

COLOMBIA'S OECD ACCESSION
Statement by Mauricio Cárdenas, Minister of Finance of Colombia
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Thank you Secretary General for your words and thank you very much to all of you, Ambassadors and delegates, for taking the time today and for the interest and attention you have given to Colombia's accession process. It has been close to eight years since Colombia first approached this organization to express our interest in becoming a member. On behalf of President Santos and the entire Colombian government I can ensure you that while it has been a challenging and demanding it also has been a very rewarding and productive one.

During this time, as Finance Minister, responsible of many of the reforms adopted, I have witnessed at first hand the commitment, not just of the government but also of multiple key stakeholders to comply with all the recommendations of the 23 OECD Committees. In fact, I can clearly say that the process has influenced the most important public policy decisions of the last few years.

Today, Colombia is living a transformational phase in its history. This accession process has been an important part of that transformation. Not in vain, President Santos has made clear that the Peace Agreement and the OECD membership are two crucial and intertwined goals of his administration. Now that the first goal has been achieved, we believe Colombia has made enough merits to attain the second one.

Background

Throughout this period, Colombia experienced a very significant external shock, resulting from the decline in commodity prices and the collapse of regional trading partners, notably Venezuela. Despite the magnitude of the reduction in exports, Colombia's economy has been resilient, preserving macro stability and, most importantly, social and economic progress.

Colombia suffered a strong hit from the oil price slump: in 2013, oil exports were more than 50% of total exports and oil-related fiscal revenues accounted for about 20% of government income. The fall in oil prices reduced the Central Government's revenue by USD 8 billion or 3.4% of GDP. However, prudent macroeconomic policies have underpinned Colombia's economic growth over the past few years, as shown in the fact that Colombia's average economic growth between 2010 and 2017 was 3.8%, the second highest among the six largest Latin American economies.

Macroeconomic buffers were effective in mitigating these shocks. A strong policy framework and prudent macroeconomic policy management — anchored by an inflation-targeting regime, flexible exchange rate, effective financial supervision and regulation, a Fiscal Rule and a Medium-Term Fiscal Framework- have supported Colombia's macroeconomic adjustment during the last several years.

On the monetary side, the draught resulting from the severest “El Niño” in history in 2015-2016 which increased food prices, along with a strong exchange rate depreciation, resulted in an acceleration of inflation from 3%

in June 2013 to 9% in July 2016. The Central Bank responded by raising the policy rate from 4.5% in August 2015 to 7.75% in August 2016. Annual inflation receded to 4.09% in 2017.

Meanwhile, the Central Government made a great effort to modernize the Colombian tax system. The goal was to make the system simpler, more competitive, but at the same time to increase revenues. The 2016 tax reform was a key step. The hike in VAT rates from 16% to 19% was an essential tool to increase non-oil revenues and ensure the confidence of international investors.

The government adopted a strategy of “intelligent austerity” that reduced public expenditures by nearly 1% of GDP, contributing to the fiscal adjustment. Key social programs, as well as investment in infrastructure, were protected to ensure continued progress in these two key areas.

The coordination between fiscal and monetary policies was also successful in reducing external vulnerabilities. The current account deficit rose to 6.4% of GDP in 2015 after the collapse in oil prices. In 2017, it was 3.6% of GDP while a further reduction to 3.2% expected for 2018.

Although still high, unemployment fell to 9.4% in 2017 from 11.8% in 2005. Additionally, labor informality has had significant reductions, particularly after the tax reform of 2012, which reduced non-wage labor costs. In the 13 major metropolitan areas, informal employment -as a proportion of total employees- declined to 49% in 2017 from 58% in 2010.

Moreover, poverty rates fell to 28% in 2016 from 40% in 2009, while extreme poverty fell to 9% in 2016 from 14% in 2009. According to the more complete measurement of multidimensional poverty, which we use to guide public policies, poverty fell to 18% in 2016 from 30% in 2010. This means that 5 million Colombians have left poverty (out of a population of 49 million) since we began our process of accession with the OECD. In terms of inequality, the Gini coefficient fell from 0.56 in 2010 to 0.517 in 2016, the fastest decline in Latin America.

Regional inequality has also been significantly reduced. A key Constitutional reform, introduced by the government in 2011, defined a new set of rules for allocating royalties. Previously 80% of the royalties remained in the subnational governments where extractive industries are located, now 80% of the royalties are distributed to all subnational governments. This change has turned royalties in a powerful and effective tool for social inclusion and economic development. The Gini coefficient in the regional allocation of royalties fell to 0.39 in 2017 from 0.92 in 2010.

During this period, the country also achieved a peace agreement with the main guerrilla group, after several years of negotiations, ending half a century of pervasive violence. Violence and crime indicators have shown significant improvements. For example, the homicide rate dropped to 23.9 in 2017 from 35.2 in 2009. This represents 3.500 homicides less per year. The Peace Accord has already deeply changed the security conditions of the country, but the aim of the agreement is to address the structural

elements that are necessary for sustainable peace and social wellbeing, including a further lowering of inequality.

Currently we are still under negotiations with the ELN, a much smaller guerrilla group. Notwithstanding the natural difficulties, we hope to continue moving forward to reach an agreement.

We also expect the Peace Agreement to boost growth in medium and long term. The peace dividend is beginning to materialize, in sectors such as tourism and agriculture, as well as an increase in Foreign Direct Investment. The implementation of the Peace Agreement will also imply costs. The Medium Term Fiscal Framework published in June 2017 estimates the total cost of implementation at 43.1 billion dollars during the next decade. Six different financing sources are considered: national budget (36%), intergovernmental transfers (29.2%), royalties (15.2%), local entities (own resources) (4.3%), international cooperation (8.9%) and private investment (6.4%). To ensure the availability of new resources, the 2016 tax reform introduced and carbon tax earmarked for postconflict, and a 2017 constitutional reform determined that during the next 20 years 7% of the royalties should also help fund peace implementation.

Finally, the peace agreement can boost regional convergence as the peace-related investments prioritize regions with low levels of economic development where historically the state presence has been weak. As you can see, the task has not been easy and there are significant challenges.

But Colombia is in the right path. We need to strengthen and reaffirm the policies adopted. For that, OECD accession is decisive.

Becoming a peaceful country with political and social stability, is the backbone for achieving economic growth and prosperity. This needs strong institutions, sound and stable policies, credibility and confidence. Being a member of the OECD will help Colombia in this quest. This organization started when its members had been ravaged by war and the challenge of reconstruction. We also understand the need for good policies and for strengthening institutions. What drove the OECD founders to get together and collaborate is what drives Colombia today.

Colombia's Accession

Our interaction these past years with the OECD has meant a thorough review of our policies and reaching an understanding of the necessary changes. We see reform as a continuous process. After reaching the OECD standards, and in some areas exceeding them, we see the next waves of reform as interactive processes where we can gain significantly from the dialogue within this Organization. We are committed to continue this process of transformation, drawing on the experience of the countries that have proven to be successful.

Colombia has been undergoing the accession process formally for almost 5 years –since May 2013. During this time, I have witnessed firsthand the commitment of the whole government to comply with all the recommendations of the 23 OECD Committees. As I have been directly

responsible for several of the reforms enacted, I can clearly state that the process has influenced the most important public policy decisions of the last years.

Thanks to the strong willingness to implement OECD recommendations, Colombia has already finalized the reviews by 20 Committees out of 23 provided in the Accession Roadmap. As you know there are three outstanding committees: Trade, Employment, Labor and Social Affairs and the EDRC. I will touch upon the issues related to Trade and ELSAC later, but first let me give you the broad picture of some of the transformations brought about by the accession process.

- In 2014, we completely reformed our regulatory policy to improve coherence and transparency, introduced the use of regulatory impact assessments, and transformed institutions for this purpose. We are now building capacities in these areas throughout the administration.
- In 2015, we strengthened the independence and legal of financial and competition authorities to eliminate political interference in their decisions.
- We extended the scope of financial supervision to financial conglomerates; through the law, we strengthened the regulation and supervision powers on financial conglomerates, especially with

respect to non-financial holdings. The law was approved on September 2017.

- We strengthened the legislation to modify Colombia's corporate liability regime in accordance with the requirements of the Working Group on Bribery.
- We embarked on a thorough reform of the policy on state-owned enterprises in order to improve their corporate governance and separate the role of the state as regulator and owner. This implied the withdrawal of all ministers from governing boards and increasing the presence of independent board members. Also a new administrative area was put in place to centralize supervision of all state-owned assets.
- In 2016, the tax regime for alcoholic beverages was changed to avoid discrimination against imported liquors and to regulate for the first time in history the regional monopolies that are allowed by the Constitution.
- In 2017 we issued a decree improving the predictability of the process that evaluates the declaration of public interest. The decree creates a collegiate body, with the participation of the Ministry of Trade and the National Planning Department, which will provide recommendations prior to any new declaration of public interest. This

has been an important reform to increase certainty and predictability over future discussions.

- The convention on Mutual Administrative Assistance in tax matters was ratified in 2013. This allows us to exchange information easily with 111 jurisdictions and decrease tax evasion.
- New regulation was set to develop management capacities and improve regulatory quality tools by establishing guidelines to enhance public consultation, transparency and rationalization (minimum criteria for consulting stakeholders when issuing new regulation was defined).
- The Government adopted decrees for the removal of the policy that made it mandatory to scrap an old truck to register a new one. During the transition a more flexible and transparent scheme was put in place that has allowed the market to function without restrictions.
- We put in place a National Policy for the management and control of industrial chemicals was, as well as national guidelines for a waste management policy to guide the decisions of the local governments.
- A Ten-Year Justice Plan was put in place that aims to strengthen the access to justice to all groups of citizens, especially those in far

reaching areas of the country and to improve the efficiency of the delivery of justice services.

All these were reforms driven by the recommendations of the OECD committees during the process of accession. The accession process has been instrumental for the Government to push these reforms, some of which had been tried without success in the past, such as the Liquors' Law or the law that introduced for the first time the ability to supervise and regulate financial conglomerates. Going forward, we also see the OECD as a force to help us maintain the course in all of these issues, including through post-accession.

Pending Areas

On the outstanding issues in the Employment Labour and Social Affairs Committee and the Trade Committee , the Government has made very important efforts to address the issues of concern of the Members throughout the discussions, with the aim of complying with the core principles of each committee and of the organization as a whole.

As mentioned, several decisions were taken to address recommendations regarding the liquor tax structure and the truck registering system. We have also addressed specific bilateral concerns in so far as they were related to international trade rules. We have streamlined import/export procedures, and the new standards guarantee predictability and transparency in changes in regulation. We are moving forward in Congress with a new copyright law, which was approved by the Senate's First Committee last December.

Overall, Colombia has shown its commitment to market openness and respect of international rules. On health-related issues we, as most other nations, try to ensure access to the best technologies in a cost-effective way. In that spirit, Article 72 of the National Development Plan is being implemented through a new decree that is available for comments since last Friday. That decree establishes very clearly that the process of marketing authorization for new pharmaceuticals is completely independent of issues related to prices.

We are convinced that Colombia's market is an open one by any standard. We have responded to the Trade Committee requests and adapted our legislation and administrative practices. Within this context we firmly believe that it is time for the Committee to finalize its formal opinion without moving the goal post or giving in to purely bilateral concerns that should and can be addressed bilaterally.

Labor issues have been complex throughout Colombia's accession discussions. The pervasive violence of the past decades resulted in situations where conflicts were resolved by more violence. Many groups were caught in this crossfire: politicians, judges, journalists, social leaders and among them, labor union members. Fortunately this situation is gradually coming to an end and the number of these terrible events has fallen dramatically in recent years, although we still cannot say they do not happen anymore. We understand the concern of domestic and international trade unions and of governments and citizens around the world over this complex history. We also share the genuine interest of improving the labor climate in Colombia and strengthening its regulations and institutions. That

is why we have been working with the members of the Employment, Labor and Social Affairs Committee to address the most prominent areas of concern identified throughout the discussions.

The main advances have been:

- The inspection and control institution has been significantly strengthened: the number of labor inspectors has been more than doubled, all of them are in the process of being hired as career civil servants; their comparative income has increased at a higher rate than other public servants; an electronic case management system has been put in place and will continue to be strengthened through a cooperation project with the US and the ILO; the training program has been improved and a new training curriculum is being designed through the same cooperation project; the budget for inspection and control increased by 130% in 2017 and by 67% for 2018.
- The effective collection of fines and the follow up of formalization agreements has also improved and is being closely followed through quarterly public reports.
- The combination of increased supervision and credible sanctioning capacity, as well as that of positive incentives (lowering of non-wage labor costs through a tax reform in 2012) has resulted in lowering informality throughout the country. Although still high by OECD standards, at 48.8% it is at the lowest level ever.

- The violence against labor union members has decreased significantly, as have all levels of violence in the country as a result of the peace negotiations and finally the peace agreements. The protection program for labor leaders has proven effective. Its procedures have been streamlined and resources have been budgeted in a consistent manner all these years and will be strengthened to account for the challenges of the implementation of the peace agreements. A recent measure has approved collective protection programs for labor unions additional to those available for individuals. Colombian authorities have a deep commitment in protecting lives of union leaders. As we have constantly say in this same scenario “one is to much”.
- The prosecution of crimes against labor union members has shown good results after a special task force was in place at the Office of the Prosecutor General to prioritize these cases. Since then, 32 guilty verdicts have been issued for cases occurred since 2011. Also, the number of guilty verdicts was multiplied by 4 in the last year, and recently a new specialized judge has been appointed to reduce the backlog.

In addition, Colombia continues to work closely with the ILO and in close partnership with the US, Canada and other member countries that have been willing to support these efforts in order to help guarantee the continuity of these changes.

Colombia is also firmly committed to continue working with the OECD in the continued implementation of committee recommendations including after accession. For these purposes, Colombia is ready to commit the necessary human and financial resources for relevant post-accession monitoring as necessary. We are constantly reporting these advances to the Secretariat and member countries in preparation for their next meetings.

To conclude

Colombia is undergoing a very rapid transformation in many fronts. The Colombian economy is dynamic and full of potential and opportunities. Social progress has been impressive. All this has been the result of responsible public policies framed under the principles that govern the OECD. Colombia is an active and reliable member of the international community.

With the Peace Agreement in place, Colombia will be able to move forward at a faster pace. It will continue designing and implementing innovative policy reforms that will benefit from the dialogue and exchange of experiences with OECD members. In this context, to have the accession agreement signed at the next MCM under the French Presidency is crucial not only for Colombia but also for the Organization and its members. A very recent National Security Strategy developed by a key OECD member indicates that “Stable, friendly and prosperous states in the Western Hemisphere enhance our security and benefit our economy”. Colombia is such a state; it aspires and deserves to be an OECD Member, enhancing the role that this organization plays in today’s world.