

Colombian fiscal policy: a limited tool for long-term development and short-term recovery

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Preliminary

Summary

After a long period of fiscal discipline during the eighties and since the mid-nineties (even during the crisis of the eighties), Colombia’s fiscal performance has substantially deteriorated. This has strongly limited the role of public finance in promoting effective long-term development, and has prevented fiscal policy from being a useful tool for short-term economic stabilization. The lack of fiscal discipline, which was mostly driven by the Constitution of 1991 and by structural reforms undertaken in the first quarter of the nineties, has not been offset by the adoption of deep reforms from the mid-nineties onward. Rather, the reforms carried out over the last fifteen years have either been limited, or have been designed to respond to short-term needs rather than to generate permanent and structural changes.

On the spending side, the only type of reforms that helped to control expenditures and the growing deficit were decentralization reforms that limited regional transfer increases. Other budget reforms have been insufficient in their scope and implementation. On the tax side, several “quick fixes” or “piece meal” reforms were implemented, and they were not enough either to finance the increasing trend of expenditures or to provide room for a more redistributive role for fiscal policy or for undertaking short-term stabilization measures. Tax reforms have given priority to short-term revenue needs (e.g., the imposition of discriminatory taxes) over long-term criteria of *efficiency* and *equity*.

Regarding the so-called “social contract” in the long run, even though social expenditures have increased, their effectiveness has been partial. A good example is the rate of coverage in education, which has increased more slowly than the pace of expenditures in education. Some social indicators have improved slightly and poverty has shrunk, but to a degree that is less than proportional to social spending efforts. This

result is mostly explained by inefficiencies in expenditures and increasing corruption. In addition, income distribution inequality remains practically unaltered.

Public policy has not been growth-enhancing in key areas, such as infrastructure. Public investment in public works and transportation is low, and, even worse, it has been decreasing over the last fifteen years. In fact, fiscal adjustments have been made at the expense of such investment. Some indicators show that the quality of infrastructure in Colombia is still very poor.

In addition, fiscal policy has served as a weak economic stabilizer. One of the reasons is pro-cyclical behavior and the lack of savings in good times. A good example is the recent boom of 2004-2007 (GDP grew 7.5% in 2007), in which increase in expenditures was maintained. As a result, in the current economic downturn the role of the fiscal policy in propelling economic recovery and serving as a stimulus has been restricted.

Despite the pro-cyclical behavior during the past recent economic boom, the Colombian government was aware of the need to use fiscal policy in a more counter-cyclical way in 2008-2009. This has been made possible thanks to previous adjustments that lowered the debt combined with better access to international markets (e.g., compared to 1999-2000). In fact, although one of the channels available for expanding expenditures during the recent downturn has been to decumulate assets (e.g., through stabilization funds), this approach has not been adopted. Rather, the growth of expenditures to compensate for the fall in demand has been financed through new debt. However, it is worth noting that although access to external finance has given the government room to partially offset the economic downturn, the level of debt, which is still high and needs to remain on a sustainable path, does not allow for maintaining the increased pace of expenditures. In fact, in 2010 the deficit of the Central Government will increase again and revenues are projected to be lower. Therefore, the dynamics of revenues combined with the low capacity for indebtedness limits the Government's field of action for raising budget expenditures.

This makes evident the need for the Government to design institutional mechanisms to improve its capacity to implement counter-cyclical fiscal policies. It requires rules that guarantee that spending will evolve in line with long-term fiscal revenues, encouraging fiscal savings when revenues increase beyond their long-term trend, and de-saving when they grow below their long-term path. Colombia does not have any kind of institutional arrangement or budget rules based on structural balance, by which the Government could annually estimate the fiscal revenues that would be generated if the economy were to reach its potential level, and schedule spending in accordance with these structural revenues (as occurs in Chile).

In order to improve the counter-cyclical capacity, fiscal authorities should improve the automatic stabilizers through, for example, the adoption of social support programs with clearly defined entry and exit clauses (unemployment insurance instead of programs such as *Familias en Acción*), and the definition of budget expenditures based

on permanent, not transitory, revenues. In addition, the government should stabilize mining and energy income (by strengthening the existing funds such as the FAEP). Projections of long-term growth and oil prices, for example, should be made by experts who are independent from the government.

In 2003 Colombia adopted a Fiscal Responsibility Law, which requires the use of medium expenditure frameworks, though it does not include enforcement instruments or quantitative targets, as do other FRL's (Brazil, Chile). Therefore, it is difficult to assess its actual effects on expenditure growth. In Chile, for example, when the annual output gap is positive, it is mandatory to generate a structural surplus of 1% of GDP. In addition, this surplus must be accumulated in two sovereign funds, in order to cover future pension obligations and deficits when the output gap is negative.

In terms of tax policy, different studies (the most influential being Fiscal Reform in Colombia: Problems and Prospects, 2005), have made several recommendations regarding the need to adopt structural tax reforms aimed at, principally, reducing tax exemptions and carefully reviewing their impact and the source of financing, making the income tax more progressive and increasing the taxable base (reducing the rate for corporations), increasing the scope in terms of goods subject to the VAT and reducing the number of rates, eliminating distortionary taxes that were transitory and have become permanent (Transaction Tax, Wealth Tax), and improving the tax administration.

Finally, the Colombian authorities need to improve the institutional framework and institutional arrangements in order to improve fiscal discipline and the consistency of spending and revenue policies with macroeconomic stability, budget allocations according to policy priorities (by sector, regions), and efficiency and evaluation of expenditures (see, Olivera, 2008). In addition, great efforts must be made to increase budget transparency, and therefore fiscal legitimacy.

1. Colombia has lacked fiscal discipline

- The fiscal situation has continuously deteriorated over the last 15 years, particularly due to the Central Government imbalance. The CG deficit amounted to less than 1% of GDP in 1990 and reached around 5% from 1998 to 2004. It fell slightly to 3.3% in 2007 (Figure 1)
- The imbalance was more the result of idiosyncratic (internal) factors than of external ones, since it started several years before the crisis of 1998-1999. It was mainly driven by:
 - The Constitutional reform of 1991, by which the General Participations System of regional transfers was created and a percentage of CG current

revenues were to be transferred to the regions (the decentralization process)

- The pension reform
- The increase in military expenditures

➤ Spending grew much faster than revenues (Figure 2)

- In 1990, total expenditures were 9.7% of GDP, and they increased to 18.8% in 2000 and to 21.5% in 2007. In the same years tax revenues amounted to 8.3%, 13% and 15.3% of GDP, respectively.

➤ The increasing spending was largely financed with debt:

- In 1990, total debt was 16.5% of GDP and reached its peak in 2003 at 53.6%. It then gradually fell, until reaching 47.5% in 2007 (Figure 3)
- In 2002, Colombia had to start running a permanent primary surplus of at least 1.8% of GDP for public finances to be sustainable. The CG has reached a primary surplus, however still low (Figure 4)

2. The fiscal policy has not been a tool for economic stabilization (short-term perspective)

➤ Fiscal policy indiscipline from the mid-nineties to 2004, has caused macroeconomic conditions for development to deteriorate

- Since the mid-nineties, the boost in domestic debt has resulted in a deep crowding out that has resulted in rising interest rates and a slump in private investment.
- High current spending was partly responsible for real exchange rate revaluation.
- The large deficit caused international investors' risk perceptions to deteriorate, which increased spreads.
- The boost of the external debt, which reached 25.5% of GDP in 2002, increased the vulnerability of fiscal performance to external shocks and exchange rate changes.
- Colombia lost its investment grade in 1999 and has not been able to recover it.

➤ Fiscal policy has been pro-cyclical

- Expenditures follow the cycle. The government spent more during booms and less during slumps Figure 5.

- There were no fiscal savings during either the mid-nineties or the recent boom of 2004-2007 (in 2007 the economy grew 7.5%).
 - During the recession of 1999, there was no room for a counter-cyclical policy, in contrast to the recent downturn (Figure 6)
 - Current Account deficit was large (around 4-5% of GDP in 1998), so it was necessary to adjust spending, while it was 2.5% in 2008
 - Central Government deficit was around 5-6% of GDP in 2000, while it was less than 4% in 2008
 - External public debt was around 20% of GDP in 1999-2000, while it was 15% in 2007-2008.
- In the current downturn (2008 and 2009), fiscal policy has been counter-cyclical, but the room to maintain this path in 2010 is limited by the still high level of debt.
- The manner in which expenditures have been expanded to compensate for the fall in demand has been through the acquisition of new debt (instead of the decumulation of assets, e.g., through stabilization funds).
 - Between 2008 and 2009, public spending (excluding debt service) rose from 18% to 20.2% of GDP, and investment rose from 4.6% to 5.9% of GDP.
 - However, although access to external financing has given the government room to partially offset the economic downturn, the level of debt, which is still high and needs to remain on a sustainable path, does not allow for maintaining the increased pace of expenditures.
 - According to the Ministry of Finance, under the assumption of 2.5% GDP growth and 4% inflation in 2010, the deficit of the Central government will increase from 4% of GDP in 2009 to 4.4% of GDP in 2010, and that of the NFPS will increase from 2.3% to 3.5%. In addition, for 2010 revenues are projected to be 13.0% of GDP, which is 0.6% less than in 2009. Therefore, the dynamics of revenues combined with the low indebtedness capacity limit the Government's field of action for raising budget expenditures. As a matter of fact, according to the Budget Project for 2010, expenditures (excluding debt service) will be reduced again from 19.8% of GDP to 18.9%, and investment will be reduced from 2.1% to 1.6%. (Table 1)
 - Expenditure stimuli are oriented toward infrastructure, Social Protection (strengthening social programs and coverage such as *Familias en Acción, Red Juntos*), and strengthening subsidized financial credit lines and housing (*Bancoldex, Fondo Nacional de Garantías, Microcréditos, Finagro*).

3. The basis of a social contract: income redistribution and growth enhancement

- The provision of high-quality public expenditures has been limited.
- Spending composition
 - Capital expenditures represent around 7% of total expenditures, Current Transfers 55%, Operational Expenditures 18% and Debt Service 20% (Figure 7).
 - Current Transfers and Debt Service exhibited the largest increase (Figure 8).
 - Current transfers grew due to regional transfers and pensions (Figure 9)
- Social spending: the impact has been limited
 - Social spending grew during the decade of the nineties even above the region's average: from 11.2% of GDP in 1994 to 14.7% in 2006 (Figure 11).
 - In terms of its composition, education, health and employment have taken the greatest share, moving from 8.9% of GDP in 1994 to 13.5% in 2006.
 - Education has had the greatest increase, both in terms of its participation and in real terms.
 - The transfer of resources and responsibilities to regions needs to be mentioned. Funds transfers represented 4.1% of GDP in 1997 and 5.1% in 2007. In 2006, transfers surpassed \$16 billion (COP), of which 80% was destined for health and education.
 - However, spending and decentralization have not been as efficient. Coverage has not grown proportionally to spending.
 - Example - Education: Compared to the average for the Latin American region, Colombia spends more and has less education coverage (primary and secondary) (Figures 12a and 12b)
- Infrastructure spending: it has not been growth-enhancing
 - The contribution of infrastructure spending to growth has been small and fiscal adjustments have been made at the expense of such investment. Short-term fiscal balance has been pursued at the expense of investment that would have had its own pro-growth effects.
 - The major proportion of spending on infrastructure is made by public enterprises.
 - Public investment is low, and has been decreasing. It was, on average, around 3% of GDP in the mid-nineties, and started declining until it reached less than 1% in 2003. It has recovered in

the recent years mainly due to investments in the oil sector. The most pronounced decline has been in public works and transportation (road works). (Figure 13)

- In addition, some indicators show that the quality of infrastructure in Colombia is poor (Figure 14)

- Taxes: an erratic policy (not redistributive and not growth-enhancing).
 - Tax composition
 - Relies more on indirect taxes (VAT, tariffs and transaction taxes) than on direct taxes (income taxes and wealth taxes) Figure 15.
 - Income tax and VAT have the largest shares. Financial transaction taxes and wealth taxes together have the same participation as tariffs (Figure 16).
 - Since 1990, there have not been any structural reforms, but only reforms aimed at increasing revenues in the short run (see next section).

4. Fiscal legitimacy is limited

- The perception of *Budget Transparency* is low and has declined in recent years.
- The Index of Fiscal Transparency measures: (i) the concept of transparency, which relates to whether the decisions of the government respond directly to the interests and well-being of the present and future populations, (ii) the recognition of the institutionality in force and (iii) an element of perception. It is developed (answered) by a group of experts consulted in each country.
- The results of the 2007 report suggest that:
 - The General Budget Transparency Index fell 20 points in 2007 compared to 2005, ranking the country in next-to-last place among 9 Latin American countries. This resulted from:
 - The lack of participation by the civil society. There are neither legal nor informal mechanisms for incorporating public opinion in the budgetary process. Although there are rules that clearly assign responsibilities to each government body (executive and legislative) and establish times for discussing the budget, and the necessary debates are held (established in the *Estatuto Orgánico del Presupuesto* (Organic Budget Statute)), the practice of lobbying,

which is not institutionalized or public, prevails in the negotiation/discussion of the budget.

- In terms of the drafting of the budget, some of the main difficulties are related to the fact that the income forecast on which the budget is based is not reliable, there are too many changes in the budget, and there is the perception that the budget allocations are rarely based on an evaluation of program performance.
 - Regarding budgetary control, the perception is that it is insufficient and the evaluation by the treasury inspector's office is inadequate.
 - Accountability is not perceived as effective, and there are major concerns related to the lack of control over public officials and the lack of clear responsibilities at different levels of the government.
 - There are serious difficulties regarding access to information (e.g., on public debt), the quality of information and statistics is poor, and there is an environment of corruption.
- All this implies a lack of credibility and confidence in institutions, despite an improvement in the legal framework and compliance.

5. It is not a matter of the lack of reforms but of their quality, depth and scope

- Since 1990, Colombia has embarked on a complex process of reforms: 15 tax reforms were enacted, 6 expenditure reforms, 9 decentralization reforms, and 3 pension reforms (Table 3).
- Olivera, Pachón and Perry conclude that:
- All tax laws approved were of the “quick fixes” or “piece meal” type (increases in tax rates, establishment of new distortionary taxes on financial transactions and net wealth). Most Government initiatives were dominated by revenue objectives and disregarded efficiency considerations. The only two that were significantly driven by efficiency considerations (the 1995 and the 2007 draft bills) failed in Congress and ended up being converted into two more “piecemeal” laws. Overall, tax revenues increased, but by much less than the increase in expenditures that they were intended to finance.
 - Decentralization-related reforms – indebtedness and expenditure controls and regional transfers for subnational entities - were easier to approve and quite successful, as they achieved a significant reduction in transfers/GDP ratios after 2001 and led to aggregate surpluses in sub-national balances during the boom period. This occurred in spite of the fact that transfer

reforms required Constitutional changes, and thus a more demanding political process in Congress.

- Only one expenditure reform (the Fiscal Responsibility Law of 2003) was approved by Congress during the period. This reform required the use of medium expenditure frameworks, though it did not include enforcement instruments, as did the highly successful Brazilian FRL, or quantitative targets, as did other FRL's. It is difficult to assess its actual effects on the growth in expenditures.

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Figures and Tables (sources be added)

Figure 1

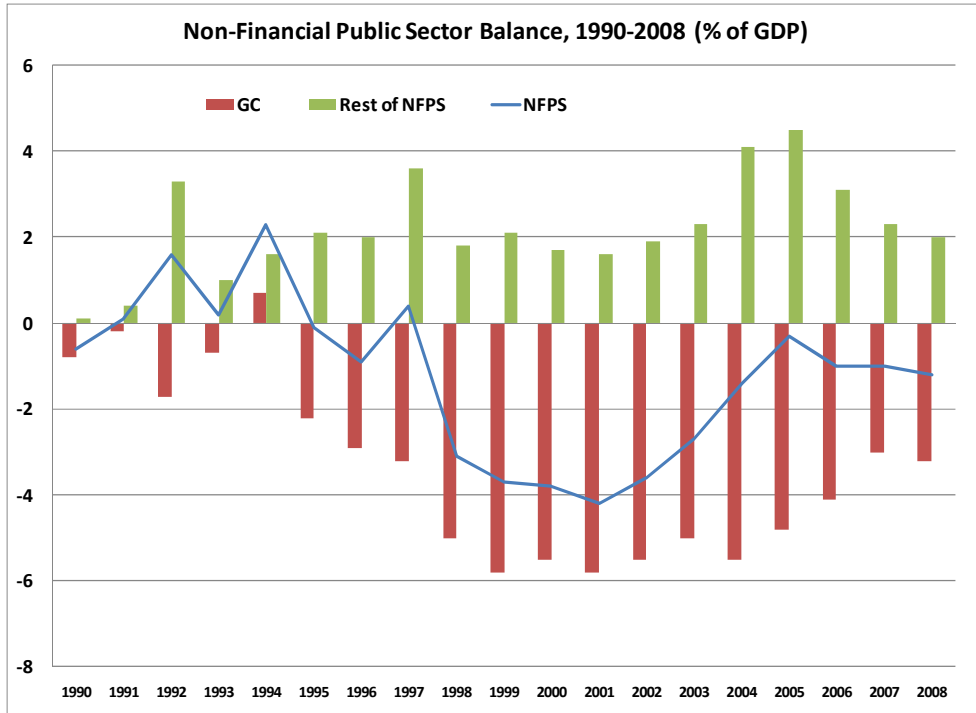


Figure 2

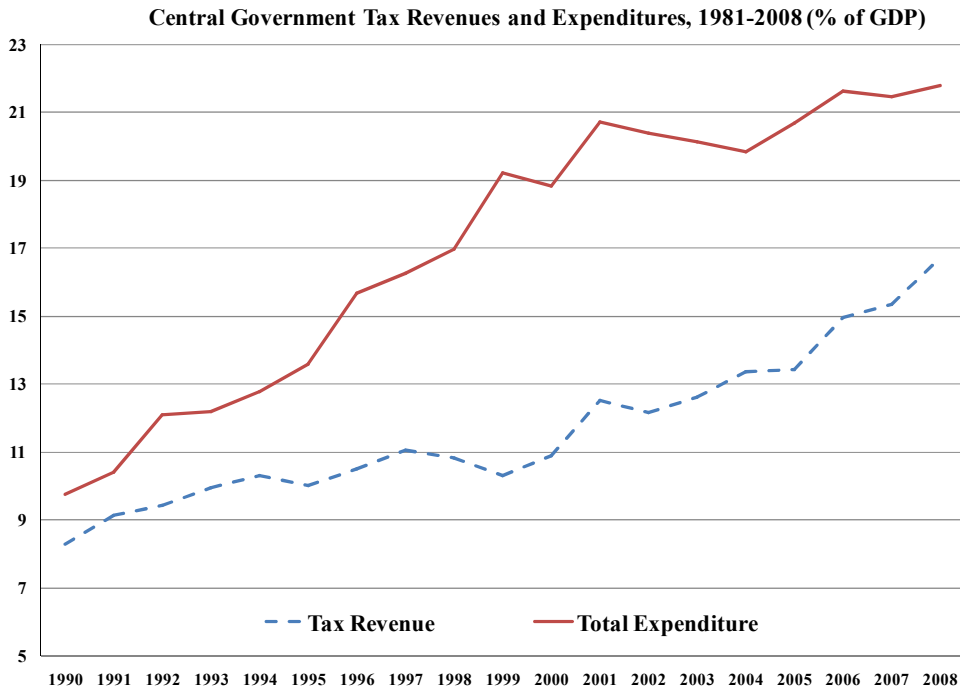


Figure 3

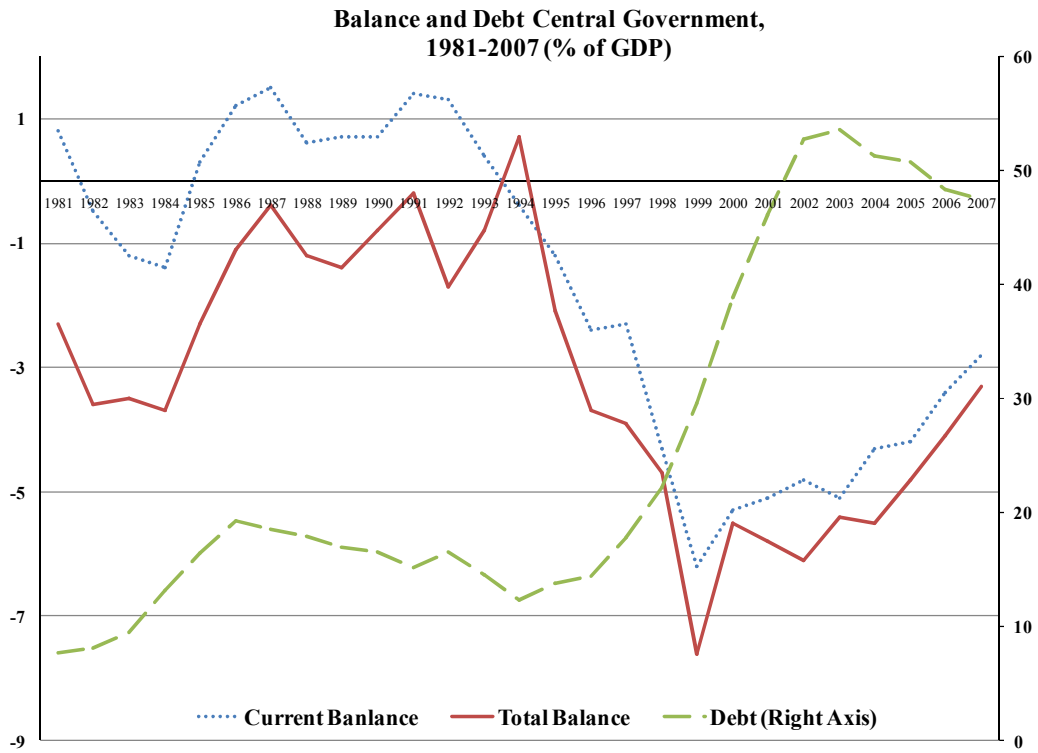


Figure 4

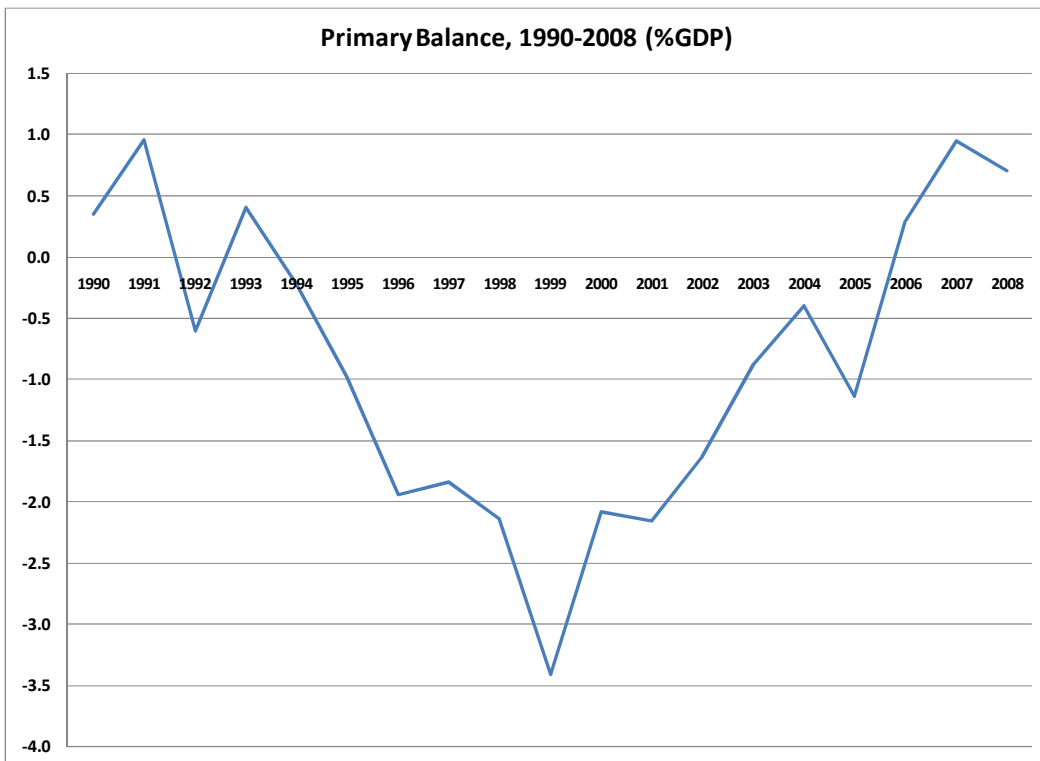


Figure 5

Expenditure and GDP Cycles
1980-2008 (% of GDP)*

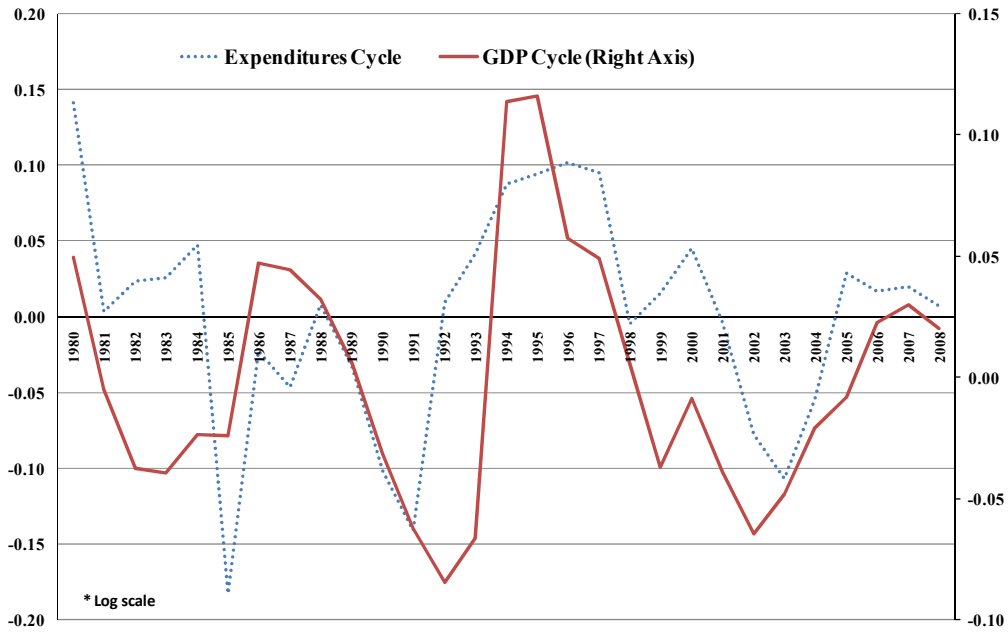


Figure 6

Real Expenditures Growth versus Output Gap

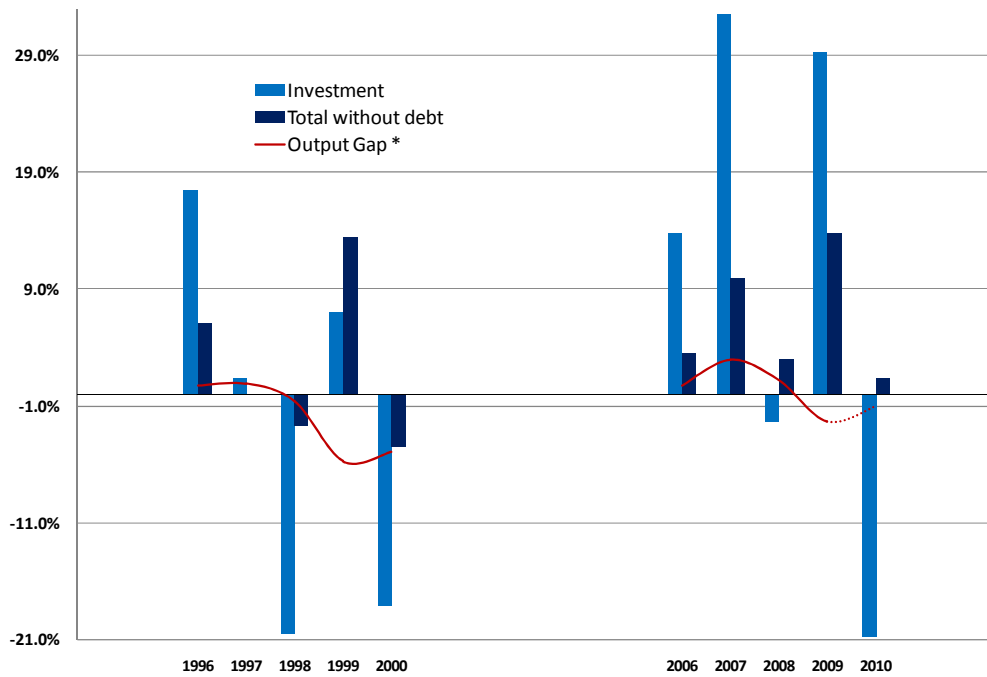


Figure 7

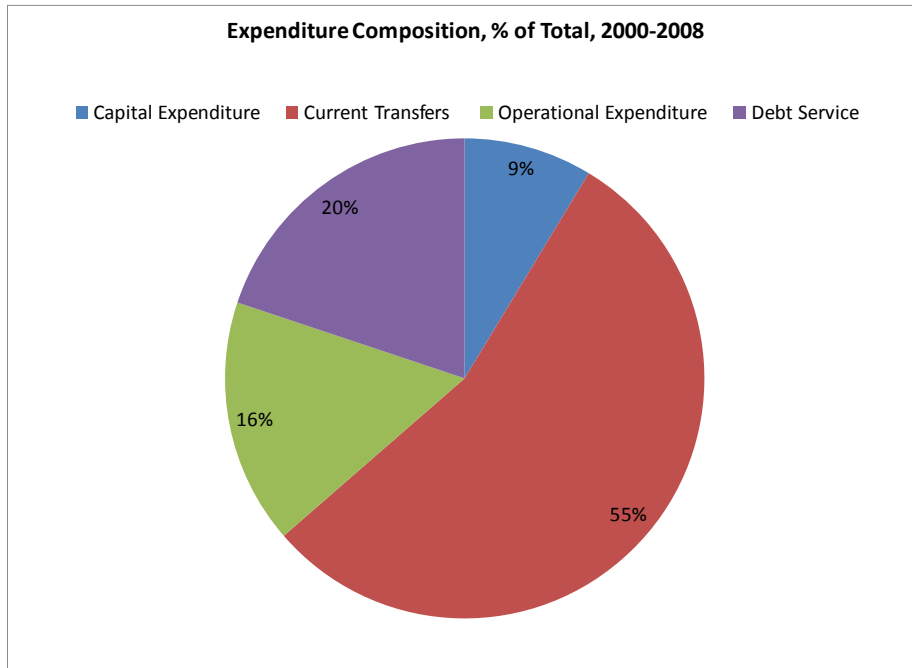


Figure 8

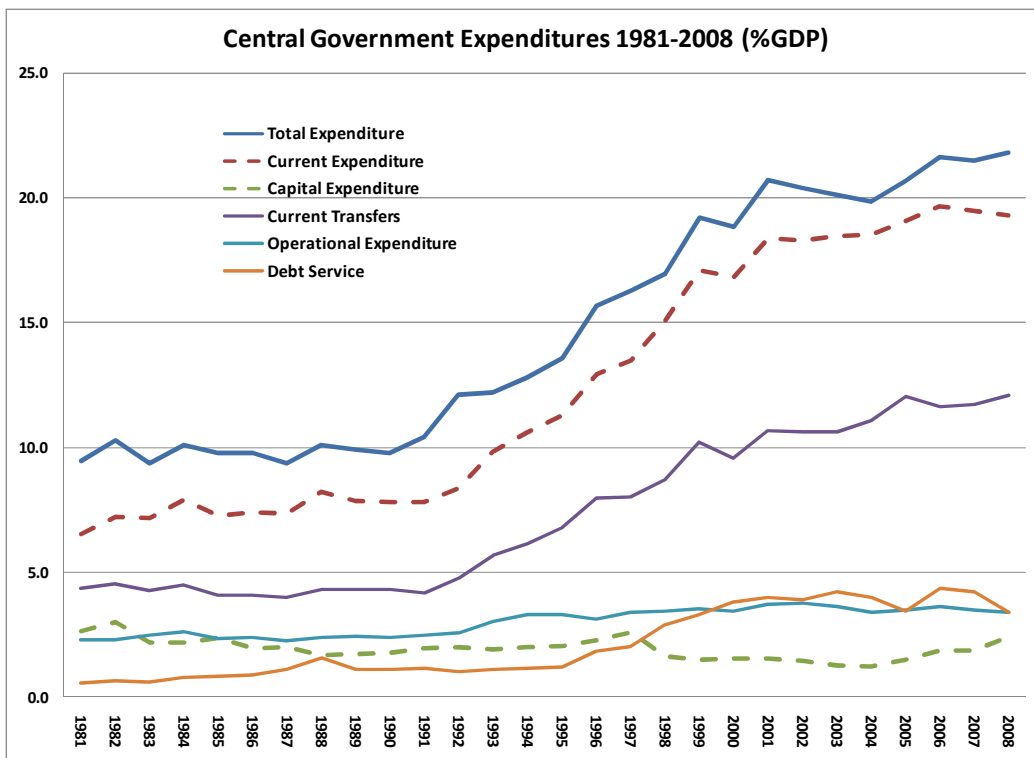


Figure 9

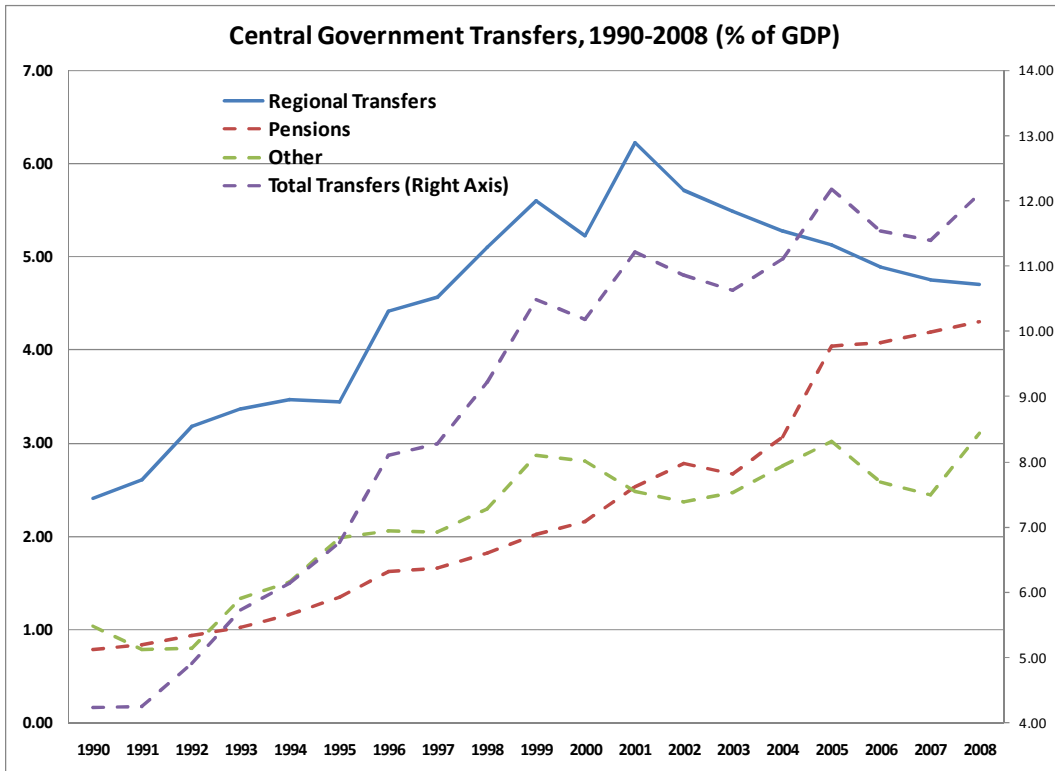


Figure 10

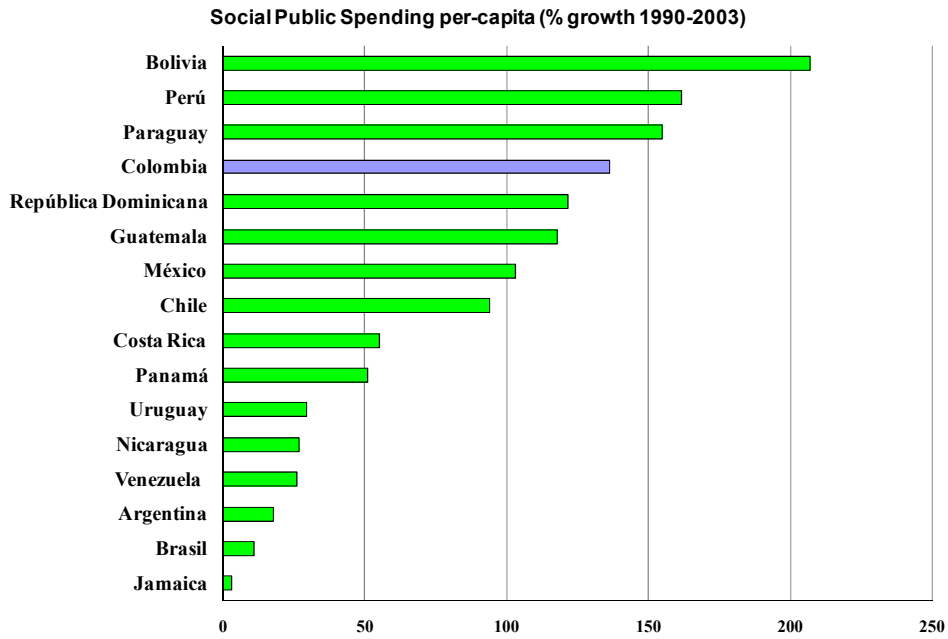


Figure 11

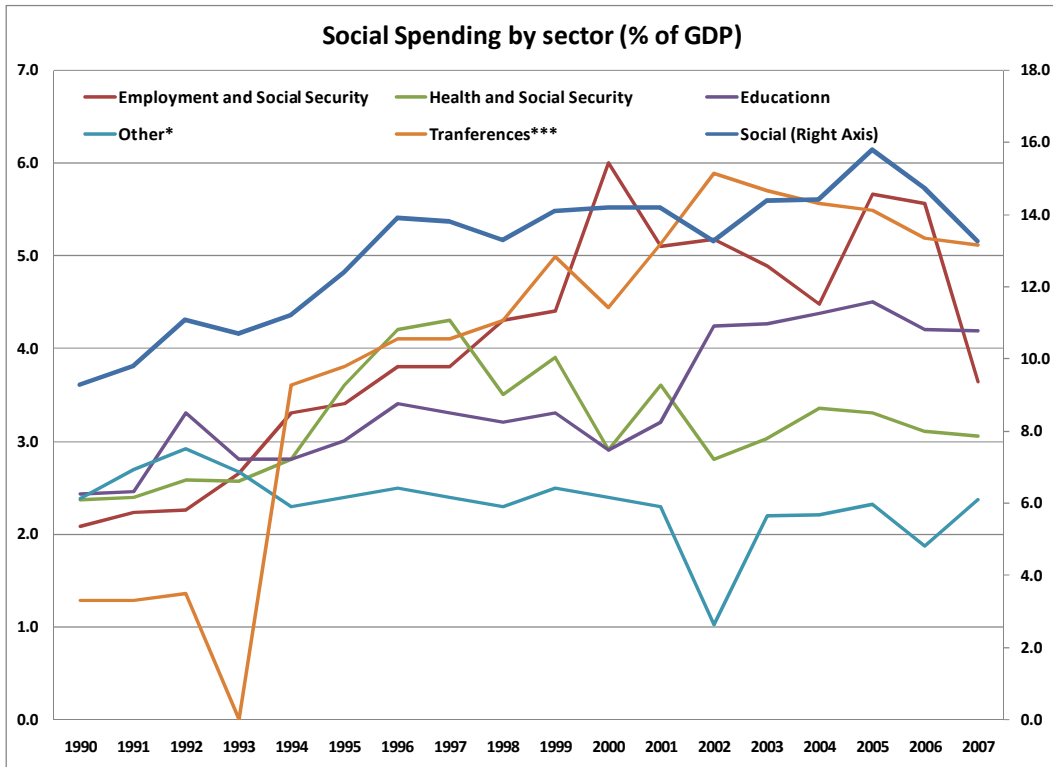
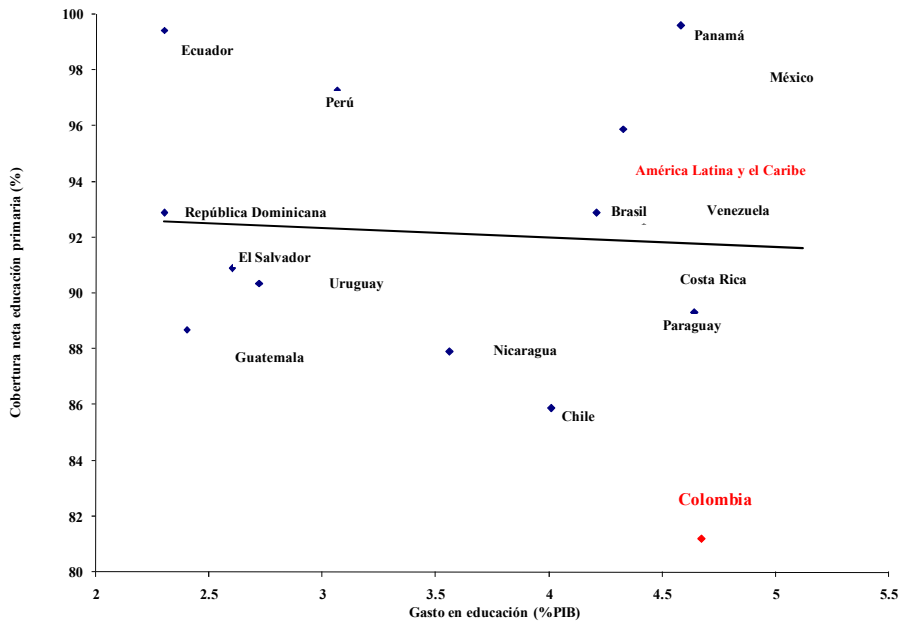


Figure 12



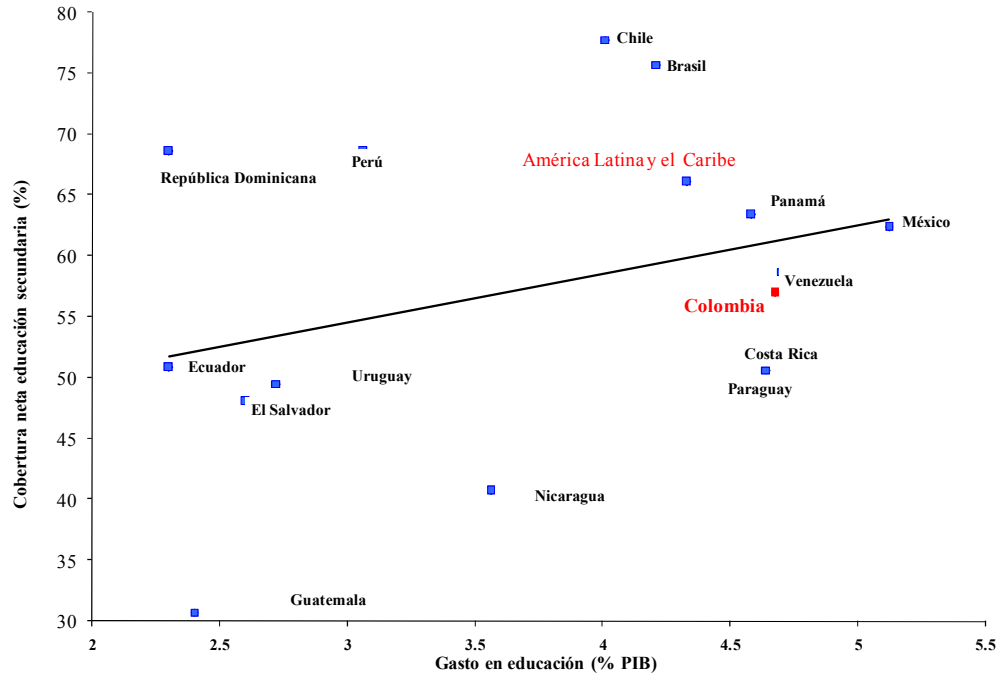


Figure 13

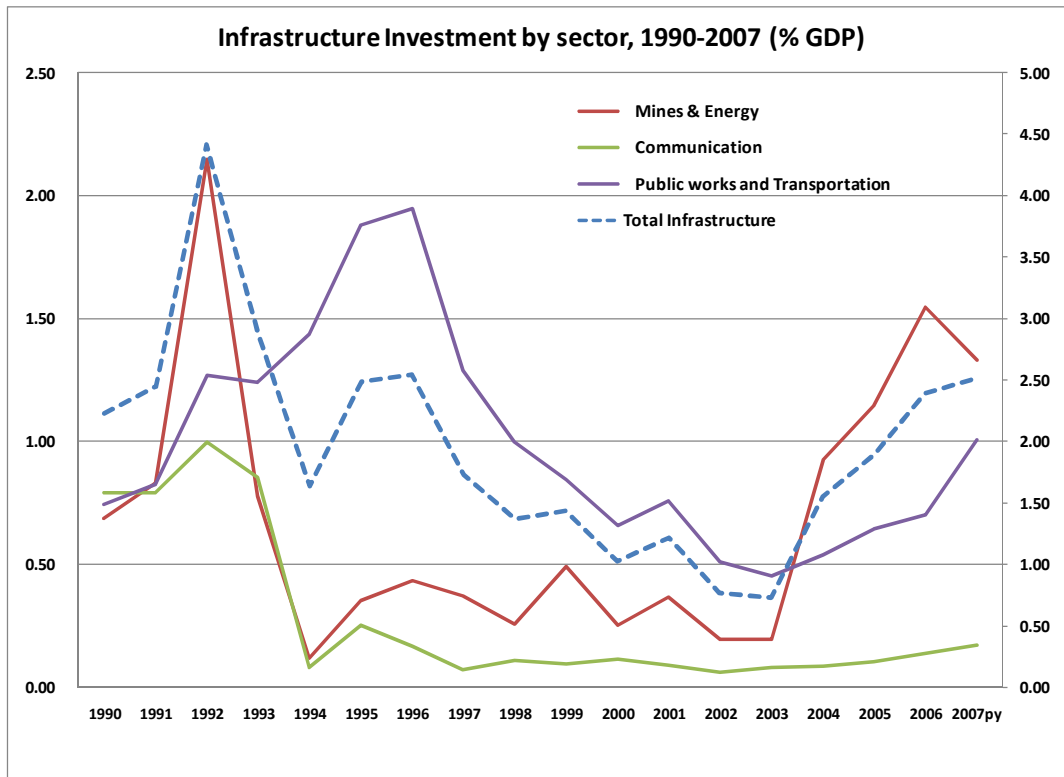


Figure 14

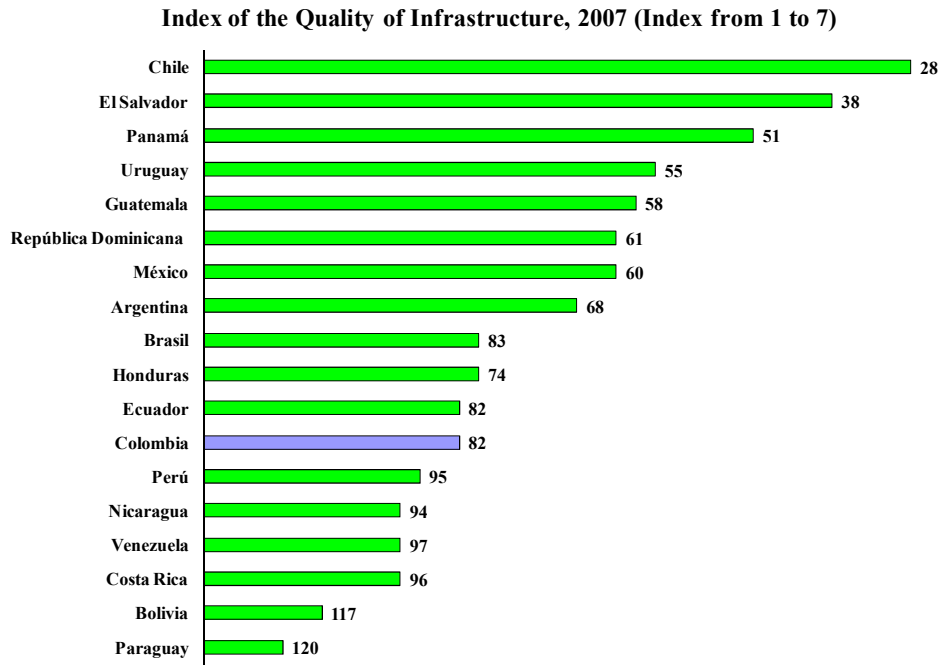


Figure 15

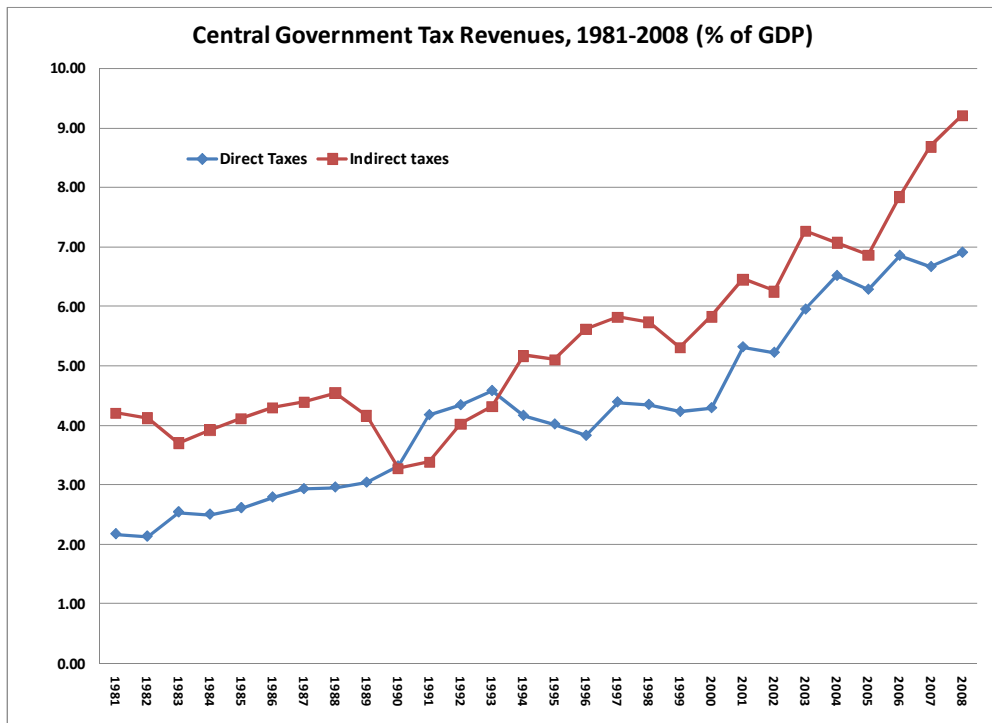


Figure 16

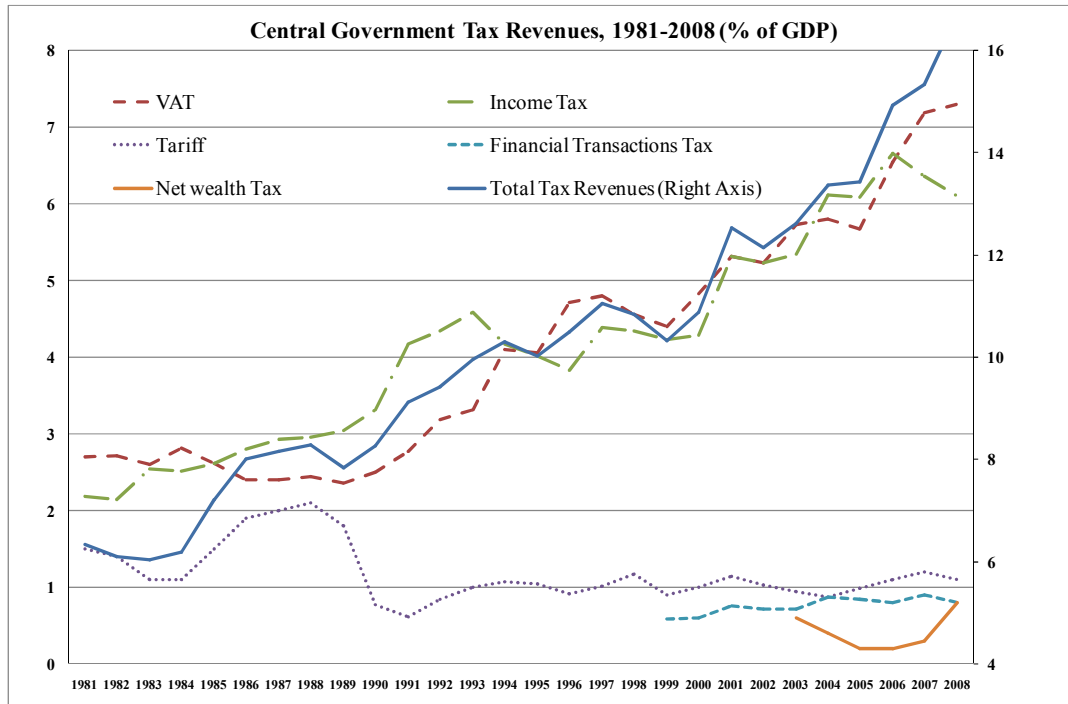


Table 1

	Central Government Balance, 2009-2010 (COP Billion)			
	2009	2010	2009 (% PIB)	2010 (% PIB)
Total Revenues	80,637	78,163	16.1	14.5
Tax revenues	68,197	70,299	13.6	13.0
Nontax revenues	384	408	0.1	0.1
Capital Ressources	11,150	6,428	2.2	1.2
Others	906	1028	0.2	0.2
Total Expenditures	99.436	101,544	19.8	18.8
Interest	15,997	17,735	3.2	3.3
Operation	72,653	74,947	14.5	13.9
Investment	10,375	8,507	2.1	1.6
Net Loan	411	355	0.1	0.1
Deficit	-18,799	-23,381	-3.7	-4.3
CRSF	1,085	504	0.2	0.1
Deficit to finance	-19,884	-23,885	-4.0	-4.4

Table 2

Budget Transparency Index, components, 2007

	2003	2005	2007
Budget participation			
Civil Society Participation	15	35	13
Functions and powers of the legislative body	40	45	38
Budget Drafting			
Information about macroeconomic criteria	43	60	45
Changes on the Budget	37	47	44
Budget Allocation	31	33	31
Budgetary Control			
Budgetary Overseeing	40	52	38
Capacities of the external control body	40	57	41
Evaluation of the treasury inspector's office	4	21	25
Accountability			
Reporting	24	36	26
Control over public officials	36	48	29
Responsibilities at different levels of the government	34	25	34

Source: Índice Latinoamericano de Transparencia Presupuestaria, 2007

Table 3

Fiscal Reforms

1990-2008				
	Tax Reforms	Expenditure Reforms	Decentralization Reforms	Pension Reforms
Decrees	3	3	0	0
Laws	12	3	6	3
Constitutional Reforms	0	0	3	0

Reforms Inventory

Expenditure Reforms

Laws	Provisions
Law 38 of 1989 (Reform of the Organic Budget Law)	<ul style="list-style-type: none"> • Budget flexibility improved. • Autonomy of line-item agency spending. • Effectiveness of expenditures by institutions introduced (e.g. Investment Projects Bank, BPIN). • Mandatory evaluation for investment projects established. • Annual cash program created. • National Fiscal Council (CONFIS) created.
Law 179 of 1994	<ul style="list-style-type: none"> • Law 38 of 1989 updated for the new constitution. • Compulsory registration of investment projects.
Law 225 of 1995	<ul style="list-style-type: none"> • Standards established for the planning, preparation and performance of budgeting in accordance with Decree 111 of 1996.
Decree 111 of 1996	<ul style="list-style-type: none"> • Law 38 of 1989, Law 179 of 1994, Law 225 of 1995 joined without modifications.
Law 819 of 2003 (Fiscal Responsibility Law)	<ul style="list-style-type: none"> • Medium Term Fiscal Framework (MTFF) created. • Management and performance indicators included in the budget. • Confis can authorize expenditure increases in future budgets if and only if they are made with current budget appropriations and if they are consistent with MTFF goals.
Decree 4730 of 2005	<ul style="list-style-type: none"> • Medium Term Expenditure Framework (MTEF) created.
Decree 1957 of 2007	<ul style="list-style-type: none"> • Budget reserves limited to 2% of operational expenditures and 15% of investment expenditures.

Tax Reforms

Laws	Provisions
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Law 49 of 1990	<ul style="list-style-type: none"> • Dependence on tariffs reduced. • VAT basic rate increased from 10% to 12%. • Tax exemptions reduced. • Amnesty for repatriation of capital. • Unified the National Tax and Customs Administration (DIAN).
Law 50 of 1990	<ul style="list-style-type: none"> • CG bonds (TES) created, increasing the capacity for domestic borrowing.
Law 6 of 1992	<ul style="list-style-type: none"> • VAT increased from 12% to 14%. • Exemptions for tax payments to indigenous territories, metropolitan districts, associations of municipalities, black communities, and special administrative units and superintendencies. • Some goods excluded from VAT (e.g., basic consumer basket and some agricultural equipment not produced in the country). • Income tax rate increased to 37.5%. • VAT on capital goods made deductible (shift from income to consumption VAT).
Law 174 of 1994	<ul style="list-style-type: none"> • Inventory valuations are decreased gradually. • Tax treatment for leasing established. • Executive power empowered to dictate rules on labor tax. • Inflation rates used for accounting and tax purposes unified.
Law 223 of 1995	<ul style="list-style-type: none"> • Income tax rate reduced to 35%. • VAT rate increased to 16%. • Reduced exemptions for income tax and VAT • Strengthened the minimum presumptive income tax regime. • New VAT exemptions for a set of inputs used in housing construction. • Personal enterprise considered as a private limited company. • Tax treatment of commercial leasing defined. • Capital losses deductible from the capital gains tax.

<p>Law 383 and Decree 81 of 1997</p>	<ul style="list-style-type: none"> • Smuggling and tax evasion penalized with imprisonment of from 3 to 6 years and ticket of 200% on the CIF value. • New incentives for inter-institutional cooperation against smuggling. • Tax deduction limits. • Foreign investment and academic research incentives created. • External financing tax created (tax value: fixed term deposit interest rate - Libor - Annual depreciation). • Tax on transactions with government increased from 0.5% to 1%. (Stamp tax).
<p>Law 488 of 1998</p>	<ul style="list-style-type: none"> • VAT tax base increased. • VAT tax rate reduced to 15%. • Some income exemptions eliminated. • New system of public bonds created. (<i>Bonos de paz</i> - Peace Bonds).
<p>Decree 2331 of 1998</p>	<ul style="list-style-type: none"> • Financial transactions tax rate created at 2 per thousand.
<p>Law 633 of 2000</p>	<ul style="list-style-type: none"> • VAT expanded to high strata houses and used cars. • Financial transactions tax rate increased from 2 to 3 per thousand.
<p>Decree 1838 of 2002</p>	<ul style="list-style-type: none"> • Net wealth tax created (1.2% of patrimony once).
<p>Law 788 of 2002</p>	<ul style="list-style-type: none"> • Income tax rate increased to 38.5% • Number of goods excluded from VAT reduced. • Controls against evasion established. • New exemptions for specific activities.
<p>Law 863 of 2003</p>	<ul style="list-style-type: none"> • Financial transactions tax rate increased from 3 to 4 per thousand. • Net wealth tax re-established (to finance increased defense expenditures). • Deductions for investment established.
<p>Law 1004 of 2005</p>	<ul style="list-style-type: none"> • Income tax rate equal to 15% to firm established in free trade

	zones.
Law 1111 of 2006	<ul style="list-style-type: none"> • Decreased income tax rates from 35% in 2006 to 34% in 2007 and to 33% in 2008. • Eliminated dividend tax on non-residents. • Financial transactions tax is made permanent.

Decentralization Reforms

Laws	Provisions
Constitutional reform of 1991 Articles 356 and 357	<ul style="list-style-type: none"> • General participations system of regional transfers created. • Percentage of CG current revenues of government that should be transferred to the regions established.
Law 60 of 1993	<ul style="list-style-type: none"> • Annual percentages that should be transferred to the regions established (For the Departments the "Situado Fiscal", which began at 23% of current revenues in 1994 and increased to 23.5% in 1994, 24% in 1995 and to 24.5% in 1996, and for municipalities the "Participación municipal", which began at 15% increasing by 1 percentage point until 2001). • Earmarked expenditures for education and health.
Law 358 of 1997	<ul style="list-style-type: none"> • Local debt cannot exceed locality's financial capacity. • Solvency and sustainability debt indicators introduced. • Debt service should be lower than 40% of regional operational savings.
Law 549 of 1999	<ul style="list-style-type: none"> • Regional Pension Fund (Fonpet) created. • All pension liabilities should be paid within 30 years. • Percentage of Financial transactions tax, registration tax, privatization and earmarked current revenues transferred to Fonpet. • Ministry of Finance's administration of Fonpet.

Law 617 of 2000	<ul style="list-style-type: none"> • Categories of regional governments created. 6 categories depending on population and current fiscal revenues. • Regional current expenditures should be financed with non-earmarked current revenues. • Regional current expenditures cannot exceed earmarked current revenue limits, depending on the regional categorization established. (Special category 50%, first category 55%, second category 60% and third and fourth 70%).
Constitutional Reform 01 of 2001	<ul style="list-style-type: none"> • Increase in transfers to regional governments equal to the average increase in current revenues over the last 4 years.
Law 715 of 2001 (Regulated Constitutional reform 01 of 2001)	<ul style="list-style-type: none"> • Efficiency procedures for distributing transfers to departments and municipalities. • Limitation of current expenditures for subnational entities.
Constitutional reform 04 of 2007	<ul style="list-style-type: none"> • Increase in transfers to regional governments equal to the inflation rate plus 4% in 2008 and 2009, 3.5% in 2010, and 3% between 2011 and 2016. In addition, if the GDP growth rate is higher than the transfer growth rate, the difference will be transferred to the regions.
Law 1176 of 2007 (Regulated Constitutional reform 04 of 2007)	<ul style="list-style-type: none"> • GSP divided into four sectors: education (58.5%), health (24.5%), water (5.4%) and others (11.6%). • The powers of the departments were clarified. • 85% of water sector transferred to municipalities and 15% to departments.

Pension Reforms

Laws	Provisions
Law 100 of 1993	<ul style="list-style-type: none"> • Pension system divided into two schemes (private and public). • Wage contributions to social security increased from 8% to

	13.5%.
Law 797 and 860 of 2003	<ul style="list-style-type: none">• Pension contribution increase (1% on average).• Compulsory membership of dependent and independent employers established.• Established maximum pension of 25 times the minimum wage.• Gradual increase in pension contribution weeks.• Pension allowance calculated on the basis of the average wage of the last 15 years.