



# COLOMBIA

## FISCAL TRANSPARENCY EVALUATION

August 2018

This paper on Colombia was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in May 2018.

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**International Monetary Fund**  
**Washington, D.C.**

## **Colombia**

# **Fiscal Transparency Evaluation**

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**May 2018**

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# ABBREVIATIONS

ANH	National Oil Agency
ANM	National Mining Agency
APP	Standard public-private partnership projects
APPIP-SRP	Privately initiated projects without public financial contribution
BCG	Budgetary Central Government
BanRep	Central Bank
CAEFP	Annual GFS Questionnaire
CIEFP	Inter-sectorial Commission on Fiscal Statistics
CGR	Comptroller General of the Republic
CGN	General Accounting Office
COFOG	Classification of Functions of Governments
CONFIS	Supreme Council for Fiscal Policy
CONPES	National Council for Economic and Social Policy
COP	Colombian Pesos
CREE	Income tax to promote equality
CUIN	List of public sector entities ( <i>Clasificación entidades según Código Único Institucional</i> )
DANE	National Statistics Department
DGCPTN	General Directorate of Public Credit and National Treasury
DGPE	General Directorate of SOEs ( <i>Dirección General de Participaciones Estatales</i> )
DGPM	General Directorate of Macroeconomic Policy
DGPPN	General Directorate of National Budget
DIAN	Tax Directorate
DNP	National Planning Department
EBU	Extrabudgetary Unit
FCEE	Contingency Fund
FAD	Fiscal Affairs Department of the IMF
FRL	Fiscal Responsibility Law
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GG	General Government
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
IFI	International Financial Institution
IPSAS	International Public Sector Accounting Standards
MFMP	Colombian Medium-Term Fiscal Framework
MGMP	Colombian Medium-Term Budget Framework
MHCP	Ministry of Finance and Public Credit
MTBF	Medium-Term Budget Framework
NFPS	Non-financial Public Sector
OBI	Open Budget Initiative
PAYGO	Pay-as-you-go Pension System
PEFA	Public Expenditure and Financial Accountability
PND	National Development Plan
PGN	National Budget

POAI	Annual Operating Investment Plan
PPP	Public-Private Partnership
PS	Public Sector
RUAPP	Database of PPPs <a href="https://saga.dnp.gov.co/PortalSaga/default.aspx">https://saga.dnp.gov.co/PortalSaga/default.aspx</a>
SDDS	Special Data Dissemination Standards
SECOP	Database of all procurement contracts
SGP	General System of Participation ( <i>Sistema General de Participación</i> )
SGR	General System of Royalties ( <i>Sistema General de Regalías</i> )
SGSSS	Health insurance system ( <i>Sistema General de Seguridad Social en Salud</i> )
SOE	State-Owned Enterprise
SNG	Sub National Government
SPI	System of Investment Projects <a href="https://spi.dnp.gov.co/">https://spi.dnp.gov.co/</a>

### Legend for Summary Tables

LEVEL OF PRACTICE	RATING			
	Not Met	Basic	Good	Advanced

## PREFACE

In response to a request from the Colombian Ministry of Finance and Public Credit (MHCP), a mission from the Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF) visited Bogotá during the period April 19–May 3, 2017 to conduct a Fiscal Transparency Evaluation.

The mission was led by Manal Fouad and included Sandeep Saxena (both FAD), Richard Allen, Felipe Bardella, Murray Petrie, and Adrien Tenne (all FAD experts). The objective of the mission was to evaluate Colombia's fiscal reporting, fiscal forecasting and budgeting, and fiscal risk analysis management practices against the standards set by the 2014 version of the IMF's Fiscal Transparency Code. The mission also prepared an action plan to further improve fiscal transparency.

The mission met with the Minister of Finance and Public Credit, Mr. Mauricio Cardenas Santamaria, Vice-Ministers Ms. Maria Ximena Cadena and Mr. Andrés Escobar Arango, Senator Arleth Casado, representing the Economic Committee of the Congress, Director of Macroeconomic Policy, Mr. Andrés Mauricio Velasco, and senior officials from the MHCP, the National Planning Department, the Office of the Comptroller General of the Republic, the General Accounting Office, the National Infrastructure Agency, the Ministry of Mining and Energy, the Ministry of Transportation, National Procurement Agency, Agency for the Legal Defense of the State, the technical group of the inter-sectoral committee on fiscal statistics, Central Bank (*Banco de la República*), Colpensiones, and Fogafin. The mission also met with Ms. Camila Pérez from Fedesarrollo, and Mr. Andrés Hernández Montes from Transparency Colombia.

The mission briefed donors at the end of the visit, and would like to thank SECO for organizing the meeting, which included representatives from the World Bank and IADB.

The mission would like to extend its gratitude to the Colombian authorities for outstanding cooperation, and frank discussions. Special thanks are due to Diana Escobar for her relentless efforts to organize meetings as well as her valuable insights on fiscal issues in Colombia. Thanks are also due to Alicia Escovar, Beatriz Canal, and Anette Schorr, our interpreters, who did a superb job in addition to going beyond the call of duty to make the mission comfortable in every way possible.

## EXECUTIVE SUMMARY

**This fiscal transparency evaluation (FTE) assesses fiscal transparency practices in Colombia against the first three pillars of the IMF's Fiscal Transparency Code (FTC).** Pillar I requires that fiscal reports provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance; Pillar II requires that budgets and their underlying fiscal forecasts provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances; and Pillar III stipulates that governments disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.

**In the last decade and a half, Colombia has made a significant leap forward in terms of building strong fiscal institutions, based on good transparency practices.** Post 1990's financial crisis, it implemented a series of reforms to strengthen its fiscal management, including the Fiscal Responsibility and Transparency Law in 2003, resulting in a relatively strong institutional framework. As a result, Colombia scores relatively high in a number of areas covered by the FTC (Figure 1 and Annex I).

- **Fiscal forecasting and budgeting (Pillar II) is the strongest area.** Half of the related indicators are advanced, mostly in the areas of: (1) orderliness of the legislative process and the adequacy of powers and information available to Congress; (2) credibility of economic and fiscal forecasts; and (3) medium-term forecasts and policy orientation, where a strong medium-term fiscal framework (MFMP) displays comprehensiveness, clarity, and quantified objectives.
- **Fiscal reporting (Pillar I) and fiscal risk analysis and management (Pillar III) also reveal clear strengths:**
  - Fiscal reporting practices are advanced in terms of the coverage of fiscal institutions in fiscal reports, timeliness of annual financial statements, and are good in terms of coverage of stocks, tax expenditures, and performance of internal consistency checks.
  - The management and disclosure of risks stemming from government guarantees, financial sector exposure, and environmental disasters follow advanced practices, performing well above other comparable countries, as well as higher income countries. Budget contingencies and risks related to subnational governments are also managed well.

**Despite these strong results, over half of the practices are either at a basic level, or not met.** Some of these low scores are due to lack of disclosure of adequate and appropriate information produced for internal purposes, while others are due to an unusually high level of fragmentation of reports, institutions, and inconsistencies related to classifications.



- **Among practices rated “basic,” the most salient ones relate to reporting and risk management:**
  - Weaknesses in the fiscal reporting area stem from the currently inconsistent classification systems, and the incomplete transition to international accounting standards. These impact the scoring on: (1) the credibility of data, which requires a full recognition of pension and public-private partnership (PPP)-related liabilities; and (2) the comparability between budget, outturn, and financial statements.
  - Risk management’s basic scores are partly due to lack of disclosure of otherwise internally available information on macroeconomic scenarios, long-term projections, and public corporations.
  - Basic scores in the forecasting and budgeting area are due to fragmentation (lack of budget unity), and gaps in the transparency and management of multiyear public investment projects, as well as weak practices such as public participation and performance indicators for service delivery.
- **There are four principles that do not currently meet the requirements for a basic score.** While below-basic scores are not uncommon in FTEs, Colombia’s gaps are in areas, where countries in similar income groups tend to have stronger results. For example, the frequency of in-year reporting and the absence of a harmonized budget classification system surprisingly fall short of basic practice. The government is aware of and in the process of addressing these issues through an inter-sectoral commission. Forecast reconciliation and management of specific fiscal risks do not meet basic practice either, but this is more in line with other countries’ scores.

**While strong fiscal institutions have contributed to Colombia’s macroeconomic stability, stronger and more transparent fiscal management would help better manage medium to long-term risks.** In addition, enhancing transparency would bring Colombia in full alignment with OECD standards.<sup>1</sup>

**The FTE provides a set of recommendations to further enhance transparency and fiscal management.** An action plan (Annex II) is provided to prioritize and sequence the needed reforms, some of which are already well in train.

***In the fiscal reporting area:***

- **Recommendation 1.1: Complete the reforms initiated to develop a harmonized classification system.** As a first step, the national government budget and accounting classifications should be unified, and the economic classification should be further deepened and consistently applied in budget formulation and execution. Subsequent reforms will

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<sup>1</sup> Colombia was welcomed as an OECD member on May 25, 2018.

involve harmonizing the economic classification with the classification used for compiling fiscal and national account statistics, and unifying and standardizing classifications used by the territorial-level entities, and making them compatible with the national chart of accounts.

- **Recommendation 1.2: Improve the timeliness of the quarterly fiscal bulletin.** As a first step, the Ministry of Finance and Public Credit (MHCP) should publish a reporting calendar with responsibilities assigned to its general directorates for releasing respective reports by their due dates. The central bank should be asked to provide the financing data on a more timely basis. To fill the reporting gap, the MHCP could also consider reviving the monthly central government fiscal balance report.
- **Recommendation 1.3: Continue the transition to international accounting standards with the aim of achieving full compliance within a reasonable period.** This will require further refining the accounting and consolidation methodology, strengthening internal controls, particularly at the subnational level, and enhancing the data quality submitted by them. Successful implementation of the classification reforms should also benefit the financial statements, particularly in meeting consolidation challenges.

***In the budgeting and forecasting area:***

- **Recommendation 2.1: Undertake a review to assess which extrabudgetary activities should be brought on budget, and fully disclosed in the budget documents.** This review should cover: the royalties budget, the revenues, expenditures and financing of extrabudgetary units; and the absorption of earmarked revenues within the general revenues of the budget.
- **Recommendation 2.2: Enhance the medium-term budget framework (MGMP) to bring it in line with advanced principles and practices.** Such a reform could start with a thorough review of existing practices in preparing the annual budget and the MGMP, and how international good practice could be used to inform and improve the design of a future MGMP. The main elements of the reform would include a better integration of the MGMP with the annual budget process, and more credible outer-year forecasts.
- **Recommendation 2.3: Improve the management and disclosure of information on public investment projects.**
- **Recommendation 2.4: Publish the existing analytical work** on the reconciliation of different vintages of macroeconomic and fiscal forecasts.

***In the fiscal risks area:***

- **Recommendation 3.1: Expand and refine the disclosure of fiscal risks.** The presentation of an annual Fiscal Risk Statement with the budget proposal to Congress would substantially improve risk disclosure and meet advanced standards. Such a statement would, in addition to the information presently being disclosed in MFMP, include information on the financial

performance and position of public corporations; alternative macro-fiscal scenarios; and a comprehensive disclosure of all PPPs.

- **Recommendation 3.2: Strengthen the management of fiscal risks.** This would include appraisal of procuring projects by PPPs versus financing them through the budget, appraisal and internal high level oversight of fiscal risks within MHCP through a coordinating mechanism across directorates, and regular in-year reporting to the Minister of Finance on the evolution of fiscal risks and mitigating actions. The financial sector risks should also be monitored more systematically.
- **Recommendation 3.3: Expand the disclosure of the long-term sustainability analysis of the public finances.** Publish long-term projections of the sustainability of the social security and public pension schemes over at least 30 years.

**Figure 1. Summary Assessment**

I. Fiscal Reporting	II. Fiscal Forecasting and Budgeting	III. Fiscal Risk Analysis and Management
1.1.1. Coverage of Institutions	2.1.1. Budget Unity	3.1.1. Macroeconomic Risks
1.1.2. Coverage of Stocks	2.1.2. Macroeconomic Forecasts	3.1.2. Specific Fiscal Risks
1.1.3. Coverage of Flows	2.1.3. Medium-Term Budget Framework	3.1.3. Long-Term Fiscal Sustainability Analysis
1.1.4. Coverage of Tax Expenditures	2.1.4. Investment Projects	3.2.1. Budget Contingencies
1.2.1. Frequency of In-Year Reporting	2.2.1. Fiscal Legislation	3.2.2. Asset and Liability Management
1.2.2. Timeliness of Annual Financial Statements	2.2.2. Timeliness of budget documents	3.2.3. Guarantees
1.3.1 Classification	2.3.1. Fiscal Policy Objectives	3.2.4. PPPs
1.3.2. Internal Consistency	2.3.2. Performance Information	3.2.5. Financial Sector Exposure
1.3.3. Historical Revisions	2.3.3. Public Participation	3.2.6. Natural Resources
1.4.1. Statistical Integrity	2.4.1. Independent Evaluation	3.2.7. Environmental Risks
1.4.2. External Audit	2.4.2. Supplementary Budget	3.3.1. Subnational Governments
1.4.3. Comparability of Fiscal Data	2.4.3. Forecast Reconciliation	3.3.2. Public Corporations

**Table 1. Public Sector Financial Overview, 2015**  
(in percent of GDP)

	Central Government			Social Security	State Government	Local Government	General Government	Non Fin. Corporations	Financial Corporations	Central Bank	Consol.	Public Sector
	Budgetary Central Gov.	EBU	Consolidated Central Gov.									
<b>Total Transactions</b>												
Revenue	18.6	3.8	18.5	8.2	3.9	8.5	30.9	12.5	1.6	0.3	-1.0	44.3
Expenditure	22.6	3.7	22.4	8.2	3.8	9.4	35.6	15.3	0.7	0.2	-1.0	50.8
Expense	22.0	3.1	21.2	8.2	3.7	7.5	32.4	11.5	0.7	0.2	-1.0	43.8
Investment in NFA	0.7	0.5	1.2	0.0	0.1	1.9	3.2	3.8	0.0	0.0	...	7.0
Net operating balance	-3.4	0.7	-2.7	0.0	0.2	1.0	-1.5	1.0	0.9	0.0	0.0	0.5
<b>Net lending/borrowing</b>	<b>-4.0</b>	<b>0.2</b>	<b>-3.9</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.9</b>	<b>-4.7</b>	<b>-2.8</b>	<b>0.9</b>	<b>0.0</b>	<b>0.0</b>	<b>-6.5</b>
<b>Total Assets</b>	<b>51.1</b>	<b>7.7</b>	<b>57.9</b>	<b>2.3</b>	<b>7.0</b>	<b>21.9</b>	<b>87.9</b>	<b>32.9</b>	<b>10.6</b>	<b>21.7</b>	<b>-11.7</b>	<b>141.5</b>
Non-Financial Assets	18.3	4.6	22.9	0.1	1.2	8.6	32.9	18.8	0.1	0.2	...	52.0
o/w: Subsoil Assets	5.7	...	5.7	...	...	...	5.7	...	...	...	...	5.7
Financial Assets	32.8	3.1	34.9	2.1	5.8	13.3	55.0	14.1	10.6	21.5	-11.7	89.6
<b>Reported Liabilities (a)</b>	<b>65.2</b>	<b>1.4</b>	<b>65.7</b>	<b>1.3</b>	<b>2.5</b>	<b>5.0</b>	<b>73.4</b>	<b>18.2</b>	<b>10.3</b>	<b>21.7</b>	<b>-11.7</b>	<b>112.0</b>
Debt Securities	34.5	0.0	34.4	0.0	0.0	0.1	34.6	4.7	0.9	0.0	-2.0	38.2
Loans	7.5	0.1	7.7	0.1	0.5	1.1	9.3	3.6	1.3	0.0	0.0	14.1
Accounts Payable	17.3	1.2	17.7	1.2	2.0	3.8	23.6	2.7	1.3	0.0	0.0	27.7
Pensions	5.9	...	5.9	...	...	...	5.9	...	...	...	...	5.9
Other (mainly equity/deposits)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.2	6.8	21.7	-9.7	26.0
<b>Reported Net Worth</b>	<b>-14.2</b>	<b>6.3</b>	<b>-7.8</b>	<b>1.0</b>	<b>4.5</b>	<b>16.9</b>	<b>14.5</b>	<b>14.7</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>29.6</b>
<b>Unreported Liabilities (b)</b>	<b>8.1</b>	<b>0.0</b>	<b>8.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>8.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>8.1</b>
Unreported Pensions	6.7	0.0	6.7	0.0	0.0	0.0	6.7	0.0	0.0	0.0	...	6.7
Unreported PPP Liabilities	1.4	...	1.4	...	...	...	1.4	...	...	...	...	1.4
<b>Total Liabilities (a) + (b)</b>	<b>73.3</b>	<b>1.4</b>	<b>73.8</b>	<b>1.3</b>	<b>2.5</b>	<b>5.0</b>	<b>81.4</b>	<b>18.2</b>	<b>10.3</b>	<b>21.7</b>	<b>-11.7</b>	<b>120.0</b>
<b>Net Financial Worth</b>	<b>-40.5</b>	<b>1.7</b>	<b>-38.8</b>	<b>0.9</b>	<b>3.3</b>	<b>8.3</b>	<b>-26.4</b>	<b>-4.1</b>	<b>0.3</b>	<b>-0.2</b>	<b>0.0</b>	<b>-30.5</b>
<b>Net Worth</b>	<b>-22.2</b>	<b>6.3</b>	<b>-15.9</b>	<b>1.0</b>	<b>4.5</b>	<b>16.9</b>	<b>6.5</b>	<b>14.7</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>21.5</b>
<b>Memorandum - PAYGO General pension scheme (Régimen de Prima Media - RPM)</b>												
Stock of pension entitlements	...	...	...	92.1	...	...	92.1	...	...	...	...	92.1
<b>Memorandum - modified-cash fiscal balance reported in fiscal reports (Cierre Fiscal)</b>												
Total Transactions												
Revenue	16.1	1.8	...	8.2	...	...	...	...	0.2	0.1	...	...
Expenditure	19.2	1.9	...	7.7	...	...	...	...	0.1	0.2	...	...
<b>Fiscal Balance</b>	<b>-3.0</b>	<b>-0.1</b>	<b>...</b>	<b>0.4</b>	<b>...</b>	<b>-0.5</b>	<b>...</b>	<b>-0.3</b>	<b>0.1</b>	<b>0.0</b>	<b>...</b>	<b>-3.4</b>

Sources: Annual consolidated financial statements 2015; Annual GFS questionnaire 2015; Annual state of public finance report 2015; CHIP data base; individual financial statements for public corporations; BanRep's annual financial statements 2015 and staff estimates.

Note: This table presents estimates in accordance with the GFSM 2014, and adopts the accrual basis of recording for transactions to the extent possible.

# INTRODUCTION

**1. In the last decade and a half, Colombia has made a significant leap forward in terms of building strong fiscal institutions, based on good transparency practices.** Following the economic crisis of the late 1990s, it has implemented a series of reforms to strengthen its fiscal management. At the center of these reforms, is the introduction of the Fiscal Responsibility and Transparency Law in 2003, which put in place a strong framework for fiscal management.<sup>2</sup> The government further strengthened the fiscal framework in 2011–12. A fiscal sustainability principle was added as a constitutional criterion; Law 1530 (2012) reformed the management and distribution of oil and mining royalties; and Law 1473 (2012) introduced a structural balance rule for the central government.

**2. The Fiscal Responsibility and Transparency Law has been well assimilated in fiscal policy making and is the backbone of various complementary institutional reforms.** It requires the preparation of a 10-year fiscal plan. The numerical fiscal rule adopted in 2012 stipulates a central government structural deficit of 1 percent of GDP, or less, from 2022 onwards, with a declining transition path between 2012 and 2021. The MFMP contains multiannual primary balance targets that guide budget decisions, and expenditure and revenue measures.

**3. The Political Constitution (1991) organizes the country as a unitary but decentralized republic, with administrative autonomy to the territorial units.** Although Colombia is a unitary state, a large proportion of public spending is carried out by the regional and local administrations (see paragraph 51). Non-financial public corporations are an important component of the Colombian public sector, with over 15 percent of GDP in expenditure, half of which is by Ecopetrol.

**4. This report evaluates fiscal transparency in Colombia against the three pillars of the IMF's FTC.<sup>3</sup>**

- Pillar I evaluates the coverage, timeliness, quality, and integrity of fiscal reporting;
- Pillar II assesses the comprehensiveness, orderliness, policy orientation, and credibility of fiscal forecasting and budgeting; and
- Pillar III examines arrangements for analysis, disclosure and management of fiscal risks.

**5. A snapshot of Colombia's performance against other completed FTEs shows a relatively strong performance compared to regional peers and other emerging market economies.** There are relative weaknesses in fiscal reporting relative to regional comparators,

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<sup>2</sup> Colombia's fiscal data is broadly appropriate for surveillance purposes, as reflected in the recent IMF Staff Report.

<sup>3</sup> As oil revenue represented less than 10 percent of Colombia's fiscal revenue in 2015, this FTE does not cover Pillar IV on the management of natural resources.

but some exceptional strengths in fiscal risks management and disclosure. Overall, there is scope for further enhancing transparency in several areas.

**Figure 2. Fiscal Transparency Evaluation Scores - International Comparison**



Source: FTE reports.

**6. Other recent assessments seem to corroborate the FTE’s findings, and suggest that Colombia could further enhance its transparency practices.** The 2015 public expenditure and financial accountability (PEFA) pointed to similar weaknesses that this FTE identified. In its 2015 Open Budget Survey (OBI), Colombia ranked above the global average but was below countries in the region with similar income level, such as Brazil and Peru. The survey shows an improvement in the availability of budget documents compared to 2012 with the publication of a citizen’s budget, but a minor deterioration in some other disclosures, such as the information content in the year-end budget execution report. Public participation in budgeting is also limited, but better than most other countries in the region (except Brazil). The survey finds that budget oversight, by the legislature and the supreme audit institution, is a key strength. In a recently published report, Transparency Colombia raised concerns about the procurement arrangements, and fiscal management at the subnational level, although progress in both areas is indicated.

**Figure 3. OBI Score (2015 Survey)**



**7. The strong fiscal institutional framework has enabled the conduct of sound fiscal policies, but some existing risks will require even stronger and more transparent fiscal management.** Colombia has responded well to shocks so far, including through a major tax reform to offset the decline in oil prices. But there remain some fiscal risks that may impact the adherence to the fiscal rules in the medium term. Among the prominent fiscal risks are:

- The country’s exposure to unfavorable terms-of-trade shocks;
- The longer-term impact of the defined-benefit pay-as-you-go (PAYGO) pension scheme;
- The proliferation of PPPs, notably those without direct government contributions;
- While the dividends from the recent peace agreement are expected to boost growth and confidence, its medium-term fiscal costs are subject to some uncertainty at this stage.

In addition, ensuring effective public investment management is a major challenge. Colombia’s investment in infrastructure has lagged behind its peers, and access to quality infrastructure also differs greatly across regions, contributing to regional income inequality.<sup>4</sup>

<sup>4</sup> With the aim of improving fiscal transparency and efficiency of expenditure allocation, the government has recently constituted a high-level expert commission. “Comisión de Estudio del Gasto Público y de la Inversión” (Decree 320/2017). The commission is mandated to review the criteria for public investment allocation, budget rigidities, revenue earmarking, and the effect of spending decisions on equality and efficiency. The commission is expected to provide its recommendations by the last quarter of 2017.

**8. This remainder of this report is organized as follows:** Chapter II provides a detailed evaluation of fiscal reporting (Pillar I); Chapter III evaluates the fiscal forecasting and budgeting (Pillar II); and Chapter IV evaluates disclosure and management of fiscal risks (Pillar III). An Action Plan with suggested priorities and sequencing to implement the recommendations of the report is annexed to the report.



# I. FISCAL REPORTING

*Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.*

**9. This chapter assesses the quality of fiscal reporting in Colombia against the principles set out in the first pillar of the IMF's FTC.** It focuses on the following four dimensions:

- i. Coverage of public sector institutions, stocks and flows;
- ii. Frequency and timeliness of reporting;
- iii. Quality, accessibility, and comparability of fiscal reports, and
- iv. Reliability and integrity of reported fiscal data.

**10. Fiscal reporting in Colombia is characterized by a multiplicity of reports produced by the three central agencies.** The MHCP, Comptroller General of the Republic (CGR), and the General Accounting Office (CGN) are the main government agencies that publish fiscal reports on a regular basis. These reports, however, differ in their coverage of institutions, stocks, and flows, are prepared on different accounting basis, and are classified following different standards. Colombia's main fiscal reports (Table 2) include:

- **Monthly budget execution reports** produced by the CGR, compare budget estimates, adjusted appropriations and outturn of expenditures on a commitment basis, using the budget classification.
- **Monthly revenue collection reports** published by the tax directorate (DIAN), present monthly tax collection on a cash basis by tax type.
- **Monthly investment reports** published by the national planning department (DNP) on its website, present detailed analysis of the execution of investment budget.
- **Quarterly fiscal bulletins** produced jointly by the MHCP General Directorate of Macroeconomic Policy (DGPM) and Central Bank (*Banco de la República* (BanRep)) and published by the MHCP, present a modified cash-based consolidated fiscal balance of the non-financial public sector (NFPS)—the main fiscal indicator used for policy analysis.<sup>5</sup> The report also consolidates Fogafin (the government's deposit insurance corporation) and the quasi-fiscal balance of the BanRep.
- **Quarterly debt management reports** published by the General Directorate of Public Credit and National Treasury (DGCPTN), present detailed information on stocks and flows

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<sup>5</sup> Revenues are compiled on a cash basis; the change in stocks of accounts payable is added to cash flows to generate a modified cash measure of expenditures (minor accrual adjustment).

(issuance/redemption) of the central government debt, including breakdown by counterpart residency, currency, and maturity.

- **Annual state of public finance report** produced by the CGR, presents an analysis of the macroeconomic environment and the government's fiscal performance. The report contains revenue and expenditure data covering the central government, the social security operations, the subnational governments, the non-financial public corporations and the central bank. Revenue is compiled on a cash basis and expenditure on a modified cash basis.
- **Annual consolidated financial statements** produced by the CGN based on the accounting data submitted every quarter by the various public entities through a web-based software system called CHIP (*Consolidador de Hacienda e Información Pública*).<sup>6</sup> The statements are prepared on an accrual basis using the national accounting standards that are in the process of adapting to the international public sector accounting standards (IPSAS).
- **Annual public debt reports** produced by the CGR present detailed information on stocks and flows (issuance/redemption) of the entire public sector debt, and its subsectors (central government, decentralized entities, subnational governments and public corporations). The report includes a debt sustainability analysis under different macroeconomic scenarios.
- **Annual government finance statistics (GFS) questionnaire (CAEFP)** is jointly prepared by the MHCP and CGN and follows the *Government Finance Statistics Manual (GFSM) 2014* presentation, using the bridge tables developed by the inter-sectorial commission on fiscal statistics (CIEFP) that map the national chart of accounts to the GFS codes.<sup>7</sup> It includes the statement of operations and the balance sheet for the general government sector (GG). Additional statistical treatments are used to fill data gaps, for example, estimation of public investment through changes in stocks of fixed asset. Challenges, however, remain, particularly related to the economic classification of the accounting data.

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<sup>6</sup> [www.chip.gov.co](http://www.chip.gov.co)

<sup>7</sup> Colombia is progressively moving towards the adoption of *GFSM 2014 guidelines*, with the goal of achieving full compliance by 2020. In 2012 the government constituted an inter-sectorial commission under the leadership of the Minister of Finance and Public Credit. With a view to enable the government to produce coherent and timely fiscal reports, the commission is tasked with harmonizing the various classification systems used by the different public entities.

**Table 2. Main Fiscal Reports**

	Agency	Coverage			Accounting		Publication	
		Flows	Stocks	Institutions	Basis	Class	Frequency	Lag
<b>In-year Reporting</b>								
Fiscal Report GCN ( <i>Cierre Fiscal GNC</i> )	DGPM	R, E, Fin	...	BCG	M-cash	Nat	Q	5m
Fiscal Report SPC ( <i>Cierre Fiscal SPC</i> )	DGPM	R, E, Fin	...	NFPS	M-cash	Nat	Q	5m
Central Government Budget Execution Report	DGPPN	E	...	BGC	Cash	Nat Institutional; Economic; Projects	M	1m
Budget Execution Report ( <i>Avance Fiscal</i> )	CGR	R, E	...	BCG	Cash	Nat	M	60d
Quarterly Debt Report ( <i>Informe Trimestral de Seguimiento Deuda</i> )	DGCPTN	...	Debt	BCG	...	Nat	Q	
Monthly Debt Report ( <i>Informe Mensual de Seguimiento Deuda</i> )	DGCPTN	...	Debt	BCG	...	Nat	M	
Report on net debt and financial assets	DGPM	-	Debt; FAs	NFPS	-	Nat	Q	
Execution Report on the Investment Budget ( <i>Informe Trimestral de Seguimiento al Presupuesto de Inversión</i> )	DNP	E	...	BCG	Cash	Nat Projects	Q	
Social Security Bulletin	DGRESS	...	...	Social security	...	...	S	...
<b>Annual Reporting</b>								
Fiscal Rule Compliance Report ( <i>Informe de Cumplimiento Regla Fiscal</i> )	DGPM	R, E, Fin	...	GNC	M-cash	Nat	A	6m
Medium-Term Fiscal Framework ( <i>Marco Fiscal de Mediano Plazo</i> )	MHCP	R, E, Fin	Debt	SP	M-cash	Nat	A	-
Annual Budget ( <i>Presupuesto General de la Nación</i> )	DGPPN	R, E	...	BCG	Cash	Nat Institutional; Economic; Projects	A	-
Consolidated Financial Statements ( <i>Situación Financiera y de Resultados del Sector Público</i> )	CGN	R, E	A, L	PS	Accrual	Nat	A	6m
Government Finance Statistics Yearbook ( <i>Cuestionario Anual EFP</i> )	CGN, MHCP	R, E, Fin	A, L	GG	Accrual	GFSM 2014	A	10m
Annual state of public finance report ( <i>Situación de las Finanzas del Estado</i> )	CGR	R, E, Fin	...	PS	M-cash	Nat	A	6m
General Account of Budget and Treasury Balance	CGR	R, E	...	BCG	Cash	Nat	A	6m
Colombian Public Debt	CGR	...	Debt	PS (exc. CB)	...	Nat	A	6m
Report on Subnational Revenue ( <i>Ingresos Tributarios Territoriales</i> )	MHCP	R	...	Subnat.	Cash	Nat	A	
Report on Subnational Debt ( <i>Deuda Territorial</i> )	MHCP	...	Debt	Subnat.	...	Nat	A	
Subnational Fiscal Report ( <i>Introducción</i> )	MHCP	R, E	A, L	Subnat.	Cash	Nat	A	
Debt Report ( <i>Informe Anual Seguimiento de Deuda del Gobierno Nacional</i> )	DGCPTN	...	Debt	BCG	...	Nat	A	

Note: Fin = Financing, R = Revenue, E = Expenditure, A = Assets, L = Liabilities, M = Monthly, Q = Quarterly, S = Semiannual, A = Annual, M-cash = Modified Cash, Nat = National.

## 1.1. Coverage of Fiscal Reports

1.1.1.	Coverage of Institutions	Advanced
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**11. In 2015, the public sector in Colombia comprised 3822 institutional entities that together accounted for public expenditure equivalent to about 50.8 percent of GDP (Table 3).** CIEFP maintains a comprehensive list of public entities that is updated on a quarterly basis and published on the CGN's website. The list, called CUIN (*Clasificación entidades según código Único Institucional*), categorizes entities according to *Government Finance Statistics Manual (GFSM) 2014* guidelines. The CGN publishes another list that groups the same entities following the national standards that are applied to the presentation of the budget and consolidated financial statements. Following CUIN, in 2015, the Colombian public sector included:<sup>8</sup>

- **Budgetary central government (BCG):** comprising 102 executive, legislative and judicial bodies that include 23 ministries and departments, 7 agencies, 7 funds and 65 other public establishments (institutes, commissions, autonomous units, among others). The latter includes the UGPP, a pension fund covering public sector employees hired before Law 100 (1993) was enacted (see Box 1).
- **Extrabudgetary central government:** comprising 140 entities, of which 6 are professional councils; 37 corporations; 38 national funds (including the coffee fund, the national housing fund, and the fund for economic emergencies – FOGACOOP); 25 institutes; and 17 universities.<sup>9</sup>
- **State and local governments:** comprising 1,644 entities, of which 143 state-level budgetary and extrabudgetary entities (including 32 department administrations, 50 institutes, 16 universities and 45 other units) and 1501 local-level entities (including 1,103 municipalities, 36 municipal associations, 31 funds, 201 institutes and 130 other entities).
- **Social security sector:** comprising 29 pension funds (including the general PAYGO system administered by Colpensiones and other pension funds for the military, police, the legislative branch and teachers); the health insurance system; and 9 health centers.

<sup>8</sup> The sector definitions may change as Colombia adopts fully the GFSM 2014.

<sup>9</sup> The classification of public sector entities, including public corporations, is under revision following the government's ongoing implementation of *GFSM 2014*. As a result of this reclassification, the number of extrabudgetary units, and the size of extrabudgetary revenues/expenditures is likely to come down. For example, certain entities, such as SENA, ICBF, and INVIAS, that were previously classified extrabudgetary are now included in the budget.

- **Public corporations:**<sup>10</sup> comprising 74 financial and 1822 non-financial corporations, including Ecopetrol - the Colombian oil company - and several municipal and departmental utility companies (electricity and water/sanitation) (See Section 3.3.2).<sup>11</sup>

**12. Colombia belongs to a select group of countries that publish financial statements covering the entire public sector.** The annual financial statements prepared by the CGN consolidate the entire public sector, including the central bank, and are the basis for assessment of this indicator. The statements are presented in three volumes: (i) consolidated financial statements that include the public-sector balance sheet, a statement of operations, and notes; (ii) the national government financial statements consolidating all national-level entities; and (iii) financial statements at the subnational (territorial) level.

**Table 3. Public Sector Institutions and Finances, 2015**  
(in percent of GDP, unless otherwise stated)

	Number of entities	Revenue	Expenditure	Balance	Intra-PS expenditure	Net expenditure	percent net expenditure
Public Sector	3,822	44.3	50.8	-6.5	0.0	50.8	100.0
General government	1,925	30.9	35.6	-4.7	0.0	35.6	70.1
Central government	242	18.5	22.4	-3.9	5.8	16.6	32.6
Budgetary central government	102	18.6	22.6	-4.0	9.7	13.0	25.5
Extrabudgetary units and funds	140	3.8	3.7	0.2	0.1	3.6	7.1
Social Security	39	8.2	8.2	0.0	1.9	6.3	12.4
State governments	143	3.9	3.8	0.0	0.3	3.6	7.0
Local governments	1,501	8.5	9.4	-0.9	0.2	9.2	18.0
Central Bank	1	0.3	0.2	0.0	0.0	0.2	0.5
Nonfinancial public corporations	1,822	12.5	15.3	-2.8	0.9	14.4	28.3
Other financial public corporations	74	1.6	0.7	0.9	0.1	0.6	1.2

Sources: Annual consolidated financial statements 2015; Annual GFS questionnaire 2015; Annual state of public finance report 2015; CHIP database; individual financial statements for public corporations; BanRep's annual financial statements 2015 and staff estimates.

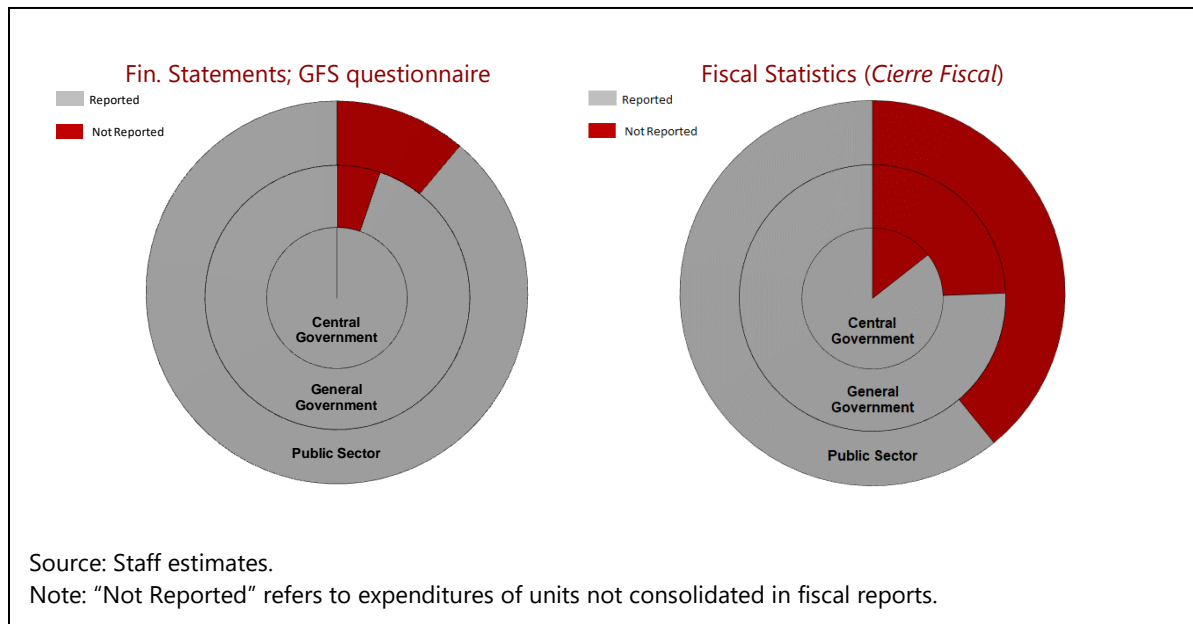
**13. The 2015 financial statements covered 95 percent of public sector entities and 90 percent of public sector expenditures (Figure 4).** The exclusions mainly related to a part of pension payments made by Colpensiones (Box 1) and investments undertaken by non-financial public corporations. While the budgetary transfers to the Colpensiones to bridge the gap between its income and expenditures are included, the subscriber contributions that Colpensiones received and payments it made to pensioners are not included. Investments are

<sup>10</sup> According to CUIN, there are 958 hospitals, health centers and medical service providers classified as public corporations. In accordance with Law 100/1993 these are treated as "State Social Enterprises", constituting a special category of decentralized public entity with its own legal status, assets and administrative autonomy. Further investigation is needed to check if these entities satisfy the statistical criteria to be treated as corporations. The criteria is based on the notion of being a market producer meaning that a corporation is a unit that produces goods and services for the market at economically significant prices, generating profit or other financial gain to its owners. In case those entities do not comply with such criteria they should be sectorized in the extrabudgetary subsector.

<sup>11</sup> In 2007, the government divested 11 percent equity holding in Ecopetrol to retail investors. It now holds 89 percent stake in the company.

directly recognized in the balance sheet. These gaps can be filled with data available in other fiscal reports.

**Figure 4. Coverage of Public Sector Institutions in Fiscal Reports**  
(in percent of expenditure)



**14. A weakness is the lack of harmonization of the definitions of subsectors, making it difficult to compare information across reports.** Financial statements and budget execution reports follow national classification. Fiscal statistics follow old international standards (GFSM 1986) while the GFS questionnaire is aligned with GFSM 2014. Using different definitions of institutional subsectors undermines the utility of the reports for supporting the policy analysis and public debate. The absence of a cash flow statement is another weakness of the financial statements that needs to be overcome.

<b>1.1.2.</b>	<b>Coverage of Stocks</b>	<b>Good</b>
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**15. The consolidated balance sheet and the annual GFS questionnaire provide detailed information on both financial and non-financial assets and liabilities, as well as net worth of all subsectors.** Colombia's balance sheet comprises most financial and non-financial assets (including natural resources) and liabilities. The 2015 balance sheet provides a detailed breakdown of the public sector assets and liabilities:

- *Non-financial assets* amount to 52 percent of GDP, including 5.7 percent of GDP in subsoil assets (oil, gas and minerals) and 33.2 percent of GDP in buildings, structures, and land.
- *Financial assets* are estimated at 89.6 percent of GDP, including 24.6 percent of GDP in debt securities, mainly BanRep holdings related to international reserves, 18.4 percent in shares

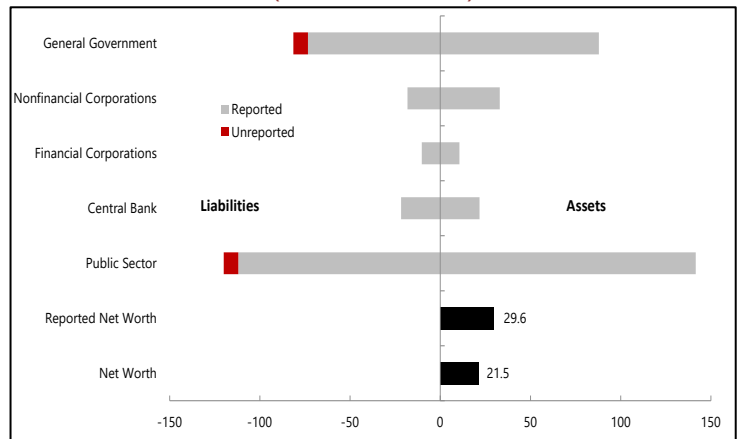
and equity of corporations, 9 percent of GDP in currency and deposits, and 29.9 percent of GDP in accounts receivable.<sup>12</sup>

- Reported *liabilities* amount to 112 percent of GDP, including 38 percent of GDP in debt securities, 14 percent of GDP in loans, and 27.7 percent of GDP in accounts payable.
- *Net worth and net financial worth* are reported at 29.6 percent of GDP and - 22.4 percent of GDP, respectively.

**16. However, the public sector balance sheet published by CGN does not reflect fully all government assets and liabilities, and their true value (Figure 5).** The main differences arise because, in the financial statements:

- *Pension liabilities are not fully recorded (see Box 1).* Following international standards, all future pension payments under employment-related pension schemes should be recorded as direct liabilities. The balance sheet reports only part of the pension liabilities related to public service pension schemes prior to the 1993 reform (the so called “*Régimenes Empleadores and UGPP*”). The CGN’s resolutions 633 determined the gradual incorporation of these liabilities to the balance sheet, in a process to be concluded by 2029. In 2015, almost half of the liability was recorded (5.9 percent of GDP). The other half (6.7 percent of GDP) was reported as a memorandum item.

**Figure 5. Public Sector Balance Sheet Coverage in Fiscal Reports, 2015**  
(Percent of GDP)



- *Financial liabilities related to PPPs are likely underreported.* The balance sheet reports limited information on PPP liabilities since Colombia still does not fully comply with IPSAS 32 methodology.<sup>13</sup> *Agencia Nacional de Infraestructura (ANI)*, the main infrastructure agency that operates PPP contracts, is working to adopt international accounting standards for the fourth generation (4G) PPP contracts, awarded from 2015 onwards. The third-generation contracts (3G, from 2011 to 2015) will also have their accounting records reviewed in line with IPSAS 32; however, the accounting of the first and second (1G and 2G) generation of contracts, awarded up to 2011, will not change (Section 3.2.4). The size of this gap is estimated to be 1.4 percent of GDP.

<sup>12</sup> Accounts receivables include tax receivables, trade credit/advances, and some other assets. Refining the classification of these assets under the appropriate economic categories would improve data quality and statistical integrity.

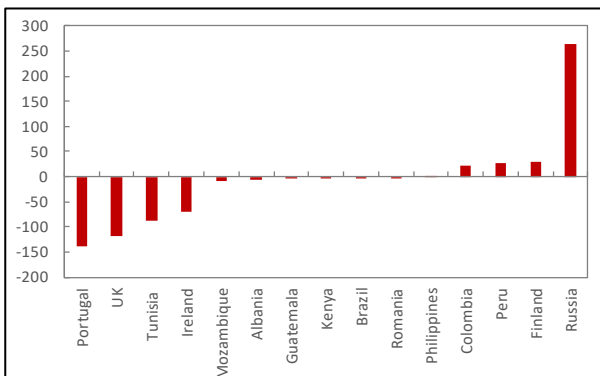
<sup>13</sup> IPSAS 32 requires recognition of assets and corresponding liabilities as assets are constructed.

- *Buildings, structures and other fixed assets are recorded at historical cost.* The valuation method recommended by the GFSM is market value, which can potentially alter the non-financial asset position. The MHCP is conducting an inventory of central government fixed assets to better evaluate the current condition of these assets and update their accounting records accordingly. Law 42/1993 (article 107) requires every public building to be insured against liability for loss or damage to property; such insurance contracts could be used to support a proper valuation of assets. The mission's computation (Table 1) does not consider the effect of market valuation of these assets.

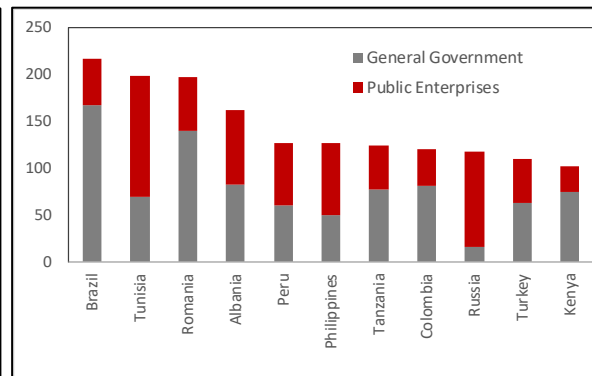
**17. The CGR's audit findings regularly indicate under- and/or over- estimation of assets and liabilities.** These findings led to an adverse opinion on the 2013 accounts and to an abstention on the 2015 accounts. In 2015, it found net underestimation of assets (1.2 percent of GDP) and liabilities (1.6 percent of GDP). The inconsistencies (both underestimation and overestimation) affected several items in the balance sheet. Most noticeable were those related to tax receivables and litigation.

**18. Taking a more comprehensive view of the public sector balance sheet would slightly worsen the reported fiscal position.** Initial estimates of the fully consolidated public sector balance sheet suggest an estimated negative net financial worth of around 30.5 percent of GDP and a net worth in 2015 of about 21.5 percent of GDP, comparable to Peru (Figure 6). This change in the reported fiscal position is mainly due to the inclusion of pension and PPP-related liabilities in the balance sheet. A re-evaluation of some of the main assets and liabilities (e.g., fixed assets, pension liabilities) and assessment of PPP-related liabilities is needed to fully reflect Colombia's fiscal position (Figure 7). For example, a probability-based analysis (building on historical recovery trends) could be performed to better assess the value of accounts receivables.

**Figure 6. Public Sector Net Worth in Selected Countries**  
(percent of GDP)



**Figure 7. Public Sector Gross Liabilities in Selected Countries**  
(percent of GDP)



Source: FTEs.



### Box 1. The Colombian Pension System

The Colombian pension system is rooted in a complex set of legislations. The Constitution of Colombia (Art. 48) defines the broad contours of the system, making the pension benefits universally available subject to meeting stipulated conditions. Law 100/1993 introduced the general pension system (*Sistema General de Pensiones*), which was modified by subsequent legislations – principally, Law 797/2003 that removed the exception granted to the Ecopetrol employees; Law 812, also of 2003, that brought teachers under the general pension system; and Law 923/2004 that reformed the scheme applicable to the armed forces and aligned it with Law 100/1993. Further, the Legislative Act 01/2005 amended the Constitution, integrated the various pension schemes that were in operation then, and removed the possibility of any special regimes as well as collective bargaining. Act 01/2005 also stipulated an end to all transitional arrangements by 2014. The system cannot be modified, except by the Congress through a Legislative Act.

The law makes affiliation mandatory for formal workers who have the option to select one out of two alternative schemes, and to switch from one to the other under certain conditions. The system covers both private and public sector employees under equal terms. The two schemes are:

- *Régimen de Prima Media – RPM*: a public defined-benefit scheme operated almost entirely by *Colpensiones*, a public financial corporation. This scheme is funded by contributions calculated as a fixed percentage (16 percent) on the worker’s wage, of which three-fourth is borne by employers and one-fourth by employees. The scheme operates on a PAYGO basis. Contributions received by *Colpensiones*, and other administrators, are used to meet the payment obligations of pensioners. Shortfalls are met by the government with budgetary transfers. While the legislative Act 01 of 2005 brought all PAYGO pension funds under the overall umbrella of the RPM (within the general pension system), special entities continue to serve certain categories of subscribers (e.g. military and police).
- *Ahorro Individual con Solidaridad*: a defined contribution individual capitalization scheme operated by private financial corporations (AFPs). The contribution rate is the same as in the RPM. Pension is paid out of the stock of resources accumulated in the individual account of the beneficiary over the working life.

In addition, there are schemes covering specific categories of public servants that are mainly covered by the central government budget:

- *Régimenes Empleadores*: these schemes cover civil servants who entered the public service before 1993. These are non-contributory schemes, administered by the employing government agencies, which pay pensions partly from the general budget. *Régimenes Empleadores* also covers the pension liability component corresponding to collective bargaining agreements in force prior to the 2005 legislative act.
- The UGPP (*Unidad de Gestión Pensional y Parafiscales*) manages pensioners belonging to entities falling under the employer’s pension regime that were subsequently dissolved.

The total actuarial pension liability in Colombia, considering the general pension system, *Régimenes Empleadores* and UGPP, reached COP 839 trillion (104.7 percent of GDP) in 2015.

According to GFSM 2014, the statistical treatment of pension schemes depends on whether the scheme is contributory or not, whether it is a defined-benefit or defined-contribution, and whether it is a social security or employment-related scheme. For defined-benefit schemes, the statistical treatment depends on the type of beneficiaries: when the beneficiary is the general population, or a large segment of the general

population, the scheme is considered a social security scheme; whereas if individuals, households, or a group of employees are eligible to receive social benefits, the scheme would be considered an employment-related social insurance scheme. Under social security schemes, the link between benefits and contributions is not considered sufficiently strong to give rise to a financial claim on the part of contributors. As a result, no

Pension Scheme	Actuarial Liability	
	COP trillion	% of GDP
<b>Sistema General de Pensiones</b>	<b>738</b>	<b>92.1</b>
<i>Régimen de Prima Media - Colpensiones</i>	555	69.4
Teachers	102	12.8
National Police	40	5.0
Military personnel	37	4.7
Congress employees	3	0.3
<b>Régimenes Empleadores - before 1993</b>	<b>73</b>	<b>9.2</b>
Ecopetrol	10	1.3
Parapat-Telecom	10	1.2
Other	53	6.6
<b>UGPP</b>	<b>28</b>	<b>3.5</b>
<b>TOTAL</b>	<b>839</b>	<b>104.7</b>

liabilities are recorded, but an estimate equal to the net implicit obligations for future social security benefits should be presented as a memorandum item to the balance sheet. Employment-related pension schemes are, on the contrary, considered to involve a contractual liability towards employee and registered as liabilities.

According to this criterion, the actuarial liabilities of the *Régimenes Empleadores and UGPP* would be recognized in the financial statements of the public sector as firm liabilities. The treatment of entities serving armed forces, teachers, and Congress staff requires a complex interpretation of their legal status. Per the Constitutional requirements, viewing these as administrative arrangements within the general pension system—designed to service certain large group of beneficiaries more efficiently, would imply that the actuarial liabilities of the entire general pension system (92.1 percent of GDP) are treated as contingent liabilities and disclosed in the financial statements.

Source: Annual Consolidated Financial Statements, 2015, on GFSM 2014 basis.

1.1.3	Coverage of Flows	Basic
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**19. The incomplete accrual recording, and the absence of a cash flow statement to accompany the consolidated financial statements, implies that Colombia does not meet the most advanced practices under the FTC.** Fiscal reports mainly used for policy decisions are prepared on a modified cash basis while financial statements, although on accrual basis, are not complete. Annual financial statements cover accrual flows, including accounts payable/receivable, depreciation of fixed assets, and other economic flows (revaluations, exchange rate variation), but major omissions are social contributions to the PAYGO pension scheme and pension payments made by Colpensiones.

**20. While most of cash to accrual adjustments can be obtained from the annual statements, some relevant accrued flows are not reported.** Cash to accrual adjustments for each subsector (central government, social security, regional governments, and corporations) are derived by comparing revenue and expenditure figures from the accounts and the fiscal statistics. Nevertheless, important accrued flows related to pension liabilities (*Régimenes Empleadores* and UGPP) and PPPs are partially reported in the statements. Initial estimates, based on limited data, suggest the accrual of pension liabilities amounts to 2.0 percent of GDP every year and the annual investment in PPP could reach 0.8 percent of GDP (Table 4).

**Table 4. Cash to Accrual Adjustments**  
(Percent of GDP, unless otherwise stated)

<b>NFPS Overall Balance (below-the-line, modified-cash, <i>Cierre Fiscal</i>)</b>	<b>-3.4</b>
Cash-accrual adjustments on recognized transactions	-4.0
Central government	-0.8
Social security	-0.4
States and municipalities	-0.3
Non-financial public corporations	-2.5
<b>NFPS Net Lending/Borrowing</b>	<b>-7.4</b>
Coverage adjustments - financial corporations	0.9
<b>Public Sector Net Lending/Borrowing</b>	<b>-6.5</b>
Additional accrual adjustments	
Accrual of pension entitlements	-2.0
PPP investment	-0.8
<b>Augmented Public Sector Net Lending/Borrowing FTE</b>	<b>-9.3</b>

Sources: Fiscal statistics; Annual consolidated financial statements 2015 and staff estimates.

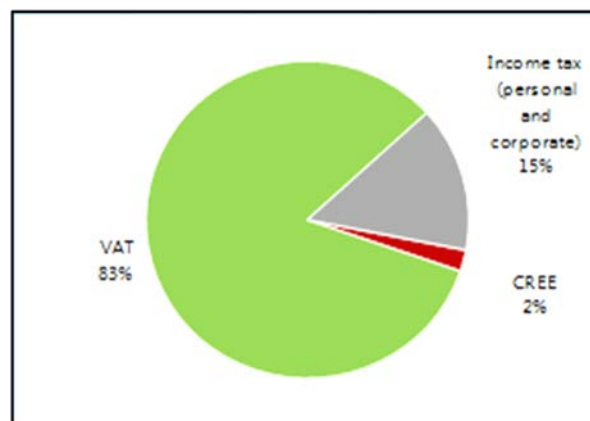
**21. Recognizing these additional accrued expenses would increase Colombia's public sector deficit.** On an accrual basis, the NFPS deficit would reach 7.4 percent of GDP, 4 percentage points higher than currently reported in fiscal reports. Expanding the coverage to include the financial corporations would reduce the deficit by 0.9 percentage point. Finally, incorporating the two major unreported accrued flows (pension entitlements and PPP contracts) would turn the public sector net lending/borrowing into a deficit of around 9.3 percent of GDP.

**22. Apart from cash to accrual adjustments, some important flows across subsectors are not identified in the current fiscal reports.** Central government transfers to pension funds, such as *Colpensiones*, and to the health insurance system are not explicitly reported. These flows are consolidated into a recurrent expenditure line item in the quarterly fiscal bulletin (*Cierre Fiscal*), making it difficult to reconcile the figures reported by *Colpensiones* and the health system. Such transfers amounted to around COP 20 trillion in 2015 and are expected to grow in the coming years. Fiscal reports would improve in transparency if these transactions were fully disclosed in additional tables.

1.1.4. Coverage of Tax Expenditures	Good
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**23. Annual estimates of the main tax expenditures of the central government are published in the MFMP (Figure 8).** Each tax expenditure is analyzed by category of expenditure (e.g., credit, deduction), by economic sector (e.g., education, construction) or by legal beneficiaries.<sup>14</sup> In 2015, estimated revenue losses from tax expenditures amounted to about COP 62,392 billion (7.8 percent of GDP or 54 percent of tax revenue) higher than in most neighboring countries (Figure 9). The losses are concentrated in finance and insurance activities, energy and mining industries, and general tax expenditures that apply to public administration, defense and social security. The quantum of tax expenditures has been increasing in recent years. For example, according to MFMP, the fiscal costs of VAT exclusions increased by more than half during the five-year period between 2011 and 2015.

**Figure 8. Tax Expenditures, 2015**

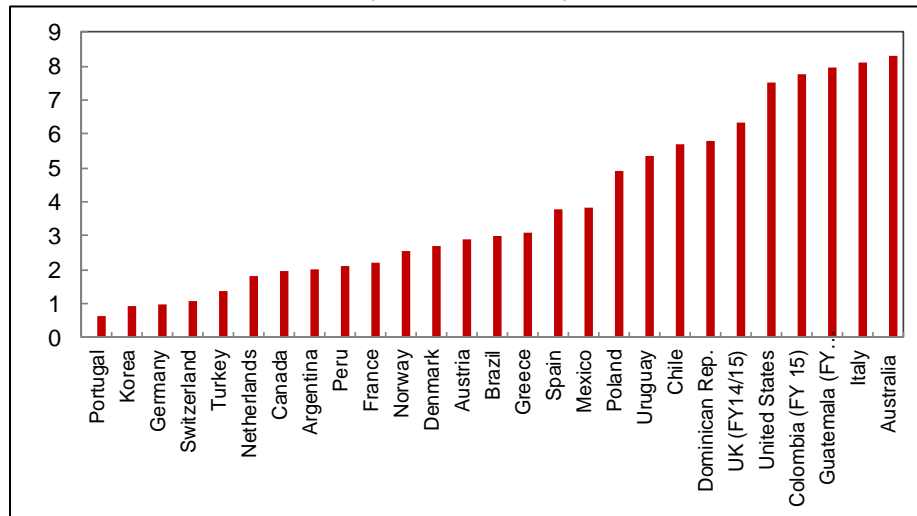


Source: MFMP 2016.

**24. Introducing explicit controls and budgetary objectives for the size of tax expenditures would bring Colombia in line with advanced practices.** Tax expenditure estimates cover the central government only and have no explicit budgetary limit. They do not cover taxes levied by subnational governments, which remain unquantified. In addition, most tax expenditures related to income tax and value-added tax (VAT) are not subject to any time limit. Moreover, time limits, where imposed, can be extended by law. The authorities have, thus, experienced difficulties capping the growth of tax expenditures.

<sup>14</sup> The breakdown covers 20 sectors and is not fully consistent with the budget sectoral breakdown.

**Figure 9. Tax Expenditures in Selected Countries**  
(Percent of GDP)



Source: IMF Fiscal Monitor April 2011 and UK FTE.

Note: All estimates are for 2010, except when stated otherwise.

**25. The government’s estimates of tax expenditures could be improved to support cost-efficiency analyses.** A recent study by the World Bank identified more than 200 separate tax expenditures in Colombia, and also assessed their value-for-money.<sup>15</sup> The number of tax expenditures has grown substantially in recent years without a thorough *ex-ante* or *ex-post* analysis of their total fiscal cost, or an evaluation of their economic impact. In addition, the cost analysis conducted within the MFMP is a static one and does not account for behavioral changes that may result from the deductions or exemptions provided through the tax system. To facilitate decisions between using the tax system or direct subsidies to achieve policy objectives, the government could consider generalizing its use of cost-efficiency analysis. The comparative cost of using tax expenditures or direct subsidies should also be assessed.

## 1.2. Frequency and Timeliness

<b>1.2.1.</b>	<b>Frequency of In-Year Reports</b>	<b>Not Met</b>
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**26. Several in-year reports are produced by the various general directorates of the MHCP but none meets the coverage and timeliness required under the FTC.** The quarterly fiscal reports produced by the DGPM are the only in-year reports providing a comprehensive view of the revenues, expenditures and financing. The DGPM produces these reports both for the central government and combined public sector operations. The reports are produced on a quarterly basis but with a lag of more than a quarter. The timeliness of these reports is affected by the time taken in the reconciliation of above-the-line deficit and below-the-line financing

<sup>15</sup> See *El Gasto Tributario en Colombia, Una propuesta de evaluacion integral y systemica de este instrumento de politica publica*, World Bank, 2012.

figures obtained from the Central Bank, which needs to be addressed by further strengthening the cooperation between the MHCP and Central Bank. Other reports, such as the monthly reports by the General Directorate of National Budget (DGPPN) on the execution of the expenditure budget, DIAN's reports on tax collections, DGCPTN's quarterly debt reports, DNP's reports on the execution of investment projects, are brought out at a higher frequency and score better on timeliness, but provide only a partial view of the fiscal operations.

<b>1.2.2.</b>	<b>Timeliness of Annual Financial Statements</b>	<b>Advanced</b>
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**27. The Constitution (Article 354) requires submission of the audited consolidated financial statements within six months of the end of the fiscal year.** To meet this deadline, the CGN is required to submit the consolidated financial statements to the CGR latest by May 15 every year. These dates are met invariably. The CGR's report is placed before Congress when it convenes in July. The financial statements are published simultaneously on the CGN's website and the audit report on the CGR's website.

### 1.3. Quality

<b>1.3.1.</b>	<b>Classification</b>	<b>Not Met</b>
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**28. The lack of a harmonized classification system based on international standards remains a major weakness and impedes the government's ability to produce quality fiscal information on a comparable and consistent basis during the annual fiscal cycle.** There is no consistent application of economic, functional or program classifications that meets international standards. In compliance with the requirements of the Organic Budget Law (Law 38, 1989; Article 7 and 23) the budget is classified by institutions and economic nature of expenditure. For each institution, the budget is broken down into three broad components: operational, debt service and investments. The operational budget is further classified by economic types using a hierarchical structure with increasing granularity. The investment budget is classified by programs, sub-programs and projects, but an economic classification of programs/projects is missing. A functional view of expenditure—using 12 functions—is also provided in the budget documents. The functional classification broadly corresponds to the Classification of Functions of Governments (COFOG) at a higher level, but deviates at lower levels. There is no reporting of budget execution by functions. The monthly budget execution reports and the quarterly fiscal balance reports produced by the MHCP follow the budget classification. The financial statements follow a different classification structure, which is designed to meet the requirements of the accounting standards. A bridge table is used to map the accounting classification to the classification used in the GFSM.

**29. Recognizing this weakness, the authorities have started a project to harmonize the classification systems used by different agencies.** The MHCP-led CIEFP is tasked to propose policies and strategies that will enable the harmonization of fiscal statistics and the application of

consistent, and homogeneous methodologies compatible with international standards on data dissemination and transparency. Based on a 2015 diagnostic study, an action plan has been developed. Technical working groups have begun working on six important areas: sectoral classification of entities; harmonization of classification systems; measurement of public debt; identifying the boundaries of the social protection sector; developing an integrated budget and accounting classification for the territorial entities; and consolidation of accounts.

**30. While full harmonization would appear to be a medium-term objective, early achievements indicate good progress.** A notable accomplishment has been the establishment of a Bureau, led by the CGN and supported by the National Statistics Department (DANE) and MHCP, for developing a classification of public sector institutions. A comprehensive list of public entities, categorized in accordance with the GFSM 2014, has been developed and coded using a unique identifier (CUIN). A new economic classification of budget, aligned with the GFSM 2014 and IPSAS, has been drafted, and will be embedded in the financial information system (SIIF) for a uniform application. Work is in progress on developing a unified classification structure that will harmonize the budget and the financial and statistical reporting. A policy note is being developed for submission to the National Council for Economic and Social Policy (CONPES) during the second half of the year 2017. Once approved, the note will serve as the framework for organizing and managing public financial management information.

<b>1.3.2. Internal Consistency</b>	<b>Good</b>
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**31. The fiscal reports present two of the three reconciliations demanded by this indicator.** The quarterly fiscal reports present a reconciliation of the above-the-line deficit with below-the-line financing figures obtained from the central bank. Discrepancy between the two measures is reported as “statistical discrepancy” (Table 5), which has been significant in some years, and needs more rigorous reconciliation. The quarterly debt reports contain data on the debt issued during the period and the opening and closing stock positions. The reconciliation of debt issuance and stock can be derived from this information, although it is not explicitly presented. The presentation in this report could be enhanced by including a table that shows changes in debt stock due to transactions during the period and valuation changes, including those due to exchange rate variation. There is no report that reconciles financing with debt stock.

**Table 5. Reconciliation Between Deficit and Financing (COP Billions)**

Year	Fiscal Balance	Financing	Discrepancy	
2016	-19,681	-19,037	644	3%
2015	-26,417	-27,163	746	3%
2014	-13,807	-13,724	83	1%
2013	-7,003	-6,247	756	11%
2012	3,581	1,862	1,719	48%
2011	13,604	12,585	1,019	7%

Source: MHCP.

1.3.3. Historical Revisions	Basic
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**32. Major revisions to fiscal data are disclosed, but no further explanations or bridge tables between old and new figures are provided.** Revisions are reported in a short section—*Fe de Erratas*—in the quarterly fiscal bulletin (*Cierre Fiscal*), but without an explanation of the changes. Such revisions have, however, had a minor impact on the final fiscal balance. The MHCP updates retroactively its online databases containing fiscal aggregates. Fiscal statistics are also updated as they move from provisional to final status; however, in this case, the changes are not reported. To date, no revision has affected the compliance with the fiscal rule.

## 1.4. Integrity

1.4.1. Statistical Integrity	Basic
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**33. Fiscal statistics have been disseminated in line with IMF’s Special Data Dissemination Standards (SDDS) since 2000.** Colombia subscribed to the SDDS in 1996 but met all SDDS requirements only in 2000. Fiscal data reported under the SDDS framework are the same as those released in the quarterly fiscal bulletin (*Cierre Fiscal*).

**34. More recently, Colombia has been submitting data to the IMF’s GFS Yearbook under the GFSM 2014 reporting format; however, there is room for improvement in compliance with the GFSM guidelines.** The accuracy of the CGN’s compilation procedures is limited by the structure of the chart of accounts and current accounting practices. Furthermore, the CGN does not perform consistency checks in a systematic manner; such checks would lead to improvements in the classification of units and/or statistical treatments of operations, particularly the reciprocal transactions within subsectors. Checks should be undertaken against other sources of fiscal data, i.e., external sector and monetary statistics, national accounts and cash-based fiscal statistics compiled by the DGPM.

**35. Entrusting the responsibility to produce fiscal statistics to a specific government agency, and if possible to a professionally independent body, would be in alignment with international good practice, and result in a higher score under the Code.** An important element in statistical integrity is the professional independence of the agency responsible for producing fiscal statistics that will allow it to produce reliable statistics.<sup>16</sup> Multiplicity of agencies compiling and publishing fiscal data using different data sources, methodologies and reporting practices, can create confusion, and be detrimental to transparency objectives.

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<sup>16</sup> The IMF’s Data Quality Assessment Framework (DQAF) requires that statistics are produced on an impartial basis. It recommends supporting professional independence of the data producing agency by a law or other formal provision. In the absence of a law or formal provisions, it suggests clear recognition of traditions and cultures of professionalism. For example, Ireland’s Central Statistical Office was established under the Statistics Act (1993) as an independent office.



**36. CIEFP has been working to improve the inter-agency coordination.** The committee should receive strong institutional support and must have access to all resources needed to carry out its activities. Regarding the medium-term action plan, priority should be given to integrating budget execution and accounting by: i) harmonizing the chart of accounts and codification of both systems; and ii) ensuring full interoperability between SIIF and CHIP.

1.4.2.	External Audit	Basic
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**37. The CGR—the supreme audit institution—has not been in a position to certify financial statements in two recent years.** In 2015, while the CGR certified the reasonableness of the treasury balance, it abstained from providing an opinion on the consolidated financial statements due to the lack of adequate evidence to judge the reasonableness of several accounts. A large proportion of entities received qualified opinion, pointing to control weaknesses in these entities. During the year, the CGR audited 95 entities representing 87 percent of the total public sector assets. Of these, over half (49)—representing 46 percent of the total assets and 27 percent of total liabilities of the 95 audited entities—received a qualified or adverse opinion. Another major issue was the lack of adequate explanation of the changes in the financial statements due to the adoption of new accounting standards (Resolution 743 of 2013) for the public listed companies. The CGR also commented on large accounts payable, including those pertaining to the government pension fund administrator (Colpensiones), weaknesses in the consolidation process that resulted in large unreconciled related-party balances (COP 43.2 trillion), and incorrect representation of assets (net underestimation by COP 9.7 trillion) and liabilities (net underestimation by COP 12.9 trillion). In 2013, the CGR gave a negative opinion on the accounts for similar reasons.

### **Box 2. The Comptroller General of the Republic (CGR)**

The CGR is an independent organ of the State. The Political Constitution of 1991 (Article 267) empowers the CGR to exercise “fiscal control” by way of overseeing the overall fiscal management and that of the individual public entities. The Constitution recognizes the technical character of the CGR, grants it administrative and budgetary authority, and prevents it from taking on any administrative functions other than those pertaining to its own organization. The CGR is elected by the Congress during the first months of the legislative session for a four-year period from a list of three candidates, one each nominated by the Constitutional Court, the Supreme Court of Justice, and the State Council. The CGR cannot be reelected for a second term, and cannot hold any other public office at the national level, nor contest general election until one year following retirement. Only the Congress has the authority to accept a CGR’s resignation.

The Constitution provides a wide mandate to the CGR, as part of which the CGR submits several reports to Congress. The mandate, among other things, includes: prescribing the methods and form for rendering accounts, reviewing and closing the accounts of the public entities and to determine the level of efficiency, effectiveness, and economy with which they performed; keeping a record of the public debt of the nation and its territorial entities; establishing accountability for financial management and where necessary imposing financial sanctions. In exercise of these functions the CGR routinely audits the accounts of the national and territorial public entities. The CGR’s reports to Congress include an annual report on the budget execution containing its opinion on the reasonableness of the treasury balance and the CGR’s views on the consolidated financial statements prepared by the CGN. The CGR expects to complete its adoption of the international organization of supreme audit institutions (INTOSAI) auditing standards by 2018.

The 2015 Open Budget Survey gave very high marks to the independence and effectiveness of CGR.

Source: Colombian authorities.

**38. Aiming to modernize its accounting practices, Colombia is undertaking a gradual transition to IPSAS.** The CGN published in 2013 an action plan to adopt International Public Sector Accounting Standards containing an implementation schedule up to 2019.<sup>17</sup> The transition is gradual for the different types of public entities, incorporated corporations, non-incorporated corporations and general government units. The CGN issued three resolutions in the period 2013-2015, establishing the new accounting standards for these entities. The first, Resolution 743/2013, became operational in 2015 for the incorporated public corporations. Resolution 414/2014 came into force in 2016, and applied the international standards to the unincorporated corporations. The implementation for the general government units, originally scheduled to take effect in 2018, has been postponed to 2019 (Resolutions 533/2015 and 113/2016). It is expected that on successful completion of transition, the accounts will present a more consistent and credible position in accordance with international standards.

**39. Strengthening of internal controls, particularly at the sub-national level, would be important to improve the quality of the financial statements and to avoid the recurrence of audit qualification.** The nature and recurrence of audit observations point to possible control weaknesses. The large and increasing number of entities receiving such qualification should be a

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<sup>17</sup> Estrategia de Convergencia de la Regulación Contable Pública hacia Normas Internacionales de Información Financiera (NIIF) y Normas Internacionales de Contabilidad del Sector Público (NICSP).

matter of concern. Strengthening controls would require improving procedural weaknesses, if any, addressing capacity constraints, providing better guidance and documentation, and stronger accountability arrangements. More specifically: interoperability between CHIP and information systems used by the subnational entities, including the public corporations at the subnational level, should be improved; universal introduction of financial information systems at the subnational levels should be pursued further; and data validation and controls in CHIP should be improved.

<b>1.4.3. Comparability of Fiscal Data</b>	<b>Basic</b>
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**40. Fiscal reports in Colombia score low on comparability.** Reports are prepared by different agencies with divergent institutional coverage, accounting base and methodology, and classification. There are at least three distinct reporting plans:

- Reports, such as the MFMP, quarterly fiscal bulletin, and the annual compliance report, focus on fiscal aggregates broken down by sub-sectors. The definitions of subsectors and the economic classification follow old international standards (GFSM 1986).
- The annual budget, the DGPPN’s monthly budget execution reports, the DNP’s monthly report on the execution of investment projects, and the CGR’s annual and in-year reports on the budget execution follow the budget classification.
- The CGN’s annual financial statements are prepared on an accrual basis using the accounting classification with a view to meeting the requirements of the accounting standards, and used for compiling GFS data.

Due to the coverage and methodological differences, the deficit figures, as well as other main fiscal aggregates disclosed in these reports, differ from each other (Table 6).<sup>18</sup> Likewise, the debt reports produced by the CGR and the MHCP differ in their coverage.

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<sup>18</sup> Major differences appear in central government extrabudgetary units, Subnationals and public corporations. While DGPM work with data from a sample of EBUs and corporations and below-the-line figures from the Central Bank for subnationals, CGR collects vast information from these entities in a process supported by CGR’s local offices.

**Table 6. Comparison Between DGPM and CGR Fiscal Statistics**  
(Percent of GDP, unless otherwise stated)

Sector/Subsector	Fiscal Balance - 2015 (% of GDP)	
	CGR	DGPM
<b>Public Sector</b>	<b>-3.73</b>	<b>-3.40</b>
<b>Non Financial Public Sector</b>	-3.68	-3.40
<b>General Government</b>		
Budgetary Central Government	-2.96	-3.00
CG EBU's - Public Establishments	0.32	-0.10
Subnationals - Budgetary	-0.35	-0.50
Subnat. EBU's - Public Establishments	0.01	0.00
Social Security	0.27	0.40
<b>Non Financial Public Corporations</b>		
Central level	0.02	-0.20
Subnat. Level	-1.00	-0.10
<b>Fogafin</b>	<b>0.00</b>	<b>0.10</b>
<b>Banco de la República</b>	<b>-0.05</b>	<b>0.00</b>

Source: Quarterly fiscal bulletins and Annual State of Public Finance report 2015.

**41. Improving comparability of reports would require presenting reconciliation tables for the main fiscal aggregates between the different reporting plans.** The financial statements could include a reconciliation of main aggregates with the annual fiscal bulletin. Similarly, the GFS and the CGR's budget execution reports should present a reconciliation with the outturns reported in the fiscal bulletin, and should reconcile with the annual financial statements.

## 1.5. Conclusions and Recommendations

**42. Colombia's fiscal reporting meets good and advanced practices in several areas.** A major strength is the accrual-based annual financial statements that consolidate the entire public sector, and are available within six months of the year-end. Globally, few countries have achieved such a high level of consolidation. By adapting gradually its national accounting standards to international accounting standards, Colombia has made impressive progress in bringing the public sector liabilities and assets, including sub-soil assets, on its balance sheet. The audit of the financial statements by an independent and professional audit institution is another major institutional strength. The disclosure of tax expenditures complements the financial statements, and facilitates a more comprehensive policy analysis.

**43. A key weakness, however, is the lack of a well-developed and harmonized classification system which limits the comparability of fiscal reports and constrains their analytical use.** A classification system that is aligned with international standards is essential to the richness of information captured and reported in fiscal reports, and central to a robust reporting system. CEIFP has made impressive progress in further developing the budget classification and harmonizing the various classification systems. This is an important reform that,

once completed, will significantly enhance the capability of the reporting system and enhance the quality, consistency and comparability of reports.

**44. Another major weakness is the delay in publishing a comprehensive in-year fiscal report to support monitoring and policy analysis.** The quarterly fiscal bulletin, the only report that provides a comprehensive view of fiscal operations, needs to be compiled and published at least within three months of the reference period, if not earlier, if it is to be relevant as a monitoring and decision-support tool. Over the medium term, the aim should be to build capacity to produce this report every month, within one month of the reference period.

**45. Although financial statements are well developed, there is a need to improve their methodological rigor, and achieve full compliance with international standards.** Partial recognition of pension and PPP-related liabilities results in the balance sheet understating liabilities by 8.1 percent of GDP. Similarly, the operating statement excludes significant flows relating to the public pension scheme and the annual accrual of pension liabilities. As a result, the deficit remains underreported. A complete coverage of stocks and flows, and their recognition and measurement in accordance with international standards, would further enhance the credibility of the financial statements and their utility as an accountability and analytical tool, besides contributing to greater transparency.

**46. The integrity of fiscal reports scores low, but improving it does not present a major challenge.** Simple technical improvements, such as systematically applying consistency checks, explaining major revisions to historical data, and reconciling key aggregates in reports not prepared on a comparable basis, would address these concerns.

**47. Based on the above assessment, the FTE highlights the following priorities for improving the transparency of fiscal reporting:**

- **Recommendation 1.1: Continue the reforms initiated to develop a harmonized classification system.** As a first step, the national government budget and accounting classifications should be unified, and the economic classification should be further deepened and consistently applied in budget formulation and execution. This will improve the content of the budget execution reports, and allow the production of the central government financial statements on a comparable basis. Embedding these changes in the transaction processing system will, however, be a major challenge, and could be disruptive, if not managed well. Subsequent reforms will involve harmonizing the economic classification with the classification used for compiling fiscal and national account statistics, unifying and standardizing classifications used by the territorial-level entities, and making them compatible with the national chart of accounts. The harmonization will enable a smooth conversion of data from one format to another, improving the consistency and comparability of reports.

- **Recommendation 1.2: Improve the timeliness of the quarterly fiscal bulletin.** As a first step, the MHCP should publish a reporting calendar with responsibilities assigned to its general directorates for publishing respective reports by their due dates. The central bank should be asked to provide the financing data on a more timely basis. To fill the reporting gap, the MHCP could also consider reviving the monthly central government fiscal balance reports.
- **Recommendation 1.3: Complete the transition to international accounting standards, and aim for achieving full compliance in a timebound manner.** The main items for refining the accounting and consolidation methodology would be: recognition in the operating statement of flows relating to the PAYGO pension scheme; recognition in the balance sheet of all employee-related pension liabilities and PPP-related liabilities; and improving the valuation of assets and liabilities in accordance with international standards. To facilitate consolidation, an information base on related-party transactions could be developed. Strengthening internal controls, particularly at the subnational level entities, is important to enhance the data quality submitted by them. Successful implementation of the classification reforms should also benefit the financial statements, particularly in meeting consolidation challenges by making it easier to identify counter-party information. Overall, these improvements will enhance the credibility of the financial statements.

**Table 7. Summary Assessment of Fiscal Reporting**

Principle		Assessment	Issues and Importance	Recommendation
Coverage	Coverage of Institutions	<b>Advanced:</b> The annual financial statements cover the entire public sector.	<b>Medium:</b> The sectorization of entities needs to be aligned fully with GFSM 2014.	
	Coverage of Stocks	<b>Good:</b> The annual financial statements cover most assets and liabilities, but exclude some.	<b>High:</b> The financial statements need to recognize employment-related pension liabilities and PPP projects (together 8.1 percent of GDP), and achieve full compliance with international standards.	<b>Rec 1.3</b>
	Coverage of Flows	<b>Basic:</b> Both fiscal reports and the financial statements have partial coverage of flows.	<b>High:</b> Major omissions include social contributions to the PAYGO pension scheme and pension payments made by Colpensiones.	<b>Rec 1.3</b>
	Coverage of Tax Expenditures	<b>Good:</b> Tax expenditures are estimated, analyzed by sectors and disclosed annually.	<b>Low:</b> Tax expenditures need rationalization, and explicit control over their size.	
Frequency and Timeliness	Frequency of In-Year Reporting	<b>Not Met:</b> Fiscal reports are prepared on a quarterly basis with a lag of more than a quarter.	<b>High:</b> The quarterly fiscal bulletin needs to be produced on a more timely basis, and overtime at a monthly frequency.	<b>Rec 1.2</b>
	Timeliness of Annual Financial Statements	<b>Advanced:</b> The financial statements are published within six months of the year-end.		
Quality	Classification	<b>Not Met:</b> Fiscal reports use institutional and economic classifications, but the latter is not applied consistently to all items.	<b>High:</b> Budget, accounting and statistical classifications need harmonization; budget classification needs further development.	<b>Rec 1.1</b>
	Internal Consistency	<b>Good:</b> Fiscal reports contain reconciliation between deficit and financing, and debt issuance and stock.	<b>Low:</b> Changes to debt stock are not reconciled with financing.	
	Historical Revisions	<b>Basic:</b> Revisions to fiscal statistics are reported, but without explanations.	<b>Low:</b> Major revisions to historical data need to be explained, where necessary with a bridge table between the old and new time series.	
Integrity	Statistical Integrity	<b>Basic:</b> Fiscal statistics are disseminated in accordance with international standards.	<b>Low:</b> Fiscal statistics need to be fully aligned with GFSM 2014 guidelines; a systematic application of consistency checks is required.	
	External Audit	<b>Basic:</b> The financial statements are audited by an independent auditor, but the most recent statements have received a disclaimer.	<b>High:</b> The credibility of the financial statements needs improvement. Internal controls, particularly at the subnational level, need strengthening. Improvements in the coverage of stocks and flows would help.	<b>Rec 1.3</b>
	Comparability of Fiscal Data	<b>Basic:</b> Fiscal reports are not prepared on a comparable basis, and not reconciled with each other.	<b>Medium:</b> Fiscal reports, where not prepared on a comparable basis, should present a reconciliation of key aggregates.	

## II. FISCAL FORECASTING AND BUDGETING

*Fiscal forecasts and budgets should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.*

**48. This chapter assesses the quality of Colombia's fiscal forecasting and budgeting practices against the standards set by the FTC.** In doing so, it considers four key dimensions of fiscal forecasting and budgeting based on publicly available information (Table 8):

- The comprehensiveness of the budget and associated documentation;
- The orderliness and timeliness of the budget process;
- Policy orientation; and
- The credibility of the fiscal forecasts and budget proposals.

**Table 8. Fiscal Forecasting and Budget Documents**

Report	Content	Timing
<b>Fiscal Forecasting and Budget Documents</b>		
National Development Plan	Comprehensive strategy for medium-term development of regions and sectors	4-yearly
Medium-Term Fiscal Framework (MFMP)	Assessment of fiscal policies and fiscal projections over a 10-year period	June
Report on the Fiscal Rule	Compliance with the fiscal rule	June
Financial Plan	Macro-fiscal projections one year ahead	December/March
Medium-Term Budget Framework (MGMP)	4-year projections of spending and revenue	July
Annual Operating Investment Plan (POAI)	Projections of investment projects	July
Annual Budget Law	Approved budget	October
Citizen's Guide to the Budget	Simplified presentation of annual budget	December

Source: Authorities, FAD staff.



## 2.1. Comprehensiveness of Budget Documentation

2.1.1.	Budget Unity	Basic
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### 49. The budget process in Colombia is highly fragmented with four separate types of budgets:

- The central government budget (PGN) incorporates the gross revenues, expenditures, and financing of central government ministries and agencies; approved by Congress.
- The royalties budget (*Sistema General de Regalias*, SGR), covering the receipt and allocation of natural resource revenues, approved by Congress every two years;
- The budgets of subnational governments (comprising governorates, departments, and municipalities) approved by local legislatures; and
- The budgets of 29 public corporations that are approved by the Supreme Council for Fiscal Policy (CONFIS).

**50. Although Colombia is a unitary state, a sizeable proportion of public spending is carried out by the regional and local administrations through two separate funds.** Given their limited tax capacity, states and municipalities are heavily reliant on funding by the two national resource sharing systems, the *Sistema General de Participación* (SGP) and the SGR, which transfer approximately 10 percent of GDP in resources to subnational governments. The SGR draws its revenues from oil and other natural resources. State and local governments account respectively for around 10 percent and 20 percent of total general government expenditure (net of intra-government transfers). Non-financial public corporations are an important component of the Colombian public sector, with over 15 percent of the GDP in expenditure, half of which is by Ecopetrol, and about one-third of which pertains to hospitals and health service providers.

**51. No information on the revenues or spending of extrabudgetary units is included in the budget documents.** The PGN excludes some 111 extrabudgetary units (EBUs), which represent about 10 percent of total revenues and spending by the central government (Table 9).<sup>19</sup> These entities include a wide range of regulatory bodies, research and training institutions, government commissions, and entities delivering public services.<sup>20</sup> The reporting of their financial conditions and performance is variable, and is not included with budget documentation: some publish quarterly and annual reports, but many only report on an annual basis. In addition,

<sup>19</sup> This estimate is preliminary (See Footnote 8).

<sup>20</sup> Examples include the School of Public Administration, the National Institute of Health, the Geological Service of Colombia, the National Hydrocarbons Agency, the National Authority for Environmental Licenses, the Military Hospital, the National Infrastructure Agency, the National Institute of Medicine, the National Environmental Fund, the National Meteorology Institute, the Center of National Memorials, and the National Commission for the Civil Service.

some ministries, agencies and EBUs receive revenues that are earmarked for specific purposes (e.g., road maintenance, hospital expenses, educational fees). Earmarked revenues account for some 7 percent of total central government revenues, and full information is disclosed in the budget documents.<sup>21</sup> The social security system (healthcare, retirement pensions) is also outside the PGN, apart from annual transfers made by the government to meet any deficit in social security contributions. The MFMP includes a chapter on social security finances. The government also publishes a half-yearly social security bulletin that provide more in-depth analysis of the social security system.

**Table 9. Extrabudgetary Spending by Central Government Units**

Number of extrabudgetary units (EBUs)		Annual spending by EBUs (COP billion)		Total spending by PGN (COP billion)		Spending by EBUs as a ratio of PGN spending (percent)	
2014	2015	2014	2015	2014	2015	2014	2015
110	111	25,081	25,151	257,400	245,330	9.74	10.25

Source: MHCP.

<b>2.1.2.</b>	<b>Macroeconomic Forecasting</b>	<b>Advanced</b>
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**52. Colombia’s fiscal and budget documentation provides a clear and comprehensive analysis of the key macroeconomic forecasts and assumptions underlying the budget.** The MFMP includes forecasts of key macroeconomic aggregates (including GDP, inflation, current account balance, and commodity prices) ten years ahead. These forecasts are consistent with the projections and assumptions developed in the National Development Plan (PND), which has a four-year time horizon. The MHCP also presents the government’s Financial Plan for the next budget year. Along with the Annual Operating Investment Plan (POAI) and the national budget (PGN), the Financial Plan is one of the government’s main budgetary tools<sup>22</sup> and covers the consolidated public sector (Article 6 of Decree 111 of 1996). The MFMP is generally updated in the second half of the year whereas the Financial Plan is first presented in December, and usually revised in March (Section 2.3.1).

<sup>21</sup> Special funds are defined as “the revenues defined in the law for the provision of a specific public service, as well as those belonging to funds without legal personality created by the legislator” (art. 30 Decree 111 of 1996). These funds are included in the PGN, and information on their revenues and spending is provided at a similar level of detail as other entities.

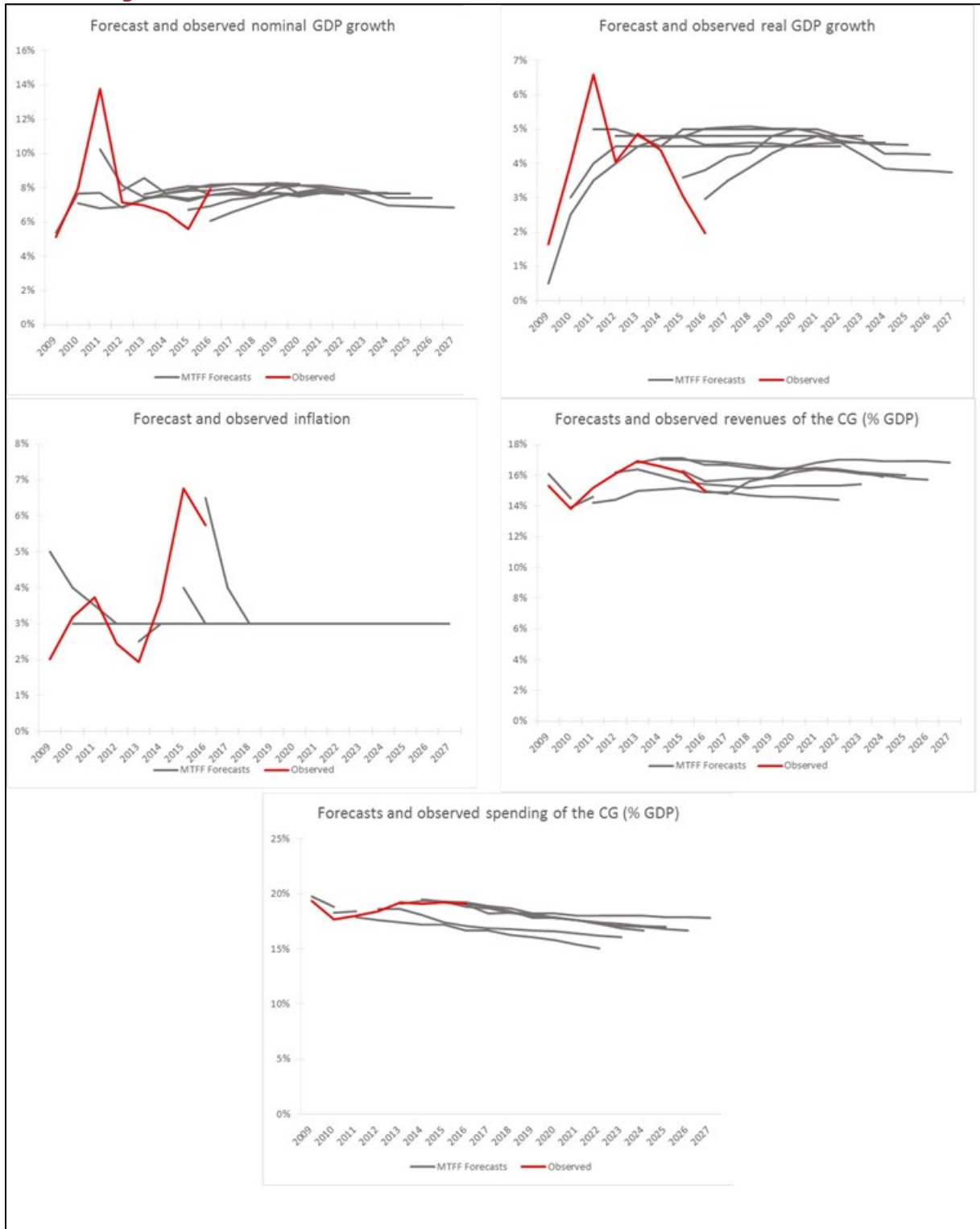
<sup>22</sup> It presents, for every level of the public sector, the main fiscal forecasts (expenditure, revenue and deficit financing) for the coming year.

**53. Although relatively accurate, both Colombia's one year-ahead and medium-term GDP growth forecasts tend to show an optimistic bias in recent years.** The mean deviation of real GDP forecasts one year ahead was only 0.1 percentage points between 2009-2016 but 1.0 percentage points between 2012-2016.<sup>23</sup> The government's one-year-ahead forecasts of real GDP growth have hence been relatively accurate, although more optimistic than the forecasts of the central bank, the international financial institutions, and independent agencies in recent years (Table 10). Projections of real GDP over the medium term also show a slight optimistic bias (Figure 10), partly explained by the unforeseen oil price shock in 2015.

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<sup>23</sup> The mean absolute deviation over this period was larger, 1.3 percentage points, suggesting that years in which real GDP was overestimated were largely compensated by years in which real GDP was underestimated.

**Figure 10. Evaluation of Macroeconomic and Fiscal Forecasts, 2009-2016**



Source. MHCP, FAD staff calculations.

**54. Inflation forecasts rely mainly on the central bank’s mid-range inflation target over the medium term, and have tended to underestimate inflation in recent years.** The average deviation of inflation forecasts one year ahead was minus 0.8 percentage points between 2009-2016 and minus 1.5 percentage points between 2013-2016. Revenue forecasts also exhibit a recent optimistic bias (averaging about 0.6 percent of GDP in the past three years), but forecasts of spending by the central government one year ahead have been reliable, with an average deviation of 0.1 percentage points between 2009-2016. The reconciliation of different vintages of macroeconomic and fiscal forecasts is discussed in Section 2.4.3.

**Table 10. One-year-ahead Forecasts of Real GDP Growth, 2013-2015 (percent)**

	2013	2014	2015
<i>Actual</i>	4.9	4.4	3.1
<i>Forecasts:</i>			
<i>Authorities (MHCP)</i>	4.8	4.7	4.8
<i>IMF</i>	4.4	4.2	4.5
<i>World Bank</i>	4.5	4.3	4.5
<i>Consensus</i>	4.3	4.5	4.6

Source: FAD staff.

<b>2.1.3.</b>	<b>Medium-Term Budget Framework (MTBF)</b>	<b>Basic</b>
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**55. The MGMP published by the government annually has many positive characteristics.** The MGMP for 2016 sets out: (i) the macroeconomic and fiscal context, based on the assumptions and projections described in the MFMP (see Section 2.3.1); (ii) an analysis of fiscal constraints in the medium term; (iii) an assessment of the objectives of government programs and projects, drawn largely from the PND; and (iv) projections of medium-term spending plans for the period 2017-2020, broken down by investment and operating expenses. The document also sets out indicative spending ceilings for 29 sectors (education, defense, health, transport, and so on) for the forthcoming budget year and three additional years to guide ministries and public institutions in preparing their budgets.

**56. The MGMP, however, displays some important gaps when compared with good international practice.**<sup>24</sup> The focus of the MGMP is on investment spending, and the document does not provide a full coverage of all expenditures. It adopts the classification of sectors used in the PND, which currently differs from the classification scheme used in the annual budget, though as noted in Section 1.3.1 of this report the government is discussing options for harmonizing the classification schemes used in budgeting, accounting and fiscal reporting. No breakdown is provided by economic category or program. The MGMP presents indicative ceilings for three out-years, but these ceilings have been substantially revised in recent years (Table 11), and do not provide a credible basis for planning spending over the medium term.<sup>25</sup> The processes of preparing the MGMP and the annual budget are largely separate. Finally, the government does not publish any reconciliation of the projections contained in the MGMP with those in the previous year's document.

**Table 11. Revisions to Medium-Term Expenditure Ceilings, 2013 to 2016 (COP billion)**

	2013	2014	2015	2016
Out-year 3 estimate	120.4	125.4	141.6	157.3
Out-year 2 estimate	117.9	134.1	148.6	166.2
Out-year 1 estimate	127.8	145.6	159.5	169.8
Budget year estimate	138.6	155.4	167.3	167.3
Outturn	144.4	156.0	163.4	167.3
Change (percent)	+19.9	+24.4	+15.4	+6.4

Source: MHCP and FAD staff calculations.

Note: The figures show changes in the estimates of total spending made in successive vintages of the MGMP. The final row of figures measures the percent difference between the outturn spending and the initial estimate of spending made four years previously.

**57. Bringing Colombia's MGMP in line with best-practice MTBFs would require changes in several areas, and substantial capacity building in the MHCP and spending agencies.**

Differences between the MGMP and MTBFs produced in advanced countries are substantial, as shown in Table 12. Similar enhancements of medium-term budgeting in Colombia could be considered.

<sup>24</sup> Colombia's recent PEFA assessment includes a similar assessment of PI-16 (Medium-term perspective in expenditure budgeting) which receives a D rating. See *Colombia: Public Expenditure and Financial Accountability, 2015*, pages 65-68.

<sup>25</sup> At the level of sectors, there have also been substantial changes in the ceilings, both upwards and downwards. The 2015 PEFA report, for example, notes revisions to spending ceilings for 2015 that include agriculture (plus 115 percent); recreation and sports (plus 58 percent); the presidency (minus 30 percent); and statistical information services (minus 17 percent). PEFA report, page 70.

**Table 12. Differences Between Colombian MGMP and Advanced MTBF Model**

MTBF Characteristics	Colombia	Advanced
4- or 5-year MTBF framework	Yes	Yes
Indicative ceilings for out-years	Yes	Yes <sup>1</sup>
Full alignment with government’s fiscal policy objectives and macroeconomic forecasts	Yes	Yes
Spending estimates for out-years rolled over from one MTBF to the next	No	Yes <sup>2</sup>
Budget preparation process for capital and recurrent spending fully integrated	No	Yes
Definition of capital and recurrent spending aligned with international standards	No	Yes
A single process for preparing MTBF and annual budget, and fully integrated documentation	No	Yes
Reliable forward estimates of spending in out-years	Partly	Yes
Planning margins or planning reserves	No	Yes
Carry forward of spending from one year to the next, with well-defined restrictions	No	Yes

Source: FAD staff.

<sup>1</sup> Some advanced countries have adopted a fixed framework for the MTBF, i.e., one that is only changed at the end of the 3-4-year period.

<sup>2</sup>Some advanced countries have binding ceilings for the out-years, e.g., Sweden, U.K. (partially).

<b>2.1.4. Investment Projects</b>	<b>Basic</b>
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**58. A wide range of information on public investment projects is publicly available.** The PND contains details of planned public investment projects over a four-year period, including a list of ongoing and pre-selected investment projects, with a projection of their overall costs, as well as their planned beginning and end dates, classified by program and sector. The POAI provides both an aggregate view and individual information on planned investment spending, though only amounts to be appropriated for the budget year are disclosed. The DNP maintains a project database (SPI) that contains summary information on individual projects financed from the national budget, and a database of PPPs (the RUAPP), but without details of the multiyear fiscal obligations associated with these projects. A database of all procurement contracts (SECOP) is available on the web site of the National Procurement Agency.<sup>26</sup>

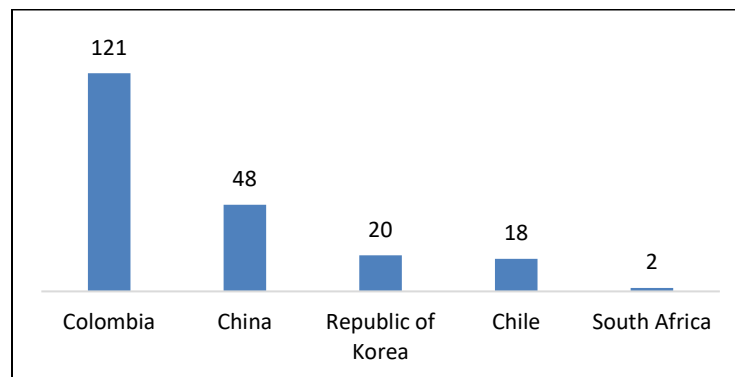
<sup>26</sup> <https://www.contratos.gov.co/consultas/inicioConsulta.do>.

**59. The MFMP (Chapter VI) provides information on the total spending of all public investment projects for the next 30 years, with data on year-by-year spending presented for the early years.** MFMP presents information on authorized multiyear expenditure commitments (*vigencia futuras*) for individual major projects, but data on the amount of spending already incurred, and estimated expenditure over the remaining life cycle of projects, is not available. Information on all these elements, however, is published for individual PPPs (see Section 3.2.4).

**60. There is a standard requirement for entities to carry out economic and financial appraisals of new investment projects, using a methodology approved by the DNP.** There is no differentiation between projects of different sizes. The results of project appraisals are not made publicly available, however, either before or after the projects have been approved.

**61. In some cases, projects are approved without a prior assessment of the merits of the PPP mode compared to direct government investment.** Good practice in public investment management is to first appraise whether a proposed project is likely to generate net social benefits, and then to rank and prioritize projects. At a second stage, an assessment is made as to whether these projects should be implemented through direct government investment or the PPP mode, using a methodology referred to as the public sector comparator. This methodology has not been promulgated in Colombia, and it appears that the many “unsolicited” projects<sup>27</sup> which are categorized as not requiring any public funding—which can include public contributions up to 20 percent of total costs—are being approved with only a limited review of their merits. There is a comparatively large number of unsolicited projects in Colombia (Figure 11).

**Figure 11. Unsolicited PPP Proposals in Colombia in Comparative Perspective**



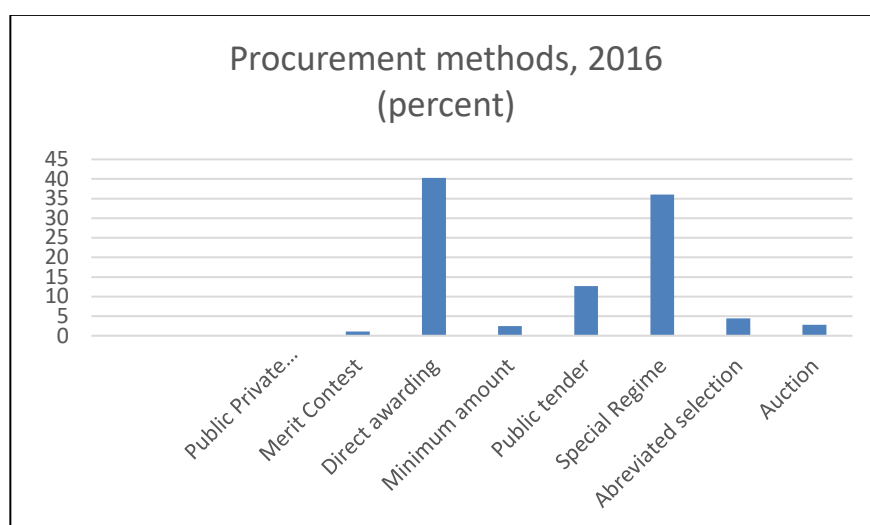
Source: DNP Estimates.

<sup>27</sup> An “unsolicited” PPP proposal is one submitted on the initiative of a private sector entity rather than in response to a request from the government.



**62. There is a high percentage of direct contracting of public procurement contracts (Figure 12).** The legal framework contains a presumption in favor of open and competitive tender, but there are numerous exceptions allowed by the law.<sup>28</sup> In practice, in 2016, 40 percent of contracts by value were categorized as being procured through direct award (there is no separate data on major projects). In addition, contracts within the “special regime” (for entities of mixed public and private ownership) may also be procured through direct awarding, but the National Public Procurement Agency does not collect data that distinguishes between procurement methods within the special regime. The 2015 PEFA assessment established, from an assessment of procurement methods used for large projects in five large ministries, that more than 50 percent of contracts in 2014 used the direct contracting method.

**Figure 12. Distribution of Public Procurement by Modality, 2016**



Source: National Public Procurement Agency.

## 2.2. Orderliness and Timeliness of the Budget Process

<b>2.2.1</b>	<b>Fiscal Legislation</b>	<b>Advanced</b>
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**63. The framework for budgeting and fiscal management in Colombia is comprehensive, clearly established in law, publicly available, but highly complex.** The Constitution includes many articles on budgeting and finance, which are supplemented by organic laws<sup>29</sup> on budgeting (e.g., Law 38 of 1989 and Law 179 of 1994) and on national development planning (Law 152 of 1994), as well as lower-level decrees and resolutions. There are more than 20 principle laws and decrees which are summarized in Annex III. This framework

<sup>28</sup> Article 224 of Law 80 of 1993 as amended.

<sup>29</sup> In Colombia, organic laws can only be approved or modified by a unanimous vote of the Congress.

covers all aspects of budgeting, development planning, fiscal transparency, and fiscal reporting, as well as many aspects of fiscal risk management, including PPPs for example.

**64. The legal framework sets out *inter alia* a clear timetable for budget preparation and approval, which has been regularly complied with in recent years** (see Section 2.2.2). It also defines the key content requirements of the budget, and the Congress’s powers of amendment which both in law and in practice are extremely limited. The Congress may not increase any spending proposals made by the executive, and may only decrease items of spending with the approval of the MHCP (further discussed in Section 2.4.2).

2.2.2	Timeliness of Budget Documents	Advanced
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**65. The legal framework includes specific deadlines on the preparation and approval of the budget that have been fully respected in recent years.** As shown in Table 13, the budget is submitted to the Congress and made available to the public five months before the start of the fiscal year, and is approved and published two months before the start of the year, although the full details of the budget are not made available until the end of December. The debate in the Congress comprises two phases: first, a discussion of fiscal policy issues, tax reform issues and budget ceilings in June/July, built around the submission of the MFMP; and, second, in August/September, an examination of the expenditure proposals in the draft budget by sector, entity, programs and investment projects. Government ministers, officials, the central bank, think tanks, and other organizations participate in these discussions. In terms of the key fiscal information that was disclosed, the recent PEFA Report gives the 2016 budget law a high rating against international standards.<sup>30</sup>

**66. Procedures and the disclosure of information related to other aspects of fiscal policy and national development planning are also subject to strictly enforced legal deadlines.** These requirements apply, for example, to the operations of and disclosures made by the MHCP, the DNP, CONFIS and CONPES on fiscal- and planning-related issues, as well as the MGMP (Section 2.1.3), and the MFMP, fiscal policy objectives and the fiscal rule (Section 2.3.1). They also define detailed operational procedures such as the issuance of budget circulars to spending ministries, and the setting and notification of spending ceilings, and the release of data to the public.

<sup>30</sup> See *Colombia: Public Expenditure and Financial Accountability (PEFA) Report*, pages 32-34. The report notes that the Presidential Message on the Budget satisfies all the disclosure requirements established in law. In addition, it meets all basic elements set out in the PEFA framework, and seven of the eight additional elements.

Table 13. Calendar for Submission and Approval of the Budget	
Deadline	Action Required
April, first week	Submission of a consolidated preliminary budget proposal to Congress
June 15	Submission of the MFMP to Congress
July 29	Submission of a draft budget law to Congress
August 15	The two economic committees <sup>1</sup> of Congress decide whether the proposed budget complies with the organic budget law
September 25	The economic committees approve the Budget proposals
October 20	Congress approves the budget law
October 31	Budget Law is signed by the President and published in the <i>Official Gazette</i>
December 31	Completion of the “liquidation” procedure <sup>2</sup> by the executive

Source: MHCP, PEFA Reports for 2009 and 2015, FAD staff.

<sup>1</sup> These Committees of the Senate and the Chamber of Representatives cover economic policy and revenue issues (Committee #3) and the budget (Committee #4). They deliberate in joint sessions, but vote separately.

<sup>2</sup> The budget approved by the Congress comprises broad expenditure categories for each spending entity. During the “liquidation” process these ceilings are converted into detailed line item appropriations.

## 2.3. Policy Orientation

2.3.1	Fiscal Policy Objectives	Advanced
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**67. In 2003, the Fiscal Transparency and Responsibility Law improved the presentation of fiscal information and increased coordination among the different levels of government.**<sup>31</sup> This law (Law 819) required the national government and subnational governments (SNGs) to present each year a MFMP that represents the government’s main instrument of macro-fiscal programming. The MFMP must present a consistent 10-year macroeconomic framework which, in its initial formulation, comprised multiannual primary balance targets that were intended to guarantee fiscal sustainability in the medium term and long term. Controls on the spending and borrowing of SNGs were also substantially tightened in this period (Section 3.3.1). Finally, the notion of “fiscal sustainability” was added as an amendment to the Constitution in 2011.

<sup>31</sup> See Natalia Salazar, *Fiscal Risk Management for Development: The Case of Colombia*. 2015. World Development Report.

**68. To further strengthen the fiscal responsibility legislation and operate a sustainable and countercyclical fiscal policy,<sup>32</sup> the government introduced a new fiscal rule in 2012.**

This rule comprises a structural deficit target of 1 percent of GDP from 2022 onwards with a transition period between 2012 and 2021. Intermediate targets of 2.3 percent of GDP in 2014 and 1.9 percent of GDP in 2018 were established. Additionally, the law requires that in each intervening year the structural deficit must be lower than in the previous year. The law includes an escape clause that permits deviations from the rule in exceptional circumstances, namely if output falls below its potential level, or oil prices fall below their long-term trend level, but the government has not yet made use of this provision. Since its establishment, the rule has been adhered to.

**69. The law established an independent review process in the form of a Consultative Council.** The Council has an independent membership comprising representatives of universities, think tanks, and the heads of the Economic Committees of the Congress (see section 2.4.1). It is responsible both for preparing the methodology for calculating the structural deficit, and measuring the government's compliance with the rule.<sup>33</sup> The Council has some of the characteristics of the fiscal councils<sup>34</sup> that have been established in other countries, especially in Europe; it presents a report to the government in April setting out its projections of potential output and oil prices, and the structural deficit over a 15-year period. In June, the MHCP publishes, at the same time as the MFMP, a report on compliance with the fiscal rule, using calculations that have been agreed with the Council.

**70. In addition to the MFMP, the MHCP also prepares an annual Fiscal Plan, releasing its preliminary version in December and publishing a revised version in March.** This plan presents fiscal projections one year ahead, as well as an assessment of fiscal policy developments, and progress in implementing the fiscal rule. In preparing these documents, the MHCP holds regular consultations with counterparts in government and the central bank, as well as four meetings per year with the Congress, to discuss fiscal developments. In addition, the CGR publishes in August an annual report on the fiscal situation which includes an assessment of, and opinions on, the macroeconomic outlook and the government's macroeconomic forecasts, fiscal policy developments and the fiscal rule, debt sustainability, and the quality of fiscal data.

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<sup>32</sup> The initial primary balance rule: (i) did not constitute a strong fiscal policy commitment because the targets could be modified without subsequent measures to offset such changes; and (ii) fiscal programming did not address the effect of the economic cycle on revenues and expenditures, thus increasing the risks of fiscal policy pro-cyclicality. See Salazar, *op. cit.*

<sup>33</sup> Two sub-committees report to the Council: the first is responsible for calculating potential output, the second for monitoring and preparing projections of oil prices.

<sup>34</sup> Many fiscal councils, however, are responsible for preparing the government's macroeconomic forecasts, a function that is outside the mandate of Colombia's Consultative Council.

**71. While the fiscal rule has been adhered to since its introduction in 2012, looking ahead to 2022, the government may face challenges in ensuring that it remains on track.**

Fedesarrollo, a leading economic think tank in Colombia, has reported that the uncertainties surrounding the fiscal impact of the Peace Agreement could increase the deficit by about 0.5 percent of GDP.<sup>35</sup> The institute estimates that, on current policies, there is likely to be a fiscal gap of some 2.0-2.5 percent of GDP by 2022 which the next government will need to offset if it is not to breach the fiscal rule. The government also faces challenges in ensuring that modifications to healthcare and the pension system are made in the next few years that are fiscally sustainable (see Section 3.1.2).

<b>2.3.2</b>	<b>Performance Information</b>	<b>Basic</b>
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**72. A formal system of performance-based budgeting has not been developed in Colombia, though policymakers draw on a wide range of information in decision-making and setting spending priorities.** Information on performance is most widely used in relation to capital investment projects. The national budget, however, does not incorporate a comprehensive programmatic classification, and information on the outputs or outcomes of public service delivery is limited. Similarly, budget execution reports contain little information on the impact and performance of public expenditure policies and projects. This is confirmed by the recent PEFA report which found no evidence that information on resources received by front-line service delivery units, such as schools or health clinics, was systematically collected by the ministries responsible for these services.<sup>36</sup> The only documents containing performance data are those prepared by the DNP to report on progress made by public institutions, through their investment projects, in achieving the objectives of the PND.

**73. Some work is underway that may lead to improvements in performance information in coming years.** The DNP, for example, has been preparing with the World Bank a results-oriented framework<sup>37</sup> for planning, monitoring, and evaluating investment projects on a systematic basis, but this framework has yet to be completed, tested, and implemented. In addition, the DNP has published performance assessments on the efficiency and effectiveness of

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<sup>35</sup> Fedesarrollo. February 2016. *Monthly Market Report: The Economic Benefits and Costs of the Peace Agreement*.

<sup>36</sup> PEFA indicator PI-8 on Performance Information for Service Delivery. Colombia was assigned a D+ rating on this indicator. See World Bank, October 2016, *Colombia: Public Expenditure and Financial Accountability Report*, pages 40-43.

<sup>37</sup> DNP, *Manual of Classification of Public Investment*, Version 2.0, February 2017. The framework includes a classification of sectors (29), programs (163), and projects (1,500-1,800) that would provide a basis for performance assessment.

service delivery; and the CGR has released management audits and sector policy analyses that focus particularly on the non-financial performance of investment projects.<sup>38</sup>

<b>2.3.3. Public Participation</b>	<b>Basic</b>
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**74. A Citizens' Guide to the Budget (*Prepuesto Ciudadano*) is published after the budget is approved by Congress each year.** The Guide is in an accessible form, centered around the use of graphics.<sup>39</sup> The 2017 Citizens' Guide contained information on total revenues and expenditures for the budget year, macroeconomic assumptions, the sectoral allocation of spending, transfers to subnational governments, and an overview of the annual budget calendar. It also contained some data on per capita subnational transfers from the Sistema General de Participación across different geographic departments, and social spending by sector on particular groups of citizens, such as children and older adults. The Guide is published only in Spanish (not in indigenous languages), and the website is the only form of dissemination. The government has not consulted the public on the content of the Citizens' Budget.

**75. The government does not engage with or consult the public during its preparation of the annual budget.** There is some opportunity for public input during the Congress's consideration of the budget presented by the government, but not prior to that stage. The *Open Budget Survey 2015* rated public participation in Colombia as weak during the executive stage of the budget, limited during the legislative stage, and adequate with respect to the CGR.<sup>40</sup>

**76. There are other examples of public outreach and engagement with respect to fiscal policy.** The DNP conducts public consultations every four years in the preparation of the multiannual PND, which is an important determinant of investment spending in annual budgets. On the revenue side of the budget, Colombia achieved candidate status for the *Extractive Industries Transparency Initiative (EITI)* in 2014,<sup>41</sup> while MHCP conducts public consultations on draft decrees within its field of responsibility, including proposed changes to tax administration.<sup>42</sup>

<sup>38</sup> See, for example, the CGR's *Report on the General Account of the Budget and Treasury, 2015*. This report includes a special section that identifies and analyses performance information in sectors such as agriculture, defense and security, housing, road and freight transportation, and regional infrastructure.

<sup>39</sup> [http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=%2FOCS%2FP\\_MHCP\\_WCC-065733%2F%2FidcPrimaryFile&revision=latestreleased](http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=%2FOCS%2FP_MHCP_WCC-065733%2F%2FidcPrimaryFile&revision=latestreleased) A summary of the annual budget is also published at the time the Budget is presented to Congress.

<sup>40</sup> See <http://www.internationalbudget.org/wp-content/uploads/OBS2015-CS-Colombia-English.pdf>

<sup>41</sup> This requires the establishment of a multi-stakeholder group, the National Tripartite Commission, comprising government, industry and civil society representatives, to oversee the reconciliation of data on payments to government by resource companies with receipts by government.

<sup>42</sup> See [http://www.minhacienda.gov.co/HomeMinhacienda/faces/Normativamhpc/proyectosdecretos?\\_afCtrl-state=15181k8kq9\\_53&\\_afLoop=2244003285834164#](http://www.minhacienda.gov.co/HomeMinhacienda/faces/Normativamhpc/proyectosdecretos?_afCtrl-state=15181k8kq9_53&_afLoop=2244003285834164#)! MHCP also published a citizen participation strategy in 2014, at

The Ministry also maintains a Transparency Portal (the site received 89,062 visits from January 2017,<sup>43</sup> and publishes some fiscal data in open data format.<sup>44</sup>

## 2.4. Credibility

2.4.1	Independent Evaluation	Advanced
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### 77. Although an independent fiscal council does not exist, the legal framework in Colombia provides for evaluation by multiple independent entities at different stages.

These include the following:

- The independent Consultative Council, set up under the fiscal responsibility legislation (Law 1473 of 2011), defines the methodology and sets parameters for the operation of the fiscal rule (Section 2.3.1). The Committee comprises nine independent members, including the chairs of the two Congressional committees on economic and fiscal matters. It authorizes the MHCP’s report on compliance with the fiscal rule before its submission to Congress. The law requires the government to consult the Committee in case the fiscal rule is to be suspended.
- In accordance with the Constitutional requirements, the BanRep is invited by Congress to present its opinion on the government’s macroeconomic and fiscal forecasts and the MFMP during the budget deliberations.
- In discharging its “fiscal oversight” function mandated by the Constitution, the CGR in its “State of Public Finance” report provides an ex-post assessment of the government’s macroeconomic and fiscal forecasts, comments on developments in the external and internal macroeconomic environment, and analyzes in detail the government’s fiscal performance.

2.4.2.	Supplementary Budgets	Advanced
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**78. Amendments to the approved budget are carried out in accordance with legal provisions and published on the MHCP’s website.** Law 38 of 1989 and Decree 111 of 1996 regulate changes to the approved budget. In case it becomes necessary to increase the amounts of initially authorized appropriations, or to include a new item of expenditure in the budget, the law allows the government to place before Congress bills on reallocations and additions to the approved budget. As a general principle, only Congress can approve changes—additions or

[http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=%2FOCS%2FMIG\\_27866606.PDF%2F%2FidcPrimaryFile&revision=latestreleased](http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=%2FOCS%2FMIG_27866606.PDF%2F%2FidcPrimaryFile&revision=latestreleased)

<sup>43</sup> Data from MHCP, 28 April, 2017.

<sup>44</sup> See [http://www.minhacienda.gov.co/HomeMinhacienda/faces/ServicioAlCiudadano/datosabiertos?\\_adf.ctrl-state=15181k8kq9\\_186&\\_afLoop=2247036310632317#!](http://www.minhacienda.gov.co/HomeMinhacienda/faces/ServicioAlCiudadano/datosabiertos?_adf.ctrl-state=15181k8kq9_186&_afLoop=2247036310632317#!)

transfers across budget lines—to the approved appropriations contained in the annual budget law. In certain cases, the powers are delegated to the government, which are exercised through decrees and resolutions.<sup>45</sup> Reallocations across ministries or other public institutions, and across programs within a ministry or institution, are thus not permissible without Congressional approval. The law further demands that supplementary appropriations are obtained only after clearly establishing additional sources of funding to meet those expenditures, and on a certification by the CGN, or the head of budget in case of a public institution, of the availability of such resources. Budget laws, decrees, and resolutions authorizing revisions to the original budget are published on the MHCP’s website, and the CGR’s budget execution report consolidates all changes, comparing the outturn with both the original and revised budgets.

**79. The government has largely maintained the credibility of the original budget.** As shown in Table 14, changes in total budget appropriations have been relatively small in recent years. In each of the past three years, the budget was reduced because of a revenue shortfall. The magnitude of these changes, however, has been small.

**Table 14. Changes to Approved Budgets**  
(COP Trillions)

Year	Original Budget	Final Budget	Change
2016	216	210	-3%
2015	216	208	-4%
2014	203	197	-3%
2013	186	189	2%
2012	165	166	1%

Source: MHCP.

<b>2.4.3.</b>	<b>Forecast Reconciliation</b>	<b>Not Met</b>
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**80. The MFMP contains very limited information and discussion about the revisions to successive vintages of medium-term forecasts of revenue, expenditure, and financing.**<sup>46</sup> Similarly, while the government’s update to the Financial Plan published each March presents and discusses new fiscal estimates for the past and current fiscal years, it does not provide any reconciliation of these projections, and does not quantify the impact of macroeconomic or new policy developments. The annual report published by the MHCP on compliance with the fiscal rule (Section 2.3.1) likewise presents a backward-looking view of the previous year’s budget, and does not discuss medium-term fiscal forecasts. The MHCP (DGPM) produces some analysis of forecast reconciliations for the ministry’s internal use. The inclusion of reconciliation tables in the MFMP—in which difference in successive vintages of fiscal forecasts are broken down into the relative impact of individual policy changes, macroeconomic determinants, and other factors,

<sup>45</sup> For example, those arising from external grants that were not included in the original budget.

<sup>46</sup> The MFMP presents and discusses the new macroeconomic assumptions, and may comment on significant changes from past assumptions, but this does not translate into a comparison or reconciliation of different vintages of forecasts.



such as technical and accounting adjustments—would help improve the credibility of the government’s macroeconomic and fiscal forecasts.

## 2.5. Conclusions and Recommendations

**81. Colombia’s fiscal forecasting and budgeting practices meet basic or advanced practices in many areas, and compare favorably with the country’s peers and some advanced countries.** The legal framework is comprehensive though complex, and the budget documentation is also comprehensive and timely. The fiscal policy framework is securely anchored in a fiscal rule that has been in place since 2012 and is adhered to, though fiscal pressures in coming years may put the rule under strain. Macroeconomic and fiscal forecasts are soundly based and largely free from systemic bias. The arrangements for independent assessment of fiscal and budgetary policies are aligned with international good practice; and the procedures for making in-year adjustments to the budget are tightly defined in law, and well-documented.

**82. There are also some areas where the performance could be improved.** The budget system is highly fragmented: the budgets for royalties, SNGs, public corporations, and social security are separate from the central government’s budget, and there are many extrabudgetary entities and earmarked revenues. The use of performance information in preparing and monitoring the PND, and investment projects, is developing, but a results-based framework is almost entirely absent from the PGN. There are many weaknesses in the planning, appraisal, and execution of public investment projects, including PPPs. While some elements of a modern medium-term budget framework are in place, the preparation of the MGMP is largely decoupled from the annual budget process, the budgets for investment and recurrent spending are prepared separately, and indicative spending ceilings are substantially revised. Many other elements of advanced medium-term budgeting practices are missing. No information is currently published on the reconciliation of current forecasts with previous vintages.

**83. Based on the above assessment, the following recommendations could improve transparency in the budgeting and forecasting areas:**

- **Recommendation 2.1: Undertake a review to assess which extrabudgetary activities should be consolidated within the PGN, and fully disclosed in the budget documents.** This review should cover: the SGR; the revenues, expenditures and financing of EBUs; and the absorption of earmarked revenues within the general revenues of the budget.<sup>47</sup>
- **Recommendation 2.2: Enhance the medium-term budget framework to align it with advanced principles and practices.** Such a reform is a major departure from existing

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<sup>47</sup> A unified budget should include all spending carried out by the ministries, departments, and agencies of the government, as well as by special funds and accounts set up for specific purposes, e.g., to provide social security benefits or health service. On the revenue side, a unified budget should include all sources of tax and non-tax revenues (e.g., fees and charges for government services) as well as external sources of financing, and borrowing.

practices and should be carefully prepared, and implemented gradually. It could start with a thorough review of existing practices in preparing the annual budget and the MGMP, and how international good practice could be used to inform and improve the design of a future MGMP. This review should aim to develop an action plan for implementing improvements in the MTBF over the next few years. Important elements will include:

- Integrating the processes of preparing the annual budget and the MGMP.
  - Harmonizing the definitions of capital and recurrent spending with international standards.
  - Building a robust system of making forward estimates of spending.
  - Incorporating on a step-by-step basis, elements of performance indicators and results-based framework into the annual budget/MGMP.
- **Recommendation 2.3: Improve the management of and disclosure of information on public investment projects.** Priority should be given to:
    - Making data publicly available (on DNP's website) on the multiyear obligations of all individual public investment projects, including the original approved budget, expenditure to date, and the remaining approved expenditure by year.
    - Publishing expanded summary data in the MFMP on the multiyear obligations of public investment projects financed from the national budget, covering a larger number of individual projects.
    - Subjecting all PPP projects, including those categorised as not requiring a public contribution, to an assessment of the relative merits of the PPP mode of procurement compared to public investment through the national budget, using a standard methodology.
    - Amending the procurement law to enable recording and reporting of procurement modalities within the special regime.
    - Reviewing the extent and legitimacy of departures from open and competitive tendering.
  - **Recommendation 2.4: Disclose the analytical work on the reconciliation** of different vintages of macroeconomic and fiscal forecasts that the MHCP carries out for internal use.

**84. Colombia's rating for public participation in the budget process is weak, and reforms could be considered in this area.** For example, the Citizen's Budget could be released in July, at the same time as the annual budget proposal is presented to Congress.

**Table 15. Summary Assessment of Fiscal Forecasting and Budgeting**

	Principle	Assessment	Issues and Importance	Recommendation
<b>Comprehensiveness</b>	<b>Budget Unity</b>	<b>Basic:</b> Budgets for royalties, EBUs, and social security are outside the PGN.	<b>High:</b> The highly fragmented budget discourages effective decision making, and is not transparent.	<b>2.1</b>
	<b>Macroeconomic Forecasts</b>	<b>Advanced:</b> Forecasts are soundly based; optimism bias is relatively low.	<b>Low:</b> Fiscal projections have been quite reliable, but forecasting methodology could be improved.	
	<b>Medium-Term Budget Framework</b>	<b>Basic:</b> Colombia publishes an MTBF, but many elements of advanced practice are missing.	<b>High:</b> A rolling medium-term framework with other advanced features would support a sustainable fiscal strategy.	<b>2.2</b>
	<b>Investment Projects</b>	<b>Basic:</b> Colombia scores poorly on disclosure of project data, economic appraisal, and competitive tendering.	<b>High:</b> Infrastructure projects are key to sustainable development. Colombia's performance lags behind competitors.	<b>2.3</b>
<b>Orderliness</b>	<b>Fiscal Legislation</b>	<b>Advanced:</b> Legislation is comprehensive but complex.	<b>Low:</b> Areas that require strengthening include performance-based budgets, PPPs, and public procurement.	
	<b>Timeliness of budget documents</b>	<b>Advanced:</b> The annual budget is approved two months before the start of the new fiscal year.	<b>Low:</b> Opportunities for improving documentation, e.g., information on EBUs, royalties, and social security.	
<b>Policy Orientation</b>	<b>Fiscal Policy Objectives</b>	<b>Advanced:</b> Colombia adopted an FRL; the numerical fiscal rule in place since 2012 has been adhered to.	<b>Medium:</b> Adherence to the fiscal rule could prove challenging in next few years as fiscal pressures increase.	
	<b>Performance Information</b>	<b>Basic:</b> A results-based framework is being developed by the DNP, but is largely absent from the budget.	<b>Medium:</b> Introduction of performance-based budgeting could be part of the development of the MGMP.	
	<b>Public Participation</b>	<b>Basic:</b> Some elements in place, but limited public discussion of the budget and fiscal issues.	<b>Medium:</b> Public could be given more opportunity to comment on fiscal policy and participate in budget debates.	
<b>Credibility</b>	<b>Independent Evaluation</b>	<b>Advanced:</b> Several effective mechanisms have been established to evaluate the government's budgetary and fiscal policies.	<b>Low:</b> Existing arrangements are similar to an Independent Fiscal Council.	
	<b>Supplementary Budget</b>	<b>Advanced:</b> Mechanisms for in-year budget adjustments are tightly defined in law, and effective.	<b>Low:</b> Budget execution is actively monitored and enforced to not exceed budget ceilings.	
	<b>Forecast Reconciliation</b>	<b>Not met:</b> MHCP carries out analysis to reconcile forecasts, but does not publish the results.	<b>Medium:</b> Revisions of forecasts are regular and relatively significant.	<b>2.4</b>

### III. FISCAL RISKS

*Governments should disclose, analyze, and manage fiscal risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.*

**85. This chapter assesses Colombia’s analysis, reporting, and management of fiscal risks against the practices of the FTC.** The focus of this pillar is the exposure of the public finances to the possibility of short to medium-term shocks to fiscal variables emanating from the rest of the public sector, from the domestic private sector, or from the international environment. The chapter also covers long-term fiscal sustainability. Fiscal risks include general risks arising from macroeconomic shocks and specific risks from contingent liabilities, both explicit—legal obligations or firm commitments to provide fiscal support should a particular event occur or circumstance arise—as well as implicit contingent liabilities, where there is no legal obligation on government but expectation to provide fiscal support. Risks are assessed on three dimensions:

- General arrangements for the disclosure and analysis of fiscal risks;
- The reporting and management of risks arising from specific sources, such as government guarantees, PPPs, natural disasters, and the financial sector; and
- Coordination of fiscal decision-making between central government, local governments, and public corporations.

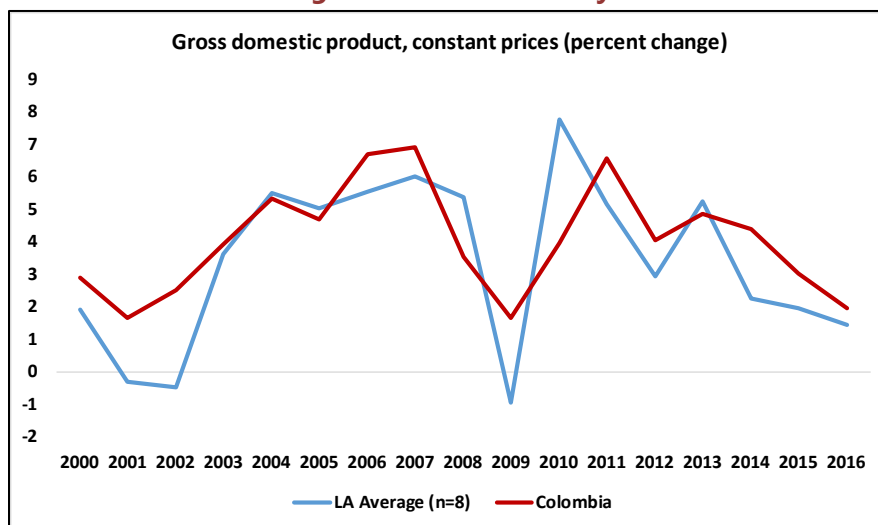
#### 3.1. Disclosure and Analysis

3.1.1	Macroeconomic risks	Basic
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**86. Colombia is exposed to macroeconomic volatility, which in turn poses sizeable risks to budget.** Even if, over the last decade, Colombia’s nominal GDP growth volatility was lower than in most neighboring countries, Colombia has experienced wide variations in its economic growth over that period, in part due to oil price volatility (Figure 13). Moreover, between 2011 and 2014 oil revenues contributed approximately 2.5 percent of GDP to annual central government revenues, against 1.6 percent of GDP between 2004 and 2010.<sup>48</sup>

<sup>48</sup> See 2016 MFMP, chapter 3.

**Figure 13. GDP Volatility**



**87. The MFMP presents sensitivity analysis of fiscal forecasts to macroeconomic assumptions but very limited discussion of alternative macroeconomic and fiscal scenarios.**

For example, the 2016 MFMP presents a sensitivity table summarizing the net impact on public revenues and spending for the next fiscal year of a change in the main macroeconomic parameters (exchange rate, oil price and production, inflation).<sup>49</sup> The MFMP also displays a limited alternative scenario analysis of the evolution of the central government debt over the next ten years, estimating the impact of a change in GDP forecasts by +/- 1 percentage point.<sup>50</sup> This analysis does not present the fiscal implications of these changes at a more disaggregated level nor examines closely the channels through which each scenario affects public finances.

**88. The MFMP analysis could be expanded to include a more detailed presentation of the short- and medium-term fiscal outcomes associated with macroeconomic stress scenarios and stochastic analysis.**

The MFMP could discuss the channels through which the macroeconomic scenarios are expected to impact the main spending and revenue items in the budget. Further, the analysis could be disaggregated by level of government, given the weight of local and regional governments. Given the adoption of the fiscal rule and the setting of the path for the fiscal deficit, the analysis could also include (i) the impact of random shocks to fiscal outcomes based on their historical distribution and (ii) the impact of combined macroeconomic and specific fiscal risk shocks (see section 3.1.2 below).

<b>3.1.2</b>	<b>Specific fiscal risks</b>	<b>Not met</b>
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**89. Specific fiscal risks are those that arise from narrow and identified sources of uncertainties.** Specific fiscal risks include both explicit and implicit risks, from sources ranging

<sup>49</sup> See 2016 MFMP, Chapter 4.

<sup>50</sup> See 2016 MFMP, Chapter 5.

from public debt management, guarantees, natural disasters, the financial sector, or from other public entities (subnational governments, and public corporations). This Indicator assesses the overall level of transparency with respect to a broad range of specific fiscal risks. Sections 2 and 3 of Pillar III consider in detail Colombia's transparency and risk management practices with respect to main sources of specific fiscal risks.

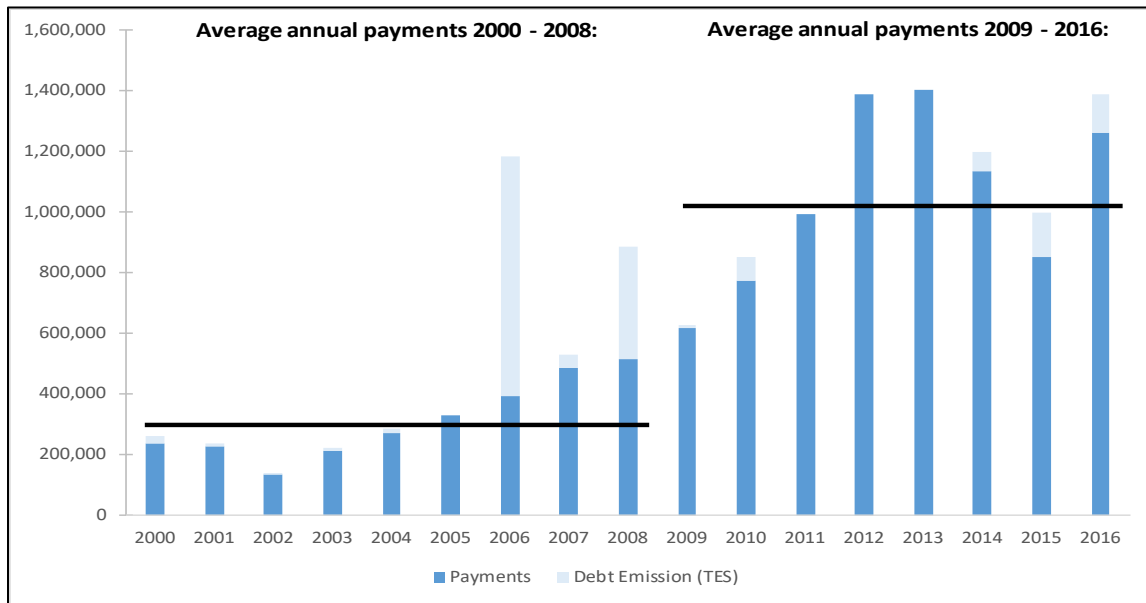
**90. Colombia regularly publishes detailed information on explicit contingent liabilities in the MFMP.** The Fiscal Transparency and Responsibility Law (2003) requires that the MFMP contain an assessment and valuation of the main contingent liabilities and non-explicit debts. Since 2004, the MFMP has contained a detailed chapter on contingent liabilities, with a section also on pension and civil service severance exposures (non-explicit debt). Contingent liabilities covered include those in PPP contracts, public credit guarantees, legal action against the state, and callable capital in international financial institutions.

**91. One of the major specific fiscal risks in Colombia stems from legal action against the State, and is covered in detail in Chapter 8 of the MFMP.** Between 2000-2015 payments for judgements and reconciliations amounted to a cumulative COP8.4 trillion (in 2012 pesos), and have been increasing (Figure 14). Because of its significance—it is by far the largest explicit specific fiscal risk in Colombia—it has been the subject of considerable attention in recent years. Efforts to mitigate and manage the risks have included the creation in 2012 of the National Agency for Legal Defense of the State, which has developed a detailed database of claims and payments and is undertaking activities to reduce the risks. It is supporting the MHCP Risk Directorate in the development of improved risk quantification methodologies.<sup>51</sup>

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<sup>51</sup> The Risk Directorate in the MHCP is responsible for identifying, classifying, quantifying, monitoring and reporting contingent liabilities and other fiscal risks. The Directorate has developed and is refining methodologies and guidance for the identification and valuation of different types of contingent liabilities, including those relating to legal claims against the state, infrastructure projects, public credit operations, natural disasters, and callable capital in international financial institutions.

**Figure 14. Payments Under Legal Claims**  
(in COP millions)



Source: Colombian authorities.

**92. The way in which the government’s contingent liabilities from legal action are disclosed could potentially prejudice its legal defense.** Appropriations for expected payments are included in the budgets of 160 individual entities in the national budget. There is a concern that disclosing the expected cost of litigation against individual state entities could prejudice the state’s legal defense by revealing information with respect to what the government expects individual cases to cost. Other countries that disclose legal action as a contingent liability do so on a gross basis across central government (rather than entity by entity), and accompany the disclosure with a disclaimer that reporting the risk does not indicate any government acknowledgement of liability.

**93. Overall, the MFMP disclosure on risks falls short of a summary of the main specific risks to the fiscal position.** Table 16 presents an illustrative overview of selected specific fiscal risks in Colombia. The table separates explicit risks from implicit risks. Explicit risks are those that are legal obligations, the subject of firm commitments, or unavoidable (e.g. damage from disasters to government-owned property). The table also separates short- to medium-term risks, on the one hand, from longer-term challenges to fiscal sustainability e.g. pensions and health care. Important risks not at present covered in the MFMP include those from disasters, debt management, public corporations, subnational governments, and the private financial sector. The MHCP intends to progressively expand the coverage of risks in the MFMP, starting in the 2017 MFMP with discussion of risks from natural disasters.

**94. There are other significant short- to medium-term explicit risks to the fiscal position.** These are areas where there is a greater than usual degree of uncertainty over revenue or expenditure forecasts. They include the peace process, the fiscal impacts of recent tax reforms,

regional instability, and uncertainty over the amount of the annual budget transfer required to Colpensiones, given the difficulty of forecasting the numbers switching from private schemes to the public scheme.

**95. In view of the range and magnitude of specific fiscal risks in Colombia, and the narrow fiscal space available, summary reporting of fiscal risks should be a priority for fiscal oversight and management.** In the last 10-15 years, several countries have started publishing annual Fiscal Risk Statements, generally alongside their annual budgets presented to the legislature. Examples from comparable countries include Brazil, Indonesia, and the Philippines. Box 3 presents a suggested form of a Fiscal Risk Statement for Colombia. The statement would usefully begin with discussion of the government's fiscal risk management strategy in the context of the medium-term fiscal strategy, recent progress in mitigating risks, and priority areas for further risk mitigation. To avoid any negative reactions when disclosing information on fiscal risks for the first time, care should be taken to include a clear statement of how the risk is being managed. The MHCP Risk Directorate could be tasked to compile the statement.

**96. To further improve risk disclosure and management, the institutional arrangements could be further strengthened.** Two specific actions could be considered: (i) the internal risk reporting within the MHCP could be strengthened by introducing an in-year (e.g. quarterly) risk report to be submitted to MHCP management; and (ii) a high-level inter-directorate coordination mechanism could be established, with the Risk Directorate providing the anchor. Risk management typically involves multiple units within (and outside) a ministry of finance, and a coordinated approach is required to improve its effectiveness.



**Table 16. Selected Fiscal Risks of the Central Government**

Risk	Gross exposure COP trillion	Percent of GDP (2015)	Estimated expected cost COP trillion	Percent of GDP (2015)
<b>Selected explicit fiscal risks</b>				
Contingent liabilities:				
Legal claims against the state <sup>1</sup>	96	12	51.3	6.4
Debt guarantees	6.95	0.9	1.83	0.2
Contingent obligations in PPP contracts <sup>2</sup>			15.3	1.9
Callable capital <sup>3</sup>	20.9	2.6	3	0.4
Other explicit risks:				
Civil servant retroactive severance <sup>4</sup>	-	-	3	0.3
Natural disasters <sup>5</sup>	83.9	10.5	-	-
<b>Total selected explicit fiscal risks</b>	207.75	26	74.4	9.2
<b>Selected implicit fiscal risks</b>				
Disasters and other environmental risks <sup>6</sup>				
Fogafin's unfunded liabilities <sup>7</sup>	33	4.12		
Public corporations <sup>8</sup>	228	28.5		
Subnational governments <sup>9</sup>	39	4.9		
<b>Total selected implicit fiscal risks</b>	300	37.5		
<b>Memorandum item: risks to medium- to long-term fiscal sustainability</b>				
Pensions <sup>10</sup>			839	104.7
Health <sup>11</sup>			?	?

Source: Colombian authorities and FAD staff estimates.

<sup>1</sup> Data source: Table 8.14, 2016 MFMP. The figure in the notes to the financial statements (Table 3.95) for the contingent liability from legal claims is COP1,300 trillion (162% of GDP). However, this figure includes some very large claims that are considered to be of very low probability, which MHCP excludes from its gross exposure and expected cost calculations. There are minimal balances in the CFEE to meet legal claims.

<sup>2</sup> Source: MHCP Risk Directorate. PPP contingent liabilities includes concessions, APP projects, and projects without public contribution (APPIP-SRP). The expected costs for concessions and APP projects are paid into the FCEE. By law, realized APPIP-SRP project risks cannot be funded from the Contingency Fund, they are to be met from increased tolls or project restructuring.

<sup>3</sup> Obligations to provide additional share capital in International Financial Institutions if requested. Data from section 8.1.5, 2016 MHCP.

<sup>4</sup> From Section 8.2.2.1, 2016 MFMP

<sup>5</sup> The total value of central government buildings and structures on the government's balance sheet, exposed to risk of damage in disasters. Law 42/1993 (article 107) requires every public building to be insured against liability for loss or damage to property; to the extent this covers disaster risks and is complied with, the net exposure would be significantly lower. There are also balances in the Disaster Fund (*Fondo de Calamidades*) to defray costs from disasters, the balance at December 2014 was COP52 billion.

<sup>6</sup> The government's potential exposure to provide assistance, e.g., with respect to low income housing.

<sup>7</sup> As at end 2016, the gap between Fogafin's reserves and total guaranteed deposits.

<sup>8</sup> Gross liabilities of public corporations from the balance sheet.

<sup>9</sup> The gross debt of subnational governments, from Report on Subnational Debt.

<sup>10</sup> The actuarial liability for the defined benefit pensions, from the balance sheet and notes to the financial statements.

<sup>11</sup> 2016 MFMP forecasts a transfer from the general budget to the health system of 0.25% of GDP per year over the next decade.

### **Box 3. Possible Structure and Content of an Annual Fiscal Risk Statement**

#### **Macroeconomic Risks and Budget Sensitivity**

Discussion of the macroeconomic forecasting record in recent years; sensitivity of fiscal aggregates to variations in key economic parameters, with explanation of underlying mechanisms; presentation of alternative macro-fiscal scenarios; probabilistic fiscal forecasts.

#### **Public Debt**

Sensitivity of public debt levels and debt servicing costs to variations in key parameters. The government's debt management strategy and performance against the strategy. Debt sustainability analysis. Policy and institutional framework for government borrowing and on-lending; projected statement of inflows, outflows, and balances; nonperforming loans.

**Other short- to medium-term fiscal risks:** civil service scheme exposures; elements where there is an unusual degree of uncertainty, e.g., recent tax or social security reforms, regional instability,

#### **Contingent Liabilities**

*Contingent Liabilities:* government's gross exposure to contingent liabilities— especially central government guarantees; including expected costs as feasible; disclosure of rationale, criteria, and beneficiaries.

*Financial sector:* past and current explicit government support to the financial sector; deposit insurance scheme details and an assessment of risks from the wider financial sector.

*Legal action against the central government:* Past claims and settlements, and the gross value of current claims, with a disclaimer that reporting the risk does not indicate government acknowledgement of liability.

*Disasters:* fiscal impacts of disasters and other environmental hazards; strategies for disaster risk reduction and disaster risk financing.

#### **Public-Private Partnerships**

Summary of the current and planned PPP program (all types of PPPs); quantum of expenditure required to meet the infrastructure needs in the context of the public investment program; policy and management framework and rationale for PPPs; total rights, obligations and other exposures, expected annual receipts and payments over life of contracts; treatment of PPPs in accounting and fiscal reporting.

Cumulative overall exposure from government's current announced PPP program.

Features of some signed PPPs, and gross exposure from guarantees and similar instruments.

#### **Public Corporations**

Policy framework e.g. ownership policy, pricing, dividends. Direct and indirect support between government and public corporations, any quasi-fiscal activities.

Financial performance and position of the sector and the largest corporations. Financial performance and position of state-owned financial institutions.

#### **Subnational Governments**

Legal framework for intergovernmental fiscal relations, and summary of aggregate subnational government financial performance and financial position.

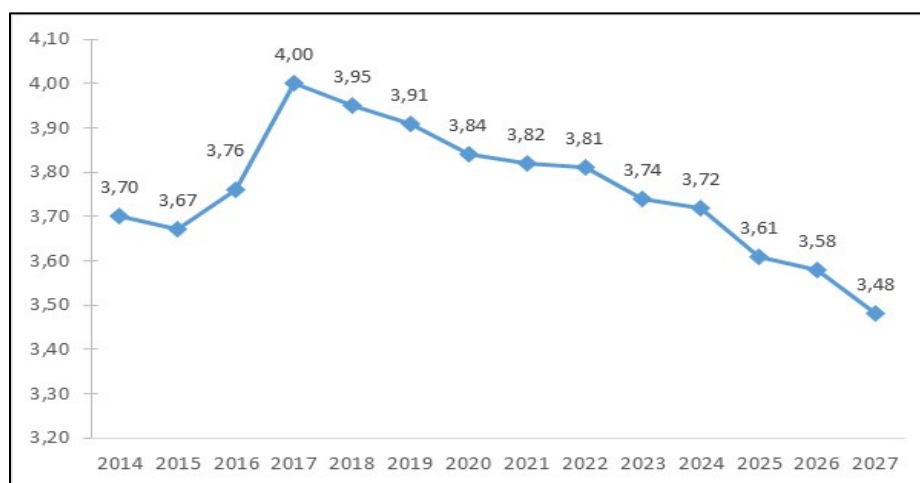
Source: FAD staff.

3.1.3	Long-term sustainability of public finances	Basic
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**97. The MFMP presents an extensive study of the long-term sustainability of fiscal policy over a ten-year timespan.** Along with the underlying macroeconomic assumptions, notably the oil price projections, this ten-year analysis encompasses forecasts of the main fiscal aggregates as well as a debt sustainability analysis. The discussion on public debt includes an analysis of sustainability under alternative growth scenarios.<sup>52</sup> However, the analysis does not consider the possibility of a macroeconomic shock combined with the realization of specific fiscal risks, such as those stemming from natural disasters, litigation losses, or realization of other explicit or implicit contingent liabilities.

**98. The 2016 MFMP includes pension and health spending projections over the next ten years.** Regarding the pension system, recognized as a non-explicit liability, the MFMP presents the impact of past measures on the net present value of future liabilities of the pension scheme in Colombia.<sup>53</sup> It also discusses the evolution over ten years of the future costs of the pension scheme to the government budget; and annual budget transfers required to ensure the equilibrium of the pension system. In 2017, this transfer is expected to amount to 4 percent of GDP, and is forecast to decrease gradually to 3.5 percent of GDP in 2027 (Figure 15). Regarding the health system (SGSSS), the 2016 MFMP discusses the negative fiscal impact of Law 1571 / 2015 (which changed the coverage of reimbursed drugs and medical practices and increased the coverage of the population) and presents a probabilistic approach to its future equilibrium, depending on better efficiency and the ability to generate additional resources.

**Figure 15. Forecast Transfers from the Budget to the Pension Scheme (percent of GDP)**



Source: MFMP 2016.

<sup>52</sup> GDP growth +/- 1 percentage point.

<sup>53</sup> See 2016 MFMP, Chapter 8.

**99. Good and advanced practices require an assessment of fiscal sustainability over a longer period and the publication of multiple scenarios.** In particular, liabilities due to the pension scheme will impact the government budget for decades and need to be disclosed in a longer timeframe.<sup>54</sup> Multiple scenario analysis of the sustainability of the main fiscal aggregates and health and pension schemes over the next thirty years should also be published. The different scenarios should present alternative paths for the evolution of macroeconomic, demographic and oil price parameters. The mission recognizes the on-going efforts of the MHCP to expand the time-horizon of its analysis. A particular improvement is the upcoming presentation in the 2017 MFMP of the investments required over a 15-year period (until 2031) for implementing the peace agreement.

### 3.2. Risk Management

3.2.1	Budgetary contingencies	Good
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**100. The budget includes several provisions for contingencies with clear access criteria for the government’s use to meet unforeseen expenditure.** The budget includes three specific instruments for managing contingencies in these areas, whose access criteria are transparent and clearly defined in law.

- A contingency *fund* (FCEE), managed by a special trust, was established by Law 448 of 1998. This fund is the largest of the three instruments, with spending averaging 6–8 percent of total budget spending in recent years (Table 17). The fund has three components: an infrastructure component, financed by budgetary transfers by the government entities responsible for infrastructure projects, is used to meet contingencies arising from investment projects and PPPs; a guarantees component, financed by guarantee fees charged to beneficiaries, to meet payments arising from the credit guarantees extended by the government; and a third recently added component to deal with legal claims against the government, which like the infrastructure component is financed from budgetary transfers by all entities covered by the general budget. Resources in the fund that are not spent in the budget year accumulate and can be disbursed in later years.<sup>55</sup> The fund’s managers report annually on its opening and closing balances, and its inflows and outflows. The MFMP includes an elaborate discussion on the fund’s operations.
- A *Disaster Relief Reserve* was established as an appropriation (line item) in the budget.<sup>56</sup> These resources are managed by the Disaster Relief Agency.

<sup>54</sup> Such long-term analyses are already made by Colpensiones that could be used by the MHCP to develop its assessment.

<sup>55</sup> As of December 2015, the relative share of these components in the fund’s accumulated balance was – infrastructure (83%); guarantees (16%); and legal claims (1%).

<sup>56</sup> The government’s strategy in this area is explained in MHCP (2016), *Colombia: Policy Strategy for the Public Financial Management of Natural Disaster Risks*.

- A *general budget reserve* (FONDO Inter-ministerial) was established under Law 38 of 1989, and is used to make payments relating to other budget contingencies. Payments from this account must be approved by the CONPES.

Other budgetary mechanisms for managing uncertainty and risk include emergency spending under supplementary budgets, budget reallocations (Section 2.4.2), and allocations for each agency to settle the cost of pending law suits (Section 3.1.2).

Because they are budget appropriations, monthly reports on items (2) and (3) are issued in accordance with the government's general requirements on budget execution. The provisions for contingencies made in the budget under items (1) through (3) above have been adequate in recent years.

**Table 17. Contingency Reserves/Funds in the Budget**  
(COP billion, and in percent of total expenditure)

Reserve/Fund	2012	2013	2014	2015	2016	2017
Contingency Fund (FCEE) <sup>57</sup>	8,576 (8.0)	12,997 (7.8)	20,682 (5.8)	19,596 (5.9)	18,203 (6.4)	18,981 (6.4)
Disaster Relief Reserve	514 (0.31)	177 (0.09)	237 (0.12)	289 (0.14)	254 (0.12)	86 (0.04)
Inter-ministerial Reserve	46 (0.03)	48 (0.03)	70 (0.04)	48 (0.02)	43 (0.02)	43 (0.02)

Source: MHCP.

<b>3.2.2</b>	<b>Management of assets and liabilities</b>	<b>Basic</b>
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**101. The government produces a consolidated public sector balance sheet, which includes most conventional assets and liabilities.** In 2015, liabilities were reported to be about 112 percent of GDP and financial and nonfinancial assets around 141.5 percent of GDP. Over the last decade, liabilities have increased by 126 percent (see Section 1.1.2).

**102. Government borrowing is authorized by law, and the MHCP periodically reports the profile of the public debt.** Law 80/1993 states that all public sector borrowing, including guarantees, has to be authorized by either the Parliament or the Minister of Finance. Specific debt rules are also set for SNGs (see section 3.3.1). In addition, law 1508 / 2012 and decree 1467 / 2012 set a limit on the total annual payments related to PPPs (Section 3.2.4) which must be considered when entering into new PPPs. The MFMP provides information on the debt structure of the public sector, as well as interest rate and exchange rate risk exposure. The MHCP also publishes a quarterly debt report for the central government (*Informe trimestrial – Seguimiento de Deuda del Gobierno Nacional*). However, while presenting the main characteristics of the

<sup>57</sup> Represent appropriations meant for transfer to the FCEE. These appropriations include an allocation from the income tax for equality fund (CREE) which was repealed in 2016.

public debt, e.g., breakdowns by sources (internal and external, multilateral), currencies, amortization profiles, maturities, servicing, the report does not discuss the related risks.

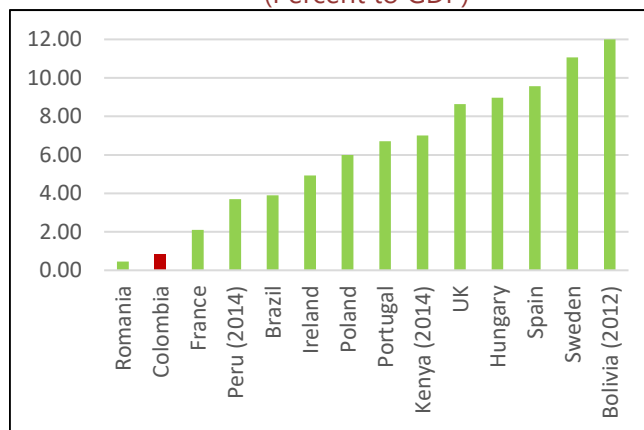
**103. The risks surrounding the central government’s financial assets and liabilities are not disclosed and analyzed.** The MHCP actively manages its financial portfolio. The objectives include liquidity management and maximizing return to assets. However, there is no asset and liability management report which could provide information on the asset and liability structure, as well as present and discuss the main risk indicators. Such indicators could, for example, encompass liquidity, interest rate, exchange rate, credit and concentration risks. Moreover, the medium-term debt management strategy published in 2013 has not been updated since, and there is no published strategy for asset and liability management. The definition of such a document, updated annually, which would define the objectives and the implementation strategy in managing financial assets and liabilities and the risks surrounding them, is of paramount importance to better assess the fiscal risks arising from the financial position of the public sector. The implementation strategy should include the management of market and balance-sheet risks, and, for instance, discuss liquidity and interest rate risks management, and the diversification of exchange rate risks.

**104. There is also no published strategy for managing most of the non-financial assets recorded in the balance sheet as well as public sector assets not owned by the central government.** Non-financial assets, such as land holdings, buildings, infrastructure assets, as well as financial assets and liabilities of the social security and insurance funds, and SNGs, should be included in the government’s assets and liabilities management strategy.

<b>3.2.3. Guarantees</b>	<b>Advanced</b>
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**105. The government manages its portfolio of credit guarantees well (Figure 16).** Decree 2681 empowers the government to guarantee the payment obligations of public entities with the concurrence of the CONPES and with the approval of the Congressional Commission on Public Credit. Guarantees are managed within a legal limit of US\$4.5 billion (or equivalent).<sup>58</sup> Decree 2681 prohibits the government from guaranteeing private individuals, public entities that have defaulted on their prior

**Figure 16. Government Guarantees in Selected Countries 2015**  
(Percent to GDP)



Source: Eurostat and FTEs.

<sup>58</sup> About COP 13 trillion at the current exchange rate.

commitments, and the internal payment obligations of subnational entities. Additionally, guarantees cannot be given for credits already contracted without a sovereign guarantee.

**106. Guarantees are extended after a risk analysis by the MHCP that entails a credit risk assessment using a credit rating assigned to the beneficiary through an external agency.**

The credit rating is used to determine the default probability and the loss-given-default. Guarantees are valued using the price differential between a similar guaranteed and non-guaranteed debt as a proxy. A risk-based fee is levied, and all beneficiaries are required by law to post sufficiently liquid collaterals up to 120 percent of the credit value. The MHCP monitors the financial condition of the beneficiaries and reassesses fees every year based on their credit risk assessment.

**107. The FCEE provides the first buffer to meet any payments arising from guarantees.**

As of December 31, 2016, the guarantees component of the FCEE had a balance of COP 219 billion, which seems adequate considering the cumulative payments of COP 0.59 trillion since its inception in 1998.

**108. The government discloses its exposure from credit guarantees, and other contingent liabilities, in the MFMP and the consolidated financial statements.** As can be

seen from Table 18, the stock of guarantees has gone up in recent years; however, it remains well within the legal limit.

According to the 2016 MFMP, as of end-December 2015, there were 78 outstanding credit guarantees benefitting 24 entities.<sup>59</sup>

The total exposure from these guarantees was COP 6.95 trillion. Over 80

percent of the guarantee exposure is from foreign currency denominated debt. Of the total exposure, 88 percent is from AAA and AA+ rated entities, whereas only 5.5 percent (\$ 288 million) is from entities rated CCC. Based on the default probabilities, the MHCP estimates the present value of contingencies over 2016-2027 to be COP 1.83 trillion (0.22 percent of GDP). The MFMP also shows the balance in the FCEE (COP 0.17 trillion) for each of the beneficiaries.

**109. The disclosure of credit guarantees, however, offers scope for further enhancement.** The MFMP could include a detailed table presenting an itemized list of all credit

**Table 18. Exposure from Credit Guarantees**  
(Trillion COP)

	Number of Guarantees	Gross Exposure	Expected value	FCEE Balance (Guarantee Component)
2015	78	6.95	1.83	0.170
2014	98	5.85	1.82	0.140
2013	103	4.20	0.88	0.116
2012	117	4.40	0.98	0.098
2011	124	4.30	1.04	0.075
2010	162	4.10	1.22	0.052

Source: MHCP; MFMP 2011-2016.

<sup>59</sup> The MFMP lists the beneficiaries and their respective contributions to the FCEE.

guarantees with the following information: (1) a brief description of their nature, intended purpose, beneficiaries, and expected duration; (2) the government’s gross financial exposure and expected payments; (3) contributions received by the FCEE; (4) payments made during, and up to, the year in settlement of called guarantees, claims established, and payments received in recovery; and (5) any receivables from counter claims. The list could separate existing and new guarantees issued during the year, and show any changes to existing guarantees.

<b>3.2.4</b>	<b>Public-private partnerships</b>	<b>Basic</b>
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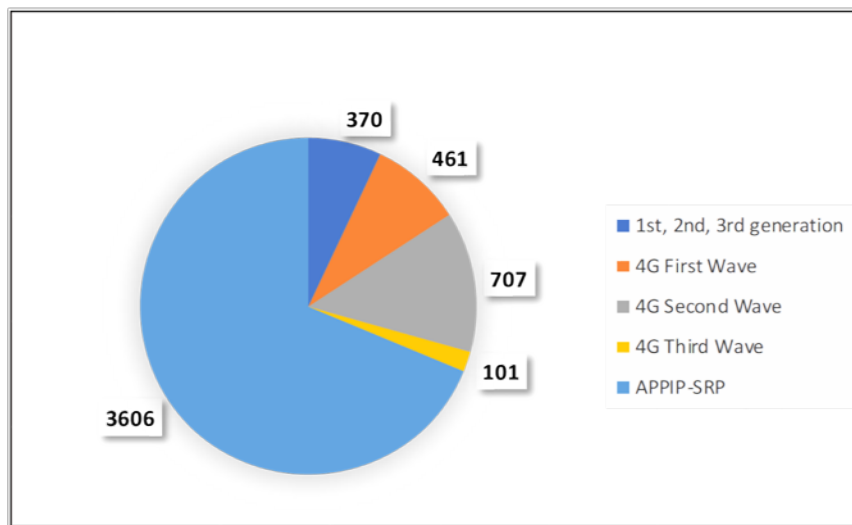
**110. Colombia has an active PPP program which has been growing.** PPPs are classified as (i) concessions, (ii) standard PPPs (APPs), and (iii) Private Initiative Projects without public financial contribution (APPIP-SRP), although often only APPs are referred to as PPPs.<sup>60</sup> For the purposes of the FTC, all three categories of projects are considered as PPPs. A first generation of concession contracts commenced in 1994, under which most risks were retained by the public sector and minimum income guarantees were granted. Changes were introduced in the second and third generations of contracts, including the elimination of minimum traffic guarantees and transfer of some risks to the private sector. The National Development Plans 2010-2014 and 2014-2018 introduced the current—fourth generation (4G)—in three waves, to close the infrastructure gap in Colombia, particularly with respect to roads. APPIP-SRP have assumed increasing importance (Figure 17). Risks in these projects are to be managed by project restructuring or increases in tolls.

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<sup>60</sup> Projects without public financial contribution are regulated by Law 1508 of 2012. They may include a contribution from the national budget up to 20% of total cost for road projects, and 30% for other projects (Law 1753 of 2015).



**Figure 17. PPP Projects by Type and Contingent Exposure, 2016-27**  
(in US\$ millions)



Source: MHCP Risk Directorate. Exchange rate used for calculations: COP2,924.8 = US\$1, as at October 7, 2016. 4G third wave includes Cormagdalena project

**111. The legal framework for PPPs has been strengthened over time.** The Contingency Fund Law 448 of 1998 and its regulatory decree 1849 of 1999 established procedures for valuation and budgeting of contingent liabilities, and created a Contingency Fund to cover possible calls on guarantees. Law 1150 of 2007 required that each PPP contract be based on an assessment of project-specific risk. Law 1169 of 2007 required the estimation of potential future expenditures, their approval by CONFIS, and their reporting as part of budget documentation. Law 1508 of 2012 and its regulatory decrees (1467 of 2012, and 100 of 2013) introduced further improvements, including principles for risk allocation and regulations for the handling of unsolicited proposals.

**112. Many of the earlier PPP contracts were renegotiated at high fiscal cost.** According to DNP estimates, PPP renegotiations in road concession projects during the period 1993-2010 have involved high fiscal costs. The average cost of renegotiations was equivalent to 280 percent of the initial cost of the contract. In 25 concessions assessed, there have been 430 changes in contracts, with a fiscal cost of USD \$56,000 billion and 131 additional years of delays.

**113. Substantial information is published on PPP projects, but none on the government's rights or expected annual future receipts.** Most of the 4G road concessions are classified as public investments; assets are recognized during the construction phase and liabilities of the same value are recognized at the same time. In Chapter 7 of the MFMP, the maximum annual amount of authorizations for multiyear commitments under the APP scheme is defined and allocated amongst sectors for the period 2015 to 2046 (Figure 7.1 and Table 7.6 of the MFMP). The MFMP also includes details of contingent liabilities from PPPs. Section 8.1.2 of the MFMP contains detailed project-level information on the contingent liabilities in concession contracts and APP contracts, by wave. Details are also provided of the expected profile of

contributions to the FCEE. As noted for indicator 2.1.4, more information is available on the government’s multiyear obligations in individual PPP projects than on public investment projects financed from the national budget. However, information is not published on the government’s rights in PPP contracts, nor on the expected future annual receipts.

**114. There is a quantitative limit on the flow of new PPP obligations.** To limit the fiscal costs and risks from PPPs, the MFMP includes a ceiling for future cash appropriations related to PPP contracts (*vigencias futuras* for PPPs). The CONPES defines the maximum annual amount of authorizations for the implementation of projects under the APP scheme, currently 0.4 percent of GDP. There is no limit on the stock of PPP obligations.

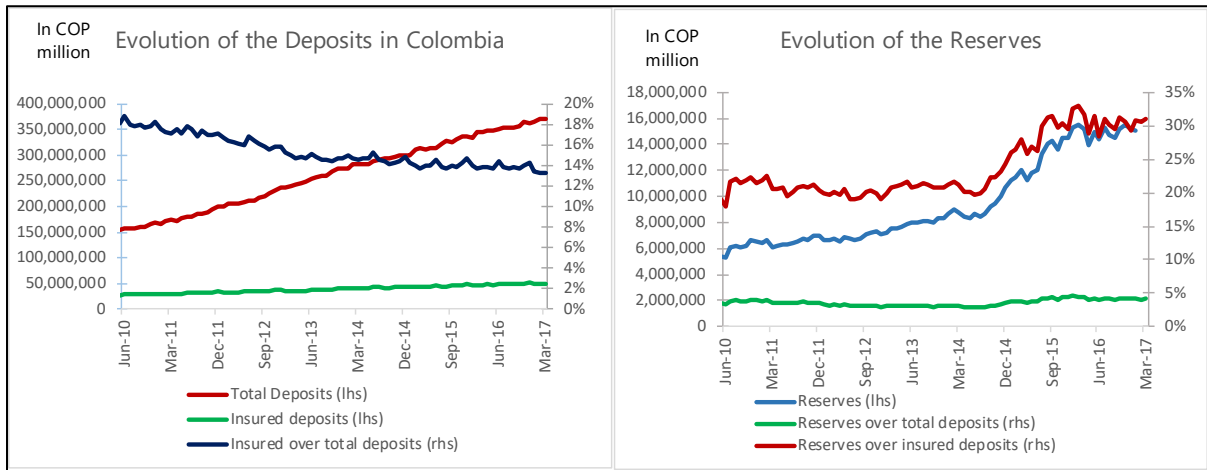
<b>3.2.5</b>	<b>Financial sector</b>	<b>Advanced</b>
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**115. The general government’s direct exposure to the financial sector, through a deposit guarantee fund, Fogafin,<sup>61</sup> and some 14 financial institutions, is limited (Box 4).** The deposit guarantee fund, Fogafin, is financed by contributions from the financial sector but is implicitly guaranteed by the government. Until April 2017, the fund provided insurance for individual deposits up to COP 20 million by person and by eligible financial institutions. In April 2017, the size of the insured deposits was raised to COP 50 million per person per eligible institution. As of January 2017, based on the then applicable ceiling, Fogafin was estimated to provide insurance cover to 98 percent of the 52 million accounts with a potential liability of about 6 percent of GDP. As of January 2017, Fogafin’s reserves stood at less than 2 percent of GDP, placing Colombia among the low reserve countries, but covering 30.7 percent of insured deposits (Figure 18), in line with the international benchmark of about 20–40 percent. However, this represents 4.1 percent of total deposits, below Fogafin’s targeted range of 4.9–5.9 percent. Due to the distribution of deposits, the April 2017 change in the size of the insured deposits is expected to result in only a moderate increase of COP 312 billion in the government’s contingent liabilities.

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<sup>61</sup> Fogafin is also a resolution fund and Fogafin’s reserves can also be used for resolution purposes. There are no distinct reserves for resolution or insured deposits obligations. However, the management of the reserves takes this double objective into account. On the resolution regime in Colombia, see : Detailed Assessment of Observance Key Attributes of Effective Resolution Regimes for Financial Institutions, IMF, February 2016 and Fogafin’s strategic plan for the years 2016–2020, available at <https://www.fogafin.gov.co/Default/que-es-fogafin/plan-estrategico>

**Figure 18. Fogafin Reserve Developments**



Source: Fogafin.

**116. Since the financial crisis in the late 1990s, there has been limited government support to the financial sector and current financial sector risks appear contained by a strong safety net.** Since the financial crisis and the divestment of the main public banks, Fogafin has only been called on two occasions, for a limited total amount. As of the third quarter of 2016, capital adequacy (17.6 percent) is well-above the regulatory minimum. However, the concentration of the banking system around four main banks may pose specific threats to the financial system, if a systemic financial crisis were to occur.

**117. The authorities regularly assess financial sector stability, although the government’s risk exposure is neither assessed by the Central Bank nor the MHCP.** The Central Bank’s semiannual Financial Stability Report includes a thorough assessment of recent developments in the financial sector and of risks to financial stability, although with no reporting of fiscal liabilities and risks. The report presents aggregate results of macroprudential stress tests and macroeconomic scenarios. Last, the government does not disclose any analysis of its total fiscal exposure to the financial sector and the risks around this exposure.

#### Box 4. State-Owned Financial Institutions

The Colombian national government is exposed to the financial sector through direct ownership of 14 institutions. Also, there are indirect, or subnational, financial participation through the various funds. The Special Official Institutions (*Instituciones Oficiales Especiales*) often target a policy objective. Most of them are either (second-tier) public development banks or special funds.

The supervision of the public financial institutions follows the same rules as the ones applied to the private sector. They are thus subjected to the same constraints. Some institutions concentrate more risks and have numerous links with taxpayer money. For instance, Fiduprevisora manages different funds for the public sector (such as FOMAG, *el Fondo Nacional de Gestion del Riesgo de Desastres – FNGDR –*, and the contingencies fund). These may warrant a closer scrutiny in a fiscal risk assessment.

Institutions - 14	Total Assets (as of End 2015)	Breakdown of the total assets held in the financial institutions by type of institutions
<b>Bank – 1</b>	<b>COP 23.1 trillion</b>	
Banco Agrario de Colombia	4.5 percent of total banking assets Circa 5 percent market share	<p>A pie chart titled 'Breakdown of the total assets held in the financial institutions by type of institutions'. The chart is divided into four segments: 'Special official institutions' (56%, dark blue), 'Banco Agrario' (36%, light blue), 'Insurance Companies' (8%, medium blue), and 'Trust Companies' (0%, white). The segments are arranged in a circle, with 'Special official institutions' being the largest and 'Trust Companies' being the smallest.</p>
<b>Special Official Institutions - 8</b>	<b>COP 36.2 trillion (+ 5.05% y.o.y)</b>	
Bancoldex Findeter Finagro Icetex <i>Financiera de Desarrollo Nacional</i> <i>Fondo Financiero de Proyectos de Desarrollo</i> <i>Fondo Nacional del Ahorro</i> <i>Fondo Nacional de Garantias</i>	4.5 percent of GDP	
<b>Trust Companies<sup>1</sup> - 3</b>	<b>COP 0.4 trillion</b>	
Fiduprevisora Fiducoldex Fiduagragria	15.8 percent of total assets of trust companies; 11.3 percent of market share in terms of fiduciary assets	
<b>Insurance companies<sup>2</sup> – 2</b>	<b>COP 5.0 trillion</b>	
<i>La Previsora Compañía de Seguros</i> Positiva	1 percent of GDP	

Source: Financial accounts of financial institutions, and Colombian authorities.

<sup>1</sup> Those companies are subsidiaries of public financial companies (*La Previsora Compañía de Seguros*, Bancoldex and *Banco Agrario de Colombia* respectively). However, due to their role and specificities, they are presented here as distinct entities.

<sup>2</sup> In 2016, *La Previsora de Seguros* had a market share of 6 percent and *Positiva* a market share of 10 percent.

3.2.6	Natural resources	Basic
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**118. Colombia publishes annual estimates of the volume and value of major natural resource assets, but not under different price and extraction scenarios.** Colombia is one of the relatively small number of countries that reports the volume and value of natural resources on the government’s balance sheet (as at 31 December 2016 a total value of COP 45.4 billion). This was broken down as shown in Table 19. For Ecopetrol’s oil and gas reserves, the proven reserves were calculated in accordance with US Securities and Exchange Commission standards and methodologies. Almost all reserves (99 percent) were independently audited. For the National Hydrocarbon Agency (ANH) reserves, the price was calculated in accordance with Decree 324/2010, which establishes market prices for the valuation. Data for the minerals sector is consolidated by the National Mining Agency (ANM). Minerals include coal, gold, emeralds, iron, and nickel.

**Table 19. The Value of Natural Resource Assets on the Government’s Balance Sheet**

	ANH (oil and gas)	ANM (minerals)
Value of resource under exploration	COP 71.0 billion	COP 31.9 billion
Accumulated exhaustion of resource under exploitation	COP 46.7 billion	COP 10.8 billion
Net value of resources under exploitation	COP 24.3 billion	COP 21.1 billion

Source: Colombia: The Consolidated Financial Statements 2015.

**119. Data are also published on the volume and value of the previous year’s sales and fiscal revenue from oil and gas.** The 2016 MFMP contained a discussion of Ecopetrol’s fiscal and financial results for 2015, including a table showing its fiscal balance (with comparative data for the previous four years).<sup>62</sup> This included disclosure of dividends to the nation, income tax, and royalties. Data on the volume of oil and gas sales are available in Ecopetrol’s quarterly and annual reports.<sup>63</sup> Contracts for concessions are published on ANH’s web site. However, estimates are not published on the volume and value of natural resource assets under different price and extraction scenarios.

**120. The 2016 MFMP describes the evolution and use of oil and gas revenues.** It discusses historical episodes of boom and bust cycles in Colombia, and the use of resources from the recent boom, identified as the period 2011-2015. Oil and gas revenues were obtained through tax revenue from the oil sector, Ecopetrol dividends to the central government, and royalties to subnational government through the SGR. It illustrates the major impact on the fiscal accounts of

<sup>62</sup> See Table 2.A.1 Fiscal Balance of Ecopetrol, p.116.

<sup>63</sup> [http://www.ecopetrol.com.co/wps/portal/web\\_es/ecopetrol-web/our-company/Press-Room/Press-Release/2015/2015/Results-Fourth-Quarter-Full-Year-2016](http://www.ecopetrol.com.co/wps/portal/web_es/ecopetrol-web/our-company/Press-Room/Press-Release/2015/2015/Results-Fourth-Quarter-Full-Year-2016)

the decline in oil prices and revenues, equivalent to 1.9 percent of GDP over the period 2013-2016.

**121. Colombia achieved candidate status for the Extractive Industries Transparency Initiative in 2014.** Since then there have been two reports, the most recent being for 2014-2015.<sup>64</sup> That report found no significant discrepancies in the reconciliation of payments made by companies with receipts by government.<sup>65</sup>

<b>3.2.7</b>	<b>Environmental risks</b>	<b>Advanced</b>
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**122. Colombia is exposed to significant fiscal risks from disasters.** Hazards include low frequency, high impact natural events such as earthquakes, tsunamis, volcanic eruptions, seismic activity and landslides, as well as high-frequency, low-to-medium impact disasters such as floods and landslides. In addition to large-scale loss of life and property, these create large fiscal risks given the uncertainty of their occurrence, damages, and fiscal impacts. The earthquake in the coffee-growing region in 1999 imposed damages amounting to 1.84 percent of GDP. The MHCP (Risk Directorate) estimates a contingent obligation in the event of a disaster at 1.4–1.8 percent of GDP for an earthquake of 1 in 250 years.

**123. The government discloses extensive information on the fiscal impacts of past disasters.** Table 20 shows the range of measures taken with respect to natural disasters, including coordinated action between institutions, international cooperation, budget transfers, contributions to the *Fondo de Calamidades* (Disaster Fund), credits from multilateral banks, tax policy decision, and contingent credits.

**124. Disaster risk management strategies commenced in the 1980s following major disasters.** This included establishment of a National Disaster Fund in 1984.<sup>66</sup> In 1998 the National Plan for Disaster Prevention and Assistance was enacted, while in 2001 constitutional laws were adopted that directed resources to disaster prevention and assistance. In 2001, the government introduced a new line item in the investment category, disaster prevention and response, to the national government’s annual budget. In 2004, a US\$260 million external credit line was put in place to partially finance a program for the reduction of fiscal vulnerability to natural disasters over the 2005-2015 period. Following the 2010-2011 El Nino flooding, a Catastrophe Drawdown Option (CAT DDO) of US\$ 150 million was negotiated.<sup>67</sup>

<sup>64</sup><http://www.eiti.upme.gov.co/sites/default/files/archivos/Reporte%20EITI%20Colombia%202014%20y%202015.pdf>

<sup>65</sup> <https://eiti.org/node/8661>

<sup>66</sup> This section draws on ‘Fiscal Risk Assessment of Contingent Liabilities Associated with Natural Disasters: The Colombian Experience’, World Bank, June 2012.

<sup>67</sup> World Bank Development Policy Loan with a Catastrophe Drawdown Option, a contingent credit line that provides immediate liquidity in the aftermath of a natural disaster.

**Table 20. Fiscal Impacts of Major Disasters, Financing, and Policy Responses**

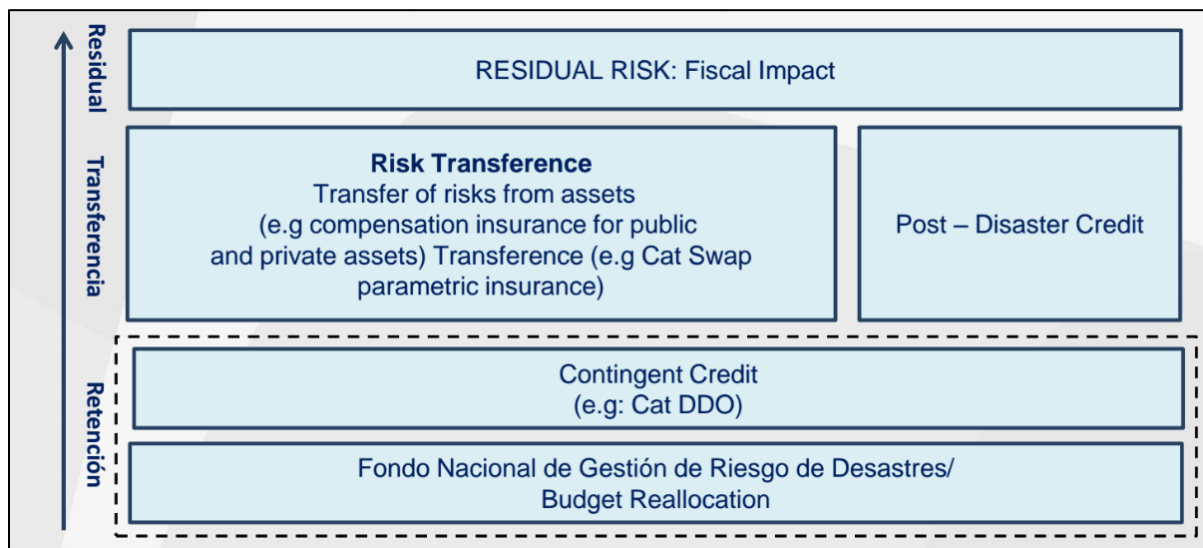
Event	Institutional coordination	Internat. Coop.	Budget transfers	Disaster Fund ( <i>Fondo Calamidades</i> )	Multi-lateral bank credits	Tax policy	Contingent credit
Popayan earthquake 1983	Creation of Corp. for Reconstruction and Development of Cauca	Donations in money and in kind	Central govt transfers of COP 21 billion	Creation of the Fund	Credits contracted for approx. USD\$50 m	Targeted tax incentives	
Nevado del Ruiz Volcano 1895	Creation of RESURGIR Corporation	Donations in money, in-kind	Presidential transfers to RESURGIR	Contributed with around COP 362 billion	Credits contracted for RESURGIR	Targeted tax incentives	
Middle Atrato earthquake 1992	Leadership by Directorate for Disaster Prevention and Relief	Donations in money, in-kind	Presidential transfers made for the relief	Contributed with around COP 6 billion			
Tierradentro earthquake 1994	Creation of <i>Corporación Corpaeces</i>		Presidential transfers to the <i>Corporación</i>			Targeted tax incentives	
Earthquake 1999	Creation of FOREC	Donations exceeded COP 16 billion	Presidential transfers for COP 970,076		Credits contracted for COP 611,397	Financial transactions tax created	
Flooding 2010-2011	Creation of the Adaptation Fund	Donations exceeded COP 160 billion	Presidential transfers exceeded COP 2 trillion	'Colombia Humanitaria' Account contributions > COP 4 Trillion		Tax on financial transactions maintained	CAT DDO of US\$ 150 m

Source: Mapa de Riesgos Fiscales de la Nación, Director General of Public Credit, Ministry of Finance and Public Credit, 2015.

**125. Colombia is also implementing a national strategy for financing the fiscal impacts of disasters.** In 2012, a Financial Strategy to Reduce the State's Fiscal Vulnerability when faced with a Natural Disaster was introduced. It attempts to shift disaster risk financing further from ex-post financial instruments (e.g. budget transfers, tax increases), to ex ante financing (e.g. insurance). The strategy involves a layering approach, from use of contingency budgets and reserves for financing risks from low impact, high frequency disasters, through budget reallocation, borrowing and contingent credit for intermediate risks, to risk transfer for passing

high-risk layers to reinsurance and capital markets (Figure 19). The strategy is based on sound principles, but its efficacy in an event needs further testing.<sup>68</sup>

**Figure 19. A Layered Approach to Disaster Risk Financing**



Source: MHCP Risk Directorate.

### 3.3. Fiscal Coordination

3.3.1	Subnational governments	Good
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**126. The monitoring of SNGs’ financial performance has substantially improved since the financial crisis.**<sup>69</sup> The national government, for example, is required to submit to Congress in July each year a report on the financial viability of SNGs. These reports are published by the MHCP and the DNP on their websites. They include various indicators of financial performance, as well as information on the execution of budgets by SNGs. Similarly, a quarterly monitoring of the fiscal performance of a large sample (about 80 percent) of SNGs is undertaken by the MHCP, and is one of the inputs into the Ministry’s macro-financial programming, but these data are not yet published.<sup>70</sup> Sectoral ministries and the DNP also publish annually a categorization of risk in the use of SGP resources and public hospitals.

<sup>68</sup> Fortunately, Colombia has not faced any major natural disasters since 2011.

<sup>69</sup> The results presented in this section are supported by the recent PEFA evaluation. Republic of Colombia. October 2016. *Public Expenditure and Financial Accountability Assessment (PEFA)*, Section 10.2, pages 47-48.

<sup>70</sup> SNGs also submit to the CGN quarterly reports of their financial operations through the CHIP portal, but are often delayed by 3-4 months. CHIP is accessible to public ([www.chip.gov.co](http://www.chip.gov.co)).



**127. A sound framework to ensure subnational fiscal sustainability was put in place following problems of over-borrowing and excessive expenditure growth during the 1990s.**<sup>71</sup> To increase the central government's control over subnational debt, the so-called "Traffic Light Law" was adopted (Law 358 of 1997). Under this law, SNGs were given a rating based on their ratios of debt to payment capacity. SNGs rated in the red-light zone were prohibited from borrowing, and those in the green-light zone are permitted to borrow up to limits based on debt sustainability calculations. Intermediate cases (the yellow-light zone) were required to obtain permission from the MHCP to borrow. These rules were modified by Law 795 of 2003 (on fiscal responsibility) to eliminate the yellow zone. The rating of individual SNGs can be upgraded or downgraded if their performance improves or deteriorates. In addition, departments and large municipalities must get a satisfactory credit rating from rating agencies before they borrow. SNGs are included within the coverage of the fiscal responsibility law (FRL) (Section 2.3.1), and must comply with the provisions of national laws relating to medium-term financial planning, and the preparation, approval, and implementation of the budget (Law 003 of 2011). In addition, the legal framework includes quantitative limits for operating expenses (Law 617 of 2000), specific rules for dealing with financial insolvency (Law 550/99), and, specific provisions relating to financial planning, budgeting and accountability (Law 819 of 2003).

**128. The national government is not authorized to guarantee the domestic debt operations of SNGs.** It may grant guarantees for territorial entities to contract external debt, but such operations are rare and must comply with a rigorous approval process. Additionally, SNGs must demonstrate that projects to be financed through borrowed resources are economically viable and consistent with policy priorities established in the PND.

**129. The unified FRL imposes strict sanctions on SNGs for their non-compliance with national legislation.** Should SNGs breach the limits imposed by the FRL, they will be prohibited from borrowing. They also must adopt a fiscal-rescue package to regain viability over the next two years. The law also prohibits lending by the national government to SNGs or guaranteeing an SNG's debt if the entity is in violation of Law 617 or Law 358, or if it has debt service arrears to the government. In cases of non-compliance, the credit contract is deemed invalid and borrowed funds must be restituted promptly (Article 21 of the FRL).

**130. The policy measures described above have led to a considerable improvement in the financial performance of SNGs.** The debt to GDP ratio for SNGs has halved since the late 1990s to reach 4–5 percent of GDP in the last three years, two-thirds of which is domestic. Across municipalities there are large variations in debt levels: 40 percent of the debt of municipalities in 2015 was held by Bogota and 22 percent by Medellin, and all but five of the municipalities held

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<sup>71</sup> See Lili Liu and Steven B. Webb. 2011. *Laws for Fiscal Responsibility for Subnational Discipline: International Experience*. World Bank: Policy Research Working Paper No. 5587.

virtually no debt. The credit rating of municipalities has also improved: municipalities with an “A” rating increased from 82.6 percent in 2012 to 96 percent in 2015.<sup>72</sup>

**131. Nevertheless, some challenges remain.** Currently, 30 SNGs are implementing an adjustment plan per Law 550 of 1989.<sup>73</sup> Adjustments depend on the severity of the cases and the progress made by SNGs in implementing reforms. In extreme cases, the national government may take over the administration of an SNG’s finances or step in to deal with cases where SNGs are failing to provide required services (by making payments directly from resources earmarked for transfer to SNGs), especially in areas such as education and health.

<b>3.3.2</b>	<b>Public corporations</b>	<b>Basic</b>
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**132. As in many countries, the liabilities of public corporations are a potential source of fiscal risks for the Colombian government.** As of December 2015, the liabilities of public corporations presented in the financial statement amounted to about 18.2 percent of GDP. The perimeter of the public corporations varies widely in the available documentation.<sup>74</sup> The MHCP’s General Directorate for SOEs (DGPE), created in December 2015, monitors a portfolio that includes all enterprises where the MHCP has a direct ownership (minority and majority stakes). The scope of this monitoring excludes public corporations owned by SNGs. The evaluation of this indicator is based on the portfolio managed by the DGPE (Box 5).

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<sup>72</sup> See MHCP, *Public Debt of the Territories, 2012-2015*.

<sup>73</sup> The decision to invoke the adjustment process under Law 550 is voluntary for the territorial entities and implies the fulfillment of requirements for their admission by the MHCP. The national government, through the MHCP, acts only as mediator between the territorial governments and their creditors. The application of Law 550 avoids a national bailout of subnational governments with insolvency problems.

<sup>74</sup> The annual consolidated financial statement includes most of the corporations owned by SNGs as well as other institutions, such as Fogafin, which are not considered as SOEs; budget documentation excludes all financial corporations and participations with minority stakes and the SOEs monitored by DGPE.

### Box 5. Legal Form of Colombian SOEs

There are two main categories of Colombian SOEs as defined by law:

- Industrial and Commercial State Companies (*Empresas Industriales y Comerciales del Estado* – EICEs), which, following article 85 of Law 489 of 1998, are statutory corporations wholly owned by the State and whose origin and norms are established by law. They undertake activities of an industrial or commercial nature and of economic management under private law, except in the cases established by the law.
- Mixed-Ownership Companies (*Sociedades de Economía Mixta* or SEMs) in which the State has a stake. These entities can take any legal form, and are generally governed by the norms applicable to the private sector.

This breakdown is nuanced by additional criteria:

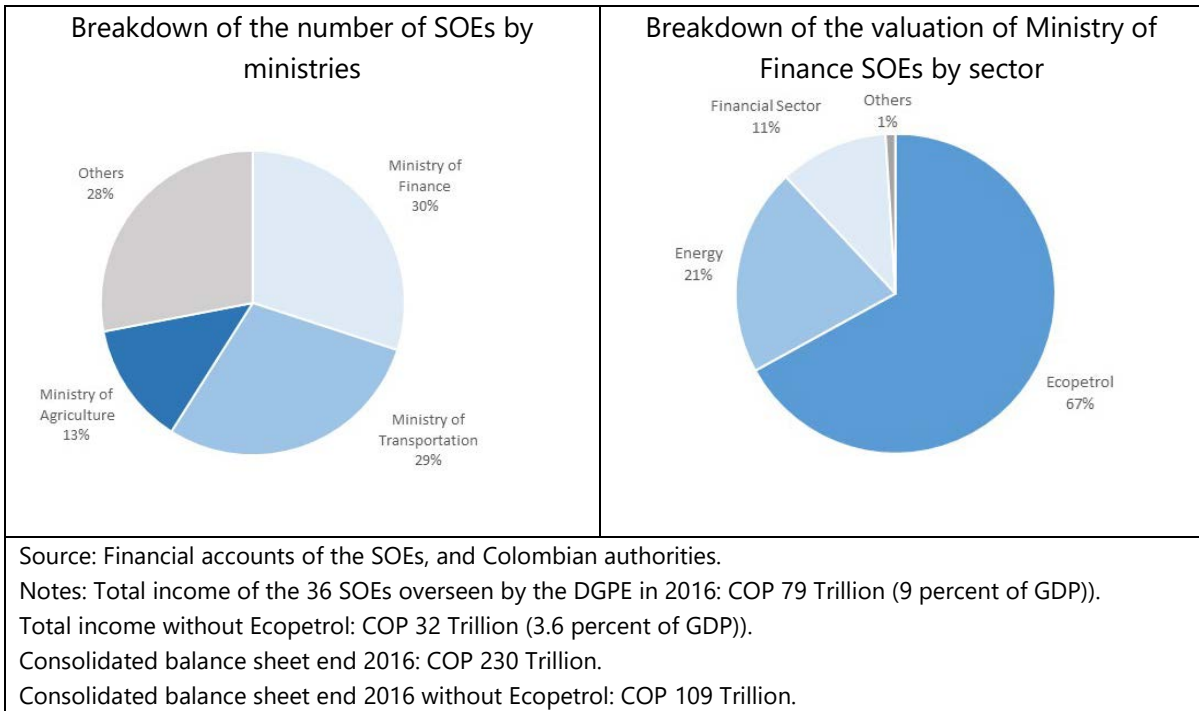
- The law establishes that SEMs in which the state holds a stake of 90 percent or more are to be considered as EICEs and must adopt the norms governing EICEs.
- Social State Companies (*Empresas Sociales del Estado* or ESEs) are wholly owned by the state but follow a different legal framework than the one applicable to EICEs. Created by the central government or by subnational bodies, their purpose is the direct provision of healthcare services.
- As established by the Constitutional Court, some types of mixed ownership utility companies (*Empresas de Servicios Públicos* or ESPs) are considered SOEs. Law 142 of 1994 states that: i) mixed public service companies are those in which the state, subnational bodies or their decentralized bodies have stakes of 50 percent or more; and ii) privately owned public service companies are those in which a majority stake is held by the private sector (or by entities created by international conventions that opt to be subject to private sector rules).

Source: Lehuedé, H. (2013), "Colombian SOEs: A Review Against the OECD Guidelines on Corporate Governance of State-owned Enterprises", OECD Corporate Governance Working Papers, No. 12, OECD Publishing. <http://dx.doi.org/10.1787/5k3v1ts5s4f6-en>

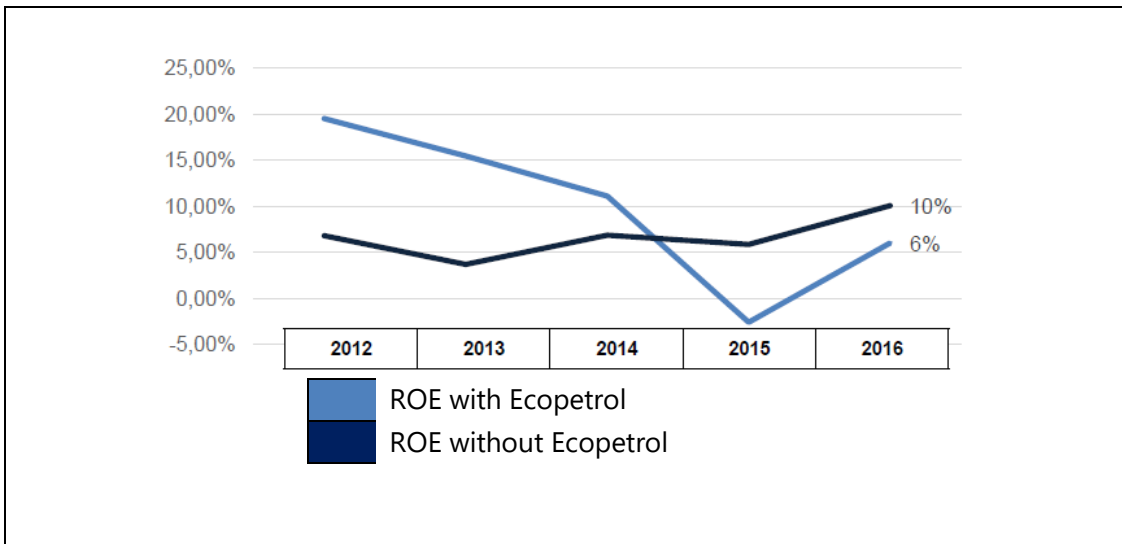
**133. The concentration of the state-owned enterprise (SOE) portfolio is important, with Ecopetrol dominating its performance.** Due to its recent creation, the DGPE currently oversees 36 corporations that are fully-owned by the national government, but will ultimately manage the entire portfolio of 119 entities in which the national government has ownership interest. As of end 2016, the valuation of this sub-portfolio is estimated at COP 54 trillion, and that of the total portfolio is estimated at COP 62 trillion. The sectoral breakdown of this sub-portfolio, as well as financial indicators, demonstrate the weight of Ecopetrol (Figure 20). The financial position of the public corporations appears strong despite fluctuations in the net profit of Ecopetrol (Figure 21).<sup>75</sup>

<sup>75</sup> Despite the Colombian economy slowdown of recent years, in 2016 the SOE portfolio recovered its growth trend. In terms of profitability, the portfolio showed positive results compared to 2015 FY results, increasing net profit by COP 7 trillion, to COP 4.7 trillion.

**Figure 20. SOE Portfolio**



**Figure 21. Evolution of the Return on Equity (ROE) of the SOEs' Portfolio**



Source: DGPE and Colombian authorities.

**134. The budget provides information on main transfers to national public corporations, but information on some other direct and indirect support to corporations is not publicly available.** Transfers also occur from public corporations to the government. For instance, dividends paid by the 36 corporations currently overseen by the DGPE amounted to COP 10.12 billion for FY 2013, COP 5.67 billion for FY 2014, COP 0.58 billion for FY 2015 and COP 1.30 billion

for FY 2016. Transfers also occur among public corporations (such as arrears or capital injections). While some of this information is publicly disclosed by the corporations individually, an overall picture of direct and indirect transfers between the government and public corporations, as well as the amounts received by each entity, is neither available nor published.

**135. While occasionally mentioned in companies' and fiscal reports, public corporations' quasi-fiscal activities are not systematically identified nor evaluated in totality.** The MFMP carries a discussion of the financial performance of BanRep and Fogafin, the two major entities engaged in quasi-fiscal activities. In addition, the 2014 MFMP carried a box describing the quasi-fiscal activities of these two entities, but this information was discontinued in subsequent years. Examples of public policy activities carried by the public corporations also include social projects undertaken by public corporations in the transportation sector or collection of pension contributions or payment of pensions by Colpensiones.

**136. The financial performance of individual public corporations is monitored and publicly reported, but there is no detailed analysis of the overall performance of the state's public corporations as a whole.** The DGPE monitors quarterly financial statements of the 36 public corporations in which the MHCP has a majority stake. The DGPE intends to publish an annual report detailing the missions, operations, and financial situation of the public corporations under its umbrella, starting in June 2017. Since budget execution of regional and municipal public corporations is not reported in the budget execution report, an analysis of the overall performance of the state's public corporations is currently unavailable in Colombia. Last, a general ownership policy has been endorsed by CONPES and published for the national SOEs.<sup>76</sup>

### 3.4. Conclusions and Recommendations

**137. Colombia's fiscal risk analysis and management practices meet good or advanced practices in many areas, especially compared to other countries' practices against the FTC.** Colombia's practices exhibit a high degree of quantification of specific fiscal risks, including estimation of expected costs, and a high degree of allowance for the impact of specific risks in the annual budget or in earmarked financial reserves.

**138. In response to past crises, Colombia has put in place comprehensive and transparent frameworks for managing contingent liabilities.** Natural disasters over the last thirty years have prompted a strategic approach to disaster risk financing. The crises of the late 1990s led to comprehensive reform of the management of fiscal risks from subnational governments, the financial sector, the state's participation in the oil and gas sector, and credit guarantees and other explicit contingent liabilities. The MHCP's Risk Directorate, established in the late 1990s, has contributed to an extensive quantification of risks.

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<sup>76</sup> See CONPES 3851, *Política General de Propiedad de Empresas Estatales del Orden Nacional*.

**139. There are some areas where Colombia's performance is relatively weak.** The main weakness is the absence of publication of a comprehensive overview of all specific fiscal risks, albeit the gap between current and good practice is not large. Other areas in need of strengthening include analysis and disclosure of macroeconomic risks, projections of long-term fiscal sustainability, disclosure of a comprehensive picture of all PPPs, and publication of a regular overview of public corporations.

**140. There are some areas where it would be relatively easy to expand the disclosure of fiscal risks.** The MHCP is already planning to expand the coverage of fiscal risks in the annual MFMP, and for the 2018 budget will introduce a discussion of risks from disasters. It would be relatively easy for the subsequent budget to add an overview of subnational governments, given the risk management framework and extensive monitoring and reporting of fiscal risks from that source. Similarly, a discussion of financial sector soundness and the management of financial sector risks would also be relatively easy to produce. The recent creation of DGPE, and production of a report for internal purposes on the SOEs' financial performance and position, provide a sound basis for publishing this information.

**141. Based on the above assessment, the evaluation highlights the following priorities for improving the transparency of fiscal risk disclosure and management:**

- **Recommendation 3.1:** Expand and refine the disclosure of fiscal risks:
  - Present an annual Fiscal Risk Statement with the MFMP to Congress.
  - Publish an annual overview of the financial performance and position of public corporations.
  - Publish alternative macro-fiscal scenarios, including a combined macroeconomic and specific fiscal risk shock; present probabilistic forecasts of key fiscal aggregates.
  - Present a comprehensive disclosure on all PPPs.
  - Disclose the public policy purpose and the beneficiaries of guarantees.
  - Consider a change to the way in which legal risks to the state are disclosed to reduce the possibility of moral hazard.
  - Publish reports on risks surrounding financial asset and liabilities
  - Update the debt strategy.
- **Recommendation 3.2:** Strengthen the management of fiscal risks by:
  - PPPs: ensuring that all projects are appraised in comparison to financing the project through the government budget.
  - Strengthening internal high-level oversight of fiscal risks within MHCP through a coordinating mechanism across directorates, and regular in-year reporting to the Minister of Finance on the evolution of fiscal risks and recommended mitigating actions.

- Regularly monitoring risks from the financial sector
- **Recommendation 3.3:** Expand the disclosure of the long-term sustainability of public finances by publishing long-term projections of the sustainability of social security and public pension schemes over at least 30 years.

**Table 21. Summary Assessment of Fiscal Risks Management and Disclosure**

	Principle	Assessment	Issues and Importance	Recommendation
<b>Risk Disclosure and Analysis</b>	<b>Macroeconomic Risks</b>	<b>Basic.</b> MFMP presents sensitivity analysis of fiscal forecasts to macroeconomic assumptions but very limited discussion of alternative macroeconomic scenarios.	<b>High.</b> Risk analysis and disclosure need further enhancement by conducting and publishing scenario analysis, including a combined macroeconomic and specific fiscal risk shock, and overtime introducing probabilistic forecasts of fiscal aggregates.	<b>Rec 3.1</b>
	<b>Specific Fiscal Risks</b>	<b>Not Met.</b> MFMP provides detailed information on selected contingent liabilities, but falls short of a comprehensive summary of the main specific risks.	<b>High.</b> A comprehensive disclosure of fiscal risks at one place is missing. <b>Medium.</b> The present disclosure of legal risks can create moral hazard problems. The institutional arrangements for risk management need strengthening.	<b>Rec 3.1</b> <b>Rec 3.1;</b> <b>Rec 3.2</b>
	<b>Long-Term Fiscal Sustainability Analysis</b>	<b>Basic.</b> MFMP presents only ten-year forecasts of all fiscal aggregates, including pensions and health spending.	<b>High.</b> Long term projections of the sustainability of the social security and public pension schemes are not available.	<b>Rec 3.3</b>
<b>Risk Management</b>	<b>Budget Contingencies</b>	<b>Good.</b> The budget includes several provisions for contingencies with clear access criteria.	<b>Low.</b> Contingencies represent about 7 per cent of total PGN and are adequate for present needs.	
	<b>Asset and Liability Management</b>	<b>Basic.</b> Government borrowing authorized by law, and periodic reports published on profile of public debt, but risks surrounding financial assets and liabilities not disclosed and analyzed.	<b>High.</b> Risks to financial asset and liabilities are not published; the debt strategy needs updating.	<b>Rec. 3.1</b>
	<b>Guarantees</b>	<b>Advanced.</b> Gross exposure and expected cost of guarantees regularly published, and stock of guarantees controlled.	<b>Low.</b> The present disclosure of guarantees lacks information on the public policy purpose and beneficiaries.	<b>Rec 3.1</b>
	<b>PPPs</b>	<b>Basic.</b> Substantial information published on PPP projects, but not on the government's rights or expected annual future receipts. Limit on flow of new obligations.	<b>High.</b> The disclosure on PPPs needs to be more comprehensive. Projects appraisal needs to evaluate PPPs against conventional budget financing.	<b>Rec 3.1;</b> <b>Rec 3.2</b>
	<b>Financial Sector Exposure</b>	<b>Advanced.</b> Limited government support to the financial sector, risks appear contained by strong safety net. The authorities regularly assess financial sector stability.	<b>Low.</b> Recent changes to the coverage of the deposit insurance scheme need further analysis and actions to address the increase in the government's contingent liability.	<b>Rec 3.2</b>
	<b>Natural Resources</b>	<b>Basic.</b> Annual data published on sales and fiscal revenues, and estimates of the volume and value of major natural resource assets, but not different price and extraction scenarios.	<b>Low.</b> The analysis and disclosure needs to be enhanced by publishing values of assets under different price and extraction scenarios.	



	<b>Environmental Risks</b>	<b>Advanced.</b> Information published on fiscal impacts of past disasters, and national disaster risk financing strategy being implemented.		
<b>Fiscal Coordination</b>	<b>Subnational Governments</b>	<b>Good.</b> Financial condition and performance published annually, and legal limit on borrowing.	<b>Low.</b> SNG sector accounts for a quarter of total public spending, but risks are well contained.	
	<b>Public Corporations</b>	<b>Basic.</b> Information published on main budget transfers to corporations, but no published analysis of sector as a whole.	<b>High.</b> An overview of the financial performance and position of public corporations would provide comprehensive view over the sector.	<b>Rec 3.1</b>

## Annex I. Colombia Detailed Assessment Against FTC

		BASIC	GOOD	ADVANCED
<b>1</b>	<b>FISCAL REPORTING</b>	<b>Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance</b>		
<b>1.1</b>	<b>Coverage</b>	<b><i>Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its subsectors, according to international standards.</i></b>		
1.1.1	Coverage of Institutions	Fiscal reports consolidate all central government entities according to international standards.	Fiscal reports consolidate all general government entities and report on each subsector according to international standards.	Fiscal reports consolidate all public sector entities and report on each subsector according to international standards.
1.1.2	Coverage of Stocks	Fiscal reports cover cash and deposits; and all debt.	Fiscal reports cover all financial assets and liabilities.	Fiscal reports cover all financial and non-financial assets and liabilities, and net worth.
1.1.3	Coverage of Flows	Fiscal reports cover cash revenues, expenditures and financing.	Fiscal reports cover cash flows, accrued revenues, expenditures and financing.	Fiscal reports cover cash flows, accrued revenues, expenditures and financing; and other economic flows.
1.1.4	Coverage of Tax Expenditures	The estimated revenue loss from tax expenditures is published at least annually.	The estimated revenue loss from tax expenditures is estimated by sector or policy area, and is published at least annually.	The estimated revenue loss from tax expenditures is estimated by sector or policy area, and is published at least annually. There is control on, or budgetary objectives for, the size of tax expenditures.
<b>1.2</b>	<b>Frequency and Timeliness</b>	<b><i>Fiscal reports should be published in a frequent, regular, and timely manner.</i></b>		
1.2.1	Frequency of In-Year Reporting	In-year fiscal reports are published on a quarterly basis, within a quarter.	In-year fiscal reports are published on a quarterly basis, within a month.	In-year fiscal reports are published on a monthly basis, within a month.
1.2.2	Timeliness of Annual Financial Statements	Audited or final annual financial statements are published within 12 months of the end of the financial year.	Audited or final annual financial statements are published within 9 months of the end of the financial year.	Audited or final annual financial statements are published within 6 months of the end of the financial year.
<b>1.3</b>	<b>Quality</b>	<b><i>Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent</i></b>		

		<b>BASIC</b>	<b>GOOD</b>	<b>ADVANCED</b>
1.3.1	<b>Classification</b>	Fiscal reports include administrative and economic classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic and functional classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic, functional and program classifications consistent with international standards, where applicable.
1.3.2	Internal Consistency	Fiscal reports include at least one of the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, or (iii) financing and the change in the debt stock.	Fiscal reports include at least two of the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, or (iii) financing and the change in the debt stock.	Fiscal reports include all three of the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, and (iii) financing and the change in the debt stock.
1.3.3	Historical Revisions	Major revisions to historical fiscal statistics are reported.	Major revisions to historical fiscal statistics are reported with an explanation for each major revision.	Major revisions to historical fiscal statistics are reported with an explanation for each major revision and a bridging table between the old and new time series.
<b>1.4</b>	<b>Integrity</b>	<b><i>Fiscal statistics and financial statements should be reliable, subject to external scrutiny, and facilitate accountability.</i></b>		
1.4.1	Statistical Integrity	Fiscal statistics are disseminated in accordance with international standards	Fiscal statistics are compiled by a specific government agency and disseminated in accordance with international standards.	Fiscal statistics are compiled by a professionally independent body and disseminated in accordance with international standards.
1.4.2	External Audit	An independent supreme audit institution publishes an audit report on the reliability of the government's annual financial statements.	An independent supreme audit institution publishes an audit report stating whether the government's annual financial statements present a true and fair view of its financial position and without a disclaimer or adverse audit opinion.	An independent supreme audit institution publishes an audit report consistent with international standards which states whether the government's annual financial statements present a true and fair view of its financial position and without major qualifications.

		BASIC	GOOD	ADVANCED
1.4.3	Comparability of Fiscal Data	At least one fiscal report is prepared on the same basis as the fiscal forecast/budget.	Fiscal forecast/budget and outturn are comparable plus the outturn is reconciled with either the fiscal statistics or final accounts.	Fiscal forecast/budget and outturn are comparable plus the outturn is reconciled with both fiscal statistics and final accounts.

2	FISCAL FORECASTING AND BUDGETING	Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.		
2.1	<b>Comprehensiveness</b>	<b><i>Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects</i></b>		
2.1.1	Budget Unity	Budget documentation incorporates all gross domestic tax revenues, expenditures, and financing by central government ministries and agencies.	Budget documentation incorporates all gross domestic tax and non-tax revenues, expenditures, and financing by central government ministries, agencies and extrabudgetary funds.	Budget documentation incorporates all gross domestic and external revenues, expenditures, and financing by central government ministries, agencies, extrabudgetary funds, and social security funds.
2.1.2	Macroeconomic Forecasts	The budget documentation includes forecasts of key macroeconomic variables.	The budget documentation includes forecasts of key macroeconomic variables and their underlying assumptions.	The budget documentation includes forecasts and explanations of key macroeconomic variables and their components, as well as their underlying assumptions.
2.1.3	Medium-term Budget Framework	Budget documentation includes the outturns of the two preceding years and medium-term projections of aggregate revenues, expenditures, and financing.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing by economic category.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing by economic category and by ministry or program.

		BASIC	GOOD	ADVANCED
2.1.4	Investment Projects	One of the following applies: (i) the government regularly discloses the value of its total obligations under multiannual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; or (iii) requires all major projects to be contracted via open and competitive tender.	Two of the following apply: (i) the government regularly discloses the value of its total obligations under multiannual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; or (iii) requires all major projects to be contracted via open and competitive tender.	All of the following apply: (i) the government regularly discloses the value of its total obligations under multiannual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; and (iii) requires all major projects to be contracted via open and competitive tender.
2.2	<b>Orderliness</b>	<b><i>The powers and responsibilities of the executive and legislative branches of government in the budget process should be defined in law, and the budget should be presented, debated, and approved in a timely manner.</i></b>		
2.2.1	Fiscal Legislation	The legal framework defines one of the following: (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; or (iii) the legislature's powers of amendment to the executive's budget proposal.	The legal framework defines two of the following: (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; or (iii) the legislature's powers to amend the executive's budget proposal.	The legal framework defines all of (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; and (iii) the legislature's powers to amend the executive's budget proposal.
2.2.2	Timeliness of Budget Documents	The budget is submitted to the legislature and made available to the public at least one month before the start of the financial year and is approved and published up to one month after the beginning of the financial year.	The budget is submitted to the legislature and made available to the public at least two months before the start of the financial year and is approved and published by the start of the financial year.	The budget is submitted to the legislature and made available to the public at least three months before the start of the financial year and is approved and published at least one month before the start of the financial year.
2.3	<b>Policy Orientation</b>	<b><i>Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability.</i></b>		

		<b>BASIC</b>	<b>GOOD</b>	<b>ADVANCED</b>
2.3.1	Fiscal Policy Objectives	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is either precise or time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound and has been in place for 3 or more years.
2.3.2	Performance Information	Budget documentation includes information on the inputs acquired under each major government policy area.	Budget documentation reports targets for, and performance against, the outputs delivered under each major government policy area.	Budget documentation reports targets for, and performance against the outcomes to be achieved under each major government policy area.
2.3.3	Public Participation	Government publishes an accessible description of recent fiscal performance and economic prospects, as well as a summary of the implications of the budget for a typical citizen.	Government publishes an accessible description of recent fiscal performance and economic prospects and a detailed account of the implications of the budget for a typical citizen, and provides citizens with a formal voice in budget deliberations.	Government provides an accessible description of recent fiscal performance and economic prospects, a detailed account of the implications of the budget for different demographic groups, and provides citizens with a formal voice in budget deliberations.
<b>2.4</b>	<b>Credibility</b>	<b><i>Economic and fiscal forecasts and budgets should be credible.</i></b>		
2.4.1	Independent Evaluation	Budget documentation includes comparisons between the government's economic and fiscal projections and those of independent forecasters.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts, and its performance against its fiscal objectives.
2.4.2	Supplementary Budget	A supplementary budget regularizes expenditure exceeding the approved budget.	A supplementary budget is required prior to material changes to total budgeted expenditure.	A supplementary budget is required prior to material changes to total budgeted expenditure or substantially altering its composition.

		<b>BASIC</b>	<b>GOOD</b>	<b>ADVANCED</b>
2.4.3	Forecast Reconciliation	Differences between the successive vintages of the government's revenue, expenditure, and financing forecasts are shown at the aggregate level, with a qualitative discussion of the impact of new policies on the forecasts.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the overall effect of new policies and macroeconomic determinants.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the effects of individual policy changes, macroeconomic determinants, and other factors, such as technical or accounting adjustments.

<b>3</b>	<b>FISCAL RISK ANALYSIS AND MANAGEMENT</b>	<b>Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.</b>		
<b>3.1</b>	<b>Risk Disclosure and Analysis</b>	<b>Governments should publish regular summary reports on risks to their fiscal prospects.</b>		
3.1.1	Macroeconomic Risks	Budget documentation includes discussion of the sensitivity of fiscal forecasts to major macroeconomic assumptions.	Budget documentation includes sensitivity analysis and alternative macroeconomic and fiscal forecast scenarios.	Budget documentation includes sensitivity analysis, alternative scenarios, and probabilistic forecasts of fiscal outcomes.
3.1.2	Specific Fiscal Risks	The main specific risks to the fiscal forecast are disclosed in a summary report and discussed in qualitative terms.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude and, where practicable, their likelihood.
3.1.3	Long-Term Fiscal Sustainability Analysis	The government regularly publishes projections of the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 10 years.	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macroeconomic assumptions	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macroeconomic, demographic, natural resource, or other assumptions.
<b>3.2</b>	<b>Risk Management</b>	<b>Specific risks to the public finances should be regularly monitored, disclosed, and managed.</b>		

		<b>BASIC</b>	<b>GOOD</b>	<b>ADVANCED</b>
3.2.1	Budgetary Contingencies	The budget includes an allocation for contingencies.	The budget includes an allocation for contingencies with transparent access criteria.	The budget includes an allocation for contingencies with transparent access criteria and regular in-year reporting on its utilization.
3.2.2	Asset and Liability Management	All borrowing is authorized by law and the risks surrounding the government's debt holdings are analyzed and disclosed.	All borrowing is authorized by law and the risks surrounding the government's assets and liabilities are analyzed and disclosed.	All liabilities and significant asset acquisitions or disposals are authorized by law, and the risks surrounding the balance sheet are disclosed and managed according to a published strategy.
3.2.3	Guarantees	All government guarantees, their beneficiaries, and the gross exposure created by them, are published at least annually.	All government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually. The maximum value of new guarantees or their stock is authorized by law.	All government guarantees, their beneficiaries, the gross exposure created by them, and the probability of their being called are published at least annually. The maximum value of new guarantees or their stock is authorized by law.
3.2.4	Public Private Partnerships	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life of the contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life of the contracts. A legal limit is also placed on accumulated obligations.



		<b>BASIC</b>	<b>GOOD</b>	<b>ADVANCED</b>
3.2.5	Financial Sector Exposure	The authorities quantify and disclose their explicit support to the financial sector at least annually.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and regularly undertake an assessment of financial sector stability.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and regularly undertake an assessment of financial sector stability, based on a plausible range of macroeconomic and financial market scenarios.
3.2.6	Natural Resources	The government publishes annual estimates of the volume and value of major natural resource assets, as well as the volume and value of the previous year's sales and fiscal revenue.	The government publishes annual estimates of the volume and value of major natural resources assets under different price scenarios, as well as the volume and value of the previous year's sales and fiscal revenue.	The government publishes annual estimates of the volume and value of major natural resource assets under different price and extraction scenarios, as well as the volume and value of the previous year's sales.
3.2.7	Environmental Risks	The government identifies and discusses the main fiscal risks from natural disasters in qualitative terms.	The government identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences.	The government identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences, and managing them according to a published strategy.
<b>3.3</b>	<b>Fiscal Coordination</b>	<b>Fiscal relations and performance across the public sector should be analyzed, disclosed, and coordinated.</b>		
3.3.1	subnational Governments	The financial condition and performance of subnational governments is published annually.	The financial condition and performance of subnational governments is published annually, and there is a limit on their liabilities or borrowing.	The financial condition and performance of subnational governments is published quarterly, and there is a limit on their liabilities or borrowing.

		<b>BASIC</b>	<b>GOOD</b>	<b>ADVANCED</b>
3.3.2	Public Corporations	All transfers between the government and public corporations are disclosed on at least an annual basis.	All transfers between the government and public corporations are disclosed, and based on a published ownership policy, a report on the overall financial performance of the public corporations sector is published on at least an annual basis.	All direct and indirect support between the government and public corporations is disclosed, and based on a published ownership policy, a report on the overall financial performance of public corporations sector, including estimates of any quasi-fiscal activities undertaken, is published on at least an annual basis.

## Annex II. Action Plan

Activity	Schedule							
	Year 1		Year 2		Year 3		Year 4	
	H1	H2	H1	H2	H1	H2	H1	H2
<b>1. Fiscal Reporting</b>								
<b>1.1</b>	<b>Improve the convergence between budget, accounting and statistical classifications</b>							
1.1.1	Develop an integrated multi-segment budget and accounting classification. Develop a classification structure that includes, at a minimum, an institutional classification, objects of expenditure used for budget allocations and control, programs, and an accounting classification. Geographic and functional classifications would be nice to have. Develop each individual classification segments using a hierarchical structure. Standardize institutional classification and map institutions to geographic regions. Develop bridge tables between the financial and statistical classifications.							
1.1.2	Embed the new classification structure, with mapping tables, in SIIF							
1.1.3	Develop and disseminate a unified classification structure for territorial entities consistent at the aggregate level with the national classification structure.							
1.1.4	Develop templates for obtaining information from listed corporations and territorial entities.							
1.1.5	Progressively integrate other software systems with SIIF							
<b>1.2</b>	<b>Improve the timeliness of the quarterly fiscal bulletin</b>							
	Develop and publish a reporting calendar							
	Formalize an agreement with the central bank for timely provision of public sector financing data.							
	Revive the monthly central government reports							

Activity		Schedule							
		Year 1		Year 2		Year 3		Year 4	
		H1	H2	H1	H2	H1	H2	H1	H2
<b>1.3</b>	<b>Complete the transition to international accounting standards</b>								
1.3.1	Recognize all flows, assets and liabilities in the financial statements, and include them in the GFS submissions								
	Recognize employee-related pension liabilities								
	Recognize PPP related liabilities, starting with 4G contracts.								
	Align asset valuation methods with international standards								
	Recognize transactions of Colpensiones								
	Develop a cash flow statement as part of the annual financial statements								
1.3.2	Improve consolidation methodology and process								
	Conduct pilots with agencies causing major discrepancies, focusing on improving the information content and accounting skills/capacity.								
1.3.3	Strengthen the internal control framework, particularly at the sub-national entities.								
1.3.4	Progressively improve capacity at the sub-national level								
	Design and conduct training programs								
	Develop and disseminate guidance documents on the new accounting standards, methods and procedures.								
<b>2. Fiscal Forecasting and Budgeting</b>									
<b>2.1</b>	<b>Review extra-budgetary activities for their inclusion in the budget, and fully disclosed in the budget documents</b>								
	Conduct the review								
	Develop an action plan to implement agreed reforms								

Activity		Schedule							
		Year 1		Year 2		Year 3		Year 4	
		H1	H2	H1	H2	H1	H2	H1	H2
<b>2.2</b>	<b>Enhance the medium-term budget framework</b>								
2.2.1	Review existing medium-term and annual formulation process, and identify areas for improvement.								
2.2.2	Develop an action plan for implementing improvements in the MTBF framework.								
<b>2.3</b>	<b>Improve the management of and disclosure of information on public investment projects.</b>								
2.3.1	Publish (on DNP's website) multi-year obligations of all individual public investment projects, including the original approved budget, expenditure to date, and the remaining approved expenditure by year.								
2.3.2	Publish expanded summary data in the MFMP on the multi-year obligations of public investment projects financed from the national budget, covering a larger number of individual projects.								
2.3.3	Develop a methodology for comparing PPP projects with conventional investment; subject all PPP projects, including those not requiring government contribution, to this analysis.								
2.3.4	Amend the procurement law to enable recording and reporting of procurement modalities within the special regime.								
2.3.5	Review the extent and legitimacy of departures from open and competitive tendering.								
2.3.6	Publish (on DNP's website) project appraisals and cost-benefit analyses, starting with large projects.								
<b>2.4</b>	<b>Publish in the MFMP a reconciliation of the different vintages of macroeconomic and fiscal forecasts.</b>								
<b>3. Fiscal Risk Analysis and Management</b>									
<b>3.1</b>	<b>Expand and refine the disclosure of fiscal risks.</b>								
3.1.1	Develop and present an annual Fiscal Risk Statement with the budget proposal to Congress. Progressively enhance its content.								
3.1.2	Publish an annual overview of the financial performance and position of Public Corporations.								



## Annex III. Main Legal Provisions on Budgeting, Planning, and Public Finance

Legal Instrument	Topics Covered
Constitution 1991 and 2001, 2007, and 2011 amendments	Art. 334, 338, 339, 345-355, 356-364 Art. 267, 268 and 354 Art. 354 under Title XII on development plans, the budget, the distribution of resources and jurisdictions, and the social purpose of the state and public services
Law 38 of 1989 and Law 179 of 1994	Organic Budget Law <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=14811">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=14811</a> <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=14941">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=14941</a>
Law 152 of 1994	Organic National Development Plan Law <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=327">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=327</a>
Law 225 of 1995	Norms related to budget planning, budget preparation and budget performance <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=14940">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=14940</a>
Law 819 of 2003	Fiscal Transparency and Responsibility Framework and Medium-Term Fiscal Framework (MFPP) <a href="http://www.secretariasenado.gov.co/senado/basedoc/Law_0715_2001.html">http://www.secretariasenado.gov.co/senado/basedoc/Law_0715_2001.html</a>
Decree 4370 of 2005 and Decree 1068 of 2015	Medium-Term Expenditure Framework (MGMP) <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=62502">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=62502</a>
Law 1473 of 2011	Fiscal Rule <a href="http://www.secretariasenado.gov.co/senado/basedoc/Law_1473_2011.html">http://www.secretariasenado.gov.co/senado/basedoc/Law_1473_2011.html</a>
Law 1508 of 2012 and subsequent Decrees	Management and control of PPPs <a href="http://www.secretariasenado.gov.co/senado/basedoc/Law_1508_2012.html">http://www.secretariasenado.gov.co/senado/basedoc/Law_1508_2012.html</a>
Law 1530 of 2012	Organization and functioning of the General Royalty System <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=47474">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=47474</a>
Decree 1608 of 2015	Fiscal reports on regional and local governments <a href="http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=/OCS/MIG_49210604.PDF">http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=/OCS/MIG_49210604.PDF</a>
Law 358 of 1997	Subnational indebtedness <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=3423">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=3423</a>
Law 550 of 1999	Financial insolvency regime <a href="http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=%2FOCS%2FMIG_5944648.PDF">http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=%2FOCS%2FMIG_5944648.PDF</a>
Laws 715 of 2001 and 1176 of 2007	<i>Sistema General de Participation</i> (SGP) for distributing resources among subnational entities <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=4452">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=4452</a> <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=28306">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=28306</a>
Laws 617 2000, 819 of 2003 and 1483 of 2011	Regulatory framework of fiscal responsibility, transparency and accountability <a href="http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=%2FOCS%2FMIG_5898671.PDF">http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=%2FOCS%2FMIG_5898671.PDF</a> <a href="http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=%2FOCS%2FMIG_12752602.PDF">http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=%2FOCS%2FMIG_12752602.PDF</a>

Law 1530 2012	Use and distribution of royalties stemming from exploitation of non-renewable natural resources <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=47474">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=47474</a>
Decree 3402 of 2007 and 1536 of 2016	Reporting of financial information by subnational entities <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=26475">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=26475</a> <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=27693">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=27693</a>
Law 448 of 1998 and Decree 423 of 2001	Management of contingent liabilities of state entities <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=6091">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=6091</a>
Law 298 of 1996	Establishment of the General Accounting Office (GAO) <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=15071">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=15071</a>
Resolution 354 of 2007	Establishment of the Public Accounting Regime (RCP) <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=26612">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=26612</a>
Law 42 of 1993	Establishment of the financial control system <a href="http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=289">http://www.alcaldiabogota.gov.co/sisjur/normas/Norma1.jsp?i=289</a>