



Policy Component 2007 Work Plan

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Executive Summary

At the end of 2006, the MPC achieved 29% (4 laws presented) of the life of the project contract indicator for Number of Laws presented, 18% for number of CONPES implemented (3 CONPES), 30% (15 decrees) for number of decrees passed and 76% for number of institutional reforms (19 Institutional Reforms) of total life of contract for MPC component. During this year, the MPC achievements met the 2006 projected targets and in the case of laws presented, decrees adopted and institutional reforms, the level of achievement was beyond 2006 projections.

At the end of 2007, MPC component will have achieved a cumulative total of 79% of the life of the contract indicator for number of laws presented, 71% for the number of CONPES, 76% numbers of decrees passed and 86% number of institutional reforms.

MIDAS POLICY COMPONENT 2007 Work Plan

1. Component Basics/Background

Colombia's economy is increasingly dynamic, and is showing significant potential for job and income creation. Unlike many countries with high poverty rates, Colombia has a skilled public policy-making apparatus. Policymakers are aware of the need for critical economic policy and institutional reforms, and realize that reforms need to be addressed in the short- to medium term. Many of the present institutional frameworks impose significant constraints on the country's economic development. These constraints must be overcome to increase the level and efficiency of private investment, and to place the economy on a robust and equitable long-term growth trajectory. It is important to consolidate the advances made under Plan Colombia thus far, and to move forward with fundamental reforms as quickly as possible.

A host of rigidities in economic policies and within government institutions inhibit the private investment necessary to realize Colombia's considerable comparative advantage in both industry and agriculture, including forestry. Significantly, many policies and institutions serve as barriers to the rural and urban poor that prevent them from moving into more productive and employment-intensive activities. Moreover, inappropriate policies dampen investor confidence in the longer-term stability of the macroeconomic framework undercutting sustainable investment and job expansion. In line with the results from recent GoC initiatives such as Visión 2019 and the analysis that informed the Internal Agenda, a much stronger policy foundation must be laid upon which to build an economy capable of sustainable economic growth and improved competitiveness.

Improving economic policies and overcoming institutional rigidities will allow Colombia to take full advantage of international trade/investment opportunities associated with the Free Trade Agreement (FTA), as well as realize the Colombian economy's dynamic potential for income growth, job creation, and poverty alleviation.

1.1. General Objectives

The objective of the MIDAS Policy Component (MPC) is to promote the overall competitiveness of the Colombian economy and place the economy on a long-run high growth trajectory. To that end:

- Ensure progress and long-term sustainability of achievements obtained under Plan Colombia;
- Promote productivity and competitiveness within the productive sector to ensure it takes advantage of the opportunities that emerge from integration with the international economy;
- Create policies and promote institutional strengthening to support the sustainable growth of SMEs, agricultural, and forestry businesses.

1.2. Basic Methodology

MPC takes a three-pronged approach to implementation:

1. Concentration on legal, regulatory and public policy reform, with emphasis on creating an enabling environment that promotes competitiveness and long-term sustainable growth.
2. Institutional reform: introducing improved and/or best practices to government and private institutions that promote sustainable and equitable economic growth and expanded economic opportunities for all Colombian citizens.
3. Private sector development, in particular will seek to:
 - Improve its ability to comply with core trade/investment regulatory requirements and standards; and to seize the trade opportunities associated with trade integration;
 - Expand access to financial services to people in rural areas and M/SMEs to provide them the resources they need to take advantage of economic opportunities that arise.

Prioritization and Selection Process

MPC has very clear prioritization criteria for selecting areas in which to work. MPC will work actively in areas with:

- Direct cross-cutting impact on the overall productivity of the Colombian economy and enhance the competitiveness of key productive sectors.
- Strong linkages to the U.S.-Colombia FTA.
- Strong possibilities for sustainability by the GoC or the private sector after a focused and limited technical support effort supported by USAID.
- Direct relevance to the Colombia National Development Plan.
- Considerable GoC and civil society support and sense of ownership.

The policy selection process prioritizes policy reforms on the basis of an ongoing dialogue between the MPC Team, the GoC, private sector representatives, and other key stakeholders. An initial screening process allows MPC to consider potential hurdles and impediments in light of needed policy reforms in key areas. Some policy items face too formidable constraints (i.e., such as a requirement for constitutional reform). Other reforms are simply too costly in terms of time to pursue. In setting the policy agenda, MPC seeks, as an essential first step, ownership and commitment, followed by consensus building, culminating in implementation.

Through the first year of MPC the prioritization process has helped to identify a broad and ambitious policy agenda follow through 2007, focused on policy areas that influence the long-run competitiveness of the Colombian economy. These include:

- Inefficient and inflexible public expenditure system;
- Inadequate provision, in terms of quality, quantity, and geographic coverage, of financial services;
- Investment climate policy and institutional/administrative rigidities that reduce the competitiveness of the overall Colombian economy and limit private investment and distort investment decisions (e.g., property rights, investor protections, inefficient provision of key infrastructure services, red-tape).

- Required improvements in trade policy and institutional support regimes (including SPS, customs, technical norms, labor, environment) necessary for international integration and the promotion of investment;
- Policy/institutional rigidities, which severely inhibit the efficient and equitable functioning of land markets;
- Inefficient agriculture policies that prevent the efficient allocation of resources in products that enjoy comparative advantages.

Each of these areas require policy reforms and focused strategic technical support activities which are proposed and explained in detail in this Work Plan for 2007.

The experience of MPC through 2006, has led to the reduction or elimination of several policy areas that could taken up by other donors or projects. These include: legal and regulatory work related to government procurement policies and procedures and pension reform. In 2007, the MIDAS Policy Component will no longer undertake activities in the electricity sector and by the second quarter of 2007 will have concluded technical assistance strictly related with implementation of the FTA such as Customs, Technical Norms, and implementation of the Investment Chapter in the FTA.

1.3. MPC Sub-Components

Technical Norms – TBT

In order to ensure that private sector takes advantage of enhanced market opportunities under the FTA, Colombian firms need to meet international production standards. High-quality products and production techniques, reliability, and safety are core elements of private sector competitiveness. The MPC will continue technical assistance in this area during the first semester of 2007 to develop and implement systems reforms to promote international quality standards which foreign authorities will recognize. In addition, targeted assistance will be provided during the first quarter of 2007 to assist in the implementation of the Quality CONPES 3446 passed in October 2006. The GoC has a relatively complete set of laws either in place or in the process of being approved that reflect compliance with the WTO TBT Agreement (on which the TBT Agreement with the U.S. is based) and subsequent agreements. While legal measures have taken place, the system is unorganized and lacks guidance and common practices. In addition, many efforts have been duplicated across various entities and public sector institutions. There is a lack of enforcement due to a lack of knowledge of regulations and required conformity assessment measures. As part of the implementation of the CONPES and to resolve some of the above issues eliminating discrepancies and begin the process of international recognition of the Colombian Quality System including metrology and accreditation. MPC will provide additional support in 2007 to improve the implementation of the law and enhance the ability of institutions to participate in the new system including the creation of a National Quality Council, a new National Institute of Metrology and a private/public accreditation body.

An infrastructure that promotes quality and compliance is also important, particularly in the area of testing and calibration laboratories. There are many laboratories accredited to provide testing and calibration services. However, there are still many testing services required but not yet available within Colombia. Laboratory infrastructure must be strengthened in certain key

competencies and personnel must be trained to conduct audits/inspections. In addition, there are few people qualified to provide consulting services and training in the international standard ISO 17025 for the accreditation of testing and calibration laboratories. This will be remedied in 2007 with train-the-trainer activities and additional support to laboratories in needed tests.

Targeted assistance will also be provided to increase private-sector understanding of standards and conformity assessment measures. Colombian industries would increase their competitiveness and ability to access other markets like the US and EU with the application and certification of international standards, including “Green Market” standards and good manufacturing practices in pharmaceuticals. In order to strengthen these industries and the private sector overall, technical assistance will be provided in the form of a train-the-trainer programs in which national consultants trained in the standard receive hands-on experience in the implementation of the standards to support the certification of products/services/systems in those identified industry standards.

Table 1: Technical Norms (TBT) Activities

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Technical Norms (TBT)												
Implementation of the National Quality System CONPES												
Assist laboratory accreditation												
Assist private sector development												
Assist "Green Market" development												

Sanitary and Phyto-Sanitary Standards – SPS

MPC will promote improved food safety and enhanced competitiveness of agriculture products and processed foods. Colombian producers need to meet international sanitary and phyto-sanitary standards. During 2006 the MIDAS Policy Component (MPC) supported the creation of the SPS Council to ensure intergovernmental coordination and full adoption of their recommendations, promoted improved food safety and enhanced competitiveness of agriculture products and processed foods. The GoC with the advice of MPC adopted two key CONPES documents aimed at adopting international SPS and ensuring adequate institutional capabilities to enforce these standards for products delivered to both domestic and foreign markets and assisted to pass regulations related to dairy, meat, and poultry products. The SPS component will be closely integrated with the TBT component to ensure that improvements in food and sanitary standards can be effectively certified by improving the national capacity of domestic laboratories. In this sense, the MPC will undertake an assessment of urgent improvements in laboratory capacities to ensure compliance with improved food and safety regulations. Also as part of the SPS component, activities to improve laboratory techniques and standards are being implemented in 2007.

During 2007, MPC will continue to provide support in these areas. Particularly, it will work with GoC to strengthen the SPS Council. In addition, technical assistance will continue to be provided to key GoC institutions such as ICA and INVIMA to enhance their risk-based enforcement and auditing procedures. In 2007, MPC will assist the GoC in developing regulations for canned and

processed foods. To ensure adoption of these standards, the MPC will work with other components under MIDAS and ADAM to provide assistance to farmers, agro-businesses and rural communities on adoption of SPS, and best agriculture and manufacturing practices.

Assistance will also be provided to the GoC to ensure that SPS regulatory norms are fully compatible with WTO obligations. These norms include: (i) traceability; (ii) shifting food safety responsibility to producers through the introduction of Hazard Analysis and Critical Control Points (HACCP); (iii) introducing an authorization/accreditation system to allow the private sector to perform and invest in core SPS functions; and (iv) introducing third-party international certification through active membership in the International Laboratory Accreditation Cooperation (ILAC).

SPS activities for 2007 will focus on adopting norms consistent with international best practices; improving testing and certifying capacity; improving information systems to be able to disseminate information to the private sector; and public education and training to assist farmers and firms in understanding and meeting Colombian, U.S., and other international standards. In addition to addressing general issues, assistance will cover the sub-sectors of meat, dairy, minor crops, Good Agricultural Procedures, and processed foods.

Table 2: Sanitary and Phyto-sanitary Standards (SPS) Activities

Sanitary and Phyto-sanitary Standards	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Strengthen the national meat safety production/inspection system												
Strengthen the national milk/dairy safety production/inspection system												
Assist in solving the minor crops pesticide registration problem												
Develop low pest prevalence areas and systems approach												
Promote "Good Agricultural Practices" and responsible use of pesticides												
Strengthening processed foods control system												
Institutional strengthening of SPS regulatory and enforcement institutions												

Customs

The Colombian tax and customs administration (DIAN) needs to reconcile two fundamental and competing objectives — ensuring enforcement of customs and tax laws and rules on the one hand, and facilitating the efficient flow of imports and exports on the other. This requires an

increased level of efficiency in the overall operation to concentrate efforts and resources in controlling illicit activities and facilitating the operation of legitimate businesses. Hence the importance of utilizing risk-based selection techniques for inspections and audits and a strong support from computer-based information systems and other forms of technology support.

DIAN has been involved in recent years in an ongoing effort to modernize its operation both in terms of procedures and in technological support, with the financial and technical support of the World Bank in a project known as the MUISCA project. Implementation of the MUISCA management system and information system has been done in phases, with the Customs and Auditing sections still under design before implementation.

Recent support by the TCBS project and the MPC have resulted in important steps in the direction of designing and putting in place a risk-based import selection software to determine imports inspections based on risk profiles and data, in the adoption of modern inspection manuals and techniques for transfer pricing, origin verification under the FTA provisions, among others.

In 2007, the MPC will provide further assistance to finalize the customs modernization effort, while enhancing the endeavor to strengthen the administration’s ability to effectively select and integrally audit taxpayers based on risk profiles from the three different functional areas under DIAN’s supervision: domestic taxes, customs, and foreign exchange.

With respect to customs, the effort is focused on supporting the issuance of the new Customs code, which incorporates FTA and WTO-consistent provisions, as well as a significant degree of operational and regulatory modernization in rules of origin, valuation, customs clearance and inspection, among other areas. This work will be completed by the end of June of 2007.

Table 3: Customs Activities

DIAN Institutional Strengthening Support	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Support the adoption of FTA-consistent Customs procedures and regulations, including the issuance of a new Customs Code												

Support the improvement of technical and institutional capacity to audit internal taxes													
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Services

The Colombian service sector accounts for a significant portion of the economy: more than 67% of total employment and 66% of GDP. Furthermore, several service subsectors have shown important export potential. Additionally, the GoC has identified substantial export potential in various subsectors and has requested support from USAID for the implementation of several activities aimed at increasing competitiveness within the service sector and improving the ability of the GoC to make services oriented policies.

In response to specific GoC requests, USAID supported two different activities under both TCBS project and MPC: the identification and implementation of international standards for licensing of architects and engineers, in order to facilitate the negotiation of a mutual recognition agreement with the relevant US licensing bodies in those two professions; and design and implementation support for service sector surveys to improve the quality, frequency and regularity of service sector statistics. The first activity is aimed at facilitating increased trade in professional services between the US and Colombia. The second activity seeks to increase the amount of strategic market information available to both the private and public sectors, and which also supports international trade agreements and more focused public policy for specific service subsectors.

In terms of improved service statistics, progress has been significant: under TCBS the quarterly service survey was designed and implemented on a pilot base, using data collection and processing tools developed with USAID support. General questionnaire and the information requirements for an annual service survey were designed, and questionnaires and methodologies were revised in detail to ensure the highest response rate and best quality information possible. Under MPC the annual service survey has been prepared by means of developing specific data collection and processing tools. It is important to support the further development of survey methodology to better collect subsector-specific information.

On the professional licensing front, important progress has been made in promoting international best practice in licensure of professional services; specific adjustments needed to bring Colombian regulation and law into conformity with best practice have been identified. Additionally, the body in charge of licensing of architects has agreed with the Ministry of Trade, Industry and Tourism to develop and implement a pilot program to modify the currently existing registration procedure and implement licensure procedures on a voluntary basis using the approach of the American NCARB. The GoC has requested further support to carry out the same identification of international standards and best practices in licensure for accounting services. On the accounting side, the challenge is somewhat different, since it requires not only the modification of the institutional architecture for licensure to meet international standards, but also support to the GoC in the adoption and implementation of accounting and auditing standards

based on the IFRS international standards. This effort entails supporting the GoC in clearly defining supervisory competencies in order to establish clear boundaries between the Industry and Commerce Superintendence and the Corporations Superintendence. It is necessary to define a new legal and regulatory framework for the operation of accountants to ensure the profession is prepared to operate under new accounting and auditing standards, establish a transition accounting regime for SMEs, and define and put in place a training program to update practicing accountants and auditors in new standards and procedures.

Table 4: Services Activities

Service Sector regulatory reform	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Support the implementation of the Annual Service Survey.												
Support the implementation of international licensure standards and procedures in professional services.												
Support the adoption of the IFRS international accounting and auditing standards, including licensure and oversight activities												
Technical support to SMEs in Colombia about state level procurement legislation												

Labor Markets

During 2007 MPC will work in the area of labor rights, and to support the adoption of an effective preventive labor inspections system that promotes compliance with labor rights. In addition, MPC will continue to assist in the design of policies that reduce child labor in Colombia. To improve the efficiency of labor justice administration and reduce prolonged delays in adjudication of labor cases, MPC will help design and implement an oral labor justice system.

An efficient and flexible labor market is necessary to promote competitiveness and reduce the costs associated with trade integration. Although Colombia has made considerable progress in eliminating labor market rigidities, regulation of the minimum wage and payroll taxes remain problematic and, ironically, serve to promote greater informality on the part of smaller firms. There also is a lack of adequate labor intermediation and effective training programs that can match unemployed workers with companies looking for workers.

In 2007 MPC will help the GoC to develop instruments that enhance the ability of SENA (*Servicio Nacional de Aprendizaje*) to forecast labor demand needs and help design adequate training and job-matching programs. SENA plays an important role in short-, medium-, and long-term training and re-training programs. SENA's job-matching programs also help individuals and firms find each other. Both programs are particularly important as Colombia's labor market restructures during the process of FTA accession. Four pilot programs in different SENA regional offices introducing enhanced demand forecasting and new training programs will be implemented in 2007.

Table 5: Labor Activities

Labor Market Reform	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Compliance with fundamental labor rights increases to ILO standards												
Establish a system of preventive labor inspection												
Strengthen the oral adjudication system for labor disputes												
Implement a system of forecasting training needs for SENA												
Improved coverage and quality of SENA's labor market intermediation system												
Generate the necessary labor market reform to decrease informality and increase employment												

Fiscal Policy

Colombia's fiscal imbalance is partly explained by the absence of adequate budgeting and spending rules. A complex system of earmarked expenditures, a rigid and fiscally expansive legally-mandated transfer system, and an inadequate regulatory/administrative framework for integrated medium-term expenditure planning, have combined to dramatically reduce budgetary flexibility and the ability of the government to allocate expenditures and track expenditure results efficiently; while also reducing budgetary transparency. In addition, although the National Planning Department has a public investment unit that analyzes the rationality of major public investment proposals, the unit requires significant strengthening to ensure compliance with core cost-benefit analyses methodologies and tools and to promote the rational development of sectoral investment plans. Moreover, there is little effective integration of capital and recurrent budget projections at the programmatic and sectoral level; budget-by-results methodological

practices are still at a nascent stage of implementation; and there is excessive red-tape in budget approval and reallocation procedures at the central and ministerial levels.

The recent implementation with USAID support of a Medium-Term Expenditure Framework (MTEF) system has established for the 1st time an effective framework for improved and better integrated recurrent and capital expenditure planning processes; for the establishment of meaningful program performance targets; and for streamlined budgetary approval/reallocation procedures within the MOF and DNP and at the ministerial/agency level. However, full institutionalization of these reforms will require further strengthening; most particularly as the MTEF framework moves into its 2nd full year of implementation.

In addition, in cooperation with the National Planning Department (DNP) and the Universidad de Los Andes, MPC will promote improved public investment evaluation processes and provide support to strengthen staff capacity within DNP and other key ministries/agencies to carry out more rigorous cost-benefit analysis of public investments and develop meaningful sectoral investment budgets. It will also work with DNP and the MOF to promote full and effective implementation of the MTEF framework and improved compliance with results-based budgeting guidelines; as well as continued streamlining of critical budgetary approval/reallocation processes.

Table 6: Fiscal Policy Activities

Fiscal Policy	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Improve compliance with social security and payroll taxes												
Assist GOC in reform of public investment legal and analytical framework Assist GOC in Adoption of Budget by Results Framework												

Financial Markets

MPC has a particularly large and ambitious 2007 agenda in the area of legal and regulatory reform of the financial sector, as well as strengthening financial institutions generally. Lack of competition, innovation, excessive taxation, and other forms of government interference in financial markets have led to financial disintermediation.

Historically, financial intermediation levels in Colombia have been very low compared to other middle-income developing countries, in the region or elsewhere. Reforms in the mid-1990s to deregulate financial markets and reduce reserve requirements were abandoned after the 1998-9 crisis. Financial intermediation levels measured as the ratio of private-sector credit to GDP fell from 37% in 1997 to 23% in 2003, and savings rates have reached historically low levels. Three major categories of mandatory investments were introduced to which financial sector participants are subject: i) under Law 546 of 1999, financial intermediaries must invest 0.68% of total liabilities in *Debt Reduction Bonds* (títulos de reducción de deuda, TRD); ii) financial intermediaries are required to invest 7%, 5% and 4% of demand deposits, saving deposits and

CDs, respectively, in *Bonds for Agricultural Development* (Títulos de Desarrollo Agropecuario – TDA), which are then funneled by the Agricultural Development Bank (FINAGRO) into rediscount lines for agricultural lending purposes ; and iii) under Law 546 of 1999 financial intermediaries must direct at least 25% of new mortgage lending to “social interest housing” (*vivienda de interés social*) loans, which are provided at capped interest rates. These investments account for nearly half a percentage point of GDP. The government in 1999 imposed a tax on financial transactions (to finance increased security-related expenditures). Initially the tax was set at 0.2% of all transactions, but over time it has been increased gradually (to 0.3% in 2003 and again to 0.4% in 2004). The financial transaction tax currently generates approximately 0.8% of GDP in revenues for the central government. A main focus of financial sector reforms should be the phase-out of these measures as sustainable lending for these sectors and activities evolve. Further improvements in financial sector supervision are also necessary to develop a robust, risk-based regulatory oversight regime.

During 2007 MPC policy legal, regulatory and institutional reform activities will be aimed at:

- Further deregulating interest rate ceilings, eliminating usury laws, and facilitating the use of movable and immovable property as collateral for loans;
- Eliminating directed credit policies, subsidies, government guarantees and other distortions that severely inhibit the expansion of commercial SME and microfinance;
- Improving risk evaluation and risk management within commercial banks, and the capacity to carry out effective risk-based supervision by the Superintendent of Financial Institutions;
- Facilitate expanded financial market product development.
- Facilitate expanded entry of savings and credit cooperatives into microfinance while improving risk-based supervision of these financial institutions.

Programmed 2007 activities are expected to have a particularly strong impact on the expansion of microfinance services. The objective of microfinance activities are to:

- Improve access to credit for micro and small enterprises (MSEs) through reduced transaction costs, simpler documentation and guarantee requirements, and streamlined processing;
- Improve loan analysis and recovery through elimination of government guarantees and the introduction of improved credit analysis (emphasis on cash flow as opposed to collateral) and administration techniques (including improved internal audit and control and decentralization of customer operations);
- Further relax interest rate restrictions which will improve deposit mobilization and profitability through positive real interest rates;
- Promote innovative savings products and savings mobilization practices;
- Develop sustainable linkages between formal financial sector institutions and specialized microfinance service providers;
- Develop networks of nonbank financial correspondents that can carry out simple transactions on an agency basis for financial institutions, thereby extending dramatically the outreach of the financial sector into underserved areas;

- Promote the use of information and telecommunications technology to reduce pure cash-based transactions (i.e., increased use of mobile telephony and internet to support small-scale financial transactions).

To expand SMEs access to finance in 2007, MPC will work to eliminate financial supervision biases that lead to high provisioning for SME loans, improve SMEs ability to pledge assets as collateral, and reduce information asymmetries through strengthened operation of credit bureaus. Legal and regulatory reforms aimed at improving SME lending include:

- Legal reforms governing the right to pledge real and movable property as collateral for loans, and the creation of registries for movable and immovable collateral;
- More appropriate regulations covering loan classification and provisioning;
- Institutional reforms of credit bureaus to ensure they provide accurate and complete information on debtors, and do not sell or otherwise provide information that may create moral hazard or lead to client “poaching”;
- Legal and regulatory reforms to promote leasing;
- Removal of regulations that increase the cost of bank branching.

There is a need to promote greater access to medium and long-term financing for enterprises. FINAGRO is one of the main providers of long-term financing in rural areas, although, their rediscount facilities provide financing with only about two years’ maturity on average, and these facilities are almost exclusively focused on the purchase of livestock. To overcome the lack of long-term lending alternatives, it is important to improve FINAGRO’s methodologies and programs geared towards financing investment and long-term and financing, reduce transaction costs and improve risk-assessment methodologies. During 2007 MPC will provide assistance to develop market-based funding alternatives that will complement a gradual reduction of FINAGRO’s dependence on forced investments. Also, as part of the program with FINAGRO, the MPC will provide assistance to substitute for own-source lending in agriculture by commercial banks in the very near short-term.

MPC will assist in developing institutional reform strategies for both FINAGRO and Bank Agrario, so that they move in direction of commercial sustainability and do not distort financial markets with subsidized credit. During 2007, MPC will assist FINAGRO to strengthen its wholesaling operations to agricultural suppliers, producer cooperatives, NGOs, microfinance institutions, and other large firms or organizations that are capable of retailing credit on commercial terms. MPC will also work with Banco Agrario to help it to mobilize more core deposits as a source of funding for long-term loans, and to promote microfinance.

MPC will provide assistance to financial intermediaries and GoC to introduce sustainable financial instruments that improve risk management in agriculture and commodity markets such as futures and other financial derivatives. This effort will identify and seek to remove regulatory barriers that increase the cost of issuing and trading financial derivatives, and will implement pilot activities with financial intermediaries to introduce and trade financial derivatives that allow agriculture producers to manage exchange rate and price fluctuations, and crop-related risks. MPC will also provide outreach and training to agriculture producers to increase use of derivatives and reduce reliance on distorting fiscal mechanisms currently in place.

Finally, MPC's 2007 activities with the Superintendent of Financial Institutions will improve their capacity to implement risk-based supervision of financial institutions and monitor capital markets through the adoption of risk-based analysis of transactions. The focus on implementing risk-based supervision will include special attention to removing unnecessary impediments to micro, SME and rural lending. Risk-based supervision is also of paramount importance to enhance the availability of financial instruments for companies in the market, including non-debt related instruments, as well as to develop a market for derivatives and risk-hedging products. Support to the Superintendent of Financial Institutions should also extend to its "data warehouse" project in order to provide a basis for enhanced monitoring of all aspects of financial sector performance. In addition, the implementation of risk-based supervision should be extended to the "Super Solidaria" in order to improve the performance of the credit cooperative sector in particular. All of this is, of course, key to reduce financial costs and increase competitiveness in the economy.

Table 7: Financial Markets Activities

Financial Markets	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Determine barriers to credit access for SMEs and propose regulatory changes for minimizing barriers												
Identify long term financing instruments applicable to the Colombian context and propose the needed regulatory changes												
Propose regulatory changes to the collateral system in order to improve access to credit and increase the types of collateral allowed by the financial system												
Assist the GOC and private sector in Banca de las Oportunidades microfinance promotion program in order to increase financial service provision												
Continue assistance in the development of Banca de las Oportunidades. As part of this effort, the MIDAS Policy Component will carry out an informal credit study in order to support the Banca de las Oportunidades credit policies.												
Provide support to the Financial Superintendence to standardize financial supervision and audit procedures												
Assist the Financial Superintendence to develop a data warehouse to support risk-based analysis												
Strengthen the capacity of the Financial Superintendence to measure and evaluate banks' portfolio risk												

Financial Markets	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Develop a regulatory and supervision framework for equity markets												
Review and strengthen the regulatory framework for the commodities market (agricultural goods)												
Develop a credit risk benchmark model for M/SMEs portfolios												
Develop pilot programs with commercial banks for the introduction of new financial services and expansion of their networks through the use of non-banking correspondents and other organizational improvements.												
Strengthen second-tier financial policies and instruments (FINAGRO)												

Land Market Access

There are a number of important factors contributing to illicit cropping by smallholders including poverty, vulnerability to risk, small and/or low quality landholdings, lack of opportunities to improve rural incomes, and coercion and violence. Land scarcity and poverty are exacerbated by severe land concentration in Colombia and the violence which is used to maintain this status quo. In order to improve the livelihoods of the rural poor, land markets need to operate more efficiently so that people can more readily obtain access to land to utilize as an economic asset. Also, more efficient and transparent land markets promote better use of that resource and helps increase its economic output. MPC is committed to provide assistance during 2007 in three key areas related to enhancing land markets and improving secure access to land:

- Reducing transaction costs and simplifying and streamlining the process of rural land transfer, registration and titling to allow more efficient private land markets to develop, which will in turn facilitate the reconsolidation of small plots into more larger, more optimum farm sizes;
- Speeding the process of redistribution of land seized from landowners who have, through threat of violence or other illicit means, taken possession of land, to displaced persons or small holders capable of using the land for productive purposes; and,
- Developing secure and efficient mechanisms through which indigenous and Afro-Colombian communities living on communal lands, can safely and with full confidence take advantage of economic opportunities offered by private sector partners that have the capacity to help develop communal land in a legal and mutually beneficial way.

Land transfers in Colombia are governed by a complex set of laws, regulations and administrative procedures that act to both support and undermine broader land rights and land ownership. The ability to transfer rights in land and property depends upon on the type of tenure held (e.g., private ownership versus community ownership) and certain legal provisions defining the extent, duration, and certainty of rights under the jurisdiction of the Ministry of Justice. Land use conditions are further conditioned by land use plans and regulatory (regional zoning) requirements set and enforced by the National Planning Department (DNP). The Land Registry is responsible for registering and certifying ownership rights according to standards set by law and that require input from the cadastre (IGAC) and (DNP).

Land rental activity is very low, though benefits of land rental are high, in terms of increased rural incomes. There is a lack of contractual mechanisms to support more rural land rental, including multi-year contracts. Long term financing is also not available to support land transfers.

Key factors to improving the functioning of land markets are factors include increased tenure security, and lower transactions costs. Transaction costs in Colombia related to notarial fees and other arbitrary administrative costs related to the registration of land ownership and transfer rights and the exercise of legal rights to the use of fixed property for financial guarantee purposes are extraordinarily high in Colombia. These significantly impede land transfers, particularly among smallholders.

The objective of the activities described in this Land Work Plan is the promotion of strategies for more efficient functioning of rural land markets. Building upon previous research carried out in this area by USAID and the WB, this activity will identify specific regulatory/ institutional reforms required to improve the transparency, cost-effectiveness and land use efficiency impact of land registration/titling/ownership transfer systems. In addition, the work undertaken herein will analyze the legal/regulatory rigidities associated with the operation of land rental markets and promote more widespread use of standardized land rental contracts.

MPC will promote the establishment and operation of a unified collateral registry and a unified real property registration and titling system. Rather than taking a comprehensive (and prohibitively expensive) approach to surveying all existing land holdings, MPC will seek to improve incentives, streamline existing titling and registration processes and procedures, and reduce costs of voluntary registration on a case-by-case basis.

Legal rights need to be strengthened with respect to existing property rights in regard to inheritance, informal succession, legal recognition of rental contracts, and transitioning from group tenure to individual tenure when all concerned parties support the change. In addition, in 2007 MPC will work to ensure that legal rights associated with property of crops, and temporary and permanent improvements to land are adequately defined in a manner that promotes investments in long-term crops and activities such as forestry. This work is directly related to the work in the Financial Markets sub-component which is promoting enhanced property rights and greater capacity of people to pledge their property as collateral for loans.

MPC will work to improve INCODER and DNE procedures to ensure a more expeditious reallocation of ceased lands. For this purpose, the MPC will provide assistance to improve Land Management Information Systems in DNE and INCODER to improve the ability of these institutions to track the status of property in receivership. Also, the MPC will assist the GoC in devising and implementing streamlined procedures for transferring property between the DNE and INCODER and for restituting land rights to beneficiaries who lost land due to unlawful title issuance or were displaced due to violence.

The MPC will also work with Afro-Colombian and Indigenous communities to strengthen public information and awareness of land rights, and provide assistance to design secure investment mechanisms that allow for a more efficient use of community land. As part of this effort, MPC

will design and disseminate innovations in land leasing arrangements and community trusts, and in networking and technical assistance to build partnership between communities and investors.

To properly integrate the national land/planning framework with local objectives, the MPC will help develop comprehensive land use policies and long term planning tools for the implementation of master plans (*planes de ordenamiento territorial, POTs*, to be developed at the local level), which will promote land equity, secure land tenure, encourage the better utilization of land, provide long term development objectives for the communities, and improve the land market and the re-distribution of lands to IDPs.

Table 8: Land Market Access Activities

Land Market Access	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Improvement of registration of land ownership rights												
Speeding adjudication of ceased land												
Developing mutually beneficial mechanisms for Communities to benefit from project managed with the private sector												
Improved land registration, titling, and transfers												

Agriculture, Forestry and Environmental Policy

GoC policies in support of agricultural development are generally protectionist and rely heavily upon subsidies that promote inefficient capital-intensive agriculture that favor key interests and generate few jobs. The agriculture sector is one of the most distorted sectors in Colombia's economy—despite the country's comparative advantage in a large number of agriculture products. In the long run, these policies have created a vicious cycle where agricultural activities are low in productivity and rural communities remain poor, which is followed by greater subsidization and more protection that perpetuates inefficient land use and rural poverty.

During 2007, MPC will work with the GoC to design and implement agriculture and rural development policies and implement at least three regional pilot projects that ensure a transition in crops and activities that have subsisted due to high levels of protection to those that enjoy a comparative advantage. For this purpose, the MPC will design a package of policies that eliminate inflexibilities, information asymmetries and other transaction costs that prevent an efficient allocation of resources to more productive activities. Specific activities will be aimed at improving land taxation, enhancing access to financial services, and providing greater access to other critical inputs such as water and infrastructure services. Policies will also be designed to assist the GoC in the phase-out of ineffective subsidization schemes and provide incentives for better use of productive resources. New policies will be developed to promote commercial agribusinesses that can compete internationally. In addition, technical assistance will be provided to enhance the capacity of rural communities and agro-producers to implement best agricultural practices and ensure compliance with sanitary and phyto-sanitary norms in accordance with international standards. The MPC will work with the GoC to draft and ensure approval of the

rural development law in line with these guiding principles. These agricultural transition policies will also be implemented in three pilot areas affected by Colombia's integration with the international economy.

To eliminate traditional price stabilization schemes that distort production and often lead to subsidizing exports by large marketing groups at the expense of small producers, MIDAS will also work with government authorities to introduce derivatives, futures and other financial products to help manage risks associated with agriculture production. In addition, market surveillance guidelines will be developed with the Superintendent of Trade and Industry to prevent abuse of market power, including cartelization and other schemes used to prevent competitive marketing of products and inputs.

It is also important to enhance existing agriculture statistics and systematically improve capacity to monitor and effectively analyze information related to both international and national/regional supply/demand conditions and sectoral profitability indicators. This will facilitate better decision making at the rural enterprise level, as well as the most expeditious and efficient deployment of productive factors in the rural sector of the Colombian economy in response to the challenges and opportunities associated with the FTA and other trade opportunities. It will also help minimize the transition costs associated with this process. An important part of this effort includes the strengthening of the capacity of the GoC and private institutions to gather, analyze, and provide market intelligence.

Implementation of pilot programs that develop alternative sources of funds for long-term lending on commercial terms will be developed with FINAGRO in order to begin the phase-out of subsidized lending programs for agro-businesses. These activities will be closely related to those described under the Financial Market sub-component. With respect to forestry, the most important issue is to develop implementing regulations for the forestry law that was passed by Congress in 2006.

Critical and strategic technical assistance will be provided to the Ministry of Environment to ensure a sustainable use of natural resources and full compliance with environmental norms and standards. Strategic technical assistance will be provided to the Ministry of Environment to ensure adoption of more efficient economic instruments and regulations that promote and adequate use of natural resources. In that sense, technical assistance to develop economic instruments to price use of water, air and forestry resources will continue in 2007. Also, technical assistance to improve the Natural resource Code will continue in 2007, and especial emphasis will be placed in institutional reform of the system that governs the use of natural resources to ensure that the GoC and regional authorities effectively enforce environmental standards.

Table 9: Agricultural, Forestry and Environmental Activities

Agriculture, Forestry and Environmental Policy	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Enhancing agriculture information systems												
Promoting agriculture transition strategies												

Agriculture, Forestry and Environmental Policy	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Promoting new risk-hedging instruments												
Promoting self-valuation tax property pilots												
Reducing agricultural subsidies and promoting policy reform												
Leveraging private sector infrastructure support, eg., irrigation												
Develop implementing regulations for the Forestry Law												
Implementation of environmental economic instruments reform												
Environmental system institutional reform												
Strengthening Enforcement of Environmental Standards												

Competitiveness

A comprehensive Competitiveness Strategy will be developed by MPC in 2007 which complements the implementation of the FTA. The strategy is aimed at removing regulatory hurdles that reduce productivity and prevent the private sector from taking greater advantage of trade and investment opportunities. MPC is supporting technical and consensus building efforts aimed at adopting key crosscutting reforms that reduce legal instability and insecurity, protect investor rights, promote competition, enhance the legal environment for research and development, ensure high-quality production standards, and long-term investments in key infrastructure services such as telecommunications, natural gas, transport, and water. This activity is integral to much of the other MPC policy work. The overall objective of the competitiveness strategy will be to promote employment and reduce poverty and inequality. As part of this effort, the MPC will work with the DNP to devise strategies that ensure that vulnerable groups find alternative sustainable sources of income. The Competitiveness Strategy will be closely aligned with “Vision 2019” and “Agenda Interna” of the GoC. Much of the activity in this sub-component will finalize policy white papers for the Social and Economic Policy Council (CONPES documents) in the areas mentioned above, and, key regulatory and legal reforms.

In the framework of the Competitiveness Reform, MPC will assist the government in the design and implementation of the Colombian Competitiveness Policy and Strategy which includes the identification and prioritization of the determinant factors influencing Competitiveness in Colombia and propose institutional mechanisms to overcome limitations and bottlenecks.

As part of this critical effort to improve the investment climate in Colombia and promote competitiveness, the MPC will work with the World Bank in implementing the Doing Business Survey to identify legal and regulatory hurdles that disincentive business creation and development in Colombia.

Also, the MPC will work with the GoC in developing a new policy framework to promote SMEs. This new policy framework will encompass issues related to finance, tax and labor informality, access to R&D and critical business and infrastructure services, quality and SPS standards and market intelligence.

A critical area for policy, legal and regulatory relates to infrastructure, particularly telecommunication, water, natural gas and transport, which increase production costs for SME's by up to 20% and reduce overall productivity. These areas are of key importance because they are inputs into all other sectors of the economy. Therefore, the creation of a legal and regulatory framework that promotes competition and reduces consumer prices for key services, while increasing quality and access to these services, will result in increased competitiveness for all. Additionally, these infrastructure sectors often attract significant amounts of foreign investment, which ushers in technical innovation. All three of these sectors have the possibility to generate legitimate and sustainable employment and enhance the base of technical knowledge in the economy. In addition, MPC will assist the GoC to develop a strategy for expanding the use of concession arrangements (eg, BOT) to leverage infrastructure investment in transport and telecommunications.

The Ministry of Telecommunications will receive significant assistance from MPC during 2007 to strengthen its role in improving the provision of telecommunications services. Perhaps more importantly, MPC will work with the Ministry to carry out an institutional restructuring that will transform the Ministry into a Ministry of Information and Communication Technology, will create the Spectrum Management Agency, and will strengthen the Telecommunications Regulatory Commission.

During 2007, TSG under the MPC will continue to provide technical assistance to the GoC to ensure full implementation of the FTA investment chapter, including training to government officials in the treaty disciplines. In addition, TSG will design and assist the GoC in the implementation of an Investment and Arbitration unit which will advise GoC agencies in good practices aimed at reducing juridical instability and preventing investor-State disputes.

Also, TSG will continue to assist the National Planning Department and the Ministry of Trade and Industry in developing the IPR Conpes document and ensuring full implementation of the IPR chapter of the FTA.

Table 10: Competitiveness Activities

Competitiveness	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Design and implement a National Competitiveness Strategy												

Assist GoC in Reform of the policy towards PYMES
 Design and assist GOC in implementing a national concessions regime
 Continue Implementation of USAID Last Mile Initiative to

Competitiveness	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
increase access to broadband services and content.												
Design and assist GOC in implementation of reform of the transport regulatory framework												
Strengthen competitiveness and access to telecommunications services / institutional & regulatory reform of the telecom Sector												

Reform of Water regulation
 Reform of the Natural Gas Regulatory Regime
 Technological transfer pilot program
 Assist together with the World Bank in identifying hurdles to doing business in Colombia.
 Implementation of FTA investment chapter reforms
 Improving protection of intellectual property rights

Outreach

In order for MPC activities with the government to be successful, it will be important to promote a broader understanding of key policy and reform issues among the Congress, civil society, other key stakeholders, and the public at large. It will be necessary to throughout 2007 and beyond, to carefully organize forums in which the government’s policy agenda and key policy issues can be articulated. The purpose of the outreach activities is to raise awareness of the importance of reforms, to solicit feedback on key policy issues, and to publicize the government’s policy and reform achievements supported by MPC. In addition, it is important to communicate to key potential external investors the improvements in economic and competitive conditions in Colombia.

The OAS Trust for the Americas will be a key MPC partner managing formal outreach activities to Congress and to key stakeholders on activities related to the government’s reform agenda. In this regard the OAS Trust will carry out activities continually throughout 2007 as needed.

CONFECAMARA.S will also be another key partner who will take the lead with MPC in outreach activities targeted at civil society. In particular, the MPC and CONFECAMARAS will continue work in 2007 to ensure full participation of the 27 Regional Internal Agenda Committees in the implementation of the National Internal Agenda.

Staffing Plan

The MIDAS Policy Component, following the guidelines set forth by the USAID Mission in Colombia, has designed a staff management plan which aims to maximize the impact of technical assistance offered under this project and ensure sustainability of reforms and institutional strengthening processes after the activities planned have concluded. Accordingly, the MIDAS Policy Component management plan is designed to maximize the amount of LOE implemented while minimizing the cost of this effort and aimed at promoting a permanent local capacity to sustain reforms (Colombianization).

This is based on the application of various principles for the implementation of the project:

1. **Colombianization:** the Policy Component will use local labor in all possible positions. Only when the activity to be performed requires a level of expertise and/or experience currently unavailable in the country, the MIDAS Policy Component will seek expatriate consultants, generally for short periods of time and always working with a local consultant to ensure an adequate transfer of knowledge. In addition, all training activities under the MIDAS Policy Component will include train the trainer activities such as those established under the TBT and SPS Subcomponents to build a local capacity in areas where there is a shortfall of local expertise. This strategy will minimize the expenditure in travel expenses, danger pay, per diem and other costs related to travel by consultants during the life of the project.
2. **Emphasis on short term:** the Policy Component seeks to maintain as small group of long-term, permanent staff to adequately implement the different activities to be carried out under the MIDAS project. This means a preference for short term technical assistance whenever possible. Long-term labor is required to manage the activities, but perhaps more important, to ensure that projects and policy recommendations translate into effective policy reforms and effective strengthening of institutions.
3. **Optimization of capacities:** emphasis is put on the optimal usage of the resources available, including labor. Therefore, inasmuch as possible, senior labor is used only for short periods of highly intensive technical activity, leaving the operational, extensive research, data processing and collection and other time-consuming activities to junior local staff, which benefit from the experience while increasing the efficiency of the overall project implementation.

Table 11

1	Component Leader	Jaime Andrés NIÑO
2	Deputy Component Leader	Ana Maria Rivera
3	Labor Activity Leader	Jaime TENJO
4	SPS Activity Leader	Jairo ROMERO
5	TBT Activity Leader	Melani SCHULTZ
6	Competitiveness Leader	Diego Bautista
7	Fiscal Reform	TBD
8	Financial Sector Activity Leader	Germán CAMACHO
9	Agriculture Team Leader	Juan Carlos SALAZAR
10	Land Leader	Ana Maria Ibanez
11	Customs Leader	Cuatlihuac Banos

	Outreach Leader	TBD
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Table 12

1	Senior Administrative Assistant	Ana Maria Hoyos
2	TOR and Reporting Assistant	Estefania Samper
3	Monitoring and Evaluations Officer	TBD
4	Logistics, translation and Biodata Verification	Ma. Del Pilar Quintero

Table 13

	%
Short Term Staff	86.8%
Long Term Staff	13.2%
Total Staff	100.0%

Table 14

	%
Local Staff	77.2%
Expatriate Staff	22.8%
Total Staff	100.0%

2. Life of Program Work Plan

2.1. 2006 Achievements

During the last year, the MPC achievements met the 2006 projected targets and in the case of laws presented, decrees adopted and institutional reforms, the level of achievement was beyond 2006 projections. Yet, the MPC acknowledges that 2006 achievements could have been much more significant if several laws, CONPES documents, and decrees, which the MPC assisted drafting in the areas of competition, quality system, finance, customs, energy, and SPS, had been approved towards the end of the year. As a result of pending approvals, 2007 targets have been significantly raised to include these legal, regulatory and institutional reforms which the MPC will actively pursue in 2007 and for which approval is expected in early 2007.

Table 15: 2006 Objectives vs. Projected 2006 Results

Performance Indicators	WP 2006 OBJECTIVE	PROJECTED 2006 RESULTS	% PR/WP
16. Laws Presented	4	4	100%
17. CONPES Implemented	3	3	100%
18. Decrees Passed	15	15	100%
19. Institutional Reforms	11	19	172%

2.1.1. Laws Presented

2006 Work Plan Target	4
MPC Delivery in 2006	4

1. Tax Reform
2. Agricultural Subsidy Law (AIS)
3. Intergovernmental Transfers Constitutional Reform
4. Reformed Law No. 100 (1993) on the Health Social Security System, establishing the legal framework for the INVIMA Regional Health Liaison Offices (Oficinas de Enlace Territorial en Salud del INVIMA – OET) and the new functions regarding food safety for the Regional Health Entities (Entidades Territoriales de Salud). The reform was approved by Congress December 20th, 2006.

2.1.2. Conpes Implemented

2006 Work Plan Target	3
MPC Delivery in 2006	3

1. Quality CONPES 3446
2. Competitiveness CONPES 3439
3. Energy Universal Service Access CONPES 3456

2.1.3. Decrees Passed

2006 Work Plan Target	15
MPC Delivery in 2006	15

Financial Markets Reforms

1. Decree included in Basic Circular of the Superintendent of Financial Institutions (August 2006) – Allows financial/credit services to be provided through non-banking entities, thereby promoting micro-finance.
2. Decree providing the regulations for the operation of proprietary trading in the Colombian Market (July 2006)
3. Decree providing the legal framework for the Financial Superintendency to function as an independent entity. (November 2006)
4. Decree providing details on amounts accounts (August 2006)
5. Decree 4090 deregulating interest rate ceilings (Nov 22, 2006)

Customs

6. Resolution 07468 (July 7, 2006) –Non-preferential Origin Certification
7. Resolution on Certification of Non-Preferential Origin (November 2006)
8. Decree 4540 (December 22, 2006) regulating custom controls to protect intellectual property rights.

SPS

9. Decree 2836 (August 23, 2006) – Creates the National SPS Council
10. Resolution to establish the national registration program for use of pesticides in minor and specialty crops, including an action plan and an identification of the legal and regulatory adjustments necessary to implement that program(July 13, 2006)
11. Act with compliance requirements for the meat sector consistent with Meat Inspection Decree (August 14, 2006)
12. Decree reforming decree 3075 (1997) on Good Manufacturing Practices for the food industry, following international guidelines and best practices, Ministry of Social Protection, December 29, 2006

Competitiveness

13. Decree 2828 (August 23, 2006) – Ministry of Trade, Industry and Tourism creates the Competitiveness National Administrative System.

Competitiveness (Energy)

14. Resolution 071 establishes the Energy Capacity Charge (Oct 3, 2006)
15. Resolution 093 to limit abuse of market power by providers of natural gas (Nov 7, 2006)

2.1.4. Institutional Reforms

2006 Work Plan Target	11
MPC Delivery in 2006	19

1. Customs risk analysis—changed DIAN approach to risk assessment, currently being implemented in Medellin.
2. Designed the operational and regulatory framework to shape the new Customs regime to ensure compatibility with FTA and WTO requirements.
3. Trained DIAN in Transfer Pricing Auditing Techniques.
4. Provided support in creating the Sanitary and Phytosanitary Standards Commission and make it fully operational (Decree 2833, August 23, 2006).
5. Assisted Ministry of Trade and National Planning Department to develop a unit to monitor SPS approvals and procedures in the United States.
6. Assisted Ministry of Trade in developing a TBT information center consistent with the WTO.
7. *Banca de las Oportunidades*: created the Opportunities Banking Fund in Bancolombia.
8. Trained officials of DIAN and Office of the Prosecutor in cross-border intellectual property rights.
9. Assisted Office of Authors' Rights in improving the Authors' Rights registry and procedures.
10. Modified supervision and audit procedures in the Superintendent of Financial Services for practices contrary to the market.
11. Assisted Ministry of Labor to create a labor policy unit.
12. Assisted Ministry of Finance to design reform of CAJANAL to manage public pensions more effectively.
13. Assisted GOC in the creation of National Competitiveness Council to operate within the Office of the President.
14. Assisted CREG and *Superservicios Publicos* to implement new procedures to monitor competition in energy markets.
15. Initiation of ICA restructuring with a restructuring plan (to be completed end-2006)
16. Support for reforming the subsidy regime (to be completed end-2006)
17. Transforming the Labor Inspections regime (to be completed end-2006)
18. Designed methodologies for supervising and detecting abusive market practices that threaten the integrity and transparency of financial markets (November – December 2006)
19. Designed methodologies for supervising the derivatives market (November – December 2006)

3. Year Two Work Plan

3.1. Primary Objectives

The objective of the MIDAS Policy Component (MPC) for 2007 is to continue promoting the overall competitiveness of the Colombian economy and place the economy on a long-run high growth trajectory.

- Ensure progress and long-term sustainability of achievements obtained under Plan Colombia;
- Promote productivity and competitiveness within the productive sector to ensure it takes advantage of the opportunities that emerge from integration with the international economy;
- Create policies and promote institutional strengthening to support the sustainable growth of SME, agricultural, and forestry businesses.

3.2. Assumptions

The MPC has established the ambitious set of indicators for 2007 on the basis of a strong sense of GoC ownership of the reform agenda, which has been discussed and agreed during the work planning process.

Also, the indicators reflect a unique momentum for reform on the basis of the political capital of recently elected government. Therefore, it is critical to move ahead as quickly as possible to take advantage of the government's eagerness for fundamental reform. The main operating assumption of MPC in 2007 is that this is the critical year for major policy actions, and the work plan fully reflects that assumption.

In future years, though the will for reform may remain strong, there may be less room for the government to maneuver. The MPC has designed a Work Plan that assumes that major policy and institutional reforms will need to occur in 2007 while in the remaining years of the project progress will be relatively circumscribed to implementing reforms and institutional and organizational adjustments.

3.3. Coordination and Cooperation Plans

3.3.1. Coordination with MIDAS Components

Many of the activities scheduled to be undertaken by MPC provide important support to the MIDAS business components. The following discussion highlights the most significant areas where MPC activities complement and support activities carried out by the other components:

3.3.1.1. *Small and Medium Enterprise Component*

- Technical Norms (TBT) and Phyto-sanitary Standards (SPS) policy work creates an opportunity for the SME Component to work with SMEs to achieve certification against the newly adopted international standards. This will require SMEs to increase their level of skill and sophistication and enhance their competitiveness.
- The MPC study of SME informality will determine key factors preventing many SMEs from formally registering their businesses, which should provide useful input for SME component outreach and planning.
- SMEs at present have few assets to pledge as collateral for loans, so policy work to improve and expand the types of property that can be provided to financial institutions as collateral will directly benefit many clients of the SME component, as will MPC's work to improve the functioning of land markets.
- Expansion of access to microfinance and the expansion of non-bank correspondent networks will benefit SME component clients. At the same time, the SME Component can serve as a powerful promoter of nonbank correspondent networks.
- It is not advisable for MIDAS to promote the channeling of credit from financial providers being directly supported by MPC to the SME Component's clients. Nevertheless, the SME component will be increasing the professionalism of SMEs through a variety of training activities, as well as providing other kinds of technical assistance to enhance SMEs competitiveness and profitability. MPC and the SMEC will be working directly to enhance the skills of bankers and help them to understand how to better serve micro-enterprises and SMEs. The SME component can also assist banks and other financial institutions to understand the risks and rewards of lending to particular kinds of SMEs, i.e., operating a particular kind of business. These activities of the two components will likely result in SME component clients achieving access to finance from financial institutions that are the clients of MPC.

3.3.1.2. *Agribusiness Component*

- Policy work to improve access to risk-hedging instruments will benefit agricultural producers who are currently subject to a variety of risks, including changes in weather, prices and interest rates. It may be possible to directly link training activities contemplated under the MPC risk-hedging work with Ag component clients.
- MPC is carrying out low pest prevalence and Best Agricultural Practices pilots, which should provide successful models that the Ag component can build upon.

- TBT and SPS work under MPC is directly complementary to Ag component work to promote higher quality standards for agricultural products.
- Similar to the SME component, Ag component clients will benefit from increased access to financial services, including microfinance. The MPC work with FINAGRO focused on the expansion of commercial financing for agricultural suppliers, producer cooperatives, and NGOs (*creditos asociativos*) will intersect with Ag component clients seeking financing for their projects—which will be better planned and executed. Again, channeling of credit is not contemplated, but the activities of MPC to improve the supply of financial services complements Ag component activities in support of demand for financial resources for agricultural production.

3.3.1.3. Forestry Component

- MPC will be helping to draft implementing regulations for the Forestry Law, which has the potential to stimulate more commercial forestry activity.
- Similar to the Ag component, the MPC work with FINAGRO focused on the expansion of commercial financing for agricultural suppliers, producer cooperatives, and NGOs (*creditos asociativos*) may also extend to certain clients of the Forestry component.

3.3.2. Cooperation with ADAM

- There is a direct linkage between the ongoing MPC work in microfinance and ADAM's microfinance component, which has been working since the beginning of 2006. This close cooperation will continue through 2007. Specifically, continued policy work to remove interest rate controls, as well as MIDAS pilot activities with financial institutions, are creating the foundation for the ADAM microfinance team to scale up pilots to commercial scale during 2007.
- A number of MPC activities involving pilots or similar field trials will be coordinated closely during 2007 with ADAM field operations. These will include:
 - the development and promotion of agricultural transition strategies will be done at field level in ADAM municipalities;
 - the promotion of market-based land markets and streamlined land registration and titling, and self-evaluation of land will be carried out in cooperation with ADAM staff in ADAM municipalities;
 - low pest prevalence and Agricultural Best Practice trials under MPC may also be carried out in ADAM municipalities.

3.4. Budget

Table 16

MPC COMPONENT DIRECT COST FORECAST					
Line Item	Q1	Q2	Q3	Q4	Total
Long Term Labor*	53,191	53,191	53,191	53,191	212,762
ST Labor*	88,875	88,875	88,875	88,875	355,500
Total Labor	142,066	142,066	142,066	142,066	568,262
Travel & Per Diem	19,072	19,072	19,072	19,072	76,287
Seminars, Workshops, and Conferences	25,750	25,750	25,750	25,750	103,000
Total Field Trips & Training	44,822	44,822	44,822	44,822	179,287
Project Support Grants and Subcontracts	0	0	0	0	0
OtherUS Grants and Subcontracts	1,914,346	1,914,346	1,914,346	1,914,346	7,657,383
Other Local Grants and Subcontracts	366,723	366,723	366,723	366,723	1,466,890
Total Grants and Subcontracts	2,281,068	2,281,068	2,281,068	2,281,068	9,124,273
Subtotal	2,467,956	2,467,956	2,467,956	2,467,956	9,871,822

3.5. Training

Approximately \$103,000 will be managed directly by ARD for logistical support for an ambitious training program of over 100 courses that will be carried out by professionals contracted under the TSG and other subcontractor task orders or by ARD CCN LT/ST personnel. A wide range of courses will be conducted. During 2007 training will be provided to labor inspectors from the Ministry of Social Protection and to SENA officials on the use of training needs forecasting tools. Together with the Universidad de los Andes, the MPC will provide DNP and government officials with cost benefit analysis and public investment analysis training. The Technical Norms subcomponent will continue to provide training to national trainers on technical norms and green market norms. The SPS subcomponent will deliver a series of seminars/workshops covering regulatory aspects of meat, milk and dairy products, thermal treatments, aseptic processing, good agricultural practices, responsible use of pesticides, food safety analytical tests, pesticide registration, and animal and plant health systems. Additionally, the MPC will create internationally recognized schools for preparing inspectors and technicians for the food sector on meat safety and Low Acidified Canned Foods supervision and inspection.

Table 17

Project	Topic	Target Group	# of participants	# of training sessions
Sanitary and Phyto-Sanitary Standards				
Strengthen the Colombian Dairy Chain	US PMO-FDA milk laboratory evaluation	25 public officials from the INVIMA and the ETS laboratory network and 5 representatives from the PMO companies	30	March 1 - 2
	Inspection of dairy processing plants	INVIMA Inspectors	20	March 26 - 27
	Inspection of dairy producing farms for inspectors	ICA Inspectors	20	March 28 -29
	Pasteurization and aseptic processes: methods and control	private and public sector	40	April 19 - 20
	Export and International distribution of Colombian dairy producers and other industries as identified	public and private sector	40	26-Jun
Strengthen the Colombian Meat Sector	FSIS regulations; the meat safety legal framework and the sanitary design of facilities	INVIMA, Ministry of Social Protection, ICA and private sector inspectors	25	March 12 - 13
	Ante/post mortem disposition, BSE, residues and humane handling	INVIMA, Ministry of Social Protection, ICA and private sector inspectors	25	April 16, 17 and 18
	Four pillars of slaughterhouse safety and zero tolerance	INVIMA, Ministry of Social Protection, ICA and private sector inspectors	25	May 28 - 29
	HACCP principles for the meat industry	INVIMA, Ministry of Social Protection, ICA and private sector inspectors	25	June 14 - 15
	PBIS, HACCP verification and sampling	INVIMA, Ministry of Social Protection, ICA and private sector inspectors	25	July 30, 31 and August 1
Good Agricultural Practices and Responsible Use of Pesticides	GAP and responsible use of pesticides for onion production	pilot project participants	40	February 21 - 23
	GAP and responsible use of pesticides for broccoli production	pilot project participants	40	February 14 - 16
	GAP and responsible use of pesticides for Galupa production	pilot project participants	40	February 27 - 28
	Training for officials responsible for pesticide registration	ICA, Ministry of Social Protection, INVIMA and MAVDT representatives	TBD	March - September
Low Pest Prevalence Areas	Maintaining and upkeeping Low Pest Prevalence Areas	public officials and producers	20	TBD

Registration of Pesticides for Minor Crops	Methodologies and implications of USAID's PERSUAP	representatives from crop protection companies	15 - 20	January
	Methodologies and implications of USAID's PERSUAP	representatives from the public sector involved in the pesticide registration process	10	February
	Good Laboratory Practices	technicians from private and public laboratories	12	May
	The use of biopesticides as a safe tool for crop protection	minor crop agricultural producers; academics and public officials	30 - 35	May
	Developing analytical tools for pesticide residues	public and private laboratory technicians	12	July
	Training for fruit, vegetables, and herb producers on the use of a MIPE (integrated management and control of pests and diseases program)	3 groups of 20 producers (fruits, vegetables and herbs)	60	June
Processed Foods	Establishing the thermal process for Acidified and Low Acid Canned Foods	12 industry representatives and 8 members of the Colombian inspection body in charge of auditing low acid and acidified canned foods processing plants	20	May 7 and 11
	Better Processes Control	40 Supervisors and retort operators from Low Acid and Acidified Canned Foods processing plants	40	June 4 - 8
	Canned Food Spoilage Investigation Analysis Course	Relevant members of the official inspection body, LACF processing plants and consulting laboratories	30	July 16 - 19
	Thermal Process deviation evaluation course	Industry and consulting service processing authorities; INVIMA inspection auditors	30	July 23, 24 and 25
Institutional Strengthening	Workshop on food safety for border controls	30 inspectors from one airport, one seaport and one land border passage	30	September
	Food Safety during trade, transport and at food establishments	3 groups of 30 official regional inspectors from the CARs (Corporaciones Autonomas Regionales)	90	August
	Workshop to regional authorities on environmental factors which influence food safety control	3 groups of 30 official regional inspectors	90	October

Technical Norms				
Institutional Reform: Developing Environmental Seal Standards in two sectors	Green label standards for Caña Flecha and compliance with international requirements	15 Certification body and government representatives	15	September
	Green label standards for Figue and compliance with international requirements	15 Certification body and government representatives	15	September
Private Sector Development - Pharmaceuticals Sector	Six sub-systems related to GMPs in the pharmaceutical sector	30 company technical representatives from the pharmaceuticals sector	30	May
Technology transfer in the Pharmaceuticals Sector	Workshop on technology transfer schemes for pharmaceutical company managers and CEOs	25 pharmaceutical company managers and CEOs	25	June
	Workshop on technology transfer schemes for official government and trade association representatives	15 government officials and trade association representatives	15	June
Agriculture, Forestry and Environment				
Information System	Access, generation and use of agricultural market information	producers and public sector authorities participating in the Information System pilot projects	30	April (2 training sessions)
	Access, generation and use of information on the performance and competitiveness of the agricultural sector	Public authorities from regions in which pilots have been carried out for the Information Systems Activity.	20	April (2 training sessions)
Transition Strategy	Formulating and developing initiatives for improving competitiveness or transitioning from current productive activities.	Authorities and municipal communities selected from regions where the Transition pilots are being carried out.	30	May (3 training sessions)
Risk Hedging	Promotion and use of risk hedging instruments based on international prices and exchange rates.	A group of producers of cacao who will take part in one of the risk hedging pilots.	30	March (1 session)
	Promotion and use of weather insurance	A group of producers of transition crops who will take part in one of the risk hedging pilots.	30	March (1 session)
Self-valuation Project	Methodology and procedures to implement self-evaluation pilots.	Local officials from municipalities selected for self-evaluation pilots.	30	March (2 sessions)
Implementation of Forestry Law	Implementation of Forestry Law and Enforcement	Officials from Regional Environmental Corporations	30	April (2 Sessions)
Improvement of Environmental Standards Enforcement	Methodologies to improve enforcement of environmental standards	Ministry of Environment and Officials of Regional Environmental Corporations	40	April- September (3 sessions)
Environmental Resource Management Through Economic Instruments	Implementation and Enforcement of New Economic Instruments	Ministry of Environment and Officials of Regional Environmental Corporations	30	March (2 Sessions)

Land Reform				
Community Land Rights and Access to Private Investment	Legal and institutional framework to develop investments and productive initiatives on land in Afro-Colombian and indigenous communities.	Representatives from Afro-Colombian and indigenous communities, local authorities and representatives from the national government.	TBD	March (4 training sessions)
Improvement of Land Transfer, Titling, Registration Procedures	Reduction in transaction costs to improve land transfer, titling and registration processes.	GoC officials from Incoder, Ministry of Agriculture, IGAC, Registration Superintendence	TBD	June-December (4 training sessions)
Labor Reform				
Labor Inspections	Technical and procedural skills required for the implementation of Preventive Labor Inspections System (PLIS).	Labor Inspections officials	TBD	January - September (4 training sessions, one in each pilot region)
	Technical and procedural skills necessary to perform firm-level preventive inspections	Labor Inspections officials selected to undertake firm-level inspections within the PLIS	TBD	January - September (4 training sessions, one in each pilot region)
	Technical and necessary skills to perform conciliation activities within the PLIS	Labor Inspections officials selected to undertake firm-level inspections within the PLIS	TBD	January - September (4 training sessions, one in each pilot region)
	Technical and necessary skills to perform effective labor disputes and complaints management within the PLIS	Labor Inspections officials in charge of administrative and complaint management duties	TBD	January - September (4 training sessions, one in each pilot region)
Labor Oral Justice System	New procedural rules under the new Oral Justice System	Train Labor Inspectors, Judges and Attorneys at Law, and civil society in New Oral Justice System	TBD	At least 4 Sessions (September-December 2007)
Labor Rights Enforcement	Training to Ministry of Social Protection in Enforcement of Labor Rights and civil society	Labor Inspection Offices	TBD	March-December at least 4 training sessions
Training Needs	Technical skills necessary to work with the training needs forecasting system to be implemented for SENA. This includes the use of databases, use of prediction models and upkeep of the system	SENA officials in charge of working with the forecasting system and Ministry of Social Protection officials	10	January - September
	Technical skills necessary to work with the improved system for training needs forecasting at the level of the pilot projects in SENA	Three officials from each pilot project (Pasto, Neiva, and Santa Marta)	TBD	January - September

DIAN Institutional Strengthening				
	Training-of-trainer workshop to DIAN officials on Tax Auditing Techniques	DIAN officials	55	February
	the new modernized and consolidated Customs Code	DIAN officials	55	April
Fiscal Reform				
	Cost benefit analysis and public investment analysis	DNP and government officials	30	March - December
Competitiveness				
Arbitration	Training Phase II - investor rights, FTA investment related obligations, Investor-State arbitration disputes. The training is designed to provide a core group to provide further training and information to other government agencies on investment-related matters	Ministry of Trade, Industry and Tourism officials as well as other public servants directly involved in investment matters in Colombia		24-Feb
	Training Phase III - investor rights, FTA investment related obligations, Investor-State arbitration disputes. The training is designed to provide a core group to provide further training and information to other government agencies on investment-related matters	Ministry of Trade, Industry and Tourism officials as well as other public servants directly involved in investment matters in Colombia		25-Apr
Intellectual Property Rights	Intellectual Property Rights and Border Measures to control the trade of pirated goods	20 to 25 DIAN officials per city (Buenaventura, Pasto, Rioacha, Cucuta, Cartagena)	100 - 125	Jan 15 - Feb 15

Financial Reform				
Microcredit	Microfinance Main Pillars- Presentation	All bank officials	25	FEB-MAR
	Microfinance Main Pillars- Module #1	Credit Officers and Supervisors	25	FEB-JUN; AUG-NOV (15 sessions)
	Loan Analysis Module #2	Credit Officers and Supervisors	25	FEB-JUN; AUG-NOV (15 sessions)
	Supervision Techniques: Supervisor Module #1	Supervisors, auditors, branch managers	25	FEB-JUN; AUG-NOV (15 sessions)
	Portfolio Analysis Part 1 for Supervisor Module #2	Supervisors, auditors, branch managers	25	FEB-JUN; AUG-NOV (15 sessions)
	Building Effective Incentive Systems Supervisor Module #3	Human Resources, Commercial departments, Supervisors, auditors, branch managers and product managers	25	FEB-MAR (2 sessions)
	Microcredit Manual Module #3	Credit Officers and Supervisors	25	MAR-APR; AUG-NOV (10 sessions)
	Portfolio Analysis Part 2 Supervisor Module #4	Supervisors, auditors, branch managers	25	MAR-APR; AUG-NOV (15 sessions)
	Supervisor's Check List : Supervisor Module #5	Supervisors, auditors, branch managers	25	MAR-JUN (10 sessions)
	Character Based Lending Module #4	Credit Officers and Supervisors	25	MAR-JUN (10 sessions)
	Cash Flow Analysis Module #5	Supervisors, auditors, branch managers	25	MAR-JUN (15 sessions)
	Loan Approval and Risk Analysis: Supervisor Module #6		25	FEB-NOV (20 sessions)
	Marketing Techniques Module #6	Supervisors, auditors, branch managers	25	FEB-JUN; AUG-NOV (20 sessions)
	Methods for controlling delinquency Module #7	Supervisors, auditors, branch managers	25	FEB-JUN; AUG-NOV (14 sessions)
	Fraud Red Flags Supervisor Module # 7		25	FEB-JUN; AUG-NOV (14 sessions)

PYME	PYME Credit Policies Module #7	Credit Officers and Supervisors	25	FEB-JUN; AUG-NOV (14 sessions)
	Financial Analysis Part 1: Module #10	Credit Officers and Supervisors	25	FEB-JUN; AUG-NOV (14 sessions)
	Financial Analysis Part 2: Module #11	Credit Officers and Supervisors	25	FEB-JUN; AUG-NOV (14 sessions)
	Managing Growth: Supervisor Module #8	Supervisors, branch managers	25	JUL-AUG (7 sessions)
	Methods for controlling delinquency Module # 8	Credit Officers and Supervisors	25	JUL-AUG (20 sessions)
Deposit Mobilization	Designing effective deposit products Supervisor Module #9	Customer service personnel, Credit Officers and Supervisors	25	FEB-JUN; AUG-NOV (10 sessions)
	Managing costs of small deposits Supervisor Module #10	Managers and Supervisors	25	FEB-JUN; AUG-NOV (10 sessions)
	Marketing Techniques for Deposit Mobilization Module #9	Customer service personnel, Credit Officers and Supervisors	25	FEB-JUN; AUG-NOV (10 sessions)
	Customer Service Part 1 Module #10	Customer service personnel, tellers, credit officers and supervisors	25	JUL-SEP (20 sessions)
	Customer Service Part 2 Module #11	Customer service personnel, tellers, credit officers and supervisors	25	JUL-SEP (20 sessions)
Micro Ag Loan	Micro Agriculture Credit Policies - Module #12	Credit Officers and Supervisors	25	FEB-JUN; AUG-NOV (20 sessions)
	Micro Agriculture Loan analysis - Module #13	Credit Officers and Supervisors	25	FEB-JUN; AUG-NOV (20 sessions)
	Micro Agriculture Loan Follow Up and collection -Module #14	Credit Officers and Supervisors	25	FEB-JUN; AUG-NOV (20 sessions)
Home Improvement Loans	Home Improvement Credit Policies - Module #15	Credit Officers and Supervisors	25	AUG-NOV (20 sessions)
	Home Improvement Loan analysis - Module #16	Credit Officers and Supervisors	25	AUG-NOV (20 sessions)
	Home Improvement Loan Follow Up and collection -Module #17	Credit Officers and Supervisors	25	AUG-NOV (20 sessions)
	Home Improvement Marketing Techniques Module #18	Credit Officers and Supervisors	25	AUG-NOV (20 sessions)

Long Term Investment	Long Term Investment Loan Policies -Module #19	Credit Officers and Supervisors	25	APR-JUN (20 sessions)
	Long Term Investment Loan analysis -Module #20	Credit Officers and Supervisors	25	APR-JUN (20 sessions)
	Long Term Investment Loan Follow Up and collection -Module #21	Credit Officers and Supervisors	25	APR-JUN (20 sessions)
	Long Term Investment Marketing Techniques Module #22	Credit Officers and Supervisors	25	APR-JUN (20 sessions)
Strengthen the Financial Superintendency	Foreign Exchange Market supervision	Financial Superintendency Officials	25 - 39	
	Stock Market Supervision	Financial Superintendency Officials	25 - 39	
	Portfolio supervision and market risk	Financial Superintendency Officials	25 - 39	
	Standardizing supervision processes	Financial Superintendency Officials	25 - 39	
	Transitioning towards risk supervision	Financial Superintendency Officials	60	