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COLOMBIA PUBLIC POLICY

QUARTERLY REPORT 5

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EXECUTIVE SUMMARY

The Government of Colombia (GOC) undertook several critical institutional and legal reforms during Quarter 5 that will transform the life of many Colombians. The USAID Public Policy Program's first major achievement during Q5 was its fundamental role in the design or implementation of three important laws issued by the GOC.

The most important legislative reform of the Santos administration thus far is the signing of the **Victims' Law (Law 1448 of 2011)** on June 10, 2011. The Victims' Law establishes a legal framework for comprehensive assistance, fair reparation and land restitution to victims of Colombia's armed conflict. A second important reform is the **Public Private Partnerships Law (1590 of 2012)**, designed to overcome the GOC's inability to structure and deliver infrastructure projects. Under the new law, private parties can design infrastructure projects and propose them to the GOC and sub-national governments to be developed with private funding. It allows private parties to develop municipal and secondary roads, and water and sanitation infrastructure, and recover their investment via tolls, fees and revenues from taxes and royalties. A third transformative reform is the **Royalties Law** (approved by the National Congress December 15th) that will allow poor regions of Colombia to make use of revenues from extractive industry royalties in order to improve infrastructure and the delivery of services to traditionally neglected Colombians. The USAID played an important role in drafting and regulating these three laws.

The Program's second major achievement in Q5 has been supporting the GOC in creating the institutions needed to implement the Victims' Law, which began operating in January 2012. The Program's technical teams played a crucial role in preparing the following six regulatory decrees issued in late December 2011: **Decree 4801** establishing the **Land Restitution Unit's structure**, **Decree 4939** establishing the **Land Restitution Unit's personnel structure**, **Decree 4829** regulating the Land Restitution Chapter of the Victims' Law in order to implement the **Seized and Abandoned Land Registry**, **Decree 4800**, establishing measures to provide **comprehensive assistance and reparations to victims** of the internal armed conflict, **Decree 4802** establishing the **Victims' Unit's structure** and **Decree 4803**, creating the **Historic Memory Center's structure**.

The Program's third major achievement in Q5 was supporting the creation of the **National Consolidation Unit (Decree 4161)**, that will coordinate State presence and service delivery in regions affected by violence, and that until recently, have been under control of illegally armed groups. The Program supported designing the unit's new structure and internal procedures, assessing staff requirements, and drafting job descriptions.

In November, the GOC instituted significant reforms to improve governance and increase State presence throughout the country. In addition to supporting the creation of the Victims' Law implementing agencies (Victims' Unit, Historical Memory Center and Land Restitution Unit), the Program provided technical assistance to other transcendental innovations, like the creation of the **Ministry of Environment, the Ministry of Labor, the Ministry of Justice, the Land and Water Management Unit**, and other agencies. This quarter, the USAID Public Policy Program supported the adoption of **46 policy reforms**, including **4 laws, 8 institutional reforms, 8 decrees, and 1 CONPES Document**.

A number of other key GOC reforms targeted for presentation to Congress during the March, 2012 sessions were also assisted in Q5. Prominent among them is the **Land and Rural Development Bill**, drafted by the USAID Public Policy Program. This bill establishes new guidelines to improve land tenure in Colombia, improve land markets and promote access to land for landless farmers. The bill also includes an ambitious new rural development policy that calls for comprehensive and coordinated

interventions in rural areas to improve the livelihoods of rural communities through the provision of public goods and infrastructure, and the direct producer assistance to small farmers and victims to generate sustainable incomes.

The Program has also supported two critical bills that will lead to greater financial inclusion in Colombia. An **electronic transactions bill** is designed to promote mobile phone transactions in Colombia to reach distant rural and poor communities that currently lack access to finance. **The Secure Transactions Law** allows movable property to be used as collateral to back loans. Since Colombia still faces considerable land property informality, the lack of a registry to keep records of movable property ownership and guarantees limits rural lending. The new bill is designed to overcome these shortcomings and create a registry to keep ownership records of livestock, crops, inventories and other movable property used as collateral.

During Q5, the USAID Public Policy Program also provided technical assistance to GOC to draft the **Protected Areas bill**. The new bill establishes the categories for protected areas, and the instruments and mechanisms through which the GOC will protect natural parks and forests in Colombia.

The Program played an important role in preparing two key CONPES documents. **The Victims Reparations and Integral Attention CONPES** document sets out how the GOC will improve GOC service delivery to victims in accordance with the Victims Law. The CONPES document also establishes budget breakdown by service and an action plan to be executed by different GOC agencies. The USAID Public Policy Program is similarly supporting **the National Consolidation Policy CONPES document**, which will establish a budget breakdown and the roles/responsibilities of different GOC agencies in improving infrastructure and service delivery in areas previously controlled by illegally armed groups. The two CONPES are to be finalized and approved in Q6.

Quarter 6 Goals.

The USAID Public Policy Program's major Q6 challenge is to support the successful operation of the Victims Unit, Land Restitution Unit, and Consolidation Unit. Crucial issues include designing hiring processes, training personnel and developing a communications and educational strategy to inform the public of the assistance and reparations benefits made possible by the Victims' Law. The Program will work with USAID's Office of Vulnerable Populations in the design of this strategy.

Additionally, the Program will provide technical assistance to:

- 1) **Revise the Rural Development Bill**, which aims to improve access to land tenure and promote income generation and livelihoods through a rural development strategy with a regional focus. Additionally, at the Minister of Agriculture's request, the Program's technical advisors will draft a gender chapter to include in the bill and ensure that it also includes an environmental sustainability approach.
- 2) **Implement the Land Zoning and Planning Law (1454 of 2011)** that allows regional authorities to join forces to undertake infrastructure and other initiatives that promote regional development beyond the traditional departmental or municipal divide.
- 3) **Draft the *Contratos Plan* CONPES document** and implement decrees to coordinate funding of multiple GOC agencies and levels of government.
- 4) **Prepare departmental and municipal development plans** in coordination with governors and mayors.

In Q6, the Program will continue its flexible, dynamic implementation of the contract with USAID. This management strategy has allowed the team to respond swiftly to GOC and USAID priorities. The Program currently invoices approximately \$1M monthly and has executed \$8.5M of the \$22.4M contract. A contractual modification has been proposed to expand support for Victims, Land and Rural Development and Consolidation, the GOC's top priorities in 2012. Under the new contract, funds would be realigned to support the implementation of GOC policies in these three critical areas, and to strengthen the Victims, Consolidation and Land Restitution Units.

COMPONENT I: LAND POLICY

The USAID Public Policy Program continued to provide technical assistance in Q5 to the Ministry of Agriculture and Rural Development, the Office of the President, the National Planning Department, and *Instituto Colombiano de Desarrollo Rural* (INCODER). The Program's team supported development of the Land and Rural Development Law, the reform of INCODER and the Ministry of Agriculture and Rural Development (MARD), design of Land Formalization Pilot Programs to assess the newly developed "sweep methodology design," and creation of the Land Restitution Unit (LRU). These reforms are important milestones for the GOC objectives of: a) Formalizing and protecting the property of families with small landholdings; b) Reinstating property to victims of land seizure by illegally armed groups; c) Providing access to prime arable land through more efficient land markets and well-designed subsidies to poor landless farmers and conflict-affected populations; and, d) Designing a comprehensive rural development policy to generate sustainable livelihoods and income opportunities for restituted and other rural communities, including those living in Consolidation Areas.

In Q6, the Program will continue to build the momentum generated from GOC's new land and rural development-related initiatives, including consulting on the Land and Rural Development Law to be submitted to Congress in March 2012, implementation and startup activities of the newly-created LRU, startup of the Land and Water Planning Unit (UPRA), supporting the enactment of the decrees reforming INCODER, and reforming GOC Rural Income Generation Programs and subsidization schemes. We have front-loaded the Land Policy Component to be responsive to the existing windows of opportunity and political momentum created by the government to address land and rural development issues, and will work in coordination with the appropriate GOC entities, including MARD, the Ministry of Interior (MOI), Ministry of Environment and Housing (MOEH), *Departamento Nacional de Planeación* (DNP), INCODER, the Department of Social Prosperity (DPS), LRU, the *Instituto Colombiano Agustín Codazzi* (IGAC), Superintendence of Notaries and Registries (SNR), and the *Consejo Superior de la Judicatura* (CSJ).

Synergies with other components and USAID Programs

As land issues are cross-cutting and their resolution is fundamental to advancement in other technical areas, we carefully coordinate with other Program components, such as:

Component 2 – Access to Finance: Assisting the GOC reforming secured transactions and advising on improvements to land and property registries; supporting the development of innovative financial schemes to promote land acquisitions by landless farmers, IDPs and other conflict-affected populations. In Q6, the Land Component will work closely with the Finance Component to support GOC agriculture finance institutions. The reform will promote the expansion of financial networks to rural areas and the development of a more diverse offering of financial services that responds to the growing demand for agriculture finance in Colombia.

Component 3 – Policies Toward Conflict-Afflicted Populations: Supporting the implementation of GOC policies and programs designed to provide reparations to victims in aspects related to land restitution and income generation projects in rural areas; implementation of GOC policies toward Afro-Colombians and indigenous communities; and promoting the participation of conflict-affected populations in policy design and implementation.

Component 4 – Support for Decentralization and Improved Public and Economic Management: In Q6, ensure that the new GOC approach to Land and Rural Development is effectively incorporated in the assistance to be provided by the Decentralization Component to the institutional strengthening program. Also support other USAID programs that assist departmental and municipal governments in drafting development plans, ensuring land and rural development programs are incorporated in line with the new GOC policies. The Land Component also works closely with the Decentralization Component to ensure that the Consolidation Unit and National Consolidation Plan objectives coordinate effectively with MARD to bring GOC land rural development programs to consolidation zones.

Component 5 – Analyze current social security situation for rural workers and support the GOC, including a strategy on compliance with worker rights in land policy and the Rural Development Bill.

Component 6 – Environmental Policy: Implementation of the national bio-diversity plan; strengthening the SINAP; improving the legal and regulatory framework for land use management on indigenous reservations; and assisting in developing a REDD strategy for collective lands and *resguardos*.

MAJOR ACCOMPLISHMENTS

Support for Implementation of the Victims Law

The Victims Law issued June 10, 2011 ordered the Government to adopt all necessary measures to implement the new land restitution system within six months. The government had to assume this responsibility without adequate resources; international cooperation has become indispensable to supporting regulation and institutional readiness.

Creation of the Land Restitution Unit: The USAID Public Policy Program assisted the GOC in designing the LRU's organizational structure and establishing its internal procedures, personnel needs and job descriptions. The Program also assisted in drafting the decrees that contain LRU objectives and mandates, issued by President Santos on December 20, 2011 (Results and Activities, Section 1.1). The new LRU will work within the framework of the Victims' Law to address 360,000 cases of land seizure over the next 10 years. It is expected to restore land to 270,000 of these families in the next four years. The LRU's primary responsibility is to investigate and document land seizure cases and submit land restitution claims on behalf of the victims to the restitution judges and magistrates. During the first quarter of 2012, the GOC will inaugurate 11 regional land restitution offices; by year end, 17 offices will be operational in areas with high instances of land seizure and displacement. The LRU is important in terms of reparations, because it makes it possible to resolve land seizure cases in Colombia. Until deep-rooted land conflicts are resolved, the much of the country's land ownership will continue to be informal and de facto. Restitution alone will not solve victims' issues. Restitution must be done hand in hand with rural development, income generation and other reparations measures.

Land Restitution Action Plan: The USAID USAID Public Policy Program has supported MARD's Land Protection Program and LRU staff in developing a strategic action plan to be implemented in the next four years to meet the GOC target of restituting 270,000 land plots. The action plan draws on the Land

Restitution and Rural Property Information System – developed with support from the Program – to prioritize areas where the LRU will investigate and gather evidence in support of land restitution claims by victims. In developing the strategic action plan, the USAID Public Policy Program has supported a series of workshops between the LRU and the Victims and Consolidation Units to develop joint procedures to repair and return victims to their land plots, restore their property, and ensure they will never be subject to human rights violations again. As part of this effort, the Program also supported the development of security guidelines to manage the risks of LRU personnel and improve coordination with the Ministry of Defense to include security measures in the restitution process, contributing to safer returns.

The Draft Rural Development Bill submitted by MARD for Consultation with Afro-Colombian and Indigenous Communities. The USAID Public Policy Program supported MARD in drafting the Land and Rural Development Bill. The new bill, submitted to the MOI for consultation with Afro-Colombian and Indigenous communities, is comprehensive and outlines a new policy framework to promote rural development and improve the livelihoods of close to 11 million Colombians living in rural areas, many of which are vulnerable populations living in extreme poverty. Requested by Congress in the Victims Law, the bill complements the Victims Law by ensuring that victims and other vulnerable populations have access to GOC services and sustainable incomes to ensure their constitutional rights. The bill has four innovations of vital importance: (1) reform of agrarian law and procedures designed to strengthen the land tenure rights of small farmers and vulnerable populations, promote land markets, improve access to land for landless farmers and victims, and improve land use in rural areas; (2) a new approach to rural development designed to promote livelihoods in defined rural areas by promoting the provision of public goods, social services, and infrastructure in rural areas; (3) improve GOC technical assistance and producer and marketing services to improve income generation in rural areas.

RESULTS AND ACTIVITIES

I.1: Land Restitution Policies developed and implemented; GOC capacity to administer a land restitution program strengthened

As mentioned in the Major Achievements section, the LRU was created at the end of 2011. This institutional reform is supported by two regulatory decrees issued in late December and described below.

- *Decree 4801:* Establishes LRU structure – a General Director, four specialized directorates to address legal, social, ethnic and cadastral issues, and several regional directorates that will be determined by the national government according to needs. The Social Directorate is charged with ensuring a differential focus (different types of victims are treated differently i.e. women, kidnapped, displaced) in land restitution.
- *Decree 4939:* Establishes LRU personnel structure: – 503 employees based in Bogotá and 17 regional offices.

Decrees 4801 and 4939 allow MARD to create the main administrative body of the land restitution system mandated by the Victims' Law.

Other regulatory decrees issued this quarter involving land restitution include:

- *Decree 4829*: Regulates the Land Restitution Chapter of the Victims' Law in order to implement the Seized and Abandoned Land Registry, the main instrument for monitoring seized, abandoned and restituted lands. Establishes the procedures for admitting requests from the Registry, regulates third-party participation, and defines mechanisms to guarantee victims' participation in the registration process. It also defines the norms for compensation payments ordered by judges, debt relief associated with restituted properties, and rural housing subsidies.
- *Ethnic decree for the implementation of the Victims Law*. This was reported in Q4 when the decree was drafted, however, the decree was signed during Q5.

Performance Standards Achieved:

- Three regulatory decrees (4801, 4939 and 4829).
- One institutional reform (LRU created).
- One strategic plan (for the LRU).
- Three workshops (strategic planning for the LRU).
- One job description manual (included in the LRU technical study).

1.5: Improved land access and use

As mentioned in the Major Achievements section, the expert group delivered the final draft of the Rural Development Bill to the Minister of Agriculture and Rural Development the first week of December. After review, the Minister requested improvements related to technical assistance and trade and the environment, particularly climate change, as well as inclusion of a chapter on gender in the draft law. In late December, the bill was presented to ethnic communities for previous consultation.

The Rural Development Bill contains two books. The first includes all chapters related to the Law's general framework and related public policies, the second contains the instruments required for the land policy implementation.

To complement this result, the Program provided technical assistance in the design of an explanatory memorandum of the bill.

Performance Standards Achieved:

- One Draft of the Rural Development Bill.

1.6 Lands of Internally Displaced Persons Protected

As part of LRU strategic planning, the Program held workshops with relevant public officials and civil society, drawing lessons learned from participants to improve procedures and strengthen institutional reform.

Performance Standards Achieved:

- Workshop with Victims (November 19).

1.7 GOC's Rural development policy adjusted, according to updated regulatory framework and improving management of key government services



Workshop to discuss Rural Development Bill. Bogotá, October 2011.
Photo: USAID Public Policy Program

The action plan for the Montes de María Rural Development Area has been drafted, with the involvement of INCODER, DNP, and local and regional entities.

In the last quarterly report, we announced that the strategic plan and technical studies for INCODER's reform would be completed in Q5. While progress on these studies and draft decrees has been made, a final version of the decrees has not been approved; the Director of this Institution is committed to ensuring that reform responds to the real needs of the sector. INCODER is preparing its strategic reform taking the Rural Development Bill into account.

Performance Standards Achieved:

- One Workshop (held at ICP to discuss the Rural Development Bill).

I.8 Land Policy Monitoring and Communications

In Q5, the Land Component produced a Year-in-Review intelligence report to inform USAID about program and GOC advances in the areas of restitution, land formalization, rural development and sustainable livelihoods, consolidation, victims, financial reform and security over the past year as well as 11 additional weekly intelligence reports covering these topics. The component also produced three sets of institutional maps on restitution, formalization and rural development to share with USAID and their operators in the field, allowing USAID's field-based programs to directly support rural populations (including victims and ethnic minorities) in land restitution, formalization of property rights and promoting rural development through the creation of sustainable livelihoods.

Performance Standards Achieved:

- 11 weekly reports, containing updates on the Component's activities, key events and news.

Additional Deliverables

- Year in Review Land and Livelihoods Report.
- Income Generation Institutional Map.
- Land Restitution Institutional Map
- Land Formalization Institutional Map
- Support for creating indicators within USAID.



Launch of the Property Formalization Program in Popayan, December 2011. Photo: Ministry of Agriculture and Rural Development

CHALLENGES:

While the program is supporting the timely creation of the LRU, one main challenge is coordinating its functions with other entities that must address victims' issues. Providing security to victims is a high priority. To improve coordination between the LRU and MOD, the USAID Public Policy Program will continue to help design coordination procedures between the two agencies.

Another major challenge is the coordination of multiple land restitution processes being investigated by the LRU, the Prosecutor General under the Justice and Peace Law, and administrative processes managed by INCODER. There is a need to establish a protocol to determine how land claims are integrated under the LRU, evidence gathered by different agencies is shared to support victims' claims, and cases are filed to land restitution magistrates. Although the Victims' Law gives the restitution judge the right to decide the case, in some cases, other processes (e.g. Justice and Peace or Administrative) may be more appropriate. The LRU may play an important role in channeling cases to the most appropriate processes.

After restitution, the GOC must ensure sustainable livelihoods and income opportunities for restituted victims to ensure that they can fully enjoy their restituted rights. It is expected that the passage of the Land and Rural Development bill, being revised by MARD, will help overcome this challenge. Land access and agricultural policy instruments are being reformed in order to enable a regional approach to rural development and the creation of sustainable income generation initiatives in rural areas.

The institutional reform will redefine the functions and responsibilities of MARD and INCODER. The Program is helping to define new roles and responsibilities.

SIXTH QUARTER PRIORITIES

The primary challenge currently facing the GOC is addressing security challenges which could hinder restitution. In order to do this, the GOC must go beyond providing direct protection to victims and their leaders, and scaling up police presence. The GOC must provide a comprehensive security effort to investigate and dismantle the structural ties that illegally armed groups have with corrupt government officials and armed forces. It must be matched by a similar ambitious effort to strengthen the ability of the judicial branch to administer justice effectively. While it is not the job of the LRU to ensure security, it must evaluate the security situation with regard to land restitution. The Program is supporting this endeavor by hiring an expert to begin a security study for land restitution.

The LRU must prepare itself to operate by quickly hiring the necessary staff to implement the Land Restitution Chapter of the Victims' Law. Over the next six months, the LRU will need to increase its staff from 120 to nearly 500 individuals. The USAID Public Policy Program will need to provide strategic support to the personnel selection and hiring processes.

Inter-institutional coordination remains a major challenge in Q6 for implementation of the Victims' Law. Specifically for those who received restitution benefits, there are other needs that must be addressed by other institutions. For example, return and other assistance must be coordinated with the DPS.

To better support the emphasis the GOC has placed on rural development, respond to the Victim's Law requirements, and to meet the new livelihoods and income generation guidelines created by the Rural Development Law, INCODER is undergoing a profound institutional reengineering and reform of its processes and procedures. The reform includes hiring new staff, training staff, and establishing a new INCODER Fund to support productive projects, agribusinesses and value chains.

The Rural Development Law will face other challenges that will be supported by the Program, such as helping the GOC elaborate on a CONPES to improve land and water use and prevent flooding. The USAID Public Policy Program will also support a policy document on value chains and guidelines for rural income generation, and the inclusion of gender, climate change, trade and technical assistance issues in the Land and Rural Development Bill.

The main challenge facing the GOC for agriculture and rural development is that the Rural Development Law passes the previous consultation process and be approved by Congress. The law is expected to pass in Congress before September 2012.

The Program will address the crucial matter of gender issues, providing technical assistance to the GOC, particularly in rural development and land restitution for victims. Disparity in land ownership between men and women is a basic problem faced by Colombia. According to the United Nations, men are nearly three times as likely to own property and twice as likely to possess property in Colombia. This disparity affects Colombian women’s ability to receive subsidies for productive projects, bank loans and other assistance to improve their quality of life. The Rural Development Law must include mechanisms and institutional reforms to allow women to access income generation programs and productive projects in rural Colombia.

The most important technical reform that the Program will address in terms of gender equality for land formalization is ensuring that the GOC has the proper tools to title property to either men or women, rather than only men, in households having both a male and a female adult. In terms of restitution, the Program will provide technical assistance to the GOC to create affirmative action for women, for example in the case of female householders.

SUMMARY OF PERFORMANCE STANDARDS

Task	Milestones	Performance Standards
1.1.2 Assist in drafting land restitution and compensation legislation	Document w/ draft decree implementing the new legal framework.	- 1 regulatory decree (Decree 4829).
1.1.4 Support land restitution pilot programs	Reform of CRRBs; strengthen regional judicial adjudication processes; INCODER. Draft document strengthening land restitution institutionalism.	- 2 regulatory decrees (Decree 4801, 4939). ¹ - 1 manual with internal procedures - 1 institutional reform (LRU created). - 1 strategic plan. (For the LRU). - 3 workshops (Strategic Planning for the LRU)
1.5.1 Assist the GOC in increasing land ownership by vulnerable populations.	Draft General Land and Rural Development Law	- 1 Draft of the Rural Development Bill. - 1 Explanatory Memorandum of the Rural Development Bill.

¹ Structure and staff Decrees for the creation of the Land Restitution Unit.

Task	Milestones	Performance Standards
1.6.1 Assist the GOC in the strengthening of the system of protection of land property rights	Workshop to draw lessons on institutional reform.	- I Workshop (held at ICP to discuss the Rural Development Bill) - Workshop with Victims.
1.7.1 Assist the GOC restructuring MARD according to new rural development framework	With former Ministers and other stakeholders that feed the Rural Development policy	- I Workshop (held at ICP to discuss the Rural Development Bill)
1.8.1 Strategic communication	Write weekly reports with updates, events, news and talking points concerning the Land and Rural Development component	- I I weekly reports, containing updates on the Component's activities, key events and news.

COMPONENT 2: ACCESS TO FINANCE

Increased access to credit, savings and insurance in Colombia is crucial for the successful implementation of policy priorities for the GOC, such as the Victims Law, the National Consolidation Plan and the Land and Rural Development Law. Access to credit is essential for the victims with restituted land to finance income generation startups and make full use of their restituted properties. Access to financial services also contributes to the recovery of regions that were under control of illegally armed groups by allowing communities to enjoy the presence of financial institutions and new financial services, including payments and mobile banking. There is a similar need to expand financial services in underserved rural areas and improve agriculture finance offerings to allow small-scale farmers to expand agricultural activities and generate licit livelihoods.

The USAID USAID Public Policy Program aims to support the government objectives of financial services expansion toward rural and low-income populations as financial inclusion through innovative distribution channels to reach populations in rural and remote areas becomes a crucial requirement. The GOC is currently developing and implementing policies to support sustainable livelihoods, expand financial networks in consolidation areas and make available financial instruments tailored to the needs of victims and vulnerable populations. Access to financial services is critical to achieving results in the land and rural development, victims and consolidation pillars, as it promotes sustainable livelihoods.

In consequence, the Program supports the GOC in implementing pending key reforms to improve access to finance. To build support for reform priorities and assist the GOC during the reform design stage, it will support international seminars and workshops with GOC officials, Congress, magistrates, and civil society organizations on best practices in collateral reform, interest rate caps, and mobile financial services. The Component team will provide assistance and background for discussions on policy orientation, disseminate information on international experiences and best practices, transmit international experiences, and disseminate lessons learned in other countries. The Component team will provide assistance on legal reforms and implementing decrees, and continue to support the design and implementation of *Banca de las Oportunidades*, *Banco Agrario*, and other GOC agencies.

Synergies with other components and USAID Programs: The Access to Finance component supports and facilitates the results of the three pillars of the USAID Public Policy Program, as well as USAID regional programs and ACIP:

Land and rural development:

- Assist the GOC in reforming agriculture finance policies and institutions to promote the expansion of financial networks to underserved rural areas and expand the range of financial services including mobile banking and agriculture finance for small farmers and vulnerable populations.
- Assist the GOC in developing the financial products established in the Victims Law to provide victims with debt relief and fresh access to finance. Among the financial services promoted are micro agriculture loans, village banking and micro-insurance.
- Promote the expansion of financial networks, including low-cost distribution channels like bank correspondents and mobile financial services.
- Long-term financing options for agricultural production; agricultural insurance; crop securitization schemes and venture capital for the rural sector.
- Stimulate agriculture lending through reforms to the collateral regime and interest rate caps.

Policies toward victims:

- Promote access to financial services for victims and other conflict-affected populations.
- Design and implement policy instruments to increase the supply of credit, insurance, payments and transfers to vulnerable populations.
- Improve access to finance for Afro-Colombians and indigenous populations through support to Banca de las Oportunidades (BDO) and the provision of financial instruments that meet the needs of these groups.
- Promote savings through support to BDO in the design and implementation of incentives for new financial products such as savings “self-help groups.”

Consolidation:

- Promote the expansion of financial networks and financial products in consolidation municipalities.

USAID regional programs and ACIP:

- Support CELI Montes de María, CELI Central, CELI North-South and ACIP in designing and implementing microfinance programs for expanding access to financial services in rural areas and for Afro-Colombian and indigenous populations.

Counterpart: Ministry of Finance (MOF), Financial Superintendence (FS), *Banca de las Oportunidades (BDO)*, DPS, MARD, *Banco Agrario (BA)*, *Finagro*, MOI, Societies Superintendence, Ministry of Trade and National Planning Department (NPD).

MAJOR ACCOMPLISHMENTS

The USAID Public Policy Program supported the design and implementation of a pilot program to pay 9,666 beneficiary mothers of *Familias en Acción* their conditional welfare subsidy payments via mobile device. The pilot is being implemented in 16 municipalities, three in consolidation areas (Chaparral-Tolima, Tumaco-Nariño, and Puerto Asís-Putumayo). In Q6, the USAID Public Policy Program will assess the impact of the use of mobile banking to draw lessons to improve payments through mobile devices for the remaining 2,500,000 families that also receive conditional welfare subsidies.

The subsidies of 2,200,000 mothers and their families are currently deposited into savings accounts. However, 300,000 mothers living in rural areas do not receive payments in bank accounts due to the absence of bank branches in their areas. Many are in consolidation zones located in villages that are several hours away from the closest bank branch. To reach these families and reduce the cost of moving cash to areas where security risks remain high, the GOC decided to make full use of mobile banking and take advantage of the high penetration of mobile phones in Colombia². Since August, three payments have been made to 5,259 mothers in eight municipalities³ by two banks, *Davivienda* and *AvVillas*. In November, one payment to an additional 4,407 beneficiaries in eight municipalities⁴ was made by *Banco Agrario* and *Banco Popular*.

Progress in financial inclusion policy through mobile phones, plastic cards, ATMs, Point of Sale Terminals (PST) and banking agents offers a historic opportunity to provide financial services to the approximately 10 million people that live in rural areas having limited access to finance.

In Q5, the GOC prioritized the promotion of these technological advances and developed two key regulations:

- The E-Money and Financial Inclusion Draft Bill: provides the requirements to issue E-Money; regulates E-payments and E-transactions, and allows operators other than banks and financial institutions to offer Mobile Financial Services. Will be presented to Congress in March.
- The E-Deposits Decree⁵ dictates the rules related to E-deposits. It complements the draft law mentioned above and establishes the required regulatory framework to promote payments, transactions and deposits through electronic mechanisms.

The Secured Transactions Regime Draft Bill's objective is to facilitate access to credit for SMEs, small producers and micro entrepreneurs through establishment of a high-end secured financing regime. The draft bill expands movable property that can be used as collateral (inventory, equipment, crops, intellectual property and consumer goods), establishes a registry to follow up on claims against movable property so that they are publicly recorded and easily accessed, and expedites the process of enforcement of guarantees, providing mechanisms for the effective enforcement of rights. The bill will be presented to Congress in March.

Three policy instruments are being developed to promote the expansion of microinsurance, microsavings and promote savings:

- Microinsurance: The USAID Public Policy Program advised BDO on the redesign of a life microinsurance product targeted to the needs of the "Red Unidos" population. As a result, BDO opened a call for bids to design and implement a pilot to provide life microinsurance to 50,000 families that are part of "Red Unidos"⁶, which will cover death of a householder. Insurance company *Positiva Seguros* won the bid in December and will begin the pilot in several municipalities in 2012, including Buenaventura, which is a consolidation area with an Afro-

² Colombia has a population of 45 million; there are 44 million mobile phones.

³ Cali, Ríoacha, Apartadó, Medellín, Floridablanca, Cartagena, Chaparral and Barrancabermeja.

⁴ Puerto Asís, Santander de Quilichao, Tumaco, Florencia, Villavicencio, Santa Marta, Carepa and Bogotá.

⁵ Decree # 4687 issued December/11 by MOF.

⁶ Call for bids #45 to "Contract an Insurance Company to Develop a Special Microinsurance Product for Members of Households that are part of the "Red Unidos Families," October 21, 2011.

Colombian population. The pilot will provide information about the rate of claims and allow for the testing of product and back-office procedures in rural sectors. It was approved by Samuel Azout, Director of the Agency for Overcoming Poverty.

- **Microsavings:** The Program supported BDO in developing an incentive to promote microsavings products within financial institutions. The incentive consists in providing technical assistance in product design and implementation through an international expert with experience implementing these products in other countries. Though assistance is free, the institutions must compete for it, and commit to achieving microsavings goals (in number of clients). BDO opened a call for bids to hire an international expert; the award will be announced in March⁷.
- **Savings Culture:** BDO is developing a project to promote savings culture in 12 Colombian municipalities with 40,000 mothers, beneficiaries of *Familias en Acción* since 2010. It combines three types of interventions: monetary incentive, financial education, and a combination of both. It also includes an impact evaluation component that will define the most appropriate intervention to implement. The Program supported BDO in evaluating results. BDO opened a call for bids to run a pilot; the award will be announced in February.

Two international seminars were supported to discuss rural microfinance and new banking agent models:

- **Rural Opportunities Program Seminar:** November 8-9. The results and perspectives for the MARD Rural Opportunities Program were discussed, since its beginning in 2004, as well as the international experiences of Banrural (Guatemala) and Banco do Nordeste (Brazil), which were presented as successful examples of financing for rural sector that were both adequate and profitable⁸. An important unattended rural market was discovered in Colombia – a potential opportunity for financial institutions – due to lack of financial networks and infrastructure, security problems, lack of financial products designed for the rural population, lack of funding for credit (for small regional microfinance operators), interest rate caps, and an inadequate secured transactions regime. The seminar was attended by agricultural associations, microfinance operators, GOC and international experts.
- **New Banking Agents Models:** On November 24 USAID, in alliance with IFC, held an international seminar on new models and liquidity management in banking agents. The objective was to learn from Kenya's mobile banking revolution, M-PESA, moving “unbanked” citizens into the formal economy. Participants also learned how banking agents have supported the development of mobile financial services in other countries, such as cash-in and cash-out points. The Seminar was attended by 70 executives from the Colombian finance sector.

Two workshops were conducted:

- **Implementation of a savings culture:** BDO began a pilot program in 2010 to promote a culture of savings in 12 Colombian municipalities with 40,000 mothers who are beneficiaries of *Familias*

⁷ Call for bids #46 “Terms of reference for hiring a consultant/technical assistant to design and implement microsavings products in financial intermediaries,” December 1, 2011.

⁸ *Banrural* has more than 4 million rural clients. *Banco do Nordeste* has disbursed more than 1 million microcredits in the last 5 years.

en Acción. First-year results were presented to determine the next set of activities, which includes a survey of the mothers. The workshop was attended by high-level officials from *Fundación Capital*, *Banca de Oportunidades*, the Presidential Office for Social Prosperity, *Banco Agrario* and DNP.

- Implementation of Self-managed Savings and Credit Groups: The Program is assisting BDO in designing a technical assistance incentive to increase the number of operators trained in self-managed savings groups in order to promote a culture of savings among vulnerable populations, Afro-Colombians and indigenous peoples. To explain the potential of the methodology and the benefits of receiving implementation assistance, a workshop was held on December 5 with the assistance of 24 NGOs/Foundations. 15 NGOs/Foundations sent letters of interest to BDO.

RESULTS AND ACTIVITIES:

2.1: Guarantee Requirements and Collateral Regime Reformed.

In Colombia, limited types of property can be used as collateral. There is no registration system with information on the status of collateral, and the mechanisms to enforce collection are costly and take years. As a result, SMEs have limited access to credit; Colombia has a poor rating in this area according to the *Doing Business Report* prepared by the World Bank. International experience has shown that secured or asset-based financing will:

- Encourage the loaning of private capital to create new businesses and expand existing businesses.
- Increase credit security, reduce credit risk, and consequently decrease lenders' disincentives to issue more loans with better terms.
- Provide lenders with an alternative to recover the loan if the borrower fails to perform.

The objective of the reform is to facilitate access to credit for SMEs, small producers and micro entrepreneurs through the establishment of a modern secured-financing regime. The reform has three components:

- Expand the list of items that can be used as collateral to include: inventory, equipment, crops, intellectual property and consumer goods.
- Create a Movable Property Collateral Registry: Aside from vehicles, movable property lacks a registry where lenders can see loans that are backed by movable property. If recorded, financial institutions would be more willing to use movable property as collateral.
- Expedite the process of enforcing guarantees: provide mechanisms for the effective enforcement of lender rights.

A commission of experts established by the GOC has completed formulation of the Secured Transactions Regime bill. The Program and the IFC presented joint comments on the draft to the GOC in November. The GOC will present the draft bill to Congress in March.

Performance Standards Achieved:

One Law: Secured Transactions Regime draft bill. The bill's objective is to facilitate access to credit for SMEs, small producers and micro entrepreneurs through the establishment of a modern secured-financing regime. The draft bill expands the movable property, (inventory, equipment, crops, intellectual

property and consumer goods) that can be used as collateral, establishes a registry for claims against movable property that is publicly recorded and easily accessed, and expedites the process of enforcing guarantees, providing mechanisms for the effective enforcement of rights. The bill will be presented to Congress in March.

The Program also assessed the Financial Superintendence's regulation of new financial channels, particularly, the use of mobile phones for conducting financial transactions. The Program advised against modifying Circular 52's section on banking technologies that would ban the use of the USSD, a mobile banking technology that can allow individuals with old mobile phone technologies to make financial transactions over their devices. *Banco Agrario* employs this technology in the *Familias en Acción* mobile banking pilot; to date, all transactions were successful and did not experience security issues.

2.2: Reform of Interest Rate Caps.

The GOC has capped the annual interest rate that financial institutions can charge for microcredit and consumer loans. This regulation has led to wafer-thin margins for small loans in distant rural areas. Because of this, interest rate caps discourage the expansion of financial networks to remote areas and the disbursement of credits to lower-income populations, hampering their ability to harness economies of scale and reduce transaction costs. Capping rates also deters new entrants, reduces competition and has the perverse effect of driving more poor people into the arms of loan-sharks due to restricted access to microcredit. For these reasons, one of the MOF's priorities is to review the methodology for calculate interest rate caps with the goal of expanding access to credit in rural areas. The Program is supporting the GOC by:

- Developing a study on the effect of interest rates caps in Colombia, which is being conducted by *Fedesarrollo*.
- Providing recommendations about the regulatory developments required to modify interest rate caps.
- Supporting the organization of workshops to generate advocacy in favor of the reforms.

During Q5, the Program, through *Fedesarrollo*, presented the first report with the advances of the study in October and a preliminary final report in December. The study's primary finding is the importance of modifying the formula to determine interest rate caps in order to more adequately reflect the costs and risks of lending to the population at the base of the pyramid.

2.3: Taxes and Cost of Financial Services in Rural Areas Reduced.

In 2006, financial services coverage reached only 71% of the municipalities in Colombia. For this reason, one of the previous administration's priorities was to expand financial networks through innovative and low-cost channels. The USAID MIDAS Program supported this initiative by providing technical assistance to the MOF and the Financial Superintendence in the implementation of the regulation and to *Banca de las Oportunidades* for the implementation of policy instruments. The greatest achievement was the approval and promotion of Banking Agents (CNBs) and mobile banking as channels to expand coverage. Thanks to the implementation of CNBs, financial coverage increased in 2010 to 99% of the municipalities in Colombia. Some banks implemented CNBs to decongest their branches and expand coverage to nearby areas; other banks, especially *Banco Agrario*, expanded their coverage to remote and less populated municipalities, supported by the incentives provided by *Banca de las Oportunidades* for the implementation of 184 CNBs in these municipalities.

Despite these advances, the CNB and mobile banking channels are still in a nascent stage compared to other countries like Brazil and Kenya. For this reason, USAID, through the USAID Public Policy Program, is advising the GOC in promoting the development and spread of these distribution channels in order to support financial inclusion and formalization. The major areas of Q5 technical assistance were:

- Development and implementation of regulation and policy instruments.
- Design and implementation of mobile banking pilots.

Development and implementation of regulation and policy instruments: Two regulations were developed – the E-money draft law and the E-Deposits decree. In Q5, the Program continued guiding the discussions of the Committee formed by the MOF, FS, Central Bank and MINTIC about the issues to be regulated, and carried out regular meetings with the Committee in October, November and December. As a result, the Decree was issued⁹ and the draft law is ready. The draft law was presented in December to FOGAFIN; final discussions will be held in Q7 to present the law to the Congress in March.

Design and implementation of mobile banking pilots: The payment of conditional cash transfers (CCTs) through the financial system builds financial literacy skills and provides the population receiving subsidies the ability to access other financial services like savings, credit and insurance, which contributes to improving their livelihoods and facilitates poverty reduction. For this reason, the USAID Public Policy Program proposed that *Acción Social* and *Banca de las Oportunidades* implement a mobile banking pilot that issued subsidy payments to beneficiary mothers of *Familias en Acción* via their mobile phones. The objectives of the pilot are to:

- Test whether mobile banking can serve as a means of paying subsidies.
- Evaluate the electronic savings account and E-Wallet products developed for low-income populations.
- Determine the advantages and disadvantages of the mobile channel as an alternative for financial inclusion.
- Determine their acceptance and use by beneficiaries.
- Collect information for the new call for bids for payment of subsidies.
- Support the policy and regulatory discussions of the GOC's financial inclusion and formalization priorities.

During Q5, the Program evaluated the three payments made since August 2011 to 9,524 mothers, beneficiaries of *Familias en Acción*, through *Davivienda*, *AvVillas*, *Banco Popular* and *Banco Agrario*. The evaluation was made through a telephone survey of 1,201 mothers. The results showed that:

- 100% of the mothers reported having been trained on the product's use.
- After the second payment, 87% of the mothers understood the *AvVillas* product, 91% in *Davivienda*.
- 84% of mothers were able to make withdrawals in the case of *AvVillas* and 92% in *Davivienda*. These percentages improved between the first and second payment.
- Satisfaction with mobile phone payments when compared to subsidy deposits in bank accounts was quite high: 81% for *AvVillas* and 92% in the case of *Davivienda*.
- 60% of mothers reported saving time and transport.

⁹ Decree # 4687 issued in December/11 by the MOF.

Performance Standards Achieved:

One mobile banking pilot program: 9,666 mothers, beneficiaries of *Familias en Acción*, received their subsidy through mobile devices in 16 municipalities, three of them in consolidation areas (Chaparral-Tolima, Tumaco-Nariño and Puerto Asís-Putumayo). *Familias en Acción* is a GOC program that provides conditional welfare subsidies of US \$60 on average to 2,500,000 families every two months. The subsidy is deposited in the savings account of 2,200,000 mothers. The remaining 300,000 live in rural areas without access to a bank branch and must travel long distances to receive the subsidy in cash. To reach those families, the GOC decided to make payments through mobile phones, due to their high penetration in Colombia.¹⁰ Three pilot payments to 5,259 mothers in eight municipalities¹¹ have been made since August by *Davivienda* and *AvVillas*; one payment to 4,407 beneficiaries in eight additional municipalities¹² was made in November by *Banco Agrario* and *Banco Popular*. This pilot offers the GOC feedback on how to implement mobile financial services and helps financial institutions by testing this new financial network.

- One Law: E-Money and Financial Inclusion Draft Bill. Provides the requirements to issue E-Money; regulates E-payments and E-transactions, and permits operators – different from banks and financial institutions – to offer mobile financial services. The bill will be presented to Congress in March.
- One Decree/Regulation: E-Deposits Decree #4687, issued by the MOF in December 2011, dictates E-deposit rules. This decree complements the draft law mentioned above and establishes the required regulatory framework to promote payments, transactions and deposits through electronic mechanisms.
- One Seminar: New Banking Agents Models. On November 24, USAID in alliance with IFC, held an international seminar about new models and liquidity management in banking agents. The objective was to learn from Kenya's mobile banking revolution M-PESA, which gave the “unbanked” masses access to financial services and brought them into the formal economy. The seminar also demonstrated how banking agents have supported the development of mobile financial services in other countries as cash-in and cash-out points. The seminar was attended by 70 high officials from the Colombian financial sector.

2.4: Small Savings Collection Encouraged.

The USAID USAID Public Policy Program assisted in the design of a savings pilot program in 12 municipalities with 40,000 beneficiary mothers of *Familias en Acción*. The pilot includes financial education in three municipalities (Timaná, El Zulia and Ayapel), a monetary incentive to mothers who saved the most in the municipalities of Yacuanquer, Samaná and San Andrés de Sotavento, a combination of both financial education and monetary incentive in Necoclí, Gigante-Huila and Puerto López and three control municipalities where there is no intervention (Ciénaga de Oro, Consacá, Tibú).

During Q5, the Program helped BDO design the evaluation process for the pilot results. The evaluation will be carried out by a consultant hired by BDO.

Additionally, the Program is now assisting in evaluating the pilot program that will be implemented on large scale by DPS in Quarter 9. Currently, subsidies are paid by *Banco Agrario*, but this contract will

¹⁰ Colombia has 45 million populations and there are 44 million mobile phones.

¹¹ Cali, Riohacha, Apartadó, Medellín, Floridablanca, Cartagena, Chaparral and Barrancabermeja

¹² Puerto Asís, Santander de Quilichao, Tumaco, Florencia, Villavicencio, Santa Marta, Carepa and Bogotá.

expire in the coming months; the DPS must select a financial institution to continue making these payments. The Program assisted designing a new call for proposals from financial institutions on payments of conditional welfare subsidies and savings incentives.

Performance Standards Achieved:

One Policy Instrument: Savings Culture. BDO is developing a pilot project to promote savings culture in 12 municipalities in Colombia with 40,000 mothers, all beneficiaries of *Familias en Acción* since 2010. The pilot employs three types of interventions: monetary incentive, financial education, and both, and includes an impact evaluation component that will define the most appropriate intervention for roll out. The Program supported BDO in designing the evaluation of the pilot's results. BDO opened a bid for the pilot's evaluation that will be awarded in February¹³

- Workshop in implementation of a savings culture: BDO is developing a pilot project to promote savings culture in 12 municipalities in Colombia with 40,000 mothers, beneficiaries of *Familias en Acción*, since 2010. The results of the pilot's first year of implementation were presented in the workshop in order to determine the next activities that need to be carried out for successful implementation. The next step will be to evaluate the pilot results through a survey of the mothers involved. The workshop was attended by high officials from *Fundación Capital*, *Banca de Oportunidades*, the Presidential Office for Social Prosperity, *Banco Agrario* and DNP.

2.6: Banco Agrario modernized.

Banco Agrario plays a key role in providing access to finance in rural Colombia and to agriculture finance in general. It expands access to financial services by making available products that are suitable for informal and low-income rural populations through over 700 branches. However, its current legal nature and operational procedures create bottlenecks and weaknesses must be resolved to make the bank efficient and to have a greater impact in the rural sector.

The Program provided *Banco Agrario* technical assistance in developing a strategy and an action plan to improve the bank's governance in order to transform it into a competitive institution with great impact in the agriculture financing and rural development.

The quality of the bank's microcredit portfolio deteriorated in 2011, reflected by the increase of the Portfolio at Risk (PAR30) which reached 10%. The bank had to write off bad debt at the end of the year. In order to prevent further portfolio deterioration, the Program advised the bank in Q5 to make a diagnosis, determine the causes of portfolio deterioration, and design an emergency plan to correct them. This plan will be presented to the bank in January.

The Program also presented alternatives to discuss the strategic expansion of the products targeted to informal and vulnerable populations, like agricultural and rural microcredit, microsavings and microinsurance

2.7: Increased supply of credit, insurance, payments and transfers to vulnerable populations.

One of the GOC's priorities is expanding access to financial services for populations that are in extreme poverty (Red Unidos) or vulnerable (mainly victims, Afro-Colombians and indigenous groups). For this reason, the USAID Public Policy Program is providing technical assistance to *Banca de las*

¹³ Convocatoria # 47 "Términos de referencia para contratar el primer seguimiento de la evaluación de impacto del piloto del programa de promoción de la cultura del ahorro"; Diciembre 23 de 2011.

Oportunidades, Acción Social and the High Commissioner for Prosperity in developing policy instruments and incentives to promote the implementation of financial products specially designed to meet the needs of these populations. During Q5, the USAID USAID Public Policy Program provided technical assistance in:

- Developing microfinance regulations and guidelines.
- Developing a Financial Inclusion Report.
- Promoting microsavings
- Promoting savings and credit groups.
- Revising the regulation about victims.

Microfinance regulation and guidelines: Changes in the microfinance industry, mainly the conversion of the largest microcredit NGOs into regulated financial institutions, have made the implementation of risk monitoring guidelines specific to microcredit a priority for the Financial Superintendence (FS). During Q5, the Program analyzed and made comments on the study "*Comparative analysis of regulatory and supervisory best practices in Colombia and internationally,*" carried out by the Andean Development Bank (CAF), about the relevance and application of the recommendations contained in the study for the case of Colombia. These recommendations will be discussed with the FS in January.

Financial Inclusion Report: During Q5, the Program advised the FS and BDO by reviewing the proposed indicators to measure the advances in the implementation of the financial inclusion policy as well as the contents of the Financial Inclusion Report. This report is an important policy instrument that will enable the GOC to have information to measure the impact of the financial inclusion policy, monitor its implementation, and compare Colombia with other countries using internationally comparable indicators. The report is a tool for making policy decisions. This activity will continue during the first quarter of 2012, when the first report will be published.

Promotion of Microsavings: continuing to support BDO in developing a policy instrument for granting technical assistance to banks and finance companies for the development of microsavings products suitable for low-income populations and microentrepreneurs, the Program recommended that BDO focus on banks, which capture 98% of the public's savings. Likewise, with the opening of the Call #4614, the Program researched potential international microsavings experts to ensure participation of the best international experience in the bid, and provided answers to their questions.

Promotion of Savings and Credits Groups: During Q5, the Program supported BDO in a workshop on Savings and Credit Groups in Bogotá with 24 potential NGOs/Foundations, and a meeting in Cartagena with another five potential organizations. It also coordinated with USAID regional programs by inviting organizations with operations in the CELI regions to achieve synergies and increase the possibility that these organizations be selected to receive the technical assistance that will be provided by BDO in the implementation of this methodology. As a result, several organizations with a presence in the CELI regions sent letters indicating interest in receiving the assistance.

Regulation to Facilitate Debt Relief and Access to New Credit for Victims: In Q5, the Program reviewed the latest version of the proposed policy guidelines and decree regarding debt relief and access to new credits for victims. It proposed modifications and the inclusion of new articles, which were sent to the MIJ in October.

¹⁴ Convocatoria # 46 "*Términos de referencia para la contratación de un consultor / asistente técnico para el diseño e implementación de productos de microahorro en intermediarios financieros,*" December 1, 2011.

Performance Standards Achieved:

Two Policy Instruments:

- **Microinsurance:** The USAID Public Policy Program advised BDO in redesigning a life microinsurance product targeted to the needs of Red Unidos populations. As a result, BDO opened a bid to design and implement a pilot to provide life microinsurance for 50,000 families belonging to Red Unidos 15, which will cover the dependants in the case of death of the head of household. Insurance company *Positiva Seguros* was awarded the bid in December and will begin the pilot in 2012 in several municipalities, including Buenaventura, a consolidation municipality with Afro-Colombian population. The pilot would provide information about the rate of claims, and will allow testing product and back office procedures in rural areas. The pilot was approved by Samuel Azout, Director of the Agency for Overcoming Poverty.
- **Microsavings:** The Program supported BDO in devising incentives for financial institutions to develop microsavings products. BDO will provide technical design and implementation assistance via an international expert with a track record of successes implementing these products in other countries. The technical assistance is free, but the institutions must compete for it and commit to target numbers of microsavings clients. BDO opened a bid to hire the international expert, which will be awarded on March 16.

One seminar and one workshop:

- **Seminar on the Rural Opportunities Program:** Held November 8-9 to discuss the results and perspectives of the MARD Rural Opportunities Program since its inception in 2004, and to learn from the international experiences of *Banrural* (Guatemala) and *Banco do Nordeste* (Brazil) as successful examples of financing the rural sector adequately and profitably.¹⁷ The main conclusion was that Colombia has a large unattended rural market due to lack of financial networks and infrastructure, security problems, lack of financial products that meet the needs of rural populations, lack of funds to lend (for small regional microfinance operators), interest rate caps, and an inadequate secured transactions regime. This rural sector could become a great opportunity for financial institutions. The seminar was attended by agricultural associations, microfinance operators, GOC and successful international experiences.
- **Workshop on the Implementation of Self-managed Savings and Credit Groups:** The Program is assisting BDO in designing a technical assistance incentive to increase the number of operators trained in the methodology of self-managed savings groups in order to promote a savings culture among vulnerable populations, Afro-Colombians and indigenous people. To explain the methodology and benefits of receiving this assistance to potential NGOs/Foundations, a workshop was held on December 5 with the assistance of 24 NGOs/Foundations. As a result, 15 NGOs/Foundations have sent letters of interest to BDO.

SIXTH QUARTER PRIORITIES:

¹⁵ Convocatoria # 45 para "Contratar a una (s) Compañía (s) de Seguros para el Desarrollo de un Producto Especial de Microseguros para Personas Integrantes de Hogares de las Familias de la Red Unidos," October 21, 2011.

¹⁶ Convocatoria # 46 "Términos de referencia para la contratación de un consultor / asistente técnico para el diseño e implementación de productos de microahorro en intermediarios financieros," December 1, 2011.

¹⁷ *Banrural* has more than 4 million rural clients. *Banco do Nordeste* has disbursed more than 1 million microcredits in the last 5 years.

2.2: Reform of Interest Rate Caps.

During Q6, the Program will present results and recommendations of the study carried out by *Fedesarrollo* to the MOF, which will become the basis for decision-making regarding the modification of interest rate caps for microcredit and consumption in Colombia. Additionally, a workshop will be organized in February to present the study to financial institutions.

2.3: Taxes and Cost of Financial Services in Rural Areas Reduced.

E-money draft law: Final meetings with the Committee will be organized for final comments; the draft bill will be presented to Congress in March.

Regulation about mobile technologies: The Program will continue assessing the FS in the modification to Circular 52, emphasizing the importance of allowing the use of USSD – one of the most financially efficient technologies for promoting financial inclusion in the base of the pyramid, thanks to the ease of use and access menus for conducting financial transactions. This technology is currently being used by *Banco Agrario* in the mobile banking pilot with *Familias en Acción*.

Development of efficient cash management and transaction clearing mechanisms: The Program will carry out a field study of liquidity management in Colombia, which will contribute to understanding current bottlenecks, as well as make recommendations to the GOC and promote the expansion of Banking Agents. A workshop for the GOC to review the study's results.

Support MOF and BDO in the design of a pilot to promote E-transactions, among informal microentrepreneurs, to inform the formalization strategy of the MOF.

2.4: Small Savings Collection Encouraged.

The Program will continue assisting BDO in the expansion of the savings culture pilot, and DPS in the designing the bid to select a financial institution to continue making subsidy payments to *Familias en Acción*, in order to achieve true financial inclusion.

2.5: Long-term financing options developed for Agricultural production.

The Program expects to start evaluating the Colombian finance system and proposing modifications. However, the initiation of this activity depends on MARD.

2.6: Banco Agrario modernized.

Support the expansion of microfinance products: In January, the Program will present the Commercial VP of the bank with results of the diagnostic that determined the causes of portfolio deterioration, and an emergency plan to correct them.

Improvement of the bank's governance: The Program will execute the Action Plan to improve the *Banco Agrario's* governance to insulate it from political pressures, expand its networks and range of financial services, and improve its efficiency. The reformed *Banco Agrario* will welcome private investors and provide them representation on the board of directors.

2.7: Increased supply of credit, insurance, payments and transfers to vulnerable populations.

Ongoing support to the Financial Superintendence: in the supervision regulation for microfinance and the report of financial inclusion.

Organization of a workshop: with financial institutions to explain the new guarantee model to disburse new credits to microentrepreneurs affected by the floods. This workshop will be carried out in January.

Continue assisting BDO in the promotion of microinsurance, microsavings, savings culture and self-managed savings and credit groups, achieving synergies to benefit the consolidation municipalities and Afro-Colombian and Indigenous populations.

2.8: Synergies with USAID Regional Projects.

This is a new activity, in which the Program will assess the CELI and ACIP Projects in the implementation of microfinance programs to expand access to financial services in the priority municipalities. In Q6, the Program will assess the realization of diagnostics to determine the current situation of access to financial services in the municipalities.

CHALLENGES

In Q5, the USAID Public Policy Program presented a work plan proposal to expand financial services in consolidation and ACIP municipalities, making synergies with USAID regional programs and taking advantage of the knowledge and experience gained by AECOM during the implementation of the USAID MIDAS and ADAM microfinance programs. Credit and other financial services should be accessible to the municipalities in the CELI regions and ACIP as a public good, because they contribute to the improvement of most vulnerable regions that have been affected by the actions of illegally armed groups. Financial services facilitate income generation and the progress of urban, rural and agricultural businesses, spurring economic development and, ultimately, the inclusion of citizens in development and prosperity.

Coordination with USAID Regional Programs remains a challenge. They are currently identifying the Access to Finance teams that will be trained by the USAID Public Policy Program in Quarter 6 (once the teams are hired). In parallel, the USAID Public Policy Program will identify financial institutions that will expand to CELI and ACIP municipalities, and will assist in incorporating a chapter on access to finance in the municipal and departmental development plans.

The synergies among the new Consolidation and Victims Units recently created by the GOC with *Banca de las Oportunidades* are a challenge. The role of the USAID Public Policy Program should be to integrate and generate coordination mechanisms between these areas.

In the case of MARD, in Q4, the Program focused on the importance of modifying the agriculture finance system and expanding access to financial services in rural areas. This assessment should have begun in Q5, however, MARD decided to postpone the activity until the Rural Development Draft Bill is presented to Congress. The assessment’s start date is currently uncertain.

SUMMARY OF PERFORMANCE STANDARDS

Task	Milestones	Performance Standards
2.1.1 Assist the GOC in reforming civil and commercial Codes	Report on benefits/challenges of improved collateral regime. Draft updated proposal reforming the Civil,	– One Law: Secured Transactions regimen (Draft bill)

Task	Milestones	Performance Standards
2.3.1 Assist the GOC to implement new distribution channels: mobile banking and/or electronic wallets.	Commercial & Civil Procedures Codes.	
	Ongoing support to the Ministry of Finance in the implementation of mobile banking and/or electronic wallets.	- One Law: E-money and Financial Inclusion ¹⁸
	Ongoing support to the Financial Superintendence in the implementation of mobile banking and/or electronic wallets.	- Decree 4687. Regulation E-Deposits
	A seminar on lessons learned from international experience.	- A seminar in New Banking Agents Models.
2.4.1 Support policy design that encourages small savings.	Implementation of mobile banking and/or electronic wallets.	- 9 pilot Programs. 9 new municipalities with <i>Familias en Accion</i> receiving subsidies through mobile device
	Workshop on savings accounts regulation and implementation, GOC, financial institutions & customers.	- 1 workshop of a saving culture
2.4.3 Promote small savings accounts for <i>Familias en Acción</i> beneficiaries.	Ongoing support for scheme to promote small-savings for beneficiaries of Familias en Accion; ongoing support for scheme to pay subsidies for beneficiaries of Familias en Acción	- One Policy Instrument in Saving Culture
2.7.2 Assist BDO and Oportunidades Rurales.	Workshop w/GOC & financial institutions on financial services supported.	- One Seminar in Rural opportunities Program ¹⁹
	Ongoing support for design of instruments to promote credit bureau reporting, micro-savings, micro-insurance, micro-agricultural lending, village banking, home improvement lending, agricultural insurance, & agricultural lending based on purchase order financing	- Policy Instrument in Microinsurance - Policy Instrument in Microsavings
2.7.5 Support the development of financial products for Afro-Colombians and indigenous population	Workshop with public officials	- 1 Workshop in Self-managed Savings and Credit Groups ²⁰

COMPONENT 3: POLICIES TOWARD CONFLICT-AFFECTED POPULATIONS

The Component provides technical assistance to the GOC's implementation of the Victims' Law. The Component aims to improve institutional capacity to provide emergency relief, integral assistance, and reparations to victims (including IDPs). Recommendations are provided to the GOC on the

¹⁸ In place of a Policy Instrument

¹⁹ In Place of a workshop

²⁰ Workshop with public officials in place to workshops with Afro-Colombian organizations.

development of a territorial approach to ensure that GOC programs invest in the improvement of delivery of public services.

The Component has been supporting the design of policy instruments to ensure a flexible government response to victims' needs, and to support the creation of an institutional structure that can properly assess and respond to victims', Afro-Colombians', and indigenous persons' specific needs. The Program is supporting the design of public policy instruments to provide incentives to improve the access of victims (including IDPs), Afro-Colombian and indigenous populations to public services, financial networks and business services.

Synergies with other Components

The Component for vulnerable populations has developed three main activities in alliance with the Consolidation Component and Rural Development Component. The first is related to strengthening the institutional capacity and functioning of municipalities in the design of local action plans for victims and local development plans. The components joined efforts to transfer knowledge that can be used by the team of advisors that are working together with local authorities in the construction of these plans within the Technical Assistance Program led by the National Development Plan. This shared activity is expected to effectively influence territories to include victims' issues as a priority in their planning, budgeting and execution for the next three years. The second synergy is related to rural development. They have worked together in designing and implementing a model of sustainable livelihoods for vulnerable populations (extreme poor and IDPs), and promoting and facilitating coordination between LRU and the Attention and Reparation Victims' Unit. This last activity has been political as well as technical, since part of making these new offices work together requires these two aspects.

MAJOR ACCOMPLISHMENTS

In Q1 FY2012, the Component's work resulted in institutional reforms that created the social inclusion policy sector, the DPS, and the Victims' Unit and Center for Historical Memory within the DPS. The Component ensured that these processes were developed in hand with the stakeholders by facilitating participatory spaces to discuss the reforms as well as the regulatory decree related to the Victims' Law (Decree 4800), signed by the President in December 2011. In 2012, the feedback gathered will continue to have effects on future regulations related to implementation of the Victims' Law. The Component will support this process as well.

The process to accomplish the aforementioned reform was highly demanding, both politically and technically, due to the complexity of creating a new public policy sector.

In Q1 FY2012, the Component has been supporting the GOC in responding to the commitments established with the Constitutional Court regarding the development of specific policy-making instruments that serve to strengthen the services and assistance provided to victims by evaluating and addressing victims' specific needs.

The GOC must develop public services that take into account victims' unique characteristics; the Court argues that currently implemented programs for rehabilitation, nutrition, income generation, housing and land access are not sufficient, and do not effectively respond to victims' needs. The Component has been supporting the GOC in identifying elements that can make services more flexible and responsive.

This support includes an analysis of barriers to access to government programs, and the formulation of recommendations to ensure public services meet victims’ needs.

Improve the coordination of services for victims: Making services more flexible by designing programs that take into account victims’ needs is not sufficient. The Monitoring Commission for Attention to the Internally Displaced Population has argued that the menu of GOC-provided services is uncoordinated. Programs must be implemented in a harmonious manner in order to ensure sustainability and high impact. If income generation is properly linked to housing and/or land access, victims have a better chance of effectively recovering, and reduce their vulnerability. Yet if each GOC program continues to work independently, victims will not build the skills needed to be autonomous. The Component is assisting the GOC in designing a coordination mechanism that will strengthen program coordination. This mechanism will take into account victims’ characteristics and the competencies and responsibilities of different GOC agencies.

Housing: During the quarter, the Component provided support to the Ministry of Housing to reform the legal framework for access to social housing. This reform achieved three important changes: (1) The government will provide incentives to victims that demand housing solutions and to developers that offer housing solutions; (2) The GOC will create a Housing Promotion Office in every region to promote supply and demand for housing solutions and facilitate matches between housing needs and housing solutions; and (3) The creation of a mathematical formula to determine subsidy eligibility (taking into account ethnicity and disability).

Modification of the institutional framework is especially important at the local level because municipalities will have the responsibility to provide land for building social housing in their territories.

Cessation of vulnerability: The final piece to providing appropriate, coordinated, articulated and accessible services to victims is the reduction of vulnerability to ensure that victims can fulfill their constitutional rights, accumulate assets and build their capacities to resume their lives. In this sense, the Program has been working on the design of an instrument that objectively determines the cessation of vulnerability. This instrument will be highly important to improving the use of GOC funds.



Victims discussed the draft Victims Emergency relief and Integral Attention Plan in events throughout the country. Here the event in Bogotá, October 2011.

Victims Participate Actively in the Design of the Integral Attention and Reparations Plan for Victims. The USAID Public Policy Program provided technical assistance to the GOC in designing the Victims Integral Attention and Reparations Plan, and supported a broad consultation process with victims throughout the country that included both regional events and online commentary that yielded over 7,000 suggestions and comments.

Institutional Reform: The USAID Public Policy Program supported the transformation of *Acción Social* into the DPS. The assistance entailed not only

technical assistance, but also a significant coordination effort to ensure the new Department’s design was coherent as a whole. The DPS leads five different policy aspects: family welfare, poverty alleviation, reparations to victims, historical memoir and consolidation of territories that lacked state presence and were affected by the civil war. The USAID Public Policy Program suggested a “holding type” institutional

architecture that grants autonomy to the units that target specific population groups, but also improves service delivery and coordination between the multiple GOC agencies that service these communities.

The USAID Public Policy Program supported the design of the holding model as well as the Administrative Unit for Attention and Reparation of Victims and the Centre for Historical Memoir.

Center for Historical Memory: The process for the Center for Historical Memory included Program-organized workshop with experts to explore their perspectives in structuring the new entity, taking the Law for Victims into consideration. After the workshop, a series of technical studies were conducted to analyze international experiences, the conceptual framework of human rights and satisfaction measures, and other aspects crucial to the construction of an institution responsible for keeping alive the memory, research and search of truth regarding human rights violations in a country with internal conflict. Several international experiences can serve as examples in a scenario of transitional justice, but Colombia is a sui generis case, as there are new victims every day.

The Center will have four main responsibilities:

- Construction of historical memory
- Preservation and protection of Human Rights Files
- Museum of Historical Memory
- Truth agreements

This Center is one of the most important measures of victim reparations. The GOC understands the healing effect that truth brings to people who have been affected by the conflict; consequently, the Center's design responds to the search of truth, preservation and protection of documents and information, the reconstruction of facts, and a museum that aims at preserving history so that the atrocities inflicted will never be forgotten.

Special Administrative Unit for Assistance and Reparation of Victims: As previously mentioned, the design of the Special Administrative Unit for the Attention and Reparation of Victims was developed based on participation from different actors, while observing technical criteria. The Program promoted several spaces for analysis and participation with the personnel responsible for implementing policies for displaced and other victims (at the central and local level), with officials from different sectors who are in charge of the different approaches for victims in policies like education, health and housing, and with civil society organizations for human rights.

The process was developed in two parts: i) analysis and design of a route for the attention and reparation of victims and ii) stakeholders participation to formulate recommendations for the design of the Administrative Unit.

For the first part, the Program worked together with a small group of public officials to study existing services and design a route that every victim must go through to be assisted and receive restitution. This path turned into a tool to determine the composition of the Unit; it was used to identify areas on which the Unit should focus to implement the law. Throughout this first part, the working group thoroughly examined the current attention system, each stage of the route, the actors and their responsibilities, the implementation in territories, and the relationships between actors. Gaps and uncertainties became evident, stressing aspects that require special attention in further policy design.

The second part of the process was based on outcomes from the first part, and aimed at promoting the inclusion and participation of stakeholders. In this stage, the Program and the appointed director of the Unit consulted different actors from other sectors inside the GOC, State and civil society organizations

to critically examine, from a victim's perspective, whether the route would give response to their needs and lead to the fulfillment of rights. The conclusions of this exercise became the second input for the design of the Administrative Unit for the Attention and Reparation of Victims.

The exercise led to five offices at the central level:

- Inter-institutional management: this office will house a group for technical coordination of the national system for victims, another for central-regional coordination and one to observe participation.
- Social and humanitarian management: this office will manage prevention, assist emergencies and provide humanitarian aid.
- Collective and individual reparation.
- Registry and information management: this office oversees assessment registries of victims and the administration of the National Information Network
- Ethnic groups: this office is in charge of Afro-Colombians, Indigenous and Rroma victims²¹.

The management of these offices at the central level will meet the greatest challenge in territories and in the coordination of other entities in order to guarantee delivery of services to victims.

PROGRAM ACTIVITIES:

3.1. Comprehensive policy and institutional frameworks to prevent displacement and provide relief, comprehensive support and reparations to IDPs and Victims.

- Provided assistance to estimate the overall cost of providing all constitutionally-mandated services and reparations to IDPs. These estimates were the basis of the Victims Financial CONPES that establishes investments of nearly \$30B over the next ten years to repair all victims in Colombia.
- Assisted in designing the institutional arrangement for the new Administrative Department for Victims and Social Inclusion.
- Assisted in designing the new institutional arrangement for the comprehensive assistance and reparation of victims, including the Center for Historic Memory.
- Supported the design of instruments such as an index for measuring the risk of victimization, re-adjustment of services for victims, definition of the cessation index and design of a coordination instrument to articulate services for victims in income generation, land and housing.
- Design of the decree to establish housing solutions for IDPs.
- Construction of an instrument to weigh variables that determine municipalities' performance in the implementation of policies and programs for victims.
- Design of a methodology to draft regional actions plans for victims.

Result 3.4: Policy framework designed to encourage inclusion and cohesion of ethnic minorities and service delivery improved for Afro-Colombians and Indigenous populations.

- Regional Forums for the design of the PNARIV with the participation of victims, victims' organizations, local authorities, academia, civil society organizations and guilds.

²¹ This office resulted from a different participatory process. The regulation of the article 205, Law 1448, 2011 determined that the law would have a special regulation for ethnic groups. As a result, the GOC agreed with these communities that the unit for victims as well as the unit for land restitution would have special offices for Afro-Colombians, indigenous and Rroma populations

SIXTH QUARTER PRIORITIES

3.1. Comprehensive policy and institutional frameworks to prevent displacement and provide relief, comprehensive support and reparations to IDPs and Victims.

- Support the GOC in formulating the National Plan for Comprehensive Assistance and Reparation for Victims. This Plan will be approved by the cabinet as a CONPES document.
- Support the GOC in defining institutional measures for the creation of regional offices for the Administrative Unit for the Assistance and Reparation to Victims.
- Support a mechanism to guarantee transparency in the selection process of personnel in the Administrative Unit for the Attention and Reparation of Victims.

3.4. Policy framework designed to encourage inclusion and cohesion of ethnic minorities and service delivery improved for Afro-Colombians and Indigenous populations

- Support the Ethnic Group Coordination Table in the responses to the agreements made by the GOC in the National Development Plan.

3.5. Participation of conflict-affected populations in policy and program design.

- Support the design of several instruments to guarantee the participation of victims in the policy process.
- Protocol and other tools to facilitate participation.
- Support the creation of participation committees at the local level.

CHALLENGES

This uncertainty also creates a challenge and an opportunity for the Program. In this sense the Component has been providing support to clarify what should the government do to effectively achieve regional implementation. The component has identified two opportunity fronts: design of institutional arrangements and design of instruments that strengthen the technical assistance the central government must provide to municipalities implementing the law. Satisfactory progress has been made on the second front. The Program is still working with the GOC to decide the best model for regional intervention; this will be one of the most important challenges for the sixth quarter of the Program.

Colombia is a decentralized country, still behind in institutional capacity in territories. One of the most important tasks of the Unit for Attention and Reparation of Victims is to provide technical and administrative support to local governments in the implementation of the Law. The Unit must count on regional centers to be the operative arm at the local level in order to provide assistance and reparation to victims in a joint effort with municipal governments; without this complementary regional effort, the GOC will not be able to effectively implement the Law.

SUMMARY OF PERFORMANCE STANDARDS ACHIEVED

Task	Milestones	Activity
3.1.1 Support the development of the Comprehensive Assistance and	Input for the design and definition of an index to measure victimization risk	Support the design of instruments such as an Index to measure the risk of victimization
	Draft decrees on housing and income	Design the decree to establish

Task	Milestones	Activity
Reparations program for Victims and IDPs at the national level.	generation for IDPs Input for the design of instruments to implement benefit entitlement and graduation criteria for IDP, flexible GOC response and service delivery, considering differential treatment.	housing solutions for IDPs Support the design of instruments such as re-adjustment of services for victims, definition of the cessation index and design of a coordination instrument to coordinate services for victims in income generation, land and housing
3.1.2 Assist in developing the agency responsible for coordinating the national program on comprehensive assistance and reparations to victims	Based on the National Program on Comprehensive Assistance and Reparations to Victims provide the recommendations to determine the agency structure, organizational structure, personnel needs, job descriptions and personnel skill requirements.	Design the institutional arrangement for the new Administrative Department for victims and social inclusion. Creation of Victims' Unit Design the institutional arrangement for the new Comprehensive Assistance and reparation for victims, including the Centre for Historical Memory.
3.1.3 Assist in establishing and strengthening the national system of comprehensive assistance and reparations to victims (SNARIV)	Design an instrument with the set of standards and criteria required by municipalities to receive GOC transfers and implement programs for IDPs and other victims at the local level in order to improve the planning, budgeting allocation and coordination between the central government and the local level	Construction of an instrument to measure variables that determine municipalities' performance in the implementation of policies and programs for victims.

COMPONENT 4: SUPPORT FOR DECENTRALIZATION AND IMPROVED PUBLIC AND ECONOMIC MANAGEMENT

The objectives of Component 4 are to a) clarify roles and responsibilities between levels of government; b) strengthen small municipalities; c) introduce sound policy, legal and budgetary frameworks to improve the delivery of services, promote good governance, and build an enabling business environment in rural areas; and d) support institutional reform to improve government transparency and encourage citizen participation in governance and policy/program oversight.

Component 4 works simultaneously on two tracks to: 1) articulate policies, programs and resources at the national level to improve the effectiveness and efficiency of services to the regions; and 2) support the implementation of policies in the territories through the design and support of pilot projects implemented by other USAID-funded programs. This Component provides technical assistance to build the capacity of local governments by designing and implementing instruments and procedures, and providing training. It also facilitates and improves inter-agency coordination and capacity to implement national policies and services at the regional level. The team works to improve competitiveness and support agriculture and SME programs to make them more responsive to the local needs of small-scale farmers and vulnerable populations. The Program draws from international best practices and lessons learned to establish models and methodologies appropriate to the Colombian context.

MAJOR ACCOMPLISHMENTS:

The Component focused its efforts on developing a group of policies aimed at strengthening the regional and local levels in order to increase the impact of national policies in the territories. Colombia is currently at a historical moment in which the GOC has actively promoted a set of initiatives that together create the tools required for the development of regions. These initiatives include: the *Ley de Ordenamiento Territorial*, the Royalties Reform, the development of *Contratos* Plan, the Program for strengthening the capacities of sub-national governments, rural development programs and the Consolidation Policy.

Accompanying the national government in this purpose, the Decentralization Component experts offered extensive support in achieving the following results:

Support to the MOF in developing two decrees that guarantee the implementation of the National Royalties System Law in 2012. Though approved, the conciliation process was not completed during the legislative period, and the signing of the law was postponed to March 2012. It was necessary to create the legal instruments allowing the system to be implemented in the meantime. The first of these is Decree 4923 (December 26, 2011), which regulates its operation and is a close approximation to what the definitive Law will be. The second is the decree that defines the 2012 budget and includes the distribution of royalties among Departments, as well as an appendix with indicative projects that were prioritized by region and department in a structured consensus process carried out during the last quarter of 2011.

Royalties will be one of the main sources of funding available to local governments for investment in their development plans and implementation of high-impact regional projects. The Program understood this, and began assisting the Consolidation Unit and its regional teams in identifying priority projects, explaining their relevance to the local governments and negotiating their inclusion in the regional project portfolio. Because of the multiple initiatives identified in the regions and the lack of previously structured projects, only a few prioritized in the consolidation zones were included in the indicative list for this year. It is still possible, however, to improve the proposals and include them as part of the new priorities and ensure their inclusion in the projects to be financed in 2012.

The Program supported the GOC in defining a conceptual and regulatory framework for the *Contratos* Plan instrument that will promote the agreement, negotiation and establishment of specific project and budgeting commitments among national, departmental and municipal governments to create a common development strategy. With the Program's technical assistance, the GOC designed a decree regulating the main issues related to the nature and characteristics of the *Contratos* Plan (the Operations Manual for the *Contratos* Plan), and is now in the process of drafting a CONPES document containing the policy framework for this instrument.

In order to influence the implementation of the set of regional policies being promoted by GOC, we have begun to work closely with USAID Regional Programs in order to coordinate the way national policies will be implemented in the zones targeted by these programs. To date, we have offered assistance to regional programs to facilitate their understanding of key government policies like attention and reparations for victims, land restitution and formalization, rural development, consolidation, and local government strengthening, by supporting their development plans. Montes de María has been selected as the first region for joint work between the Colombia *Responde* Program for Montes de María and the USAID Public Policy Program in order to assist and accompany INCODER, the

Consolidation Unit, and the National Planning Department in planning and negotiating a *Contratos* Plan for Montes de María.

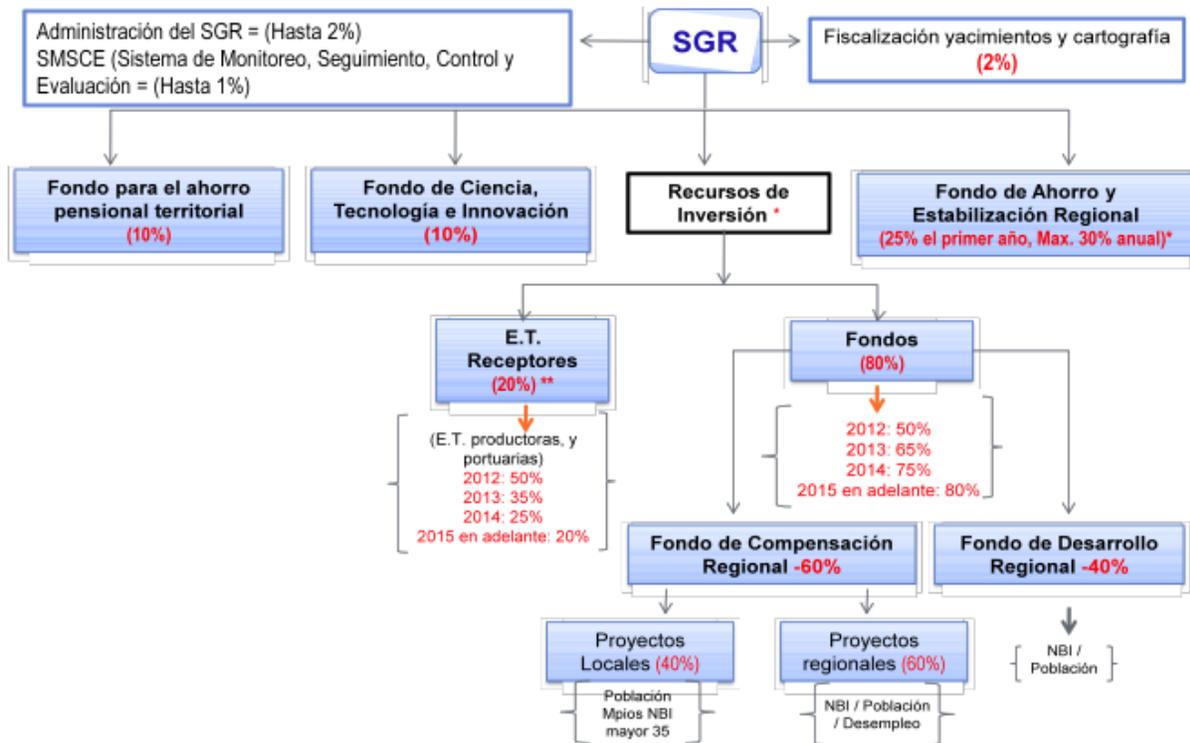
In accordance with the *Ley de Víctimas* (Law 1448/11), the *Alta Consejería para la Acción Social y la Cooperación Internacional* was transformed into the new DPS. The Program strongly supported the creation of DPS and the creation of an independent Unit that will manage the National Consolidation Plan (Unidad Administrativa Especial de Consolidación). Since consolidation issues will be dealt with by a unit within the recently launched Administrative Department, one aspect of support was defining the general functions of the Unidad Administrativa Especial de Consolidación, which will include the promotion and dissemination of the consolidation policy to the general public.

PROGRAM ACTIVITIES

4.1. National-level policies that improve regional capacity to generate and track revenue

During Quarter 5, the Decentralization team focused its efforts on finalizing the draft Royalties Law to be presented to Congress, as well as decrees that regulate its operation in 2012. After the correspondent debates in Congress, the Royalties Law was approved in December, but the conciliation process was not concluded before the legislative period ended. For this reason, the Bill will not come into effect until next March when the Congress finalizes the conciliation. Since the Royalties System must start operating in January 2012, the Government decided to issue a decree regulating the operation of the system until the Law comes into force. The USAID Public Policy Program team supported the MOF and the National Planning Department in drafting Decree 4923 of 2011, approved in early January.

The following graph shows the new distribution of Royalties through the Funds created. It is important to mention that after debate in the Congress, one of the main changes to the reform is the percentage distribution of royalty revenue to finance local projects (defined as those with a municipal impact). This change provides the opportunity for municipal governments to finance specific high-impact projects for their municipality by supporting the implementation of their development plans and enforcing some policies with local impact like the Consolidation Policy, which found a new financing option for achieving the priorities defined by the Regional Consolidation Action Plans in royalty revenue.



In addition to the Operational Decree, Component team experts supported the MOF in drafting a decree with the 2012 Royalties budget. The Decree contains provisions about the distribution of royalties among Departments for the funds constituting the system. It was approved on December 30 (Decree 4950/2011) and also includes an appendix of indicative regional projects that would be financed with royalty funds. As a result of the workshops carried out between September and December, a set of initiatives was identified and prioritized by the regions, however, many are just ideas that will require technical and financial assessment to determine viability. As the Bill was modified to include local projects, the current project inventory does not include these local initiatives, which must be identified during the first quarter of 2012.

For all these reasons, there is still a very good chance of incorporating municipal, departmental, and regional projects. This is an important opportunity for the Consolidation Unit, which is completing the design of its regional action plans containing a list of projects that require financing. It is also a good opportunity for USAID regional programs to support the structuring of prioritized projects and leverage investments for financing macro projects in critical sectors and, together with the USAID Public Policy Program, accompany national and sub-national governments in the process of including them in the budget that would be completed around March 2012.

Performance Standards Achieved:

- Two Decrees regulating the Royalties National System: one with operational regulations and the second on the 2012 budget.

4.2: Improved Management of Key Government Services in National Consolidation Zones.

The Consolidation CONPES document that includes a conceptual framework characterizing the scope and implications of the policy and the way Governmental agencies and institutions should collaborate in order to improve the provision of services in these zones is currently being developed. It is expected to be finalized by the end of February. The deadline for submission of the CONPES document has been extended to provide sufficient time for consultation and comments by stakeholders.

The Consolidation policy outlines strategies to dismantle the regional risk assessment system and achieve some minimum levels of: (i) institutional control, (ii) citizen participation and (iii) regional integration; which have become the three structural pillars of the policy. On the basis of these strategies, the CONPES document will incorporate the commitments made by agencies during the six-month strategic review process, as well as the budget that will be allocated to implement these commitments. The Consolidation Unit, assisted by USAID USAID Public Policy Program experts, has been working with different ministries and GOC agencies to identify adjustments to existing programs or establish new programs and policy instruments (i.e. subsidies, procedures) to ensure that demands identified by the Regional Consolidation Centers (in conjunction with communities and local authorities) can be met in each consolidation zone. The Consolidation Unit and NPD will hold meetings with civil society and donor agencies prior to approval of the document.

Regarding the Regional implementation of the National Consolidation and Reconstruction Policy (NCRP), during Q5, the Decentralization Component intensively supported the Consolidation Unit in designing a methodology for reviewing and updating the Regional Consolidation Plans in each of the seven zones (12 departments and 51 municipalities; the target population is 48% urban and 52% rural; 69% of the rural population is poor). USAID regional programs, on the other hand, supported the field process, hiring an expert to accompany the Regional Consolidation Centers in implementing the methodology and developing the Plan. Action plans have a four-year life span that corresponds to the term of newly-elected mayors and governors.

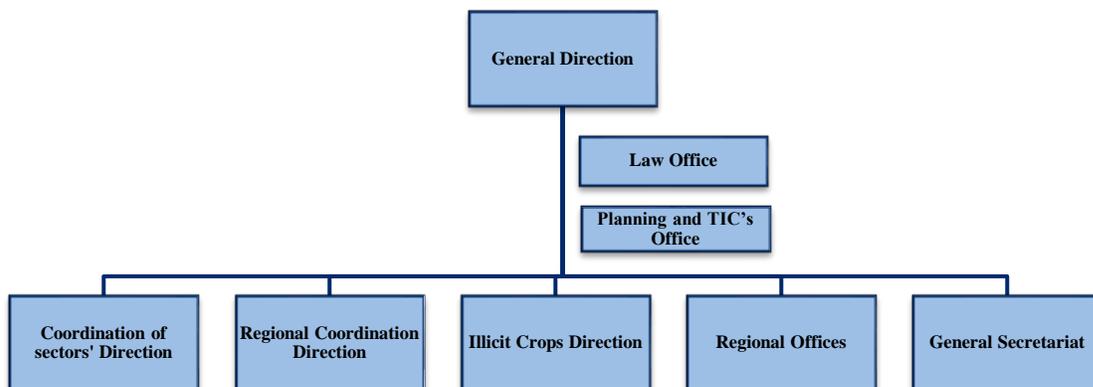
The proposed structure for the regional action plans includes three parts: (i) the Strategic Vision that contains a description of the zone, including the strategic objectives to be reached in the four-year period in each of the three pillars, a map of the stakeholders and key actors, an analysis of the operative systems of national security risk assessment such as where and how it operates, the current situation, the main achievements and difficulties encountered in the three consolidation pillars (institutional control, citizen participation and regional integration), and an end-state vision to be accomplished in each consolidation zone by 2014; (ii) the Operative Plan, containing the expected results, activities, goals and performance standards to measure their impact; and (iii) the project portfolio specifying details about each project identified and prioritized to be developed during the next four years.

To date, all seven Regional Consolidation Centers have a very advanced draft of their regional action plan that should be finalized by the end of January. Once this process is complete, the Consolidation team, with support of the USAID Public Policy Program and USAID regional programs, will start a process to socialize the plan with national, departmental and municipal governments, and representatives of local organizations and communities. One of the Consolidation Unit's main objectives in the upcoming months is to work together with the new sub-national government teams in order to include the fundamental principles of the Consolidation policy and the actions and projects of the Regional Consolidation Action plans in Departmental and Municipal Development Plans. Support of the USAID Public Policy Program and USAID regional programs in this effort will be crucial for guaranteeing the implementation of coordinated, high-impact activities in Consolidation zones.

As mentioned in QR 4, the USAID USAID Public Policy Program team worked on the design of the Consolidation institutional structure required to implement the National Consolidation and Reconstruction Policy. The GOC created the new office for Social Inclusion and Prosperity, headed by the recently created Departamento Administrativo de la Prosperidad Social (DAPS), which in accordance with the *Ley de Víctimas* (Law 1448/11) is the entity into which the *Alta Consejería para la Acción Social y la Cooperación Internacional* should be transformed.

With support of the USAID USAID Public Policy Program, the GOC issued Decree 4161/11 that created the Unidad Administrativa Especial de Consolidación Territorial, and defined its objectives, structure and functions. This new entity will be housed under DAPS and will be in charge of implementing, executing and monitoring the implementation of the National Consolidation and Reconstruction Policy, as well as creating and strengthening the institutional coordination mechanisms at the national and regional levels to ensure the implementation of the policy. The Unidad Administrativa Especial de Consolidación Territorial will have financial and management autonomy to allow it to respond in an efficient manner to the development of focalized regions by the NCP and to manage rapid response projects at the level of focalized regions by both the PNC and illicit crops zones.

The Unit's main structure is as follows:



In general terms, the main function of the Direction of Sector Coordination will be the integration and coordination of sectors and institutional resources at the national and regional levels, and directing the supply of national services to meet regional demands. On the other hand, the Regional Coordination Direction will coordinate regional implementation of the Consolidation Policy through the regional action plans defined for each of the zones. The Illicit Crops Direction will provide advice on institutional strategies and programs against illegal crops. The regional offices, in coordination with local authorities and communities, will participate in the planning and execution of strategies and will implement regional action plans.

During Q5, the USAID USAID Public Policy Program also supported the design of a budgeting mechanism for the Consolidation Unit in coordination with USAID consultant Konrad Huber, gathering information on available mechanisms in Colombia for the execution of public budgets. The team provided the GOC with recommendations on the most suitable mechanism for the effective operational capabilities of the *Unidad*. The work took into account that, in Consolidation zones, the Unit will need a flexible and quick procurement mechanism in order to fulfill its mission and provide timely offers of government services on which the population in Consolidation zones relies for increasing confidence-

building processes vis-à-vis their relationship with the State and its capacity to provide security and public services.

The USAID USAID Public Policy Program held a series of meetings with public budget mechanism and public procurement experts. The team also consulted experts on the use of different public resource implementation mechanisms, particularly those called *Fondos Cuenta* – program and project financing instruments. In the next quarter, the USAID Public Policy Program will work with the Consolidation Unit in the design of the budgeting mechanism and its operative regulation.

Performance Standards Achieved:

- Launch of the Unidad Administrativa Especial para la Consolidación Territorial.
- One manual and methodology for elaborating Regional Consolidation Action Plans.
- Two workshops with GOC and USAID programs on the methodology.

4.3: Improved expenditure efficiency and the budgeting regulatory framework

In order to make investment expenditures more flexible, the Decentralization Component supported the MOF in designing a methodology for measuring the expenditure performance of public institutions through a set of indicators created specifically for this purpose. The methodology, initially tested in three pilot sectors, seeks to reduce the controls imposed on the execution of budgets and allows institutions to manage their own budgets, while obtaining the commitment to achieve specific goals and meet performance standards. The implementation of this methodology will strengthen the capacity of institutions to align their strategic action plans with their budgets, while the MOF and National Planning Department will be able to support and accompany the budgeting management procedures and performance of those entities with less capacity.

Performance Standards Achieved:

- Methodology on Public expenditure efficiency designed.

4.4: Stronger local capacity to implement and manage national GOC programs.

Help develop departmental and municipal infrastructure funding strategies: On December 15, the Cabinet approved the Public-Private Associations Law (Ley de Asociaciones Público-Privadas) that had been led by the National Planning Department and the MOF with extensive support of USAID USAID Public Policy Program experts. Public-Private Partnerships are a mechanism for linking private capital to initiatives for the design, construction, operation and maintenance of infrastructure projects, in which there is a participation of public funds.

One of the most important achievements of this Law its scope, which goes beyond the transportation sector, generating incentives for private investment in infrastructure projects in other sectors like justice, jails, schools and health services, among others.

This law is expected to have an important impact in:

- Promoting the participation of institutional investors, such as Private Capital Funds, as project developers.
- Improving the structuring of infrastructure projects, in terms of preliminary studies, risks analysis, evaluation of social, economic and environmental impacts.

- Attracting private investments for developing macro-infrastructure projects, in alliance with the Government, and sharing associated risks.
- Increasing the flexibility of the legal framework for *vigencias futuras* of national and local budgets linked to Public-Private Partnerships.

Support the improved management of key government services: Contratos Plan

The *Contratos* Plan is an instrument created by two laws that have substantial implications for the development of the regions: the *Ley Orgánica de Ordenamiento Territorial* and the National Development Plan Law. The GOC created the *Contratos* Plan to strengthen interagency coordination and ensure that all the different agencies and levels of government commit funds for the implementation of regional strategies.

The *Contratos* Plan is a binding contract between the national and sub-national governments, and associations of departments and municipalities, to co-finance and support the implementation of multiple key strategic initiatives in a region (multi-sector regional focus). Its purpose is to facilitate linkages between different levels of government in order to achieve regional development, promoting coordination for planning, managing and financing regional development in the long term.

The preparation, execution and assessment of the *Contratos* Plan are organized in three stages:

Pre-contractual stage: the request is presented; agreement projects are planned and prioritized according to a shared development strategy. This stage concludes with the signature of a Pre-Plan Contract, in which the parties are obligated to carry out the necessary actions for ensuring the feasibility of the agreements.

Contractual stage: the agreed projects are structured, authorizations are obtained (e.g. budgetary availability) and necessary proceedings are dealt with (e.g. licenses) for signing a Plan Contract, which generates obligations associated to funding, execution and evaluation of agreed projects.

Post-contractual stage: results are evaluated according to goals set, and the obligations are liquidated.

During Q5, the Decentralization team provided technical assistance to the National Planning Department, the MOF and the MOI in designing a decree (signed at the end of December) regulating the procedures to plan, sign, implement and evaluate a *Contratos* Plan. In addition to the decree, the team supported the NPD in developing a manual of guidelines for the conceptual and legal understanding of the *Contratos* Plan. This manual will be a useful tool for new mayors and governors who are interested in signing a *Contratos* Plan with the national government or with other municipalities or departments.

Articulation with other USAID programs

The Program, along with other USAID operators, including ARD-CELI Central, CHF, and OIM, has attended meetings convened by USAID for the purpose of sharing information and finding joint coordination mechanisms to work on crucial issues like land and rural development, consolidation, victims, access to financial services and royalties.

USAID has starting organizing meetings between the USAID Public Policy Program and USAID CELI implementers with the purpose of explaining the main reforms under development by the Government, including the royalties reform, *Contratos* Plan, and institutional strengthening of sub-national governments, among others. The exchange of information and approaches has been extremely useful for

all parties involved. The main role of the Program in these meetings has been to point out the relevance of the mentioned reforms and the regional policy strategies being planned by the GOC for regional development.

These sessions have been crucial for creating a common understanding and initiating discussion about coordination mechanisms between the USAID Public Policy Program and USAID regional programs in order to take advantage of policy provisions, like the negotiation and establishment of *Contratos* Plans in targeted consolidation regions, as well as the mechanisms for prioritizing projects created by the royalties reform, for increasing the regional initiatives impact in CELI regions. In this context, the Program should coordinate with USAID CELI implementers to ensure their initiatives are articulated with regional priorities and are included in the *Contratos* Plan that will be designed in most of their targeted regions.

Implementation of National Policies in Montes de María region, in coordination with USAID CELI

The planning and implementation of the Montes de María's *Contratos* Plan was selected as the first initiative to be developed under GOC direction with the coordinated support of USAID, the USAID USAID Public Policy Program and USAID regional programs. Montes de María will be the first Consolidation Zone to have a *Contratos* Plan.

The *Contratos* Plan in Montes de María will build on existing plans like the Regional Consolidation Action Plan, the Municipal and Departmental Plans, the Victims Reparations Regional Plan, and the Land and Rural Development Plan, in order to identify all the activities that require joint investments from different GOC agencies and levels of government and determine the budgetary commitments of all GOC institutions.

The USAID Public Policy Program and Colombia *Responde* have been working together with the Montes de María Consolidation Office and INCODER to provide information and create a space for discussion with regional organizations, local governments and national institutions about the advantages of committing to a *Contratos* Plan for Montes de María, which relies mainly on the Rural Development Program and the Consolidation Plan. With this objective, two workshops and several working sessions were conducted to develop a roadmap with the actions needed to carry out a participatory planning process that facilitates the negotiation of agreements. These working sessions included the participation of the Montes de María coordinator for rural development (funded with Program resources), who will be working in the field with INCODER, the consolidation office and other national and regional government agency staff.

In the upcoming months, the planning process of the *Contratos* Plan, integrating rural development, consolidation and victims, will be organized around thematic roundtables that will propose the set of actions and projects to be covered by the regional strategy in areas such as land use planning and environment, land use and income generation, social public goods, infrastructure, land restitution and victims.

From the Consolidation perspective, this is a very important development in Montes de María, not only because it is a step toward achieving its main purpose of strengthening institutional State presence in the region, with the corresponding increase in legitimacy and trust of citizens in areas historically affected by illegally armed groups, but also because it complements the consolidation process cycle by promoting the economic and social integration of these zones into the regions in which they are located through the rural development plans.

Performance Standards Achieved:

- Decree regulating formulation, implementation and M&E of a *Contratos* Plan.
- One manual with guidelines for operating a *Contratos* Plan.
- One law on Public-Private Partnerships.

4.5. Support GOC Institutional Strengthening for Good Governance***Public Employment***

The USAID Public Policy Program successfully completed drafting the articles of the draft Framework Law (*Proyecto de Ley Marco*), which will establish the guidelines for the public employment policy in Colombia. The team based their work on the results of a study tour to Washington and Mexico to view their experiences and public employment models. The drafting of the bill took into account the American model for public employment, including crucial issues such as integrality, flexibility and transparency. The USAID USAID Public Policy Program is currently working on two implementing decrees that regulate the incentives to access civil service careers and the implementation of performance assessments and training models for all public employees.

The USAID Public Policy Program also suggested the institutional arrangement needed for an effective and operational public employment system in Colombia.

Support GOC in strengthening the State Reform policy and strengthen the Civil Service Administrative Sector

In terms of transparency and good governance, the USAID USAID Public Policy Program expert team supported the High Commission for Good Governance in developing guidelines for the establishment of policies on integrity, transparency and combatting corruption, which will serve as technical support for GOC decision-making on issues of transparency and good governance.

4.7: National training plans that meet the needs of Municipalities

During this quarter, the USAID USAID Public Policy Program supported the *Alta Consejería para el Buen Gobierno* on planning and conducting the Public Administration Induction Seminar (*Seminario de Inducción a la Administración Pública*), held in mid-December 2011, for new mayors and governors. Support included the design of a framework and methodology to easily present the topic of good governance in the seminar. A video was produced based on specific successful experiences from municipalities and departments, as told by former mayors and governors, in order to provide tools on current local public management. Likewise, the Program supported the Good Practices section by providing methodological and logistical support to the outgoing mayor of Pitalito (Huila), and presented the partnership between the municipality and the ADAM-MIDAS Program for the implementation of infrastructure projects.

During the Seminar, six Program-supported digital guidelines for local management were delivered to participants. These guidelines, developed in conjunction with the National Planning Department, included topics such as linking the outgoing and incoming mayors (*empalme*), directions for the first 100 days in office, State elements, accountability, guidelines to working with the Attorney General, and land planning tips.

The Program supported the National Planning Department in designing the first field phase of the Institutional Strengthening and Capacity Building Program for subnational governments, to follow up on the construction of development plans in 551 municipalities. These municipalities include all 51

Consolidation municipalities; their development plans will prioritize rural development programs in the territories, victims and land use. The Program also supported development of the methodology, instruments required in the field, and their implementation in pilot projects.

The Program and the *Federación Colombiana de Municipios* also jointly organized a workshop, attended by representatives of civil society organizations, the private sector, international cooperation and GOC officials, to present a proposal to socialize the next steps to be taken by the Institutional Strengthening and Capacity Building Program.

As part of the support provided in designing the capacity-building program, the USAID Public Policy Program will accompany the NPD designing pilot projects that will be implemented in priority municipalities. (Prioritization is based on criteria such as being a Rural Development Areas, Consolidation Zones, and having a high number of victims).

Performance Standards Achieved:

- One induction seminar for new mayors and governor.
- 6 manuals and guidelines for new mayors and governors.

SUMMARY OF PERFORMANCE STANDARDS

Task	Milestones	Activity
4.1.4 Help strengthen the legal and regulatory framework governing royalties from extractive industries.	Document w/ regulations to improve use of royalties.	- Two Decrees regulating the Royalties National System: one with the operational regulations and the second on the 2012 budget.
4.2.1 Assist GOC in the Strategic Revision of the Territorial Consolidation National Policy	Assist GOC in developing the Strategic Revision of the National Consolidation Policy, and define the institutional agreements and organizational structure resulting of the revision process	- Launch of the Unidad Administrativa Especial para la Consolidación Territorial.
	Develop manuals & guidelines related to the objectives, structure, interagency coordination mechanisms and sectorial priorities of the National Consolidation Policy	- One manual and methodology for elaborating Regional Consolidation Action Plans.
	Implement 3 workshops w/ institutions and organizations on National Consolidation Policy	- Two workshops with GOC and USAID programs on the methodology.
4.3.2 Assist the GOC in improving investment projects formulation and expenditure efficiency	Manuals & guidelines for improving the formulation of investment projects, that contributes to increase the efficiency of expenditure planning	- Methodology on Public expenditure efficiency designed
4.3.3 Assist the GOC in improving the coordination and budget process of key GOC initiatives.	Draft regulatory reform recommendations.	- Decree regulating formulation, implementation and M&E of Contratos Plan
4.4.4 Support the improved management of	Develop manuals & guidelines to assist implementation of infrastructure	- One manual with guidelines for operating a Contratos Plan

Task	Milestones	Activity
key social and productive government services.	funding strategy.	
4.4.3 Help develop departmental and municipal infrastructure funding strategies.	Draft regulatory reform recommendations.	- One law on Public-Private Partnerships ²²
4.7.1 Assist in developing an action plan to strengthen municipalities.	Develop 4 workshop w/ municipalities and departments' representatives	- One induction seminar for new mayors and governor.
	2 Manuals & guidelines for strengthening sub-national governments' capacities	- 6 manuals and guidelines for new mayors and governors.

KEY ACTIVITIES TO BE DEVELOPED DURING NEXT QUARTER:

4.1: National-level policies that improve regional ability to generate and track revenue

- Support to Consolidation Unit and USAID Regional Programs in identifying and prioritizing regional and local projects to be financed with Royalties Funds.

4.2: Improved Management of Key Government Services in National Consolidation Zones

- Support drafting and approval process of the Consolidation CONPES document.
- Design coordination mechanisms and protocols for implementing key national policies in consolidation zones (ex: rural development, victims, land restitution and formalization).
- Finalize regional consolidation action plans and design a master plan for monitoring implementation.
- In Q6, the USAID Public Policy Program will help implement the Special Administrative Consolidation Unit by supporting the Strategic Planning Unit in reviewing the mission and vision of the new entity – in particular, in defining strategic goals, objectives, and a monitoring system of indicators and goals focused on the actions for implementation, execution and monitoring of the National Consolidation Plan – and coordinating joint interventions in areas of prioritized regions that are affected by illicit crops, as provided for in Decree 4161 of 2011.
- USAID Public Policy Program will support the design of procedures for the joint operation of the Consolidation Unit between the national and regional levels. This is critical to implementation, as it will ensure, provision for public services in the regions, and directing organized sector services to the regions.
- A flexible budget execution process is essential to the Consolidation Unit's operation. The USAID Public Policy Program will support the design of efficient mechanisms to return operations to the scheme established under the procurement rules, and will provide advice on the creation of a fund that – permitted under the private regime – has a flexible and transparent operation.

4.4: Stronger local capacity to implement and manage national GOC programs

- During the first quarter of 2012, the GOC expects to approve a CONPES document on *Contratos* Plan, elaborated with support of the USAID Public Policy Program.

²² This law was adopted in place of a decree

- Next quarter, the Program will assist the design and negotiation of two of *Contratos* Plan pilot projects, which are USAID-targeted areas and were selected by the national government because they are both part of a Consolidation zone and a Rural Development area: Montes de María and Sur del Tolima. In addition to these two, the Program expects to accompany other pilot projects in the ACIP Program's target areas, one of which would be Chocó, which is a high priority area for the government.
- Support the development of municipal and departmental development plans and ensure that they incorporate that major GOC policy reform initiatives. The Policy program will coordinate with other USAID programs to assist in the drafting of the municipal and departmental development plans.

4.7: National training plans that meet the needs of Municipalities

- Technical assistance to GOC and USAID Regional Programs (CELI and ACIP), supporting municipalities and departments in elaborating their Development Plans, including key policies like Rural Development, Consolidation and Victims.
- Drafting the Institutional Strengthening of Sub-national Governments CONPES document.

CHALLENGES:

The implementation of the NCRP will face many challenges, not only at the national level, but also in the field. One of the most relevant is developing mechanisms and budgeting models to improve inter-agency and inter-governmental coordination and create effective linkages between national and sub-national programs; another will be to respond to the need to ensure more flexible and tailored GOC service delivery to the consolidation regions. The regional planning of the consolidation policy, through Regional Consolidation Action Plans for each of the seven zones, is currently being developed. Its main challenge will be to consider regional particularities and align consolidation objectives with the different planning instruments that coexist in the territories, such as rural development plans, livelihood programs, victims' assistance plans, and restitution and formalization processes.

A necessary condition for implementing the National Consolidation Policy is a functional structure that is agile, orderly and efficient. The challenge is to design a methodology with a comprehensive strategic and operative plan that allows firm-wide actions to generate value for objective and efficient processes to meet the needs of consolidation areas. From a budgetary standpoint, the new fund must be created through a law; the challenge is to determine whether the most appropriate mechanism is a new law or an instrument under a current law.

Some of the main challenges faced by the Program in supporting the national consolidation policy are:

- Development of special policies and instruments for the Consolidation zones.
- Implementation of sector action plans and the commitments established in the CONPES.
- Articulation of the NCP with other key regional policies in the consolidation zones, such as: land policy, rural development, and victims.
- Linking NCP initiatives with the mechanisms for prioritizing investments of the National Royalty System and the *Contratos* Plan between the State and the consolidation regions.
- Coordinating services provided by the national government with the regional consolidation action plans while aligning them with Municipal and Departmental Development Plans.

The coordinated implementation of a set of regional initiatives will increase their impact and generate synergies within national institutions and among territorial leaders, but will be a significant challenge for

the GOC – and for the Program as an important partner in this endeavor. *Contratos* Plan, royalties, rural development, victims, local institutional strengthening, consolidation, and public-private partnerships are all high-priority policies for the government, which has almost finished conceptualization and will soon be ready to begin implementation. The design of effective, structured mechanisms and methodologies to facilitate understanding and regional capacity for implementation will be an essential task in the coming months.

The initiatives and policies that will have a positive impact on regional development will only achieve their expected results if local governments strengthen their capacity to lead their municipalities or departments, and commit to this regional comprehensive vision in their development plans. The National Planning Department, with the support of USAID USAID Public Policy Program, will implement a very ambitious plan for strengthening local organization and government capacity to prepare development plans in 515 municipalities. Under this capacity building program, USAID, through regional programs and the USAID Public Policy Program, will provide one expert to each municipality to assist the local government in elaborating its development plan. These experts will be integrated into the NPD strategy and will apply the methodologies designed by the GOC. On the other side, the USAID Public Policy Program is supporting the NPD and national institutions in the design of guidelines on key national policies (rural development, victims, land, consolidation, among others) to facilitate their incorporation into local development plans.

COMPONENT 5: LABOR POLICY

The USAID Public Policy Program provides technical support to the GOC in key labor policies such as labor market changes, especially those related to the reduction of informality, employment generation and the effects of price-factor distortions.

The Program also supports the creation of the Ministry of Labor assuming its new responsibilities with enough technical and political capacity to impact labor and social policy. The Program identified key reforms to improve labor inspection, increase respect for workers' rights, and develop technical capacity to make appropriate decisions in the area of labor market policy and employment generation.

Synergies with other components and USAID Programs: The Labor Component will interact with other components of the USAID USAID Public Policy Program to maximize the impact of its activities. It will specifically coordinate with the Vulnerable Populations Component in the design of training programs for vulnerable populations.

The Component's activities complement programs that promote income opportunities and GOC policies for vulnerable populations, including Afro-Colombians and indigenous communities.

MAJOR ACCOMPLISHMENTS

At the request of the High Commissioner for Good Governance, the Labor Component conducted a technical study to create the Ministry of Labor, review retirement pensions, create the Vice Ministry of

Labor, create a special unit to monitor the labor market and improve the labor inspection system. The study culminated in Q5; its most important achievements are outlined below:²³

- The new Ministry of Labor assumed responsibility for retirement pensions. Initially pension policy design and implementation was placed under the new Ministry of Health and Social Security. However, the Labor Component considered pensions as highly dependent on the functioning of the labor market, and concluded they should be the responsibility of the Ministry of Labor. The High Commissioner on Good Governance accepted the Component's advice.
- The creation of the Vice Ministry of Employment. The original structure included only one Vice Ministry (Vice Ministry of Labor Relations), but the component advised the High Commissioner of the need for a second Vice Ministry in charge of employment generation and quality employment policy.
- A special unit for generating information and monitoring the functioning of the labor market was created within the new Labor Ministry, as recommended by the Labor Component.
- The labor inspection system was improved according to technical assistance provided by the USAID Public Policy Program. This includes the introduction of risk analysis as a way of targeting inspection activities to areas where labor rights violations are more likely to occur.
- The separation of labor inspection activities from those of inspection planning and inspection policy design within the Vice Ministry of Employment.
- Simplification or abolition of unnecessary procedures under the responsibility of inspectors, especially in regional offices. The draft of the decree creating the new Ministry will separate inspection activities from other administrative and policy implementation activities (such as employment policies) under the responsibility of regional offices. This will make it easier for the labor inspectors to concentrate on their inspection activities.

The study on determinants of unemployment duration sponsored by the Labor Component was used both by the new Ministry of Labor and by the National Planning Department (DNP) as one empirical element in support of the new employment insurance system (*Sistema de Gestión del Empleo*). This study was presented by DNP and the Ministry of Labor to a World Bank delegation October 1 – 3, 2011 and thoroughly discussed with them by officials of the Ministry of Labor and DNP. On the basis of this discussion, the labor component conducted an economic simulation using Matlab software to analyze the financial feasibility of the unemployment insurance model proposed by the Labor Component under different scenarios. The Ministry of Labor used this analysis to estimate the first-round impact of different institutional options for the unemployment system.

RESULTS AND ACTIVITIES UNDERTAKEN IN QUARTER 5

5.1: Effective labor inspections and enforced labor rights

With the creation of the Ministry of Labor and its new labor inspection system, the ministry included a risk analysis system focusing on jobs that have a higher risk for labor rights violations.

5.3: Training Programs Linked to Demand

The Law 1429 of 2010 created the Labor Demand Information System (SINDEL) recommended by the MIDAS Program. The USAID Public Policy Program still supports DANE in the implementation of

²³ Some of these achievements were included in the previous quarterly report. However, for the sake of completeness, are also included here.

SINIDEL. The component started a study to review international best practices in the measurement of labor demand, and propose a methodology to measure unfilled vacancies, labor cost, job creation and job destruction in the Colombian economy.

5.5: GOC reforms to strengthen the functioning of labor markets

The Labor Component finalized the analytical paper identifying the most important determinants of unemployment and job search duration. It was accepted by the new Ministry of Labor and DNP. This document provides important support for creation of the unemployment insurance system based on individual accounts.

The Program supported the creation of the unemployment insurance system by conducting a study to analyze its financial feasibility, and the Labor Component provided technical assistance in reviewing the Rural Development Bill, specifically regarding social security, technical training and education.

CHALLENGES

Due to the restructuring of the USAID USAID Public Policy Program, many of activities of the Labor Component will be absorbed by other components; some will pass to the US Department of Labor. The activities related to employment and income generation will be absorbed by other components.

SUMMARY OF PERFORMANCE STANDARDS ACHIEVED

Task	Milestones	Performance Standard
5.1.2 Assist in the development of methodologies and databases for implementing risk-based inspections.	Provide technical assistance on procedures currently under the responsibility of labor inspections that should be modified or abolished in order to facilitate current work-place inspection activities.	I Institutional Reform
5.1.3 Assist in simplifying procedures and reducing red tape in labor inspection processes.	Provide technical assistance on procedures currently under the responsibility of labor inspections that should be modified or abolished in order to facilitate current work-place inspection activities.	

COMPONENT 6: ENVIRONMENTAL POLICY:

In Q5, the USAID Public Policy Program assisted in dividing the independent Ministry of Environment, Housing and Territorial Development into two entities: the Ministry of Environment and Sustainable Development and the Ministry of Housing. Once created, the GOC defined each new Ministry's structure. The Program also provided recommendations to modify the climate change policy. Priority activities for the quarter included defining strategies on Illegal Mining Formalization and guidelines for implementation to include in the policy document, and a document with strategies for delimitation of bodies of water. As a result of the changes to the USAID USAID Public Policy Program, previously established results were adjusted and several were eliminated.

During Q5, the Program worked on implementing a policy document to mainstream environment and climate change. Work will begin in February of 2012 with the Deputy Director of Housing and Urban Development at the National Planning Department on the policy. The policy will include an environmental and climate change perspective to ensure sustainable, environmentally sound urban development.

The sustainable urban development policy will be the first urban policy CONPES that fully incorporates environmental sustainability as a factor in urban development design and policy. Former documents have included some environmental issues, but only in a cursory manner. The urban sustainable development policy will address policy objectives, guidelines, institutional framework and financial and implementation indicators, that are explicit to environmental issues.

MAJOR ACCOMPLISHMENTS

During Q5, the USAID USAID Public Policy Program (through Ecovera) provided technical assistance to the Ministry of Environment and Sustainable Development in reviewing the draft decree that will create the National Climate Change System.

The Program signed a major subcontract with Ecovera. The main focus of that contract is supporting the National Natural Parks System in designing conservation indicators, re-categorizing protected areas and generally providing inputs for the protected areas law. Ecovera will draft a policy document on this and on REDD+, and provide recommendations for the National Low Carbon Development Strategy.

RESULTS AND ACTIVITIES:

6.2 Support Implementation of the Policy that Defines the National Protected Areas System (SINAP)

This component has undergone strong debate and redefinition by the GOC through the Natural Park Unit (UAESPNN). Initially, the Program was to support the development of an instrument for harmonizing categories for protected areas. UAESPNN determined that the negotiation of a new protected areas law (another performance indicator) was too politically risky. In the past, debate on the development of a national protected areas system has been very controversial. Additionally, during the last few months of President Santos' supervision, a debate on the Regional Environmental Authorities reform has begun.

Given the political sensitivity, UAESPNN decided to develop harmonization of protected areas categories with its own public servants to avoid any possibility of political misunderstandings that might limit their capacity to negotiate the protected areas law. In Q5, the debate was resolved and the Program hired consultants to work in UAESPNN to harmonize categories for protected areas.

The Program will assist UAESPNN in drafting a protocol and set of guidelines standardizing the categories of protected lands to be used by all Regional Environmental Authorities.

The Program will support the following:

- I. Develop a clear procedure in one department (one that has already agreed to the protected areas category harmonization process) and support in the modification of all the territorial regulations.

2. Support analyzing the status of conservation of the new categories after the harmonization process is completed. If an existing category is redefined, a technical visit should be made to ensure that the new categorization is logical. For example, if a protected area is redefined as a Natural Park, the technical visit will establish if the area complies with that categorization.
3. Support activities related to protected marine and coastal areas.

The Program supported *Naturalmente Colombia* – a public-private partnership designed to manage the National System of Protected Areas (SINAP) – in presenting the first draft of the SINAP business plan which aims to ensure financial sustainability and effectiveness. The draft is currently being revised by the GOC.

Colombia has designed proposals to benefit from REDD programs, but Colombia must develop an effective strategy before these proposals can be put into practice. The Ministry of Environment and Sustainable Development cannot develop this strategy in isolation, however. It must work with the Ministry of Mining and the Ministry of Agriculture and Rural Development, as land use is overseen by all three ministries. Coordination has begun. Ecovera will read the Rural Development Bill and provide inputs on REDD.

6.4 Support Policy design to develop PECS

The Environment team worked with the Ministry of Environment to assess the need for adopting a REDD policy framework. Currently, the team works with the GOC in defining the key aspects of its REDD strategy.

6.5 Support GOC in climate change policy initiatives

During the quarter, the Program reviewed the draft of the climate change policy decree and made recommendations to the GOC on the National Climate Change System.

The Program, together with the World Bank, is also supporting the Low Carbon Development Study that will be used by the GOC as an input for its Low Carbon Development Strategy, expected to be finalized in September 2012.

The Low Carbon Development Study has already completed transport, agriculture and forestry studies. The final strategy will include energy, mines, residues, industrial products, transport and agriculture and forestry.

The terms of reference for coordination of the Third National Communication on Climate Change were defined, and the consultant was selected by IDEAM. The consultant's first task will be to adjust the methodological framework with the GOC agencies responsible for communication. The second phase will include a regional debate on the methodology and final adjustments to the strategy.

SIXTH QUARTER PRIORITIES

6.1 Improved monitoring, conservation and protection of biodiversity

Assist in developing the first draft of the revised National Biodiversity policy, which will be discussed with the Ministry of Environment in Q6.

6.2 Support Implementation of the Policy that Defines SINAP

A draft instrument with general procedures for the harmonization of protected areas categories will be prepared.

Ecoversa will work with national natural parks to define procedures for harmonization categories and prepare relevant indicators. We will work with the Ministry of the Environment in order to define priorities concerning the Protected Areas Law.

6.4 Support Policy design to develop PECS

Prepare a draft policy document on environmental services and a draft policy document on REDD+ strategy.

6.5 Support GOC in climate change policy initiatives

Final draft of the National Climate Change System will be delivered.

Cross-cutting Activities: The Environmental component will work with the Land Policy component Program to review the Rural Development Bill from an environmental perspective, especially considering the Land Use chapter of the Bill.

The Vice Ministry of Environment is concerned about international donor-funded programs working in isolation; the Program faces the challenge of coordinating with other USAID and other international donor-funded programs.

PROGRAM MANAGEMENT AND ADMINISTRATION

During the first quarter of FY 2012, the Program continued to ramp up activities, reflected via increased activity in technical assistance procurement, events, and billing. The September invoice exceeded US \$1M. AECOM designed additional modules for the One Source information management system in order to further operational efficiency.

Procurement

Based on the approval AECOM received in Q4 from USAID on the Program's ODC Procurement Plan, AECOM purchased additional office furniture in Q1 FY2012 needed to complement the transfers received from the ADAM/MIDAS Programs. The Program also procured an LCD projector for its third conference room. ODC nonexpendable procurement for Q1 FY2012 totaled approximately US \$5,800.

Recruitment/Contracting

In Q1 FY2012, AECOM hired 30 consultants and approved the hiring of 25 more via subcontractors. Total commitments under AECOM's Grants & Subcontracts budget line reached COP \$2,050,067,897 (or approximately US \$1.1M). Of this total, grants account for COP \$762,290,000 (approximately US \$412,000), contracts account for COP \$544,599,075 (approximately US \$294,400), and task orders account for COP\$ 743,178,822 (approximately US \$402,000).

During the quarter, the AECOM Contracts & Grants Department committed nine new instruments (1 Standard Grant; 4 New Fixed Price Contracts; and 4 Task Orders) and processed 13 modifications.

SUBCONTRACTS & GRANTS / October- December / 2011			
COMPONENT	Instrument	New	Modifications
Land	IQC		
	Task Order	2	2
	Contract	1	1
	SG		
		3	3
Finance	IQC		
	Task Order		2
	Contract	1	
	SG		
		1	2
Vulnerable Population	IQC		
	Task Order	1	1
	Contract	1	
	SG		
		2	1
Decentralization	IQC		
	Task Order		7
	Contract	1	
	SG		
		1	7
Labor	IQC		
	Task Order		
	Contract		
	SG		
		0	0
Enviromental	IQC		
	Task Order	1	
	Contract		
	SG		
		1	0
Cross cutting	SG	1	
		1	0
TOTAL		9	13

Operations

Information Systems. In Q1 FY2012, the Program worked closely with the Home Office to continue customizing AECOM's corporate information management system (One Source) for the Program's use. A payment approval work flow was designed, as well as work flows for approving monthly budget projections, wire transfer requests, and finance documentation. These new modules allow the Program to further streamline its operational efficiency and improve communication between the field-based operations team, the technical team, and the Home Office program management team. They will also ensure all consultant deliverables are uploaded in a consistent manner.

During the quarter, the Program continued to interface with USAID via the Scope of Work (SOW) approval module (Technical Monitors are informed when new SOWs are loaded in the system for approval) and via the activity calendar where the Program notifies USAID and requests participation in government meetings.

Request for Modification: On November 30, the Program provided a proposal in response to USAID’s request to modify the USAID Public Policy Program contract. Per USAID’s request, it described restructuring the Program under a new three pillar structure, and identified activities that would be phased out or added. The modified proposal also included a new management structure to accommodate new activities.

AECOM is currently awaiting USAID’s response; AECOM expects to implement the approved modifications in Q2 FY2012.

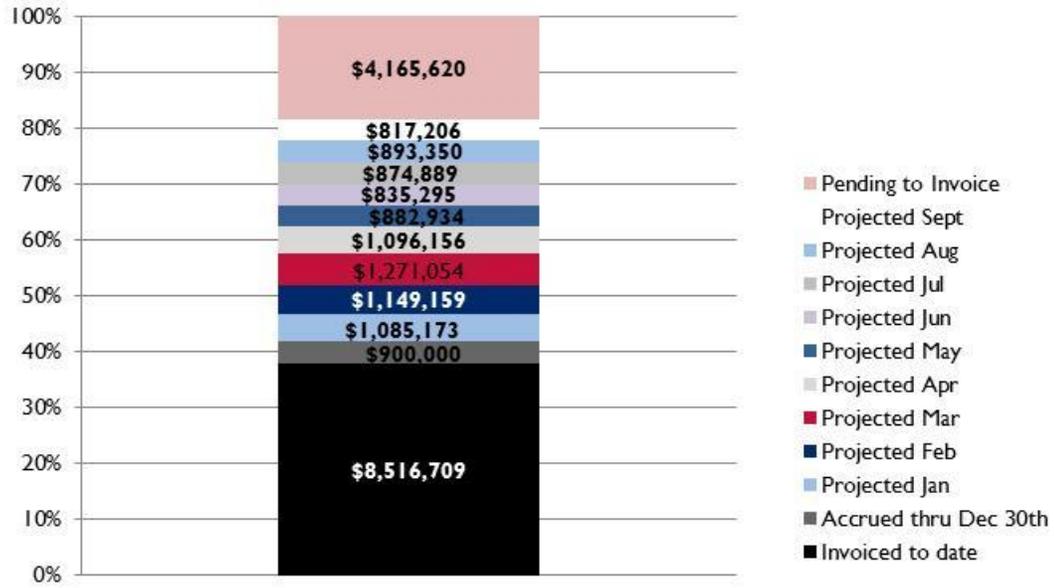
Events: The Program’s reach to the government and civil society counterparts continued to grow in Q1 FY2012; more than double the number of individuals participated in Program-related events in Q1 compared to Q4 FY2011.

	Oct	Nov	Dec	Q1 FY 2012 Total
No. In-house Events	10	1	1	12
No. External Events	10	8	3	21
Total No. Participants	1,034	364	147	1,545

Financials

To date, the Program has invoiced USAID US \$8,516,709.11. An additional US \$900,000 in accrued expenses through the end of Q1 FY 2012 (December 2011) is estimated, for a total of US \$9,416,709.11, or 78% of the Program’s obligated funding. Projections show that by the end of Q2 FY2012 (March 2012), the program will have accrued US \$12,922,095, surpassing the amount of currently obligated funds, and equivalent to 57% of the total program budget. March 2012 marks month 17 of a proposed 30-month project (57% of the project timeline).

Program invoicing to USAID has steadily risen and broke the US \$1M mark in billing, related to September costs.



Note: Numbers reflect amounts that will be accrued each month, not invoiced

Key Q2 FY 2012 Activities

In Q2 FY2012, the Program will work with USAID to implement all approved modifications. This will include realigning the technical and operations teams to meet new requirements, adjusting the Program’s Year 2 Work Plan; and revising the PMP to meet new program requirements.

Internal and external communications will be an important focus of the Program in Q6. Emphasis will be placed in creating a Knowledge Management Unit that will document the USAID Public Policy Program lessons learned and policy reform initiatives supported to share experiences with other USAID Programs and assist in the implementation of policies at the regional level.

ANEX I. PERFORMANCE STANDARDS CHART:

Performance Standard	Q1	Q2	Q3	Q4	Q5	Achieved to Date	Total in Contract
Input to National Development Plan	4	8	2	0	0	14	14
Input to CONPES Document of equivalent	0	0	1	0	0	1	13
Inputs to Laws	1	2	7	5	4	19	16
Inputs to Decrees/Regulations	4	3	1	8	8	24	50
Institutional Reforms	0	0	0	2	8	10	46
Policy Instruments Designed and Implemented	1	2	2	2	5	12	88
Seminars	0	1	2	2	3	8	25
Pilot Programs Assistance	0	2	7	0	9	18	33
Workshops	1	9	22	16	7	55	147
Manuals & Guidelines	0	0	0	0	11	11	54
Trained Personnel	0	0	0	0	0	0	85 labor inspectors
Resources Leveraged by Pilot Programs over LOP	0	0	0	0	0	0	\$220M

ANEX II. Q5 PERFORMANCE STANDARDS CHART:

CLIN	Performance Standard	Description	Date	Program Support Instrument	GOC Beneficiary
1.1	1 Decree	A regulatory decree (Decree 4829)	December	Bahamon Asociados	Land Restitution Unit
	2 Decrees	2 regulatory decrees (4801 and 4939)	December		
	1 Manual	1 job description manual	December		
	1 Institutional Reform	Land Restitution Unit created	December		
	1 Manual	One strategic plan for the Land Restitution Unit.	November	ARD	
	3 Workshops	Strategic plan for the Land Restitution Unit.	November-December		
1.5	1 Law	1 Rural Development Bill	November	Fedesarrollo Econometría Hacercol Ana Maria Ibañez Santiago Perry Manuel Ramos Edelmira Pérez Antonio Hernández Carlos Vargas Jose Leibovich Jaime Forero	Ministry of Agriculture and Rural Development
1.6	1 Workshop	1 workshop with victims of seized land	November	ARD	Land Restitution Unit
1.7	1 Workshop	1 workshop with former ministers and other stakeholders that feed the rural development policy	October	ICP	Ministry of Agriculture and Rural Development
	1 Institutional Reform	Creation of land and Water Planning Unit for the Agriculture Sector November	November	AECOM	
1.8	11 Weekly reports	11 weekly Reports	October-December	Land Component	
2.1	1 Law	Draft bill: Secured Transactions regime	November	Marulanda Access to Finance component	Supersociedades Ministry of Trade
2.3	1 Law	1 law: E-money and financial inclusion	December	Marulanda Roberto Borrás	Ministry of Finance
	9 Pilot Programs	9 new municipalities with Familias en Accion receiving subsidies through mobile device	November-December	Marulanda	Banca de Oportunidades
	1 Decree	Decree 4687. Regulation E-Deposits	December	Marulanda	Ministry of Finance
	1 Seminar	1 seminar in New Banking Agents Models	November	Marulanda	Banca de Oportunidades
2.4.	1 Workshop	1 workshop of saving culture	October	Marulanda	Banca de Oportunidades
	1 Policy	1 Policy Instrument in Saving Culture	December	Marulanda	Banca de

CLIN	Performance Standard	Description	Date	Program Support Instrument	GOC Beneficiary
	Instrument				Oportunidades
2.7	1 Seminar	1 seminar in rural opportunities program	November	Marulanda	Ministry of Agriculture and Rural Development
	1 Workshop	1 workshop of self-managed savings and credit groups	December	Marulanda	Banca de Oportunidades
	1 Policy Instrument	Policy Instrument in Microinsurance	October	Marulanda	Banca de Oportunidades
	1 Policy Instrument	Policy Instrument in Microsavings	December	Marulanda	Banca de Oportunidades
3.1	1 Policy Instrument	Support the design of instruments such as an Index to measure the risk of victimization	Under Execution	Econometria	Victims Unit
	1 Decree	1 decree to establish housing solutions for IDPs	December	Economía Urbana David Buitrago Jesús Alberto Villamil	Ministry of Housing
	1 Institutional Reform	New Administrative Department for victims and social inclusion.	December	Manuel Fernando Castro Martha Badel	Department of Social Prosperity
	1 Institutional Reform	Creation of Victims' Unit	December	Victims' Component	Victims' Unit Department of Social Prosperity
	1 Institutional Reform	Creation of National Agency for Overcoming Extreme Poverty	November	Economía Urbana	National Agency for Overcoming Extreme Poverty. Department of Social Prosperity
	1 Institutional Reform	Colombian Family Welfare Institute, (ICBF housing change)	November	Economía Urbana	ICBF Department of Social Prosperity
	1 Institutional Reform	New Comprehensive Assistance and reparation for victims, including the Centre for Historical Memory.	December	Dhemos	Centre for Historical Memory
	1 Policy Instrument	Construction of an instrument to measure variables that determine municipalities' performance in the implementation of policies and programs for victims.	November	Econometría	Ministry of Interior and Victims Unit
4.1	2 Decrees	2 Decrees regulating the Royalties National System: one with the operational regulations and the second on the 2012 budget.	December	Atenea	DNP Ministry of Finance
4.2	1 Institutional Reform	Launch of the Unidad Administrativa Especial para la Consolidación	November	AECOM (Institutional)	Unidad Administrativa

CLIN	Performance Standard	Description	Date	Program Support Instrument	GOC Beneficiary
		Territorial.		Reform Specialist)	Especial para la Consolidación Territorial Department of Social Prosperity
	1 Manual	1 manual with the methodology for elaborating Regional Consolidation Action Plans.	October	Economía Urbana AECOM	Unidad Administrativa Especial para la Consolidación Territorial and its territorial offices.
	2 Workshops	2 workshops with GOC and USAID programs on the methodology.	November	AECOM	Unidad Administrativa Especial para la Consolidación Territorial
4.3	1 Manual/Guideline	Methodology on Public expenditure efficiency designed	December	Fedesarrollo	Ministry of Finance
	1 Decree	Decree regulating formulation, implementation and M&E of <i>Contratos</i> Plan	December	Economía Urbana	DNP
4.4	1 law	1 law on public-private partnerships	December	Camilo Soto Cesar Gómez Economía Urbana	DNP
	1 Manual	1 manual with guidelines for operating a <i>Contratos</i> Plan	December	Economía Urbana	DNP
4.7	1 Seminar	1 induction seminar for new mayors and governor.	December	Economía Urbana	High Commissioner for the Good Governance, DNP and ESAP
	6 Manuals	6 manuals and guidelines for new mayors and governors.	December	Economía Urbana	High Commissioner for the Good Governance, DNP and ESAP