Council for Post-Conflict, Human Rights, and Security]
APU	Agricultural production unit
ASEIs	Areas of Special Environmental Importance
CGR	Contraloría General de la República [Office of the Comptroller General]
CNA	Censo Nacional Agropecuario [National Agricultural Census]
Col\$	Colombian peso
CONPES	Consejo Nacional de Política Económica y Social [National Council on Economic and Social Policy]
DANE	Departamento Administrativo Nacional de Estadística [National Department of Statistics]
DAPRE	Departamento Administrativo de la Presidencia de la República [Department of the Presidency of the Republic]
DNP	Departamento Nacional de Planeación [National Planning Department]
EMSF	Environmental and Social Management Framework
EMSR	Environmental and social management report
FAOSTAT	Food and Agriculture Organization Corporate Statistical Database
FCP	Fondo Colombia en Paz [Colombia Peace Fund]
ha	hectares
IDEAM	Instituto de Hidrología, Meteorología y Estudios Ambientales [Institute of Hydrology, Meteorology, and Environmental Studies]
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
IPEP	Índice de Problemática de Estructuración de Proyectos [Index for Identifying Project Structuring Issues]
IRR	Internal rate of return
MADS	Ministerio de Ambiente y Desarrollo Sostenible [Ministry of Environment and Sustainable Development]
MPI	Multidimensional Poverty Index
NCB	National competitive bidding
PCZs	Post-conflict zones
PDETs	Programas de Desarrollo con Enfoque Territorial [Development Programs with a Territorial-based Focus]
PES	Payments for environmental services
PCR	Project completion report
TCU	Technical coordination unit
SINAP	National System of Protected Areas
UNDP	United Nations Development Programme
UPRA	Unidad de Planificación Rural Agropecuaria [Rural Agricultural Planning Unit]
US\$	United States dollar

## PROJECT SUMMARY

### COLOMBIA SUSTAINABLE COLOMBIA PROGRAM (CO-L1166)

Financial Terms and Conditions					
Borrower: Republic of Colombia			Flexible Financing Facility <sup>(a)</sup>		
			Amortization period:		13.5 years
Executing agency: Department of the Presidency of the Republic (DAPRE), through the Colombia Peace Fund			Disbursement period:		5 years
			Grace period:		13.5 years <sup>(b)</sup>
Source	Amount (US\$)	%	Interest rate:		LIBOR-based
IDB (Ordinary Capital)	100 million	100	Credit fee:		(c)
			Inspection and supervision fee:		(c)
Total	100 million	100	Weighted average life:		13.5 years
			Approval currency:		U.S. dollars from the Ordinary Capital
Project at a Glance					
Project objectives: promote environmental and socioeconomic sustainability in the project's priority municipios, restore and protect natural capital, improve the income of the beneficiary rural population, and strengthen the technical capacity of the involved local and regional actors to structure subprograms.					
Special contractual clauses precedent to the first disbursement of the financing: evidence will be provided that the executing agency: (i) has approved the <a href="#">project Operating Regulations</a> and that they have entered into effect, which include the environmental and social requirements of the <a href="#">Environmental and Social Management Framework (ESMF)</a> (paragraph 3.5); (ii) has formed the technical coordination unit, pursuant to the terms and conditions established in the project Operating Regulations (paragraph 3.2); and (iii) has engaged a fund administrator to manage the project's resources, in accordance with the terms and conditions approved by the Bank (see Annex III, paragraph 4.1).					
Special contractual conditions for execution: (i) see the <a href="#">Environmental and Social Management Report</a> for the special environmental and social contractual conditions; and (ii) the availability of project resources to finance incentives for payments for environmental services (PES) (Component 1) is conditioned on the inclusion, in the <a href="#">project Operating Regulations</a> , of the operational arrangements for PES execution (paragraph 3.5).					
Exceptions to Bank policies: None					
Strategic Alignment					
Challenges: <sup>(d)</sup>		SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>
Crosscutting themes: <sup>(e)</sup>		GD	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>
				EI	<input type="checkbox"/>
				IC	<input type="checkbox"/>

<sup>(a)</sup> Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem to be addressed, and rationale

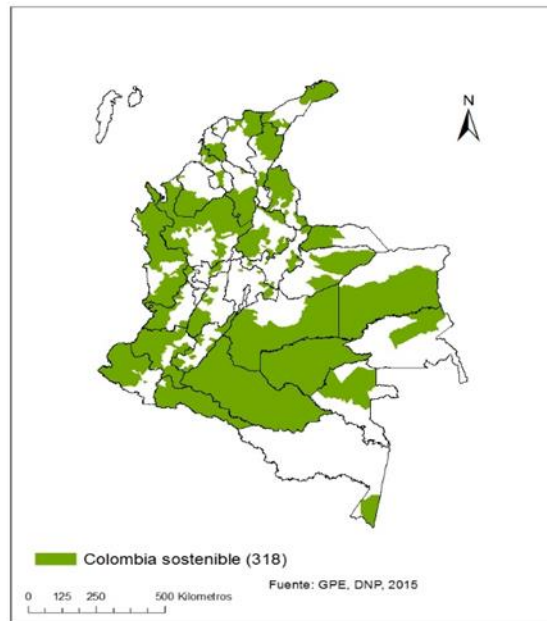
#### 1. Socioeconomic and environmental context of the armed conflict in Colombia

- 1.1 In November 2016, the Colombian government and the Revolutionary Armed Forces of Colombia (FARC) signed a six-point peace accord to end the armed conflict, which included commitments for the “building of a stable and long-lasting peace” ([Presidency of the Republic, 2016](#)).<sup>1</sup> The Bank’s proposed intervention falls within the framework of two of the accord’s six points, namely, point 1, “Comprehensive Rural Reform,” which includes a number of initiatives for the sustainable development of post-conflict zones (PCZs); and point 4, “Solution to the Problem of Illicit Drugs,” which establishes commitments aimed at eradicating illicit crops in the PCZs and includes the promotion of economic alternatives.
- 1.2 Based on this peace accord, the aim is to initiate a process of reestablishing the necessary socioeconomic conditions to ensure that populations living in the PCZs have comparable development opportunities to those available in the rest of the country. To that end, the accord identifies several enormous challenges, including:
- a. Preventing economic growth from having adverse impacts on natural capital (e.g. additional deforestation or the destruction of wetlands due the expansion of the agricultural frontier) and reversing processes generated by the conflict that are detrimental to natural capital;
  - b. Reintegrating the affected population into the economy by promoting the use of sustainable agricultural systems, and taking part in nonagricultural activities based on biodiversity and the delivery of ecosystem services, which boost the growth of local economies and enhance natural capital ([United Nations Development Programme \(UNDP\)-Colombian Ministry of Environment and Sustainable Development \(MADS\), 2014](#)); and
  - c. Building local and regional capacities through technical and financial support for their design.
- 1.3 **Areas affected by the armed conflict.** Although the consequences of the armed conflict have impacted the social and economic development of the entire country ([Arias, A.M. et al., 2014](#)), its impact has been felt the most in rural areas of 318 municipios (28% of the total). These are located in 28 of the country’s 32 departments and cover nearly 50% of its total land area (see Map 1). In 2013, 52% of these municipios were described as being severely or very severely impacted by the armed conflict, 16% as medium impact, and 32% as low or medium-low impact.

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<sup>1</sup> See [optional electronic link 7](#) for complete bibliographic references.

Map 1. Colombia. PCZs



Source: Prepared by the authors based on National Council on Economic and Social Policy (CONPES) document 3867 ([National Planning Department \(DNP\), 2016](#)).

- 1.4 **Social situation in the PCZs.** Nearly 9% of the country's population (4.2 million) lives in the 318 post-conflict municipios, where there is a high rate of rural poverty (Multidimensional Poverty Index (MPI) of 54.7%, compared to the national average of 45.6%) and an illiteracy rate of 17.8% (population age 15 and older). Here, 34% of the population is of Afro-Colombian or indigenous origin, primarily located along the Pacific coast and in the Amazon region, with an MPI of 49.7% ([National Department of Statistics \(DANE\), 2014](#)).
- 1.5 **Natural capital<sup>2</sup> affected in the post-conflict municipios.** Colombia has the highest number of species per unit area on the planet, and is the world's second richest country in biological diversity, after Brazil ([Alexander von Humboldt Biological Research Institute, 2013](#)). This natural wealth is found in the country's different ecosystems, including forests, páramos [high plateaus], and wetlands. A significant proportion of these ecosystems is located in the PCZs (see Table 1 and Map 2).

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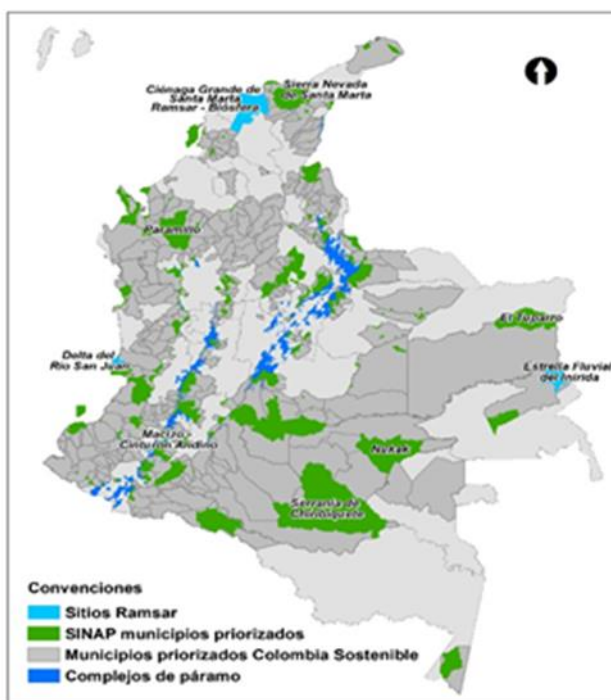
<sup>2</sup> The term "natural capital" refers to the components of ecosystems, including biodiversity, that provides goods and services of value to people, both now and in the future ([Guerry et al., 2015](#)).

**Table 1. Protected areas and ecosystems in the PCZs**

Natural Capital	Nationwide	Post-conflict municipios
Protected areas	23,800,000 hectares (ha)	8,400,000 ha
National parks	59	48
Natural forest	59,000,000 ha	36,000,000 ha
Wetlands	22,000,000 ha	12,000,000 ha
High plateaus	2,900,000 ha	1,200,000 ha
Biosphere reserves	7	4
Ramsar wetlands <sup>3</sup>	7	3

- 1.6 Environmental degradation processes—mainly deforestation—can be observed in the PCZs, which threaten the country’s biodiversity and the delivery of ecosystem services (primarily related to water, soil, and biodiversity), as well the economic sustainability of the affected population ([MADS-UNDP, 2014](#)).

**Map 2. Natural National Parks, Strategic Ecosystems, Ramsar Sites, and Biosphere Reserves**



Source: DNP based on data from the National System of Protected Areas (SINAP), 2016, the Alexander von Humboldt Biological Research Institute, 2012 and MADS, 2014.

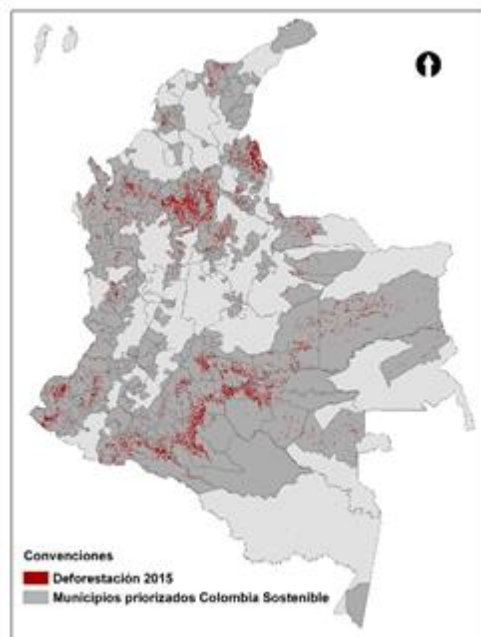
- 1.7 In 2015, 89% (110,295 ha) of all deforestation identified in the country occurred in the PCZs (see Map 3). Between 1990 and 2013, around 3 million ha were deforested, with degradation of natural resources found in more than 1.5 million ha ([Galindo G. et al., 2014](#)). The main factors behind increased deforestation in the PCZs to expand the agricultural frontier are: (i) economic pressures leading to the overexploitation or illegal use of resources, conversion of forests to pasture as a land

<sup>3</sup> RAMSAR Convention on Wetlands of International Importance.



settlement strategy, expansion of the agricultural frontier with illicit crops and low-density livestock, illegal logging, construction of infrastructure and roads, and illegal mining ([Institute of Hydrology, Meteorology, and Environmental Studies \(IDEAM\), 2017](#)). The conversion of natural forests to pasture is believed to account for 66% of deforestation in the last 20 years ([IDEAM, 2016](#)); and (ii) unrestricted access to natural areas and habitats facilitated by weaknesses in protected-area control systems. For example, 6% of all deforestation in 2016 occurred in national parks, illegal mining was carried out in 29% of these areas, and crops grown for illegal purposes are present in 30 of the country's 59 national parks, which account for 4% to 8% of the total area under cultivation ([IDEAM, 2017](#)). Moreover, other issues exacerbate the problem, namely: (i) weaknesses in the environmental and institutional governance responsible for forest management; (ii) uncertainty about land ownership and property rights (80% of the municipios most affected by the armed conflict lack clear property registration information ([DNP, 2016](#))); and (iii) failure of local governments and private agents to take into account the value of forest environmental services in economic decision-making ([Geist and Lambin, 2002](#)). Deforestation also significantly contributes to greenhouse gases: 52.5% of Colombia's greenhouse gases are the product of deforestation and agricultural activities, with livestock production accounting for 19% of such activities ([MADS-UNDP, 2014](#)).

**Map 3. Deforestation in the PCZs**



Source: DNP based on data from IDEAM, 2015.

- 1.8 The proposed project seeks to reduce environmental degradation through ecological conservation and restoration arrangements, including payments for environmental services (PES). International evidence shows that PES programs are effective in reducing deforestation rates, thereby increasing natural land cover. Specifically, [Alix-Garcia et. al. \(2012\)](#) found that the rate of deforestation in tracts of land with PES programs was half that of the control group. These results are similar to those

found by [Scullion et. al \(2011\)](#) and [Costedo et al. \(2015\)](#). However, although there is empirical evidence of the positive impacts of PES programs, it is also true that the political, social, and geographic contexts underlying these programs, as well as their design, are critical to increasing the likelihood of their success and preventing a loss of financial resources and adverse environmental impacts ([Borner et al., 2017](#)). Overall, no negative impacts have been attributed to PES programs. In fact, some even have a moderately positive impact. Considering that one of the government's objectives is to reduce the expansion of the agricultural frontier, PES programs may help prevent deforestation and forest degradation ([Jayachandran et al., 2016](#)).

- 1.9 **Economic and production situation in post-conflict municipios.** According to data from the Third National Agricultural Census, in 2014 there were 2.3 million ha of land being used for agriculture (32.4% of the country's total agricultural land) in the PCZs. Of this land, 33% was planted in agroindustrial crops, primarily African palm, coffee, sugarcane, cocoa, rubber, plantains, and tubers (28%), fruit (16%), grains (12%), and vegetables and flowers (11%). In addition, the census identified 4.5 million head of cattle on 6.8 million hectares of pastureland. It should be noted that agricultural productivity is far lower than the national averages. Furthermore ([DANE, 2014](#)), only 57.3% of agricultural production units (APUs) in the PCZs make appropriate use of the land, while 8.4% underuse it and 22.5% overuse it. In addition, 43.3% of APUs lack access to a sufficient supply of water for their agricultural activities.

**Table 2. Agricultural productivity gaps in the PCZs – 2015**  
(Average yields in kilograms/ha)

Crops	Post-conflict municipios	National total	Gap (%)
1. Rice	3,780	5,390	30
2. Sugarcane	5,600	6,390	12
3. Coffee	1,040	1,080	4
4. Cocoa	510	550	7
5. Corn	2,120	2,860	26

Source: Produced in house based on the 2015 Municipal Agricultural Assessments of the Ministry of Agricultural and Rural Development.

- 1.10 Table 2 presents a summary of productivity gaps between post-conflict municipios and the national total for five typical crops of rural economies, which range from 4% for coffee to 30% for rice. A recent study on technology gaps (which included PCZs) found that technical inefficiency in agricultural production ranges from an average of 41% efficiency with respect to the production of crops that require processing (mainly sugar and cacao) to 61% for the basic crops (e.g. plantains, corn, yucca, beans, and potatoes). This indicates that there is wide margin for increasing agricultural productivity and, consequently, farmers' incomes. In addition, the area used for agricultural activities in the PCZs has vast production potential. Analyses of by the Rural Agricultural Planning Unit [UPRA] (2014) on the production potential of these areas identifies significant possibilities for products with promising markets, which are compatible with the preservation of biodiversity and the delivery of ecosystem services based on natural capital in the PCZs ([UPRA, 2014](#)).
- 1.11 The main causes of low productivity include: (i) insufficient supply of technical assistance and financing available in the PCZs, where only 16.5% of the APUs said

they had received technical assistance; (ii) lack of access to credit and information (only 20% of the APUs said they had applied for a loan for agricultural activities ([DANE, 2014](#))); and (iii) lack of access to technologies (only 31% of APUs in Colombia have reported that they have machinery to carry out their agricultural activities (DANE, 2014). For example, [Santos-Montero and Bravo-Ureta \(2017\)](#) demonstrate the importance of technical assistance for helping farmers make better decisions about the technologies best suited to their needs. The importance of technical assistance in helping to reduce inefficiency in agricultural production has also been shown ([FEDESARROLLO, 2014](#)).

- 1.12 The proposed project seeks to alleviate the problems of technical assistance, liquidity restrictions, and access to technologies by financing sustainable production subprojects. Empirical evidence shows that interventions targeted to small producers with the aim of reducing the liquidity restrictions to adopting technologies and providing technical assistance have positive impacts on their productivity and income. In a similar program carried out in Bolivia, for example, [Salazar et al., 2016](#) identified a 36% increase in beneficiaries' incomes and a 92% increase in productivity. Empirical evidence also shows that technical assistance is essential for farmers to make good production-related decisions, identify the technologies best suited to their needs, and reduce production inefficiency (Santos-Montero and Bravo-Ureta, 2017; [FEDESARROLLO, 2014](#)). With respect to interventions that seek to increase agricultural potential and environmental sustainability, Santos-Montero and Ureta (2017) show that the technologies associated with agroforestry, forestry, and mixed systems had positive economic impacts on the small- and medium-scale producers who participated in Nicaragua's family food security program (PROSAF), which increased the value of their agricultural production. This study identified a 35% internal rate of return. In addition, ([González, 2017](#)) points out the positive impacts of the Environmental Program for Disaster Risk Management and Climate Change (PAGRICC) project in Nicaragua, which increased production value by adopting environmental restoration systems (including agroforestry, silvopastoral, coffee cultivation, forest management, and natural regeneration systems).
- 1.13 One public agricultural development arrangement that has had positive results on rural productivity and income are strategic partnerships between producers and their respective value chains. A recent study that evaluated the impact of one such arrangement, the Production Partnerships Support Project implemented by the Ministry of Environment and Sustainable Development (MADS), found a roughly 20% increase in gross income and a 30% increase in profits. In terms of sustainability, 97.5% of the partnerships remained intact at the time of the evaluation (four years later), 65% were still working with their original commercial partner, and the remaining 35% were still using the same commercial partnership model but with a different partner. The evaluation also found that 84% of the partnerships analyzed had an internal rate of return that exceeded the internal opportunity cost of resources (12%), and 46% demonstrated results that were higher than expected (Econometría Consultores y Sistemas Especializadas de Información S.A.-Unión Temporal, 2015). Similarly, a review of impact evaluations of marketing arrangements between buyers and sellers of agricultural products showed positive results ([Independent Evaluation Group, 2011](#)).

- 1.14 **Local restructuring capacity.** As spelled out in CONPES document 3856,<sup>4</sup> Colombia has significant weaknesses associated with the structuring projects in the investment cycle, including a dearth of projects to be submitted for financing, and initiatives being returned by the respective authorities, owing to shortcomings in study and design quality. These situations increase formulation costs, due to the need to modify studies and designs, and delays in procurement processes and execution, among other problems. In the case of the PCZs, this situation can be seen, for example, when using Colombia's Index for Identifying Project Structuring Issues (IPEP). As of December 2016, 75% of these municipios were rated medium to critical in terms of their capacity to structure projects, and 47% of municipios with a "high" or "very high" impact from the conflict had serious problems in their ability to structure projects ([IPEP-DNP, 2013](#)).

## **2. Government strategy to address the post-conflict situation**

- 1.15 The Colombian government recognizes that building peace requires sustainable rural development as a starting point for reducing social and economic inequalities, generating incomes for rural communities, reversing environmental damage, implementing proper land-use planning, and strengthening local capacities to manage natural resources. Accordingly, and to facilitate smooth implementation of the peace accord, the government created the Colombia Peace Fund in April 2017 as an instrument to facilitate the institutional coordination of initiatives and investments for peace. In addition to budget funds from the National Budget, the General Royalties System, the General Contributions System, and from the departments and municipios, four sources of international cooperation financing will contribute additional grants to the Fund: (i) the Fondo Fiduciario Colombia Sostenible [Sustainable Colombia Trust Fund] coordinated by the IDB (i.e. the fund this operation falls under, financed from the Bank's Ordinary Capital); (ii) the Multi-donor Trust Fund for Peace and Post-conflict Support (coordinated by the World Bank), which will focus on infrastructure investments; (iii) the UNDP's Rural Development Fund, which supports mine clearance and crop substitution projects, as well as strengthening the government's presence in the region; and (iv) the Post-conflict Fund (coordinated by the European Union), which will focus on comprehensive rural development. To ensure the coordination of these mechanisms, the Colombian government instituted a governance system under a single board of directors.

## **3. Lessons learned, strategy, and project design**

- 1.16 **Lessons learned.** The operation's design incorporates the lessons learned from Bank-implemented programs with similar intervention approaches (operations 1556/OC-CO, 984/OC-CO, and 863/OC-CO) and other experiences described in Table 3.

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<sup>4</sup> CONPES document 3856, "Project Standardization Strategy 2016-2018."

**Table 3. Lessons learned**

<b>Lesson</b>	<b>Relevance to the project</b>
Community participation in rural development planning and management leads to higher quality projects.	The operation's design considered the demand for production projects generated at the community level.
With a view to ensuring more sustainable production projects, the restoration and conservation of natural capital must be a priority.	Selection/evaluation criteria for subprojects consider their impact on the environment. Priority will be given to projects that address coordination between production factors and environmental issues.
The cofinancing of projects is key to ensuring a sense of ownership and empowerment on the part of the communities.	Subprojects must be 60% cofinanced.
Sustainable rural production projects must include technical assistance to ensure informed decision-making by the participating communities.	The subprojects to be financed include technical assistance.
The success of sustainable rural development management requires proper coordination of land-use planning among agencies at the various levels of government (federal, departmental, municipal).	The operation includes the active participation of national, regional, and local agencies in the project cycle.
PES arrangements must be properly designed and include a well-defined sustainability strategy.	The government is currently formulating the details of the PES program, which will be included in the project Operating Regulations, subject to Bank approval.
The incentives to be provided to cofinance production projects must be carefully selected and justified to ensure their efficiency and effectiveness.	The percentage of cofinancing (40%) and maximum amount per beneficiary (US\$3,000) were set based on programs such as production partnerships that have been successfully implemented in the country for more than 10 years.
The successful implementation of investment programs awarded by competition requires operating rules that ensure the transparency, monitoring, and evaluability of specific projects.	The project Operating Regulations include clear prioritization and eligibility criteria, as well as transparent and rigorous selection and monitoring mechanisms.

**1.17 Strategy and design.** The project falls within the scope of the Colombian government's efforts in that it supports peace building and the recovery of areas in the PCZs. Considering the high value of natural capital in the PCZs, the human pressures exerted on them, the high poverty level of residents, and the technological gaps of rural productivity, the project's approach is based on two fundamental pillars: managing natural capital and facilitating production opportunities. To coordinate these with other national priorities in the area of climate change mitigation and adaptation, the project will support efforts to reduce deforestation, increase forest areas and natural vegetation, and will promote economic initiatives that are resilient to climate change. To this end, the project will target interventions in the PCZs to areas where the complementarity of investments in its main components (environmental and economic) will have the greatest potential impact. In this context, the specific objectives of each intervention will be defined, structured, and managed through specific subprojects with strict and rigorous environmental, technical, social, and economic eligibility criteria.

- 1.18 The proposed project will be implemented in accordance with the objectives and execution mechanism of the Multi-Donor Sustainable Colombia Trust Fund recently approved by the Bank (an instrument of the Colombia Peace Fund). Its aim is to support initiatives to maximize the environmental, economic, and social dividends of peace, and will serve as supplementary financing in the priority areas identified by the fund: rural poverty and limitations on territorial development, deforestation, loss of natural capital and effects of climate change, low institutional capacity, and lack of coordination. In addition, this operation seeks to contribute by means of the outcome targets set for the country, particularly those related to reducing deforestation.
- 1.19 The project's approach is also consistent with the objectives proposed in the National Development Plan 2014-2018 for achieving comprehensive rural reform, as a condition and basis for building stable and long-lasting peace ([National Development Plan 2014](#)). To achieve its objectives, said plan establishes the need to move toward sustainable and low-carbon growth; protect and ensure the sustainable use of natural capital; improve environmental quality and governance; and achieve resilient growth, thereby reducing vulnerability to the risks of disasters and climate change.
- 1.20 **Strategic alignment.** The project is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is aligned with the challenges of productivity and innovation, since the operation's aim is to increase the agricultural yields of small rural agricultural producers. The project is also aligned with the crosscutting theme of climate change and environmental sustainability, by promoting the adoption of technologies and cultural practices that contribute to climate change adaptation and natural capital management, and increasing the natural land cover in the project area. The project is also aligned with the IDB Country Strategy with Colombia 2015-2018 (document GN-2832) and two of its strategic areas: (i) economic productivity; and (ii) social mobility and consolidation of the middle class, by contributing to its objective of stimulating innovation as well as business and agricultural development. The project's design will also follow the targets and principles set out in the Environment and Biodiversity Sector Framework (document GN-2827-3), the Agriculture and National Resources Management Sector Framework (document GN-2709-5), the Corporate Results Framework (document GN-2727-6), and the Climate Change Sector Framework (document GN-2835-3), which were formulated based on the Bank's experience in the region, and on international best practices. The operation is included in the 2017 Operational Program Report (document GN-2884).
- 1.21 Roughly 100% of the project's resources are invested in climate change mitigation and adaptation activities, in accordance with the [multilateral development banks' joint methodology for tracking climate finance](#). These resources contribute to the IDB Group's target of having 30% of lending targeted to climate change by end-2020.

## **B. Objectives, components, and cost**

- 1.22 The project's overall objectives are to promote environmental and socioeconomic sustainability in the project's priority municipios, restore and protect natural capital, improve the income of the beneficiary rural population, and strengthen the technical capacity of the involved local and regional actors to structure subprograms. To achieve these objectives, the project's activities have been structured in three components:



- 1.23 **Component 1: Improving the conservation of biodiversity and related ecosystem services (US\$19 million).** This component will finance activities in areas of special environmental importance,<sup>5</sup> which were selected because they are representative of ecosystem conservation and ecosystem services in the project area. These activities will include: (i) restoration of degraded ecosystems;<sup>6</sup> and (ii) implementation of alternative conservation and PES program arrangements that promote preservation and restoration activities in the protected areas of the SINAP, in the buffer zones surrounding them, and in others of special environmental importance in general. The methodology for prioritizing intervention areas will be defined in the project Operating Regulations. In public calls for proposals, priority will be given to financing subprojects that impact the production component. The PES were established in CONPES document 3886, and guidelines for their implementation are provided in Decree-Law 870 of 2017. Specific details on PES programs (e.g. targeting criteria, type of beneficiary, incentive amount, means of verification, term of contracts, and exit/sustainability strategy) will be approved by the government via regulatory decree. Once agreement is reached with the Bank on the PES arrangement to be supported, its details will be included in the project Operating Regulations. This will enable the component to finance the environmental initiatives.
- 1.24 **Component 2: Productive practices and investments that are sustainable, low-carbon, and include climate change adaptation measures (US\$64 million).** This component will consider partnership-based sustainable production subprojects in the PCZs, which are aimed at creating economic development opportunities in businesses that are compatible with the country's low-carbon strategy. These subprojects should help increase the incomes of the beneficiary rural families by creating economic diversification opportunities and guaranteeing environmental sustainability in the use of the natural resources involved. Priority will be given to initiatives based on productive partnerships with value chains so as to ensure the timely marketing of the resulting products. The component will finance sustainable agriculture and agribusiness subprojects that promote, *inter alia*: sustainable, low-carbon best practices for agriculture and livestock systems; sustainable, climate resilient crops developed in accordance with soil suitability and climate change-resilient technologies and practices; as well as processing of agricultural products under an environmental sustainability approach. Nonagricultural green business ventures may also be eligible for financing, such as ecotourism projects, biotechnology products, handicrafts, and PES programs. The project will finance up to 40% of the total cost of each subproject with grants, to include technical assistance (provided individually for each subproject based on its specific needs), equipment, production infrastructure, and provision of plant material and other eligible items established in the project Operating Regulations.<sup>7</sup> The maximum

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<sup>5</sup> Areas included in the SINAP (Decree 2,372 of 2010), other complementary conservation strategies defined in that decree, and strategies covered in Resolution 097 of 2017 (Registry of Ecosystems and Environmental Areas).

<sup>6</sup> The National Restoration Plan includes three types of restoration: (i) ecological restoration: restoration of a degraded ecosystem to a state similar to what it was before the disturbance; (ii) ecological rehabilitation: conversion of a degraded system into a self-sustaining system that can preserve certain species and provide specific ecosystem services; and (iii) ecological recovery: recovery of select ecosystem services (MADS, 2015).

<sup>7</sup> Similar programs, such as the mentioned partnership-based subprojects, demonstrate the viability of matching payments and the beneficiaries' willingness to make them.

amount to be financed per beneficiary (small producer) will be US\$3,000. Priority will be given to the financing of public or collective goods required to implement the subprojects, although direct support—exclusively for small producers—may be financed to guarantee the satisfactory implementation of a partnership-based project. As in Component 1, in order to be approved, all subprojects must include a sustainability plan (environmental, social, economic, and financial) that will ensure their continuity once the intervention phase has ended. In all such interventions, every effort will be made to give priority to projects that include female heads of household and/or promote the participation of ethnic groups in order to address their production and commercial needs.

- 1.25 **Component 3: Strengthening the technical capacity of local and regional actors to structure and implement subprojects (US\$14 million).** This component will include three lines of action: (i) building technical capacity to structure subprojects; (ii) subproject structuring; and (iii) supplementary technical studies for the subprojects included under Components 1 and 2. The first line of action will provide resources to build the technical capacity of regional, local, and community organizations located in the PCZs to structure subprojects. The second line consists of financing for the comprehensive structuring of subprojects submitted by beneficiaries located in the PCZs that meet the eligibility criteria established in the project Operating Regulations. This structuring will be performed directly by groups of consultants hired by the project. They will provide the designs for the areas with input from the beneficiary communities. The third will support the preparation of the technical studies (e.g. hydrological, soil, and plant species, and environmental zoning of priority municipios) required to prepare the subprojects included in Component 1 of the project, and help target interventions that promote the integration of Components 1 and 2.
- 1.26 **Geographic area.** The project's geographic area covers the 318 municipios identified by the Colombian government, 170 of which have been prioritized by the Development Programs with a Territorial-based Focus (PDETs) defined in the peace accord. The PDETs may include up to 40 municipios, to be selected in accordance with environmental criteria and any other criteria deemed relevant in the project Operating Regulations, with a view to maximizing the benefits of the investments. The project's investments described in Components 1 and 2 will focus on the priority areas defined by the Colombian government.
- 1.27 **Project costs and financing.** The total cost of the project is US\$100 million, to be fully financed from the Bank's Ordinary Capital. Table 4 provides a breakdown by component.

**Table 4. Project cost and financing (US\$ million)**

<b>Investment component</b>	<b>IDB</b>	<b>%</b>
Component 1. Improving the conservation of biodiversity and related ecosystem services	19	19
Component 2. Productive practices and investments that are sustainable, low-carbon, and include climate change adaptation measures	64	64
Component 3. Strengthening the technical capacity of local and regional actors to structure and implement subprojects	14	14
Administration, monitoring, evaluation, and audits	3	3
<b>Total</b>	<b>100</b>	<b>100</b>



- 1.28 **Potential project demand for subproject financing.** During the project preparation phase, the High Council for Post-Conflict, Human Rights, and Security (ACPC) coordinated 15 regional workshops (covering all municipios in the PCZs) and one national workshop. In these, 639 project initiatives were selected jointly among the participants, and could be submitted to the project.<sup>8</sup> This resulted in an initial inventory of 64 project profiles in the preparation stage, which may be presented in response to the project's first calls for project proposals. Of this project universe, 30 in an advanced stage of preparation were identified, which together total approximately US\$42 million. According to the ACPC, these projects generally fulfill the project's technical selection and eligibility criteria, both in terms of environmental and social requirements as well as technical formulation and generation of economic benefits.

**C. Key results indicators**

- 1.29 The project's outcome and output indicators are included in the results matrix (Annex II), which was agreed upon with the executing agency. The project's main impacts are associated with improving and/or preserving the ability to deliver ecosystem services based on natural capital in the PCZs, and generating income for residents through sustainable rural production subprojects. To achieve these impacts, the project will have the following key outcomes, as indicated in the results matrix: (i) expand the area where conservation and restoration of priority ecosystems is currently under way in the project's intervention areas; (ii) increase agricultural productivity in the intervention areas; and (iii) increase the producers' implementation of sustainable low-carbon production practices and/or climate change adaptation measures.
- 1.30 **Economic feasibility.**<sup>9</sup> As part of the project's preparation activities, preexisting ideas and project proposals in the PCZs were taken into account, leading to the identification of a group of projects that were aligned with the project's objectives and targets (paragraph 1.28). Of these, four that were considered representative of the types of subprojects that could be financed were selected as a sample to assess the evaluability of the project's investments. The detailed economic analysis and methodologies used for each project are included in the annex containing the economic evaluation, together with the respective documentation describing them.
- 1.31 The analysis included the respective sensitivity tests with different assumptions regarding increased yields, increased costs, and product prices in order to verify the robustness of the projects. The projects' returns for producers were also estimated to ensure they would be sufficiently attractive to them. Besides demonstrating the relative economic viability of this sample of projects, the analysis revealed weaknesses in their design and the need for specialized support to structure the subprojects and qualified staff to evaluate them.
- 1.32 The economic analysis for the project as a whole considered all costs (including those of Component 3 and project administration), the potential demand for environmental and production projects, and the availability of loan resources (calculated in terms of the relative distribution of resources between Components 1 and 2). Taking into account the findings of the projects analyzed in Table 5 and the

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<sup>8</sup> A total of 1,406 people participated in these workshops, representing 708 producer associations and 331 public institutions at the local, regional, and national levels.

<sup>9</sup> See economic evaluation of the projects in [optional electronic link 1](#), [optional electronic link 2](#), [optional electronic link 4](#), and [optional electronic link 5](#).

above-mentioned considerations, the project analysis yielded an aggregate internal rate of return (IRR) of 33.7% based on the potential demand for projects, and of 22.7% based on the available loan resources (see [optional electronic link 6](#)).

**Table 5. Summary evaluation of project sample**

Project	Investment (US\$000)	Producers	Area (ha)	IRR (%)	Annual cost per beneficiary (US\$)	Technical assistance per year (US\$/producer)
REDD-Río Pepe-ACABA	1,874.0	2,600	48,177	95.0	24.6	11.1
Sustainable Livestock	30,800.0	2,500	125,000	7.5	370.0	880.0
Tahiti Lime	745.3	550	670	16.3	47.2	74.4
Hilacha Mango	2,977.1	1,000	1,000	32.0	58.9	187.5

\*The total cost of the project is US\$12.2 million over its 30-year life, but would only require US\$1.87 million in its first five years to launch the conservation process and sale of bonds necessary to facilitate the project's ongoing execution.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 The project is structured under the specific investment loan modality, to be executed over five years with the following disbursement schedule:

**Table 6. Disbursement Schedule (%)**

Year 1	Year 2	Year 3	Year 4	Year 5	Total
20%	25%	35%	15%	5%	100%

### B. Environmental and social risks

- 2.2 Pursuant to the Bank's Environment and Safeguards Compliance Policy, Operational Policy OP-703, the project does not require environmental classification, since its environmental and social impacts and risks cannot be evaluated on an ex ante basis.
- 2.3 The project is expected to have highly positive impacts since it will provide economic and social development opportunities to small rural producers and improve natural resource management in Colombia. Moderate negative impacts are nevertheless expected, although temporary and limited in scope, and can be managed through known and easily implemented mitigation measures. These negative impacts are primarily associated with the potential inappropriate use of agrochemicals, organic and inorganic wastes, and the potential risk of excluding certain groups of beneficiaries.
- 2.4 With a view to preventing and/or mitigating these impacts and risks, an environmental and social management framework (ESMF) was prepared and is included as an annex to the project Operating Regulations. It states that all subprojects to be financed will undergo environmental and social screening, and include an environmental and social management plan. All subprojects to be

financed should conduct socially and culturally appropriate and gender-sensitive consultations with all impacted populations and other interested stakeholders.

- 2.5 During the project's preparation phase, the ESMF was published on the Bank's website and reviewed with relevant stakeholders. In addition, the Bank found sufficient evidence of an appropriate public consultation process, which included interviews with representatives of five national and regional indigenous and Afro-Colombian organizations, and on 25 July 2017 a workshop to close the public consultation process was conducted with representatives of ethnic and farmers' organizations.
- 2.6 It should also be pointed out that no environmental liabilities, and no cases of noncompliance with the national regulatory framework or with the Bank's policies were found that could result in significant reputational risks or noncompliance going forward. There is no planned construction of large infrastructure works, and it is prohibited to introduce exotic invasive species, engage in deforestation, or disturb critical natural habitats and cultural sites. Furthermore, the resettlement of families and negative impacts on indigenous communities, people of African descent, women, or other vulnerable groups is prohibited, in accordance with the list of prohibited activities established in the ESMF, which also excludes high-risk category "A" projects. The project will be executed in accordance with the conditions set out in Annex B of the ESMR.

#### **C. Fiduciary risks**

- 2.7 The fiduciary risk is high, owing to the executing agency's lack of sufficient fiduciary capacity to efficiently and effectively manage the project's funds. Consequently, the following mitigations actions have been established: (i) preparation of project Operating Regulations that clearly describe the roles and responsibilities of the various actors involved in the program's implementation arrangement, coordination mechanisms, as well as a description of the components, outputs, and activities to be developed in order to fulfill established objectives; (ii) development of an alternative strategy in the event of any delays in the hiring of the Colombia Peace Fund administrator; (iii) early engagement of the program's executing agency, in accordance with the required profile; (iv) training in the use and interpretation of the Bank's procurement and financial management policies; and (v) implementation of the DAPRE strengthening plan based on the institutional capacity assessment conducted, to prepare it to execute the program.

#### **D. Other risks**

- 2.8 In terms of development risks, one high-level risk identified is the beneficiaries' limited ability to identify and structure projects. To mitigate this risk, Component 3 includes activities to build the technical capacities of local organizations and agencies in the PCZs. In addition, there is a medium risk that the implementation of the initiatives will not comply with the guidelines established for their design, which will be mitigated by a monitoring and oversight plan for the initiatives, to be implemented by the technical coordination unit (TCU).
- 2.9 Another high-level risk is that the initiatives will fail to provide the counterpart funds, due to limited access to supplementary resources from local financial institutions and banks. This risk would be mitigated through assistance provided by the Colombian government and the TCU to secure counterpart resources.

- 2.10 Medium risks involve public management and governance: a change in a new government's priorities with respect to the operation's objectives; poor interagency coordination; and the creation of unrealistic expectations or failure to meet expectations in the project area. The identified mitigation measures are: managing and monitoring the project with the Colombian government and the executing agency to ensure that it remains effective; and a master implementation plan to better coordinate the various stakeholders, regions, and areas. In terms of reputation, there is a risk of creating unrealistic expectations or failing to meet expectations in the project area, which will be mitigated through the implementation of a communications plan that informs the communities that may be potential beneficiaries about the actual scope and extent of the project.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Execution mechanism.** The DAPRE will be the executing agency. It will implement the project through the Colombia Peace Fund, which operates as a standalone agency under the DAPRE. To this end, it will form a TCU to work exclusively on the project, which will be responsible for subproject planning, technical management, and evaluation; management of procurement and contracting processes; and the project's physical and financial execution, monitoring, and evaluation. The project will also have a fund administrator, which will be responsible for procurement and payment processes, in accordance with the guidelines provided by the executing agency which, in turn, will process the transfer of resources to the fund administrator. A steering committee and a technical committee will be formed for the project. These will be tasked with approving the subprojects to be presented to the Colombia Peace Fund's executive board, which will have the final say as to which projects are ultimately approved. The project Operating Regulations will describe the roles and responsibilities of the Colombia Peace Fund's executive board, the project steering committee, the project technical committee, and the technical coordination unit (TCU). The executive board will be comprised of representatives of public agencies with direct responsibilities in the management of the post-conflict policy.<sup>10</sup> The project technical committee will be comprised of a technical representative from each of the agencies represented on the executive board. Once the subprojects are approved, the beneficiaries will nominate organizations (eligible executing agencies and supporting executing agencies) to join the original initiative. These will receive resources and have responsibility for executing such subprojects, with assistance, monitoring, and oversight performed by the TCU.
- 3.2 **As special contractual condition precedent to the first disbursement of the financing, the executing agency will have formed the TCU, pursuant to the terms and conditions set forth in the project Operating Regulations.** The formation of the TCU is warranted, since the project will intervene in a number of thematic and geographic areas, thus requiring a group of experts with responsibility for the operational management, execution, and monitoring of the use of resources. The TCU will be comprised of: (i) a project coordinator; (ii) a planning and monitoring

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<sup>10</sup> The project steering committee will comprise the Ministry of Finance, the DNP, the Ministry of Environment, the Ministry of Agriculture and Rural Development, the Colombian Presidential Agency for International Cooperation, the ACPC, and the Colombia Peace Fund administrator (CONPES document 3867, page 71).

specialist; (iii) a rural development specialist; (iv) a procurement specialist; (v) a financial specialist; (vi) an environmental specialist; and (vii) a social specialist. The selection of these individuals will be a condition precedent to the first disbursement.

- 3.3 **Disbursements.** Disbursements will be deposited into a special account in dollars. The DAPRE, through the TCU, will authorize the transfer of funds to the fund administrator which, in turn, will open an account in pesos to manage the project's resources. The DAPRE may provide supporting documentation for advances provided to subprojects when funds are transferred to them, and will be responsible for monitoring the execution of such advances.
- 3.4 **Procurement.** The procurement of goods and the selection and contracting of consultants to be paid for with project resources will be carried out in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9).
- 3.5 **Project Operating Regulations. As a special contractual condition precedent to the first disbursement of the financing, evidence will be provided that the executing agency has approved the project Operating Regulations and that they have entered into effect, which include the environmental and social requirements of the (ESMF).** Due to the project's complex nature, project Operating Regulations are needed that spell out the procedures for the identification, receipt, analysis, selection, execution, monitoring, and evaluation of the subprojects to be financed under the project. These regulations are consistent with those adopted for the aforementioned Sustainable Colombia Facility created by the Bank. As indicated in paragraph 1.23, details on the execution of the PES will be included in the project Operating Regulations, which may take place subsequent to the approval of said regulations, owing to the special contractual condition for execution precedent to the first disbursement. In this regard, a special condition precedent to financing the PES incentives in Component 1 will be that their operational details for the execution have been included in the project Operating Regulations.
- 3.6 **Selection of subprojects.** The subprojects to be financed will be selected through public calls for project proposals carried out by the executing agency and approved by the executive board. The subprojects to be financed with project resources will be evaluated and must meet the rigorous eligibility and prioritization criteria<sup>11</sup> that were agreed upon during the project preparation phase and are specified in the project Operating Regulations. These criteria, which include four areas of analysis (environmental, land use, social, and economic/financial), are summarized in Table 7.
- 3.7 The process begins with calls for proposals to identify subproject profiles or structured subprojects that meet the specified criteria. The selected profiles then advance to the design stage, which is carried out by a group of structuring experts (contracted by the project), in conjunction with the beneficiaries and the executing agency. Once they are formulated, the subprojects enter into the evaluation stage in order to be approved by the Colombia Peace Fund's executive board. Implementation of the subprojects is the responsibility of the executing agency that helped submit the subproject. Monitoring and oversight responsibilities will be

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<sup>11</sup> Prioritization will be based on a scoring system, which will be described in the respective calls for project proposals.

performed by the TCU, which will verify that implementation is proceeding according to the approved plan and that the proposed targets are being achieved, taking any corrective measures as necessary.

- 3.8 Considering the importance of women's participation in production activities of Colombia's rural areas, the proposed project includes prioritization criteria aimed at incentivizing the participation of women producer heads of household, as shown in Table 7. According to the Third National Agricultural Census ([DANE, 2014](#)), production decisions are made exclusively by women in 26% of Colombia's APUs (499,000); by men and women jointly in 12.6% of APUs (241,000); and by men alone in 61.4% of APUs (1,179,000). This census also found that the APUs of women producers were smaller, i.e. 73% were comprised of less than five ha of arable land. In addition, a higher percentage of APUs managed by men (31%) reported having access to machinery to perform agricultural activities as compared to women (19%). Furthermore, only 18.7% of APUs run by women producers reported having access to technical assistance, compared to 25.7% of APUs run by men.

**Table 7. Main eligibility and prioritization criteria for subprojects(\*)**

Dimension analyzed	Eligibility	Prioritization
1. Environmental	<ul style="list-style-type: none"> <li>• Low carbon</li> <li>• Environmentally sustainable</li> <li>• Helps close the agricultural frontier</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of environmental services, e.g. water, soil, carbon, biodiversity, and conservation</li> <li>• Climate change adaptation and/or mitigation measures</li> </ul>
2. Land use	<ul style="list-style-type: none"> <li>• Environmental zoning (e.g. protected areas, conservation strategies, high plateaus, mangrove swamps, and dry forests)</li> <li>• Land-use and environmental planning</li> <li>• Soil use potential</li> </ul>	<ul style="list-style-type: none"> <li>• Greater contribution to eligibility criteria indicators</li> </ul>
3. Social	<ul style="list-style-type: none"> <li>• Partnership models</li> <li>• Beneficiary: small producers</li> </ul>	<ul style="list-style-type: none"> <li>• Greater contribution to eligibility criteria indicators</li> <li>• Greater participation of women producer heads of household</li> </ul>
4. Economic-financial	<ul style="list-style-type: none"> <li>• Cost/benefit analysis (IRR 12%) or cost-effectiveness</li> <li>• Financial viability and sustainability</li> <li>• Marketing channels</li> </ul>	<ul style="list-style-type: none"> <li>• Higher economic returns</li> <li>• Higher levels of cofinancing</li> <li>• Sensitivity analysis</li> </ul>

(\*) The specific details of eligibility and prioritization criteria are provided in the project Operating Regulations.

- 3.9 **Beneficiaries.** The project will primarily finance exclusively finance partnership-based projects. The direct beneficiaries may be small-scale producers or rural families. Subprojects may be submitted by national, regional, or local government agencies; universities and research centers; national and international nongovernmental organizations (including lawfully established community and small-scale producer organizations, as well as indigenous and/or Afro-descendant organizations); private sector companies; chambers of commerce; business associations; or other lawfully established private-sector entities, provided that they

help fulfill the project's objectives. Eligible executing entities and supporting executing agencies will directly execute the loan resources, and will have responsibility for executing the resources allocated to the subprojects. These organizations may be nominated by the beneficiaries themselves or contracted by the project if a subproject is submitted without naming one. To participate in the project, the organizations must have signed a contract or an agreement with the fund administrator specifying how resources are to be transferred and the obligations of these organizations in the execution of subprojects financed under the project. The qualifications of these organizations (e.g. experience and technical competency) will be confirmed as part of the process of evaluating the projects submitted in the calls for subproject proposals, based on the requirements established in the project Operating Regulations.

- 3.10 The project will not have any pre-established quotas with respect to type of beneficiary or geographic region. However, in each annual investment plan,<sup>12</sup> resources may be targeted for a particular geographic and/or thematic area, based on the needs identified under the project.
- 3.11 Project resources will be allocated under three types of modalities: (i) open call for project proposals; (ii) closed call for project proposals; and (iii) direct allocation for public agencies whenever these are the only organizations with the ability to execute a given type of subproject. These modalities are not mutually exclusive and may be used simultaneously in accordance with the annual investment plan defined by the project's executive board.
- 3.12 Given the low level of institutional and community capacity in the PCZs and the high technical standards established for subproject approval, the project includes resources to finance the design of the initiatives. Calls for proposals will be issued both for the structuring of subprojects (based on profiles submitted), as well as for cofinancing the implementation of subprojects that have already been structured.
- 3.13 Accordingly, the Rural Development Agency and the Agencia de Renovación del Territorio [Territorial Renewal Agency], together with regional entities such as Municipal Councils of Rural Development and Sectional Agricultural Development Councils, will act as vehicles for disseminating the project and supporting the participatory process of proposal selection in the PCZs.
- 3.14 Given the low level of property regularization in the PCZs (which hinders the formalization of property titles), subprojects may be financed on property whose owners can prove, according to current law, peaceful and uninterrupted possession.
- 3.15 **Audit.** Audited annual financial statements for the project will be required. Audits will be conducted by independent auditors acceptable to the Bank that were contracted by the DAPRE and financed with the loan proceeds (Annex III).

## **B. Summary of monitoring and evaluation arrangements**

- 3.16 **Monitoring and oversight.** During project execution, the executing agency will submit semiannual progress reports based on the Bank's Progress Monitoring Report methodology, in order to document the progress made in achieving the agreed upon outcomes and outputs. To this end, the project will have a tracking and

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<sup>12</sup> The annual investment plan is the investment planning tool used to achieve the established objectives and targets. It is used to identify a set of plans, programs, and projects that will be prioritized and included in the annual budget.

monitoring system to oversee the entire process, from the calls for proposals, presentation of initiatives, selection of projects, disbursements to each project, and implementation and use of resources, to the completion of the project. The system will be computerized and generate reports for the various levels of oversight, monitoring, and evaluation of outcomes (see [required electronic link 3](#)).

- 3.17 **Evaluation.** In addition to the semiannual progress reports, the TCU will submit the following reports to the Bank: (i) midterm evaluation, 90 days after the date on which 50% of the loan proceeds have been committed, or at the midpoint of the execution period, whichever occurs first; and (ii) final evaluation (through preparation of the project completion report (PCR)), up to six months after the project's operational close. The evaluation will be based on an analysis of core and noncore criteria. The PRC's core criteria basically evaluate project performance and are established objectively, based on the project's outcomes and outputs, which are in turn rated according to four criteria: (i) relevance; (ii) effectiveness; (iii) efficiency; and (iv) sustainability. The PCR's noncore criteria are those that can be evaluated but do not rate the effectiveness of the intervention. At a minimum, they evaluate the operation's contribution to the Bank's development objectives; compliance with the monitoring and evaluation plan; use of country systems, and the implementation and mitigation of environmental and social safeguards.
- 3.18 **Impact assessment.** The impact assessment methodology is described in detail in the [Impact Assessment Plan](#). For design purposes, two types of projects were examined: those with primarily economic and social objectives, and those with primarily environmental objectives. The methodology considers the possibility of projects with mixed objectives.
- 3.19 The aim of projects in the first category is to boost producer productivity, income, and linkages with the markets. In terms of measuring impact and understanding the mechanisms that produce it, the proposed methodology is a combination of differences-in-differences and propensity score matching.
- 3.20 The estimated costs of evaluating each of these projects is US\$300,000. Over the course of the project, one subproject of each type approved in the first year will be selected for evaluation.



Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Climate Change and Environmental Sustainability	
Country Development Results Indicators	-Beneficiaries of improved management and sustainable use of natural capital (#)* -Beneficiaries of IDBG projects that contribute to at least one key dimension of food security (#)*	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2832	Spur innovation and development in business and agriculture.
Country Program Results Matrix	GN-2884	The intervention is included in the 2017 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		
3. Evidence-based Assessment & Solution	Evaluable	
3.1 Program Diagnosis	9.3	
3.2 Proposed Interventions or Solutions	3.0	
3.3 Results Matrix Quality	3.6	
4. Ex ante Economic Analysis	2.7	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	5.5	
4.2 Identified and Quantified Benefits	4.0	
4.3 Identified and Quantified Costs	1.5	
4.4 Reasonable Assumptions	0.0	
4.5 Sensitivity Analysis	0.0	
5. Monitoring and Evaluation	7.2	
5.1 Monitoring Mechanisms	1.0	
5.2 Evaluation Plan	6.2	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality	Yes	Projects that seek to encourage the participation of women producers will be prioritized.
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

This is the first program framed under the Sustainable Colombia Trust Fund that is coordinated by the IDB. The program is part of the Colombian Government's efforts to support the process of pacification and recovery of the regions in Post-conflict Zones (ZPCs), most affected by the armed conflict that ended with the signing of the Peace Agreement. The objectives of the program are: (i) to improve the management of natural capital through the restoration and conservation of priority ecosystems; and (ii) increase the income of small and medium producers through the implementation of three components: 1) Valuation and conservation of natural capital; 2) Investments for productive rural development; and 3) Capacity building in project structuring.

The documentation is well structured, with a good diagnosis of the problems faced by ZPCs in terms of environmental degradation and low levels of productivity, and the factors that contribute to these problems; appropriate evidence is provided to dimension the problems and respective factors. The proposed solution is in line with the main problems identified. The results matrix (RM) reflects the objectives of the program and shows a clear vertical logic. The higher level indicators have values supported by the literature or are defined in line with the goals of the National Development Plan of the Country. The lower level indicators reflect the design of each component. The RM includes SMART indicators at the level of impacts, results and products with their respective values and targets and means to collect information. Empirical evidence with internal validity is cited on the effectiveness of the type of programs that will be supported by this program; although no reference is made to the external validity of this evidence.

The monitoring and evaluation plan proposes an impact evaluation for components 1 and 2. Several proposals are included for the potential projects. Given that this is the first loan of the Trust Fund, the results from the evaluation will provide important information for the design and implementation of future loans framed under this Fund.

Since it is not exactly known, ex ante, which projects will be supported by this program, economic cost-benefit analysis (CBAs) were carried out for four projects that are representative of a list identified in the design phase. In general, the benefits and costs are well identified, although the assumptions used are not always well substantiated. The program's CBA is based on the Internal Rate of Return (IRR) of these four projects, and the total cost of the intervention and a weighting exercise of the four projects. The Global CBA yields an IRR of 22.7%, which considers the total amount of resources of the loan. Although sensitivity analysis is appropriate for all four projects, a global sensitivity analysis is not conducted.

The risks identified in the risk matrix seem reasonable. Risks include mitigation actions and compliance indicators.

## RESULTS MATRIX

**Project objectives:** The project objectives are to promote environmental and socioeconomic sustainability in the project's priority municipios, restore and protect natural capital, improve the income of the beneficiary rural population, and strengthen the technical capacity of the involved local and regional actors to structure subprograms.

### Expected Impact

Indicators	Unit of measurement	Baseline (2017)	Target (year 5)	Means of verification	Comments
<b>Impact #1.</b> Improve natural capital management					
<b>Indicator 1.1:</b> Area deforested in post-conflict zones (PCZs)	ha	110,295	82,721	- Annual monitoring reports of the executing agency	<b>Baseline:</b> National Planning Department (DNP), based on Institute of Hydrology, Meteorology, and Environmental Studies (IDEAM) data (2015); <b>Target:</b> The National Development Plan includes a target of reducing deforestation in the country by 25%.
<b>Indicator 1.2:</b> Natural land cover in Areas of Special Environmental Importance (ASEIs)	ha	0	5,749	- Basic Ecological Restoration Plan - Progress reports - Coverage studies	- The baseline and target will be updated as the intervention areas are targeted; - The indicator refers to hectares undergoing restoration in the Unified Registry of National Protected Areas (RUNAP) and ASEIs; - Natural land cover is estimated using the Corine Land Cover methodology, adapted for Colombia (IDEAM).
<b>Indicator 1.3:</b> Producers who benefit from better management and sustainable use of natural capital	producers	0	38,000	- Progress reports	
<b>Impact #2.</b> Increase the average net income of small and medium-sized producers					
<b>Indicator 2.1:</b> Annual average net income of small and medium-sized producers Disaggregation categories: Male heads of household Female heads of household	Col\$	8,852,604	10,800,176.88	- Document on the formulation of production projects and baseline surveys - Project closure document	- Based on the literature, a 22% increase in average net income is expected. Other evidence suggests an increase in income of up to 36% (Salazar et al., 2016); - The baseline figure will be updated in the first few years; - Refers to constant Colombian pesos; - "Pro Gender Flag."

### Expected Outcomes

Indicators	Unit of measurement	Baseline (2017)	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Means of verification	Comments
<b>Outcome 1:</b> Increase the land area currently in the process of ecological conservation and restoration of priority ecosystems in the intervention areas										
<b>1.1:</b> Areas with restoration processes implemented in the ASEIs	ha	0	188	375	562	562	188	1,875	<ul style="list-style-type: none"> <li>- Basic Ecological Restoration Plan</li> <li>- Progress reports</li> <li>- Coverage studies</li> </ul>	<ul style="list-style-type: none"> <li>- The hectares in question are both inside and outside the protected areas</li> </ul>
<b>1.2:</b> Area with conservation incentives implemented	ha	0	387	775	1,161	1,161	390	3,874	<ul style="list-style-type: none"> <li>- Agreement signed by the parties for PES and other arrangements</li> <li>- Progress reports</li> <li>- Land cover studies</li> </ul>	<ul style="list-style-type: none"> <li>- The targeted areas will be strategic ecosystems and ASEIs, e.g. high plateaus, wetlands, and aquifer recharge zones.</li> </ul>
<b>Outcome 2:</b> Increased agricultural productivity of intervention areas										
<b>2.1:</b> Annual yields of principal crops: (i) green coffee; (ii) cocoa beans; (iii) sugarcane; (iv) fruit; (v) palm oil fruit	ton/ha	(i) 0.91 (ii) 0.3 (iii) 91 (iv) 9.95 (v) 20.1						(i) 0.99 (ii) 0.3 (iii) 96 (iv) 9.96 (v) 21.34	Progress reports	<b>Baseline:</b> Food and Agriculture Organization Corporate Statistical Database (FAOSTAT), 2014 (national average). This baseline will be updated in the first year of the project.  <b>Target:</b> Based on increases in

Indicators	Unit of measurement	Baseline (2017)	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Means of verification	Comments
										2013-2014 (FAOSTAT)
<b>2.2:</b> Annual livestock yields: (i) beef; (ii) milk	kg/animal	(i) 212,6 (ii) 1,094.4						(i) 215.6 (ii) 1,109.6		
<b>2.3:</b> Agricultural production units (APUs) that achieve their productivity goal	APU	0						27,600	Progress reports	- Indicator measures whether each beneficiary APU meets its productivity goal and estimates that at least 80% do
<b>Outcome 3:</b> Increase the implementation of sustainable low-carbon production practices and/or climate change adaptation measures										
<b>3.1:</b> APUs that adopt sustainable production systems  Disaggregation categories: Male heads of household Female heads of household	APU	0			12,100		22,400	34,500	Progress reports	- Sustainable production system as defined in the project Operating Regulations; - Considered adopted when at least 80% of the actions specified in the financing plan have been implemented; - "Pro Gender Flag."

### Outputs

Outputs	Unit of measurement	Baseline (2017)	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Means of verification	Comments
Component 1: Improving the conservation of biodiversity and related ecosystem services										
Output 1.1: Projects to restore natural capital in the ASEIs implemented	projects	0	2	1	3	2	2	10	Progress reports	<ul style="list-style-type: none"><li>- Each project will have a restoration plan;</li><li>- Each project will receive a contribution of US\$500,000.</li></ul>
Milestone 1.1: Projects to restore natural capital in the ASEIs designed	projects	0	4	5	1	0	0	10		
Output 1.2: PES projects	projects	0	2	4	3	3	2	14	Progress reports	<ul style="list-style-type: none"><li>- 14 projects will be financed through a contribution of US\$1,000,000</li><li>- The PES may be related to water, carbon, and/or biodiversity (CONPES' PES)</li><li>- The PES projects will have a production component</li><li>- In the most fragile areas, projects will focus on reducing deforestation</li></ul>
Milestone 1.2: PES projects designed	projects	0	4	5	5	0	0	14		
Component 2: Productive practices and investments that are sustainable, low-carbon, and include climate change adaptation measures										
Output 2.1: Sustainable production projects implemented	projects	0	4	9	11	11	11	35	Progress reports	<ul style="list-style-type: none"><li>- Will be reported as implemented when 100% of the activities described in the Small Projects Program document have been completed</li></ul>

Outputs	Unit of measurement	Baseline (2017)	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Means of verification	Comments
<b>Component 3:</b> Strengthening the technical capacity of local and regional actors to structure and implement subprojects										
<b>Output 3.1:</b> Sustainable production projects structured	projects	0	50	50	0	0	0	100	Progress reports	
<b>Output 3.2:</b> Individuals trained in sustainable land development	individuals trained	0	300	400	300	100	100	1,200	Progress reports	
<b>Output 3.3:</b> Technical studies for restoration projects and PES developed	studies	0	10	5	0	0	0	15	Progress reports	

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

<b>Country</b>	Colombia
<b>Project number:</b>	CO-L1166
<b>Name:</b>	Sustainable Colombia Program
<b>Executing agency:</b>	Departamento Administrativo de la Presidencia de la República [Administrative Department of the Presidency of the Republic] (DAPRE)
<b>Fiduciary team:</b>	Mylenna Cárdenas (Financial Management); Eugenio Hillman (Procurement)

### I. EXECUTIVE SUMMARY

- 1.1 The borrower is the Republic of Colombia and the Department of the Presidency of the Republic (DAPRE) will be the executing agency. The DAPRE will implement the program through the Colombia Peace Fund (FCP), which will operate as a standalone agency under said department. To this end, it will have a technical coordination unit (TCU) and a fund administrator that will carry out the operation's procurement and payment processes.
- 1.2 The assessment of DAPRE's fiduciary management capacity was based on the project's execution arrangements. The Institutional Capacity Assessment System (ICAS) and analysis of key processes for the project's execution and (fiduciary) risk management were the tools used to conduct that assessment. Its main focus was the agencies that will be involved in execution and it included a review of the process used to hire the fund administrator, as well as planning, budget, procurement of goods and services, disbursements, cash flow, accounting, and monitoring processes. The ICAS assessment concluded that DAPRE has a medium level of capacity to execute the operation and will therefore require strengthening by forming a TCU within its organizational structure to work exclusively on project execution. Once the fund administrator is contracted, an assessment of its capacity will be necessary to determine whether it is sufficient to carry out the operation's procurement and payment processes. The fiduciary risk is high, due to the operation's execution arrangements, the large number of stakeholders involved, and the executing agency's lack of fiduciary experience (in procurement and financial management) with the Bank's policies.
- 1.3 According to the PEFA assessment,<sup>1</sup> Colombia's public financial management system is a mature system with satisfactory performance in most areas; however, it has still not been fully adapted to international standards. The public procurement system is considered adequate from the regulatory standpoint and is consistent

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<sup>1</sup> Public Expenditure and Financial Accountability.

with internationally accepted practices, although its use has not yet been authorized for Bank loan operations.

- 1.4 The project's financing amounts to US\$100 million. It does not include financing from other multilateral organizations or local contributions, and has a five-year disbursement period.

## II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The proceeds of the loan operation will form part of the General Budget of the Nation (PGN). Consequently, records will be kept in the new integrated financial information system (SIIF2). DAPRE will be responsible for coordinating the project's financial and administrative procedures, e.g. budgets, procurement and contracting, disbursement requests, general accounting, and for submitting financial reports to the Bank.
- 2.2 In terms of strengths, DAPRE has an integrated presidency management information system (SIGEPRE), which uses controls and available resources to achieve the expected outcomes. DAPRE also has an internal audit office (OCI) and a document management process, which facilitates appropriate tracking of all documents produced and processed by the agency. However, the assessment identified a weakness: that the recently created Colombia Peace Fund, which is in the early stages of implementation, lacks the experience and installed fiduciary capacity necessary to carry out processes in accordance with Bank policies, both in terms of procurement and administrative and financial management. An institutional strengthening plan was therefore developed, which sets forth the measures needed to strengthen the operation's execution capacity.

## III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 The project's fiduciary management risk is determined to be high, as detailed below:

**Table 1. Fiduciary risks**

Risk	Impact	Probability factors
Lack of sufficient fiduciary capacity to efficiently and effectively manage project funds	Delays in initiating and executing the project	Level of complexity of the execution arrangements, which involve the participation of multiple external and internal stakeholders
		Ability to form the project execution team early, in accordance with the required profile
	Failure to achieve the established targets	Level of formal definition of procedures for all processes that will be involved in the project's execution
		Capacity of the Post-conflict Office to lead and manage the establishment and implementation of the Colombia Peace Fund and the execution of the subprojects included under it
	Failure to comply with legal procedures for managing public resources	Level of the project executing agency's experience in IDB procurement and financial management policies
		Level of effectiveness in the timely contracting of the Colombia Peace Fund administrator, which will manage the project's funds
		Level of project execution coordination between the Colombia Peace Fund, the Post-conflict Office (in its role of authorizing payments and expenditures), the Operations Office, and the General Management Office of DAPRE



- 3.2 To mitigate the identified risk, the following measures are proposed: (i) preparation of the project Operating Regulations, which clearly define the roles and responsibilities of the various agencies that will be involved in project execution, coordination mechanisms, and a description of the components, outputs, and activities that will be carried out to achieve the stated objectives; (ii) development of an alternative strategy in the event of any delays that may arise in hiring the Colombia Peace Fund's fund administrator; (iii) early contracting of the TCU team in accordance with the required profile; (iv) training in the use and interpretation of the Bank's procurement and financial management policies; and (v) implementation of the DAPRE strengthening plan.
- 3.3 In this context, the plan to strengthen capacity for project execution includes the following measures: (i) formulate the project's multi-year execution plan and annual work plan (AWP) with sufficient details on the activities that will be carried out for each output, their sequencing, and interrelationship, schedule, responsible entities, and costs, which will be used to obtain the AWP for year 1, which will serve as a basis for processing the budget resources required for fiscal year 2018; (ii) purchase accounting software to support the project's execution cycle; (iii) develop internal manuals and procedures that define and formalize the coordination, roles and information flows within the execution arrangements as well as with the fund administrator; and (iv) prepare an accounting manual for the project.

#### **IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF CONTRACTS**

- 4.1 As a special condition precedent to the first disbursement of the loan, the executing agency will have hired the fund administrator to manage the project's resources, in accordance with the terms and conditions approved by the Bank, taking into account that based on the ICAS, DAPRE does not have sufficient capacity to efficiently manage the loan resources.
- 4.2 The executing agency will submit supporting documentation for expenses using the exchange rate for converting resources disbursed in dollars to Colombian pesos (prevailing rate on the date of conversion).
- 4.3 The executing agency will submit the project's audited financial statements on an annual basis.
- 4.4 In order to advance funds, supporting documentation for at least 60% of total outstanding cumulative balances must be provided, taking into consideration the fact that the execution mechanism is complex and decentralized.

#### **V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 5.1 All procurement items to be financed with project resources must be included in the procurement plan that was previously approved by the Bank and charged through the established information systems, in accordance with the special conditions of the loan contract.

- 5.2 **Procurement of works, goods, and nonconsulting services:** The procurement of goods and nonconsulting services under the project<sup>2</sup> that are subject to international competitive bidding (ICB) or national competitive bidding (NCB) will be contracted using the current harmonized documents required for bidding processes (works, goods and nonconsulting services) agreed upon by the Colombian government, the IDB, and the World Bank. All processes referring to these procurement processes are listed in the initial procurement plan. The project sector specialist is responsible for reviewing the technical specifications of procurement processes during the preparation of bidding processes.
- 5.3 The initial procurement plan includes the contracting of the fund administrator using the single-source selection method, which will be justified in accordance with paragraph 3.10 of the Bank's policies for the selection and contracting of consultants (document GN-2350-9), and may be financed with the proceeds of the loan.
- 5.4 **Procurement processes with community participation:** The project includes the contracting of eligible executing agencies and supporting executing agencies. The procurement plan includes processes that will be carried out for this purpose, which are categorized as "subproject procurement/financed initiatives."
- 5.5 **Selection and contracting of consultants:** The consulting services<sup>3</sup> required for the project are listed in the procurement plan, and will be contracted using the standard request for proposals issued or agreed upon with the Bank. The project sector specialist is responsible for reviewing the terms of reference for contracting consulting services.
- 5.6 **Selection of individual consultants:** Individual consultants will be selected on the basis of their qualifications for performing the work, comparing the qualifications of at least three candidates<sup>4</sup> in accordance with the policies set forth in document GN-2350-9.
- 5.7 **Recurrent expenses:** The procurement plan includes eligible operating expenses<sup>5</sup> to be financed by the project resources, such as those related to transportation and travel and the logistical costs involved in conducting workshops and events.

Table 2. Thresholds (US\$000)

Works			Goods <sup>6</sup>			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity	Shortlist 100% national
> =10,000	> = 350 < 10,000	< 350	> = 1,000	> = 50 < 1,000	< 50 <sup>(1)</sup>	> = 200	< 500

<sup>2</sup> Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document [GN-2349-9](#)) paragraph 1.1: Nonconsulting services are treated as goods.

<sup>3</sup> Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document [GN-2350-9](#)), paragraph 3.9 *et seq.*: Single-source selection processes must have proper justification.

<sup>4</sup> Policies ([GN-2350-9](#), paragraph 3.9 *et seq.*: Single-source selection processes must have proper justification.

<sup>5</sup> Office leases, vehicle leases for supervision work, public services and communication expenses, translations, bank fees, office supplies, publicity or announcement costs, photocopies, postage, etc.

<sup>6</sup> Includes nonconsulting services.

- 5.8 **Main procurement processes:** The main procurement processes are included in the initial procurement plan. Once the loan is approved, the executing agency will be responsible for preparing the project's procurement plan for review and approval by the Bank. To access the 18-month procurement plan, see [required electronic link 4](#).
- 5.9 **Procurement supervision:** The ex ante supervision method will be used for executing the project's procurement processes and requires the Bank's prior no objection. The processes may be reviewed by the Bank on an ex post basis once the fund administrator's capacity has been assessed and the Bank gives written consent to modify the supervision method. Ex post reviews will be conducted every 12 months in accordance with the project supervision plan. Ex post review reports will include at least one physical inspection visit,<sup>7</sup> selected from the procurement processes subject to ex post review.
- 5.10 **Other special procedures:** To be considered eligible to receive the project resources, eligible executing entities or supporting executing agencies must demonstrate that they have the following institutional attributes: (i) capacity to operate in Colombia; (ii) understanding of IDB procurement principles and policies; (iii) understanding of relevant legal frameworks and national policies; (iv) fiduciary capacity to ensure that the funds are used efficiently and exclusively for the approved purposes; and (v) proof of being lawfully established in Colombia.
- 5.11 **Records and files:** All project documentation and records, particularly those used to support fiduciary management, must be kept by DAPRE and the fund administrator for a minimum of three years from the date of the last disbursement of project funds, as stipulated in Article 6.01 of the General Conditions of the Loan Contract. DAPRE's Operations Office, and the program's executing team in particular, are responsible for the project's fiduciary documentation, including financial transaction records, execution reports, financial statements, and any other reports related to the loan proceeds, which will be managed using the entity's different software programs. The approved formats and procedures described in the project Operating Regulations will be used for the preparation and filing of the project's reports. At the end of the project execution period and/or the fund administrator's service contract, the fund administrator will give all documentation to the responsible department of DAPRE's Operations Office.

## VI. FINANCIAL MANAGEMENT

- 6.1 **Programming and budget:** The national government, through the National Public Budget Generate Directorate and the National Planning Department (DNP), is responsible for budget programming, which will culminate with the approval of the Annual Budget Act by the Congress. The loan proceeds will be included in the national budget under DAPRE and will be controlled through the SIIF. No problems are anticipated that could affect execution.

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<sup>7</sup> The inspection verifies the existence of the goods procured, leaving the verification of quality and compliance with specifications to the sector specialist.

- 6.2 **Accounting and information system:** The public accounts regulatory authority in Colombia is the General Accounting Office (CGN), which issues guidelines on how to keep accounting records, including those that make up the national budget. DAPRE will use the SIIF for the project's budget, accounting, and cash flow control, and will keep records of off-balance sheet items using the accrual method; however, the program's financial statements will be prepared based on the cash accounting method. Using the trust concept, the fund administrator will keep accounting records in accordance with the dynamics of the Single Chart of Accounts of the Office of the Financial Superintendent for fiduciary transactions. However, given the nature of the managed resources, the information produced by the fund administrator using the public sector's Single Chart of Accounts will be recognized.
- 6.3 When executing the components through the subprojects, accounting and financial controls will be used to monitor the execution and certification of funds disbursed as advance payments to the units responsible for executing the subprojects, which will be recorded in the project's investment statement until they are certified by the executing agency; however, these advance payments may be justified to the Bank when they are transferred to the subprojects, in order to comply with the justification percentage required in order to request disbursements. In addition, the executing agency will monitor the resources managed by the designated fund administrator.
- 6.4 **Disbursements and cash flow:** A special bank account in dollars will be opened at the Banco de la República, held in the name of the project for purposes of its execution. DAPRE will sign a trust management agreement with the fund administrator and will authorize fund transfers to it. In turn, the fund administrator will be responsible for managing the cash flow of program resources, and will open an account in pesos exclusively for that purpose. The Bank will advance funds in dollars based on liquidity needs to cover a maximum period of six months, and DAPRE will prepare disbursement requests and render accounts in accordance with the Bank's policies (document OP-273-6). To receive such advances, supporting documentation must be furnished for a minimum of 60% of all outstanding cumulative balances, taking into account that the execution mechanism is complex and decentralized. Given that part of the resources will be executed through subprojects, the liquidity needs for advance payments for such subprojects will be supported by contracts signed with the operator of each subproject. DAPRE may justify advances for subprojects when the funds are transferred to them, and will be responsible for monitoring the execution of such advances. See special conditions precedent to the first disbursement in Section IV of this annex.
- 6.5 **Internal control and internal audit:** The internal audit office's roles include: (i) providing support and assistance to the coordination committees, internal audit subcommittees, and shared services; (ii) conducting annual audits of the project to evaluate, monitor, and assess risks, and performing monitoring and assessment activities on a quarterly basis; (iii) promote a culture of control by meeting all reporting requirements specified by law; and (iv) establish relationships with outside agencies such as the Office of the Comptroller General (CGR) and Government Records Office (AGN).

- 6.6 The CGR report issued in December 2016 gave a rating in the “efficient” range. This rating indicates that the design and effectiveness of controls make the DAPRE reliable in terms of resource management and achievement of the proposed objectives and targets for fiscal year 2015. The institutional capacity assessment of the internal controls subsystem conducted in June 2017 resulted in the rating “satisfactory development associated with a low risk.” DAPRE’s internal audit office will include a review of the project in its annual audit plans.
- 6.7 **External control and reports:** The CGR conducts annual external audits on a selective and ex post basis. In fiscal year 2016, it conducted a government audit of DAPRE, resulting in a favorable opinion. DAPRE has also conducted certification in ISO-9001 (Quality Management Systems) in 2015; and in ISO-19001 (Guidelines for Managing Audit Systems) in 2012. The ICONTEC [Colombian Institute of Technical Standards and Certification] issued the external audit reports conducted from 2012 to 2016.
- 6.8 Because the CGR is not eligible to audit Bank operations, the project’s financial statements and eligible expenses will be audited by an independent audit firm acceptable to the Bank, to be submitted no later than 120 days after the close of the executing agency’s fiscal year. For resources executed through subprojects, the external audit will have a special scope to review the accounting and financial control exercised by DAPRE and the fund administrator for monitoring execution and certifying resources, in accordance with the requirements described in this annex. The contracting and scope of these audits will be based on the terms of reference agreed upon between DAPRE and the Bank, and many cover several years. Auditing services will be contracted by DAPRE and financed by the loan proceeds (US\$300,000). Under the Bank’s current Access to Information Policy, the project’s audited reports will be published in the Bank’s systems.
- 6.9 **Financial supervision plan:** The Bank’s financial specialist will perform at least one onsite review annually as well as desk reviews of the audited financial statements. The auditor will verify that the resources are being executed in accordance with the Bank’s fiduciary policies and conditions stipulated in the project Operating Regulations. Financial management supervision visits will include the verification of the financial and accounting agreements used to manage the project, particularly the oversight of resources executed through subprojects, in accordance with the requirements specified in this annex. Implementation of the auditor’s recommendations will be monitored.
- 6.10 **Execution arrangements:** The DAPRE will be the executing agency. It will implement the project through the Colombia Peace Fund, which operates as a standalone agency under the DAPRE. To this end, it will form a TCU to work exclusively on the project, which will be responsible for subproject planning, technical management, and evaluation; management of procurement and contracting processes; and the project’s physical and financial execution, monitoring, and evaluation. The project will also have a fund administrator, which will be responsible for procurement and payment processes, in accordance with the guidelines provided by the DAPRE through the TCU. DAPRE’s Post-Conflict Office will act as the payments and expenditure authorization officer. A technical committee will be formed for the project, which will be tasked with approving the subprojects to be presented to the Colombia Peace Fund’s executive board, which will have the final say as to which projects are ultimately approved. Once the

subprojects are approved, the beneficiaries will nominate organizations (eligible executing agencies and supporting executing agencies). After the projects are approved, the eligible executing entities may be contracted, which will receive resources and be responsible for executing such subprojects. Eligible beneficiary organizations may also be contracted, which will be those that submitted the projects that were selected. When deemed appropriate and necessary, supporting executing agencies may be contracted, which will be the entities that support the operations of the eligible beneficiary organizations for the execution of onsite project activities. Further details on the execution arrangements can be found in the project Operating Regulations.

- 6.11 **Other financial management agreements and requirements:** There are no additional agreements.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/17

Colombia. Loan \_\_\_\_/OC-CO to the Republic of Colombia  
Sustainable Colombia Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Colombia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Sustainable Colombia Program. Such financing will be for the amount of up to US\$100,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_ \_\_\_\_\_ )