PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

FINANCIAL SYSTEM REFORM SUPPORT PROGRAM

(CO-L1144)

LOAN PROPOSAL

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1. Monitoring and evaluation plan.
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3. Sector Framework Document on Support to SMEs and Financial Access/Supervision.
4. IDB Country Strategy with Colombia 2012-2014.
5. *Article IV Consultation – Staff Report; Press Release; and Statement by the Executive Director for Colombia. International Monetary Fund (IMF). Colombia 2014.*
6. *Colombia Review under the Flexible Credit Line Arrangement – Staff Report; Press Release; and Statement by the Executive Director for Colombia. IMF 2014.*
7. *Colombia: Financial System Stability Assessment. IMF 2013.*
8. *Financial Inclusion, Growth and Inequality: A Model Application to Colombia. IMF (2014) Working Paper.*
9. *Economic Surveys. Organization for Economic Cooperation and Development (OECD). 2015.*
10. Financing of SMEs in Colombia. OECD. 2013.
11. Law 1735 of 21 October 2014, Mandating measures to promote access to transactional financial services and other provisions.
12. Progress and goals of the Colombian economy. Ministry of Finance (2014).
13. Financing for Peace, Equity, and Education 2015-2018 Ministry of Finance (2014).
14. Strategy for Financial Inclusion. Ministry of Finance (2014).
15. Colombia: Toward an Inclusive Universal Insurance Sector. Banca de las Oportunidades (2014).

ABBREVIATIONS

FDN	Financiera de Desarrollo Nacional
GDP	Gross domestic product
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
MHCP	Ministry of Finance and Public Credit
MILA	Mercado Integrado Latinoamericano [Latin American Integrated Market]
MSMEs	Micro, small, and medium-sized enterprises
NBC	Nonbank correspondent
OECD	Organization for Economic Cooperation and Development
PBL	Programmatic policy-based loan
SMEs	Small and medium-sized enterprises
WEF	World Economic Forum

PROJECT SUMMARY

COLOMBIA
FINANCIAL SYSTEM REFORM SUPPORT PROGRAM
(CO-L1144)

Financial Terms and Conditions

Borrower: Republic of Colombia

Executing agency: Ministry of Finance and Public Credit (MHCP)

Source	Amount	%
IDB:	US$500 million	100
Local:	-	-
Total:	US$500 million	100

Flexible Financing Facility[a]	
Amortization period:	Bullet payment on 15 June 2028
Original WAL:	12.75 years[b]
Disbursement period:	1 year
Grace period:	12.75 years
Inspection and supervision fee:	[c]
Interest rate:	LIBOR-based
Credit fee:	[c]
Approval currency:	U.S. dollars from the Ordinary Capital (OC)

Project at a Glance

Project objective/description: The objective of the program of policy reforms is to increase the financial system's contribution to Colombia's growth by: (i) increasing financing for productive development; (ii) improving regulation and supervision of the financial system to support the development of the capital markets and financial transparency; and (iii) improving financial inclusion for the unbanked population and for micro, small, and medium-sized enterprises (MSMEs).

This is the first of two consecutive operations that are technically interconnected but financed independently under the programmatic policy-based loan (PBL) modality.

Special contractual conditions precedent to the first disbursement of the loan: The disbursement of loan proceeds is subject to the fulfillment, to the Bank's satisfaction, of the policy reform commitments described in the program components and detailed in the policy matrix (Annex II), and fulfillment of the other conditions established in the loan contract (paragraph 3.2).

Exceptions to Bank policies: None.

The project qualifies as: [d]	SV	☐	PE	☑	CC	☐	CI	☐

[a] 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, subject in all cases to the final amortization date and the original weighted average life. The Bank will take market conditions as well as operational and risk management considerations into account when reviewing such requests.

[b] The original weighted average life (WAL) and grace period may be shorter, depending on the effective signature date of the loan contract.

[c] 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 applicable policies.

[d] SV (Small and Vulnerable Countries), PE (Poverty Reduction and Equity Enhancement), CC (Climate Change, Sustainable Energy, and Environmental Sustainability), CI (Regional Cooperation and Integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background and problem

1.1 **Macroeconomic context.** As the result of a policy program based on containing inflation and curbing the fiscal deficit, a flexible exchange rate, and effective financial supervision and regulation, Colombia maintained economic growth at an annual average of 4.3% between 2009 and 2014, with relatively low inflation of close to 2.5% per year.[1] Positive economic performance, along with the consolidation of fiscal accounts and the meeting of inflation targets, has been reflected in the labor market, where the unemployment rate has been in single digits (9.1%, on average, in 2014). Due to these factors, the poverty rate dropped from 49% in 2002 to 28.5% in 2014, while the indigence rate fell from 18% to 8.1%. The Gini coefficient remains high, at 53.9, though it has declined. Projections for annual growth in 2015-2017 are at around 4.4%.[2] However, recent studies[3] indicate that in order to achieve inclusive and sustained growth over time, the country will need to address a series of challenges, including: (i) moving toward a more complex, value-added economy; (ii) strengthening weaknesses in supervision of the financial sector; (iii) increasing financial inclusion;[4] and (iv) closing the infrastructure gap without compromising fiscal stability.

1.2 **Economic and productive structure.** The country's most important economic sectors are: the financial sector (19.7% of GDP); commerce, hotels, and restaurants (12% of GDP); industry and manufacturing (11.2% of GDP); and transportation and communications (7.3% of GDP).[5] Notable in the economic structure is the importance of micro, small, and medium-sized enterprises (MSMEs), which represent 95% of enterprises, 80% of private employment, and 35% of GDP. Despite the growth of MSMEs over the last 20 years, the country's economy has not undergone positive structural change, in terms of moving toward more productive, value-added sectors. Colombia has significant gaps in productivity compared with middle- and high-income countries. Between 1990 and 2011, there was near-zero growth in productivity in the economy, while countries such as Chile and Peru experienced growth of 20% and 4%, respectively. The productivity gap primarily affects MSMEs, whose productivity is 45% that of similar-sized North American enterprises.[6] Nearly 80% of the products for which Colombia has a comparative advantage are in the primary sector and have relatively low economic complexity (since their production requires low levels of

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1 International Monetary Fund (IMF), *2014 Article IV Consultation - Staff Report*, May 2014.

2 World Bank, *Global Economic Prospects,* 2015.

3 See, for example, IMF, op. cit.; Organization for Economic Cooperation and Development (OECD), *Economic Surveys,* Colombia, 2015.

4 Financial inclusion is defined as access to and use of formal, quality financial services by households and enterprises, under a framework of financial stability for both the system and the users. Financial services include payments and transfers, credit, savings, and insurance.

5 Departamento Administrativo Nacional de Estadísticas [National Administrative Department of Statistics], GDP, 2014.

6 Ministry of Industry, Trade, and Tourism, Report on Micro, Small, and Medium-sized Enterprises (MSMEs), 2011.

technological capacity and human capital) and therefore make a limited contribution to economic growth.[7]

1.3 **The financial system.** The financial system plays a fundamental role in economic growth.[8] An efficient financial system makes it possible to: (i) channel resources to more productive actors and projects, thus stimulating growth; (ii) change terms, redirecting short-term savings toward long-term investments and allocating resources to productive investments, e.g. in infrastructure; (iii) smooth household and business consumption across time, reducing liquidity constraints and lessening the negative effects of shocks on well-being; and (iv) reduce the impact of volatility and macroeconomic shocks.[9] While Colombia has made major progress recently in financial regulation and supervision,[10] its financial system remains relatively undeveloped compared with other countries in the region. In 2012, the World Economic Forum's Financial Development Index ranked Colombia 46th, behind Chile (29th), Brazil (32nd), and Peru (41st). According to the various assessments,[11] further development of the country's financial system requires: (i) expanding financing for productive development, in order to move toward a more productive and complex economy and close the gap in infrastructure investment so as to bring about sustained growth for the country's economy; (ii) locking in advances in financial system regulation and supervision, promoting greater transparency, and developing capital markets, in order to mobilize resources and diversify financing mechanisms to address productive investment needs, without compromising fiscal stability; and (iii) increasing financial inclusion, in order to alleviate liquidity constraints on households and enterprises, while improving their levels of consumption and investment and helping to reduce inequality and vulnerability.[12]

B. Financing for productive development in Colombia

1.4 **Access to financing, productivity, and growth.** Access to financing is a critical element for increasing an economy's productivity and complexity and stimulating economic growth. Greater access to financing facilitates: (i) long-term investment, allowing for the development of projects in strategic sectors and the improvement of productive infrastructure; (ii) adoption of productive technology and techniques, promoting innovation and research and development; (iii) access to markets and to segments of global value chains with higher value added; and (iv) the mitigation of volatility and the effects of macroeconomic shocks on the economy.[13]

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[7] For a detailed analysis of the relationship between value added, economic complexity, and growth, see: Hausmann, et al., *The Atlas of Economic Complexity,* 2011.

[8] Beck, T., Levine, R., and Loayza, N., "Finance and the sources of growth," *Journal of Financial Economics* 58(12), pages 261-300, 2000.

[9] Inter-American Development Bank (IDB), Sector Framework Document on Support to SMEs and Financial Access/Supervision, document GN-2768, 2014.

[10] These reforms have provided major stability and soundness to the financial system: data from the IMF show stability in liquidity and an improvement in overdue loans (2.8% of total loans as of 2013).

[11] IMF, op. cit. World Economic Forum (WEF), *The Global Competitiveness Report 2014-2015*, 2014.

[12] Colombia ranked 12th in income inequality out of a total of 168 countries, as of 2014 (United Nations Development Programme, 2014).

[13] For an exhaustive analysis of the relationship between financial development and productivity, see the Sector Framework Document on Support to SMEs and Financial Access/Supervision, IDB, 2014.

1.5 **Productive financing in Colombia.** The flow of financing to Colombia's productive sector is strongly dominated by commercial banks, which account for 44% of all financial system assets (62% of GDP). Loans to the private sector (50% of GDP) are low compared with other countries in the region, such as Brazil (71% of GDP) and Chile (106% of GDP), and compared with high-income countries (150% of GDP).[14] The cost of credit (11%) is higher than in other countries in the region, such as Chile (9.3%) and Mexico (4.2%), and higher than in high-income countries (2.6%). Access to credit for small firms is limited. In 2013, barely 41% of small and medium-sized enterprises (SMEs) obtained loans, with credit to this segment constituting barely 7% of total credit to the private sector. This factor is far from negligible when considering the vital role of financing in increasing an economy's productivity, and the dominant role of SMEs in Colombia's economy. The limitation on financing is critical in the agriculture sector, where 38% of producers rely on access to credit, with credit to the sector amounting to 32% of its GDP, lower than the amount of credit extended to the private sector overall. Lastly, investment in infrastructure is also hindered by the difficulty of obtaining financing. According to available studies,[15] in order to accelerate the country's economic growth to the 6% level and increase productivity to 2%, the country needs to invest close to 3.3% of GDP annually in 2012-2020 in infrastructure projects. To reach these levels without compromising fiscal stability, 1.7% of GDP could come from the public sector, but to cover the remaining 1.6%, US$50 billion would have to come from private investment.

1.6 **Pending challenges.** A number of assessments[16] indicate that Colombia faces challenges with regard to productive financing. First, there is the need to strengthen guarantee systems. Improving protections for creditors, in terms of utilizing or recovering guarantees in cases of nonpayment, is a central element in increasing access to financing.[17] This requires establishing better credit information systems, as well as legislation on transactions secured with movable-property collateral, based on best international practices, to reduce the levels of collateral required of enterprises, while diversifying the sources of collateral, particularly in the case of SMEs and agricultural enterprises, which often have difficulty providing real-property guarantees as collateral for loans. The second group of challenges concerns the need to strengthen public institutions for financing productive development. Public development banks play a fundamental role in promoting investment in economic sectors, or in market segments in which there are multiple market failures in matching supply and demand for financing, which act as a disincentive to action by the private sector. In Colombia, these failures are particularly severe in the agriculture sector (due to the risks associated with climate, marketing, and prices; the concentration of risk based on activity or region; limitations in collateral; high transaction costs involved in providing small-scale loans across broad geographic areas) and in the infrastructure sector (due to the strong presence of externalities and macroeconomic, political, and other risks). In

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[14] Data for 2013. World Bank, *World Development Indicators,* 2015; OECD, op. cit.

[15] Asociación Nacional de Instituciones Financieras [National Association of Financial Institutions], *La inversión en infraestructura en Colombia* [*Investment in Infrastructure in Colombia*], 2013.

[16] See, for example: World Bank, *Doing Business*, 2014.

[17] OECD, *Economic Survey* - Colombia, 2015.

light of these market failures, public development banks could help improve access to financing, offering resources for productive investments and improving conditions to incentivize and facilitate private investment (e.g. through publicly guaranteed funds and public-private partnerships).

C. Regulation and supervision of Colombia's financial system

1.7 **Regulation and supervision, development of the financial system, and growth.** Proper regulation and supervision of the financial system is essential in ensuring that development of the system does not compromise its stability. This will help prevent financial crises, whose effects undermine the confidence of agents in the financial sector, limiting growth in savings and intermediation, forcing the exit of actors from the capital markets, and restricting the availability of medium- and long-term financing. The importance of financial regulation and supervision is confirmed by analyses assessing the effects of structural reforms on growth; these studies highlight regulation and supervision as having a major impact on growth.[18]

1.8 **Current situation in Colombia.** Advances in regulation and supervision of Colombia's financial system have been noted in international assessments,[19] which point to the positive effect of reforms on the stability of the system. Despite this, there continue to be obstacles to developing the financial system, particularly with regard to concentration in the sector, development of capital markets, and financial transparency. These limitations have also been cited in connection with Colombia's accession to the Organization for Economic Cooperation and Development (OECD), which has laid out a road map plotting a series of reforms needed to strengthen regulation and supervision of the country's financial system.[20] Colombia's financial sector is highly concentrated, especially in the banking sector, where three financial groups account for close to 66% of total assets as of December 2014.[21] International assessments indicate that this situation is a source of systemic risk and emphasize the need to strengthen financial regulation and supervision in this area.[22] Colombia's capital markets, for their part, lag behind those of other countries in the region, with levels of capitalization equivalent to 63% of GDP, compared, for example, with 67% for Brazil and 130% for Chile.[23] In addition, the market is concentrated in sovereign debt, with non-sovereign issuers representing 4% of GDP. The corporate bond market is concentrated in issuers with high ratings (80% of securities are rated AAA, while the remaining 20% are rated AA+),[24] and there are no issuers with ratings of AA or lower. Reasons for the low level of development of these markets include: (i) the cost and time involved in public offerings, the issuing requirements, public disclosure rules, and registration, all of which affect the market participation of SMEs and one-time issuers (e.g., for

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18 Norris, D. et al., *Reforms and Distance to Frontier*, IMF Discussion Note, 2013.

19 IMF, op. cit.; OECD, op. cit.

20 See OECD, *Roadmap for the Accession of Colombia to the OECD Convention*, 2013.

21 According to data obtained from the Financial Superintendency of Colombia.

22 IMF, op. cit.

23 WEF, *The Financial Development Report 2012*, 2012.

24 Ministry of Finance and Public Credit (MHCP), Conceptual document: Secondary Market Regulatory Reform, 2013.

infrastructure projects); (ii) the low risk tolerance of investors in light of potential volatility in market prices; and (iii) the onerous requirements for international investors wishing to participate in the market, a factor that discourages nontraditional investors from participating in projects, such as infrastructure projects, through public-private partnership mechanisms. With regard to financial transparency, recent episodes[25] demonstrate that the country needs to continue and deepen financial system reforms, in order to provide investors greater security and clarity, and to ensure the proper functioning and transparency of the system. Good international practices[26] in financial transparency suggest that expanded and more effective supervision, combined with greater availability of reliable information regarding operations and entities participating in the system, are indispensable elements in improving financial risk management and reducing the likelihood of a systemic crisis and the ensuing negative impact on the country's growth.

1.9 **Pending challenges.** Viewed in the current context, and with the aim of improving the functioning of the system, Colombia needs to move forward with: (i) strengthening regulation and supervision of the financial system; and (ii) improving financial transparency. In regard to the first challenge, reforms need to be implemented to strengthen the supervision of financial conglomerates, simplify the requirements for potential issuers to participate in the capital markets, and improve transparency and risk management to encourage the participation of less sophisticated investors. In terms of the second challenge, Colombia needs to increase the availability and reliability of financial information.

D. Financial inclusion in Colombia

1.10 **Financial inclusion, growth, and reducing vulnerability.** The economic literature demonstrates that greater participation by the population in the financial system, through financial inclusion, stimulates growth and reduces poverty and inequality.[27] Essentially, increased financial inclusion allows for greater resource flows for households and enterprises, and more efficient and secure management of those resources, which in turn makes it possible to respond better to adverse shocks, thus smoothing consumption, improving economic, education, and health opportunities, and increasing investment. At the same time, access to and use of electronic payments provides benefits associated with lower transaction costs for households, as reflected in lower physical and opportunity costs, thus generating

[25] In November 2012, Interbolsa, S.A., one of the largest and most connected stock brokerage firms in the Colombian market, failed to meet its payment obligations. The Financial Superintendency intervened, and the firm's operations were suspended by the Colombian Stock Exchange. Given that the firm was ultimately liquidated, it had no further dealings in the market. Studies by Banco de la República show that this episode affected the confidence of investors in the financial system and the earnings of firms listed on Colombia's stock exchange. See: Gómez, J. and Melo, L., "Efectos de 'ángeles caídos' en el mercado accionario colombiano: estudio de eventos del caso Interbolsa" [Effects of 'fallen angels' on the Colombian stock market: the Interbolsa case], *Ensayos sobre Política Económica* 32(75), pages 23-27, Editorial Banco de la República, 2014.

[26] OECD, *Policy Framework for Effective and Efficient Financial Regulation*, 2010.

[27] See: Karpowicz, I., *Financial Inclusion, Growth and Inequality: A model application to Colombia*, IMF Working Paper, 2014; Park, I. and Mercado, F., *Financial Inclusion, Poverty, and Income Inequality in Asia*, Asian Development Bank, Working Paper, 2015.

savings that can have the result of less wear and tear on assets.[28] All of which works to reduce vulnerability, inequality, and poverty in the population.

1.11 **Financial inclusion in Colombia.** In spite of the progress achieved in increasing access to financial services through nonbank correspondents (NBCs) and electronic banking,[29] and efforts to bring those receiving the Families in Action government subsidy into the banking system, Colombia's levels of financial inclusion are lower than the regional average. It is estimated that barely 30% of adults actively use an account in a formal financial institution, a figure that drops to 15% for adults in the two poorest quintiles (compared with a regional average of 39% and 25%, respectively). Recent data[30] points to a gender gap in Colombia: while 36% of men have an account at a formal financial institution, only 25% of women have such an account. This proportion is low compared with the world average (46% for women), with the figure for middle- and low-income countries (37%), and with the rest of the region (35%). The gender gap is 9 points for the use of debit cards, 6 points for the use of credit cards, and 4 points for electronic payments. While further analysis is necessary to understand this situation, the systematic lack of data and information disaggregated by gender makes it difficult to conduct a proper assessment. The low level of financial inclusion is also seen in the geographical distribution of households: 26% of rural households and 34% of urban households have an account (compared with the regional average of 36% and 46%, respectively). In 2013, only 49% of such accounts were active, and 93.5% of all such accounts had balances of less than five times the legal monthly minimum wage. The challenges of using accounts are reflected by the fact that only 60% of the NBCs have active operations, and 17% are in rural municipalities.[31] In 2013, only 41% of SMEs had bank loans or credit lines, compared with 72% of large companies.[32]

1.12 **Pending challenges.** Colombia's low rate of financial inclusion can be explained by the high cost of financial transactions and the lack of financial products suited to the needs of the excluded population.[33] The high transaction costs are due to stringent regulatory requirements (reserves, forced investments), taxes on financial transactions, and high operating costs, which are cash-intensive. The lack of appropriate financial products can be explained by the high fixed operating costs in relation to the low unit value of the transactions, and a geographically dispersed population. Thus, alternative channels need to be developed for simplified financial products that meet the needs of consumers with low financial capacities. Though the country has made strides toward financial inclusion, greater inclusion of the Colombian population could be achieved by adopting an integrated and

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[28] Jenny Aker et al., *Zap It to Me: The Short-term Impacts of a Mobile Cash Transfer Program,* 2011.

[29] Coverage of the banks' access channels extends to nearly all the country. WEF, op. cit.

[30] World Bank, *Global Findex*, 2014.

[31] MHCP, *Estrategia de Inclusión Financiera [Financial Inclusion Strategy]*, 2014; Cuellar, M., *Avances y retos de la inclusión financiera en Colombia [Progress and challenges of financial inclusion in Colombia]*, Asociación Bancaria y de Entidades Financieras de Colombia [Association of Banks and Financial Entities of Colombia], 2014.

[32] Access to financing for SMEs is crucial, since: (i) it allows enterprises to capitalize, invest, and innovate (IDB, op. cit.); and (ii) SMEs are important in Colombia (paragraph 1.2).

[33] According to the WEF, Colombia ranks 114th in cost of financial services (*The Global Competitiveness Report 2014-2015*).

coordinated strategy that includes the following improvements: (i) simplified procedures and requirements for access to financial services; and (ii) expanded products and alternative channels for access to financial services.

1.13 **The Bank's experience and lessons learned.** The program is consistent with work the Bank has carried out in: (i) the framework of the Latin American Integrated Market (MILA) (ATN/FI-12889-RG, ATN/OC-14371-RG, and ATN/OC-13779-RG); (ii) the implementation of regulatory and supervisory standards in Latin America's microinsurance markets (ATN/SF-9621-RG); (iii) support for developing mobile banking for coffee growers (ATN/KK-10577-CO); (iv) promotion and expansion of electronic invoicing (3155/OC-CO); (v) support for preinvestment studies for regional infrastructure projects (ATN/OC-14753-CO) to be executed by Financiera de Desarrollo Nacional; and (vi) the Perímetral Oriental de Bogotá public-private partnership (CO-L1159), a non-sovereign guaranteed operation currently in preparation. The program complements operations in support of Bancóldex (2080/OC-CO, 2193/OC-CO, and 2949/OC-CO, under CCLIP CO-X1007 and 2783/TC-CO), and Financiera de Desarrollo Territorial (FINDETER) (1967/OC-CO, 2314/OC-CO, and 2768/OC-CO, under CCLIP CO-X1003), for a total of US$700 million, with financing support for more than 22,000 MSMEs. The program draws on the following lessons learned by the Bank in designing policy-based loans: (i) a proper sequencing of reforms should take into account the capacities of the institutions involved and establish a horizontal logic to progressively introduce the reforms, combining regulatory advances with improvements in technical capacities; (ii) the planned reforms should incorporate the interests and capacities of the entities that are to implement them, so as to optimize their effectiveness; (iii) the setting of incentives linked to the fulfillment of preestablished objectives can be expected to increase the success of the reforms; and (iv) there should be effective coordination between the various bodies participating in designing the reforms.[34] These lessons have been incorporated in the program design in order to ensure that the reforms are approved, can be implemented effectively, are accepted by financial system agents, and have a logical sequence of milestones to follow over time.

E. Strategic alignment and coordination with other donors

1.14 **Strategic alignment.** The operation is aligned with the priority objective established in the revised version of the Bank's country strategy with Colombia (document GN-2648-1), with regard to increasing the availability and variety of financial services within the Access to Financial Services sector. This sector has been identified by the government as a priority area, inasmuch as it aligns with: (i) the priorities established in the National Development Plan for Colombia 2014-2018, which establishes among its objectives improving access to financial services and developing the capital markets; and (ii) the policy areas identified as necessary for Colombia's accession to the OECD.[35] The program will contribute to the "poverty reduction and equity enhancement" lending targets established as part of the Ninth General Increase in the Resources of the Inter-American Development Bank (document AB-2764) by incorporating financial inclusion initiatives that help

[34] See, for example: 3177/BL-NI, 3326/OC-DR, and Country Program Evaluation: Panama 2010-2014, Office of Evaluation and Oversight.

[35] See OECD, op. cit.

reduce the vulnerability of the unbanked population in Colombia by creating new savings and loan products that provide access to underserved segments of the country's population. It will also promote the regional goal of increasing the "percent of firms using banks to finance investments," as set out in the Results Framework. The operation is aligned with the Sector Framework Document on Support to SMEs and Financial Access/Supervision (document GN-2768-3) inasmuch as it will pursue institutional and regulatory reforms to promote access to financing. In addition, the program is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) inasmuch as it will: (i) increase the productivity and growth of SMEs; and (ii) provide access to financial services for the majority.

1.15 **Coordination with other donors.** This operation is coordinated with, and complements, technical cooperation actions by the International Monetary Fund (IMF) on financial system stability, as well as World Bank technical assistance to improve the institutional capacity of the government with regard to strengthening financial regulation and supervision, developing capital markets, and increasing financial inclusion, as well as the World Bank Group support in capitalizing Financiera de Desarrollo Nacional (FDN) for infrastructure investment projects.

F. Proposed program

1.16 **Objectives.** The objective of the program of policy reforms is to increase the financial system's contribution to Colombia's growth by: (i) increasing financing for productive development; (ii) improving regulation and supervision of the financial system to support the development of the capital markets and financial transparency; and (iii) improving financial inclusion for the unbanked population and for MSMEs.

1.17 **Beneficiaries.** The program's reforms are crosscutting in nature and are aimed at overcoming financial and regulatory constraints that impede the proper functioning of the financial system and limit its contribution to growth. The financial inclusion component will specifically target the unbanked population and MSMEs, in order to reduce their vulnerability. In light of this objective, and given the broad nature of the reforms, this program is expected to benefit the entire universe of actors in the economy. The program includes four components:

1.18 **Component I. Macroeconomic stability.** The objective of this component is to ensure a macroeconomic environment that is consistent with the program objectives established in the Policy Matrix.

1.19 **Component II. Improvements in financing for productive development.** Consistent with the areas of reform indicated for accession to the OECD, this component introduces reforms on two fronts:

a. **Strengthening the systems of guarantees for productive development.** With the aim of increasing access to financing for the productive sector, the first operation envisages: (i) entry into effect of the Law on Secured Transactions; (ii) regulations for operation of the Secured Transactions Registry; (iii) approval of registration forms and fees for the Secured Transactions Registry; (iv) enactment of the law on the National Development Plan 2014-2018, creating the Master Registry of Electronic Invoicing; and (v) preparation and publication for public consultation of the draft decree regulating the conditions for the expansion of electronic invoicing. The second operation will support: (i) regulations on the enforcement of secured transactions and the establishment of valuation mechanisms; (ii) creation and regulation of the Master Registry of Electronic Invoicing; and (iii) regulations on the expansion of electronic invoicing. The reforms will expand the supply of financing, particularly for MSMEs, through the use of movable assets and electronic invoice discounting as loan collateral, and through master registries that provide transparent information and specific valuations to ensure that creditors have adequate loan protections.

b. **Strengthening public institutions for financing productive development.** In order to promote access to financing for underserved sectors of the economy, particularly the agriculture and infrastructure sectors, and to incentivize greater participation in those sectors by the private sector, the first operation envisages: (i) reform of FDN statutes, in order to focus primarily on the structuring and financing of infrastructure projects; (ii) adoption of commitments by the nation,[36] as the majority shareholder in FDN, to ensure the application of corporate governance best practices at FDN; (iii) modification of the maximum individual credit amount for FDN; (iv) approval of the law on financing for revitalization of the agriculture sector; and (v) issuance of circulars on the operating regulations of the Agriculture Guarantee Fund. The second operation envisages: (i) underwriting to reach financial close on fourth-generation infrastructure concession contracts; (ii) issuance of new financing instruments to promote the structuring of fourth-generation concession projects; (iii) publication for public consultation of the draft regulations for financing the revitalization of the agriculture sector; (iv) revision of credit concentration quotas for the Agriculture Sector Financing Fund; and (v) broadening of the insurance policy spectrum for the agriculture sector. The reforms will help reduce the gap in infrastructure investment in Colombia, through a reformulation of FDN's objectives and statutes, in order to give it a more decisive role in directly financing infrastructure projects and in financial structuring, mobilizing private sector investment resources. The trigger mechanism for a second operation will be the above-mentioned underwriting of concession contracts, as well as the issuance of new financing instruments by FDN. The measures that support rural financing seek to strengthen economic growth in the agriculture sector.

1.20 **Component III. Improvements in the regulation and supervision of the financial system.** This component introduces reforms on two important fronts:

a. **Strengthening regulation and supervision of the financial system.** In order to improve the functioning of Colombia's financial system and increase and diversify the sources of financing for the productive sector, the first operation envisages: (i) regulatory reform of the secondary market,[37] including the simplification of documentation requirements for issuers; (ii) preparation and publication for public consultation of the draft decree amending the international investment regime; (iii) regulations on expediting

[36] Public communication issued by the MHCP.

[37] Consists of the negotiation of securities that are subject to simplified requirements for listing on the National Registry of Securities and Issuers and available for purchase only by authorized investors.

hybrid instruments for capitalizing credit institutions; (iv) approval of the New Country Code of Corporate Best Practices; (v) publication of the regulations on price stabilization mechanisms; (vi) modification to provisions on individual credit limits, regimes for investment of resources from unemployment funds, mandatory pension funds, and portfolios that support the technical reserves of life insurance companies; and (vii) publication for public consultation of the draft decree on the administration of third-party portfolios. The second operation envisages: (i) approval of the international investment regime; (ii) presentation to the National Congress of the draft law on the supervision of conglomerates and the independence of the Financial Superintendency; (iii) review of the capital regime for stock market agents with regard to technical assets and operational risk; (iv) implementation of the integrated supervision framework based on corporate governance risk; (v) modification of provisions on the administration of third-party portfolios; and (vi) review of regulations on the provision of advice in the securities market, integration of financial markets by expanding fixed return and derivative financial instruments, and the contracts of correspondent institutions and representative offices offering products from foreign capital markets. The reforms seek to energize the capital markets, simplifying requirements to expand access for smaller issuers and promoting the participation of less sophisticated investors and international investors. Measures are being proposed to strengthen the regulation and supervision of the financial system, improve the standards of conduct of participants with regard to consumers in the system, and strengthen the powers of the supervisory entity.

b. **Strengthening financial transparency.** The first operation envisages: (i) an update to instructions applicable to the supervised entities; (ii) regulations on the solvency of factoring enterprises; (iii) approval of the law on information for consumers of financial services; (iv) publication for comment of the draft decree for price transparency in the general pension system and for clients of credit institutions; and (v) convergence with the International Financial Reporting Standards (IFRS). The second operation envisages: (i) approval of provisions for price transparency in the general pension system and for clients of credit institutions; and (ii) updates to the IFRS framework. The proposed reforms seek to strengthen prudential guidelines for financial system participants and to disseminate accounting information and information necessary for adequate protection of financial services consumers. With regard to the measures on the solvency of factoring companies and on price transparency, although the second operation does not call for any follow-up measures, updates may be required once the provisions have been implemented and any necessary adjustments have been identified.

1.21 **Component IV. Improvements in financial inclusion.** This component introduces reforms in two essential areas:

a. **Improving the supply of products and channels for financial inclusion.** In order to increase the financial inclusion of the Colombian population through a greater supply of products and channels and simplified requirements for access to financial services, the first operation envisages: (i) approval of the Law on Financial Inclusion, which establishes specialized electronic deposit and payment firms as a new channel for the distribution of financial products; (ii) publication for public consultation of the draft decree regulating the law on financial inclusion; (iii) creation of the small consumer loan modality; (iv) issuance of the certification of current bank interest rates for small consumer loans; (v) regulations for authorizing the distribution of insurance by correspondent banks; and (vi) regulation of fees for access to mobile channels providing financial services. The second operation envisages: (i) regulations to implement the Law on Financial Inclusion; (ii) update of the certification of current bank interest rates for the small consumer loan modality; (iii) assessment of tax barriers to the formalization and creation of payment ecosystems; (iv) assessment of financial system rules and regulations, in order to expand women's access to financial services; and (v) preparation of the action plan on revision of the regulatory framework for consumer protection, information, and channels for the distribution of inclusive insurance instruments. The proposed reforms will help develop financial services with simplified requirements, in order to increase the percentage of adults who have at least one financial product, expand the use of such products, and lower the operating and maintenance costs associated with providing the services. The authorities will continue to conduct studies in complementary areas of tax regulation and insurance policies to identify opportunities for reform, in order to encourage greater use of the services. The conclusion of these assessments will be considered to be a trigger mechanism for the second operation.

b. **Improving the institutional structure for increasing financial inclusion.** In order to have an effective and coordinated institutional framework for implementing public policy to improve financial inclusion in Colombia, the first operation envisages: (i) preparation and publication for public consultation of the draft decree on the creation and establishment of an intersectoral commission for financial inclusion; (ii) creation and establishment of an intersectoral commission for economic and financial education; and (iii) approval of the circular on the reporting requirement for evaluating financial inclusion in the insurance industry. The second operation envisages: (i) creation and establishment of an intersectoral commission for financial inclusion; and (ii) assessment, recommendations, and adoption of an action plan for improving economic and financial education. The proposed measures will help establish a framework for effective coordination between public participants in the financial system, in order to further the country's agenda on financial inclusion and economic and financial education.

G. Results indicators

1.22 The key indicator for measuring the impact of the program will be GDP growth, which is expected to increase by 0.24 percentage points more than it would have increased in a scenario without reform. Program outcomes will be measured by: (i) credit to the private sector as a percentage of GDP; (ii) percentage of enterprises with loans or credit lines; (iii) number of fourth-generation concession contracts reaching financial close; (iv) credit to the agriculture sector over agriculture sector GDP; (v) average value of collateral required to obtain a loan, in proportion to the amount of the loan; (vi) new issues listed on the stock exchange; (vii) change in the average spread between lending and borrowing rates;

(viii) percentage of adults who have at least one financial product; and (ix) change in the minimum balances in savings accounts in the large banks. The objectives would be achieved through the following products: (i) 14 regulations published; (ii) 17 resolutions published; and (iii) 9 communications issued. See the results matrix.

H. Economic analysis

1.23 The economic analysis gauges the impact of the reforms based on the medium-term growth rate. Calculations are based on a general equilibrium model of financial development proposed by Dabla-Norris et al. (2014)[38] and calibrated for Colombia by Karpowicz (2014).[39] The sensitivity of the principal results to a wide range of parameters was measured. Real benefit flows, discounted at a rate of 12%, show positive results of US$10 billion, with a high degree of tolerance in the sensitivity scenarios. To evaluate the program impacts, the use of a general equilibrium model is proposed, since there is already a calibration for Colombia showing that such a model is viable. Moreover, the availability of data needed to recalibrate the model with values for 2019 has already been confirmed with the corresponding World Bank authorities (see details in the economic analysis for the program).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

2.1 This is the first of two consecutive operations that are technically interconnected but financed independently under the programmatic policy-based loan (PBL) modality. The first operation is for up to US$500 million, an amount that was determined based on the country's external financing needs (US$5 billion in 2015); this operation equals 10% of that total. The amount of the second operation will be determined in the corresponding programming exercise, based on the country's needs. The programmatic modality is aligned with the document, "Policy-based Loans: Guidelines for Preparation Implementation" (document CS-3633-1), in order to facilitate a policy dialogue between the country and the Bank, establish the necessary timelines to implement the reforms, and provide an opportunity to evaluate the progress achieved in the first operation and make any necessary adjustments to the reforms, based on the knowledge acquired. The second operation is expected to expand on the actions initiated under the first operation.

B. Environmental and social safeguard risks

2.2 According to directive B.13 of the Bank's Environment and Safeguards Compliance Policy (document GN-2208-20 and operational policy OP-703), this operation does not require classification, due to the fact that it is a programmatic operation.

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[38] Dabla-Norris, Era, Yan Ji, Robert Townsend, and Filiz Unsal, "Financial Deepening, Growth, and Inequality: A Structural Framework for Developing Countries," 2014.

[39] Karpowicz, Izabela. "Financial Inclusion, Growth and Inequality: A Model Application to Colombia," No. 14-166. International Monetary Fund, 2014.

C. Other project risks

2.3 Macroeconomic and fiscal sustainability risk is considered "medium." To mitigate this risk, the project team will conduct periodic monitoring of macroeconomic conditions. In order to ensure fiscal sustainability, the reforms have been designed to provide benefits without placing a burden on public finances. The program goals are aligned with the objectives of National Development Plan 2014-2018, as well as with the road map established for Colombia's accession to the OECD.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The executing agency will be the Ministry of Finance and Public Credit (MHCP), which will implement the program in coordination with the National Planning Department, acting as technical coordinator, and other entities involved in execution[40] and will monitor progress towards fulfillment of the program conditions, through semiannual monitoring meetings with representatives of the entities involved and delivery of a semiannual report to the IDB.

3.2 **Special contractual clauses.** The disbursement of loan proceeds is subject to the fulfillment, to the Bank's satisfaction, of the policy reform commitments described in the program components and detailed in the policy matrix (Annex II), and fulfillment of the other conditions established in the loan contract.

B. Summary of arrangements for monitoring results

3.3 Implementation of the program will be monitored by the MHCP Financial Regulation Unit. The borrower and the Bank will hold semiannual meetings to review fulfillment of the conditions required for the second operation. At the end of the program, the Bank will prepare a project completion report and an ex post evaluation based on a general equilibrium model, to gauge the impact on the economic growth of the financial system following implementation of the reforms. For further details, see the monitoring and evaluation plan.

C. Policy letter

3.4 The policy matrix for the program is aligned with the corresponding policy letter, issued by the Republic of Colombia, in which the government reaffirms its commitment to implement the activities agreed upon with the Bank.

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[40] The National Congress, the Ministry of Industry, Trade, and Tourism, the Ministry of Agriculture and Rural Development, the Financial Superintendency, the Commission for Communications Regulation, the Intersectoral Commission for Financial Inclusion, the Intersectoral Commission for Economic and Financial Education, the National Development Finance Institutions, and others.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	**Aligned**		
Lending Program	**-Lending for poverty reduction and equity enhancement**		
Regional Development Goals	**-Percent of firms using Banks to finance investments**		
Bank Output Contribution (as defined in Results Framework of IDB-9)			
2. Country Strategy Development Objectives	**Aligned**		
Country Strategy Results Matrix	**GN-2648-1**	**Increase the availability and variety of financial services.**	
Country Program Results Matrix	**GN-2805**	**The intervention is included in the 2015 Operational Program.**	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	**Evaluable**	**Weight**	**Maximum Score**
	8.2		**10**
3. Evidence-based Assessment & Solution	**9.6**	**33.33%**	**10**
3.1 Program Diagnosis	**3.0**		
3.2 Proposed Interventions or Solutions	**3.6**		
3.3 Results Matrix Quality	**3.0**		
4. Ex ante Economic Analysis	**7.0**	**33.33%**	**10**
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	**2.5**		
4.2 Identified and Quantified Benefits	**2.0**		
4.3 Identified and Quantified Costs	**2.0**		
4.4 Reasonable Assumptions	**0.0**		
4.5 Sensitivity Analysis	**0.5**		
5. Monitoring and Evaluation	**8.1**	**33.33%**	**10**
5.1 Monitoring Mechanisms	**1.5**		
5.2 Evaluation Plan	**6.6**		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	**Low**		
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, External control, Internal Audit.**	
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
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	**Yes**	**Simulation and general equilibrium models will be used to produce evidence to close knowledge gaps in the sector (see PME).**	

The "Support Program for the Reform of the Financial System of Colombia" (CO-L1144) is the first of two programmatic loans supporting political reforms. The objective of this program is to improve the contribution of the financial system to the economic growth of Colombia, through (i) increased financing for productive development; (ii) improvements in the regulation and supervision of the financial system to support the development of the capital market and financial transparency; and (iii) improvements in the financial inclusion of the unbanked citizens and SMEs.

The vertical logic is consistent: given the diagnosis of challenges to be resolved (low financial penetration among smaller firms –due in part to high guaranties-; bank supervision and regulation in need of strengthening; limited liquidity of the capital markets; and low participation of citizens in the formal systems of saving and credit), the proposed activities and outputs (laws, regulations, stronger institutions, etc.) are aligned and aim at setting the normative and institutional basis to reduce the participation costs of firms and citizens, reducing the barriers to financing economic activity. The indicators of the results matrix would allow to follow products and to measure the results of the reform through the proposed evaluation.

Both the economic analysis and the evaluation plan rest on a micro-founded general equilibrium model developed by the International Monetary Fund (IMF) to measure the effect of this type of program. The model allows simulating the evolution of relevant variables of interest (like economic growth) affected by changes in the parameters of interest (for example, requirement level of the guarantees, cost of participation, etc.). The advantage of access to the model is twofold: first, the necessary information for the estimations exists and is updated frequently enough to follow the program according to the monitoring and evaluation plan; second, there is a group of IMF officials who can provide support and suggestions for the calibrations and simulations. The disadvantage is that for now, the quantitative exercises are performed by those officials, which limits the possibility to learn with higher accuracy the dynamics and orders of magnitude of the effects of the interactions of the variables in the model.

POLICY MATRIX

<table>
<tr><th>Policy objectives</th><th>Policy measures agreed upon for Program I</th><th>Trigger mechanisms agreed upon for Program II</th></tr>
<tr><td colspan="3">Component I: Macroeconomic stability</td></tr>
<tr><td>a. Maintain a macroeconomic environment consistent with the program objectives and with the guidelines of the sector policy letter.</td><td>The macroeconomic environment is consistent with the program objectives and with the guidelines of the sector policy letter.</td><td>The macroeconomic environment continues to be consistent with the program objectives and with the guidelines of the sector policy letter.</td></tr>
<tr><td colspan="3">Component II: Improvements in financing for productive development</td></tr>
<tr><td>a. Strengthening the systems of guarantees for productive development.</td><td>Measures for improving access to productive financing by Colombian firms have been adopted, including the following measures:
• The law promoting access to credit and mandating standards on personal-property collateral (Law on Secured Transactions) has been approved by the National Congress and has entered into effect.
• The Decree regulating the functioning of the Registry of Secured Transactions has been issued by the National Government (Ministry of Trade, Industry, and Tourism).
• The registration forms and fees for the Registry of Secured Transactions have been approved by the Ministry of Trade, Industry, and Tourism.
• The Law on National Development Plan 2014-2018 creating the Master Registry of Electronic Invoicing has been enacted by the National Congress.
• The draft Decree regulating the conditions for the expansion of electronic invoicing has been prepared and published for public consultation by the Ministry of Finance and Public Credit (MHCP).</td><td>Progress has been made in the following areas:
• The Decree regulating the enforcement of secured transactions by loan institutions has been issued by the National Government (MHCP).
• The Circular on mechanisms for assessing the value of moveable-property collateral has been issued by the Financial Superintendency.
• The Master Registry of Electronic Invoicing has been established through the Law on National Development Plan 2014-2018, approved by the National Congress.
• The Decree regulating the entry into operation of the Master Registry of Electronic Invoicing has been issued by the National Government (Ministry of Trade, Industry, and Tourism).
• The Decree regulating expansion of electronic invoicing has been issued by the National Government (MHCP).</td></tr>
</table>

Policy objectives	Policy measures agreed upon for Program I	Trigger mechanisms agreed upon for Program II
b. Strengthening public institutions for financing productive development.	(i) Measures to strengthen the capacity of Financiera de Desarrollo Nacional (FDN) have been adopted, in order to facilitate greater access to financing for infrastructure projects. The measures include: • The statutes of FDN have been reformed, as approved by the General Meeting of Shareholders in a special session. • The National Declaration, through which the nation commits, as the majority shareholder in FDN, to ensure the application of best practices in corporate governance at FDN, has been issued by the MHCP. • The Decree modifying the maximum amount of individual loans for FDN has been issued by the National Government (MHCP). (ii) Measures for access by the agriculture sector to productive financing have been adopted, including, at a minimum: • The law on financing for the revitalization of the agriculture sector has been approved by the National Congress. • The Circulars on operational regulations for the Agriculture Guarantee Fund have been issued by the Agriculture Sector Financing Fund.	(i) Progress has been made in the following areas: • Financial close documents on fourth-generation concession contracts have been signed by FDN. • New financial instruments for structuring fourth-generation concession projects have been issued by FDN. (ii) Progress has been made in the following areas: • The draft Decree regulating financing for the revitalization of the agriculture sector has been published for public consultation by the Ministry of Agriculture and Rural Development. • The Decree revising credit concentration quotas of the Agriculture Sector Financing Fund with entities to which it extends discount rates has been issued by the National Government (MHCP). • The Circular expanding the spectrum of insurance policies for the agriculture sector has been issued by the Financial Superintendency.

Policy objectives	Policy measures agreed upon for Program I	Trigger mechanisms agreed upon for Program II
Component III: Improvements in the regulation and supervision of the financial system		
a. Strengthening regulation and supervision of the financial system.	(i) Measures aimed at deepening the development of the financial system have been adopted, including, at a minimum, the following: • The Decree reforming the regulatory framework of the secondary market, containing a simplification of documentation requirements for issuers in the secondary market, has been issued by the National Government (MHCP). • The draft Decree modifying the international investment regime has been published by the MHCP for public consultation. • The Decree that includes hybrid instruments for capitalizing credit institutions has been issued by the National Government (MHCP). • The Circular presenting the New Code of Corporate Best Practices of Colombia (Country Code) and establishing the obligation for entities that issue securities to prepare and submit a report on its implementation has been issued by the Financial Superintendency.	(i) Progress has been made in the following areas: • The Presidential Decree on the international investment regime has been issued by the National Government (MHCP). • The draft law on supervision of conglomerates and the independence of the Superintendency has been submitted to the National Congress for review and approval. • The report on the review of the capital regime for stock market agents with regard to technical assets and operational risk has been issued by the Financial Superintendency. • The report on implementation of the integrated supervision framework based on corporate governance risks in the capital market has been issued by the Financial Superintendency.
	(ii) Mechanisms have been adopted for improving protections for investors in capital markets, including, at a minimum: • The Decree on price stabilization mechanisms has been issued by the National Government (MHCP).	(ii) Progress has been made in the following areas: • The Decree modifying the provisions on administration of third-party portfolios has been issued by the National Government (MHCP).

Policy objectives	Policy measures agreed upon for Program I	Trigger mechanisms agreed upon for Program II
	• The Decree modifying the provisions on individual credit limits, investment regimes involving resources from unemployment funds, mandatory pension funds, and portfolios that underpin the technical reserves of life insurance companies, and partially modifying the definition of private capital funds within the private capital fund investment regime directed at infrastructure investments as part of public-private partnerships, has been issued by the National Government (MHCP). • The draft Decree modifying provisions on the administration of third-party portfolios has been published by the MHCP for public consultation.	• The regulatory frameworks for advisory activities in the securities market have been reviewed; fixed-income financial instruments and derivatives have been expanded as part of efforts to increase the integration of financial markets with the Latin American Integrated Market, with expansion of the contracts of correspondent institutions and representative offices offering foreign capital market products; and the MHCP has produced a report, in each case, on the results of the reviews and the progress achieved, or has drafted legal documents to make the relevant changes.
b. Strengthening financial transparency.	Measures to improve financial transparency mechanisms for users of the financial system have been adopted, including, at a minimum, the following: • The Basic Legal Circular has been updated by the Financial Superintendency with instructions applicable to supervised institutions. • The Decree on the solvency of factoring and invoice discounting firms has been issued by the National Government (MHCP and the Ministry of Trade, Industry, and Tourism). • The law establishing the obligation to provide transparent information to consumers of financial services has been approved by the National Congress. • The draft Decree on price transparency in the general pension system has been published by the MHCP for comment. • The draft Decree on price transparency for clients of credit institutions has been published by the MHCP for comment.	Progress has been made in the following areas: • The Decree modifying provisions on the protection regime for financial consumers participating in the general pension system, in order to achieve price transparency, has been issued by the National Government (MHCP). • The Decree on price transparency for clients of credit institutions has been issued by the National Government (MHCP). • The Circulars on International Financial Reporting Standards (IFRS) have been issued by the Financial Superintendency, based on updates by the International Accounting Standards Board.

<table>
<tr><th>Policy objectives</th><th>Policy measures agreed upon for Program I</th><th>Trigger mechanisms agreed upon for Program II</th></tr>
<tr><td></td><td>The Circulars on convergence with International Financial Reporting Standards (IFRS) have been issued by the Financial Superintendency.</td><td></td></tr>
<tr><td colspan="3">Component IV: Improvements in financial inclusion</td></tr>
<tr><td>a. Improving the supply of products and channels for financial inclusion.</td><td>Measures to expand access to financial services for the excluded or recently included population have been adopted, including, at a minimum, the following:
The law promoting access to transactional financial services (Law on Financial Inclusion) has been approved by the National Congress.
The draft Decree governing the Law on Financial Inclusion has been published for public consultation; and regulations for simplifying the procedures for savings accounts and electronic deposits have been published by the MHCP for comment.
The Decree creating small consumer loans has been issued by the National Government (MHCP).
The Resolution certifying the current bank interest rate for the small consumer loan modality has been issued by the Financial Superintendency.
The Decree authorizing the distribution of insurance through the network of correspondent banks has been issued by the National Government (MHCP).
The Resolution regulating fees for access to mobile financial services has been issued by the Communications Regulatory Commission.</td><td>Progress has been made in the following areas:
The Decree governing the Law on Financial Inclusion has been issued by the National Government (MHCP).
The Resolution certifying the current bank interest rate for the small consumer loan modality has been updated by the Financial Superintendency.
An assessment of tax barriers to the formalization and creation of payment ecosystems has been conducted, and the MHCP has prepared the corresponding report.
An assessment of financial system regulations for expanding gender-based access to financial services has been conducted, and the MHCP has prepared the corresponding report.
An action plan for revising the regulatory framework for consumer protection, information, and channels for distributing inclusive insurance has been prepared by the MHCP.</td></tr>
</table>

Policy objectives	Policy measures agreed upon for Program I	Trigger mechanisms agreed upon for Program II
b. Improving the institutional structure for increasing financial inclusion.	Measures have been adopted to strengthen the coordination of government entities involved in promoting financial inclusion and economic and financial education, including, at a minimum, the following: • The draft Decree on creation and establishment of an intersectoral commission for financial inclusion has been published by the MHCP for public consultation. • The Decree on creation and establishment of an intersectoral commission for economic and financial education has been issued by the National Government (MHCP, the Ministry of National Education, and the Administrative Department of Public Operations). • The Circular Letter on the reporting requirement for evaluating financial inclusion in the insurance industry has been issued by the Financial Superintendency.	Progress has been made in the following areas: • The Decree creating and establishing an intersectoral commission for financial inclusion has been issued by the National Government (MHCP). • The report on mapping, assessment, identification of needs, recommendations, and action plan for economic and financial education has been prepared by the intersectoral commission for economic and financial education.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/15

Colombia. Loan ____/OC-CO to the Republic of Colombia
Financial System Reform Support 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 a financial system reform support program. Such financing will be for the amount of up to US$500,000,000 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 ____ ________ 2015)

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