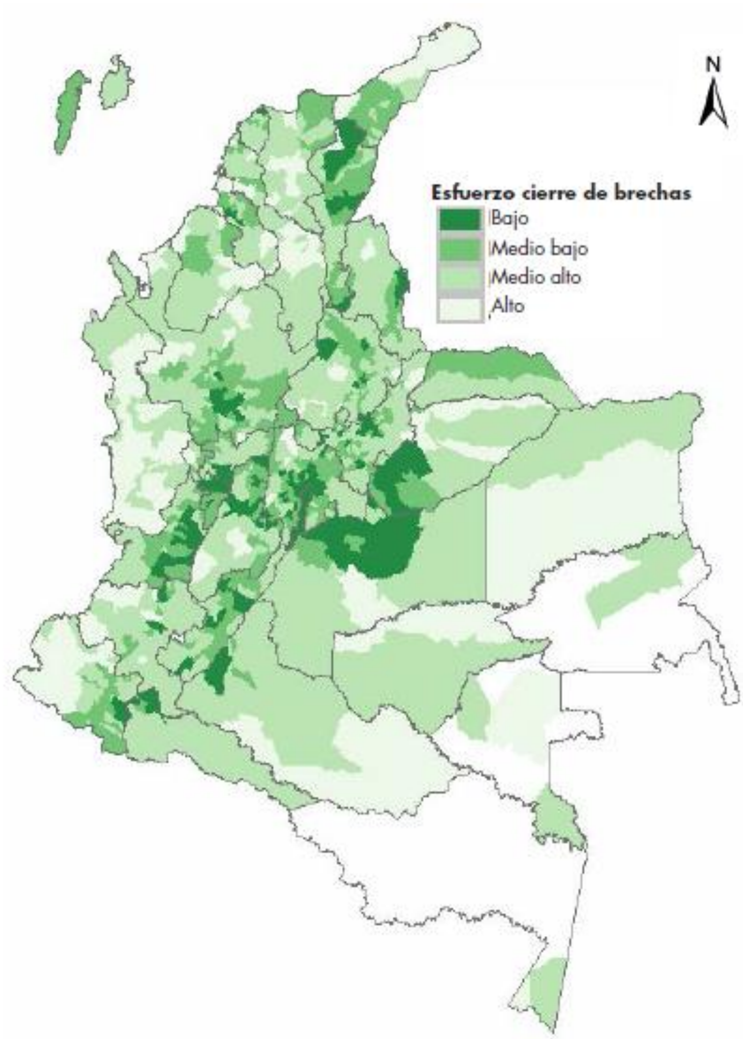
HM Government

Prosperity Fund Business Case

Colombia Bilateral Programme:

Unlocking Economic Opportunities in Colombia's Post-Conflict and Conflict-Affected Regions



Map of Colombia showing the regions where most effort is required to address gaps in economic development (white is highest, green lowest) (DNP, 2014)

Foreign & Commonwealth Office

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Acronyms

AFD – French Development Agency
AfDB – African Development Bank

ANI – National Infrastructure Agency

CAF – Development Bank of Latin America

CIAT – International Centre for Tropical Agriculture

Colciencias – Colombian Department for Science, Technology and Innovation

COP – Colombian Peso

Corpoica – Colombian Biotech Agricultural Research Organisation

CPG – Commercial Procurement Group

CSSF – Conflict, Security and Stability Fund

DANE – National Administrative Department for Statistics

DD – Due diligence

DFID – Department for International Development

DIT – UK Department for International Trade

DNP – National Department of Planning

EoI – Expression of Interest

FAO – Food and Agriculture Organisation of the United Nations

FCO – Foreign and Commonwealth Office

FDI – Foreign Direct Investment

Finagro - Agricultural Development Bank

Findeter – Financial Institution for Development

GDP – Gross Domestic Product

GGMS – Government Grants Minimum Standards

ICF – International Climate Fund

IDB – Inter-American Development Bank

IBRD – International Bank for Reconstruction and Development

IIOC – Investment, Infrastructure and Operations Committee

IPA – Infrastructure and Projects Authority

HMT – Her Majesty's Treasury

KfW - German Development Bank

MoU – Memorandum of Understanding

MREL – Monitoring, Reporting, Evaluation, Learning

NGO – Non-Governmental Organisation

NPV – Net Present Value

NSC – National Security Council

OBC – Outline Business Case

ODA – Official Development Assistance

OECD – Organisation for Economic Cooperation and Development

PF – Prosperity Fund

PFDU – Prosperity Fund Delivery Unit

PFMO – Prosperity Fund Management Office

PISA – Program for International Student Assessment

PMT – Programme Management Team

PPP – Public Private Partnership

PSVI – Preventing Sexual Violence in Conflict Initiative

RBIS – Rules Based International System

SDG – Sustainable Development Goal

SRO – Senior Responsible Officer

TA – Technical Assistance

ToC – Theory of Change

ToRs – Terms of Reference

UAF – Family Agriculture Unit

UNGRD – National Disaster Management Unit

UPRA – Agro Rural Planning Unit

USAID – United States Agency for International Development

WB – World Bank

VfM – Value for Money

WEF – World Economic Forum

ZIDRES - Zones of Interest for Economic and Social Development in Rural Areas

Summary

This Business Case proposes a bilateral Prosperity Fund (PF) programme in Colombia of £25.5mn to support economic development, unlock economic opportunities and drive growth in post-conflict and conflict-affected regions. The programme will benefit about 3 million people with a focus on women and girls in Colombia's poorest regions, and is estimated to generate up to £2bn of primary benefits to Colombia over 10 years.

The potential secondary benefits internationally from the programme, set within the context of a peaceful, prosperous Colombia, are considerable. The estimated benefits to the UK alone are around £265mn by 2026.

Rationale for Intervention

Colombia is the 4^{th} largest economy in Latin America, achieving 4%/yr average growth for the last decade. However, Colombia remains the 7^{th} most unequal country in the world, where one in three households is considered poor, with poverty predominant in secondary cities and rural areas in conflict affected regions (World Bank, 2015). The benefits of peace in Colombia are projected to increase growth by up to 2%/yr and triple FDI from current levels within a decade (DNP, 2015), making Colombia a strong prospect for growth, including opportunities for international investment.

The programme targets three sectors which, currently, are barriers to growth in Colombia's post conflict and conflict-affected regions: institutional strengthening; infrastructure; and agriculture. These have been selected based on: i) their ability to deliver growth and open new market opportunities; ii) research indicating that these are important unmet needs that no other donor or agency is fully addressing; and iii) their fit with the PF Theory of Change (ToC). The proposed programme plans to target investments in: infrastructure; human capital; innovation and knowledge transfer; and regulatory reform in priority sectors such as smart cities, financial services and agri-tech. Each proposed investment will contribute to poverty reduction and gender equity.

Proposed programme and expected impacts

The programme will be delivered over 4 years (2017/18 to 2020/21). HMA Bogota will be SRO supported by a small programme team at post. It is proposed that delivery of the programme be outsourced to three known delivery partners with strong track records.

Design of the programme has been endorsed by the relevant government, private sector and civil society stakeholders. The proposed programme expects to deliver the following seven activities (estimated primary and secondary benefits have been rounded to the nearest million pounds):

Institutional Strengthening
1. To address barriers to inclusive growth, the proposed programme will support: preparation and implementation of economic development and competitiveness strategies which are gender sensitive, including prioritization of projects, in up to 8 departments; and training for up to 200 officials in regional government in project development and management. 2. To build institutional capacity for improved transparency, the proposed programme will support: implementation of open procurement standards with stakeholder monitoring and development of strengthened anti-corruption guidelines in up to 8

departments including the gender dimensions; and training for officials responsible for public procurement processes in up to 8 departments. 3. To help ensure successful long term delivery of the national PPP programme, the proposed intervention will deliver the design and evaluation of an executive agency model for the National Infrastructure Agency (ANI). **Potential Primary Benefit: £233mn** **Potential Secondary Benefit to UK: £108mn**
Infrastructure
4. To support the development of more efficient multi-model transport, the proposed programme will support: the development of a new strategy and regulatory framework for the rail sector; feasibility studies for up to 4 rail projects; detailed design and structuring for up to 2 rail projects; and local economic plans for up to 4 municipalities or regions. 5. To increase productivity of cities[1] and tackle poverty by improving access to services, the proposed programme will support technical assistance to: plan, appraise and structure projects; promote transparency in the construction sector; improve coordination across institutions for better urban planning; and better assess financing options for inclusive, safe, resilient and sustainable urban development. **Potential Primary Benefit: £875mn** **Potential Secondary Benefit to UK: £111mn**
Agriculture
6. To increase investment and yield in the agriculture sector, the proposed programme will support: the development of a modernised, agri-information and monitoring system; development of technologies and education programmes to stimulate demand for agricultural insurance; and design of 3-5 pilot agri-insurance models for male and female farmers. 7. To increase productivity in the agriculture sector, the proposed programme will aim to fund up to 8 early and 5 late stage agri-technology projects and conduct outreach to innovative organisations on partnership opportunities. **Potential Primary Benefit: £880mn** **Potential Secondary Benefit to UK: £46mn**

The proposed activities align well with the UK Government priorities for Colombia which include: building a more stable region and consolidating the peace process; strengthening bilateral relations; and securing a significant increase in international trade and investment opportunities, including with the UK.

The proposed programme is part of a suite of initiatives and policy work to strengthen our bilateral relationship and to develop Colombia's role as a key partner on regional and global issues. In this sense the PF programme will play a supporting role in wider UK objectives that cover: preparing the ground for a future Free Trade Agreement (FTA); Colombia's membership of the OECD; improving Colombia's capacity to counter serious and organised crime (SOC) which includes trafficking narcotics; reducing human rights (HR) abuses; supporting Colombia to protect its unique environment and diversity while working as an ally of the UK in climate change negotiations; collaboration on contraband and tax reform; and securing credit lines for Colombia from UK Export Finance (UKEF).

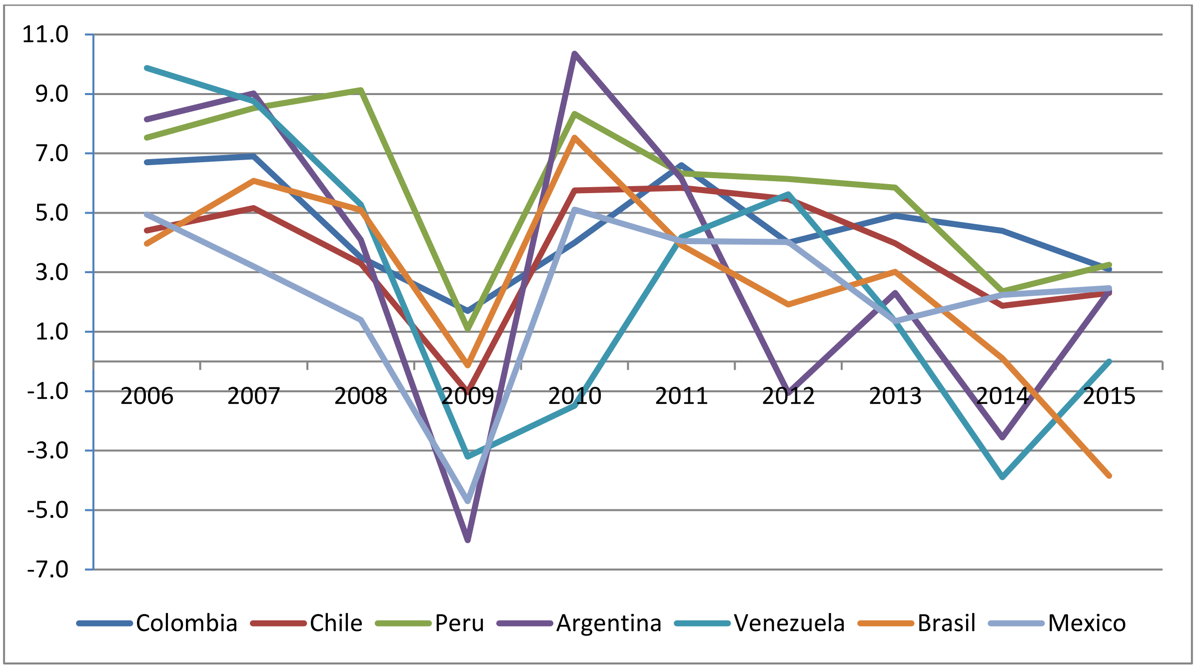
[1] City productivity means gender sensitive planning and construction of cities to operate more efficiently.

Strategic Case

A: Economic, political and poverty context in Colombia

Economic performance
Colombia is the 4th largest economy in Latin America and the Caribbean with a history of stable economic growth. It has enjoyed an average economic growth of 4.6%/yr over the last ten years - one of the highest levels in the region.[2] Since the drop in commodity prices, growth has been closer to 2.0%/yr. However, it is projected to gradually rise back to an average rate of 4% a year given progress on the government's PPP-based infrastructure programme, export diversification and on the peace process (IMF, 2015). GDP dropped from a high of US$380bn in 2013 to US$282.4bn last year, but is expected to start rising again. The benefits of peace in Colombia could increase growth by up to 2%/yr and triple foreign direct investment (FDI) from current levels within a decade (DNP, 2015). Meanwhile the additional costs of delivering on the peace agreement are estimated to be at least US$3bn[3].

Figure 1: Comparison of GDP Growth among Latin American Countries (World Bank)[4]



Colombia's growth was driven by an oil and mining boom, foreign direct investment in the commodity sector and measures to reduce barriers to trade and investment. In the context of lower commodity prices, more recent growth has stemmed from other sectors like financial services (especially banking), transport, construction and tourism. At the same time,

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[2] Own calculations made with the information found in the central bank's (*Banco de la República*) webpage. The central bank uses primary source information from DANE, the National Department for Statistics. "PIB. Metodología año base 2005, PIB total y por habitante, Anual. Información disponible desde 2000. A precios contantes "Page: Total, Variación Anual %"
http://www.banrep.gov.co/es/pib?_ga=1.143615925.1440127239.1485269457
[3]
http://caracol.com.co/m/programa/2017/01/13/6am_hoy_por_hoy/1484309765_689331.html?platform=hootsuite
[4] http://data.worldbank.org/

manufacturing and agriculture have suffered from: economic turmoil in neighbouring Venezuela; competition from Mexico; weaker demand; and smuggling (OECD, 2015).

Figure 2: Sector share of GDP (OECD, 2015)

Share of GDP (%)							
Year	**Agriculture**	**Oil and Mining**	**Manufacturing**	**Construction**	**Services**	**Indirect Taxes**	**GDP**
2005	7.9	6.3	14.2	5.4	57.7	8.5	100
2013	6.2	7.9	11.3	6.9	58.0	9.7	100

In terms of trade, the main exports in 2015 were crude oil (36%), coal (12.8%), coffee (7.1%), flowers (3.6%), refined oil (3.9%) and bananas (3.1%) while the main imports were machinery (32.9%), chemicals (17.3%), oil derivatives (9.5%), and motor vehicles (8.8%)(Ministry of Trade, Industry and Tourism).[5] The USA and China are Colombia's main trading partners. Colombia's trade balance is in deficit and has widened to about US$1bn since the end of 2014.

Sustained economic growth in Colombia has significantly improved the labour market. The employment rate grew from 60.2% in 2007 to 67.1% in 2014 slightly above the OECD average. Unemployment dropped to 9.2% (from 18% in 2002), but remains above the OECD average with youth unemployment at 18.7%. Informality still accounts for over half of total employment (OECD, 2015a).

Economic strengths

Colombia has a history of prudent economic management with an inflation targeting regime, a flexible exchange rate, a structural fiscal rule and solid financial regulation. In a region that has seen a number of economic crises, Colombia has never defaulted on its sovereign debt in modern times. Colombia's sovereign debt bonds have investment grade from major credit rating companies. Investment-to-GDP ratios and foreign investment flows continue to be high.

Colombia has proven to be a resilient economy in the wake of considerable external shocks. The fiscal response has been firm, true to Colombia's tradition of prudent economic management. In response to the commodity downturn, for example, the government agreed to reduce overall expenditure from 16.9% of GDP in 2013 to an (estimated) 15.1% of GDP in 2017 (Ministry of Finance, 2016). At the same time, the government is working on a tax reform that will increase tax collection to a level of 16.8% of GDP (Latin American average) by 2022.

In response to the oil price drop, the government has been working to double non-traditional exports by 2018. The Productive Transformation Program was launched in 2008 targeting diversification and increased exports in services, manufacturing and agro-industry. The Program also aims to address the infrastructure deficit to reduce transport and logistics costs in these sectors.

Economic challenges

5 http://www.mincit.gov.co/loader.php?lServicio=Documentos&lFuncion=verPdf&id=77319&name=OEE_espanol_Perfil_Colombia_21-11-16.pdf&prefijo=file

The economy faces a number of challenges. Inflation, for example, has accelerated since 2015. This was due to nominal depreciation affecting consumer prices, the negative effects of El Niño on the food supply and the longest truckers' strike in Colombian history (45 days) in mid-2016. The Central Bank gradually increased the interest rate from an initial 4.5% to 7.75% to maintain the inflation target of 2-4%. Currently, inflation is running at almost 4.0% (Ministry of Finance, 2017).

Colombia has higher debt levels than similar emerging market economies. Even though external debt has been rising, the public sector net debt of around 25% of GDP (gross debt is 43% of GDP) is low and has been falling since 2002. The debt is sustainable given Colombia's capacity to pay and raise revenue and is projected to fall by 2025. The debt of sub-national governments, at 1.4% of GDP, is also low.

Aside from debt service, public spending is dominated by education, defence, labour and health. Over the long term, the effect of the peace agreement should enable a reduction in defence spending towards more productive expenditure. While spending on education and health has risen over the past 15 years from 2.51% and 2.75% of GDP to 3.73% and 4.57% of GDP respectively (Ministry of Finance),[6] the constrained fiscal position continues to mean that there are gaps in public expenditure. For example, the National Department of Planning (DNP) estimated that the deficit for the health sector was £0.4bn or 0.2% of GDP in 2016 rising to £0.6bn in 2017 (KPMG 2016a). Increasing spend efficiency and attracting more private investment are important to alleviate budgetary pressures.

Finally, more must be done to address labour market issues, in particular the high levels of informality, low wages and poor job quality.

B. Politics and poverty in Colombia

A stable, political regime has enabled Colombia to maintain strong conservative economic policies and to undertake reforms that are required for economic growth and improving the business environment. Colombia has been identified over several years as a 'top reformer' by the World Bank and is number 53 out of 190 countries in the 2017 Ease of Doing Business Report. Further, it is expected that Colombia will reach OECD accession by mid 2018 demonstrating its ability to deliver reforms and its commitment to an open, trading economy.

Political challenges

At the same time, there are challenges for Colombia in maintaining its record and the pace of change. Delivering the peace accord has come at a political cost for President Santos' government; there is ongoing opposition to the government and many of the reforms contained within the peace agreement. This is particularly true of land reform, perhaps the most significant underlying driver of inequality in Colombia. Another structural issue is Colombia's highly devolved governance system with regional governments and local mayors having significant responsibility for planning, prioritising and spending, but are often lacking the

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[6] http://www.minhacienda.gov.co/HomeMinhacienda/faces/oracle/webcenter/portalapp/pages/presupuestogeneraldelanacion/cifrasHistoricas.jspx?_afrLoop=1111034809265393&_afrWindowMode=0&_afrWindowId=136g7i5e0j_58#!%40%40%3F_afrWindowId%3D136g7i5e0j_58%26_afrLoop%3D1111034809265393%26_afrWindowMode%3D0%26_adf.ctrl-state%3D136g7i5e0j_70

corresponding human and financial resources. In addition, the effect of the conflict has limited state presence and undermined good governance in many of Colombia's regions. The peace process will improve this situation, but it will be challenging to tackle informal governance structures, often involving high levels of corruption and criminal activity[7], which exist in remote regions.

Poverty analysis

Colombia's combination of strong economic growth and policies targeted at the most vulnerable has considerably improved the living standards of most Colombians including the poorest. Measured against the price of a basic basket of food goods, the incidence of absolute poverty fell from 48 to 31% in the decade to 2013 (OECD, 2016). Extreme poverty dropped from 16 to 9% and multidimensional poverty, which takes into account education, living conditions of children and youth, work, health, public services and housing, declined from 49 to 25% over the same period (OECD, 2016). Colombia is number 95 out of 188 countries in UNDP's 2016 Human Development Index with a value of 0.727 (out of 1) and has a GDP per capita of US$5,792.

Despite being categorised as a middle income country, around a third of the population, predominantly in regions previously affected by conflict, are still considered poor (World Bank, 2015). Furthermore, the benefits of Colombia's economic growth have not been distributed equally. The Gini coefficient of disposable income inequality is 0.56 compared to the OECD average of 0.31. Colombia is the 7th most unequal country in the world. The welfare gap between the country's rich and poor regions or *departmentos*[8] has widened in some cases. Although rural poverty is severe, in absolute terms, moderate and extreme poverty is more concentrated in urban areas (World Bank, 2015). Among urban areas, second-tier cities contribute increasingly to total poverty (World Bank, 2015).

Women and girls are at an added disadvantage in Colombia. They are victims of high levels of domestic and other types of violence. They do not have the same access as men to economic opportunities and fair pay and they are under-represented at all political levels. According to the OECD, inter-related factors explain the high and persistent levels of poverty and income inequality in Colombia: differences in the level and quality of education; labour market segmentation; regional differences in the availability and quality of public infrastructure and services; highly unequal distribution of land ownership; and limited income redistribution via taxes and benefits (OECD, 2016).

B. Proposed Prosperity Fund programme for Colombia: objectives and activities

Primary and secondary objectives

A bilateral Prosperity Fund (PF) programme for Colombia will support the country's post conflict and conflict-affected regions to: i) achieve the primary objectives of inclusive growth, poverty reduction, and gender equality; and ii) contribute to the secondary objective of improving the commercial environment so that international business, including UK

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[7] Efectos de la corrupción sobre la criminalidad, el crecimiento económico y la pobreza: una evidencia para seis departamentos de Colombia – Universidad libre
http://www.unilibre.edu.co/CriterioLibre/images/revistas/16/art2.pdf

[8] Colombia is divided into 33 geographical regions known as *departmentos*.

companies, can compete favourably in new markets. In addition, potential UK support takes into account existing government programmes and other sources of development funding while recognising the important role of sub-national governments in delivery of development outcomes.

Activities

Section C below provides an in-depth analysis of the barriers to growth that the proposed PF programme in Colombia will respond to. Section E includes a description of other development initiatives in Colombia and how the proposed PF activities will complement, but not duplicate these. In summary, Colombia's main unmet needs for economic growth in post conflict and conflict-affected regions, where the UK can most add value, are: ***institutional capacity, infrastructure and agriculture***. The proposed programme will therefore target these three key sectors and deliver the following seven activities:

Institutional Strengthening
1. To address barriers to inclusive growth, the proposed programme will support: preparation and implementation of economic development and competitiveness strategies which are gender sensitive, including prioritisation of projects, in up to 8 departments; and training for up to 200 officials in regional government in project development and management. Expected allocation for this activity is £4.2mn. 2. To build institutional capacity for improved transparency, the proposed programme will support: implementation of open procurement standards with stakeholder monitoring and development of strengthened anti-corruption guidelines in up to 8 departments; and training for officials responsible for public procurement processes in up to 8 departments. Expected allocation for this activity is £0.7mn. 3. To help ensure successful long term delivery of the national PPP programme, the proposed intervention will deliver the design and evaluation of an executive agency model for the National Infrastructure Agency (ANI). Expected allocation for this activity is £0.23mn.
Infrastructure
4. To support the development of more efficient multi-model transport, the proposed programme will support: the development of a new strategy and regulatory framework for the rail sector; feasibility studies for up to 4 rail projects; detailed design and structuring for up to 2 rail projects; and local economic plans for up to 4 municipalities or regions. Expected allocation for this activity is £5.6mn. 5. To increase productivity of cities[9] and tackle poverty by improving access to services, the proposed programme will support technical assistance to: plan, appraise and structure projects; promote transparency in the construction sector; improve coordination across institutions for better urban planning; and better assess financing options for inclusive, safe, resilient and sustainable urban development. Expected allocation for this activity is £6.7mn.
Agriculture

[9] City productivity means planning and constructing cities to operate more efficiently.

6. To increase investment and yield in the agriculture sector, the proposed programme will support: the development of a modernised, agri-information and monitoring system; development of technologies and education programmes to stimulate demand for agricultural insurance; and design of 3-5 pilot agri-insurance models for male and female farmers. Expected allocation for this activity is £2.75mn.
7. To increase productivity in the agriculture sector, the proposed programme will aim to fund up to 8 early and 5 late stage agri-technology projects and conduct outreach to innovative organisations on partnership opportunities. Expected allocation for this activity is £3mn.

Expected Impact, Outcomes and Outputs

Potential primary benefits for Colombia: At the Impact level, the proposed seven activities will contribute to increased FDI and GDP in selected regions. The expected outcomes are: more land used productively in agriculture; more economic development projects executed; and an increase in the value (US$) of international investment dedicated to such projects. In summary, these include increased poverty reduction investments in: urban infrastructure, rail, agricultural innovation and technology; and institutional capacity building. Emphasis will be placed on targeting economic development and innovations for women and girls. The estimated primary benefits to Colombia over the next 10 years could be up to £2bn.

Potential secondary benefits: The proposed programme will target key sectors where international companies, including from the UK, either have an established track record in Colombia (infrastructure and capacity building) or where the opening of new markets would attract international / UK companies (agri-tech and insurance). We have consulted with industry on design of the programme. We estimate the potential direct secondary benefit to the UK itself could be up to £265mn over ten years.

Additional benefits to the UK: The proposed programme is part of a suite of initiatives and policy work to strengthen our bilateral relationship and to develop Colombia's role as a key partner on regional and global issues. In this sense the PF programme will play a supporting role in wider UK objectives that cover: preparing the ground for a future Free Trade Agreement (FTA); Colombia's membership of the OECD; improving Colombia's capacity to counter serious and organised crime (SOC) which includes trafficking narcotics; reducing human rights (HR) abuses; supporting Colombia to protect its unique environment and diversity while working as an ally of the UK in climate change negotiations; collaboration on contraband and tax reform; and securing credit lines for Colombia from UK Export Finance (UKEF).

C. Addressing specific barriers to growth through Prosperity Fund support

Context

Colombia's national development plan (2014-2018) sets out five priorities for economic and social development in Colombia: 1) competitiveness and strategic infrastructure; 2) social mobility; 3) transformation of rural areas; 4) good governance; and 5) security, justice and democracy for peace-building. Of these, the first four are relevant for consideration under the Prosperity Fund. There are a number of challenges identified in the literature relating to these priorities that need to be addressed to achieve inclusive growth:

Driving competitiveness: **Government bureaucracy** is cited as one of the top four barriers to doing business in Colombia (WEF, 2015). Another constraint, and the number one barrier to doing business Colombia (WEF, 2015), is the **tax framework**. Colombia has the 4th highest headline tax rate for business in the world (WEF, 2015) to compensate for the multiplicity of exemptions, deductions, special regimes and high levels of evasion. The tax reform which passed through Congress in December 2016 is designed to address these issues, collect an additional US$22bn by 2022 and reduce the Gini coefficient to 0.49 (Ministry of Finance, 2016).

Colombia's **productivity** has not improved since 1990 (IDB, 2015). This is largely due to low innovation and human capital development and insufficient government and private sector investment in R&D (according to Colombia's Director of National Planning). According to the IDB (2015), key actions required to address this include: (i) promoting innovation and development in business and agriculture; (ii) supporting quality education and job training; and (iii) improving the quality and financing of infrastructure and urban development in the country.

<u>Better infrastructure:</u> In Colombia, the quality of the road **infrastructure** is ranked 126th, rail is ranked 106th and ports 85th out of 140 countries evaluated (WEF, 2015). Poor quality results in high transports costs, twice the OECD and Latin American average (IDB, 2015). More than 65% of the exporting/importing costs in Colombia are associated with inland transport (World Bank, 2014).

In 2015, the government announced US$100bn for infrastructure over eight years (2015-2022) including the construction of the **Fourth Generation of Road Concessions (4G)**, valued at US$22bn. The Ministry of Finance estimates that the 4G project will deliver 1.56% growth in GDP (giving 5.3% growth by 2024), generate 180,000 - 450,000 new jobs, increase productivity and lower unemployment to under 8% (Ministry of Finance, 2013). However, more needs to be done to promote multi-modal transport to ensure rural connectivity to urban centres. The IDB (2013) estimates that a reduction of 1% in ad valorem transport costs could increase agriculture exports by 7.9%, manufacturing exports by 7.8% and mining exports by 5.9%.

<u>Social Mobility:</u> According to the DNP, the priorities for improving social mobility include: (i) **providing access to basic services for rural and urban poor people including health, education, and water and sanitation;** and (ii) **improving the labour market** to enhance job quality, reduce job insecurity and **reduce vulnerabilities and risks to livelihoods**.

Key reform issues for education are: access, quality and relevance for employment (OECD, 2016b). Around 45% of firms in Colombia identify an inadequately educated workforce as a major constraint, compared with 36% in Latin America and 15% in OECD economies (OECD, 2014). According to DNP, the deficit in health infrastructure is around £21bn (KPMG, 2016). According to IDB (2015), around 90% of health service providers are concentrated in metropolitan areas and rural populations miss out (KPMG, 2016).

The government has a number of **goals to improve access to services**, for example increasing the number of public providers offering telemedicine in rural areas, increasing educational coverage and quality, and increasing access to safe water and sanitation (DNP, 2014). However, given responsibility for implementation of activities lies at the regional and municipal level where capability is weaker, delivering these goals is challenging.

<u>Transforming rural areas</u>: Transforming rural Colombia is dependent on progress in a number of focal areas – access to **basic services**, providing i**nfrastructure to connect rural and**

urban areas to increase access to services and markets, addressing **land rights and land reform**, and increasing **productivity** in the agricultural sector. With less than 12% of the country's road network paved, connectivity between rural and urban areas primarily requires significant investment in the tertiary road network. This will not only link producers to markets, but also provide rural populations with better access to services.

Increasing productivity is key to the agriculture sector reaching its full potential. Annual growth in the volume of agricultural production has averaged 1.6% since 1990. By comparison, Peru's average is 5.1% and Brazil's 4.1% (OECD, 2015b). According to the 2014 agriculture census, Colombia has 113mn ha of rural land of which 44.5mn are suitable for cultivation while only 7.13m ha are used for this purpose (DANE, 2014).

Critical barriers to agricultural growth and productivity include inefficient use of land, lack of access to technology and finance, and limited penetration of tools to assess and manage risk. Furthermore, just 9.6% of farmers had received technical assistance or finance to help manage or develop their agricultural activities (DANE, 2014). In addition, the sector is also highly vulnerable to risks like climate change. In 2010/11, La Niña had a significant impact on the sector with flooding affecting 46mn hectares (two-fifths of the country).

<u>Good governance:</u> Colombia is number 114 out of 144 countries in the World Economic Forum's competiveness index and performs particularly poorly in areas such as **government efficiency, diversion of public funds, and wastefulness of government spending** (WEF, 2015). According to the IDB (2015), efficiency in the use of available physical and human capital in Colombia between 1996 and 2011 was 74% of the average efficiency level achieved by OECD countries. More than half of inefficiency can be explained by poor **public management**.

A persistent issue affecting competitiveness and public management is **corruption**. Although the anti-corruption law issued 5 years ago gave authorities more powers to fight corruption, only 1 out of 4 people that committed crimes against the public purse went to jail[10]. Transparency International (TI) recently said that in spite of the efforts made by the Central Government, the private sector and NGOs, the local perception of corruption in Colombia throughout recent years has remained unchanged: Colombia's Corruption Perception Index in 2015 was 37 out of 100 (0 = highest perception of corruption) and Colombia was number 83 out of 168 countries (Transparency International, 2015). According to KPMG's Fraud Survey, corruption[11] is a serious problem for companies operating in Colombia, with an overall economic cost of USD 800mn/year (KPMG, 2013).

On a positive note, the Colombian President recently announced a number of **new measures to help tackle corruption**: tightening up of loopholes in the regulation of contracts with non-profit entities that had been used to steal public money; improved transparency and access to information; creating a system for whistle blowers to safely report fraud; and two new bills originating from Colombia's participation in the 2016 World Anti-Corruption Summit – one on beneficial ownership and the other on improved prosecution of those suspected of corruption. Colombia, together with the UK, France, Mexico and Ukraine, is one of the founding members

[10] [10] http://www.portafolio.co/economia/gobierno/indice-de-corrupcion-en-colombia-2016-499663
[11] They define corruption as illegal payments (bribes in cash or in any other kind) made to public officers or employees of private companies to obtain or retain a contract or any other type of personal or other's benefit.

of the Contracting 5 Initiative. It has achieved, with the support of the Open Contracting Partnership[12], full open procurement standards at the central government level clearly demonstrating the country's commitment to transparent public sector contracting.

Perhaps the greatest barrier to development has been the costly **50 year conflict** with over 8 million victims and almost 7 million displaced persons - the largest displaced population after Syria (Government Victims Unit, 2016). The conflict has prohibited state presence in many areas resulting in a degradation of services and infrastructure and diversion of significant funding to defence and security. Colombia signed a peace agreement with the FARC in 2016. Improved security will enable former conflict areas (also the poorest) to develop economically and socially. Some post conflict and conflict-affected regions have the potential for an increase in growth of 4% (CERAC, 2015).

UK added-value

The UK is well placed to help Colombia address the challenges of increased growth, trade and investment in the regions. The UK supported Colombia for many years with significant investments; the UK is the third biggest investor in the country. We have invested more than £28m to support peace negotiations since 2015 and we are a top partner of choice for science which is reflected with the Newton Fund programme for £20m. To decide where to prioritise, we began by identifying those sectors and activities we could consider supporting because they met the requirements of the International Development Act (IDA) given their strong developmental benefits. All those that did not meet this criterion were excluded. We also excluded a number of potential sectors and activities where: (i) the UK could not add any value (e.g. tax reform – already passing through Congress); (ii) delivery during the next four years was unlikely (e.g. labour market reform); or (iii) there were substantial political risks (e.g. land reform). Figure 3 sets out a multi-criteria analysis of the remaining priorities grouped in three clusters: good governance and competitiveness; infrastructure and access to services; and rural transformation.

To determine the relative value of supporting different priorities, potential areas for intervention have been assessed against the criteria for funding set by Ministers. This assessment is based on the strength of the evidence in the literature reviewed and consultations with stakeholders on the potential to: deliver primary and secondary benefits; interventions that are likely to be effective and sustainable; additionality of UK funding; and the strategic and thematic fit with the PF Theory of Change (ToC) and its priorities. These are scored on a scale of 1-3 (low to high likelihood of achieving the criteria) and then weighted as per the weightings determined by PFMO.

Figure 3: Multi-criteria analysis of potential areas for PF intervention

	Primary benefit (30%)	Secondary Benefit (25%)	Delivery / Sustainability (20%)	Addition-ality (10%)	Strategic/ Thematic Fit (15%)	Rating
Good Governance and Competitiveness						
Capacity Building	0,90	0,75	0,50	0,3	0,45	2,90

[12] https://www.open-contracting.org/

Anti-Corruption	0,9	0,625	0,6	0,3	0,45	2,875
Better Regulation	0,9	0,625	0,4	0,1	0,45	2,475
Productivity	0,9	0,5	0,4	0,25	0,15	2,20
Infrastructure and Access to Services						
Road	0,9	0,25	0,6	0,1	0,3	2,15
Rail	0,9	0,75	0,50	0,3	0,45	2,9
Multi-modal	0,9	0,5	0,40	0,25	0,45	2,5
1st tier cities	0,75	0,5	0,4	0,1	0,45	2,20
2nd tier cities	0,9	0,75	0,50	0,3	0,45	2,9
Rural	0,9	0,5	0,4	0,1	0,3	2,20
Rural Transformation						
Agri-Insurance	0,9	0,75	0,4	0,3	0,45	2,8
Loans/Finance	0,9	0,25	0,50	0,1	0,3	2,05
Infra/Logistics	0,9	0,5	0,4	0,2	0,38	2,4
Tech/ Innovation	0,9	0,63	0,4	0,3	0,45	2,675
Climate Change	0,9	0,25	0,4	0,2	0,45	2,2

On the basis of this assessment, the following section provides a more detailed diagnostic of the priority themes:

Good governance: Institutional strengthening/capacity building and anti-corruption

Infrastructure and Access to Services: Rail development and urban development in 2nd tier cities

Rural Transformation: Agri-insurance and technology/innovation in the agriculture sector

Summary of evidence

The following section sets out a summary of the evidence and potential benefits of providing PF support in these areas and the interventions that could deliver these benefits. Given elements of some priorities scored in the multi-criteria analysis are cross-cutting we have also sought to identify where amber elements can be included within interventions.

Good governance and competitiveness

The fundamental cross-cutting barrier to economic growth and development is a lack of **institutional and technical capacity** especially at the regional and municipal levels and even more so in post conflict zones. According to the IMF, the efficiency of public investment has important implications for growth and a growing body of literature underscores the role that the legal, institutional, and procedural arrangements for public investment management play in determining the level, composition, and impact of public investment (IMF, 2015a).

The government has taken steps to address capacity issues, and the Presidency's Competitiveness Unit has funded an initial phase of a capacity building programme to help departments identify key projects for competitiveness. However, there is insufficient funding to expand this activity and to ensure capacity building focuses not only on identification of projects and plans but on the ability to structure, execute and manage them. A PF supported capacity building programme would build on this initial programme to include additional departments and to cover a comprehensive set of activities.

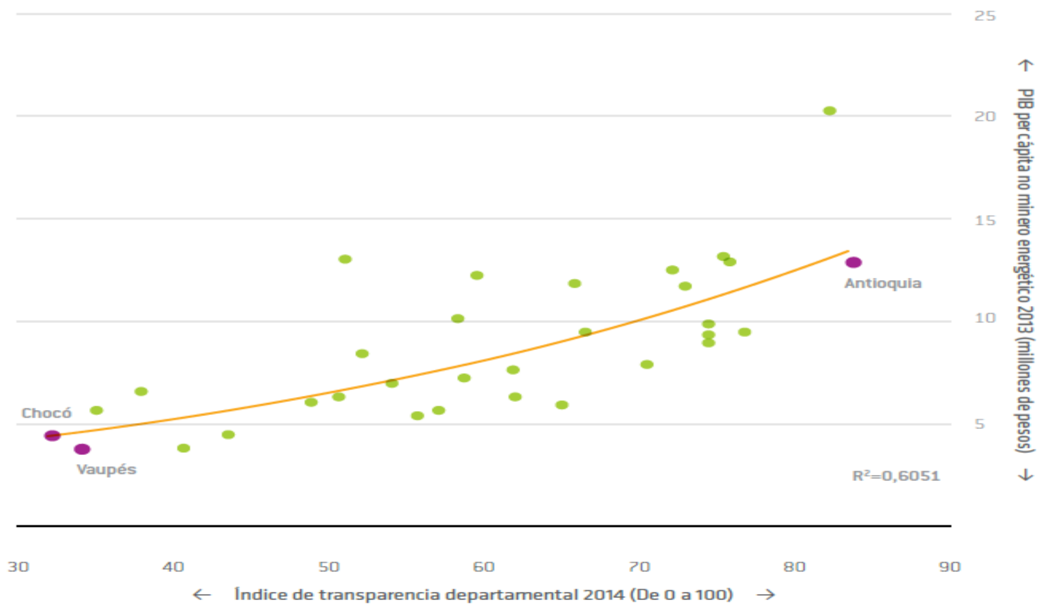
To address these barriers to growth, the proposed Prosperity Fund intervention will support: preparation and implementation of economic and competitiveness strategies, including prioritisation of projects, in up to 8 departments; and training for up to 200 officials in regional government in project development and management.

Improving transparency / tackling corruption is the second priority to improve good governance and is considered the second most problematic factor for doing business in Colombia (WEF, 2015) with 91% of companies reporting that bribes are offered in their business environment (Transparency for Colombia, 2015). According to the departmental transparency index (Transparency for Colombia, 2016), 50% of regional governments have a high or very high risk of corruption. In a survey of 390 engineering and services companies conducted by Colombia's infrastructure chamber of commerce (2015) only 19% of participants considered the public contracting process at regional level to be transparent.

Internationally, there is consistent evidence on the detrimental effect of corruption on costs of procurement, growth, FDI and on poor people. According to Transparency International, an increase in corruption by 1 point on a 10-point scale lowers a country's productivity by 4% of GDP. Also, a decrease in corruption by 1 point on a 10-point scale increases foreign direct investment by 19%. Further, according to Economic Commission for Africa estimations, the false costs resulting in worse quality and unnecessary purchases can add at least 25% to the costs of government procurement.

As shown in Figure 4, there is a correlation between the level of corruption and GDP/capita in departments in Colombia, indicating that addressing this issue can make an important contribution to economic growth in Colombia's post-conflict regions.

Figure 4: Transparency index against PIB/Capita by region in Colombia (Private Council for Competiveness, 2015).



To build capacity for improved transparency, the proposed Prosperity Fund intervention will support: implementation of open procurement standards with stakeholder monitoring and development of strengthened anti-corruption guidelines in up to 8 departments; and training for officials responsible for public procurement processes in up to 8 departments.

Infrastructure and access to services

International evidence on the benefits of **infrastructure investment** is strong. The World Economic Forum estimates that every $1 spent on a capital project (in utilities, energy, transport, waste management, flood defence, telecommunications) generates an economic return of between 5% and 25% (PWC, 2014). In terms of the specific sectors to be targeted in Colombia, international evidence also suggests investment can support growth and poverty reduction. For example, in China increasing distance to railroads by 1% decreases per capita GDP growth by 0.12-0.18% (Banerjee et al, 2009), and an additional 1% of GDP in transport and communications infrastructure investment on a sustained basis can increase GDP per capita by 0.6% (Miller and Tsoukis, 2001).

Mohun and Biswas (2016) describe how infrastructure itself does not produce inclusive growth. However, the cost and quality of access to services are vital for the potential of these investments to impact low-income and marginalised groups including women and girls. They state “poorly planned and managed cities and infrastructure can exclude some groups from socio-economic gains and drive a wedge between the rich and poor” (Mohun and Biswas, 2016). It is therefore critical that vulnerable groups have a voice in the design and implementation of infrastructure projects. Mohun and Biswas (2016) also reported evidence that adequate, affordable and well-designed infrastructure can serve as the first step for poor women to access expanded economic opportunities.

In Colombia, inadequate infrastructure is among the top three problematic factors for doing business in Colombia (WEF, 2015). Development of multimodal transport is therefore essential to maximise competitiveness in the long term (Ministry of Transport, 2015). According to the Colombia Urbanization Review (2012), under the assumption of direct access to marine terminals, rail is more competitive than river transport, and these two modes are more competitive than road transport. The projections for a current rail concession in development are that rail freight will be at least 20% less costly than road freight per tonne[13].

A UK programme supporting rail development in Colombia would add value to existing government plans in a number of ways:

- Increase the economic contribution on existing track through improved regulation;
- Ensure effective implementation of the projects planned for the forthcoming decade (~650km);
- Bring forward potential long term projects (~580km);and
- Identify and appraise new additional projects (~1000km potential).

In addition, a key need is support for local government where rail runs through municipalities to plan economic activities to take advantage of rail development, secure benefits for local populations and improve safety.

To foster the development of more efficient, more inclusive, multi-model transport, the proposed Prosperity Fund intervention will support: the development of a new strategy and regulatory framework for the rail sector; feasibility studies for up to 4 rail projects; detailed design and structuring for up to 2 rail projects; and local economic plans for up to 4 municipalities or regions.

Outside the major urban centres of Bogota, Medellin, Cali and Barranquilla, **basic urban planning** to deliver more inclusive, safe, resilient, sustainable and productive cities is limited. For example, of the 61 municipalities with population greater than 100,000, only 29 cities had developed transport system plans (DNP, 2014). Even where such plans exist, the technical capacity to turn plans into deliverable projects is very low. Most Colombian municipalities require support to develop robust and inclusive urban plans that take into account inclusion and gender equity. Assistance with the next stage, prioritising, appraising and structuring productive investments, is even more important. Colombian cities also need help to develop institutional coordination and assess financing options for infrastructure.

Given Colombia has 61 municipalities with populations between 100,000 and 1mn, there is huge and growing demand for urban infrastructure. At the start of the PF bilateral programme, research will be conducted to identify the cities where the UK can genuinely add value to create primary and secondary benefits. This work will assess potential municipalities based on criteria including: population size and poverty rate; likelihood of the city pursuing a pro-poor inclusive development agenda; opportunity for secondary benefit (i.e. development needs in areas of international / UK strength); engagement of mayors; available co-funding; and additionally to other development assistance.

To increase productivity of cities, to make them more inclusive, safe, resilient and sustainable and to tackle poverty by improving access to services, the proposed

[13] Holtrade (2016) projections for Santa Marta – La Dorada operations

Prosperity Fund intervention will support technical assistance to: plan, appraise and structure projects; promote transparency in the construction sector; improve coordination across institutions for better urban planning; and better assess financing options for urban development. This will be done in a way which takes on board poverty, inclusion and gender dimensions and supports the IFC performance standards on social and environmental sustainability

Much of Colombia's ambitious US$75bn infrastructure programme to 2035 will be delivered through PPPs. This has the potential to unlock substantial growth and provide significant opportunities for UK companies and investors. However management of PPPs both centrally and in the regions is still relatively weak. The National Infrastructure Agency (ANI) has asked for our expertise to reform its corporate governance to reflect the UK Executive Agency model. This will put the implementation of PPPs on a more secure footing going forward.

Regional agencies are increasingly being charged by municipalities and governors with implementation of ambitious PPP programmes. The UK has supported some initial capacity building activities based on UK expertise. Providing further assistance to develop PPP expertise in the regions will enable PPPs in Colombia to be implemented in line with the UK approach. Colombia is likely to be one of three main countries in the global PF Infrastructure programme. While the bilateral programme will focus on providing technical assistance (TA) to ANI, the global PF initiative will provide complementary TA to municipalities like Bogota and Medellin.

To help ensure successful, long term delivery of the national PPP programme, the proposed intervention funded by the bilateral programme will deliver the design and evaluation of an executive agency model for the National Infrastructure Agency (ANI).

The Theory of Change showing how the proposed infrastructure interventions lead to primary and secondary benefits is set out in the attached annex.

Transforming rural areas

Many poor regions in Colombia are particularly reliant on agriculture for their prosperity with 60% of rural workers employed in the agricultural sector accounting for more than 20% percent of GDP in some post-conflict regions (DANE, 2015). Growth in the **agriculture** sector has been stifled by the conflict affecting large parts of rural Colombia (OECD, 2015b). While the government is taking forward reforms on land rights, support is needed to expand the coverage of: (i) financial services and insurance; and (ii) the application of technology and innovation to improve land use and to increase productivity. In both cases, the main target audience for this support is male and female smallholders and small agri-enterprises.

Agri-insurance penetration is currently very low – for example around 1% against climatic risks despite the fact this is the main vulnerability for the sector (Finagro, 2016). This is far behind the regional comparators – in Brazil 8% of cultivated land is insured and in Mexico it is 27% (World Bank, 2015a). International evidence suggests that improving insurance coverage can increase investment by farmers and their yields resulting in higher incomes and social development. For example, Karlan et al (2012) found that uptake of insurance increased farmers' investment by 13%.

A number of interventions are needed to address barriers to achieving Finagro's aim of a five-fold expansion of insurance coverage: technical assistance to advance monitoring systems for better risk assessment; technology and education to stimulate demand and create a 'culture of insurance'; and piloting of different insurance products.

Therefore, to increase investment, yield and social impact in the agriculture sector, the proposed Prosperity Fund intervention will support: the development of a modernised, agri-information and monitoring system; the development of inclusive technologies and education programmes to stimulate demand for agricultural insurance by male and female smallholders and small agri-enterprises; and design of 3-5 pilot agri-insurance models for male and female farmers.

Innovation and technology can have a significant impact on productivity if it is designed and implemented in a gender and poverty sensitive way. Fan, Hazell and Thorat (1999) measure the relationship between total factor productivity and poverty outcomes by investigating returns on different productivity increasing investments. They find that investments in roads, agricultural research, development, and extension had the greatest impact on both productivity and poverty reduction (Schneider and Gugerty, 2011). According to the FAO (2003) innovations such as no-till/conservation agriculture and integrated plant nutrient systems can raise crop yields by 20-50% and 10-30% respectively.

The Colombian agriculture and research bodies Corpoica and Colciencias have indicated strong interest in the application of UK technologies and innovation to support the ambitious objective of adding 1mn hectares to agricultural use. This includes the potential to use royalty funds from extractives to match fund PF resources. Innovate UK operates an Agri-tech Catalyst challenge fund to support development and commercialisation of technological solutions in agriculture that has resulted in successful application of UK technologies in DFID footprint countries. This programme twins UK institutions with local organisations in the partner country. Applying the Innovate UK model to Colombia, we would expect the Agri-tech Catalyst to support up to 8 early and 5 late stage projects. This funding will target smallholder farmers and small agri-businesses, while addressing key challenges in the Colombian agriculture sector.

To increase productivity and smallholder incomes in the agriculture sector, the proposed Prosperity Fund intervention will aim to fund up to 8 early and 5 late stage agri-technology projects.

The Theory of Change showing how the proposed agriculture interventions lead to primary and secondary benefits is set out in the attached annex.

D. Gender issues in Colombia

It is well established that when women are educated and employed, economies grow and development outcomes are improved (UN Women 2017). This is recognised by the Colombian government via the national policy for gender equality (CONPES Social 161 2013) whose objectives include reduction in violence against women, promoting economic autonomy, enabling participation in decision-making, and improving health and education. As a result of implementing this policy, indicators for female participation in the economy have been improving in Colombia. The labour force participation rate of working-age (15 to 64-year-old) women in Colombia rose from 57.4% in 2001 to 62.9% in 2014 (OECD, 2016a)[14]. However, women earn less than men, and the most disadvantaged women, especially those with less education and indigenous backgrounds, tend to have lower levels of engagement in paid work. Women also have lower-quality jobs, on average, when measuring work hours and formality of employment status, which can have negative effects on earnings, career progression and poverty risks across their life cycle (OECD, 2016a).

Despite the considerable increase in female labour market participation in recent decades, about 20% of women aged 16 to 24 are neither active nor studying in comparison to 1% of men in the same age group. Women also face higher unemployment rates (about 5 percentage points higher than men) and lower participation in formal employment (32% against 46% for men). Such disparities are also reflected in large and persistently stable gender pay gaps (OECD, 2016).

In recent years, Colombia has undertaken a series of legislative initiatives to improve gender equality in relation to labour conditions. In practice, however, these measures have had limited impact as a large proportion of women work in informal jobs or self-employment, where such policies are not enforced. The imbalance of responsibilities within the household is one of the most important sources of gender inequality in the Colombian labour market (OECD, 2016). Improvements to the country's social and transport infrastructure will contribute to addressing this imbalance.

Education indicators for young female cohorts show a more positive picture. Girls have lower illiteracy and school dropout rates and complete more years in higher education than boys. Similarly, among people aged 16 to 25, women have higher participation rates in post-secondary and tertiary education and lower dropout rates. However, women are underrepresented at post graduate level – accounting for 45% of masters' degrees and a third of PhDs (OECD, 2016).

Social indicators also show a mixed picture. Women in Colombia have a higher life expectancy – one of the highest in Latin America - and lower child mortality. On the other hand, high teenage pregnancy is a barrier for female social mobility. One in five women aged 15 to 19 is or has been pregnant. The prevalence of teenage pregnancy is strongly associated with household socio-economic conditions and access to sex education and contraception (OECD, 2016)

In terms of their position in society, even though Colombian law mandates that 30% of the government cabinet-level posts be filled by women, female elected representation remains low. According to the United Nations, Colombia ranks 70 out of 190 countries in terms of female political representation in Congress. In the Congressional elections of March 2014, women secured 33 seats (19%) in the House of Representatives and 23 seats (23%) in the

[14] As a comparison the labour force participation (LFP) rate of working-age (15 to 64-year-old) women in Chile grew from 37.4% in 1996 to 55.7% in 2014, while in Mexico the share of working-age women in the labour market grew from 39.6% in 1996 to 46.8% in 2014. Colombia and Peru have historically had higher female LFP rates, but still showed improvement in recent years: the female LFP rate in Colombia rose from 57.4% in 2001 to 62.9% in 2014 and in Peru from 52.7% in 1990 to 65.5% in 2014. **(OECD, 2016a)**

Senate. At the local level, Colombian women hold 9.8% of the mayoral seats and 6% of the governorships.

Perhaps the most concerning statistic is the high level of violence against women. In 2015, 51 women and girls were assaulted every day and 85% of these were girls under 14 years old. Underreporting is estimated at around 80%. Impunity for this crime is very high at 97% (Fundación Ideas Para La Paz, 2016). An Oxfam survey estimates that between 2001 and 2009, almost 500,000 women were victims of sexual violence in conflict zones (Oxfam Intermón, 2010). For this reason, the Preventing Sexual Violence in Conflict Initiative (PSVI) is a key area of UK support in Colombia through funding from the Rules Based International System (RBIS).

How will the PF programme contribute to reducing gender inequality?

In line with the UK's Gender Development Act (2014), the proposed programme will directly support women and girls in a number of ways. For example, the activities will improve urban environments and access to services including water and sanitation and public spaces (Action Aid, 2015). This can help reduce time spent by women on household and care responsibilities and improve women's mobility and access income earning opportunities, markets and education services. It can reduce risks to women and girls associated with poorly planned, unreliable, unaffordable and inefficient transport systems from sexual harassment and violence[15][16]. In agriculture, female producers are often more vulnerable to climatic, productivity and financial risks and generate lower incomes that men (DFID, 2015). Technology, innovation and insurance have the capacity to increase and protect incomes for rural workers of which 36% are women (DANE, 2014).

However, as these benefits are not automatic, programme managers will take the following steps to ensure gender issues are integrated into each intervention and impacts are maximised in the following ways:

- Urban development: implementing partners will be required to assess impacts and benefits on women and girls and men and boys and the relationship between them in the development of urban plans and in selecting and appraising projects to promote gender solutions. This will include opportunities to support women's economic empowerment and identification of opportunities to engage and harness the potential of women to deliver programmes;
- Agriculture: innovations and insurance products will be designed to be affordable for and accessible to women and girls. Any potential negative consequences of new technologies will be managed so as not to disadvantage women;
- Institutional capacity building for local government: ensure that programmes and planning activities take into account gender equality and women's economic empowerment to support inclusive economic growth and target women and girls in their execution;
- Across the programme: we will require sex disaggregated results where appropriate to track the differentiated impact on women and men; and

[15] See Jacobson, J Mohun, R & Sajjad, F (2016) Infrastructure: A Game Changer for Women's Economic Empowerment, scoping report for the DFID-funded ICED facility

[16] Mohun R & Biswas, S (2016) Infrastructure: a Game-changer for Women's Economic Empowerment, a background paper for the UN Secretary-Generals' High-Level Panel on Women's Economic Empowerment, prepared by the DFID-funded Infrastructure and Cities for Economic Development (ICED) facility.

- To support Gender Act compliance: programme managers will ensure that gender considerations and expertise are meaningfully reflected in:
    - Terms of Reference, tender documents and bid assessment criteria;
    - Adequately addressed in scoping and design;
    - Integrated into implementation plans with appropriate budget, time allocation and expertise; and
    - Built into monitoring and evaluation frameworks and annual review processes.

E. UK as a development and trade partner for Colombia

Alignment and additionality

<u>Alignment with the UK Aid Strategy and Delivering the UN Sustainable Development Goals:</u> in addition to **promoting global prosperity** the themes targeted by the programme support all three of the remaining objectives contained within the UK's aid strategy:

- By improving local government capacity, tackling corruption, and supporting growth in post-conflict regions, the proposed programme will contribute to strengthening global peace, security and governance
- By developing insurance for agriculture and supporting low carbon infrastructure, the proposed programme will contribute to strengthening resilience and response to crises through efforts to mitigate and adapt to climate change
- By increasing access to basic services in poor urban areas, the proposed programme will help tackle extreme poverty and help the world's most vulnerable people.

As set out in the UK's Aid Strategy, the British Government is committed to supporting the UN's Global Goals to 'finish the job' of the Millennium Development Goals. The proposed programme will support a number of the Sustainable Development Goals, in particular:

- Goal 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

- Goal 9 – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

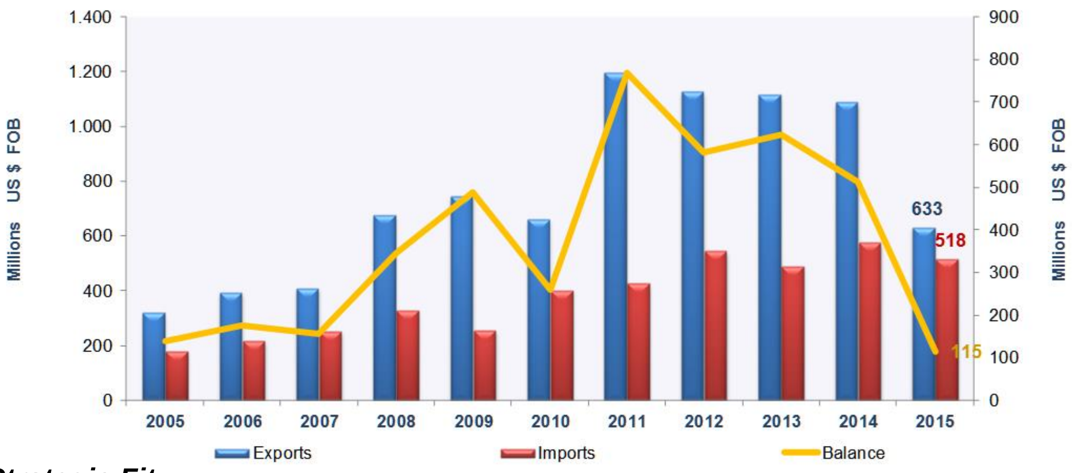
- Goal 11 - Make cities and human settlements inclusive, safe, resilient and sustainable

Current trade relationship with the UK

Over the last 10 years (2006-2015), the UK was the third largest investor in Colombia (Fig. 5 below refers). In 2015, the main exports from Colombia to the UK were coal (48.6%), bananas (24.4%), coffee (10.3%) and flowers (8.6%). The main imports from the UK were machinery (36.2%), chemicals (25.6), transport equipment (13.6%) and petroleum derivatives (7%).

While UK exports of goods and services to Colombia were £629mn in 2016, arguably the UK underperforms in this market. The potential for Colombia to be more of a key partner for the UK in the future was recognised during the State Visit by President Santos in November 2016 where a number of commercial partnerships were forged. The UK announced its intention to develop a Prosperity Fund programme.

Figure 5: Trade relationship between Colombia and the UK (Ministry of Trade, Industry and Tourism)[17]



Strategic Fit

The UK is one of Colombia's strategic partners on peace and security and should seek to build on the economic benefits of the new peace agreement with the support of the Prosperity Fund and closer economic engagement. A PF programme will support **key UK objectives** for Colombia including:

- To ensure the UK is the preferred partner for Colombia in driving competitiveness; science, technology and innovation (STI); and future cities;
- To improve the business environment including for UK companies in Colombia through increased UK cooperation on better regulation, transparency, public procurement and institutional strengthening in the regions;
- To achieve a step-change in UK's presence in key Colombian cities;
- To secure improved commercial relationships in key sectors e.g. transport, infrastructure, mining and financial services; and
- To secure business wins worth £380mn in Colombia for 2017/18 and to continue this amount steadily upward to 2019.

Alignment with the **UK Government and DIT priorities** for Colombia: the sectors targeted align strongly with UK Government strategy which has three high level objectives: i) building a more stable region; ii) promoting bilateral links; and iii) increasing UK share of Colombian imports. Within each of these strands are more specific targets that the proposed PF programme in Colombia will respond to: i) build peace and tackle causes of conflict; ii) increase UK cooperation on SMART cities, climate change, entrepreneurship and competitiveness; iii) secure contracts of at least £0.5bn in infrastructure for–UK companies; and iv) secure increased commercial relationships in key sectors e.g. energy, financial services, agri-business, defence and retail. The proposed PF activities match well with DIT's High Value Campaigns (HVCs) for water and sanitation, and rail. The PF secondary benefits focus will contribute to DIT's wider goal of export wins of £380mn for 2017/18. Many of the members of

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17 http://www.mincit.gov.co/loader.php?lServicio=Documentos&lFuncion=verPdf&id=67155&name=OEE_espanol_Perfil_Reino_Unido__27-10-2016.pdf&prefijo=file

the UK Colombia Trade (UKCT) chamber are leaders in: designing and managing PPPs; infrastructure planning and financing; developing effective rail regulation; provision of insurance services; and developing cutting edge agri-tech solutions. The proposed bilateral programme also builds on the successes of previous PF projects which were delivered by UK companies present in Colombia. Any non-ODA funding made available will be used to further strengthen secondary benefits opportunities especially providing information on contracting rules, regulations and practices in Colombia and supporting trade and networking events.

Close collaboration with **other UK funding initiatives** in Colombia: i) there is an agricultural link with the **International Climate Fund** (ICF) which supports low-carbon development through protecting forests and developing sustainable approaches to livestock farming; ii) there is a close connection to the **Conflict, Security and Stability Fund** (CSSF) which supports measures to deliver peace and security especially in post conflict and conflict-affected regions; iii) we are currently looking at possible collaboration with the **Newton-Caldas** research and innovation programme; and iv) we will look at possible collaboration / synergies with the **global PF programmes** considering working here.

Alignment with Colombian government objectives: The UK's historic support for security in Colombia has helped us to build our relations with ministries, agencies and regional governments. The proposed activities have been endorsed by the relevant government agencies and ministries: The Presidency, National Department of Planning; Ministry of Housing and Cities; Ministry of Transport; National Infrastructure Agency; Ministry of Agriculture; Finagro (National Agriculture Development Bank); Corpoica (Colombian Biotech Agricultural Research Organisation); and Colciencias (Colombian Administrative Department for Science, Technology and Innovation).

The proposed programme supports a set of key objectives outlined in the current National Development Plan as follows:

- Reducing disparities in provision of public services, infrastructure and connectivity;
- Promoting inclusive economic development, nationally and in the regions;
- Constructing liveable and sustainable cities which support equality, including promoting planning, coherent performance and articulation of housing, water and sanitation;
- Providing infrastructure and logistics services and transport to support territorial integration;
- Preparing a strategy for revitalising the railways in Colombia;
- Consolidating strategic multimodal transport corridors;
- Improving management of infrastructure projects and the transport sector;
- Promoting the efficient use of land and natural resources;
- Accelerating rural poverty reduction through higher productivity and inclusion of rural workers;
- Encouraging rural competitiveness by providing services that enable agricultural productivity; and
- Reinforcing transparency, accountability and the fight against corruption.

Stakeholder engagement: We conducted **consultations with over 70 stakeholder institutions** including government, the private sector and civil society who provided input into the design of the programme, endorsing the sectors and activities. We worked closely with lead government entities to determine the appropriate scope and priorities for the programme, as many of the interventions are contingent on alignment with government priorities. These entities will continue to be key sponsors of the programme and in some cases the beneficiaries.

Existing donor cooperation: as part of our evidence gathering on the case for intervention, we **mapped existing donor cooperation** in terms of geographical regions and sectors and identified areas where the UK can add value to, and avoid duplication with, existing international cooperation and existing national and local programmes. Figure 6 describes support provided by the Word Bank (WB), the Inter-American Development Bank (IDB) and the Development Bank of Latin America (CAF). The multilaterals work closely with the Colombian Financial Institution for Development (Findeter). For example, CAF provides lines of credit to Findeter while the IDB co-finances Findeter's Sustainable and Competitive Cities Programme.

Figure 6: Multilateral development financing for Colombia

Institution	Scale of investment	Priorities
WB[18]	USD 3.2bn	Fostering balanced territorial development; enhancing social inclusion and mobility through improved service delivery; and supporting fiscal sustainability and productivity
IADB[19]	USD 2.3bn	Economic productivity; public management effectiveness (i.e. increasing state revenues and reshaping the civil service); social mobility and consolidation of the middle class
CAF[20]	USD 7.8bn	Financial systems and capital markets; macroeconomic stability and structural reforms; economic infrastructure (e.g modernisation of energy, transport and cities); competitiveness and SMEs; governance and social capital

Bilateral donor programmes in Colombia are worth almost USD1bn/year[21]. Historically the largest of these have been France, US, and Germany (OECD DAC, 2016) with the majority of projects focussed on peace building, the environment, rural development and social programmes. The main priorities of these three major donors are:

- USAID - increasing state presence, reconciliation, rural economic development and environmental resiliency;
- France – renewable energy and climate change, health, water, sustainable urban and territorial development, and mobility; and.
- Germany – crisis prevention and peace building, environmental policy and sustainable use of resources, and sustainable economic development.

[18] WB Country Partnership Framework for the Republic of Colombia for the Period FY16-21; USD 3.2bn represents active portfolio.

[19] IDB Colombia Country Strategy 2015-2018, October 2015. USD 2.3bn represents total current loans.

[20] CAF Annual Report 2015; USD 7.8bn represents funds approved 2011-2015

[21] OECD DAC 2012-2014 3yr average http://www.oecd.org/dac/stats/documentupload/1%20World%20-%20Development%20Aid%20at%20a%20Glance%202016.pdf

Colombia has its own resources to co-fund development initiatives. Revenues from extractive industries, known as the General System of Royalties, are distributed to all departments through three different funds: The Science, Technology and Innovation Fund (FCTI), the Regional Development Fund (FDR), and the Regional Compensation Fund (FCR). For 2017 and 2018, the Royalties budget is £4bn. We are looking at possible co-funding of the Agri-tech Catalyst activity.

Main risks: During programme design, the Embassy engaged closely with key stakeholders in government, the private sector and civil society to understand potential risks and mitigation measures. The main risks are:

- The planned interventions do not result in the anticipated primary and secondary benefits and are not gender act compliant;
- Change in national and local governments over the duration of the programme;
- Colombian government commitment to, and resourcing for, the proposed programme activities does not materialise;
- The Colombian government's focus on delivery of a major road building programme to the possible detriment of rail infrastructure development;
- Capture by elites of infrastructure and railways resulting in possible blockage to progress;
- Land reform processes which may affect development of the agriculture sector; and
- Security and stability in post-conflict regions.

The risk of the entire programme failing is mitigated through supporting three different sectors and delivery partners. Finally, we will employ a flexible and adaptive approach to programme management that allows us to best respond to the evolving context.

Appraisal Case

The Strategic Case sets out strong evidence for supporting regional economic development and key sectors that are critical to unlocking growth in Colombia's regions. There are a range of potential interventions for which support could be provided identified in the literature and in our consultations with stakeholders. The multi-criteria analysis in Figure 3 compared different interventions based on: ability to deliver primary and secondary benefits; additionality of prosperity funding; fit with UK Government Strategy; and deliverability (i.e. fit with national priorities, feasibility and sustainability). This exercise identified the following priority interventions to achieve regional growth with secondary benefits in Colombia: institutional strengthening; anti-corruption; rail development; urban development in 2nd tier cities; and agriculture (specifically agri-insurance and technology and innovation). The detailed assessment of evidence for each intervention is set out in the Strategic Case.

The Appraisal Case assesses three options for implementing the prioritised interventions, calculating the potential cost of each option and their potential primary and secondary benefits. The three options assessed are:

Option A: "Do Nothing";

Option B: a multi-sector programme targeting key barriers to growth and potential UK opportunities as identified in the multi-criteria analysis; and

Option C: two sectors only: infrastructure and agriculture.

A. Appraisal of Option A: Do Nothing

The Do Nothing option represents a baseline option of providing no bilateral Prosperity Fund support in Colombia. However, this would imply continuing to provide support through the ICF, the CSSF, and the Newton Fund[22] and through any global thematic PF programmes that decide to operate in Colombia.

Through existing ICF, CSSF and Newton funds we are supporting social programmes for peace and security; low carbon development in forests and livestock farming; and science and research in bio-tech. None of these programmes have a material impact on achieving the primary and secondary benefits targeted via the proposed PF programme.

Our calculations in Option B and C have taken in to account baseline figures and HMG additionality in their methodologies – i.e. "impact minus baseline". This allows us to accurately identify Net Present Values (NPVs) of funding invested, which relate only to the attributed additional benefits. Typically, a "Do Nothing" case is presented in Business Cases so that it can be subtracted from other options, thus leading to an additionality of HMG intervention. However, because additionality has been incorporated in to our Option B and C cases, baseline figures here would not be appropriate.

[22] The UK's Newton Fund provides annual co-financing for research and innovation in Colombia

The Do Nothing option has two main advantages. First, none of the potential financial, delivery, or reputational risks associated with delivering a scaled-up PF programme exist under this option. Second, it represents no administrative cost.

However, relative to Options B or C, this would significantly reduce our ability to deliver primary benefits of up to £2.0bn for Option B and £1.9bn for Option C. In terms of secondary benefits, it would also put us at a relative disadvantage to our competitors who are providing significant support to the post-peace process and benefitting from their strengthened bilateral partnerships with Colombia.

We therefore do not recommend the 'Do nothing' option as both alternative options have greater potential to realise primary and secondary benefits with a strong cost/benefit and strategic case to support them.

B. Appraisal of Option B – multi sector programme

This option would provide funding across 3 sectors identified in the literature as key to supporting regional growth, but also with potential to deliver secondary benefits.

Theory of Change (ToC)

The programme is designed to deliver the overall impact of increasing economic growth in Colombia's regions and raising international investment in these regions including by UK companies. The programme ToC (Figure 7) sets out how the programme supports the objectives of the PF and also sets out our assumptions and risks to delivery.

As set out in the commercial case, the proposed programme would be delivered by three providers. Details of the indicative outputs to be delivered by these providers are set out in Figure 8.

Figure 7: Option B Theory of Change

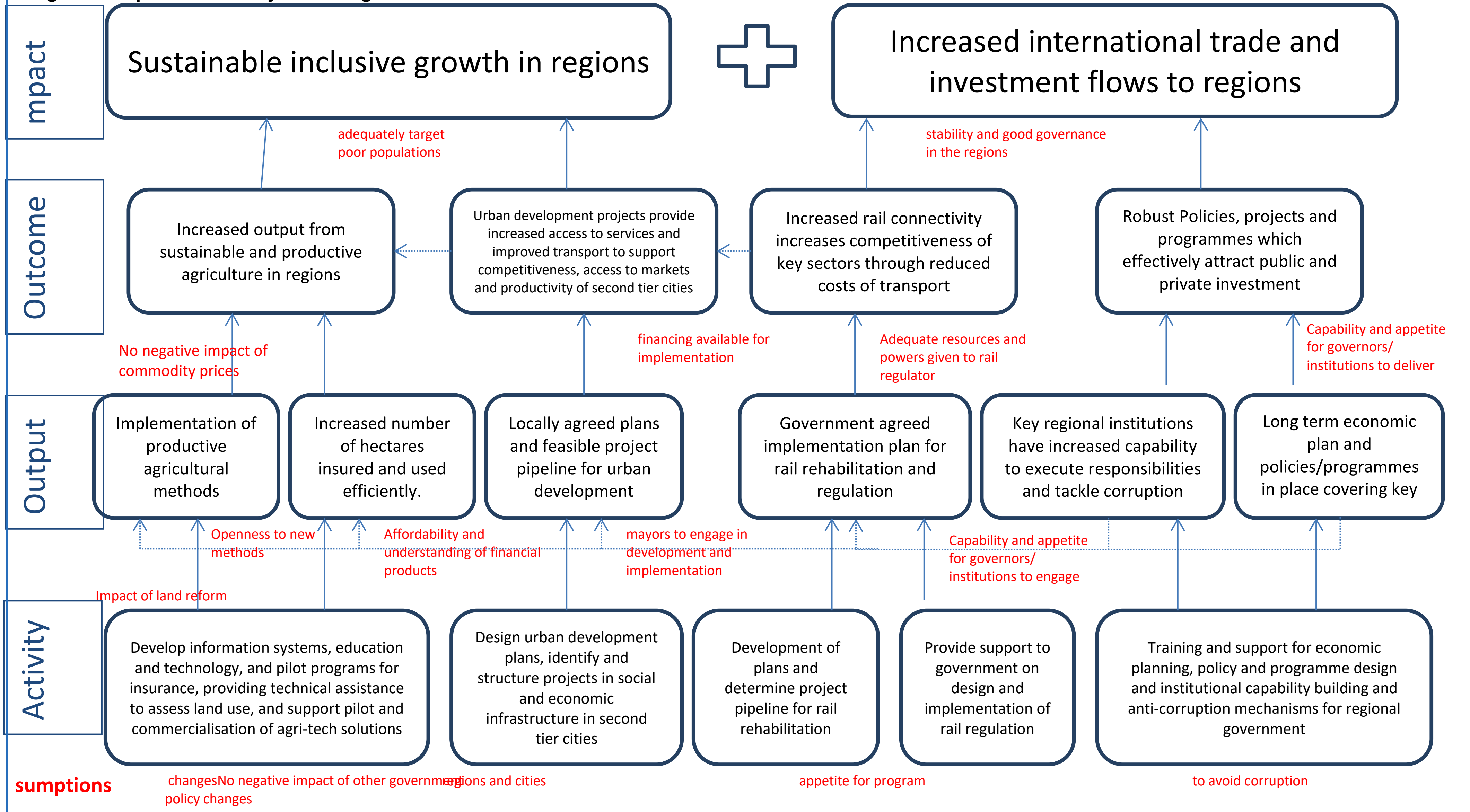


Figure 8: Outputs delivered in Option B

Sector	Outputs supported
Institutional Strengthening	Development of strategies for economic development and competitiveness, including prioritisation of projects, in up to 8 departments. Supporting to improve ANI's corporate governance model. This activity will commence in summer of 2018 when the new Colombian government is sworn in. Training for up to 200 officials in regional government in project development and management. Implementation of open procurement standards with stakeholder monitoring and development of guidelines for anti-corruption procedures in up to 8 depts. Training for officials responsible for public procurement in up to 8 departments.
Infrastructure	Development of urban master plans for up to 10 cities. Appraisal and structuring of up to 40 urban infrastructure projects. Training and capacity building for public officials in up to 10 cities to improve urban planning, project delivery and coordination. Development of strategy and regulatory framework for the rail sector. Feasibility studies for up to 4 rail projects. Detailed design and structuring for 2 rail projects. Local economic plans for up to 4 municipalities or regions.
Agriculture	Development of an information and monitoring system for the agriculture sector. Development of technologies and education programme to stimulate demand for agri-insurance products. Design of 3-5 pilot agri-insurance models. Support for up to 8 early and 5 late stage technology projects and conduct outreach to innovative organisations on partnership opportunities.

Option B represents a strong fit with the PF ToC focusing on **investing in infrastructure and human capital; innovation and knowledge transfer; and supporting regulatory reforms needed for development in specific sectors.** The proposed programme will ensure sustainability in the following ways:

- The interventions support key Colombian government needs and objectives maximising the likelihood of buy-in to deliver long term change;
- All the interventions have potential to support environmental outcomes through: more sustainable and efficient cities reducing emissions and waste; replacing high road freight emissions for low rail ones; and more productive and sustainable agricultural techniques. Environmental sustainability will be integrated into programme activities where relevant e.g. environmental appraisal of urban and rail projects assessed; and
- A comprehensive approach to technical assistance which delivers support from design to implementation. For example, by ensuring financial viability of infrastructure and rail projects supported, the programme will help ensure the maximum potential for impact.

Calculating the costs and benefits of Option B

Costs: We have designed a programme across the three priority sectors worth £25.5mn of which £23.28mn is delivery of outputs and £2.22mn is: FCO staff costs; gender and financial expertise; FCO delivery costs; and communications and dissemination.

Benefits: The methodologies used to estimate the potential primary and secondary benefits from this Prosperity Fund programme are summarised in this section. The detailed technical benefits estimations are not being published with this business case.

Primary Benefits calculation

Activity	Calculation
Capacity Building	The impact on GDP of increasing the effectiveness and the amount of capital spent by Colombian departments
Open Procurement / Anti-corruption	Savings as a result of improved open procurement and anti-corruption systems
Rail	The increase in rail freight and resultant savings compared to road freight
Urban Development	The GDP impact of increased capital spend by Colombian departments
Agricultural Insurance	The increase in agricultural yields that result from increased investment, which is enabled by insurance
Agri-tech	The expected cost-benefit ratios based on analysis of the existing UK Agri-Tech fund established by HMG

Secondary Benefits calculation

Activity	Calculation
Capacity Building	Increase in GDP as a result of more effective government delivery and the subsequent value of increased imports
Open Procurement / Anti-corruption	Reduced perception of corruption resulting in increased FDI and the subsequent value of that FDI
Rail	Value of potential rehabilitation or new build projects implemented as a result of PF support, plus increased value of operator contracts resulting from regulation which increases track usage
Urban Development	Value of potential urban development projects implemented as a result of PF activities
Agricultural Insurance	Expected value of insurance premiums for additional hectares insured as a result of PF activities
Agri-tech Catalyst	Expected value of commercialisation of technologies supported by PF funding

Secondary benefits were calculated according to the highest potential secondary benefit that each priority sector of the programme could deliver on reasonable assumptions and only where it is possible to make realistic estimates. For this reason the model does not capture all potential benefits. For example, in rail and urban development we have only modelled the direct investment opportunity of new infrastructure projects where technical assistance would be provided by the programme. We have not modelled the indirect benefit of redacted transport costs to the economy, increased productivity of cities supported, nor potential future urban projects beyond a 10 year timeframe that may come forward as a result of support for urban plans and strategies. There is therefore likely to be additional secondary benefit potential over and above the total set out below.

Cost / Benefit summary

Annual cost values and benefit estimates in tables have been rounded to one decimal place, and values in Total columns have been rounded to the nearest million pounds; so annual values may not sum to totals.

Primary Benefits of Option B

Year	1	2	3	4	5	6	7	8	9	10	**Total**
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Programme cost (£m)	4.0	7.7	5.8	6.0	0.0	0.0	0.0	0.0	0.0	0.0	**24**
PV of cost (£m)	3.9	7.2	5.3	5.3	0.0	0.0	0.0	0.0	0.0	0.0	**22**
Estimated primary benefits (£m)	3.6	24.7	228.2	312.3	390.7	585.0	419.4	511.9	633.5	791.5	**3,901**
PV of primary benefits (£m)	3.2	20.4	171.5	213.3	242.6	330.2	215.2	238.8	268.7	305.2	**2,009**
Primary NPV (£m)	**-0.6**	**13.2**	**166.2**	**208.0**	**242.6**	**330.2**	**215.2**	**238.8**	**268.7**	**305.2**	**1,987**

The interventions which relate to infrastructure investment (Institutional Capacity & Urban Development) return high Primary Purpose figures, which inflate the Primary Benefit and NPV. This occurs because while the PF programme funding is small compared to the capital that the regional Colombian governments will invest, the value of the PF funding is that it unlocks large amounts of unspent and under-utilised capital. We therefore believe that the PF money should not be viewed as a small proportion of the capital investment funds, but rather on its merit to enable effective delivery of the Colombian capital, which would otherwise not be spent.

The agricultural insurance methodology also influences the NPV to a significant degree. There is good evidence that agricultural insurance increases crop yields by allowing farmers to invest in capital and riskier crops due to higher certainty of future incomes. However, small percentage-point differences in yield outputs lead to large variances in outcome due to the large volume of crops. We have used a reasonable yield estimate, and the agricultural option represents £864m of the total NPV.

Stress tests of Option B Primary Benefits

We have run sensitivity analysis on each intervention, where assumptions and variables are tested. Making substantial downgrades to our models resulted in Option B having a lower limit Primary Purpose NPV of £462m.

Year	1	2	3	4	5	6	7	8	9	10	**Total**
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Programme cost (£m)	4.0	7.7	5.8	6.0	0.0	0.0	0.0	0.0	0.0	0.0	24
PV of cost (£m)	3.9	7.2	5.3	5.3	0.0	0.0	0.0	0.0	0.0	0.0	22
Estimated primary benefits (£m)	0.9	6.2	39.0	89.2	101.7	106.8	64.5	158.4	180.8	208.8	956
PV of primary benefits (£m)	0.8	5.1	29.3	61.0	63.2	60.3	33.1	73.9	76.7	80.5	484

Primary NPV (£m)	**-3.1**	**-2.1**	**24.0**	**55.7**	**63.2**	**60.3**	**33.1**	**73.9**	**76.7**	**80.5**	**462**

Secondary Benefits of Option B for the UK

Year	1	2	3	4	5	6	7	8	9	10	**Total**
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Programme cost (£m)	4.0	7.7	5.8	6.0	0.0	0.0	0.0	0.0	0.0	0.0	24
PV of cost (£m)	3.9	7.2	5.3	5.3	0.0	0.0	0.0	0.0	0.0	0.0	22
Estimated secondary benefits (£m)	0.1	1.0	30.3	35.8	45.6	45.9	44.4	52.7	53.0	53.3	362
PV of secondary benefits (£m)	0.1	1.0	27.4	31.2	38.4	37.3	34.9	40.0	38.9	37.8	287
Secondary NPV (£m)	**-3.8**	**-6.2**	**22.1**	**26.0**	**38.4**	**37.3**	**34.9**	**40.0**	**38.9**	**37.8**	**265**

Stress tests of Option B Secondary Benefits for the UK

By stress-testing the assumptions in the methodologies, the sensitivity analysis of Secondary Benefits for Option B leads to a lower estimate of £68m.

Year	1	2	3	4	5	6	7	8	9	10	**Total**
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Programme cost (£m)	4.0	7.7	5.8	6.0	0.0	0.0	0.0	0.0	0.0	0.0	24
PV of cost (£m)	3.9	7.2	5.3	5.3	0.0	0.0	0.0	0.0	0.0	0.0	22
Estimated secondary benefits (£m)	0.0	0.5	6.4	13.5	18.3	18.5	9.1	14.6	15.7	15.8	112
PV of secondary benefits (£m)	0.0	0.5	5.8	11.7	15.4	15.0	7.2	11.1	11.5	11.2	90
Secondary NPV (£m)	**-3.9**	**-6.7**	**0.5**	**6.5**	**15.4**	**15.0**	**7.2**	**11.1**	**11.5**	**11.2**	**68**

C. Appraisal of Option C – two sectors only: infrastructure and agriculture

An alternative approach to supporting economic development in Colombia would be to reduce the scope and possible fragmentation of the programme proposed in Option B and to concentrate staff and financial resources on infrastructure and agriculture only as these are the two sectors with the highest primary and secondary benefits. Between these two, infrastructure offers the highest combined primary and secondary benefits. We therefore assessed the relative benefits of increasing the budget for urban development and rail elements of the programme while maintaining the agriculture activities described in Option B and eliminating most of the capacity building work. Design and evaluation of an executive agency model for PPPs would be retained given it has a strong infrastructure link. If this option were taken forward, then some elements of capacity building and anti-corruption from Option B could be built into the proposed urban development activities. Details of the indicative outputs, to be delivered concentrating on infrastructure and agriculture, would support the ToC infrastructure components set out in Figure 9. The main differences would be as follows:

Urban Development: Increasing the scale of this intervention would increase the scale and coverage of the advisory services supported and/or increase the number of cities in which we could work. The former would help increase the likelihood of benefits being achieved and could provide additional support to sustainable urban planning and development rather than prioritising only shorter term project implementation. The latter could increase the total potential benefits achievable. However, there could be diminishing returns as we could be supporting cities with lower relative impact, stretching the capability of implementers to deliver an effective programme, and dispersing international investment too widely.

Rail: There are a relatively fixed number of potential activities requiring support. Given the significant benefit potential, the proposed activities in Option B are already comprehensive. The main focus of increasing the scale of the rail work would be to support further planning at the local level to realise the economic benefits in a larger number of areas affected by rail development and, in doing so, improve the overall development of Colombia's rail network.

Calculating the costs and benefits of Option C

We assess the costs and benefits of Option C similarly to Option B, but with the following changes:

- Supporting the development of urban master plans in two additional cities;
- Supporting the appraisal and structuring of an additional 8 urban infrastructure projects;
- Supporting an additional two local plans for rail development;
- Supporting an additional two rail feasibility studies;
- Supporting the design and structuring of one additional rail project; and
- Supporting local economic plans in two more municipalities or regions.

<u>Costs:</u>

Under Option C, the overall cost of the programme could reduce slightly to £25.3mn of which £23.4mn would be implementation and £1.9mn would be FCO staff and other costs.

Figure 9: Outputs delivered in Option C

Sector	Outputs supported
Infrastructure	Development of urban master plans for up to 12 cities. Appraisal and structuring of up to 48 urban infrastructure projects. Training and capacity building for public officials in up to 12 cities to improve urban planning, project delivery and coordination. Development of strategy and regulatory framework for the rail sector. Feasibility studies for up to 6 rail projects. Detailed design and structuring for 3 rail projects. Local economic plans for up to 6 municipalities or regions.

	Support to improve ANI's corporate governance model.
Agriculture	Development of an information and monitoring system for the agriculture sector. Development of technologies and education programme to stimulate demand for agri-insurance products. Design of 3-5 pilot agri-insurance models. Support for up to 8 early stage and up to 2 late stage technology projects involving outreach to innovative organisations on partnership opportunities.

Primary Benefits calculation

Activity	Calculation
Rail	As above, except increasing the likelihood of successful intervention
Urban Development	As above, except using 48 projects over 12 cities
Agricultural Insurance	The increase in agricultural yields that result from increased investment, which is enabled by insurance
Agri-tech	The expected cost-benefit ratios based on analysis of the existing UK Agri-Tech fund established by HMG

Secondary Benefits calculation

Sub-component	Calculation
Rail	As above except, except in a larger number of areas
Urban Development	As above except, at larger scale and in more cities
Agricultural Insurance	Expected value of insurance premiums for additional hectares insured as a result of PF activities
Agri-tech	Expected value of commercialisation of technologies supported by PF funding

Cost / Benefit summary

Primary Benefits for Option C

Year	1	2	3	4	5	6	7	8	9	10	**Total**
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Programme cost (£m)	3.6	7.4	6.0	6.1	0.0	0.0	0.0	0.0	0.0	0.0	**23**
PV of cost (£m)	3.5	6.9	5.4	5.3	0.0	0.0	0.0	0.0	0.0	0.0	**21**
Estimated primary benefits (£m)	3.6	24.7	275.3	331.5	359.4	551.1	377.8	470.3	591.9	750.0	**3,735**
PV of primary benefits (£m)	3.2	20.4	206.9	226.4	223.1	311.1	193.9	219.4	251.0	289.1	**1,945**
Primary NPV (£m)	**-0.3**	**13.5**	**201.4**	**221.1**	**223.1**	**311.1**	**193.9**	**219.4**	**251.0**	**289.1**	**1,923**

Stress tests of Option C Primary Benefits

We have run sensitivity analysis on each intervention, where assumptions and variables are tested. Making substantial downgrades to our models resulted in Option C having a lower limit Primary Purpose NPV of £394m.

Year	1	2	3	4	5	6	7	8	9	10	**Total**
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Programme cost (£m)	3.6	7.4	6.0	6.1	0.0	0.0	0.0	0.0	0.0	0.0	23
PV of cost (£m)	3.5	6.9	5.4	5.3	0.0	0.0	0.0	0.0	0.0	0.0	21
Estimated primary benefits (£m)	0.9	6.2	31.5	81.8	82.3	87.3	45.1	138.9	161.3	189.3	825
PV of primary benefits (£m)	0.8	5.1	23.7	55.9	51.1	49.3	23.1	64.8	68.4	73.0	415
Primary NPV (£m)	**-2.7**	**-1.8**	**18.2**	**50.5**	**51.1**	**49.3**	**23.1**	**64.8**	**68.4**	**73.0**	**394**

Secondary Benefits for Option C for UK

Year	1	2	3	4	5	6	7	8	9	10	**Total**
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Programme cost (£m)	3.6	7.4	6.0	6.1	0.0	0.0	0.0	0.0	0.0	0.0	23
PV of cost (£m)	3.5	6.9	5.4	5.3	0.0	0.0	0.0	0.0	0.0	0.0	21
Estimated secondary benefits (£m)	0.1	1.0	23.4	28.9	36.5	36.8	26.9	38.0	38.3	38.6	268
PV of secondary benefits (£m)	0.1	1.0	21.1	25.1	30.7	29.9	21.1	28.8	28.1	27.3	213
Secondary NPV (£m)	**-3.5**	**-5.9**	**15.6**	**19.8**	**30.7**	**29.9**	**21.1**	**28.8**	**28.1**	**27.3**	**192**

Stress tests of Option C Secondary Benefits for the UK

By stress-testing the assumptions in the methodologies, the sensitivity analysis of Secondary Benefits for Option C leads to a lower estimate of £61m.

Year	1	2	3	4	5	6	7	8	9	10	**Total**
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Programme cost (£m)	3.6	7.4	6.0	6.1	0.0	0.0	0.0	0.0	0.0	0.0	23
PV of cost (£m)	3.5	6.9	5.4	5.3	0.0	0.0	0.0	0.0	0.0	0.0	21
Estimated secondary	0.0	0.5	11.7	14.4	18.2	18.4	4.8	10.3	11.4	11.5	101

benefits (£m)											
PV of secondary benefits (£m)	0.0	0.5	10.5	12.6	15.4	15.0	3.8	7.8	8.3	8.2	82
Secondary NPV (£m)	**-3.5**	**-6.4**	**5.1**	**7.2**	**15.4**	**15.0**	**3.8**	**7.8**	**8.3**	**8.2**	**61**

Removing most of the capacity building activities from the programme would have additional downsides that are difficult to quantify, but nonetheless important to take into account:

- *Strategic*: The overarching objective is to support economic growth in post-conflict regions as well as sector specific outcomes. Institutional capacity and anti-corruption are critical to underpinning stability and growth and for other sectors and programmes to flourish. The institutional strengthening element has a political dimension given it directly responds to a request from the President's office for the UK to help in this area. Following the Anti-corruption Summit in London in May 2016, the UK would be sending mixed signals if it approved a programme which did not support Colombia's battle against corruption. In addition, the non-monetised benefits of open procurement and anti-corruption initiatives can be considerable.
- *Impact: T*he programme is designed to support a range of complimentary activities that together are mutually beneficial. For example, the rail programme will benefit from, and have greater likelihood of success in both primary and secondary benefits, when combined with the institutional capacity building for local governments for planning and executing their development plans.
- *Risk:* A multi-sector approach diversifies risk in the programme and more evenly balances financial resources across several implementing agencies. As previously stated, the range of cities and number of projects in local development and rail are already comprehensive in Option B. Option C therefore runs the risk of extending these initiatives beyond what is realistically feasible in four years.

D. Summary Statement of Preferred Option

In terms of impact and Value for Money (VfM), Option B and Option C offer similar potential impact on poverty reduction and economic development for Colombia combined with business investment opportunities including those for the UK. However, Option B is preferred as it offers more strategic benefits and deeper impact given its higher number of priority sectors and beneficiary cities and regions. This, in turn, will lead to greater investment opportunities. VfM will be driven through the choice of implementation partners which is described and assessed in the Commercial Case. In relation to risk, Option B offers greater diversification of sectors (three) and implementing partners (three) while not overloading programme management. The proposed programme is also more easily scalable as there would be more options to invest in.

Commercial Case

The Appraisal Case recommended pursuing Option B - a multi-sectoral programme consisting of interventions in institutional capacity building, infrastructure and agriculture. The Commercial Case seeks to assess the best option to deliver the seven proposed activities under the three priority sectors. It also sets out the services required to implement the programme, the process carried out to identify potential delivery partners and the criteria used to evaluate them.

A. Service requirements

To deliver the proposed programme, the services outlined in Figure 10 are required.

Figure 10: Service requirements for the preferred option

Management and Administration	Detailed design and management of gender sensitive programme implementation including: financial and project management, reporting and engaging with FCO, management of subcontractors/grantees and associated procurement, communications with stakeholders, monitoring, reporting and evaluation activities aligned with central PF processes.
Institutional Capacity	Development of strategies for economic development and competitiveness including prioritisation of projects in up to 8 departments. Design and implementation of PPP executive agency model with improved corporate governance for ANI. Training for up to 200 officials in regional government in project development and management. Assessment of procurement practices, development of guidelines and monitoring for anti-corruption in public procurement in up to 8 departments. Training for officials responsible for public procurement processes in up to 8 departments.
Urban Development	Development of urban master plans for up to 10 cities. Appraisal and structuring of up to 40 urban infrastructure projects. Training and capacity building for public officials in up to 10 cities to improve urban planning, project delivery and coordination.
Rail Development	Development of strategy and regulatory framework for the rail sector. Feasibility studies for up to 4 rail projects. Detailed design and structuring for 2 rail projects. Development of local economic plans for up to 4 municipalities or regions.
Agri-insurance	Development of an agricultural information and monitoring system. Development of technologies and education programme to stimulate demand for agri-insurance products. Design of 3-5 pilot insurance models.
Agricultural Innovation and Technology	Design and administration of a challenge fund model. Allocation of funding to support up to 8 early stage and 5 late stage projects and conduct outreach innovation organisations on partnership opportunities.

B. Market testing and assessment of delivery options

On 26 September 2016, the Embassy sent out a call for Expressions of Interest (EoIs) to assess whether the market could deliver the activities in Fig. 10 above. The call was openly advertised in social media and distributed widely through Embassy and DIT networks. Interested parties were invited to learn more about the potential PF opportunities in Colombia at a workshop at HMA's Residence on 6 October 2016. In total, 160 invitations were sent out and 104 replied positively. On the day, 40 people attended in person. The others were based in the UK and unable to attend in person. At the workshop, a full presentation of the proposed programme was showcased followed by Q&A.

Following the workshop, all 104 respondents, a mixture of Colombian and UK companies and NGOs, were sent ToRs and encouraged to submit proposals by 25 October 2016. In parallel to the call for EoIs, the Embassy approached international (WB, IFC, IDB, CAF) and national development banks (Findeter, FDN, Fonade) and relevant UN agencies (FAO and UNDP) to ascertain their interest in submitting proposals. They received the same brief as the other organisations and were also told to apply by the 25 October deadline if interested.

Over 30 proposals were received and assessed against the following criteria:

Impact:

A - ability to achieve activities, outputs and outcomes; and

B – ability to tailor activities and approaches to maximise potential benefits.

Value for Money:

A - cost competitiveness in achieving the volume and quality of activities and outputs that will deliver the outcomes anticipated, including activity costs and administrative fees.

Capability and Capacity:

A - demonstration of expertise, networks, and resource available to deliver the activities and outputs anticipated, including experience of implementing donor funded programmes at scale in Colombia;

B - potential for early implementation of programmes;

C - ability to ensure fiduciary standards; inclusion and gender compliance; and environmental and social safeguards; and

D - ability to deliver multiple strands of the programme under a single contract to reduce administrative burden on the Embassy.

In summary, the EoI process helped to determine which suppliers had the capacity to deliver specific interventions for the best VfM. It also revealed that the multilateral development banks offered the best mix of direct experience, proven track record and the lowest management fees. In this respect, the EoI assessment also helped direct the Embassy PF Team to the conclusion that direct award rather than an open competition would achieve the desired programme outcomes. The specific implementing partner for each proposed PF activity and the corresponding procurement route are set out in Figure 11.

Figure 11: Recommended implementation partners

Implementing Partner	Brief Description	Priority Sectors	Form of Procurement
Development Bank of Latin America (CAF)	Independent multilateral bank set up in 1970 and operating in 17 countries in Latin America and the Caribbean; **managed US$35bn of funding in 2016 including US$86mn of technical cooperation**; 80 staff in Colombia and 850 in the Americas; 2016 independent audit carried out by Deloitte	Local government capacity building; PPP executive agency development; Agri-insurance	MoU
Colombian Financial Institute for Development (Findeter)	Government owned development bank set up in 1989 and operating in 23 Colombian Departments; **managed US$2.8bn of funding in 2016 including US$21.8mn from donors**; over 500 members of staff (60% women); 2016 independent audit conducted by E&Y	Urban development; Rail development; Anti-corruption	MoU

Innovate UK partnering the International Center for Tropical Agriculture (CIAT)	Agency of UK's Business, Energy and Industrial Strategy (BEIS) Department; **managed £777.8mn of funding in 2016 including £224.5mn in delivery partnerships**; 300 members of staff; subject to standard HMG auditing procedures	Agri-technology and innovation	MoU

Additional, important factors emerged from the EoI process. First, there is significant capacity and appetite across a range of implementing partners to deliver the activities and outputs expected. However, while there is strong capability in the private sector to deliver each of the components on their own, only a small number of companies can manage all or several of the sectors. In general, the **development banks are best placed to manage multiple components** and demonstrated the highest capability. Compared to their competitors, the strongest development banks were CAF[23] and Findeter[24]. They showed greater ability to: tailor the programme to deliver the expected activities and benefits; manage a coherent combination of components to reduce the risk of fragmentation and burdensome administration; and utilise extensive networks and experience increasing the likelihood of early and effective implementation.

In the case of agriculture technology and innovation, **the challenge fund approach was judged the most appropriate** for Colombia's needs. It also offers the best potential to partner UK and Colombian organisations. Innovate UK currently operate a £10 m challenge fund model for DFID which supports similar services in agri-tech in DFID footprint countries. Innovate UK has a proven track record and a significant advantage in the ability to get the programme up and running quickly as the infrastructure and framework already exist. Innovate UK will partner with the International Centre for Tropical Agriculture (CIAT), world-leading experts based in Colombia, and represent Agri-tech Catalyst in-country. They have exceptional networks ideal for supporting partnerships between UK and Colombian organisations. CIAT has also managed a number of successful programmes for DFID in the past. In July 2017, the FCO's Commercial Procurement Group (CPG) approved, in principle, direct award of a contract between the Embassy and CIAT. This is because Innovate UK is unable to sub-contract implementing partners directly and the value of the award over 3 years is modest.

C. Contracting route

The three main recommended implementing partners are national or multilateral institutions. As confirmed in writing by the Prosperity Fund Delivery Unit (PFDU) to CPG in February 2017 an acceptable route to secure and agree services with such partners is through a Memorandum of Understanding (MoU). The Cabinet Office Government Grants Minimum Standards (GGMS) states that, while grants should be completed by default, exceptions may be approved where competition would not be appropriate. It offers the following examples:

- Awarding a grant to an organisation which inhabits a unique position or a particularly specialist function; and
- Awarding a grant to an organisation which has a track record of excellence in a particular area.

[23] CAF is a multilateral development bank covering Latin America. They have experience in managing donor funds, and particular strengths in institutional capacity building and governance. They have previously worked with ANI on PPP development and were an implementing partner for the initial phase of the Presidency's capacity building programme.

[24] Findeter is the national development bank responsible for financing infrastructure and cities, and already run a programme to support sustainable cities, meaning they have excellent links with mayors and a track record in delivery of urban development and transport programmes.

DFID SMART Rules also explain that DFID formalises arrangements with multilateral development banks using standard MoUs. In the case of other UK government departments, the Other Government Department MoU may be used.

As there will be no going to market for the three proposed partners, it was critical that rigorous due diligence (DD) be conducted during the Outline Business Case (OBC) stage. The DD was compliant with HMT guidelines and assessed the proposed implementing partners' suitability to manage UK tax payers' money. It did this by testing each agency's: governance; creditworthiness; accountability; financial viability; risk management and control including of fraud; and capability, track record and credibility.

In the case of the proposed Colombia PF programme, the advantages of MoUs over open tenders were substantial:

- The EoI experience taught us that development banks consistently offer better VfM over the private sector;
- If MoUs with preferred partners exist already or are being planned (i.e. with Innovate UK on the PF global infrastructure programme), we can look to join forces and reduce costs; and
- The three proposed partners have proven track records in their areas of expertise and annually manage billions of dollars audited independently by the BIG 4 accounting firms. CAF is the largest funder of infrastructure in Latin America; bigger than the WB, the IDB or the Caribbean Development Bank. Findeter has the largest infrastructure programme in Colombia's second tier cities and Innovate UK is successfully managing DFID's £10mn Agri-tech Catalyst in Africa, Asia and the Middle East.

The FCO Americas and Economic Diplomacy Directors approved the MoU route for the proposed Colombia PF programme as did the PF Portfolio Board when it approved the OBC on 8 March 2017. The MoUs have a number of standards features, similar to those for a grant contract, to ensure implementing partner performance and set out roles and responsibilities. Legal Directorate and CPG in FCO London approved the MoUs in August 2017 after ensuring the MoUs were clear, legally correct and contained all necessary provisions for effective delivery of the programme.

MoUs include provisions covering:

- Programme start and end dates
- Indicative payment schedule, conditions for such payments to be made, payment by results/milestone achievements where possible, provisions for claw-back of funds, and payment request procedure, based on status of delivery and spend statements Arrangements for separate management of funds
- A clear indication of how HMG resources will be spent
- Eligible and non-eligible expenditure
- Financial and impact reporting schedules, and monitoring and evaluation requirements including for gender equality and differentiated impact on women and men
- Responsibility for due diligence, VfM standards and management of subcontractors/challenge fund grantees
- Responsibility for social safeguards including IFC Performance Standards on Environmental and Social and Sustainability and child safeguarding and protection
- International Development and Gender Act compliance requirements
- Governance arrangements
- Procedures for making changes to project documentation or agreements
- Independent audits
- Accountability and indemnity
- Consultation, communications and branding for programme activities

- Joint working with relevant HMG and UK-funded programmes such as the thematic PF programmes
- Joint working with the MREL providers in the UK and any interim M&E indicators implementing agencies may need to monitor before the MREL contracts are fully operational
- Intellectual property and data protection policy
- Fees and charges
- Basis and process for full or partial termination and dispute resolution, including initial and mid-programme review points.

Annexes to the MoU that form part of the agreement include:

- Full Business Case
- Project delivery plan, including defined deliverables and quality standards
- Results framework, KPIs and progress against primary and secondary benefits and gender inclusion targets
- Activity Based Budget
- Risk management framework

The Management Case describes how proactive MoU management will ensure delivery of outputs and outcomes according to the agreed time line and what steps will be taken if implementing agency performance is not acceptable. Although MoUs are not usually legally enforceable, they can be used by donors to highlight poor performance and to unilaterally terminate partnerships in worst case scenarios.

D. Ensuring implementing partner performance

i) Implementation of institutional capacity building and agri-insurance interventions

ii) The Embassy carried out due diligence (DD) and reviewed CAF's external audits, these were then reviewed by the Commercial and Procurement Department in London assuring CAF's suitability as an implementing partner. The Embassy also negotiated the MoU with CAF to manage funds and deliver the services set out in section A of the Commercial Case. The final MoU and supporting documents were also approved by the FCO Investment, Infrastructure and Operations Committee (IIOC) in July 2017 and the FCO Management Committee (ExCo) in September 2017. The MoU is scheduled to be signed in November 2017.

Payment mechanisms

The GGMS states that it is expected that grant funding will reflect need and avoid paying significant portions of funding up-front except where it can be justified. As the DFID SMART Rules point out, DFID aims to make payments in arrears wherever possible although it is possible to make advance payments when working with not-for-profit organisations. The SMART Rules add that, in practice, it is possible to make advance payment for partner activities in order to enable programmes to operate effectively as long as this represents VfM and has sufficient safeguards. **For multilateral partners, this is often standard practice to enable them to enter into subcontracting commitments.** When the BC goes up to HMT for approval the advance payments issue will be flagged.

CAF and Findeter have provided written evidence that they require advance payments. To reduce financial risks, these would be quarterly in advance. After the first quarterly payment, all subsequent payments will be contingent on delivering the agreed outputs and milestones for the previous quarter and adjusted to take into account any unspent funds based on a 'status of grant' statement provided by CAF.

Sub-contracting

CAF will implement some of the programme interventions and procure others. It is their policy to conduct open and competitive tendering for contracts valued at more than US$250,000. We will investigate the possibility of bringing this ceiling figure down to UK public contract regulations during MoU negotiations. We will ensure that CAF takes appropriate steps to ensure the widest potential pool of contractors, including international and UK companies, can compete for these contracts to drive VfM. Where CAF is implementing activities with in-house resources, we will use benchmarks obtained from the EoI assessment to assess proposed budgets. All sub-contracting will need to adhere to HMG guidance on DD and agreed performance and VfM indicators. A member of the Colombia PF Team will normally participate in selection of subcontractors to ensure agreed standards are adhered to. CAF has indicated it will allocate full time staff to manage UK resources and achieve agreed outcomes. Subcontracting liability will rest with CAF.

iii) Implementation of infrastructure and open procurement / anti-corruption interventions

iv) The Embassy carried out DD and reviewed external audits; these were then reviewed by the Commercial and Procurement Department in London to confirm Findeter's suitability as an implementing partner. The Embassy also negotiated an MoU with Findeter to manage funds and deliver the services set out in section A of this Commercial Case. The final MoU and supporting documents were approved by the FCO IIOC and ExCo. The MoU is scheduled to be signed in November 2017.

Payment mechanisms

Like CAF, we expect payments to be made quarterly in advance. Each further quarterly payment will be contingent on delivering the agreed outputs and milestones for the previous quarter, and adjusted to take into account any unspent funds based on a 'status of grant' statement provided by Findeter.

Sub-contracting

Findeter will implement some of the programme interventions and procure others. Procurements will follow Findeter policy for open and competitive tendering of contracts in accordance with international best practice (in this case the IDB). Findeter will take appropriate steps to ensure that the widest pool of contractors, including international and UK companies, can compete for these contracts to drive VfM. Where Findeter are implementing activities with in-house resource, we will use benchmarks based on information gathered in our EoI assessment to assess proposed budgets. All sub-contracting will need to adhere to HMG guidance on DD and agreed VfM indicators. A member of the Colombia PF Team will normally participate in selection of subcontractors to ensure agreed standards are adhered to. Findeter has indicated it will allocate full time staff to manage UK resources and achieve agreed outcomes. Subcontracting liability will rest with Findeter.

As a result of the recommendations made by DFID's Governance, Open Societies, and Anti-Corruption (GOSAC) Department on this BC, Findeter will work with Open Contracting Partnership to implement the open procurement activities. Similarly, given recommendations on the BC from DFID India, Findeter and the Embassy will work together to secure Colombia's membership of the Construction Sector Transparency Initiative (CoST). The background to these recommendations is described in more detail in the Management Case below.

v) Implementation of the agriculture technology and innovation challenge fund "Agri-tech Catalyst"

vi) As Innovate UK already work in partnership with CIAT on a Newton-Caldas Fund grant, the existing CIAT DD should be acceptable though this will be checked. Once DD checked with the Newton Caldas Fund, then the grant arrangements with CIAT will go ahead. The Embassy negotiated an MoU with Innovate UK based on the Agri-tech Catalyst model used by DFID to manage funds and deliver the services set out in section A of this Commercial Case. The final MoU and supporting documents were approved by the FCO IIOC and ExCo. The MoU is scheduled to be signed in March 2018. All challenge fund awards will need to adhere to HMG guidance on DD and agreed VfM indicators. A member of the Colombia PF Team will normally participate in selection of grantees to ensure agreed standards are adhered to. Innovate UK has indicated it will allocate full time staff to manage PF resources and achieve agreed outcomes. Challenge fund liability will rest with Innovate UK / CIAT.

Payment mechanisms

We expect Innovate UK and CIAT to invoice quarterly in arrears for costs incurred in delivering agreed activities and outputs.

E. Implementation Timetable

An implementation timetable is provided at Figure 13.

Figure 13: Expected Implementation Timetable

	H1 '17	H2 '17	H1 '18	H2 '18	H1 '19	H2 '19	H1 '20	H2 '20
Due Diligence								
MoU Negotiation								
PF Staff Recruitment								
Full BC Approved								
MoUs signed								
Implementation								
Coordination with DIT								
6 Month Review		X						
Mid-term Review				X				

As indicated in the Option B Secondary Benefits Table on the Appraisal Case, opportunities for international business, including UK companies, will start off slowly in years 1 and 2, pick up in year 3 and then rise more rapidly from year 4 onwards as the primary benefits to Colombia really take effect. We will coordinate on these opportunities across the Embassy especially with DIT and the Economic Diplomacy Team. A three way Board has been set up to meet monthly. DIT has employed a full time coordinator whose main objective is the follow through on secondary benefits created by the Colombia PF Programme. We will also coordinate with FCO and DIT teams in the UK. Where possible we intend to strengthen the secondary benefit impact of the Programme with complementary non ODA resources. For example such funds might be used to co fund trade missions and company training in the three proposed priority sectors. The communications Strategy in the Management Case explains how we will communicate and work with UK companies.

Financial Case

A. Expected budget

To forecast costing we assessed: examples of similar programmes; indicative budgets provided in expressions of interest (EoIs); and cost estimates provided by relevant Colombian government departments.

The proposed annual budget is set out below (Fig. 14), broken down by component and by year. We will seek co-funding from beneficiaries across all elements of the programme to maximise the impact of the programme and ensure beneficiaries have 'skin in the game'. The most likely sources of funding, given constraints on government budgets at the national level, are participating local governments. We forecasted co-funding for the capacity building and cities programmes at 20% of project costs and 10% for other programme elements[25]. The final forecast budget will be determined following negotiations of MoUs with implementing partners and submitted in the full Business Case.

We have also included forecasts for: staff costs based on the staffing model set out in the Management Case; Embassy administration including travel; communications and dissemination work; and support to reform select Colombian regulations and policies that will most assist in meeting the Programme's primary and secondary benefit targets.

Figure 14: Forecast Programme budget £mn

Component	FY2017	FY2018	FY2019	FY2020	Total
Urban Development	0.46	1.84	2.7	1.7	6.7
Rail	0.22	1.68	1.7	2.0	5.6
Open Procurement / Anticorruption	0.1	0.2	0.2	0.2	0.7
Total Value of Contract: Findeter					*13.0*
Capacity Building	0.09	1.76	1.35	1.0	4.2
PPP executive agencies	0.0	0.115	0.115	0.00	0.23
Agri-insurance	0.12	1.21	0.75	0.67	2.75
Total Value of Contract: CAF					*7.18*
Agri-tech Catalyst	0.1	1.76	0.59	0.55	3.0
Total Value of Contract: Innovate UK					*3.0*
FCO Staff Costs	0.17	0.52	0.52	0.53	1.74
Gender and Financial Expertise	0.035	0.041	0.041	0.041	0.16
FCO Delivery Costs	0.02	0.06	0.06	0.06	0.2
Communications and Dissemination	0.01	0.03	0.03	0.03	0.1
Policy Reform Support	0.02	0.04	0.03	0.03	0.12
Total Cost	**1.35**	**9.22**	**8.12**	**6.82**	**25.5**

Notes: (1) Programme costs are shown in constant 2016 amounts;
(2) Inflation is included in FCO local staff and delivery costs based on current rate of 7.27%;
(3) Transitional Funding (April to September 2017) of £0.5mn is not included; and
(3) Rounding errors may occur.

[25] This is based on experience with previous prosperity fund programming in Colombia. The only component where this is not the case is the Agri-tech Catalyst as the programme costs are the level of grants required, not including the co-funding requirement of grant recipients included in the Agri-tech Catalyst model operated for DFID which will be over and above the listed budget.

B. Cost drivers and risks

The main cost across the programme is advisory services to deliver the technical assistance and capacity building activities. We expect to manage these costs in three ways: (i) assessment of VfM during initial selection of delivery partner; (ii) where relevant, implementing partners will be running competitive tenders to ensure best value for money, assessing costs against benchmarks and reducing costs where possible; and (iii) contracts and MOUs will also be based on milestone payments contingent on delivery of outputs to ensure we are delivering results for our money. On this last point, during negotiations on the main MoUs, we would seek to agree payment systems with implementing partners and their sub-contractors whereby 90% of payment, for example, would be based on costs while the remaining 10% is for achievement of agreed milestones.

Embassy costs for delivering the programme make up <6% of the total budget which we consider to be reasonable to ensure effective management of contracts and delivery of secondary benefits. This percentage includes staff costs (mostly local hires) for the planned Embassy team, expected travel costs associated with management of the programme and communications activities. Given the regional focus of the programme some domestic travel within Colombia will be required.

The programme represents a significant increase in scale for the Embassy in Bogota. Therefore the main financial risk is under-spend if interventions take longer to reach implementation than planned. We will mitigate this risk, with a strong PF programme manager and team combined with oversight by HMA as SRO. Working closely with implementers, the PF team will prepare and regularly review budget forecasts with a view to keep up programme momentum and address challenges as they appear in real time.

A second possible risk is over-programming that leads to overspend. As the proposed programme will employ flexible and adaptive management to best respond to the evolving context, this tool will also apply to financial management. Based on experience, it is often the case that some activities excel whereas others suffer from delays and complications. Were an over spend to occur, we would look to trim back on the activities experiencing the most challenges and concentrate on those interventions garnering the most success.

The third key risk is that funded activities do not translate into the primary and secondary impacts envisaged. As set out in the commercial case, we have selected implementing partners with a strong track record in delivery and will utilise payment mechanisms and review/break points in agreements to ensure we keep control of funds and increase the chances of delivering gender sensitive results and VfM.

A fourth risk relates to currency and exchange rates as there is a high chance that volatility will continue in the UK given the Brexit negotiations over coming years. We will mitigate this by agreeing that implementers bear currency risk and then work with them to help manage any changes to the levels of service and consequent effect on outputs and impacts.

Finally, we have forecast co-funding across all elements of the programme. Based on experience and consultation with implementing partners we consider this level of co-funding to be realistic and achievable. However, if co-funding is not secured this will impact the scale of activities that the programme can deliver and consequent impacts achieved.

C. Financial Management

HMA Bogota will be the SRO for the programme and hold the budget once approved by HMT/Cabinet Office and FCO in accordance with delegated authority transmitted from Cabinet Office/HMT through FCO PUS. Americas Director will delegate responsibility for routine management of the programme to HMA in a letter of delegation which will, inter alia, provide direction on: over-programming; moving funds between programme strands; reporting; procurement; financial management; and staffing.

Implementing partners will be paid on a quarterly basis according to a budget based on agreed activities and milestones. Implementing partners will also be accountable for providing quarterly impact and financial reporting which the Embassy will collate and submit to the Americas Directorate.

Auditing

The Embassy will conduct DD assessments on implementing partners before signing MoUs and contracts to ensure appropriate financial, fraud and anti-corruption controls exist in these organisations. During the life of the programme on-going spot checks will also be employed. We will also mutually agree on the additional human resources and expertise each partner will require to successfully implement each of the programme interventions.

We will adopt a staged approach to implementation with review points for each intervention to ensure effective programme delivery before committing funds in future years. We will agree independent annual audits with each implementing agency. The Embassy will look to contract a qualified, independent financial expert to review quarterly and annual reports and to participate, as appropriate, on the internal programme review board (see Management Case).

Management Case

A. Management approach

Quality assurance

The Colombia PF BC including the Commercial Case (MoUs with three proposed implementing partners) has been through seven stages of quality assurance: i) the original Concept Note was approved by FCO Minister Sharma in July 2016; ii) the OBC was approved by the PF Portfolio Board in March 2017; iii) PFDU conducted an in-depth scrutiny of the OBC in April 2017 and this resulted in a significant revision of the text in May; iv) the FCO IIOC reviewed the commercial plans (direct award via MoUs) in June 2017 and then approved the MoUs the following month on the condition that both FCO legal and procurement teams provided final written assurances; v) FCO Legal Directorate and CPG sign off MoUs in August 2017; vi) ExCo approved BC in early September 2017; and vii) FCO economists gave a final revision of the primary and secondary benefit calculations in October 2017.

DFID's Governance, Open Societies and Anti-Corruption (GOSAC) Department has a new Fiscal Accountability, Transparency and Oversight (FAST) Programme[26] that aims to increase budget transparency and to strengthen oversight in DFID partner countries. The Senior Responsible Officer (SRO) provided advice to BE Bogota on how our PF activity to incorporate transparency into public procurement in Colombia's regions (worth £700K over 4 years) could establish and demonstrate the value of a more level playing field. The SRO specifically suggested looking at what the Open Contracting Partnership (OCP) could do to support the PF programme in Colombia. Currently, OCP is working with the national procurement agency Colombia Compra Eficiente (CCE - meaning Colombia Buys Efficiently) to embed the Open Contracting Data Standard (OCDS) and other international best practice standards within central government procurement systems. In addition, Colombia is one of five countries supported by OCP in the Contracting 5 Initiative (also includes UK, France, Mexico and Ukraine). The initiative aims to "move global policy and practice beyond e-procurement to a concept of open procurement (o-procurement) where, by default, accessible, timely, comprehensive and interoperable data can unlock innovation and entrepreneurship across societies" (from the Contracting 5 Declaration). Colombia made the commitment to introduce the standards as part of the London Anti-Corruption Summit in May 2016. Since then it has earned plaudits for achieving full open contracting implementation.

As a direct result of the SRO's advice, the Embassy is developing an agreement with OCP, CCE and our local implementing partner Findeter to roll out the open contracting standards from central government to the regions where substantial procurement takes place. The OCP approach will also consider the implications of power asymmetries at the regional level and how to address these as recommended in the WB Governance Report. The Embassy is currently funding a study to identify the cities and regions where the UK's PF resources should be invested. The study will highlight those locations where political commitment is high and where governance improvements are already taking place. PF open contracting support, incorporating the OCP tools and technical assistance, will be provided to those regions demonstrating the drive for better governance. In addition, the Embassy will work with GOSAC and OCP to bring broader lesson learning to

[26] DFID's Fiscal Accountability, Transparency and Oversight (FAST) Programme is worth £16.4m over 5 years (2017 to 2022). It aims to deliver improvements in budget transparency and oversight in order to strengthen macroeconomic stability, improved accountability, reduced corruption and ultimately improved service delivery and reduced poverty. It has 2 pillars: i) more transparent budget systems to drive fiscal transparency especially in government contracting; and ii) more accountable budget systems to support more effective supreme audit and civil society strengthening with an emphasis on closer working between accountability institutions.

Colombia's regions and to create synergies with the DFID FAST Programme. The SRO has agreed to be a peer reviewer of the Colombian open contracting activity and we plan to use Annual Reviews of both programmes to learn and share knowledge, and to adapt the focus of our work in response to lessons learned.

DFID India has two programmes with relevance to the Colombia PF urban development activity (worth £6.7m over 4 years): i) Smart Urban Development in Indian States (SmUDI); and ii) Technical Assistance for Smart Cities (TASC)[27]. The SRO of these programmes highlighted the similarities between TASC and the planned second-tier cities work in Colombia. He provided advice on how best to ensure: i) delivery of good quality infrastructure projects at lower cost; ii) increased predictability of outcomes combined with greater transparency; and iii) better value for money in public infrastructure investments. He also shared how identification of all stakeholders and their integration into the governance structures of urban infrastructure projects can increase social impact and success rates. In response to these recommendations, the Embassy is looking at seeking a partnership with the Construction Sector Transparency Initiative (CoST). As a first step, resources have been identified to conduct a scoping study to explore the potential for Colombia to become a member of CoST and to provide advice on how to safeguard the infrastructure investments of the PF Programme. The SRO has agreed to be a peer reviewer of the Colombian urban development activity and, time and resources permitting, support the first Annual Review (AR) of the Colombia PF programme. Similarly, the Embassy will look at supporting the ARs of the two DFID India Programmes to further embed cross lesson learning.

Management and governance

The approach to management and governance of the programme represents a significant change to the existing structure for delivery of prosperity funding in Colombia, reflecting the step change in scale and impact of programmes. The proposed structure (Fig. 15) aims to:

- Maximise the potential impact of the programme through implementation being managed and delivered by third parties with the expertise and resources to deliver a programme of the scale envisaged and to deliver VfM through outsourcing delivery and achieving economies of scale in contracts;
- Ensure that there is clear responsibility for oversight and management to proactively monitor delivery and manage risks effectively; and
- Ensure there is the necessary capability and expertise in the Embassy to manage contracts effectively, lead on complementary activities that cannot be delivered by implementing partners and deliver on central requirements for reporting, evaluation and communications.

Programme management

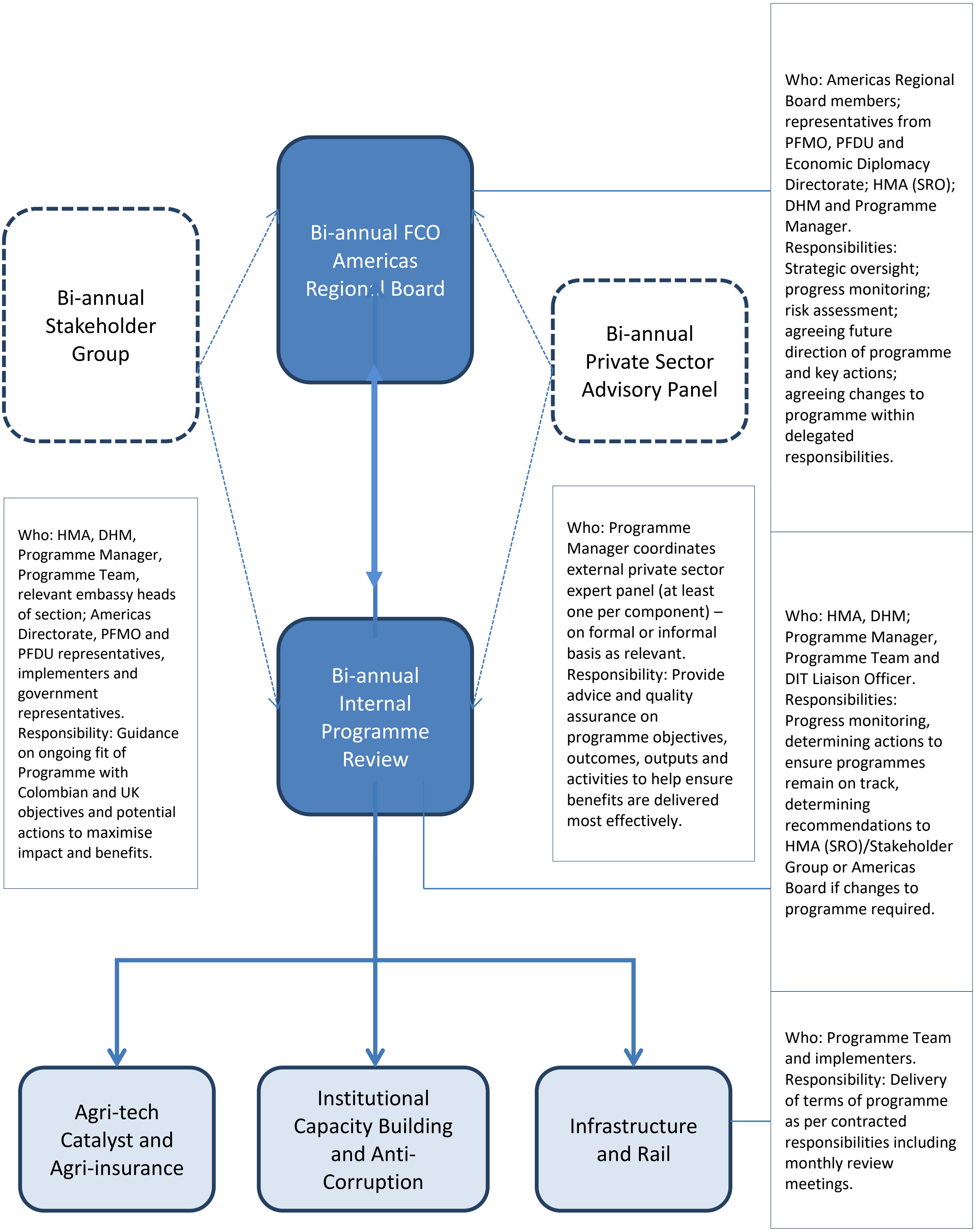
The PF Team in Bogota will adhere to the DFID SMART Rules in all aspects of programme management. We will also follow guidance provided in the FCO's Managing Successful Programmes (MSP) training. When necessary, the Team will refer technical issues to experienced colleagues in the UK and Americas region. An Americas PF reference group has been set up (Colombia, Brazil and Mexico) to meet every 6 months and

[27] DFID India's Technical Assistance for Smart Cities (TASC) Programme is worth £4.98m over 3.5 years (2016 to 2020). Its purpose is to enhance job creation and investment potential of 3 to 6 Indian smart cities. It has 3 main activities: i) establishing a Strategic Advisory Unit (SAU) inside the Ministry of Urban Development; ii) complement multilateral and other financiers of credit; and iii) establish multiple Project Implementation Units (PIUs). The second activity plans to help cities design and develop urban infrastructure projects for funding from lines of credit and includes: (1) project development; (2) institutional strengthening including for SPVs and PPPs; and (3) support for transparency and accountability.

share success stories, lessons learned and best practice in effective programme management. The Group first met in Bogota in March 2017 and will meet again in Mexico City in October this year. Finally, the SRO will draw down on the services of the Gateway Review Process[28] as required.

[28] When a team of external practitioners use their experience and expertise to provide timely, independent and confidential advice at key decision points regarding programme progress and likelihood of delivery success

Figure 15: Governance structure



HMA Bogota will be the SRO for the programme and hold the budget once approved by HMT/Cabinet Office and FCO in accordance with delegated authority. With support from the Deputy Programme Manager, HMA will establish a governance structure at Post to manage delivery and associated risks as detailed above. Terms of Reference (ToRs) for the three main governance bodies (Board, Group and Panel) will be developed. These will adhere to instructions in the letters of delegated authority for the PF issued by Cabinet Office/HMT.

Americas Regional Board (ARB)

Every six months, HMA will report progress on the Colombia PF Programme to the FCO Americas Regional Board. The Board, led by the Americas Director, will respond to issues raised in HMA's presentation and provide strategic direction on the future of the programme. The Board will also work with HMA to resolve any outstanding risks and challenges.

Stakeholder Group (SG)

Embassy, FCO, implementing agency and government stakeholders will meet twice annually (after 2nd and 4th quarters) to review technical progress, finances and adherence to MoU agreements. The SG will also share success stories and lessons learned in addition to ensuring the overall programme remains on track, agree necessary actions, and consider escalation of any serious risks and challenges. HMA will normally present to the ARB within one month of the SG.

Internal Programme Review (IPR)

After 1st and 3rd quarters, Embassy staff will meet with the implementing partners to discuss progress on delivery of objectives, financing and adherence to MoUs. Similar to the twice annual SG, success stories and lessons learned will be shared and solutions for risks and challenges will be discussed. A qualified, independent financial expert will be invited to review quarterly and annual financial reports and participate in the IPR/SG as appropriate. Similarly, a gender expert may be invited to IPR/SG meetings to contribute on gender equity issues and related programme targets. The outputs of the IPR will feed into the quarterly Stakeholder Group meetings.

Private Sector Advisory Panel (PSAP)

A Private Sector Advisory Panel will be convened twice annually (after SG meetings in 2nd and 4th quarters) to provide expert, technical input into the ongoing delivery of the programme. They will also be canvassed for views on trends in trade, market opportunities, on-going difficulties in winning Colombian contracts, priorities for regulatory reform, and advice on achieving PF primary and secondary benefits. Technical advice and recommendations from the PSAP will be fed into the following IPR/SG.

Internal Ad Hoc Programme Review Meetings

At any time deemed necessary, Embassy or FCO staff may call an internal ad hoc review meeting to discuss important PF investment decisions as well as urgent or outstanding issues which require resolution. In addition, SG, IPR and PSAP meetings may be convened more frequently if required and the Programme Team will be responsible for escalating issues and decisions to the relevant level of authority as necessary in accordance with delegated authorities and ToRs.

Weekly Cluster Meetings

A weekly 'cluster' meeting chaired by the Programme Manager will be the main internal mechanism to review progress and identify areas for improvement/additional support. Once a month, an extended cluster meeting will report to HMA and DHM. This will be a two-way exchange for HMA to remain informed and to influence strategy, policies and programme activities.

Day to day implementation of programme activities will be managed by the lead implementing partner as identified in the Commercial Case. They will have monthly or more frequent review meetings with the appropriate PF Team members to ensure activities remain on track and decisions on implementation are consistent with maximising the objectives set out in the Business Case and MoUs. Any implementation challenges will be picked up and addressed (i.e. agreement on required action) during the monthly meetings. Implementers will be responsible for quarterly and annual technical and financial reporting. The relevant PF Team member will be responsible for: outreach and business engagement; conducting annual reviews; ensuring recommendations are implemented in a timely fashion; and escalating issues and risks to the appropriate decision-maker if required.

Alongside MoUs with implementers, we also expect to sign MoUs with the relevant Colombian government departments and the city mayors / regional governors where we are supporting urban / regional development to ensure their engagement with the programme and longer term relationship with the UK.

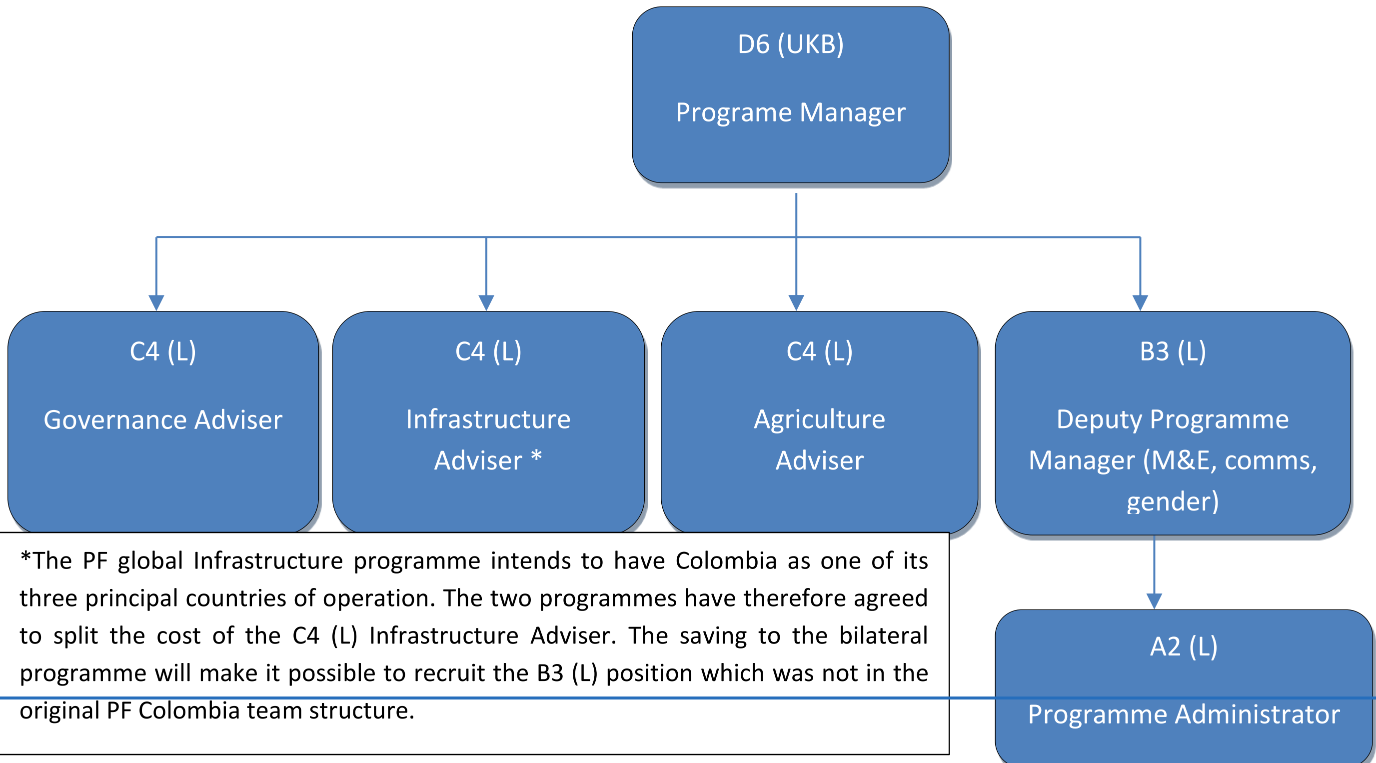
Staffing

This bilateral programme represents a large uplift in BE Bogota programming activity. Therefore it is necessary to bolster the team to ensure effective management. There are three key areas where additional expertise will be required:

- On the priority sectors of state capacity building and anti-corruption, infrastructure and agriculture to ensure the embassy is an 'intelligent customer' of the activities delivered;
- On contract / MoU management capability to ensure implementing partner agreements are proactively and effectively managed delivering the outcomes expected; and
- On benefits realisation so that impact and spill over benefits are maximised. Given that the secondary benefits are largely indirect, effort will be required to ensure that international business, including UK companies, are aware and engaged in potential opportunities created via programme activities and outcomes.

The current programme team is small: 1 x D6 (UKB), 1 x B3 (L) and 1 x A1 (L). The proposed staffing for years 2-5 is set out in Figure 16. It increases the headcount by 3 people – all at the C4 (L) level.

Figure 16: Proposed structure of the Embassy Programme Management Team



*The PF global Infrastructure programme intends to have Colombia as one of its three principal countries of operation. The two programmes have therefore agreed to split the cost of the C4 (L) Infrastructure Adviser. The saving to the bilateral programme will make it possible to recruit the B3 (L) position which was not in the original PF Colombia team structure.

The proposed composition will add necessary technical expertise and programme management capacity for each of the priority sectors. It will also ensure effective capability in: programme governance; M&E management; proactive communications; and gender equity integration.

Figure 17: Roles and responsibilities of Programme Management Team

Position	Responsibilities
Programme Manager	- Oversight of Programme including risk management - Representation of programme externally - Team management and weekly cluster meetings - Coordination with DIT and Economic Diplomacy Teams - Coordination with other programmes (CSSF, Newton-Caldas, ICF, HR) - Achievement of primary and secondary benefits - Overview of International Development and Gender Act compliance - Resolution/escalation of outstanding issues, risks and challenges
3 x Technical Advisers	- Technical advisers and programme managers for quality assurance and effective delivery - Managers of implementing partners, MoUs and subcontracts - Broader stakeholder engagement and outreach (government, private sector, other donors) - Conduct Annual Reviews
Deputy Programme Manager	- Manage programme governance (SG, IPR, PSAP) - Coordinating MREL activities - Internal and external communications - Provide gender equity inputs and ensure gender act compliance
Programme Administrator	- Financial Administration (forecasting, budgeting, cost monitoring, online invoicing / receiving, financial reporting) - Adherence to MoUs and subcontracting arrangements by implementing partners including on quarterly and annual reporting commitments - Communications support (writing and publishing communications material) - Team administrative duties (note-taking, recordkeeping, arranging meetings, etc.)

The DHM plays an important role in bringing together the PF, Economic Diplomacy (ED) and DIT teams in the Embassy. The DHM chairs the Economic and Commercial Board (ECB) where the respective team leaders plan the policy and programmatic activities that will help achieve the PF primary and secondary benefits as well as the DIT commercial targets and the ED trade objectives for Colombia. The DHM also chairs the Programmes Board that seeks synergies, collaboration and a coherent UK narrative on all the UK programmes operating in Colombia: PF; Conflict, Security and Stability Fund (CSSF); Newton-Caldas fund for research and innovation; International Climate Fund (ICF) and the Embassy's fund for human rights (HR) initiatives.

The DIT team in Bogota has demonstrated its commitment to help secure the PF secondary benefits by recruiting a dedicated PF Liaison Officer. The Officer will work to embed PF objectives into the Embassy's commercial work and contribute directly to achievement of secondary benefits. We are still waiting to hear how DIT centrally will allocate additional resources to support posts to achieve PF secondary benefits.

In addition to the team at post, it is expected that specialist expertise will be required from time to time. This could include: independent financial expertise to review all financial reports; legal expertise to agree and update MoU documentation; gender expert to review progress on gender targets; and MREL expertise provided by the central PF contract.

B. Risks

The UK has a strong track record of delivery of prosperity programmes in Colombia and robust relationships with government. This provides a good basis for delivery of a large scale programme. The key risks in the programme are:

- Internal HMG budgetary restrictions affecting implementation;
- The planned interventions do not result in the anticipated primary and secondary benefits;
- Change in national and local governments over the duration of the programme;
- Colombian government commitment to, and resourcing for, the proposed programme activities does not materialise;
- Under-performance of implementing partners results in non-delivery of agreed targets;
- The Colombian government's focus on delivery of a major road building programme to the possible detriment of rail infrastructure development;
- Capture by elites of infrastructure and railways resulting in possible blockage to progress;
- Land reform processes which may affect development of the agriculture sector; and
- Security and stability in post-conflict regions.

The risk of the entire programme failing is mitigated through supporting three diverse sectors and delivery partners. During programme design, the Embassy engaged closely with key stakeholders in government, the private sector and civil society to understand potential risks and mitigation measures. As a result, overall programme risks have been reduced because:

- The programme supports national and local government goals and objectives to increase the likelihood of success;
- Of the proposed implementing partners (CAF, Findeter, Innovate UK and CIAT) all but Innovate UK have long-term, deep and productive working relationships with the Colombian government at the national, regional and municipal levels as well as strong track records on delivery in the areas of poverty reduction and economic development;
- The programme addresses key barriers to private sector participation in priority sectors in order to maximise the likelihood of the delivery of secondary benefits for international business, including UK companies.
- The programme has considered and incorporated civil society feedback.

Additional measures to reduce risks and increase the likelihood of success have been built into the design, delivery and management plan for the project, including:

- Additional expertise (3 x C4L) in the Programme Management Team (PMT) to proactively oversee implementation and leverage relationships;

- Proposed Political Economy Analyses (PEAs) in the most challenging sectors, such as rail and agriculture, that will identify key challenges and opportunities at the beginning of the programme and how best to address those throughout implementation;
- Proposed evidence based gender assessments of the differentiated impacts with action plans for follow through on recommendations
- A staged, results based approach to delivery meaning interventions can be halted if they are not on track;
- MoUs and robust governance arrangements to secure active buy-in from key stakeholders and to create the right conditions for successful implementation; and

Risks will be reviewed regularly at cluster meetings, led by the Programme Manager, which will agree if any changes or actions need to be taken, by when, and by whom. Risks and follow-up actions will also be reviewed by participants of the SG, IPR and PSAP meetings. The SRO will update the ARB on any changes to the risk matrix and seek guidance on any outstanding issues that have not been resolved in-country.

A flexible and adaptive approach to programme implementation will allow the PMT to best respond to the evolving context by addressing under-performance early on and by capitalising on areas making the greatest progress. A specific risk to the programme is the potential effect from a change in government following the next elections. The Embassy is planning for the political transition in August 2018 through a cross-Embassy engagement strategy with the emerging presidential candidates and their advisers. We are also horizon scanning and scenario planning for the different outcomes, but do not anticipate that any of the potential winners would markedly affect UK objectives in Colombia. Engagement with the new Colombian government on the PF will remain a cross Embassy priority as it is now.

C. Monitoring and Evaluation

Results framework

An indicative results framework is provided. It outlines the expected impacts, outcomes and outputs of the programme. It also shows how the programme links to the intermediate outcomes of the PF ToC and the UN SDGs. The monitoring, reporting, evaluation and learning (MREL) for this programme will be consistent with the central PF approach to MREL. We will work with the centrally-contracted providers to develop critical indicators for programme level reporting, identifying 'aggregatable' indicators for regular reporting and management indicators to allow programme managers to assess progress and impacts. The programme MREL will be consistent with the programme ToC and the logframe analysis that flows from this. We will report expenditure monthly and impacts (results) quarterly in line with central PF reporting rhythms.

In addition to the logframe, the MoUs with implementing agencies will stipulate that each activity have an agreed work plan and Gantt chart. Combined, all the work plans will create the basis for an overall high level implementation plan that will serve as an additional M&E tool.

Monitoring and reporting

Responsibility for data capture, measuring baselines and reporting primarily sits with the implementing agencies. Quantitative and qualitative data will be disaggregated by sex and differentiate impacts on women and men where appropriate. Indicators will also need to be agreed with the central MREL. The MREL contractor will help identify the data requirement in terms of format and quality. We will work with our stakeholders to ensure that reporting is done in a timely and useful manner.

Reporting frequency and costs

Consistent with PF requirements, we will instruct implementing agencies to develop a quarterly results reporting system that takes into account MREL guidance, particularly around data quality and consistency, as well as the PF Annual Review format. Some reporting costs, such as data capture and measuring baselines, may be charged l, as instructed, to the central MREL budget. The allowable cost for this programme activity is capped at 1% of the total budget allocation.

Evaluation and learning

The programme will have Annual Reviews (ARs) where progress and lessons learned are shared with stakeholders and integrated into the communications strategy. ARs preparations will commence at least 8 weeks before their due date. Preparations will consist of selecting the AR team, their roles and responsibilities and keeping implementing partners fully informed of the process and expectations. Partners will be expected to provide up-to-date progress on: activities; finances; MoU adherence; the risk matrix; and logframe targets. Inclusion and gender impacts (primary benefits) will be monitored and this will require expertise from a local gender expert on the AR team. The AR will visit an agreed number of project sites to meet beneficiaries and stakeholders. The implementers will be expected to organise the visits and contribute logistics support as required (i.e. local transport to communities). Implementers will be presented with the AR draft results and encouraged to provide feedback. A meeting to discuss the issues and recommendations highlighted in the AR will usually be arranged. Following publication of the final AR, the PF Team will work with partners to fully implement the recommendations. Progress on their implementation will be reported on in quarterly and annual reports and monitored by the PF Team.

This programme may be selected by the central PF for an independent evaluation. If so, we will work with the MREL contractor to develop and carry out the work. The overarching evaluation methodology will be decided by the MREL evaluators and we will manage the coordination between stakeholders in-country. If the programme is not selected for a centrally-funded evaluation, we may still decide to conduct our own mid-term evaluation and seek support from the MREL evaluators to do this. We further note that not all programmes are ‘evaluable’ and, as part of the coordination with the MREL contractors, we will put in place best practices on evaluation and learning during the life of the programme.

D. Communications and dissemination

Communications and dissemination of results and lessons learned will be undertaken by the Embassy and by the implementing agencies in coordination with the relevant FCO teams. Communications will be a vital part of ensuring the Colombia PF programme is a total success ensuring the potential positive spill-over impacts and reputational benefits for the UK are realised. Given one of the greatest barriers to international and UK companies doing business in Colombia is the inaccurate perception of risk, communications to this audience on the reality of opportunities will be a vital to achieving the expected PF impacts.

The key ***objectives*** for our communications will be:

- Ensure businesses are aware and able to take advantage of opportunities and access resulting from programme activities;
- Influence national and local policy- decision-makers to ensure effective implementation and delivery of the programme, including maximising potential spill-overs; and
- Use the programme to raise the profile and reputation of the UK in Colombia while facilitating access to stakeholders in national and local government and in the private sector.

Our main ***audiences*** are:

- Colombian local and national government, in particular decision makers in key sectors targeted by the programme;
- Colombian media and citizens;
- Colombian businesses and investors interested in partnerships with international, including UK, companies and;
- UK and international business and investors.

We do not expect to directly target UK audiences beyond potential beneficiaries (i.e. UK companies). However, if there are significant successes resulting from programme activity, we will consult with the PFMO communications team on the potential for informing UK media.

Strategic activities will therefore include:

- Ensuring implementing partners actively design and promote subcontracting opportunities to international businesses including UK companies;
- Communications activities including meetings and presentations with business
- Ongoing engagement with relevant national government departments, governors and mayors of the main primary and secondary cities to raise the profile of programme activities and ensure we are aware of developing opportunities (e.g. major contracts, policy reforms etc.) and corresponding risks; and
- Timely media moments (blogs, tweets, editorials) in Colombia to highlight programme activities and successes to a wide audience capitalising on reputational benefits for the UK.

In terms of ***implementation responsibilities***, communications activities will be co-led by the Programme Management Team and implementing partners. The division of key responsibilities is likely to be as follows:

Embassy:

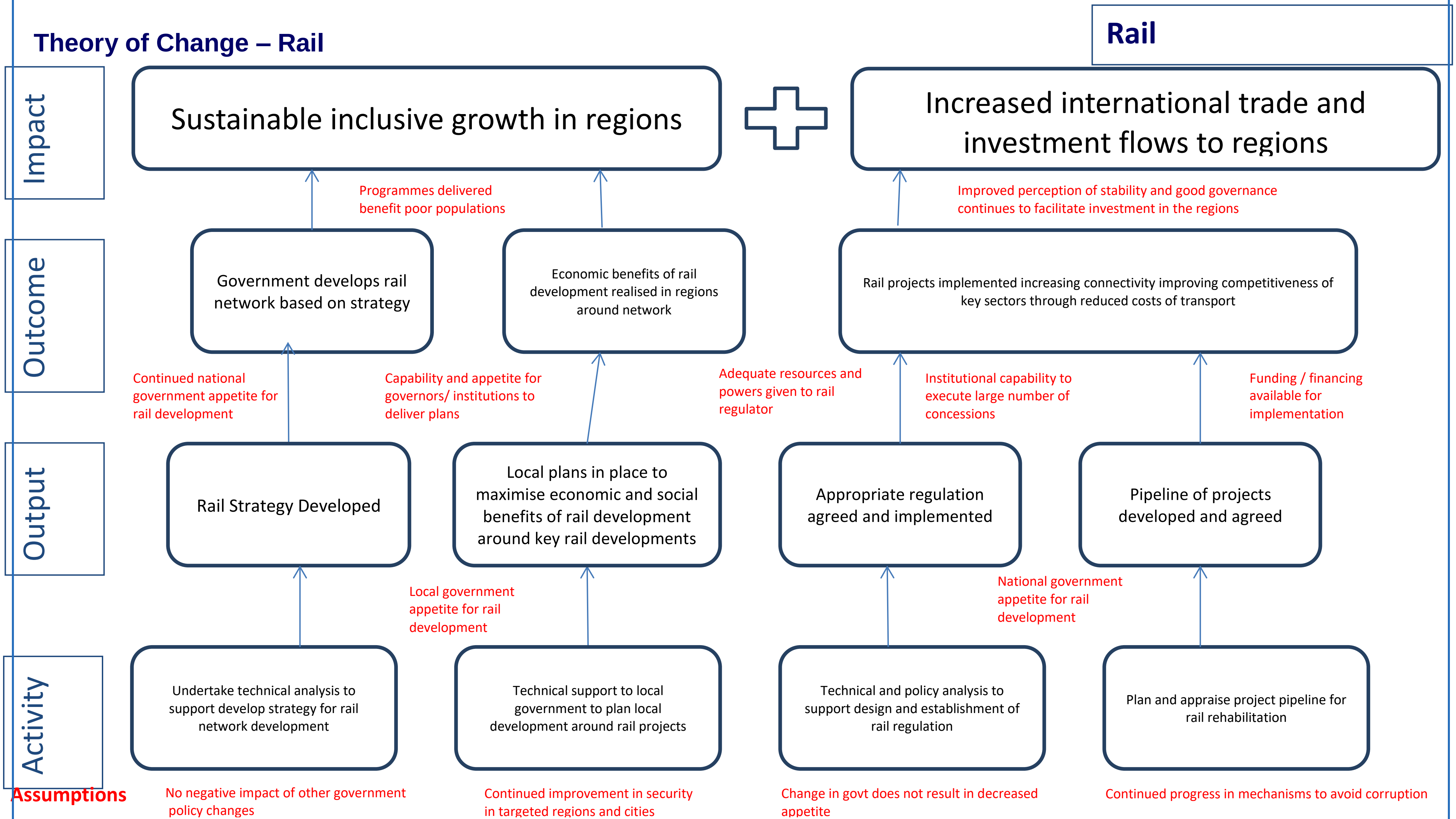
- Develop and continually update strategic communications plan;
- Identify and undertake media publicity for fund activities;
- Identify, and communicate with, companies;
- Ensure programme is promoted through wider Embassy activity and engagement with stakeholders; and
- Coordinate communications activities with implementing partners.

Implementing Partners:

- Engage with sponsoring departments and/or city authorities to ensure activities are aligned with, and embedded in, wider implementation plans;
- Support outreach to potential beneficiaries; and
- Provide information to the Embassy to support wider media activity.

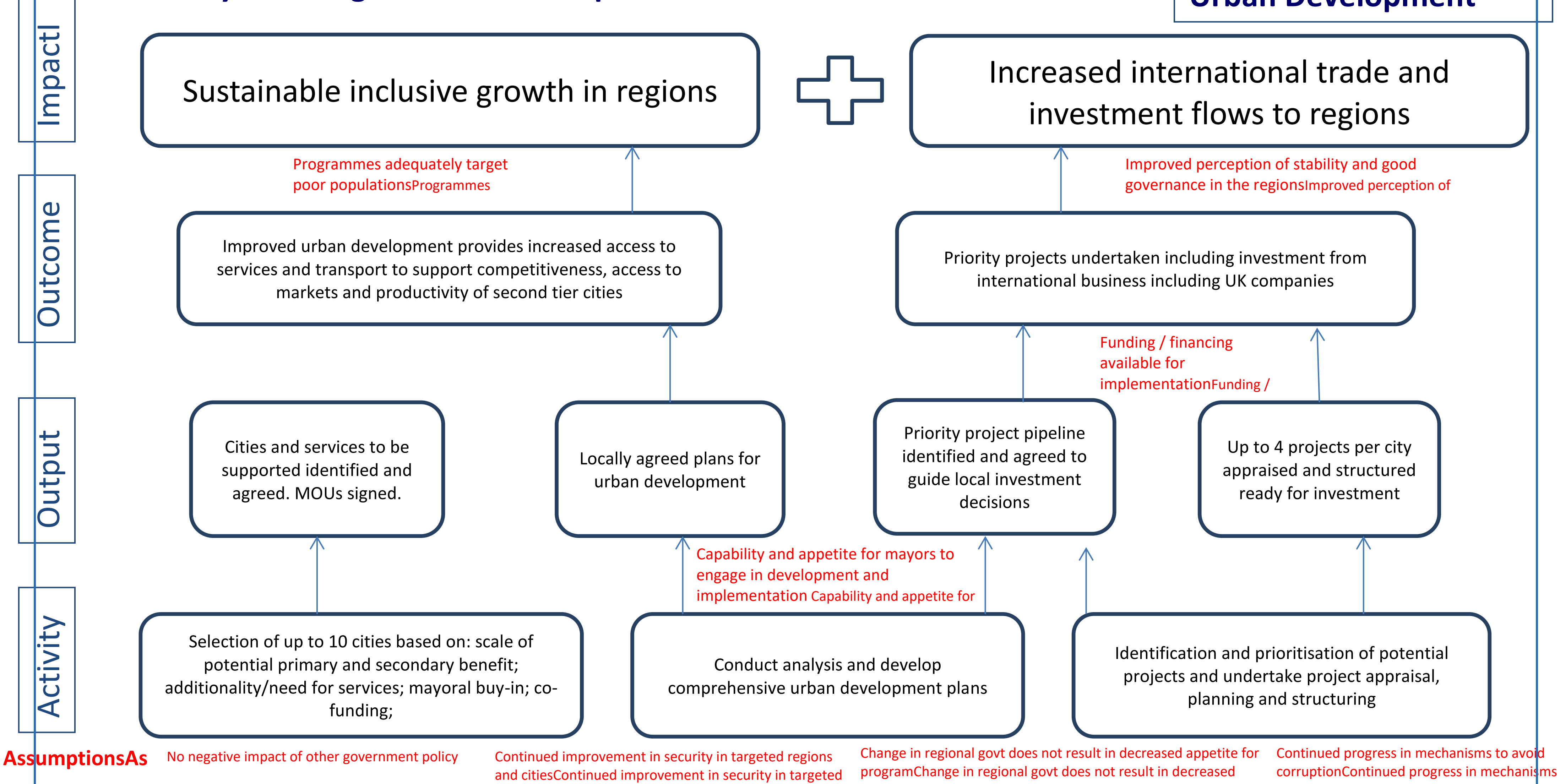
Working with the communications experts in each implementing agency, the development of a detailed communications strategy will be led by the programme communications manager.

Theory of Change – Rail

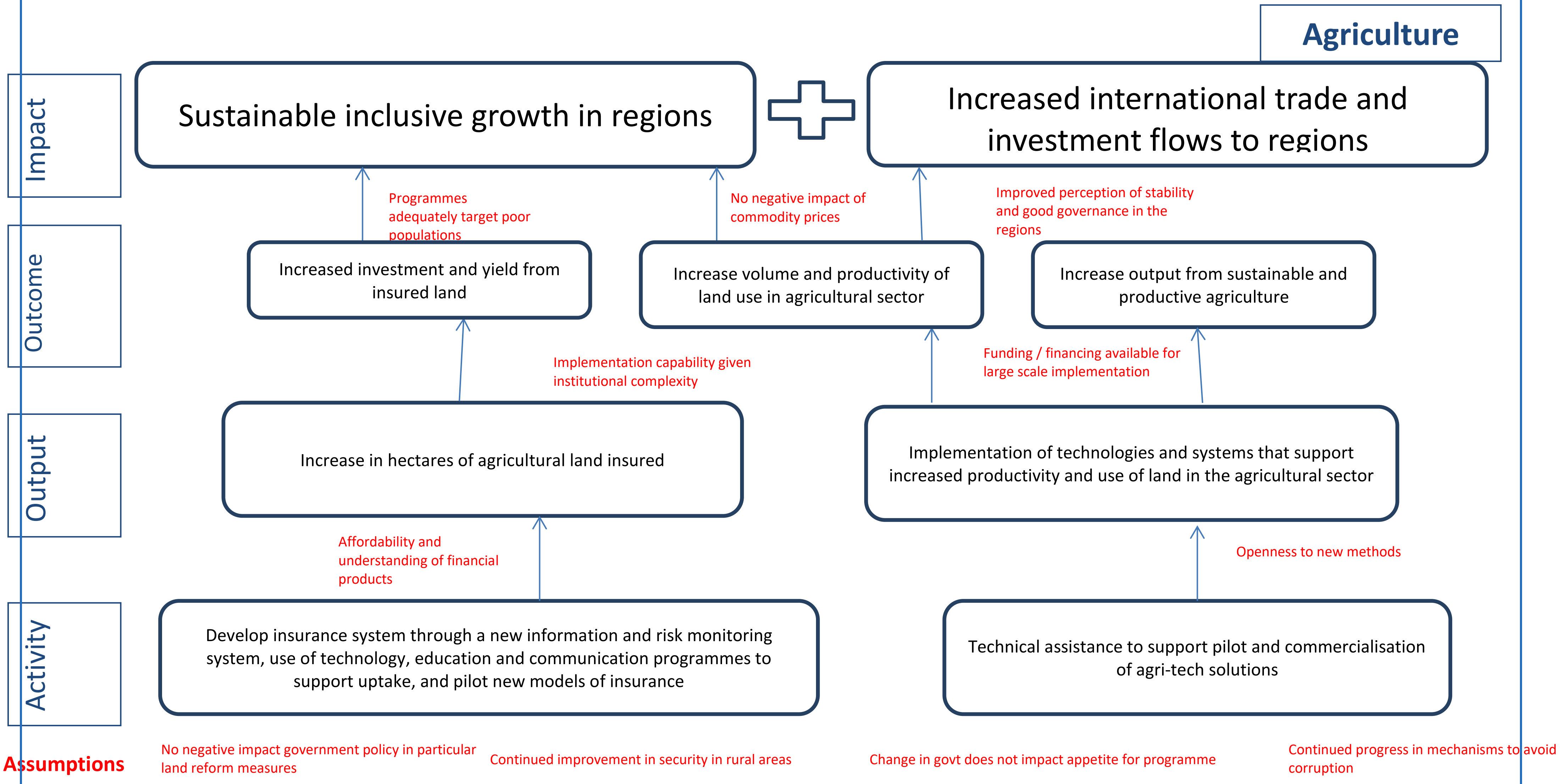


Theory of Change: Urban Development

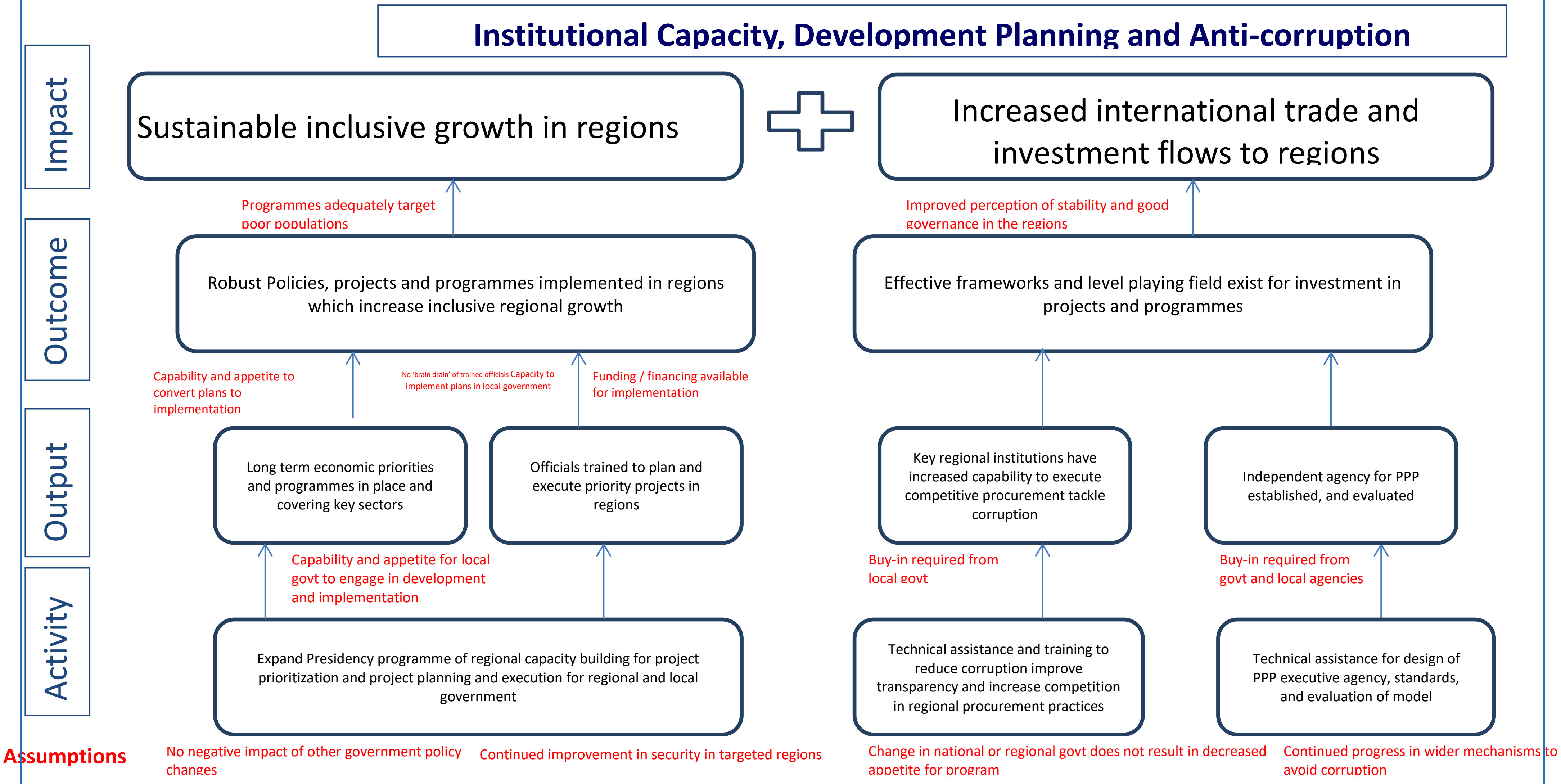
Urban Development



Theory of Change: Agriculture



Theory of Change: Institutional Capacity, Development Planning and Anti - corruption



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