
COLOMBIA

2024

January

Component: *Spending*

Module: *SM IV – Fiscal and
Macroeconomic Tools, Research,
and Analytical*

*COLOMBIA***PROJECT SUMMARY**

LEAD DEPARTMENT: ICDMF

REGION (S): South America

COUNTRY (S): Colombia

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: February 2024 – April 2026

FUNDING PROGRAM TITLE: GPFP Colombia

PROJECT MANAGERS: Jose Federico Geli Manzano – ICDMF

**SM4/FISCAL TOOLS, RESEARCH,
AND ANALYTICAL** Jose Federico Geli Manzano – ICDMF

PROJECT LEAD MANAGER: Jose Federico Geli Manzano – ICDMF

ESTIMATED BUDGET: \$267,196

BUDGET FOR ENDORSEMENT: \$198,239 (through FY25)

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I. PROJECT PURPOSE

The Ministry of Finance and the Governor of Banco de la República, along with the president of the Colombian Autonomous Committee for the Fiscal Rule (CARF), requested a technical assistance to strengthen CARF's macroeconomic analysis. While being administratively attached to the MoF, CARF functions autonomously, and it is legally mandated to provide independent analysis. This CD main objective is to help CARF to develop tools and institutional processes to generate medium-term macroeconomic forecast scenarios.

This two-year project has been discussed with the authorities and the medium-term objectives and outcomes were agreed upon. The estimated budget for this project is \$316,518, of which \$76,407 has already been financed by IMF01. The current request aims to cover the costs for the remainder activities estimated at \$267,196.¹ Endorsement is requested for \$198,239 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

II. BACKGROUND

Macro-fiscal situation

Benefiting from an effective policy response to the pandemic and highly favorable terms of trade, Colombia's economy grew at 7.5 percent year-on-year in 2022. Against this robust recovery, high commodity prices, and weather-related shocks, headline inflation reached 13.3 percent year-on-year in February 2023 and the current account deficit widened from 5.6 in 2021 to 6.2 percent of GDP in 2022. The Colombian economy is undergoing a necessary transition and the macroeconomic policies that had been tightened are facilitating this transition, along with a slowing global growth and higher global borrowing costs. This necessary cooling of the economy would in turn bring inflation towards the central bank's target by end-2024 and narrow the current account deficit to its historical average (about 4 percent of GDP). The envisaged fiscal adjustment for 2023 is growth friendly and balances well the need to reduce imbalances while increasing social support. Beyond 2023, further improvements in fiscal balances over the fiscal rule path should be considered, to strengthen the convergence of public debt to its medium-term anchor, create buffers against downside shocks, and bolster the credibility of the fiscal policy framework.

In this context, the country has made significant progress in institutional strengthening for the development of functions associated with the design, implementation and monitoring of fiscal policy. The Colombian authorities remain committed to the current macroeconomic framework and the sustainability of public finances. To improve this framework, it created the CARF, which serves as an independent fiscal council that has positively influenced fiscal policy decisions by providing constructive recommendations to the Ministry of Finance.

¹ Including the trust fund management fee.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

The objective of this module is to support CARF to independently assess MoF's macro-fiscal forecast using their own macroeconomic projections tool (MPT). The ICD team will assist CARF staff to strengthen its institutional capacity to develop a simple macro-fiscal framework which ensures accounting and economic consistency.

A scoping in person mission took place in June 2023 to assess the authorities' initial needs and agree on an action plan and delivery schedule. The main TA objective agreed with the authorities is to support CARF to independently assess the MoF's macro-fiscal forecast by developing its own MFPT. Agreed delivery activities span from September 2023 (from prior funding) through August 2025, mixing weekly virtual engagements with four weekly in-person missions.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Spending	SM IV	Develop capacity in macroeconomic forecasting and policy analysis to support policy decision making and communications - MFR
	Fiscal and Macroeconomic Tools, Research and Analytical Work	Improved analytical skills, and better macroeconomic forecasting and policy analysis capacity

B. Country Engagement

Colombia has successfully benefited from several capacity development projects provided by the Fund. One example was the technical assistance provided by FAD helping the country to build modern tax structures that created more jobs in the formal sector, which meant higher wages and more job security. From ICD, the Ministry of Finance and Public Credit has requested in 2020 a technical assistance to evaluate the technical tools and the forecasting process current available. The current request will assist Colombia's institutional arrangement by advancing the consolidation of forecasting tools and analysis of the impacts of fiscal measures following the best practices in fiscal policy management.

C. Delivery Modalities

The CD delivery comprises approximately 50% of virtual engagement and 50% in-person and 50% virtual mainly be in-person. As work dynamics in CARF make traditional CD delivery unfeasible, this CD envisages a two-year delivery schedule based on weekly virtual engagements. The mismatch between current workload and number of staff prevents CARF economic analysts to receive TA several hours per day during a one- or two-week period, as they would have to stop their other activities at CARF. To minimize CARF's daily work disruption, this TA will be delivered through a series of virtual engagements with the core team during a two-year horizon.

IV. RISK ASSESSMENT AND MITIGATION

- Program risks based on the assessed probability and impact on the achievement of the expected results.

General or Module	Description	Risk Assessment	Mitigation Measures
External climate/conditions			
General	Risk that external events create a more challenging environment to implement reforms.	Low	Ensure sufficient flexibility in program execution across countries and allow for ability to adjust activities in the case of adverse events.
Political Support			
General	Possible changes in management and/or priorities in the CARF over the two years of the project.	Medium	The project will be closely coordinated with WHD, who agrees on this CD. In this regard, assuming the project delivers its expected results it can be expected to be supported by the country team until its conclusion, which lowers the probabilities of discontinuation.
Management and Technical Staff Support and Commitment			
General	The delivery modality is seen as the major risk to the project because of the number of virtual engagements.	High	CARF authorities agreed to have periodic performance assessments (usually after the completion of each thematic block). If the TA project does not progress according to the schedule in the AP, CARF agrees to evaluate changes in the delivery modality, including the possibility of longer (traditional or reverse) mission work.
General	Staff turnover might also be a concern in the medium term, whereby measures to preserve institutional memory are key	Medium	All core team members are expected to become independent model users; the approach to documentation will be gradual, starting from the first mission; all virtual sessions are going to be recorded (as it is current practice already in many TA projects).

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V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	Total for FY24	Total for FY25	Grand Total
HQ-led CD mission (incl. LTX)*	2	2	4
STX visits (incl. LTX)	-	-	-
Interactive Learning (virtual workshop)	-	-	-
Interactive Learning (in-person workshop)	-	-	-

Note: Virtual and in-field activities can be combined in one single mission.

VI. PROGRAM FINANCIALS

	FY24 Q4	FY25	FY26	TOTAL (USD)
Direct Delivery	48,016	137,254	64,446	249,715
Module SM IV - Managing Public Finance	48,016	137,254	64,446	249,715
Subtotal	48,016	137,254	64,446	249,715
Trust fund management fee (7%)	3,361	9,608	4,511	17,480
TOTAL	51,377	146,862	68,957	267,196

The current request aims to cover the costs for the remainder activities estimated at \$267,196. Endorsement is requested for \$198,239 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

ANNEX I. SPENDING MODULE IV – MACROECONOMIC TOOLS

A. Program Objectives

The main objective of this CD is to support CARF to independently assess MoF's macro-fiscal forecast using their own macroeconomic projections tool (MPT). The ICD team will assist CARF staff to strengthen its institutional capacity to develop a simple macro-fiscal framework which ensures accounting and economic consistency.

B. Expected Results

By the end of the TA project, the CARF team of economic analysts should be able to: (i) Structure projection processes according to best practice; (ii) build an easily updatable macro-fiscal database; (iii) produce baseline and alternative macro-fiscal scenarios with a 5-year horizon at an annual frequency, including identifying and quantifying risks to the baseline; (iv) integrate CARF's satellite tools (i.e., debt sustainability, potential output, and fiscal revenue tools) to the macroeconomic framework; (v) document institutional processes and tools; (vi) define and implement a methodology to assess MoF macroeconomic scenario and fiscal projections; (vii) efficiently communicate the MPT outputs to key stakeholders.

C. Targeted Logical Framework – Macroeconomic Project Tool

Objective	
Develop capacity in macroeconomic forecasting and policy analysis to support policy decision making and communications	
Outcomes	Indicators
Authorities have a baseline understanding of their existing forecasting and analytical capabilities and opportunities for improvement	Diagnostic/scoping produced a baseline workplan of CD engagement, including a tentative timeline for the CD project, indicative schedule for training and TA missions, and expected key outcomes and deliverables
Improved analytical skills, and better macroeconomic forecasting and policy analysis capacity	Analytical framework centered around the MPT is used to produce medium-term forecasts, scenarios as well as risk and policy analysis
	Relevant staff have successfully completed agreed training delivered via various modalities (online, classroom courses, workshops)
	Roles and responsibilities identified/streamlined/clarified within the core forecasting team
	Relevant staff demonstrates the capability to independently operate the MPT and other auxiliary analytical models and tools