

BTI 2014 | Colombia Country Report

Status Index	1-10	6.56	# 37 of 129	
Political Transformation	1-10	6.55	# 49 of 129	↗
Economic Transformation	1-10	6.57	# 36 of 129	→
Management Index	1-10	5.88	# 37 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	47.7	HDI	0.719	GDP p.c.	\$	10582.5
Pop. growth ¹	% p.a.	1.3	HDI rank of 187	91	Gini Index		55.9
Life expectancy	years	73.6	UN Education Index	0.666	Poverty ³	%	15.8
Urban population	%	75.6	Gender inequality ²	0.459	Aid per capita	\$	20.7

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Compared to the previous administration, Colombia's government during the period under review has shown some progress toward democracy and continuity in terms of a market economy. There have been some positive results in some areas that have improved upon prior achievements, such as the promotion of free trade and business freedoms, but there have also been setbacks in other areas. The administration of President Juan Manuel Santos has worked toward the consolidation of democracy, a significant change from the actions of his predecessor, President Alvaro Uribe. Even though Santos promised continuity on all fronts during his 2010 election campaign, he subsequently changed several policies that earned him stern criticism from Uribe.

In terms of democracy and management, there are three main components in Santos' policies that represent major differences with Uribe's policies: ongoing peace talks between the government and the Revolutionary Armed Forces of Colombia (FARC); a better relationship between the executive, the legislative and the judicial branches of state; and a normalization of relations with Colombia's neighbors, Ecuador and Venezuela. Uribe's successful fight against illegal armed actors and Santos' attacks against high-level commanders of FARC created an asymmetry of military power that enabled the start of peace talks. However, the public perception of insecurity has increased, especially in urban areas with the often violent actions of demobilized paramilitary groups converged into criminal bands, or what the government in Colombia refers to as BACRIM (bandas criminales emergentes).

The Santos administration has tried to improve previously neglected areas, such as education and health, but reforms have been slow due to personal political interests and the pressures from public opinion. This was the case with failed justice and education reforms. Even though there have been several economic improvements, widespread poverty and inequality remain important challenges. In the wake of Uribe's policies, President Santos has promoted market-oriented economic policies that have largely protected the country from the global economic crisis and have led to stable economic growth. The country has regained the trust of private investors, which has led to an

increase in foreign direct investment. However, an important part of the Colombian population continues to be neglected because of entrenched structural problems.

Overall, the years 2011 – 2012 showed significant improvements. However, the government faces some serious challenges to make these improvements sustainable. The success of peace talks and the continuity of economic growth will be determining factors in this regard.

History and Characteristics of Transformation

Colombia's modern political and economic traits can be traced back to the post-1974 era. After "La Violencia," the widespread armed conflict between the Liberal Party and the Conservative Party, the military dictatorship of Gustavo Rojas Pinilla (1953 – 1958) elicited the creation of a political compromise between the two parties. The National Front (1958 – 1974) and its policy of power alternation alienated critical sectors of society, which were systematically excluded from political participation.

The Revolutionary Armed Forces of Colombia (FARC), the country's largest and strongest guerrilla organization, are in part a response to the political exclusion during the time of the National Front. Founded in 1964 by former combatants of "La Violencia," FARC has since inspired other groups and tapped into the popular discontent of citizens living mostly in abandoned, rural areas in southern and eastern Colombia. The persistence of poverty provided these groups with an ideological backbone, while the Cold War propelled their military strengthening. The official end of the National Front in 1974 did not significantly alter this situation; in fact, the penetration of the illegal drug trade since the 1970s helped to finance illegal armed actors, deepened corruption and hindered the development of the state in far-flung regions controlled by drug dealers and their private armies.

Economically, the years between 1958 and the 1980s were characterized by a "soft" protectionist model of economic growth: the import-substituting industrialization strategy advocated by the United Nations' Economic Commission for Latin America (ECLAC). Even though the country showed reasonable economic growth and a stable macroeconomic environment during that time, income distribution worsened, the dependency on coffee exports increased, and the success of infant industries did not come to pass. Starting in the late 1980s, the government of Virgilio Barco (1986 – 1990) introduced some structural reforms, deepened and extended by the liberalization reforms of César Gaviria (1990 – 1994), whose "apertura," or opening, policies effectively internationalized the country's hitherto isolated market.

In the political arena, the constitution was changed in 1991. The new charter introduced the protection of human rights, the recognition of inalienable rights, the prerogative of individuals and minorities and the creation of an independent central bank, among other important innovations. However, the country's situation deteriorated due to the emergence of paramilitary groups and drug kingpins, most notably Pablo Escobar. A failed peace process with FARC also contributed

to the dire context. The economy did not grow as fast as expected, and several economic sectors, such as agriculture and manufacturing, were negatively affected by Gaviria's reforms.

The presidency of Ernesto Samper (1994 – 1998) was plagued by political scandals, most prominently the accusation of having financed his presidential campaign with drug money. During his tenure, FARC delivered severe military blows to the army, the country's international credibility was at an all-time low, while Samper tried to continue Gaviria's economic opening strategy with a more social focus. The vulnerability of the country's economy made it prone to crisis: the crash of the housing market in late 1997, which prompted Colombia's worst economic recession, was followed by a restructuring of the financial sector and the adoption of IMF policies during the presidency of Andres Pastrana (1998 – 2002).

Pastrana held an unsuccessful peace process with FARC between 1999 and 2002. His administration had to face an increasing debt burden as well as the inflexible character of the public spending model adopted in 1991. Adding to these problems, right-wing paramilitary forces consolidated their influence and power in many parts of the country. Atrocious crimes and violations of human rights were used by these groups to intimidate the guerrillas and the population at large.

The failure of the Pastrana-FARC peace process led to the radicalization of the political discourse. Alvaro Uribe (2002 – 2010), who was elected president on his strict anti-guerrilla agenda, reformed the armed forces with financial support from the United States under "Plan Colombia" and allowed the army to deliver historic blows to FARC. Uribe's so-called democratic security policy was aimed at the recovery of territory for the state and the elimination of illegal armed actors. Economically, GDP grew at an average of 3.7% between 2003 and 2008, and foreign direct investment was made a centerpiece of the country's economic strategy.

Uribe's government was characterized by its controversial approach to the demobilization of paramilitary groups starting in 2003, a lack of interest in social issues (including education and poverty, which has augmented since 2000), and several corruption scandals, including a bribery scandal that apparently enabled Uribe to be reelected in 2006, and the penetration of the paramilitaries in Congress. On the other hand, Uribe's polemical, populist management of international relations often produced feuds with neighboring countries, such as Venezuela and Ecuador.

This was the situation faced by Juan Manuel Santos when he took office in August 2010. Santos gained greater autonomy in terms of policy design and has marked an important contrast with his predecessor. Several high-level FARC commanders were killed by the military, which set the conditions for the establishment of the peace process in late 2012. The idea of a peace process had been abandoned since the failure of the Pastrana administration in 2002, yet is now a major component of Santos' success as president. The Santos administration has undertaken major social reforms, including a victims' law and a land reform and restitution law to prepare the country for a post-conflict scenario.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

Between 2011 and 2013, the struggle against FARC guerrillas and emerging criminal bands (called BACRIM, formed from former paramilitary groups) was on the list of priorities of President Juan Manuel Santos. Compared to the prior Uribe administration, this situation has gradually changed during the review period because of two main reasons. The first is the existing asymmetry of force between the state and guerrilla groups. The second is the peace process, being pursued at the time of writing and as a result of President Santos' new approach toward the Colombian armed conflict. These two factors are directly related to each other and have enabled Santos to find solid ground in maintaining and consolidating the state's monopoly on the use of force in most of Colombia. Even though the power asymmetry is real, the end result of peace negotiations is still uncertain.

Monopoly on the
use of force

6

Since 2002, because of the democratic security policy of former President Alvaro Uribe and the continuing military strikes spearheaded by the Santos administration against FARC guerrillas, the Colombian government has created a significant imbalance of power between Colombian state armed forces and insurgent groups, to its favor. This asymmetry became more evident in 2011 with the killing of FARC supreme leader "Alfonso Cano." Cano was located and killed by the military in the Cauca district, one of the country's most problematic regions in terms of drug-trafficking and insurgency fighting. The military's predominance allowed the Santos government to start peace talks with FARC guerrillas in October 2012. Additional factors helping to nudge FARC guerrillas to the negotiation table include the Venezuelan government's new stance in support of peace negotiations.

Peace talks began in secret in 2011, becoming public in August 2012. Cuba and Norway were chosen by both sides as the two guarantors of the process; negotiations have made some progress by the time of writing. Public support for the process is tenuous, however, and public opinion remains very skeptical vis-à-vis the willingness of FARC leadership to deliver. The situation remains fragile and President Santos

must be conscious of maintaining control over the peace process agenda, especially if one objective is to avoid the mistakes of former President Pastrana (1998 – 2002) in his attempts to end the armed conflict through negotiations with FARC in the late 1990s and early 2000s. Agenda control is not only important, but also delivering results is crucial before the public turns cynical about the process. Drug-trafficking still fuels much of the violence in Colombia, a fact that may hinder a successful end to the talks. As long as the drug trade fuels the diverse illegal and armed actors, these groups will continue to challenge the state's monopoly on the use of force.

Despite efforts by the Santos administration to challenge guerilla groups militarily, there is substantial evidence that shows that guerrilla and emerging criminal bands (BACRIM) still challenge the state's monopoly on the use of force. Even if this monopoly is established nationwide in principle, some regions (especially in the countryside) remain in a critical situation due to the armed conflict. Although FARC declared a unilateral temporary truce in November 2012, the national and international media have reported some attacks against civilians and police forces.

The Colombian constitution endows every citizen with equal rights, and the majority of the population accepts the legitimacy of the Colombian state – insofar as the state makes itself present. However, indigenous and Afro-Colombians have been systematically displaced due to the internal strife and the clash of mafia groups over their traditional territories, whose strategic position makes them suitable for drug-trafficking purposes.

State identity
8

The high level of violence led to a wave of indigenous protests against the presence of the Colombian army in their territory and also to claim for their full incorporation – with all the rights granted by the Colombian constitution. The indigenous population complained about the violence inflicted on their communities and asked for the government's withdrawal from their territory. Even though the central government asserted its right to be present throughout the territory, a series of negotiations ensued where the indigenous organizations voiced their demands not just for peace, but also for development and respect of the rights granted to them in the 1991 constitution.

In sum, some marginalized populations question the capacity of the state to provide security as well as the public goods that every citizen should have access to according to the 1991 constitution. However, there are no questions as to the issue of national identity or belonging to the main political community.

Even though the state is largely secular and there is no obvious interference of religious dogmas in the design of political institutions, there is considerable interference when it comes to issues such as abortion or same-sex marriage. The Catholic Church's influence remains high in comparison to other countries in the region, though a secularization process has limited this influence somewhat.

No interference of
religious dogmas
9

For years, the Catholic Church has played a major role in the debates that specifically include social issues such as abortion and the rights of the gay, lesbian and transsexual community (LGBT). A large percentage of Colombians (80%) identify themselves as Catholic, which explains why most of the Catholic Church's positions are supported by a significant share of public opinion. The most recent report (2011) of the Latin American Public Opinion Project (LAPOP) of Vanderbilt University shows that the Catholic Church is the most prestigious and trusted institution in Colombia, followed by the Armed Forces and the National Civil Registry.

With the exception of the Auditor General (Procurador General) Alejandro Ordóñez, who openly discusses his religious beliefs and links them to his decisions, no other higher court magistrates use this line of argument. However, the political right (including ex-President Uribe, many politicians in the Conservative Party, and others) consistently refers to traditional religious values in their discourses and appeal to Colombians' sense of religiosity to seek electoral support.

Geography has played a vital role in the history of Colombia's infrastructure, given the varied landscapes the country has, including coasts, jungles, mountains and deserts. Adding financial constraints, the armed conflict and corruption to this situation, the overall result is a poorly developed infrastructure, particularly in remote areas where paved roads, potable water or sanitation are almost nonexistent. This stands in contrast to large cities where health care, security, and public services are – up to a certain extent at least – better organized and more efficiently provided. Corruption, negligence and deficient planning are factors that inhibit a coherent and connected system of infrastructure.

In 2011, the Santos administration invested COP 9.2 trillion in infrastructure, equivalent to 1.5% of that year's GDP. For the year 2012, the government aimed to invest COP 11.5 trillion in infrastructure, equivalent to 2% of that year's GDP. These numbers include both public and private investment. However, many people in economically depressed and rural areas of Colombia still do not have access to potable water or sanitation. There is a similar problem with the road infrastructure: Colombia has only 280 kilometers of paved roads per one million inhabitants. Corruption has redirected public resources into private hands, delaying the execution of needed projects. The administrative disorganization feeds this state of affairs, given the presence of many agencies competing for resources, often with nontransparent processes for the call for tenders. The government announced that the call for tenders in order to adjudicate 4 of 30 road projects to the private sector is currently scheduled for March 2013. This, in principle, would add 8,000 kilometers of new roads. The Colombian Chamber of Infrastructure asked the government to put this process on hold in order to improve the design of the chosen roads, but the government denied the request stating an unnecessary loss of time.

On the other hand, illegal armed groups pose an obstacle for the execution of justice. Even though the government has responded with further prosecutions and a tightening of security in the affected municipalities, the administrative structures of Colombia are not totally free from violence and disruption. Death threats are a common tool of intimidation used by criminal bands as well as paramilitary and guerrilla groups.

In addition, there are also two other major urgent challenges: first, the Colombian state must improve its tax collection system and make the taxation process much more progressive; and second, it must be able to invest these resources in improving the education and the health care systems.

2 | Political Participation

There are, broadly speaking, few constraints on free and fair elections. Whereas rural areas are still vulnerable to electoral fraud – for example, vote buying and intimidation being the most prominent issues – urban areas exhibit higher levels of electoral fairness. General elections have been held regularly since the 1950s, and the people’s belief in the legitimacy of democracy, while not as high as in other South American countries, is consolidated.

Free and fair elections

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On 30 October 2011, local elections were held in Colombia. President Santos sent Germán Vargas Lleras and Juan Carlos Pinzón, the interior and defense ministers respectively, to check on the security conditions in the most vulnerable regions of the country. A total of 360,000 military and policemen were mobilized in order to ensure security in these areas. However, the Mission for Electoral Observation (MOE) stated that 41 people were assassinated during the election campaign.

The threat of violence or the use of violence remains, in many regions, a real obstacle to achieving free and fair elections. In some departments (Valle del Cauca, for example) control over local and regional structures of power by powerful alliances between politicians, drug dealers and paramilitary armies remains an important problem. The “parapolítica” scandal is a clear reminder of the degree of penetration of the electoral process by mafia groups and illegal armies. Overall, even though elections at the national level seem to be free and fair, subnational elections are threatened by violence and the use of extra-political sources of power by local and regional actors.

Formally there are no individuals or groups with veto power, except for the constitutionally established system of checks and balances. However, the effective power to govern is permeated by ties between elected politicians and a myriad of other actors. Three main actors restrain the capacity of Colombian elected officials to make decisions free of veto powers. First, the military holds significant sway,

Effective power to govern

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especially in areas related to external defense and public (internal) order. It remains to be seen how the military will react to a potential peace accord between the government and FARC. While the number of reports of extrajudicial executions has substantially decreased during the period under review, the military retains enormous influence and veto power over certain decisions which affect them directly, as the recent debate on military courts has revealed. Second, the business community is an important group actor in matters regarding economic policy, taxation and income redistribution. In particular, the landed elite hold a veto in matters of land redistribution. The informal veto power held by business organizations is further by electoral provisions establishing a mixed system of campaign funding, with both the state and individuals able to finance political campaigns. The resulting ability of private interests to influence political decision-making in pursuit of particular benefits cannot be understated. As a result, private interest groups or individuals can block or substantially modify proposed laws or regulations that negatively impact their interests. And finally, illegal actors (including mafia groups and private armies) act in collusion with local and regional politicians to hold a veto over local and regional governments, in matters of both security and redistribution (especially of land).

The 1991 constitution guarantees association and assembly rights. There are no legal restrictions on the conformation of political parties, NGOs or interest groups, and the Constitutional Court upholds the exercise of these rights. However, members of trade unions have frequently been killed, threatened or displaced by illegal armed groups. For example, between July and October 2012, the International Center for Trade Union Rights (ICTUR) received 23 reports of human rights violations against union members. These violations included death threats, murder and illegal detentions. More than 50 union members were assassinated in the previous year. Paramilitary forces were identified as behind the murders and threats, and police members were accused of illegal and arbitrary detentions. There are also alleged ties between multinational firms and crimes against union members. According to the ICTUR, Colombia is the most dangerous country in the world for trade unionists, despite the fact that Colombia has ratified both the Convention of 87 (Freedom of Association) and the Convention of 98 (Collective Bargaining), both International Labor Organization (ILO) conventions. Notwithstanding, at least the systematic harassment and persecution of journalists, intellectuals, judges and members of the opposition, orchestrated and directed from the higher echelons of the state, has ended.

Even though the Colombian constitution stipulates that the state must guarantee the freedoms of speech and expression, these are two specific rights that are particularly fragile. According to the Press Freedom Index 2011 – 2012 by Reporters Without Borders, Colombia ranked 143 (of 179) which is an improvement, compared to previous years. However, the country is still placed among the worst in terms of media freedom. Neighboring countries such as Venezuela and Ecuador – where Hugo

Association /
assembly rights

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Freedom of
expression

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Chavez and Rafael Correa had been accused by the Special Rapporteur for Freedom of Expression for systematic violations against the local media – are both better ranked than is Colombia. In October 2012, Reporters Without Borders reported several incidents directed against journalists which included press card confiscation, physical aggression and arbitrary arrest. However, the sources of these limits on the freedom of expression are different in Colombia than in its neighboring countries.

Threats against freedom of expression are more visible at the local and regional level than at the national level and do not originate only or mainly from the state, but rather from those non-state power-holders (legal and illegal) who control politics at the local and regional levels.

3 | Rule of Law

The conflict between the executive and the judicial branches in Colombia is not new. It started in 2006, when the Supreme Court of Justice accused former President Uribe of colluding with the Constitutional Court to give the latter supreme authority over the writ of tutelage. However, this situation was substantially calmed with the election of President Santos. Since the beginning of his mandate in August 2010, Santos declared that the Colombian justice system would get “respect, collaboration and autonomy” from his government.

Separation of
powers

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In an attempt to reform part of the constitution, Congress passed the reform of justice bill on 20 June 2012. This reform was presented by President Santos in August 2011 and aimed at reestablishing the substantially deteriorated relationship between the executive and the judiciary. However, the national courts quickly rejected the bill, alleging a high level of concentration of power for the executive and a loss of autonomy for the judiciary. Public opinion protested the bill’s approval, too, and managed to influence Santos’ decision to revoke it. The president asked Congress for a dismissal, which was granted eight days after the bill’s initial approval. Santos also looked for a dismissal due to some last-minute provisions that were slipped into the new legislation that were meant to serve some questionable interests of certain congressmen. There appears to be a broad consensus as to the need for structural reforms of the judicial system, especially regarding the appointment and tenure of judges. However, there is very little consensus as to what those reforms should be.

The contrast between the government under President Uribe and the government under President Santos is evident in the area of judicial independence. Whereas during Uribe’s time in office the government endangered the independence of the Colombian judiciary through espionage, Santos’ government has tried to fix the relationship by giving the judicial branch greater autonomy and starting to tackle apparent judicial problems. While President Uribe openly defied judicial independence and repeatedly clashed with Supreme Court justices, thus further

Independent
judiciary

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undermining the trust of Colombians toward their court system, President Santos has signaled his respect of the judiciary and has engaged in necessary judicial reforms. Among his initiatives are a judicial reform commission to address corruption in the lower courts, an effort to refrain from criticizing the pursuit of high-level prosecutions and a reversal of an Uribe-era reform that merged the Justice Department with another ministry. Santos also managed to fill the powerful position of attorney general, which had been vacant for one year because of a stalemate between former President Uribe and the Supreme Court, thus allowing prosecutions to move forward again.

However, his proposed reform of the justice system was rejected by the courts and by public opinion, based on an alleged decrease in the level of autonomy of the judicial branch. Congress finally revoked the reform, and thus the judicial system has remained the same in constitutional terms, but insiders as well as observers maintain that judicial reform in Colombia will be a long-term process. On the other hand, severe threats against the judiciary also stem from extra-institutional forces that threaten to undermine the state and the rule of law (illegal armed actors from various groups), especially in rural and remote areas.

The prosecution of office abuse is a generally respected principle. Nonetheless, corruption is a resilient attribute of Colombian politics. Some state agencies are plagued by corrupt practices, the mishandling of resources and nepotism, among other issues. Moreover, many local politicians employ illegal means to ensure election to public office. The Santos government has struggled to address these abuses, and entities such as the Supreme Court of Justice have been especially proactive during the period under review.

Officeholders who abuse their positions and engage in corruption are generally prosecuted, yet they sometimes are able to slip through political, legal or procedural loopholes to avoid prosecution. Some members of the opposition and public opinion in general have raised concerns when considering imposed sentences for office abuse, arguing that sentencing tends to be too lenient in comparison to the crimes committed.

The auditor general, Alejandro Ordóñez, holds a preeminent and active role in office abuse prosecutions. In May 2011, Ordóñez's office began 40 disciplinary processes for contractual irregularities in some local administrations. That same month the mayor of Bogotá, Samuel Moreno, was removed from office and was arrested along with his brother, a former senator. In September 2011, the former head of the now extinct security agency (DAS), Jorge Noguera, was sentenced to 25 years in prison on charges of murder and conspiracy with paramilitary groups.

Civil rights are not fully respected in Colombia. As a consequence of country's prolonged armed strife, Colombia has one of the highest rates of homicide, internal forced displacement, and human rights violations in the world. In drug-producing regions, illegal armed groups show a blatant disregard for civil rights and

Prosecution of
office abuse

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Civil rights

6

systematically violate them. Nor does the government have a perfect record however when it comes to respect for civil rights.

Instances of kidnapping have diminished in recent years. Nonetheless, soldiers, policemen and other individuals remain under threat from guerrilla and paramilitary forces or their successors, emerging criminal bands, or BACRIM. In 2012 Colombia experienced its highest number of kidnappings since 2008. According to Fundación País Libre, 81 kidnappings were reported in the first quarter of 2012 by guerrillas, and 40 kidnappings by common criminals.

4 | Stability of Democratic Institutions

The performance of democratic institutions is deficient and fraught with political friction. Both the legislative branch and the judicial branch of government are lackluster. Parliamentary intrigues, the willful blocking of government initiatives and multiple scandals are characteristic traits of Colombia's Congress. However, the judiciary in general is able to act quickly, depending on the issue and the specific judicial institution in question. Finally, the executive branch, led by President Juan Manuel Santos, has tried to improve the tense relations between state powers.

Performance of
democratic
institutions

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The “farcpolítica” and “parapolítica” scandals, which dealt with the close political, economic and personal relations between various congressmen and illegal armed groups, have resulted in Congress being largely discredited as a government institution. The slow operation of Congress is widely considered one feature of its general inefficiency. The data collected by the political watchdog group Congreso Visible show that legislative debates and discussions in Congress tend to be slow and subject to narrow political interests. Additionally, after serving only 15 months in office, some 10 congressmen were replaced in October 2011 as they were the subject of investigation or had been barred from office by the Procuraduría General.

Congreso Visible also noted that the judicial reform debated from 2011 to 2012 was a symptom of the bureaucratic crisis in Colombia. This reform was supposed to improve the performance of the judiciary because it “does not satisfy the demands of the population; but conversely, high rates of criminal impunity, congestion of judicial offices and corruption persist.” However, both Congress and the executive branch slowed down the reform process, itself rife with controversy. The one institution that acted surprisingly quickly was the judiciary branch itself. It argued that the reform would generate a loss of independence by the judiciary and that it favored the legislative branch. The reform was eventually overthrown by the executive, due to public pressure and several loopholes that favored some congressmen. This and other initiatives provoked the public's anger against Congress as well as caused concern for the government. This lack of credibility in Congress is not new, and has complex roots. It has become deeper as a result of the proven link between some congressional

members and illegal armed groups. Although the judiciary also suffers from problems, these are rooted in a lack of efficiency and resources to meet demands, rather than in a lack of autonomy or independence from the executive. In this sense, there has been some progress between the former Uribe and the current Santos administrations.

A significant number of political actors accept the legitimacy of democratic institutions. Nevertheless, the main problem in this regard is structural, as institutions tend to be flawed by design. Yet political actors consider the political structure as legitimate, independent of its structural failures. The only exceptions are the guerrillas who do not consider the current political structure as legitimate or representative, and therefore assume the role of the state in the abandoned territories. This situation also explains why these groups fight for the collapse of the current structure. Despite the government's efforts to fight against these groups, their power is a threat to the existence of democratic institutions, insofar as they have destabilized and weakened them.

As for BACRIM, or emerging criminal groups, they do not represent a force against the democratic order for political reasons but rather an expression of vigilante justice (at best) and a branching-off of organized crime (at worst). Colombia's democratic institutions still need to gain loyalty and credibility among the poor and marginalized (both urban and rural) who have yet to see the benefits of a democratic process, one that has proven too slow and too exclusionary for them to lend their open support.

5 | Political and Social Integration

Despite the political reform of 2003, the country's party system remains fragmented and characterized by a weak capacity to represent societal interests. As shown by the Latin American Public Opinion Project (LAPOP) survey in 2011, Colombian public opinion ranked political parties as the 19th most trusted institution (out of 20). In addition, the electorate tends to be ill-informed, and as a result, legislative elections tend to have lower rates of participation. The pressure illegal actors put on political parties have undermined their public reputation and hindered their ability to represent popular interests.

The so-called traditional parties have lost credibility and popular support, which has enabled relatively new parties (such as the Social National Unity Party (Partido Social de Unidad Nacional, U Party), the Alternative Democratic Pole (Polo Democrático Alternativo, PDA) and the Green Party) to gain popularity among the Colombian electorate. However, the trust in these parties is unstable and internal divisions have caused fragmentation. Additionally, patronage is a widespread activity in the political arena, which has caused a loss of credibility in the ability of political parties to protect the electorate's interests. LAPOP data demonstrate that the Liberal Party regained

Commitment to
democratic
institutions

7

Party system

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some popularity between 2010 and 2011. The party passed from 18.9% to 31.4% of public allegiance, but this is the exception to the rule. The popularity of other parties has generally decreased.

On the other hand, party discipline does not function adequately. In 2009, Congress approved a political reform bill which enabled congressmen to switch parties without penalties. In 2012, Congress debated a bill that aims to deregulate even more the action of “party-crossing” (transfuguismo), a tactic that has engendered opportunism. In October 2012, President Santos vehemently declared himself against the bill, which would allow 60% of legislators of the same party to switch parties for the next election.

The problems of Colombian political parties are not new, as a lack of internal discipline and democratic procedures has existed for a long time. Despite the many problems affecting individual parties, the system itself has not collapsed but rather has evolved, gradually, from a relatively stagnant two-party system to a moderate multiparty system that has been able to accommodate new parties on the right. This new array reflects the cleavages present in Colombian society better than the bi-partisan division ever did.

Collective action is a difficult endeavor due to security issues and a lack of cohesion among interest groups. These factors hinder the process of aggregation and mediation of different interests. Colombia has a variety of interest groups, ranging from trade unions and peak business associations to local NGOs and social movements. However, besides economic interest groups, many of these associations do not have the visibility or the resources that would enable them to mediate between civil society and high-ranking political officials.

Even though trade unions bargain with the employers’ association and the government over the adjustment of the minimum wage at the end of every year, these groups tend to act individually on other issues. Social movements are vibrant, but often have an unstructured, spontaneous character. The indigenous people of Cauca staged protests in 2012, but these were sporadic episodes without a solid institutional structure. A Latin American Public Opinion Project (LAPOP) survey in 2011 showed low levels of participation in organizations that serve political interests. 61% of respondents declared to be part of religious organizations, but there are low levels of participations in other sectors. However, there are high levels of support in terms of peaceful public manifestations.

According to the 2011 Latin American Public Opinion Project (LAPOP) report, Colombians mostly approve of democracy but are dissatisfied with how it functions. Some 71.1% of interviewees agreed with the statement that “democracy is preferable to any other kind of government,” but only 50.1% were satisfied with the democratic system’s performance. In addition, citizens’ focus on the personality of the leader in

Interest groups
6

Approval of
democracy
7

politics substantially decreased. For instance, the index that rates personal attachment to the president fell from a score of 4.9 (for former President Uribe) to a score of 3.5 (for President Santos). The survey's results also showed that pride in the country's political system is one of the highest in the region. The approval of the idea of democracy remains fairly embedded in Colombia's political culture. Some of the main elements of democracy are questioned, but the desire for a radical change in political principles is largely absent among the public.

In the same survey, 50.1% claimed to be satisfied with the current operation of the country's democratic system, which constitutes a slight decrease when compared to 2010 (51.9%). However, there appears to be a dissonance between the idea of democracy, which is held in high regard by a majority of the population, and the state of the political process. The survey found that Colombia is one of the countries in the Americas where undemocratic attitudes are most tolerated. However, the level of tolerance has decreased during the review period. On the other hand, the rates of support for punishment in cases of corruption have increased.

According to Latin American Public Opinion Project (LAPOP) data, trust between citizens in Colombia is higher than in other Latin American countries. Almost half of those surveyed consider their community as "somewhat trustworthy," which shows that citizens hold some degree of interpersonal trust. The LAPOP analysis demonstrates that interpersonal trust plays an important role in encouraging political participation. However, an econometric analysis shows that education level and membership in an association, such as a religious group, a parents' association, and so on, play a more important role in political participation than does interpersonal trust. In other words, the level of trust among the population has led to a significant number of autonomous, self-organized groups, associations and organizations, but active political participation is rather low.

Social capital
5

II. Economic Transformation

6 | Level of Socioeconomic Development

According to the U.N. Human Development Index Report of 2011, Colombia's Human Development Index (HDI) ranking was 0.710. The country is now ranked 87 overall, below the Latin American average of 0.731. Colombia has improved its HDI score over the last 10 years. However, some rural zones still lack access to some basic services. Poverty remains an important feature in Colombian society; although the poverty index decreased between 2010 (37.2%) and 2011 (34.1%), poverty still represents a significant socioeconomic barrier. The HDI score shows that the country

Question
Score

Socioeconomic
barriers
5

performs relatively well in health care issues but scores are still low regarding education and income-related matters.

The Santos administration has not shown major progress in terms of equality. By 2011, Colombia's Gini index was 0.548, which ranks the country as one of the most unequal in the world. President Santos has attempted to grant maximum attention to social problems, including poverty, health care and education. In 2012, the country spent 4.5% of GDP on education. However, this constitutes a decrease when compared with previous years (4.7% of GDP in 2009 and 4.8% of GDP in 2010).

The quality of education remains a big concern. In 2011, 11,016,635 students attended primary and secondary schools. However, there is a lack of buildings, educational material and teachers in rural areas. Only 2,663,044 of the total student population received their education in rural areas, whereas the rest were concentrated in urban areas. Additionally, academic curricula are rarely followed by teachers in poor and remote regions. The number of children enrolled in school has decreased since 2009.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	233821.7	287018.2	336346.4	369789.4
GDP growth	%	1.7	4.0	6.6	4.0
Inflation (CPI)	%	4.2	2.3	3.4	3.2
Unemployment	%	12.0	11.6	-	-
Foreign direct investment	% of GDP	3.1	2.4	4.0	4.3
Export growth	%	-2.8	1.3	12.9	721.9
Import growth	%	-9.1	10.8	21.2	438.5
Current account balance	\$ M	-4964.5	-8821.2	-9642.8	-11907.5
Public debt	% of GDP	36.1	36.5	35.8	32.8
External debt	\$ M	53053.9	64124.0	76917.6	-
Total debt service	\$ M	8669.9	9649.5	10096.6	-

Economic indicators		2009	2010	2011	2012
Cash surplus or deficit	% of GDP	-4.3	-4.1	0.3	-
Tax revenue	% of GDP	11.8	11.3	13.7	-
Government consumption	% of GDP	16.7	16.9	16.1	-
Public expnd. on edu.	% of GDP	4.7	4.8	4.5	-
Public expnd. on health	% of GDP	5.1	4.9	4.6	-
R&D expenditure	% of GDP	0.15	0.16	-	-
Military expenditure	% of GDP	3.9	3.6	3.1	3.3

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Market-based competition is a centerpiece of Colombia's economy. There are several institutions that oversee free competition, such as the Superintendence for Industry and Commerce, as well as several laws codifying economic practices. According to the World Bank's 2013 Doing Business report, Colombia ranks 45 in the world and third in South America, after Chile (37) and Peru (43), in terms of the ease of doing business. The report states that Colombia is one of the top 10 reforming economies and that it has implemented 25 institutional and regulatory reforms since 2005. Since that year, the country has simplified the registering of property, the opening and closing of businesses and the access to construction permits among other issues. Colombia was also described by the 2013 report as an economy that stands out within its region in terms of improving business regulations.

During last 10 years, reasonable economic growth has been achieved. FDI inflows grew 20.4% between 2011 and 2012. The sectors most favored by this increase were oil, hydrocarbons and mining. According to the World Bank's 2013 Doing Business report, Colombia among all South American countries protects investments and investors the most. In the World Economic Forum's Global Competitiveness report 2012 – 2013, Colombia is classified as being in the second stage of development and an efficiency-driven economy, along with 33 other countries. Colombia was ranked at 69 (out of 144) with a score of 4.18/7.0 and slight decline of one position, since 2011 – 2012. In terms of efficiency enhancers and innovation and sophistication factors, the country was ranked 66 and 63, respectively. The country is praised for the quality of its macroeconomic conditions (ranked at 34).

Colombia still has weak public institutions, poor levels of education and transportation, and low levels of research and innovation. Market-based competition

Market-based
competition
7

is further limited by the impact of inequality, poverty and low-standards of education that stymies a growing market and its need for a sufficient supply of skilled workers as well as a lack of adequate infrastructure which, to be fair, is being addressed by the Santos government following the hand-over of a system in disrepair from his predecessor, President Uribe.

The legal framework of Colombia's anti-monopoly policy is not new. The Superintendence of Industry and Commerce (SIC) is in charge of preventing monopolies, predatory pricing and so on. Other institutions are focused on specific sectors, but still pursue investigations jointly with the SIC. Broadly speaking, these institutions satisfactorily identify and prevent the uncontrolled expansion of cartelistic structures.

Anti-monopoly
policy
7

On 12 October 2011, Congress passed Law 1480, establishing guidelines to protect, promote and guarantee consumers' rights. Both producers and suppliers' activities are more regulated by the law, and the SIC is in charge of guaranteeing. Yet there are sectors and economic activities where monopolies are allowed by law, such as in the banking sector and in professional sports, among others.

The liberalization of foreign trade was the cornerstone of the economic reforms that began in the 1990s during President Gaviria's administration. Tariffs were drastically reduced and imports were fairly liberalized. According to the World Bank, the country's weighted average tariff is 8.9% (2013). The 2013 Index of Economic Freedom shows that Colombia's economic freedom is ranked 69.6, and ranked 72.2 in terms of trade freedom. Both investment and financial freedom are ranked 70.0. This places Colombia at rank 37, with its overall score 1.6 points higher than 2012. If compared to the South America and Caribbean region, Colombia is the fifth economically freest country in the 2013 index.

Liberalization of
foreign trade
8

In the context of several free-trade agreements, Colombia has undertaken several reforms to increase its competitiveness level, which led to "resilient economic growth that has averaged over 4% during the past five years" according to the 2013 Index of Economic Freedom. During 2011 – 2013, Colombia has been slightly below the world's average in trade freedoms and it belongs to the category of "mostly free." Non-tariff barriers are low.

The active promotion of free-trade agreements started during the Uribe administration from 2002 to 2010. President Santos continued Uribe's policies, and now Colombia has six free-trade agreements in force, covering Mexico, Canada, Chile, the United States, the European Free Trade Association (EFTA) and the Caribbean Community and Common Market (Caricom). The free-trade agreement considered most important is with the United States. This agreement was signed in 2006, but entered into force on 5 May 2012, as the U.S. Congress ratified it only in October 2011. The country has also one partial trade agreement with Venezuela and

is part of the Southern Cone Common Market-Andean Community (Mercosur-CAN) agreements. Colombia, in partnership with Peru, also signed a trade agreement with the European Union in 2012. The ratification of the treaty by Congress is still pending. Colombia is currently negotiating trade agreements with South Korea, Panama, Turkey, Costa Rica, Israel, Japan and the Pacific Alliance (Mexico, Peru and Chile).

Banks are the most relevant financial intermediaries in Colombia, and the banking system consolidated at the beginning of the 21st century. A deepening of new financial instruments, specifically the ones contained in the IMF's 1999 Financial Sector Assessment Program, drove the banking sector toward modernization. There are several laws and institutions that regulate different banking activities. In 2005, Law 964 merged the Banking Superintendence with the Stock Exchange Superintendence and gave birth to the Financial Superintendency of Colombia (SFC) which, according to an IMF assessment, effectively supervises all financial institutions. As of 2013, the SFC oversees a total of 427 entities. The largely independent SFC is in charge of guaranteeing compliance with regulatory requirements and frequently develops policies aimed at combating abusive behavior. Disclosure rules are usually observed, but banks and other financial institutions must provide judicial authorities with information when requested, usually in the fight against criminal activity, such as money laundering. Since 2009, financial institutions are no longer required to share all financial data with judicial institutions. According to the IMF, nonperforming loans at the end of March 2012 were at a manageable level, at 2.8% of total loans.

The latest IMF Financial System Stability Assessment of February 2013 described the Colombian financial sector as solid. Although the members of the board praised its strength, they noted the necessity to closely monitor credit and asset market developments for overheating risks. While Colombia has made important progress in terms of compliance with Basel standards, the IMF assessment suggested eliminating more rapidly the still existing flaws, especially concerning the second pillar of Basel II.

8 | Currency and Price Stability

Colombia has been very successful at containing inflation over the past decade. The central bank has played a major role in this success since it was granted constitutional autonomy in 1991. Relations between the government and the bank have been mostly cooperative since then.

Annual inflation has remained relatively low. In 2010, the rate of inflation was 3.17%, in 2011 3.73% and in 2012, 2.44% – and is projected to hit 3.10% in 2013. During the review period, the central bank set an inflation target range between 2% and 4%.

Banking system

8

Anti-inflation /
forex policy

9

Although the prioritization of an inflation target over a growth target usually requires a restrictive approach to monetary policy, according to the research director of Correval, the situation in 2012 will probably enable the central bank to maintain an expansive monetary policy for longer.

Between December 2011 and December 2012, the Colombian peso depreciated 2.70% vis-à-vis the U.S. dollar and 7.87% vis-à-vis the euro. The recovery of the dollar after the global financial crisis, despite the continuous flow of foreign direct investment to Colombia, is one reason for the relatively moderate depreciation of the peso against the dollar. Nevertheless, the main cause of depreciation is the set of measures taken by both the government and the central bank since mid-2012. A currency appreciation is always a major concern for Colombian exporters, the central bank and the government. The two latter institutions have undertaken several policies to counteract the peso's appreciation. On 9 August 2012, Finance Minister Juan Carlos Echeverry asked the central bank to buy up to \$40 million per day, and not the \$20 million the bank had been buying until then. These policies have managed to restrain the appreciation trend of the peso, which was not the case in previous years.

Macroeconomic stability has been for a long time a priority in Colombia and several governments have contributed to the country's remarkable record in this regard. Even though the country has shown a stable macroeconomic environment, some problems remain. The country's overall fiscal deficit decreased to 2.2% of GDP in 2011 – 0.7% less than expected by the government in December 2010. Finance Minister Echeverry at the time stated that this was due to a better performance in tax revenues, thanks to the tax reform that took place two years prior. Colombia's public debt in 2010 amounted to 46.2% of GDP. In 2011, the percentage share slightly diminished to 43.4% of GDP.

The Santos administration's budget for 2012 showed some differences with the previous administration. High military expenditures were no longer the top priority in national spending. The government's highest expenditures are for pension payments (7.7% of GDP), education (2.9%), and health (2%). In contrast, the budget for 2012 for national defense was only 1.5% of GDP.

9 | Private Property

There are two defining features of property rights in Colombia: property rights in cities and property rights in rural regions. In urban areas, the acquisition, benefit, use and sale of these rights are generally well-defined and properly enforced by government authorities. In rural areas, however, internal conflicts have deteriorated the protection and usufruct of property rights. This is particularly acute with regard

Macrostability
8

Property rights
7

to resource-rich zones, whose lands lend themselves for the large-scale production of narcotics.

Armed conflict has affected the rural context in terms of forced displacement; many indigenous and Afro-Colombian groups have had their property forcefully seized by subversive actors (guerrillas and paramilitaries). The United Nations High Commissioner for Refugees stated in June 2012 that there are approximately four million displaced people and 400,000 refugees in Colombia. Some NGOs such as the Consultoría para los Derechos Humanos y el Desplazamiento (CODHES) claim that the number of displaced people totals five million. On the other hand, official national records report a total of 3,943,509 people expelled from their lands. This territory is now used for drug production and as criminal strongholds. The government has issued several laws to address the problem, but land is still highly concentrated in the hands of landowners and their allied illegal groups.

Opening a private business in Colombia is a straightforward endeavor. According to the World Bank 2013 Doing Business report, the Santos administration has simplified entry regulations which promote the establishment of new firms in the formal sector. As a result, the country has had a “5.2% increase in new firm registrations.” Colombia was praised by the report as a “regional leader in narrowing the gap with the world’s most efficient regulatory practice” and has managed to improve important activities such as protecting investors and resolving insolvency. Nevertheless, there are still significant obstacles for private enterprise.

This assessment is supported by the Heritage Foundation’s 2013 Index of Economic Freedom. Colombia scored 90.2 in business freedom and is ranked 18, right behind the United States. The country’s freedom of business is 25.6 points above the world’s average. Colombia’s ranking in this index has increased constantly since 2008. The report also notes that “with no minimum capital required, launching a business costs about 7% of the level of annual income.” In addition, Colombia received a score of 79.3 in labor freedom, 18.7 points above the world’s average. According to the Doing Business report, regulation reforms implemented in the past few years have substantially reduced the time required to launch a new business (from 60 to 14 days). These reforms have also reduced the cost of starting a new business; it passed from “28% of income per capita to 8% and the number of procedures from 19 to 9 in 2011.”

The private sector has historically been and remains the main engine of economic growth in Colombia. Privatizations have therefore never been as numerous or as disruptive as in other countries in Latin America. Privatizations have been generally conducted in market terms. However, they have become a contentious topic, especially during the Uribe administration which implemented several sales of public enterprises. State-owned enterprises still exist in some sectors (such as defense article production, the postal service, electricity generation and distribution, hospitals and airports) but are subject to oversight by the comptroller general. They often enter into

Private enterprise

8

partnerships with private corporations for specific activities, or have to compete with the private sector, such as with oil production.

10 | Welfare Regime

There are some social safety nets in Colombia which compensate for the social risks of the economic system. During recent years, especially since the beginning of the Santos administration, the government has developed several programs to alleviate poverty and improve health care and education. Most of public spending is dedicated to pensions, education and health care. In July 2012, Finance Minister Echeverry announced that public spending for 2013 would be COP 185.5 billion. This is an increase of 12.2% in comparison to the 2012 budget. Out of this, COP 40.7 billion (22% of the total) is earmarked for poverty reduction and to create new jobs.

Law 100 of 1993 established a scheme for private health care entities (Entidades Promotoras de Salud, EPS) and divided the welfare system into subsidized and contributory regimes. The contributory regime is made up of people who are able to afford, through their work income, the costs of a health care provision. The subsidized regime, on the other hand, is made up of poor and disadvantaged people, and is funded by the government and those in the contributory regime. However, the health care system remains in crisis. In December 2011, the national government presented a project for health care reform to alleviate the effects of the crisis. The new model was announced by the then Minister of Health, Mauricio Santamaría. The reform was controversial as the government stated that there were still some activities that would not be financed by the state. Some provisions of the reform were criticized by medical and health professionals. In July 2012, Minister of Health Beatriz Londoño announced the start of the new Compulsory Health Plan (Plan Obligatorio de Salud, POS) which aims to benefit 22.5 million people in Colombia. The main goals of this unified plan are that people have the same treatment and the same access to medication and technology as well as are able to be treated everywhere in the country. Nevertheless, the plan left out procedures such as the supply of wheelchairs, implants and prosthetics, among others.

Similar to health care, the pension system is also divided into public and private pillars – and is also in crisis. In 2011, the coverage rate was still very low. According to the Ministry of Labor, only 27.8% of people over 60 years actually received their pension. As for the active population, 71.6% is part of the pension system, but only 27.2% pays into pension schemes. According to Colombia's official statistics authority (Departamento Administrativo Nacional de Estadística, DANE), the high level of informality in employment makes it more difficult for users to contribute to both the health care and pension systems. In 2012, only 12% of informal employees were part of a pension plan. The Colombian Association of Pension and Savings Fund

Social safety nets
5

Administrators (Asofondos) noted that even if pensions represent 22% of total public spending, the coverage rate is extremely low at 25%.

In March 2012, Asofondos President Santiago Montenegro noted that the pension regime in Colombia is unviable since its creation by Law 100 of 1993. Montenegro identified four major problems as low coverage, high inequality, lack of sustainability and institutional flaws. All of these problems affect the two different regimes. By the end of November 2012, Labor Minister Rafael Pardo painted a dramatic scenario if the pension system continued on the path it had been following since 1993. Like Montenegro, Pardo pointed out the inequality problem: the poorest 20% of the population receive only 0.1% in pension subsidies, whereas the richest 20% of the population receive 86.3% of pension subsidies. He also noted that 24% of the national budget is targeted for pensions and that public debt stands at 162.2% of GDP. The reform proposed by the government to solve part of these problems is still under discussion.

As noted before, Colombia is one of the most unequal countries in the region. According to the country's legal framework, there are provisions that forbid and punish exclusion. The constitution prohibits discrimination based on race, gender, religion, language, opinion and so on, and many other provisions seek to protect indigenous groups and Afro-Colombians from political and social discrimination. Nevertheless, the main issue in Colombia is the enforcement of these specific laws. As a result, a persistent level of inequality remains. Ethnic, racial and gender differences are the main sources of discrimination. However, the origins of such discrimination are not legal but structural, social and historical, and thus have proven difficult to change despite government attempts over two decades or more.

The situation of Colombian women is illustrative, given that their representation in society and politics is still highly unequal. On the one hand, women's access to education has no formal barriers. According to World Bank data, in 2011 the ratio of female-to-male enrollment was 96% for primary education, and 109% for secondary school. According to the United Nations Development Fund for Women, since 2002 more women than men finished undergraduate programs. But job opportunities tend to be difficult to come by for women. The most recent data, released in September 2012, show that the rate of unemployment for women stands at 13%, whereas the rate for men is 8.3%.

The 2012 Global Gender Gap report ranks Colombia at 63 of 135 countries, with a 0.6901 coefficient (1=equality, 0=inequality). The indicators do not always exhibit acceptable levels, as Colombia ranks 86 in economic participation and opportunity (an important decrease when compared to previous reports), at 51 in educational attainment, 34 in health and survival, and at 51 in political empowerment. In fact, some of the subindexes are of the highest order, such as literacy rate, enrollment in

Equal opportunity

6

secondary education and life expectancy, while others are deficient, such as labor force participation.

11 | Economic Performance

Colombia's economic performance was not as affected by the global financial crisis as was the performance of its neighbors. The country was able to withstand the crisis with only minor damage and has continued on a path of growth since 2010. Colombian GDP in 2010 grew 4.0%, and in 2011 grew 5.9%. By the third quarter of 2012, GDP grew 3.9%, and the IMF expects in 2013 GDP to grow 4.4%.

Output strength
7

Nonetheless, the country has several macroeconomic problems. The first is a persistently high budget deficit, sustained by the inflexible components of public spending. However, a recent boost in tax revenues due to economic growth has diminished this deficit during the review period. In 2011, the deficit was 2.9% of GDP. For the first half of 2012, the Ministry of Finance reported a budget surplus of 2.4% of GDP. The last report available showed a surplus of 1.9% of GDP by the end of the third quarter of 2012. However, since 2001, the country has always shown a tendency toward budget deficits, so it is not possible to affirm that the performance during the review period constitutes a new trend. Finance Minister Mauricio Cárdenas expects a balanced budget by 2014.

The second problem is widespread tax evasion, which causes low tax revenues. However, there is a slight change during the past two years due to new tax regulations. In November 2012, the Minister of Finance presented to Congress the government's proposal for tax reform. The reform aims to reduce the complexity and the lack of responsiveness of the tax regime. If passed, the reform is to reduce tax evasion given a new set of incentives.

Finally, the third problem hindering the process of tax payments is the large size of the informal sector. There is no real control over the informal sector, and the high rates of informal employment are a problem not to be soon solved. Although tax reform aims to solve part of the problem, the results are not yet forthcoming.

Public spending still exhibits a deficit and Colombia's total debt remains high. Public debt in 2011 represented 45.6% of GDP. Another threat to macroeconomic stability is the volatility of the peso-to-U.S. dollar exchange rate and the high level of unemployment and underemployment. Despite the fact that the Santos administration has implemented several programs to mediate this situation, such as the law of first employment, tax reform and a "fiscal rule" initiative, corruption and bureaucratic obstacles, structural constraints and state's continued efforts to bring the rest of the territory under its control are still considerable barriers for the implementation of effective and sustainable economic reforms.

12 | Sustainability

Colombia is a biodiversity hotspot, as the country's variety of topographic features enables the existence of a large diversity of fauna and flora. The state has taken measures aimed at the conservation of animals and plants, which are considered the country's principal assets. However, the efficiency of these policies is hindered by the subordination of environmental protection to economic growth, a weak institutional framework and the impact of the armed conflict on the environment.

Environmental
policy
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The main consequences of these policies and of the conflict situation are deforestation, soil erosion and a lack of wildlife preservation. Many endangered species are not protected and exploitation by the mining industry does not help. In September 2011, the director of the Observatory of Mining Conflicts in Latin America noted that only a small mining industry is sustainable in environmental terms. About a year later, President Santos announced a new policy to protect endangered areas from illegal mining. The Ministry of Mines and Energy stated that the purpose of restricting some areas is fundamentally to protect the environment.

The Ministry of Environment, Housing and Territory was created during the former Uribe administration. However, in 2011, the entity was split and is now called the Ministry of Environment and Sustainable Development. Nonetheless, this entity is still considered a low-profile institution as part of the executive branch. As a result, environmental policies, while held in high regard by the government, are still of secondary importance when compared with economic development or security issues.

The country's environmental situation is gradually deteriorating. According to the 2012 Environmental Performance Index, Colombia ranks first in the Americas with regard to environmental protection. However, it ranks 27 worldwide (when it used to be ranked 10). Colombia scores 55.5 points (ranked 86) on environmental health components, which captures health outcomes resulting from risk factors such as poor water and sanitation and indoor and outdoor air pollution, and 65.2 points (ranked 11) on ecosystem vitality, which measures efforts pursuant to the goal of reducing the loss or degradation of ecosystems and natural resources. According to Proexport, the country's industrial greenhouse gas emissions per capita are lower than the world's average, and the country only produces 0.37% of the world's emissions total. However, Colombia has shown some major setbacks in terms of environmental protection, the result of unsatisfactory institutional performance.

There are both qualitative and quantitative problems with educational policies in Colombia. On the one hand, even though enrollment rates are at acceptable levels, people living in rural areas often do not have sufficient access to education. In

Education policy /
R&D
5

addition, despite increased enrollment in both primary and secondary education institutions, relatively few people have access to tertiary education.

The 2012 EFA Global Monitoring report states that 42% of the poorest Colombian households “started two or more years later, compared with 11% from the richest households.” Inequalities are self-evident in the educational sector. The report states that while most young people from rich households make it to lower secondary school, only around 50% of the poorest youth make it to the same level. UNESCO notes that even though Colombia has been one of the faster growing economies in the region, the poorest have not had the opportunity to enjoy the benefits of this growth. As a result, Colombia’s “unequal access to good quality education is one of the main factors behind inequality, along with segmented labor markets and ethnic and gender discrimination.”

Teachers in rural areas often lack the appropriate tools to teach properly, such as books, infrastructure, technology and basic training. As a result, there are marked differences in academic results between urban and rural areas. There is no universal system of education, despite the rulings of the Constitutional Court. Given substantial financial constraints, a lack of quality and sufficient opportunities, access to tertiary education is an insuperable barrier for many people.

Tertiary education was a contentious issue in 2011. The government proposed higher education reform to reorganize the existing system. The series of changes aimed at creating the necessary conditions to augment supply and to allow people from the poorest groups to better access tertiary education. More specifically, reforms would have been financed with additional public funds. According to official statistics, 519,000 young people enrolled in tertiary education in 2011, with a coverage rate in higher education of 39.8% (measured as the number of undergraduate students in terms of the entire population between 17 and 21 years). The dropout rate is approximately 45%. However, reforms were met with significant levels of opposition from the population directly affected – university students. Several student organizations organized massive and repeating walkouts to pressure the government to withdraw the project from Congress. In November 2011, the student organizations were successful and President Santos withdrew the project from consideration and promised to present an improved version of reforms in the near future.

Research and development has been underfunded and underperforming in Colombia. In 2011 Colombia spent 0.18% of GDP on scientific research and development. Even though there have been some improvements during the Santos administration, the country still lags behind several countries in the Americas, such as Argentina and Mexico (0.4% of GDP), Brazil (0.9% of GDP), and the United States (2.7% of GDP). President Santos has tried to increase this budget but it is not clear yet how much money will be spent, or how.

Transformation Management

I. Level of Difficulty

Colombia has several structural constraints, including social inequality, poverty, high rates of unemployment and informal employment and poor education and health care services, especially in rural areas. However, the biggest structural constraint is the longstanding internal conflict which is linked to poverty, and is now intimately related to drug-trafficking. Illegal activities permeate both public and private administrations and are characterized by an unregulated patronage system and corruption. The problem worsens given the penetration of guerrillas, mafia groups and paramilitaries in many state institutions and private businesses. Natural disasters, such as the earthquake near La Vega in September 2012 and the floods of 2010, coupled with an already high budget deficit and the polarization of society further complicate good governance and the steering capacity of social and political elites.

Structural
constraints

8

Colombia has a longstanding tradition of civic engagement. Until President Uribe's rise to power in 2002, the Liberal and Conservative parties shaped the political landscape of the country. Party affiliation was an important aspect of Colombian political life, but it was also a dangerous one. Violent struggles between liberals and conservatives caused several thousands of deaths. During the 1980s and 1990s, the rise of drug kingpin Pablo Escobar and the relationship between politicians and drug traffickers and other illegal actors worsened the country's general situation. Although the 1991 constitution led to the formation of new groups defending several aspects of the constitution, the traditional notion of civil society gradually weakened due to societal polarization and a general discontent with political parties.

Civil society
traditions

5

Several illegal actors started to participate actively in Colombian political life. This led to an alarming decline of public engagement and open political participation. Several politicians, NGO members and labor unionists, among others, were kidnapped, extorted, killed or "disappeared" by guerrillas, paramilitaries and/or drug cartels.

The killings continued during the 2000s but numbers decreased following the implementation of President Uribe's "Democratic Security" program. However, civil society continues to mend amid a still hostile environment, where some organizations, especially ones focused on human rights, have been labeled as

sponsors of guerrillas and of terrorism. As a result, the personal safety of human rights activists and union leaders has been undermined.

The Colombian armed conflict has ravaged the country for the past 70 years, and remains the main civil confrontation in the country. Despite the reduction of homicides and kidnappings during the previous Uribe administration, violence is still one of the country's most characteristic features. Inequality also creates a noticeable cleavage between the richest and the poorest citizens. The benefits of an improved economic performance still lack equal distribution, and extreme poverty is concentrated in rural areas. The persistence of poverty is still used as a justification for the armed struggle of guerilla groups like Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN).

Conflict intensity

7

According to the 2012 Vision of Humanity's Global Peace Index, Colombia ranks 144 of 158 countries concerning the level of organized, internal conflict, also stating that three out of five deaths in the country are due to the armed conflict. The country's overall score was 2.62/5.0, but there are some categories worth noting: perceived criminality in society (4.0), homicides (5.0), and political terror (4.5/5.0) are some of the most alarming violence-related issues.

The abundance of violent incidents and the confrontational nature of such a struggle have caused the frequent abuse of human rights, both by state's security forces and illegal armed groups. Human rights activists have been threatened or killed, which makes their job a dangerous endeavor in so-called red zones.

A peace process at the time of writing has begun between the Santos administration and FARC, and seems to be on the right path. The Pastrana administration's failure to achieve peace in 1998 – 2002 however keeps most of society skeptical toward the process. Conversely, the demobilization of paramilitary groups during President Uribe's time in office has had some negative repercussions. Many demobilized paramilitary groups have formed new paramilitary groups known as BACRIM.

Conflict-related issues have worsened due to chronic poverty, which constantly reinvigorates the internal conflict. The lack of opportunities and formal education of the poorest groups are exploited by illegal forces. Urban suburbs and deprived rural zones become recruiting hotspots for drug dealers, BACRIM and guerrilla forces. As a result, conflict intensity is largely determined by widespread poverty and social exclusion, but also by profits from the illegal drug trade. The conflict is not caused by but feeds on inequality. Even after integrating the guerrillas into the realm of legal politics, the country still has a long way to go to eliminate the use of violence toward political ends, and to offer equal opportunity to all sectors of society, across all regions of the territory.

II. Management Performance

14 | Steering Capability

Question
Score

During the review period, there are two specific issues when referring to the strategic priorities of the Santos administration. Economically, the government believes in market mechanisms and free trade. As a result, President Santos has focused on the maintenance and advancement of free-market principles and policies. These policies, dating back to the prior Uribe administration, have consistently been implemented by Santos. The peace process, as a second priority, is being led by the Santos administration and is underway at the time of writing.

Prioritization
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Trade and other economic exchange policies such as tax breaks, the prioritization of exports and a stable exchange rate, have been pursued jointly with other state agencies, such as the central bank. There is a traditional consensus among the country's elites in terms of the desirability of an open market and, accordingly, a consistent strategy of liberalization has been taking place. Moreover, the relative stability of President Santos' cabinet and a majority of Santos' political party in Congress have enabled some important economic reforms. In contrast to the previous Uribe administration, President Santos' cabinet has shown more autonomy from the president as well as placed a greater emphasis on social economy issues.

President Santos has also shown a more pragmatic political agenda and a more conciliatory attitude than did his predecessor, President Uribe. The reestablishment of diplomatic relations with Colombia's neighbors and greater levels of regional integration in South America have made it easier for President Santos to implement his international agenda. Evidence-based policymaking features are one of the centerpieces of the presidency of Juan Manuel Santos as well as the input of technocrats and experts on governmental policies. Nevertheless, the institutional capacities of certain ministries and agencies widely diverge.

Similar to the previous administration, the question whether the Colombian executive branch under President Santos has been able to achieve its strategic priorities is debatable. For instance, peace talks with the Revolutionary Armed Forces of Colombia (FARC), the flagship project of President Santos' government, have not been without obstacles. On the one hand, in June 2012 Congress passed a "Judicial Frame for Peace" which provides some important tools for negotiations. The peace process has been supported by important international actors, such as the European Union and the United States. On the other hand, there has been important internal opposition to the peace process. Some sectors of society, such as large landowners,

Implementation
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are wary of the results of the process and question the real commitment of FARC to the process.

In addition, there are considerable obstacles that consistently hinder the thorough implementation of government policies. The presence of guerrillas, paramilitaries and drug traffickers has not been the only obstacle for policy implementation. High levels of corruption are still present in almost every domain of political activity and institution. According to some of President Santos' statements (in December 2012, during the so-called anti-corruption day), his administration has consistently fought against corruption and has shown some progress. Santos stated that "corruption was already there," but that his government has made it more visible in terms of denunciations. However, the effective implementation of policies is still a difficult endeavor.

Santos' policies have a mixed record of success. The reestablishment of diplomatic relations with Venezuela and Ecuador and the start of peace talks with FARC have perhaps been the most important accomplishments of his presidency during the review period. However, the government's response to important regional crises, such as the indigenous protests in the department of Cauca has demonstrated difficulties in implementing policies related to security issues. According to Human Rights Watch, the Colombian government has been ineffective and incoherent in terms of the implementation of policies regarding the protection of displaced women. The organization stated that the "parapolítica" investigations have been successful; the Supreme Court has convicted approximately 50 former congressmen for ties with the paramilitaries. Yet the case in which Iván Velázquez, a former auxiliary Supreme Court magistrate, was forced to resign his post in September 2012 "represents a major loss for Colombia's justice system."

The Santos administration has been more consistent in aligning policymaking with its capacity to implement such policies. Peace negotiations were, for example, preceded by the "Judicial Frame for Peace" and the "Victims' Law," the latter addressing deep-rooted problems of land tenure and displacement, key to finding a long-term solution to the internal conflict. Nevertheless, the Colombian government still lacks the "infrastructural power" to penetrate the entire territory and successfully implement all its policies; material difficulties, as well as the existence of alternative (and sometimes rival) centers of power in regions and localities, complicate the effort.

Political elites try to adjust policies in light of circumstances and changes. Nevertheless, these changes tend to be slowly implemented and ineffective as a result of weak follow-up programs, an often corrupt bureaucracy, financial constraints and the country's general internal conflict. As a result, learning from past experiences is not a predominant trait of the country, in general terms.

However, the Santos' administration has shown more flexibility in terms of governmental policies in contrast to its predecessor. The shift from Uribe's "Democratic Security policy" to peace talks has demonstrated innovation in terms of policy learning. The asymmetry of military power created by former President Uribe enabled President Santos to start the dialogue with the guerrilla groups, and his administration is trying not to make the same mistakes that the Pastrana government made 12 years ago. Santos' pragmatic approach toward Colombia's foreign relations is certainly a progress in terms of policy learning. The inclusion of technocrats and other experts in the executive branch and a more stable ministerial cabinet constitute a new approach.

15 | Resource Efficiency

Despite Santos' efforts regarding the efficient use of administrative personnel, the Colombian government still tends to replace meritocratic criteria with political expediency. Recruiting procedures that are legally transparent and free from external influence are not an outstanding feature of the country at large, as seen for instance in the diplomatic service.

Efficient use of
assets

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As for the efficient use of budget resources, it is clear that Colombia still has a significant amount of debt and maintains a fiscal deficit. There has been some progress on that front, however. The debt burden is manageable due to the country's international credibility in terms of economic leadership, at both the local and regional level. Colombia's highest expenditures are for pension payments (7.7% of GDP), education (2.9% of GDP), and health (2% of GDP). However, there is no circumstantial evidence of major improvements in the use of budget resources. The major concern is that frequently these resources are not invested for the improvement of infrastructure and human livelihood.

For policies and programs to be implemented, there are several efforts that require a minimum of inter-agency cooperation. While some policies have been quite successful, the frequent absence of written or formal rules of procedure, civil servants exceeding their functions and resource mismanagement make the effective coordination of policies a difficult task.

Policy
coordination

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In April 2012, the International Red Cross (ICRC) released its annual report on Colombia. The report registered "an increase of some humanitarian problems affecting civilians as forced displacement, threats, sexual violence, offenses against medical, and damage to civilian property." The increase is due to the lack of presence of governmental institutions that are supposed to work along with organizations like the ICRC. The report praised the government's law of victims and restitution of land, but stated that several agencies do not have access to the entire territory which makes the task of coordination even more difficult. In addition, corruption has long plagued

these governmental agencies, and they are simultaneously regarded as inefficient by the central government.

Corruption is a chronic and prominent characteristic in Colombia, and it persists as a troubling feature of politics that constantly undermines the integrity and the effectiveness of the state.

Anti-corruption
policy
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To confront this situation, the Santos administration has tried to implement laws such as the anti-corruption law. Nevertheless, corruption continues to be a dominant trait as several governmental agencies have been involved in a number of scandals. The measures adopted by the political leadership have not stymied corruption, due to the existence of a culture of tolerance, the absence of adequate and/or effective monitoring mechanisms and structural constraints, including patronage activities and pressure exerted by illegal groups.

During the review period, the Santos government did not have to face as many corruption scandals as did the administration of President Uribe, but several problems have remained, such as the mismanagement in education funds. In July 2011, President Santos signed the anti-corruption law, which includes 135 new policies. One slight exception to a rule of weak integrity mechanisms is found with the defense budget. The Government Defense Anticorruption Index of 2013 puts Colombia in the third category (over six, Category C) indicating moderate corruption risk. The report states that “there are strong controls in the South American countries of Argentina and Colombia.” There has been increasingly robust control over the secret military budget, which explains why Colombia maintains a high score in the area of financial corruption risk control. The report stated that less than 1% of this specific budget is spent on secret items.

16 | Consensus-Building

Colombia’s major political and economic actors generally agree on the consolidation and improvement of liberal democracy as a strategic, long-term goal. The market economy is considered an ideal framework for achieving both economic growth and development goals. However, political parties hold somewhat different notions on both concepts. As a result, there is a sharp division between left-wing, right-wing, and center-leaning parties.

Consensus on goals
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With the exception of the Revolutionary Armed Forces of Colombia (FARC) and paramilitary forces, political actors agree that democratic procedures are the most revered principles of Colombian politics. However, in the case of political parties, there are deep gaps regarding specific issues, especially in terms of social policies such as education and health. In economic terms, the country’s largest economic organizations, most politicians and political parties agree that the law of supply and

demand provides the tools that most efficiently drive the process of economic growth. Nonetheless, there are some contrasts about the use of the market. On the one hand, many think tanks and economic groups believe that the government should allow the market to operate without major state intervention. On the other hand, trade unions and left-leaning organizations claim that neoliberalism plays an important role against the interests of the poor and other excluded population groups. They believe that government should play a more proactive role in providing relief and opportunity to those left behind by the logic of the market.

Illegal actors with the power to disturb the functioning of the state, mainly FARC, hold different views of both democracy and the market economy. The guerrilla group proposes that the government and the present state structure must be overthrown and a “Bolivarian” state should be created instead. Communism would be the ruling framework in Colombia and, consequently, liberal democracy and the market economy would disappear. However, no other major political, economic or social actor in Colombia shares these beliefs.

The most prominent anti-democratic actors in Colombia are illegal armed forces, such as paramilitary and guerrilla groups. Despite the demobilization of some guerrillas and, more importantly, paramilitary combatants, several have since rejoined emerging criminal groups (BACRIM) and/or engage in illegal activities, such as drug-trafficking and criminal violence in urban areas. In December 2012, the National Unit of the Attorney General for Justice and Peace reported the confessions of crimes admitted by former member of paramilitary groups. Ex-paramilitaries confessed to 25,757 homicides and 1,046 massacres. They also confessed to 1,618 cases of illegal recruitment, 3,551 forced disappearances, 11,132 forced displacements, 1,168 extortions, 1,916 kidnappings, 773 cases of torture and 96 cases of sexual violence.

Anti-democratic
actors

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The government has not been able to effectively cope with those who decided to forsake the armed struggle nor with those who still fight in the Revolutionary Armed Forces of Colombia (FARC), in the National Liberation Army (ELN) or other illegal armed groups. As a result, anti-democratic actors still exert considerable leverage in the Colombian political scenario. The income derived from illegal drug trade fuels the internal armed conflict, whereas corruption scandals and the connections between high government officials and paramilitaries demonstrate that the influence of these actors is still strong.

Landowners are also a controversial group. Some can be considered to some extent as anti-democratic actors as they oppose land restitution for displaced people as well as peace talks with the guerillas, their long-time enemies. In addition, former President Uribe and his supporters in some sectors of the military and the political elite are openly against negotiations with FARC.

The country's political leadership has been unable to depolarize structural conflicts, particularly in terms of drug-trafficking and violence. Despite the demobilization process, the reoccurrence of violence through mafia groups and emerging criminal organizations (BACRIM) has led to a substantial rise in urban insecurity. Several cleavages still exist, especially in terms of economic classes, ideological differences and the alarming situation of minorities, such as Afro-Colombians and indigenous communities. These cleavages have been used by the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) as ideological weapons to justify continued armed conflict. Left-leaning political parties and NGOs have traditionally been isolated from politics because established political and economic actors either link them directly to guerrilla groups or claim they have an ideological affinity with them.

Cleavage /
conflict
management
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The conflict management strategy followed by the Santos government has significant differences with the former Uribe government. Putting emphasis on the role of the military is no longer a main strategy. Instead, the government is seeking a peaceful, negotiated solution to the armed conflict. This solution, in contrast to the previous administration, is no longer considered as an "appeasement" of the guerrilla movement by the government, although several members of the economic and political elites differ. Existing cleavages in society have been exploited by legal and illegal actors to deepen the polarization of the country, instead of finding ways to overcome the cleavages.

Civil society participation in Colombia is not a predominant trait of the political and social scenario. Despite the existence of a vibrant range of organizations in many areas, there is a lack of freedom of association, and an active civil society role runs the risk of danger, due to the pressure of illegal armed forces, especially in rural areas where the presence of the state is weak or nonexistent. As is tradition in Colombia, policies are formulated by high-level officials close to the executive, and civil society is generally excluded from this process.

Civil society
participation
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The Santos administration has created a so-called crystal urn mechanism by which citizens may present specific issues affecting their communities. The consideration of the law that aims to protect and consolidate civil society participation (Project 227 of the Senate and 133-134 of the Chamber of Representatives) started in November 2011 in Congress. In April 2012, the law passed through its third debate, and conciliation was approved in both chambers in June 2012. Nevertheless, institutional consultation mechanisms with NGOs, business groups and other civil society actors are scarce. In contrast to former President Uribe, President Santos has shown more tolerance toward NGOs and civil society organizations, but a strong government-civil society nexus has not yet been put in place.

The two main problems to do with greater civil society participation are the regional and sectoral fragmentation of civil society organizations and the fact that resources

are heavily skewed in favor of organizations representing the better-off sectors of society (business organizations, for example) who have a strong influence over government policy – as opposed to organizations representing workers, the poor or disenfranchised sectors of society.

Even though the government has implemented a demobilization, disarmament, and reintegration (DDR) program, the reconciliation between victims and their perpetrators has not been achieved completely. The resurgence of paramilitary activities and the lack of sufficient financial resources aimed at reparation have hindered the reconciliation process. The Law of Victims and Restitution of Land that was passed by Congress in 2011 has not yet demonstrated expected results. Besides economic compensation, the different victims' organizations have asked for a real process of reparation that includes the principles stipulated by the National Commission of Reparation and Reintegration (CNRR).

The 2012 annual report of Amnesty International states that despite the existence of these reconciliation and reparation mechanisms, illegal armed actors “continued to threaten and kill leaders of displaced communities and people who demanded the return of stolen land.” The report gave special emphasis to the fact that there are actors that remain unpunished for crimes of sexual violence in a situation of conflict. Furthermore, the document states that only in 2011, 259,000 people were forced to leave their homes and 305 civilians had been kidnapped or taken as hostages by both guerrilla and other groups of organized crime.

The other forms of victims that are mentioned in the same report are victims of the state. According to Amnesty International, “in 2011, the security forces committed directly at least 38 extrajudicial killings.” Even though the numbers have substantially decreased since the “False Positive” scandal during the Uribe administration, it is not clear how a reconciliation process will proceed in this specific case.

Coping with justice and injustice, reconciliation and reparation has proven to be a difficult task for both society and policymakers in Colombia. Many demobilized combatants are stigmatized, and as a result have few opportunities for reintegration. Whereas the Law of Victims is a necessary step in the process of addressing and satisfying victims' demands, the law passed by Congress was not exempt from criticism, with some referring to it as an “amnesty law.” For instance, when the law was under debate, Congressman Iván Cepeda pointed out that the law had a significant gap in the sense that “although it recognizes the existence of victims of state agents, it does not define their responsibility in these victimizations.”

In the specific case of guerrilla organizations, reconciliation is hindered as a result of distrust from both civil society and several members in the political arena. It is not

clear how the reconciliation process would be between Revolutionary Armed Forces of Colombia (FARC) and civil society, if the peace process were to be successful.

17 | International Cooperation

International actors such as the European Union, the IMF, the U.S. Agency for International Development (USAID), the World Bank, and the Inter-American Development Bank (IADB) actively cooperate with Colombia's government in the pursuit of political and economic reform. According to the official declaration, the Ministry of Foreign Affairs "is the national governmental institution responsible for formulating and guiding its international cooperation policy in the different modalities: bilateral, multilateral, south-south and humanitarian aid."

Effective use of support

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In February 2012, the government presented the 2012 – 2014 National Strategy of International Cooperation. With this strategy, the Santos administration created the Presidential Agency of Colombia's International Cooperation (PACIC), "which will be in charge of the management and execution of the public, private, technical and financial international cooperation." The main international aid providers of Colombia are the United States, Spain and the European Union, which have provided two-thirds of the total aid received by the country over the last decade. The national strategy aims to diversify the country's number of cooperation partners. It also states the necessity to improve south-south cooperation as well as maintain a greater balance in the distribution of these resources.

The most recent PACIC report shows there are 706 cooperation projects in Colombia from the UNHCR, 388 from Spain, 195 from Japan, 187 from the United Nations Children's Fund (UNICEF), 176 from the European Union, and 118 from the IADB, among other states and organizations. This explains why the Colombian government frequently seeks the advice of international institutions and potential donors in both economic and social affairs. The main areas where donor money is distributed are reconciliation and governance; the achievement of Millennium Development Goals; the war on drugs; and the protection of the environment.

In economic terms, Colombia's credibility has grown during the review period. The country remained mostly unaffected by the recent economic crisis in the United States and Europe. The Santos administration has put major efforts into appearing as a reliable economic partner on the international stage. This has been a successful effort and the country as a result has experienced a substantial increase in foreign investment.

Credibility

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Colombia was qualified as a stable country to invest in 2011 and 2012 by Fitch, Standard & Poor's and Moody's. This has provided Colombia with the international image of an investor-friendly country.

However, in political terms, Colombia has struggled to improve its credibility. Due to human rights violations and unstable relations with neighbors, Colombia under the Santos administration has tried to “clean” its international image. The normalization of diplomatic relations and the decrease in the number of “False Positive” cases have enabled Colombia to regain political trust and credibility. This situation, however, is still fragile and the administration cannot afford mistakes. The creation of efficient mechanisms for the protection of human rights remains restricted by financial constraints, and security issues are far from being completely solved.

During the review period, Colombia began to reverse a situation of regional isolation that developed during the previous Uribe administration. The participation of Colombia in regional organizations used to be somewhat sporadic, recalcitrant and often conflictive. The country has shown more cooperation and disposition toward the rest of South America after the reestablishment of diplomatic relations with Venezuela and Ecuador, yet without giving up its close relationship with the United States.

As a result, greater regional cooperation can be observed on the part of the Santos administration. Colombia held the position of Secretary General of the Union of South American Nations (Unasur) from May 2011 to June 2012, which enabled it to regain trust from other members in terms of real political commitment to international organizations and greater levels of compliance with international norms. This went along with an increase in the country’s level of transparency in terms of defense. Colombia has since underwritten several defense initiatives, such as the Social and Entrepreneurial Group of Defense (Grupo Social y Empresarial de la Defensa) in August 2012.

Colombia hosted the Sixth Summit of the Americas in April 2012, which was an effort to show the country’s commitment to multilateral scenarios and regional cooperation. As a result, the country’s previous relative isolation in the region has been reversed during the Santos government. Another important element during the review period was the country’s position as a non-permanent member of the United Nations’ Security Council. However, because of the nature of the issues discussed in this institution, it cannot be fully considered a scenario for cooperation with regional members.

Regional
cooperation
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Strategic Outlook

The country's continued progress toward democracy and a market economy still presents serious challenges. The internal armed conflict plays a major role in Colombian politics, and President Santos needs to tackle several obstacles: a high level of corruption and inequality; and the resurgence of paramilitary and criminal organizations, which have caused a perception of insecurity among the population.

Politically, Santos has faced serious challenges and the implementation of his reform agenda has not always been successful. During the remainder of his term, Santos needs to take on the issues of inequality and the low level of education more prominently. In addition, he will need to overcome the resistance to the implementation of his major social reforms from powerful veto players, many of them allied with his predecessor Uribe, who have turned into the most fervent critics of Santos' policies.

At any rate, Santos' success as president is inextricably linked to the fate of peace talks with FARC guerrillas. Moving things forward will require significant political and social reforms if the country is to do away with the underlying problems that have fueled the conflict. Land reform is one such area. Other reforms would involve targeting issues related to inequality and the drug trade. To a lesser degree, political reforms are also needed. In the medium-term, the challenge is to conclude the peace talks with the means to demobilize armed combatants and diffuse the conflict.

To achieve the implementation of reform policies, such as the Law of Victims and the process of demobilization and reconciliation, a greater level of participation from civil society is necessary. However, significant structural constraints remain and a more effective system of prosecution for corruption is needed.

On the economic front, the Santos administration has to ensure continuity of growth. The country currently profits from a commodities boom, mostly driven by demand from Asia in general and China in particular. However, the government needs to develop policies and strategies to avoid the "Dutch disease" phenomenon, already visible in terms of an overvalued exchange rate and to improve the industrial base of the economy. Investors' trust, though substantially increased in recent years, remains fragile – especially given a volatile external environment still recuperating from the global economic crisis.

There is an urgent need to modulate the emphasis currently given to mineral and oil extraction as engines of economic development, and to promote a more balanced and sustainable development model. Finally, the Colombian government should keep striving for a redefinition of the international anti-narcotics strategy that shifts the burden from producer to consumer countries and puts the emphasis on prevention and social development rather than on criminalization and military confrontation.