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Overview

- *Doing Business in Colombia 2017* presents for the first time a comparative analysis of the regulatory environment for doing business across the country in four areas of business regulation: starting a business, dealing with construction permits, registering property and paying taxes.
- Based on the overall ranking of the four areas measured, it is easiest to do business in Manizales, Pereira and Bogotá. Manizales and Pereira continue to hold the top spots; Bogotá has been improving gradually since 2010 and holds the third position.
- There is a sizeable gap between the best- and worst-performing cities. Generally, the smaller the city, the more procedures are required; this is partly because some regulatory improvements have yet to reach all cities.
- Between 2013 and 2016, all the cities except for Ibagué and Santa Marta moved closer toward the frontier of best global practices. The cities that improved the most were Valledupar, Cúcuta, Leticia and Pereira. Of these, Valledupar made the most progress, by introducing reforms in three of the four areas.
- There is still room to improve business regulation and simplify procedures for entrepreneurs. Promoting comparable performance between cities, improving coordination between agencies and moving forward on the initiatives that are under implementation are some of the ways to do that.



Between 2010 and 2013, income from oil production in Colombia fueled economic growth, increased revenues for the country's territorial entities and brought about social improvements. In fact, from 2010 to 2016, more than 5 million people emerged from poverty.¹ With the fall in oil prices since mid-2014, the fiscal and monetary measures adopted by the national government contained the negative effect on its terms of trade² and economic growth remained above the regional average.³ Nevertheless, the small effect of the Colombian peso devaluation on the country's exports showed that it still has a long way to go to diversify the economy and increase productivity. According to government figures, for 12 years during the 1991-2015 period there was either no growth or negative growth in productivity.⁴ In terms of labor productivity, the last report on national competitiveness notes that for every worker in the United States, 4.3 workers are needed in Colombia to produce the same value added.⁵ The government's 10-year policy for productive development (2016-25) includes among its objectives identifying the sectors and products with growth potential to diversify the economy. The policy also incorporates a territorial perspective, as it takes into account the economic differences between regions and establishes mechanisms—such as the strengthening of regional competitiveness commissions—to implement local competitiveness agendas and capitalize on the comparative advantages of each area.⁶

Improving the country's competitiveness and promoting the development of the regions are also strategies of the National Development Plan for the last four-year term (2014-18) of this administration, to maintain peace and reduce inequality. A new tax reform⁷ took effect in January 2017; it seeks to strengthen public finances through a more equitable fiscal policy that incentivizes paying taxes and stimulates job creation. Proposed improvements to the land administration system include reforming property registration, updating cadastral information

National entrepreneurs face different realities depending on where they are located.

and modernizing the cadastre, under a multipurpose model to be implemented over the long term.⁸ This initiative stands to produce several benefits: It will enable local revenues to increase due to higher property tax collections; give legal certainty regarding land rights and tenure; and provide tools for planning urban and rural land use.

This fourth edition of *Doing Business in Colombia*—the first that covers the ease of doing business throughout the country—comes in the context of a national policy to “close the gap”⁹ between regions, and at a time of expectations regarding the social and economic benefits¹⁰ to be derived from the implementation of the peace agreement signed in 2016 with the Revolutionary Armed Forces of Colombia (FARC-EP).¹¹ Promoting a business climate that encourages entrepreneurship, business growth and job creation in Colombian cities will also be critical to achieve regional convergence and reduce the high levels of inequality that persist in the country.¹²

WHAT DOES DOING BUSINESS IN COLOMBIA 2017 MEASURE?

Doing Business in Colombia 2017 analyzes commercial regulations from the perspective of small and medium-size local businesses. Bogotá represents Colombia in the annual report that compares 190 economies around the world. National codes, laws and decrees regulate institutions, set fees and establish time frames and requirements for completing transactions. However, local governments have jurisdiction to set payments and rates for certain taxes; they also influence the efficiency and degree of collaboration between their agencies. That is why national entrepreneurs face different realities depending on where

they are located. *Doing Business in Colombia 2017*—the fourth in the series of subnational *Doing Business* studies in the country—is presenting for the first time a comparative assessment of the regulatory environment for business in the 32 departmental capitals in four areas: starting a business, dealing with construction permits, registering property and paying taxes.

This edition reflects the changes made to the methodology for three of the four indicators analyzed since the last study was done (2012). In the areas of dealing with construction permits, registering property and paying taxes, new qualitative aspects have now been added to complement those related to efficiency. The reasoning is that it is not enough to improve the efficiency of procedures if the institutions function poorly and provide a low quality of service. In terms of dealing with construction permits, this study now considers, among other things, the professional qualifications of those in charge of examining projects and approving construction licenses, inspections of projects, and the liability and insurance regimes that apply to construction activity. The registering property indicator evaluates access to registry information, the operation and coverage of the registries and mapping system (cadastre), and dispute resolution mechanisms related to property rights. Finally, the paying taxes indicator reflects procedures subsequent to the filing and payment of taxes, such as tax refunds and audits.

The method used to calculate the overall ranking and the ranking by indicator has also changed. Rankings by indicator are calculated based on the “distance to frontier” measure. This measure uses a 0 to 100 scale—where 100 represents the best practice identified globally and 0 the worst—to show how far a given economy is from “the frontier,” which is

the best performance observed for each of the indicators at an international level. The overall ranking is based on the average distance to frontier for each of the four areas measured. Each city's ranking enables it to be compared with the other cities in the country and with 189 other economies around the world.¹³

The data in the report are based on laws, decrees, regulations, administrative procedures and official fees, as well as on correspondence and interactions with more than 300 professionals, including lawyers, architects, engineers, construction companies, accountants and professional associations with knowledge and experience about the procedures analyzed in the study. More than 400 government officials participated in the process by providing information. The results are up to date as of December 31, 2016.¹⁴

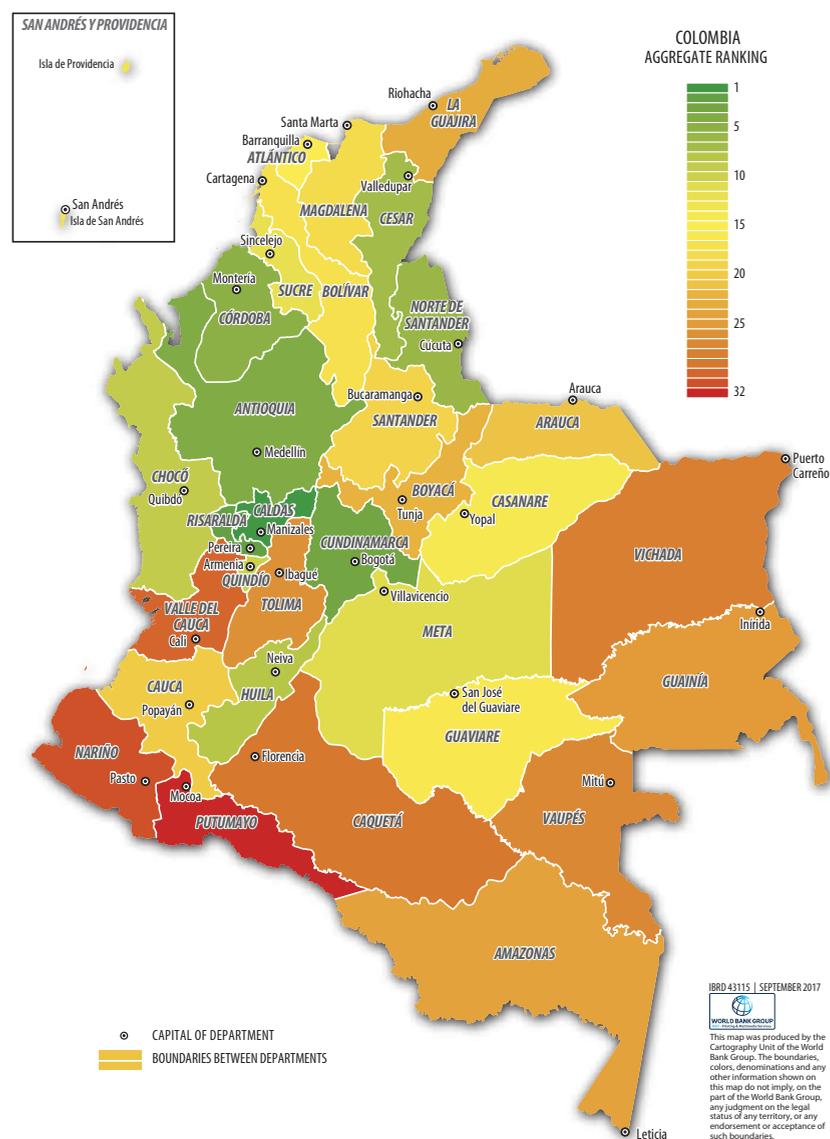
WHAT DO THE RESULTS SHOW?

According to the aggregate ranking of the four areas studied, it is easiest to do business in Manizales, Pereira and Bogotá (figure 1.1). These three cities are closest to the frontier of best regulatory practices. Manizales and Pereira have continued to hold the top positions since the first edition in 2008 of *Doing Business in Colombia* and they have consistently implemented reforms.

In this edition, Manizales and Pereira have high rankings in three of the four areas analyzed (table 1.1). Pereira was also one of the cities that has shortened the most its distance toward best global practices. Bogotá began advancing gradually in 2010 and is now in third place.

If the results are analyzed by indicator, what stands out first is the major differences in performance between cities in distance to frontier. Examining this in an international context allows for a better appreciation of the magnitude of the gap between the best and worst performances

FIGURE 1.1 It is easiest to do business in Manizales, Pereira and Bogotá



Note: The color scale reflects each city's position in the overall ranking of the four *Doing Business* indicators examined in Colombia's 32 departmental capitals. Dark green represents greater regulatory efficiency and dark red, less efficiency. Source: *Doing Business* database.

in Colombia (figure 1.2). For starting a business, one third of the cities had similar rankings to those of Germany, Austria and Poland—high-income economies in the

Organisation for Economic Co-operation and Development (OECD). But Inírida, in last place on the national scale for this indicator, ranks far lower; the number of

Manizales and Pereira have continued to hold the top positions since the first edition in 2008 of Doing Business in Colombia and they have consistently implemented reforms.

TABLE 1.1 How easy is it to do business in Colombian cities, and how do they compare with the best regulatory practices?

City (Department)	Population (thousands of inhabitants)	Aggregate ranking (4 indicators)	Distance to frontier (DTF) – DB2017 score (4 indicators)	Distance to frontier (DTF) – DB2013 score (4 indicators)	Starting a business		Dealing with construction permits		Registering property		Paying taxes	
					DTF	Ranking	DTF	Ranking	DTF	Ranking	DTF	Ranking
Manizales (Caldas)	398,874	1	73.43	73.14	85.80	4	74.04	1	71.54	62.36	7	
Pereira (Risaralda)	474,356	2	71.97	68.78	86.06	1	72.21	4	70.04	59.58	19	
Bogotá (Cundinamarca)	8,080,734	3	71.02	70.63	85.31	8	68.37	10	71.32	59.08	20	
Medellín (Antioquia)	2,508,452	4	70.55	68.77	85.67	5	67.23	13	68.26	61.05	14	
Montería (Córdoba)	454,032	5	70.34	67.18	80.28	18	70.59	5	69.50	60.98	15	
Cúcuta (Norte de Santander)	662,765	6	69.91	66.10	85.85	3	66.56	17	64.82	62.42	5	
Valledupar (Cesar)	473,232	7	69.41	65.58	80.01	19	68.41	9	70.53	58.69	24	
Neiva (Huila)	345,911	8	69.31	67.02	83.63	13	67.76	12	65.64	60.18	18	
Quibdó (Chocó)	116,087	9	68.90	68.29	85.22	9	62.40	24	65.49	62.47	4	
Armenia (Quindío)	299,712	10	68.70	65.97	85.93	2	58.45	28	67.44	63.00	2	
Villavicencio (Meta)	505,996	11	68.44	66.92	83.15	14	60.29	26	67.92	62.39	6	
Sincelejo (Sucre)	282,833	12	68.37	66.32	84.79	10	68.86	7	61.76	58.06	28	
San Andrés (San Andrés y Providencia)	72,585	13	68.34	67.20	77.59	22	57.79	29	61.62	76.34	1	
Yopal (Casanare)	146,204	14	68.04	66.84	78.63	20	68.50	8	66.72	58.32	27	
Barranquilla (Atlántico)	1,228,621	15	67.77	66.10	85.53	6	65.78	19	61.15	58.63	25	
San José del Guaviare (Guaviare)	66,679	16	67.41	66.72	76.41	24	72.94	3	61.23	59.06	21	
Cartagena (Bolívar)	1,025,086	17	67.29	66.13	84.55	11	63.41	22	62.74	58.45	26	
Santa Marta (Magdalena)	499,257	18	66.97	68.18	77.11	23	68.07	11	65.25	57.46	29	
Bucaramanga (Santander)	528,575	19	66.83	65.80	82.18	15	57.71	30	65.80	61.64	11	
Popayán (Cauca)	282,561	20	66.77	65.18	77.85	21	61.71	25	65.86	61.66	10	
Arauca (Arauca)	90,924	21	66.73	64.58	81.76	16	67.12	14	61.28	56.78	30	
Tunja (Boyacá)	195,496	22	66.56	64.70	72.25	28	66.97	15	66.23	60.80	17	
Riohacha (La Guajira)	277,913	23	66.49	66.17	75.17	25	65.63	20	66.23	58.93	22	
Leticia (Amazonas)	41,639	24	65.78	62.56	75.05	26	65.63	20	60.63	61.83	9	
Inírida (Guainía)	19,983	25	65.77	64.14	68.76	32	73.34	2	59.64	61.35	12	
Ibagué (Tolima)	564,077	26	65.39	65.75	83.83	12	47.71	32	68.77	61.27	13	
Mitú (Vaupés)	31,861	27	65.28	64.15	70.28	31	66.77	16	61.91	62.14	8	
Puerto Carreño (Vichada)	16,000	28	65.18	62.45	70.52	30	69.94	6	59.27	60.98	15	
Florencia (Caquetá)	178,449	29	64.91	62.84	74.17	27	66.22	18	56.35	62.91	3	
Cali (Valle del Cauca)	2,420,013	30	64.59	64.19	85.53	6	50.68	31	63.40	58.77	23	
Pasto (Nariño)	450,815	31	64.44	64.05	80.59	17	58.56	27	61.91	56.71	32	
Mocoa (Putumayo)	42,882	32	62.62	62.13	72.12	29	63.30	23	58.31	56.76	31	

Note: The distance to frontier captures the difference between each city's performance and the best performance or "frontier" observed globally for each of the four areas examined (starting a business, dealing with construction permits, registering property and paying taxes). The overall ranking is based on the average distance to frontier for each of the four areas measured. The distance to frontier for each city is reflected on a scale from 0 to 100, with 0 representing the lowest result and 100 the best global practice or "frontier." The higher the score, the more efficient the regulatory environment. For more details, see the chapter "About Doing Business and Doing Business in Colombia 2017" (in Spanish). The distance to frontier from the 2013 report includes all data corrections and methodological changes implemented since then.

Source: Doing Business database and population projections from the National Administrative Department of Statistics (DANE) for 2017.

FIGURE 1.2 On a global scale, the gap separating the best and worst performances in dealing with construction permits places Colombian cities in two different worlds

Doing Business ranking
(1-190 economies)



Source: *Doing Business* database.

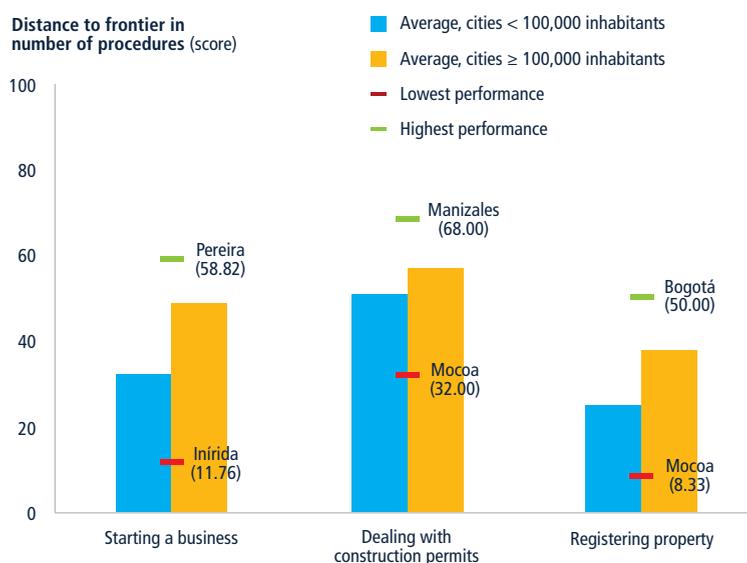
procedures required there (16) is exceeded by only two of the ten worst-ranked countries (Venezuela and Equatorial Guinea, with 17 and 20 procedures, respectively). Manizales, which has the highest ranking for registering property, is close to the first quartile of best-performing economies worldwide; Florencia, in last place, falls in the third quartile. In terms of dealing with construction permits, since virtually the entire process depends on the municipalities, the differences are even greater. The distance between Manizales (74.04) and Ibagué (47.71) is equivalent to 122 positions on the global scale—the same as dropping from position 55 to position 177.

For the paying taxes indicator, the largest percentage of taxes and contributions that affect companies—income tax, fairness income tax (CREE),¹⁵ sales tax (IVA) and social security contributions—is national in nature. Variations between cities primarily involve the rates of property taxes and industry and commerce taxes (ICA) and the greater frequency and administrative burden of filing and paying them. Except for the island of San Andrés,¹⁶ there is no variation between cities in the

new post-tax index because the criteria governing the IVA reimbursement process and income tax audits apply across the country. IVA refunds apply only to exporters, and in terms of income tax audits, an involuntary error by the taxpayer does not in itself trigger an audit.

Second, for starting a business and registering property, there seems to be a connection between the city's ranking and its size.¹⁷ The smaller the city, the more procedures are required (figure 1.3). In Inírida, Leticia, Mitú, Mocoa, Puerto Carreño and San José del Guaviare, where

FIGURE 1.3 Smaller cities are further behind in terms of procedures



Source: *Doing Business* database.

the Chambers of Commerce do not have one-stop shops for business registration (*Centros de Atención Empresarial*, or CAE), starting a business involves twice the number of procedures and triple the time it takes in larger cities.¹⁸ Something similar is seen with registering property. In small cities, all transactions must be done in person at separate agencies, adding time to the process—as opposed to what happens in most cities¹⁹ where a single window (*Ventanilla Única de Registro*, or VUR) centralizes through notary offices the procedures to consult certificates, estimate the amounts owed in taxes and transfer fees, and make payments, saving between two and five steps in the process.

In construction permits, on average, 7 of the 16 required procedures correspond to the pre-construction phase. Because of a lack of zoning requirements, unavailability of connections to public services and lack of defined land uses available for consultation, small cities require an average of four more procedures than other cities so that their Municipal Planning Offices (*Secretarías de Planeación*)²⁰ can study the viability of construction projects and issue licenses. In Arauca, Mitú and San Andrés, this pre-construction phase requires 11 procedures and in Mocoa, up to 16. Meanwhile, Inírida and San José del Guaviare are among the three top-ranked cities for this indicator. This is because the construction sector there is smaller, with less activity, which means response times are faster. The cost is also lower because builders do not pay the expenses for issuance of construction licenses that apply in cities with offices that review and approve construction permits (*Curadurías urbanas*).

WHAT HAS CHANGED?

The introduction of new quality components and new methods for calculating the ranking by indicator and the aggregate ranking, along with the addition of 11 new cities, can make it difficult to compare data over time.²¹ To enable comparison between this study and the

previous one, the data through December 2012 were recalculated for the 32 cities.

At the national level, in terms of starting a business, in 2016 the national tax and customs authority (*Dirección de Impuestos y Aduanas Nacionales*, or DIAN) eliminated a bank certification as a prerequisite for enrolling new companies in the Unified Tax Registration (*Registro Único Tributario*, or RUT).²² This made it possible to combine business registration procedures and tax procedures in the Chambers of Commerce. For paying taxes, the 2012

fiscal reform reduced companies' tax burden by an average of 6%, through lower income tax rates and payroll taxes (*aportes parafiscales*). However, the same reform—and a later one, in 2014—created two new national taxes (the fairness income tax, or CREE, and a wealth tax), which increased the time and number of tax payments in all cities.

From January 2013 through December 2016, a total of 53 reforms were implemented, which helped to improve the business climate (table 1.2). Of these

TABLE 1.2 What cities made doing business easier, and in what areas did they introduce reforms?

City	Starting a business	Dealing with construction permits	Registering property	Paying taxes
Arauca	✓		✓	
Armenia			✓	✓
Barranquilla	✓		✓	
Bogotá			✓	✓
Bucaramanga			✓	
Cali			✓	✓
Cartagena			✓	
Cúcuta	✓	✓	✓	✓
Florencia			✓	✓
Inírida			✓	✓
Leticia		✓	✓	
Manizales			✓	
Medellín			✓	
Mitú			✓	
Mocoa			✓	
Montería	✓		✓	
Neiva		✓	✓	
Pasto			✓	
Pereira			✓	✓
Popayán			✓	
Puerto Carreño			✓	✓
Quibdó			✓	✓
Riohacha			✓	
San Andrés	✓		✓	
San José del Guaviare			✓	
Santa Marta			✓	
Sincelejo		✓	✓	
Tunja		✓	✓	
Valledupar	✓	✓	✓	
Villavicencio			✓	
Yopal	✓		✓	

Note: If a city implemented reforms that made doing business easier as well as changes that made it more difficult, only the reforms with a net positive impact are considered. In the chapters on each indicator, disaggregated tables show all the changes, positive and negative, that were implemented in the cities.

Source: Doing Business database.

For starting a business and registering property, there seems to be a connection between the city's ranking and its size.

reforms, 31 were identified in registering property, 9 in paying taxes, 7 in starting a business and 6 in dealing with construction permits. All the cities measured except for Ibagué introduced reforms in at least one area, and 16 cities did so in two. Valledupar had reforms in three areas, and Cúcuta was the only city that improved in all the areas.

The indicator with the most reforms was registering property. On average, the number of procedures and the amount of time went down by 20%—two procedures and five days—due to improvements in several aspects. Certificates of free transferability (*certificados de tradición y libertad*) and other certificates issued by the Chambers of Commerce, which businesses had to apply for at various agencies, can now be obtained online in most cities. The services provided by notaries improved. It is no longer customary in any city to go to a lawyer to draft sale and purchase agreements, which saves entrepreneurs attorney fees. The implementation of a biometric authentication system,²³ also in notary offices,²⁴ along with the possibility of verifying powers of attorney, made the transactions more secure. Finally, the centralization of procedures in notary offices through VURs moved forward in 17 cities, saving two procedures and two days on average. Montería, the city which showed the most progress on this indicator, eliminated five procedures—three of them thanks to the VUR.

Nine cities²⁵ reformed the process for paying taxes. In 2015, Armenia, Cúcuta and Florencia implemented online ICA payments. Cali, Pereira and Puerto Carreño changed the filing frequency for this tax, reducing the number of payments. Bogotá, Florencia, Inírida and Quibdó reduced the overall tax rate through changes in fees.

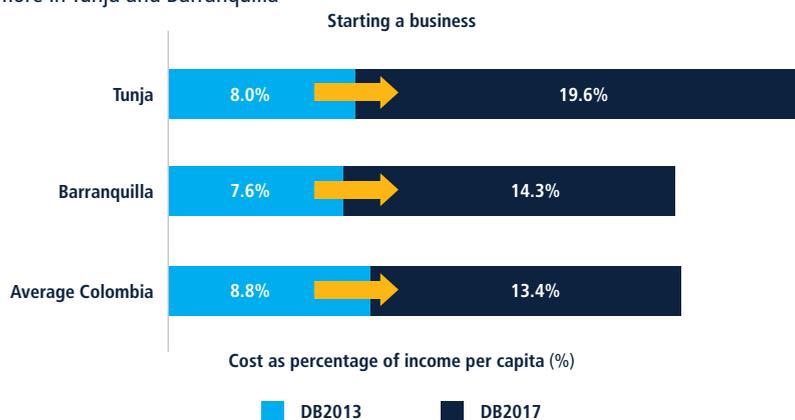
Starting a business improved in seven cities.²⁶ In Arauca, Montería, San Andrés, Valledupar and Yopal, the establishment of new CAEs improved coordination between the Chambers of Commerce and municipal authorities. Montería and Arauca eliminated certificates related to land use, safety and health. Arauca also adopted the “inspection, vigilance and control” model (*Inspección, Vigilancia y Control*, or IVC)²⁷ to notify municipal officials about business start-ups and coordinate oversight. The business registration process was expedited in Valledupar and Barranquilla; Barranquilla also shortened the time it takes to register with the family compensation funds (*cajas de compensación familiar*). As to cost, the departmental governments (*Gobernaciones*) of Norte de Santander (Cúcuta), Córdoba (Montería) and Cesar (Valledupar) cut in half the departmental tax rates for registering new businesses.

The six cities²⁸ that implemented reforms for dealing with construction permits improved several steps of the process. The municipal governments (*Alcaldías*) of Tunja, Neiva and Valledupar facilitated the pre-construction phase. In Tunja, a

geographic information system was implemented that allows the construction permit offices, or *Curadurías*, to check the allowed land use, dispensing with three procedures that were needed before to obtain certification. In 2016, Neiva took up an earlier initiative and established a committee to simplify procedures. This led to agreements with the *Curadurías* to eliminate the certificate of property tax payments (*certificado de paz y salvo de pago de impuestos*), which improved the city's issuance of certificates. Valledupar updated its Territorial Organization Plan (POT) and made the process more efficient. In Sincelejo, better coordination between the municipal government and the *Curadurías* eliminated four procedures related to obtaining certificates of property tax payments. Cúcuta, Leticia and Tunja made the process of connecting to water and sewerage services more efficient.

Along with positive changes, there were others that made it harder to do business. The most significant change was the increase in costs in all areas except registering property. With the December 2014 expiration of the benefits provided under the Law for Formalization and Generation of Employment (Law 1429 of 2010),²⁹ the average cost of starting a business went from 8.8% to 13.4% of income per capita (figure 1.4). For dealing with construction permits, Barranquilla, Cali, Montería,

FIGURE 1.4 The cost of starting a business increased overall, but it increased even more in Tunja and Barranquilla



Source: Doing Business database.

Pasto and Quibdó increased the rate of the urban delineation tax that applies to new construction. Builders now pay two to three times what they paid in 2012 for this tax. Although Pereira and Neiva stopped collecting stamp duties,³⁰ these still apply in more than one third of the cities, adding to the cost of transactions. In Barranquilla, for example, four new stamp duties were created. In terms of the paying taxes indicator, Pereira and Puerto Carreño increased property tax rates, Armenia increased the ICA rate and Yopal increased the rates of all local taxes.

Some cities that had simplified procedures in 2012 lost ground. The CAE in Tunja, which opened in 2012, is no longer operating. In Bucaramanga and Neiva it is no longer possible to pay the business registration tax in their Chambers of Commerce; the same is true in Santa Marta, where there

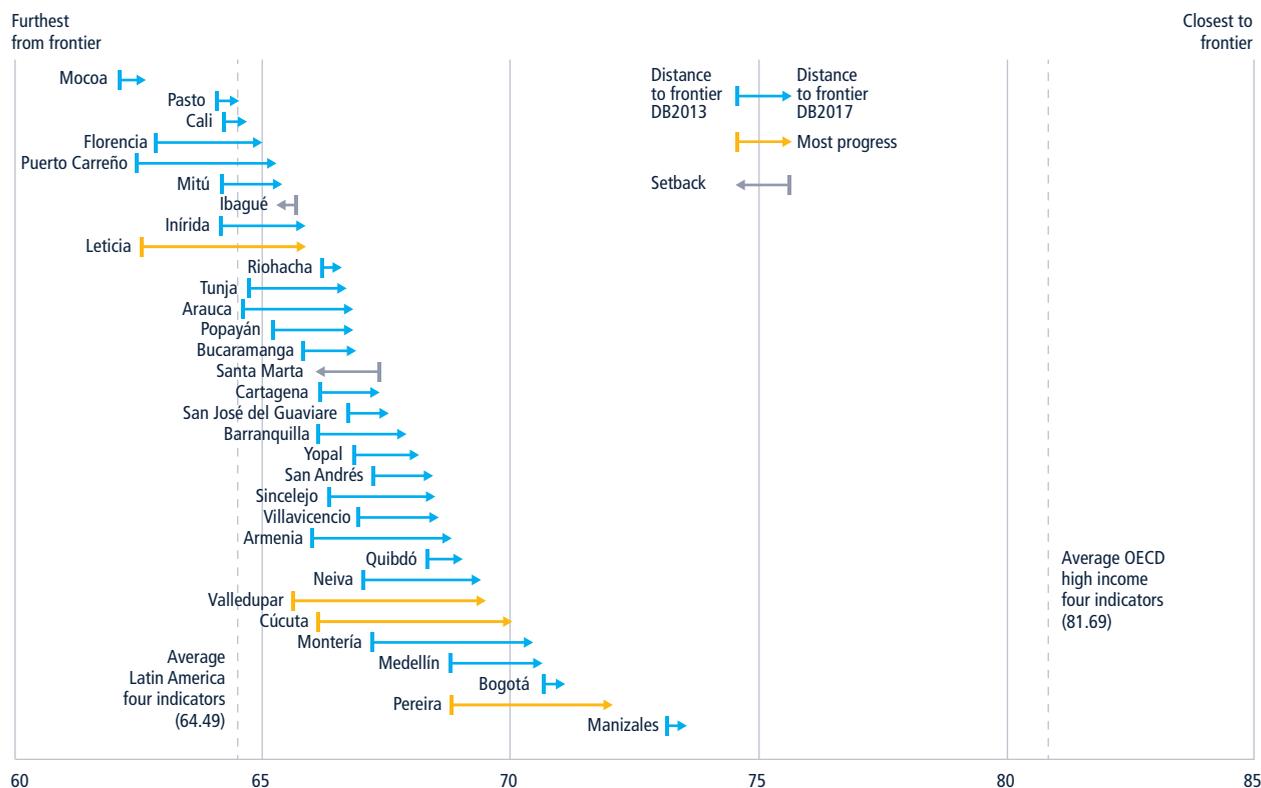
Today, thirty cities are closer to best global practices. Valledupar made the most progress, enacting reforms in three of the four areas that were analyzed.

is no longer an agreement between the Chamber of Commerce and the departmental government of Magdalena, or communication with the Fire Department and Health Department. In Barranquilla, Manizales and Pereira, the *Curadurías* require physical certificates to be presented even though the databases of the offices that issue them can be consulted online.

Today, thirty cities are closer to best global practices. On a scale of 0 to 100, where 100 represents the best practice identified by *Doing Business*, the distance to frontier shows the progress each place has made toward the best global practice. The cities

that moved furthest toward the regulatory frontier were Valledupar, Cúcuta, Leticia and Pereira (figure 1.5). Valledupar made the most progress, enacting reforms in three of the four areas. It opened a new CAE, with joint efforts from the departmental and municipal authorities and the Chamber of Commerce; with the CAE, it cut four procedures and more than one fourth of the time needed to start a business. Thanks to an updated Territorial Organization Plan, the city's *Curadurías* stopped requiring boundary certificates (*certificados de demarcación*), which in the past took a month to obtain; these offices also shortened by two weeks

FIGURE 1.5 Valledupar, Cúcuta, Leticia and Pereira made the most progress, but a large gap still separates them from best global practices



Note: The progress toward best global practices is equivalent to the difference between distance to frontier scores for this report and the previous one in 2013, across the four indicators measured. The distance to frontier for 2013 has been recalculated to factor in all the methodological changes implemented in this report. Source: *Doing Business* database.

the time it takes to issue licenses. The notaries centralized in their offices the filing and payment of the registration tax, eliminating two procedures. Cúcuta had the second highest level of progress, with improvements in all areas. Beyond the fact that local entrepreneurs benefited from the economic emergency decrees³¹ that eliminated business registration fees, today they pay half of what they paid in 2012 for the registration tax. In terms of dealing with construction permits, the company that provides water and sewerage improved its services to users, hiring more staff and introducing mobile service crews. Three procedures were eliminated for registering property, and payment of the municipal industry and commerce tax was simplified. In Pereira, the process of complying with the obligations stemming from this tax was also simplified, procedures were consolidated in the VUR and regulations were put in place so that certificates of property tax payments could be issued online. Finally, Leticia's owed its progress due to the fact that, in dealing with construction permits, it reduced the time needed to connect to water and sewerage services by three months, due to a change in service provider.

Smaller cities, for the most part, have lower rankings in terms of simplification of procedures and in several aspects of quality. A major challenge for the future is to achieve comparable performance between cities so that all of them can assimilate the good practices seen in the country.

same national legal and regulatory framework facilitates the adoption of good local practices. Small administrative improvements that do not require major regulatory changes can make a big difference in the life of a small or medium-size business. This report identifies opportunities for improvement in each area (table 1.3), as well as local and international good practices.

One of the findings of this study is that smaller cities, for the most part, have lower rankings in terms of simplification of procedures and in several aspects of quality, such as the coverage and updating of the cadastre³² and the digitization of property titles and maps. The use of the CAE model in the Chambers of Commerce for starting a business and the VUR model for registering property are two examples

of regulatory improvements that have yet to reach all cities. A major challenge for the future is to achieve comparable performance between cities so that all of them can assimilate the good practices seen in the rest of the country.

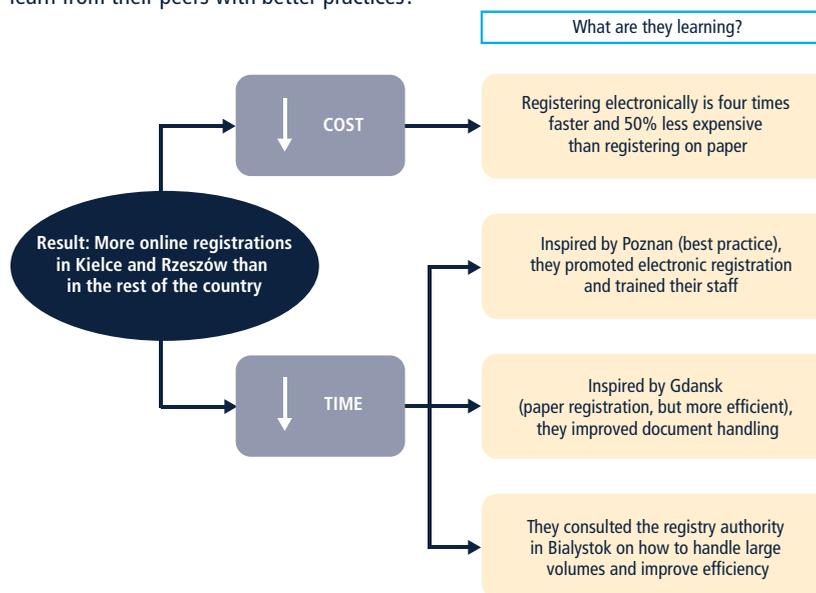
Promoting the exchange of information and experience is a useful tool that allows underperforming cities to learn from those with higher rankings. The evidence in other countries shows that this type of exchange is beneficial to reform. In Poland, for example, the government designed an action plan—based on the results of the first *Doing Business* subnational assessment—to help the country's two worst-performing regions adopt practices from the best-ranked regions to make the business registration process more efficient (figure 1.6). In Colombia, departmental and municipal

WHAT'S NEXT? A LOOK AHEAD

Comparing economies to determine how much they facilitate doing business motivates governments to reform. It helps identify obstacles governments can remove and opportunities to replicate good practices. For almost a decade, Colombia has been on a path of reform that incorporates different international rankings—among them *Doing Business*—with the aim of improving the business environment in the country.

At the subnational level, the comparison can be an even more useful tool to promote reform, since it is difficult for local governments to justify why it is harder to do business in their city or department than in neighboring areas. On the positive side, comparing the

FIGURE 1.6 What did the lowest-performing regions in Poland (Kielce and Rzeszów) learn from their peers with better practices?



Source: *Doing Business* database.

TABLE 1.3 Summary of reforms to make doing business easier in Colombia*

Suggestions for improvement	Agencies involved
Starting a business	
<ul style="list-style-type: none"> • Continue the implementation of the CAE and IVC models in medium-size and small cities • Unify social security-related procedures • Finish connecting the Chambers of Commerce with the DIAN in the departmental capitals • Extend the duration of agreements between Chambers of Commerce and departmental governments to collect registration taxes • Evaluate the costs and benefits of the incentives introduced by the Law for Formalization and Generation of Employment for registering new companies, to consider similar initiatives in the future 	<p>National level:</p> <ul style="list-style-type: none"> • National Taxes and Customs Office (DIAN) • Ministry of Commerce, Industry and Tourism • Ministry of Labor • Confecámaras <p>Local level:</p> <ul style="list-style-type: none"> • Departmental governments (<i>Gobernaciones</i>); Secretariats of Finance • Municipal governments (<i>Alcaldías</i>); Secretariats of Planning, Finance and Health • Chambers of Commerce • Fire Department • Family compensation funds • Health promotion agencies • Pension funds • Severance funds • Labor risk administrators
Dealing with construction permits	
<ul style="list-style-type: none"> • Promote single-window systems and improve information exchange between offices • Make inspections less random and establish criteria based on complexity and risk, or establish phase-based inspections for construction • Integrate zoning guidelines and facilitate online access to them by the public • Reinforce final oversight over construction projects and evaluate the effectiveness of the occupancy permit certificate • Evaluate the impact of taxation costs on construction activity, including the urban delineation tax and the registration of new construction 	<p>National level:</p> <ul style="list-style-type: none"> • Superintendence of Notaries and Registry (SNR) • Ministry of Housing, City and Territory • Agustín Codazzi Geographic Institute (IGAC) <p>Local level:</p> <ul style="list-style-type: none"> • Departmental governments; Secretariats of Finance • Municipal governments; Secretariats of Planning, Urban Affairs and Finance; cadastral offices • Public sector utilities companies • Chambers of Commerce <p>Other:</p> <ul style="list-style-type: none"> • Building permit offices (<i>Curadurías urbanas</i>) • Private companies that provide utilities
Registering property	
<ul style="list-style-type: none"> • Strengthen the connection between registration and cadastral offices • Expand registration and cadastral coverage • Streamline real estate registration procedures for entrepreneurs • Assess procedures to identify good practices in the most efficient registry offices • Introduce fixed fees and reduce stamp duties • Strengthen legal mechanisms for conflict resolution 	<p>National level:</p> <ul style="list-style-type: none"> • Superintendence of Notaries and Registry (SNR) • Agustín Codazzi Geographic Institute (IGAC) • Judiciary <p>Local level:</p> <ul style="list-style-type: none"> • Departmental governments; Secretariats of Finance • Municipal governments; Secretariats of Finance; cadastral offices • Chambers of Commerce • Decentralized cadastres
Paying taxes	
<ul style="list-style-type: none"> • Continue the implementation of systems to file and pay taxes online • Facilitate compliance with the industry and commerce tax by streamlining the tax structure and establishing simplified ICA schemes for businesses • Complement the ability to pay property taxes online with an updated cadastral database to improve tax collection • Move toward the streamlining and compilation of tax rules and regulations 	<p>National level:</p> <ul style="list-style-type: none"> • National Taxes and Customs Office (DIAN) • Agustín Codazzi Geographic Institute (IGAC) <p>Local level:</p> <ul style="list-style-type: none"> • Departmental governments; Secretariats of Finance • Municipal governments; Secretariats of Finance • Decentralized cadastres

* The reforms that appear in this table are detailed at the end of the chapters on each indicator.

administrations—with the leadership and support of the national government—could adopt similar initiatives to ensure that regulatory improvements are not exclusive to a group of cities.

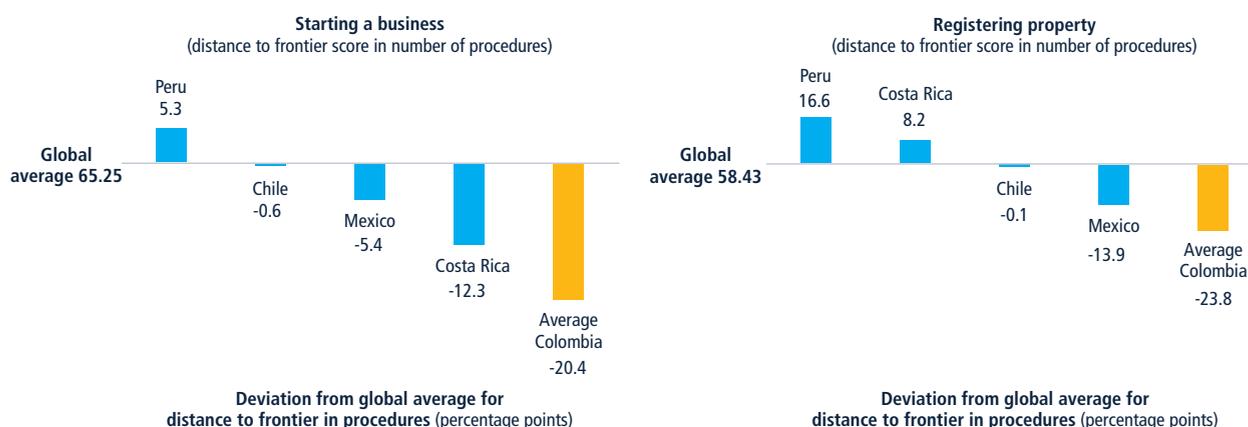
Cooperation between entities also facilitates reform. Examples of this collaboration are the agreements between departmental governments, municipal governments and

Chambers of Commerce to facilitate payment of registration taxes and oversight of new business establishments, and between municipal governments and *Curadurías* to speed up the approval of construction licenses. The creation of local committees to simplify procedures is another alternative. The city of Neiva has established these types of committees with positive results, previously reforming

the process for starting a business and now improving the process for dealing with construction permits.

National government leadership is also needed to set an example and implement bolder reforms. Compared with other economies in the world, Colombia still requires many procedures to start a business or transfer property, for example (figure 1.7).

FIGURE 1.7 Compared with other economies in the world, Colombia still requires many procedures to do business



Note: The figure presents the distance to frontier for the subindicator on number of procedures. Scores are normalized to range from 0 to 100, with 0 representing the lowest result and 100 the best global practice or “frontier.” The higher the score, the more efficient the regulatory environment. For more details, see the chapter “About *Doing Business* and *Doing Business in Colombia 2017*” (in Spanish). The comparisons with other economies are based on the results of the cities that represent each country in the global *Doing Business* report. For Mexico, Mexico City and Monterrey are measured.

Source: *Doing Business* database.

BOX 1.1 Recent initiatives to improve the regulatory environment for business in Colombia

In 2016, the national government set out to significantly reform its tax system and land administration system. By legal mandate, experts^a were commissioned to evaluate the current tax system and present recommendations for structural, long-term reform. Among other things, the tax reform that took effect on January 1, 2017, changes the income tax for businesses and for individuals, as well as the IVA regime, and broadens the tax base by increasing participation. It also includes some measures to simplify the tax system, strengthen the DIAN’s ability to control tax evasion, and includes environmental conservation taxes.

In terms of land, a process is underway to design a multipurpose cadastral operation in Colombia, in the context of the National Development Plan and the Havana peace agreement. The aim is to move toward a single land information system that links registration and cadastral information, strengthens the security of land tenure and provides access to the information at the municipal level.^b

Another initiative seeks to streamline the process of starting a business, with a pilot project to integrate into the Chambers of Commerce the procedures for registering with social security agencies, since these now account for half of the procedures and one third of the time involved. Finally, a law for the construction sector (Law 1796 of 2016),^c for which implementing regulations have yet to be issued, introduces changes to construction standards; among other things, it establishes measures to increase oversight of building safety and quality.

a. “Commission of Experts for Tax Fairness and Competitiveness,” established based on Law 1739 of 2014 and Decree 0327 of 2015.

b. The project will be carried out with funding from the World Bank and the Inter-American Development Bank. Municipalities will be selected during the 2018–23 period.

c. Law 1769, dated July 13, 2016, and known as the “Safe Housing Law,” went into effect as soon as it was promulgated, but implementing regulations are not yet in place for its provisions.

There are flaws in quality-related aspects, both in construction oversight and in the operation and coverage of the registry and cadastre, and there are limited resources to fully implement legal mandates.³³

It will take ambitious action to modernize the regulatory structure—not just incrementally, but exploring bold, comprehensive measures. The good news is that there are initiatives underway with which the national government hopes to stimulate regulatory reform in the country (box 1.1). These measures, along with programs to take regulatory reform to all regions, will jump-start improvement of the business environment and promote higher productivity and competitiveness, which in turn will help attain the hoped-for social and economic benefits of securing peace in all the regions of the country.

NOTES

1. The percentage of people living in poverty went from 30.4% in 2010 to 17.8% in 2016. This statistic refers to the Multidimensional Poverty Index (*Índice de Pobreza Multidimensional*, or IPM) published by the National Administrative Department of Statistics (*Departamento Administrativo Nacional de Estadística*, or DANE) in its 2016 report on monetary and multidimensional poverty. The IPM considers five dimensions: household education; conditions of children and youth; health; labor; and access to public services and housing conditions. Available at: <http://dane.gov.co/index.php/estadisticas-portema/pobreza-y-condiciones-de-vida/pobreza-y-desigualdad/pobreza-monetaria-y-multidimensional-en-colombia-2016>.
2. Terms of trade are defined as the ratio between the price of a country's exports and the price of its imports. At: <http://www.banrep.gov.co/es/indice-terminos-intercambio>.
3. OECD. 2017. OECD Economic Surveys: Colombia 2017, OECD Publishing, Paris. Available at: http://dx.doi.org/10.1787/eco_surveys-col-2017-en.
4. National Planning Department. August 2016. "Política Nacional de Desarrollo Productivo." CONPES Document 3866, Bogotá, D.C.
5. Private Council on Competitiveness. August 2016. "Informe Nacional de Competitividad 2016-2017." Bogotá, DC.
6. National Planning Department. 2016. See Note 4, above.
7. Colombia. Congress of the Republic. Law 1819 of 2016.
8. The multipurpose cadastre aims to modernize the management of the current cadastre administered by the Agustín Codazzi Geographic Institute. The cadastral policy is defined in CONPES Document 3859, dated August 13, 2016, and the World Bank and other cooperation entities will provide technical support for its implementation.
9. Article 200 of Law 1753 of 2015, National Development Plan 2014-2018 "Everyone for a New Country."
10. According to the 2015 study "Dividendo Económico de la Paz," prepared by the National Planning Department, the economic dividends of peace amount to between 1.1 and 1.9 additional percentage points of GDP growth.
11. Final Agreement for the Termination of the Conflict and the Construction of a Stable and Lasting Peace, signed on November 24, 2016, between the government of the Republic of Colombia and the Revolutionary Armed Forces–People's Army.
12. The 2016 report "Taking on Inequality" on poverty and shared prosperity, published by the World Bank, places Colombia among the 10 most unequal countries in the world.
13. For more information on the distance to frontier, see the section "About Doing Business and Doing Business in Colombia 2017."
14. The paying taxes indicator reflects the taxes and contributions that national businesses such as those in the case study must pay in calendar year 2015, so that the results can be compared with the *Doing Business 2017* data published for this indicator.
15. The CREE tax was eliminated by the latest tax reform (Law 1819 of 2016), which entered into force in 2017.
16. Law 47 of 1993 established a special statute for the department of the Archipelago of San Andrés, Providencia and Santa Catalina that, among other things, exempts sales and services on the island from VAT. That is why the number of payments and the time shown for the paying taxes indicator are lower than for the other cities. For more details, see the Paying Taxes chapter.
17. The reference to city size is based on the following population ranges: small, less than 100,000 inhabitants; medium-size, between 100,000 and 1 million; and large, more than 1 million. The population data correspond to the 2005-20 municipal population projections published by DANE.
18. In Arauca, the CAE was implemented in November 2013 and improved the connection between the Chamber of Commerce and the departmental and municipal governments.
19. All large cities and all medium-size cities except for Florencia, Pasto, Quibdó, Riohacha, Sincelejo and Tunja.
20. In cities with a population of less than 100,000, construction licenses are approved by the municipality because there are no building permit offices, or *Curadurías*.
21. For more details on changes in methodology and aggregate rankings, see the section "Data Notes".
22. Ministry of Finance and Public Credit. Decree 589 of 2016.
23. The biometric authentication system allows notaries, who use the VUR system, to electronically verify users' identity in national databases.
24. The system is not yet operating in Mitú and Florencia.
25. Armenia, Bogotá, Cali, Cúcuta, Florencia, Inírida, Pereira, Puerto Carreño and Quibdó.
26. Arauca, Barranquilla, Cúcuta, Montería, San Andrés, Valledupar and Yopal.
27. The IVC model allows municipal authorities to manage inspections and oversight procedures in a single database, based on the risk level of the activity of the business.
28. Cúcuta, Neiva, Sincelejo, Tunja, Valledupar and Leticia.
29. Among other benefits, the law exempted small businesses from paying the business registration fee for the first year of operation.
30. Stamp duties are taxes collected by territorial entities. They are temporary and earmarked for a specific purpose, generally to address social costs or to fund departmental and municipal activities or institutions.
31. Decrees 1770 and 1820 of 2015.
32. According to CONPES Document 3859 on the cadastral improvement policy, all the medium-size cities except for San Andrés and Arauca are in regions of the country where either there is no cadastral coverage or the cadastre is more outdated. This refers to the cadastre administered by the Agustín Codazzi Geographic Institute (IGAC), which covers most of the country's territory. Bogotá, Cali, Medellín and the department of Antioquia have decentralized cadastres.
33. By legal mandate, the national cadastre run by the IGAC must be updated every five years. However, there are not enough technical resources and staff to meet that requirement.

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