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Economic Openness

Colombia Case Study

2020

CREATING THE PATHWAYS FROM POVERTY TO PROSPERITY

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- Our Practical Programmes identify the actions required to enable transformational change.

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FOREWORD



Stephen Brien
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Our mission at the Legatum Institute is to create the pathways from poverty to prosperity by fostering open economies, inclusive societies, and empowered people. Our work is focused on understanding how prosperity is created and perpetuated. Prosperity is much more than material wealth; it also encompasses welfare, security, wellbeing, freedom, and opportunity. Without an open, competitive economy, however, it is very challenging to create lasting social and economic wellbeing where individuals, communities, and businesses are empowered to reach their full potential. That is why we view Economic Openness as so important, even in these uncertain times.

With the generous support of the Templeton World Charitable Foundation, we have created a Global Index of Economic Openness to rank over 150 countries' openness to commerce, assessing the environment that enables or hinders their ability to trade both domestically and internationally. Our ambition is that it becomes a valued tool for leaders and advisers around the world, to help set their agendas for economic growth and development. As part of this programme of work, we are undertaking a series of in-depth country case studies based on the Index, including this report on Colombia in which we analyse its performance in the key characteristics of openness to trade, investment, ideas, competition, and talent.

While the coronavirus pandemic has brought much global economic activity to a halt, trade between countries, regions, and communities will be fundamental to the advance of the innovation, knowledge-transfer and productivity that creates economic growth and prosperity. The spread of free trade has enabled more and more people to participate in commerce, allowing them to move from subsistence farming towards a more stable and prosperous existence. More recently, the technological revolution has enabled millions of people to take part in commercial, political, and social discourse thanks to the accessibility and affordability of new technology.

Our research shows that economically open countries are more productive, with a clear correlation between increased openness over time and productivity growth. In contrast, in an uncompetitive market, or one that is not designed to enhance the engagement and wellbeing of all, growth stagnates, protected industries become entrenched and crony capitalism thrives.

While most policymakers focus on the big fiscal and macroeconomic policy tools at their disposal, the microeconomic factors are sometimes overlooked, and their potential to drive openness and growth is underestimated. A notable feature of this Index is a focus on these microeconomic drivers of productivity. By bringing the full range of disparate policy choices that influence and drive openness and competition together in one report, we hope to shift the focus of policymakers, in Colombia and around the world, towards the broader implications of microeconomic policy by emphasising the relationship between productivity and Economic Openness.

On many metrics, Colombia has made good social and economic progress over the last few decades. Its income per capita has increased three-fold since 1990, and poverty rates have fallen by 10 percentage points over the last 10 years. It has also recently joined the OECD, signalling its intent to become a high-income country.

However, Colombia faces big challenges. Like the rest of the world, the current coronavirus epidemic will mean less trade and larger government deficits for some time. Colombia also faces one of the largest refugee crises in the world, with millions of Venezuelan refugees entering the

country over the last few years. This causes numerous challenges, not least of which are the increased government expenditure, pressure on the labour market and increased demand for public services.

Further complicating Colombia's story of Economic Openness is a long history of armed conflict. The peace agreement with FARC in 2016 is promising, but peace remains fragile and is dependent on the government delivering the promises made in the agreement, particularly around rural land reform.

Despite those challenges, Colombia is well placed to play a leading role in greater Economic Openness across Latin America and the Caribbean. It has a large number of trade deals within Latin America and with the rest of the world and has been increasingly active in seeking foreign investment. However, to take advantage of this, Colombia needs to improve infrastructure at the border and within the country to improve the flow of goods. For example, Colombia's road infrastructure is far from adequate, and significantly increases the cost to move goods around the country.

Despite often being described as a "nation of lawyers", the rule of law is also a major challenge in Colombia. The court system is slow and inefficient, meaning that many businesses cannot trust the court system to be a reliable form of dispute resolution.

Additionally, there is a high rate of informality in Colombia, which is driven by policy choices across a range of areas. For example, the high non-wage costs for businesses mean formal employment is too costly. Corruption has also been an ongoing challenge, although the government has shown commitment to tackling this issue.

As we have written these case studies, we have found that tackling these reforms is never straightforward or politically easy. For Colombia this is especially so, given the major global challenge of the coronavirus, the unique challenges of maintaining peace, and managing the Venezuelan migrant crisis. Furthermore, there will always be powerful interest groups that benefit from the status quo and try to block change.

Nevertheless, we see much cause for optimism. President Duque's government has set out three priorities to address Colombia's challenges: establishing the rule of law, generating the conditions for entrepreneurship to flourish, and creating greater fairness and social equity. This report reinforces the need to deliver on those priorities. The government has already shown a commitment to increasing trade and foreign investment, and there have also been positive reforms, such as improving corporate governance. We are hopeful that, even in these times, Colombia will be able to start laying the foundations for greater Economic Openness in the coming years.





EXECUTIVE SUMMARY

This report is part of a series of case studies examining the links between a nation's Economic Openness and prosperity, informed by the insights generated by our Global Index of Economic Openness.

Any attempt to improve Economic Openness depends on Colombia's response to three major challenges it is currently facing. These are the current coronavirus pandemic, the massive influx of Venezuelan refugees into Colombia, and implementing a major peace deal that attempts to deal with its long history of conflict and violence.

Taking into account Colombia's context and the need to address these issues, this report focuses on structural drivers of Economic Openness. We assess the extent to which it has four fundamental characteristics of open economies:

Market Access and Infrastructure, such that products and services can be easily produced and delivered to customers;

Investment Environment, such that domestic and foreign sources of finance are widely available;

Enterprise Conditions that ensure markets are contestable and free from burdensome regulation;

Governance that is underpinned by the rule of law, in addition to government integrity and effectiveness.

Our analysis indicates a clear link between the extent to which a country's economy exhibits these characteristics and its productive capacity.¹ This link is supported by a long history of academic literature, and can also be seen in the economic histories of those countries that have achieved a high level of economic wellbeing.

MARKET ACCESS AND INFRASTRUCTURE (COLOMBIA RANK: 66TH)

Colombia ranks 66th for Market Access and Infrastructure, up 18 places over 10 years, having improved more than any other pillar.

Given its geography, Colombia faces major challenges in building communications, energy, and transport infrastructure. Colombia has made great strides in improving mobile internet access, with 36 million unique subscribers. However, the internet remains slow across much of the country and most Colombian online content is hosted outside of Colombia. Hence, there is need for more investment in internet exchanges and fixed broadband infrastructure.

Colombia ranks 83rd in Resources, where there is major investment to increase generation capacity and to improve the reliability of the electricity network. Electricity coverage is universal in urban areas, and 98% of the rural population has access to electricity. Compared to many of its neighbours, consumption of electricity is low but steadily rising, and Colombia has several major projects underway to increase its generation capacity. The reliability of electricity varies greatly. While Bogota experiences only a few hours per year of power cuts, cities such as Baranquilla on the Atlantic coast experience over 60 hours of cuts per year. The primary reason is poor transmission infrastructure, and there are several projects underway to increase the reliability of the transmission network.

1 See "Global Index of Economic Openness", Legatum Institute, May 2019.

Transport, where Colombia ranks 81st, is one of the greatest challenges. Many roads are in poor condition and there is low use of rail; however, there has been major investment in transport through the government's road-building programme. Furthermore, ports have seen expansion following private investment, and Colombia's use of air travel is growing rapidly. Colombia is seeking to use private investment to continue to invest in various aspects of transport infrastructure, and it has a highly regarded public-private partnership framework and process, although there have been some incidents of corruption in procurement.

Colombia has shown a commitment to increasing international trade, and there are many opportunities to improve, particularly at the border. It ranks 137th for Border Administration. While Colombia has a single window system, there are still onerous processes and inspections that make importing and exporting goods both more expensive and time-consuming. In 2019, the average cost of export in terms of documentary and border compliance stood at \$630, higher than that of Mexico (\$400), Chile (\$290), and Argentina (\$150).

In contrast, Colombia's Open Market Scale is one of its strengths, ranking fourth, due to trade deals with the rest of South America, the United States of America and the European Union. One opportunity for Colombia is to make greater use of these deals for its exporters, as imports have been increasing at a greater rate than exports.

Colombia also exhibits some protectionist tendencies, particularly for agriculture and textiles. In Import Tariff Barriers, where Colombia ranks 71st, the country uses tariffs and quotas to restrict imports, particularly for agricultural goods and textiles. In Market Distortions, ranked 96th, the use of licencing and standards makes importing of goods harder. In the case of both tariff and non-tariff barriers, there is strong lobbying by domestic industries for protection. These policies have made Colombia less competitive and have made goods more expensive for consumers.

INVESTMENT ENVIRONMENT (COLOMBIA RANK: 71ST)

Colombia ranks 71st for its Investment Environment, increasing its score but dropping down four places from 10 years ago—the only pillar to have declined in the global rankings.

Despite ranking 60th for Property Rights, the rules around property rights remain one of Colombia's biggest challenges. While land administration is good and property rights are well-defined in urban areas, in rural areas land rights are poorly documented. The national cadastre lacks complete records and does not have integrated and reliable land data. This has led to highly unequal ownership and land being underutilised. One of the major projects underway is a multipurpose cadastral system, with one of the goals being to update 60% of cadastral land by 2022 and 100% by 2025, which is ambitious given that only 5% of land is up to date. Many have also lost land through unfair sales or conflict, but there is a restitution scheme available for those who have lost land or sold at a price below market value.

In contrast, Investor Protections is one of Colombia's best performing elements, ranking 30th globally. It has strong corporate governance practices and the issuance of the Código País (code of best corporate practices) in 2007 was important for Colombia's entry into the OECD, by way of accession talks in 2013. There are also good bankruptcy laws in place, which aim to enable distressed businesses to be saved.

Contract Enforcement is Colombia's weakest element in this pillar, ranking 107th, and the court system is characterised by long delays and high costs. The primary causes are twofold. First, a lack of effective systems allows for efficient resolution of cases, such as triaging and electronic case management. A second is the lack of specialisation in the court system and the roles within it. There is, for example, no specialised commercial court and judges are often expected to carry out administrative tasks.

Colombia ranks 86th for Financing Ecosystems, having fallen 20 places in 10 years, due in part to some increased difficulties to access finance. The banking sector is solid and there is a low rate of non-performing loans. There is still potential for an increase in the diversity of funding for businesses, as venture capital and equity are not widely used. SMEs also struggle to access capital, particularly in rural areas.

Finally, Colombia ranks 87th for Restrictions on International Investment. There are relatively few restrictions on travel, with citizens from 99 countries allowed to travel visa free. There are some controls on bringing currency into the country, and some restrictions on both ownership and operations of foreign companies in Colombia.

ENTERPRISE CONDITIONS (COLOMBIA RANK: 79TH)

Colombia ranks 79th for Enterprise Conditions, up three places from 10 years ago.

For Domestic Market Contestability, Colombia ranks 59th, up 38 places over 10 years. It has good competition law, and its competition authority has been effective and bold in enforcement. Nevertheless, there have been many examples of cartels, ranging from nappies to cement. Furthermore, the head of the competition law authority is appointed by the president, which limits the body's independence. There are also a large number of SOEs, which may crowd out private competition. Public procurement has been a challenge, with some public contracts being awarded due to corruption.

Colombia ranks 126th for Price Distortions. The main challenge here is the high number of agricultural subsidies given to farmers, most of which go to the largest producers. Furthermore, corporations face a high tax burden, and include a corporate tax rate of 32% (which will drop to 30% in 2022) and a financial transactions tax.

Colombia's Environment for Business Creation ranks 86th, down 37 places. It has several clusters which provide agglomeration benefits. However, it still takes 10 days and 7 procedures to open a business. Another major challenge is that businesses struggle to find the labour skills they need, with 45% of businesses saying this is a significant constraint.

Colombia's Burden of Regulation ranks 114th, with regulations in place that make it hard for businesses. There are a large number of regulations issued, and the tax process in particular is complex and inefficient.

Finally, Colombia ranks 88th for its Labour Market Flexibility, down from 42nd 10 years ago. The minimum wage is high, alongside there being high non-wage costs, such as social security. It is also difficult to hire workers part-time. As a result, many workers in Colombia are informal, including, for example, around 50% of labourers.

GOVERNANCE (COLOMBIA RANK: 68TH)

Colombia ranks 68th for Governance, up three places over 10 years.

Colombia's Executive Constraints rank 87th. Since the enactment of the 1991 Constitution, both the Constitutional Court and the Congress play a major role in checking the power of the executive. At times, the Constitutional Court has perhaps overstepped its jurisdiction, although it is widely respected and is effective at checking the use of emergency power. The military is widely respected but has been guilty of perpetrating abuses against civilians. The fact that the national prosecutor (Fiscal General) is appointed by the President further questions the legitimacy of the entity.

For Political Accountability, Colombia ranks 59th, up from 65th. Colombia has had largely free and fair elections for 50 years. However, there have been cases of voter fraud and vote buying. The National Electoral Council lacks the independence needed to target electoral abuses. Furthermore, electoral finance laws are not followed, with large amounts of funds unregistered. For example, it is estimated, that some candidates for the senate spend up to 20 times the legal limit to run for office. Civil society has been influential in some areas of policy making, although the sector is underfunded, and many civil society workers are routinely threatened with violence.

The Rule of Law ranks 137th, down from 125th. While the Constitutional Court is held in high regard, there are cases of corruption in the courts, and the administration of justice is slow, caused by inefficient processes and a highly complex court system. Furthermore, the tutela action allows anyone to bring a claim asserting their fundamental constitutional rights, which has also led to an overburdened court system.

Government Integrity, ranking 72nd, has declined four places over 10 years. There has been some improvement in the publishing of laws and information, but there remain cases of bribe paying and clientelism throughout government. The consequences of corruption are substantial, costing up to 5% of Colombia's GDP. There has been commitment shown to fighting corruption by the government through international treaties, a strong anti-corruption framework, and setting up an anti-corruption office.

Colombia's Government Effectiveness has improved over the last 10 years, from 67th to 49th. The major policy success of this time was the peace agreement with FARC, but there has also been improvement in some of the government's operations. The major challenges for government are fiscal discipline and the operations of subnational government, which often lack capacity to deliver services and are underfunded. The government must also continue to establish its presence in rural areas of the country.

Finally, Colombia ranks 98th on Regulatory Quality, down 14 places. Prior to acceding to the OECD, the government had been driving through reforms to implement regulatory impact analysis and encouraging regulatory consultation to be centralised on a single website. Following accession however, progress has stalled on both these policies.

LOOKING FORWARD

Colombia is currently facing a number of challenges. Alongside the global pandemic, it has had millions of Venezuelan migrants coming across its borders, and the state is trying to implement a major peace deal to end a decades-long conflict within its borders. Alongside such pressing challenges, there are also longer-term structural issues and constraints that are holding Colombia back from reaching its full potential. It is these issues that are the main focus of this report.

Colombia has many existing strengths. Even with security challenges, it has managed to isolate conflict to the periphery, thereby allowing the development of its major urban centres. It has a robust democracy that most international observers see as fair, albeit with flaws and challenges. While there are still protectionist measures in place, it has entered into trade agreements with countries around the world. Its geographic location, with all the challenges it carries, also brings the opportunity to be a regional trade hub, with ports on both the Pacific and Atlantic coasts.

As one of the first and most important steps, securing peace in Colombia's periphery is necessary to achieving its full potential. The peace agreement with FARC is critical for Colombian prosperity, and there is still an obvious need to end the reign of other guerillas and paramilitary groups. However, security is not the only challenge facing Colombia. The Venezuelan migrants have imposed severe challenges on Colombia's economy and public services.

We have identified the following four priorities for enhancing Economic Openness in Colombia. We believe these will support President Duque's three main policy focuses of establishing the rule of law, generating the conditions for entrepreneurship to flourish, and as a result creating greater fairness and social equity.²

2 "A Conversation With President Iván Duque of Colombia," *Council on Foreign Relations*, September 27, 2019.



Summary of Recommendations

Colombia should make major improvements to its digital and physical infrastructure and border facilitation to improve the flow of goods into and within the country.

- Continue to attract investment to transport projects, particularly the fourth and fifth generation PPP programme of roads across the country.
- Invest in the maturity of its procurement and project management, to ensure that projects deliver their desired benefits.
- Improve the generation and transmission of electricity, in particular for the Atlantic Coast.
- Enhance border facilitation by aligning the systems of Colombian Agricultural Institute (ICA), the National Food and Drug Surveillance Institute (Invima) and the Superintendence of Industry and Commerce (SIC). Additionally, facilitate on-line logistic services and customs services to ease international trade and FDI.

Colombia's court system would benefit from major reform to increase efficiency in case administration.

- Introduce electronic case management and more specialised courts, which would help to improve the speed of resolution of cases.
- Look at how cases are triaged, and whether more investment needs to be put into the training of administrative staff and judges.
- Increase the amount of time judges focus on the dispensing justice rather than administration.

The burden of regulation should be reduced, and the labour market made more flexible to address the high levels of informality.

- Reduce the costs and administrative burdens of business and encourage firms to enter the formal sector.
- Review a number of its regulations across all domains and the rate at which it introduces new regulations, ensuring that they are fit for purpose and not overly burdensome.
- Make certain processes easier, such as paying taxes online.
- Gradually phase out agricultural subsidies.
- Increase flexibility of employment contracts.
- Reduce non-wage costs and moderate the impact of the minimum wage.

Colombia's efforts to tackle corruption could be further strengthened.

- Increase the independence of the national oversight bodies, such as the National Electoral Council, and give them more powers to prosecute cases of corruption.
- Continue to make the procurement processes more transparent to remove corruption. This includes monitoring the use and effect of new procurement forms that are intended to increase the number of bids.
- Increase the use of digitalisation to speed up processes and make government services more transparent.





INTRODUCTION

This case study on Colombia is part of a series of studies examining the links between a nation's Economic Openness and prosperity, informed by the insights generated by our Global Index of Economic Openness, and comparing the performance of over 150 countries. The purpose of this report is to provide a holistic and systematic assessment of the policy environment underpinning the Colombian economy and, in doing so, help to identify specific actions that would improve Economic Openness in Colombia.

Defining Economic Openness and measuring its positive effects on prosperity is now a critical task. The benefits of globalization and Economic Openness have been questioned in the wake of the global financial crisis. We continue to see the impact of the crisis on the public debate 10 years on, in the rise of nationalism and populist politics across the Western world—further exacerbated by the coronavirus pandemic.

Yet globalisation continued apace. The degree of connectivity, the exchange of ideas, and the levels of cross-border trade and commerce recovered in the decade since the crisis. Trade between communities, countries and regions continued to spread innovation and transfer knowledge, to boost productivity and ultimately foster economic growth.

The coronavirus epidemic has shown both how fragile the system of international trade is, but also its fundamental importance to global prosperity. Therefore, coming out of the current global crisis, one of the choices for policymakers who are seeking to ensure sustainable prosperity is to resist protectionism, and instead reinvigorate the trade liberalisation agenda. In the aftermath of the crisis, when global trade flows slowed dramatically, many governments in both developed and developing countries contemplated or actually used a number of trade policy instruments to protect their domestic industries and producers, especially in the form of non-tariff measures.

The danger of 'beggar-thy-neighbour' protectionist policies has become a possibility again. After the last crisis, initial fears of a mutually damaging protectionist war in response to the economic crisis have not yet materialised, largely thanks to the strength of the rules-based multilateral trading system. We are hopeful that countries will remain open to international trade after this crisis has passed too.

Reforms to address these challenges are neither straightforward nor politically easy. For nearly all dimensions of reform, including those that would benefit the majority of the population, there are privileged interest groups that have much to gain out of the status quo, for example, through unfair and non-transparent access to government contracts. Enacting these reforms calls for courage and addressing those vested interests. Furthermore, it requires building agreement around policies that lead to an open and prosperous economy.

This case study reviews the performance of the Colombian economy, and then examines the policy environment in which it is operating to identify the underlying strengths and weaknesses, as well as highlighting opportunities for improvement.

Context

We have chosen Colombia, as it is both an example of a regional leader, in areas such as investor protections and attracting investment to public infrastructure projects, and one where there remains significant room for improvement. On many metrics, Colombia has made good economic and social progress over the last few decades, helping the country join the OECD in 2018. Income per capita has trebled since 1990, and poverty has fallen by 10 percentage points over the last decade. Inequality has continued to fall in recent years; but it remains the second highest in the

OECD and regional inequalities remain large.¹ Colombia also faces its own unique challenges, in particular the decades-long conflict with FARC and implementing the peace agreement, as well as the current Venezuelan migrant crisis.

In contrast, other countries in the region, such as Chile and Peru have made significantly more progress, which is evident in their long-term per capita growth of 5% or more per year. In Colombia, GDP per capita grew strongly from 2002, converging consistently with the OECD average until 2013, but since then, growth has fallen behind. Additionally, its growth potential has fallen substantially in the last decade, indicating that traditional drivers of growth, largely capital-intensive extractive industries and favourable terms of trade, have reached their limits.²

Growth at the current potential rate over the next 30 years would raise income per capita only to the level of Costa Rica today. By contrast, if the economy grew at 5% per annum, per capita incomes would reach the current level of Spain.³ The challenge for Colombia is addressing the structural constraints on economic growth and social progress, as well as capitalising on the emerging post-conflict, post-crisis environment.

Macro-economic management

The Colombian economy is very dependent on commodities such as oil. Overall, the economy has been managed in a way that has avoided boom and bust. For example, the large oil price shock of 2015-16 led to a 70% depreciation of the currency and increased inflation, which stabilised oil income in nominal terms, while increasing inflation. As a result, growth slowed and the fiscal and current account deficits widened. But adjustment to this has been smooth.⁴

Public spending and government revenue are both at the low end of OECD benchmarks. Since 2012, fiscal policy has been governed by a fiscal rule that targets the central government's budget balance, adjusted for cyclical factors as well as oil and mining prices. The rule called for the structural central government deficit to decline to 1% by 2022.

The current account deficit narrowed from more than 6% of GDP in 2015 to 3% in 2017, illustrating the significant and orderly adjustment experienced. The deficit, which widened in 2018, remains largely financed by foreign direct investment, helping to cushion exchange rate-related risks.⁵ Public debt (including Ecopetrol and Banco de la Republica's outstanding external debt) was just above 50% of GDP.

It has recently been suggested that, due to the unexpected additional spending needs stemming from the accelerated inflow of migrants from Venezuela, the fiscal deficit could be reduced at a slower pace than previously planned.⁶ Given the economic impact of the coronavirus, the deficit will likely increase in the near term.

The Central Bank conducts monetary policy on an inflation-targeting framework and flexible exchange rate. Inflation is 3.5% and was expected to remain stable in line with the target.⁷ Credit to the private sector was growing at 9.8%. National savings are 15% of GDP, having declined from 18% 10 years ago, now ranked 124th in the world. Investment was 22% of GDP, which is enough to sustain moderate growth, but would need to increase to support per capita growth rates of 5%. Given that the real interest rate is around 8%, it suggests that capital availability was not constraining investment and growth. More likely it is the underlying competitiveness and productivity of the economy.

1 "OECD Economic Surveys: Colombia Overview," *OECD*, October 2019 p.2.

2 *Ibid.*, p.3.

3 *Ibid.*, p.44.

4 *Ibid.*, p.2.

5 *Ibid.*, p.15.

6 *Ibid.*, p.23.

7 *Ibid.*, p.21.

Competitiveness and productivity

Colombia ranks 79th on the Legatum Prosperity Index for its Competitiveness and Productivity element. While the diversity of its export basket has declined, high-tech exports have increased. The non-extractive sectors lag behind due to high regulatory burden, infrastructure gaps and low competition and integration to international markets.

Labour productivity is low, even compared to other countries in Latin America, and is about 30% of the OECD average.⁸ An exception is the mining sector, whose presence in the economy delivers a 15% boost to average productivity. Differences in productivity across regions are also large.⁹ Higher productivity growth is crucial to boost potential growth.¹⁰

While it has been increasing the rate of productivity, the rate of improvement has been declining. Total factor productivity has hardly changed over the last decades. Nearly all the improvements have come from increased capital.¹¹ Among the factors holding back productivity and competitiveness are a lack of innovation, infrastructure gaps and an inefficient legal system—which is covered in detail below.¹²

Two factors help to explain low productivity in Colombia at a firm level. Firstly, the average and typical firm is less efficient than the average firm in other economies. Secondly, a high proportion of resources are misallocated, being used in firms of lower productivity, particularly in micro and informal firms.¹³

The rate of start-ups has doubled in the last 10 years, with Colombia now ranked 64th in the world. Small firms account for around 90% of all Colombian firms and a significant amount of employment. Colombian firms grow less than in advanced economies and tend to remain smaller.¹⁴ This hinders investment, knowledge spill-overs, and specialisation of employees. Consequently, low-performing incumbent firms are also less likely to be replaced by new and young firms, which dampens the competitive pressure to become more productive.¹⁵

The potential gains in terms of aggregate total factor productivity of moving to a more efficient allocation of capital and labour in the manufacturing sector could reach 50%.¹⁶

Labour force engagement

The labour market has remained subdued, reflecting the impact of the growth deceleration. Even prior to the epidemic, unemployment had recently edged to 10%, among the highest unemployment rates in Latin America.¹⁷ Progress achieved in increasing participation rates had also stalled, particularly in urban areas and among youth.¹⁸ This will worsen as a result of the movement restrictions enacted to counter the global pandemic.

8 Ibid., p.3.

9 Norberto Rojas Delgadillo, "Market and labour productivity: a regional analysis," *National Association of Financial Institutions*, published October 1, 2019.

10 "Colombia" *International Monetary Fund*, Article IV, April 2019.

11 "OECD Economic Surveys: Colombia Overview," *OECD*, October 2019.

12 "Colombia" *International Monetary Fund*, Article IV, April 2019.

13 Matias Busso, Lucia Madrigal and Carmen Pagés, "Productivity and resource misallocation in Latin America," *B.E Journal of Macroeconomics* 13, no.1 (June 2013): p.1-30.

14 Marcela Eslava, John Haltiwanger, and Alvaro Pinzón G., "Job creation in Colombia vs the U.S.: 'up or out dynamics' meets 'the life cycle of plants'," *SSRN*, June 12, 2018.

15 Leora Klapper, Luc Laeven and Raghuram Rajan, "Entry regulation as a barrier to entrepreneurship," *Journal of Financial Economics* 82, no.3 (December 2006) p.591-629.

16 "OECD Economic Surveys: Colombia Overview," *OECD*, October 2019.

17 Ibid., p.13.

18 Ibid.

However, the biggest challenge to productivity and output is the level of informality in the labour market. Although decreasing (after the 2012 cut in social security contributions), informality remains high, with waged and salaried workers at 50%. Informality hampers productivity, job quality, public finances and access to pensions. Informal workers suffer an hourly wage penalty of 49%, after controlling for worker and job characteristics.¹⁹ Firms relying on informal contracting are less likely to innovate and grow, offer less training to their employees and have problems raising worker's motivation and effort, reducing productivity.²⁰

Increasing migration from Venezuela is also imposing significant pressures on the labour market. While the participation rate of the Venezuelan migrants is 72%, unemployment rates for Venezuelans are also particularly high. The cities most affected and experiencing problems to absorb the large numbers of migrants are Arauca, Riohacha, Cúcuta, Bucaramanga, as well as Bogotá and Medellín.²¹

Looking ahead

A new government took office in August 2018. It included in its National Development Plan a number of social and economic priorities, with a headline goal of boosting economic growth to 4%. The main areas of reform to support this goal included reforming the tax system, fighting informality, boosting innovation and entrepreneurship, reforming the justice system, and enhancing trade facilitation.

This report undertakes a systematic review of Colombia's Economic Openness, and identifies where there are opportunities for reforms that could deliver or even surpass the 4% goal.

19 Ibid., p50.

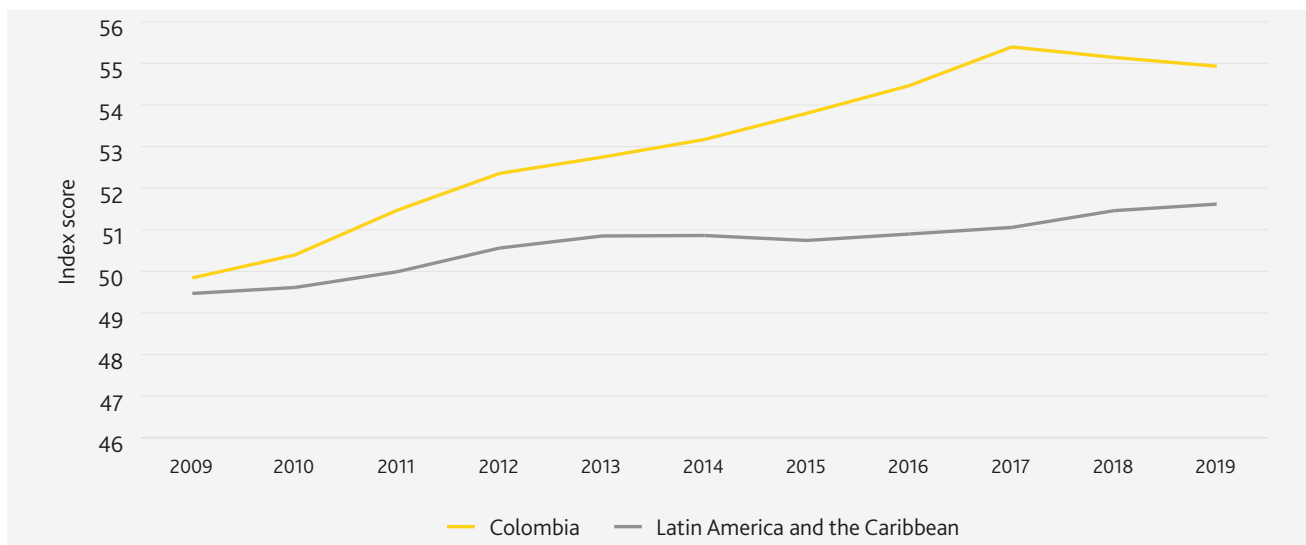
20 Michaele Battisti and Giovanna Vallanti, "Flexible Wage Contracts, Temporary Jobs, and Firm Performance: Evidence from Italian Firms," *Industrial Relations: A Journal of Economy and Society* 52, no.3 (June 2013), p.737-764; Guillermo Perry et al, *Informality: Exit and Exclusion* (Washington DC: World Bank Group, 2007).

21 "OECD Economic Surveys: Colombia Overview," *OECD*, October 2019, p.15.

ANALYSING COLOMBIA'S ECONOMIC OPENNESS

In analysing Colombia's Economic Openness, we examine past performance, present conditions, and identify how the government might strengthen opportunities and neutralise potential threats moving forward. Colombia ranks 72nd globally in terms of Economic Openness, and 8th in Latin America (see Figure 1).

Figure 1: Economic Openness score



Our assessment of Colombia's Economic Openness is based on its rankings in global datasets from sources such as the World Bank, World Economic Forum, and International Monetary Fund. (For a complete list of data sources see the appendix.) The analysis of Colombia's performance in this report focuses on what we consider to be the key drivers of economic wellbeing across the world. These are organised around four pillars:

Market Access and Infrastructure measures the quality of the infrastructure that enables trade (including Communications, Transport and Resources), and the inhibitors on the flow of goods and services to and from a country's trading partners. Where markets have sufficient infrastructure, few barriers to trade, and smooth border clearance, commerce can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded, commercialised and ultimately benefitting consumers, through a greater variety of goods at more competitive prices.

Colombia's Market Access and Infrastructure has improved more than any other pillar over the last decade, rising 18 places to 66th. This has been driven by improving Communications, Transport and Open Market Scale. Weak infrastructure and poor border administration are some of the areas constraining Colombia's economic development the most.

Investment Environment measures the extent to which investments are protected adequately through the existence of Property Rights, Investor Protections and Contract Enforcement, as well as the extent to which domestic and international capital (both debt and equity) are available for investment. The more a legal system protects investments, for example through Property Rights, the more that investment can drive economic growth.

Colombia's Investment Environment at 71st is the only pillar to have declined in the global rankings, due primarily to a weakening Financing Ecosystem and deteriorating Restrictions on International Investment. Some of the most binding constraints to investment and growth are in the poorly performing Contract Enforcement (107th globally).

Enterprise Conditions measures how easy it is for businesses to start, compete, and expand. Contestable markets with low barriers to entry are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.

Enterprise Conditions have improved three ranks to 79th, predominantly through greater market contestability. The environment for business creation has deteriorated and improvements in the burden of regulation have stalled—leaving it 114th in the world. Further increasing competition and reversing the deterioration in labour market flexibility are both critical to addressing informality.

Governance measures the extent to which there are checks and restraints on power and whether governments operate effectively and without corruption. The nature of a country's Governance has a material impact on its prosperity. The Rule of Law, strong institutions, and Regulatory Quality contribute significantly to economic growth, as do competent governments that enact policy efficiently and design regulations that deliver policy objectives without being overly burdensome.

Colombia ranks 68th for Governance, rising three places in the last decade, and scoring well because of the strength of Government Effectiveness, ranking 49th up 18 places. However, weaknesses in the Rule of Law (137th) and persistent corruption are the two areas of governance that are constraining economic improvement.

Our analysis indicates a clear link between the extent to which a country's economy exhibits these characteristics and its productive capacity.²² This link is supported by a long history of academic literature, and can also be seen in the economic histories of those countries that have achieved a high level of economic wellbeing.

Over the last 10 years Colombia's Economic Openness has improved, gaining three places in the global rankings. However, this rate of improvement will likely need to increase if Colombia is to achieve its ambition for economic growth and to be a regional leader.

Colombia's ranking shows the extent of the challenge as well as opportunity; even where Colombia is doing well, others are still striving to improve too. Colombia is right to vie for position in the South American and global economy, including to attract investment, but will need to keep working to maintain and improve that position. Resting on its laurels may lead to modest improvements, but it will not allow Colombia to keep up with the rest of the world or the continent.

The following chapters examine in detail Colombia's performance across the four pillars and the discrete elements that constitute our measure of Economic Openness. We will examine past performance, present conditions, and identify how the government might strengthen opportunities and neutralise potential threats moving forward.

As part of our analysis, we have chosen a set of regional and global comparator countries that are at a similar level of development, or are there because they provide an aspirational benchmark. From within Latin America and the Caribbean we have chosen Chile (31st), Uruguay (42nd), Mexico (61st), Peru (67th), Brazil (80th), Argentina (86th), and Ecuador (102nd). From outside the region we have chosen South Korea (28th), Indonesia (69th), and Morocco (75th).

²² See "Global Index of Economic Openness", *Legatum Institute*, May 2019.

Table 1: Pillars and Elements of Economic Openness

MARKET ACCESS AND INFRASTRUCTURE	INVESTMENT ENVIRONMENT	ENTERPRISE CONDITIONS	GOVERNANCE
<ul style="list-style-type: none"> • Communications • Resources • Transport • Border Administration • Open Market Scale • Import Tariff Barriers • Market Distortions 	<ul style="list-style-type: none"> • Property Rights • Investor Protection • Contract Enforcement • Financing Ecosystem • Restrictions on International Investment 	<ul style="list-style-type: none"> • Domestic Market Contestability • Price Distortions • Environment for Business Creation • Burden of Regulation • Labour Market Flexibility 	<ul style="list-style-type: none"> • Executive Constraints • Political Accountability • Rule of Law • Government Integrity • Government Effectiveness • Regulatory Quality







MARKET ACCESS AND INFRASTRUCTURE (COLOMBIA RANK: 66TH)

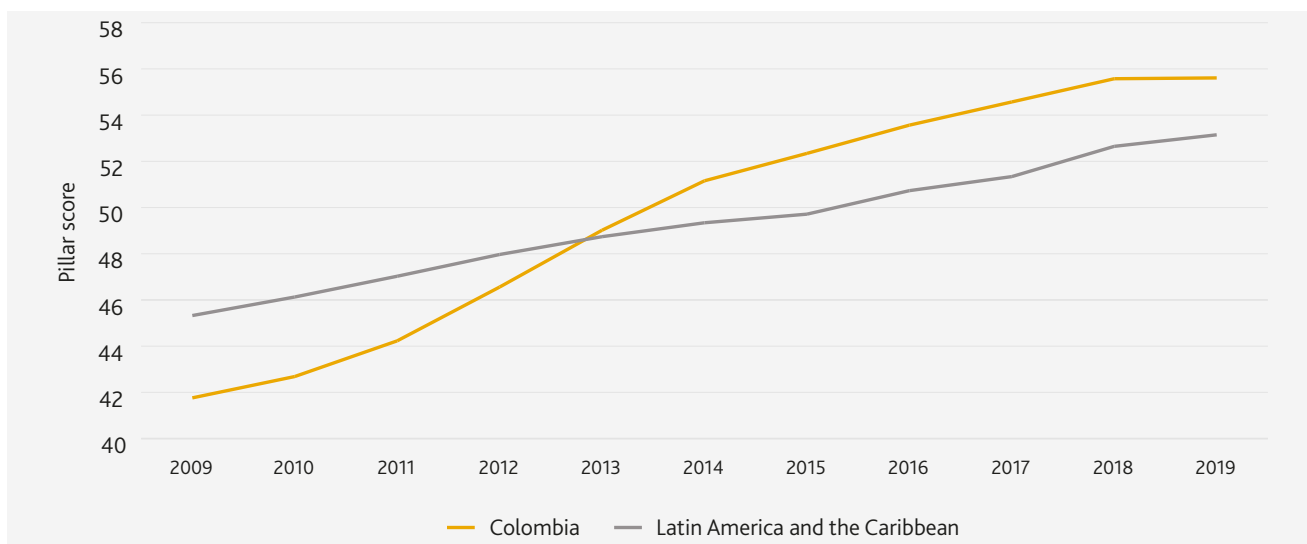
An environment supportive of trade and commerce allows new products and ideas to be tested, funded, commercialized, and delivered easily to customers. Our Market Access and Infrastructure pillar comprises both the critical enablers of trade (Communications, Transport, and Resources) as well as the inhibitors (Border Administration, Open Market Scale, Import Tariff Barriers, and Market Distortions).

The benefits of free trade are often explained in terms of Ricardian comparative advantage and enhancing consumer choice. Trade empowers individuals and encourages competition. Offering choices to consumers and businesses about which products, services, and ideas they can buy domestically and internationally is at the core of free trade.

Equally important is the role that trade provides in communicating new ideas and raising productivity.¹ Competition from international trade ensures that even when a business does not export, it is forced to respond to new ideas from the increased competition in domestic markets.

Colombia ranks 66th for Market Access and Infrastructure, up 18 places over 10 years (see Figure 2). This has been driven by improving Communications, Transport and Open Market Scale. Weak infrastructure and poor border administration are some of the areas constraining Colombia's economic development the most.

Figure 2: Market Access and Infrastructure score



¹ Sebastian Edwards, "Openness, productivity and growth: What do we really know?" *The Economic Journal* 108, no.447 (1998), p.383-398.

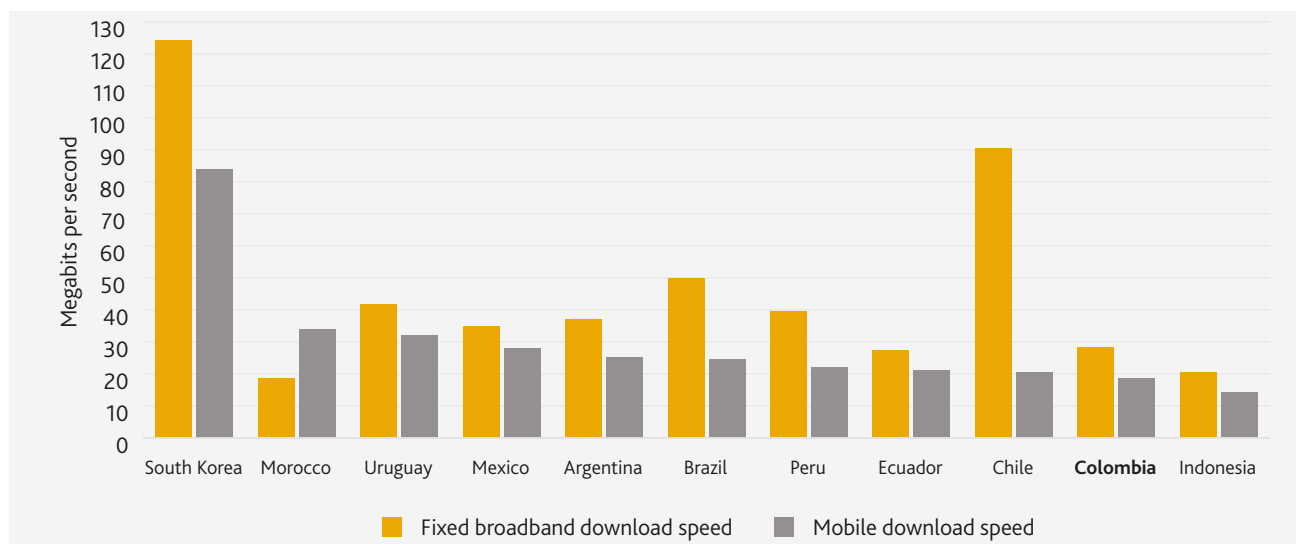
COMMUNICATIONS (COLOMBIA RANK: 61ST)

Colombia ranks 61st in Communications, up from 64th 10 years ago. There is high use of mobile phones, including to access the internet, reaching 12.4 million mobile internet subscriptions.² There are 32.3 million unique subscribers for cell phones.³ President Duque has promoted the idea of the “Orange Economy”, which is heavily dependent on better communications infrastructure. The government has been aiming to improve infrastructure through the National Development Plan, the ICT Modernization Law, the ICT Plan, the CONPES documents on Big Data and digital transformation and artificial intelligence, among other initiatives.⁴

One of the recent positive developments has been the auctioning of different spectrum licences, which should improve the provision of mobile internet.⁵ However, fixed broadband use is low and high-speed internet is relatively restricted, and there is the need to improve last-mile connectivity into homes, especially in light of the country’s complicated geography (see Figure 3). There have been efforts to improve this, such as the government driving a “Last Mile programme” that aims to an additional 500,000 households to internet.⁶

However, internet speeds and costs are hampered by much of the traffic being exchanged outside the country and little hosting of local content, as there is only one internet exchange point in Colombia. As a result, only around 10% of Colombian web content is hosted in Colombia, with around two-thirds hosted in the US.⁷

Figure 3: Download speeds in selected countries



Source: Speedtest

2 “Boletín Trimestral de las TIC Enero de 2020,” *Ministerio de Tecnologías de la Información y las Comunicaciones*, República de Colombia, January 2020, pg.29.

3 “Country overview: Colombia,” *GSMA Intelligence*, 2017.

4 These policies can be found in the following documents and laws: Ley 1955 de 2019: “Por el cual se expide el Plan Nacional de Desarrollo 2018-2022. ‘Pacto Por Colombia, Pacto por la Equidad’”; Ley 1978 de 2019: “Por la cual se moderniza el Sector de las Tecnologías de la Información y las Comunicaciones -TIC, se distribuyen competencias, se crea un Regulador Único y se dictan otras disposiciones”; Documento CONPES 3920: “Política Nacional De Explotación De Datos (Big Data),” April 17, 2018; Documento CONPES 3975: “Política Nacional Para La Transformación Digital E Inteligencia Artificial,” November 8, 2019.

5 “Colombia awards three operators bandwidth in \$15 billion auction,” *Reuters*, December 21, 2019.

6 Documento CONPES 3968: “Declaración De Importancia Estratégica Del Proyecto De Desarrollo, Masificación Y Acceso A Internet Nacional, A Tráves De La Fase Ii De La Iniciativa De Incentivos A La Demanda De Acceso A Internet,” August 30, 2019.

7 Verena Weber, “Current Trends in IXPs, Hosting, and Cloud Computing” *OECD*, last accessed April 22, 2020, https://www.oecd.org/uploads/images/files/02%20Verena_print.pdf.

There are taxes on the import of some handsets and specific taxes on telecom companies.⁸ There are also significant barriers to entering the market for domestic and foreign firms including commercial presence requirements and economic needs tests.⁹

Finally, while there has been reform of the regulator, it is still less independent than the OECD norm. At present the Ministry for Telecommunications (MinTIC) has a number of powers, such as the ability to inspect and issue radio spectrum permits, that, according to the OECD, should belong to the regulator to ensure decisions are free from political influence. Furthermore, the Minister for Telecommunications sits on the regulator's board of commissioners, compromising its independence.¹⁰

Opportunity

1. Increase the amount of internet exchanges in Colombia.¹¹ Lower the costs of using local IXPs for firms into the market and segments of the market to encourage Colombian companies to host content in Colombia.¹²
2. Continue to invest in fixed broadband infrastructure, especially improving last-mile connectivity, and increasing fixed broadband access into homes.
3. Lower the costs to entering the mobile market for foreign and local firms by reducing commercial presence requirements and costs for spectrum permits.
4. Consider steps to make the regulator more independent of MinTIC and the Minister.¹³
5. Review import duties on handsets and lower tax burden on telecoms companies.¹⁴

RESOURCES (COLOMBIA RANK: 83RD)

In Colombia, 59% of electricity is provided by private companies.

Colombia has seen an improvement in its Resources score over the last 10 years, rising from 85th to 83rd. There is improvement in supply and access of electricity, with only a small proportion of the country lacking access to electricity. There is also high private participation in the electricity sector, with 59% of electricity generated by private companies, 23% by public companies, and 18% by mixed ownership companies.¹⁵

However, compared to other countries, electricity power consumption per capita is just 1,312kWh per year, which is significantly less than the Latin American average of 2,086kWh.¹⁶ Additionally, long term reliability is affected by the dependence on hydro power, which makes up 64% of generation capacity.¹⁷ Furthermore, some future generation capacity has been delayed by the damage done to the Ituango dam (Hidroituango), which is still being built. The government is seeking to address this with power auctions for renewable energy. Additionally, in 2018 the water and gas regulatory commission (CREG) allowed small-scale providers selling power back to the grid using renewable sources.¹⁸

8 "OECD Reviews of Digital Transformation: Going Digital in Colombia," *OECD*, 2019, p.49.

9 "2019 Investment Climate Statements: Colombia," *U.S. Department of State*, 2019.

10 "OECD Reviews of Digital Transformation: Going Digital in Colombia" *OECD*, 2019, p.43-44.

11 *Ibid.*, p50.

12 *Ibid.*, p.40.

13 *Ibid.*, p.50.

14 *Ibid.*, p.9.

15 "Informe Mensual de Variables de Generación y del Mercado Eléctrico Colombiano," *UPME*, August, 2018.

16 "Electric power consumption per capita (kWh per capita)," *World Bank*, last accessed 27 November, 2019, <https://data.worldbank.org/indicator/EG.USE.ELEC.KH.PC>.

17 "Colombia - Electric Power and Renewable Energy Systems," *Export.gov*, October 16, 2019.

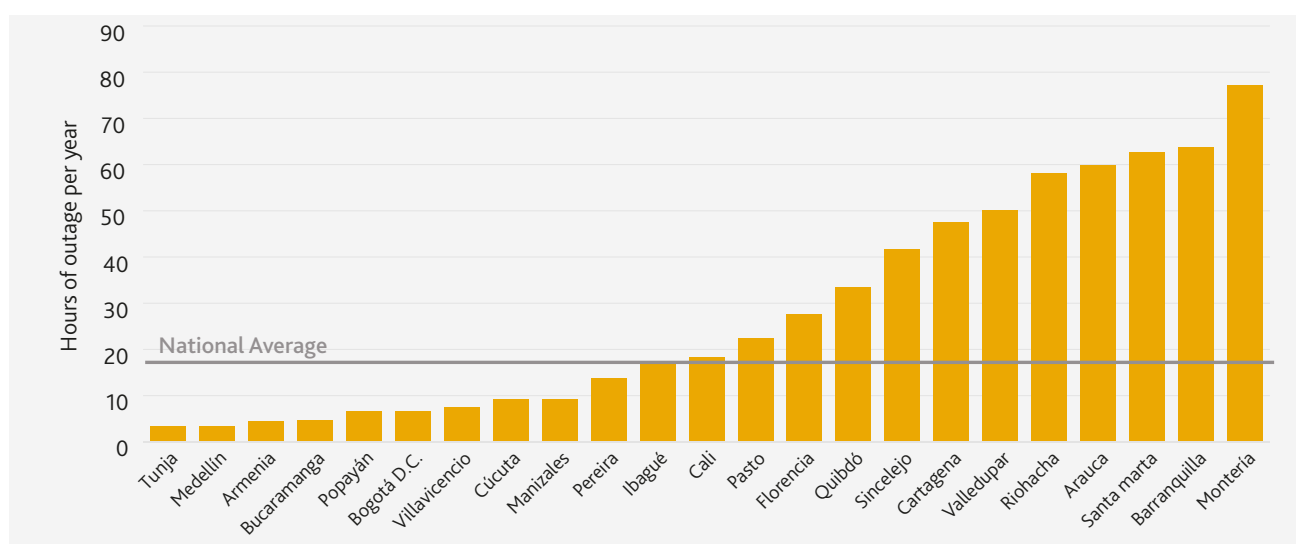
18. Ministerio de Minas y Energía, "Por la cual se regulan las actividades de autogeneración a pequeña escala y de generación distribuida en el Sistema Interconectado Nacional", Comisión de Regulación de Energía y Gas, Resolución No. 030 De 2018, February 26 2018.

In cities, access to electricity is universal. In rural areas 98% have access, but there are a number of areas without a 24-hour supply.¹⁹ Under the peace agreement with FARC, the government has committed to expand electricity coverage and consult with communities to decide on the right energy source for that area.²⁰

Additionally, reliability is particularly poor in the north and rural areas. For example, Bogota saw around six hours of interruption in 2018, whereas Monteria saw 77 hours, and Barranquilla saw 63 hours of interruption (see Figure 4).²¹ This disparity is primarily to do with the poor transmission infrastructure in these areas. Colombia has initiated the Transmission Expansion Plan 2015-2029 to improve this network.²²

Despite high annual rainfall, Colombia performs poorly in the provision of water supplies. Irrigation infrastructure is generally inadequate, and the amount of Colombia's land that is irrigated is much lower compared to its regional peers. Out of 18.4 million hectares that could be irrigated, there is a coverage of just 1.1 million (6%).²³ This compares to a coverage rate of potential arable land of 66% in Mexico, 44% in Chile, 18% in Brazil, and 15% in Argentina.

Figure 4: Power outages by region (SAIDI Index)



Source: Superservicios

19 "Access to electricity (% of population)," *World Bank*, last accessed 27 November, 2019, <https://data.worldbank.org/indicator/eg.elc.accs.zs>; "El mapa de 1.710 poblados que aún se alumbran con velas en Colombia" *El Tiempo*, last accessed on April 24, 2020, <https://www.eltiempo.com/colombia/otras-ciudades/los-lugares-que-aun-viven-sin-energia-electrica-en-colombia-325892>

20 Lisa Viscidi, "Peace in Colombia's Countryside? First, Turn On the Lights" *Americas Quarterly* 11, no.4 (2017).

21 "Diagnostico Calidad Servicio 2018," *Superservicios*, November 2019.

22 "Expansion Plan of Reference Generation Transmission 2015-2029," *UPME Portal*, Minenergia, last updated April 17, 2020.

23 "En 150 mil hectáreas se desarrollarán proyectos de infraestructura de riego y drenaje para impulsar agro colombiano," *DNP Web Portal*, June 14, 2019.

Opportunity

1. Increase power supply and distribution and reduce reliance on hydropower.
2. Improve transmission and distribution infrastructure, focusing particularly on ensuring the success of projects that have been commissioned on the Atlantic coast, such as the new substation and powerlines in the Bolivar department.
3. Increase power supply in rural areas and continue to increase off-grid generation from small-scale renewable energy projects, which are cleaner and often more economically competitive.²⁴
4. The government can also clarify rules on consulting local communities to build energy infrastructure and educate people about the risks and benefits of different types of electricity projects, while also taking into account the need for proper consultation and balancing environmental risks with economic development.²⁵
5. Colombia can continue to invest in irrigation infrastructure, focusing on increasing private investment in underserved irrigation districts.

TRANSPORT (COLOMBIA RANK: 81ST)

Colombia ranks 81st in the world for the quality of its transport infrastructure, improving by 12 places over the last decade. Colombia has long faced a problem building infrastructure, both because of its complex geography as well as getting requisite political will for major projects. It is often said that it is cheaper to ship oranges from Barranquilla to China than to inner parts of Colombia.

The biggest challenge is the poor quality, and general lack, of roads across Colombia. For example, 17% of all paved primary roads are in bad or very bad condition, and just 6% of tertiary roads are considered to be in good condition (see Figure 5).²⁶ This is partly due to weak management and investment in road infrastructure by municipal governments. Within cities, roads can also be poor—in 2018 Bogota was ranked the third worst city for congestion in the world.²⁷

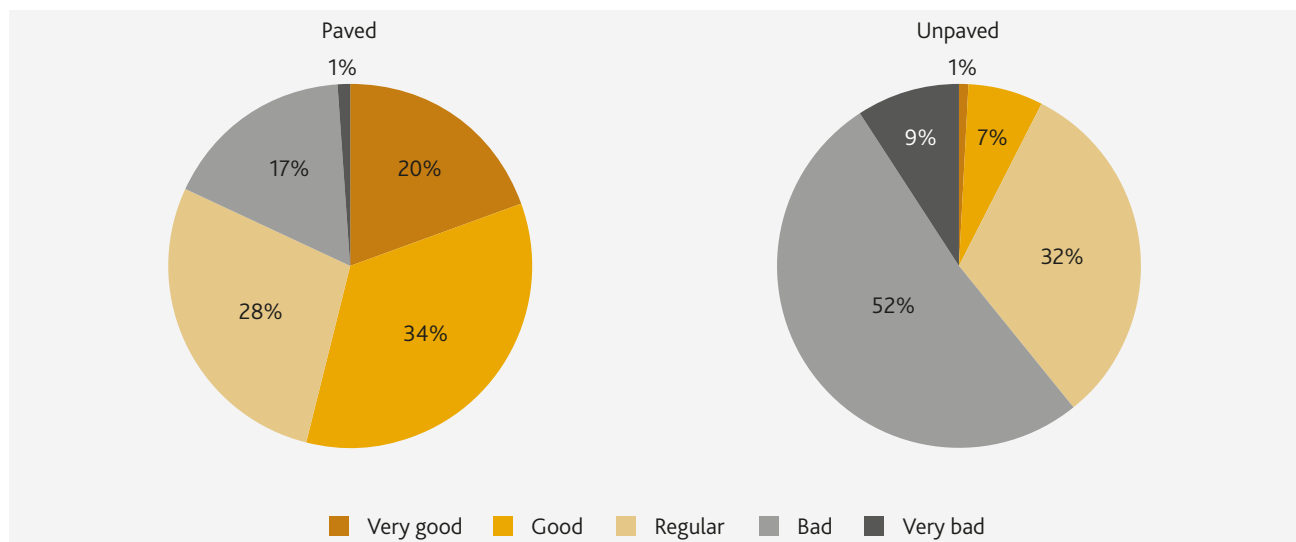
24 Ibid.

25 Ibid.

26 MJ Woof, "Colombia develops tertiary roads plan; cost overruns for La Linea Tunnel," *World Highways*, January 28, 2020.

27 "INRIX 2019 Global Traffic Scorecard," *INRIX*, last accessed April 21, 2020.

Figure 5: Quality of paved and unpaved primary roads



Source: Instituto Nacional de Vias

The government has recently announced the first of its fifth generation road projects.

The government has launched its Intermodal Transport Master Plan (Plan Maestro de Transporte Intermodal—PMTI) to redevelop large parts of its infrastructure. The government has utilised private investment, particularly in the form of PPPs, to finance projects. The most recent of these is the fourth generation (4G) programme, a public-private partnership programme, which has seen 17 out of 30 projects funded (amounting to \$4.8 billion).²⁸ It has recently announced the first of its fifth generation road projects, with the first project being the Cali-Palmira access roads project in Valle del Cauca region.²⁹

Railways have been neglected historically, as the government turned its focus to roads. The challenge is that the country does not have a single network, and the central cities are disconnected from the ports on the coast. The government is planning greater investment into rail, with the aim of linking the centre of the country with Colombia’s main ports. By 2022, the government intends for investment in rail to be at least 5% of total transport investment.³⁰

There has been substantial private investment into ports and port infrastructure, though the private development of ports has meant there is no central strategy for port development. Some ports also do not offer the full range of services to shipping companies, such as efficiently exchanging information with the shipping lines, vessels, customs, clients, ensuring operational standards and data flow, and offering a portfolio of services to the shipping lines and their customers.³¹

Just one percent of all cargo is transported by river.³² The primary problems with using rivers is the lack of depth and lack of navigability. A 2014 project to dredge the Magdalena river, which was led by Odebrecht, was later scrapped.³³ The project could have increased cargo traffic fivefold by 2029.

28 “OECD Economic Surveys: Colombia Overview,” *OECD*, October 2019.

29 “First-generation road concession launched in Colombia,” *InfraPPP*, April 8, 2020.

30 “Strategy begins to reactivate rail transport in Colombia,” *DNP Web Portal*, August 1, 2019, <https://www.dnp.gov.co/Paginas/Arranca-estrategia-para-reactivar-el-transporte-ferroviario-en-Colombia.aspx>.

31 “Colombia: South America’s Best Maritime Connectivity?” *FullAvante News*, October 28, 2018.

32 “The Report: Colombia 2019,” *Oxford Business Group*, 2019, p. 103.

33 “Colombia to scrap Odebrecht’s Magdalena River dredging contract,” *Reuters*, February 22, 2017.

Air travel is an extremely popular form of travel and Colombia's El Dorado Airport ranks 32nd in the world based on connectivity, the second highest ranking in Latin America after Mexico.³⁴ With this increasing popularity is the threat of capacity constraints at major airports around the country. According to IATA in 2019, if there is no increase in capacity, all four airports will be saturated in the next few years (note this was pre-coronavirus).³⁵ Air freight is also frequently used to move goods quickly around the country, although it still accounts for just 0.1% of all freight.³⁶

In terms of further developing transport infrastructure, Colombia's PPP regulation is well regarded internationally—for example the Infrascope survey ranks Colombia's PPP-enabling environment as fourth best out of 69 developing economies.³⁷ The investment has attracted major international investors, such as Macquarie Capital, which has acquired the Briceño-Tunja-Sogamoso highway concession.³⁸

However, a lack of transparency in the infrastructure procurement process has provided opportunities for corruption. For example, the fall-out from the Odebrecht scandal has caused delays to some much-needed infrastructure. There can also be a lack of project management maturity around budgeting, procurement, and auditing of major government projects, leading to projects not being completed to an adequate standard.³⁹

Opportunity

1. Continue to attract investment for the Intermodal Transport Master Plan. Focus attention on roads that have the most economic opportunities, especially the 4G and 5G PPP programme of roads across the country. Consider implementing additional measures such as electronic tolls and electronic weighting machines to improve revenue collection.
2. Connect the discrete railways to create a larger network, connecting the core of the country with the coast.
3. Focus on deepening ports and developing infrastructure, so that ports can become regional logistics centres offering a range of services to shipping companies.
4. Continue to fight corruption in the procurement process, particularly by improving the transparency of the bidding process.
5. Invest in project management and procurement capability in government ministries, particularly around the procurement, budgeting, and auditing process.
6. Develop a national port strategy and consider creating a port ministry responsible to develop and implement this strategy.
7. Improve the navigability of the Magdalena River to connect the Caribbean coast (the north of the country) with the centre of the country.

34 "Mega Hubs 2019," OAG, September 2019.

35 "The Value of Air Transport in Colombia," IATA, July 2019.

36 "Estadísticas," *Mintransporte*, accessed April 27, 2020, <https://www.mintransporte.gov.co/documentos/15/estadisticas/>

37 "Measuring the Enabling Environment for Public-Private Partnerships in Infrastructure," *Infrascope*, accessed April 27, 2020, <https://infrascope.eiu.com/>

38 "Macquarie acquires Colombian toll road," *LatinFinance*, February 13, 2020.

39 Kasra Daheshpour and Siân Herbert, "Infrastructure project failures in Colombia," *K4D Helpdesk Report*, August 9, 2018, p.2.

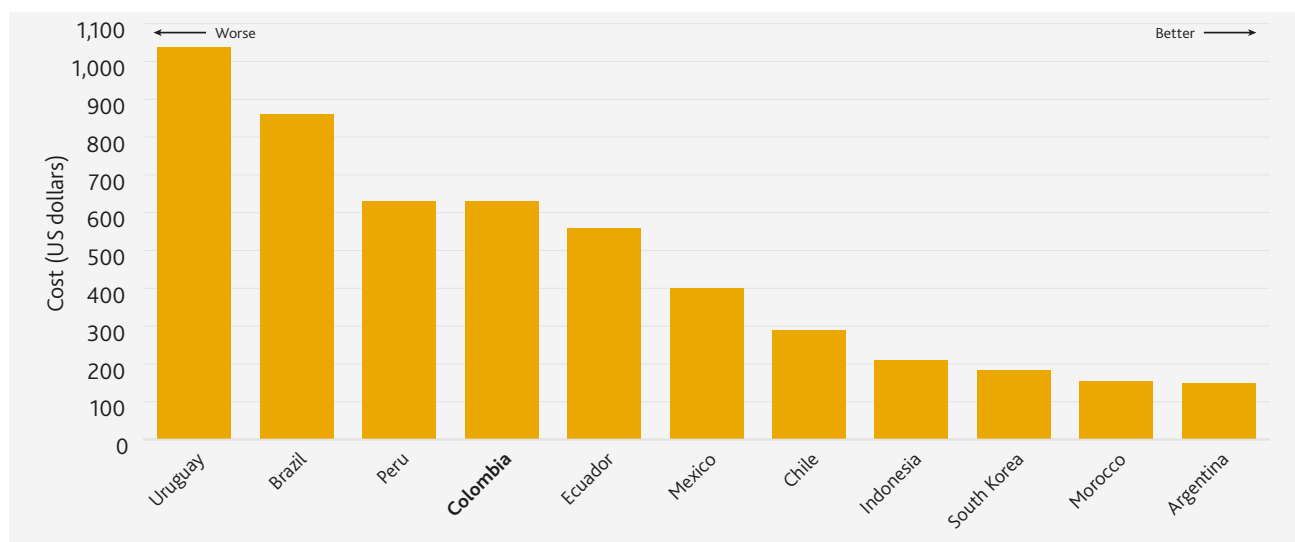
BORDER ADMINISTRATION (COLOMBIA RANK: 137TH)

Colombian Border Administration, although ranked 137th, has improved slightly. Colombia's single window system works relatively well and has made it easier to transport goods into the country by simplifying 135 different procedures and 35 different forms into a single step.⁴⁰ Computerising import procedures has reduced the number of forms needed and sped up the time needed to issue licences.⁴¹ Through its Estado Simple, Colombia Agil programme Colombia is implementing a number of border administration improvements, such as a simultaneous inspection programme which reduces cargo review times from three days to one.⁴²

However, Colombia has not kept pace with the progress of peer countries, and hence its ranking has fallen nine places over the last decade. The single window system is not yet well integrated with other customs processes, which causes major delays. In particular, the Colombian Agricultural Institute (ICA), the National Food and Drug Surveillance Institute (Invima) and the Superintendence of Industry and Commerce (SIC) have different risk systems.⁴³ Furthermore, the single window system is only partially integrated with the systems of other nations of the Andean Community.

It can still be very complex to import and there are often physical inspections of goods, which significantly slow down the time it takes to bring goods into the country and imposes significant costs. For example, wine exports can take up to 15 days to clear (which imposes storage costs), importers must submit at least eight forms to eight different agencies.⁴⁴ In 2019, the average cost of export in terms of documentary and border compliance stood at \$630, higher than that of Mexico (\$400), Chile (\$290), and Argentina (\$150). The efficiency of customs clearance is at 132nd in the world (see Figure 6).

Figure 6: Cost to comply with border regulations and procedures



Source: WBDB

40 "Latin America and the Caribbean 2019: Policies for Competitive SMEs in the Pacific Alliance and Participating South American Countries" *OECD*, 2019, p.346.

41 World Bank Doing Business Report.

42 <http://www.colombiaagil.gov.co/tramites/intervenciones/autorizacion-de-operaciones-de-comercio-exterior-e>

43 "National Report of Competitiveness: 2017-2018," *Private Council of Competitiveness*, October 12, 2017, p.274-275.

44 "The costs of Colombia's closed economy" *The Economist*, February 6, 2020.

One of the tools to speed up border processes is an anticipated customs declaration, which allows for imports to be declared in advance.⁴⁵ Colombia has started to implement anticipated customs; but at present only 11.6% of firms use an anticipated customs declaration.

Opportunity

1. Continue to reduce the number of physical inspections required. In particular, continue to consolidate the simultaneous inspection system to streamline processes as much as possible.⁴⁶
2. Align the risk management systems for ICA, the Invima and the SIC to increase the number of low risk goods being granted automatic licences.⁴⁷
3. Continue to integrate trade systems within the Andean community and continue to offer training to other members.
4. Promote use of anticipated customs declaration, which can reduce import times by an average of 2.4 days.
5. Digitise procedures to speed up and improve their traceability between different government institutions.
6. Facilitate on-line logistic services and customs services to ease international trade and FDI.

OPEN MARKET SCALE (COLOMBIA RANK: 4TH)

Colombia's high ranking is due to recent trade deals agreed with the EU and U.S., which came into force in 2012 and 2013.

Colombia ranks fourth globally in Open Market Scale, having climbed 77 places in 10 years, as a consequence of trade deals with the US and the EU, which came into force in 2012 and 2013. Its trade deals provide good access to the rest of the world. Colombia has also been a part of regional trade blocs such as Mercosur and the Andean Community.

However, the challenge for Colombia is not signing trade deals, but making use of them. So far, trade deals have increased imports far more than exports. The trade balance has not been positive since 1999, and has declined from -0.9% of GDP in 2011 to -4.9% in 2018.⁴⁸ In 2017 Colombia exported \$39.1 billion worth of goods and services, which is the 55th highest in the world. The non-mineral component of these exports has increased from \$10 billion in 2000 to \$28 billion in 2017.

One of the complicating factors is that Colombia is a member of two major trade blocs: the Pacific Alliance and the Andean Community. It is also an associate member of Mercosur.

One of the challenges is trade strategy. Its trade policy has not always focused on exporting goods that can compete or developing industries that could compete globally.⁴⁹ The government has created a programme called "Factories for Internationalization" (Fábricas de Internacionalización), which aims to work with business to speed up their export processes and enter new overseas markets.⁵⁰

45 "Informe Nacional de Competitividad 2019-2020," *Consejo Privado de Competitividad*, 2019, p 289.

46 "National Report of Competitiveness: 2017-2018," *Private Council of Competitiveness*, October 12, 2017.

47 Ibid.

48 "External balance on goods and services (% of GDP)- Colombia" *World Bank*, last accessed April 22, 2020, <https://data.worldbank.org/indicator/NE.RSB.GNFS.ZS?locations=CO>

49 This point was made by one of our reviewers

50 "Fábricas de Internacionalización," *ProColombia*, last accessed April 24, 2019, <https://fabricas.colombiatrade.com.co/>

Opportunity

1. Refine trade agreements, so that they match the areas where Colombia wants to export.
2. Promote an export strategy to diversify more advanced exports, especially manufacturing.
3. Work within Latin America to align trade alliances and regional organisations, particularly the Andean Community, Pacific Alliance, and Mercosur.

IMPORT TARIFF BARRIERS (COLOMBIA RANK: 71ST)

Despite widespread trade deals, Colombia still applies a wide range of tariffs. It ranks 71st in Import Tariff Barriers, a rank below its 2009 placing. It has improved its average applied tariff rate and improved the share of imports free from tariff duties.

In common with many countries (including the U.S. and EU), the government uses tariffs and quotas to protect industries, particularly agriculture and textiles. For example, the Ministry of Agriculture enforces a quota on certain grains, where the import of grain at zero-duty is limited and the importer must also purchase locally produced grains.⁵¹ Even in countries with which it has trade deals, the Colombian government still seeks to protect these industries. Under the EU FTA, Colombia has excluded several sensitive products from the tariff reduction process, such as maize, rice, sorghum, soybeans, pork and poultry.⁵²

As a member of the Andean community Colombia operates a price band system that aims to control the effect of international price fluctuations on many agricultural goods.⁵³

However, in both textiles and agricultural sectors the application of tariffs raises the costs of goods for consumers without making the protected industry more competitive. In textiles for example, it is estimated that a proposed raised tariff could increase prices for consumers by up to 25%, yet historically the industry has always been less competitive than other countries. There is also a high dispersion of tariffs. For example, in milk and dairy products, tariffs vary between 5% and 95%.⁵⁴

Opportunity

1. Reduce tariffs and quotas in main protected areas, particularly agriculture and textiles.
2. In protected industries, focus policy on making those industries more internationally competitive through promoting increased productivity. For example, the government should ensure the Agricultural Diversification Strategy and the Coffee Productivity Strategy are adequately funded.⁵⁵
3. Reduce the tariff dispersion on goods.

51 "Trade Barriers in Colombia" *globaltrade.net*, Last updated March 10, 2011,

<https://www.globaltrade.net/international-trade-import-exports/ff/business/text/Colombia/Trade-Policy-Trade-Agreements-Trade-Barriers-in-Colombia.html>.

52 "OECD Review of Agricultural Policies: Colombia 2015," *OECD*, April 27, 2015, P.165-67.

53 *Ibid.* p.171.

54 "Informe Nacional de Competitividad 2019-2020," *Consejo Privado de Competitividad*, 2019, p. 285.

55 "Palabras del Presidente Iván Duque Márquez en el XXXVII Congreso Nacional Arrocero," *Federación Nacional de Arroceros*, December 6th, 2019, <http://www.fedearroz.com.co/noticias-docs/DISCURSO%20Presidente%20Ivan%20Duque%20-%20CNA%202019.pdf>; "Comportamiento de la Industria Cafetera Colombiana 2018," *la Federación Nacional de Cafeteros de Colombia*, 2018; "Economic Axis," *la Federación Nacional de Cafeteros de Colombia*, last accessed April 21, 2020, <https://federaciondefeteros.org/wp/sostenibilidad/eje-economico/>.

MARKET DISTORTIONS (COLOMBIA RANK: 96TH)

Colombia's high non-tariff barriers are a function of both bureaucracy and deliberate protectionist policy.

Colombia's Market Distortions are ranked 96th, improving 16 places since 2009. It has 613 non-tariff measures (89th in the world) and business executives rate the country 140th for the extent that non-tariff barriers affect the extent to which imported goods can compete. The government has recognised the need to tackle at least some of its non-tariff barriers, and created a commission comprising of ICT Ministry and National Planning Department members to analyse non-tariff barriers and apply Regulatory Impact Analysis to regulations that might inhibit trade for the period between 2016-2019.⁵⁶

Colombia's high non-tariff barriers are a function of both bureaucracy and deliberate protectionist policy. Agriculture is one of the most protected industries, and this has been the result of intense lobbying by various actors, which some argue is due largely to the "highly politicised agricultural institutions which for the most part lack technical capacity," including the Ministry of Agriculture.⁵⁷ Usually, these protectionist policies have not led to improved productivity or increased exports. Generally, it has been found that the protectionist bias is reduced when there are more technical agencies are involved in promoting consumer protection. It is also worth noting that government and private sector coordination may tend towards a protectionist bias where formal channels do not operate well.

In terms of specific barriers, many goods require additional licencing processes. While most licencing is automatic, agricultural goods generally require additional import licences, particularly if they compete directly with domestic producers.⁵⁸

Additionally, there are several standards for some goods, including agricultural goods. For example, there is a zero-tolerance policy for salmonella found in U.S. chicken, and there are strict standards imposed on U.S. corn-based ethanol, which is due to lobbying by the Colombian sugar industry (to favour sugar-based ethanol).⁵⁹ There are also some labelling requirements, although these are not overly onerous.

Opportunity

1. Ensure that the competition authority has a role in advising on non-tariff measures, with the explicit role of consumer protection.
2. Promote the elimination of non-tariff measures, carrying on the work done by the commission created in 2016.
3. Ensure there are clear, transparent, channels of communication for importers affected by tariffs on all goods, especially agricultural goods.
4. Make licencing decisions more automated.
5. Remove import restrictions, unless there are clear and transparent criteria for their use, (such as environmental protection, health, public safety, unfair practices, and dumping).
6. Remove restrictive standards on agricultural goods and plant-based goods, unless there is a clear and reasonable public health risk.

⁵⁶ "Informe Nacional de Competitividad 2019-2020," *Consejo Privado de Competitividad*, 2019, p. 287.

⁵⁷ María Angelica Arbelaez et al, "Protecting 'sensitive' agricultural products in Colombia: a political economy approach," *Económica: Investigación Económica y Social* 48, no.1 (June-December 2018) p.200

⁵⁸ "Import Procedures in Colombia," *Embassy of India*, last accessed April 27, 2020, https://pharmexcil.com/data/country_files/Procedure-for-Import-Declaration-final.pdf

⁵⁹ "Colombia- Trade Barriers," *Privacy Shield Framework*, last accessed April 21, 2020, <https://www.privacyshield.gov/article?id=Colombia-Trade-Barriers>.





INVESTMENT ENVIRONMENT (COLOMBIA RANK: 71ST)

Ideas and businesses need investment to develop and grow effectively. Long-established businesses and new entrepreneurs alike need investment, and investors need the protection and confidence to back them. If investors do not have secure property rights, investment becomes scarce.

The growth in international financial market sophistication over the last four decades has been considerable. Economists' understanding of the role of capital in economic growth and prosperity has also grown over this period.¹ A good Investment Environment will ensure that domestic and foreign financing is available for commercial ventures, allowing micro-enterprises to grow into Fortune 500 companies.

Colombia ranks 71st for its Investment Environment. Although it has improved its performance over the last decade, Colombia's Investment Environment is its only pillar to have declined in the global rankings, due primarily to a weakening Financing Ecosystem and deteriorating Restrictions on International Investment. Some of the most binding constraints to investment and growth are in the poorly performing Contract Enforcement.

PROPERTY RIGHTS (COLOMBIA RANK: 60TH)

Colombia's Property Rights have improved with peers, maintaining its 60th ranking over the last 10 years. Where land is regulated and registered, which is usually closer to urban areas, land rights are relatively good, and state expropriation is uncommon. Colombia has also set up several mechanisms to deal with land wrongfully taken, so it can be returned to original owners. Colombia ranks 87th for its intellectual property regime, and has recently made some improvements, including extending the term of copyright protection, imposing civil liability for evading technological protections, and strengthening the enforcement of copyright and other IP rights.²

In remote rural areas, land rights can be poor. Poor land rights were a cause of the ongoing conflict with FARC, and the conflict has also caused many to be alienated from their land. Over the course of its long conflict, violence and forced displacement has led to dispossession of over eight million hectares.³ There are two main problems. Firstly, even where land is registered it may have been acquired illegally, but subsequently bought in good faith.⁴ Secondly, much rural land is unregistered because the cadastral land record is incomplete, and therefore rights over that land are tentative at best, and non-existent at worst.⁵ According to USAID, 6 out of 10 rural plots do not have a formal title.⁶ This poor protection has contributed to Colombia having some of the most concentrated land ownership in the region, with estimates that 1% of the largest farms in the country contain 81% of Colombian land.⁷

Poor land rights were both a cause and consequence of the conflict with FARC.

1 Anne O. Krueger, "Financial markets and economic growth," *International Monetary Fund*, September 28, 2006.; Stanley Fisher, "The importance of financial markets in economic growth," *Citigroup*, Speech by Campos de Jordao, August 21, 2003.

2 "2019 Special 301 Report," *Office of the United States Trade Representative*, April 2019.

3 "Divide and Purchase: How land ownership is being concentrated in Colombia," *Oxfam*, September 27, 2013 p.3.

4 Maria Fernanda Lizano, "Así se disputan la tierra en Colombia," *Mongabay*, July 31, 2018.

5 "OECD Economic Surveys: Colombia Overview," *OECD*, October 2019, p.35

6 "Colombia will improve its rural-urban cadastre system with IDB support" *Inter-American Development Bank*, September 13, 2019; Documento CONPES 3950: "Estrategía Para La Implementación De La Política Pública De Catastro Multipropósito," *March* 26, 2019.

7 Maria Fernanda Lizano, "Así se disputan la tierra en Colombia," *Mongabay*, July 31, 2018.

One of the major projects underway is the implementation of a multipurpose cadastral system, with one of the goals being to update 60% of cadastral land by 2022 and 100% by 2025, which is ambitious given that only 5% of land registration is up to date.⁸ Rural farmers are also being given the opportunity to register their land for free.⁹ According to the OECD, the cadastre would be “the starting point to promote a better use of land, as it will improve legal certainty and facilitate transactions. This would improve incentives for a better use of land according to its suitability and help to attract private investment.”¹⁰

There are still improvements to be made to intellectual property rights. For instance, there are additional commitments under the United States-Colombia Trade Promotion Agreement (CPTA) that need to be acted upon. There are still a large amount of counterfeit goods and high rate of digital piracy.¹¹ Additionally, trademarks can still take some time to be granted.¹²

Opportunity

1. Continue to register rural land in the national land registry.
2. Continue to implement the multipurpose cadastre. Ensure it is appropriately resourced to keep land records up to date.
3. Continue to support restitution process for land rights, to ensure widespread land ownership.
4. In intellectual property, implement parts of the CPTA relating to IP rights.

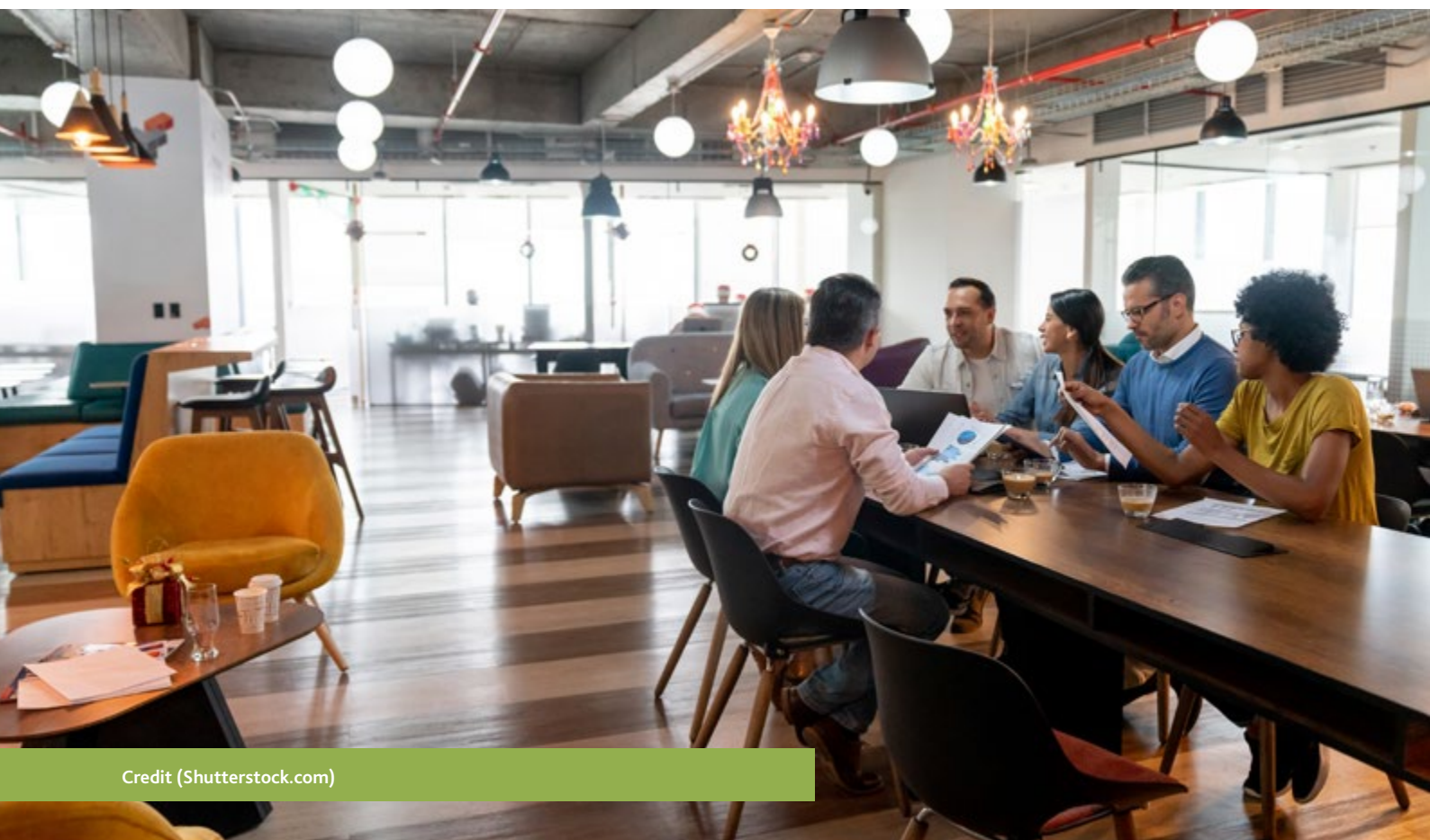
8 Edna Cristina Bonilla, “Catastro multipropósito: para qué sirve y cómo se haría” *razonpublica.com*, July 29, 2019.

9 “Land and Rural Development Program,” *USAID*, last accessed January 2019, https://www.usaid.gov/sites/default/files/documents/1862/LRDP_FactSheet_040317.pdf

10 “OECD Economic Surveys: Colombia Overview,” *OECD*, October, 2019.

11 “Colombia Country Commercial Guide: Protecting Intellectual Property,” *Export.gov*, October 13, 2019.

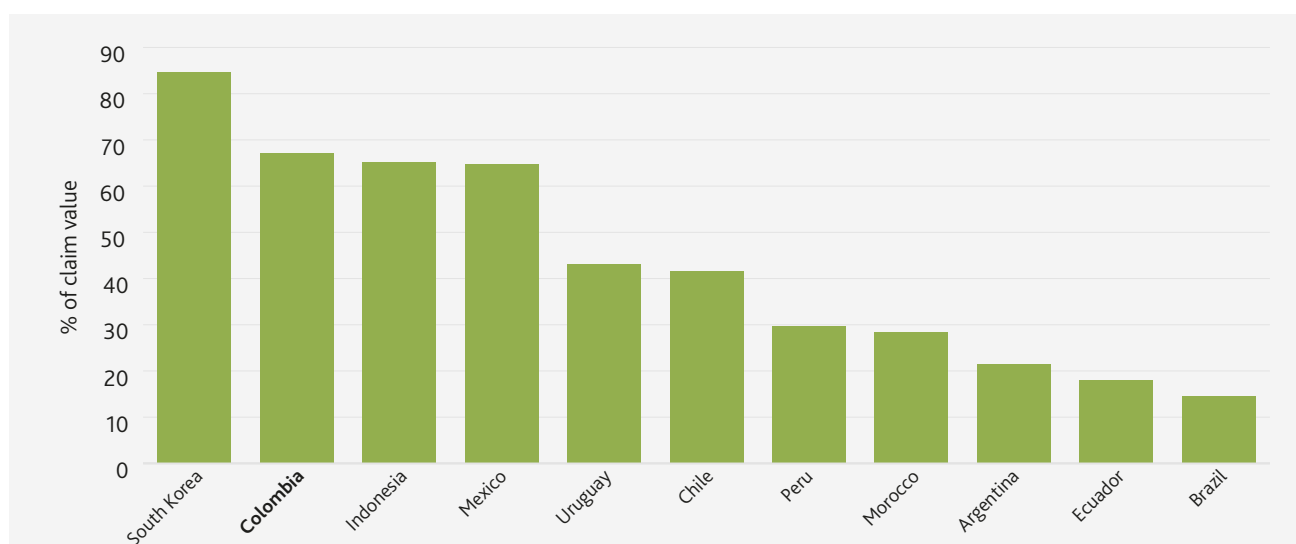
12 Mateo Jaramillo, “El registro marcario retrasa mínimo seis meses la entrada de nuevos productos,” *Asuntos:Legales*, November 19, 2013.



INVESTOR PROTECTION (COLOMBIA RANK: 30TH)

As in many developing countries, ownership of companies in Colombia is highly concentrated, and therefore good corporate governance is critical. Colombia's Investor Protections are a relative strength, with the country ranking 30th, up from 39th 10 years ago. The issuance of the Código País (code of best corporate practices) in 2007 was important for Colombia's entry into the OECD. There are also good bankruptcy laws in place, meaning that Colombian creditors tend to recover two-thirds of their investment (see Figure 7 below), and the laws also allow for the saving of distressed businesses.¹³ This led to improvements in the recovery of businesses: under the new law, 26% of firms filing for reorganisation were liquidated, compared to 40% under the old law.¹⁴ Furthermore, the adoption of IFRS standards means that auditing and reporting standards are good (although senior executives will need to be trained in how IFRS standards work). As a result, its corporate governance is strong, ranking 30th for the extent of shareholder governance and 13th for conflict of interest regulation.

Figure 7: Insolvency recovery rate



Source: WBDB

There are some marginal challenges. For instance, the commercial code is not always followed. There is also a challenge around the appointment of SOE board members, as many are political appointees and may not have the commercial experience to effectively run a SOE.

Opportunity

1. Ensure the SFC continues to review implementation of Commercial Code (Código País) to establish effective implementation and alignment with G20/OECD Principles of Corporate Governance.
2. Enhance SOE governance practices. In particular, ensure the appointment of board members is done on the basis of competence rather than political reasons.
3. Support training for senior management on new IFRS standards.

¹³ Jorge Castano Gutierrez, "Mejores prácticas de gobierno corporativo en Colombia," *Superintendencia Financiera de Colombia*, November 25, 2019.

¹⁴ "Resolving insolvency," *World Bank Doing Business*, 2012, p.3.

CONTRACT ENFORCEMENT (COLOMBIA RANK: 107TH)

Contract Enforcement in Colombia is weak, ranking 107th. Nonetheless, Colombia ranks well on the quality of the judicial system, and the quality of alternative dispute resolution.

However, the administration of justice is extremely poor. Colombia performs particularly poorly for the time it takes to take a case through courts and the associated cost. It takes 1,288 days to enforce a contract, in comparison to 774 days in Latin America and the Caribbean, and 590 days in OECD countries. Even once a judgement has been delivered, it takes 365 days to enforce. Cost is also a major burden: legal costs amount to 46% of the claim value, compared to the Latin American average of 31% and the OECD average of 21%. The system is overburdened and characterised by ineffective systems and lack of specialisation. The lack of effective systems is exemplified by the fact that there is no comprehensive case management system in use, although there is the intention to roll one out.

There is a lack of specialist commercial courts and lack of a small claims court, and courts are often slowed down by numerous tutela actions.

Furthermore, there is a lack of specialist commercial courts and lack of a small claims court. Additionally, courts are often slowed down by numerous tutela actions (see Rule of Law). There is little triaging of cases to ensure that simple cases can be solved in a much swifter manner. Furthermore, judges are often expected to undertake many administrative tasks in their role, rather than leaving these tasks to specialised administrative staff.¹⁵

This poor performance has led to many businesses turning to alternative dispute resolution, which is highly respected and trusted. Over 70% of large commercial disputes (involving large corporations) are resolved through this mechanism.¹⁶ The most popular venue is the Arbitration and Conciliation Centre, of the Bogota Chamber of Commerce, which hosts 300 arbitration cases and 7,000 mediation cases every year.¹⁷

Opportunity

1. Consider alternative routes or court systems for commercial disputes and also for small claims.
2. Create a triaging system to help classify the type of dispute (and how amenable parties are to settling) to allow for better management of court cases.¹⁸
3. Remove administrative functions from judges, so that these are performed only by specialised administrators.¹⁹
4. Implement electronic case management system for Colombian courts, modernize information and integrate IT systems.²⁰
5. Digitize procedures to speed up and improve the transfer of documents and cases between different government organisations.
6. Consider commercial law training programmes for judges and administrative staff focused on making system fairer and more efficient

15 "Informe Nacional de Competitividad 2019-2020," *Consejo Privado de Competitividad*, October 21, 2019, p.60.

16 David Araque Quijano, Gómez Pinzón Zuleta Abogados S.A.S., "Litigation and enforcement in Colombia: overview," *Thomson Reuters Practical Law*, Law stated as at November 1, 2018.

17 "Mediation Developments in Colombia," *Weinstein International Foundation*, last viewed April 22, 2020, <https://weinsteininternational.org/colombia/colombia-bio/>.

18 Ibid.

19 Ibid., p.60.

20 "Informe Nacional de Competitividad 2019-2020," *Consejo Privado de Competitividad*, October 21, 2019, p. 55.

FINANCING ECOSYSTEM (COLOMBIA RANK: 86TH)

Colombia's Financing Ecosystem ranks 86th. Colombia's banking system is reasonably solid with a relatively low number of non-performing loans, at 4.4% in 2018.²¹ There are several private banks and there is one state-owned bank. These are well regulated, and large companies have reasonably good access to finance. The provision of banking has increased mildly, with 15 banks per 100,000 being roughly on par with the Latin American average.²² There are also willing domestic and international investors. For example Paula Delgadillo, president of the Colombian Association of Private Capital Funds, recently told Reuters that private investment funds operating in Colombia have around \$5 billion available to invest in projects.²³

There are also two key government institutions that have played a role in providing capital and support to entrepreneurs. Innpulsa was created in 2012 to support innovation and competitiveness. In its first four years it channelled \$161 million into support for innovation and entrepreneurship.²⁴ It is situated within Bancóldex, which is responsible for promoting business growth and foreign trade.²⁵

There are still some regulatory improvements needed. While existing regulations around financial supervision and capital adequacy are good, they are not fully aligned with Basel III regulations on the latest capital adequacy ratios.²⁶ There are still several pieces of legislation to be adopted by Colombia's banks to align regulations, which will be implemented over a four-year period (2020-2024).²⁷

While there is increasing use of venture capital, its full potential is held back by poor regulatory structures around its use. Further, attempts to expand the role of the stock market have not been successful. At present, the stock market's capitalisation is around 30% of GDP, lower than several of its neighbours.²⁸

Colombia's Financing Ecosystem rank has declined 20 places over 10 years

Furthermore, Colombia's Financing Ecosystem rank has declined 20 places over 10 years, due to reduced access to finance, as reported by companies. Like in many countries, SMEs struggle to access capital. Despite some improvement in the availability of venture capital, financing is also a major problem for new firms and entrepreneurs. Lack of credit is listed as one of the main reasons SMEs fail or do not grow. The main source of finance for small businesses is accumulated cash, followed by short term debt and then long-term debt.²⁹ Opening up different types of credit for SMEs is crucial. A vibrant entrepreneurial environment requires capital that is willing to bet on new investments. Part of the challenge is the stringent financing regulations, which are intended to prevent abuses but have also had the effect of dampening risk appetite.

The government has a number of schemes available and there are willing lenders. However, the primary problem appears to be the informality of the sector itself and a lack of awareness of available schemes. Furthermore, in rural areas there is a dearth of banks, and demand is mostly met by state-run banks that provide loans or guarantees for agricultural loans.³⁰

21 "Bank nonperforming loans to total gross loans (%)," *World Bank*, last accessed 24 April 2020, <https://data.worldbank.org/indicator/FB.AST.NPER.ZS>

22 "Commercial bank branches (per 100,000 adults)," *World Bank*, last accessed 24 April 2020, <https://data.worldbank.org/indicator/FB.CBK.BRCH.P5>

23 "Private investment funds in Colombia have \$5 billion ready to invest," *Reuters*, March 5, 2020.

24 "Innovation Development in Colombia," *Centre for Public Impact*, March 29, 2016.

25 "About Bancóldex," *Bancóldex*, last accessed 24 April 2020, <https://www.bancoldex.com/about-bancoldex>.

26 "OECD Economic Surveys: Colombia Overview," *OECD*, October 2019, p.19.

27 "IMF Report States Colombia to Introduce Basel Standards from 2020-24," *Moody's Analytics*, May 22, 2019.

28 "Market capitalisation of listed domestic companies (current US\$)- Colombia," *World Bank*, last accessed April 22, 2020, <https://data.worldbank.org/indicator/CM.MKT.LCAP.CD?locations=CO>.

29 Julian Benavides and Luis Berggrun, "Business Financing in Colombia: The Debt and Equity Mix," *Academia Revista Latinoamericana de Administracion*, no4 (2012): p.17-29.

30 "Financing SMEs and Entrepreneurs 2019: An OECD Scoreboard" *OECD*, 2019.

A further major challenge is financial support for entrepreneurs. Lenders are highly risk averse, and while the venture capital market is growing, it is mainly focused on much larger companies. Banks and other lenders are generally unwilling to lend to smaller-scale entrepreneurs. One of the challenges is identifying the risk of lending and there have been systems developed to help assess the default risk of smaller companies, such as the Modelo de Alertas de Sobreendeudamiento.³¹

The use of mobile money and mobile technology is low but growing slowly.

Opportunity

1. Review regulations around venture capital, to attract more domestic investment. Review regulations to ensure the right balance between preventing abuses and encouraging innovation.
2. Encourage greater use of equity capital.
3. Expand government programmes to get credit to SMEs and entrepreneurs, through promoting education and formalisation.
4. Increase the use of modelling, such as the Modelo de Alertas de Sobreendeudamiento (MAS), to evaluate and reduce portfolio risk of microfinancing.
5. Banks should continue to align regulations with Basel III.
6. Encourage greater use of mobile banking, particularly to promote banking in rural areas.

31 "Informe Nacional de Competitividad 2019-2020," *Consejo Privado de Competitividad*, October 21, 2019, p.335.



RESTRICTIONS ON INTERNATIONAL INVESTMENT (COLOMBIA RANK: 87TH)

Colombia ranks 87th for restrictions on international investment. International investment is allowed in almost all sectors. There are no minimum capital requirements or requirements for local equity.³² There are relatively few restrictions on travel, with citizens from 99 countries allowed to travel visa free. Colombia has also sought to attract international investment. Becoming a member of the OECD in 2018 increased investor confidence, and the OECD's measure of FDI restrictiveness considers Colombia to be relatively open to FDI.³³ Furthermore, the constitution grants equal treatment to foreign and domestic capital. Foreign investment is permitted to some degree in most sectors.

However, business executives have reported there was a declining prevalence of ownership of foreign companies, and a worsening impact on businesses of FDI rules. This has contributed to a decline of six ranks over the last 10 years. In some sectors there are restrictions limiting ownership levels, requiring licencing or requiring approval. For example, in banking, 100% foreign ownership is permitted but accounting providers must get the permission of Financial Superintendent before investing.

Furthermore, Colombia applies currency controls, making it more difficult to bring in investment.³⁴ Many of these are implemented to stop the flow of "hot" money, so it might be necessary to have them in place. An exchange intermediary must be used to transfer funds into Colombia and generally pesos cannot be bought outside Colombia.³⁵

Previously, the Central Bank has used capital controls to manage the appreciation of the Peso, although these are not being used at present, and they have not always been effective at controlling currency appreciation.

Opportunity

1. Review system of capital controls and remove them where they are not contributing to the fight against money laundering.
2. Facilitate banking and digital transactions (especially with the tax office and other fiscal entities) to have better traceability of transactions.

32 "Ways to Invest in Colombia," *Garrigues*, April, 2018.

33 "FDI restrictiveness," *OECD*, last accessed April 24, 2020, <https://data.oecd.org/fdi/fdi-restrictiveness.htm>.

34 Andrea Fabiani, Martha Lopez Pineros, Jose-Luis Peydro and Paul E. Soto, "Capital Controls, Foreign Capital, Inflows and the Local Credit Cycle" *Barcelona Graduate School of Economics*, February 28, 2018.

35 Kathleen Peddicord, "Navigating Currency Exchange Controls When Sending Money Overseas," *Forbes*, December 17, 2018.





ENTERPRISE CONDITIONS (COLOMBIA RANK: 79TH)

A healthy economy is a dynamic and competitive one, where regulation supports business, allowing and encouraging it to respond to the changing priorities of society. In contrast, an economy focused on protecting incumbents will experience lacklustre growth and job creation. Entrepreneurial activity is one of the key drivers of long-term prosperity, and its importance will only grow as the pace of technological change increases and the number of people involved in that change rises. Given the pace of change inherent to the information age, a society's ability to react quickly to new firm- and market-level opportunities are critical to its overall Economic Openness.

Colombia ranks 79th for Enterprise Conditions, a rise of 3 places from 10 years ago, predominantly through greater levels of market contestability. The environment for business creation has deteriorated, and improvements in the burden of regulation have plateaued. Further increasing competition and reversing the deterioration in labour market flexibility are both critical to addressing high levels of informality.

DOMESTIC MARKET CONTESTABILITY (COLOMBIA RANK: 59TH)

Colombia ranks 59th for Domestic Market Contestability, up from 97th 10 years ago. According to an executive survey, the extent of market dominance by a few large firms has reduced, and market-based competition has increased. Competition law is relatively good, and the competition authority has wide authority and power to prosecute breaches of competition law (although the OECD notes that sanctions are relatively low).¹

However, there have been a few cases of cartels operating in Colombia. For example, from 2001 to 2012, Tecnoquimicas, Familia and Kimberly had a concerted strategy to set baby diaper prices. They were sanctioned by the Superintendence of Industry and Trade (SIC) an amount equivalent to 7% of their yearly income.² A further example is in the cement market—in 2017, SIC fined the three largest cement producers (Argos, Cemex and Holcim) \$70 million for setting prices between 2010 and 2012.³

SIC has a law before congress with changes intended to promote prompt payment between companies, which is intended to primarily help with the liquidity of SMEs. In particular, it is intended to help with the market power that a large company can exercise over a smaller one by not paying.⁴

The primary regulatory challenge for competition law is that the head of the competition authority is appointed by the President. A further challenge is the relationship between SIC and the General Secretariat of the Andean Community. SIC relies on voluntary compliance to uncover cartel-like behaviour and will reduce sanctions as a result.⁵ However, this cooperation may not be taken into account by the General Secretariat, who can hand down its own fines.

1 "OECD Economic Surveys: Colombia Overview," *OECD*, October 2019, p5.

2 "Por cartelización empresarial en pañales para bebé, Superindustria sanciona a 3 empresas y 16 altos directivos," *Industria y Comercio Superintendencia*, last accessed April 22, 2020, <https://www.sic.gov.co/noticias/por-cartelizacion-empresarial-en-panales-para-bebe-superindustria-sanciona-a-3-empresas-y-16-altos-directivos>.

3 Paola Andrea Carrillo Zuluaga, "The Antitrust Review of the Americas 2019, Colombia: Superintendency of Industry and Commerce," *Global Banking Regulation Review*, September 3, 2018.

4 "Acopi solicita surtir trámite de proyecto de ley de pago a plazos justos," *elEconomista.com*, June 4, 2019.

5 Bettina Sojo, "Cartel investigations: recent challenges to Colombia's leniency programme," *financierworldwide.com*, July, 2018.

There are a large number of state-owned enterprises (SOEs). While there have been improvements, such as removing the option for ministers to sit on boards, there are additional challenges for SOEs in corporate governance and the lack of a clear ownership function in government means that there is not a clear distinction between government's duties as an owner, and duties as a regulator of SOE behaviour.

A further challenge is in public procurement. Despite a commitment to fairness, the process is not always fair, as SOEs are sometimes favoured over private producers, and domestic producers are prioritised over international ones.⁶ There are some examples of how corruption has stymied the procurement process, with the Odebrecht scandal being one example. There are other examples of collusion when contracting, or contracts being too specific for anyone other than one bidder to get.⁷ The introduction of the "type sheets" (pliegos tipo), which set out standard contract terms for procurement of infrastructure, appear to be starting to improve this. Before April 2019, it was estimated that 85% of public tenders in the country were awarded to a single bidder, due to tender contracts being drafted in such a way that only one company could bid.⁸ After five months of implementation, 81% of public bids had an average of 33 bidders.⁹ The creation of the Colombia Compra Eficiente further helps with optimum supply and demand factors in the public procurement process, whilst ensuring transparency and efficiency.¹⁰

Opportunity

1. Create a policy to ensure independent boards for SOEs.
2. Centralise ownership functions of SOEs. Other ministries would remain involved in a regulatory capacity only, helping set the overall objectives and rules for SOEs.
3. Monitor use of "type sheets" (pliegos tipo) to ensure the balance is struck between an open contracting and the contract being specific enough to attract the right bids. Consider extending to other areas of public procurement.
4. Change appointment process for head of SIC, to make them more independent.
5. Give SIC the power to set higher sanctions.
6. Expedite changes as recommended by SIC to ensure prompt payment between companies, with particular focus on improving liquidity of SMEs.

6 "Corporate Governance of State-Owned Enterprises in Latin America" *World Bank*, July 2014, p.98.

7 "Colombia Corruption Report," *GAN Business Anti-Corruption Portal*, last accessed April 22, 2020, <https://www.ganintegrity.com/portal/country-profiles/colombia/>.

8 "Pliegos tipo dispararon el interés de los proponentes" *Portafolio*, July 10, 2019.

9 "Documentos Tipo Entran en Vigencia a Partir Del 1 de 2019," *Colombia Compra Eficiente*, last viewed April 22, 2020, <https://www.colombiacompra.gov.co/sala-de-prensa/comunicados/documentos-tipo-entran-en-vigencia-partir-del-1-de-abril-de-2019>.

10 "Colombia Compra Eficiente" *Colombia Compra Eficiente*, last viewed April 22, 2020, <https://www.colombiacompra.gov.co/colombia-compra/colombia-compra-eficiente>.

PRICE DISTORTIONS (COLOMBIA RANK: 126TH)

Colombia ranks 126th for price distortions. However, business executives rate Colombia as 153rd for the distortive effect of taxes and subsidies. Over the last 10 years, the level of electricity subsidies has reduced significantly.

There are major subsidies in agriculture.

However, there remain significant subsidies, particularly for agriculture. These subsidies include grants for new agricultural equipment and a fund that helps to stabilise coffee prices. The level of total support provided to agriculture in 2011-13, was 1.8% of GDP, more than twice the OECD average of 0.8%.¹¹ This has not made the industry more competitive, which depends on better productivity and more capital investment. Coffee, the most subsidised sector, has seen the majority of subsidies go to the largest producers, with one study suggesting that 60% of subsidies go to just 10% of the farmers.¹²

There are also fuel subsidies, which have proven extremely costly to the government. In May 2019 a gallon of gasoline in Colombia cost about 800 pesos less than the international price, and the diesel price was lower by 1,600 pesos.¹³

Colombia imposes price controls on pharmaceuticals, and it is not clear whether this has had an impact on supply. For some medicines, this reduces the cost by 84%.¹⁴ There are also price controls on agrochemicals and on the purchase of raw milk.¹⁵ Additionally, the government has in the past imposed price controls on food.¹⁶

Furthermore, the tax system is burdensome and complex. Corporations face a variety of taxes, including corporate income tax, municipal tax, social security contributions, financial transactions tax, payroll tax, real estate tax, urban boundary tax, and vehicle tax. The corporate income tax is the highest in the OECD at 33%. In particular, the financial transactions tax distorts business activity by encouraging tax evasion and informality. Generally, it is the larger businesses that are able to find legal means to avoid the tax, while small businesses are forced to pay it or break the law.¹⁷

Opportunity

1. Cap the level of agricultural subsidies given, to reduce the amount of support given to large producers.
2. Replace subsidies with programmes focused on improving productivity in the agricultural sector, through better transport, better access to finance, and improved growing techniques.
3. Remove the financial transactions tax.
4. Consider other forms of lowering the corporate tax burden, including continuing to lower the corporate tax rate.
5. Ensure next tax reform is focused on simplification and raising revenues (for example, removing loopholes).

11 "OECD Review of Agricultural Policies: Colombia" *OECD*, 2015.

12 Juan José Echavarría, Pilar Esguerra, Daniela McAllister and Carlos Felipe Robayo, "Informe de la misión de estudios para la competitividad de la caficultura en Colombia," *Universidad de Rosario*, last viewed April 22, 2020, <https://www.urosario.edu.co/Mision-Cafetera/Archivos/Resumen-Ejecutivo-version-definitiva/>; Paula Delgado, "Large coffee growers take 60% of the coffee income protection subsidy," *La República*, October 20, 2014.

13 "Colombia signaling fuel price reform," *Argus Media*, May 8, 2019.

14 "MinSalud regula los precios de 770 presentaciones comerciales de fármacos, con lo que se esperan ahorros anuales por \$320 mil millones," *Presidencia de la República*, January 27, 2020.

15 "Control de precios" *Industria y Comercio Superintendencia*, last accessed April 2020, <https://www.sic.gov.co/control-de-precios>.

16 Julián Villabona Galarza, "Colombia Announces Kirchner- Style Price Controls on Food" *Panan Post*, December 19, 2016.

17 "Colombia: Individual- Other Taxes" *PWC Worldwide Tax Summaries*, February 05, 2020.

ENVIRONMENT FOR BUSINESS CREATION (COLOMBIA RANK: 86TH)

Colombia is 86th for the Environment for Business Creation. Overall, its performance has deteriorated slightly. Partially as a result of much more significant improvement by its peer countries, it has slipped 37 rankings over the last 10 years. Additionally, it takes 10 days and 7 procedures through multiple agencies to start a business, at a cost equivalent to 15% of GDP per capita. The number of processes still makes it onerous for companies to set up. There are also vast differences in the time it takes to start a business across different regions. For example, it can take as little as eight days and eight procedures in Pereira to start a business, or as long as 40 days in Mitú and 16 procedures in Port Inírida.¹⁸ Consequently, Colombia ranks just 85th for ease of starting a business.

Colombia has a number of clusters and free trade zones, and this has made it easier to start a business. Furthermore, the government has offered increased support to entrepreneurs. For example, in 2012 the government created the programs iNNpulsa and apps.co to help start-ups access capital and provide coaching for entrepreneurs.¹⁹

Colombia also has 93 commercial clusters, with the most represented industries being manufacturing (22 initiatives), agriculture (18) and tourism (16).²⁰ There are also 111 free trade zones, which include incentives such as a single 20% income tax rate, no customs taxes, and exporters benefiting from Colombia's free trade deals.²¹ Exports from free trade zones are increasing. For example, in January 2020, merchandise exports from Colombian free trade zones registered an increase of 7%, going from U.S. \$205 million in January 2019 to U.S. \$220 million in the same month of 2020.²²

Another major challenge for businesses is obtaining a skilled workforce.²³ There have been some positive signs—education outcomes are improving, and Colombia has improved six places to come 54th on IMD's global talent rankings. However, it still, it ranks 156th for businesses identifying labour skill as a business constraint, and 65th for the availability of skilled workers. One of the major reasons is lack of appropriate training and not extensive enough vocational training. The lack of skills, or the wrong type of skills, means that many employers cannot hire workers they need. The OECD estimates that finishing high school lowers the chance of entering the informal sector by 15%, and completing higher education or university lowers it by 80%. Students who undertake vocational training, are also more likely to be in formal employment.²⁴

Part of the challenge is ensuring the quality of programmes. While there is an accreditation programme for all tertiary programmes, accreditation is voluntary. The government is also developing a national qualifications framework for secondary schools.

18 "Doing Business in Colombia 2017" *World Bank Doing Business*, October 4, 2017.

19 Randy Bullard and Ludovica Gardani, "Private Equity and Venture Capital Trends in Latin America" *JD Supra*, April 8, 2020.

20 Juan Carlos Garavito et al, "Iniciativas Clúster en Colombia" *Innpulsa Colombia*, 2018; "Initiatives Listings," *Clusters in Colombia*, Red Cluster Colombia, last accessed April 22, 2020, <https://redclustercolombia.com/clusters-en-colombia/lista-de-iniciativas/90>.

21 RGX Online, "The advantages of Duty-Free Zones in Colombia," *Mastercard Biz Caribbean*, April 8, 2016; "Investment Incentives in Colombia," *Procolombia*, last accessed April 22, 2020, <https://investincolombia.com.co/investment-incentives/permanent-free-trade-zone/25-investment-incentives.html>.

22 "Información febrero 2020," *Zonas Francas (ZF)*, Dane Información Para Todos, last accessed April 22, 2020, <https://www.dane.gov.co/index.php/estadisticas-por-tema/comercio-internacional/zonas-francas>.

23 "OECD Economic Surveys: Colombia Overview," *OECD*, October, 2019.

24 *Ibid.*, p.54.

Opportunity

1. Implement a single location for company registration, through the existing authority of city-specific Chambers of Commerce. Consider establishing one-stop shops for start-up companies.²⁵
2. Reduce the cost to register a company.²⁶
3. Assist departments and cities to learn best practice in reducing procedures and time delays from each other.
4. Ensure better connections between free trade zones, ports and airports.
5. Develop a single institutional framework for vocational education and training with a clear national objective and regulatory framework and implement fully the national qualification framework.²⁷
6. Create a mandatory accreditation system for all tertiary vocational education and training programmes and institutions.²⁸
7. Develop work-based learning programmes based on apprenticeships across all levels of education and training, for example, the SENA programme.²⁹
8. Help to create group training organisations for SMEs.³⁰

BURDEN OF REGULATION (COLOMBIA RANK: 114TH)

Colombia ranks 114th for the Burden of Regulation. The legal and regulatory system are usually transparent and align with international practices. The number of procedures to administer tax has reduced, from 32 to 11, over 10 years. In 2012, the government created the “simple tax system” (regimen simple de tributación—RST) to unify a number of taxes, including on income and consumption. Applying for the regime is optional, and in July 2019 around 6,300 taxpayers had applied for the RST.³¹

The time taken to start a business is less than in many comparative countries.

The time taken to start a business is also lower than many comparative countries (See Figure 8). Construction procedures have also improved, with Colombia having few procedures and quick processes, albeit with high costs. Colombia has also launched the Estado Simple, Colombia Ágil (Simple State, Agile Colombia) programme, which aims to reduce the number of inefficient or obsolete regulations that inhibit businesses in Colombia.³² The tax department (DIAN) is also carrying out a modernisation programme, focused on technology, investment in talent, greater closeness to citizens and building legitimacy.³³

Colombia ranks 150th in the world in surveys of business executives for the total burden of regulation (see Figure 9). There are numerous regulations passed every year, with 8,505 regulations issued in 2017. In particular, the tax administrative burden is also high, with it taking 255 hours to pay taxes. There is only partial implementation of electronic filing. The cost of getting a construction permit remains high internationally, and is about 7% of the value of a warehouse, with wide variance of procedures in cities across the country.

25 “Economic Policy Reforms 2019,” *OECD*, 2019, p.115.

26 *Ibid.*

27 “OECD Economic Surveys: Colombia Overview,” *OECD*, October, 2019.

28 *Ibid.*

29 *Ibid.*

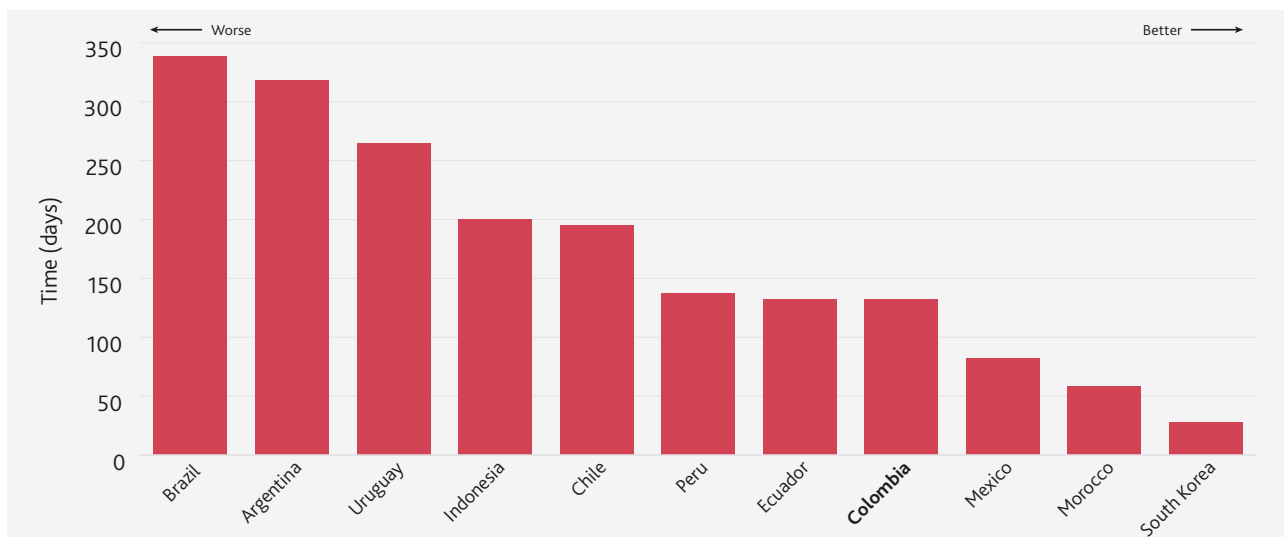
30 *Ibid.*

31 *Ibid.*, p.308.

32 Luis Andrés Camacho, “Estado Simple, Colombia Ágil’ Program,” *Brick Abogados*, December 5, 2018.

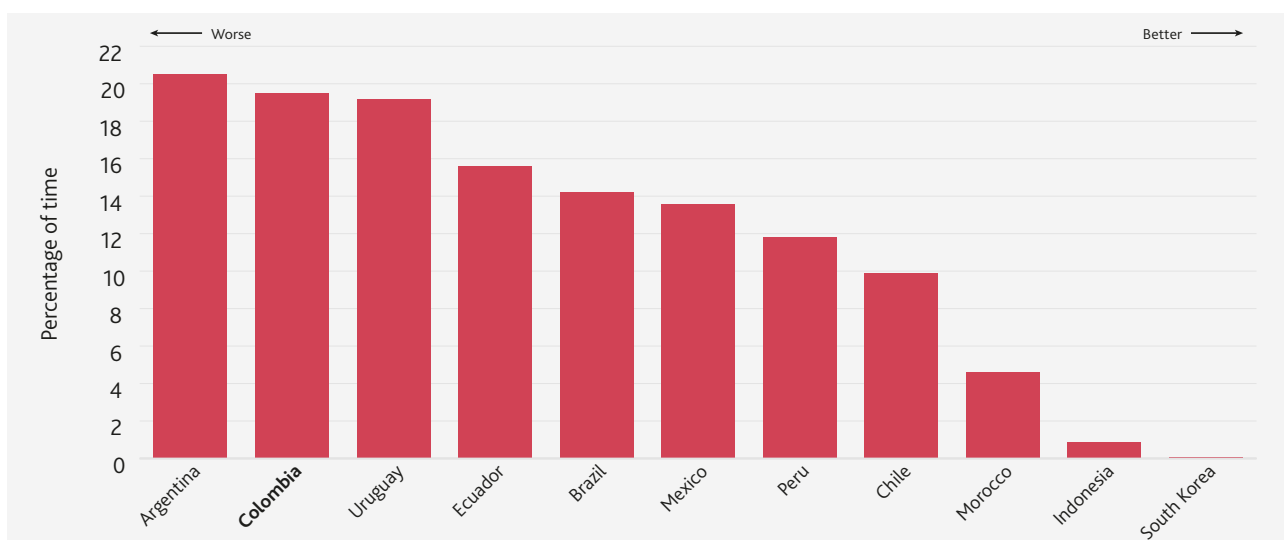
33 “Informe Nacional de Competitividad 2019-2020,” *Consejo Privado de Competitividad*, 2019, p 317.

Figure 8: Time to start a business



Source: WBDB

Figure 9: Time spent complying with regulations



Source: World Bank Enterprise Surveys

Opportunity

1. Continue to make it easier to pay taxes online.
2. Continue to reduce the number of regulations on businesses, especially through the Estado Simple, Colombia Ágil programme.³⁴
3. Focus on aligning construction procedures and processes across Colombia.
4. Promote the RST, in order to lower the administrative burden on businesses and to encourage formality.³⁵
5. Continue to modernise the tax office (DIAN); effective implementation of this can increase tax collection by three to five percentage points of GDP.³⁶

34 "Informe Nacional de Competitividad 2019-2020," Consejo Privado de Competitividad, 2019, p. 44.

35 Ibid., p.308.

36 Ibid., p.317.

LABOUR MARKET FLEXIBILITY (COLOMBIA RANK: 88TH)

Colombia ranks 88th for Labour Market Flexibility. The 2012 tax reform reduced employer costs and increased the hiring rate of workers.

Nonetheless, Colombia's labour market flexibility has deteriorated somewhat over the last few years, caused by decreasing cooperation in labour-employer relations, and by reducing flexibility in hiring practices. As a result, it has not kept pace with the improvements of peer countries and has slipped down 46 places in the rankings over the last 10 years.

The formal labour market has high costs for employers, while labour productivity is relatively low.³⁷ The minimum wage must be paid by the day, rather than by the hour. An attempt to introduce hourly contracts was met with opposition.³⁸ Colombia has a high minimum wage and high non-wage costs for social security, other taxes and additional employee benefits. These non-wage costs represent 50% of wages.³⁹ For example, employers are expected to pay a 4% contribution into the family compensation funds (Cajas de Compensación), which are used to finance a wide range of services. Where a worker's productivity falls below the cost of employment, they will not be hired and will be pushed into the informal economy, where they do not have protection of labour laws and will not be able to access future benefits. The levels of informality are high, including around 50% of labourers.⁴⁰

Redundancy costs have improved but are still high, with costs of around 17 weeks of salary (ranking 83rd in the world). Colombia has also given work permits to hundreds of thousands of Venezuelan migrants, to allow them to work in the formal labour market.⁴¹ Part of the purpose of this was to steer Venezuelan migrants away from the informal economy offering labour at a cheaper rate.⁴²

Opportunity

1. Decreasing firms' registration costs and simplifying the registration of workers to social security would facilitate formalisation of firms and jobs.⁴³
2. Establish the ability to employ workers hourly, with the aim of helping part-time workers.
3. Continue to reduce non-wage costs, by phasing out contributions related to Cajas de Compensación.⁴⁴
4. Review the minimum wage to achieve a more job-friendly level and improve quality and relevance of education and training.⁴⁵
5. Differentiate minimum wages for regions to account for differences in productivity.
6. Consider introducing a youth minimum wage set at 75% of national wage.
7. Moderate the rate of increase of the minimum wage, so that wages eventually settle to a more employment-friendly level.⁴⁶

37 "OECD Economic Surveys: Colombia Overview," *OECD*, October, 2019, p 3.

38 "Contratación laboral por horas, ¿para qué serviría?" *El Tiempo*, February 5, 2020.

39 "OECD Economic Surveys: Colombia Overview," *OECD*, October, 2019, p.52.

40 "The Report: Colombia 2019," *Oxford Business Group*, 2019, p. 32.

41 Luis Jaime Acosta, Oliver Griffin and Peter Cooney, "Colombia offers work permits to hundreds of thousands of Venezuelan migrants," *Reuters*, January 29, 2020.

42 Reuters, "Colombia Plans Temporary Work Permit for Undocumented Venezuelans," *VOA News*, July 8, 2019.

43 "2019 Investment Climate Statements: Colombia," *US State Department*, last accessed April 27, 2020, <https://www.state.gov/reports/2019-investment-climate-statements/colombia/>

44 "Economic Policy Reforms 2019: Going for Growth," *OECD*, 2019, p. 115.

45 "OECD Economic Surveys: Colombia Overview," *OECD*, October, 2019, p. 13.

46 Ibid.



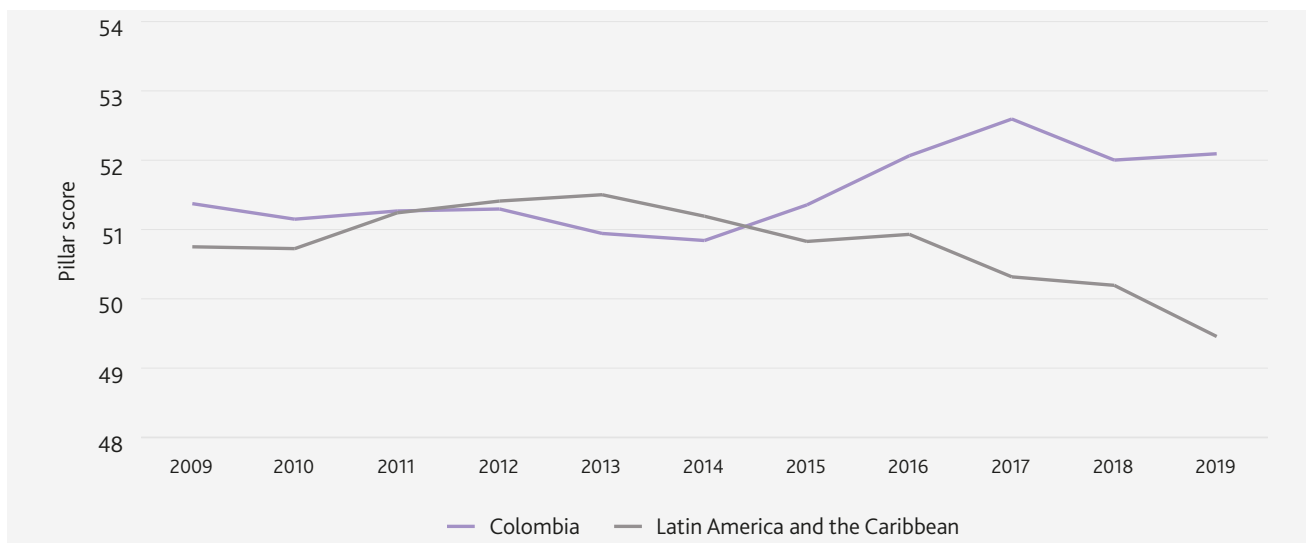


GOVERNANCE (COLOMBIA RANK: 68TH)

The importance of good governance to long run economic growth cannot be overstated.¹ Even when controlling for extraneous factors such as culture, there is evidence that economic institutions are one of the main determinants of differences in prosperity across countries.² Governance underpins economic activity; unless and until good governance is established, attracting investment and enterprise is nearly impossible. Investment and prosperity require the effective Rule of Law, which itself is dependent upon trust in a robust set of effective and accountable state institutions.³ Good governance is most robust when it has been established over time through natural evolution and is essentially a codification of cultural expectations and behaviours.⁴

Colombia ranks 68th for Governance, up three places over 10 years (see Figure 10). Its improvement is due to the strength of Government Effectiveness, where it ranks 49th and has risen 18 places. However, weaknesses in the Rule of Law (137th) and persistent corruption are the two areas of governance that are constraining economic improvement.

Figure 10: Governance score



1 Douglass C. North. *Institutions, institutional change, and economic performance*. Cambridge: Cambridge University Press, 1990.

2 Daron Acemoglu and James Robinson. "The role of institutions in growth and development." *Leadership and Growth* 135 (2010).

3 Guillermo A. O'Donnell, "Why the rule of law matters." *Journal of Democracy* 15, no.4 (2004): 32-46; Stephan Haggard and Lydia Tiede. "The rule of law and economic growth: Where are we?." *World Development* 39, no.5 (2011): 673-685.

4 Richard V. Adkisson and Randy McFerrin. "Culture and good governance: A brief empirical exercise." *Journal of Economic Issues* 48, no.2 (2014): 441-450.

EXECUTIVE CONSTRAINTS (COLOMBIA RANK: 87TH)

Colombia ranks 87th for Executive Constraints. The executive has been more constrained since the 1991 Constitution came into force. The constitution introduced a range of reforms designed to keep the executive in check, including a human rights ombudsman, the tutela action, whereby any citizen could seek a judgement for breach of a constitutional right, a new constitutional court, and limiting the times where the executive's emergency powers could be exercised.⁵ Perhaps the most significant constraint is that, since 2015, the President can serve only one term in power.⁶

Congress also has the power to constrain the executive. While the President has the power to veto legislation, this can be overridden with a simple majority vote.⁷ As is the case in most democracies, the President's power is limited by the extent to which they have the support of congress.

Since it was established in 1991, the Constitutional Court has also been active in restraining the executive. For example, from 1992 to 2018, the Court has nullified or modified 23 out of 54 executive decrees relating to the use of emergency powers.⁸ Consequently, Colombia ranks 71st for how well government powers are subject to independent and non-government checks. While the Court's limiting of executive abuses is welcome, some have argued that the Constitutional Court has stepped too far into the executive's prerogative by deciding on policy decisions. These include significantly restructuring the health care system, revoking the recent tax bill, and upholding a ban to eliminate aerial spraying of coca plantations.⁹ These decisions are ones that, in other countries, would be within the executive's domain to determine, and that have significant fiscal, economic and policy consequences.

One of the challenges for Colombia is the role of the military in governance, where Colombia ranks 116th globally and 18th in Latin America and the Caribbean. The army is a widely respected organisation, with a long history of submission to civilian power. However, the military faces criticism for its historic role in perpetrating abuses against citizens. Most recently, it was revealed that there had been unlawful wiretapping and spying by Colombian military officials of judges, journalists and opposition leaders.¹⁰

POLITICAL ACCOUNTABILITY (COLOMBIA RANK: 59TH)

Colombia ranks 59th for Political Accountability, and it ranks 11th in Latin America and the Caribbean. It is widely regarded to have had free and fair elections for almost 50 years, supported by a large and diverse civil society influencing policy outcomes, as evident in the peace process.¹¹

5 Fox, Donald T., Gustavo Gallón-Giraldo, and Anne Stetson. "Lessons of the Colombian Constitutional Reform of 1991." Framing the State in Times of Transition. At 478-480

6 See Art 197 Colombian Constitution

7 Cárdenas, Mauricio, Roberto Junguito, and Mónica Pachón. "Political institutions and policy outcomes in Colombia: The effects of the 1991 constitution." Policymaking in Latin America: how politics shapes policies (2008): 199-242.

8 "Taming the Prince: Bringing Presidential Emergency Powers Under Law in Colombia" p 4

9 Javier Franco and Pablo Medrano, "Constitutional courts and economic policies the Colombian case," *Revista Prolegómenos. Derechos y Valores de la Facultad de Derecho* 13, no. 26 (2010): 201-213; "Constitutional Court revokes most of recent tax reform due to procedural defects," *Deloitte*, October 17, 2019; Sinikka Tarvainen, "Colombia Court Maintains Ban on Aerial Spraying of Powerful Herbicide," *Havana Times*, July 19, 2019.

10 "Colombia military implicated in illegal wiretapping," *Anadolu Agency*, January 13, 2020; Original article in *Semana* magazine is here: "Chuzadas sin cuartel," *Semana*, January 13, 2020.

11 BTI 2018

Anecdotal evidence suggests that candidates spend well over the legal limits in elections.

However, trust in democracy is low, with 50% of Colombians saying democracy has big problems.¹² While elections are legitimate, there have been several cases of violence and vote buying. In the 2018 legislative elections, there were accusations of “fraud, vote buying, and connections between candidates and organised crime figures”.¹³ Additionally, there were also cases of people being given marked cards and a general lack of cards altogether at some polling stations.¹⁴ The most prominent case was of former congresswoman Aida Merlano, who was arrested in March 2018 for an alleged payment of \$1.7 million for votes in Colombia’s 2018 national elections. She was captured in Venezuela four months after escaping custody by climbing out of a window during her prison guard-escorted visit to a dental clinic.¹⁵

The National Electoral Council (CNE) is not particularly active in prosecuting violations of electoral law (particularly financing law). Part of the reason for this is that the CNE is appointed by Congress, the body whose members it is supposed to monitor. Since being established in 1991, the CNE has effectively sanctioned only one candidate, despite many reports about potentially illegal practices.¹⁶ Similar problems affect other electoral oversight bodies in Latin America. There are widely held views across Latin America and the Caribbean, that the electoral authorities are highly influenced by government and political parties.

There are also issues with the electoral finance law. Firstly, individuals fund their own campaigns, which makes monitoring campaign finance difficult (rather than if it were through a party). Second, a lot of donations go unreported, and anecdotal evidence suggests that candidates spend well over the legal limits to fund a campaign. A senate campaign, for example, has a legal limit of \$250,000, but anecdotally requires \$5 million, with funding coming from the candidate themselves, private companies, bank loans, in-kind contributions, or public works contractors.¹⁷ Thirdly, parties get some public funding, but the system favours incumbent parties over new entrants, as funding is given out based on historic vote share.

Civil society is hampered by violence and is not always effective at influencing policy change. While independent civil society platforms such as the Misión de Observación Electoral (MOE) exist, their role in electoral monitoring and evaluation is limited. However, there have been major successes that civil society has contributed to. Most notably, their involvement in the peace agreement was deemed fundamental to the democratic dialogue around the process.¹⁸

Plans to implement electronic voting have been hampered by lack of funds. Electronic voting has the potential to reduce electoral fraud and absenteeism.

Opportunity

1. Change the appointment procedure of the National Electoral Council, so that it is more independent of Congress. Ensure as much independence as possible.
2. Reform campaign finance laws and procedures to make individual donations disclosable.
3. Ensure that campaign finance rules are adequately enforced.
4. Centralise campaign financing, so that parties are responsible for financing candidates, making it easier to audit financial records.
5. Provide additional finance to the electoral council, to deliver electronic voting.

12 “Latinobarometro Informe 2018,” *Latinobarómetro*, 2018, p.34.

13 “Freedom in the World 2019: Colombia,” *Freedom House*, 2019.

14 Christopher Ramírez, “Elecciones 2019: MOE reporta fraudes electorales en el noroccidente del país,” *Colombia.com*, October 27, 2019.

15 Bertie Previte, “Complications of Voting,” *The Bogota Post*, May 22, 2018.

16 Bertelsmann Stiftung, BTI 2018 Country Report – Colombia, Gütersloh: Bertelsmann Stiftung, 2018.

17 Kevin Casas-Zamora and Elin Falguera, “Political finance and the equal participation of women in Colombia,” *IDEA*, 2016, p.17-

18 Bertelsmann Stiftung, BTI 2018 Country Report – Colombia, Gütersloh: Bertelsmann Stiftung, 2018.

RULE OF LAW (COLOMBIA RANK: 137TH)

Colombia is ranked 137th for Rule of Law, its worst performing element. This is ahead of Mexico and Ecuador, but far behind the best Latin American performer Chile (37th). The Constitutional Court is generally well regarded, and the tutela action means that ordinary citizens can easily go to court to defend their constitutional rights. Furthermore, the courts are relatively free from influence of the executive.

However, Colombia faces challenges in both the administration of justice and the quality and integrity of its judges. There is a lack of effective electronic case management (see Contract Enforcement) and corruption is present throughout the court system, with members of both the Supreme Court and Constitutional Court guilty of receiving bribes. For example, the 'Cartel of Robes' (El Cartel de la Toga) began with the arrest of the anti-corruption chief for accepting bribes, and the revelation that several members of the Supreme Court accepted bribes to drop charges or give favourable verdicts.¹⁹ Apart from the Constitutional Court, new judges are appointed by existing judges, which can undermine the accountability of the court system. These scandals have led to declining social trust; Gallup records that the percentage of people with confidence in judicial courts fell from 41% to 28% over 10 years.

In 2015 the Comisión de Disciplina Judicial was announced, a new body proposed to judge disciplinary judicial officials and employees.²⁰ However, it has still not been implemented and the current disciplinary body is made up of interim officials.²¹

The quality of judges is sometimes poor. The standard is impeded by poor appointment processes, as some argue there are too few career judges. It is also difficult to remove badly performing judges and the quality of legal training is poor—for example, out of 189 law programmes, just 28 are accredited as being of high quality.²²

Furthermore, courts are slow to administer cases, and cases take a long time to be resolved. This is due to the complexity of the court system, lack of proper case management, and strikes across the court system. The popularity of the tutela action has also overburdened courts, which means that other cases can be delayed. In 2017, there were 607,000 tutela actions brought.²³

Opportunity

1. Reviewing the appointment of judges, by ensuring an appropriate balance between accountability and independence.
2. Implement electronic case management in all courts.
3. Implement policies to improve the quality of judges through better training and appointment processes.
4. Implement the Comisión de Disciplina Judicial, a new body proposed to judge disciplinary judicial officials and employees.²⁴

19 Mark Kennedy, "Colombian Corruption: How 7 Scandals Have Rocked a Nation and Eroded Faith in Justice," *Medium*, December 7, 2017.

20 "Ya es hora de que se implemente el nuevo órgano disciplinario de la rama judicial que creó la Reforma de Equilibrio de Poderes," *Dejusticia*, May 29, 2018.

21 "Informe Nacional de Competitividad 2019-2020," *Consejo Privado de Competitividad*, 2019, p 55.

22 "Caracterización de la Justicia Formal en Colombia y Elementos Para la Construcción de una Agenda Estratégica para su mejoramiento," *Corporación Excelencia en la Justicia*, December, 2017.

23 José David Castilla, "Al año, los juzgados y tribunales del país reciben 607.000 tutelas," *Asuntos: Legales*, November 19, 2018.

24 "Ya es hora de que se implemente el nuevo órgano disciplinario de la rama judicial que creó la Reforma de Equilibrio de Poderes," *Dejusticia*, May 29, 2018.

GOVERNMENT INTEGRITY (COLOMBIA RANK: 72ND)

Colombia ranks 72nd for Government Integrity. Over the last 10 years, Colombia has improved the publishing of laws and information, rising from 88th to 34th on this particular indicator. The government has a number of online platforms publishing data and making information on corruption cases available. Furthermore, at the most recent governors' summit, the Vice President and governors signed the 'Pact for Transparency and Integrity' (Pacto por la Transparencia y la Integridad). This aims to create strong institutions that guarantee zero corruption and that promote transparency, integrity, and legality.²⁵

Over the last 10 years, despite these improvements, corruption in Colombia is still found at both central and regional government level. According to the Global Corruption Barometer, 52% of people think corruption has increased since the previous survey.²⁶

The first type of corruption is simple bribes for public services. According to the Global Corruption barometer, 20% had paid a bribe for public services in the previous 12 months.²⁷ The second, and more concerning, is clientelism that exists throughout government and particularly in the procurement process. Contracts are frequently awarded, not to the best bidder but to those with close relationships with government, or where bribes have been paid to public officials.

The consequences are extensive. Corruption is frequently cited as a problematic factor for businesses in Colombia, costing \$17 billion a year, equivalent to 5.3% of GDP.²⁸ The fiscal cost is also large, with private sector corruption costing the Colombian government an estimated COP23 trillion (\$7.8 billion) in 2016.²⁹ The Odebrecht scandal is the largest and highest profile example of the influence of bribes in Colombian contracting.³⁰ Odebrecht paid \$11 million in bribes, and two major projects have been put on hold as a result of the revelations, including a 1,000 km highway linking Bogota with the Caribbean coast.

Recent governments have shown commitment to fighting corruption. In 2011, Colombia Compra Eficiente (Colombia's public procurement department) was set up, whose aim was to set up to improve the quality and effectiveness of procurement.³¹ An anti-corruption office was established by President Santos in 2011, although its former director was jailed in the US in 2019 for bribery.³² Nevertheless, its anti-corruption framework is reasonably strong, and Colombia is a member of various international agreements against corruption, for example, as a member of the OECD Anti-Bribery Committee. It passed a domestic anti-bribery law in 2016. However, according to the OECD, Colombia has demonstrated "limited commitment" to training, awareness-raising, and detection and reporting of foreign bribery.³³ In particular, there is need for whistleblower protection legislation.

There have been various initiatives announced to fight corruption.

25 "Vicepresidencia y gobernadores firman pacto por la transparencia," *El Tiempo*, February 21, 2020.

26 Coralie Pring and Jon Vrushi, "Global Corruption Barometer Latin America and the Caribbean 2019: Citizens' Views and Experiences of Corruption," *Transparency International*, 2019, p.39.

27 Ibid.

28 Steven Grattan, "Colombia's rampant corruption a hot topic in presidential vote," *Reuters*, June 15, 2018.

29 "Combating the Colombian corruption crisis," *The Botoga Post*, January 16, 2017.

30 "2019 Investment Climate Statements: Colombia," *U.S. Department of State*, 2019.

31 "Colombia Compra Eficiente" *Colombia Compra Eficiente*, last viewed April 22, 2020, <https://www.colombiacompra.gov.co/colombia-compra/colombia-compra-eficiente>.

32 Shvetali Thatte, "10 Facts About Corruption in Colombia," *The Borgen Project*, October 15, 2019; "Colombian ex-official gets US prison in bribery scheme," *Anti-Corruption Digest*, January 4, 2019.

33 "Implementing the OECD Anti-Bribery Convention, Phase 3 Report: Colombia," *OECD*, December 2019, p.5.

Opportunity

1. Continue to publish information online.
2. Continue to protect the independence and integrity of the anti-corruption office.
3. Leverage the political will generated by the Pact for Transparency and Integrity to implement anti-corruption measures in regional governments.
4. Use data and better procurement processes to ensure there is transparency in contracting. The creation of the Colombia Compra Eficiente is a step towards this, and efforts to strengthen the entity must be in place.

GOVERNMENT EFFECTIVENESS (COLOMBIA RANK: 49TH)

Colombia ranks 49th for government effectiveness, improving 18 places over 10 years. During that time the major policy success was the peace deal with FARC, prioritised by former President Santos (although its ongoing implementation remains a challenge). There have also been improvements to the operation of government. In particular, the central government has improved the quality of its financial management system and lifted the capability of departments through increased training.

Nevertheless, its overall fiscal discipline is under pressure, with government debt growing as a percentage of GDP, from 35% of GDP to 48% in 10 years. Many worry this level of debt is unsustainable, particularly beyond 2020.³⁴ Furthermore, the combined impact of addressing conflict resolution, the Venezuelan migrant crisis and the coronavirus epidemic will place additional strain on public resources. These combined pressures raise the bar for what is needed from Colombian government effectiveness above what would otherwise be expected.

Ensuring regional governments deliver services adequately is also a major challenge, especially given the need to resolve the legacy of conflict. The transfer mechanism between regional governments does little to help poorer regions or regions with particular needs. Furthermore, regional governments often lack the ability to raise tax effectively.³⁵ To add to this, often those responsible for running the bureaucracy or delivering services are inadequately trained.³⁶

One of the major challenges for the Colombian state is controlling much of its rural territory. There have been attempts to impose control, and the current strategy is to focus on combatting drug production. In 2019 for example, the government destroyed 100,000 hectares of cocaine production.³⁷ Nevertheless, many crimes go unpunished, and without state presence in many rural parts of the country government programmes often fail. This has a major effect on the government's inability to deliver projects or programmes to the regions. For businesses, there is the risk of destruction of property or important infrastructure. For example, the group ELN often attacks pipelines, roads, mines, and electricity towers.³⁸

The peace deal with FARC offers opportunity for significant reform, but will need to be implemented properly in order to see state control extended, and this requires investment and commitment.

34 Wes Michael Tomaselli, "Colombia's Finances Are Strained. Is Privatisation the Next Step?" *Americas Quarterly*, May 14, 2019.

35 "Asymmetric decentralisation: Policy implications in Colombia," *OECD*, 2019, p.37.

36 *Ibid*.

37 "Colombia destroys record amount of coca leaf plantations," *France 24*, January 10, 2020.

38 "2019 Investment Climate Statements: Colombia," *U.S. Department of State*, 2019; "Constitutional Court revokes most of recent tax reform due to procedural defects," *Deloitte*, October 17, 2019

Opportunity

1. Consider reforming the transfer mechanism for subnational governments, to take into account the difference in tax bases in different regions.
2. Empower sub-national governments with the ability to raise finance through property taxes, and alternative means of financing.
3. Focus on lifting poorer sub-national government capacity through better training of officials and incentives for officials from better performing regional governments to move to worse performing ones.
4. Focus on establishing state presence throughout the country and implementing all areas of the peace deal.

REGULATORY QUALITY (COLOMBIA RANK: 98TH)

Colombia ranks 98th for Regulatory Quality, dropping 14 places over the last 10 years. Its accession to the OECD has led to some positive improvements. It has begun implementing Regulatory Impact Analysis (RIA) across government, and all government departments are being encouraged to put regulatory consultation on a single government website.³⁹

However, it still falls far behind the OECD average on indicators of Regulatory Policy and Governance. At present, RIA covers only 13% of primary laws, and there are no requirements for it to cover any laws begun by Congress.⁴⁰ Furthermore, businesses often complain about the lack of consultation for when regulations are introduced.⁴¹ The single government website is not being used by all government ministries, so there is not complete information all in one place.

Opportunity

1. Continue to implement Regulatory Impact Analysis in all areas.
2. Leverage the OECD's expertise to lift the quality of regulatory impact analysis in government ministries.
3. Ensure all departments are using the centralised public consultation system.

39 "OECD Regulatory Policy Outlook 2018," *OECD*, October 10, 2018, p.174-175.

40 Expert interview.

41 Expert interview.

CONCLUSIONS

While true prosperity is about much more than economic success and material wealth, every nation still needs a successful economy to build sustainable prosperity. Our intention in publishing this case study of Colombia's Economic Openness has been to identify the country's achievements, while also highlighting further opportunities for reform.

Colombia has a number of strengths and significant economic potential. Even with its security challenges it has managed to isolate conflict to the periphery, allowing the development of its major urban centres. Now, the peace agreement with FARC is critical for increasing Colombian prosperity, and there is still a very obvious need to end the reign of other guerillas and paramilitary groups.

It has a robust democracy that most international observers see as fair (albeit with flaws and challenges). While there are still a number of protectionist measures in place, it has at least signalled that it wants to be an open economy, and has entered into a number of trade agreements with countries around the world. By lifting economic growth to 5% per person per annum Colombia could see its per capita income increase to the level of Spain in 30 years' time. Its place in the world, with all the challenges it brings, also brings the opportunity to be a regional trade hub, with ports on both the Pacific and Atlantic coasts.

Despite these strengths, Colombia faces a number of immediate challenges. Implementing the peace deal, tackling coronavirus and managing the Venezuelan migrant crisis all require immediate attention. However, as this case study has shown, there are several structural challenges that must also be overcome. Following our analysis across four pillars and 23 elements, we have identified the following four binding constraints to Economic Openness in Colombia.

First, Colombia can invest in infrastructure and border facilitation to improve the flow of goods into and within the country.

Building decent transport infrastructure, especially roads, has been a challenge throughout Colombia's history. This is a well-recognised problem, and the government is investing heavily into it. There are a number of major roading projects, aiming to improve connectedness across Colombia.

However, the government can continue to attract investment to its transport projects, particularly the fourth and fifth generation programme of roads across the country. Furthermore, it is critical that Colombia invest in the maturity of its procurement and project management, to ensure that projects deliver their desired benefits.

Business also depends on the quality and effectiveness of the communications and electricity infrastructure. More can be done to increase the speed and capacity of Colombian internet, by encouraging more hosting of local content and investing further in fixed broadband infrastructure. The generation and transmission of electricity can also be improved. In particular, the Atlantic Coast has some of the most unreliable electricity and continuing to upgrade the transmission infrastructure in this part of the country is a critical component of its economic development.

There are major issues with border administration processes, with it taking 86 hours to bring goods into the country according to the World Bank. It is more onerous for certain types of goods, especially agricultural goods. Changing this requires a number of technical improvements. One major reform would be to align the risk management system of some aspects of the Colombian Agricultural Institute (ICA), the Invima and the Superintendence of Industry and Commerce (SIC), which would mean that there are faster processing times for the import of goods into Colombia.

Secondly, Colombia's court system would benefit from major reform.

The process of taking cases through the court system is both costly and time-consuming. This is driven by inefficient processes and structures. This is not helped by the system being also overburdened by the tutela action.

Electronic case management and more specialised courts would help to improve this area significantly. There should also be a look at how cases are triaged, and whether more investment needs to be put into the training of administrative staff and judges. Any reform must focus on increasing the time judges have to focus on the dispensing justice rather than administration, alongside the swift resolution of cases.

Thirdly, Colombia can reduce the burden of regulation and make the labour market more flexible

Extensive regulations and costs contribute to the high rate of informal businesses and labour in Colombia. There are a number of regulations businesses face that impede competitiveness. For example, taxes are particularly burdensome to file. The focus of reform should be the reducing the costs of business and encouraging firms to enter the formal sector. Colombia should review a number of its regulations and the rate at which it introduces new regulations, ensuring that they are fit for purpose and not overly burdensome. There is also the need to make certain processes easier, such as making it easier to pay taxes online.

Labour market costs are also high. There is a high minimum wage, restrictions on part-time work, as well as high non-wage costs. The labour market would also benefit from reform, with most of the effort needing to go toward reducing non-wage costs, and slowing the rise of the minimum wage.

Fourthly, Colombia can tackle corruption across a number of areas.

Corruption continues to touch many parts of Colombian life, ranging from infrastructure to the integrity of elections. While much of this is extremely challenging to confront, there are institutional changes and improvements that can be made. Firstly, Colombia could make some of the national oversight bodies, like the National Electoral Council, more independent and give them more powers to prosecute cases of corruption. Secondly, Colombia could continue to make procurement processes more transparent. This includes monitoring the use and effect of new procurement forms that are intended to increase the number of bids. Thirdly, Colombia can use digitalisation to speed up processes and make government services more transparent.

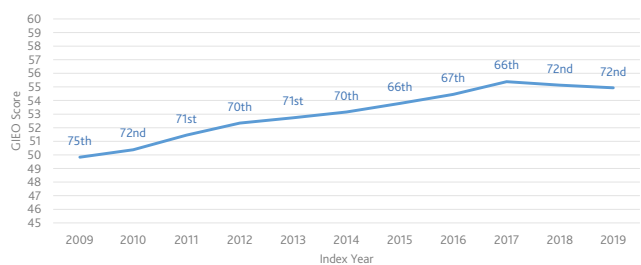
In a democracy such as Colombia's, the challenge of securing consensus on reform should not be underestimated. For nearly all dimensions of reform, including those that would benefit the majority of the population, there are powerful interest groups. For example, as in other countries, labour market reform is challenged by trade unions; market liberalisation is opposed by state agencies that run the existing systems; liberalisation of foreign investment is resisted by domestic firms; changes to land policy are viewed with suspicion by traditional and regional authorities; and finally subsidy reform is opposed by recipients, even those who as citizens would benefit from the resulting higher levels of public investment. Nonetheless, Colombia's history and development has shown that, with the requisite political will, Colombia can deliver governance-based growth. Continuing down that road, with the additional reforms identified in this case study, will help Colombia to compete ever more successfully in the world economy.

APPENDIX





Economic Openness over time



Pillar Performance

Pillar	Rank - Global PI (1 to 167) 2019	Score 2009	Score 10-year trend	Score 2019
Market Access and Infrastructure	66	41.7	↑	55.6
Investment Environment	71	56.2	↑	58.0
Enterprise Conditions	79	50.1	↑	54.0
Governance	68	51.4	↑	52.1

Breakdown of performance

Category	2009 Score	Score 10-year trend	2019 Score	Rank - Global PI (1 to 167) 2019	10-year rank change
Economic Openness	49.8	↑	54.9	72	▲ 3
Market Access and Infrastructure	41.7	↑	55.6	66	▲ 17
Communications	41.0	↑	72.0	61	▲ 3
Resources	48.8	↑	51.0	83	▲ 2
Transport	31.6	↑	36.5	81	▲ 12
Border Administration	34.3	↑	35.8	137	▼ 9
Open Market Scale	17.6	↑	90.5	4	▲ 77
Import Tariff Barriers	65.8	↑	67.8	71	▼ 1
Market Distortions	52.8	↑	57.1	96	▲ 16
Investment Environment	56.2	↑	58.0	71	▼ 4
Property Rights	59.6	↑	62.2	60	-
Investor Protection	60.9	↑	68.6	30	▲ 9
Contract Enforcement	39.7	↑	42.8	107	▲ 8
Financing Ecosystem	61.7	↑	58.9	86	▼ 20
Restrictions on International Investment	58.4	↑	53.1	87	▼ 6
Enterprise Conditions	50.1	↑	54.0	79	▲ 3
Domestic Market Contestability	46.7	↑	58.8	59	▲ 38
Price Distortions	40.0	↑	39.4	126	▼ 7
Environment for Business Creation	61.6	↑	60.0	86	▼ 37
Burden of Regulation	42.7	↑	47.5	114	-
Labour Market Flexibility	60.0	↑	55.5	88	▼ 46
Governance	51.4	↑	52.1	68	▲ 3
Executive Constraints	52.3	↑	50.9	87	▼ 2
Political Accountability	72.6	↑	73.1	59	▲ 6
Rule of Law	40.9	↑	38.1	137	▼ 12
Government Integrity	47.3	↑	47.2	72	▼ 4
Government Effectiveness	51.2	↑	60.0	49	▲ 18
Regulatory Quality	45.3	↑	42.3	98	▼ 14



Italics: Indicator contains imputed values

	Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	2019		Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	2019	
Communications (61st)			25%	41.0		72.0	64	61		Resources (83rd)		20%	48.8		51.0	85	83	
International internet bandwidth	ITU	kilobits per capita	1.0	3.0		96.7	61	24		Installed electric capacity	UNESD	kilowatts per capita	1.5	0.3		0.3	95	99
2G, 3G and 4G network coverage	GSM	index, 0-100	2.0	67.5		90.5	70	65		Ease of establishing an electricity connection	WB-DB	index, 0-100	1.0	64.7		76.0	93	88
Fixed broadband subscriptions	ITU	number /100 population	1.0	2.7		12.9	62	66		Reliability of electricity supply	WB-DB	index, 0-7	1.0	5.0		5.0	52	56
Internet usage	ITU	percentage	1.0	21.8		62.3	64	71		Gross fixed water assets	IBNET	USD per population served	1.0	59.8		59.8	110	110
										Water production	IBNET	litres per capita per day	0.5	207.0		207.0	109	109
										Reliability of water supply	WEF	expert survey, 1-7	1.0	4.8		4.8	76	76
Transport (81st)			25%	31.6		36.5	93	81		Border Administration (137th)		5%	34.3		35.8	128	137	
Logistics performance	WB-LPI	index, 1-5	1.5	2.6		2.7	82	91		Efficiency of customs clearance process	WB-LPI	survey, 1-5	1.5	2.1		2.2	132	132
Airport connectivity	WEF	index, 0-100	2.0	2.9		2.9	74	74		Time to comply with border regulations and procedures	WB-DB	hours	1.0	87.0		87.0	118	126
Efficiency of seaport services	WEF	expert survey, 1-7	2.0	3.2		4.0	126	77		Cost to comply with border regulations and procedures	WB-DB	USD (current)	0.5	328.8		328.8	109	113
Liner shipping connectivity	UNCTAD	index, rebased to 100 in 2004	0.5	21.6		50.1	67	38										
Quality of roads	WEF	expert survey, 1-7	1.0	3.3		3.3	116	116										
Road density	FAO	km per 100 sq km of land area	0.5	14.4		18.8	105	95										
Rail density	LIC	km per sq km of land area	0.5	0.0		0.0	128	127										
Open Market Scale (4th)			5%	17.6		90.5	81	4		Import Tariff Barriers (71st)		5%	65.8		67.8	70	71	
Domestic and international market access for goods	WTO	percentage of global GDP	1.5	3.9		52.8	87	1		Share of imports free from tariff duties	WEF	percentage	1.5	56.0		60.3	81	82
Domestic and international market access for services	WTO	percentage of global GDP	2.0	2.9		52.3	80	1		Average applied tariff rate	WEF	percentage	2.0	6.6		6.4	78	79
Trade-weighted average tariff faced in destination markets	WEF	percentage	0.5	3.7		3.5	42	54		Complexity of tariffs	WEF	index, 1-7	0.3	6.5		6.4	42	54
Margin of preference in destination markets	WEF	index, 1-100	0.5	48.4		46.0	44	59										
Market Distortions (96th)			15%	52.8		57.1	112	96										
Extent of liberalisation of foreign trade	BTI	expert survey, 1-10	1.0	8.0		8.0	60	63										
Prevalence of non-tariff barriers	WEF	expert survey, 1-7	1.0	3.5		3.9	157	140										
Non-tariff measures	UNCTAD	number	0.3	613.0		613.0	90	89										



Italics: Indicator contains imputed values

	Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	Global PI Rank 2019		Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	Global PI Rank 2019
Property Rights (60th)			30%	59.6		62.2	60	60	Investor Protection (30th)			20%	60.9		68.6	39	30
Protection of property rights	WEF	expert survey, 1-7	1.0	4.4		4.0	77	105	Strength of insolvency framework	WB-DB	index, 0-16	1.0	10.0		10.0	49	66
Lawful process for expropriation	WJP	expert survey, 0-1	1.0	0.7		0.6	36	56	Insolvency recovery rate	WB-DB	percentage	1.5	49.7		67.2	34	29
Intellectual property protection	WEF	expert survey, 1-7	2.0	3.4		3.9	90	87	Auditing and reporting standards	WEF	expert survey, 1-7	2.0	4.4		4.8	91	63
Reliability of land infrastructure administration	WB-DB	index, 0-8	1.0	6.0		6.0	46	52	Extent of shareholder governance	WB-DB	index, 0-10	1.0	7.0		7.0	14	30
Procedures to register property	WB-DB	index, 0-100	1.0	81.8		83.7	32	32	Conflict of interest regulation	WB-DB	index, 0-10	0.5	8.0		8.0	10	13
Regulation of property possession and exchange	BTI	expert survey, 1-10	1.0	6.0		7.0	87	63									
Contract Enforcement (107th)			20%	39.7		42.8	115	107	Financing Ecosystem (86th)			20%	61.7		58.9	66	86
Quality of judicial administration	WB-DB	index, 0-18	1.5	8.0		9.0	68	58	Access to finance	WB-ES	percentage	1.0	22.3		41.4	78	139
Time to resolve commercial cases	WB-DB	days	1.0	448.7		429.3	161	156	Financing of SMEs	WEF	expert survey, 1-7	1.0	3.7		3.7	90	90
Legal costs	WB-DB	percentage	0.5	16.0		15.3	145	144	Venture capital availability	WEF	expert survey, 1-7	1.0	3.0		2.9	77	81
Alternative dispute resolution mechanisms	WJP	expert survey, 0-1	1.0	0.7		0.7	54	55	Quality of banking system and capital markets	BTI	expert survey, 1-10	1.0	7.0		8.0	70	61
									Commercial bank branches	IMF-FAS	branches /100,000 adult population	1.0	13.6		15.3	71	63
									Soundness of banks	WEF	expert survey, 1-7	1.0	5.5		5.6	77	37
									Depth of credit information	WB-DB	index, 0-8	0.5	7.0		7.0	21	41
Restrictions on International Investment (87th)			10%	58.4		53.1	81	87									
Business impact of rules on FDI	WEF	expert survey, 1-7	2.0	5.1		4.3	72	96									
Capital controls	FI	percentage	1.0	7.7		15.4	122	107									
Freedom to own foreign currency bank accounts	FI	index, 0-10	1.0	5.0		5.0	85	91									
Restrictions on financial transactions	Chinn-Ito	index, 0-1	1.0	0.4		0.4	93	93									
Prevalence of foreign ownership of companies	WEF	expert survey, 1-7	1.0	5.0		4.3	78	96									
Freedom of foreigners to visit	FI	index, 0-10	1.0	7.9		9.6	24	31									



Italics: Indicator contains imputed values

	Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	2019		Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	2019	
Domestic Market Contestability (59th)			30%	46.7		58.8	97	59		Price Distortions (126th)		10%	40.0		39.4	119	126	
Market-based competition	BTI	expert survey, 1-10	1.0	5.0		7.0	99	51		Distortive effect of taxes and subsidies	WEF	expert survey, 1-7	1.0	2.9		2.9	153	153
Anti-monopoly policy	BTI	expert survey, 1-10	1.0	7.0		7.0	52	54		Energy subsidies	IMF	percentage of GDP	1.0	2.8		3.0	55	71
Extent of market dominance	WEF	expert survey, 1-7	1.0	3.0		3.5	140	104										
Environment for Business Creation (86th)			25%	61.6		60.0	49	86		Burden of Regulation (114th)		25%	42.7		47.5	114	114	
Private companies are protected and permitted	BTI	expert survey, 1-10	1.0	8.0		8.0	40	45		Burden of government regulation	WEF	expert survey, 1-7	1.0	2.8		2.6	126	150
Ease of starting a business	WB-DB	index, 0-100	1.0	76.2		85.3	71	85		Time spent complying with regulations	WB-ES	percentage	1.0	14.3		19.5	155	154
State of cluster development	WEF	expert survey, 1-7	1.0	3.8		3.7	58	89		Number of tax payments	WB-DB	number per year	1.0	32.0		11.0	86	58
Labour skill a business constraint	WB-ES	percentage	0.5	29.0		44.5	122	156		Time spent filing taxes	WB-DB	hours per year	1.0	256.0		255.5	84	110
Availability of skilled workers	WEF	expert survey, 1-7	0.5	4.3		4.3	65	65		Burden of obtaining a building permit	WB-DB	index, 0-100	1.0	57.7		67.2	87	83
										Building quality control index	WB-DB	index, 0-15	0.5	11.0		11.0	62	72
Labour Market Flexibility (88th)			10%	60.0		55.5	42	88										
Cooperation in labour-employer relations	WEF	expert survey, 1-7	1.0	4.6		4.4	49	75										
Flexibility of hiring practices	WEF	expert survey, 1-7	0.5	3.7		3.3	102	133										
Redundancy costs	WEF	weeks	0.5	59.0		16.7	125	83										
Flexibility of employment contracts	WB-DB	index, 0-1	1.0	0.8		0.8	19	69										
Flexibility of wage determination	WEF	expert survey, 1-7	1.0	5.2		4.7	70	100										



Italics: Indicator contains imputed values

		Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	Global PI Rank 2019			Source	Unit	Weight	2009	Value 10-yr trend	2019	Global PI Rank 2009	Global PI Rank 2019
Executive Constraints (87th)										Political Accountability (59th)									
Executive powers are effectively limited by the judiciary and legislature										Consensus on democracy and a market economy as a goal									
Government powers are subject to independent and non-governmental checks										Political participation and rights									
Transition of power is subject to the law										Democracy level									
Military involvement in rule of law and politics										Complaint mechanisms									
Government officials are sanctioned for misconduct																			
Rule of Law (137th)										Government Integrity (72nd)									
Judicial independence										Use of public office for private gain									
Civil justice										Diversion of public funds									
Integrity of the legal system										Right to information									
Efficiency of dispute settlement										Publicised laws and government data									
										Transparency of government policy									
										Budget transparency									
Government Effectiveness (49th)										Regulatory Quality (98th)									
Government quality and credibility										Regulatory quality									
Prioritisation										Enforcement of regulations									
Efficiency of government spending										Efficiency of legal framework in challenging regulations									
Efficient use of assets										Delay in administrative proceedings									
Implementation																			
Policy learning																			
Policy coordination																			

List of data sources and acronyms

Code	Organisation
BTI	Bertelsmann Stiftung Transformation Index
CII	Chinn-Ito Index
CSP	Center for Systemic Peace
FAO	Food and Agriculture Organisation
FH	Freedom House
FI	Fraser Institute
GSMA	Groupe Spéciale Mobile Association
IBNWS	International Benchmarking Network for Water and Sanitation Utilities
IBP	International Budget Partnership
IMF	International Monetary Fund
ITU	International Telecommunications Union
UNCTAD	United Nations Trade Data
UNESD	United Nations Energy Statistics Database
WBDB	World Bank Doing Business Index
WBDI	World Bank Development Indicators
WBES	World Bank Enterprise Surveys
WBLPI	World Bank Logistics Performance Index
WEF	World Economic Forum
WGI	Worldwide Governance Indicators
WJP	World Justice Project
WTO	World Trade Organisation



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