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Knowledge Sharing Program

2021/22 KSP Policy Consultation Report

Colombia

Policy Consultation for the Implementation of Colombia's OECD Post-access Commitments

Ministry of Economy and Finance

KDI Korea Development Institute

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Prepared for	The Government of Colombia
In Cooperation with	Office of the Vice President

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2021/22 KSP Policy Consultation Report

Policy Consultation for the Implementation of Colombia's OECD Post-access Commitments

Preface

Knowledge is an essential ingredient in a country's economic growth and social development. Of particular importance is a government's capacity to formulate and implement policies. The global society is focused on implementing the Sustainable Development Goals (SDGs), which promotes knowledge sharing between countries in order to improve their policy capacity and to tackle development issues and enhance global prosperity.

Indeed, knowledge has taken on an ever-greater importance as the world continues to confront countless challenges in the post-Covid-19 era including escalating climate change, global supply chain disruptions, and economic instability. In order to effectively tackle and resolve such global problems, knowledge sharing and capacity building cannot be underestimated.

When it comes to Korea's economic development, knowledge laid the foundation for the unprecedented transformation from a poor agro-based economy into a modern industrialized one with an open and democratic society. Technology transfer from abroad and educational investments helped expand the domestic knowledge stock and made this transformation possible. The Korean government accumulated invaluable practical lessons not found in conventional textbooks through trials and errors in its course of economic development.

Capitalizing on these lessons, Korea's Ministry of Economy and Finance (MOEF) introduced the Knowledge Sharing Program (KSP) in 2004 to share Korea's development experience with the international community through joint research, policy consultations, and capacity-building activities. The program has played a vital role in supporting socio-economic development of partner countries around the world.

Since the program's launch, Korea Development Institute (KDI) has participated in implementing the KSP and has been working with more than eighty foreign countries. KDI, Korea's leading think-tank with an extensive experience in policy research, has provided solutions to the challenges that partner countries face in a variety of fields ranging from industrial development to digital transformation. In the 2021/22 KSP cycle, KDI carried out nineteen policy consultation projects in a variety of areas including digital and green economy.

Among the nineteen 2021/22 KSP projects, one in particular is worth highlighting, which was initiated by Colombia's Office of the Vice President and titled, “Policy Consultation for the Implementation of Colombia' OECD Post-access Commitments.” Based on the Office of the Vice

President’s request, the MOEF and KDI organized a research team consisting of Colombian and Korean experts. The team conducted an in-depth analysis of internal and external policy environments, identified Colombia’s key development challenges, and offered policy recommendations and action plans.

On behalf of KDI, I would like to express my deepest appreciation to the Government of Colombia and the Office of the Vice President for their collaboration in the project. In particular, I would like to extend my profound gratitude to Her Excellency Vice President Francia Márquez and His Excellency Ambassador Juan Carlos Caiza Rosero for their unwavering support and Mr. Jefferson Ladino and Ms. Natalia Silva from National Planning Department and Mr. Manuel González and Mr. Juan Manuel Tellez for their dedicated cooperation and teamwork for the project.

In addition, we would like to express our sincere gratitute and affection to Mr. Juan Miguel Gallego, Deputy Director of Prospective and National Development, Mr. Camilo Rivera, Director of Innovation and Business Developmen, Mr. Edwin Ramírez, Deputy Director of Science, Technology and Innovation and Mr. Andrés Felipe Saavedra, Adviser of Regulatory Policy of the National Planning Department, Marco Antonio Llinás, Advisor of Colombia’s High Council on Foreign Trade of Ministry of Trade, Industry, and Tourism, and María Luisa Saldarriaga, Business Internationalization Leader of Bancoldex for their special affection for the project and continuous effort to validate the result of the project.

The completion of this project would not have been possible without their devotion. I also wish to thank the KSP consultation team—Senior Advisor Dr. Seunghee Han, Principal Investigator Professor Siwook Lee, researchers Professor Jin Sup Jung, Professor Daeseong Jeon and Dr. Jungwook Kim, and local consultants Ms. Manuela Vasquez Ochoa, Mr. Edwin A. Cristancho, Ms. Olga Eugenia Rodríguez, Mr. Kendell Alonso Piñeros Haiek and Ms. Jessika Rey—for producing this report.

This project benefited greatly from many others both inside and outside the Colombian government, including National Planning Department, Ministry of Foreign Affairs, Ministry of Commerce, Industry and Tourism, Colombia’s High Council on Foreign Trade. I would like to extend my sincere thanks to all who have made valuable contributions to a successful completion of the project. I am also grateful to the Center for International Development of KDI, in particular Executive Director Dr. Jungwook Kim, Project Manager Dr. Songchang Hong, and Project Officer

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Mr. Yeongjin Jeon, for their hard work and dedication to the project.

I firmly believe that the KSP will serve as a stepping stone to further elevate mutual learning and economic cooperation between Colombia and Korea, and hope it will contribute to their sustainable development.

Youngsun Koh
Acting President
Korea Development Institute

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2021/22 KSP with Colombia

Yeongjin Jeon (Korea Development Institute)

2021/22 KSP with Colombia

Yeongjin Jeon (Korea Development Institute)

The government of Korea has maintained a strong knowledge-sharing partnership with the government of Colombia through the Knowledge Sharing Program (KSP) of the Korean government since 2010; covering a wide spectrum of the policy area from security information system, social stabilization, industrial investment promotion strategy, competitiveness upgrade, healthcare quality governance, water and sewage treatment, public-private partnership, transportation, and diverse policies on SMEs. With the nationwide importance of the Colombian government on OECD issues after the country's joining the organization in 2020, this year, the project has been conducted under the title of "Policy Consultation for the Implementation of Colombia's OECD Post-access Commitments". The main purpose of the project was to provide the Colombia government with useful and hands-on recommendations they can make use of when making policies and strategies for implementation of Colombia's pot-access commitments for OECD.

After due consideration of the written demand survey forms submitted by the government of Colombia and discussion between KDI and national entities of the government of Colombia, the issues to be solved are condensed to 1) Strengthening Capacity for Trade Policy Analysis and Trade Financing, 2) FDI Attraction and Retention Strategy by Fostering R&D and Innovation in SMEs, 3) Measures to Support Small Businesses and Informal Sectors for COVID-19 Response and Recovery, and 4) Establishment of Participatory Regulatory Reform: Public Consultation and Stakeholder Engagement. The description below gives a brief overview of the 2021/22 KSP with office of the Vice President of the government of Colombia, including its topics, team of researchers and project progress.

Sub-topics	Researchers	Local Consultants
Strengthening Capacity for Trade Policy Analysis and Trade Financing	Siwook Lee (KDI School of Public Policy and Management)	Manuela Vasquez Ochoa (Local Consultant)
FDI Attraction and Retention Strategy by Fostering R&D and Innovation in SMEs	Jin Sup Jung (Chungbuk National University)	Edwin A. Cristancho (Local Consultant) Olga Eugenia Rodríguez (Local Consultant)
Measures to Support Small Businesses and Informal Sectors for COVID-19 Response and Recovery	Daeseong Jeon (Konkuk University)	Kendell Alonso Piñeros Haiek (Local Consultant)
Establishment of Participatory Regulatory Reform: Public Consultation and Stakeholder Engagement	Jungwook Kim (KDI)	Jessika Rey Sepulveda (Local Consultant)
• Senior Advisor: Dr. Seunghee Han (Former Deputy Minister of Economy and Finance) • Project Manager: Dr. Songchang Hong (KDI) • Principal Investigator: Prof. Siwook Lee (KDI School of Public Policy and Management)		

Due to the constraints from the COVID pandemic, both countries launched the project via videoconference on. During this phase, both parties identified the research topics and developed an in-depth understanding thereon.

In May 2022, the Policy Seminar and In-depth Study phase was conducted by KDI and Korean experts visiting Colombia. During the visit, the Korean team visited National Planning Department, Ministry of Science, Technology and Innovation, Ministry of Commerce, Industry and Tourism, Colombian Association of Small and Medium Enterprises (ACOPI), National Association of Entrepreneurs of Colombia (ANDI), Colombia Productive and Bancóldex and received valuable opinions and data on the project.

Both parties gathered again for the Interim Reporting Seminar and Policy Practitioner's Workshop in July, 2022. At the seminar, the researchers from both countries presented the interim results of the research and engaged in discussion for the further development of the study. Also, the Colombian delegation visited institutions and sites of Korea directly related to the project. The institutions and sites include the Global Knowledge Exchange and Development Center, Export-Import Bank of Korea, Incheon Free Economic Zone, Industrial Bank of Korea, Invest Korea, and Office of the Foreign Investment Ombudsman. Also, two seminars were made to help the understanding of the delegation on 1) Utilization of OECD Trade Model and Database and 2) the Role of the Small Enterprise & Market Service as a quasi-government agency affiliated with the Ministry of SMEs & Startups (MSS) of Korea.

After a series of reviews on the final paper by the Korean advisory group, Final Reporting Workshop was held in October 2022 in order to share the final research outcome with the Colombia government.

Despite the difficult circumstances derived from the COVID pandemic, the KSP team of both countries has been committed to minimizing uncertainty and achieving the initial objective of the project by implementing alternatives and conducting online meetings whenever necessary to proceed with the joint research. In particular the 2021/22 KSP with Colombia has greatly strengthened the enhanced knowledge exchanges and policy partnership between the two countries. In this regard, KDI would like to send its deep and sincere appreciation to the cooperation of the Colombian government, especially to Office of the Vice President which is the partner ministry of this project and Department of National Planning, Ministry of Foreign Affairs which are the partner national entities of Colombia, on behalf of the Korean government.

Executive Summary

Siwook Lee (KDI School of Public Policy and Management)

Executive Summary

Siwook Lee (KDI School of Public Policy and Management)

After the Colombian Government officially expressed its interest to join the OECD as a member state, with a lengthy process of accession over the period 2013-18, the Republic of Colombia became the 37th member of the OECD on April 28th of 2020. The objectives of the OECD membership for the Colombian government are multifold; to accelerate socio-economic reforms and policy adjustments, especially in accordance with OECD Members' best practices, to enhance internal political and economic stability, and to improve the overall image of the country in the international community.

As a member state, the Republic of Colombia is now joining into various OECD bodies, including the Council, standing committees, and substantive committees. Compared with other international organizations such as the World Trade Organization (WTO), discussions within the OECD tend to be less formal and legalistic, focusing more on the convergence toward consensus rather than on the negotiation to reach legally-binding agreements. In order to achieve the intended goals for the OECD membership, the Colombian government needs to understand the key activities of the OECD bodies and to utilize these activities proactively as leverage for various internal reforms and advancement.

Based on policy demands from the Colombian government, this 2021-22 Knowledge Sharing Project (KSP hereafter) with the Republic of Colombia aims to examine the following policy areas;

- Capacity building for trade policy analysis and trade financing
- Technological capacity enhancement of SMEs, especially through strengthening the linkage with foreign direct investments
- Support for small businesses and informal sectors to cope with COVID-19 pandemic
- Establishment of participatory regulatory reform

Chapter 1 of this volume focuses on providing useful information and recommendations the Colombian government can make use of when participating in the activities of the OECD Trade Committee and improve trade policy systems to meet the international standards set by the OECD. As proposed by the Colombian Government, this chapter focuses on the following two topics related to the Trade Committee; 1) the best use of the OECD trade models and databases to help evidence-based policymaking and implementations and 2) the provision of officially-supported export credits (OSEC).

To utilize more effectively the OECD Trade models/databases in Colombia's trade policy decision processes, this study suggests the following: 1) improve the domestic awareness of these models/databases, 2) support domestic experts to participate in various seminars held by the OECD or other OECD countries, and 3) designate policy research experts who regularly participate in the Trade Committee and its working parties along with government officials.

In the Republic of Colombia, private commercial banks are important providers of trade finance, mainly through short-term financial instruments. And while there exist several public financial institutions, there are few public institutions devoted to officially supported export credits. Furthermore, the Colombian exports are heavily dependent upon natural resources like fuels, vegetables and minerals, and the share of capital goods are relatively small. Therefore, we can conclude that joining the OECD Arrangement as a participant is not needed yet for the Republic of Colombia.

If the Republic of Colombia decides to offer medium to long-term OSEC in the future, the provision of domestic credits and trade finance should be operated in different agencies, to avoid potential conflict with the WTO rules. In Korea's case, domestic financing programs are managed by the Korean Development Bank, while international financing programs are granted by KEXIM and K-SURE. Finally, given the particularities of financing SMEs, the Colombian government needs to pay a special attention to trade financing support for SMEs. Many ECAs in the world, including Ex-Im Bank of the U.S., EDC of Canada, GIEK of Norway, have special units specialized in helping small and medium-sized exporters.

Chapter 2 presents policy recommendations for the Colombian government of using inward foreign direct investment (IFDI hereafter), to improve competitiveness, especially in small and medium enterprises, SMEs. Based on such analysis, policy recommendations are the following: first of all, in order to increase the IFDI and to improve its quality, the Colombian governments need to adopt a step-by-step strategy, based on sectors and locations conditions and particular purposes. Second, roles of IPAs at the national and subnational level, together with their complementarity, need to be redefined, based on their strengths and objectives, together with efficiency principles. Colombia should consider strengthening international cooperation to improve the capabilities to attract IFDI. It is highly recommendable to benchmark the institutions that are more successful in the IFDI attraction. For example, Korea's PM system and the Ombudsman system could help Colombia to promote investment attraction.

Third, capacity building for small and medium-sized enterprises, SMEs, should allow them to increase investment in Research, Technological Development and Innovation, RD&I, in a two-track strategy: 1) to strengthen the visibility of SMEs in matching the IFDI, and 2) to strengthen the internal competency of SMEs through their own efforts. It is possible to strengthen the capabilities of Colombian SMEs by attracting foreign investment, but there are some limitations in the local SMEs performance. Finally, the cooperation among related agencies is necessary as well, especially these involved in the industrial strategy, the IFDI strategy, and the RD&I capacity building strategy of SMEs. The cooperation among these should be harmonized according to the current situation in Colombia. Continuous evaluation and improvement for sustainable growth, evaluation of implementation and setting new goals through it must be continued.

Chapter 3 of this volume aims to review small business policies under the pandemic situation and to provide the Colombian government with useful recommendations to make small businesses and self-employed people more competitive and maximize their innovative capacity. This chapter starts with explaining the economic impacts of COVID-19 and policy measures, policy programs for MSMEs during the pandemic and special programs for informal sectors and self-employed workers in Colombia. Challenges and lessons derived for Colombia are also discussed. More importantly, by pursuing a comparative analysis between Korea and Colombia regarding policy measures such as financial support for MSMEs and self-employed workers, special programs for the unemployed and those with job security, restructuring support measures, and deregulation programs during the pandemic, this study identifies the following six policy areas to be improved: 1) adopting effective policy measures for the informal sector, 2) supporting E-commerce and digital transformation of micro and small businesses, 3) strengthening policy coordination and implementation capacities for SMEs, 4) establishment of a social safety net for SMEs, 5) promotion of SMEs' participation in governmental public procurement, and 6) providing training and consulting programs to strengthen the capabilities of microbusiness.

Finally, Chapter 4 presents a number of policy programs to promote participatory regulatory reform in the Republic of Colombia, especially focusing on the Korean experiences. The Korean government has various measures to get stakeholders voice and involvement in regulatory reform process. Two systematic measures to have stakeholders' engagement in regulatory reform are suggested: Regulatory Reform Sinmungo and regulatory sandbox system.

The Regulatory Reform Sinmungo (RRS) is “an online petition system through which any person can make a suggestion on a specific regulation.” It is arguably one of the successful approaches to review of the existing regulations. On top of that, Korea is recently trying to extensively utilize the regulatory sandbox in various fields compared to other countries. In particular, the new technology utilization industry is a business area that did not exist before, and the role of the regulatory sandbox is very important to resolve the legal gap and regulatory gap. Therefore, it is necessary to improve the consistency of the regulatory sandbox system to derive results that match the purpose of the system.

This chapter also emphasizes the effective operation of RIA and the Cost-in, Cost-out (CICO hereafter) system. While the CICO is a system for managing the total amount of regulatory costs for business sectors, policy makers may have incentives to reduce the cost burdened by firms in regulatory design, which can lead to bias in regulatory policy. It is also possible to consider the bias caused by the fact that CICO is not operated efficiently and objectively. And the introduction of regulations that do not involve objective and quantitative RIA and cost benefit analysis is a factor that causes bias in regulatory policy design.

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CHAPTER

Strengthening Capacity for Trade Policy Analysis and Trade Financing

Siwook Lee (KDI School of Public Policy and Management)
Manuela Vasquez Ochoa (Local Consultant)

1. Introduction
2. Understanding the Activities of the OECD Trade Committee
3. The Use of the OECD Trade Models/Databases
4. Trade Financing System in Colombia
5. Policy Discussions and Implications

Keywords
Trade in Value Added, Global Value Chains, Service Trade, Export Credit and Guarantee, Export Insurance

Strengthening Capacity for Trade Policy Analysis and Trade Financing

Siwook Lee (KDI School of Public Policy and Management)
Manuela Vasquez Ochoa (Local Consultant)

Summary

This is one project within the 2021/22 KSP with Colombia, and has been conducted under the title of “Strengthening Capacity for Trade Policy Analysis and Trade Financing”. The main purpose of this study was to provide the Colombian government with useful information and recommendations they can make use of when participating in the activities of the OECD’s Trade Committee and improving trade-related systems that meet the international standards set by the OECD. Specifically, this study examines the following two topics; first, the best use of the OECD trade models and databases to help evidence-based policymaking; and second, the provision of officially-supported export credits (OSEC). OSEC are granted by governments through Export Credit Agencies (ECAs) to support national exporters competing abroad. The OECD has set out rules under the ‘Arrangement on Officially Supported Export Credits' (OECD Arrangement) to monitor and regulate medium to long-term export credits granted by Participant countries . Moreover, the Export Credits Group also measures good-governance issues of export credits, such as anti-bribery measures, environmental and social due diligence, and sustainable lending. Under the OECD Arrangement’s definition, export credits are insurance, guarantee or financing arrangements that enable a foreign buyer of exported goods and/or services to defer payment of an export transaction over a period of time. Export credits may take the form of ‘supplier credit’ extended by the exporter, or of a ‘buyer credit’, where the exporter’s bank or other financial institution lends to the buyer (or to its bank) (OECD, 2022).

In this context, we briefly introduce some basics of the OECD’s trade models and databases, provide analytic examples applied to the Colombian case, and pursue a feasibility study for their further applications to the Colombian Case. We find that while the OECD trade databases have already been used in Colombia, mainly by public institutions such as DNP, the Bank of the Republic, and Fedesarrollo, the research scope of the existing studies

is rather limited. They can be utilized in shaping more diverse policy decisions, such as industry-level analysis, export partner analysis, trade liberalization effect analysis, and analysis on the linkage between trade and the environment among many others.

To utilize more effectively the OECD Trade models/databases in Colombia's trade policy decision processes, the following efforts must be undertaken. First, active efforts to improve domestic awareness of these models/databases should be made. In addition, considering that most of the databases are very easily accessible through the OECD website and are highly relevant in terms of policy analysis, it would be desirable to establish a research network for more active and systematic use of them within domestic public institutions, government/private research institutes, and academia. Second, in order to expand the base of research experts using and strengthening their expertise, the government may consider supporting domestic experts to participate in various seminars held by the OECD. In particular, the METRO model has various advantages, but its utilization is still low because it requires a relatively deep understanding and expertise of the model. Third, like the Korean practice, designating policy research experts who regularly participate in the Trade Committee and its working parties would be an effective option. By doing so, Colombia can more actively participate in ongoing discussions on trade policy issues and trade models/databases development within the OECD Trade Committee. It would also help to reflect more effectively Colombia's position in the discussion process, and to disseminate the outcomes of the Trade Committee's discussions in a timelier manner, with governmental agencies and policy research circles.

This study also analyzes the current status of trade financing in Colombia and discuss some foreign practices including the Korean experience. Trade finance refers to the financial instruments and products used by firms when engaging in cross-border trade. While general finance addresses solvency or liquidity issues, trade finance is mainly to remove the payment risk related to the creditworthiness of one of the parties involved, and the country risk related to currency fluctuations, political instability, and so on. Nowadays, around 80-90% of global trade is connected to some type of export financing or credit insurance. This implies that exporters without access to export finance are in a much less favorable position to compete in the global markets.

In the Republic of Colombia, private commercial banks are important providers of trade finance, mainly through short-term financial instruments. And while there exist several public financial institutions, there is few public institutions devoted to officially supported export credits. Our analysis indicates that officially supported export credits in the Republic of Colombia are currently confined to short-term refinancing and loan and there is no export credit insurance system yet. Bancóldex, which is currently participating in the Working Party on Export Credits and Credit Guarantees (ECG) as Colombia's Export Credit Agency (ECA), acts mostly as a second-tier commercial bank. Hence, its export credits are currently confined to short-term refinancing to private financial institutions and direct short-term loans for exporters. Furthermore, the Colombian exports are heavily dependent upon natural resources like fuels, vegetables and minerals, and the share of capital goods are relatively small. Therefore, there is no strong rationale for the Colombian government to introduce medium to long-term export credits through an ECA in a hurry. It should carefully decide whether to introduce mid- to long-term credit after conducting an in-depth analysis on the direction of the government's industrial policy and the demand for mid- to long-term credit from the private sector.

If the Republic of Colombia decides to offer medium to long-term OSEC in the future, domestic credit function and trade finance function should be operated in different agencies, to avoid potential conflict with the WTO rules. In Korea's case, domestic financing programs are managed by the Korean Development Bank, while international financing programs are granted by KEXIM and K-SURE. Each ECA should consider having units specialized in helping small and medium-sized exporters, as Bancóldex currently does. Given the particularities of financing SMEs, many ECAs in the world, including Ex-Im Bank of the U.S., EDC of Canada, and GIEK of Norway, have units specialized in helping small and medium-sized exporters.

Furthermore, certain ECAs in the world, notably Bancomext of Mexico, are involved in medium to long-term OSEC by receiving export credit guarantees or insurance from ECAs abroad. Through these services, they finance local companies that need to import intermediary supplies used to manufacture or develop products or services that will be exported. Colombia might consider the Mexican model in the long-term to promote the growth of heavier industries. Also, in the long run, the country could implement shared schemes of financing for international buyers of Colombian goods and services, in which the Colombian ECA grants guarantees while the buyer's ECA provides financing. This may allow Colombia's ECA to maintain a healthy loan portfolio and mitigate its level of risk.

1. Introduction

After the Colombian Government officially expressed its interest to join the OECD as a member state, with a lengthy process of accession over the period 2013-18, the Republic of Colombia became the 37th member of the OECD on April 28th of 2020. The objectives of the OECD membership for the Colombian government are multifold; to accelerate socio-economic reforms and policy adjustments, especially in accordance with OECD Members' best practices, to enhance internal political and economic stability, and to improve the overall image of the country in the international community.

As a member state, the Republic of Colombia is now joining into various OECD bodies, including the Council, standing committees, and substantive committees. Compared with other international organizations such as the World Trade Organization (WTO), discussions within the OECD tend to be less formal and strict, which focuses more on the convergence toward consensus rather than on the negotiation to reach legally-binding agreements. In order to achieve the intended goals for the OECD membership, the Colombian government needs to understand the key activities of the OECD bodies and to utilize these activities proactively as leverage for various internal reforms and development.

In this respect, the main purpose of this study is to provide the Colombian government with useful information and recommendations it can make use of when participating in the activities of the OECD Trade Committee and improving trade policy systems to meet the international standards set by the OECD. As proposed by the Colombian Government, this chapter focuses on the following two topics related to the Trade Committee. The first is on the best use of the OECD´s trade models and databases to help evidence-based policymaking and implementations. They include TiVA (Trade in Value Added) database, STRI (Service Trade Restrictiveness Index) database, METRO (Modelling Trade at the OECD) Model and Trade Facilitation Indicators database. This study overviews these databases and models, shares Korea's experiences, and explores their potential usage for trade policy analysis in the Republic of Colombia.

The second topic is related to the provision of officially-supported export credits (OSEC). Many governments are providing officially supported export credits through Export Credit Agencies (ECAs hereafter) in support of national exporters competing for overseas sales. There are now more than 110 national ECAs in the world, delivering approximately $215 billion in official export support to domestic firms' exports of goods, services, and investments (EXIM, 2019). The Republic of Colombia does not provide medium to long-term

OSEC as defined by the OECD, while it offers short-term export credits in a limited scope.

In contrast, Colombia is not a participant to the OECD Arrangement on Guidelines for Officially Supported Export Credits (the Arrangement hereafter) but acts as an invited participant. Moreover, the Ministry of Trade, Industry and Tourism along with the Colombian Foreign Trade Promotion Bank (Bancóldex hereafter) are participating in the Working Party on Export Credits and Credit Guarantees (ECG hereafter)[1]. Bancóldex, indeed, is participating as an ECA.

Bancóldex acts mostly as a second-tier bank and thus its export credits are currently confined to short-term refinancing to private financial institutions and short-term loans for exporters to finance working capital. In this study, we examine the current status of trade financing system in Colombia and extract policy implications onward. Specifically, the key policy issue to be addressed is whether the Colombian government needs to introduce medium and long-term officially supported export credits in the near future. It would be greatly linked to the current trade structure and subsequently demand for such credits. In addition, one should also pay attention to the possibility to crowd-out private financial markets without creating additional value-added.

This study is structured as follows. Section 2 describes the overall orientation, function and activities of the OECD Trade Committee and introduces its on-going work programs. In Section 3, we briefly explain the OECD's trade models and databases and pursue a feasibility study for their applications to the Colombian Case. Section 4 starts with a brief overview of trade financing systems. In this Section, we analyze the current status of trade financing in Colombia and discuss some foreign practices. Finally, Section 5 summarizes the key findings of this study and discusses policy implications.

2. Understanding the Activities of the OECD Trade Committee

2.1. Trade Committee: An Overview

The OECD Trade Committee was established in 1961 as one of the OECD's founding policy committees and provides a unique forum for government officials and experts to promote the mutual understanding of trade policy issues. The Committee is conducting various

1 According to EXIM of the United States (2021), National Guarantee Fund (FNG) is another official export credit provider in Colombia.

activities to cross-check trade policies and related regulations of OECD member countries, discuss best practices, and jointly develop various analysis models and related databases that are the basis for evidence-based trade policies.

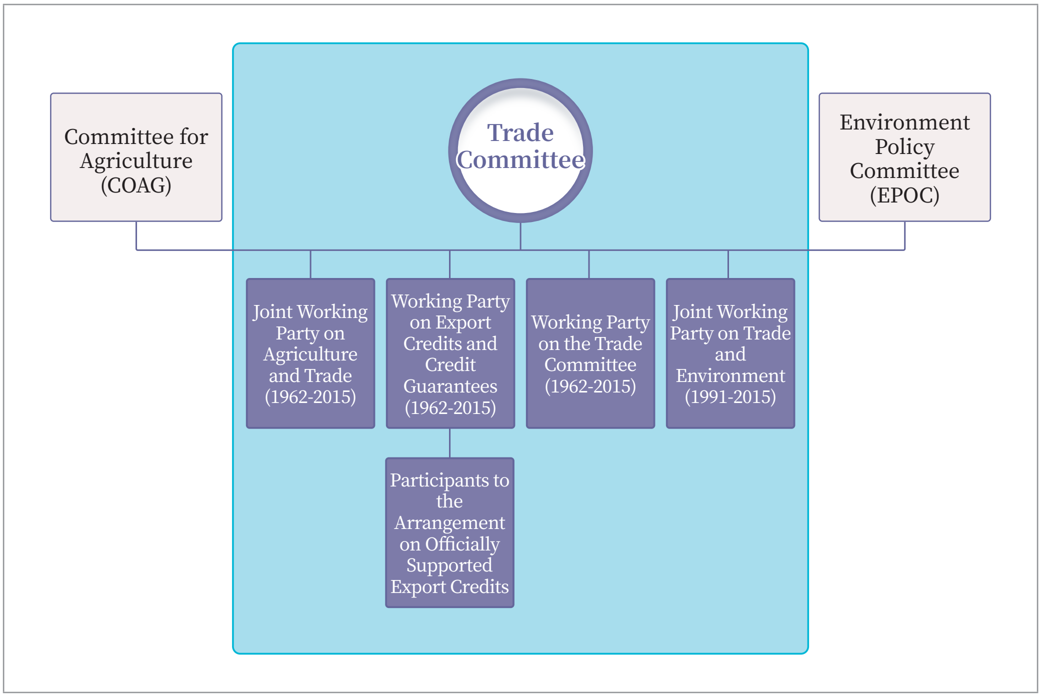
As in other OECD bodies, convergence toward mutual consensus on trade-related policy issues is the primary objective of the Trade Committee. Hence, debates within the Trade Committee are less formal and strict which focuses more on the collective analysis of trade policy issues rather than the negotiation of final agreements. Its views on the evolution of international trade policy are transmitted directly to the member governments and to the annual meeting of the OECD Council at the Ministerial Level.

Committee delegates meet twice each year, while there are 3-4 times meetings for the following working parties:

- Working Party of Trade Committee (WPTC)
- Working Party on Export Credits and Credit Guarantee (ECG)
- Joint Working Parity on Agriculture and Trade
- Joint Working Parity on Trade and Environment

The Working Party of the Trade Committee (WPTC) reviews the agendas presented to the plenary session of the Trade Committee in advance and performs follow-up checks. In the meantime, the Working Party on Export Credits and Credit Guarantees has a mandate that allows it to operate independently from the Trade Committee and to report directly to the Council. The last two joint working parties report not only to the Trade Committee, but, also to the Committee for Agriculture and the Environment Policy Committee.

[Figure 1-1] Organizational Structure of the OECD Trade Committee



Source: OECD (2015).

2.2. Work Programmes of the Trade Committee

The Trade Committee had a strong focus on multilateral trade issues related to WTO negotiations during the 2000s, but since 2009 it has diversified the scope of its key work areas by including newly-emerging issues like trade in value added, global value chains, climate change, e-commerce and the G20 process. According to the Strategic Management Framework set by Council (OECD, 2021), the work of the OECD Trade Committee is one component of the OECD's strategic objective of "framing priorities for the next fifty years," especially in the four work areas; trade liberalization, trade in services, trade and domestic policies, and export credits.

The Trade Committee is supposed to (i) strengthen the analysis of trade issues on existing areas (e.g., measurement of government support to industrial sectors; digital trade, trade and sustainability; and global supply chains), (ii) continue to make efforts to develop further analytic tools for policy-makers (e.g., STRI, TiVA, TFIs, METRO, trade data and analysis); and (iii) explore other emerging issues of key interest to Delegations. The ongoing programs for four work areas are depicted in <Table 1-1>.

Various challenges to the international trade system have recently arisen due to the development of trade protectionism, disruption in GVCs, the outbreak of COVID-19 and the increased digital transformation. Against this backdrop, the Committee's work on trade liberalization aims to better understand current developments in trade and global supply chains and explore implications of different trade policy choices. In particular, the recent focus of the Trade committee is to consider how to make global supply chains more resilient and to take advantage of new digital opportunities.

<Table 1-1> Work Programs of the OECD Trade Committee

	Policy environment	Work Program Areas
Trade Liberalization	COVID-19, digital transformation, disruption in GVCs, trade protectionism	• SMART data and modelling to support trade policy • Enhancing global supply chains for resilience and value creation • Trade facilitation • Trade policy in the digital era
Trade in services	Tertiarization, high cost of trading services	• Measuring the regulatory environment for services trade and identifying priorities for reforms
Trade and domestic policies	Need for fair competition and shared trade gains	• Level playing field (government support, export restrictions, etc.) • Trade and sustainability, Inclusive trade, Trade and gender, Aid for trade
Export credits	Competition with non-members and non-Arrangement programs	• Supporting good governance in export credits • Supporting export credits disciplines

Source: TAD/TC, 5/REV1 (2021).

3. The Use of the OECD Trade Models/Databases

3.1. Introduction to OECD Trade Models/Databases

As a part of its mandate, the Trade Committee has developed and maintained a variety of data and modelling tools to underpin evidence-based policy analysis. All these tools are available through various channels to policymakers and researchers: downloadable reports, direct access to data, visualization tools, policy simulators and online communities. In this subsection, we briefly introduce some of the databases and models to which the Trade Committee is currently paying great attention.

3.1.1. TiVA Database

Over the past several decades the world economy experienced an impressive expansion of global value chains (GVCs hereafter). GVCs help break up the production process across countries. Firms tend to specialize more in a specific task and outsource more from abroad.

Nowadays, GVCs are generally regarded as a decisive factor for not only determining trade and investment patterns for an economy but also for promoting its industrial transformation and sustainable growth. Although the expansion of GVCs is reducing after the global financial crisis in the mid-2000s, GVCs-related trade still accounts for around 60~70% of global trade.

While the production process increasingly involves GVCs and thus becomes complicated, traditional trade statistics expose limitations when explaining this phenomenon. Accordingly, international organizations such as the OECD, the WTO, and the ADB began to develop new analytic tools and dataset focusing on GVC. TiVA (Trade in Valued Added) is a statistical method used to estimate the sources of value added when exporting or importing goods and services, initiated jointly by the OECD and the WTO. The TiVA indicators are derived from the OECD's Inter-Country Input-Output (ICIO) tables. They provide better insights to understand global production network and supply chains compared to conventional trade statistics. The TiVA database covers a total of 45 industries (based on ISIC Revision 4) for 66 countries over the period 1995-2018. The TiVA database includes a variety of information including;

- Value-added composition (i.e., domestic vs foreign) of gross exports and imports
- Value-added content of trade, by source country and industry
- Value-added composition embodied in final demand
- Extent of GVC participation (Backward vs forward)

The TiVA database and ICIO tables are extensively used for various research purposes such as the following;

- Domestic and foreign value-added content of gross exports
- Participation in global value chains (GVCs)
- Services content of gross exports
- Inter-regional and intra-regional relationships
- Impacts of supply and demand shocks (COVID-19, etc)
- Embodied CO2 emissions in trade
- Trade in employment, etc.

Finally, it should be noted that several data sources exist for GVC analysis excluding the OECD TiVA database, as illustrated in <Table 1-2>. The year and country coverage vary across data sources; for instance, the latest version of the TiVA database contains information on 69 countries and 45 industries over the period of 2005-2018, while the UNCTAD-Eora GVC

Database includes a much larger set of countries (a total of 189 countries), but the number of industries is relatively smaller (only 26 industries). Among these data sources, the detailed information on the Republic of Colombia is included in TiVA and UNCATD-Eora databases as an independent entity, but not in the other sources.

<Table 1-2> Alternative Sources for GVC Indicators

	Latest Version	Year Coverage	No. of Countries	No. of Industries	Publishing Institution(s)
World Input Output Database (WIOD)	2016	2000-2014	44	56	University of Groningen/ EU Commission
Trade in Value Added Database (TiVA)	2021	2005-2018	69	45	OECD/WTO
UNCTAD-Eora GVC Database	2018	1990-2015	189	26	UNCTAD
ADB-MRIO Database	2021	2000-2019	63	35	ADB

3.1.2. STRI Database

The global economy has witnessed an unprecedented rapid tertiarization over the past several decades. Such a shift towards services is often understood as a distinctive characteristic of advanced economies, but the service sector in developing countries has also significantly expanded in recent years. Tertiarization is connected with various socio-economic factors, including rising demand for income-elastic services, unbalanced productivity growth between manufacturing and services, the expansion of global value chains and offshoring, ICT development, aging populations, and the increased participation of women in labor markets.

Nowadays, the service sector accounts for 75% of GDP and 80% of total employment in the OECD countries. Moreover, services represent more than half of the value added in gross exports, and over 30% of the value added in exports of manufacturing goods in the global market. Consequently, competitiveness in service sectors is definitely a key determinant of international standards and overall economic wellbeing.

In this context, the OECD has developed and published the Services Trade Restrictiveness Index (STRI hereafter) since 2007 to promote service trade by evaluating the current status of service market regulations in each country and measuring the degree of service trade restrictions. It consists of two components, the regulatory database and indices. First, the OECD maintains a database that evaluates restrictions on service trade for 48 countries across 22 major services sectors by analyzing a total of 16,000 service-related laws and thus providing up-to-date information on regulatory changes that affect trade in services.

Given the qualitative information in the database, composite indices quantify the identified restrictions across a total of five policy areas; restrictions on foreign market entry, restrictions on the movement of people, other discriminatory measures, barriers to competition, and regulatory Transparency. For each area, it takes values between 0 and 1, where 1 indicates the most restrictive environment. The STRI is generally used to scope out reform options, benchmark them relative to global best practices, and assess their likely effects. It helps trade negotiators to clarify restrictions that most impede trade. In addition, it also helps businesses to shed light on the requirements that traders must comply with when entering foreign markets.

Recently, to respond to rapid digital transformation and its substantial implications for services trade, the OECD added the so-called “Digital Services Trade Restrictiveness Index (Digital STRI hereafter)”. This index is a new indicator that identifies cross-cutting barriers that affect digitally-traded services. Over the past years, the digital STRI reveals an increasingly tightening regulatory environment for digital services trade, which implies that more effective and close cooperation across member states is needed to benefit from on-going digitalization (Ferencz, 2019). On top of that, the Trade Committee has continued working on expanding the sector coverage of the STRI database, such as environmental services and the green STRI.

3.1.3. METRO Model

In 2015, the OECD launched the METRO (Modelling Trade at the OECD), which is a global Computable General Equilibrium (CGE) model that simulate data to explore the economic impacts of changes in policy, macroeconomic environments or other factors (OECD, 2018). A CGE model combines economic theory with real economic data in order to identify the technical impacts of policies or economic factors. It consists of a large number of equations describing model variables and a very detailed database in line with these model equations.

The METRO model builds on the GTAP (Global Trade Analysis Project) database and comprises 61 economies across 57 economic sectors. It helps analysts to figure out how a specific factor affects prices, production and employment by sector and across countries. One of the obvious advantages of the METRO over other related CGE models is that it incorporates OECD statistical sources, notably the Trade in Value-Added (TiVA) database and the Services Trade Restrictiveness Index (STRI). Due to its complex structure, graphical user interfaces (GUIs) were developed to help navigate the necessary tasks and decisions required to set up, run, and analyze a model simulation.

The METRO model has been used for a number of recent analytical reports and the following items are some examples of the research topics that the model can utilize.

- The impacts of FTA on economic growth and employment
- The impacts of BREXIT on trade with neighboring countries
- The trade impacts of the COVID pandemic
- The role of trade and international mobility of labor in economic recovery
- The assessment of resilience in global value chains

3.2. Analytic Examples: The Colombian Case

In this Section, we present several analytic examples of the OECD databases for the Colombian case.

3.2.1. TiVA Database

As aforementioned, GVC participation is often regarded as a decisive factor for shaping trade structure and promoting sustainable economic growth. The extent of GVC participation for an economy is defined as the share of GVC-related exports in the total exports. This can be further divided into forward participation and backward participation;

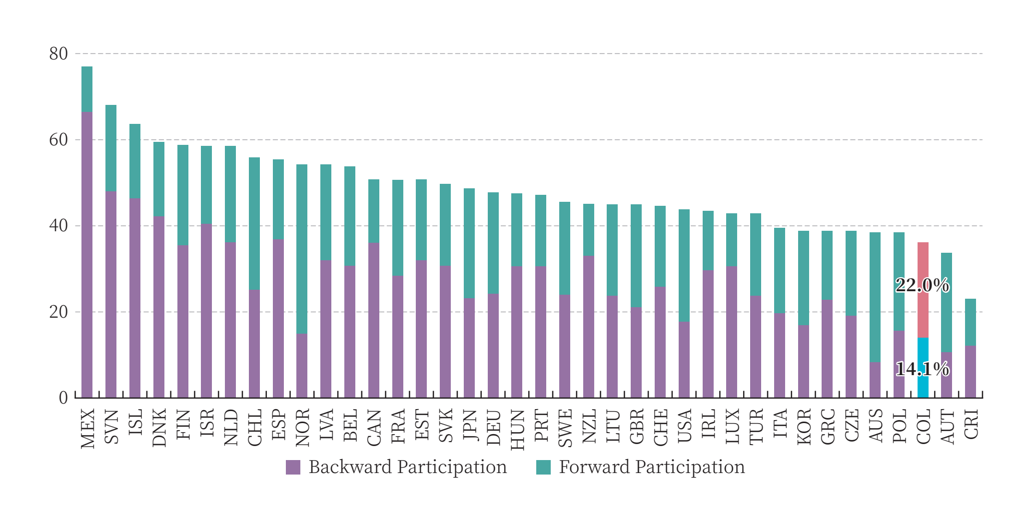
- forward GVC participation: a country exports domestically-produced inputs to trade partners and then these inputs are embodied in the exports of those trade partners (export channel)
- backward GVC participation: a country imports foreign intermediates to produce its exports (import channel)

In general, a country's sectoral specialization tends to determine the degree of backward and forward GVC involvement. Backward integration is relatively lower for countries that have exports concentrated on primary commodities. On the other hand, countries that have a comparative advantage in advanced manufacturing and services tend to be more dependent on imported inputs for exports and thus show active backward GVC involvement.

In [Figure 1-2], the extents of GVC participation for the OECD members as of 2018 are depicted. Among 38 OECD countries, Mexico contains the highest degree of GVC participation, followed by Slovenia, Israel, and Denmark. Meanwhile, the share of GVC-related exports for the Republic of Colombia as of 2018 was around 36.1% , one of the lowest among the OECD countries. While Colombia's forward GVC participation is relatively high, its backward participation is low. As Winker *et al.* (2021) suggests, Colombia's low backward participation stems from its concentration in commodity exports.

[Figure 1-2] Global Value Chain Participation (2018)

(Unit: %)



Note: Backward participation refers to foreign value-added share of gross exports.
Forward participation means domestic value added in foreign exports as % of gross exports.
Source: OECD TiVA Database (2022).

The recent empirical studies show the significant role of backward GVC participation for labor productivity growth, especially in manufacturing. Notably, the increased access to the available variety of foreign intermediate goods may improve overall production efficiency through cost savings, access to better quality inputs and technological knowledge spillovers.

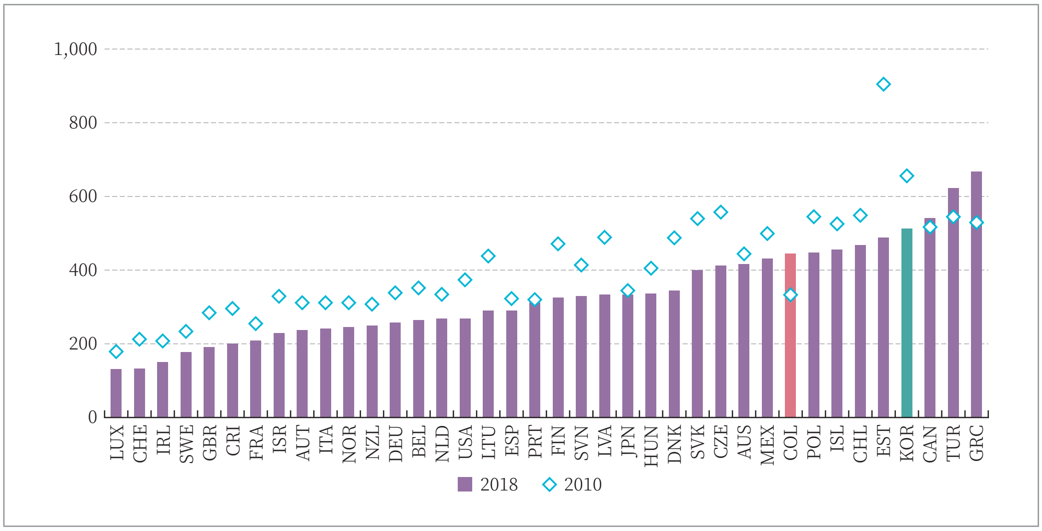
Therefore, the Colombian Government needs to investigate the key constraints for low backward GVC participation and identify the relevant policy options to structurally upgrade the export structure through backward GVC participation. In this respect, the OECD TiVA database is a very useful analytic tool to help understand this issue and formulate evidence-based policy priorities.

3.2.2. Intensity of CO2 Emissions Embodied in Exports

Another analytic example for applying an OECD database to policy analysis is for the export of carbon dioxide emissions. To estimate the demand-based carbon dioxide emissions and their embodiment in exports, the OECD ICIO database can be used by combining with statistics on CO2 emissions from fuel combustion and other industry statistics.

[Figure 1-3] Intensity of CO2 Emissions Embodied in Exports

(Unit: Tons of CO2 per million USD)



Note: The intensity is measured as tons of CO2 per Million USD. The emissions can come from any domestic or foreign industry upstream in the production chain.

Source: OECD TiVA Database (2022).

In fact, the OECD provides a set of indicators to reveal patterns of CO2 demand compared to CO2 production. These indicators include:

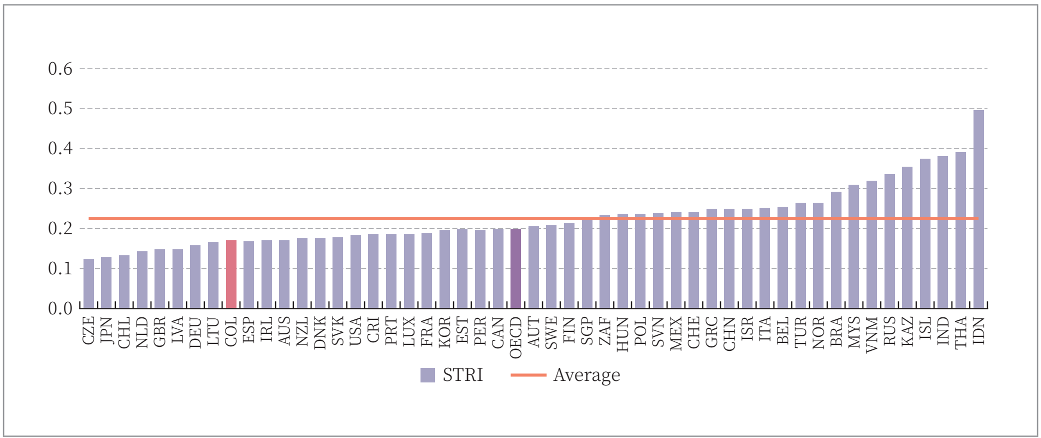
- CO2 emissions based on production
- CO2 emissions embodied in domestic final demand
- Net exports of CO2 emissions
- Per capita emissions; production and demand-based
- Country origin of emissions in final demand

3.2.3. Trade in Services

The STRI can be used to promote trade in services as well as develop the overall service sector for the Republic of Colombia. In fact, the STRI has several advantages, including its wide range of coverage, detailed information in the regulatory database, and direct comparability between countries and service sectors. In light of its characteristics, the STRI database is expected to serve as a key reference in the WTO's negotiations on Multi-State Service Agreement (TiSA). Therefore, the Colombian government should provide a deeper understanding of the STRI database, a systematic review of the contents of the database, and ways to improve the index in favor of Colombia.

Colombia has a large services market with considerable potential for growth including energy, environmental, financial and information technology services. According to the recent assessment by OECD (2022), Colombia has relatively a favorable regulatory environment for trade in services (see Figure 1-4).

[Figure 1-4] Average STRI Across Countries (2021)

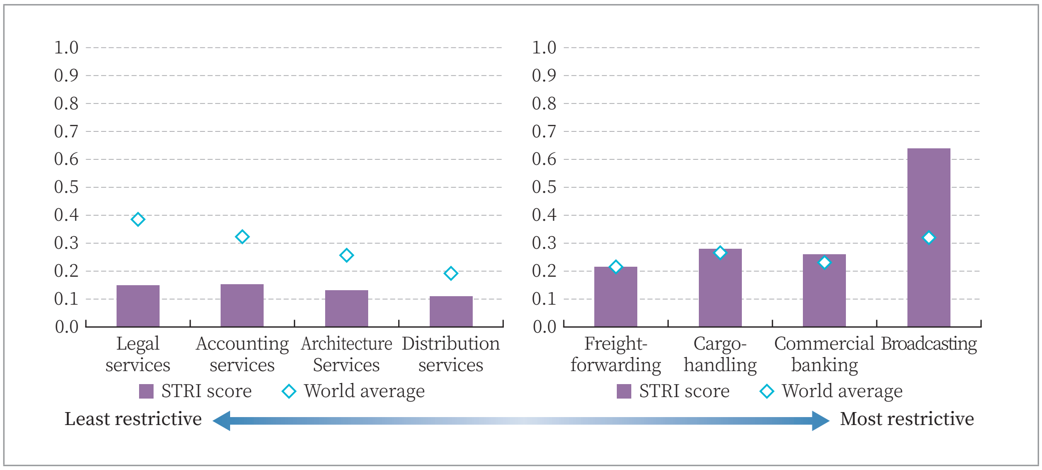


Source: OECD (2022).

As depicted in [Figure 1-5], the Republic of Colombia has quite a low level of restrictive regulations in knowledge-intensive professional services including legal services, accounting services, and architecture services. In these sectors, the Republic of Colombia ranks at top 7th and 8th among 38 OECD member countries in terms of the STRI measurement. Meanwhile, restrictions remain within the logistical, financial, and broadcasting services.

[Figure 1-5] The Least and Most Restricted Sectors in Colombia (2021)

(Unit: Score)



Source: OECD (2022).

3.3. Current Status: The Colombian Case

3.3.1. The Usage of the OECD's Trade Databases/Models

A. TiVA Database

In Colombia, a few studies have relied on the Trade in Value Added (TiVa) database, while there exist some analyses on Colombia's GVC involvement by using alternative data sources to TiVA. For instance, Torres & Gilles (2012) examined the industrial traditional and non-traditional exports to examine the technological advancement and effectiveness. Their results indicated that the characterization of Colombian exports is based on primary goods and extractive products (oil and coal), placing the country only in the early stages of Global Value Chains.

The National Planning Department (Hernández, 2015) employs input-output tables published by the National Bureau of Statistics (DANE) and the methodology of Hummel, Ishii and Yi (2001), to measure Colombia's vertical specialization of exports in 2005-2010. The study finds that the foreign value added of Colombia's exports is around 10%. Moreover, it also finds that the increase in commodity prices and the global recession led to a decrease in the country's vertical specialization.

On the other hand, the Bank of the Republic (2016) investigates Colombia's integration into Global Value Chains by using OECD databases, including the TiVA. The analytic results indicate that, while there has been progress in terms of value-added exports over a 20-year period (1995-2011), Colombia is not yet properly utilizing its comparative advantages to join GVCs. Exports are concentrated on primary products and finished goods, commercialized mostly with neighboring countries. This study also highlights tariff and non-tariff barriers as factors preventing the country's efficient integration in value chains, which increase the costs of the supplies needed to manufacture final goods within the country.

Using data from the World Bank and the TiVA database, Fedesarrollo (2017) also shows that less than 8% of Colombian exports in 2011 contained foreign value, which is well below the levels of Chile and Mexico. The data also shows that even though Colombia had low levels of value added on its exports for the 20-year reviewed period, it had a high level of forward integration in value chains. Additionally, this study used the database to calculate the national and foreign value added of services in Colombian exports and manufactures. Local services in exports showed low levels of value-added services from foreign countries which was even lower in Colombian exports.

More recently, Winker *et al.* (2021), used data from the TiVA database to identify opportunities and challenges for Colombia's upgrade in GVCs. Some of the findings include that Colombia's backward participation in GVCs is still low (but strongly increasing in manufacturing levels) and has not significantly contributed to domestic value added. This note was part of the publications made within Colombia's Internationalization Mission. The Mission is a national government initiative launched in 2020 to generate economic growth by strengthening Colombia's integration with the world.

B. STRI Database

ALADI (2019) published a report on international trade in knowledge-based services in ALADI member countries.[2] In this study, the STRI index was used to analyze the degree of openness of the countries. According to the report, Brazil and Mexico are the economies with the most restrictions to trade in services. Colombia is in an intermediate position, while Chile is the country with the fewest restrictions. The study highlights that in Colombia, audiovisual and computer services are among the ones with the highest restrictions to international trade.

In Colombia, services have a large share in the generation of jobs and income.

2 ALADI (Asociación Latinoamericana de Integración) was established in 1981 as a regional organization, replacing the Latin American Free Trade Association. It aims at promoting the balanced socio-economic development of the region and the gradual and progressive establishment of a Latin-American single market. Currently it contains 13member countries and Colombia is participating in it since its establishment.

However, they still represent only 14% of the country's international trade. Nevertheless, trade in services is growing faster than that of goods. The growth of Colombian services exports is a critical factor for the internationalization of the economy, as proposed by the Internationalization Mission of Colombia. The mission, as explained below, was launched in 2020 to identify opportunities to adapt and adopt the necessary measures to strengthen Colombia's productive apparatus and export strategy.

Within the analysis carried out by the Mission, the STRI index was also used on several occasions, which provided important information. For example, Colombia is less restrictive in the imports of services in 16 out of 22 sectors, compared to other OECD nations. However, the sectors with the most restrictions (STRI scores) are sectors that would improve the competitiveness of Colombian exports: logistics, freight forwarding and cargo handling (Duque, Rodriguez, & Zuluaga, 2021).

Moreover, STRI was used in conjunction with 7 different indices, from which 47 variables were studied and grouped into 5 categories including: the digital infrastructure, human capital, regulatory framework, local competition, and digitization of companies. Additionally, it compared Colombia with the world and Latin America's best and averages. The analysis used a conjunction of objective and perception variables that are commonly used to address public policy issues. Therefore, a more exhaustive investigation must complement this analysis.

C. Metro Model

According to Fedesarrollo (2017), the National Planning Department (DNP) began to use computable general equilibrium models (CGE models hereafter) to measure the impact of public policies in 1980. Since then, they have been applied in different studies in Colombia (Lora, 1989; Lora and Herrera, 1994; Bussolo and Correa, 1998; Corredor and Pardo; 2008; Argüello, 2011; and Céspedes, 2011, among others). Fedesarrollo, the National Planning Department, and the Bank of the Republic are the leading entities using these models. It is worth mentioning that in Colombia, trade policy decisions are assessed by the High Council of Foreign Trade, which is the Ministry of Trade, Industry and Tourism advisory body to the National Government in all aspects related to foreign trade. However, despite overseeing trade policy decisions, it doesn't use any CGE models to assess the potential trade policies.

Fedesarrollo often uses two GCE models for analyzing policy impacts. The first one is based on a Social Accounting Matrix (SAM) constructed with the supply and utilization of data from the National Bureau of Statistics (DANE), which includes 23 economic sectors. The structure of the second model comes from the methodology of Bussolo and Correa (1998). In this case, this model explicitly considers informality, by differentiating between formal and informal activities. The economy is assumed to consist of 23 formal and 13 informal sectors. Both models are static in nature.

The National Planning Department employs several CGE models, depending on research purposes. One of them is the MACEPES model, designed by Cicowiez and Sanchez (2009) for ECLAC. It disaggregates the finances of the government and public institutions that provide social security services, whose revenues come from the private sector.

The Bank of the Republic has a model designed by Velasco and Cárdenas (2015). They use this model to understand the impacts on the economy, GDP forecasts, private consumption, and investment. This has a simpler structure than those mentioned above. It does not consider linkages between sectors, but only considers markets for an aggregate good. The Bank of the Republic also uses Dynamic-stochastic general equilibrium models (DSGE), as the PATACON (Policy Analysis Tool Adapted to Colombian Needs). However, it does not model the sectoral linkages, which are the basis of the CGE models.

Hernández (2014) also uses several CGE models to assess the potential impact of the FTA between the United States and Colombia. This study concludes that the benefits of an FTA with the United States, at the level of an increase in GDP growth or welfare, were going to be marginal. This is since Colombia already had tariff preferences under the Andean Trade Preference Act (ATPA). For this reason, the new products to enter the U.S. market with a zero tariff were not going be more than the existing ones at the time.

More recently, as part of the Internationalization Mission, the National Planning Department (2021) examined trade policy options in Colombia. It simulates various scenarios, including two possible trade reforms, two free trade agreements with Asian economies, a scenario of Colombia's participation in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP); and a scenario in which Australia, Canada, New Zealand and Singapore are integrated in the Pacific Alliance and Colombia strengthens its tariff reduction commitments.

To conclude, even though GCE models are being used by different institutions, there is no evidence of the usage of the OECD METRO model applied to the Colombian case.

3.3.2. Domestic Institutions Capable of Trade Policy Analysis

The National Planning Department leads the efforts in trade policy analysis. Nevertheless, as detailed previously, the Bank of the Republic and Fedesarrollo also have the capacity for implementing the OECD databases for their analysis and publications. The Ministry of Trade, Industry and Tourism, also has an office of economic studies where capacity could be built to use these models and databases. Furthermore, academic institutions also have the institutional capacity for being trained in these databases and potentially serve as trainers of future government employees, to guarantee a sustainable use and application.

Moreover, given that the Service Trade Restrictiveness Index (STRI) can also help businesses to understand the requirements they must comply when entering foreign markets, Trade Promotion Organizations and Chambers of Commerce should also familiarize themselves with the database.

A. Ministry of Trade, Industry and Tourism

As explained earlier, Colombia's trade policy decisions are assessed by the High Council on Foreign Trade. The Council is advised by two committees led by the Ministry of Trade which are Industry and Tourism and could greatly benefit from the OECD trade models and databases including the Committee on Customs, Tariffs and Foreign Trade Matters, and the Business Practices Sub-direction. While representatives from both committees should be trained to understand the databases, a more technical capacity could be built in the ministry's office of economic studies to support decisions taken by the Ministry and its committees.

Additionally, the Ministry, through the Advisors to Colombia's High Council on Foreign Trade and representatives from its Office to the WTO in Geneva, attends the Working Party of the Trade Committee. These representatives would also benefit from understanding these databases and models.

B. National Planning Department

The National Planning Department (DNP) is the National Government's agency that coordinates, articulates, and supports the country's short, medium, and long-term planning. It guides the public policy cycle and the prioritization of investment resources. Its Sub-directions are:

- National Foresight and Development
- Investments, Monitoring, and Evaluation

- General Royalties System
- Decentralization and Territorial Development

Under the sub-directions of Investments, Monitoring, and Evaluation is the Direction of Economic Studies. It directs and guides the actions required to fulfill the DNP's functions in the macroeconomic, financial, monetary, foreign exchange and fiscal areas.

In coordination with the Ministry of Finance, it prepares macroeconomic policy recommendations, participates in the discussions of the International Monetary Fund's Adjustment Programs and prepares Colombia's Medium-term Fiscal Framework. The actual Director is Gabriel Piraquive. In this direction are the people trained in the use of Computable General Equilibrium Models. However, in certain cases, external researchers are hired to carry out studies.

C. Bank of the Republic

Given its role as Colombia's Central Bank, it is in charge of assessing and implementing monetary, foreign exchange intervention, and credit policy. Besides, it also has the function to promote scientific, social and cultural development; manage international reserves; issue legal tenders; serve as government banker, fiscal agent and trustee; and act as banker of banks. Although the Bank of the Republic is not directly responsible for trade policy analysis, some of the OECD's trade databases and models, notably the METRO model, would help it to effectively investigate trade-induced macro-economic impacts.

D. Fedesarrollo

Fedesarrollo is a private non-profit organization established in 1970, dedicated to research on economic and social policy issues. In addition to designing, monitoring and improving public policies, Fedesarrollo also promotes the country's economic development through its studies and publications in different areas. The studies are financed by the private sector, the public sector, multilateral entities, and local and international foundations. The entity strives to maintain a balance between its funding sources in order to preserve its independence and credibility.

Fedesarrollo ranked number 1 (for a second consecutive year) among think tanks in Latin America and the Caribbean in 2021, according to the index published by the University of Pennsylvania.

E. Academic Institutions

- Among leading academic institutions in Colombia are the Andes University (Bogotá), the National University of Colombia(Bogotá), Javeriana University(Bogotá), Rosario University (Bogotá), EAFIT (Medellín), ICESI (Cali) and Universidad del Norte (Barranquilla).

F. Other Institutions

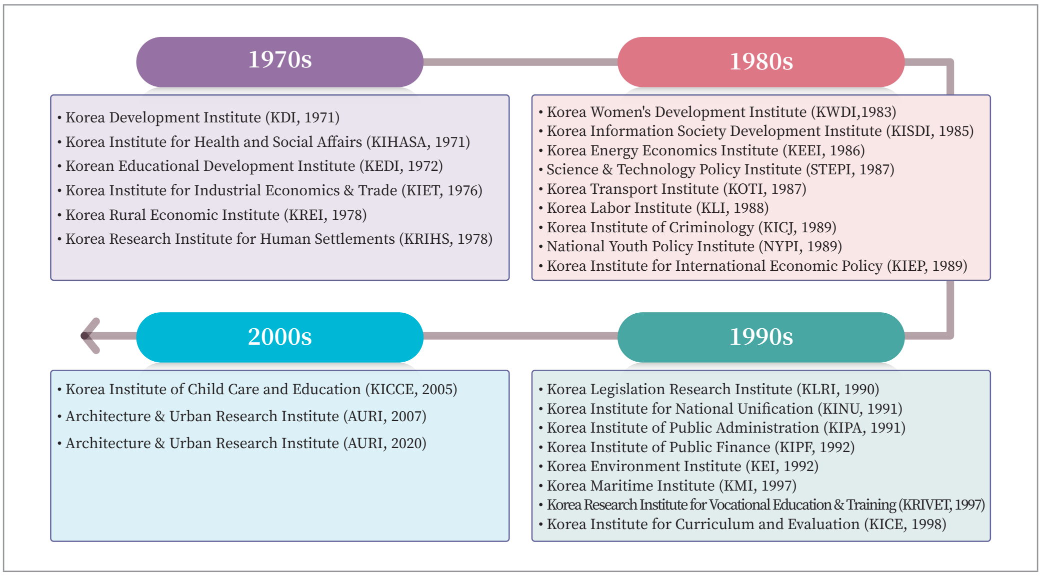
- PROCOLOMBIA: Trade promotion organization is in charge of promoting international tourism, foreign investment, and non-traditional exports in Colombia. Among many of its roles, it helps businesses to identify market opportunities; design market-entry strategies; promote investment, networking and matchmaking activities for entrepreneurs, buyers and investors; offer services to foreign firms interested in investing or buying from Colombia; make alliances with national and global public and private entities.
- Colombia Productiva: Entity created by the Ministry of Trade, Industry, and Tourism to promote productivity and competitiveness among Colombia's industries. Among the services offered are technical assistance, intervention, and support for companies to adopt international production improvement methodologies, specialized training programs, guidance and financing to obtain international certifications, among others.

3.4. Korean Experience

Given the importance of foreign trade in the overall economy, Korea has been actively participating in various activities of the OECD Trade Committee since it joined the OECD in 1996. As aforementioned, the Trade Committee had strong focus on multilateral trade issues related to WTO negotiations during the 2000s, but since 2009 its focus has diverted towards newly-emerging issues such as trade in value added, global value chains, trade in services, trade facilitation, climate change, e-commerce and the G20 process. While legally-binding trade negotiations have been conducted mainly within the WTO system and under Regional Trade Arrangements, discussions and outcomes from the OECD Trade Committee have contributed to stimulating trade policy research and thus pursuing evidence-based policymaking on various trade issues in Korea.

Among the aforementioned trade models and databases, TiVA and STRI databases are extensively used in policy research, especially by public research institutes. One distinctive feature of Korea in the area of policy analysis is that it has an extensive network of government-sponsored research institutes. As presented in [Figure 1-6], there exists a wide variety of public research institutes specialized in each policy field – such as macro-economy management, foreign trade, energy, agriculture, transport, education, health, environment, and regional development among many others in Korea. These institutes, the most notable example being the Korean Development Institute (KDI hereafter), have conducted quantitative and qualitative research analysis necessary for evidence-based policy decisions since the early stages of Korea's economic development.

[Figure 1-6] Korea's Network of Public Think-tanks



Note: The year of establishment in parenthesis.
Source: National Research Council (2021).

These government-sponsored research institutes are the main users of various OECD databases in policy research. At the same time, under the auspice of the Korean government, they are actively participating in diverse activities within the OECD Committees. For instance, Ph.D.-level economists from KIET (Korea Institute for Industrial Economics & Trade), along with public officials, are currently attending the Working Party of the Trade Committee on a regular basis and thus follow up ongoing discussion issues including database and model development, make comments on them, write a report for each, and circulate it to relevant ministries and public agencies.

Among the aforementioned trade models and databases, TiVA and STRI are extensively used for policy research in Korea. In <Table 1-3>, we report some examples of analytic studies using the TiVA database.

<Table 1-3> Policy Research Using the OECD TiVA Database: Some Examples

Institution/Author(s)	Title	Year of Publication
Korea Development Institute (KDI)	Korea's Industrial & Trade Policies through the Lens of Global Value Chain	2014
Korea Institute for International Economic Policy (KIEP)	Strategies for Korean Small and Medium Enterprises' Participation in Global Value Chains and Policy Implications	2016
	An Analysis of RCEP Value Chains and Policy Implications	2017
	Tertiarization of the Economy and its Trade Policy Implications	2020
Korea Research Institute for Human Settlements (KRIHS)	GVC Analysis using OECD TiVA Database: The Case of Korean Electronics Industry	2019
Jung and Cho	An Analysis on the Characteristics of Global Automotive Production Network Using the OECD Trade in Value Added Data	2016
Shin and Lee	Effects of Economic Integration on Trade in Value Added (TiVA)	2018
Lee	A Study on the Export Competitiveness of Chinese electronics industry: Using Value Added Trade Data	2022

Source: Authors' construction.

For instance, using the TiVA database, KDI (2014) confirms that Korea's active GVC participation over the period of 1995-2011 significantly contributed to economic growth, especially through specialization in core value chains and better access to a variety of foreign intermediates. It also shows that GVC participation also led to an increase in the domestic demand for high-skill labor relative to middle and low-skilled labor in Korea. It proposes a couple of policy actions for improving the competitiveness of domestically-produced inputs, strengthening analytic capacity and informational provision for foreign markets, and enhancing the capacity of domestic workers. KEIT (2016) investigates the strategic implications of supporting the participation of Korean SMEs in GVCs. It emphasizes the importance of the industrial linkage between Korean MNEs and SMEs to stimulate SMEs' GVC participation.

As shown in the table, the TiVA database is also used for analyzing the linkage between economic integration and GVC participation. For instance, KIEP (2017) conducts GVC analysis for the Regional Comprehensive Economic Partnership (RCEP hereafter) to understand the structure of intra-regional production networking among member parties.[3] In addition,

3 Signed in 2020, RCEP is a free trade agreement among the Asia-Pacific nations and it has 15 member countries including ASEAN member states, Australia, China, India, Japan, South Korea and New Zealand. It accounts for around 30% of the world's GDP as well as of global population, making it the largest trade bloc in history.

there are a variety of sectoral and national analyses based on TiVA database, such as KRIHS (2019, electronics), Jung and Cho (2016, automobiles) and Lee (2022, Chinese electronics).

Since its early stage of economic development, the Korean government has maintained a manufacturing-oriented growth strategy and thus tried to divert most of resources and policy efforts towards the manufacturing sector. Consequently, the Korean service sector remains relatively undeveloped with excessive regulation and low productivity levels. The Korean government has been implementing policy efforts to improve the service industry since the early 2000s with various initiatives, considering the growing importance of services as final and intermediate demand for the overall economy. In this context, the STRI database, in conjunction with the OECD indicators of Product Market Regulation (PMR hereafter), is frequently used in Korea to evaluate the current status of regulatory regime and reform progress, especially through cross-country comparison. For reference, <Table 1-4> presents some examples of policy studies employing the STRI database.

<Table 1-4> Policy Research Using STRI Database: Some Examples

Institution/Author(s)	Title	Year of Publication
Korea Institute for Industrial Economics & Trade (KIET)	Sectoral Analysis of OECD STRIs and its Implications	2016
Korea Information Society Development Institute (KISDI)	Analysis of OECD STRIs and its Implications to Trade/ Investment Liberalization: The Case of Telecommunication Services	2012
	Understanding OECD STRI and its policy implications	2014
Korea Institute for International Economic Policy (KIEP)	Regulatory Restrictiveness in Service Sector and its impact on FDI	2016
Korea Finance Institute (KIF)	Analysis on Openness of the Chinese Banking Sector	2019
Choi	On the Efficiency of Market Regulation in the Air Transport Industry - Using Services Trade Restrictiveness Index	2018
Kim and Choi	Financial Services Trade Determinants Analysis and Implications: Focusing on the Chinese Financial Opening	2021
Choi and Bang	Determinants of Trade in Services of Korea, China and Japan	2019

Finally, while there are quite an extensive body of studies using CGE models, there is little evidence yet that the OECD METRO model is actively used for policy research in Korea. The existing studies largely focused on evaluating the potential economic effects of free trade agreements by employing the GTAP (Global Trade Analysis Project) data provided by Purdue University.

As aforementioned, the METRO model itself also builds on the GTAP database, but incorporates additional statistical sources, including the TiVA and STRI databases. It has a great advantage in analyzing the effects of trade policies related to GVCs, trade in service trade, as well as environmental issues. The METRO model is a relatively recently developed model (only since 2015), and is expected to be used more extensively in the near future considering various advantages of the model. In recent years, some experts from public think tanks, for instance the Korea Rural Economic Institute (KREI), attended the training workshop for the METRO model offered by the OECD in Paris.

4. Trade Financing System in Colombia

4.1. Trade Financing: Some Basics

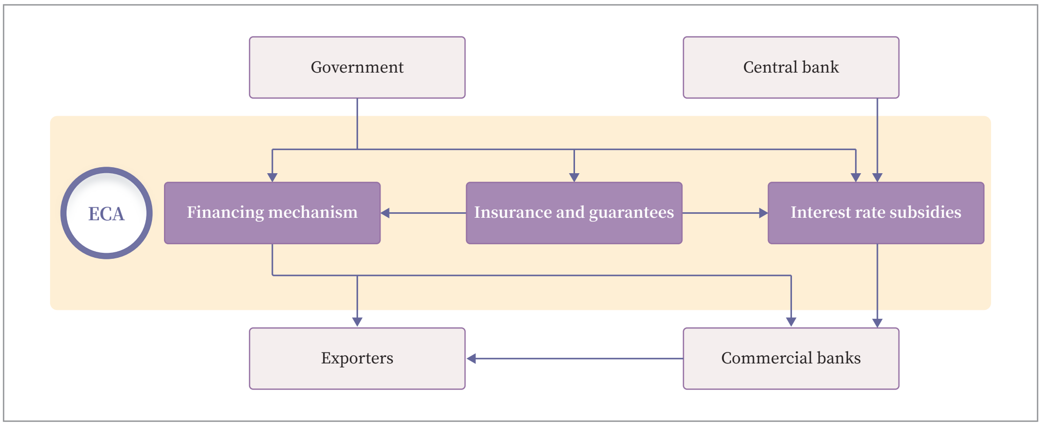
Trade finance refers to the financial instruments and products used by firms when engaging in cross-border trade. While general finance addresses solvency or liquidity issues, trade finance is mainly for removing payment risk related to the creditworthiness of one of the parties involved and country risks due to currency fluctuations, political instability, and so on. There are several different types of financial products used in trade finance, comprising letters of credit, direct loans, export credit, credit guarantees and insurance, factoring, etc.

Nowadays, around 80-90% of global trade is connected to some type of export financing or credit insurance. This implies that exporters without access to export finance are in a much less favorable position to compete in the global markets. SMEs in particular face great hurdles in accessing trade financing on affordable terms. Around 40% of trade finance applications rejected by commercial banks are from SMEs (ADB, 2021). Furthermore, several studies indicate that around 15-20 percent of trade collapse occurred during the global crisis in 2008-09 and was attributable to a shortage of trade finance. Trade finance gaps tend to be more prominent in developing countries where private financial systems are relatively weak.

Under these circumstances, many countries provide "officially supported export credits (OSEC hereafter)" through Export Credit Agencies (ECAs) in support of national exporters competing for overseas sales. Official financing support can take the form either of "official financing support" (direct credits to foreign buyers, refinancing or interest-rate support, etc) or "pure cover support" (export credits insurance or guarantee cover for credits provided by private financial institutions). These financial products may have different repayment terms: short-term (under two years), medium-term (two to five years), and long term (over five years).

An export credit agency is an agency in a creditor country that provides insurance, guarantees, or loans for the export of good and services. Export Credit Agencies can be publicly held or publicly mandated institutions. They can also be organized as private stock corporations with a mandate to manage credit guarantees for governments. In the case of Colombia, Bancóldex, a development bank, takes the role of ECA and alongside the Ministry of Trade, Industry and Tourism, participates in the OECD Export Credits Groups as the Colombian ECA, it still not provides what would formally be considered medium to long-term OSEC. This is because their export credits do not have medium to long-term repayment terms and do not have a subsidy nature. Moreover, several of Bancóldex credits to foster export growth are not granted under a buyer-seller contract basis to defer the payments of a transaction.

[Figure 1-7] ECA in Officially Supported Export Credit System



Source: Dorożyński and Dorożyńska (2016).

The OECD Arrangement on Officially Supported Export Credits (the Arrangement hereafter) was enacted on the initiative of the United States in 1978 to avoid excessive competition for export credit support between countries after the oil shock of the 1970s, creating a foundation for mutual fair competition. Hence, its primary aim is to avoid unfair competition between exporters and nations by developing and monitoring the financial disciplines for export credits. The Arrangement shall apply to all official support provided by or on behalf of a government for the exports of goods and services, which have a repayment term of two years or more.

As previously noted, export credits under the Arrangement's definition are guarantees, insurance or official financing arrangements "enabling a foreign buyer of exported goods and/or services to defer payment over a period of time (OECD, 2022)." Direct credit may take the form of either direct credit/financing and refinancing, or interest rate support.

Furthermore, the arrangement rules are also applied to tied aid transactions[4] and to several trade-related untied aid deals[5].

It is to note that, if the subsidized interest rate for a loan is lower than the procurement interest rate, then it is treated as an export subsidy under the Arrangement. In the case of export credit insurance (pure cover), it is also considered an export subsidy if the insurance rate is set low enough that it cannot compensate for long-term operating costs and losses.

The resulting disciplines of the Arrangement apply first and foremost to its participants, while adherence to the disciplines by non-participants on a voluntary basis would be welcomed. Hence, the Arrangement is not an OECD Act, but rather a Gentlemen's Agreement among participants. The current participants to the Arrangement are Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, Turkey, the United Kingdom and the United States. Colombia currently holds the status of Invited Participants to the Arrangement.

The OECD also maintains the Working Party on Export Credits and Credit Guarantees (ECG hereafter), as a forum for exchanging information and coordinating national export credits policies relating to good governance issues, such as anti-bribery measures, environmental and social due diligence, and sustainable lending. All OECD Members are ECG Members, except Chile, Costa Rica, and Iceland.

Good governance regulations aim to recommend members to screen and undertake due diligence on all applications of export support to avoid risks associated with bribery (OECD, 2019b). On the other hand, environmental and social due diligence recommendations set approaches to identify and address potential environmental and social impacts resulting from officially supported export credits (OECD, 2016). Moreover, sustainable lending aims to set guidelines for granting export credits to low-income countries (OECD, 2019a).

4 Tied aid describes official grants or loans that limit procurement to companies in the donor country or in a small group of countries. Tied aid therefore often prevents recipient countries from receiving good value for money for services, goods, or works. Procedures are set out in Chapter III of the Arrangement.

5 Aid which includes loans or grants whose proceeds are fully and freely available to finance procurement from any country. Procedures are set out in Chapter IV of the Arrangement.

4.2. Trade Financing in Colombia

4.2.1. Colombian Financial System in General

The Colombian financial system is composed of financial institutions (supervised by the Super intendency of Finance) and their managed funds (Escobar, 2013). Financial institutions are divided by:

- Credit establishments: they channel resources from the surplus agents of the economy to the deficit agents, by raising funds from the public in legal currency. Subsequently, they place it through loans and other lending operations. They include banks, financial corporations, traditional financing companies and financial companies specialized in leasing and financial cooperatives (see Table 1-5).

- Financial services companies: they are financial institutions, which, although they provide all types of financial services, do not play the role of resource intermediation. Their role is to provide specialized financial advice in resource management. They include trust companies, general deposit warehouses, pension and severance fund management companies, foreign exchange brokerage and special financial services companies, broker-dealer companies, and investment management companies.

- Other financial institutions: they are composed of specialized government institutions (rediscount institutions), capitalization companies (that stimulate savings through capitalization plans and periodic lotteries), and insurance companies.

4.2.2. Key Trade Finance Providers in Colombia

A. Private Banks

Private commercial banks are unarguably the most important providers of trade finance in the world, mainly through short-term financial instruments. In case of the Republic of Colombia, there are 28 legally constituted private banks, from which 15 have been found to offer instruments for trade facilitation. Among the main instruments are: export and import letters of credit, pre-financing of exports, Bancóldex loans, working capital loans, imports financing, stand-by letters of credit, and endorsements and guarantees (see Table 1-5).

<Table 1-5> Instruments for Trade Facilitation Offered by Banks in Colombia

Entity	Export LC	Import LC	Pre-financing of Exports	Working Capital Loan	Bancóldex Loan	Export Factoring	Import Factoring
Banco de Bogotá	O	O	O	O	O	-	-
Banco Popular	O	-	O	-	-	-	-
Itaú	O	O	O	O	O	-	-
Bancolombia	-	O	O	O	O	O	O
Citibank	O	O	-	-	-	-	-
Banco GNB Sudameris	O	O	O	-	-	-	-
BBVA Colombia	O	O	O	O	O	-	-
Banco de Occidente	o	-	O	-	O	-	-
Banco Caja Social S.A.	-	-	-	-	O	-	-
Banco Davivienda	O	O	O	O	-	-	O
Scotiabank Colpatria S.A.	-	-	O	O	O	-	-
Banagrario	O	O	O	-	-	-	-
AV Villas	O	O	O	O	-	-	-
Bancoomeva	-	-	-	-	O	-	-
Banco Santander	-	-	O	O	O	-	-

<Table 1-5> Continued

Entity	Endorsement and guarantees	Invoice Discounting	Imports Financing	Anticipated Import Financing	Standby Letters of Credit	Imports leasing	Import and Export Insurance	Purchase of export portfolio
Banco de Bogotá	O	-	O	-	-	-	-	-
Banco Popular	-	O	-	-	-	-	-	-
Itaú	O	-	O	-	O	-	-	-
Bancolombia	-	-	O	-	O	O	-	-
Citibank	-	-	-	-	O	-	-	-
Banco GNB Sudameris	-	-	O	-	-	-	-	-
BBVA Colombia	O	-	O	-	O	-	-	-
Banco de Occidente	O	O	-	-	O	-	-	-
Banco Caja Social S.A.	-	-	-	-	-	-	-	-
Banco Davivienda	O	-	-	-	O	-	O	O
Scotiabank Colpatria S.A.	-	O	O	-	-	-	-	-
Banagrario	-	-	O	-	-	-	-	-
AV Villas	O	-	O	O	O	-	-	-
Bancoomeva	-	-	-	-	-	-	-	-
Banco Santander	-	-	O	-	-	-	-	-

B. Bancóldex

Bancóldex is a National Development Bank dedicated to promoting the growth and internationalization of companies, mainly SMEs. It was established in 1992 as a government-owned bank for financing trade activities. Later, it took on the task of an entrepreneurial development bank, acting mainly through second-tier operations. However, by August 2020, Bancóldex acquired the subsidiary Arco-Group Bancóldex, which allowed the entity to grant direct credits and expand its SME financing portfolio, now including leasing, factoring and direct credits. Direct financing still represents a marginal share of Bancóldex' portfolio. Indeed, from a total of COP $5.1 billion in disbursements in 2020, only COP $700,236 million were direct credit operations (around 13.7%), which include direct credits, leasing, and factoring. Still, as a result of these direct financing mechanisms, the SME Direct Credit Vice-Presidency was created. Its strategic focus is:

- Contribute to improving the productivity of enterprises focusing on MSMEs.
- Support sustainable development
- Support the internationalization of the economy
- Act as a public policy instrument

On August 13, 2020, the Ministry of Trade, Industry, and Tourism requested the transfer of its participation in Bancóldex in the name of the Ministry of Finance and Public Credit, which owns 99.99% of Grupo Bicentenario S.A.S. However, in the corporate governance of Grupo Bicentenario, representation from the Ministry of Trade, Industry, and Tourism will be maintained.

Bancóldex offers 3 types of support: credit and guarantees, investment in funds and in business enhancement's services (training, knowledge and technical assistance). The followings are financial solutions that Bancóldex is currently providing:

Solutions offered by financial partners

These solutions include special lines of credit and 'Comex' support. The latter refers to products aimed to facilitate international trade, which still represents just a marginal fraction of Bancoldex operations. 'Comex' Solutions include:

- International Banking Operations: helps exporters to ensure that payments derived from international transactions are made securely, mitigating the risks inherent in the negotiation process. It does so through confirmation of Export Letters of Credit, handling of documentary collections, issuance of bank guarantees, confirmation of trade standby guarantees, and negotiation of guarantees.

- Credit lines for buyers: Bancóldex finances payments made by international buyers to Colombian exporters. It is done through financial intermediaries located either within or outside the buyer's location. For this purpose, Bancóldex has banking correspondents in 17 countries, enabling them to also support the foreign trade activities of Colombian companies. These credits can be structured through letters of credit, guaranteed bills of exchange, or standby guarantees.

- Internationalization for Productivity: finances the working capital necessary for the implementation of projects that contribute to the positioning of companies' exportable supply in international markets including: raw materials, supplies, leases, payroll and other operating costs and expenses. It also provides repayment terms from 3 to 5 years.

Direct solutions offered by Bancóldex

These solutions include direct credits, leasing and leasebacks, invoice discounting (factoring), and guarantees. Only direct credits and guarantees will be detailed in this section.

The direct credits portfolio include:

- 'Credito PYME Activa': line of credit for SMEs. This can be used in working capital and liability replacements (up to 3 years), or in modernization activities (up to 5 years).

- 'Crédito aliado exportador': a 1-year term loan for exporters to finance working capital (in USD). As it is a direct credit, the entire process of linkage, credit study, approval and administration are done directly with Bancóldex. It can finance activities such as logistics costs associated with exporting; purchase of raw materials; acquisition/leasing of machinery and equipment; compliance with quality and safety standards; compliance with packaging, labeling and branding requirements; specialized market studies to position products in new markets and participation in trade fairs.

- Long term loan: Includes structured loans and corporate loans. Structured loans finance large strategic projects for the country (of more than USD 5 million of investment), in which, due to the size of the investment, several financial and multilateral entities participate to achieve the expected financial closure. On the other hand, corporate loans finance corporate investment projects to be held by Colombian companies.

- Short and medium term loans: includes treasury credit (short term), which finances working capital to meet the current cash flow needs of the business. It also includes ordinary loans, which finances the investment needs of companies that need to grow and expand.

On the other end, the guarantees portfolio includes:

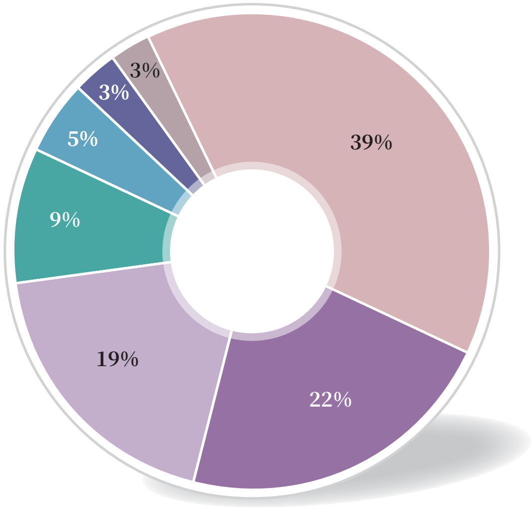
- Bank guarantees: Bancóldex can issue bank guarantees to support entrepreneurs in their bidding and contract awarding processes, through Bid Guarantees, Performance Bond, or Maintenance Guarantees.

- Partial guarantees: aimed at companies in the corporate and/or financial sector for debt re-profiling or the replacement of liabilities.

According to Bancóldex' guarantee policy for direct operations, the bank may carry out direct operations with companies, investment projects or structured credits, as long as they have a real, personal or chattel guarantees. All real and movable guarantees (including leased assets) must have technical appraisals by suitable firms or professionals in the Bank's judgment, in accordance with the existing manuals and procedures for asset management. In addition, appraisals must be updated periodically.

According to the Bancóldex (2022), the macro-sector with the highest share in their portfolio is the wholesale and retail trade (22%), followed by the manufacturing industries (19%) and transport and storage services (9%) (see Figure 1-8). Sectors which are not included among Bancóldex´ target market for export credits are road infrastructure, basic sanitation, temporary services, weapons and war material, gambling, mining, oil exploration and production, primary agriculture and livestock.

[Figure 1-8] Bancóldex Portfolio Composition



Source: Bancóldex (2022).

C. Other Public Financial Institutions in Colombia

Besides Bancóldex, there are other specialized public institutions that may potentially provide some sorts of trade financing although, their primary mission is not confined to trade financing. They include National Guarantee Fund (FNG), Findeter, the National Development Finance institution, Finagro, the National Savings Fund, the Military Housing Fund and Banagrario (Banco Agrario de Colombia SA).

National Guarantee Fund (FNG): it is a government's entity that facilitates access to credit for MSMEs by granting guarantees. Its traditional Business Line for SMEs facilitates access to credit for working capital, investment in fixed assets or business capitalization. The Institutional Line backs the credit operations granted by the financial intermediary to institutional debtors, whose purpose is to grant loans to individuals or legal entities classified as micro, small or medium-sized companies.

Findeter: Territorial Development Finance Institution. It plans, structures, finances and executes territorial development projects.

National Development Finance Institution: Development bank specialized in financing and structuring infrastructure projects.

Finagro: Fund for the financing of the agricultural sector (sector not covered by Bancóldex), which acts as a second-tier bank to promote the development of the Colombian rural sector, with financing and rural development instruments that stimulate investment.

National Savings Fund: It helps Colombians convert their savings into housing. It does so by managing severance and savings.

Banagrario (Banco Agrario de Colombia SA): it is a state financial entity that provides banking services to the rural sector in Colombia, linked to the Ministry of Agriculture and Rural Development. Among its products for SMEs are import and exports letters of credit, and pre-financing of exports (with repayments of up to 360 days). SMEs do not necessarily have to be in the agricultural sector.

4.2.3. Access to Trade Finance in Colombia

As discussed above, around 15 commercial banks in Colombia are offering various financial instruments for trade facilitation to private companies. At the same time, Bancóldex also provides short-term refinancing and direct loans to exporters. According to the Bank of the Republic (2011), from the total credits granted to companies in Colombia, firms engaged in international trade make up 50% of the share. The average increases to 80% if the loans are in foreign currency. Of these loans, 80% of the beneficiaries are importers, since importing companies resort more to this resource, for two specific reasons. First, the volume of non-traditional exports is significantly lower than that of imports, generating a proportional demand for credit. On the other hand, it is common for exporters to request advance payments from their clients, thus reducing the need to access credit.

Although imports make up the highest share of credits in foreign currency, the amount of credit supply available affects exports to a greater extent in Colombia. In particular, it significantly affects the number of firms entering the foreign markets for the first time. For firms that decide to start exporting, financing becomes more relevant as they must meet minimum productivity standards. Moreover, once companies can enter the dynamics of foreign trade and overcome the barriers to trade, they are more resilient to negative fluctuations in the supply of credit.

Meanwhile, there is no significant evidence yet suggesting that the supply of credit may have an impact on companies to continue exporting a product to a specific destination or importing a product to a specific sector (Bank of the Republic, 2011). Furthermore, more information is needed to assess the impact of credit supply on the continuity of imports.

Schmidt-Eisenlohr (2013) suggests, for example, that costs in the country of destination are more important than those in the country of origin, and that there is also a causal effect of financing costs on trade, proportional to the distance.

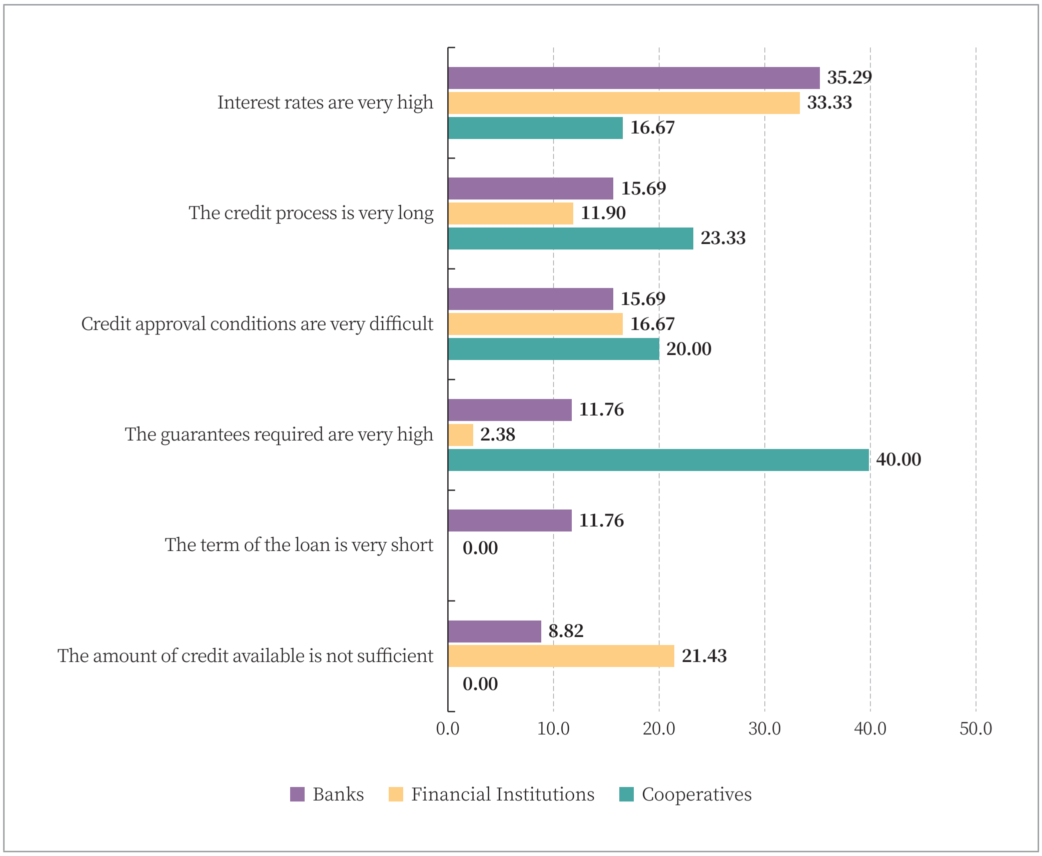
Importantly, Eslava, Maffioli, and Melendez (2014) analyze SMEs that accessed Bancoldex Credits and find that SMEs would increase their demand for labor, inputs supplies, and production if Colombian firms have greater access to credits. Currently, trade financing in Colombia can be done mostly through commercial banks, financing companies, and financial cooperatives. However, only banks and another two financing entities (Coltefinanciera and Crezcamos) have specialized financial instruments to help SMEs in international trade.

In Colombia, SMEs comprise 99.5% of companies and generate 65% of jobs. Policies for SME financing in Colombia have improved over the years, in a quest to assign public resources more efficiently and to develop instruments that guarantee access to financing under efficient conditions, incorporating the private sector (CEPAL, 2011). Nevertheless, SMEs still face several barriers to access financing, such as interest-rates, information asymmetries, low level of financial deepening, and others. Specific barriers for SMEs access to trade finance in Colombia have not been identified as part of this document, as there are no recent studies deepening the analysis of the trade finance market in the country.

According to the latest report made by Asociación Nacional De Instituciones Financieras (ANIF hereafter), around 69% of SMEs did not apply for credit in 2020-22. SMEs are still reluctant to acquire debts at the rates available on the market. This is consistent with the findings in the Colombian Credit Situation Report for December 2021, made by the Bank of the Republic. Banks and financial institutions conducted a survey and found that the most recurrent complaint they received from their clients is the perception of high-interest rates. For the cooperatives, the most frequent complaints were the delays in their processes and the high guarantees required to grant credit.

[Figure 1-9] Customer Complaints on the Credit Negotiation Procedure

(Unit: %)



Source: Colombian Credit Situation Report (2021), Bank of the Republic (2021).

In addition, García & Osorio (2013) argue that the low levels of SME's access to the instruments provided by the National Guarantee Fund (17%), another export credit provider, are due to the asymmetry of information about the financial market in Colombia and the cost-benefit perception they have over debt. Thus, among the efforts to be strengthened by private and public banks is greater dissemination of their programs and financial literacy among SMEs. Moreover, the proximity of SMEs headquarters to credit institutions and offices are also important to increase their access to financing (Quicazan, 2015). Thus, it is critical for Colombia to consider this while granting direct officially supported export credits.

Even though the formal financial system stands out, it has great opportunities for improvement. According to ECLAC (2011), the most prevalent implications that stand out are the low level of financial debt and the limited risk assessment instruments for SMEs. In addition, alternative products to credit are still not as widely used (such as factoring and confirming), which is consistent with the National Competitiveness Report 2021-2022. Some measures to improve access may include specialized credit evaluations, design of substitute financial products for credit, adaptation of regulations, and availability of guarantees (CEPAL, 2011).

Factoring is an alternative short-term financing instrument, based on negotiating accounts receivable with a financial institution. One of the greatest benefits is the liquidity it provides to companies in the short term. On the other end, confirming is an instrument in which a financial institution acts as an intermediary for buyers to settle invoices in advance with suppliers. Colombia is ranked number 5 in Latin America for factoring (volume), which means that there is an opportunity to keep enhancing the use of this instrument. The lack of knowledge about these financing tools is a constraint to their growth.

4.3. Country Case Studies

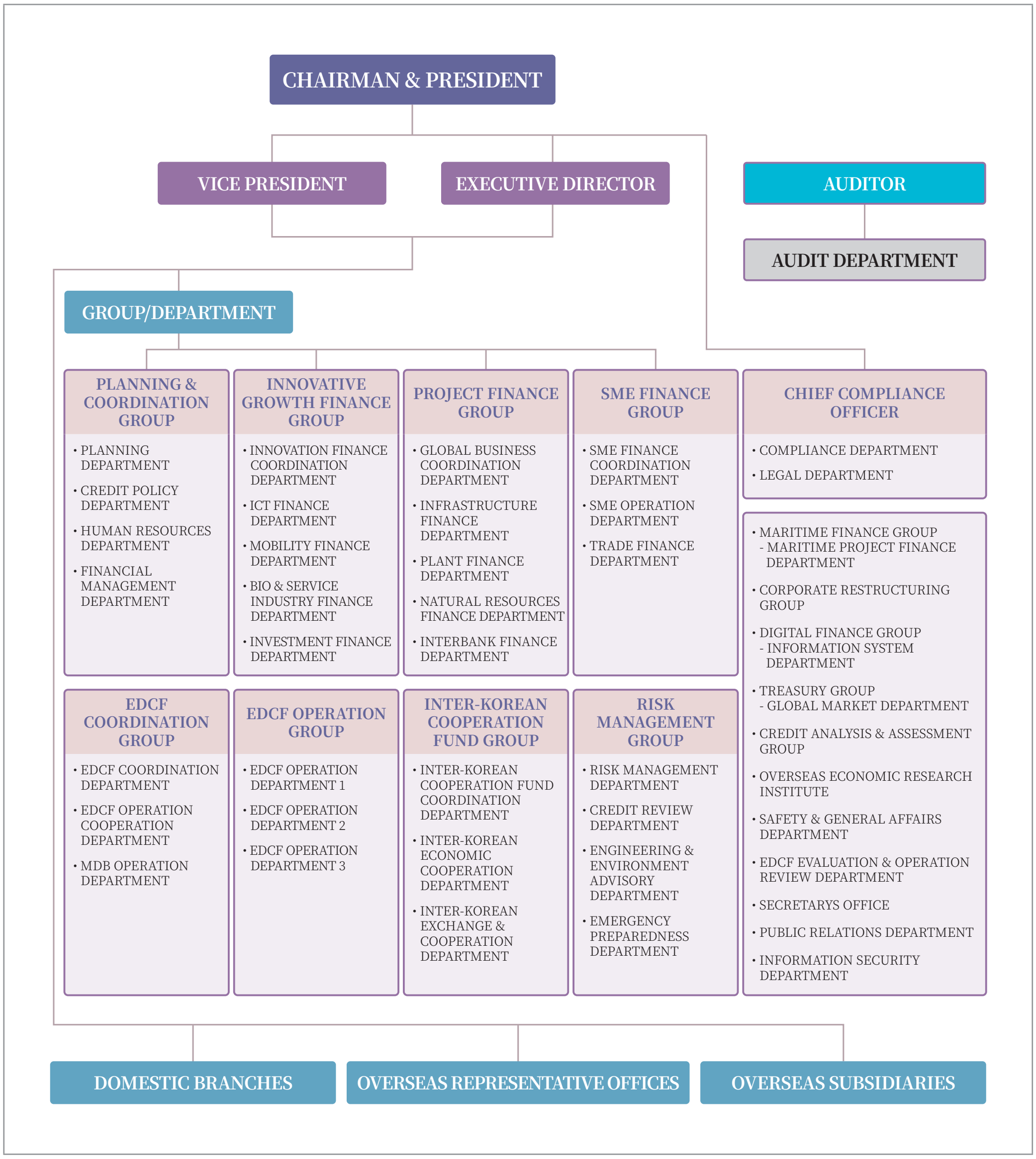
In this subsection, we introduce the ECA systems and financial provisions through ECAs for five OECD countries – Korea, Mexico, Turkey, Canada and the U.S. Among these countries, Korea is the only country that maintains two ECA systems, while the other four countries have one ECA that handle pure cover and direct export credits together.

4.3.1. Korea: 2 ECAs System

In 1997, Korea became a participant to the OECD Arrangement on the Officially Supported Export Credits. Korea currently has two official ECAs that are regularly participating at the Working Party on Export Credits and Credit Guarantees (ECG); the Export-Import Bank of Korea (KEXIM hereafter) and the Korea Trade Insurance Corporation (K-SURE hereafter). Korea had one ECA system (KEXIM) until 1992 and has since maintained two ECAs system by separating K-Sure (Export insurance and guarantees) from KEXIM (Direct financing). A key rationale for this change was such that operational risks would occur if one ECA is engaged in both lending and insurance/guarantees. That is, failure in a high-risk investment may hamper other financial operations. KEXIM provides comprehensive export loan and guarantee programs to support international trade, while K-SURE basically provides various trade insurance to cover commercial and country risks arising from trade of goods and services.

Since its establishment in 1976, KEXIM has provided various financal support programs for exporters under policy objectives to enhance the competitiveness of Korea’s export industries. [Figure 1-10] presents the current organizational structure of KEXIM.

[Figure 1-10] Organizational Structure of KEXIM

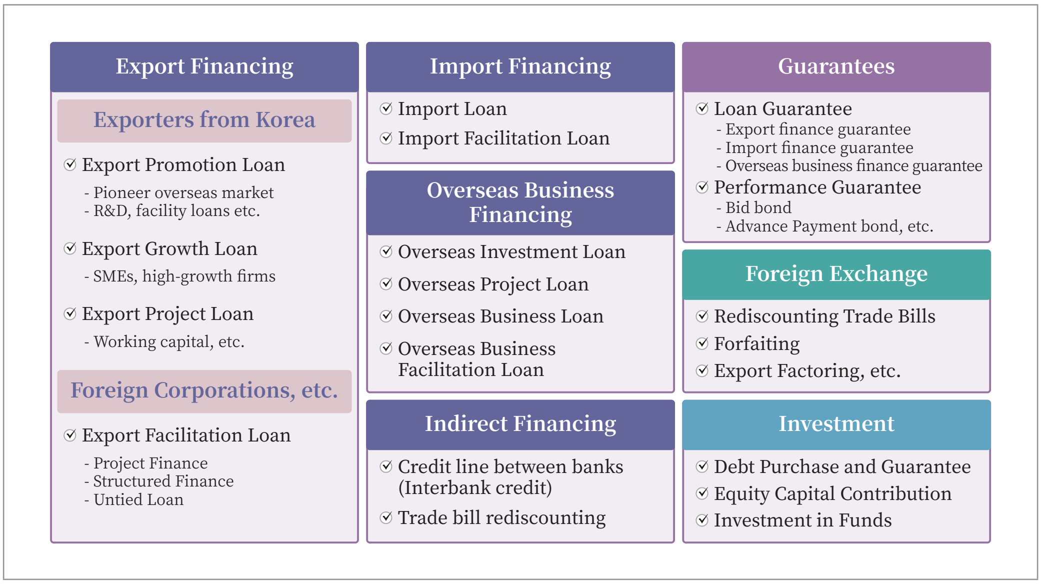


Source: KEXIM Annual Report (2020).

KEXIM supports Korean exporters through different financial tools. Among these, financing programs for SMEs represent 40%-50% of KEXIM's annual budget. Their officially supported export credits are nonetheless mainly for larger firms. OSEC include export guarantees, refinancing, and direct financing. The latter funds the exports of Korean goods and services by giving direct loans to foreign purchasers. Many of the financing programs for SMEs are not regulated by the OECD Arrangement, as they are mainly short-term loans and/or are not granted directly (either to the buyer or exporter[6]) to defer the payment of an established export contract.

As presented in [Figure 1-11], KEXIM's primary services include export financing, import financing, and guarantee programs that are implemented to meet client needs in a direct effort to compete in global markets. The Bank also provides overseas investment financing which aims to maximize business opportunities abroad. In addition, under the mandate of the Ministry of Strategy and Finance of Korea, KEXIM manages and operates the Economic Development Cooperation Fund (EDCF), which is the financial branch of Korea's Official Development Assistance (ODA).

[Figure 1-11] Overview of KEXIM Financial Service



Source: KEXIM (2017).

In case of export financing, KEXIM provides three types of supplier's credit and a buyer's credit.[7] Supplier's credit includes the Export Promotion Loan, Export Growth Loan, and Export Project Loan. On the other end, their buyer's credit is called the 'Export Facilitation Loan'. Since KEXIM does not have many international branches, it also provides their loans to foreign subsidiaries of domestic SMEs through Intermediary Financial Institutions. This program is called International on-lending.

6 Supplier's credits are export credits extended by the supplier of goods—such as when the importer of goods and services is allowed to defer payment, e.g., leasing and forfaiting. On the other hand, buyer's credits are those extended by a financial institution, or an export credit agency in the exporting country.

7 Supplier's credits are export credits extended by the supplier of goods—such as when the importer of goods and services is allowed to defer payment. On the other hand, buyer's credits are those extended by a financial institution, or an export credit agency in the exporting country.

The "Export Promotion Loan" aims to help domestic exporting companies that plan to expand production and innovation capacity. Hence, it finances capital and R&D investments, and overseas marketing activities. The amount of financing is given according to the company's future plans and growth potential. This type of loan is a long-term credit with repayment terms of over three years and is mostly extended to large corporations but is also available for SMEs.

On the other hand, the "Export Growth Loan" is a relatively short-term loan with repayments from one to three years. It aims to cover the funding needs of Korean exporters, based on their past export performances. It is provided under the assumption that they will continue to engage in export activities for the following six months or one year at a similar sales volume. This program represents the second highest share of loans granted to SMEs, after foreign exchange products such as rediscount on trade bills. Indeed, 30% of Kexim's annual budget is used in Export Growth Loans.

The "Export Project Loan" is designed to assist domestic companies by providing financial support for working capital that is needed to implement specific export contractual obligations. It is provided during the manufacturing stage prior to the final payment of exporting goods and services. This loan is also granted to SMEs producing intermediate goods or services necessary for export product (indirect exporters). In this case, the risk assessment is based on the installed technical capacity and production experience of the company, and the loan coverage is based on the contract amount with the exporting company. Several large companies in the shipbuilding, construction, and machinery sectors were the early beneficiaries of this loan in 1970-80s. Still, this loan is also offered to SMEs with low export records, as it is transaction-based. Nevertheless, given the difficulty to grant export loans to businesses that lack a solid credit history or exporting experience, KEXIM focuses on granting structured finance instruments for first-time exporters, e.g., factoring and forfaiting, and letters of credit and purchases of bills of exchange.

<Table 1-6> Financing Programs for Exporters by the KEXIM

Type of Financing	Terms
Export-related loans	- Export promotion funds, export growth funds, and export implementation funds - Up to 90% of actual expenses disbursed, for 6-10 years
Indirect Financing	- Interbank credit facility (indirect buyer's credit) to ensure immediate repayment of invoices after transactions - Purchase of export bills, export factoring, forfaiting
Performance guarantees	- Guarantees to help exporters win international contracts or for implementation of overseas businesses, etc. - Bid bonds, advance payment bonds, performance bonds, maintenance bonds, etc.

<Table 1-6> Continued

Type of Financing	Terms
Overseas investment finance	- Funds for overseas investment, overseas business and operation of local subsidiaries - Up to 90% of actual expenses disbursed, for 3-30 years
FX risk control	- Currency option swaps, forwards, FX control consulting and seminars
Overseas on-lending	- Provision of funds required for international transactions of SMEs through domestic intermediary institutions - Up to 90% of expenses disbursed, operational and facility expenses for 1-10 years

Source: KEXIM (2017).

Buyer's credit -import financing run by KEXIM, is called the Export Facilitation Loan. Its purpose is to assist foreign buyers of the Korean exporting products, by covering the payments by foreign entities to import goods and services from Korea and at times to cover capital investments, working capital, and other business operations. It is often used in large transactions related to infrastructure, plant or maritime financing. Through the counterparty foreign banks with the extended credit line, KEXIM provides loans to buyers for their payment of goods and services imported from Korea. Indirect Buyer's Credit has several advantages for domestic exporters and foreign importers. From the perspective of Korean exporters, they can receive the payments of good and services without incurring in any credit risk on the importers or the importer's country. Thus, exporters have no obligation of redemption in the case of importer's default. Moreover, domestic exporters are not required to provide collateral because KEXIM provides loans that are based on foreign banks' credit risk. Therefore, indirect buyer's credit is a suitable financing method for multiple repetitive transactions in small-to-medium amounts.

Moreover, KEIXM also offers overseas business financing programs to help companies strengthen their operations abroad. These include the 'Overseas Investment Loan', 'Overseas Project Loan' and 'Overseas Business Loan'. 'Overseas Investment Loan' provides companies the initial financing necessary for setting up a new office or branch abroad. It is in the form of shared capital and/or shareholder loan. The 'Overseas Project Loan' provides financing to Korean companies that are operating projects abroad without establishing an overseas subsidiary. For example, it helps them to finance their back-office operations. Finally, the 'Overseas Business Loan' finances capital investments, working capital, and other business operations to foreign subsidiaries of domestic companies.

Additionally, KEXIM has established a 'Shared Growth' program, which consists of collaborative efforts with large companies to identify and support SMEs with high growth potential. Through this program they grant SMEs and large companies preferential interest rates on specific loans. Consequently, this collaboration improves the business ecosystem in the long run. Under this program they offer the ‘Partnership in Overseas Business’ and ‘Shared Growth Financing’ initatives. The ‘Partnership in Overseas Business’ provides financing for SMEs participation in overseas ventures as suppliers of larger companies with signed MOUs with KEXIM. On the other hand, the ‘Shared Growth Financing’ program provides financing to both the large companies and the participating SMEs. When borrowers are SMEs, large companies must make a commitment to also be their mentors.

<Table 1-7> KEXIM’s Shared Growth Program

Content	Partnership in Overseas Business Program	Shared Growth Financing Program	
		Shared Growth Financing	Collaboration Financing
Borrower	SMEs entering overseas markets with large corporations	Collaborating SMEs	Collaborating Large Companies
Loans and Guarantees eligible for application	1. Overseas Investment Loan 2. Overseas Business Loan 3. Overseas Business-related Performance Guarantees	1. Export Growth Loan 2. Export Project Loan 3. Export-related Performance Guarantees	1. Export Project Loan 2. Export-related Performance Guarantees
Preferential Interest Rates	0.3%p discount	0.3%p discount	0.2%p discount

Source: KEXIM Financial Programs for SMEs (2022).

One the other hand, the K-SURE is the official export credit agency of South Korea under the Ministry of Trade, Industry, and Energy. It provides various trade insurance to cover commercial and country risks arising from the trade of goods and services.

<Table 1-8> Financing Programs for Exporters by the K-SURE

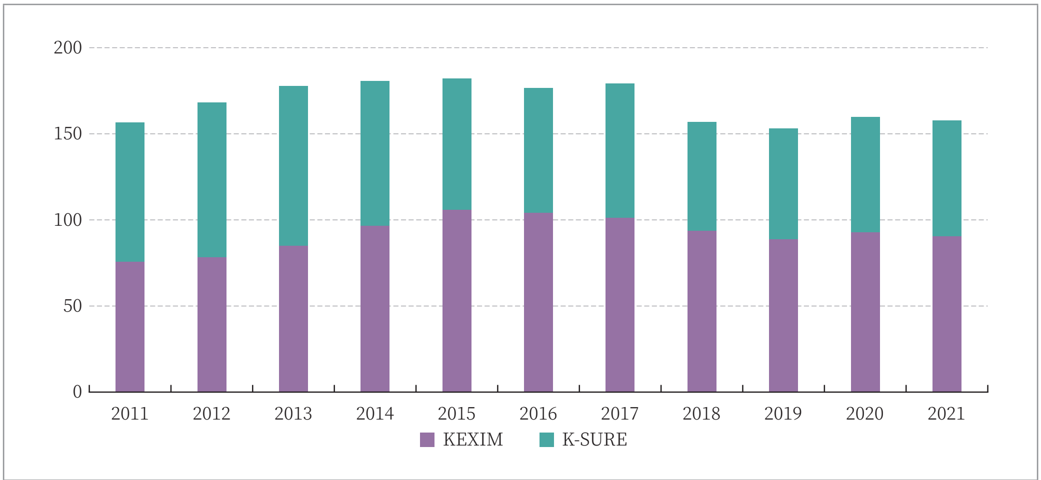
Type of Financing	Terms
Short Term Export Credit Insurance	- Protection against the risk of unrecovered balances in an export contract with a payment period of no more than 2 years. - Coverage of loss incurred in case the payment for exported goods are unable to be received from the importer (or issuing bank of the L/C)
Medium and Long Term Export Credit Insurance	- Protection against the risk of unrecovered balances related to exporters or overseas operations with a payment period that exceeds two years - Coverage against risks of unpaid principal and interest for a financial contract concerning the overseas operations of Korean companies
Export Credit Guarantee	- Guarantees for borrowing for production, processing and delivery of export goods, or for negotiations on export shipment documents after shipment of export goods
FX Volatility Insurance	- Minimization of FX risk for companies by setting the base currency of international transactions as KRW to prevent FX losses from foreign exchange rate fluctuations

Source: K-SURE Annual Report (2020).

The total balance of trade financing provided by the KEXIM and K-SURE amounts to 158.6 billion US dollars at the end of 2021, with KEXIM holding 91.0 billion dollars (57.4%) and the K-SURE holding 67.6 billion dollars (42.6%), respectively. It increased from 157.7 billion dollars in 2011 to 180.6 in 2017, but then decreased to 158.6 billion dollars in 2021. The decrease since 2018 is mainly due to a decrease in medium- to long-term credit supply, due to the deterioration of shipbuilding and shipping industries and a continued slump in foreign demand.

[Figure 1-12] Total Balance of Trade Financing (KEXIM and K-SURE)

(Unit: USD billion)



Source: Korean National Assembly Budget Office (2022).

As one may expect, the KEXIM supplies trade finance mainly in the form of direct loans, while the K-SURE provides mainly trade insurance. As of the end of 2021, the balance of direct loans of the KEXIM equates to 65.3 billion dollars, and the balance of trade insurance of the K-SURE equates to 65.3 billion dollars. The share of direct loans among trade finance has been gradually increasing from 25.2% in 2011 to 41.1% in 2021, while the proportion of trade guarantee and insurance has been decreasing.

<Table 1-9> Korean ECAs' Trade Financing by Type (2021)

(Unit: USD billion)

	Direct Credits	Guarantee	Insurance	Others	Subtotal
KEXIM	65.3	25.3	0.0	0.5	91.1
K-SURE	0.0	1.9	65.7	0.0	67.6
Subtotal	65.3	27.2	65.7	0.5	158.7

Source: Korean National Assembly Budget Office (2022).

4.3.2. Mexico: Bancomext

Bancomext is Mexico's Development Bank in charge of financing international trade. It grants loans and guarantees either directly or through commercial banks and non-banking financial intermediaries. Direct financing includes loans for more than USD 3 million; import and export international factoring; letters of credit and credit insurance. Nevertheless, credit insurance is done through CESCEMEX, a credit insurance and finance company in which Bancomext is a shareholder. Direct loans can be granted to direct exporters, indirect exporters, firms generating foreign currency by offering services, and firms buying Mexican goods and services. Medium-term lines of credit are offered for financing investment projects. On the other hand, long-term lines of credit are for financing imports of capital goods and services.

Products offered through financial intermediaries are targeted for small and medium enterprises. They must be engaged in import or export activities, generating foreign currency activities like tourism, or indirectly exporting (direct supplier of an exporting firm). Products include credits of up to 3 million US Dollars and buyer guarantees. Credit lines consist of foreign trade credit line, SMEs tourism credit line, automotive suppliers' credit, credit for suppliers in the electric-electronic sector, international factoring and letters of credit.

[Figure 1-13] Bancomext Business Model

	Financing through Financial Intermediaries	Direct Financing	Markets and Treasury	Fiduciary
Segments	• PyMEx	• Business and Corporate • PyMEx	• Institutional Investors	• Public and Private Entities
Products	• Loans for Working Capital and Fixed Assets	• Loans • Solidary Obligations • Letters of Credit Hedgin • International Factoring	• Money Desk • Treasury • Derivatives	• Fiduciary Services • Administration of Mandates
Channels	• Banks • Non-banking Financial Intermediaries	• Direct	• Direct • Financial Intermediaries	• Direct

Source: Bancomext (2022).

The foreign trade credit line might be used for working capital and fixed assets. They can be repayable or revolving loans. The former includes simple credit, refinancing, leasing, and refinancing of letters of credit, payable in up to 15 years. The latter, which are payable in up to 3 years, contains current accounts, factoring, unsecured loans, letters of credit drawdown facilities, refinancing letters of credit, stand-by letters of credit, import discounting, electronic discounting for payment to suppliers, import financing and financing for payment to suppliers. It is also interesting to highlight that Bancomext offers stock market guarantees. This program guarantees the issuance of commercial paper by companies. Its main objective is to provide them with a better rating by the risk rating agencies, which in turn, will provide them with better conditions to obtain financing in the market.

Furthermore, Bancomext also acts as Mexico's Export Credit Agency. Through this model, it receives long-term export credit guarantees or insurance from some ECAs abroad and, through these services, it finances Mexican importers (of goods, spare parts, and services). Besides, it grants guarantees to the financial intermediaries abroad to cover risks associated with non-payment. This will eventually increase intermediaries' financing to buyers of Mexican products and services. Shared schemes to allow Bancomext to maintain a healthy loan portfolio and mitigate its level of risk, which becomes a beneficial incentive to promote clients to invest.

4.3.3. Turkey: Turk Eximbank

It is the only export credit agency in Turkey and is fully state owned. Through its credit, guarantees and insurance programs, it supports exporters, contractors, and investors. Additionally, it is one of the only ECAs that lend directly to companies, and that manage its own insurance and guarantee schemes.

Loans are offered through short, medium, and long-term cash, and non-cash credit programs. These are offered to exporters, export-oriented manufacturers, over- seas investors, and companies earning mostly in foreign currencies.

Short-term loans are primarily offered in the pre-shipment stage. They are granted either in the local currency or in foreign currency. They can be extended directly through the Eximbank or through private credit institutions. However, these institutions must grant a minimum 30% of their allocated funds by the Eximbank to SMEs.

Moreover, they also offer a pre-shipment instrument called the "Short-Term Export Credit Discount Program". The company is given a credit prior to exporting (but with a commitment to do it, nevertheless) with a repayment plan of up to 120 days. On the other end is the "Short-Term Export Credit Discount Program" which allows exporters to sell Turkish products in deferred payment terms, increasing their competitiveness in international markets. Besides, the bank has continuously decreased interest rates on short-term credits and credit insurance. Most companies benefited by these short-term instruments have been SMEs.

4.3.4. Canada: Export Development Canada (EDC)

This Export Credit Agency is among the largest in the world. It is one of the few ECAs that has short-term credits and export insurance under the same institution. Because of legal stipulations, EDC competes with the private sector with many of its products (Censkowsky *et al.*, 2022). However, it has also built products in association with them (with private insurers and banks) to expand the portfolio of products offered to SMEs while sharing risk, diversifying channels, and combining expertise (Stephens & Smallridge, 2002). The Export Guarantee Program, for example, helps companies access additional financing through their financing institutions, by providing a guarantee on the money they borrow for working capital.

However, according to the IDB (Stephens and Smallridge, 2002), the EDC export insurance business operates at a loss, and its SME financing business at a break-even basis. This is since their focus is on SMEs, and this sector is generally not profitable. To deliver services to SMEs, they created 2 specialized groups:

- Emerging exporters team, specialized in short-term credits
- SME Financial services team, specialized in medium-term financing

Among main instruments in their portfolio, are (Censkowsky *et al.*, 2022):

- Financing portfolio: loans, investments and guarantees. Includes buyer financing, financing support for investments, structured and international projects finance, investment matching program, inclusive trade investments (equity capital to diverse exporters). Among guarantees, besides the Export Guarantee program, they also offer an Account Performance Security Guarantee, providing 100% guarantee to the company's financial institution; the Foreign Exchange Facility Guarantee through FC hedging instruments; Trade Recovery Guarantee; and Surety Bonds, for improved access to contract or performance bonds.

- Insurance portfolio: credit or political risk insurance.
- Other instruments, including marketable securities and derivatives.

4.3.5. U.S.A.: U.S. Export Import Bank

The US Export Import Bank mandate is not to compete with the private sector. Thus, SMEs have been an important segment for it.

Products include:

- Export credit insurance: This portfolio includes Express Insurance, for small businesses with less than or equal to USD 10 million in export credit sales and less than 10 foreign clients; Small Business Multi Buyer Insurance, for SMEs with less than or equal to USD 10 million in export credit sales, and provides coverage for all of its foreign clients; Standard multi Buyer Insurance, for experienced exporters, and covers all its international clients; and Single Buyer Policies, for insuring one or various shipments to one single client.
- Working capital loan guarantee of 90% backing: Have an expanded borrowing base, thus, facilitating businesses to acquire additional financing with the same collateral. It has no minimum and maximum amounts.
- Letter of credit insurance against losses, commercial, and political risks.
- Buyers guarantee, to facilitate finance of foreign buyers' purchases, by securing competitive financing terms for them.

5. Policy Discussions and Implications

5.1. The Best Use of OECD Trade Models/Databases

5.1.1. Potential Policy Areas for Applications

In 2021, the Government received the recommendations made by the Internationalization Mission, a national government initiative aimed at breaching the country's technological gap by strengthening Colombia's global integration. The Mission was coordinated by the Vice Presidency of the Republic, the National Planning Department, the Ministry of Trade, Industry and Tourism and the World Bank. It presented recommendations and policy guidelines to achieve its stated objectives, by focusing on four channels Colombia should strengthen with the rest of the world: (1) people, migration and diaspora, (2) companies and global value chains, (3) trade in goods and services, and (4) the science, technology and innovation ecosystem and other institutions for internationalization.

The most important finding from the Internationalization Mission is that Colombia's technological adoption lags behind other advanced economies in the world, resulting in low productivity and international competitiveness of its goods and services. This lag is partly explained by Colombia's relative disconnection with the rest of the world. Therefore, the main recommendation of the mission is that Colombia must constantly adopt and adapt technology by strengthening its relation with the rest of the world. Indeed, the mission concludes that to adapt with technology, be more productive, and participate with higher value-added links in the global value chains (GVC), the country must integrate contemporary global knowledge and research. Some of the Mission's main recommendations as a result were the following:

- Increase the access of Colombian companies, especially MSMEs, to technological extension services, including the preparation of the offer for international markets, suppliers' development, insertion into GVCs, digitalization, and development of managerial capacities.
- Enhance efforts to attract efficiency-seeking FDI, maximize linkages, improve competition, and increase technological development to improve the country and the connection to GVCs. In addition, focus investment attraction efforts on national priorities (e.g., green growth) as well as local ones (e.g., cluster initiatives).
- A government strategy should be designed to promote the opportunities of trade in services.
- Tariff and non-tariff measures must be revised from a welfare perspective. Also, decision making processes and analysis in this regard must be improved.

In view of the potential use of the OECD databases, there are three key pressing issues: increasing companies' participation in Value Chains, strengthening international trade of services, and structuring a better policy analysis related to tariff and non-tariff measures, antidumping and safeguards.

In terms of participation in Global Value Chains, Colombian companies' engagement is still low. The country's participation focuses primarily on the regional value chains of basic products given its specialization in crude oil and other low-value raw materials. Additionally, its exports have low levels of foreign value-added. Besides, companies that do participate in GVC are not creating solid linkages with multinationals. Given all this, it's difficult for companies to engage in knowledge and technology transfer activities and to benefit from economies of scale.

Moreover, there are many dimensions to consider such as digital infrastructure, human capital, regulatory frameworks, local competition, and digitization of companies, the following are some barriers and opportunities for Colombia's trade of services (Duque, Rodriguez and Zuluaga, 2021):

- In none of the above-mentioned dimensions, Colombia is the best in the world and the best in Latin America. In certain cases, Colombia is at an average level (e.g., digital infrastructure), compared to other countries. Still, in all dimensions it is above Latin America's average.
- There is a significant delay in ICT infrastructure, like in other developing countries, and a gap in the use and access to internet services.
- In terms of human capital, the gap in internet access also hinders training efforts in ICT skills. More efforts to promote different skills are needed (e.g., programming, and digital marketing).
- Colombia has some of the lowest scores in the innovation and digitalization of companies.
- Entry of foreign services is better than in other LAC countries. Also, its restrictiveness is below the world's average.
- According to the STRI, barriers to competition are lower than the world's average.
- Colombia and Mexico have the best scores in LAC in the use of electronic transactions.
- Colombia's main bottlenecks identified through the STRI, are regulatory transparency, and discriminatory measures (Duque, Rodriguez, Zuluaga, *et al.*, 2021).

As for promoting trade in services, both TiVA and STRI databases provide very useful analytic information to identify policy directions and areas of improvement.

Finally, decision-making on tariffs, safeguards and anti-dumping is one of the highest priority areas for strengthening trade policy analysis in Colombia. According to the latest National Competitiveness Report, high tariff dispersion and the prevalence of trade barriers limit exports into global value chains, even though the average most-favored-nation tariff is low compared to other countries in the region. For this reason, one of the report's key recommendations is to review the tariff structure to reduce this dispersion, discourage smuggling and make customs' processes more efficient.

Equally important, non-tariff measures in Colombia have increased over the last 3 years. In 2018, non-tariff measures (price or quantity controls) covered 26% of imported products, which is above the average for the region (22%). Some of these measures are aimed at guaranteeing the quality and safety of the goods imported by the nation. But there are also non-tariff barriers that control prices and quantities through quotas, prohibitions, or licenses for imports, thus, limiting the trade of goods. It is therefore important to evaluate these measures and eliminate those that have no evidence of having a positive impact (Consejo Privado de Competitividad, 2022). In this context, the OECD's METRO model can be used as an excellent analytic tool.

5.1.2. The Way Forward

As discussed above, the OECD trade databases have already been used in Colombia, mainly by public institutions such as DNP, the Bank of the Republic, and Fedesarrollo. However, in the case of the TiVA database, the related studies so far have been confined to analyzing the current status of GVC participation and implications for export diversification. However, as one can observe in the case of Korea, the TiVA database can be utilized in shaping more diverse policy decisions, such as the analysis of industry-levels, export partners, trade liberalization effects, and the analysis on the linkage between trade and the environment etc. Similarly, the STRI database, in conjunction with the OECD indicators of Product Market Regulation (PMR hereafter), is a very useful tool to evaluate the current status of regulatory regimes and reform progress, especially through cross-country comparison. The METRO model has a great advantage in analyzing the effects of trade policies related to GVCs, trade in services, as well as environmental issues. It is a relatively recently developed model (only since 2015), and is expected to be used more extensively in the near future considering various advantages of the model.

To utilize more effectively the OECD Trade models and databases in Colombia's trade policy decision processes, the following efforts must be undertaken. First, active efforts to improve domestic awareness of these models and databases should be made. As a starting point, within this Knowledge Sharing Program, an introductory seminar will be held to familiarize the different Colombian institutions on the use of models and databases applicable for policymaking.

In addition, considering that most of the databases are easily accessible through the OECD website and are highly relevant in terms of policy analysis, it would be desirable to establish a research network for more of an active and systematic use of these policies within domestic public institutions, government and private research institutes, as well as academia. In the case of Korea, government-funded research institutes are playing a great role in helping the formation of government policies. The Colombian government may consider which institutions or research networks would play this role.

Second, in order to expand the base of research experts using and strengthening their expertise, the government may consider supporting domestic experts to participate in various seminars held by the OECD. In particular, the METRO model has various advantages, but its utilization is still low because it requires a relatively deep understanding and expertise of the model. Currently, there are several experts with a deep understanding of the CGE model that forms the basis of the METRO model at DNP, the Bank of the Republic, and Fedesarrollo. Therefore, supporting this human capital initiative to learn the METRO model could be an effective option moving forward. Given that the most important trade policy decisions are taken by the Ministry of Trade, Industry and Tourism, it is also relevant to train professionals within the office of Economic Studies in these GCE model and in the use and analysis of the different OECD databases. It would also be a good idea to strengthen cooperation with other OECD countries, by promoting academic exchanges, and joint seminars with academic and research institutes.

In particular, a cooperation with the Korean government-sponsored research institutes in this area is an effective option. As for trade policy analysis, the Korean Institute for International Economic Policy (KIEP) has conducted various quantitative and qualitative policy analysis using the OECD trade databases and models. Hence, knowledge exchanges and joint conferences with the KIEP could help the Colombian experts to deepen their understandings and improve analytical skills regarding trade policy analysis.

Third, like the Korean practice, designating policy research experts who regularly participate in the Trade Committee and its working parties would be an effective option. In the Korean case, 2 government officials and 2 academic/researchers regularly attend these sessions. By doing so, Colombia can more actively participate in ongoing discussions on trade policy issues, trade models, and database development within the OECD Trade Committee. It would also help to reflect more effectively Colombia’s position in the discussion process and to a more timely dissemination of the Trade Committee’s discussion outcomes to governmental agencies and policy research circles.

5.2. Trade Financing in Colombia

5.2.1. Summary of Findings

In the Republic of Colombia, private commercial banks are important providers of trade finance, mainly through short-term financial instruments. While there exist several public financial institutions, there is few public institutions devoted to officially supported export credits. The most notable export credit provider in the public domain is Bancóldex. As illustrated in Section 4, Bancóldex offers typical short-term supplier's credit and buyer's credit. It also provides a short-term direct loan for exporters to finance working capital. Supplier's credit works through the confirmation of export letters of credit, the handling of documentary collections, issuing of bank guarantees, confirming trade standby guarantees, and negotiating guarantees. Buyer's credit is structured through letters of credit, guaranteed bills of exchange, or standby guarantees to support the foreign trade activities of Colombian companies. Short-term direct loan finances activities include the logistical costs associated with exports; purchase of raw materials; acquisition/leasing of machinery and equipment; compliance with quality and safety standards; compliance with packaging, labeling and branding requirements; specialized market studies to position products in new markets and participation in trade fairs.

Compared to other OECD countries, the scope and coverage of officially supported export credits of Colombia are rather limited, and given their nature, it does not fall under the OECD Arrangement recommendations. In addition, Bancóldex acts as Colombia´s ECA and is more of a development commercial bank rather than a typical EXIM bank. Unlike many ECAs among the OECD countries, its main mission is not confined to trade financing but also domestic financing to improve the productivity of MSMEs. While the National Guarantee Fund (FNG) is another export credit provider that facilitates access to credit for MSMEs by granting guarantees, it does so mainly through Bancóldex.

Additionally, there is no public export credit insurance system in the Republic of Colombia. By 2021, Bancoldex sold all of its participation over Segurexpo, insurer focused on domestic and export credit, compliance and liability lines, to the International Consortium of Credit Insurers (Consorcio Internacional de Aseguradores de Crédito). This is an insurance company from the CESCE Group. Finally, and most importantly, Bancóldex does not provide medium- and long-term officially supported export credits, to which the OECD Arrangement apply.

As a matter of fact, the use of public export credit varies significantly among regions. While in Latin America and the Caribbean the use of export credit is scarce, in East Asian countries it is highly utilized. This can be explained by historical differences, legal and regulatory frameworks, and even demand and supply issues. In terms of demand, according to ECLAC, companies tend to ask for more credit when trading with countries located at a greater distance, when they are just starting a business relationship with a client and/or when destination countries have higher political risks. On the other hand, the supply from financial intermediaries depends on several factors. It includes the available liquidity in foreign currency, the costs associated with liquidity and the profitability and risk margins when financing foreign trade operations versus other activities they could be financing (Pérez-Caldentey *et al.*, 2014).

Currently, joining the OECD Arrangement as a participant is not a pressing issue for the Republic of Colombia. At the same time, however, if the government plans to introduce medium- and long-term officially supported export credits to help exporters gain cost competitiveness in the world market, then it needs to consider the international rules and norms governing these export credits and adjust institutional systems accordingly. In this context, in the remaining section we discuss some issues that the Colombian government should be aware of.

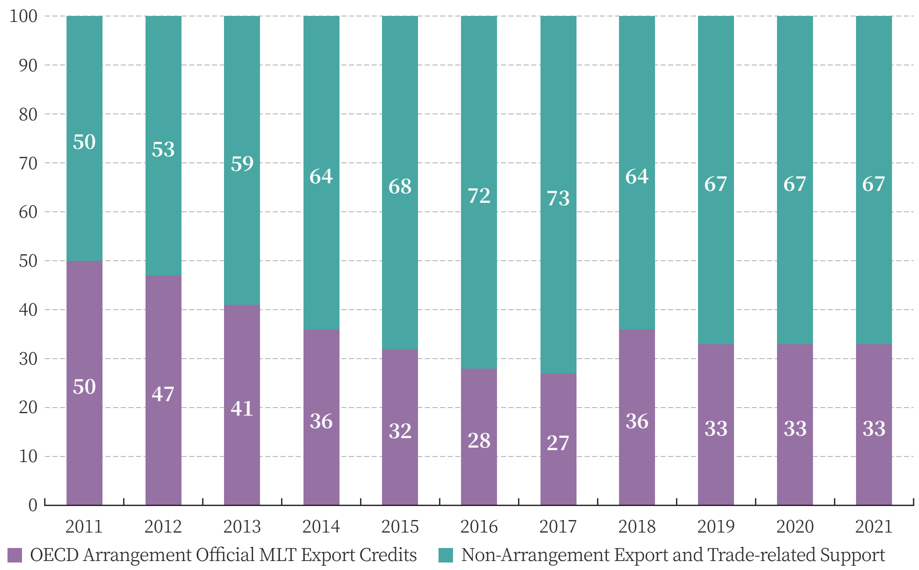
5.2.2. The Arrangement Participants Versus Non-participants

First of all, it should be noted that the Arrangement on Guidelines for Officially Supported Export Credits is a 'gentlemen's agreement' among its participants who represent most OECD member governments; it is neither a formal agreement nor a legally binding treaty. However, it has been quite influential as regards to its involvement in enacting and enforcing rules. The resulting disciplines of the Arrangement apply first and foremost to its participants, while adherence to the disciplines by non-participants on a voluntary basis should be welcomed.

At the same time, as non-OECD countries, notably China, Russia, India and Brazil, as well as OECD members that do not participate in the Arrangement have recently increased their share of export credit and the number of new OECD member countries are expanding, the OECD is strengthening their external activities by inviting them to the Working Party on officially supported export credits as observers (see Figure 1-14).

[Figure 1-14] Composition of Medium- and Long-term Export Credit

(Unit: %)



Source: U.S. EXIM (2022).

Furthermore, the Arrangement has a clause addressing the information provision for non-participants. A Participant shall, on the basis of reciprocity, reply to a request from a non-Participant in a competitive situation based on financial terms and conditions of participant requests. However, non-participants are only able to obtain information on a reciprocal basis from individual participants on specific export credit offers.

5.2.3. International Rules Governing ECAs

ECAs are subject to international regulations by the OECD Arrangement on Guidelines on Officially Supported Export Credits, the WTO Agreement on Subsidies and Countervailing Measures (SCM), member guidelines offered by the Berne Union, in addition to other domestic regulations. The Berne Union (officially, the International Union of Credit and Investment Insurers) is the leading association for export credit and investment insurance worldwide, and now has around 45 members both members and non-members of the OECD. <Table 1-10> illustrates some of international rules on ECA operations.

<Table 1-10> International Rules on ECA Operations

	Rules on ECA Operations
WTO Agreement on Subsidies and Countervailing Measures (SCM)	• Prohibition of official export credits if they are provided at rates below those which they actually have to pay for the funds or if they borrowed on international capital markets. • ECAs should maintain at least break even.
OECD Arrangement	• Export credit terms and conditions, including minimum interest rates, risk fees, and maximum repayment terms. • 'Common Approaches' (OECD 2019) requiring ECAs to address anti-bribery, environmental, social and human rights (ESHR) impacts, and sustainable lending to heavily indebted poor countries.
Berne Union	• Rules regarding starting-point of credit; length of credit; down payment; and "installments".

Source: Authors' construction.

5.2.4. 1 ECA versus 2 ECAs

There is no rule of thumb for ECA's organizational structure, operating model, and types of activities. As shown in <Table 1-10>, a majority of the OECD member countries maintain one ECA system. They operate the public export credit insurance and guarantee system as the most common means of officially supported export credits, and sometimes supplement the direct loan system and interest rate support systems according to the needs of each country. Other countries that have two ECAs are mostly large exporting countries of capital goods, including Japan, Germany, and Korea. In the case of Korea, KEXIM provides comprehensive export loan and guarantee programs to support international trade, while K-SURE basically provides various trade insurance to cover commercial and country risks arising from the trade of goods and services.

The Korean experience indicates that there exists pros and cons for more than one ECA. Since KEXIM and K-SURE have different risk preferences due to the nature of the institution and difference in export credit types, it is possible to better meet various financial demand, especially large trade projects, if operated separately. Furthermore, operational risks may occur if one ECA is engaged in both lending and insurance/guarantees. Consequently, that is a large loss in a high-risk investment which may hamper other financial operations. On the other hand, more than one ECA system may result in the oversupply of public export credits, increased fiscal burden, crowding-out private financial markets, and moral hazard problems etc.

<Table 1-11> ECA System in OECD Countries

	Coverage	Countries
1 ECA	Pure Cover only	Greece, Netherlands, New Zealand, Denmark, Luxembourg, Belgium, Switzerland, Iceland, U.K., Austria, Italy, Portugal, Poland, France, Finland, Israel
	Pure Cover and Direct credits/financing together	Mexico, U.S. Slovakia, Canada, Turkey, Australia, Slovenia
2 ECA	Pure Cover and Direct credits/financing separately	Korea, Norway, Germany, Sweden, Japan, Czech, Hungary

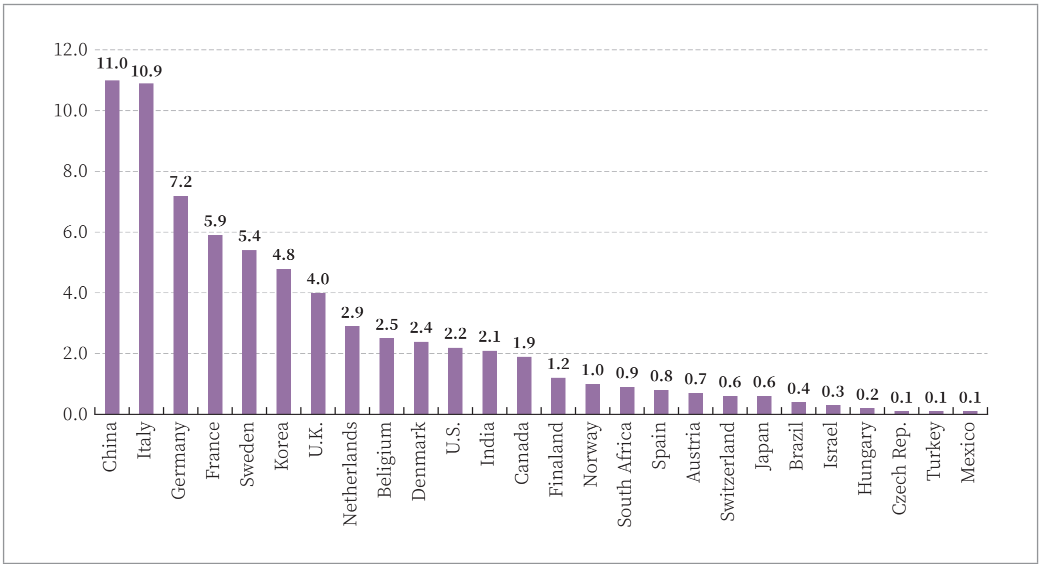
On the other hand, we should note that one common observation from the studies in Section 4.3 is that all of ECAs in these countries are specialized exclusively in trade financing, while domestic financing is handled by other independent financial institutions. As aforementioned, Bancóldex is currently responsible not only for trade finance, but also for domestic finance for MSMEs. If the Colombian government introduces a more systematic official trade finance system in the future, it will also have to consider separating Bancóldex' trade financing functions to prevent potential conflicts regarding WTO rules.

5.2.5. The Way Forward

A. Provision of Long-term Export Credits and Credit Insurance

Medium to long-term officially supported export credits are typically used for large transactions such as those related to capital goods, large machinery and turn-key plants (heavy industries). While the market for short-term insurance is dominated by private agencies (some 80 percent of overall business), ECAs are often engaging in underwriting the wider majority of medium to long-term commitments and granting long-term loans in situations where private financing is discouraged by high risk. Large risks, other than any ordinary transactions, are inspected mainly by a committee of government or authorized officials. Hence it should be noted that medium to long term trade finance tends to be used more often by countries with large heavy industries (see Figure 1-15). Moreover, medium to long-term officially supported export credits are not generally used to support SMEs.

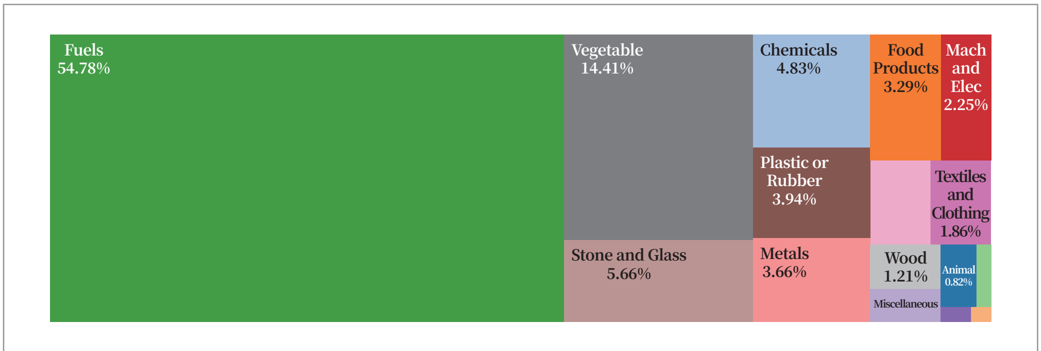
[Figure 1-15] Major Medium- and Long-term Export Credit Providers (2021)



Source: U.S. EXIM (2022).

As depicted in [Figure 1-16], the Colombian exports are heavily dependent upon natural resources like fuels, vegetables, minerals, and the share of capital goods which are relatively small. Therefore, there is no strong rationale for the Colombian government to introduce medium to long-term export credits through an ECA in a hurry. It should carefully decide whether to introduce mid- to long-term credit after conducting an in-depth analysis on the direction of the government's industrial policy and the demand for mid- to long-term credit from the private sector.

[Figure 1-16] Export Composition of Colombia (2019)



Source: World Integrated Trade Solution (2022).

Export credit insurance products are very effective financial instrument for supporting exporters as they cover commercial and political risks that might happen between the signature and the delivery of the merchandise, and those that might appear after shipment. According to Turguttopbas (2013), this type of insurance has been more common in developed countries, as ECAs in developing nations tend to focus on short-term financing, such as pre-shipment credits for production or post-shipment credits, given the composition of their exports (which are generally commodities and consumer goods).

Therefore, granting medium to long term officially supported export credits could be premature for the Republic of Colombia, as its exports are still based on primary goods and extractive products. Colombia does not yet have the productive capacity that would require medium- and long-term financing options using public resources, which implies a high risk for the country. However, in the mid-term, the country can start building the institutional capacity for this purpose which includes the understanding of the OECD Arrangement and ECG recommendations, as well as strengthening its short-term export finance market.

In this context, it is to note that if the Republic of Colombia decides to offer medium to long-term OSEC, domestic credits shouldn't be offered under the same institution, as this might overlap with the WTO rules. In Korea's case, domestic financing programs are managed by the Korean Development Bank, while international financing programs are granted by KEXIM and K-SURE.

If it were to be a different ECA in the future, it may also consider having units specialized in helping small and medium-sized exporters, as Bancóldex does contemporarily Given the particularities of financing SMEs, many ECAs have units specialized in helping small and medium-sized exporters. This is the case, for example, the U.S Ex-Im Bank, which has a 'Small and New Business Group'. The EDC of Canada is also a clear example, as it has an 'Emerging Exporters Team' and a 'Small Business Financial Solutions Team', which offer medium- and long-term products and services to SMEs, including buyer credit financing, contract bonding, and pre-shipment financing. For example, Norway, through the Garanti-Instituttet for Eksportkreditt (GIEK) has a team dedicated to handle export credit procedures and documentation with SMEs.

Furthermore, certain ECAs, such as Bancomext, are involved in medium to long-term OSEC by receiving export credit guarantees or insurance from some ECAs abroad. Through these services they finance local importers of intermediary supplies needed for export products or services. Likewise, as Colombia transitions to sectors with higher value-added, it is likely that the demand for imported intermediate products will also increase. Hence, if the country finds it viable and suitable, it might consider the Mexican model in the long-term to promote the growth of heavier industries. Also, in the long run, it could grant guarantees to the financial intermediaries abroad to cover the non-payment risk of the financing it grants to its clients. This will eventually increase the amount of financing granted to international buyers of Colombian goods and services. Shared schemes, in which the Colombian ECA grants guarantees while the buyer's ECA provides financing, may allow Colombia's ECA to maintain a healthy loan portfolio and mitigate its level of risk.

B. Support for SMEs Exporters

Even though medium to long-term OSEC would be premature for the Republic of Colombia, there are several opportunities for the country to improve its financing to SMEs to promote their internationalization and integration into global value chains. The following are several of the recommendations for this purpose:

- Establish data gathering mechanisms to monitor the trade finance market in Colombia

As stated previously, there is no evidence of any recent study that specifically analyzes how Colombian SMEs are financing their exports and which are their major barriers to obtaining export financing. On the other hand, information from a supply perspective is also limited. Indeed, no analysis has been made to map and compare the overall portfolio of trade finance instruments available in the market and the credit requirements set by the different financial institutions. Additionally, even though the Bank of the Republic carries out the Report on the Credit Situation in Colombia (based on surveys to financial institutions), the data collected on trade finance activities is rather limited and does not include recent new players in the market, such as Fintechs. In this sense, if the government aims to improve the country's trade finance market, it first needs to better assess its composition and the main constraints among users and financing companies. In line with recommendations made by Ocampo & Torres, (2022), public institutions actively involved in trade finance operations, (e.g., Bancoldex) must establish mechanisms to monitor the provision of trade finance in the country. That way, they might be able to correct market failures opportunely and identify untapped financing opportunities.

- Ensure the availability of finance instruments for strengthening SMEs in each of the stages of growth and internationalization

Colombia's Internationalization Policy for Regional Productive Development (Conpes 4085) proposes strategies to help regions increase their productivity and internationalization, especially for their prioritized sectors. In particular, this policy document calls for the design of a portfolio to finance companies' internationalization plans, as well as for a feasibility assessment of a trade finance institutional arrangement for Colombia, to which this document tries to respond. For the purposes entailed in this policy, an ECA would play a key role in promoting innovation, creating new markets, strengthening regions, and fostering international trade. Bancoldex, as an ECA, should then ensure that it offers financial programs and instruments that can help SMEs across each stage of their growth and international expansion. Bancóldex supports R&D and innovation through different instruments, e.g., by investing in private capital funds and through the creation of the 'fund of funds'. Nevertheless, there is no specific budget for investing in emerging companies with promising international expansion plans, which could indeed be considered. Additionally, even though Bancóldex offers working capital loans that can also be used for R&D purposes, they could also grant loans, and better benefits, to companies engaging in international technological cooperation activities.

It is to note that the line of credit 'Aliado Exportador' will remain very valuable as more companies start to export, and volumes start to increase. As mentioned earlier in the document, this line finances working capital needs for export purposes, either to exporting or non-exporting firms. As an improvement, credit exposure under this line could also be based on past export volumes. This way, exporters may use the loan to produce their goods for the same duration.

Within export credits granted to non-exporting firms, structured finance instruments such as Bancoldex' leasing and factoring also play a key role. Nevertheless, they must consider that the proximity of SMEs to the headquarters of credit institutions and offices are important to increase SMEs access to financing (Quicazan, 2015). Thus, it is critical for Bancóldex to consider how to efficiently grant direct credits for wide geographic coverage.

Finally, Bancóldex' portfolio to incentivize the trade of services can also be improved. Adapting loans such as Kexim's 'Overseas Investment Loan' and 'Overseas Project Loan' might incentivize Colombian export of services, in which capital is given either to open subsidiaries or to operate projects abroad. This will also strengthen Bancóldex' portfolio of instruments to support overseas sales activities of manufacturing companies. Indeed, loans are currently focused on pre-shipment stages.

- Incentivize production linkages through financial programs

Finance programs for strengthening local value chains represent a gap in Colombia's export finance portfolio. Public financial entities engaged in trade finance activities should consider granting loans to finance indirect exporters, i.e., SMEs that produce intermediate goods or services necessary for export products. KEXIM's 'Export Project Loan' is an interesting example that might be adapted to the Colombian case. Indeed, as this loan is transaction based, it might complement the financing instruments available for those SMEs that lack a solid credit history. Moreover, risk assessment can be based on the installed technical capacity and production experience of the company, and its coverage could depend on the contract amount with the exporting company.

Additional opportunities to explore are shared growth programs in which public financial entities join efforts with large exporting companies to identify and support SMEs with high growth potential. Under this type of program, the entities could provide preferential interest rates either to the SMEs (indirect exporters) or to the large companies in order to incentivize cooperation. Besides, mentorship commitments among the participating companies could also be considered, to promote knowledge transfer processes between the largest companies and the participating SMEs.

- Stimulate the internationalization of new industries by supporting export pioneers

Colombia, through Bancóldex, could step up to grant preferential rates and incentives to companies entering foreign markets with a product that has not been (or barely been) exported by the country before. According to Hausmann *et al.* (2006), firms producing a product for the first-time face higher costs of production. Mainly, pioneers have to explore the cost structure of their products and services, thus, face higher uncertainty. In contrast, followers can emulate successful processes and cost structures. In this context, Hausmann *et al.* argue that public resources should be concentrated on pioneers. However, if the government were to support pioneer firms through incentives such as subsidies, it must beware of promoting excessive diversification which may lower productivity. To support these export pioneers, Martin, Erazo and Diaz (2021) have previously proposed two application cases for Colombia. For instance, they suggest incorporating compensation schemes for pioneer companies that continue exporting for at least 3 continuous years, which can offset the costs of exporting a new product. Their permanence in the market increases the possibility of new exporters in this sector. This probability is 63% when the pioneers remain exporting for one year and 87% when permanence is over three years. As detailed by Martin & Payares (2022), the authors evaluated two alternatives with rates starting at 1.5%. The first is a compensation based on the value exported by the pioneer company during the first three years. The second consists of compensation based on the value exported by "follower" SMEs during the three years after the pioneer company began exporting. They concluded the second option could have a greater impact given the incentives scheme to foster new followers.

- Complement the local trade finance market with financing instruments and programs offered by multilateral development banks

In line with Ocampo & Torres (2022), complementarity with the tasks of multilateral development banks should also be on the agenda of national development, in this case, Bancoldex. Hence, it should play an active role in encouraging private financial institutions in Colombia to join trade finance programs offered by multilateral development banks, such as the Inter-American Development Bank's Trade Finance Facilitation Program (TFFP). This program provides technical assistance, knowledge creation, and trade finance products to banks from Latin America, and the Caribbean. Financial products include short-term loans of minimum USD 1 million. They can be disbursed either by the IDB or by global financial intermediaries (B-lenders). Currently, 125 LAC financial institutions have joined the TFFP network, none being from Colombia.

- Reduce the knowledge gap in banking sectors and incentivize the automation of processes

Finally, Bancóldex as Colombia's ECA and Export Development Bank must double its efforts to reduce the knowledge gap in banking sectors regarding trade finance instruments. Indeed, successful ECAs in developed countries make great efforts to transfer their knowledge of financial innovation and successful risk management to local banks (Mazal Krauss, 2011). Moreover, Bancóldex must also maintain an open dialogue with financial regulators to ensure that trade finance is considered within the implementation of regulations.

Additionally, as there are several issues that could not be addressed in this Knowledge Sharing Program, it is recommended for Colombia to take advantage of Colombia's membership in the OECD to build partnerships with other Export Credit Agencies and foreign aid programs to strengthen its financial institutions. Topics that should be addressed include collateral requirements, interest rates analysis, incorporation of ESG activities, and technology adoption for the automatization of processes such as accumulation and management of data, export records, risk assessment/SME screening, and programmatic repackaging. Indeed, digitization of processes can reduce costs inherent to the supply of trade finance (Gugelmann & Carneiro, 2022).

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02
CHAPTER

FDI Attraction and Retention Strategy by Fostering R&D and Innovation in SMEs

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Keywords
Inward Foreign Direct Investment, Small and Medium Enterprises, Investment Promotion Agencies, Research, Technological Development and Innovation

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Summary

There is a big difference between trade and FDI in cross-border movement. Trade (import and export) is a "movement of products" across borders, while Foreign Direct Investment (FDI) can be seen as a "movement of production factors" such as labor, capital, technology, and management. Therefore, 'FDI' has a great influence on a country's economic development compared to 'trade' (Jung and Moon, 2008; Dunning, 2003). In particular, by appropriately matching the movement of production factors between countries with SMEs in the region, it will have a positive effect on the innovation of SMEs and the growth of the national economy.

Research, development, and innovation (RD&I) is recognized as a mechanism used by countries or industries to increase competitiveness through inventions, technology adoption, and new or improved products or services. Considering that Colombian SMEs produce lower R&D investment and innovation performance than foreign-invested companies, it is proposed to improve competitiveness through matching foreign-invested companies and SMEs using Inward FDI (IFDI). Nevertheless, efforts to strengthen SMEs' own capabilities are also important.

Colombia faces the following three challenges in attracting IFDI. The first is that the size of IFDI is smaller than that of comparable countries. Colombia's IFDI has stagnated since 2014, reaching 14% of GDP, which is quite small compared to the comparable countries. Second, the composition of IFDI is biased toward some industries, such as the extractive sector. For 10 years, about 85% of IFDI is concentrated in six sectors of the manufacturing industry. Third, the location of IFDI attraction is concentrated in several regions, including Bogota, which hinders the balanced development of the entire country.

Foreign investors value Colombia's dynamic economy and political stability but are wary of regulation. The biggest fear of foreign investors is that tax regulations and rules of games constantly change. In other words, high taxes, irregularities in justice, delays in judicial proceedings, and corruption are major factors that negatively affect IFDI growth in Colombia.

To evaluate how ProColombia and local IPA work in Colombia, we conducted a survey of representative employees and users of IPA. The survey evaluated four key roles on a 5-point scale: image building, investment generating, research and information analysis, and after service. We also evaluated the competitiveness of IFDI across Colombia in terms of subject of investment, consumer-oriented IFDI strategy, basic policies and strategies of IFDI, efficient services and infrastructure.

As a result of the survey, image building showed a relatively low score among the roles of IPA (3.32), and subjects of investment were relatively low in investment attraction competitiveness (2.98), which is considered urgent to improve.

On the other hand, there are various ways to connect Inward FDI with SMEs as follows. The first is to use public procurement. This is to achieve its purpose by allowing leading foreign companies to participate in public procurement and creating synergy effects through connection with domestic SMEs. The second is to connect venture capital and small and medium-sized enterprises that are interested in expanding and developing SME technology. Here, it is of paramount importance to identify and promote small and medium-sized enterprises with potential in local IPAs or economic development institutions. Third, industrial complexes (or technoparks) can be the main way to match local SMEs with leading foreign investment companies. Fourth, foreign investment companies may make investments in local SMEs through free trade zones (FTZs) or special economic zones (SEZs). In addition, it is possible to link foreign investment companies with local SMEs through various channels, and therefore, it is important to establish a system on how to match more easily at the national level.

Meanwhile, the first goal presented by the Colombian government to this project team is to improve the quantity and quality of IFDI. An important proposal presented by this project team is a 'step-by-step strategy' based on the industrial sector and geographical conditions and the purpose of attracting specific investments. In other words, rather than developing into a state-of-the-art industry at once, target industries should be set step by step, and strategic efforts should follow suit with given industries and conditions. In addition, the role of IPA at national and local levels should be based on 'the principles of strength, purpose, and efficiency' as well as 'mutual complementarity'.

Colombia also needs benchmarking of the Korean system to improve its capacity to attract IFDI. For example, Korea's PM system and the Ombudsman system will help strengthen Colombia's capacity to attract IFDI. It should also be noted that not only the improvement of information and communication technologies to attract investment, but also the recent change in the role of IPA due to 'ESG management' and '4th industrial revolution'.

The Colombian government's second goal through this project is to strengthen the capacity of SMEs through IFDI. It is important to increase capabilities through IFDI attraction and matching of SMEs, but it is also very necessary to strengthen the internal capabilities of SMEs through their own efforts. Therefore, with this two-track strategy, efforts for research and development and innovation (RD&I) of SMEs should be strengthened.

Finally, cooperation from various agencies, which is related to industrial strategies, IFDI attraction strategies, and RD&I capacity building strategies of SMEs is needed, and cooperation between them should be well harmonized with Colombia's current conditions. Furthermore, continuous evaluation and improvement are required for the growth of sustainable foreign investment attraction, and new goals and strategies must be upgraded step by step through feedback.

1. Introduction

This chapter presents policy recommendations for the Colombian government to use Inward Foreign Direct Investment, IFDI, and how to improve competitiveness, especially in small and medium enterprises. The methodology for identifying such opportunities includes an analysis of primary survey and in person interviews in the scope of a cooperation mission and secondary information, considering the role of investment promotion agencies, IPAs, institutions, support instruments and strategies for SMEs for both Colombia and Korea. Based on such analysis, policy recommendations are included at the end of the document.

Research, technological development and innovation, RD&I, are recognized as mechanisms that countries and industries use for increasing competitiveness through invention, technology adoption and new or improved products or services. Given that Colombian SMEs and sectors have low R&D investment and show low performance in innovation (section 2.2), there are opportunities for the IFDI in terms of matching SMEs to invest in sectors in which competitiveness is lower compared to the investor home market.

The logic of the policy recommendations is that it is possible to induce productivity and improvement non-innovative SMEs or sectors through spillover effects from IFDI, and supply chain linkages. So, IFDI in SMEs or sectors with low R&D investment from countries with high R&D investment and high productivity can facilitate the transfer of technology. Also, coordinating the IFDI with local SMEs providers of inputs and services that comply with the required standards has an influential effect.

On the other hand, given that low R&D investment can be explained by the low accumulation of capital, IFDI's aim to scale up local SMEs production to reach international markets, and in such way, it facilitates access to new capital for local SMEs. In this case, IFDI takes the form of venture capital looking for the SMEs production technologies together with the conditions to scale up (i.e., economies of scale) and commercialize their products.

There is not a single solution to accomplish both objectives with the FDI. Therefore, a coherent investment incentive system should match specific objectives of FDI policy. Fundamentally, an increase in inward FDI in terms of quantity and quality for sustainable economic growth in Colombia is required, and benchmarking for Korea's successful system is needed for this.

2. Inward FDI in Colombia

This section, based on primary and secondary information, provides an overview of the state of investment in Colombia for inward foreign investors and its performance in the foreign financial market. The main actors and instruments for promoting these investment opportunities will be discussed, and how RD&I are key aspects for coordinating between SMEs and IFDI in Colombia will also be discussed.

Two missions organised by the Korean Development Institute to Colombia and to Korea took place in May and in July 2022, respectively. Through the missions the roles established by IPAs were explored and focused on attracting foreign investors which focused on accommodating their preferences and desires of foreign investment by sectors, to help identify the successful case studies of FDI that could cooperate with SMEs in Colombia, and coordinate a way to collaborate SMEs with IFDI, among others.

Also, an online survey was conducted by Colombian users of the national and local

IPAs[1]. The target of the survey was to compare the organisation's competitiveness with their peers abroad, to identify the level of maturity of such institutions, and evaluate areas of improvement. Finally, the section presents some findings between IFDI and RD&I in SMEs in Colombia.

2.1. Colombia's Investment Environment and Performance

Colombia is an important destination in Latin America for attracting foreign investment. The country, situated at the northwest of South America, has been characterized in the recent years as one of the best destinations of foreign investing in Latin America. This is due to Colombia's economic progress, stable economy, and strategic position with maritime exits on the Pacific and Atlantic Oceans, which connect Latin America with the rest of the world. Additionally, the country is ranked as the second most biodiverse in the world (Binder Dijker Otte Colombia, 2022).

Although Colombia has made significant progress in attracting foreign investors, there are still several challenges in taking advantage of IFDI. Colombia has a legal framework to protect direct investment, facilitate business, and guarantee stability for investors (Binder Dijker Otte Colombia, 2022), which is constantly evolving. However, there are challenges with diversifying the sectors and locations (by departments or municipalities), receiving investment, taking advantage of the positive impacts (direct and indirect) of IFDI in the national economy, and attracting larger investments.

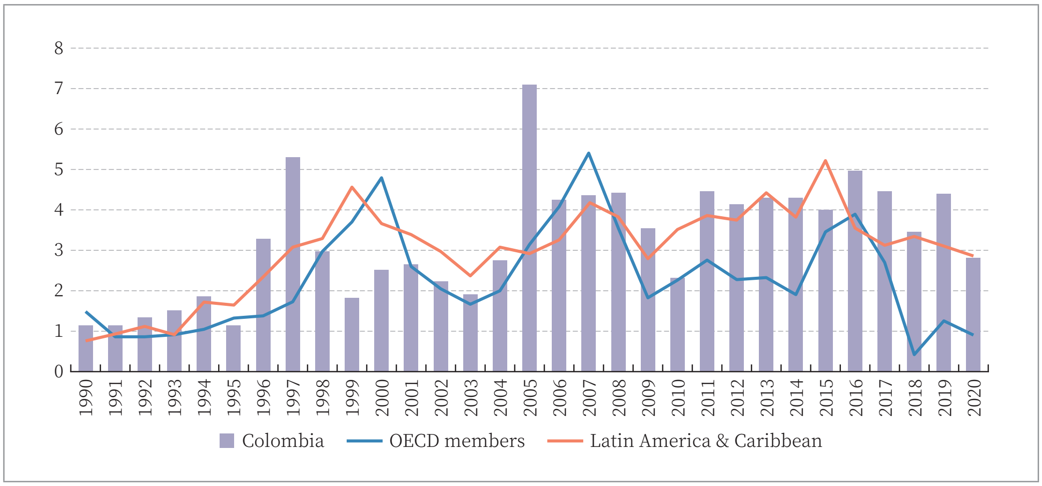
Since 1990 IFDI flows in Colombia have increased considerably, however it remains suboptimal. The percentage of IFDI participation in Colombia's GDP went from 1.05 % in 1990 to 4.33 % in 2019 (see Figure 2-1), but since 2014 the IFDI remains stagnated around USD 13,000 million. The year of 2005 was atypical, in which Colombia reached the higher value of IFDI promoted mainly by new investments in the oil sector, the signing of the Free Trade Agreement with the United States, the signing of the Legal Stability Law[2], and a general international interest in Colombia.

1 The local IPAs include those that work at the regional (i.e., departments of Colombia) and local level (i.e. cities or municipalities in Colombia).

2 This Law provides security and guarantees for investments.

[Figure 2-1] IFDI Net Inflows: 1990-2020

(Unit: % GDP)

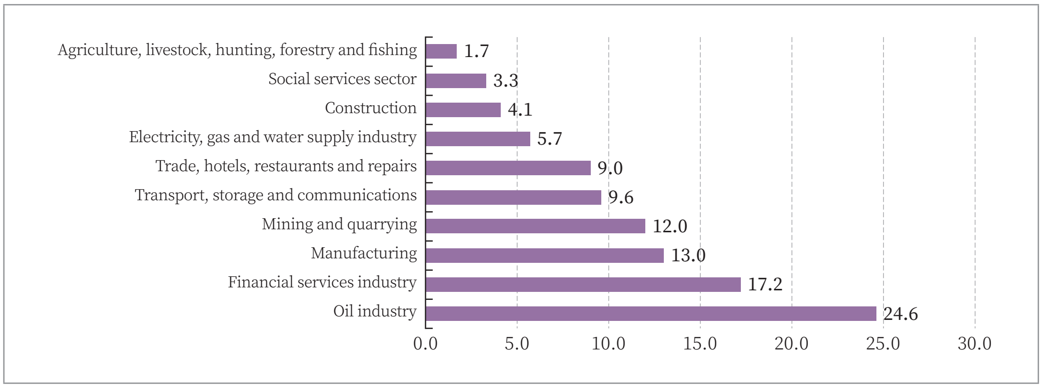


Source: Authors based on data from (World Bank, 2022).

The composition of IFDI is still concentrated in extractive sectors, and in a group of locations (i.e., departments) within the country. The oil and mining sectors have attracted approximately 35.6 % of IFDI during 2010-2021, while the manufacturing sector represents 13% in the same period (see Figure 2-2). According to Gutierrez (2020) inflows are also concentrated in few departments of the country in the last decade and only 6 departments captured around 85% of manufacturing IFDI.

[Figure 2-2] Share of IFDI in Colombia by Sectors: Average 2010-2021

(Unit: %)



Source: Authors based on data from (BDR, 2022).

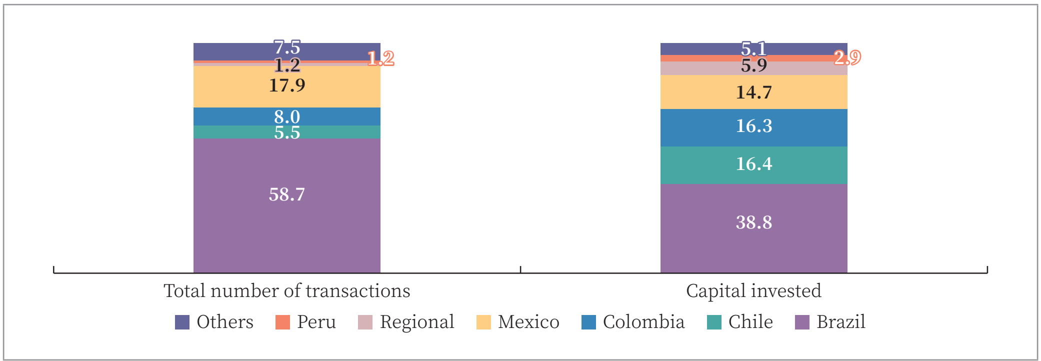
The level of efficiency-seeking IFDI in Colombia is lower than in countries with similar levels of development. In countries with similar levels of per capita income, investments estimated in search of natural resources, during the period 2012-2015, fluctuated between

10% and 25% of total investments (Gutierrez, 2020), and Colombia registered an average annual participation of 43% during the same period. This shows the high participation of foreign capital in sectors with low participation in Global Value Chain (GVCs).

As it will be explored in section 4, one of the mechanisms to diversify the IFDI is through Venture Capital[3]. The Venture Capital can facilitate SMEs to grow and export. In 2020, Colombia received the third largest investment of USD 16.300 million which was invested in Latin America, with 16.3% below Brazil and Chile (see Figure 2-3). Also, Colombia has the third largest percentage in terms of transactions, 8.0 % of the 653 transactions, while Brazil had the 5.7% and Mexico had 17.9 % (Colcapital, 2021).

[Figure 2-3] Investment by Country in 2020

(Unit: %)



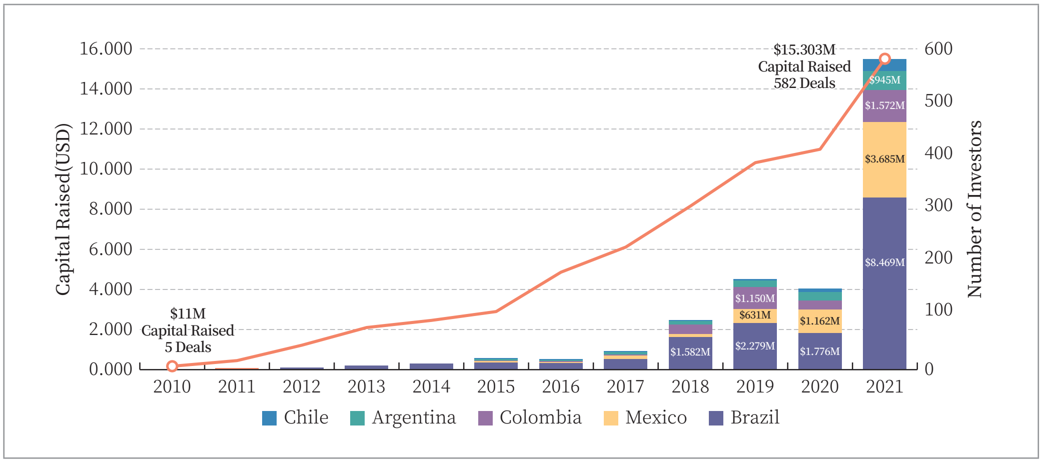
Source: Colcapital (2021) with data from LAVCA Industry.

Goods and services consumption, financial services, industry, energy (conventional and renewable), and information and communication technologies cover almost 95% of the investment in Latin America (Colcapital, 2021).

The Venture capital is growing steadily in Latin America, including Colombia. The additional capital available can facilitate the SMEs access to new resources (Endeavor and Partners, 2022). Their annual growth has increased more than 1.39 times between 2010-2021 and increased more than 3.9 times between the last two years (see Figure 2-4).

3 Other funding mechanisms involving foreign investment are crowd funding and banking warranties.

[Figure 2-4] Venture Capital and Growth Equity in Latin America



Note: Venture Capital (Seed and Series A, B, C, D, E & Undisclosed VC).

[1] "Americanos" billions, millions of millions

[2] Information corresponds to collected data from by Endeavor through platforms such CB Insights, Pitchbook y Crunchbase.

**N =1,434 companies founded between 2011-2021 in Argentina, Brazil, Chile, Colombia y Mexico. The sample represents USD 28 billion in 2,447 deals to December 2021. Average: USD 15 million / Median: USD 2 million

Source: Endeavor and Partners (2022).

Colombia is facing three current challenges with attracting the IFDI and limits the contribution from multinationals. According to Li and Aranda L (2021), the IFDI in Colombia has stagnated since 2014, resulting in a IFDI stock of 14% of the GDP, which is significantly smaller compared with regional peers and aspirational comparators. Additionally, the composition of IFDI remains suboptimal and dominated by extractive sectors. There is a concentration of approximately six departments which capture nearly 85% of IFDI in manufacturing for a decade.

While foreign investors value Colombia's dynamic economy and political stability, they are focusing on regulating any financial instability. According to Gutierrez (2020) the biggest fear of investors is the constantly changing rules of the system such as tax uncertainty. The survey stated the instability of tax regulations. Also, the high tax burden for companies, the deficiencies in justice, the dilation of judicial processes and corruption are the main factors that negatively affect the growth of IFDI in Colombia (Garavito A., Iregui, and Ramírez G., 2012).

Although there is evidence to suggest some positive effects generated by multinationals in local economies, not all foreign investments are equals and the spillovers can vary considerably across sectors and firms. Multinationals on average perform better in job creation and efficiency, are larger, have more capital intensive, and are more productive and successful in tapping into GCVs compared to Colombian firms. For example, based on the

Annual Manufacturing Survey (EAM) between 2007-2018, multinationals are investing nine times in fixed assets, hiring almost three times the labor, producing ten times the output and the labor productivity is nearly triple compared to Colombian firms. Additionally, the probability to participate in GCVs is 22% higher than domestic firms of similar age. However, multinationals in extractive industries are less productive than Colombian firms, after capital intensity differences are controlled, and can subsequently distort the economy (Li and Aranda L., 2021).

The reconfiguration of IFDI has been motivated mainly by the crisis generated by COVID-19. During the COVID-19 there has been an increase of nearshoring and the diversification of investments to improve resilience and motivated multinationals to increase investments in Latin America.

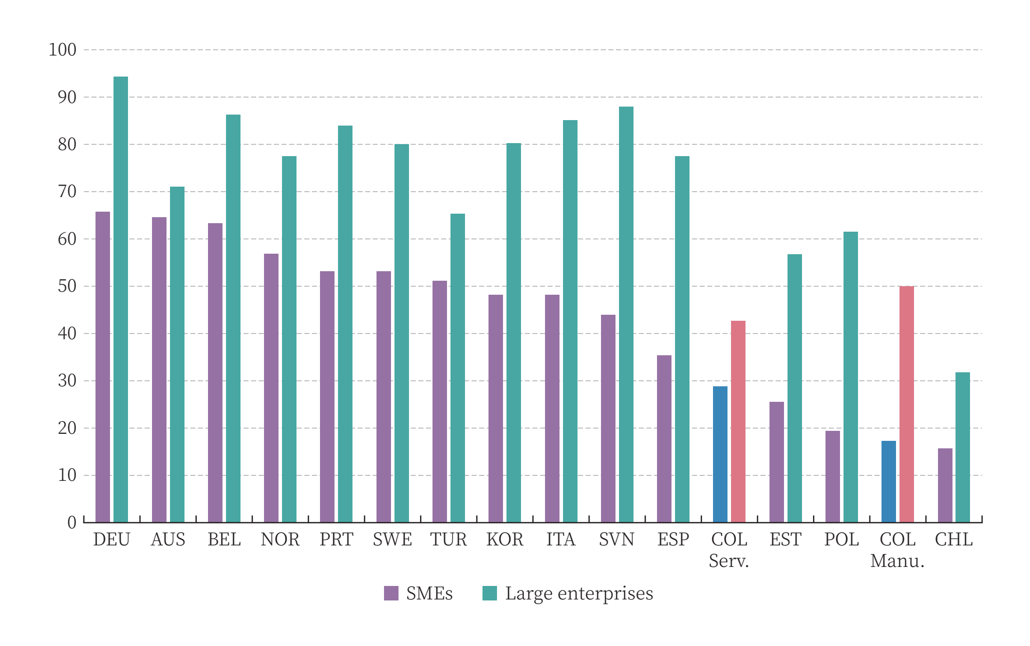
2.2. Status of R&D and Innovation in Colombia's SMEs and Its Relationship with IFDI

One of the factors related to increasing competitiveness in Colombia is the R&D expenditure. Colombia has a low level of R&D expenditure compared with other countries and there has been some benefits from R&D expenditure which are highly concentrated by sectors and locations. Foreign investors using RD&I expenditure to match SMEs can increase competitiveness by invention, technology adoption, and new or improved products or services.

Only 20% of Colombian SMEs firms are innovative (OECD, 2019)[4]. The figure has since doubled for large firms. In average, other OECD innovative SMEs are twice as much more innovative compared to Colombian OECD firms. Differences between OECD innovative large firms and Colombian firms are lower, so the gap in innovation is larger for SMEs (see Figure 2-5).

4 According to the Survey of Technological Development and Innovation (2019-2020), 26,47% of SMEs and 65,8% of large firms are innovative in Colombia.

[Figure 2-5] Share of Innovative Enterprise by Size, Colombia, and Selected Countries (2016)



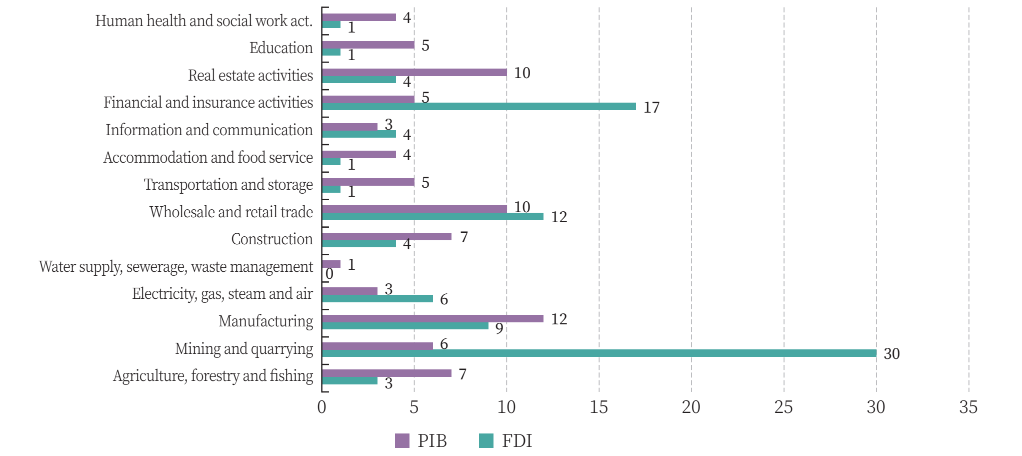
Source: Production Transformation Policy Review of Colombia (OECD, 2019).

Some of the cooperative restrictions of SMEs with IFDI include scaling up capabilities, mindset, and communication skills. For example, a three-year old company is a risky partner given that new companies can greatly fluctuate in the first three years. Also, given that important investors such as America, Europe and Israel expect to communicate in English, when SMEs only speak Spanish, the lack of English skills creates a barrier for potential cooperation.

There are opportunities to promote R&D by IFDI in particular sectors. While around 30% of IFDI goes to the carbon and oil industry, 17% to finance and insurance, 3% to agriculture, forestry, and fishing, 9% in manufacturing and 4% in the building sector[5] (see Figure 2-6).

5 For this argument a comparison is done of the percentage of the PIB 2019 with the total amount of Investments by direct investors residing abroad in direct investment companies resident in Colombia in 2019 (DANE 2021a, 2021b).

[Figure 2-6] Percentage IFDI and Percentage GDP Per Sector (2019)



Source: Authors based on (DANE, 2021b, 2021a) (National Accounts and EAID).

When comparing IFDI figures with innovation activity, sectors with low IFDI also has a low percentage of innovative companies. In the manufacturing sector, subsectors have a very low innovation activity, where less than 20% of companies innovate or made effort to innovate (i.e., non-innovative) between 2018-2019. This includes the manufacture of sports goods, wooden parts and pieces, wooden recipients, jewelry, bijouterie and related articles, sawmilling structural metal products, furniture, basic precious and other non-ferrous metals, footwear, repair and the installation of machinery and equipment, man-made fibers, printing and other service activities (DANE, 2021c).

Some subsectors have low investment in scientific and technological development, and show low performance in innovation. Among them are the manufacture of footwear; sawing, planning, the impregnation of wood, wooden container sand other wooden products, basic precious and other non-ferrous metals, furniture, jewelry, costume jewelry and sports equipment.[6]

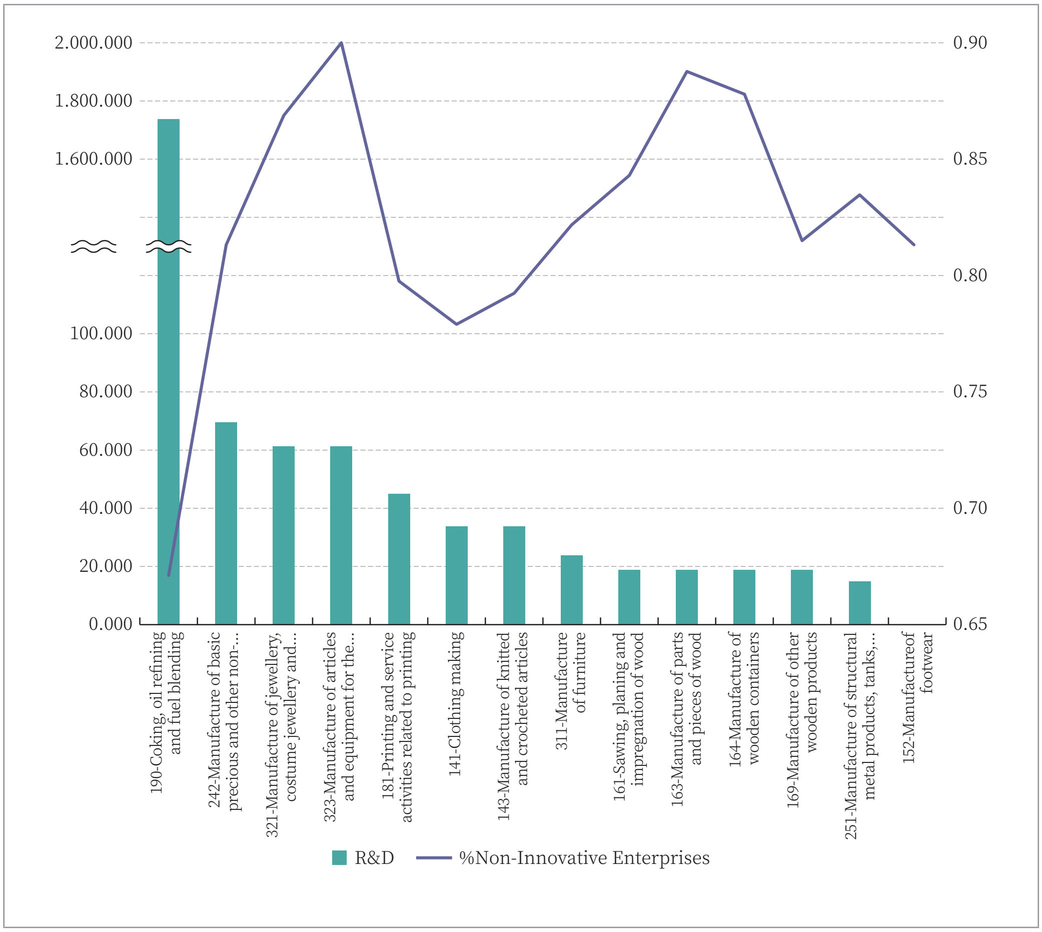
A similar analysis, with the investment in R&D shows that the following subsectors have low investment and more than 80% of the companies are non-innovative, this includes the manufacture of basic precious and other non-ferrous metals, jewelry, items and equipment for the practice of sports, printing and service activities, knitted and crocheted articles, furniture, sawing, planning and impregnation of wood, parts and pieces of wood, wooden

6 For this argument a comparison is done of the manufacturing subsectors (3 digits) with less than one third of the average investment in ST&IA of the whole industry and with more than 80% of companies of the subsector as non-innovative (DANE 2021c Tables C.1.2 and C.2.1).

containers, other wooden products, structural metal products, tanks, reservoirs, steam generators, and footwear (see Figure 2-7).

[Figure 2-7] Average Investment in R&D per Company and Percentage of Non-innovative Enterprises in the Manufacturing Sector

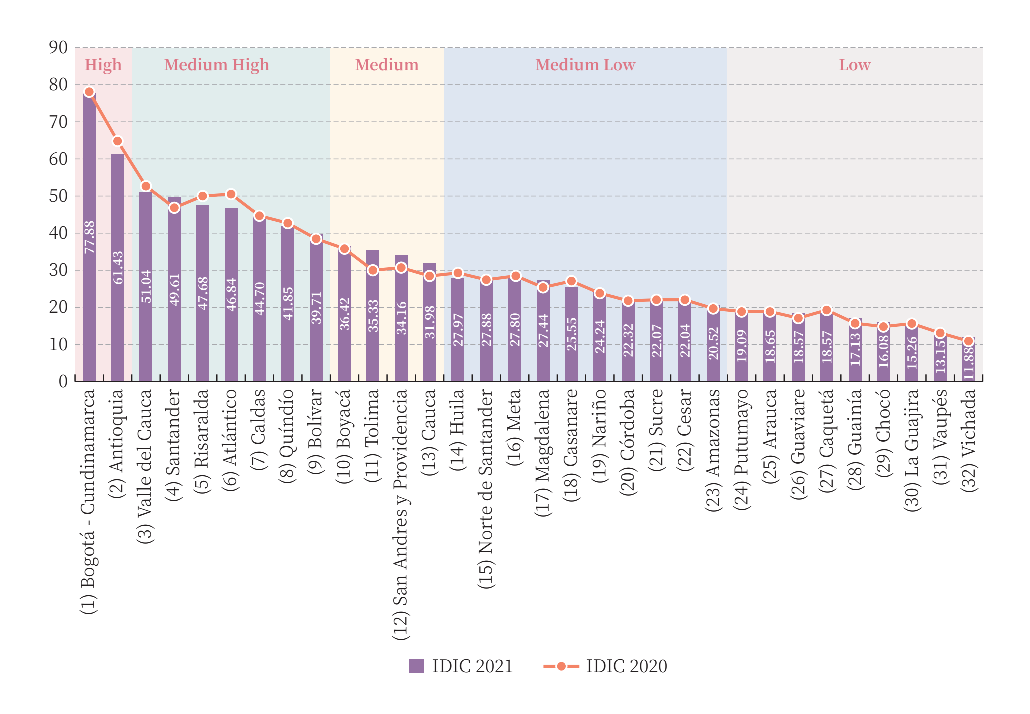
(Unit: Thousands of Colombian Pesos)



Source: Authors based on DANE (2021c).

Some figures show that high levels of IFDI relate to better performance in export activity and innovation. The three departments with high levels of IFDI also show the best performance in the innovation index. Eight of the 10 departments with IFDI with at least 1000 employees show a high or medium performance in the regional innovation index. The main result of Colombia's innovation index by region is as follows (see Figure 2-8).

[Figure 2-8] Innovation Index per Department 2020-2021



Note: The Departmental Innovation Index for Colombia (IDIC per its Spanish name Índice Departamental de Innovación para Colombia) is a systemic innovation measurement adapted from the Global Innovation Index. The IDIC is a proxy of the functioning of the regional innovation system of each department, based on pillars. Each pillar is an enabler (i to v) or a result (vi and vii) of innovation processes in territories : (i) institutions, (ii) human capital and research, (iii) infrastructure for the production and exchange of ideas, goods and services, (iv) sophistication of markets (v) sophistication of businesses, (vi) production of knowledge or technology, (vii) creative production. https://www.dnp.gov.co/programas/desarrollo-empresarial/Competitividad/Paginas/Indice-Departamental-de-Innovacion-para-Colombia.aspx

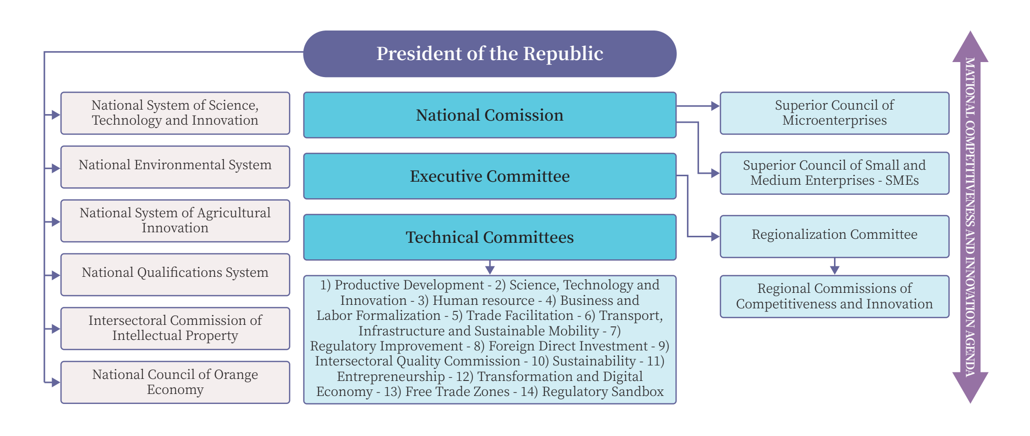
Source: DNP (2020).

As a general conclusion, opportunities exist for IFDI in sectors with low competitiveness compared with the investor home market. Despite some Colombian organizations and instruments dedicated to promoting IFDI, there are some difficulties for investors and these needs to be further analyzed; Colombia also has potential innovation capabilities differentiated by region.

2.3. Organizations and Instruments for Promoting IFDI

Colombia has the National Competitiveness and Innovation System (NCIS). This coordinate and guides the activities carried out by public, private, and academic entities which are related to the formulation, implementation, and monitoring of national policies that promote the competitiveness and modernization of the country. The NCIS has several levels, including a national strategic perspective. At the national strategic level, the Presidential Advisory for Competitiveness and the National Planning Department convey the National Commission, in which ministries and representatives of the private sector make proposals to establish a stable and competitive agenda. In [Figure 2-9] is presented the general structure of the NCIS.

[Figure 2-9] National System of Competitiveness and Innovation



Source: Authors based on Presidential Counsel for Competitiveness and Public-Private Management (2022).

As part of the technical committees of the NCIS, Colombia has the Committee on Foreign Direct Investment and the Foreign Direct Investment Facilitation Service (IED-SIFAI, by its acronym in Spanish), and was created by Decree in 1644 of 2021 and led by the Ministry of Commerce, Industry, and Tourism. It has the objective of analyzing, discussing, guiding, proposing, articulating, and monitoring the IFDI policy to promote, and develop the economic climate in Colombia.

The Ministry of Commerce, Industry, and Tourism formulates FDI policy and coordinates government strategies to increase the country's competitiveness. Additionally, the Ministry promotes economic development and business growth, foreign trade, and foreign investment, and encourages tourism, through the formulation, adoption and coordination of national policies and programs. Within the Ministry, the Vice-Ministry of Foreign Trade has a directorate for investment and trade, and its functions are to design, coordinate, and attract the FDI, services trade, and develop intellectual property strategies, as well as handle international negotiations in these disciplines (Gutiérrez *et al.*, 2020).

'ProColombia' is the promotion agency of non-extractive goods and services. The Agency was created in 1992 and focused on the promotion of exports, FDI initiatives, the expansion of Colombian companies, and developing the country as a tourist destination, whilst also managing Colombia's Country Brand (ProColombia, 2021).

Recently Colombia created two new foreign direct investment facilitation tools to systemically improve the economic climate in the country, and develop a strategy to facilitate procedures for investors. The Decree 1644 of 2021 introduced: i) the Foreign Direct Investment Facilitation Service (SIED, by its acronym in Spanish) which is a model of staggered attention for the management of applications submitted by foreign investors in Colombia[7]; and ii) the Single Investment Window[8] (VUI, by its acronym in Spanish) which is a digital single window for investment that will meet the needs of foreign investors in Colombia, and is made up of a set of policies, actions, and services that allow investors gather information and tools for their business to facilitate the compliance with investment procedures. Additionally, the red-carpet strategy is executed by entities of the National Government to build high-level contact points to help facilitate procedures, and accelerate exceptional results (Gutierrez, 2020).

The Ombudsperson figure has not been established yet in Colombia. The "Program to Support the Diversification and Internationalization of the Colombian Economy" (CONPES, 2019)[9] has a main objective to establish an Ombudsperson figure. This refers to any obstacles that an investor may face and prevents investor-state disputes and improves the business climate. The Decree 1644 of 2021 introduced the Ombudsperson figure as part of the SIED, but it is not yet regulated.

Colombia has International Investment Agreements (IIA) and the main objectives are to attract foreign investments and promote Colombian investment abroad. Colombia has 18 AIIs in force: 11 correspond to Investment Chapters included in Free Trade Agreements (FTAs) with Mexico, EE, UU, Canada, Chile, European Union, European Free Association Trade (Iceland, Liechtenstein, Norway, and Switzerland), Costa Rica, Korea, Israel, Northern Triangle (Guatemala, Honduras, and El Salvador); and 7 Reciprocal Investment Promotion and Protection Agreements with Spain, Switzerland, UK, Japan, China, India, Peru (Ministry of Commerce, Industry and Tourism, 2022).

The Internationalization Policy for Productive Development Regional, Conpes 4085 of 2022 (CONPES and DNP, 2022), included some actions in charge or with the participation of ProColombia to promote productivity, exports, and investment. ProColombia will play

7 The investor interested in the Service will file his application through the Single Investment Window. The system will evaluate, and depending on the type of the request, it will be classified and directed to one of the established service channels.

8 In July 2022, the Single Window of Investor was launched and it is expected to be tool that provides information to foreign investors. [...] information about the requirements, procedures, and processes necessary to make investments and start commercial operations in the country will be find. The website is https://vui.gov.co/

9 Conpes documents are public policy documents prepared to solve cross-cutting problems in whose solution several sectors participate. The formulation is coordinated by the National Council for Economic and Social Policy (CONPES for its Spanish name).

a fundamental role in: i) promoting the flow of foreigners to the country that allows the adoption and adaptation of new technologies; ii) providing programs of technological development for companies; iii) generating production chains with an emphasis on prioritized sectors; vi) distributing and marketing SMEs for prioritized sectors; v) attracting efficient FDI[10] in prioritized sectors and articulating efforts with IPAs; vi) implementing the Export Access platform; vii) measuring programs or activities that promote internationalization, with an emphasis on prioritized sectors (CONPES and DNP, 2022).

There are several instruments to promote IFDI in Colombia, which are summarized below <Table 2-1>. Annexes 2-1 to 2-6 present an extension of the description of the different instruments.

<Table 2-1> Main Instruments to Attract IFDI in Colombia

Instrument	Main aspects
Mega-investment	Regime to promote large investments
Region prioritization incentives	Special Economic Export Zones
	Special Economic Zones
	Special Economic and Social Zone
Free trade Zones	Geographically areas within the Colombian territory in which industrial or commercial activities under a special regime
Incentives in innovation	I+D+I income tax deduction and income tax credit
	I+D+I income tax credit for SMEs
	Creative and technological value-added industries income tax exemption
Public procurement	State purchasing and contracting processes to generate greater efficiency, transparency, and optimization of public resources
Targeted sectoral incentives	Incentives for specific sectors, for example: orange economy; hotel, and tourism incentive; energy efficiency – non-conventional energy sources; rural sector
Others	First employment deduction
	Imports with 0% tariff
	Manufacturing, construction, or acquisition of productive fixed assets
	International investment agreements

Source: Authors based on Ministry of Commerce, Culture and Tourism, Deloitte (2022).

Although there are several instruments to attract investment in Colombia such as

10 Investment in search of efficiency is the one that has the greatest potential to generate benefits in terms of productivity, employment and human capital, insertion in global value chains -GVC-, transfer of knowledge, technology, and production standards (UNCTAD, 2006).

national and international capital, Free Trade Zones regime is currently the most important way to promote investment. Free Trade Zones (FTZs) are defined as 'geographically delimited areas within the national territory, where industrial activities relating to goods and services or commercial activities are performed, and are under special regulations in tax, custom, and foreign trade matters (ProColombia, 2022).' Although the FTZ regime has several benefits for the national economy (employment, investment and exports, regional development, business agglomerations, and productive chains, among others), there are still many challenges to deal with the spillover generated by foreign investment, exports, and the insertion of the Colombian economy in GVCs. To enhance this instrument, the Conpes 4085 of 2022 has defined actions to evaluate possible adjustments in the regimen to focus it towards attracting efficiency-seeking IFDI.

The MOEF (2021) concluded that Colombia has a broad set of programs offered by different public entities to support SMEs, including RD&I expenditures. Some issues and challenges identified in the study were: 1) Colombia offers many policy instruments (497 instruments) for SMEs that are often considered too costly, thus restricts the number of applicant companies; 2) the promotion of RD&I in Colombia includes tax subsidies, which is not always an effective instrument for SMEs; 3) to promote linkages between innovation actors as an effective instrument; 4) it is important to raise awareness in SMEs about RD&I investments and its connection with IFDI; and 5) it is important to enhance the collaboration between SMEs and universities or R&D centers.

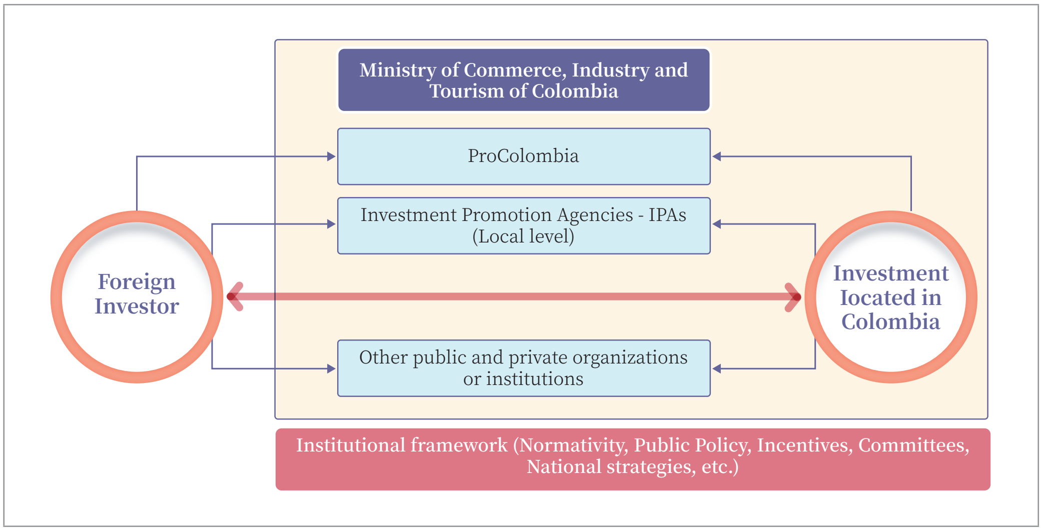
2.4. The Roles of National and Local IPAs in the Foreign Investment Attraction Ecosystem

Colombia has created several arrangements to facilitate the dialogue between public and private sector competitiveness and innovation, with a main focus on promoting IFDI and using science, technology to enhance competitiveness.

Colombia does not have a unique pathway to attract foreign investors. In Colombia there are multi-players that are involved in promoting Colombia as an attractive destination for investment opportunities and has a promoting public agency at the national level. As it is presented in [Figure 2-10], a foreign investor could be contacted by several institutions or organizations to showcase investment opportunities in Colombia: i) it could be contacted by the national or a reginal IPA; ii) it could be contacted by a public or private institution that is interested in attracting new investors for a project of the sector in specific, or iii) it could be contacted by the Colombian company to gain interest and attract new investors with capital, technology, and capital resources, etc.

In some cases, the foreign investor could be the one which first made contact: i) it could contact the national or a regional IPAs; ii) it could contact a public or private institution that represents a specific project or sector or iii) it could directly contact the Colombian company or new investment project of interest.

[Figure 2-10] Approach of the Ecosystem for Attracting Foreign Investment in Colombia



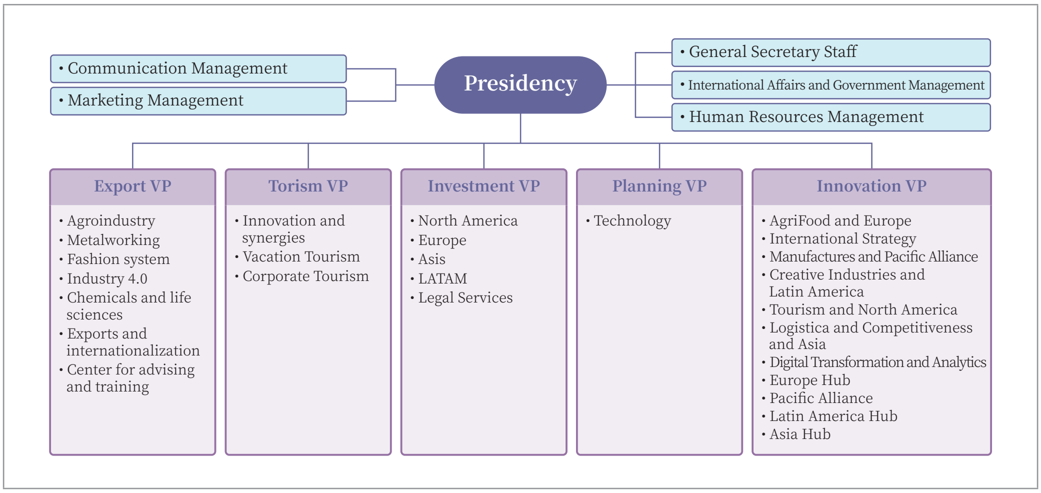
Other public and private organizations or institutions are considered as those that do not have a main objective to promote investment to Colombia, but attracting and keeping investors is a key point in their objective such as Local Chambers of Commerce, Ministries, Free Trade Zones (operators), Confecamaras, ANDI, ACOPI, etc.

Additionally, the entities involved in promoting investment in Colombia are institutions that articulate tools to promote local investment. These entities and organizations are important for driving investment opportunities and securing deals, providing services, programs, and other business incentives.

Despite the important role of the different institutions in investment as mentioned in [Figure 2-10], there is still an interest to further study the structure and functioning of IPAs. 'ProColombia' is the public agency in charge of FDI and has the possibility to cover all the roles of investment, in coordination with the local IPAs.

'ProColombia' has a significant presence around the world. The agency has a presence in 32 countries[11], and it is divided in five vice-presidencies to carry out its duties. The Vice-presidency of Investment is organized in five management offices: North America Investment Manager, Europe Investment Manager, Asia Investment Manager, LATAM Investment Manager, and Legal Services Manager (see Figure 2-11).

[Figure 2-11] ProColombia Organization Chart



Source: Authors based on ProColombia (2021).

Although 'ProColombia' offers several services and tools to attract foreign investments[12], Gutierrez (2020) highlights that according to some studies 'ProColombia' could be more efficient, in accordance with the needs and objectives described in the investment attraction policy. While in the national IPA the Vice Presidency of Investment is structured around global markets with investment managers and sector advisers who work and generate support in all regions. Whereas in other countries the basic operations of an IPA respond to the areas related within its roles (see Figure 2-13). Additionally, while ProColombia does not prioritize or exclude sectors, countries, projects or investors, other IPAs in Latin America and the OECD do a periodical revision of prioritization. If an IPA is focused and prioritizes certain sectors, countries, and investment projects then it must have the greatest impact on s investment promotion activities.

11 Canada, United States, Mexico, Guatemala, Costa Rica, Panama, Puerto Rico, Dominican Republic, Trinidad and Tobago Republic, Argentina, Brazil, Chile, Ecuador, Peru, Venezuela, Germany, Spain, France, Italy, United Kingdom, Russia, South Korea, China, India, Indonesia, Japan, Singapore, Turkey, United Arab Emirates.

12 ProColombia offers several services and tools to attract foreign investments, which are available in its website "invest in Colombia" https://investincolombia.com.co/en. Some of the activities considered by ProColombia are: i) services for investors: these services are made to support and assists foreign investors that are considering Colombia as their next investment destination or for these that are already operating in Colombia; ii) investment agendas; iii) other activities the Agency does in search of new investors: Colombia Investment Summit (the most important event in terms of attracting foreign direct investment to the country), the ProColombia Pith Session (virtual event to connect Colombian technology-based entrepreneurs with private equity funds), and sectorial events and seminars.

ProColombia works in partnership with local IPAs to attract foreign investors. In <Table 2-2>, there is an approach of how to characterize ProColombia and local IPAs. As it can be seen, there are some notable differences in types of institutions, the prioritization of sectors, websites, and international offices. Additionally, ProColombia has as a main purpose to show Colombia as an attractive location to do business and attract potential investors. Meanwhile, local IPAs are the entities that support investors directly during the whole process[13].

<Table 2-2> Comparison of IPAs in Colombia

Aspects	National IPA	Local IPAS
Entities	1 IPA – ProColombia	23 IPAs
Type of institution	Public	Usually is a public-private partnership
Role	National IPA – focus mainly on first contact with investors	Regional IPA – focus on support investors during the whole process
Prioritized sectors	No	Yes, the prioritization depends on the local IPAs
Website	Yes	Some IPAs do not have websites and other do have (some of them are more sophisticated websites and with more information than other)
International presence (offices)	Yes, ProColombia has permanent presence in 32 countries	No, but some local IPAs have participation in international fairs, workshops, etc.

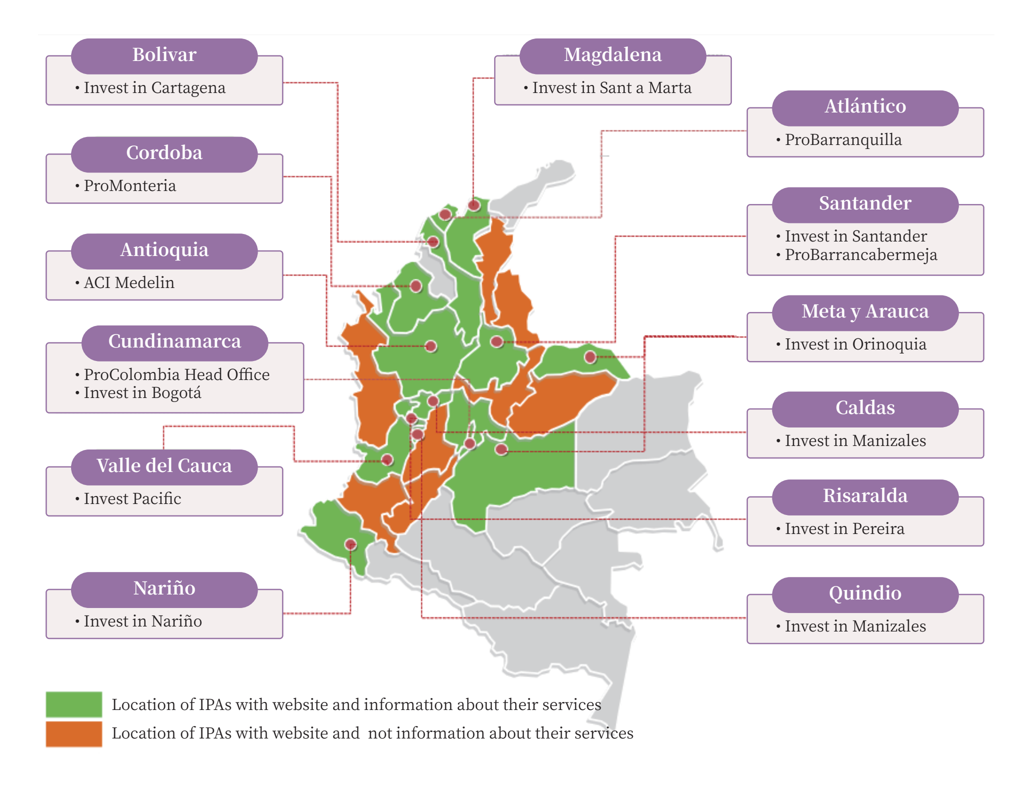
Source: Elaborated by the authors based on data from ProColombia and regional IPAs (2022).

The local IPAs work in partnership with departmental authorities and the private sector. They set its objectives according to the needs of its department, take advantage of its strengths, both geographical and natural as well as infrastructure, trained workforce, technological, etc.

Some departments of Colombia have their own IPA, which usually is a result of a public-private partnership. In [Figure 2-12] it's shown IPAs location, divided into two groups: (IPAs in green) have developed a website where investors can find information about the services and offers by the IPA and can contact them directly (14 IPAs); (IPAs in orange) don´t have a website (9 IPAs). Some IPAs have a larger trajectory and budget, and are associated with departments that are more lucrative, which could lead to a greater result in economical outcome and attract more investment. Most departments located in the south-east do not have any IPA.

13 Local IPAs provide facilitation services and value-added advice at different stages of the investment process and each IPA has a definition of the services that they can provide to investors. Local IPAs offer support when: a potential investor is finding information about where to make a future investment (benefits, social economic conditions, etc.); ii) the investment is set up and it is needed to put it in operation (creation of the company, advice in legal procedures and taxes, liaison with different actors, etc.); iii) the investment is operating but need support to make it successful o during its operations.

[Figure 2-12] Location of National and Local IPAs



Note 1: There are no identified any IPAs in the Colombian departments colored in gray. Despite of that, ProColombia could make some activities in these regions.

Note 2: IPAs with not website are: Invest in Huila (Huila, Neiva) - Invest in Cucuta (Cucuta, Norte de Santander) - API Tolima (Ibague, Tolima) - Invest in Cesar (Valledupar, Cesar)- Invest in Boyaca (Tunja, Boyaca) - Invest in Cauca (Popayan, Cauca) - Invest in Casanare (Yopal, Casanare) - Invest in Oriente (Oriente Antioqueño, Antioquia) - Invest in Choco (Quibdo, Choco).

Source: Elaborated by the authors based on data from ProColombia and regional IPAs (2022).

IPAs prioritize sectors based on the potential of each department. In [Annexes 2-6 and 2-7] the information of sectors that are prioritized by the IPAs in Colombia is presented in more detail. Based on the collected information, most of the departments are interested in promoting agroindustry, manufacture, and services sectors. Some coincidence of sectors is found between IPAs to allocate investments. In agroindustry and manufacture sectors, there are some differences based on the specific industries they want to promote, regarding their economic structure, for example, the textile industry is mainly located in Antioquia, and coffee production is in departments with specific environmental conditions[14].

The Internationalization Mission (Hausmann *et al.*, 2021) recommended how ProColombia could improve in terms of promoting foreign investment. The main points are related with the following: i) ProColombia should have a more efficient structure and increased

14 Nariño, Norte de Santander, Antioquia, Valle del Cauca, Cundinamarca, Huila, Cauca, Tolima, Caldas, *Quindío y Risaralda.

coordination with other national and regional agencies working on investment promotions and have strengthened measurement and assessment tools. According to the analysis from Volpe Martincus, C. and M. Sztajerowska, (2019), mentioned by the Internationalization Mission (Hausmann *et al.*, 2021), the operations of an IPA should respond to the areas of facilitation, promotion, intelligence and post investment. But, ProColombia is currently structured around world geographies such as; ii) planning, coordinating, and managing the responsibilities and roles of those involved in FDI policy, such as ProColombia, local investment promotion agencies and other institutions; iii) reduce the number of sectors that ProColombia actively promote to attract the FDI and focus on these sectors where the country has a strong competitive advantage and a high potential to attract investors; iv) facilitate the provision of information and assistance services to the investor, during the whole investment cycle.

2.5. Survey for IPAs and IFDI Competitiveness

An online survey was settled and sent on the scope of the Mission to different actors involved in IFDI, including staff or users of IPA services, in order to appraise and learn more about how ProColombia and the local IPAs function in Colombia.

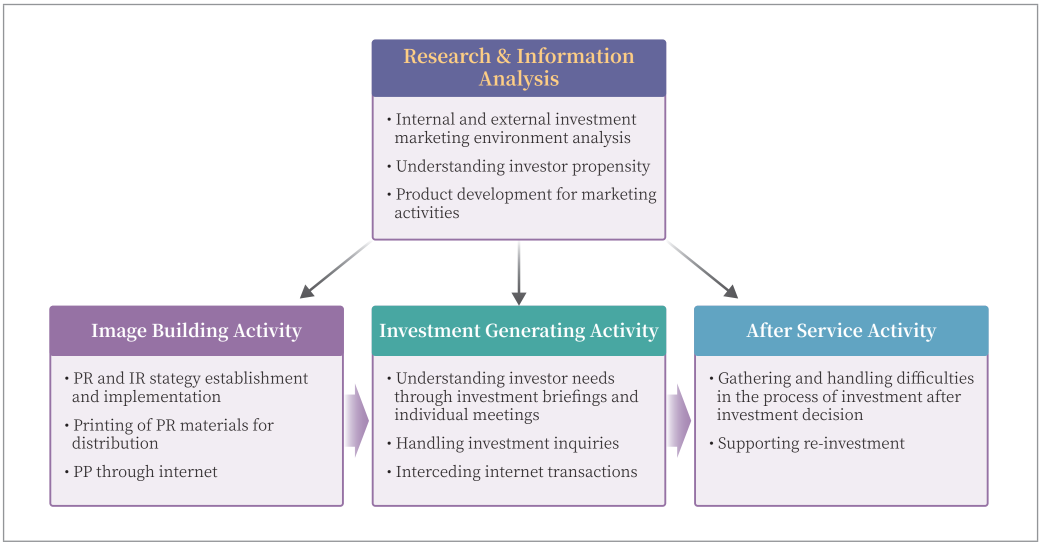
The survey focuses on 1 to 5 several aspects related with the perception of the roles, including: image building; investment generation; research and information; and after service (see Figure 2-13). Also, a comparison between present and future IPAs capabilities (competitiveness) is completed Finally then, factors that define the Colombian competitiveness for the IFDI are evaluated, including the subject of investment, the strategy, the policies, and the services and infrastructure. In the following two sections an analysis is presented of the main results.

The detailed results show the variation in factors for the different IPAs, although the sample is small for considering individual results (i.e., per IPA). For this reason, a consolidated approach for all IPAs in Colombia is as follows.

2.5.1. Analyses of the Role of the Colombian IPA

There are four basic roles of IPA such as image building, investment generating, after service, and research & information analysis as it is shown in [Figure 2-13].

[Figure 2-13] Four Basic Roles of IPA

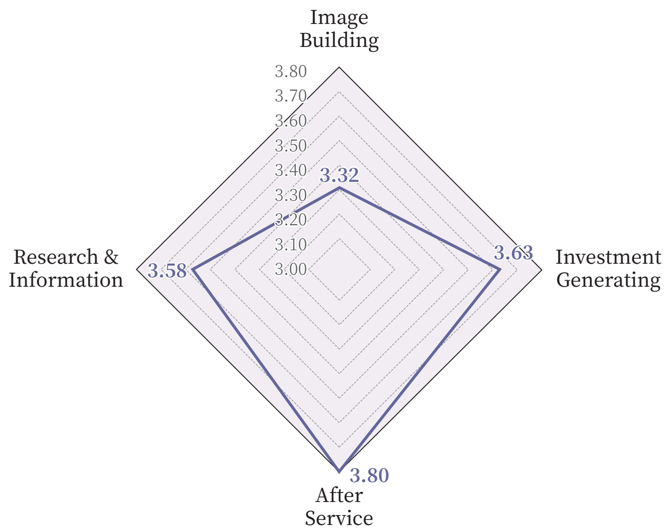


Source: Lim (2004).

Our researchers conducted interviews by online or offline with many local IPAs, as well as ProColombia, the national IPA. Since then, survey items have been distributed online and questionnaires have been collected. A survey was conducted on various IPAs, including ProColombia, Invest in Cartagena, ProMonteria, Invest in Armenia, ACI Medellín, Invest in Boyacá, ProBarranquilla, Invest in Manizales, Invest in Cesar, Invest in Tolima, Invest in Oriente, Invest in Bogota, etc. The survey consists of two types. One is about the primary role of IPA. This is to understand which of the IPA's roles you are doing better. The other is to understand how well Colombian IPAs think they are doing relatively well compared to other countries' IPAs and their competitiveness in attracting investment. The competitiveness of investment attraction consists of four categories - subject of investment, customer-oriented IFDI strategy, efficient services and infrastructure, basic policies and strategies of IFDI. The total number of samples that responded to the survey was 15. See the [Annex 2-8] for the composition of the survey items in the survey.

The following is a picture drawn with the average value [Figure 2-14]. See the [Annex 2-8] for the composition of the survey items in the survey. A comparison of the perception of four roles of the IPA (i.e., image building, investment generation, research and information, and after service) shows that image building has the lowest perception with 3.32 of 5.00. Meanwhile, after service has the highest perception with 3.8.

[Figure 2-14] Results Colombian IPAs Survey: Four Roles of Investment



Source: Authors based in IPAs survey.

One interpretation of the low results of the image building role is that more effort needs to be made in terms of the reputation of Colombia and their departments as a foreign investment destination. It's also to be expected that this includes the coordination of efforts with embassies and consulates abroad, differentiate public relationships by holding seminars on different incentives, entry modes, and types of investment for foreign investors (ex. Bogota's tourism industry) through internet and mobile. However, another interpretation is that the IPAs expect a different emphasis by ProColombia, through the Marketing Direction in charge of the Colombian brand, in image building.

On the other hand, it is highlighted that the after service has the higher results, despite the fact in the mission interviews it was reported that neither ProColombia nor the local IPAs have the capabilities to follow-up the FDI. The best performance is related to targeting already invested companies, finding and solving their difficulties, and carrying out business deals to attract re-investment.

The investment generating role shows an appraisal of 3.63 of 5.00. In this factor, the understanding and analysis of investor needs to be established by investment briefings, individual meetings, and investment inquiries to evaluate performance.

Finally, the research and information analysis were appraised with 3.58 of 5.00. The higher values were used to assess used to reference the capability to understand and analyze investor needs such as whether they are long or short-term investors, where they want to invest, or which types of investment projects they want and this be assessed through various ways such as meetings, interviews, seminars, and research.

In terms of the comparison of the current (last five years) and future (next five years) performance of the Colombian IPAs, it is expected to be a mild improvement from 3.53 to 3.60 (see Figure 2-16).

[Figure 2-15] Results Colombian IPAs Survey: Current and Future Performance

Source: Authors based in IPAs survey.

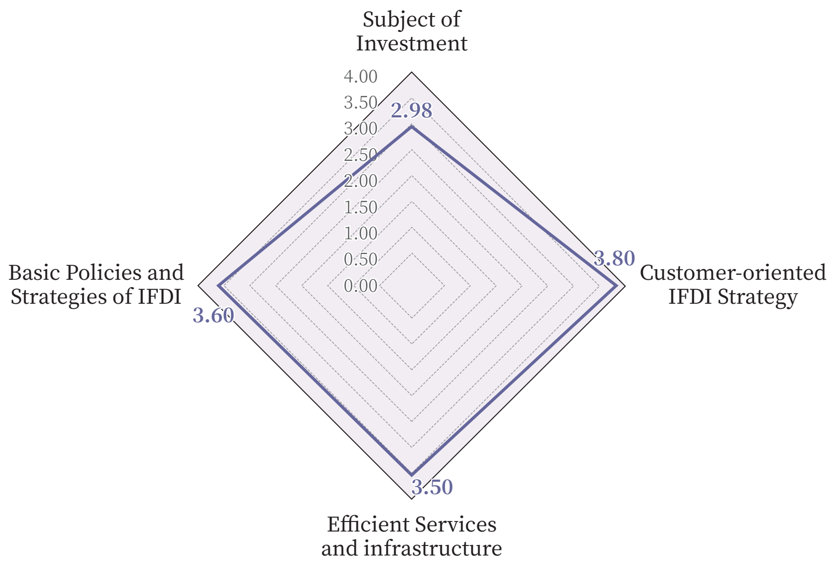
2.5.2. Analyses of Colombian IFDI Competitiveness

The survey provides inputs for a comparison in terms of four factors related to Colombian FDI Competitiveness: subject of investment, customer-oriented strategy, policies and strategies, and services and infrastructure.

Best performance is related with the customer-oriented strategy, in which Colombia is appraised with 3.8. Two aspects are considered: i) Increased IFDI is as important as new IFDIs, and ii) what foreign investors would like to invest is as important as what the IPA would like to attract in selecting firms or industries.

The lowest performance takes place in the factor subject of investment. Two aspects have the lowest figures: i) The number of firms and the amount that invest in already operating companies in the host country and that ownership is transferred is not appropriate in the current development stage of the industry in the country or location, and (ii) the promotion of IFDI by foreign institutional investors such as Private Equity Fund (PEF)[15] does not take place.

[Figure 2-16] Results Colombian IPAs Survey: FDI Competitiveness



Source: Authors based in IPAs survey.

In terms of efficient services and infrastructure the appraisal is 3.5 of 5.0. The lowest performance takes place in terms of i) having abundant IFDI experts well qualified with not only hands-on experience but also knowledge (or theoretical background), and ii) promoting an environment for business management such as electricity, water service, roads, regulation, law, process of administration, etc. for foreign investors well organized.

Finally, the factor basic policies and strategies in IFDI show a figure of 3.6 of 5.0. The lowest performance is in terms of the elimination of unnecessary "regulations", which could prevent IFDI. It means that the unnecessary regulation is not quickly abolished or modified. Similarly, low values are given to the provision of incentive programs.

In general, the appraisal regarding IPAs competitiveness is diverse and, in the comments, there can be found some clues about it. The national IPA ProColombia and some local IPAs,

15 This is the way that foreign leading investment agencies invest in. They mostly collect funds, invest in approximately for five to ten years, and exit after they can realize profits. It is originally subject to investment exit five to ten years after the investment.

such as Invest in Bogotá or ACI Medellín, have capabilities in most of the phases of the promotion of FDI investment projects. On the other hand, some local IPAs are small units of few people, in some cases related to the economy office or secretary of a department or municipality, or without any FDI experience FDI.

2.6. Comments

The relationship between IFDI and RD&I takes place in the NSCI, but this relationship can be strengthened. Both topics are discussed at the level of Technical Committees, although there is no evidence that a direct relationship takes places.

Colombia has several instruments to attract foreign investment. However, it is necessary to analyze if each of the instruments are fulfilling its objectives. It is already mentioned in the Conpes 4085 of 2022, which has defined actions to evaluate possible adjustments in some instruments to focus it towards attracting efficiency-seeking FDI. Additionally, it is necessary to evaluate which instruments focus on promoting RD&I in SMEs and identify the positive impacts and recommend which instruments should be utilized.

Colombia and its departments have different challenges in FDI promotion. One of them is that a more flexible and diverse FDI should be located to reflect the current state of industry development in various locations. Considering the FDI roles, a major challenge is building an image per region. Also, local IPAs should focus the subject of investment in sectors according to the state of industry development in each region. It is important to define sectors as national strategies and focus on these aspects independently.

Each of the IPAs in Colombia, including ProColombia and the 23 local IPAs, have different capabilities and it is expected to work in a collaborative matter. ProColombia does not have the access to all local and departmental information and contacts. So, the national and local IPA capabilities and responsibilities are complementary and their goals are different Although ProColombia works in coordination with local IPAs, which usually are created as a public-private partnership, there is evidence of challenges in this regard. Also, it is important for the national IPA to review if its current structure is efficient or if it should be reorganized based on the roles it must perform.

Considering that there are 23 local IPAs in Colombia, important differences are between them. Among some of the major differences of IPAs the ones that can be highlighted are organizational structures, segmentation of work teams, design, information websites, allocated budgets, economic disparities of departments, etc. No conclusions can be made in the quality of the local IPA roles.

The national government is making significant progress with the recently created Committee IED-SIFAI, the Foreign Direct Investment Facilitation Service and the Single Investment Window. With these investment tools, Colombia has on its public agenda to give faster and more timely attention to the needs of foreign investors. The figure of the Ombudsman is under regulation and will also be a support mechanism for the investor during the development of the different roles. The speed and effectiveness of putting these tools into operation will be decisive in improving the attraction of foreign investors.

As we will find in the following sections, a better understanding of the similarities and differences can help to build a more effective and efficient FDI promotion system.

3. Korea's Investment Attraction System

Basically, there is a difference between trade and FDI in cross-border movement. Trade (export and import) is the cross-border movement of products. On the other hand, FDI (Foreign Direct Investment) is a cross-border movement of production factors such as management, manpower, and technology. Therefore, in a country's economic development, FDI has a significant effect compared to trade. Especially, within this movement of production factors among countries which has a greater impact on the innovation and growth of SMEs in the region than trade (Dunning, 2003; Jung and Moon, 2008).

Of course, efforts in promoting inward FDI (IFDI) by matching it with Colombian SMEs will be compensated with a better allocation of resources by companies (i.e., higher productivity and competitiveness), lower comparative prices for consumers, new or improved products for covering social needs, better employment, and economic stability.

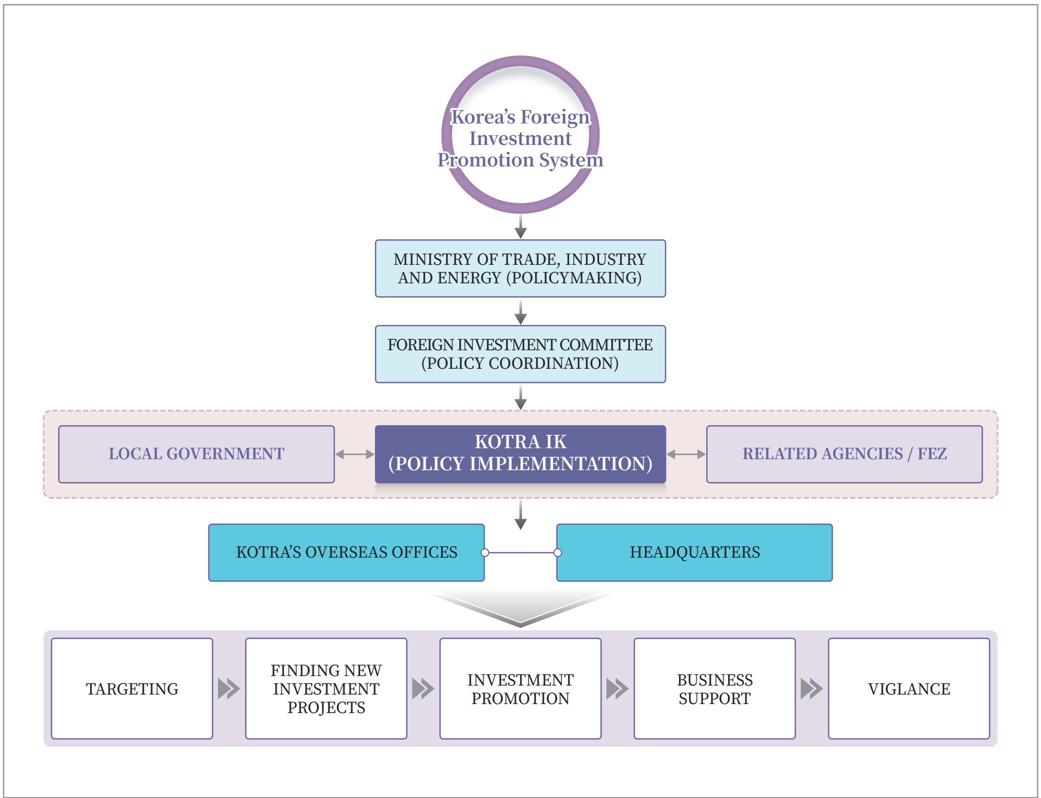
This section inspires policy recommendations by providing a benchmarking of the Korean FDI-related institutions [section 3.1] some Korean case studies [section 3.2], and by recognizing that digital transformation is an opportunity for adapting the attraction roles to a more efficient IPAs' use of resource [sections 3.3.1 and 3.3.2]. Regarding ESG, which has become an issue in the recent decades, we examine the impact on IPAs and IFDI in section 3.3.3. From the ESG perspective, non-financial factors are considered when investors make their investments. Section 3.4 presents matching methods for enhancing the SMEs capabilities in R&D, which catalyze their competitiveness for receiving IFDI. In final section [section 3.5], we suggest some comments.

3.1. System and Process of Korean Inward FDI

In this section some Korean institutions are presented which relate to IFDI, which form part of the Korean IFDI network: Invest Korea (IK), Project Manager (PM), and Foreign Investment Ombudsman, Invest Korea Plaza (IKP), Investment Consulting Center (ICC), and Invest Korea Market Place (IKMP) program. All institutions are under the Korea Trade-Investment Promotion Agency (KOTRA). Together, these institutions have made Korea a successful case of foreign investment in the last few decades.

Korea's FDI attraction system is configured as shown in [Figure 2-17]. IK implements government policies related to IFDI and is established by the Foreign Investment Committee, the Ministry of Trade, Industry, and Energy. It is composed of KOTRA employees with abundant knowledge and experience in the IFDI field, government officials, and private experts from government-related ministries and agencies which comprise a close cooperative system with about 40 overseas investment centers.

[Figure 2-17] Korean Foreign Direct Investment Attraction System



Source: Invest KOREA homepage (2022).

KOTRA has branches in several locations. They support overseas-related businesses such as the overseas expansion of SMEs with various locations or connections with foreign-investors In particular, the above concept can help to attract strategic foreign investments with local SMEs.

In the following subsections each of the institutions is presented with details of their duties and how they relate to each other.

3.1.1. Invest Korea, IK

Invest Korea is the "national investment promotion agency whose aim is to support the establishment of foreign businesses" (KOTRA 2022). IK was created as part of Korea Trade-Investment Promotion Agency (KOTRA) in the 1990s as part of the trend of opening foreign investment, as well as trade.

IK provides comprehensive services such as a declaration of investment, the establishment of a company, support of business activities, resolving management difficulties, and implementing support policies in line with the inflow of foreign investment in Korea.

First of all, IK comprehensively provides information related to foreign investment in Korea to foreign investors who are considering investing with central and local governments, investment prospects, and provides information about the industry, law, tax, and accounting that is necessary for foreign investors. In addition, the one-stop investment counseling center is operated, and an online counseling system is established on the Invest Korea website, and when foreign investors ask questions about investment or ask for counseling, a person with professional knowledge answers within a set time.

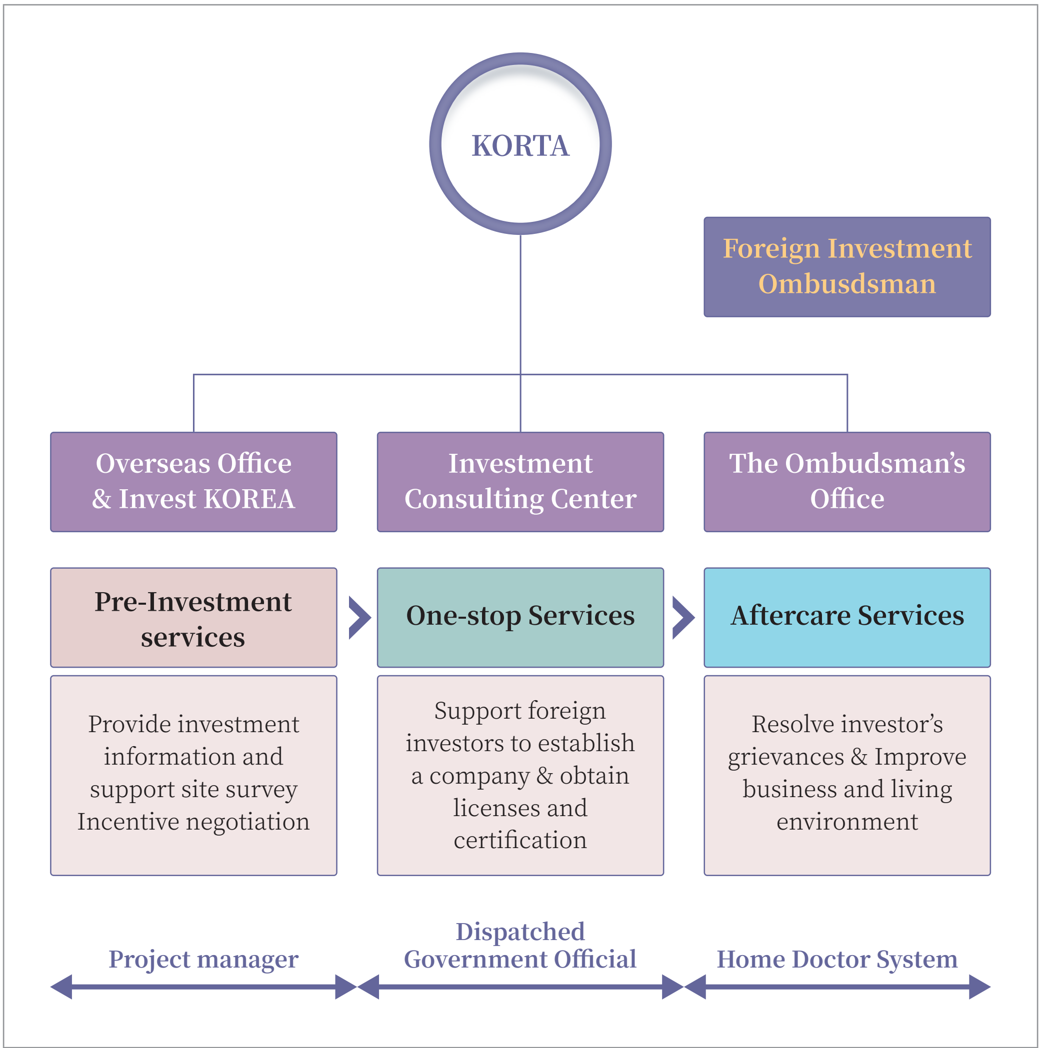
The services of establishing the company are through the project manager (PM), the Invest Korea Plaza (IKP) and the Invest Korea Market Place (IKMP) program, while the implementation of support policies happens with the Ombudsman.

3.1.2. Project Manager, PM

Until a foreign investment project is properly implemented, a project manager, will be designated by IK to provide professional support. PM supports foreign investors to visit potential investment areas in Korea, to find domestic partners, to visit related government offices, and to negotiate investment incentives.

As presented in [Figure 2-18], Project Managers play a central role in the pre-investment decision and its main goal is to ensure the investment is a success.

[Figure 2-18] KOTRA Organization



Source: Invest KOREA (2022).

3.1.3. Foreign Investment Ombudsman

IK operates a separate 'foreign investment ombudsman' system. The foreign investment ombudsman "investigates and handles complaints of foreign investors and foreign-invested companies, devises improvement measures for foreign investment system, and delivers proposals to related administrative or public organizations" (KOTRA 2022). It is challenging to handle organizations that are dedicated to foreign investors, and manage of the tasks necessary to collect and analyze information related to foreign investment companies. It can also be challenging to manage requests and implement cooperative relations with related administrative agencies, prepare measures to improve the foreign investment system, and recommend other areas of improvement (see Figure 2-19).

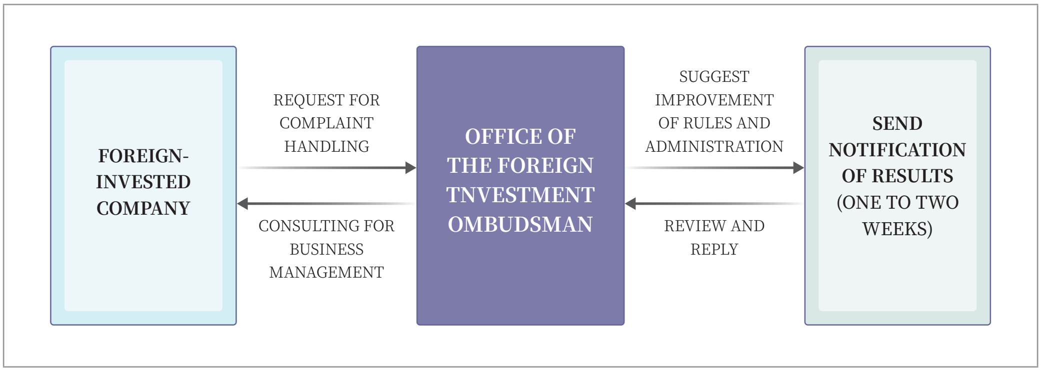
The foreign investment ombudsman system is not a one-time process, but an ongoing organization created under the Foreign Investment Promotion Act, and plays an integral role in resolving foreign investment difficulties as well as suggesting changes in laws and systems to prevent similar difficulties in the future.

It is an important to elect knowledgeable actors that can provide political support to the Minister of Trade, Industry and Energy. This is deliberated by the Foreign Investment Committee and commissioned by the President of the Republic of Korea. When handling complaints of foreign investors and foreign-invested companies, the foreign investment ombudsman may request support from the heads of related administrative organizations and competent authorities in several areas. Heads of related organizations must cooperate, unless there is a special reason (Article 15.2.3 and 15.2.4 of the Foreign Investment Promotion Act).

The Foreign Investment Ombudsman has the support of the Office of the Foreign Investment Ombudsman and the Home Doctors system. The office supports the Foreign Investment Ombudsman to handle complaints from foreign investors and foreign-invested companies, sending complains from investors to the authority in charge, which should "send notifications of results or opinions within seven days".

In a complementary way, the Home Doctors are consultants designated per location or with foreign-invested companies who can efficiently handle complaints of foreign investors and foreign-invested companies. Supported fields include Labor/HR, taxation, environment, finance/foreign exchange, tariff/customs clearance, construction, IT and intellectual property rights, settlement, etc.

[Figure 2-19] Procedures of Complaint Handling for Foreign-invested Company



Source: Invest KOREA (2022).

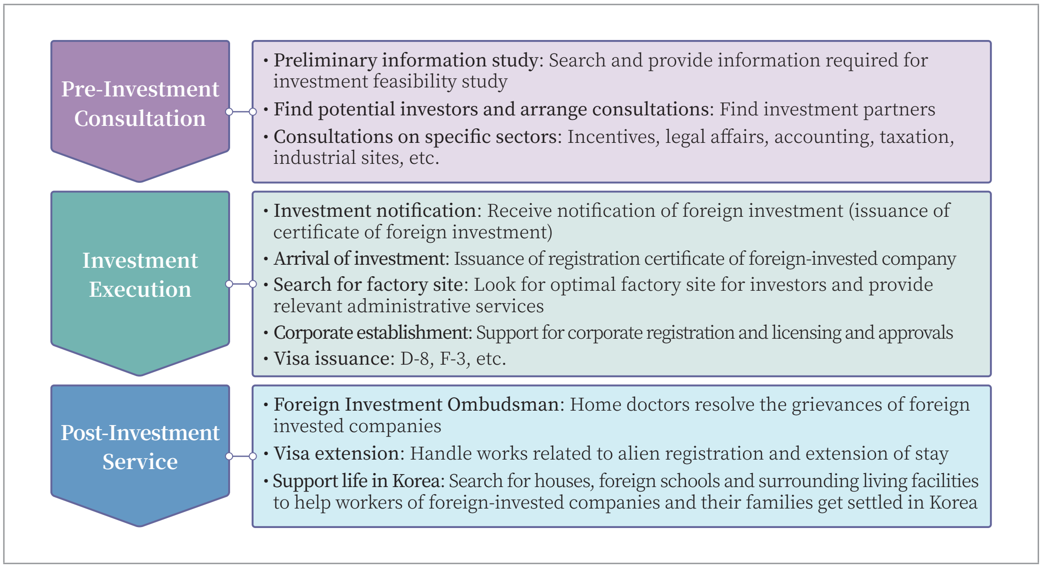
3.1.4. Invest Korea Plaza, IKP

Another instrument put in place in terms of FDI is Invest Korea Plaza (IKP), a representative support policy at the practical level. It is an incubating facility operated by KOTRA which is dedicated to foreign investors. IKP provides offices to assist the settlement of foreign investors. In the building next to the KOTRA office in Seoul, IKP enhances convenience for foreign investors by providing various services and facilities, such as administrative and consulting services, offices for foreign investors with secretarial services, exclusive business lounges, and consultation rooms etc. It provides office space at a low rent to foreign investors who meet certain requirements and offers comprehensive counseling services related to investment.

3.1.5. Investment Consulting Center, ICC

The ICC provides customized services to foreign companies, foreign investors, and employs members of foreign companies to review and execute investments, but also to deal with settlements in Korea. The ICC has a “one-stop service” to configure and operates efficiently, as shown in [Figure 2-20]. basically, all services of investment counseling, investment execution, and follow-up management are provided. In the investment consultation role, prior information surveys such as investment feasibility, discovery, and consultation arrangements of investment partners are arranged. and n implementation role, investment reports, arrival of investment funds and issuance of foreign investment registration certificates, etc.

[Figure 2-20] One-stop Service

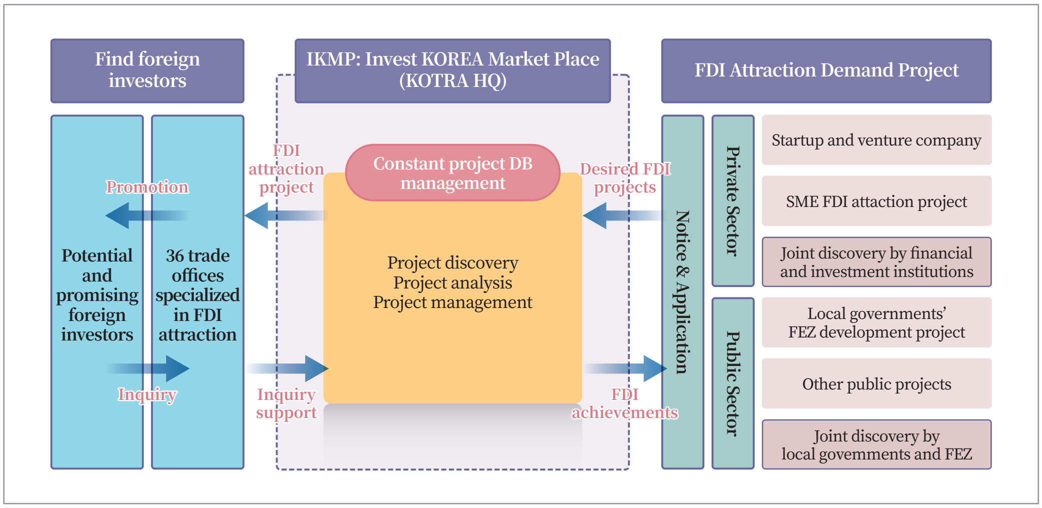


Source: Invest KOREA (2022).

3.1.6. Invest Korea Market Place (IKMP) Program

IK has the Invest Korea Market Place program, with the mission of identifying and providing support to promising and innovative startups, venture companies, and SMEs in Korea for with investment promotion in the global market. They work through KOTRA's 36 investment promotion overseas offices to promote these qualified projects connecting global investors who wish to invest and seek business opportunities in Korea (see Figure 2-21).

[Figure 2-21] The Process of Invest Korea Market Place



Source: Invest KOREA homepage (2022).

IKMP program was launched in 2017 and in the following two years it has selected 288 projects through a pre-screening. It provides companies from wide spectrum of 14 industry categories below such as ICT, Electronics, Pharma & Healthcare, Consumer goods, Real Estates, etc.

3.1.7. The Korean Subnational Actions in the Investment Promotion

Regions in Korea are also diverse to the extent that they can be as strong as Incheon or Busan, or with less capabilities such Jeollabuk-do. For example, the Icheon region has a Free Economic Zone, around which a set of smart cities, including Songdo, Yeongjong and Cheongna, with strong conditions for attracting foreign investors are being built. The Icheon Free Economic Zone, one of the nine free economic zones of Korea, offers direct negotiations with investors interested in reaching a market of one billion of consumers. In general, in the case of strong regions, such as Icheon, the role of subnational authorities can compete with the national institutions that attract foreign investment, while in some cases both can complement each other.

3.2. Korea's Case Studies

The matching methods of Korean SMEs and foreign investors have taken place directly and indirectly in the last decades.

3.2.1. Strategic Investment Attraction Policy in Manufacturing After the Asian Financial Crisis

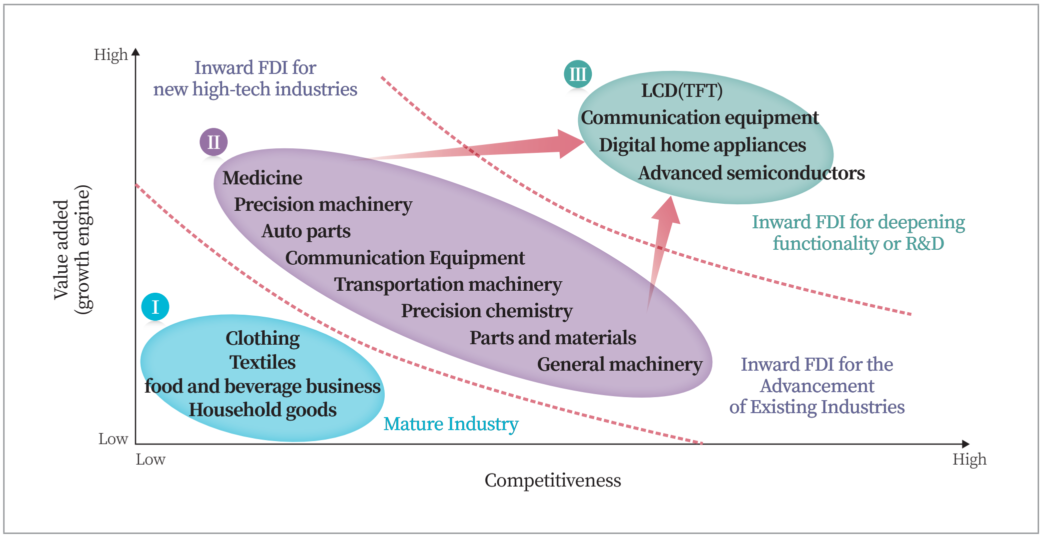
Korea's strategic foreign investment attraction policy was prepared after the Asian financial crisis in 1997 and was used to select new investment policy goals and effectively promote them. At that time, the goals of the strategic foreign investment attraction policy were to promote (1) foreign investment to develop new high-tech industries and advance existing industries, and to encourage (2) foreign investments in a business-centered country, and promote (3) foreign investment to foster and develop regional specialized industries.

The attraction of foreign investment in the manufacturing industry is divided into three groups according to the nature of the industry and the purpose of utilizing foreign investment attraction (see Figure 2-22). The first group is a mature industry such as clothing, textiles, food and beverage, and household goods. They need investment attraction strategies to promote work opportunities and local development. Therefore, it is desirable to conduct investment attraction activities such as overseas investor relations activities that are centred on local governments and local companies.

The second group creates high added value by the unit industry itself, such as precision machinery, automobile parts (electrical equipment and general parts), communication equipment, precision chemistry, transportation machinery, parts and materials, and general machinery. These industries have a large back-to-back association effect and can be said to be the foundation of each industry. In this field, small and medium-sized companies are collectively leading the market rather than large companies at home and abroad. Therefore, rather than attracting individual foreign companies, an approach to collectively attract related business groups are needed. In addition, providing incentives linked to technology transfer and R&D can provide parts procurement information to foreign-invested companies that are an effective means for creating and achieving policy goals.

The third group is an area where the market is active in Korea, such as LCD (TFT), communication equipment (terminal), digital home appliances, and advanced semiconductors, and has secured national competitiveness to some extent. As for mobile phones, Korea is becoming the world's main testing market. In this field, it is desirable to attract foreign companies that perform more advanced functions such as R&D and develop designs rather than attract foreign companies that produce general products requested at production costs. The market formed in Korea will sufficiently serve as the basis for attracting foreign companies' R&D and design development centers, so it is desirable to secure strong overseas investor relationships rather than set incentives.

[Figure 2-22] Strategic Investment Attractions in Korean Manufacturing after the IMF Financial Crisis



Source: Lim (2004).

A FDI attraction policy needs to consider sectors based on the level of investment, the expected added value, initial and expected industrial competitiveness, together with the facility to attract a desirable sector to invest.

3.2.2. Guro Digital Complex Case of Korea

Under the Export Industrial Complex Development and Creation Act from 1964 to 1973, it was the first national industrial complex in Korea to be constructed in Guro-dong and Gasan with a total area of 1.982.000 square meters. Currently, it is the only national industrial complex in Seoul with more than 10.000 companies moving in and 127.000 workers engaged in production activities.

It was built around the textile and sewing industries for economic development through exports in the 1960s and played a central role in the Korean export industry by creating miracles of the Han River as a mecca for manufacturing industries such as petrochemicals, machinery, and electronics in the 1970s and 1980s. Since 2000, it has been transformed into a high-tech digital complex centered on the knowledge and information industry and has been transformed into the largest integrated area of the Korean IT industry <Table 2-3>.

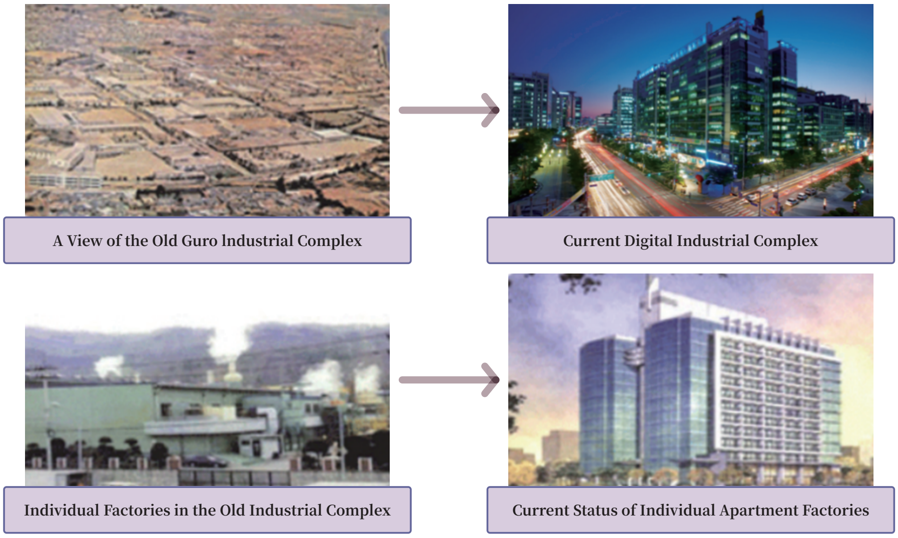
<Table 2-3> The Development Process of Guro Digital Complex

Period	Content
1960s to mid-80s	Launched as Korea's first industrial park for export promotion Leading national exports mainly in light industries such as textiles, wigs, and electricity.
The mid-1980s~1990s	After the mid-1980s, the corporate environment in Guro complex deteriorated significantly, and the need for restructuring of the industrial complex emerged. The government established the 'Guro Complex Advanced Plan' in 1997 for the rehabilitation of the Guro Industrial Complex.
Since the 2000s~Present	Improve the image of Guro complex by revising the name of the complex and start the incubator function of venture companies Since 2020, small and medium-sized enterprises and venture companies scattered in Seoul, including Tehran Valley, have moved to Guro Complex.

Source: Guro (2022).

Guro Industrial Complex is Korea's representative successful industrial cluster. It is an important location industrial cluster within the central metropolitan city of Seoul. Technology-intensive SMEs are recognized as a very important factor in structural reorganization, as they have a positive impact on the location in terms of labor market, technology development and innovation, and inter-company linkage and cooperation. In addition, these companies have important implications for the reorganization of the industrial structure of the Guro Industrial Complex because they tend to be located in metropolitan areas due to their characteristics (see Figure 2-23).

[Figure 2-23] The Past and Present of Guro Digital Complex



Source: Guro (2022), Gurogucheong homepage in Korea.

As such, industrial complexes for SMEs and venture companies are greatly helpful in strengthening the capabilities of SMEs. However, these SMEs are not clearly related to foreign-invested companies. In other words, the most of successful Korean SMEs did not grow with the help of foreign-invested companies. Rather, the government's efforts to foster small and medium-sized enterprises (such as the government's industrial complex policy) and the innovative efforts of small and medium-sized enterprises themselves were effective. Originally, the purpose of this project was to note that Colombian SMEs were being developed more by foreign-invested companies, and were used to benchmark cases of SMEs innovating in Korea with other foreign-invested companies. However, the growth of Korean SMEs is somewhat far from that of foreign-invested companies. Therefore, by introducing examples such as Guro Digital Complex, we would like to present important implications for innovation and growth of Colombian SMEs.

3.3. Digital Transformation and ESG as Framework for IPAs

COVID-19 has changed how IPAs' role of attracting investment takes place. The United Nations Conference on Trade and Development (UNCTAD) introduces the roles of IPAs that have changed since COVID-19 through the "IPA OBSERVER Special Issue 9" (UNCTAD 2020). The conclusions derive from a 180 worldwide IPAs survey's analysis.

Due to COVID-19, the direction of FDI policies in each country is also changing. In other words, in recent years, in the trend of strengthening foreign investment regulations, the aspects of investment attraction, activation, and deregulation have also changed. However, screening and regulations on foreign-invested companies are used to protect specific industries such as health care, pharmaceutical, and medical, which are strengthening after COVID-19. Next, we will explain the "digital transformation of IPA" focusing on attracting online investment and after services.

3.3.1. Strengthen Online Investment Attraction Actions

In the early days of the COVID-19 pandemic, IPAs in each country seemed to focus on crisis management, such as maintaining existing projects and follow-up management of foreign-invested companies. However, as COVID-19 shows signs of a prolonged period, it is resuming investment attraction actions online.

First, online meetings or forums and webinars are held to attract and promote foreign investment in the country. Also, this operates online and is used for foreign invested companies and works as a receiving system. This trend of strengthening digital investment attraction means it is mainly centered on IPAs in developed countries.

These IPAs seem to be diversifying digital channels to communicate with foreign investors through periodic updates of homepages, social media, and online events (webinar). With each country's economic lockdown, online investment attraction actions and reactivation measures are becoming a new standard and norm for IPAs. In this regard, ProColombia, Colombia's leading investment promotion agency, is also performing well. For example, online promotion, zoom meetings, etc. are second to other advanced IPAs. Many of the meetings and communication with this project team were also successful this way.

The role of IPAs from assistant to advisor is also being strengthened. In the early days of the COVID-19 outbreak, IPA served as an assistant to provide or support information on the spread of domestic infections, lockdown levels, and government measures to foreign-invested companies, but recently, its role has been strengthened as an advisor to provide advice, specific support, and services to resume business activities.

It can also be seen that investment attraction actions in response to changes in the global value chain (GVC) have begun. IPAs from each country are conducting investment attraction actions targeting foreign companies seeking to diversify their supply chains in connection with the reorganization of the value chain caused by COVID-19.

3.3.2. After Services and Digital Transformation

As one of the biggest changes in the role of IPAs due to COVID-19, IPAs are playing a support role to enhance the business sustainability of foreign-invested companies. For example, IPAs are carrying out tasks to quickly discover and connect companies to replace rear suppliers of foreign-investors that are no longer operating due to the management crisis caused by COVID-19. These IPAs provide this function by establishing and operating an online matchmaking portal system related to the supply chain. Furthermore, Costa Rica's IPA supports online matchmaking services for job seekers for foreign-invested companies.

IPAs are also actively supporting "Transition to e-Commerce & Strength Digital Skills" of foreign-invested companies. In addition to the online matchmaking portal system that supports supply chain reorganization, it supports the improvement of corporate sustainability through the digital transformation of foreign-invested companies through the opening and operation of various digital channels.

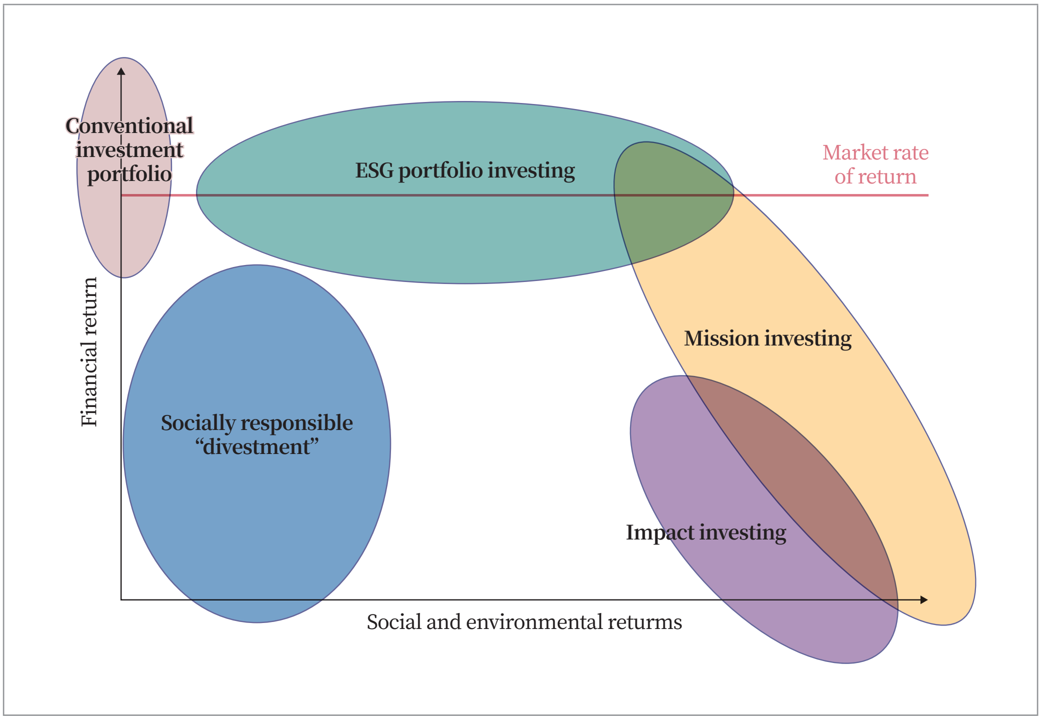
After COVID-19, it is inevitable that IPAs in each country will completely reorganize their investment attraction strategies to meet a "new normal" standard such as online investment attraction actions and the operation of online matchmaking portals that support supply chain reorganization. The newly established strategy should include investment attraction programs differentiated from the existing ones, new support measures, and the provision of more improved virtual and online services.

3.3.3. ESG (Environmental, Social and Governance) for IPA, IFDI and SMEs

When making investment decisions, financial factors are considered as well as also other elaborate criteria. Escrig-Olmedo, Muñoz-Torres, and Fernández-Izquierdo (2010) recall some of the reasons investors consider extensive criteria other than financial factors. On one hand, such criteria can improve public image and reputation, create long-term values and helps to consider consumer input and their decisions.

As presented in [Figure 2-24], literature is reporting several investment criteria that is more different than the conventional financial return-based investment portfolio (Hill 2020).

[Figure 2-24] Financial Return Versus Social and Environmental Return for Various Investment Styles



Source: Escrig-Olmedo, Muñoz-Torres, and Fernández-Izquierdo (2010).

The [Figure 2-25] compares the investment criteria based on the social and environmental returns (x axis) versus the financial returns (y axis). A conventional investment portfolio will consider only the financial return as the factor for an investment decision when the returns are around or above the media market rate. Also, other investors think on both, the financial, social, and environmental returns for their investment and consider investment portfolio equilibrium around the market rate of return. However, some investors are reducing their investment return-rate below the market rate by diversifying their portfolio to reach social and environmental returns, while others, such as mission or impact investment, are considering long term investments with focus on social and environmental returns. In any case, the continuity of an investment portfolio should require a positive financial return, otherwise the fund decreases overtime.

This figure also inspires three central questions: Which is the public good necessary to promote social and environmental returns of an investor? Can the public sector increase the incentives for strengthening the social and environmental returns of an investor? Who is promoting mission oriented or impact oriented foreign investments in Colombia?

Larry Fink, the CEO of global investment giant BlackRock, stressed “stakeholder capitalism” in his 2022 letter “The Power of Capitalism”. He said he focuses on sustainability not because he is an environmentalist, but because he is a capitalist and has a responsibility to entrust customers. According to him, the next 1.000 unicorns will not be search engines or social media, but will be a start-up company that can grow into a sustainable and large company. This could promote a decarbonized society and enable energy conversion for all consumers. After all, stakeholder capitalism is to provide long-term and continuous returns to shareholders.

Therefore, when IPAs attracts foreign-invested companies, it should aim for companies pursuing such ESG (Environmental, Social and Governance) management. As the social responsibility of companies and investors for sustainable development becomes important, many financial institutions around the world are using ESG evaluation information. Starting with the UK (2000), several countries, including Sweden, Germany, Canada, Belgium, and France, introduced an ESG information disclosure obligation system centered on pension funds. The UN encourages social responsibility investments that consider ESG issues through the UN Principles of Responsible Investment (UNPRI), which was launched in 2006.[16]

The “social responsibility investment” (SRI) is a method of investing in companies that reflect social and ethical values. Unlike the traditional method of judging only the financial performance of a company, it is evaluated by fully reflecting non-financial factors such as ESG (Environmental, Social, and Governance) that affect corporate value and sustainability goals from a long-term perspective.

In Colombia, some examples demonstrate how the ESG is taking effect. As indicated by the National Business Association of Colombia (ANDI, by its Spanish name Asociación Nacional de Industrials) during the Korean Mission to Colombia, one of the initiatives is to attract foreign investors incentivizing its location in Colombia by using the energy matrix of Colombia, which is almost 70% free of greenhouse gases emissions because of the use of hydropower. Opposite to other fossil fuel-based matrices, the production in Colombia will allow to show positive environmental indices and an effort to reduce the greenhouse gases emission.

Also, some reports show that a short value chain (e.g., food grown, harvested and processed nearby) has less environmental impact than longer ones. In such cases, investors with mitigation commitments would prefer such kind of investments.

16 Naver Knowledge Encyclopedia.

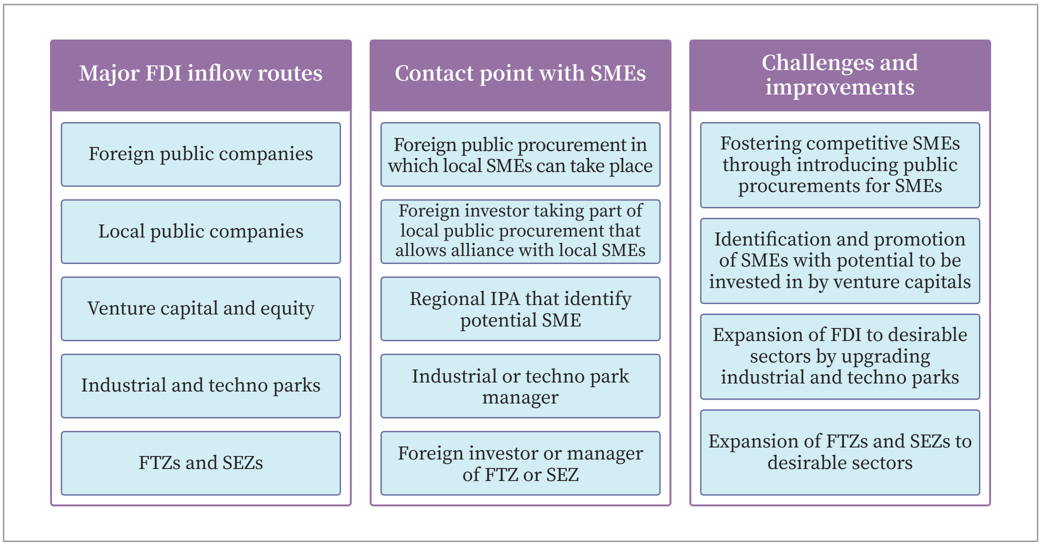
3.4. Matching IFDI with SMEs in R&D and Innovation

One challenge for FDI is the matching with SMEs, given IFDI is in many cases done by large multinationals that are established in a receiving country. The expectation of these companies is to obtain financial benefits from taking advantage of a larger market and using a more efficient technology or bringing to the market a new or improved product. However, matching IFDI with local SMEs have benefits that are worth to be explored, such the understanding of the local market (i.e. consumption culture, company creation paperwork, and local logistics), its role as raw materials or services provider, or as a platform to scale up and grow. Given the flexibility of SMEs these can adapt to the investor requirements, or the foreign investor can find that the SME fits to predefined criteria.

In this section the matching methods of SMEs with IFDI will be explained. Some of these matching methods are presented using the two Korean cases showed in [Section 3.2]. With this background, some strategic implications are summarized.

In general, it is possible to match the inward FDI with SMEs through the following channels (see Figure 2-25). First, it is possible to connect with SMEs through foreign public companies that allow local SMEs to participate in public procurements. Also, to facilitate the entrance of technology and machinery, local public companies allow well known foreign companies to take part of public procurement processes only in alliance with SMEs that have proven experience as providers of complementary services.

[Figure 2-25] Matching Inward FDI with SMEs



Source: Adapted from Authors, 2016/17 Knowledge Sharing Program with Iran (2017), Policy Recommendations for Capacity Building for OIETAI in Promotion of FDI to Iran.

As mentioned before, another mechanism is to connect SMEs with venture capital investors that are interested in scaling-up the SMEs technology. In this case, it is important to identify such potential SMEs by local IPAs or economy development organizations. One of the challenges is also to foster the connection between the identified SMEs and the venture capital investors.

Also, industrial complexes (or industrial parks or techno parks) are likely to be the main channel for IFDI to flow in. Foreign investors enter the country through investment in SMEs in these industrial complexes. Also, investments in SMEs can occur in these locations through FTZs or SEZs. The purpose of these investments is to promote exports or foster companies suitable for the purpose of the region. In addition, it is possible to enter the country with a special purpose through various institutions or systems. This is because each country that wants to enter has a different culture and system.

Which method fits the Colombian situation may vary depending on the characteristics of foreign-invested companies that want to enter the industry. We need a philosophy to help foreign-invested companies succeed that enter the market, and not just from the perspective of Colombia. It is important for Colombia to create the right conditions to take advantage of attracting foreign investment to the country and to guarantee that it will benefit from the spill overs of having this type of investment, such as knowledge technology transfer, the strengthening of forward and backward linkages with Colombian SMEs, and the diversification of exports, etc.

3.5. Discussions

FDI is a strategy of improving welfare because it allows access to products and human and technological resources. According to (Lim 2004), IPAs have four basic roles image building, investment generating, after service, and research and information analysis (see Figure 2-13).

Promotion of IFDI has been part of the successful economic performance of Korea. Korea shows a complex institutional arrangement for the promotion of FDI, that includes institutions, well defined roles, and actors that take part such roles. One aspect to highlight is the identification of potential investors and SMEs to be subject of investment.

Covid-19 pandemic challenged the IPAs in doing the FDI promotion in a different way. Several countries around the world established practices based on the use of information and communication technologies, including online webinars, social networks, and digital platforms. Also, the interest in an extended network of health and pharmaceutics has catalysed investments in such sectors.

A combination of positive financial returns together with social and environmental returns is a new trend that favours the positive reputation, and long-term values that are positively accepted by consumers.

SME's can be matched with FDI by several methods. Such methods have been successfully implemented in Korea and inform other countries of how to implement them. The challenges for countries at the time to adapt these methods is (1) the coherence between the aim of the policy and the set of incentives to implement them (2) the balance between the resources availability to implement such incentives or the expected benefits to reach from implementing the incentives.

The examples of the Korean strategic foreign investment attraction policy and the Guro Digital Complex suggest that while foreign-invested companies may be helpful to strengthen the capabilities of Colombian SMEs, Colombia's own efforts such as fostering talent, creating industrial complexes, and national strategies are also important.

4. Strategic Implications

It is encouraging for the policy making that Colombia belongs to OECD. However, it does not automatically increase Colombia's investment attraction, strengthen SMEs capabilities or competitiveness, nor develop the Colombian economy. The policy making provides direction and speed to such process. Then, what strategic direction should Colombia move in?

In this chapter, we focus on which direction Colombia should take. The basics of attracting foreign investment should vary depending on the degree of economic development of the investment host country and its purpose. An emphasis is done in discussing the pathways to follow, the differentiation by sector, the institutional arrangements for facilitating the actor's interaction, the emphasis of this for improving competitiveness of SMEs and, finally, the mechanisms of following-up these policy recommendations.

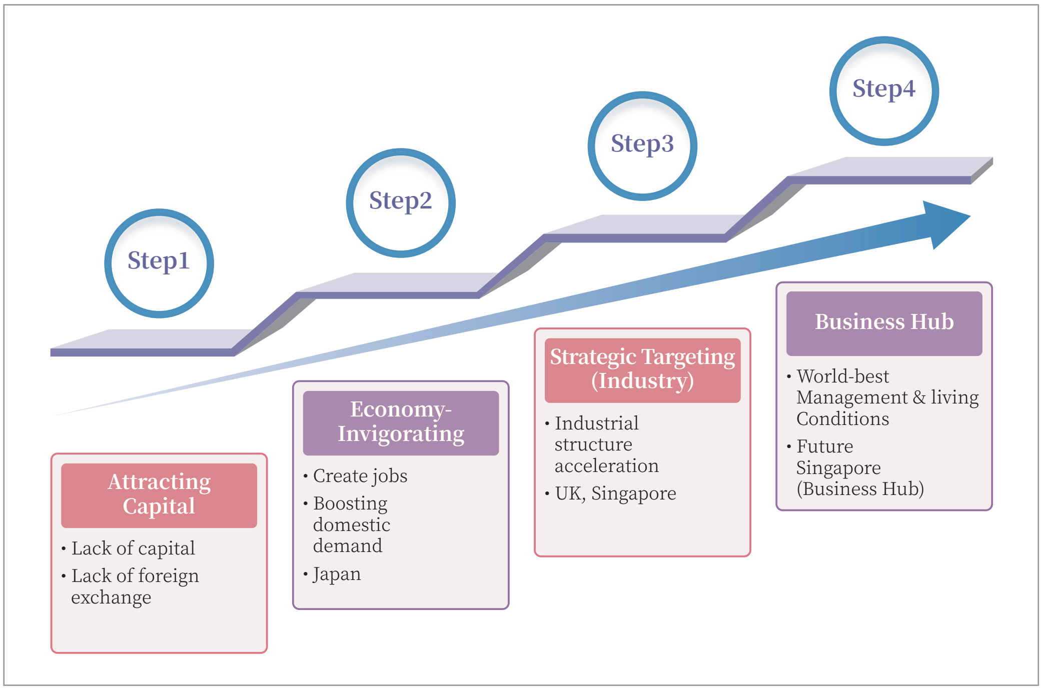
4.1. Enhancing IFDI Strategy

The basics of attracting foreign investment should vary depending on the degree of economic development of the host country and its purpose. Strategies should be devised to achieve such objectives according to several steps.

The [Figure 2-26] shows the economic development strategy using foreign-invested companies, which will be briefly explained below. Above all, rather than trying to achieve the final goal at once, a strategy that promotes step-by-step objectives will be more efficient. This step-by-step strategy can be applied not only to attract investment throughout the country, but also to strengthen the capabilities of SMEs and to cooperate with SMEs and foreign-invested companies.

In the first step, the goal of IFDI strategy is to attract foreign capital due to the lack of foreign exchange. In the Korean experience, the international financial crisis means scarcity of foreign capital. Therefore, in order to attract large-scale foreign capital, the foundation was laid to more easily import foreign capital through major changes such as the Foreign Investment Promotion Act. It is believed that developing countries that still lack a lot of foreign exchange are at this step.

[Figure 2-26] Step-by-step Investment Attraction Strategy



Source: Adapted from Jung (2018).

The second step is to attract potential foreign-invested companies to revitalize the economy. Basically, it is helped by potential foreign-invested companies to create employment and domestic demand. In the case of Japan, there are many foreign investment attractions measures for this purpose.

The third step is to utilize potential foreign-invested companies in fostering strategic industries. In the past, in fostering the bio industry, Korea focused on upgrading its own competitiveness, while Singapore focused on fostering the bio industry by attracting potential foreign-invested companies. Both countries have achieved some results, but Singapore is considered more successful in terms of speed and quality through attracting potential foreign-invested companies. Many countries, including Singapore and Ireland, have carried out strategies to develop their industries together by attracting potential foreign-invested companies centered on industries that help their countries grow, and achieve numerous economic development goals.

Finally, the fourth step is to become a business hub. By providing a convenient and business-friendly environment, potential foreign-invested companies enter the region by themselves to do business. Recently, some financial institutions, such as banks, withdrew due to difficulties in business in Korea, but the opposite phenomenon is occurring in Singapore. In the case of Korea, we reflect on whether it is more desirable to find a way to prosper together. Singapore's global strategy is "two-thirds of global businesses are connected to Singapore," which is an enviable strategy.

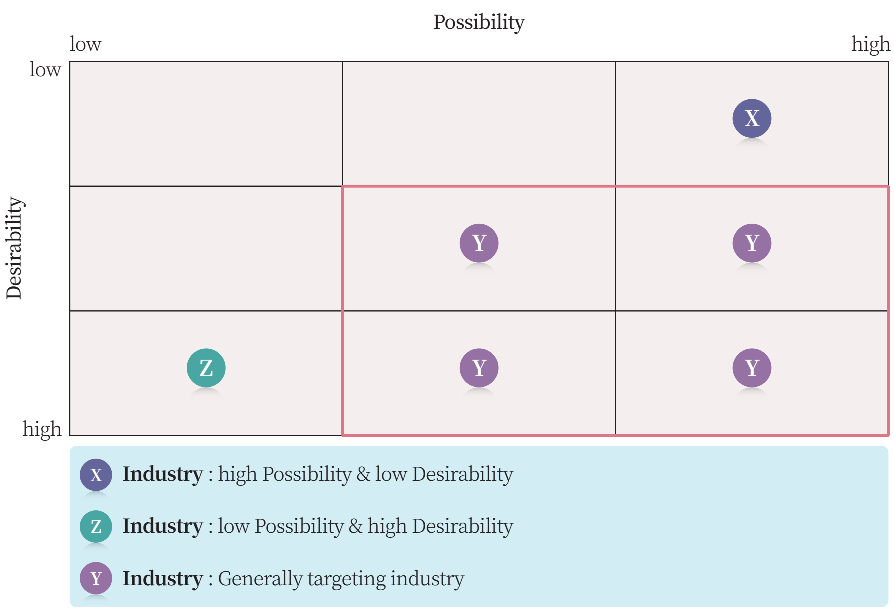
4.2. Bases of Pathways: Possible and Desirable Sectors

One of the aspects to consider in the FDI strategy is the sectors to focus on. As mentioned in [section 3.4], it is easier to attract investment in sectors in which previous experiences of local and foreign investment has happened. This is since some actors know about the supply chain, logistics, consumption, and so on, while less possibility exists in new sectors which lacks the information and direction to make investment decisions.

On the other hand, it is common to desire sectors with high added value because there are higher benefits for the whole society (i.e., taxes, salaries, exports). While sectors with low added value can be produced in many places and the benefits are lower.

We present a strategy on what industries are attractive in the current situation. The [Figure 2-27] shows one criterion for selecting investment attraction. For example, although it may vary depending on the purpose, there may be industries that are likely to attract investment (easy to attract investment), and industries that are desirable to attract investment for future economic development. It is not good to pursue only good desirable industries for the future. Their appropriate step-by-step combination is needed.

[Figure 2-27] Matrix of Desirable and Possible Sectors



Source: Jung (2018).

Renewable energy and high value-added ICT industries[17] that Colombia wants to attract for investment are not so easily achievable. This phenomenon is also partly responsible for Colombia's infrastructure, policies, and institutions.

Therefore, from Colombia's national point of view, initially, it focuses on industries that are easy to attract foreign investment, to attract capital inflow or basic economic revitalization, but gradually should evolve into desirable industries in the future. This evolution requires deliberate strategic efforts and policies, and in the meantime, a pathway strategy, which is an intermediate step.

Sectors with high desirability but low possibility (high added value in which the country has not previous experience) are expected to be developed with FDI. So, Colombia and its regions need to re-evaluate their goals in terms of the sectors to attract.

For reference, the possible and desirable sectors collected through the survey of Colombia IPAs are as follows in <Table 2-4>. However, it should be considered that there may be some differences depending on the characteristics of local IPA in interpreting their temporary goals.

17 ICT: information and communication technology.

<Table 2-4> Possible and Desirable Sectors

Possible Sectors	Desirable Sectors
Forestry Agri-food (Agrobussines), Food Processing, beverages Chemical & plastics Metalworking industry Tourism, aeronautic and logistics infrastructure Manufacturing, trade and construction	Renewable energies, petrochemical, transportation, BPO (Industry 4.0) and Entertainment, technological services Biotech, IT, offshore, hydrogen, entertainment, Pharma Logistic, Retail, Infrastructure, Life Sciences Circular economy, e-commerce cross border, fintech, agrotech, edtech, proptech, sustainable development projects, electrical devices. Shared Services, creative industries, Medicinal Cannabis, Vaccines, Logistics

* *BPO:* business process outsourcing
Source: Authors based on Colombia IPA's survey.

We recommend to gradually increasing the desirable sectors, but if it is difficult for potential foreign-invested companies to enter immediately, so a pathway strategy that develops the intermediate stage is needed. In other words, the establishment of intermediate industries, foundations, and infrastructure where such industries can develop should be preceded.

4.3. Upgrading of IFDI Systems

The whole picture of the FDI institutions and their roles should consider all actors at a national and subnational level. Based on their individual goals a pathway strategy involves the roles for each of these actors to pass through.

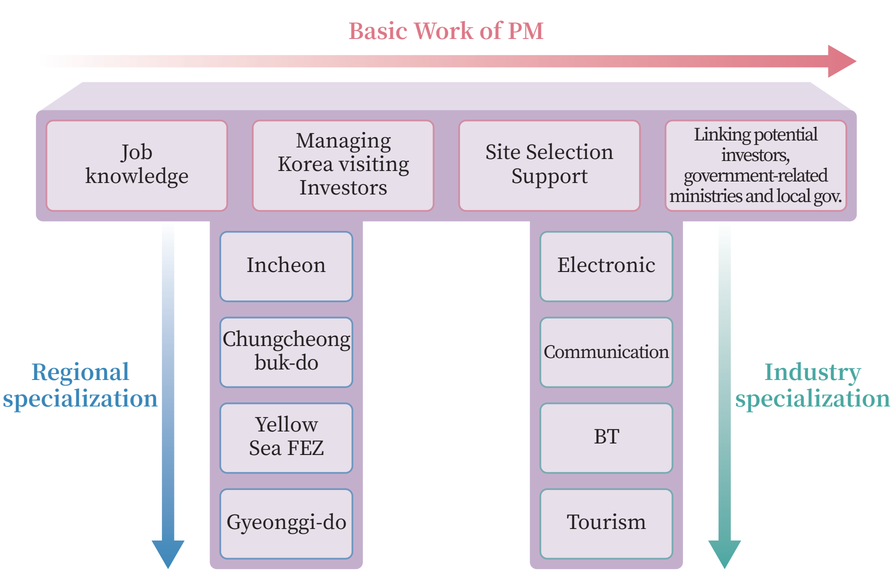
Among a pathway strategy a detailed assessment of FDI with SMEs in RD&I needs to be considered including: methods, strategy of road maps, incentives, regulations, investor relations activities, collaborations with university, research centers and governments, etc.

In the case of Korea, there is a national IPA called Invest Korea, and there are many branches in each location to support exports, investment advancements and attracts investments for local SMEs. Such organization may be similar to Colombia, but there are some differences in the effectiveness of its investment roles and actual support.

For example, Colombia also has a Project Management type, but there is a question of whether there is a more specialized PM, and there is a big difference in the number, role, expertise, and the relationship between the national and local IPAs.

The ideal PM's competency is shown in the [Figure 2-28]. It means not only to support the role of attracting investment but also to become a specialist for a specific location or industry. In reality, however, it is not easy for an individual PM to have all of these abilities. Therefore, the PM cultivates competencies based on this concept, and in practice, it is realistic that many PMs cooperate at each point (India KSP, 2017/18). It means to consider that some capabilities are built and strengthened at the national and local level.

[Figure 2-28] Ideal PM Capability



Source: India KSP (2017/18).

Through the Ombudsman System, more efforts are still needed to determine to what extent Colombia is effective in attracting foreign investment, and to what extent the Ombudsman supports the after-service and A/S, for foreign-invested companies. The efficiency and effectiveness of the one-stop service also need to be compared with the Korean system.

Korea's IKMP services also need to be benchmarked by Colombia. Various paths are possible to strengthen the capabilities of SMEs by attracting foreign investment, but it is necessary to closely examine whether they work well for SMEs. When potential foreign-invested companies enter Colombia through various routes, efforts should be made to help SMEs innovate and strengthen their capabilities through mutual cooperation.

4.4. Matching IFDI with SMEs' R&D& and Investment

Among the issues of empowerment of Colombian SMEs, how should SMEs strengthen R&D and innovation by inward FDI? To solve these issues, it may not be desirable to look at the case of Korea. Above all, Korea first promoted rapid growth centered on large companies, and as a second-step strategy after some economic growth, it was judged that it was important to foster SMEs, and venture companies for fair distribution and employment opportunities. Therefore, although there may be some areas where the capabilities of SMEs have been strengthened through foreign-invested companies, it is questionable whether Korea has the capacity to make a significant impact or strengthen SMEs.

Recently, in the case of Korea, with the launch of the Ministry of SMEs and Startups, more efforts have been made to strengthen SMEs' own capabilities (centered by the Korean government without the help of foreign-invested companies). Basically, R&D support, education, labour, and marketing support for SMEs were the focus.

In addition, to coexist with large corporations (centering on large, small and medium-sized enterprises, agricultural and fisheries cooperation foundations, etc.), SMEs are strengthening their capabilities in connection with large corporations. Furthermore, SMEs are supported by universities and research institutes, and local governments are steadily providing support to local SMEs.

There are cases in which SMEs' innovation and R&D capabilities have been strengthened due to foreign-invested companies that have invested in SMEs in Korea. However, even in this case, if an SME has some adaptive capabilities, it is only applicable when a foreign-invested company has invested in that company.

Therefore, referring to the case of Korea, it is desirable to simultaneously proceed with two strategies: strengthening the capacity of SMEs in Colombia itself and strengthening capacity through cooperation with foreign-invested companies. In addition, in such a process, it is considered desirable to strengthen the capacity of SMEs through cooperation with various subjects such as universities, research institutes, and government institutions.

On the other hand, mechanisms for promoting the strengthening of SMEs and its relationship with IFDI based on the actor analysis and that can be adapted for Colombia were included in section 3.4 and, particularly in [Figure 2-25] Matching Inward FDI with SMEs. One example of it is to promote linkages of SMEs with venture capital interested into scaling-up the SMEs technology. In this case, public agencies at the local level (ex. Economic

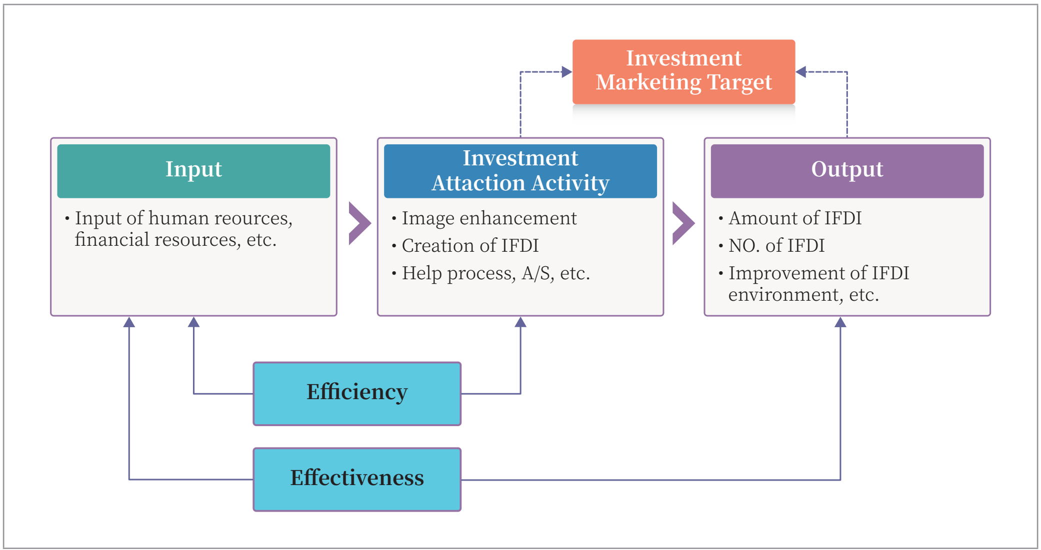
Development Secretaries) can help to identify such potential SMEs in cooperation with local IPAs. Then, such SMEs can be exposed to or connect with venture capital investors thought traditional mechanisms such as pitching, mentoring or business rounds.

4.5. Evaluation and Feedback System of IFDI and SMEs

The above strategies and efforts are also important, but continuous evaluation should be supported in such step-by-step strategies and implementations. Basically, based on the structure of Plan-Do-See, continuous growth is possible only when there is feedback after setting goals and practicing them. According to such assessments, the government and related agencies should set new goals. The goal should gradually increase its scope, and the level of attracting foreign investment or strengthening the capacity of SMEs should increase. In addition, from the government's perspective, it is necessary to continue to strengthen the capabilities of related institutions such as IPA, improve the system (incentives, deregulation, etc.), and build an upgraded infrastructure.

For reference, the evaluation of investment attracting or marketing agencies and those who engage in IFDI activities should not just focus on efficiency. Even if it is not efficient, there are other areas to evaluate to assess whether the investment attracting or marketing strategy that has been implemented was appropriate and if the investment goals were achieved. The efficiency of investment attracting or markeing performances thus far has achieved the goal of IFDI performance at a small cost. The effectiveness of an investment attracting or marketing performance is therefore determined when an investment attraction organization is close to the achieving the initial target (see Figure 2-29).

[Figure 2-29] Evaluation Criteria for Attracting Inward FDI Strategy



Source: Lim (2004).

4.6. A Successful Pathway for Colombia: Resume of Implications and Suggestions

This section presents specific recommendations for Colombian government in order to use IFDI to foster R&D and Innovation in SMEs.

To generate competitive SMEs, Colombia should make a great effort in enhancing internal capabilities in SMEs. In parallel way, Colombia should work in enhance the institutional framework of foreign investment, with the aim of use foreign capitals in fostering strategic industries and upgrading SMEs competitiveness. In the document "Design and Implementation of Innovation Policies for SMEs in Colombia," the Korea Development Institute (2021) makes recommendations for Colombia, which should take in account as complementary view of this investigation.[18]

The Government of Colombia should define sectors as a national strategy in which should focus its efforts. As it was mentioned in section 4.1, the selected sectors should be consistent with the level of development of the country. Additionally, the Government should have in mind that an efficient strategy must be settled step by step.

18 This investigation does not focus on some preconditions to attract foreign investment to a host country (for example: growth and stability-oriented macroeconomic frameworks; improvement of general framework conditions (reduction of rigidities and barriers on labor and product markets, adequate competition policies, availability of locations and premises, infrastructure) (Kostevc, Redek & Rojec, 2011), however, these conditions are important to improve climate for foreign investors.

In section 4.2 were listed some possible and desirable sectors to focus on in the Colombian case, based in the responses provided in the IPAs survey. It could be a first approach in this definition that must be agreed with the regions. Thus, a good balance between possible and desirable sectors is necessary which must be tracked with specific goals. The definition of sectors must be checked periodically.

Once the sectors are defined, the Colombian government should evaluate critically the programs that aims strengthen the internal capabilities of SMEs based on IFDI or not, in order to reinforce the ones with more impact, and reevaluate or eliminate the ones that have no impact. Colombia must be efficient in allocating resources to high-impact programs to strengthen the capabilities of SMEs and improve their attractiveness to foreign investors or reinforce SMEs capabilities with the use of IFDI. It must have in mind that the specialization in GVCs depends on how the SMEs of the country increase competitiveness and productivity compared to other competitors.

The critical evaluation can be done by DNP and the Ministry of Trade implementing an ArCO type methodology and including the instruments that different administrative sectors have to promote SMEs capabilities or that can improve capabilities with IFDI. Ex. Green Business of the Ministry of Environment can be enhanced if IFDI could be included. Or non-conventional sources of renewable energy can take advantage of foreign investors.

The national and local IPAs should coordinate their roles with foreign investors. There in not a specific procedure, so it could be confused and inefficient for foreign investors. Roles and activities must be defined carefully and stablish a clear roadmap for investors. This coordination could generate synergies among the Colombian IPAs and other public and private institutions that work in promote foreign investment. The coordination should be focused on how to facilitate the technology transfer or the R&D to SMEs. The coordination can be complemented with a support program for regions to enhance their regional IPAs based on the role expected in the process and the indicators of success defined in terms of technology transfer or R&D for SMEs.

ProColombia should consider to restructure their internal areas, focused on the different stages of the investment cycle process. It will be useful to benchmark the internal structure of different IPAs around the world and evaluate if the current internal division is optimal for Colombia in fulfill its objectives in the promotion, attraction, and retention of foreign investment.

It is critical to focus on enhancing the experience of foreign investors during all the stages of the investment cycle. For example, 1) the Project Management who gives total support to the investors and is a specialist in the industry required; 2) the Ombusman as a figure that resolves consultations and obstacles an investor faces when settling or operating its investment; 3) promote the efficient operation of the Single Investment Window. It is necessary to periodically review the proper functioning of these tools and make the necessary adjustments as soon as improvements are identified, in order to provide the best services to foreign investors. Additionally, it is necessary that the government continue strengthening the capabilities of related institutions such as IPA, improve the system (incentives, deregulation, etc.).

It is recommended to change the focus of IFDI as a whole figure, to focus on IFDI in R&D, which can be the main indicator of success and incentives. Based on such change of focus, the Ministry of Commerce, Industry, and Tourism, could evaluate critically the investment promotion activity of ProColombia and the regional IPAs based on the sectors attracted, the attraction of R&D and the stability of the investment. For that, instruments to promote IFDI must be turn in this direction, reevaluating their objectives. These instruments must guarantee the inflow of fresh capital, new knowledge, the possibility for spillovers (technology, production, knowledge) and be part of the national development strategy. Since the IFDI incentives are important in case of competition between similar investment locations (Kostevc, Redek & Rojec, 2011), Colombia has an important task in reinforce its incentive instruments (policy objectives, type, and size) to make the country a more competitive location to invest in. Deregulation is also an important condition for successful investment attraction.

There are some routes that can be useful in the process of matching IFDI with SMEs, for example throughout foreign public companies, local public companies, venture capital, industrial and techno parks, FTZs, and SEZs. These mechanisms must incorporate in their objectives to contribute to the increase in the participation of SMEs in IFDI and the attraction of R&D investment. It is important that Colombia guarantees that in any type of route used, there will be benefits for local SMEs, such as knowledge and technology transfer, strengthening of forward and backward linkages, diversification of exports, among others.

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Annex

<Annex Table 2-1> Main Aspects of Mega-investment Regime and Free Trade Zones Regime

Item	Mega-investment Regime	Free Trade Zones Regime
Definition	Regime to promote large investments. These investors will also be excluded from presumptive income and will have a differential income rate of 27%.	Geographically areas within the Colombian territory in which industrial or commercial activities under a special tax, customs and foreign trade regimes may be developed by companies.
Benefits	Income tax: 27% (9% for hotel services) tax stability contracts Exclusion from the presumptive income tax regime and dividend tax Depreciation benefits Exclusion from the equity tax Others defined by the mega-investment regime	Income tax: 20% VAT and tariff exemption Others defined by the FTZ regime
Types	Industrial, commercial and / or services High Technology, new emerging technologies, and e-commerce Aviation *Investments in the aviation industry must be made before 31 December 2021	Permanent (PFTZ) Single Enterprise (SEFTZ) Transitory
Term	20 years	PFTZ: 60 years SEFTZ: 60 years *Including maximum term of extension of FTZ
Main requirements	Industrial, commercial and / or services Minimum investment: USD 290 million Employment: 400 High Technology, new emerging technologies, and e-commerce Minimum investment: USD 290 million Employment: 250 Aviation Minimum investment: USD 19 million Employment: 400	1. General Legal availability of the area Constitution of new legal person Others 2. SEFTZ Employment: 70-500 Minimum investment: Goods and ports: USD 29,24 million Services: Mill USD 2,03 –USD 18,67 million Pre-existing: USD 134,91 million Agro-industrial: USD 12,27 million 3. SEFTZ Equity: USD 5,50 million Industrial users: 5 Minimum investment: USD 8,97 million *The estimate of the investment in USD was made at a rate of $3,914 pesos/dollar
Territorial targeting	None	None

<Annex Table 2-1> Continued

Item	Mega-investment Regime	Free Trade Zones Regime
Exceptions or restrictions	Projects for the evaluation, exploration, and exploitation of non-renewable natural resources	Projects for the exploration, exploitation, or extraction of non-renewable natural resources, except for Offshore projects) Financial services, state concession contracts (except ports, railways, airports projects) and home public services (except power generation and international long-distance public telephony)
Tracking	Annual information that proves compliance with the requirements of the mega-investment regime	Financial advances and in execution of employment and investment There are no management indicators or indicators that measure the objectives of free trade zones regime
Decision-making body	Ministry of Commerce, Industry and Tourism	If the FTZ fail to meet commitments Others defined by the FTZ regime
Normativity	Law 2010 of 2019 Decree 1157 of 2020	Intersectoral Commission of Free Trade Zones

Source: Authors based on Ministry of Commerce, Culture and Tourism, Deloitte (2022).

<Annex Table 2-2> Main Aspects of Region Prioritization Incentives

Item	Areas Most Affected by the Conflict	Special Economic Zones	Special Economic and Social Zone
Benefits	Exemption and gradual removal in income tax 2017-2021: 0% 2022-2024: 25% 2025-2027: 50% 2028 onwards: 100%	VAT Exemption, Tariff and Rent	Income tax 0% first 5 years 50% of the general rate, following 5 years. Withholding tax Proportionally to the income tax.
Term	2017-2028	50 years	10 years
Main requirements	Minimum investment and employment Constitution of new legal person	Minimum investment of USD 2 million in 25% of the estimated time of the project 80% of sales destined for the foreign market Number and type of jobs, incorporation of technology, linkages with national companies, permanence in the area, clean production, among others.	New companies during the 3 years of validity of the instrument Existing companies that increase employment by 15% (average of the last 2 years)
Territorial targeting	344 municipalities affected by the armed conflict	Municipalities of Buenaventura, Cucuta, Valledupar, and Ipiales	Departments of La Guajira, Norte de Santander, and Arauca

<Annex Table 2-2> Continued

Item	Areas Most Affected by the Conflict	Special Economic Zones	Special Economic and Social Zone
Exceptions or restrictions	Mining and hydrocarbons projects, under legally granted concessions. Large taxpayers engaged in port activity by concession.	None	Companies in the port, mineral and hydrocarbon exploration and exploitation sectors. Existing commercial companies that transfer their fiscal domicile to any of the targeting municipalities
Tracking	None	Annual monitoring (external audit)	Documents must be submitted to the DIAN.
Sanctions	Sanctions in case of non-compliance	Sanctions in case of non-compliance	Sanctions and procedure, pending regulation
Normativity	Law 1819 of 2016 (Articles 236 y 237) Decree 1650 of 2017 Decree 292 of 2018	Law 677 of 2001 Decree 1227 of 2002 Decree 2484 of 2003	Law 1955 of 2019 Decree 2112 of 2019

Source: Authors based on Ministry of Commerce, Culture and Tourism, Deloitte (2022).

<Annex Table 2-3> Main Aspects in Innovation Incentives

Item	I+D+I income tax deduction and income tax credit	I+D+I income tax credit for SMEs	Creative and technological value-added industries income tax exemption
Definition	Investments or donations to projects classified as research and technological development	Tax credit for SMEs	Tax incentives for creative industries
Benefits	Deduction of 100% of investment Tax credit of 25% of investment	Tax credit of up to 50% of SMEs investments (investigation, technological development, or innovation projects). Tax credit also applies to wages paid to employees with doctoral degrees hired for R+D+I projects.	7 years tax exemption Available for business activities related to technological and creative industries with gross income with less than USD 776.527.
Term	Fiscal year in which investments are made.	Fiscal year in which investments are made.	Fiscal year in which investments are made.
Normativity	Law 1816 of 2016 Decree 1011 of 2020	Decree 1011 of 2020	Law 2010 of 2019 Decree 286 of 2020

Source: Authors based on Ministry of Commerce, Culture and Tourism, Deloitte (2022).

<Annex Table 2-4> Main Aspects of Targeted Sectoral Incentives

Item	Hotel and tourism incentives	Energy efficiency – non-conventional energy sources (NCES)	Incentives to develop Colombia rural sector
Definition	Incentives for the services offered by new hotels built and will also apply for hotel renovation and/or expansion.	Incentives for investments in renewable energy sources (RES) or energy efficiency (EE)	Incentives to foster productivity in the agricultural sector. The incentive applies to the agricultural, livestock, hunting and associated services, forestry and logging, fishing and aquaculture, food product preparation, and beverage preparation sectors. The minimum investment is USD 13.640
Benefits	Income tax: 9%	50% income tax deduction VAT exclusion Tariff incentives (machinery, equipment, materials, and supplies) Accelerated depreciation Others defined by the normativity	Tax exemption
Term	10 years to services offered by new hotels built in municipalities with 200,000 inhabitants or more. The application will be available until 2022. 20 years to services offered by new hotels built in municipalities with less than 200,000 inhabitants. The application will be available until 2028.	15 years.	10 years. The economic activity must begin before December 31, 2022.
Normativity	Decree 152 of 2021	Decree 829 of 2020	Decree 849 of 2020

Source: Authors based on Ministry of Commerce, Culture and Tourism, Deloitte (2022).

<Annex Table 2-5> Main Aspects of Other Incentives

Item	First employment deduction
Definition	Motivate the hiring of young staff without work experience.
Benefits	Deduction of 120% of salary payments for employees who are under 28 years of age, as long as the requirements of the first job are met.
Term	-
Normativity	Law 2010 of 2019 Decree 392 of 2021 Resolution 846 of 2021

Source: Authors based on Ministry of Commerce, Culture and Tourism, Deloitte (2022).

<Annex Table 2-6> Description of IPAs in Colombia

No.	Local IPAs	Location	Website
1	Invest in Bogota	Bogota (Cundinamarca)	https://en.investinbogota.org/
2	ACI Medellin	Medellin (Antioquia)	www.acimedellin.org
3	Invest Pacific	Cali (Valle del Cauca)	www.investpacific.org
4	ProBarranquilla	Barranquilla (Atlantico)	www.probarranquilla.org
5	Invest in Cartagena	Cartagena (Bolivar)	www.investincartagena.com
6	Invest in Santa Marta	Santa Marta (Magdalena)	www.investinsantamarta.org
7	Invest in Orinoquia	Villavicencio (Meta) y Arauca (Arauca)	www.investinorinoquia.co
8	Invest in Santander	Bucaramanga (Santander)	www.investinsantander.co
9	ProMonteria	Monteria (Cordoba)	www.promonteria.com
10	Invest in Nariño	Pasto (Nariño)	www.investinnarino.org/
11	ProBarrancabermeja	Barrancabermeja (Santander)	www.probarrancabermeja.org
12	Invest in Manizales	Manizales (Caldas)	www.investinmanizales.org
13	Invest in Armenia	Armenia (Quindio)	www.investinarmenia.org
14	Invest in Pereira	Pereira (Risaralda)	www.pereiratudestino.com
15 -23	Other IPAs*	-	not available

No.	Prioritized sectors		
	Primary	Mining and oil	Energy
1	-	-	Energy technology - Renewable energy
2	Agribusiness	-	-
3	Agribusiness	-	Renewable energy
4	-	-	Energy
5	Agroindustry	Gas and oil offshore	Renewable energy

<Annex Table 2-6> Continued

No.	Prioritized sectors		
	Primary	Mining and oil	Energy
6	Agroindustry (banana, palm and coffee - cattle and poultry farming - fruticulture - fish farming)	-	-
7	Agroindustry (agriculture, livestock, commercial forestry, agroforestry)	Mining (coltan, uranium, iron and gold) and oil	Renewable energy
8	Agro-food	-	-
9	Agroindustry (meat - dairy - vegetable)	-	Renewable energy
10	-	-	-
11	-	-	-
12	Agroindustry	-	-
13	Agroindustry	-	-
14	Agroindustry (coffee - hass avocado - cocoa - pineapple)	-	-
15 -23	not available	not available	not available

Note: Invest in Huila (Huila, Neiva) - Invest in Cucuta (Cucuta, Norte de Santander) - API Tolima (Ibague, Tolima) - Invest in Cesar (Valledupar, Cesar)- Invest in Boyaca (Tunja, Boyaca) - Invest in Cauca (Popayan, Cauca) - Invest in Casanare (Yopal, Casanare) - Invest in Oriente (Oriente Antioqueño, Antioquia) - Invest in Choco (Quibdo, Choco)

Source: Elaborated by the authors based on IPAs websites information.

<Annex Table 2-7> Description of IPAs in Colombia (continuation)

No.	Local IPAs	Prioritized sectors				
		Manufacture	Infrastructure	Tourism	Services	Commerce
1	Invest in Bogota	Pharmaceutical - Cosmetic - Medical devices - Construction materials - Food and beverages - Waste recycling (circular economy) - Electrical equipment, materials and devices – Biotechnology	Infrastructure	-	Information Technology - Outsourcing (BPO) - Health services - Maintenance and repair of aerospace industry - Creative industries	-

<Annex Table 2-7> Continued

No.	Local IPAs	Prioritized sectors				
		Manufacture	Infrastructure	Tourism	Services	Commerce
2	ACI Medellin	Basic Manufacturing (textile industry) - Specialized manufacturing (metalworking - auto parts - soaps, detergents, and perfumes - paint and varnish - specialized machinery) – Life sciences (pharmaceutical medicinal - cosmetics - cannabis)	Infrastructure	-	Logistics - Technology - Creative industries - Life sciences (health)	Commerce
3	Invest Pacific	Pharmaceutical - Metalworking - Home and personal care (cosmetics - cleaning - absorbents)	-	-	Distribution centers - Global services (BPO, KPO and ITO)	-
4	ProBarranquilla	Construction materials – Metalworking - Chemicals and plastics - Food and beverages	-	Touristic infrastructure	BPO and IT	-
5	Invest in Cartagena	Petrochemicals and plastics – Metal mechanics - Construction materials	Ports	Tourism	Logistics	-
6	Invest in Santa Marta	Construction	Port logistics	Touristic	-	-
7	Invest in Orinoquia	-	Infrastructure	Touristic	-	-
8	Invest in Santander	Metalworking - Fashion - Chemicals	Infrastructure	Touristic	Industries 4.0 (BPO, KPO and ITO - Technological infrastructure - Software development - Big Data)	-

<Annex Table 2-7> Continued

No.	Local IPAs	Prioritized sectors				
		Manufacture	Infrastructure	Tourism	Services	Commerce
9	ProMonteria	Chemistry	-	Tourism	Health	-
10	Invest in Nariño	-	-	-	-	-
11	ProBarrancabermeja	-	-	-	-	-
12	Invest in Manizales	Chemicals - Life sciences - Metalworking	Infrastructure	Tourism	Industries 4.0 - Real estate	-
13	Invest in Armenia	-	-	Tourism	TICs and software - Logistics	-
14	Invest in Pereira	Metalworking (auto parts - motorcycle parts - aeronautic parts - electric mobility) - Aeronautics	-	Tourism	Industries 4.0	-
15 -23	Other IPAs[1)]	not available	not available	not available	not available	not available

Note: 1) Invest in Huila (Huila, Neiva) - Invest in Cucuta (Cucuta, Norte de Santander) - API Tolima (Ibague, Tolima) - Invest in Cesar (Valledupar, Cesar)- Invest in Boyaca (Tunja, Boyaca) - Invest in Cauca (Popayan, Cauca) - Invest in Casanare (Yopal, Casanare) - Invest in Oriente (Oriente Antioqueño, Antioquia) - Invest in Choco (Quibdo, Choco).

Note: 2) Spaces in blank means that IPAs do not identify prioritized sectors in the respective categories of sectors.

Source: Elaborated by the authors based on IPAs websites information.

<Annex Table 2-8> Survey formats

- Level of IPA Competitiveness

* What's IPA (Investment Promotion Agency)? page 1

Agency to attract FDI[1] to a certain region mainly from foreign investment enterprises

* **What (do you think) is the level** of **your IPA'**s competitiveness in terms of the below activities?

[①: Very **low level**] [③: Normal] [⑤: the **World's best IPA** level]

* Several terms* are explained below.

I. Questions about **Image Building Activity**	Very Weak	Normal	Very Strong
1. PR and IR[2] strategy establishment and implementation (PR: Public Relations / IR: Investor Relations)	←①—②—③—④—⑤→		
2. Producing and providing '**General** PR[3] materials'	←①—②—③—④—⑤→		
3. **Differentiated** PR[4] through internet and mobile[5]	←①—②—③—④—⑤→		
4. International recognition and participation	←①—②—③—④—⑤→		

II. Questions about **Investment Generating Activity**	Very Weak	Normal	Very Strong
1. Understanding and analyzing investor needs by investment briefings ar individual meetings	←①—②—③—④—⑤→		
2. Dealing with investment inquiries[6]	←①—②—③—④—⑤→		
3. Arranging transactions through internet[7]	←①—②—③—④—⑤→		
4. Strategy on attracting specific investments (sectors and countries)	←①—②—③—④—⑤→		
5. Qualified staff in investment promotion	←①—②—③—④—⑤→		
6. Understanding the incentives to support and encourage foreign investm	←①—②—③—④—⑤→		

III. Questions about **After Service Activity**	Very Weak	Normal	Very Strong
1. After investment decision, finding and solving difficulties in the process investment	←①—②—③—④—⑤→		
2. Targeting already invested companies and finding and solving their difficulties in carrying out business	←①—②—③—④—⑤→		
3. Targeting already invested companies, in order to attract re-investment	←①—②—③—④—⑤→		

IV. Questions about **Research & Information Analysis**	Very Weak	Normal	Very Strong
1. Internal and external investment environment analysis based on market strategy (investment infra, industry analysis, and investment trend, etc.)	←①—②—③—④—⑤→		
2. Understanding and analyzing investor prospensity[8] (current & potential investors list, etc.)	←①—②—③—④—⑤→		
3. Activities related to investor-attracting project development[9] (Development of invest-attracting project)	←①—②—③—④—⑤→		
4. Use of innovative tools to identify investor needs or potential investment opportunities	←①—②—③—④—⑤→		

V. Questions about your IPA's **overall general results**	Not good	Normal	Very good
1. What do you think of the performance of your IPA's activities[10] **over th last five years?**	←①—②—③—④—⑤→		
2. What is your anticipation for performance of your IPA **in the next five years?**	←①—②—③—④—⑤→		
3. Degree of coordination between ProColombia and your IPA?	←①—②—③—④—⑤→		

4, Compliance with investment attraction objectives?	←—①——②——③——④——⑤—→
5, Design of a work plan at the beginning of the year?	←—①——②——③——④——⑤—→
6, Monitoring and evaluation of investments promoted by your IPA?	←—①——②——③——④——⑤—→
7, Identification of the capacities that your IPA should strengthen?	←—①——②——③——④——⑤—→

[Reference]

[1] Foreign Direct Investment

[2] IR: Strategic promotion activity for investors so as to integrate finance and attain credibility

[3] General PR: General way of promotion. For example, when we promote a certain region, we can use TV or radio advertisements or the catchphrase "Invest in our Bogota!"

[4] Differentiated PR: Offering special treatment such as holding seminars on different incentives, entry modes, and the types of investment for foreign investors (ex. Bogota's tourism industry)

[5] Differentiated PR through internet and mobile: Differentiated PR based on internet and information & communcation, such as big data

[6] Investment inquiries: Queries about investment from foreign investors. In case of Korea, they can raise inquiries through emails and calls to KOTRA (Korea Trade and Investment Promotion Agency) or the host region.

[7] Arranging transactions through internet, etc: Your IPA (Invest in Bogota) or ProColombia helps that investors and foreign firms meet for investment promotion and decision through internet, mobile, etc.

[8] Understanding investor prospensity: Understanding investor needs such as whether they are long or short-term investors, where they want to invest, or which types of investment project they want, through various ways such as meetings, interviews, seminars, and researches

[9] Investor-attracting project development: development of projects which have a high possibility of Inward FDI. For example, If we would like to in[illegible] a casino in a certain region, we need a project to build infrastructure or business environments such as electricity or lands.

[10] In terms of Inward FDI promotion activities

...te so much for taking time out of your busy schedule to answer the questionnaire with sincerity.

Name: [ ] E-mail: [ ]

(Please send the answered sheets to e-mail .)

• Survey for Colombia's Inward FDI Competitive

* What's IPA(Investment Promotion Agency)? page 1

Agency to attract FDI[1] to a certain country mainly from foreign investment enterprises

* **What (do you think) is the level** of **your national IPA**'s overall competitiveness in terms of the below activities?

[①: Very **low level**] [③: Normal] [⑤: the **World's best IPA** level]

* Several terms* are explained below.

I. Questions about **Subject of Investment**

Very Weak | Normal | Very Strong

1. The IFDI[2] industries coincide with the long-term strategies of **your country (or Colombia)**. ←①—②—③—④—⑤→

2. The number of IFDI firms is appropriate in a current development stage o your country[3]. ←①—②—③—④—⑤→

3. The amount of IFDI capital is appropriate in a current development stage of your country. ←①—②—③—④—⑤→

4. The number of firms by Greenfield[4] in IFDI is appropriate in a current development stage of your country. ←①—②—③—④—⑤→

5. The amount of Greenfield IFDI capital is appropriate in a current development stage of your country.[5] ←①—②—③—④—⑤→

6. The number of firms by M&A[6] in IFDI is appropriate in a current development stage of your country. ←①—②—③—④—⑤→

7. The amount of M&A IFDI capital is appropriate in a current development stage of your country. ←①—②—③—④—⑤→

8. The amount of foreign capital by foreign institutional investors such as Private Equity Fund (PEF)[7] in IFDI has been done well as we expected.[8] ←①—②—③—④—⑤→

[I] What (do you think) is the level of your IPA's competitiveness **in terms of "subject of investment": (1) the number of foreign companies and the amount of foreign capital, (2) types [manufacturing vs. service // M&A vs. Greenfield], and (3) foreign investors [private equity fund, foreign MNE (multinational enterprise), other foreign institutional investors, etc.]?** ←①—②—③—④—⑤→

I I. Questions about **Customer-Oriented IFDI Strategy**

Very Weak | Normal | Very Strong

1. The differentiated PR[9], specific to a region, is more appropriately conducted than general PR[10]. ←①—②—③—④—⑤→

2. We consider "what they (foreign investors) would like to invest" as impo as "what we would like to attract" in selecting firms or industries. ←①—②—③—④—⑤→

[Reference]

1) Foreign Direct Investment

2) Inward FDI

3) your country: namely, Colombia

4) Greenfield: Foreign investors or companies newly start with land purchases and building plants in the host country.

5) Although it is generally recognized that IFDI in a form of greenfield is better than M&A, there has been no theoretical and real evidence. We have to take into consideration of accordance with IPA's plans and strategies.

6) M&A: Foreign investors or companies invest in firms already operated in the host country and transfer the ownership.

7) Private Equity Fund: The way that foreign leading investment agencies invest in. They mostly collect funds, invest in approximately for five to ten years, and exit after they can realize profits. It is originally subject to investment exit five to ten years after the investment.

8) Although it is generally recognized that IFDI by PEF is worse than other institutional investors among institutional investment types, there has been no theoretical and real evidence. PEF also can be helpful to local economic development rather than no investment at all as PEF also attracts the inflow of capital.

9) Differentiated PR: Offering special treatment such as holding seminars on different incentives, entry modes, and the types of investment for foreign investors (ex. Maku's tourism industry)

10) General PR: General way of promotion. For example, when we promote a certain region, we can use TV or radio advertisements or the catchphrase "Invest in our Maku!"

page 2

	Very Weak	Normal	Very Strong
3. We take into consideration of "Increased IFDI"[12] as important as "New IF	←—①—②—③—④—⑤—→		

[II] What (do you think) is the level of your IPA's competitiveness **in terms of "customer-oriented IFDI strategy": (1) differentiated PR (ex: existence of Colombia-specific promotion program), (2) balancing of investment strategy between what we wan and what they (foreign investor) want, and (3) balancing of investment strategy between attracting "new IFDI" and "increased IFDI"?** ←—①—②—③—④—⑤—→

III. Questions about **Efficient Services and Infrastructure**

	Very Weak	Normal	Very Strong
1. We have abundant IFDI experts well qualified with not only hands-on experience but also knowledge (or theoretical background).	←—①—②—③—④—⑤—→		
2. IFDI experts (ex. PM: Project Managers[13]) of central and local governments carry out IFDI projects in the harmonious manner without dispute among central and local governments.	←—①—②—③—④—⑤—→		
3. Environment for business management such as electricity, water service, roads, regulation, law, process of administration, etc. for foreign investo is well organized.	←—①—②—③—④—⑤—→		
4. Environment for living conditions such as schools, hospitals, and housir for foreigners is well organized.	←—①—②—③—④—⑤—→		

[III] What (do you think) is the level of your IPA's competitiveness **in terms of "(IFDI-related) efficient services and infrastructur (1) IFDI experts, (2) central and local governments' support, and (3) infrastructure (HW[14], SW[15]) of IFDI environment?** ←—①—②—③—④—⑤—→

IV. Questions about **Basic Policies and Strategies of IFDI**

	Very Weak	Normal	Very Strong
1. Unnecessary "regulations" which could prevent IFDI are quickly abolishe and modified.	←—①—②—③—④—⑤—→		
2. Provision of "incentive programs" is well established.	←—①—②—③—④—⑤—→		
3. We do not discriminate foreign investment firms from domestic ones.	←—①—②—③—④—⑤—→		
4. We do not reversely discriminate[16] against domestic firms from foreign ones.[17]	←—①—②—③—④—⑤—→		

[IV] What (do you think) is the level of your IPA's competitiveness **in terms of "basic policies and strategies of IFDI": (1) abolition of unnecessary regulations, (2) provision of incentives, (3) abolition of discrimination against foreign/domestic firms, and (4) accordance of IFDI with Colombia's long-term economic development plans?** ←—①—②—③—④—⑤—→

[Reference]

11) New IFDI: The first inward investment hosting in the area of Colombia

12) Increased IFDI: The investment raised again by foreign investor companies who have already invested in the host area of Colombia

13) PM: One project manager has a responsibility to provide sevices to foreign investors in every step of IFDI process in the way of one-stop service.

14) Hardware (HW): Bridges, roads, electricity, and water, and so forth. Other than H/W, all else are S/W.

15) Software (SW): Macroeconomic and social factors, administrative regulations, policies for investment promotion, and institutions for IFDI, and so forth.

16) Reverse discrimination: giving domestic enterprises disadvantages (ex. low incentive and high tax rate) comparing to foreign ones

17) Fair treatment between domestic and foreign firms is important in case of the best IPA. Both firms are important for the development of that region.

ate so much for taking time out of your busy schedule to answer the questionnaire with sincerity.

Name: [ ] E-mail: [ ]

(Please send the answered sheets to e-mail)

03

CHAPTER

Measures to Support Small Businesses and Informal Sectors for COVID-19 Response and Recovery

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Keywords
Micro and Small Business, COVID-19, Pandemic, Informal Economy, Policy, Digital

Measures to Support Small Businesses and Informal Sectors for COVID-19 Response and Recovery

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Summary

This is one chapter within the 2021/22 KSP with Colombia, and has been conducted under the title of "Measures to Support Small Businesses and Informal Sectors for COVID-19 Response and Recovery". The main purpose of this study is to review two countries small business policies under the pandemic situation and to provide the Colombian government with useful recommendations to make small businesses and self-employed people more competitive and maximize their innovative capacity.

After the declaration of the state of emergency on March 17th 2020, the National Government of Colombia, as an initial response to the effects of the pandemic, implemented a set of measures to contain the transmission of the virus. This was also to mitigate the social-economic effects, with the aim of protecting the lives and well-being of Colombians, mainly the most vulnerable. The measures of this strategy were defined with the purpose of: (i) reducing the impact of COVID-19 on the health of the population; (ii) protect the income and welfare of households; (iii) protect the productive apparatus from the effects of the pandemic, and (iv) support public finances.

To reduce the impact on public health, technology for laboratory tests was purchased; migratory and border restrictions and controls were strengthened; mandatory quarantine was imposed to reduce its spread, and the health system adapted rapidly. To protect the well-being of households, the measures focused on protecting employment, access to public services, mitigating the drop-in income, and taking actions to protect the nutrition, education, and well-being of the youngest population. To protect the economy, the measures focused on helping companies to run their businesses, maintain employability, and overall to protect the economy.

In order to solve the emergency caused by the COVID-19 pandemic, the Korean government has prepared relief measures for SMEs and self-employed people affected by coronavirus. This was achieved through immediate measures such as supporting emergency management, funding, and implementing a credit guarantee agency. After the spread of COVID-19 in 2020, the Korean government actively promoted overcoming the crisis through policies in four major areas. The first is the management stability support policy which refers to various loans and guarantee support, tax support. The Korean government launched new financial support products such as policy fund supply, eased financial support conditions such as loan maturity extension, and interest rate reduction, and promoted guarantee support through credit guarantee agencies and simplified loan procedures. Payment of principal and interest on the debt was also suspended. The Korean government postponed the payment of taxes on income tax, corporate tax, and value-added tax to SMEs and self-employed people, and also postponed the payment of rent or utility charges. It also gave tax benefits to increase consumer demand. The second area is the unemployment and employment security support policy. There are subsidies for reducing labor costs for companies that are implementing financial support programs for workers' wages, unemployment, and paying employment maintenance subsidies. The third area is a restructuring policy. This includes remote work, digital transformation, and educational support. The fourth area is deregulation. This refers to efforts to implement simplified and rapid administrative management procedures.

When analyzing the experience of Korea and their support for MSMEs, especially microbusinesses, there is a regulatory body the Ministry of MSMEs, which is responsible for all the accompaniment to these productive units, which is a regulatory body that is not observed in Colombia. Another remarkable aspect of the Korean experience is the culture of formality that entrepreneurs, business owners, and self-employed people have. The fact that there is a low or precarious informality is partly due to the commitment that people have with the implementation of policies within the economy. However, this is linked to the Korean Government's ability to enforce the law, which is not the case in Colombia. On the other hand, the state of technology in Korea is impressive and very advanced. Comparably, in Colombia microbusinesses and SMEs for example, do not feel the need to implement digital strategies, and they consider them as an expense, rather than as an investment. So, the development of applications that facilitate the commercialization of non-face-to-face products is difficult, although in the country there is a growth of e-commerce thanks to social networks. In addition, the administrative skills and training of business owners, like entrepreneurs, is low compared to the ones observed in Korea, and in addition the educational levels of the general population are also an issue.

The policies related to small businesses and self-employed people in Korea and Colombia following the outbreak of COVID-19 were examined. Focusing on the issues found here, I would like to make several policy proposals. First, efforts are needed to convert the informal sector to the official sector. To achieve this, education and tax systems should be reorganized, and other incentives and penalties should be strengthened to transition from the informal sector to the official sector. Secondly, it is necessary to strengthen the digital transformation policy of small business owners. Thirdly, there is a need for a dedicated organization such as the Ministry of SMEs and Startups to integrate and implement SME policies, including small business owners and self-employed people. Fourthly, a social safety net for the financially vulnerable, such as small business owners and self-employed workers is needed, and Korea's yellow umbrella deduction system can be used. Fifth, considering that it is difficult for SMEs to participate in government procurement in Colombia, the preferential policy for SMEs in Korea is relevant. Sixth, the education and consulting system for small business owners is relevant. Finally, when the COVID-19 crisis ends, the introduction of exit strategies for various emergency policies, such as liquidity supply policies, can be applied. As Colombia joins the OECD, it will be more affected by the changes in the global economy in the future, so prompt and appropriate policy measures are needed.

1. Introduction

The past economic crisis, namely the Asian Financial Crisis (foreign debt), the Global Financial Crisis (household debt), and the European Fiscal Crisis (government debt), all resulted from financial insolvency caused by excessive debt, leading to a real economic crisis. In the past, government measures in the event of an economic crisis include self-rescue efforts and loss sharing to repay debts, easing the credit crunch, and policies to expand aggregate demand. However, the real economy shrank as quarantine measures were strengthened due to the absence of treatments or vaccines, and the COVID-19 economic crisis began. In order to prevent the spread of COVID-19, the government had no choice but to take inevitable measures such as containment, social distancing, and inevitable movement restrictions. In terms of supply, there was a lot of manpower loss due to the spread of infectious diseases, and production disruptions and damage to the global supply chain occurred. In terms of demand, consumption was greatly reduced due to concerns over COVID-19, and investment in durable goods and production facilities was delayed due to increased uncertainties. There was a loss of income and sales and the liquidity of households and companies, including the risk of default increased significantly. The crisis in the real sector was feared to spread to the financial sector, leading to a second economic crisis.

In August 2020, McKinsey surveyed more than 2,200 SMEs in five European countries, including Germany, Spain, Italy, the United Kingdom, and France. The surveyed SMEs were hit hard by the COVID-19 crisis. 70% of them said their profits declined as a result of the pandemic, and there was also a serious chain effect. One in five feared that they might have to fire their employees for default, while 28% feared that they might have to cancel their growth projects. More than half of all respondents felt that the project could not last longer than 12 months, even though 20% of the survey subjects had already used various forms of government support, such as tax cuts and employee severance pay. Among the industrial sectors, the logistics industry had the most expected bankruptcies at (22%), followed by agriculture, lodging, food service, retail, and wholesale. The survey shows that nearly 20 % of SMEs have already applied for some form of government support, but an additional 30 %have plans to do so (McKinsey & Company, 2020).

Each government will take a different approach to supporting SMEs. The scope of their support also varies greatly depending on the local market situation. However, the survey emphasizes the need to consider both the immediate survival and long-term strengths of SMEs. Worldwide, the productivity of SMEs is much lower than that of large enterprises. Therefore, when the crisis disappears, the government can choose to help SMEs strengthen their resilience. For example, by helping them find new markets or digitize faster, SMEs are likely to become post-crisis economic and promoting employment All five European governments' from these countries implemented pandemic relief measures which included business loans, a reduction in lending rate, claims for statutory sick pay, claims for wages (furlough), deferral of tax payments (e.g. VAT), and protection from eviction (McKinsey & Company, 2020).

Both Korea and Colombia decided to strengthen cooperation on the international stage with Colombia's accession to the OECD, and to share and cooperate with Korea's experience in joining the OECD. This study is conducted as part of a policy project to implement OECD recommendations for Colombia. As the spread of COVID-19 accelerates, Korea has announced a wide range of economic stimulus measures to quickly respond to the risk of an economic recession caused by COVID-19. The purpose of this study is to examine the Korean government's policy measures for MSMEs and self-employed people suffering from pandemic situations and structural policies to strengthen their growth potential and improve competitiveness after the crisis. This study also aims to help Colombia establish policies based on Korean experiences in the event of such a crisis in the future. This study has an influential effect and enhanced the Colombian government's understanding of OECD discussions on this issue, and has improved future policy expectations to meet the international standards of the OECD.

The scope of the study was mainly targeted at small and medium-sized enterprises and self-employed people, including the informal sector[1]. About 6.9 million SMEs in Korea account for 99.9% of all companies, and 82.7% and 48.7% of the total in terms of the number of employees and sales, respectively. On the other hand, small and medium-sized enterprises and self-employed people account for 93.3% of enterprises, 43.7% of workers, and 17.1% of sales in the Korean economy. This study focused on policies related to small and medium-sized enterprises with less than 10 employees among SMEs and self-employed people. Among the SME policies implemented under the pandemic situation, this was implemented urgently after March 2020.

As for the research methods, the scope of research was adjusted through a consultation between joint and senior researchers and the quality of the final research products were managed. This study mainly focused on the contents of the study through literature research. For Korean-related data, literature surveys through COVID-19 related to policy data, notices, and laws that were greatly referred to by the Korean government. For Colombia-related data, he data published by the Colombian government and related organizations, were from the Employment and Social Affairs Committee, and the data related to COVID-19 published by the OECD were mainly referenced.

This chapter consists of the following descriptions: section 2 explains the economic impacts of COVID-19 and policy measures, policy programs for MSMEs during the pandemic, and special programs for informal sectors and self-employed workers in Colombia. Challenges and lessons derived for Colombia will also be discussed. Section 3 describes the economic impacts and policy measures such as financial support for MSMEs and self-employed workers, special programs for the unemployed and those with job security, restructuring support measures, and deregulation programs during the pandemic in South Korea. Section 4 describes the comparative analysis between two countries and policy recommendations. Policy recommendations for Colombia are based on the case of Colombia examined in section 2 and that of South Korea in section 3. Lastly, section 4 will explain the appropriate policy recommendations.

Finally, this is a result made by Korean and Colombian researchers and the analysis on the Colombian policy experiences has been led by the Colombian partner, while the same work on South Korea was done by the Korean researcher. They worked together to examine the issues and the policy lessons.

1 'Informal sector' refers to the production and transaction activities of goods or services by small businesses and private businesses that are not identified by the government. It is also called Shadow Economy or Grey Economy. Unlike the official economic sector, the informal sector is an economic sector that is not taxed, is not interfered with by any government agency, and does not appear in gross national product (GNP) statistics.

2. COVID-19, MSMEs and Informal Sectors in Colombia

2.1. Definition and Current Status

Before the pandemic, in 2019, there were 1.7 million companies in Colombia, of which 98% were micro and small sized enterprises. 75.12% were enterprises that had renewed their commercial register and 17.70% were created in the course of the year, of which 75.75% were natural and 24.25% were legal [2] (RUES, 2019). After the pandemic, the number of companies in the economy fell by 9.8%, which equated to 173,000 companies. The vast majority of which were micro-sized, either because they had canceled their commercial registration, did not have the resources to renew it or just stopped all of the productive activity (RUES, 2020).

A large proportion of this analysis is supported by the decisions that the small and medium-sized enterprises had to make in order to keep their businesses afloat. The Confederation of Chambers of Commerce, together with the 57 Chambers of Commerce throughout the country, conducted surveys of entrepreneurs (96.5% were micro and small businesses) which showed the measures they had to take and the needs that arose as a result of the pandemic. 97% of businessmen stated that their sales had fallen and, of these, 75% stated the sales drop around 50%. 70% indicated that they had supply problems and 12% indicated that they had to increase prices, mainly due to an increase in the price of inputs.78% stated that they partially or totally closed their productive activity. 12% reduced their staff, 9% suspended contracts, 20% gave early or collective vacations, 8% opted for unpaid leave and 9% temporarily modified their workers' contracts (Confecámaras, 2020a).

Micro-businesses are defined as an economic unit with a maximum of 9 employed persons that develops a productive activity of goods or services, in order to obtain an income, and act as an owner or handles the means of production (DANE, 2020a). According to DANE[3] in 2019, there were around 5.87 million of these economic units in the country. 87.6% of the total number of micro-businesses was people working on their own account and 12.4% are from employers. 87.5% of these did not make contributions to social security, 75.7% did not have a Single Tax Registry and 87.8% did not have a Chamber of Commerce

2 The natural person is that individual who, acting on his own behalf, deals with one or more activities that the law considers commercial; and legal person is an organization or group of natural persons to whom the law recognizes independent personality and differentiated from that of each of its members or components, capable of exercising rights and contracting obligations, and of being represented judicially and extrajudicially.

3 National Administrative Department of Statistics, DANE, for its acronym in Spanish

Registry (DANE, 2020a). Therefore, at least, 87% of microbusinesses were operating, at some level, within the informal sector. By the end of 2020, microbusinesses also suffered a significant reduction. 5.4 million microbusinesses were registered, 7.3% less than what was observed in 2019, with negative variations of 26.7% in their nominal sales, 21.1% in their consumption of intermediate inputs and 35.3% in its generation of added value (DANE, 2021).

Lastly before the pandemic, the market labour informality rate for the employed population was around 47.6%. 1 out of every 2 workers in Colombia was working informally, in an economy that at that time had 22 million employed and an unemployment rate of 10.5% (DANE, 2020b). Under pandemic circumstances, unemployment reached its highest peak in May 2020 with a rate above 20%, it was observed that 2.4 million people left the market, of which 1.8 million neither studied nor worked, and informality increased by 1.4 % and was predicted to reach 49% (DANE, 2021a). These figures show how the pandemic and the isolation measures affected economic activity and slowed down production rates, reduced production capacity, and contributed to a 6.8% decrease of the GDP.

2.2. Economic Impact of COVID-19 and Policy Measures

2.2.1. Economic Impact of COVID-19

After the declaration of the state of emergency, in March 17th 2020, the national government of Colombia, as an initial response to the effects of the pandemic, structured and implemented a set of measures to contain the transmission of the virus and mitigated the social-economic effects, with the aim of protecting the lives and well-being of Colombians, mainly the most vulnerable. The Document CONPES (3999), refers to an initial response strategy to the effects of the COVID-19 pandemic on public health, households, the productive apparatus and public finances", presents these initial response measures.

The measures of this strategy were defined with the purpose of: (i) reducing the impact of COVID-19 on the health of the population; (ii) protecting the income and welfare of households; (iii) protecting the productive apparatus from the effects of the pandemic, and (iv) supporting public finances. To reduce the impact on public health, technology for laboratory tests was purchased; migratory and border restrictions and controls were strengthened; mandatory quarantine was imposed to reduce its spread, and the health system adapted to care for the increasing rates of infected people. To protect the well-being of households, the measures focused on protecting employment, provide access to public services, mitigated the drop-in income, and took actions to protect the education and well-being of the young populations. To protect the economy, the measures focused on protecting the liquidity of companies and maintaining employment, in order to avoid greater impacts on the economy. Finally, the Emergency Mitigation Fund (FOME) was created and the fiscal management of the territorial entities was supported, making some of the processes more flexible to quickly contract supplies for the health sector (DNP, 2020). Although the measures implemented to support households and the productive apparatus reduced the effects of the pandemic and quarantine, the Colombian economy was greatly affected.

2.2.2. Economic and Fiscal Measures against COVID-19

From the same survey mentioned above, it was observed what measures the companies were applying during the pandemic. 70% of the companies stated that they decided to partially close their productive activity, 20% sought to access credit, and 10% made investments in adjustments to be able to continue operating. Regarding labor measures, 49% stated that they modified the conditions of the contracts or suspended them, reduced their staff, gave collective vacations and unpaid leaves to reduce the costs associated with their workers. As the entrepreneurs implemented these measures, 77% said they needed financial support, 70% requested tax aid, 41% requested a reduction in labor costs, and 67% requested support in other operating costs. Additionally, almost unanimously, they requested training to operate digitally (Confecámaras, 2020a). With regard to the measures implemented by the government, 42% of businessmen claimed to have access to labor aid for payment of salaries and other obligations related to labor costs, and 37.5% had access to some type of financial support, reduction of the interest rate, grace periods, special lines of credit, guarantees, etc. (Confecámaras, 2020a).

2.2.2.1. Colombian Version of the New Deal

As a result of the measures approved and requested by the SMEs, seeing that the pandemic was lasting longer than expected and was, also, an opportunity to socioeconomically transform the country, by accelerating the implementation of certain projects, the Government decided to build a policy to encourage the sustainable growth of the economy. This included setting the goal of developing financial capacities in households, the productive sector, and improving the institutional framework so that, in the short term, the system can continue to develop and be prepared for any economic crisis in the future.

As a result of the action taken by SMEs, the government decided to establish policies to revitalize and sustain the inclusive growth of the country. Seeing the epidemic as longer-than-expected was an opportunity to change the country socioeconomically by accelerating the implementation of certain projects. In the short term, it was assumed that the system could resume the path to development that followed before the COVID-19 shock, and set more goals to develop the productive sector and institutional framework. In the future the goal has been set to encourage the direction of more sustainable growth with the ability to adequately respond to future high-impact shocks.

The Reactivation Plan, or new deal, "New Commitment for the Future of Colombia", proposed by the National Government, was to support the private sector in the coming years, and amounted to more than 135 billion pesos 7.2% of which went to the housing sector and 42.4% to the transportation sector. This impacted the future productivity and the economy, in addition to distributing more investments throughout all regions of the country. Additionally, 3.9% went to the education sector; 26.3% to investments in the mining and energy sector; 4.4% for the social inclusion sector; and the remaining 15.8% corresponds to investments in the agricultural sector, sports, among others.

The total amount of investments in the plan is equivalent to 12.5% of the current GDP, which is distributed according to each of the pillars. The projects are prioritized in the five commitments: job creation, clean and sustainable growth, commitment with the poorest and most vulnerable, with the countryside and peace with legality and with the health of Colombians. These investments complement the objectives of the action plan, as it is detailed in the chart below, in accordance with the specific axes on which the reactivation policy is built (DNP, 2020a).

<Table 3-1> New Commitment for the Future of Colombia

(Unit: Number, USD billion)

Commitments	Number of projects	Number of jobs	Investment amount
Commitment with job creation	291	2,000.000	92.5
Commitment with clean and sustainable growth	32	114.300	19
Commitment with the poorest and most vulnerable	143	280.000	16
Commitment with the countryside and peace with legality	81	99.600	4
Commitment with the health of Colombians	5	-	0.63
Total	552	2,493.900	135[4]

Source: CONPES 4023 New Commitment for the Future of Colombia (DNP, 2020a).

4 It does not appear in the table, but the strategy also includes 3.8 billion pesos for the implementation of the reactivation bet.

It is worth arguing that within the projects in the New Deal, there are projects of infrastructure, housing, ICT infrastructure, and especially for rural areas, agricultural projects and other projects that had been reduced by the pandemic.

2.2.2.2. Supplementary Budget in 2020 and 2021

During the pandemic the Emergency Mitigation Fund - FOME was created, the amount and financing of this budget was expanded through various emergency decrees[5]. Its total capacity reached 2.9% of GDP ($29.3 billion pesos), and at the end of the third quarter in 2020. Along these, Decree 492 of 2020 established measures to financially strengthen the National Guarantee Fund – (FNG). This decision intended to optimize the use of the capital of state-owned financial entities, by transferring resources to the FNG to increase its profits. This was to support the issuance of new credits by encouraging financial entities to support micro, small, and medium-sized enterprises, as well as natural persons who have seen their cash flow or income significantly reduce due to the health emergency.

On October 22, Law 2060 of 2020 was enacted. The law raised the emergency budget by 1.5% of GDP ($15 billion pesos). The new items were used to protect the business apparatus and employment sector, as well as increase household income, through the Formal Employment Support Program (PAEF) and the Service Prime Payment Support Program (PAP). As a result, at the end of the 2020 term, the total capacity of the emergency budget reached 4.45% of GDP; an amount greater than 2.5% of GDP that emerging economies had allocated on average to finance the emergency situation caused by the pandemic, according to the International Monetary Fund (MHCP, 2021).

In 2020, 50.2% of the available emergency fund resource, FOME, was executed for emergency care, so there was still around 49.8% of the resource available. In 2021, the entities of the Nation committed USD 20.71 billion, of which USD 9.05 billion corresponded to the measures of the health emergency care axis meaning USD 7.74 billion corresponded to the measures of attention to the population in vulnerable conditions, and COP dedicated USD 3.92 billion for measures related to the protection of employment and economic activity. Likewise, payments of USD 23.38 billion were recorded. Thus, the total committed value of FOME resources amounts to USD 42,746.6 billion which was (97.5% of the total).

5 Decretos 519, 492, 562, 571, 572,662, 774, 798 y 813 de 2020 (MHCP, 2021)

<Table 3-2> Emergency Fund Budget and Expenditure

(Unit: USD billion)

FOME Axis	2020 Budget	2021 Budget	Total
Health emergency care	7	9	16
Attention to the population in vulnerable conditions	8.6	7.7	16.4
Measures related to the protection of employment and economic activity	6.4	3.9	10.3
Total	22	20.7	42.7

Source: Libro Blanco del Fondo de Mitigación de Emergencias (MHCP, 2022).

<Table 3-3> Executed Resources in Measures to Protect Employment and Economic Activity 2020-2021

(Unit: USD billion)

Employment and economic activity recovery	2020 Budget	2021 Budget	Total
Formal Employment Support Program - PAEF	4.86	1.9 B	6.7
Service Prime Payment Support Program - PAP	0.187	0.099 B	0.286
Subsidy to the commission of the guarantees of the National Guarantee Fund	1.22	1.6 B	2.8
Bancoldex special credit support	0.1	-	0.1
Special credit supports	0.003	$0.334	0.337
Others	0.03	-	0.03
Total	6.4	3.9	10.3

Source: Libro Blanco del Fondo de Mitigación de Emergencias (MHCP, 2022).

<Table 3-3> presents the detail of the resources executed in the measures to protect employment and economic activity. In 2020, government entities committed 62% of the total approved resources (USD 6.39 billion), to reactivate the economy and recover jobs. In 2021, the entities committed to an additional USD 3.92 billion (37.9% of the approved amount of spending), and 0.06% of the total amount remained unexecuted (MHCP, 2022).

The measures implemented by the Government of Colombia to support micro, small, and medium-sized enterprises under pandemic circumstances can be categorized into five areas, including financial support, support for labor costs, tax relief, structural improvements, and deregulation. What can be explained about these financial measures is that policies have focused on facilitating access to liquidity, but not on the delivery of subsidies. In the labor aspect, the policies focus in delivering subsidies to businesses if the SMEs complied with the requirements to maintain employment. Regarding taxation, the policies aim to generate conditions that would allow the payment of taxes without affecting the liquidity of the companies. In structural changes, support was provided for digital transformation; and in terms of deregulation, the implementation of a strategy to simplify governmental procedures continued. All the resources for the financial and labor support policies came from FOME.

2.3. Policy Programs for MSMEs during the Pandemic

2.3.1. Financial Support

2.3.1.1. Normative

External Circular 007 of 2020 of the regulatory entity of the financial sector[6] in Colombia was issued, which stipulated that each credit establishment selects the beneficiaries to grant grace periods, preserve their credit score and eliminate the restrictions of credit card balances. It is also decreed that for a period of 120 calendar days, the credit score must be updated in accordance with the pandemic conditions. Despite the fact that the creditor is in arrears and changes in credit conditions, this will not be understood as a generalized practice for debt portfolio normalization (Superintendencia Financiera, 2020). Also, in the External Circular 014 of 2020, it is established that in the grace periods the interest rates may not increase and interest on interest will not be applied. Moreover, changes to credit conditions must be reported at any time to financial consumers, to prepare for the possibility that the consumer can reject new terms and conditions and the credit establishments must then explain which digital channels are available to the public (Superintendencia Financiera, 2020a).

2.3.1.2. Debtor Accompaniment Program – PAD

The SFC creates the debtor accompaniment program - PAD and issues complementary instructions to the existing ones through External Circular 022 of 2020. This is so the credit institutions can determine the conditions for the redefinition of any financial obligations to those debtors whose revenues have been affected one. It is a set of measures that credit institutions must determine to manage the financial commitments of debtors in the face of the impact on their income or ability to pay in the current situation. Each entity will define the conditions and characteristics of the credits to which the PAD applies, taking into account at least the following: i) The new conditions will include the reduction of the quota; ii) the non-increase of the initially agreed interest rate; and iii) new grace periods may be applied

6 Superintendencia Financiera de Colombia, SFC for its acronym in Spanish

in accordance with the analysis carried out by the entity in each case (Superintendencia Financiera, 2020b).

2.3.1.3. "United for Colombia"

The special guarantee program, "United for Colombia", of the National Guarantee Fund - FNG, supports loans for working capital and payroll, to MSMEs, the most affected sectors, and the self-employed among others.

- Line of Credit for Working Capital

This line intended to leverage working capital and investment in fixed assets, and is available for small and medium-sized companies of all sectors, granting 90% coverage to credits for a maximum of 4,400 million pesos. This line covers the commercial and microcredit modalities, and the minimum term of these credits is 12 months and can be extended to a maximum of 60 months. It is also intended for credit coverage for micro-enterprises in all sectors, twenty-one with coverage that was initially 70% and 80% but was expanded to 90% in credits of a maximum of 46 SMMLV[7] per debtor. This coverage only applies to microcredits and its minimum term is 12 months, which can be extended up to a maximum of 36 months. The credit has a grace period of 4 months on the capital or whatever is agreed between the financial intermediary and debtor (FNG, 2020).

- Line of Credit for Payroll

The line for payroll launched by the FNG is intended to meet the needs of financing for the payment of the salaries of the employees. For the small and medium-sized companies, 2.9 billion pesos were allocated, with 90% guarantees and 12-month terms for credits of up to 4,400 million pesos. To complement micro-enterprises, 322 million pesos were allocated with a guarantee of 90% of the credit value, and in terms of 12 to 36 months a credit amount must not exceed 25 SMMLV per debtor. It is important to note that two requirements apply to this line are: i) submitted to the financial entity for the registration of payments to the social security. And ii) the payroll certificate to the employees guarantee that the resources are used for this purpose. In addition, this line of credit has a grace period of 4 months on the capital for micro-enterprises and 6 months for small and medium-sized business (FNG, 2020).

7 Acronym of Salario Mínimo Mensual Legal Vigente (in Spanish), it determines the official minimum wage in Colombia. The minimum wage in 2022 was 1,000,000 pesos.

- Line of Credit for self-employed

This line is intended to finance working capital to support the most vulnerable, both from the business and from the home of independent workers, because of the drop in their income due to Covid-19. For this, 1.3 billion pesos were allocated with guarantees of 80% on the value of the credit that can be commercial, microcredit or consumption and not higher at 46 SMMLV per debtor. The loan term can be up to 36 months, but unlike the above, it does not have grace periods, and neither can those who work in the agricultural sector apply for it. It is essential to note that this line requires access to the resources, which is what the worker has contributed to social security for 3 to 6 months. In addition, an incentive was established to contribute to the social security system by using independent workers in which the debtor could get a refund of up to 20% of the commission paid to the FNG once they made the payment of total credit (FNG, 2020).

- Line of Credit of Microfinances

The first part of this line, which adds up to 500 billion pesos, applies to formal micro entrepreneurs, who are microenterprises (natural or legal persons) tax formalized (that is, the person registered in the Single Registry Tax - RUT in active status before the DIAN[8]) for the acquisition of working capital or investment in fixed assets. Coverage is 75% of the credit, which cannot exceed 40 million pesos. The terms of the obligation are between 12 and 36 months, but do not count with grace periods. The only requirement for this benefit is to register with the RUT. The remaining part of this line, which has also been allocated 500 billion pesos, is directed to informal microenterprises. Coverage is 60% for credits that cannot exceed 40 million pesos, within a period of 12 to 36 months, without any type of grace period. In addition, as an incentive for the tax formalization of the micro entrepreneur, the FNG may return up to 100% of the commission paid if the micro entrepreneur subsequently activates the RUT[9] (FNG, 2020).

- Line of Credit for the Most Affected Sectors

The line dedicated to small and medium-sized companies has a designated amount of 1 billion pesos and is focused on companies in the sectors most affected by the sanitary emergency defined as commerce, services, and manufacturing. This line finances capital of work and investment in fixed assets. The credits have a 90% guarantee for amounts between 22 and 4,400 million pesos. The minimum term of the obligation is 12 months and the

8 Colombian tax office, Departamento de Impuestos y Aduanas Nacional, DIAN for its acronym in Spanish

9 Register for Unified Tax (RUT)

maximum go up to 60 months, which is applicable to commercial and microcredit portfolios. In addition, accounts with a minimum grace period of 12 months to the capital. In order to access this line, the company must belong to one of the 82 activities permitted by the National Government.

Another part of this line is dedicated to large companies in the three sectors and 82 activities mentioned above, with a total amount of 1 billion pesos. The credits have a 90% guarantee and the credits granted to each debtor may be guaranteed up to for the lesser value between: i) 12% of income from ordinary activities reported to the last fiscal cut (December 31, 2019), or ii) $36,000 million pesos in value credit. The minimum term of the obligation is 12 months and can reach 60 months, with a grace period for the credit capital of at least 12 months (FNG, 2020).

<Table 3-4> Number and Total Amount of Credits Granted

(Unit: USD billion)

Type of enterprise	Number of credits	Total amount
Micro	857.437	8.5
Small	61.422	8.07
Medium	18.629	5.87
Big	2.981	2.57
Natural person/ Self-employed	4.008	0.2
Total	944.477	25

Source: Informe Cuarentena por la Vida 2022 (Superintendencia Financiera, 2022).

2.3.1.4. “Colombia Responds”

In compliance with the measures announced by the National Government, in order to alleviate the negative effects of the coronavirus on the performance of the country’s economy and its companies, Bancóldex[10] launches a special line of credit for $250,000 million pesos. This is for the tourism and aviation sector -and their respective supply chains- in addition to those related to public shows. The ‘Colombia Responds’ line of credit offers loans in pesos and the maximum amount per company is up to $3,000 million pesos for MSMEs and $5,000 million for large companies. As for the financial conditions, the interest rate offered to financial intermediaries is IBR[11] + 0%, the final rate being freely negotiable

10 Banking entity attached to the Ministry of Commerce, Industry and Tourism.

11 The IBR is a short-term reference interest rate denominated in Colombian pesos, which reflects the price at which banks are willing to offer or receive resources in the money market (BanRep, 2022).

between the entrepreneur and his bank. The final interest rates must contemplate a minimum reduction of 2 % in the interest rate to the entrepreneur, with respect to the traditional offer of financial intermediaries (Bancoldex, 2020).

2.3.1.5. "Colombia Undertakes and Innovate"

Thousands of businessmen and entrepreneurs are experiencing uncertainty due to the pandemic. The Ministry of Commerce, Industry and Tourism and iNNpulsa Colombia[12] created some special lines of credit in alliance with financial entities and fintec companies to mitigate some economic effects of the coronavirus. One of these lines of credit is for companies and enterprises from all economic sectors that have invoiced a maximum of 60 months. If the credit is approved, the business may obtain a compensated rate of at least two points for a credit of up to 200 million pesos that can pay in a term of up to 3 years. In addition to having a maximum grace period of 6 months, business needs to apply for the line of credit that promotes Bancóldex's business and improves their state as a financial entity. As for the other line of credit, this is for companies and ventures from all economic sectors with a minimum of 6 months and a maximum of 96 months of billing, the benefits of this financial products is a compensated rate of at least two points for a credit of up to 100 million pesos, and can be paid in a term up to 3 years and a grace period of up to 6 months (iNNpulsa Colombia, 2020).

2.3.2. Labor Policy Support

The Ministry of Labor through Circular 021 of March 17, 2020, established the following options of measures for employers to adopt, this includes: i) Work at home schemes which does not require compliance with teleworking conditions. ii) Flexible working day schemes which establishes employers with different working days to reduce the amounts of workers. iii) Annual, anticipated and collective vacations which are granted and can be negotiated with employees to enjoy vacations or time off work. iv) Paid permits which grant employees with worker permits to allow them not to go to work, but continue to earn a salary. v) Salary without provision of service which continue to pay the salary to employee without them providing services (MinTrabajo, 2020a).

With the purpose of alleviating the economic situation of formal workers affected by quarantine measures, the, Decree 488 of 2020 allowed members of private layoffs funds to partially withdraw their layoffs money, when they have an affectation in their income,

12 Business accelerator entity attached to the Ministry of Commerce, Industry and Tourism.

without having ceased the employment contract (MinTrabajo, 2020).

PAEF (Support Program for Formal Employment) is a support program established by the National Government to protect employment formalities. For example, a contribution per employee is granted monthly and until March 2021 corresponding to 40% of the minimum wage. For the tourism, hotel, gastronomy sector and leisure industries, the contribution is set at 50% of the minimum wage. For companies that have female employees the contribution will be up to fifty percent 50% of the value of the current monthly legal minimum wage (ACOPI, 2020).

PAP (Service Prime Payment Support Program) is a social program of the State that granted and charged to the resources of the Fund of Emergency Mitigation (FOME). To its beneficiaries a single monetary contribution was made in order to support and subsidize the first payment of the service prime of 2020 (ACOPI, 2020).

<Table 3-5> Labor Support Programs Micro and Small Business

Program	Beneficiaries companies	Beneficiaries workers	Total subsidies
PAEF	49,636	452,305	$ 689.4 billion (USD 0.18 billion)
PAP13	95,307	1,048,561	$ 289.5 billion (USD 0.07 billion)

Source: UGPP (2021).

2.3.3. Tax and Utilities Bills Support Policies

2.3.3.1. Income Deduction and Tax Support

The supports in tax matters were essentially the same and the Decree 401 and 435 of 2020 of the Ministry of Finance and Public Credit extended the deadlines to present the income tax of companies and natural persons. For those sectors most affected by the pandemic, the Decree 520 of 2020, extended the term to present the declaration and pay income tax in installments for up to 6 months for MSMEs (MHCP, 2020) (MHCP, 2020a) (MHCP, 2020b). On the other hand, as for the Decree 535 of 2020, the abbreviated and automatic returns of these balances were in favor of the income and sales tax of regulated companies. Through the Decree 688 of 2020 it was decreed that the payments of taxes owed between April and July 2020 could differ in 12 installments, and the default interest on taxes owed was reduced (MHCP, 2020c) (MHCP, 2020d).

13 The data shown refers to the subsidies given to all companies, not only micro and small business

Based on Decrees 438 and 551 of 2020, a series of measures were implemented to prevent, diagnosis, and treat Covid19. This included hospital beds and oxygen machines that were declared and exempt from sales tax for the duration of the economic emergency. (MHCP, 2020e) (MHCP, 2020f). Likewise, through Decree 518 of 2020, the IVA[14] exemption was applied to financial services commissions and to the money transfer programs of the National Government (MHCP, 2020g). With Decree 540 of the same year the exemption was made to the connection services and access to voice and mobile internet for 4 months (MHCP, 2020h). Moreover, a large number of goods and services were also exempt for three days of the year and the goods or services were purchased, but on the specific day that the law applied. IVA was not paid or collected in the process of acquiring said product (MHCP, 2020i).

In addition, finally, the IVA rate was reduced on products such as gasoline and passenger air transport services. On donations, a solidarity tax was imposed on public officials who had an income greater than or equal to 10 million pesos. This was to serve the most vulnerable and measures were implemented regarding the facilitation of procedures and compliance in billing processes by electronic means.

2.3.3.2. Utilities and Rent Support

With regard to public services, it was stipulated that households whose water service was suspended due to non-payment would have their service reconnected and that rate could not be increased while the pandemic was in progress. It was also stipulated that, for people living in the middle premises, who could not pay for water, energy and gas services, payments could be deferred for up to 24 months. The gas could have an agreed grace period, high-income business premises could defer payments for services based on what is agreed with the service operator, and low-income individuals and businesses could defer bills for up to 36 months without charging interest (Presidencia de la República, 2020).

Regarding the rental of housing or commercial premises, Decree 579 of 2020 of the Ministry of Housing stipulates that the rent should not be increased. It also prohibits the unilateral cancellation of the lease by the lessor, limits the delivery of the properties through a negotiation agreement between the tenant and the landlord and, finally, in the adjustments of the payment of the rent fee, makes a deferral of the payment may alter interest payments for late payments or limit other surcharges (MinVivienda, 2020).

14 Known as impuesto al valor agregado (IVA) in Colombia, VAT is a national tax, imposed on local residents or on applicable entities or individuals located abroad, which must be paid by the final beneficiary of the good or service that generates the tax.

2.3.4. Restructuring Support Measures

In terms of business transformation, instruments, programs, and strategies have been implemented to respond to the needs of MSMEs, which are emphasized to respond to the needs of the business. In this sense, some programs and instrument are highlighted.

The "Productivity Factories Program" implemented through Colombia Productiva[15] focused on promoting increases in business productivity, through technological services that are designed according to the specific needs of companies. For the development of MSMEs in the country, the Ministry of Commerce, also through Colombia Productiva, has managed to connect suppliers and customers through the digital platform Compra lo Nuestro. This platform acts as a social network for Colombian entrepreneurs and for no cost to them. Meanwhile, the entrepreneurs registered in the platform that has access to services, training, and business tools to facilitate their business. This platform became more relevant after the COVID-19 emergency with the inclusion of tools for the digital transformation of MSMEs. The "Supplier Development Program" seeks, through the linking of anchor companies (national and international), to support the integration of national producers into their value chains and global value chains.

In relation to the digital transformation, there is the Digital Transformation Centers whose objective are to accompany MSMEs through individual and confidential business technical assistance, virtual or face-to-face, so that they start their path towards digital transformation and take advantage of the new business strategy opportunities. The Ministry of Commerce aims to promote productivity, quality, linkages and the sophistication of the country's clusters created the 'Clúster Más Pro'.

Lastly, there is the VUE[16] initiative that is a public-private strategy and is based on the articulation of more than 20 entities at the national and local levels. It also seeks to facilitate business activity in Colombia through the automation of procedures in a single technological platform which integrates commercial, tax, and progressively social security procedures, necessary for the opening and operation of companies (MinCIT, 2022).

2.3.5. Deregulation Policy

Simple State, Colombia Agil, ESCA[17], is a program of the Colombian government

15 Business accelerator entity attached to the Ministry of Commerce, Industry and Tourism

16 Business Single Window, VUE for its acronym in Spanish.

17 ESCA, Estado Simple, Colombi Ágil, for its acronym in Spanish.

whose purpose is to make citizen relations with government institutions more agile and simple. Through this instrument, it also seeks to promote entrepreneurship and business consolidation, by optimizing the services provided by public entities. To date, 4,561 interventions have been carried out, of which a little more than 2,500 directly affect MSMEs. Among the procedures that were simplified, automated, and eliminated are those related to the payment of taxes, formalization methods, access to financing, contracting with the state, company creation, obtaining quality certificates, and conflict resolution, among others (ESCA, 2022).

The 'Pacts for Growth and Employment Generation' is a commitment of the National Government. This was led by the Vice President, in which 22 productive chains of the Colombian productive apparatus, 95 unions and 60 economic sectors agreed on 825 actions that solved issues within sectors. This has become more competitive and productive in order to increase production, export, investment and job creation. Through these sectoral agreements, 46 decrees, 101 resolutions and 132 policy documents have been issued and have benefited all companies in the production chain.

During the pandemic, around 17 meetings were held with the representatives of the productive sectors to analyze what regulatory aid, procedures, process sophistication and digitization were needed so that the companies in their sectors could improve their work capacity. Examples of the achievements of these conversations were that incentives were given to companies through vouchers, so that they could implement digital strategies. The processes of sanitary registration for pesticides were simplified and 446 micro and small businesses were formalized through the business growth program.

2.3.6. Economy for the People

The "Economy for the People" is an articulated response from the National Government to support microbusinesses in their process of reactivation, sustainability, and growth. The strategy has the goal of benefiting more than 580,000 microbusinesses and productive units, formal and informal, with an emphasis on the most vulnerable populations. It is developed within the framework of the "New Commitment for Colombia" to contribute to the generation and maintenance of employment, and provide support to the most vulnerable. This also ensures that the resources of at least 1.72 billion pesos between direct investments and credit resources are made.

This commitment by the National Government allowed them to organize available programs and offer around 5 work principles, this included: i) The improvement to the environment: the development and implementation of regulatory services and public policies that facilitate the conditions for entrepreneurs and microbusinesses to find growth opportunities. ii) Income generation and entrepreneurship formalization involving actions to support new initiatives for vulnerable populations and improvements to the productive and commercial capacities of existing microbusinesses that were seeking results to generate higher income for families and advances iii) Productive development, associativity, and access to markets to generate connections between supply and demand and to promote the purchase of Colombian products under “Compra Lo Nuestro”. This included electronic marketing and the development of suppliers, through alliances in different regions of the country. iv) Innovation and technology including the use of information and telecommunication technologies to overcome barriers to literacy, appropriation, and digital transformation. v) Financing: cross-cutting axis for reactivation which aimed to promote the access to formal financing through specialized financial instruments for microbusinesses, with the main emphasis on micro-credit, through the work of Bancóldex, the National Guarantee Fund, and large allies such as the microfinance entities.

To date, through the “Economy for People” 406, 470 microbusinesses have been supported, with resources invested and mobilized that are worth $1.3 billion pesos. Some of the programs are:

- “My Business” of the Social Prosperity Department which serves the most vulnerable populations in the country and has reached more than 74,268 microbusinesses.

- SENA’s 4K Strategy, which includes the Fondo Emprender and a network of more than 117 Business Development Centers throughout the country, supports entrepreneurs and micro-enterprises with training, seed capital, and implements business plans. It also supports 15,326 micro-enterprises.

- Through “Harvest and sell to the Fixed” of the Ministry of Agriculture, there is a relevant agricultural marketing policy to economically support rural areas to promote productive alliances and entrepreneurs in the field that has made it possible to support 144,709 rural microbusinesses.

2.4. Special Programs for Informal Sectors and Self-employed

In Colombia, 1 out of every 2 workers is informal, more than 80% of microbusinesses are owned by self-employed workers and almost all carry out their productive activity informally. This makes it difficult to focus and achieve a relevant implementation of policies for this specific population, which was evident during the pandemic. Since these productive units were not formally registered in any program or strategy, there was no way of contacting them. It is very difficult to find out where they were located and where the owner lived, what their business needs were. Therefore, it was not clear what benefits of the other programs that were being implemented could not be granted to them, despite the fact that the Department of National Statistics had an approximation of the necessary information.

So, to achieve the best results for the largest number of microbusinesses and self-employed workers, strategies were developed by making credit access conditions more flexible and linking them to programs that provided training. Those programs improved the productive and strategic capacity of businesses and facilitated their transition to formality. The following is a major program developed by the National Government of Colombia to support the informal population, which had to be created due to the pandemic because strategies had not been previously developed to directly support informal microbusinesses.

In addition, a program was developed so that the most vulnerable people and the vast majority of whom are informal and self-employed, could obtain an income during the pandemic. This was done based on the data collected from Colombians who are part of the Colombian subsidy system and facilitate access to health, education, economic support, and family welfare, among others.

2.4.1. Solidarity Income

The Solidarity Income Program is an economic support from the National Government to households in conditions of poverty, extreme poverty, and in conditions of economic vulnerability. Like most of the self-employed workers, whose purpose is to mitigate in that population, the impacts derived from the emergency caused by COVID-19. The program seeks to support three million households and families in poverty and vulnerability who are not beneficiaries of other social programs.

For people who already have an account or deposit in the financial system, the resources are transferred to the account in the financial institution where they are clients. The account is active if it has been used in the last 6 months. The financial institution is the one that notifies its client whether it received the subsidy. For those who do not have a financial product, they receive a text message informing them whether they are a beneficiary of the Solidarity Income, so from their cell phone, following the instructions of the message, they can open the banking product in one of the financial entities linked to the program. The payment that was delivered to the most vulnerable at the beginning of the pandemic was 160,000 pesos bimonthly. Afterwards, with the new regulations, 380,000 pesos will be delivered (DNP, 2020b).

2.4.2. Social Laboratories for Productive Inclusion

To avoid the worsening of the external factors caused by the pandemic and recover the socioeconomic dynamics in the country, a series of strategies were implemented within the framework of the "Commitment for the Future of Colombia". The "Commitment for the Future of Colombia" is the Colombian new deal for the reactivation and recovery of the economy, which included the "Economy for the People" (EPG[18]) program. EPG was articulated with the employment generation pillar of the country's reactivation strategy and had the aim of supporting 582,640 productive initiatives and microbusinesses until 2022. $1.72 billion focused on income generation, associativity, financing, competitive environment and innovation, and technology. However, informal microbusinesses, street vendors or street entrepreneurs, and self-employed informal workers had difficulty accessing the program (DNP, 2020).

Therefore, it occurred to the Vice President that, to help especially the informal population, it was necessary to develop a roadmap and ecosystem of services which would serve as a vehicle to strengthen their productive units and facilitate the transition to formality. A specialized work team was composed of the Corporación del Minuto de Dios (a private corporation, whose main goal was to help the most vulnerable). The Ministry of Commerce, Industry and Tourism, Ministry of Labor, Ministry of Information Technologies and Communications, the Special Administrative Unit of Solidarity Organizations, SENA in order to build the ecosystem of services also focused on microbusinesses and informal workers.

Based on the CONPES of Business Formalization, the CONPES 4011 of the National Entrepreneurship Policy, the 1988 Law of Street Vendors, and the 2069 Law of Entrepreneurship, the "Social Laboratories of Productive Inclusion" are initiated as direct support to these informal microbusinesses of subsistence in the country (DNP, 2019; DNP, 2020a; Congress of the Republic of Colombia, 2019; Congress of the Republic of Colombia, 2020).

The "Social Laboratory of Productive Inclusion" constitutes a pilot program and the first program of attention for informal microbusinesses of subsistence in the country.

18 Economía para la Gente, EPG for its acronym in Spanish

This is in which a model of attention to the needs of informal microbusinesses with and without establishment is configured with the purpose of supporting them in their process of economic reactivation and productive inclusion. This is achieved through an ecosystem of services that include training and technical assistance, support for business innovation, the provision of seed, and working capital and psychosocial support.

The objective was to consolidate social laboratories to promote the stabilization and sustainability of subsistence microbusinesses that were seeking a position in the formal productive apparatus. To achieve this, an articulated programmatic response was undertaken and included the participation of entities of the national order, municipal governments, and the private and solidarity sectors.

2.4.2.1. Approach of the Laboratories

The first thing that was done was to analyze the situations that made it difficult for street vendors, or ordinary entrepreneurs as they were called, informal microbusinesses with or without establishment, and independent workers to access the formal market. Six obstacles were identified as a result of working meetings with the local governments of the prioritized cities and in conversations with informal productive units. These are: i) the regulatory burden, specifically, the formality at the entrance, the exhaustive formality, the formality of the inputs, and the productive formality, which refers to the requirements for production[19]; ii) access to financing, iii) participation in public procurement, iv) costs of being informal, v) little information to make public policy decisions, vi) lack of evaluation and monitoring of public policy and, vii) last but not least, adequate spaces for the realization of productive activity.

Based on these obstacles, an ecosystem of services was built, which articulates the different offers of national programs. This was to consolidate the productive activity of microbusinesses, street vendors, and self-employed workers and facilitate access to the formal market and improve the living conditions of their owners, family members and workers. Formalization is not conceived as an end but as a means or requirement in the process of product development and to generate wealth to improve the well-being of the target population.

19 According to CONPES 3965 National Formalization Policy, there are four types of formality: i) Formality at entry, which consists of having the certificate of trade that authorizes the productive unit to carry out any economic activity in the country; (ii) Formality of inputs, refers to the fact that workers who are part of the productive unit enjoy social security and production inputs come from other formal businesses; iii) Exhaustive or tax formality, refers to the productive units having their tax certificate and paying taxes, and iv) Productive formality, which consists of the productive unit having or complying with the necessary requirements to carry out the economic activity in accordance with the minimum stipulated by law (DNP, 2019).

For the implementation of the Social Laboratories of Productive Inclusion and its ecosystem, four components were defined for the transition towards the economic consolidation of microbusinesses, self-employed workers, and street vendors. These included: i) Targeting and characterizing the informal population, which allowed cities to make decisions regarding the population's needs and challenges , ii) Allocation and intervention in public space with tactical urbanism and planning to organize these spaces for the enjoyment of all citizens, iii) Associativity as a model of entrepreneurship and formalization for small capitals as a means to scale their businesses and iv) Financing for the development of their economic activity and banking to improve the competitiveness of informal productive units.

The targeting and characterization of street entrepreneurs is the first step to ensure a successful project, for this purpose, the location and identification of informal sellers was determined. In particular, the characterization specified: (i) Types of more commercialized products (e.g., confectionery, prepared and consumer products and perishable products, handicrafts, sale of balloons, cell phone supplies, toys, flowers, clothing, and sale of clothing and / or leather goods, among others); ii) Sex; (iii) Age; (iv) Educational level; (v) Social security affiliation status; and (vi) whether you are affiliated with any formal or informal organization. In this regard, the local mayors, with the support of the Department of National Statistics, carried out the collection of information.

Once the beneficiary population was identified and characterized, work was done to create dignified and sustainable economic alternatives through the solidarity economy. Therefore, it was crucial that the defined groups complied with financial models that would facilitate them to achieve scalability and sustainability. Therefore, we worked on a business plan that included a financial model for the assurance of each associate. The objective was to ensure that the members of these cooperatives, on a voluntary basis, complied with minimum rules to belong to this program. To generate scalability in their businesses, the sponsorship of companies that helped microbusinesses improve their value chain, costs, channels, and inventories was appealed within the framework of the laboratory. We worked with 52 groups that were supported in the process and achieved the following results: 15 cooperatives created and formally registered, 5 in Cúcuta, 4 in Bucaramanga, 3 in Cartagena, 2 in Neiva and 1 in Popayán, 18 in the process of training and creation, and 19 characterized and in the process of awareness.

Given there were multiple difficulties in financing the informal population with flexible and tailored credits, in coordination with the Bank of Opportunities[20] and Asomicrofinanzas[21], it was possible to define financing conditions through alliances with banks such as Davivienda and MiBanco. These banks were used to access banking, inclusion, and financial education and access to flexible credit for informal sellers at the national level. These alliances allowed a process of construction of social fabric, through the promotion of payment habits, a savings culture, an approach to the financial system and services (banking and offering an exclusive portfolio), training in business service opportunities such as working capital and reinvention in times of crisis, and the planning and execution of service fairs.

In the ecosystem of services, the goal was to identify the difficulties and needs of informal productive units, whether microbusinesses, self-employed workers, or street vendors, and direct them toward programs or services of the national and local order empower growth, development, and scalability of the beneficiary.

2.4.2.2. Roadmaps of the Social Laboratories

Through the provision and articulation of government programs, they were able to advance in the consolidation recovery and reactivation of microbusinesses and self-employed workers. He built an operational scheme with routes that facilitated the productive units. Action routes were established that would allow entities to reach the informal sector with effective, sustainable, and lasting proposals and support measures. Currently, an operational scheme and monitoring of the progress of the pilots was defined.

1. The first stage was focused on the registration of subsistence microbusinesses.

2. After registration, the entities that participated in the initiative shared the information from the registry to the mayors, Vice Presidency, DANE and other entities, for analysis. Consecutively, the characterization and targeting of informal workers was carried out.

3. Based on the results of characterization, it was defined which route each of the informal workers or microbusinesses would take given that the program contemplated three ways of labor linkage: employability route, entrepreneurship route, and the associativity route.

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20 Bank of Opportunities is a program of the National Government, administered by Bancoldex, to promote financial inclusion in Colombia. It aims to promote access to financial services for families in poverty, microentrepreneurs, small and medium-sized enterprises and entrepreneurs to reduce poverty, promote social equality and stimulate economic development in Colombia.

21 The Colombian Association of Microfinance Institutions is a young union created in 2009, with the aim of representing the industry to promote financial inclusion and other related services.

- Employability path

The purpose of the employability path was that the members of microbusinesses who were interested in getting a job, were accompanied in their application process and attended job vacancies that were held in the Public Employment Service (SPE). There are 3 ways to attend enrollment in this program andthe purpose of the employability path was for the subsistence microbusiness to have access to formal employment that would allow them to increase their well-being.

1. The microbusiness, by complying with the guidelines of the entity related to the Ministry of Labor, immediately received accompaniment in its labor application process.

2. If the microbusiness did not meet the requirements to apply for a vacancy, it entered one of the two programs of Certification by competencies or Short / Complementary Courses, to then access, with greater success, the process of application to a vacancy.

- Entrepreneurship route

I The purpose of this entrepreneurship route was that microbusinesses that were interested in strengthening their entrepreneurship and were accompanied in the process, including both national and territorial entities and the private sector. The process was as follows:

1. If the microbusiness complied with the guidelines of the Ministry of Information and Communications Technologies, to enter the ‘Sell Online’ program, it received support in the construction and implementation of its digital strategy.

2. If the microbusiness complied with the guidelines of the Ministry of Commerce, Industry and Tourism to enter the Technical Advisory program, it received accompaniment in strengthening the commercial strategy and consolidating its business model.

3. If it complied with the guidelines of the Ministry of Commerce to venture into the Compra lo Nuestro platform, it received accompaniment in the consolidation of its value chain, to connect with suppliers and customers.

4. If the microbusiness complied with the guidelines, but was interested in another offer,

of the national, territorial, or private allies, it could access the following programs:

- SENA with “My Business”
- Ministry of ITC with the “seedbed of digital entrepreneurship”
- Mentoring program with Corporación Minuto de Dios

The purpose of the route was that the microbusiness could strengthen its capacity for work and organize to apply for the financing processes which complied the framework of the laboratories.

- Path of associativity

In the path of associativity, the purpose was for microbusinesses that were interested in strengthening their entrepreneurship, through solidarity economy models and were provided with accompaniment through the different programs of the ecosystem of services:

1. When the microbusiness confirmed that it was part of a solidarity organization, the Special Administrative Unit of Solidarity Organizations (UAEOS) and any entities that offered a program to accompany its consolidation process were informed.

2. If the microbusiness confirmed that it was not part of a solidarity organization, but was interested in forming one, with others registered in the program, the UAEOS oversaw operations for 4 years.

3. Microbusinesses that finished their accompaniment process with the UAEOS could venture into other programs that were part of the ecosystem of services.

2.4.2.3. Achievements

In total, the Social Laboratory of Productive Inclusion has served 355,027 people. This exceeded to 77.5% and reached the established goal of 200,000 by 2022. The different entities linked to the Laboratory contributed to these advances, as follows:

- Ministry of ICT: More than 21,000 people were served, along with their microbusinesses, through the Sell Online program. They received support in the construction and implementation of their digital strategy.

- Ministry of Commerce: Almost 7 thousand people were served in the Technical Advice program, with accompaniment in the strengthening of the commercial strategy and consolidation of its business model, as well as in the Compra lo Nuestro platform.

- SENA: More than 300,000[22] people were served by the My Business program or received training through SENA's productive courses.

- UAEOS: A thousand people were assisted by the UAEOS in awareness, training, or creation of cooperatives to strengthen associative models of entrepreneurship for small capitals.

- Corporación Minuto de Dios: About 11,000 people received psychosocial support and training for the operation of their microbusinesses.

- Public Employment Service: 8,560 people received accompaniment in their application process to the vacancies of the Public Employment Service.

2.5. Challenges and Lessons

The Covid-19 pandemic revealed and allowed us to measure the limitations that support the National Government of Colombia must be able to implement social and economic programs that target and develop strategies that are truly effective. The clear evidence of the limited scope of the Colombian Government is that all the programs implemented during the pandemic were focused on formal companies or formal workers. They were registered in some information center related to their condition of formality, either by having their business registration, or paying taxes. They have some financial product, or are affiliated with some kind of formal organization that represents them.

There are only a few microbusinesses and informal self-employed workers, as observed in the Economy for the People program. Of the 533,691 microbusinesses and self-employed workers served, 14% (74,716), managed to access the government's programs. If more than 3.5 million households that benefited from the solidarity income program are not taken into account, as mentioned above, the vast majority was part of the country's contributory system of economic, social, and educational support and which, due to Colombia's own characteristic as a developing country, are subsequently informal.

However, thanks to the pilot program of the Social Laboratories of Productive Inclusion, it was possible to achieve with these microbusinesses and informal self-employed workers that are in the different regions of the country. Since being at the national level, there are

22 Most of the people took a productive a short productive course

nearly more than 5.4 million microbusinesses and about 85% are informal. Therefore, based on the experience of this program, the conversations with government entities that supported the initiative or take charge of issues related to microbusinesses and have analyzed the economic conditions of Colombia, the following issues can be raised.

2.5.1. Issues to be Addressed

The problem that Colombia must solve is the vulnerability of its productive apparatus. This mainly refers to the difficulty that productive units, microbusinesses, and MSMEs have to develop and the strategies that allow them to be more competitive and productive to generate greater wealth and well-being for them and their owners. These difficulties are reflected in the following aspects:

- Institution: There is a disarticulation among the entities that support entrepreneurship in the country and an ineffectiveness of the State for identifying and punishing breaches of the law. However, there are no processes carried out to evaluate the impact of the policy, and only management processes are carried out.

- Policy approach: The policy focuses on the registration of businesses as a form of compliance and entry into formalization. This leaves aside formalization that is not a decisive aspect for the growth and development of the business.

- Information: There are no records of microbusinesses and self-employed workers who are in informality and the crossing of information between government entities and the private sector is almost nil.

- Regulatory burden: In the country, there are a high number of procedures and requirements that are required to be formal. However, the ignorance of the procedures that are carried out and the high costs involved in business formalization, both direct and derived, including taxes, are the main reasons for informality and regulatory burdens.

- Financing: High interest, processing times, and strict requirements, as well as credit history and low capacity to generate financial reports, and ignorance of financing mechanisms also cause challenges.

- Technological development: The country's enterprises and microbusinesses are characterized by limited knowledge, access, and a lack of adaptation of both basic and innovative technological tools, and by a reduced innovative capacity.

- Commercialization: The participation of MSMEs in public procurement in the country is low, despite being highly widespread. There is a difficulty in accessing commercial networks due to low social capital and distribution channels and a general ignorance of the markets.

- Education: In Colombia the educational level is at 76.3% of the working-age population and does not exceed the baccalaureate and only has 11.3% workers that train and the remaining 12.4%, have university or postgraduate training. So, workers and business owners have a low level of education and lack the necessary skills and abilities to run a company.

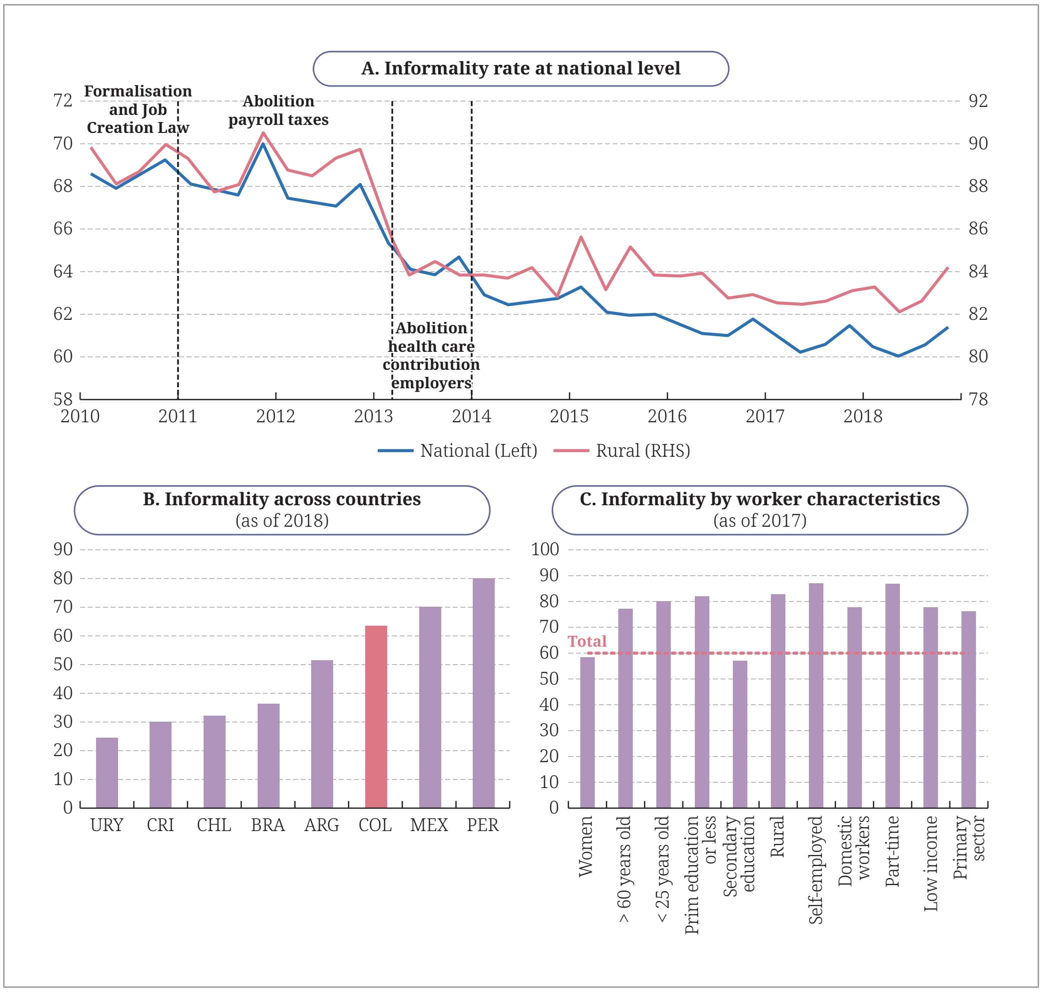
These difficulties are fully identified by the National Government of Colombia and its diagnosis is explained in two recent public policy guideline documents. However, at the time of supporting microbusinesses and self-employed workers during the pandemic, in the informal sector, no strategy was developed, except for the Social Laboratories of Productive Inclusion. So, it is crucial that based on these addressed issues, a public policy commitment must be developed to help maintaining the focus of the Laboratories. This strategy must also manage and implement the different programs of the national and local order in an ecosystem that facilitates the socioeconomic consolidation of microbusinesses, self-employed workers, and MSMEs, which would facilitate the transition into formality and build a successful culture around it.

2.5.2. Need Support and Transition Policies for the Informal Sector

Informality of Colombia has been decreasing but remains high. Actions are needed in several policy areas to reduce informal sector proportion which is still one of the highest in Latin America. Decreasing firms' registration costs and simplifying the registration of workers to social security would facilitate the formalization of firms and jobs. Improving quality and relevance of education and training should be also part of the strategy to reduce informality (OECD, 2019). Companies escape to the informal sector or remain in the informal sector because it is not attractive to exist in the formal sector because of things such as tax avoidance. It is also not clear what small businesses can gain from being part of the official sector if the credit market and legal system are not working properly.

[Figure 3-1] Informality in Colombia

(Unit: %)



Source: OECD (2019).

During the COVID-19 period, the need for an updated business register proved to be very important for the Colombian government to support MSMEs. In order to urgently support MSMEs in times of crisis, the importance of formalization has emerged, and many measures have been adopted to promote formalization. However, after the emergency, structural problems related to very low productivity of MSMEs remain. Without measures to narrow the relative labor productivity gap between the small and medium-sized sector, and the more advanced units of production, the formalization process may be of little use.

In Colombia, about three times the average wage is exempt from basic tax payments, so only about 5% of the income tax is paid by the income earner which is around (1.6 million). This not only excludes the entire middle class from personal income tax, but also reduces the progressive range of taxation for many high-income groups. Colombia can attract more people into the personal income tax system without affecting those in the bottom 50% (OECD, 2022). Moreover, in Colombia, most people do not file income tax returns, which prevents the important mechanism by which the government can redistribute income through taxes from working. We can see that Colombia has a lower role in controlling income inequality with a tax and benefit system than other OECD countries. Meanwhile, Colombia's corporate tax rate of 35% in 2022 is higher than the OECD average of 24% (OECD, 2022).

This high corporate tax rate is likely to weaken corporate investment incentives and have a negative effect on economic growth. This high corporate tax rate has more side effects than profits for the country, and is mainly applied to domestic-oriented companies. The high corporate tax rate can be an incentive for companies to exist in the informal sector for tax avoidance. However, the side effects that companies have in the informal sector should not only be in terms of tax avoidance. Although tax problems can dampen some economic activity and problems in the informal sector in low-income countries are often the lack of business capabilities of companies rather than excessive taxes. On the other hand, there are cases where companies exist in the informal sector due to restrictions with registration and complicated registration procedures. In particular, in the case of the vulnerable classes who are old or lack learning, business is often not registered because it feels complicated.

In Colombia, a significant proportion of the population works in the informal sector and lacks social protection and pension rights. Despite robust economic growth and government efforts, the informal rate in Colombia remains high, accounting for over 60% of total employment. Colombia is finding innovative solutions to this problem to ensure the well-being and inclusive growth of its citizens. Addressing informality requires new multi-dimensional strategies that integrate different policies. Supporting social and solidarity economy (SSE) development can contribute to these efforts. SSE accounts for about 4% of Colombia's GDP, and about 7 million Colombians are affiliated with SSE organizations such as cooperatives, mutual associations, and employee funds. The SSE model builds on a holistic approach to facilitate human and economic development that promotes people rather than capital, and also aims to promote socio-economic initiatives that strengthen cooperation and social cohesion. SSE organizations generally facilitate access to education, official duties, property, information, and an equitable distribution of benefits to members. The promotion of a helpful and tailored SSE ecosystem in Colombia can progress toward unlocking the full potential of social and solidarity economies to combat informality and its impacts, and support the transition to formal work in many sectors of the economy.

2.5.3. Need to Activate Digital Transformation of Small Business

The pandemic crisis has undoubtedly accelerated the digitalization process in Colombia as it did in other OECD countries. Most regional countries have programs to promote various aspects of digital transformation, including the digital technology, digital economy, e-government, teleworking, and remote education etc. Public actions to promote digital technology in enterprises aimed primarily at raising awareness of the benefits and opportunities related to education and digital business model transformation. Today, the perception of the usefulness of digital tools is much greater than before the crisis because of the impact of quarantine on economic progress. Therefore, the focus of development policy in most countries is related to how these technologies are adopted in greater depth and how they will support the coordination of business models. Most countries use digital platforms to facilitate local commerce, provide market information, and connect small businesses to consumers and strategic partners during emergencies.

In the post-corona era, it is essential that microbusinesses have to digitize and operate online, but in reality, there may be many difficulties. While customers are getting used to digital methods, if microbusiness do not change their business methods and follow the existing methods, it can be assumed that customers will not only ignore them but also decrease sales. Therefore, microbusiness should also maximize customer convenience and efficiency by introducing digital methods to their businesses. In addition, by changing offline to online, the generation of profit can be improved by reducing fixed costs such as rent and labor costs. However, most microbusinesses are not yet very active in digital transformation despite the rapid change in the business environment.

2.5.4. Lack of an Articulated and Strong Institution, Expanding the Organization Dedicated to SMEs

Colombia is establishing a national small and medium-sized business support system, which consists of a high-level committee for SMEs, a high-level committee for microbusiness, and a local council. The two high-level councils are chaired by the Ministry of Trade, Industry and Tourism (MINCIT). They provide a means for various small and medium-sized stakeholders to contribute to the establishment and implementation of public policies for the sector. There is a Small and Medium Business Bureau within the Ministry of Trade, Industry and Tourism, and this Bureau support and manages affiliates related to SMEs to facilitate support. However, considering that SMEs account for 99% of Colombia, it is likely that such small organization as Small and Medium Business Bureau will have difficulty in overseeing and coordinating SME policies.

Coordinated by MINCIT as the governing body, the following public institutions comprise the National MSME Support System: the Ministry of Agriculture and Rural Development; the Ministry of Science, Technology and Innovation (MINCIENCIAS); Bancóldex; the National Guarantee Fund (FNG), the Agricultural Sector Financing Fund (FINAGRO); the National Apprenticeship Service (SENA); and ProColombia. In addition, the councils include representatives from academia, banks, the private sector, and non-governmental organizations (NGOs) that are engaged in research and technological development. In the COVID-19 context, it is also important to mention the Ministry of Information and Communication Technologies (MINTIC) for its role in the digital transformation of MSMEs, in conjunction with MINCIT (Dini and Jurita, 2021).

2.5.5. Need for the Establishment of a Social Safety Net for SMEs

In Colombia, many people work in the informal sector, which lacks social protection and pension opportunities. Despite continuous economic growth and the government's efforts, the employment rate of the informal sector in Colombia is over 60% of the total. Colombia is making an effort to find innovative solutions to address the important problem of the informal sector and promote the welfare of people and boost inclusive growth for the economy. A multi-faceted strategy is needed to solve the informal sector problem. Supporting social and solidarity economic development is expected to help solve the informal sector. The social and solidarity economy (SSE) accounts for about 4% of Colombia's GDP. About 7 million people in Colombia are affiliated with SSE organizations such as cooperatives, mutual associations and employee funds. SSE organizations generally facilitate access to education, public service, property, information, and an equitable distribution of benefits to members. In Colombia, the promotion of a tailored SSE ecology can greatly help address the impacts of the informal sector on the economy and society. In addition, promoting the SSE ecosystem can be a solution to support the informal economy sector into the formal economy sector.

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2.5.6. Lack of Participation in Public Procurement by Small Business

It is crucial for every business to be able to market their products, whether goods or services, for their success, however, in Colombia there are great difficulties in accessing distribution channels and suppliers that limit the commercialization of these. In addition, a considerable proportion of ventures and businesses in their early stages do not consider these aspects. The importance of analysis in these markets is often limited either due to ignorance, lack of interest or because they lack the time required for analysis given the urgency of time for the generation of income.

Businesses in Colombia, especially in the early stages, when many even begin to carry out their productive activity informally, are characterized by their low levels of associativity. This increases the possibility of lacking negotiation capacity, having production at a largescale and, not complying with quality standards, so they reduce their capacity for growth. Likewise, the difficulties associated with the lack of information and logistical difficulties of the country, companies, microbusiness, formal and informal, face several obstacles when it comes to wanting to market its product. These difficulties are also observed in the agricultural and agro-industrial sectors (DNP, 2020a).

On the other hand, despite regulatory reforms to encourage the participation of MSMEs in public procurement processes, a good way for the National Government to support the commercialization of products and sustainability of companies is not yet widespread. An example of this is that between 2015 and 2017; only 17.2% of the state's suppliers identified themselves as MSMEs. Among the main reasons for not participating in public procurement is the complexity of current legislation. The fact that the requirements for tenders are excessive or expensive, the lack of information and the perception of fraud or lack of transparency in this process is also an issue (DNP, 2019).

2.5.7. Need to Ease the Regulatory Burden

According to the World Economic Forum, Colombia is ranked 123rd out of 136 in terms of regulatory burden at National Government level (WEF, 2019). This is supported by the 3 decrees and 11 resolutions that were issued per day in the country between 2000 and

2016. In addition, an analysis was made for the development of the formalization policy in which it was found that the cost of being formal for MSMEs is 32 to 47 percent of gross profit, where tax and labor costs are those that have a greater weight in the formalization process. Complementary to the above, MSMEs after being formalized, must meet around 25 procedures and requirements to operate formally in all dimensions of market entry, labor, tax, and production (DNP, 2019).

Additionally, in a study carried out by the Ministry of Commerce, Industry and Tourism, 587 procedures and other obligations classified as businesses that were corresponding to entities of the national order were identified. 97.6% of such procedures corresponded to the operation, 52% related to legalization, and 28% in some type of records (DNP, 2019). This shows how intricate, complex, and demotivating it is to venture into formality, given the number of procedures, requirements, and costs that companies and self-employed workers have to assume when wanting to be formal.

However, strategies such as "Simple State, Agile Colombia" (ESCA) or the Business Single Window (VUE), a One-Stop-Shop, have been developed, which have helped optimize regulation and streamline business procedures. However, as observed in the Grand Survey of SMEs and Microentrepreneurs, at the beginning of the Covid-19 pandemic and mid-2021, the reasons why they do not want to formalize are due to the cost of tax procedures, not knowing the procedures and not wanting to acquire the necessary certificates (ACOPI, 2020; ANIF, 2021).

2.5.8. Lack of Knowledge, Skills, and Competencies to Manage a Business/Company

The proportion of the economically active population with secondary education is 35.0%. The distribution of the other educational levels in the economically active population is as follows: 22.0% in basic primary education, 5.8% in basic secondary education, 11.3% in vocational or technological technical education, 8.7% in university education, and 3.7% in postgraduate (DANE, 2020b). This supports the idea that the general population, the entrepreneur, and worker, lacks in terms of the soft and hard skills required for the development of productive initiatives. This information is corroborated by admission data to the DPS My Business program, which reports that 42% of the participants have primary basic training as the maximum level of schooling achieved. In addition, 30% have reported having secondary education, 14% reached the level of secondary education and only 1.2% registered university studies (DNP, 2020a).

In the country, difficulties persist in the educational system to enhance both employability and skills. In addition, Colombia's culture of entrepreneurship is not sufficiently promoted and aspects related to encouraging growth, sustainability, innovation, and internationalization are not instilled in the population as it should be.

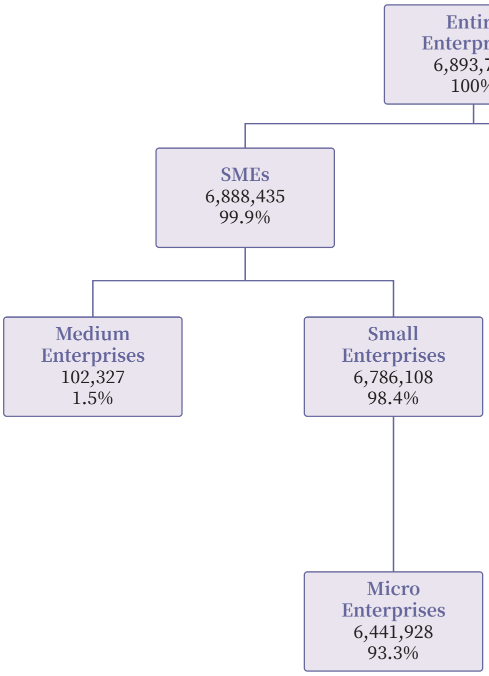
3. COVID-19 and its Impact on SMEs and Self-employed in Korea

3.1. Definition and Status

There are about 6.9 million SMEs in Korea, accounting for 99.9% of all enterprises, and 82.7% and 48.7% of the total based on the number of employees and sales, respectively. Meanwhile, microbusiness account for 93.3% of the number of companies, 43.7% of workers, and 17.1% of sales in the Korean economy (see Figure 3-2). Even in OECD countries, the proportion of SMEs is very large, accounting for 60% of employment and 50-60% of added value. The Korean economy is also greatly supported by SMEs, and the manufacturing production ratio of SMEs exceeds 50%.[23] Small and medium-sized enterprises are the addition of medium and small enterprises. In order to meet the qualifications of SMEs, there are sales conditions. If sales of KRW 12billion (USD 10 million) to KRW 150 billion (USD 125 million) are recorded on a manufacturing basis, they are classified as medium-sized companies, and if sales of less than KRW 12 billion (USD 10 million) are achieved, they are classified as small business. The average sales for three years should be less than 12 billion won (about 10 million won). This standard corresponds to small and medium-sized enterprises operating in industries such as manufacturing, sales, distribution, mining, and water supply. Wholesale and retail businesses are classified as small businesses when sales are less than 5 billion won ($4.2 million), and lodging, food, and personal service businesses are classified as small businesses when sales are less than 1 billion won (USD 0.8 million). The transportation industry is classified as a small business when sales are less than 8 billion won (USD 6.7 million). Microbusinesses are small businesses that meet the standards of microbusiness. The classification of microbusiness is judged by the number of regular workers, which refers to the number of workers only in the relevant company that do not consider related companies. A company shall be classified as microbusiness if there are less than 10 full-time workers in the mining, manufacturing, construction, and transportation industries among small businesses, and if there are less than 5 workers in the remaining industries.

23 The proportion of self-employed people is 24.9% in Korea and 51.3% in Colombia, which is about twice as high as that of Korea.

[Figure 3-2] Status of Korean SMEs and Microbusiness



	Employee	Sales
Entire Enterprises	21,076 (100.0)	4,848 (100.0)
Large Enterprises	3,637 (17.3)	2,485 (51.3)
SMEs	17,440 (82.7)	2,363 (48.7)
Medium Enterprises	3,938 (18.7)	1,040 (21.4)
Small Enterprises	13,502 (64.1)	1,323 (27.3)
Micro Enterprises	9,219 (43.7)	827 (17.1)

Source: 2019 Statistics on SMEs (2021).

<Table 3-6> Percentage of Self-employed People in Major OECD Countries

(Unit: %)

Colombia	Greece	Mexico	Turkey	Korea	Italy	Japan	Germany	US
51.3	31.9	31.9	31.5	24.9	22.7	10.0	9.6	6.1

Source: OECD STATS (2019).

3.2. Economic Impacts of COVID-19 and Policy Measures

3.2.1. COVID-19 and its Economic Impact

COVID-19 lowered Korea's annual GDP growth rate by 3.7 percentage points and reduced employment by about 460,000 people. In addition, in the aftermath of COVID-19, Korea's private consumption growth rate decreased by more than 7%p (see Table 3-7). In addition to private consumption, imports, exports, and construction investment were shocked in the order, but facility investment was also strong. The small impact on facility investment suggests that companies consider the COVID-19 crisis a short-term phenomenon. By industry, the growth rate of the service industry, which is highly related to private consumption, fell more than 4%p. Due to the decline in exports, the growth rate of the manufacturing industry also fell by more than 3%p. The service sector was impaired too because of the dominance of private consumption (Kang, Min, and Park, 2021). It can be attributed to the characteristics of the crisis that consumption and employment shocks are particularly large compared to the decline in GDP growth. In other words, due to the nature of the threat of infectious diseases, private consumption centered on face-to-face services has the greatest impact on employment because these industries have a large employment inducement effect (Choi, 2021).

<Table 3-7> The Impact of the Coronavirus Crisis on the Korean Economy

	Trend (A)	2020 (B)	The extent of the decline (B-A)
GDP growth rate (%)	2.8	1.0	-3.7
Employment (1,000 people)	238	-219	-457
Private consumption	2.5	-4.9	-7.4
Facility investment	2.6	6.8	4.2
construction investment	3.2	-0.1	-3.4
Export	2.1	-2.5	-4.6
Import	3.4	-3.8	-7.2
Manufacturing	2.4	-1.0	-3.4
Service industries	3.1	-1.2	-4.3

Note: The GDP trend is the average annual growth rate over the previous five years, and the employment trend is the average annual number of employed over the previous three years.

Source: Bank of Korea, 「National Accounts」 (2022).

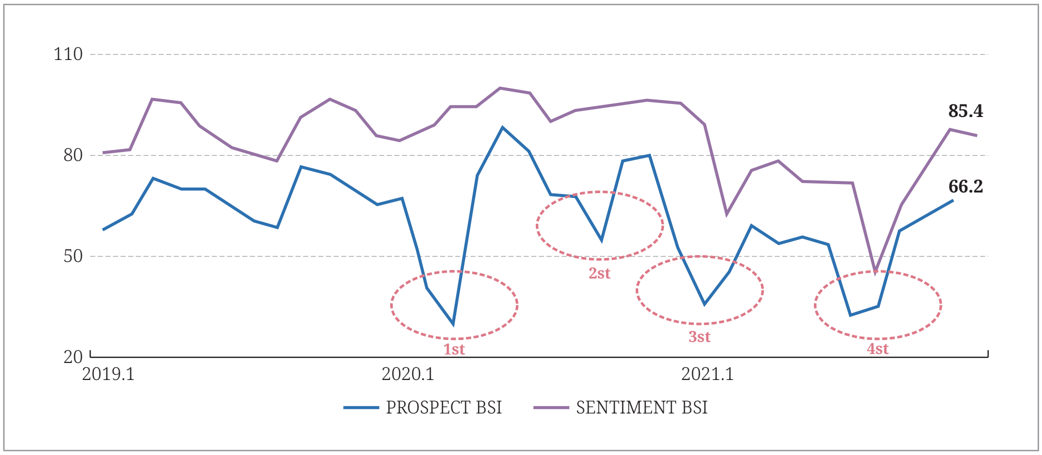
The spread of COVID-19 has impaired people's external activities and strengthened quarantine regulations on the face-to-face service industry, where microbusinesses are mainly engaged, which has worsened the damage to microbusiness. Accordingly, the business conditions of micro-business also repeatedly plunged every time when the first to fourth COVID-19 pandemic occurred. Even if they recovered somewhat according to step-by-step daily recovery measures, they were still impaired before COVID-19. Smaller companies are generally more financially vulnerable and have smaller cash buffers than larger companies. This undermines their resilience to the crisis. Also, smaller companies have weaker supply chain capabilities than large companies. Smaller companies integrated into the global value chain were directly or indirectly affected by supply chain disruptions faster and stronger than large and medium-sized enterprises. Moreover, smaller companies are generally more vulnerable to supply chain disruptions and price increases because their inventory and supplier networks are generally lower. Similarly, they also lack the bargaining power to determine payment terms.

On the other hand, smaller companies struggle to adjust their business operations to suit the current situation compared to larger enterprises. It also faces more constraints in technological operations. For example, small companies are unlikely to have the management ability to comply with a new regulatory framework to ensure the safety of customers and employees. Similarly, small companies are less likely to innovate in both processes, products, and services compared to larger competitors (OECD, 2019). Due to this vulnerability, small and medium-sized companies' profits plunged faster than they were able to reduce operating costs from the beginning of the pandemic, which could have led to a liquidity crisis. As shown in the Business Survey Index (BSI) of the businesses and the Service Industry Production Index, the spread of COVID-19 greatly dampened people's external activities and strengthened quarantine regulations on the face-to-face service industry. According to a survey of microbusiness conducted by the Korea Federation of Small Businesses, 80.2% of respondents said COVID-19 affected sales, and 33% said it affected sales by 5-25%. In the survey items asking about the cost burden after COVID-19, the proportion of rent was the highest at 69.9%. Next, the proportion of loan interest (11.8%) and the proportion of labor costs (8%) were shown in order.

[Figure 3-3] Business Survey Index (BSI) for Small Business

Source: Ministry of SMEs and Startups (2022).

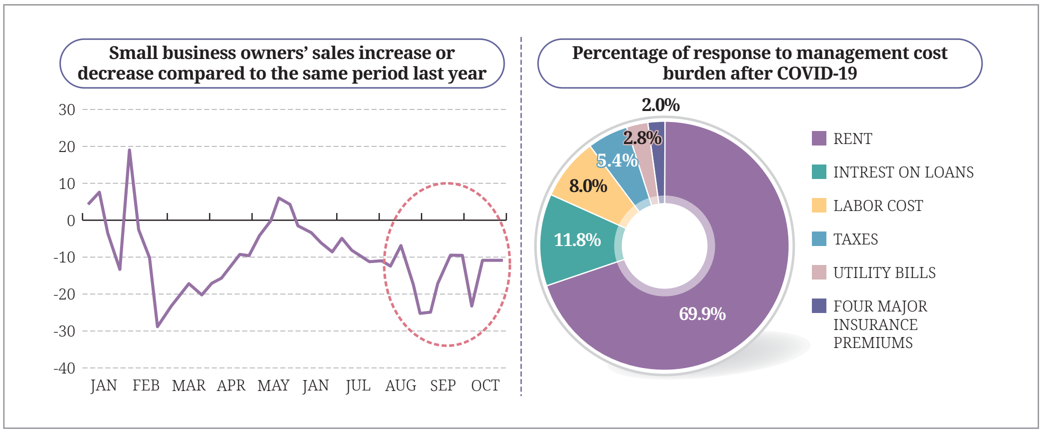
[Figure 3-4] Service Industry Production Index



Source: Ministry of SMEs and Startups (2022).

[Figure 3-5] Changes in Sales and Management Costs of Microbusiness after COVID-19

(Unit: %)



Source: Ministry of SMEs and Startups (2022).

Microbusiness and self-employed people tried to minimize damage on their own by adjusting working hours or reducing existing manpower, and also demanded government support for the expansion of damage. Meanwhile, there are a total of five measures to compensate for the COVID-19 damage announced by the Korea Federation of Microbusiness. The five requirements are 1) compensation for operating losses for microbusiness affected by COVID-19, 2) retroactive application of operating loss compensation plan, 3) compensation for losses based on sales losses, 4) tax reduction, loan interest reduction and interest-free loan support, 5) quick compensation through emergency fiscal orders from the Korean president (KFM, 2020).

3.2.2. Economic and Fiscal Measures for COVID-19

The global economy faced a rapid economic downturn due to the global spread of COVID-19 in early 2020. In Korea, exports also decreased significantly after the outbreak of COVID-19, and the damage to SMEs and self-employed people caused by the contraction in consumption was severe. In the early days of COVID-19, the Korean government switched to a wartime emergency system to actively cope with the crisis. Since the first emergency economic meeting (presided over by the president) was held in March 2020, the Deputy Prime Minister of Economy and Finance has held emergency economic countermeasure headquarter meetings since April. At the first emergency economic meeting held on March 19, 2020, the “People’s Livelihood Financial Stability Package (USD 41 billion)” was prepared to prevent the bankruptcy crisis of SMEs and self-employed people. After that, the Korean government decided to invest KRW 250 trillion (USD 208.3 billion) worth of budget through five emergency economic countermeasure meetings. In addition, the 6th Emergency Economic Meeting (held on June 1, 2020) prepared a Korean version of the New Deal Project worth KRW 5 trillion (USD 4.1 billion), which was included in the third supplementary budget (USD 29.4 billion). The eighth Emergency Economic Meeting (Sept, 2020) confirmed the fourth supplementary budget (USD 6.5 billion). In 2020, the Korean government made great efforts to support SMEs, self-employed people, and the vulnerable through a total of four supplementary budgets and financial support measures (USD 258.3 billion). In 2021, as the quarantine situation continued and damage accumulated, an extra budget was organized to restore people’s livelihoods and support quarantine measures.

The Korean government’s measures against COVID-19 include not only solving the difficulties of the people’s livelihood and suffering economy from disasters by boldly providing cash-oriented subsidies, but also to provide financial support measures to support SMEs and self-employed people. It covers all areas of the economy, including job security measures such as stabilizing the employment crisis and creating new jobs. In addition, Daegu and Gyeongsangbuk-Do, where an emergency disaster situation occurred, were declared as special disaster areas to prepare support measures, and there were special support measures to consider the victims of infectious diseases. The Korean government has paid emergency disaster support funds for the entire nation since May 2020, which is the first time in history. In addition, special employment support industries were expanded, and employment maintenance subsidies and unpaid leave support requirements were eased to stabilize workers’ jobs. Employment security packages (USD 8.3 billion) supported the employment of young people and the vulnerable populations. It was decided to provide 1.56 million jobs to the public sector, and support the 6 million jobs that had been suspended due to the spread of infectious diseases. It also created more than 550,000 jobs for young people and the vulnerable. The employment safety net has been greatly strengthened by expanding employment insurance subscriptions to groups (special employees, non-regular workers, etc.), which have not received employment insurance benefits so far.

In 2020, the Korean government organized an extra budget of KRW 11.7 trillion (USD 9.8 billion) in the first round, KRW 12.2 trillion (USD 10.2 billion) in the second round, and KRW 35.1 trillion (USD 29.3 billion) in the third round to promote financial and employment stability, recover measures for damages, and economic reinforcement.

<Table 3-8> 1st Supplementary Budget for FY 2020

(Unit: KRW trillion)

Details	Amount
Disease efforts	2.1
Support face mask supply and disease prevention Compensation	0.2 0.9
Small merchants and SMEs Low-interest rate loans Employment retention and rent reduction Reopening of businesses and vouchers for traditional markets	4.1 3.1 0.6 0.4
Welfare and employment	3.5
Vouchers for low-income, etc. Employment growth package, etc.	2.9 0.6
Support for the recovery	1.2
Special assistance for local use in areas affected by COVID-19 Issuance of regional gift certificates Disaster response support in special disaster areas, etc.	0.2 0.2 0.8
Total	11.7

Note: USD 1 is considered as KRW 1,200.
Source: Ministry of Economy and Finance (2022).

The 8th Emergency Economic Meeting (Sept, 2020) announced the 4th supplementary budget plan of KRW 7.8 trillion (USD 6.5 billion) to prevent the re-proliferation of COVID-19. In particular, customized support funds were provided to SMEs and helped self-employed people affected by strengthening quarantine measures such as implementing social distancing and business restrictions. As the COVID-19 quarantine situation is prolonged, damage is accumulating and employment shocks continue. Accordingly, in 2021, the Korean government prepared a supplementary budget plan, including the fourth disaster support fund. It was possible to support the severely damaged class more intensively and to support companies in blind spots as much as possible. At the plenary session of the

National Assembly in March, the budget bill was revised (USD 12.4 billion) and confirmed through a cabinet meeting. According to the budget plan, it consists of emergency damage support (USD 0.9 billion) for the vulnerable, emergency damage support for microbusiness (USD 6.1 billion), quarantine measures (USD 3.5 billion) for vaccine purchases, and emergency employment measures (USD 2.1 billion). On July 1, 2021, the Korean government approved the second supplementary budget (USD 27.5 billion), and at the plenary session of the National Assembly (July 24), the second supplementary budget (USD 29.1 billion), a 1.6 billion dollar increase from the government's plan was processed. Three packages[24] of COVID-19 damage support worth KRW 17.3 trillion (USD 14.4 billion) have also been prepared, consisting of vaccine and quarantine reinforcement procedures (USD 4.1 billion), employment and public welfare support (USD 2.1 billion), and local economy revitalization (USD 10.1 billion) (COVID-19 Economic Measures, 2021).

<Table 3-9> 4th Supplementary Budget for FY 2020

(Unit: KRW trillion)

Details	Amount
Emergency stability subsidy for SMEs	3.9
Small businesses hit by social distancing SME emergency business operating loans	3.4 0.5
Emergency employment support Employment retention support Training programs for young adults Unemployed workers affected by the crisis	1.5 1.1 0.1 0.3
Emergency support for low-income households	0.4
Emergency Income support Local government job creation	0.4 0.02
Support for families	1.8
Subsidy for childcare Subsidy for family leave Support for flexible working hours system Mobile bill payment support	1.3 0.1 0.4 0.01
Emergency disease prevention and control Vaccine for Covid-19 and other diseases Support for healthcare providers	0.2 0.2 0.02
Total	7.8

Note: USD 1 is considered as KRW 1,200.

Source: Ministry of Economy and Finance (2022).

24 The three types of COVID-19 damage support package (July, 2121): (1) The government will provide KRW 250,000(USD 208.3) per person and KRW 1 million (USD 833.3) for COVID-19 win-win national support for four-person households to 80% of the lower income bracket. It will pay KRW 100,000 (USD 83.3) per person to low-income families (2.96 million people), including basic recipients, and KRW 400,000 (USD 333.3) to four-person households. (2) It will pay up to KRW 20 million (USD 16,667) in Microbusiness Recovery Funds to microbusiness (1.78 million people) who have accumulated damage due to quarantine measures such as collective prohibited industries, business restrictions, and management crisis industries. (3) Win-Win Consumption Subsidies of up to KRW 100,000 (USD 83.3) per person per month will be provided to induce consumption in the economy of the common people and alley commercial districts. The Win-Win Consumption Subsidy is a form of refunding 10% of the amount exceeding 3% of the average monthly card usage in the second quarter of 2021 as cashable charges.

3.3. Financial Supports for MSMEs and Self-employed

3.3.1. Emergency Loans to Microbusiness

The government held the first emergency economic meeting (March, 2020) and confirmed support measures for microbusiness based on the existing budget. The government will provide ultra-low interest rate (1.5 percent) loans worth KRW 12 trillion (USD 1 billion) to microbusiness. The Small Enterprise and Market Service provided KRW 2.7 trillion (USD 2.3 billion) worth of emergency management stabilization funds to microbusiness with a credit rating of 4 or lower. In addition, the Industrial Bank of Korea decided to lend KRW 5.8 trillion (USD 4.8 billion) to microbusiness with credit ratings of grades 1 to 6 based on the guarantee certificate of the credit guarantee agency. Commercial banks have decided to provide KRW 3.5 trillion (USD 2.9 billion) worth of loans to microbusiness with credit ratings of 1 to 3 within KRW 30 million (USD 25,000) per person, and the difference between market interest rates and loan interest rates will be compensated by government finance. Emergency loans for microbusiness were paid twice. The first payment was implemented from April, 2020, and loans were implemented through banks for microbusiness with credit ratings of 1 to 3. Microbusiness with a low credit rating of 4 or lower were directly loaned by the Small Enterprise and Market Service without going through banks and guarantee agencies, with a loan period of 1 to 5 years and a loan interest rate of 1.5%. The second payment took effect on May, and commercial banks for loan handling processed one-stop processing from application, reception, and guarantee review. The loan period for the second emergency loan for microbusiness is five years, and the loan interest rate is 3-4%.

The "New Hope Fund for Microbusiness" (secondary disaster support fund) is a support fund for microbusiness who are unable to operate due to the government's COVID-19 policy or whose sales have decreased significantly.[25] The Korean government has paid management stabilization funds to microbusiness (with annual sales of less than USD 0.33 million) and microbusiness in restricted businesses from September, 2020 due to the spread of COVID-19. The New Hope Fund for Microbusiness was the first to pay cash directly to microbusiness, allowing them to apply online[26] without evidence to simplify the payment process. Industries

25 The standard for sales decline is that if you start a business before 2019, your average monthly sales in the first half of 2020 should decrease from 2019. If you start a business between January and May 31, 2020, your August 2020 sales should decrease compared to the average June-July sales. (However, the reduction rate is irrelevant.)

26 Requirements for eligibility for application: (1) Start-up before May 31, 2020 (2) Business registration (3) Must be in operation as of the date of application (4) Meet the requirements of the special affected and general industries. The special affected industries are microbusiness subject to collective bans and business restrictions implemented by the Central Disaster and Safety Countermeasures Headquarters to prevent the spread of COVID-19. However, it is based on the administrative measures of the Central Disaster and Safety Countermeasures Headquarters, which took effect after August 16, 2020, and the type of business ordered by local governments to ban gatherings is not recognized as a special damaged business.

subject to exclusion from policy financing for microbusiness are excluded from this support.

The “Small Business Support Fund” (3rd disaster support fund) is to directly provide cash to microbusiness (with annual sales of less than USD 0.33 million) whose operations are banned or restricted by quarantine measures. In principle, KRW 1 million (USD 833) in cash was paid to all microbusiness (2.8 million people) eligible for support. However, the burden on fixed costs (rental fees, etc.) can be reduced by providing additional support of KRW 2 million (USD 1,667), and KRW 1 million (USD 833) for industries that are suspended or restricted according to quarantine with the quarantine guidelines. As a result, KRW 1 million (USD 833) for general industries, KRW 2 million (USD 1,667) for business restrictions, and KRW 3 million (USD 2,500) for collective prohibition industries were provided. The Korean government has selected targets so that microbusiness support funds can be paid quickly, and special damaged industries and recipients of “New Hope Funds” can be paid immediately just by applying for funds without going through separate screening. In principle, it is supported in cash, but in addition to loans for rent, it also sought a policy to give incentives to landlords who cut rents if rents are voluntarily reduced.

The “Microbusiness Support Fund Plus” project (4th disaster support fund) has been paid since March 2021. The government subdivided industries that are difficult to manage in order to provide more closely divided support targets. In other words, the decrease in sales was divided into three stages: 20%, 40%, and 60%, and the total type were subdivided from 5 to 7, and the total amount of support was KRW 6.7 trillion (USD 5.6 billion), and KRW 1 million (USD 833) to KRW 5 million (USD 4,167) was paid per company. The “Hope Recovery Fund for Microbusiness” (2021-2nd supplementary budget) was paid after August 2021 depending on the company’s situation, such as (the level of quarantine and the period of quarantine measures, sales scale, and industry). In addition, since the promulgation of the amendment to the Small Business Act (July 7, 2021), compensation for losses has been paid to microbusiness who have suffered significant losses due to collective bans and business restrictions.

“Emergency Management Stabilization Funds” are funds paid to achieve management stability by providing emergency funds to small and medium-sized companies whose sales have rapidly decreased, due to sudden changes in the business environment. The Korean government has provided Emergency Management Stabilization Funds worth KRW 300 billion (USD 2.5 billion) to small and medium-sized companies suffering from COVID-19. The target of the Emergency Management Stabilization Fund is small and medium-sized companies that operate high-risk facilities[27] and have been damaged by COVID-19 or restricted from business activities due to quarantine measures such as collective bans and restrictions. Emergency Management Stabilization Funds are essential funds for companies that have difficulty in short-term liquidity as the pandemic situation is prolonged. In particular, the Small and Medium Business Promotion Corporation is implementing the "Ambulance Man System[28]" and simplifying screening methods and procedures to quickly provide funds to companies in urgent need.

"Low-Credit Microbusiness Loans" are low-interest loans for microbusiness who have low credit ratings and are difficult to use private financial institutions. The government supplied KRW 1 trillion (USD 0.83 billion) to 100,000 people in the collection prohibited sector (applied 1.9% loan interest rate). The government provided KRW 3 trillion (USD 2.5 billion) to 300,000 people in collection restrictive sector at interest rates ranging from 2% to 4% through credit guarantees. In addition, the government decided to invest KRW 38.5 billion (USD 0.32 billion) in national treasury to exempt 0.9% of guarantee fees in the first year and reduce guarantee fees to 0.6% from the second to fifth years. The "Re-Challenge Encouragement Fund" is a project organized to ease the mental burden on closed microbusiness that have difficulty in continuing their business activities due to COVID-19, and to support them when they are employed by other companies or re-start new companies. The government will temporarily provide a total of KRW 100 billion (USD 0.83 billion) to 200,000 microbusiness who have closed their businesses by the end of 2020. A subsidy of KRW 500,000 (USD 417) was paid for each microbusiness. The targets of the "Re-Challenge Encouragement Fund" are as follows; consulting to clean up the business, costs for store demolition, employment of closed microbusiness at other companies, and restoration support projects for closed microbusiness.

<Table 3-10> Target for Emergency Management Stabilization Fund Support

	Loan target	
Contents	SMEs affected by COVID-19 (Sales are expected to decrease or decreased by more than 10%)	Small businesses operating high-risk facilities (five or more full-time workers according to the service industry standards)
Interest rate	2.15% per annum (Companies located in special disaster areas 1.9% per year)	1.5% per year

27 High-risk facilities include emotional bars, hunting pocha, singing practice centers, buffet, PC rooms, indoor group exercises, indoor standing performances, door-to-door sales promotion rooms, large private institutes with more than 300 students, and karaoke bars.

28 Ambulance Man System: A system that grants ambulance men the right to decide on-site funding to help small and medium-sized enterprises in emergency situations quickly. When a company requests support, an internal employee (ambulance man) with abundant expertise and field experience from the Small and Medium Business Promotion Corporation visits the site, diagnoses the company, issues prescriptions such as funding consulting within three days, and then decides on funding within seven days.

<Table 3-10> Continued

	Loan target	
Loan period	5-year installment repayment with 2-year grace period	5-year installment repayment with a 2-year grace period
Loan limit	Less than KRW 1 billion (less than KRW 1.5 billion for 3 years)	Less than 1 billion won (less than KRW 1.5 billion for 3 years)

Source: Ministry of SMEs and Startups (2022).

3.3.2. Other Financial Support

The Korean government supported the COVID-19 special guarantee for SMEs in need of rehabilitation funds. Those eligible for special guarantees are companies directly affected by the collective ban and companies indirectly damaged by the closure or closure of suppliers. If the first special guarantee was provided only with support related to labor costs, the second special guarantee provides substantial funds for the entire amount of damage to the affected companies.

The “Special Guarantee of the Credit Guarantee Fund” can also provide additional support within KRW 300 million (USD 0.25 million) for companies that were previously guaranteed, and all small and medium-sized companies affected by COVID-19 can also apply for special guarantees. Special guarantees eased the financial burden of affected companies by raising the guarantee ratio under favorable conditions than general guarantees, and various support measures were implemented, such as deducting guarantee fees. Companies that are temporarily closed or shut down, and operate restricted industries (luxury, entertainment, etc.) were excluded from the support. In the case of special guarantees for microbusiness related to COVID-19, financial support is provided up to KRW 10 million (USD 8,333) per company for high-risk facilities that have been seriously damaged. Microbusinesses who operate some of the banned businesses (buffet, indoor sports facilities, PC rooms, entertainment bars, large private institutes with more than 300 students) can get loans from commercial banks within KRW 10 million (5 years of loan maturity and less than 2% loan interest rate).

The Korean government has extended the repayment period of loans to ease the burden on small and medium-sized companies caused by COVID-19. In March 2020, all financial companies suspended the repayment of principal and interest of small and medium-sized companies for six months, but due to the prolonged COVID-19 situation, applications for extension for another six months were allowed until the end of March 2021. SMEs can extend the maturity for more than six months from the date of application or suspend interest payments. The principal and interest of the loan, which has been delayed in repayment, can be repaid at once or in installments after the end of the grace period. The grace period for repayment of loan principal and interest can be applied by all private financial institutions and policy financial institutions, and it can be extended shorter than six months if the company wants. However, there should be no insolvency such as overdue loan principal and interest, capital erosion, and closure when they apply for the extension of loan maturity and deferment of interest payments.

The income deduction rate at the time of tax payment was doubled for the amount of check cards and credit cards used from March to June 2020. When purchasing a car during the same period, some measures were implemented to boost consumption, such as a 70% reduction in consumption tax. In addition, health insurance premiums from March to May were reduced for insurance subscribers in the bottom 50% for special disaster areas, and health insurance premiums were reduced for insurance subscribers in the bottom 40% for all other regions across the country. In addition, tax support measures have been prepared to extend tax reporting and payment dates (corporate tax, value-added tax, comprehensive income tax, etc.) and are applicable for taxpayers affected by COVID-19 while operating food and lodging businesses. The amendment to the Tax Act (August, 2020) includes the establishment of an investment tax credit to revitalize investment in SMEs. It also includes a two-year extension of the application period for special tax reduction and exemption for income tax and corporate tax of SMEs.

At the 3rd Emergency Economic Conference (March, 2020), the Korean government prepared a plan to introduce disaster support funds and to suspend or reduce the payment of social insurance and electricity bills for microbusiness. For workplaces with less than 30 full-time workers[29], the deadline for payment of employment insurance premiums and industrial accident insurance premiums from March to May will be extended by three months. Industrial accident insurance premiums will be reduced by 30 percent for six months from March. In addition, the payment deadline for microbusinesses' electricity bills (from April to June) was extended by three months, and even after the expiration of the deadline, installments were allowed until the end of 2020. Meanwhile, the government has decided to join the "Good Renters Movement." If the landlord cuts the rent, the government will pay 50%of the rent cut, and the rent of public institutions will also be lowered. In addition, from August 2020, the rent of SMEs that have moved into state-owned property will be reduced by 40% and the payment deadline will be suspended for up to six months (July 28, 2020). The Korean government revised the "Enforcement Decree of the National Property

29 The scope of microbusiness under the Act on the Protection and Support of Small Businesses is less than five full-time workers (less than ten in mining, manufacturing, construction and transportation), so microbusiness shall also benefit from this measure.

Act[30]"on March 24, 2020, creating a basis for lowering rents for microbusiness that have moved into state-owned property. The Ministry of Strategy and Finance temporarily lowered the usage fee rate[31] to ease the burden when microbusinesses suffer from management difficulties due to natural disasters, national disasters, economic recession, and mass unemployment. The Ministry of Land, Infrastructure and Transport, the Korea Housing & Land Corporation, and local governments have prepared a plan to support households in a residential crisis (July 6, 2020). The support plan includes an early payment of housing subsidies and temporary supply of housing to households in need, such as arrears of monthly rent.

3.4. Special Programs for Unemployment and Job Security

3.4.1. Emergency Employment Stability Support Funds

"Emergency Employment Stability Support Funds" were paid four times from the first to the fourth round, to the vulnerable class who were in the blind spot of employment insurance support, such as unemployment benefits. The primary Emergency Employment Stability Support Fund is characterized by the fact that it was previously paid to individuals who did not receive unemployment benefits. Special types of workers, freelancers, microbusiness, and unpaid leave workers were eligible, and KRW 500,000 (USD 417) was paid twice. This move is aimed at helping the vulnerable who did not receive employment insurance benefits despite a decrease in income and sales due to COVID-19. The first Emergency Employment Stabilization Support Fund was applied through the exclusive website from June 1, 2020. The second Emergency Employment Stabilization Support Fund was paid to 700,000 people, including special type workers and freelancers whose income decreased due to the re-proliferation of COVID-19, but was paid from KRW 500,000 (USD 417) to KRW 1.5 million (USD 1,251) per person (4th supplementary budget, Sept 22). For 500,000 people who received the first Emergency Employment Security Support Fund, an additional KRW 500,000 (USD 417) was provided without a separate examination. A total of KRW 1.5 million (USD 1,251) was provided to 200,000 people who were subject to additional support due to a decrease in income.

The 3rd Emergency Employment Stability Support Fund was paid from KRW 500,000 (USD 417) to KRW 1,000,000 (USD 834) to 700,000 people, including special-type workers and freelancers, whose income decreased due to the prolonged COVID-19. For those who

30 Article 29, paragraph 1, item 6

31 When microbusiness use state-owned property, it was reduced from paying 3% of the property value as a usage fee to paying only 1% or more of the property value.

previously received the first and second Employment Stability Support Funds, an additional KRW 500,000 (USD 417) was provided by January 15, 2021. Among those who have not previously received Employment Stability Support Funds, KRW 1,000,000 (USD 834) was provided after screening for those whose annual income was less than KRW 50 million (USD 41,667), and whose income decreased by more than 25% compared to the comparative period in December 20, 2020 or January 21, 2021. For those who did not receive the subsidy, the application was received in February 2021 and paid between February and March.

The 4th Emergency Employment Stability Support Fund was paid to special types of workers and freelancers who received Emergency Employment Security Support Fund from the 1st to the 3rd, and KRW 500,000 (USD 417) was provided per person. Special types of workers and freelancers who did not receive subsidies before (unsubscribed to employment insurance between October and November 2020) were newly requested for subsidies, and they were provided within the limit of KRW 1,000,000 (USD 834) through examination. In addition, KRW 700,000 (USD 583) was provided to corporate taxi drivers and chartered bus drivers (new) whose sales decreased. In addition, KRW 500,000 (USD 417) was provided to visiting care service workers (1st supplementary budget in March 2021).

3.4.2. Implementation of Special Measures for Employment Security

There are three directions for special measures prepared by the Korean government for employment stability under the COVID-19 situation; Policies for maintaining employment of incumbent workers, creating new jobs, and employment support for the unemployed. As a measure for companies, the scope of existing employment support funds (paid to companies) has been greatly expanded, and travel, tourism, aviation, and transportation-related industries that are directly affected by COVID-19 have been newly designated as special employment support industries to receive employment support. For individuals, the employment safety net was strengthened by providing emergency employment safety subsidies to special types of workers, freelancers, and microbusiness who have not received employment insurance benefits. Regarding job creation, the Korean government announced the “Special Measures for Employment Security” to create more than 550,000 new jobs in the public sector (non-face-to-face and digital-oriented), youth, and vulnerable sectors (April 22, 2021).

Programs for companies to maintain employment for incumbent employees include the expansion of special employment support sectors and the expansion of employment maintenance subsidies. The Korean government greatly strengthened government support such as employment maintenance support and vocational training until September 2021 for serious industries[32] affected by COVID-19. The period of designation of the special employment support industry was extended by six months to March 31, 2021. The period of support for 'unpaid leave employment maintenance support' was also extended by 90 days (180 days to 270 days). During the period of unpaid leave of absence, an additional vocational training allowance of KRW 300,000 (USD 250) was paid per month. Employment Maintenance Subsidies are a system in which the Korean government pays part of the leave of absence or leave allowance by the Employment Insurance Fund. This includes if employers maintain their employment level by taking leave of absence or paid leave of absence instead of job cuts. Up to 90% was provided to all industries, and the application period was specially extended to September 2020, adding 60 days from the previous 180 days.

The Korean government has built space and road data for young people and others to create remote or digitally-oriented jobs. In addition, the government has expanded the outdoor job sector by 300,000 for unemployed people and self-employed people who have been temporarily or permanently out of work. Through the Youth Employment Promotion Measures (March 3, 2021), labor costs were subsidized for companies that hired young people, and 240,000 jobs were urgently created to overcome disasters such as quarantine and prevention measures for infection. In order to support unemployment rates and to provide more jobs tailored to young people, the special training allowance for COVID-19 response was raised to KRW 300,000 (USD 250). 'Vocational Training Living Expenses Loans' were also expanded. Customized damage support measures (December 29, 2020) such as directly employed jobs (1.04 million), non-face-to-face jobs and digital jobs for adults (3.7 million), and digital jobs for young people (1.25 million) were prepared to quickly improve employment opportunities for the population. In addition, the Korean government expanded the scope of employment insurance and provided KRW 500,000 (USD 417) per month to freelancers, special type workers[33], and microbusiness for three months. The government supported the employment of unemployed or young people, and provided jobs or arranged employment for low-income people who could work. In March 2021, employments opportunities for unemployed women suffering from a financial crisis in the COVID-19 situation were considered, and job counselors were employed to promote the discovery of job seekers and related companies. In addition, in order to reduce the burden on female job seekers to take care of their children and improve the gap between work and housework, they promoted the child care industry.

32 Travel, tourist accommodation business, tours transport, performance, air-ground operation, duty-free shops, exhibition and international conference services, airport buses and chartered buses, creative and art-related services, etc.

33 Although it does not have an independent office, store, or workplace, it is a person who finds or welcomes customers and receives income (commissions, service fees, allowances, etc.) according to performance, and works in the form of self-determination. Special types of workers include insurance planners, study teachers, quick service delivery drivers, golf course caddies, door-to-door salesmen, proxy drivers, and bath managers.

3.4.3. Employment Maintenance Loans for Microbusiness

Employment maintenance loans for microbusiness were provided with employment-linked loans and special funds for youth employment. Employment-linked loan support is worth KRW 500 billion (USD 4.2 billion), and the loan rate was reduced to 1% as a condition for maintaining employment. In addition, the special fund for youth employment is worth KRW 500 billion (USD 4.2 billion), and interest rates are preferentially applied at low interest rates when creating jobs for young people, and additional incentives are provided when maintaining employment.

3.5. Restructuring Support Measures

The government announced a plan to focus on digitalization and non-face-to-face support for microbusiness suffering from the prolonged COVID-19 crisis. This also focused on the digitalization of microbusiness and traditional markets after COVID-19 (Ministry of SMEs and Startups, 2020). The main contents of the support plan are as follows; The government will designate 35 microbusiness districts nationwide as pilot shopping centers to introduce smart technologies such as the internet of things (IoT) and artificial intelligence (AI) technologies into stores. The amount of money invested in the technology distribution project for microbusiness smart stores is KRW 8.4 billion (USD 7 million). It will also supply smart workshop technology (USD 2.5 million) to small manufacturers who focus on manual work and support 'work environment improvement costs' (USD 3.8 million) to improve the working environment and enhance productivity. It also plans to digitalize offline-oriented traditional markets, dispatch digital managers such as online MD to help merchants of traditional markets. This is applicable with higher average age enter online, and support consulting on online sales and delivery services in markets and shopping districts.

Converting the business environment of microbusiness to digital is an opportunity to expand the business models not only for microbusiness themselves but also for various players who support the digitalization of microbusiness. Existing microbusiness policies have mainly focused on individual or offline support policies for microbusiness, such as financial support, consulting and education support, and facility improvement. Since the 2000s, as large retailers have entered the alley business district, the difficulties of microbusiness are increasing, and only online shopping and mobile shopping for microbusiness have grown. In general, microbusinesses lag behind in terms of introducing digital tools and technologies that can help build resilience after the pandemic crisis (OECD, 2021). For example, in the case of Germany, before the pandemic crisis, there was a big difference in the distribution of telecommuting by company size. Large companies used trust-based working hours (requirements for telework to work well) more often than small companies.

According to the survey, there are significant differences between countries, but the pandemic has greatly increased the use of digital technology by SMEs. At the same time, however, the gap between SMEs, especially small and large enterprises, widened significantly. SMEs adopted digital technology for only about half of large enterprises (OECD, 2020). The Korean government declared that it would make 2020 the first year of digital transformation and announced the “10 Key Tasks in 2020” to strengthen the self-sustainability of microbusiness. The main contents of the top 10 core tasks are various support policies for fostering smart microbusiness. This includes implementing smart store technology and fostering smart microbusiness, and these policies have focused on digital transformation. This is to provide IT technologies such as smart orders and IoT, and to improve competitiveness and self-sustainable policies to respond to the rapidly digitizing market environment.

<Table 3-11> Direction of Digital Transformation for Microbusinesses

Driving strategy	Detailed task
Spreading Digital Innovation Models	• Traditional market: creating a digital traditional market Small business: spreading smart stores, online access such as • Live commerce, etc. • Small manufacturer: supply and spread of smart workshops • commercial district: creating a renaissance in the digital commercial district
Creating a Digital Ecosystem for Microbusinesses	• Closing the digital gap by strengthening digital education Spread of digital win-win cooperation culture Development of digital support system according to life cycle
Building an Infrastructure for Digital Transformation	• Establish big data platform for micro business Spread and generalization of simple payment system for small • business owners • strengthening the digital transformation support system • (Financial, legal, organizational, etc.)

Source: Ministry of SMEs and Startups “Small Business Growth and Innovation Plan 2.0” (2020).

3.6. Deregulation Programs

The core of the major support measures promoted by the Korean government for SMEs affected by COVID-19 is the financial sector such as loan support and guarantee support. In order to achieve effective financial support, timely supply of necessary funds is the key. Therefore, the period required for application, examination, and execution of loans or guarantees should be shortened. It is difficult to increase the manpower of direct loan agencies (Small Enterprise and Market Service) and guarantee agencies (Local Credit Guarantee Foundation, etc.) in a short period of time. It also may take a long time to examine as it is important to make sure that insolvency does not occur. In addition, as an effective countermeasure to the difficulties faced by SMEs due to the prolonged economic crisis, it is necessary to ensure that support is not limited to one-off but continuous. In consideration of financial limitations, support should be given first to the industries that are most hit. After the announcement of government support measures for SMEs and self-employed people, the demand for policy funds increased significantly, but it was not enough for the Small Enterprise and Market Service and the guarantee agency to handle it. Counseling or application for loans did not proceed smoothly at the site, and accordingly, the government prepared a “Quick Enforcement Plan for Financial Support for Microbusinesses” (March 27, 2020) to respond to COVID-19.

The Korean government encouraged small and medium-sized companies to check their credit ratings before applying for loans, and distributed loans to Industrial Bank of Korea as well as other commercial banks to prevent them from focusing on the Small Enterprise and Market Service. In addition, in order to alleviate the guarantee burden of the local credit guarantee foundation, the guarantee review-related work was temporarily entrusted to the Industrial Bank of Korea. In order to ensure that funds can be supplied in a timely manner, the Korean government immediately implemented follow-up measures to facilitate the rapid execution of financial support for micro-business. The Korean government checked whether loans from the Industrial Bank of Korea and commercial banks were carried out as planned by the government, and also checked and encouraged the extension of loan maturity and postponement of loan interest repayment. The Korean government managed policy funds so that the supply of funds could be carried out quickly rather than worrying about the insolvency of policy funds, and increased the effectiveness and efficiency of support through the active cooperation with private financial institutions.

3.7. Evaluation on the Measures

As COVID-19 spreads again due to various mutations, the negative economic effects are very great in accordance with the Korean government’s containment and movement control policy to suppress infectious diseases. Since the outbreak of COVID-19, the economic activities of consumers who are afraid of infection have been greatly reduced. As the government’s quarantine measures such as the collective ban and social distancing have been strengthened, the damage to microbusinesses has been widening. The Microbusiness Association conducted a survey of microbusiness nationwide to identify the impact of COVID-19 on microbusiness’ management activities and present effective support policies (Microbusiness Association, 2020). This survey was conducted on microbusinesses which were (1,018 companies) engaged in wholesale and retail businesses, lodging businesses, food businesses, education service businesses, and leisure service businesses, which are severely damaged by COVID-19. The survey period was 18 days from October 19 to November 5, 2020, and was conducted as a survey using a questionnaire. The purpose of this survey is to provide basic data needed to establish future policies by reviewing responses to support microbusiness support policies while understanding the economic damage caused by COVID-19. According to the results of the survey, two policy directions were presented, which can be summarized as a detailed support policy which should be established to consider regions and industries, and implements a policy to ease the rent burden should be promoted.

3.7.1. Support Needs to be Subdivided by Region and Industry

The Korean government and each local government implemented various policies such as financial support, credit guarantee support, and tax support on several occasions for microbusiness affected by COVID-19. Regarding these policies, microbusinesses recognize that they are partially helpful but insufficient at the expected level. Therefore, in the future, policies should be implemented to provide practical and effective benefits to microbusinesses based on their policy awareness and understanding. As a result of the positioning map analysis on the degree of recognition and help related to the microbusiness support policy, the degree of recognition and help for the support project was very low for the cost of demolishing closed stores, support of restoration costs, amongst other incentives. Various analyses are also required to expand the support for microbusinesses. Regarding the level of government support, 53.5% of the respondents think it is not enough, which is significantly higher than 9.2% of the respondents that think it is sufficient. This shows that the government's support project does not reach the level of damage suffered by microbusinesses in terms of numbers and amount. According to the survey results, the average number of support projects received from the government and local governments is 1.3, and the amount of support is only about KRW 1.52 million (USD 1,267).

3.7.2. Need to Implement Policies to Ease the Rent Burden on Small Business

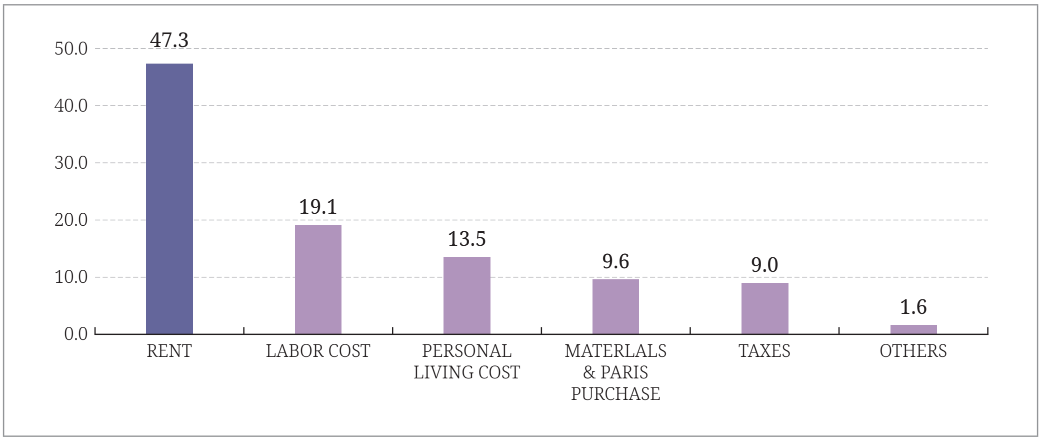
Since COVID-19 is difficult to calm down within a short period of time, measures to ease the rent burden are urgently needed to improve the management conditions of microbusiness. According to the results of this survey, the amount of COVID-19 support was most frequently used for rent payment (47.3%), followed by labor cost payments (19.1%) and personal living funds (13.5%). In order to increase the effectiveness of the policy to ease the rent burden on micro- business, more support should be provided so that the private sector can voluntarily cut rents. In the public sector, it is necessary to approach ways to directly cut rents for microbusinesses or to cut rents for microbusinesses depending on the characteristics of local governments. In order to alleviate rent, active participation from the private sector must be premised and corresponding benefits such as tax support or financial support must be given to them. In other words, it is possible to consider deducting tax from income tax or corporate tax for a part of the rent reduction. For "good renters[34]," it is also a good idea to expand policy funding or encourage general commercial banks to voluntarily provide financial support. In addition to financial and tax support, it is necessary to prepare various incentive systems to participate in rent cuts for microbusiness, and support for rent reduction in the public sector is also needed. First of all, it would be good to take support measures for state-owned property, such as reducing rent, delaying payment, and reducing late fees. In the case of property shared by local governments, microbusinesses are encouraged to expand the number of times they pay rent in installments, suspend rent payments, and ease the rent burden by using a system to reduce late fees. When the government evaluates the management of public institutions, it can also be considered to reflect the performance of reducing rents and reducing late fees for micro business and self-employed people on property owned by public institutions.

On the other hand, it is necessary to prepare conditions for local governments to actively participate in rent reduction. The government will certify "good landlords" under the leadership of local governments and encourage them to expand benefits for good landlords depending on the conditions of each local government. The Ministry of Public Administration and Security may request cooperation in the enactment and operation of ordinances necessary for win-win cooperation for local commercial districts. When detailed support policies are established, there must be a rapid legal and institutional implementation of these policies. Revision of related laws and regulations, revision of notices to extend the period of reduction, or the exemption of rent for state-owned property, and guidance related to reduction or exemption of rent by public institutions should be promoted quickly. Detailed support standards such as allowing buildings owned by landlords who have reduced rents for microbusiness to be included in the policy funding list shall be promptly prepared and implemented. One way is to induce the launch of exclusive financial products for "good landlords", by completing detailed consultations on rent support for microbusiness with private financial institutions as soon as possible. In order to control the state of voluntarily lowering rent, it is necessary to actively promote and strengthen the participation of local governments. Various media such as newspapers, TVs, and radios, or internet media such as YouTube, etc. shall be used to promote the support for "good renters". The government can prepare support measures to reduce rents for buildings owned by local governments through the National Council of mayors, county heads, and district heads, and actively share cases for each local government to induce nationwide spread.

34 a landlord who reduced rents to help microbusiness whose management has deteriorated.

[Figure 3-6] Place of Use of the Subsidy Amount

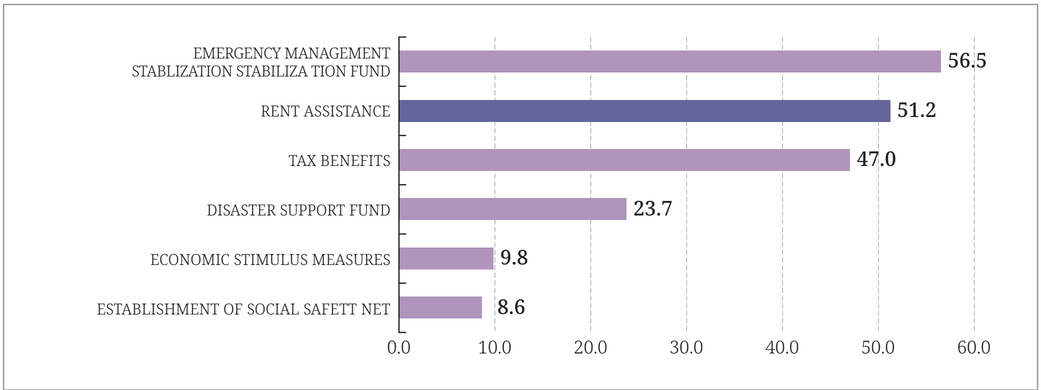
(Unit: %)



Source: "A Survey on the Impact of Small Businesses on COVID-19", Small Business Association (2020).

[Figure 3-7] Priority of Microbusiness Support Policy

(Unit: %)



Source: Small Business Association (2020).

4. Analysis and Recommendations

4.1. Comparative Analysis

When analyzing the experience of Korea in terms of support for MSMEs, but especially microbusinesses, what can be highlighted is that there is an entity called the Ministry of MSME. This is responsible for all the productive units, which is not observed in Colombia, since in the latter there is a Ministry of Commerce with its SME office, a Ministry of Agriculture, a Ministry of Culture, a Department of Social Prosperity that supports the vulnerable population. These entities support entrepreneurship, companies in the productive optimization, and the seed capital and training for entrepreneurs. The Chambers of Commerce also supports the productive development of microbusinesses, without underestimating that local governments also have their support centers for MSMEs, microbusinesses and entrepreneurs. What this shows is that there are many entities that support MSMEs, which makes it more difficult to coordinate between them for the implementation of business development policies, the specification of roles, and the scope of productive bets.

Another remarkable aspect of the Korean experience is the culture of formality that entrepreneurs, business owners, and self-employed people have. The fact that there is a low or precarious informality is partly due to the commitment that people have with the implementation of policies, the functioning of the structures of the productive apparatus, and the economy itself, since they understand the implications of being formal. However, this is linked to the Korean Government's ability to enforce the law, which is not the case in Colombia.

On the other hand, the penetration of technology in Korea is impressive and very advanced, if we compare it with Colombia, where microbusinesses and SMEs, for example, do not implement digital strategies or they consider them as an expense, rather than as an investment. So, the development of applications that facilitate the commercialization of non-face-to-face products is difficult, although in the country there is a growth of e-commerce thanks to social networks. In addition, the administrative skills and training of business owners, like entrepreneurs, is low compared to the ones observed in Korea, for example the difference between the educational levels of the general population.

In addition, access to financing and marketing channels in Colombia is quite precarious. In Korea, it is observed how public procurement from MSMEs is encouraged through a general strategy with various verification systems. In addition, there is a development of modalities for the participation of companies in these processes. Likewise, during the pandemic it was observed how the strategies of credits to MSMEs and microbusinesses were executed, which in Colombia, despite the remarkable strategy of the National Guarantee Fund, a good part of these did not manage to benefit because they did not comply with the basic requirements such as (certificate of commercial registration, balance sheet of financial statements, real estate as collateral, etc.).

It is because of this comparison with the Korean experience and what has been evidenced in Colombia with a judicious analysis of the design, development, planning, construction, execution and evaluation of policies have focused on business development. In addition, there is a pilot program for the Formal Laboratories of Productive Inclusion, that it is recommended in Colombia to promote the growth and development of the productive apparatus, increasing formality and employment generation. A support ecosystem must be implemented with goods and services for MSMEs and microbusinesses, from their stages of conception to economic growth and expansion.

<Table 3-12> Comparative Analysis between Colombia and Korea

		Colombia	Korea
Target groups		MSMEs and informal sectors	MSMEs and self-employed
Policy tools and programs	Financial support	• Debt accompaniment program (PAD) • United for Colombia - Line of credit for working capital - Line of credit for payroll - Line of credit for self-employed - Line of credit for microfinance	• Emergency loan to microbusiness - New hope fund for microbusiness - Small and Microbusiness support fund - Low-credit microbusiness loans - Re-challenge encourage fund - Emergency management stabilization fund
	Other financial support	• Colombia responds • Colombia undertakes and innovate	• Special guarantee of the credit guarantee fund • Extension of the repayment period of loans
	Labor policy support	• Support program for formal employment (PAEF) • Service prime payment support program (PAP)	• Emergency employment stability support fund • Implementation of special measures for employment security - Policies for maintaining employment of incumbent workers - Creating new jobs - Employment support for the unemployed - Employment maintenance loans for microbusiness
	Tax and utilities bills and support policies	• Income deduction and tax support • Utilities and rent support	• Increase the income deduction rate at the time of tax payment • Utilities and rent support
	Restructuring support measures	• Productivity factories program • Supplier development program • Business single window	• Spreading digital innovation models • Creating a digital ecosystem for microbusiness • Building a infrastructure for digital transformation

<Table 3-12> Continued

		Colombia	Korea
Policy coordination and implementation	Deregulation policy	• ESCA • Pacts for growth and employment generation	• Quick enforcement plan for financial support for microbusiness
	Policy coordination	• Ministry of Commerce, Industry and Tourism • Ministry of ICT	• Ministry of SMEs and Startups • Public private dialogue mechanism (Korea Federation of SMEs [KBIZ], KCCI, KITA, Small Enterprise and Market Service)
	Supporting/ implementation agencies	• SENA • UAEOS • Bancoldex • iNNpulsa, • Productiva • Corporación Minuto de Dios • Public Employment Service	• Korea SMEs & Startup Agency • Korea Credit Guarantee Fund • Korea Institute of Startup & Entrepreneurship Development • Industrial Bank of Korea etc.

4.2. Policy Recommendations

In sections 2 and 3, we looked at a series of SME and microbusiness policies taken by the Colombian and Korean government during the pandemic situation. These policies are similar in context, although there may be differences in the degree and size, not only in Colombia, but also in other OECD countries. Many policies were before the coronavirus pandemic, and similar policies are expected to be implemented in each crisis in the future. Among the policies of SMEs and microbusinesses in Korea, I would like to recommend the following six policy cases that are considered necessary for Colombia. Of course, these policies were not implemented only due to the COVID-19 crisis, but they are considered good policies for Colombia if implemented now or in the future.

4.2.1. Induce the Informal Sector to the Official Sector

4.2.1.1. Characteristics of the Informal Sector

'Informal sector' refers to the production and transaction activities of goods or services by small businesses and private businesses that are not identified by the government. It is also called 'Shadow Economy' or 'Grey Economy'. Unlike the official economic sector, the informal sector is sector that is not taxed, is not interfered with by any government agency, and does not appear in gross national product (GNP) statistics. Words related to the informal sector include the underground economy. In recent years, Korea has a very weak proportion of the informal sector, and there are not many social issues for the informal sector. Therefore, I would like to refer to research data on the informal sector from about 10 years ago.

At the end of 2009, the number of businesses in the informal sector[35] in Korea was known to be almost 1 million. Industries with a high proportion of the number of businesses in the informal sector included the 'construction industry', the 'transportation industry', and the 'education service industry'. The proportion of businesses in the informal sector tends to decrease gradually. Meanwhile, as of 2009, the proportion of employed people engaged in Korean informal sector businesses was almost 20%. Industries with a low percentage of employed people in the official sector were 'construction', 'wholesale and retail', 'education service', and 'repair and other personal services'. Therefore, the proportion of the number of businesses and workers in the informal sector seems to be high in these industries. In the case of Korea, in most industries, the proportion of workers in the official sector increases and the number of workers in the informal sector decreases (Lee, 2012).

It is known that the burden of taxes and social insurance premiums, as well as the complexity of the tax system, various regulations, corruption, the law-abiding tendency of the people, and the inefficiencies of the overall state system affect the development and maintenance of the informal sector. The occurrence and survival of the informal sector is the result of various causes, including public propensity and the general idea that the size of the informal sector is reduced with economic development is not consistently observed.

If the overall economic incentive structure is not promoting the transition of the informal sector to the official sector, that is, if the incentive to remain in the informal sector is too large, it is difficult to transition from the informal sector to the official sector naturally. In addition, as long as the informal sector is the result of complex causes, it is difficult to reduce it in a short period of time, and policies aimed at simply reducing the informal sector without solving the fundamental cause are difficult to operate. This is because the size of the informal sector is entirely affected by whether the overall institutional base in society supports transparent economic activities.

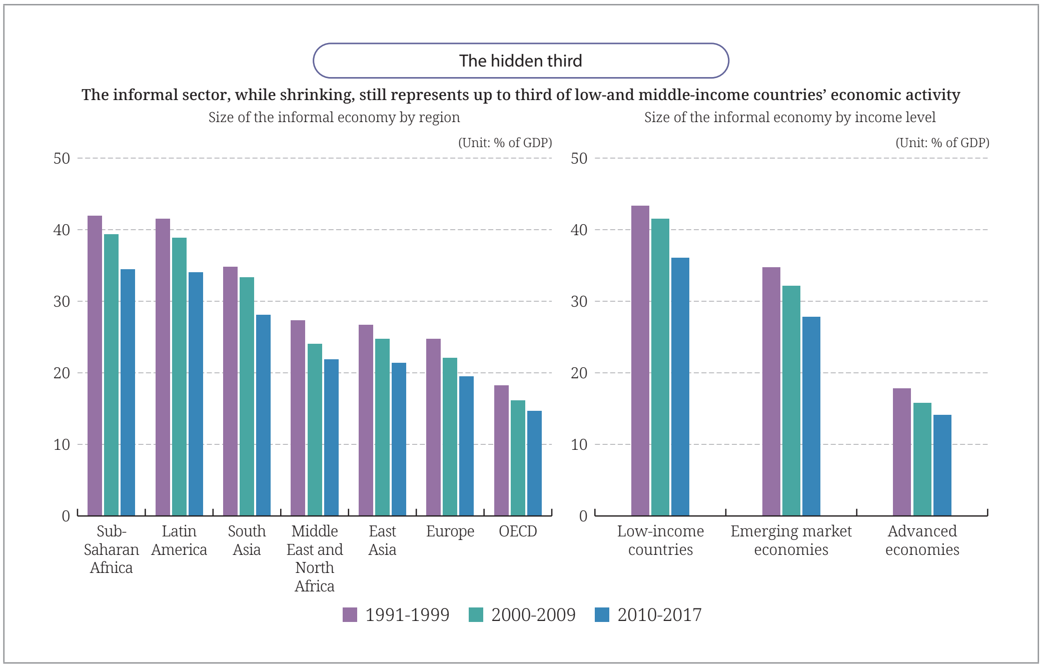
Therefore, promoting the transfer from the informal sector to the formal sector is a long-term task of transforming the economy. It can be achieved with an effort to consistently mitigate the causes of creating and maintaining the informal sector under consistent principles. For example, it is necessary to clarify the basic principle that all citizens should pay taxes when income occurs, implement tax policies, but rationalize payment methods and reduce unnecessary regulations. The positive incentives given when transferring from the informal sector to the official sector are also very important. A representative incentive

35 It simply refers to business operators that are not detected in the government's industrial statistics or business statistics for convenience, and this does not have a dark meaning such as the underground economy or the illegal economic sector. Most of them are businesses that do not have a fixed workplace, and many of them have business registration certificates and are believed to be faithfully fulfilling their tax obligations.

is the benefits of social insurance because it has a built-in redistribution function. This means that when low-income groups opt for social insurance, they will receive higher benefits than their contributions through the assistance of the general public.

The International Labor Organization (ILO) estimates that about 2 billion workers, and more than 60% of the world's adult workforce, are working in the informal sector at least part-time. The informal economy, if recorded, also has market value and consists of activities that increase tax revenue and GDP. The informal economy is a global phenomenon, and the size of the informal sector decreases slowly as the economy develops, but there are many differences between regions and countries. Today, the informal sector still accounts for about 1/3 of the economic activities of middle and low-income countries, and about 15% in developed countries (see Figure 3-8).

[Figure 3-8] The Informal Sector Representing a Third of Low-and Middle Income Countries



Source: Finance & Development (2020).

In emerging markets and developing countries, the proportion of informal sector labor is high and continues, which is increasingly recognized as an obstacle to sustainable development. Informal sector companies tend to remain small without contributing to taxation. They have low productivity and limited access to finance. As a result, economic growth in regions or countries with large informal sectors is falling short of potential. Informal workers are more likely to be poorer than formal workers. This is because they lack formal contracts and social protection, and tend to be less educated. The spread of informal labor is also linked to high inequality. Even workers with similar skills tend to receive less wages in the informal sector than in their formal sector colleagues, and the wage gap between formal and informal workers is greater at lower skill levels. Therefore, it is essential and urgent to address informality to support comprehensive economic development and reduce poverty worldwide. COVID-19 has greatly revealed this urgency. The deadly impact of COVID-19 on informal activities around the world emphasized the need for governments to provide help to many people who do not benefit from existing social protection programs.

However, effective policy design for dealing with informality is complex between countries due to various causes and forms. The COVID-19 pandemic has hit women, especially among informal workers. Informal work is similarly linked to gender inequality. Two out of three low-and middle-income countries found that women are more likely to be in the most unstable and low-wage category among informal employment compared to men. The majority of informal workers are employed in unstable jobs, such as market merchants, taxi drivers, etc., who work in high-contact sectors or do not provide paid vacations or telecommuting opportunities. Some individuals and businesses operate informally by their choice, while 85% of all informal workers are in unstable employment conditions, not through their choice, but due to a lack of formal sector opportunities. This has important economic consequences.

In Korea, the proportion of those working in the informal sector is very small. Due to the introduction of the real-name financial system and tax benefits for card use during the year-end settlement, it is believed that people working in the formal economy sector have more benefits than in the informal economy. This is also because of the four major social insurance in Korea (i.e., employment insurance, national pension, national health insurance and industrial accident insurance). There are still some people working in some informal economic sectors, such as caring workers and street vendors, which are dominated by female workers. Women in care work have relatively low educational and technical levels, and even though most of them are middle-aged women, if the current jobs are systematically managed and their stability is strengthened, registering for the current job will be a more stable job activity in the long run.

4.2.1.2. Several Types of Policies Leading the Informal Economic Sector to the Official Economic Sector

While the informal economy sector is vulnerable, it plays an important role in providing a livelihood for millions of workers. This is especially true when opportunities are limited in the official economy. Therefore, with the start of the pandemic, many governments around the world have sought effective ways to support companies in the informal sector. Support for the informal sector is essential, but no practical support was provided under the economy before the start of the pandemic. It can be said that the pandemic has provided an opportunity for companies and workers in the informal economy to lay the groundwork for converting to the official sector. In order to reduce future vulnerabilities and contribute to quality jobs, they should be allowed to come out into the official sector. This means that these emergency measures should be integrated into a coherent long-term and cross-sectional policy framework based on the immediate response introduced during the pandemic. This framework promotes the transition of the informal sector into the formal sector by increasing productivity and promoting quality jobs for all.

It is also meaningful to support the adoption of a business model that strengthens corporate recovery and resilience. India's Modi government has been making active efforts to reduce the informal sector, which is considered a chronic problem in Indian society. One of the most representatives of them is 'Jandan Yozna'. This is a movement for the entire nation to have a bank account. Since 2014, India has helped low-credit low-income people open bank accounts by providing credit guarantees by the government. In the last week of August in the first year of its introduction, about 18 million new accounts were registered, setting a tremendous record of "opening the most bank accounts in a week". The Indian government actively used this account as a subsidy support window for the vulnerable, but at the same time, it allowed the informal sector to formalize its financial transactions.[36]

Several types of policies have been proven effective. First of all, education and the tax system will be the most effective way to reduce informality. Improving access and the quality of education will increase students' chances of learning skills and improving vocational training. In addition, illegal behavior can be greatly prevented by instilling a sense that something illegal from an early age causes great damage for oneself or society. The tax system should be designed to have no incentive for individuals and businesses to remain in the informal sector. When microbusiness owners of the same size make similar sales in the same place and industry and if there is a difference in the amount of profit between registered and unregistered, then who would want to remain in the official sector without a government crackdown on tax avoidance? From the government's point of view, it is possible to consider the cost of inducing business registration and the additional tax revenue collected as a result of formalization. The government can induce companies to

36 IUKOREA, "Reduction of the informal sector due to the spread of Corona in India," https://iukoreab.tistory.com/5, 2021.11.30

register using sticks or carrots. In other words, they can find companies in the informal sector and impose fines, or increase incentives for companies that obtain official status.

In countries with low formalization, it is generally recognized that a relatively low rate of VAT and corporate tax system (no exemption or minimum tax exemption) will reduce the informal sector. Companies escape to the informal sector or remain in the informal sector because it is not attractive to exist in the formal sector. It is not clear what microbusinesses can gain from being part of the official sector if the credit market and legal system are not working properly. Most activities in the informal economy do not contribute to tax revenues. In countries where companies can do business without being registered in the official sector, even formal companies can be poorly taxed. Encouraging businesses to register to pay taxes is an important government motive. But authorities have to consider more than just collecting taxes. It is grossly wrong to allow a very small company to do business without formal registration. Because even among today's small firms, which will be much larger in the future, there is a risk of creating norms that tax avoidance is natural. This could have a longer-lasting bad effect on governments' ability to collect taxes, and could lead to a tendency to avoid paying taxes, even among the big companies in the formal sector (ILO, 2020).

Secondly, policies that allow individuals and businesses in the informal sector to expand access to formal (or bank-based) financial services can help reduce informality. Lack of access to finance may act as a major constraint for informal companies and entrepreneurs, inhibiting productivity and business growth. Countries with high financial access tend to grow faster and have low-income inequality. In Korea, credit card use became common by granting tax incentives for year-end settlement, which made it difficult for microbusiness and self-employed people to remain in the informal sector. Financial service providers not only design financial products and services to meet the needs of the informal sector after COVID-19, but also provide financial literacy education, including digital channels, to entrepreneurs and workers in the informal sector. This can play an important role in promoting access to financial services for entrepreneurs and workers in the informal sector. To boost access to these services, governments in each country can review their financial practices and ease regulatory frameworks for digital payments (e.g., increasing transfer limits or easing customer processes). Digital access to financial services and wages is one of the activities that enable workers and companies in the informal sector to support the transition to the formal sector (ILO, 2020).

Thirdly, policymakers should socially exclude the informal sector and at the same time reduce the incentives that individuals and companies gain from informal activities. By solving the incentive sector to the informal economy in this way, the focus should be on implementing policies that help gradually reduce informality. The informal economy cannot be answered by attacking the informal sector based on the view that it operates illegally and tax evades. Rather, policies found to be effective include reforms that ensure fair access to education for young people and include the increased financial access to mobile money, digital reforms and measures to improve the corporate environment. Specific measures include simplifying the registration and regulatory requirements of new corporations, a simple tax system that includes simple registration and electronic payments, and labor market reforms. Various structural policies can help increase incentives and lower formalization costs for the informal sector to switch to formalization. Digital platforms, including government-to-person mobile transfers, can contribute to inclusive growth[37] by allowing people without bank account to create financial accounts, empowering women financially, and helping small and medium-sized businesses grow within the official sector. Labor market regulation can be simplified to ensure greater flexibility and promote informal workers' entry into the employment sector. Competition policies can eliminate monopolies and promote the entry of SMEs in some sectors. Eliminating excessive regulations and bureaucratic requirements also helps reduce the informal sector (ILO, 2020).

Fourthly, when supported by the government, personal information is registered on the government site and managed. It is difficult to identify and support informal economic units and the workers they employ because of their informal nature. Therefore, informal sector workers should be invited to express themselves to the government. The government can require workers in the informal sector to present identification cards, economic activity certificates, and personal information, and request voluntary reporting and applications for support through websites or mobile platforms. In a pandemic situation such as COVID-19, the government's financial support is to be provided only to registered companies (ILO, 2020).

Fifthly, the side effects that companies have in the informal sector should not only be in terms of tax avoidance. Although tax problems can dampen some economic activity, problems in the informal sector in low-income countries are often the lack of business capabilities of companies rather than excessive taxes. On the other hand, companies sometimes tend to remain intentionally small in order to avoid attracting the attention of regulators and tax officials. This trend makes companies prefer the informal sector,

37 Inclusive growth refers to sustainable growth through inequality mitigation. The Organization for Economic Cooperation and Development (OECD), which first focused on inclusive growth, defined inclusive growth as having a fair opportunity for all people, who are economic actors, to contribute to economic growth, and distributing economic benefits to all members of society according to fair rules. The OECD recommended, "If Korea is to leap forward as an advanced country, it must reduce social polarization while also making inclusive growth to improve the people's 'quality of life'."(source: eiec.kdi.re.kr/publish)

which can suppress entrepreneurship (ILO, 2020). In the case of Korea, in order to enjoy policy benefits for SMEs, many SME managers did not grow into mid-sized companies by suppressing sales growth, or existed as small and medium-sized companies by dividing companies. Allowing small businesses to remain in the informal sector could be encouraging them to stay on a small scale without making progress. This can undermine growth and entrepreneurship, which can be a very dynamic part of the economy.

Finally, removing administrative barriers to corporate registration can promote the transition of the informal sector to the official sector of workers and employers and strengthen the scope of social security. Simplifying and facilitating registration and other management procedures allows entrepreneurs to formalize their businesses and easily enroll themselves and their workers in the social security system. Specific measures include providing additional access methods as well as mobile and online access. When workers and businesses have access to the internet and are well informed, online registration can help reduce distance barriers and bureaucracy. It also allows companies to facilitate access to social security assistance (ILO, 2020).

<Box 3-1> Street Vendor Support Policy in Korea[38]

Street vendors who did not register as business operators were excluded from customized damage support for microbusiness whose sales decreased due to the influence of COVID-19, thus a demand for support was raised for them. Street vendors have various forms such as traditional markets, five-day markets, tourist attractions, roadside businesses, and truck-moving stores, making it difficult to estimate the number, and some argue that it is about 600,000 to 1 million. The government provided support to street vendors subject to administrative management without screening on the premise that they would appear in the official sector. Non-institutional street vendors were rescued by projects to support the poor after screening for income. Street vendors subject to administrative management were included in the 'Microbusiness Support Fund' when registered, and those eligible for support were those who registered among street vendors managed by local governments, such as permission to occupy roads and join merchants' associations. The total amount of support was KRW 20 billion (USD 16.7 million), and a total of 40,000 locations were temporarily provided only once, KRW 500,000 (USD 416.7) per street vendor.

• Support Procedures

The application and payment method for funds shall be made through an integrated management system. When local governments apply for necessary documents online, the Small Enterprise and Market Service checks the application and transfers cash to the bank.

38 Ministry of SMEs and Start-ups, internal report

<Box 3-1> Continued

Public Notice	Application Information	Business Registration	Application for Support	Submit List	Payment
Ministry of SMEs and Startups	LG → SV	Street Vendor	SV → LG	LG → SEMS	SEMS → SV

Note: LG (local government), SV (street vendor), SEMS (Small Enterprise and Market Service)
Source: Ministry of SMES and Start-ups (2021).

•The Meaning of Street Vendors and Related Laws

The meaning of street vendors is collectively referred to as a business where objects are displayed on the side of the road or in the middle of the road, but there is no official definition. According to related laws and regulations, it is illegal to engage in commercial activities on the side of the road without obtaining permission to occupy and use ordinance. In the case of registered street vendors under the pandemic situation, 'Microbusiness Support Fund' was available, but in the case of unregistered street vendors, it was placed in a blind spot of support.

Street vendors shall be subject to the "Value-Added Tax Act" as a commercial act, and shall be subject e the road under the Road Act. Road occupancy permits are delegated by local governments, and some local governments permit road occupancy for street vendors based on the standards prescribed by thto the "Food Sanitation Act" when handling food, which is a representative street vendor's commodity. According to the "Value-Added Tax Act", street vendors are subject to VAT as continuous and repetitive commercial activities for profit purposes, but most street vendors are operating without registering as business operators. In addition, in the case of selling food, street vendors are businesses that must be reported under the "Food Sanitation Act", but street vendors are operating without reporting because they do not meet the facility standards.

4.2.2. Supporting E-commerce and Digital Transformation of Micro and Small Businesses

In Colombia, the latest Covid-19 Impact Measurement survey of Confecámaras, which was carried out on more than 8,000 entrepreneurs, in which 99% were MSMEs, it is observed that 63% of respondents claimed to be using various digital media, such as social networks, the market place and homes or platforms such as their sales channels. When at the beginning of the pandemic 63.7% were requesting training to sell by these means. (Confecámaras, 2021).

However, trade through digital media is a trend that had already been occurring in the country, given that the implementation of these to accelerate productivity has been ruled by the National Government, as mentioned in the Conpes 3975 of Digital Transformation (DNP, 2019). To measure the size of digital commerce you have to "... the value of online sales in April 2021 reached an approximate value of COP 3.1 trillion; that is, it increased 70.8% compared to the same month of 2020 and 83.7% compared to April 2019. Similar behavior was observed in May 2021, a month in which the value of online sales increased 48.5% compared to May 2020 and 74.25% compared to May 2019. Finally, growth in June 2021 was 49.1% and 101% compared to June 2020 and 2019 respectively (CCCE, 2021)."

Social networks have also been a means to market, as observed in the company survey conducted by Confecámaras. However, there is no public data that allows us to know exactly how much is marketed through these in the country, but some approximations can be had. According to Hootsuite, a web and mobile platform can manage social networks by people or organizations as it performs an analysis every year on the population and companies of a country in social networks. In Colombia, it is observed that there are 39 million users of social networks, 76.4% of the national population. The most popular are YouTube (1), Facebook (2), WhatsApp (3), and Instagram (4). Almost 4 hours are spent on average in these social networks and consumption through these applications exceeded 100 million dollars (HootSuite, 2021).

Also, according to the Go Daddy survey conducted in August 2020, which surveyed 162 Colombian entrepreneurs, it was obtained that 52.8% of respondents have a website for their business and 33.5% do not currently have one, 54% of respondents sell online and 26.7% expect to be able to do so, the favorite sales channels of the MSMEs surveyed are Instagram (67.7%), WhatsApp (63.3%) and Facebook (52.4%) (Go Daddy, 2020).

And, finally, according to the Emicron of DANE, there are 5.7 million microbusinesses in the country, 88% are informal, and 89.9% did not use electronic devices for the development of their activities during 2020. In contrast, the use of the cell phone for one's activities had a higher frequency. Indeed, 64.4% of microbusinesses in the country used some type of smartphone technology and 69.4% of microbusinesses did not use internet service for the development of their activities during 2020 (DANE, 2021a).

What is observed is that despite being a growing trend in Colombia and being recognized as a factor that positively affects productivity and competitiveness, there is a low use of these technologies by microbusinesses and SMEs compared to other countries. To bridge the gap, around 70% of companies in Colombia do not have digital transformation strategies (Colombia Productiva , 2019). While in developed countries such as those mentioned, Japan, Korea, and Singapore, among others, up to 30% of companies do not have a digital transformation strategy (BBVA Research, 2019).

- Supporting digital transformation

As non-face-to-face consumption has spread since the outbreak of COVID-19, purchasing behavior has also changed. In particular, there has been an increase in online distribution sales, and it is necessary to strengthen online entry capabilities to enhance microbusiness' responsiveness and competitiveness. According to a survey[39] of microbusiness, policies needed by microbusiness were online education support (58.6%), funding for their own online shopping mall construction (55.1%), and establishing and expanding online sales platforms by the government or local governments (52.6%). In Korea, the level of digital and online conversion of microbusiness owners is also very low. The degree of digital and online conversion varies significantly depending on the age of microbusiness owners. Young microbusiness owners in their 20s and 30s are very active in entering the online market and entering live commerce. On the other hand, traditional market merchants or elderly microbusiness owners have a low understanding of digital and online conversions, and they have big difficulty in utilizing digital technology. Therefore, the Korean government's support for the digital transformation of microbusiness is largely focused on traditional market merchants or elderly microbusiness owners.

In Korea, the rapid progress to the u-digital society has greatly developed the online shopping and food delivery service industries, and the spread of COVID-19 has accelerated the change in patterns from offline to online non-face-to-face consumption. Therefore, in the case of many microbusinesses, the management difficulties have intensified due to the lack of accommodation for digital transformation. Microbusinesses are rapidly entering the digital market, because their response to digital and non-face-to-face environmental changes has even emerged as a problem of the survival. If their non-face-to-face methods and digital transformation are activated, microbusinesses are expected to achieve online ordering and delivery systems, store smartness, safe and convenient work environment, the possibility of growing into global microbusiness, and creating new jobs.

It is necessary to strengthen the capabilities of microbusiness and support them to enter the online market in response to the changing distribution environment and consumption trends. First of all, the foundation for strengthening online utilization capabilities such as education and consulting for merchants and entering online shopping malls should be laid. In addition, the overall distribution structure should be improved in response to the digital transformation of purchasing behavior, such as support for promotion of microbusiness products for entering online shopping malls. The cost of participating in product exhibitions

39 Korea Federation of Microbusinesses (2019, Dec), "A Survey on the Status of Microbusinesses According to Changes in Online and Offline Distribution Markets"

and fairs, advertising costs such as production of promotional videos, supports for entry into open markets[40] and brokerage platforms, and social media marketing supports such as Facebook, Instagram, and power blogs are also needed. Also, the introduction of local currencies can be a way of encouraging digitization and this also can help induce microbusiness owners in the informal sector to the formalization sector.

The government is striving to reduce the phenomenon of digital alienation of microbusiness owners and eliminate uncertainty in digital business by increasing digital inclusion and expanding educational initiatives. Educational support for digitalization, such as e-commerce, digital business management, and security, cybersecurity, are best practices to secure online transactions and are also important elements of digital education. Digital transformation should not be uniform, but a step-by-step approach is needed, such as digitizing the analog environment at the level of microbusinesses (Park, 2022). Microbusinesses often suddenly entered the digital sector due to the worsening business environments caused by COVID-19. They may be subordinated to online platform companies or face unfair problems in terms of fees and personal information protection. The government should provide legal and institutional protection for microbusinesses to cope with these unfavorable situations efficiently.

<Box 3-2> Korean Cases of Assisting Microbusiness and Self-employed to Adopt New Technologies

1. Construction of Digital Store Environment Using D.N.A.41 Technology

Sales in the traditional market plunged due to the spread of COVID-19, but sales in places linked to online platforms are increasing. In order to increase market access and increase sales, it is necessary to provide non-face-to-face services through the establishment of ICT smart stores and the improvement of the traditional market environment. Accordingly, offline companies are also converting orders and payments to non-face-to-face, and are establishing an automatic system for personal authentication and payment by introducing biometric technology. Through this method, it is expected that the efficiency of the payment method can be improved and non-face-to-face services can be provided to customers who prefer to use mobile apps. Traditional market merchants need customized education, marketing, and consulting for online entry, support for the introduction of

40 Open market refers to an e-commerce site that allows customers to sell products directly to buyers through stores opened by individuals or microbusinesses online. And open markets should be distinguished from Internet shopping malls. Internet shopping malls run by home shopping, department stores, or large distributors receive products from sellers, and buyers purchase products from Internet shopping malls (sales method). However, the open market is a method in which the seller sells the product directly and the buyer purchases the product directly from the seller.

41 Each alphabet in D.N.A. stands for Data, Network, and AI. Its goal is to build a data dam and collect data first, transfer data quickly and safely to each industry in a fast-paced network based on a 5G network, and fuse AI to develop new technologies and convenient services.

mobile smart order systems such as NFC[42] terminals, QR code readers, and kiosks, and support for the construction of non-face-to-face services in traditional markets.

In addition, the spread of smart stores and smart workshops was expanded to support smart infrastructure for microbusiness. Smart stores are places where smart orders, logistics, and serving are made using smart technologies such as the IoT, AR, and VR. It is a place where small merchants in various industries such as small supermarkets, restaurants, beauty salons, and clothing stores can receive support. Some of the microbusinesses are already increasing customer satisfaction by applying smart technologies such as robot technology, augmented reality (AR), virtual reality (VR), IoT, and AI. "Deteking", a Daegu-based chicken restaurant, maintains a certain level of taste by introducing robots to reduce mistakes in the process of frying chicken. Incheon-based pizza store "Pizza Itali Luwon City Branch" is ordering from the table and introducing robots to serve so that the store does not become crowded. "Donghaeng Hair", a mobile wig store, implements about 50 wig shapes with AR-based smart mirrors. It aims for the latest trends and styles, allows customers to choose the color they like, and the fitting also improves customer satisfaction by selling customized wigs through AR-based simulations (Park Jung-Mi, 2022). Smart workshop is a place where a customized production system that reflects customer order information such as pet customized clothing is established, or production automation for manual processes such as handmade soap and bean soup is introduced. The government discovered and distributed smart technologies according to the various characteristics of small manufacturers' workplaces.

2. Development of Win-Win Plan through Online and Offline Connection

Korea has the world's highest e-commerce market share, along with an increasing number of showroomers who enjoy online purchases after window shopping at offline stores. Accordingly, the consumer market is diversifying from department stores to online shopping malls and from online shopping malls to mobile shopping. Amid these environmental changes, microbusiness must strengthen their online and offline shopping capabilities and collaboration with online platforms is also necessary to expand their sales channels. Jeollabuk-Do and the Jeonbuk Economic and Trade Promotion Agency have signed a strategic business agreement with 11th Street, an online shopping mall, to support the market for Jeollabuk-Do's representative online shopping mall "Geosigi Marketplace." In the two months from June to July 2020, the transaction amount of the marketplace increased more than 20 times (USD 0.57 million) compared to the same period last year (Kim, 2020). In addition, it is necessary to support microbusinesses' entry into online shopping by supporting microbusinesses' entry into online and offline (O2O) platforms, while supporting them to build and utilize platforms in collaboration with IT companies and delivery companies. In addition, it is also expected to be necessary to support the entry of online distribution channels for local farmers suffering from COVID-19.

42 NFC (Near Field Communication), Technology that enables NFC-equipped electronic devices such as mobile phones and smart-phones to communicate over short-range wirelessly.

<Box 3-2> Continued

3. Public Application for Non-face-to-face Delivery Service for Microbusinesses

Demand for delivery food is rapidly increasing due to COVID-19, but complaints are mounting over the lack of delivery drivers and the burden of fees for microbusiness due to the monopoly of private delivery companies. As an alternative to reducing the burden of fees and advertising costs for microbusiness and preventing the exclusive status of large platforms with a market share of 98%, the development of public delivery apps by local governments is spreading. On March 13, 2020, Gunsan-Si, Jeollabuk-Do, launched the public delivery app "Master of Delivery" for the first time in the country. Incheon Metropolitan City and Gwangjin-gu in Seoul are alternatively promoting the introduction of public delivery apps 'Delivery Seo-gu' and 'Gwangjin Narumi'. Chuncheon-Si in Gangwon-Do, Jecheon-Si in Chungcheongbuk-Do, and Nam-gu in Busan are also promoting the introduction of public delivery apps. Gwangju Metropolitan City also announced that it would develop a public delivery app to support micro- business (MSS, 2020). However, since local governments' public delivery apps are developed and operated by taxes, if the services are not well used, there would be a problem of burdening the operating cost of the app. In addition, since there is a critical view that the private sector may have restrictions on participating in various markets due to poor app quality, slow growth of startups, and excessive government intervention in the market, so careful consideration is needed.

4. Fintech such as the Spread of Local Currency

Each local government in Korea introduced a new value of local currency to support micro-business owners, develop the local economy, and promote the welfare of citizens. Various local currencies have been introduced in each region, with Seoul City introducing "Seoul Love Gift Certificate (Zero Pay)," Gyeonggi Province "Gyeonggi Local Currency," Incheon Metropolitan City "Incheon Eum Card," Gangwon Province "Gangwon Gift Certificate," Daejeon Metropolitan City "Happiness Pay" and Busan City having similar purposes. Here, I will explain focusing on Zero Pay used by Seoul.

- Zero Pay Benefits; Consumers can always purchase goods at a 7% discount, and there is a 30% income deduction for the amount used during the year-end settlement. You can also give it to others using the gift function. A fee is 0% for microbusiness with annual sales of less than KRW 800 million (USD 66,000).

- How to purchase and use: Open the app where you purchased the gift certificate and scan the QR code of the place where you pay, enter the amount, or present your own QR code to the payer and the payment will be completed after scanning at the Zero Pay franchise.

- Consumer Response: At the beginning of Zero Pay's implementation, consumers' use rate was low due to lack of publicity. However, as of 2021, the number of franchises nationwide exceeded 1 million, and the cumulative payment amount exceeded KRW 1 trillion (USD 800 million), which is

<Box 3-2> Continued

gradually becoming popular. Zero Pay was criticized as a waste of tax due to high discounts, but the number of Zero Pay users increased significantly as non-face-to-face payments increased due to the COVID-19 outbreak. The government has added a method of paying zero-pay when paying disaster support funds under COVID-19, and the number of franchises has increased significantly, mainly in traditional markets and restaurants.

4.2.3. Strengthening Policy Coordination and Implementation Capacities for SMEs

In 2019, the OECD carried out a review of the Productive Development Policy in Colombia. The main piece of evidence found was that there are initiatives in science, technology, and industrial development dispersed in many small and specific programs. It concluded that this situation reduced the capacity to generate a transformative change in the Colombian economy (OECD, 2019).

In parallel, and to study the supply and demand of productive development programs at the territorial level, this can be compared to the regional and national supply and help identify the existing gaps in articulation. Confecámaras developed the mapping of the supply of instruments in 9 departments. Of various levels of development, in which 603 instruments from 137 public and private entities were identified, such as governorates, mayors, compensation funds, Chambers of Commerce, foundations, associations and guilds and, additionally, captured and validated the demand and needs of more than 1,000 entrepreneurs in these departments.

In the departments analyzed, 58% of the programs offered were training and advisory, which shows a duplication of efforts, mainly due to the lack of institutional articulation for the design and implementation of instruments. Likewise, 46% of the programs at the territorial level are aimed at four or more types of beneficiaries, while at the national level this figure amounts to 24%.

In addition, the Universidad de Los Andes carried out a study to simplify the governmental bodies of Colombia that are responsible for ensuring competitiveness and innovation in the country. This resulted in the fact that of the 67 instances (commissions, committees, and councils led by a Ministry or entity attached to a Ministry), 61% of the instances fail to meet the expected objectives, 47% of them do not manage to coordinate the entities that are part of this instance and 43% have a lower –than-expected operation.

This implies that, in Colombia, academia, the private sector, and international organizations agree that there is a problem of duplication of efforts, institutional coordination, and other programs. These are aspects that affect the competitiveness and innovation of the country's productive apparatus, specifically, microbusinesses and SMEs, given that these represent 98% of the business market.

- Strengthening Capacities for SMEs

Each ministry is indiscriminately establishing projects related to SMEs, but it is difficult to effectively coordinate and link them as an 'Administration' unit institution. For example, in Korea, the Ministry of Future Creation established a 'Start-up-focused University' by imitating the 'Start-up Leading University' which was created by the Small and Medium Business Administration. After the abolition of the Presidential Special Committee on Small and Medium Business, which was in charge of coordinating SME policies? The Policy Analysis Division within the Small and Medium Business Administration was established in (2013), but the authority to coordinate was insufficient. In addition, as local governments increased their interest in SME policies, the role of coordination increased relations with local governments significantly. In addition to Japan, most countries have independent industrial policy agencies and SME policy agencies, or exist in an equal relation within one ministry.

Korean Ministry of Industry, to which the Small and Medium Business Administration belongs, promoted policies centered on large companies. The Ministry of Industry used to confront the Small and Medium Business Administration by reflecting the position of large companies on issues in which interest conflicts occur between SMEs and large enterprises. For example, when there was a conflict between the Ministry of Industry and the Small and Medium Business Administration regarding the regulation of large discount stores, the Ministry of Industry opposed it from the perspective of large companies in the process of internal discussion. The Small and Medium Business Administration also approved the issue of legislation for SMEs, but the Ministry of Industry opposed it. The Small and Medium Business Administration had a number of disagreements with other ministries when implementing policies such as abolishing joint guarantees, protecting the rental of shopping malls, and starting businesses in universities. In order to represent SMEs, it was necessary to upgrade the Small and Medium Business Administration to an equal ministry.

In Korea, there are many public brokerage support institutions in addition to government agencies such as the Ministry of SMEs and Startups to facilitate support small and medium-sized enterprises and microbusinesses. The role of public brokerage is to support institutions of Korea and is more important that has many characteristics than in the West, such as the

United States and the United Kingdom, where the role of the private sector is strong. Public brokerage support organizations that support small and medium-sized enterprises include the Korea SMEs & Startups Agency, Korea Credit Guarantee Fund, Korea Institute of Startups & Entrepreneurship Development, Korea Productivity Center, KOTRA, Korea International Trade Association, Export-Import Bank of Korea, and Industrial Bank of Korea. In particular, the Small Business Market Promotion Corporation[43] and the Regional Credit Guarantee Foundation[44] are specialized in supporting small businesses and microbusinesses.

<Box 3-3> Evolution of Ministry of SMEs and Startups in Korea[45]

Background

In the 1960s, Korea had economic growth centered on labor-intensive light industries, and at that time, small and medium-sized enterprises were established in the Ministry of Commerce and Industry (1960). This expanded and reorganized into a small and medium-sized enterprise bureau in 1968. In the 1970s and 1980s, the SME policy was somewhat alienated as the government promoted a high growth policy centered on large companies. However, in the 1990s, the government aimed to advance SMEs through autonomy and competition, and the importance of SME policies also increased significantly. At that time, the Korean government promoted the development of innovative companies independent of large companies, while also working hard to support small and medium-sized enterprises in vulnerable groups by creating the "Special Act on Small Business Support" and the "Special Act on Women's Business Support." In 1996, the Small and Medium Business Administration was established to expand the SME support policy, and in 2005, the Small and Medium Business Administration established a small business bureau to expand the government organization dedicated to small business owners.

The Small and Medium Business Administration was already implementing policies at the 'Ministry' level. Among the detailed tasks of the three-year plan for state affairs and economic innovation. The tasks supervised by the Small and Medium Business Administration reached the highest level in the 'Administration' unit and intermediate level compared to the 'Ministry' unit. Among the state affairs (140 in total), there were five tasks under the jurisdiction of the Small and Medium Business Administration, and they were the same as minister-level institutions such as the Fair-Trade Commission, the Financial Commission, and the Ministry of Agriculture, Forestry and Fisheries. The head of the Small and Medium Business Administration attended 15 ministerial

43 Small Enterprise and Market Service is a quasi-governmental organization established for the purpose of fostering microbusiness, supporting traditional markets and stores, and revitalizing commercial districts. Major projects include support for MSME policy funds, consulting for microbusiness, support for smarting microbusiness, support for the revival of microbusiness, and strengthening online capabilities in traditional markets, etc.

44 Regional Credit Guarantee Foundation is a public guarantee agency that provides guarantees to small businesses and microbusiness who lack collateral to help them raise funds smoothly from banks. The Regional Credit Guarantee Foundation is located in metropolitan cities and local governments across the country. The Regional Credit Guarantee Foundation contributes to the growth and promotion of the local economy economically. In addition, the Regional Credit Guarantee Foundation socially fosters local small businesses and microbusiness owners, and plays a role in stabilizing society and alleviating regional imbalances by expanding employment.

45 Ministry of SMEs and Startups of Korea Internal report.

<Box 3-3> Continued

meetings. This involved the State Council to decide on major government policies, and was the only one among the 'Administration' units to participate in the VIP New Year's business report. The budget and jurisdiction of the Small and Medium Business Administration were higher than that of some minister-level institutions. However, due to the nature of the 'Administration' unit, there was a delay when implementing the policy promptly. The legislative demand for SMEs and microbusiness continues to increase, but the Small and Medium Business Administration did not have the right to submit bills and vote at the State Council. This is because the enforcement rules that embody the law were established through the Ministry of Industry.

SMEs and microbusinesses all want to upgrade the Small and Medium Business Administration to ministerial-level institutions according to their interests with the aim of representing theirs. The Korea Federation of Small and Medium Business requested the promotion of the Small and Medium Business Administration to the ministerial level 'Ministry of Small and Medium Business'; it requested the establishment of a 'Senior Secretary for SMEs in the presidential office. The Venture Business Association wanted to establish a ministry dedicated to small and medium venture companies as a 'ministerial' organization. The INNObiz Association wanted to promote the Small and Medium Business Administration as an 'Innovative Small and Medium Business Department'. The Microbusiness Association requested the promotion of the Small and Medium Business Administration. Moreover, the 'Ministry of Small and Medium Business and Microbusinesses' represent the policy coordination and business interests and promote them efficiently.

4.2.4. Establishment of a Social Safety Net for SMEs: "Yellow Umbrella Deduction System"

The insolvency law in Colombia is not the same as the bankruptcy law that can be seen in the United States. However, it is a rule that makes it easier for companies to settle their debt and liquidity problems with their creditors (Congreso de la República, 2006). In addition, there are conciliation centers and advisory services in the Chambers of Commerce in which companies can seek support to get out of a critical situation. However, in case it is decided to liquidate the companies, a fee must be paid for exiting the market, which is irrational. What this shows are the difficulties that companies in Colombia have to solve in times of crisis that can lead them to bankruptcy, as observed during the Covid-19 pandemic. Colombia has no insurance means to save microbusinesses when they go bankrupt due to national disasters such as COVID-19 or other difficulties.

- Safety net for SMEs

The wide blind spot of the social safety net leads to informal employment, which is also excluded from labor market policies. In addition, informal employment is a major cause of stagnation in the employment rate, which is considered a major problem in the Korean labor market, and increased labor market instability (Lee Byung-hee, 2009). In this respect, Korea's employment insurance system needs to continuously reduce blind spots so that blind spots do not occur in the scope of unemployment protection and salary sectors. Considering Korea's industrial structure and employment structure, it is necessary to consider dualizing the employment insurance system. In other words, the protection of workers in the official sector is in charge of the unemployment insurance system. The protection of workers in the informal sector or those who do not receive benefits of the unemployment insurance system is also in charge of unemployment assistance (Bang, 2012).

<Box 3-4> Yellow Umbrella Deduction System in Korea[46]

The "Yellow Umbrella Deduction System (YUDS)" is a system that can be recommended as one of the unemployment assistance programs in the informal sector. The YUDS, an assistance system for microbusiness, was established for the purpose of serving as a social safety net for microbusiness. The YUDS was created in accordance with the spirit of mutual aid under the 'Small and Medium Business Cooperatives Act'. This system is designed to revive businesses and stabilize their lives when reasons for deductions such as closure, death, or aging of microbusiness occur. The system was designed to serve as a kind of severance pay that workers receive when they retire. This system is supervised by the Ministry of SMEs and Startups and operated by the Korea Federation of Small and Medium Business, a non-profit corporation, based on the support policy for microbusiness. Microbusinesses pay a certain amount of deductions every month during the business, and the accumulated deductions can be deducted at the end of the year tax settlement. In addition, if microbusiness suffers from a livelihood or business, it can be used as a living stabilization fund or a business recovery fund. Deductible payments can be subscribed in units of KRW 10,000 (USD 8.3) from KRW 50,000 (USD 41.7) to KRW 1 million (USD 833.3) per month, and can also be paid quarterly. As a representative of individual businesses or corporations included in the scope of microbusiness, anyone can join the YUDS if the average annual sales by industry is more than KRW 1 billion (USD 0.83 million) and less than KRW 12 billion (USD 10 million).

In addition, personal service providers who are not registered businesses but can confirm that they are doing business can also join the YUDS. However, pubs, ballroom operations, gambling hall operations, and massage services other than medical practices are restricted, and representatives who have been canceled from the YUDS for overdue payments or illegally receiving deducted fund are also restricted from joining the system. Members of the YUDS may receive principal and interest based on compound interest if there are reasons for the payment of deductions, such as the retirement of an individual business operator, the closure or dissolution of a corporate business, or the death of a subscriber.

46 Korea Federation of Small and Medium Business, Internal report.

<Box 3-4> Continued

In the case of individuals or corporations, income tax deductions are provided from at least KRW 2 million (USD 1,667) to up to KRW 5 million (USD 4,167). The deduction is prohibited by law from seizure, and in the case of closure, it is safely guaranteed from the seizure of creditors. Various welfare services are provided to members who have joined YUDS, which helps them recharge their members and boost their morale, as well as support their management. In the case of management support, reliable experts such as lawyers, tax accountants, labor workers, patent attorneys, and customs officials provide free counseling for members who were worried about costs and had difficulty finding suitable experts. In addition, members of the YUDS will be given various benefits for travel, accommodation, medical care, and shopping, and will be subscribed to group accident insurance for free.

4.2.5. Promotion of Participation in Government Public Procurement by SMEs

According to the final report of the Internationalization Mission, the great challenge is that Colombia has to increase competitiveness and productivity levels to access the new markets and promote the technological advancement (Presidencia de la República, 2021). However, according to the Great SME Survey 2020 II, the reasons offered by entrepreneurs for not exporting are because they consider that their business does not yet have exportable products (13% industry and 23% services). or because they do not have the right information on potential markets for their products or services (17% industry and 12% services) (ANIF, 2021). As shown in the Great MSME Survey of 2021-II, companies in the country focus their efforts on the market in the same cities where they carry out their productive activity since this market represents around 52% of their sales and 39% of the rest of the country (Anif, 2022).

This shows how little interest Colombian companies have in expanding their market shares, especially because they think that their product is of no interest and do not have the necessary information, which reflects a serious marketing problem which is an aspect that is extrapolated to Public Procurement. According to ACOPI[47], 5 or 6 out of 10 companies consider that they cannot participate in public procurement, and, as stipulated in the Business Formalization Policy, only 30% of MSMEs in Colombia report having been a supplier to the State at some point (DNP, 2019). This implies that, in general, Colombian companies are not properly prepared to participate in state commercial relations, since there is an understanding of how the instrument works. Standardized purchasing information required by the state, includes knowledge of the regulations and the management of applications and platforms on which purchases are made (MinCIT, 2020).

47 The Colombian Association of Micro, Small and Medium Enterprises

- Public Procurement strategies

In the face of the COVID-19 emergency, the government simplified the practice in public procurement. Fast-track procedures were applied to public procurement contracts with the government. The government increased the limit of small private contracts that could be concluded without bidding procedures, and shortened the inspection and registration period from 12 weeks to 8 weeks. The government reduced the bidding deposit for public purchase and government construction by 50% to reduce the burden on companies participating in the government procurement process.

<Box 3-5> Public Procurement and SMEs in Korea[48]

Since 2013, the Public Procurement Service has been pursuing various support strategies for start-up companies in public procurement. Additional points are given when reviewing the eligibility to purchase goods, preferential treatment is given when evaluating proposals by negotiation, and performance requirements are eased when many suppliers participate in contracts. In particular, since 2016, "Venture Country" (a mall dedicated to start-ups and venture companies) has been operating. "Venture Country" serves as an incubator for the growth of start-up companies, such as promoting their products and providing quotation and ordering functions. The meaning of entering the Public Procurement market does not simply mean registration with the Public Procurement Service. Participating in government procurement is to resolve the issue of Death Valley. The fact that small and medium-sized companies generate sales within the public procurement market is of great significance in that companies in the early days of their start-ups develop their markets through government support systems. The SME Public Purchase System is a variety of legal systems that require public institutions such as state agencies, municipalities, and public enterprises to purchase a certain part of them as products of SMEs when they purchase products such as goods, construction, and services. In other words, it is a policy to support the sales channels of goods, services, and construction produced by SMEs by inducing public institutions to purchase SME products. In the following, we will look at the government's major systems related to the public purchase of SME products, and the current status of public purchase of SME products.

- Purchase Target Ratio System

The 'Purchase Target Ratio System' is a system that requires public institutions to purchase more than a certain percentage of the purchase amount from SMEs, women's companies, and companies with disabilities. The Korean government promoted the participation of the socially vulnerable class in government public procurement by operating the Purchase Target Ratio System. The government required public institutions to purchase more than 50% of the total purchase amount as SME products. In addition, the government required public institutions to purchase more than 15% of technology development products when purchasing products from SMEs, so that public institutions used technology development products a lot. Preferential treatment was also given to women's companies and companies

48 Ministry of SMEs and Startups of Korea Internal report.

<Box 3-5> Continued

with disabilities, which are socially vulnerable. In the case of women's company products, more than 5% of the total purchase amount of each public institution was required when purchasing goods or services, and more than 3% of the total purchase amount was purchased from women's companies in the case of construction. For products of companies with disabilities, more than 1% of the total purchase amount of each public institution was required to be purchased.

• Prohibition of Participation of Large Enterprises in Bidding for Competitive Products between SMEs

The 'Competition System between SMEs' is a system to specifically designate products that are directly produced or provided by SMEs and that are deemed necessary to expand the market as competitive products between SMEs and to promote the expansion of the market for SMEs. This system is designed to promote the expansion of the market for SMEs by separately setting the criteria for evaluating the performance of contracts and the standards produced or provided by SMEs. Large companies were prohibited from participating in bidding for competitive products (212 products, 611 detailed items) recommended by the Korea Federation of Small and Medium Business and designated by the Ministry of SMEs and Start-ups. Requirements for designation of competitive products between SMEs shall be that public institutions have purchased the products for at least KRW 1 billion per year, and at least 10 SMEs shall produce and deliver them directly in Korea. In order to prevent the delivery of imported or subcontracted products, a 'Direct Production Confirmation System' was also operated to check production facilities etc.

• Direct Purchase System for Construction Materials

The direct purchase system for construction materials is a system in which public institutions purchase some materials necessary for buildings separately. They provide them to construction companies in charge of the project when they are constructed. The government introduced this system to prevent SMEs from being subordinated to large companies and to promote management stability by allowing public institutions such as local governments to directly purchase materials for SMEs. Among the competitive products between SMEs, 112 products for construction materials and 373 detailed items were purchased directly from SMEs by public institutions and public institutions provided them to construction companies. Public institutions are obligated to purchase materials directly from SMEs for products with an estimated price of KRW 40 million (USD 0.33 million) or more for some construction projects. Subject to this are comprehensive construction companies with a planned construction price of more than KRW 4 billion (USD 3.3 million), and electricity companies, telecommunications companies, and fire facility companies with more than KRW 0.3 billion (USD 0.25 million).

• Priority Procurement Contract System for SMEs

The 'Competition System between SMEs' is a system in which only small and medium-sized businesses participate in competition and conclude procurement contracts. The target of this system is products that are directly produced and provided by SMEs that need support for expanding sales channels. The 'Competition System between SMEs' requires small and medium-sized businesses to sign procurement contracts only for products that are deemed to need support for expanding sales channels directly produced and provided by SMEs. On the other hand, the 'Priority Procurement Contract System for SMEs' requires the government or public institutions to preferentially sign procurement contracts with SMEs for goods or services that are not competitive products among SMEs. Since the 'Priority Procurement Contract System' targets general goods or services, it can be seen that the actual contents are the same as the procurement contract for general goods or services. The decision of the successful bidder for such a preferred procurement contract is similar to that of a general procurement contract, but only SMEs can participate in bidding for general goods and services of less than KRW 0.2 billion (USD 0.17 million). In addition, it is characterized by the fact that only small businesses and micro- businesses are eligible to participate in general goods and services of less than KRW 0.1 billion (USD 0.083 million). Therefore, it can be seen that there are differences between the competition system between SMEs and the priority procurement contract system in terms of its subject and purpose of the system.

- Win-Win Cooperation Support System for Public Procurement

The 'Win-Win Cooperation Support System for Public Procurement' is a system that helps SMEs' products produced in cooperation with large companies (or SMEs) enter the public procurement market. This system aims to strengthen the capabilities of SMEs through win-win cooperation between large companies and SMEs, promote the growth of SMEs, and support start-ups and small businesses to enter the procurement market. It also aims to localize materials and parts. The participation method is that SMEs deliver products as main contractors, and win-win cooperative enterprises (large enterprises or SMEs) support the production of products or the supply of materials and parts. This system has two tasks: support for innovative growth and support for materials and parts. First of all, if the host company (SMEs) has technology but lacks production capacity, the partner company supports production facilities and process technology as a mentor and produces and delivers win-win cooperation products. If selected as a candidate for support, three points will be awarded as a bid bonus point when reviewing the performance of the contract. Secondly, the content of support for the material and parts task is that partner company supports key materials or parts with technical skills to the host company. In the case of producing and delivering a win-win cooperative product with improved quality and innovation, three points shall be awarded as a bid bonus point when examining the performance of the contract.

<Table 3-13> Trends in Public Purchases by Year

(Unit: trillion won)

Year	Goals			Performance		
	Total purchase	SMEs		Total purchase	SMES	
		Product	Ratio		Product	Ratio
'17	118.4	86.2	72.8%	123.4	92.2	74.8%
'18	121.9	89.9	73.7%	123.4	94.0	76.2%
'19	124.4	93.8	75.4%	135.0	105.0	77.8%
'20	133.2	103.4	77.6%	145.7	116.3	79.8%

Note: Legal rate of purchase of SMEs products (50%): amount of purchase of SMEs products compared to total purchase amount.

Source: Sales Support Division of the Ministry of SMEs and Startups (2021).

The recommendations of the Korean Public Procurement case are in which the share of MSMEs in public procurement is increased, limiting the participation of large companies in certain types of products and sectors, giving priority to MSMEs, and establishing commercial relations between MSMEs and large companies for the participation of public procurement processes. When considering the MSME's perception of not having the capacities to participate in public procurement processes it must facilitate the access to this public procurement through cooperation with large companies. It must also be about giving them the priority to focus on purchasing the products they produce. This also includes relevant strategies for them to begin to get trust more in their capabilities and products, learn from state processes and other types of procedures that allow them to access new markets, improve their production standards by implementing good production practices, and generate commercial relationships with other companies. This type of action can be implemented in Colombia given the interest that the National Government has presented, as observed in the policy documents of Business Formalization (DNP, 2019) and Entrepreneurship (DNP, 2020a), in strengthening the business, especially MSMEs, through Public Procurement and the commercialization of MSME products.

4.2.6. Providing Education and Consulting to Strengthen the Capabilities of Microbusiness

As mentioned, in Colombia most of the working-age population, 76%, have not graduated from school, which implies that the skills, competencies, and knowledge that the productive population has, on average, are low. An example of this, specifically, of how it affects the productive capacity of the country and, especially, of microbusinesses are the results of the impact evaluation of the Acelera Región[49] program implemented in 2020, which supported more than 300 MSMEs. Of all the applicants, only 35% proposed an innovative project at the national – international level, which implied a scalability problem. The biggest weakness in the opposition in entrepreneurial teams and MSMEs is the lack of financial skills; only 11% of these teams had financial skills. In addition, 53% of the total projects presented obtained resources from their sources, that is, only 1 in 2 ventures or MSMEs accessed resources from financial institutions. On the other hand, only 11.2% of the projects were considered scalable, given the low quality of the business models.

However, it was observed that the program generated a positive impact on the growth of the benefited enterprises by strengthening skills that allow better management of the company, mainly commercial and financial skills, as well as through access to contact

49 Acelera Región is a stage business acceleration program for early stages ventures of iNNpulsa Colombia early.

networks, which strengthened their business models (iNNpulsa, 2020). This shows that, in Colombia, despite the low levels of education, support for entrepreneurs and MSMEs to strengthen their skills, knowledge and entrepreneurial skills improves their productive capacities.

- Providing Management Education Programs for Microbusiness

Microbusinesses are slow to adapt to rapid changes in the business environment and have a weak management base even in overcoming difficulties. Therefore, it is necessary to support various educational programs for microbusiness so that microbusiness can actively cope with environmental changes and strengthen their self-sustainability.

The management education for microbusiness conducted in 2020 consists of professional technology education, management improvement education, education at a dedicated education center, and strong start-up programs. In particular, the strong start-up program is a start-up education program in which 'private education and training institutions and regional headquarters of the Small Enterprise and Market Service provided education to prospective start-ups and early start-ups.

<Box 3-6> Microbusiness Capacity Enhancement Program in Korea[50]

The 'Microbusiness Capacity Enhancement Program' is a project to support customized consulting using experts in each field to improve the business environment of microbusiness and normalize their operations. Microbusiness capacity enhancement programs are largely divided into microbusiness consulting and free legal rescue projects. First, microbusiness consulting is a project to support professional consulting such as marketing, promotion, management, product and menu development, and tax, labor, and patents for microbusiness and prospective start-ups who have difficulty in managing their businesses. In particular, in 2020, it provided creative development consulting (smart conversion consulting), which focuses on entering delivery apps, developing mobile websites, and establishing informatization. Secondly, the free legal rescue project is a project in which the Small Enterprise and Market Service signed a business agreement with the Korea Legal Aid Corporation to support litigation and lawyer fees for commercial litigation cases that occurred during management activities.

50 Small Enterprise and Market Service of Korea Internal Report.

5. Concluding Remarks

So far, we have looked at the effects and countermeasures of COVID-19 in terms of Korea and Colombia. In addition, Colombia's issues were derived and several policy proposals were made based on Korea's experiences. The basic direction and content of government measures caused by COVID-19 are similar, even though most OECD countries have differences in size or degree. As mentioned above, new financial support products were launched for the purpose of supporting corporate liquidity, and financial support policies were implemented, such as easing financial support conditions, revitalizing the guarantee system, and delaying the payment of principal and transfer of financial liabilities. In addition, subsidies were paid to reduce labor costs for companies and employers, and financial support programs for workers' wage reduction and unemployment were implemented. Tax payments, such as corporate tax, were suspended, and rent and utility charges were cut or deferred payment was also implemented. Structural policies such as the digital transformation of companies, remote work, human support, and education support were also implemented. Deregulation measures were also implemented, such as introducing simplified and rapid management procedures for companies. However, the global crisis such as COVID-19 further increases the need to provide a safety net to vulnerable people who are directly affected by aggregate demand. Vulnerable groups such as microbusinesses, self-employed, special-type workers, daily workers, and workers in the informal sector such as street vendors are more affected in times of crisis. With COVID-19 continuing, discussions on additional financial support for stabilizing aggregate demand continued. In situations of declining consumption due to economic uncertainties, it is necessary to maintain the purchasing power of economic entities and increase private consumption by paying additional disaster support funds.

In the early days of the COVID-19 pandemic, the government's policy support was aimed at all SMEs in need, and there were no major restrictions on receiving support. As a result, the proportion of SMEs benefiting from government support was high, and this high benefit rate can be seen as a successful policy in many ways. These government measures have helped avoid the huge increase in bankruptcies of SMEs that could have occurred during 2020 due to the pandemic. However, easy access to loans for SMEs may end up with unintended consequences of insolvency and bankruptcy. First, support is provided to SMEs that do not need support, which can lead to less efficient support and more costly situations. Second, SME support measures may have kept unproductive and loss-making companies alive and interfered with the creative destruction process. In addition, it can negatively affect economic dynamism and competition in the mid- to long-term (OECD, 2020).

However, with more than two years since the outbreak of COVID-19, effective and efficient policies suitable for the post-COVID-19 era are needed. In particular, it is important to minimize the negative impact of the sudden reduction of liquidity supply for various financial supports which has been implemented to provide emergency liquidity support after COVID-19. This is because the government cannot provide policy support indefinitely, and if an exit strategy is implemented suddenly, there are concerns about major side effects. Based on the one-year policy that was implemented after COVID-19, the OECD proposed considerations when establishing policies to support SMEs after COVID-19. In the post-COVID-19 era, 15 tips were also made to promote effective, efficient, and sustainable policies (OECD, 2021). The OECD's goal is to solve the SME challenges faced by the governments of OECD member countries in relation to COVID-19, which have been going on for a long time. Firstly, it is to minimize the side effects of liquidity supply along with resolving the liquidity crisis experienced by SMEs. Secondly, to prevent major insolvency issues of SMEs through a gradual reduction of emergency support policies. Thirdly, it is to introduce policies to promote the resilience of SMEs. The main contents include rapid support, the improvement of recovery ability, support for the vulnerable, and digitalization promotion.

The major SME policy direction after the pandemic should be to improve resilience, that is, to change from emergency support to recovery support. Resilience means improving the ability to respond better to shocks from the corporate perspective and preventing negative impacts on future shocks from the policy perspective. Immediately after the outbreak of COVID-19, the government's SME support measures were lax in screening to facilitate quick enforcement, taking into accounts the risk of liquidity shortages for the majority of SMEs, and were open to all SMEs without many qualification restrictions. However, like the SME support policy in the early days of the pandemic, it is difficult to implement an inclusive policy and various exit strategies are needed due to concerns over side effects. Firstly, the establishment of the expiration date is important. It is possible to adjust the validity period according to medical and economic conditions, and a policy with a deadline must be established. Secondly, support should be reduced in stages. In addition to the gradual reduction of support policies, the eased regulations should be gradually strengthened. Thirdly, the government should support SMEs to meet the changed environment. In other words, the government should support SMEs to adapt well to structurally changed environments such as employment change and digitalization. Recovery policies should be embodied by regions or fields. Decisions should also be made through efficient accumulation of data for the purpose of preventing waste caused by overlapping support. In addition, sudden withdrawal of financial support should be avoided, and restrictions on vulnerable groups should be operated flexibly. Priorities for short- and long-term goals should be set and inclusive considerations should be made for the underprivileged.

Appendix

Cases Introduced in the Small Business Meeting related to COVID-19

On March 24, 2020, organizations related to SMEs, including the Korean government and the Korea Federation of Small and Medium Business, held the "COVID-19 National Tour Small and Medium Business Meeting" to solve the difficulties of microbusiness. The following example summarizes the difficulties presented at the meeting and the responses of related organizations.

<Case 1>

Q: 80 to 90 percent of all events are in a very difficult situation due to cancellations. It is said that the union recommendation system of less than 50 million won by public institutions has been introduced since February 1, 2020, but not a single case has been introduced. If the big amount of money at the Nara Market[51] is divided into smaller units, small companies can benefit from it, so it is required to reflect it.

A: After the implementation of the guidelines in February, a request for cooperation was made to public institutions in Busan. It is impossible for the Public Procurement Service to divide a large amount into smaller amounts. At the level of the Korea Federation of Small and Medium Business, it would be better to ask them to solve the problem with special measures.

<Case 2>

Q: When I went to the bank to extend the maturity loan, they ask me to bring a guarantee issued by the local credit guarantee fund. When I went to the regional credit guarantee fund, more than 500 applicants were waiting, so they asked me to go to the bank. I applied online to the regional credit guarantee fund, but the regional credit guarantee fund reviewed the credit rating, four major insurances, and sales, and no loans were made. Although the government has established COVID-19 measures, it is difficult to borrow even a few million won at the actual site. Since the market is an area where COVID-19 occurred, few people come to the market, and there are many stores that

51 Korea's representative national electronic procurement system that can handle all procurement processes online, including public announcement, bidding, contract signing, and payment by registration once.

sell less than 100,000 won a day.

A: Even if a credit guarantee certificate is not issued from a regional credit guarantee fund, measures are in place and are being prepared to be issued by entrusting a certain amount or less to a bank.

<Case 3>

Q: COVID-19 has the greatest impact on microbusiness such as food, accommodation, and travel. It is difficult to even pay management fees due to the decrease in offline visitors. It is necessary to expand emergency management stabilization funds, extend loan maturity, and provide tweezer supports in consideration of the situation by industry.

A: We have been implementing a plan to support COVID-19 damage since February 7th. For existing loans, the repayment of loans has been suspended, and special operating funds for SMEs have been provided since March 16. Starting next week, Cheong Wa Dae(president) will announce the details of the support-related meeting, and a special fund of 5 trillion won will be provided to small and medium-sized companies.

<Case 4>

Q: These days, self-employed people have no customers, and small and medium-sized companies have difficulty in covering labor costs. The execution of funds for small business support should be done quickly. Four years have passed since the Kaesong Industrial Complex Project was suspended and small and medium-sized companies that entered the Kaesong Industrial Complex like us are outsourcing overseas, and there are many difficulties in corporate management due to immigration restrictions under the pandemic. More than 60% of small and medium-sized companies that entered the Kaesong Industrial Complex are clothing manufacturers, and more than 10 companies want to participate in the production of cotton masks. It would be nice if these small and medium-sized companies could take measures to produce cotton masks.

A: I have a lot of concerns about small business support funds. Local credit guarantee funds are also trying to increase their right to make decisions, including strengthening branch authority. The number of treatments per day will be from 400 or 600 to more than 1,500. We are working to improve procedures and processes. A company has been waiting since 6 a.m., so we are also considering receiving applications for guarantee in advance and proceeding. The issuance of consignment guarantees may be feared to be a matter of responsibility with banks, but I will actively recommend it to the government so that it does not become a problem.

<Case 5>

Q: It is necessary to expand the guarantee limit of the guarantee agency amid a shortage of operating funds due to a decrease in sales. In addition, dust masks and dust-proof clothing are needed at the site, and there are many difficulties in supply and demand.

A: The extension of the maturity of small business loans has been extended as a special case since February. There are many loan inquiries, but it takes a lot of time for the Korea Technology Credit Guarantee Fund and the Korea Credit Guarantee Fund to support funds through the screening process at the same time. The Korea Federation of Small and Medium Business and the Ministry of SMEs and Startups will improve the process together to shorten the required period. In order to simplify document submission, various ways to issue documents are being implemented using the website platform.

<Case 6>

Q: In the advertising industry, we are worried about when the business will recover. SMEs actually feel the support measures to be less effective than they are being reported in the media. Small and medium-sized companies must have work to survive, but now nearly 80% of the union members are struggling to operate the company. We hope contracts less than 50 million won to take the form of a union-recommended private contract to facilitate securing work instead of a competitive bidding system. I want to work from home, but it is difficult due to lack of system and financial resources, so I hope you can support the cost of working from home.

A: Currently, most of them are support funds for employment maintenance, and there are few applications for flexible work subsidies such as shorter working hours and telecommuting. There is a system that supports up to 50% of the cost of building a system necessary to work from home within the limit of 20 million won. For special employment support industries, up to 90% of employment maintenance support is provided and additional support is provided depending on local governments. Employment support will be very helpful to SMEs. I will organize various support systems in the union and announce them again. There is also a system that supports employees to take turns resting and working, so we will actively promote it so that they can use it.

<Case 7>

Q: The number of customers visiting shopping districts is decreasing due to COVID-19 and social distancing. We ask you to disinfect the area around the shopping district so that consumers can come safely. Masks and detergents are greatly insufficient, so government support is needed. It is difficult for merchants to leave their stores and go to the bank for loans. Therefore, when they took out loans, employees of trading banks came on a business trip and supported them. It would be nice if government offices and public institutions also formed T/F to support them.

A: There are many cases where customers do not know even if stores have been disinfected, but I hope there is a visible sign that they have been disinfected. The content is valid, but I cannot decide by myself, so I will consult with other government ministries. In order to shorten the loan time, the government is making every effort to improve the system. Banks are also preparing for on-site business trip support, but in some cases, they have no choice but to selectively apply due to the nature of loan products, but we will try our best.

<Case 8>

Q: There are many government support systems such as support for vulnerable groups and people on leave of absence, but businesses also bear the burden of additional charges and severance pay. Considering this, it is better to fire workers. Subsidies should not only be provided to workers, but also to workplaces. The amount of work has been greatly reduced due to COVID-19, and some benefits are also needed to return to business owners during unpaid leave for workers.

A: You can apply for employment maintenance support funds. You can receive guidance on the additional loan system of the state-run Korea Development Bank. The Korea Development Bank has set a special operating fund of 5 trillion won and operates it within 5 billion won for SMEs. General loans are operated in a formal review principle, but special funds are operated in a summary review method through the decision of the branch manager and the head of the headquarters.

<Case 9>

Q: I am using the Korea Credit Guarantee Fund, but when I visited the Korea Credit Guarantee Fund to use additional funds due to the outbreak of COVID-19, I was hit by the upper limit of up to 70 million won due to existing use. Previously, if I used 30 million won, I could only use up to 40 million won. However, previous guarantees should not be included in the 70 million won limit. And even if I apply for a credit guarantee now, it can only be implemented after two months, but I want it to be executed quickly because it is difficult to manage right now.

A: There is a flood of applications for credit guarantees. Chungcheongbuk-do can examine about 200 companies a day, but about 4,000 companies are behind. There is no time for the Korea Credit Guarantee Foundation to review. It is entrusted to a commercial bank and consulted after receiving it. Small amounts are taken to be directly loaned by the Small Enterprise and Market Service Foundation. It's efficient to go straight to the bank. Banks can receive and review documents at the same time. As for the part of 70 million won that cannot be used for the part already used, it is necessary to deliver the field story to the policy manager of the Ministry of SMEs and Startups.

<Case 10>

Q: There was a lot of demand for moving every spring because it is moving season, but the recent economic recession has been severe due to COVID-19, and overseas exhibitions have been postponed indefinitely, leaving no place to sell. It is hoped that the government will expand the government's public purchase budget and expand the target items that the government directly confirms production. In addition, government support is requested for labor costs incurred when working from home.

A: Support systems are in place, such as flexible work and commuting with a time difference. In addition, there is an employment maintenance support fund, and support contents are also being prepared for the case of suspension or closure. The main contents or changes of policies, such as the employment maintenance support fund, will be guided through the union.

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04
CHAPTER

Establishment of Participatory Regulatory Reform: Public Consultation and Stakeholder Engagement

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1. Introduction
2. Understanding the Regulatory Reform in South Korea
3. Understanding the Regulatory Environment in Colombia
4. Understanding the Regulatory Environment in Colombia Activities of the OECD Regulatory Reform Policy Committee
5. Thematic Issue: Public Consultation and Stakeholder Engagement
6. Policy Recommendations
7. Conclusion

Keywords
Regulatory Reform, Stakeholder Engagement, Regulation, Regulatory Bias, Public Consultation

Establishment of Participatory Regulatory Reform: Public Consultation and Stakeholder Engagement

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Summary

Stakeholder engagement in policy design refers to the involvement of a specific stakeholder or the general public in the policy making process. It is contrast to the old-way of government model which made policies by a small number of experts, specific representatives or government policy makers. Stakeholder involvement in the policy making process is very important. It is because the policy maker in government can gather various opinions through direct and indirect intervention of stakeholders related to policy and they could suggest more appropriate solutions. It also helps to improve the qualitative aspects of regulation, such as better understanding of the economic effects of regulation through stakeholders' engagement. Therefore, the government designs the regulatory policy through the process of gathering various opinions through the stakeholders in regulatory design.

Colombia had a long history of strengthening administrative simplification and citizen participation policies. However, except for Decree 2696 of 2004 (which only applies to regulatory commissions), policies, institutions and tools focused on regulations' quality, relevance and efficiency have not been developed with the same speed. It is noteworthy that until 2014 there was no explicit regulatory policy in Colombia. One of the key findings of the OECD in its study on Regulatory Policy in Colombia was that the country had progress and strengths in administrative simplification policy but lacked a policy responsible for regulatory quality (OECD, 2014).With the support of the OECD, the Government of Colombia, headed by the DNP, formulated the first regulatory policy with the document CONPES[1] 3816 Regulatory Improvement: Regulatory Impact Analysis. This policy required the coordination of several entities of the executive branch of the State that have functions or competencies in some aspect of regulatory policy.

1 The CONPES are documents that develop general policies on economic and social issues and are approved by the National Council for Economic and Social Policy (CONPES) as the highest planning authority and advisory body of the national government.

Korean government has various measures to get stakeholders voice and involvement in regulatory reform process. Two systematic measures to have stakeholders' engagement in regulatory reform are suggested: Regulatory Reform Sinmungo and regulatory sandbox system. The Regulatory Reform Sinmungo (RRS) is "an online petition system through which any person can make a suggestion on a specific regulation." Since introduced in Mar. 2014, the RRS has been widely used by regulated entities or other stakeholders. The RRS is one of the successful approaches to review of the existing regulations. The Regulatory Reform Sinmungo is operated based on Article 17 of the Framework Act on Administrative Regulations to more actively and continuously reflect the voice of the people. In order for this opinion gathering system to operate effectively, legal stability must be guaranteed. In particular, it is necessary for the central government to oversee this, give the relevant regulatory departments responsibility and resolve them, and transparently disclose this process into the system.

In 2018, the 'Korean regulatory sandbox' system was introduced to promote innovative growth of new technologies and new products in the era of the 4th industrial revolution. Currently, Korea is actively trying to utilize the regulatory sandbox in various fields compared to other countries. In particular, the new technology utilization industry is a business area that did not exist before, and the role of the regulatory sandbox is very important to resolve the legal gap and regulatory gap. Therefore, it is necessary to improve the consistency of the regulatory sandbox system to derive results that match the purpose of the system. It is necessary to operate a sandbox to properly respond to new technologies and new industries. However, if the operation of the sandbox is limited to the extent of resolving civil complaints, it is difficult to revitalize the new technology industry. The Colombian government should carefully review the system for introducing and operating the sandbox. It is desirable to prepare a roadmap for regulatory reform by identifying the emergence of new industries and which sectors require regulatory reform.

Various biases may appear in the process of designing a regulatory policy, especially gathering opinions of stakeholders. The policy makers collect various opinions of related stakeholders in the policy design process and establish the regulatory policy considering the expected effects of the policy. In many cases, regulatory policy is not equivalent to the cost bearers and the beneficiaries of regulations. As the cost bearer and the beneficiary are not equivalent, the cost bearer has incentive to actively reflect their opinions to policy makers and the process of designing regulatory policy to minimize the cost burden of regulations. In addition, beneficiaries do not pay direct costs of regulation, so they tend to not actively respond to stakeholder consultations. As a result, the direction of policy design may be biased such that it is established in a somewhat different direction from the original intended.

Also, it is possible to consider whether the cost burden occurs in the business sector or non-business sector. In other words, the regulation bias may arise depending on the subject of the cost burden. Currently, advanced countries such as Korea, UK and Australia are implementing the Cost-in, Cost-out (CICO). The CICO is a system for managing the total amount of regulatory costs for business sectors, policy makers may have incentives to reduce the cost burdened by firms in regulatory design, which can lead to bias in regulatory policy. It is also possible to consider the bias caused by the fact that CICO is not operated efficiently and objectively. Under the CICO, there is a blind spot that the costs and benefits to non-business sectors and the general public are not analyzed in depth, but are only focused on the direct costs that the business sectors incur. Therefore, the costs and benefits of non-business sector and the general public except for business sector tend to be somewhat neglected, also inaccurate RIA is conducted. The introduction of regulations that do not involve objective and quantitative RIA and cost benefit analysis is a factor that causes bias in regulatory policy design. Therefore, it is necessary to operate RIA and CICO more effectively.

It is also possible to take into account the bias that arises when certain regulations play a role as barriers to entry. When a new entry regulation is introduced, policy makers must figure out the potential size of the regulated party due to entry restrictions and design the regulation by predicting the behavior of individual regulated party. In particular, when strengthening business registration standards or safety related standards, existing entry barriers will be further enhanced or new entry barriers will be created. In the case of companies that plan to enter the market, there is an incentive to generate a greater cost burden for potential firms. In this case, the expected effects from the policy design process are biased to be more advantageous to existing firms that are already entered in the market.

The regulatory bias may also occur if the cost burden is a large enterprises or SMEs. Even if they are subjected to the same regulations, SMEs may incur more costs than large corporations. SMEs may have higher regulation compliance costs due to their absolute size, manpower, capital, and skill level. Balancing the opinions of large and small businesses during the regulatory design process can also be a way to eliminate and mitigate the bias of regulation.

Also, it is possible to take into account the bias caused by the difference between domestic and overseas standards, in particular, the certification system related to the product safety and harmfulness of the exporting goods. Even if a domestic company has obtained the required certification in its own country, it will incur additional costs to comply with overseas related standards when exporting products abroad. This may result in a slight distortion of the anticipated effects of the policy when the domestic certification system is initially introduced, It is required to make a careful effort to ensure that the anticipated effects exerted through proposing such agreements that domestic certification can be handled overseas equally and engaging sufficient stakeholder consultation for exporting firms. In order for effective regulatory reform, it is required to find ways to minimize the problems caused by regulatory policy biases.

Abbreviations and Acronyms

ANDJE	National Agency for the Legal Defense of the State
ANSV	National Road Safety Agency
BRP	Better Regulation Policy
CONPES	National Council for Economic and Social Policy
CMN	Better Regulation Committee
CRA	Commission for the Regulation of Water and Basic Sanitation
CRC	Regulatory Commission for Communications
CREG	Commission for the Regulation of Energy, Gas and Fuels
CRIT	Infrastructure and Transport Regulation Commission
DAFP	Administrative Department of Public Function
DAPRE	Administrative Department of the Presidency of the Republic
DNP	National Planning Department
FURAG	Single Form of Report and Management Progress
MinCIT	Ministry of Commerce, Industry and Tourism
MinJusticia	Ministry of Justice and Law
MinTIC	Ministry of Information Technologies and Telecommunications
MIPG	Integrated Planning and Management Model
MIR	Manifestation of Regulatory Impact
OECD	Organization for Economic Co-operation and Development
PND	National Development Plan
RIA	Regulatory Impact Assessment
SIC	Superintendence of Industry and Commerce
SICAL	National Quality System
SUCOP	Single Public Consultation System
SUIT	Single Information System for Procedures
URF	Regulatory Projection and Financial Regulation Studies Unit

1. Introduction

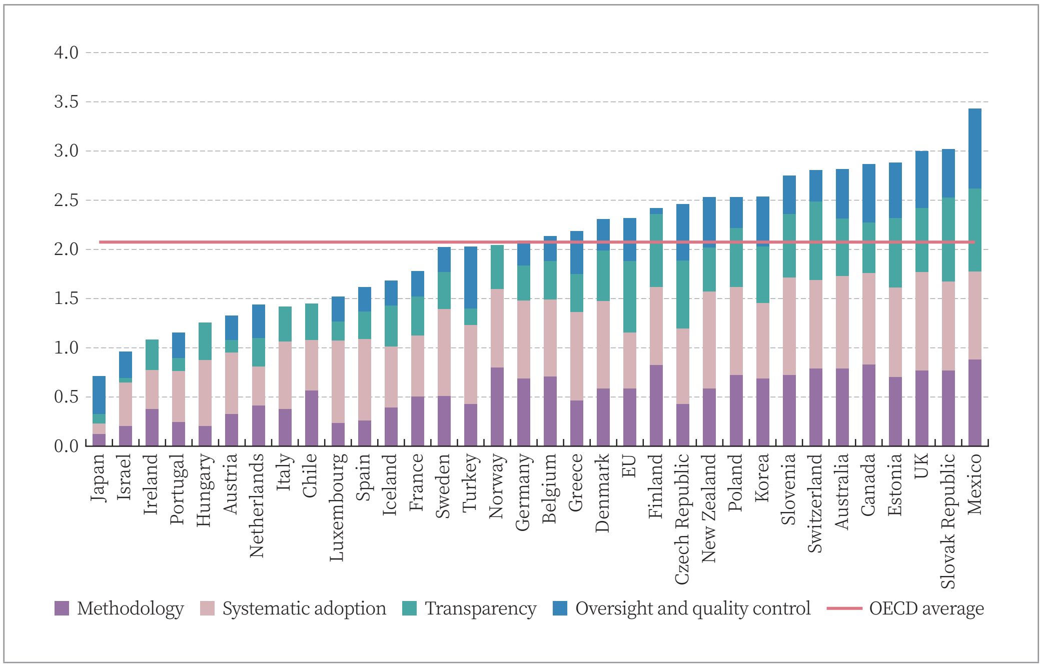
Stakeholder engagement in policy design refers to the involvement of a specific stakeholder or the general public in the policy making process. It is contrasted to the old method of implementing the government model which made policies by a small number of experts, specific representatives, or government policy makers. In other words, the wide participation of stakeholders in the policy decision stage is a relatively new policy design model (OECD, 2015).

From the perspective of realizing the principle of democracy, the engagement of stakeholders in the policy design stage is desirable, but whether how to operating and implementing stakeholder participation efficiently, or whether stakeholder intervention is a practical help in terms of cost and benefits of regulation design is still a question. There is also needs to be an in-depth discussion of whether stakeholder engagement has an accurate representation of the various groups affected by the regulatory policy.

Nonetheless, stakeholder involvement in the policy making process is very important. It is because the policy maker in governments can gather various opinions through direct and indirect intervention of stakeholders related to policy and they could suggest more appropriate solutions. It also helps to improve the qualitative aspects of regulation, such as acquiring a better understanding of the economic effects of regulation through stakeholders' engagement. Therefore, the government designs the regulatory policy through the process of gathering various opinions through the stakeholders in regulatory design. Sometimes it may be more efficient to design a policy by reflecting the opinions of stakeholders before introducing regulations rather than revising them after implementing regulations.

[Figure 4-1] Stakeholders Engagement in OECD Countries

(Unit: Score)



Source: OECD Regulatory Policy Outlook 2015 (2015).

According to the OECD Stakeholder Engagement in Regulatory Policy (2014), stakeholder involvement plays a positive role in two respects. Firstly, the quality of regulation can be improved by reflecting various ideas and opinions into regulations. Secondly, stakeholder participation in a policy can be an incentive to increase regulatory compliance of political parties. As a result, the OECD (2014) points out that stakeholder involvement in decision making improve the regulatory compatibility.

Stakeholder involvement in the policy design phase is a very crucial process and is actively underway in many countries. In policy design, policy makers receive a variety of information through the mutual exchange of opinions by stakeholder participation, and each stakeholder participates in policies that actively reflect their interests in policy. This process is one of the important factors in the decision-making process of the policy, and it enables policy making to be better. Several OECD countries have developed and operated a portal-based platform for the public to comment, review, and collect data on specific issues. Many of these programs also collect feedback on the cost bearer caused by regulation and play a role in gathering ideas and comments about the regulatory reform.

Stakeholder engagement plays a very important role in decision making, but there are also side effects. The reason is that most of the gathering process of stakeholder's opinion about regulation has a characteristic that is complaint-driven. In other words, various stakeholder groups modify their behavior when enforcing the regulation policies. In this process, by communicating their complaint-driven opinions to policy makers, they can influence the decision-making process in order for the group of stakeholders to benefit from it. The OECD (2017) argues that complaint-driven opinions of various stakeholders are an obstacle to the efficient decision making of regulations.

If the whole process of stakeholder engagement in making regulatory policy is of a complaint-driven opinion, policy makers are more likely not to be able to design policies accurately and the bias in regulatory policy can occur. Also, if a biased regulatory policy can be beneficial only to specific interest groups such as those who have large political influence or larger group sizes, stakeholder consultation with complaint-driven opinions is a factor that may cause bias in regulatory policy. Therefore, it is important for policy makers to design regulations that policy benefits are not tilted to specific interest groups through fair and transparent procedures.

In Korea, various on-line and off-line platforms have been established for the active participation of stakeholders and the general public. According to the Framework Act on Administrative Regulations in Korea, which deals with general regulations, it is necessary to fully comprehend the opinions of various stakeholders such as administrative agencies, private organizations, research institutes and experts through public hearings and legislative notices when establishing or strengthening regulations. In addition, the government conducts an Regulatory Impact Analysis (RIA) and prepares a RIA statement when formulating regulatory legislation. The RIA statement should provide an overview of regulation and a comparison of alternatives to regulations, cost benefit analysis, and comments from relevant stakeholders. Meanwhile, stakeholders and the general public can participate in the process of designing the policy through the online platform. Various online platforms such as Regulatory Information Portal, Regulatory Reform Sinmungo[2], and governmental legislative support centers serve as a window for policy participation in relation to regulation.

OECD (2017) points out that if these regulatory channels are merely used to accompany complaint-driven opinions of regulated parties or stakeholders, expected policy outcomes cannot be fully achieved. Therefore, it is important for policy makers to design regulatory policy by reflecting various opinions in a balanced and transparent manner through stakeholder consultation.

2 Regulatory Reform Sinmungo is a window for the general public to directly communicate various regulatory requirements to policy makers through the internet portal

The bias that arises from regulatory policy can be seen as a complex phenomenon caused by a wide variety of factors. It can be considered as a factor of bias in regulatory policy if there are weighted converging opinions of specific groups in stakeholder engagement, or the somewhat lack of strengthening of RIA. Thus, it is important for policy makers to implement policy design with stakeholder engagement through fair and transparent processes. Also, implementing step-by-step solutions to the overall RIA will be important in designing regulatory policies effectively.

2. Understanding the Regulatory Reform in South Korea

Since its enactment of the Framework Act on Administrative Regulation in 1998, Korea has developed a regulatory management system for about 20 years to enhance regulatory quality. It is to analyze the impact of regulations in society, and to minimize economic vitality and reduce unreasonable regulations. In this process, various trials and errors existed, which has ultimately offered an opportunity to build a denser and precise Korean regulatory reform system. In the past government, regulatory reform has been used as a core policy for new economic revitalization and employment.

Korea has been making efforts to promote regulatory reform based on the Framework Act on Administrative Regulation, and as a result, the system related to regulatory reform is practical. In 1997, Korea established a legal and institutional foundation for managing government regulations through the enactment of the Framework Act on Administrative Regulation. The Framework Act on Administrative Regulation includes a free and creative economic activity of regulations through the introduction of the regulatory impact analysis system. This includes the introduction of the regulatory impact analysis system, the strict pre -examination of the establishment of regulatory regulations, the review of the existing regulations, and the establishment of a private-centered regulatory reform permanent organization. As for the revision of the Framework Act on Administrative Regulation in 2005, this was promoted and there was an effort to compensate for the procedure by collecting the opinions of stakeholders by announcing the regulatory impact analysis while the regulatory law went through legislative procedures.

In 2006, the Improvement of the Regulatory Effect Analysis System was promoted to improve the problems of unforeseen narratives and formal cost benefits analysis and operations. Accordingly, it was changed to adjust the evaluation items and factors of the Regulatory Impact Analysis, improve the regulatory review system, and make the publication of the Regulatory Impact Analysis mandatory. The improvement of the regulatory review system started with the problem that the review functions of the ministries itself was insufficient as most of the regulations were reviewed by the Regulatory Reform Committee. This was even though the Regulatory Reform Committee reviews only important regulations among newly established and strengthened regulations. In addition, there were cases where the deliberation of the plenary session was omitted even though it was a regulation with a large economic ripple effect because there were no specific standards for deliberation proposals by each subcommittee and the plenary session. Accordingly, important regulations and criteria for judging whether or not to be proposed by the plenary session were clearly established and operated.

Since the regulatory impact analysis system was revised in 2006, problems such as the preparation of a formal analysis insufficient collection of opinions on the subject of regulation and stakeholders, and increased administrative burden due to the overlapping procedures of the regulatory review process have been highlighted. In 2008, the regulatory impact analysis system was improved to compensate for these problems. In 2009, in order to reduce the administrative burden of the legislative department by simplifying the procedure of the system revised in 2008, the regulatory impact analysis report, which was sent to the Small and Medium Business Administration, the Fair Trade Commission, and the Regulatory Reform Commission at the time of notice of legislation, was changed to only the Regulatory Reform Commission. In 2012, technical regulatory impact assessments were introduced and operated to further refine the regulatory impact analysis by sector. In 2013, the regulatory impact analysis system improved through the improvement of the regulatory reform framework.

3. Understanding the Regulatory Environment in Colombia

3.1. Overview of the Regulatory Framework

3.1.1. Regulation, Administrative Acts, and Procedures

Regulations, along with expenditure and taxing, are the primary vehicle through which governments accomplish public goals (Dudley and Britto, 2012). Governments deliver regulations to correct market failures, promote behavioral changes, limit private activity, and protect legitimate objectives such as social rights and the protection of safety and life (OMC, 2014; Lopez Murcia, 2022). they are the "rules of game" for all the agents in a market. While regulations can have any form of an administrative act, not all of them have regulatory impacts.

Regulations are issued by legitimate and competent authorities for general application, and they are expected to be complied by the regulated parties; otherwise, it might entail a sanction or consequence. The main characteristic of regulation is that compliance costs are assumed by the regulated parties and not by the public administration (Levi-Faur, 2010).

One type of regulation is the technical type, which are documents that establish specific design or performance characteristics for a product, process, or production method to protect people, animals, or plants. Once a technical regulation has been established it imposes direct costs on the industry, whether it is manufacturers, marketers or importers, depending on the regulated product. Technical regulations are considered trade barriers, so their benefits and costs must be thoroughly analyzed to justify their issuance.

There are also administrative procedures which are the set of steps or requirements that citizens must carry out before a public entity to access a right or comply with an obligation provided for or authorized by law (Public Function, 2022). Following the guidelines of the anti-procedures policy, public entities are not allowed to create procedures or impose charges if these have not been expressly authorized by the law.

3.1.2. Who Issues Regulations in Colombia?

In the structure of the Colombian State, there are three branches of power: the legislative, the executive, and the judicial branches. The legislative branch is the Congress of the Republic, composed of the Senate and the House of Representatives. This democratically elected body is entrusted with making the Republic's laws, known as primary regulations.

The Judicial branch administers justice and resolves conflicts between citizens and between those and the State. It issues administrative acts in the form of Orders and Judgments.

Finally, the Executive branch comprises the President, the ministries, administrative departments, and other entities. This branch is responsible for preparing Decrees, Resolutions, Circulars, and other administrative acts that develop the law or regulatory issues that the faculty have expressly granted since the Constitution or the law. This regulation is known as secondary regulation. On certain occasions, Congress may invest the President of the Republic with extraordinary powers for up to six months to issue norms with the force of law.

For this document, we will focus on secondary regulation, the one issued by the

Government at the national level. In particular, the administrative acts (decrees, resolutions, and circulars) issued by the ministries, administrative departments, regulatory commissions, and other special administrative units. Superintendencies are the entities in charge of supervising compliance with the regulation, and in some cases, impose the applicable sanctions based on the law.

3.2. Background of Regulatory Policy in Colombia

3.2.1. Regulatory Agencies in Colombia

In the nineties, Colombia adopted a Regulatory State approach to seek a more efficient market- oriented economy. The new Political Constitution would allow the participation of private initiative in almost every sector of the economy, as a desired mechanism for achieving the economic and social goals of society. The government ceased to provide public services directly, such as telecommunications, water and energy, to focus on regulating the competitors on the markets.

Along with the idea that markets need to be protected from political influence to function, and separate the technical from the political decisions, many countries created specialized regulatory agencies. Colombia was not the exception and created regulatory agencies to seek market efficiency in water and sanitation, energy, gas, and communications. Thus, the Commission for the Regulation of Water and Basic Sanitation (CRA), the Commission for the Regulation of Energy, Gas and Fuels (CREG) and the Communications Regulatory Commission (CRC), respectively, have political, technical, and administrative autonomy.

Other sectors followed the trend but, in some cases, they were inconsistent and unstable. For example, in the health sector, a Health Regulation Commission was created in 2007 and functioned until 2014. With its disappearance, the Ministry of Health took over several of the regulatory functions. In the financial sector, the regulatory agency was only created until 2015 with the creation of the Regulatory Projection and Financial Regulation Studies Unit (URF). Before URF, regulatory functions were dispersed in the Ministry of Finance and Public Credit and the Financial Superintendence of Colombia. In the transport sector, the Government created a Commission for the Regulation of Infrastructure and Transport (CRIT) in 2014. However, in 2022, it has not yet become fully operational. Therefore, several regulatory functions remain in the Ministry of Transport.

In a scenario of budget constraints, it is unlikely that more technical and specialized agencies would be created, but there is still a greater need to have decisions that are based on technical evidence and delivered in a more participative way, considering the points of view of all the parties affected. Therefore, Ministries with regulatory functions should also adopt regulatory tools, such as RIA and public consultation.

3.2.2. The Anti-procedure Policy

The anti-procedures or anti-paper policy, also known as the administrative simplification policy, has a long history in Colombia. This policy has an institutional, legal and regulatory framework, and tools for its implementation.

The Administrative Department of the Public Function (DAFP) is the entity in charge of leading this policy, which has the function of proposing, implementing, monitoring, and evaluating the policies of authorization, simplification, standardization, elimination, optimization and automation of the paperwork and procedures that are required by citizens for the exercise of activities, access to rights, and the fulfillment of obligations.

Any entity that might create a new procedure must send a Regulatory Impact Statement (MIR, by its acronym in Spanish) for the approval of DAFP. The MIR is the document that includes the justification, effectiveness, and efficiency of the procedure and all the steps, including documents, requirements, and costs that must be carried by citizens, users, or interest groups. MIR must be sent to the Public Function to request approval of each new procedure.

It was recently established, according to Resolution 455, 2021 that the Public Function may issue a concept on the bills that might create or authorize new procedures (Resolution 455, 2021).

DAFP also centralizes the procedures in the Single Procedure System (SUIT) and according to the Decree 2106 of 2019; all the information of the SUIT must migrate to the Single Portal of the Colombian State (GOV.CO). This becomes the electronic headquarters through which citizens will be able to access all the information, procedures, and services that they must carry out before the authorities.

The anti-procedure policy is constantly being updated. Law 2052 of 2020 reinforced the guidelines on simplifying procedures, and Decree 2106 of 2019 included the obligation for entities to suppress all procedures that could become queries to access information, withdraw unauthorized charges, and use digital channels to carry out procedures. Likewise, the government issued the Decree 620 of 2020 on Digital Citizen Services, and Decree 088 of

2022 establishes the guidelines for the digitization and automation of online procedures to facilitate and guarantee access to the exercise of the rights of people and the fulfillment of their obligations to the State through digital means.

This policy is also complemented by various administrative simplification strategies, in which citizens, businessmen and anyone interested can help identify cumbersome, costly, or inefficient paperwork and procedures to simplify them. One of the latest was the joint strategy for simplifying procedures, regulations, and administrative acts between the DAFP, MinCit, MinJusticia and DNP, called Colombia Ágil, Estado Simple.

3.2.3. The Policy of Citizen Participation and Stakeholder Engagement

Citizen participation is a constitutional principle and one of the transversal axes of public administration. The Political Constitution establishes an essential purpose of the State: to facilitate the participation of all citizens in decisions that affect the economic, political, administrative, and cultural life of the nation (Article 2, CP 1991). Likewise, Law 489 of 1998 establishes the principles of participation, publicity, and transparency in public management.

This policy also has extensive legal development (Law 850 of 2003, Law 1474 of 2011, Law 1712 of 2014 and Law 1757 of 2015) which strengthens the access to public information, promotes, and protects the right of democratic participation.

Based on the Citizen Participation Policy, entities must implement mechanisms that streamline, simplify, and promote citizen participation in the public management cycle (diagnosis, formulation, implementation, evaluation, and monitoring). All national and territorial order entities must design, maintain, and improve spaces that guarantee citizen participation.

The Public Function is the entity in charge of promoting this policy in the Government. For that purpose, it has created different guides such as the 'Guidelines to promote citizen participation in the processes of diagnosis and planning of Public Management' (DAFP, 2018). The 'ABC of the Law 1757 of 2015 Statute of democratic participation in Colombia' (DAFP, 2017), is also promoted as well as an offer of virtual courses for the training of officials in this policy.

Of course, today, a large part of citizen participation in public management takes place through electronic means, which is why the MinTIC has created various guidelines, including the Resolution 1519 of 2020 which is for the standardization of the contents on the entities' web pages. All pages of the national Government must have a "Participate" section where any person can find the access links to different forms of participation in management:

- Participation in the identification of problems and diagnosis of needs.
- Planning and participatory budget.
- Participation and citizen consultation of projects, regulations, policies or programs.
- Collaboration and open innovation.
- Accountability.
- Citizen Control.

[Figure 4-2] Snapshot of "Participate" Section of an Entity's Web Page

Source: DNP (2021).

More specific participation and public consultations in the regulatory process will be explained in the next section 'Better Regulation Policy in Colombia'.

3.3. Better Regulation Policy in Colombia

The OECD affirms that wherever countries implement regulation, there is also a need to supervise the regulatory system to reduce costs, prevent or mitigate the undesired effects of regulation, improve its response capacity, and increase its participation and transparency (OECD, 2002).

As presented in the previous sections, Colombia had a long history of strengthening administrative simplification and citizen participation policies. However, except for Decree 2696 of 2004 (which only applies to regulatory commissions), policies, institutions and tools focused on regulations' quality, relevance and efficiency which have not been developed with the same efficiency.

The following sections describe the development of the policy, the institutional structure, and the tools of the Better Regulatory Policy BRP in Colombia.

3.3.1. Public Policy to Promote Better Regulation

It is noteworthy that until 2014, there were no explicit regulatory policies in Colombia. One of the key findings of the OECD in its study on Regulatory Policy in Colombia was that the country had progress and strengths in the administrative simplification policy but lacked a policy responsible for regulatory quality (OECD, 2014).

With the support of the OECD, the Government of Colombia, headed by the DNP, formulated the first regulatory policy with the document 'CONPES[3] 3816 Regulatory Improvement: Regulatory Impact Analysis'. This policy required the coordination of several entities of the executive branch of the State that have functions or competencies in some aspect of regulatory policy.

CONPES 3816´s main objective was to implement the Regulatory Impact Analysis (RIA) in drafting regulations, strengthening public consultation on regulatory projects, establishing a mechanism for coordination and promoting the BRP, and a capacity-building strategy for regulatory improvement in officials. This CONPES delivered an action plan to promote the policy and tools for the first four years of its implementation.

Subsequently, the BRP was ratified in the National Development Plan 2018-2022 within the chapter on entrepreneurship, formalization, and productivity in the strategy "Simple State: less paperwork, clear regulation, and more competition".

The BRP in Colombia is a comprehensive policy, in which the legal quality and the economic impact of regulatory decisions are complemented. The BRP is characterized by the permanent articulation and coordination of different efforts and entities, which is reflected in the formation of the Committee for Better Regulation inside the National System of Competitiveness and Innovation.

3.3.2. Institutional Arrangement for the BRP

3 The CONPES are documents that develop general policies on economic and social issues and are approved by the National Council for Economic and Social Policy (CONPES) as the highest planning authority and advisory body of the national government.

The BRP in Colombia is a sum of many initiatives and policies that are spread over several entities, which imposes a challenge on articulation and coordination between various national government entities.

For this reason, the institutional arrangement of the policy required the creation of a Regulatory Policy Committee in which entities with functions or competencies in some aspect of regulatory quality participate. The following table shows the entities and their role in the Committee:

<Table 4-1> Entities of the CMN in Colombia and Their Role in the BRP

Entity	Role in the BRP
National Planning Department (DNP)	It has been the entity in charge of coordinating the different access and post-access actions to the OECD Regulatory Policy Committee and of generating strategies to promote the BRP and the use of its tools in national and territorial entities.
Administrative Department of the Public Function (DAPRE)	It is the entity that owns the policy and procedures for the approval, simplification, and standardization of procedures and actions that improve the relationship between the State and the Citizen.
Ministry of Justice and Law (MinJustice)	It is the entity in charge of giving the guidelines for revising the legal and technical quality of the normative projects. It also offers guidelines for the simplification of the normative stock by criteria of legal obsolescence (from laws, decrees, and resolutions).
Ministry of Information and Communications Technologies (MinTIC)	MinTIC leads the Single Portal of the Colombian State initiative and digital citizen folder strategy.
Ministry of Commerce, Industry and Tourism (MinCit)	It is the coordinating entity of the National Quality System under which technical regulations are issued, modified or eliminated. The National Quality System has explicitly adopted the principles and practices of regulatory improvement in preparing these regulations (Decree 1505 of 2015 included in DUR 1074 of 2015).
National Printing Company of Colombia (Imprenta Nacional)	It is the entity in charge of publishing the Official Gazette, in which all laws, decrees, and resolutions must be published. It constitutes the principle of publicity necessary for the entry into force of any administrative act. Their collaboration has been a critical factor in developing the Regulatory Improvement Observatory, which aims to transform the document repository into a database for analysis of the quantity, frequency, and category of all regulations issued.
Administartive Department of the Presidency of the Repbulic (DAPRE)	DAPRE participates through the Legal Secretariat of the Presidency; not only is it the office who reviews all the draft decrees and resolutions signed by the president, but it can also issue guidelines that all legal offices comply with for the development of regulations and administrative acts.
Superintendence of Industry and Commerce (SIC)	It is the entity in charge of issuing a concept on the affectation of the competition (competition advocacy) of all the projects of administrative acts with regulatory purposes that intend to be issued.

<Table 4-1> Continued

Entity	Role in the BRP
National Agency for the Legal Defense of the State (ANDJE)	The issuance of administrative acts may eventually become onerous demands on the State. Therefore, the ANDJE has been creating mechanisms for the identification and prevention of the risk of litigation, before the State, for administrative acts and thus has a defense of public resources.
GUESTS	Other public entities and private entities can participate as guests at the committee sessions, mainly unions, business associations, civil society, academia, among others.

Additionally, the Regulatory Policy Committee is part of the Competitiveness and Innovation National System; thus, its action plan is monitored by the Presidential Council for Competitiveness and Public-Private Management. This committee is also part of the Integrated Model of Institutional Management (MIPG). MIPG becomes a channel for implementing the policy in the national and territorial order entities.

3.3.3. Tools of the BRP

The tools of the BRP are the instruments and practices governments adopt to improve regulatory quality. One of the main instruments recognized in the BRP is the Regulatory Impact Analysis (ex-ante) and there are others such as public consultation, ex-post evaluation, publicity, compilation, simplification, among others. The progress of the adoption of these instruments in Colombia since 2014 is described below:

3.3.3.1. Regulatory Impact Analysis (RIA)

The government has taken a gradual approach to implementing the RIA in developing national government regulations. In the first years, the DNP accompanied some entities in carrying out RIA pilots. These pilots were voluntary, and their results were made public to get to know the methodology among public officials.

In 2015, the government introduced the obligation of RIA when preparing technical regulations through Decree 1595 of 2015. However, recognizing the lack of experience of entities in this methodology, it was not formally required until 2020. Subsequently, the national government issued the Decree 1468 of 2020, which introduced Simple and Complete RIA as proportionality criteria for preparing RIAs for technical regulation and the technical concept from DNP, starting from 2022.

On the other hand, the CRA, CREG and CRC regulation commissions have adopted the RIA methodology in their internal procedures. The CRC even included the RIA as one of the tools for regulatory decision-making in Law 1978 of 2019 (Article 19), which shows a commitment to the tool. The URF also uses the RIAs as support for their decision-making.

However, as mentioned, the regulatory commissions are not the only entities with regulatory functions. There is still a need to establish the obligation to the ministries to use RIA when their decisions have a regulatory impact. Likewise, it is necessary to give a clear mandate to the DNP to review the quality of the RIAs carried out by the ministries.

3.3.3.2. Ex-Post Evaluation of Regulation

Like the ex-ante RIA, the ex-post evaluation has been gradually introduced, but its implementation is still deficient across national entities. It is mandatory to conduct an ex-post assessment for technical regulations over five years old to assess their relevance or if they should be eliminated or modified. Regulatory commissions have been implementing this tool, but apart from that, there is no explicit mandate for the entities to carry out ex-post evaluations or an entity in charge of their review.

3.3.3.3. Consultation and Stakeholder Engagement

In its diagnosis of Colombia, the OECD found that the public consultation procedures were heterogeneous. Although there was an obligation to publish regulatory projects to receive comments, the publication did not ensure to contribute to the quality of the regulation. As defined in Law 1437 of 2011, entities must publish their regulatory projects to "receive opinions, suggestions or alternative proposals for all national and territorial entities". For this purpose, they must indicate the term within which citizens and stakeholders may present observations, but in any case, the authority "will autonomously adopt the decision that best serves the general interest" (Art. 8, Law 1437).

Decree 2696 of 2004 established the conditions for the Regulatory Commissions; however, it was necessary to create specific consultation criteria for national entities. Therefore, decree 1081 of 2015, established the annual Regulatory Agenda and 15 calendar days to participate in the consultation of draft decrees and resolutions. If needed, national entities could publish fewer days, and that must be adequately justified. In any case, the period must be reasonable and adjusted to the need for regulation.

A proportionality criterion has also been given for the consultation of the technical regulations, with a consultation term of 10 days for the Simple RIA, 15 days for the Complete

RIA, and 15 days for the draft technical regulation.

DNP has delivered tools to help public officers in their consultation process such as the 'Guide for public consultation in the regulatory production process', webinars, and virtual courses. However, the term of 15 calendar days is still deficient, especially for an effective consultation of projects of greater complexity and impact.

3.3.3.4. Single Public Consultation System (SUCOP)

SUCOP is a platform created by the DNP within the framework of the BRP that aims to centralize the public consultation of all draft normative issues issued by the executive branch of the national order and the Regulatory Agendas. The DNP began its design and development in 2017, and to date, it is used voluntarily by some entities to consult on their draft projects. Nonetheless, the publication that is mandatory is made on their web pages.

The benefits of the platform for citizen users are to:

i) find in one place all the projects that are in public consultation,

ii) have access to all the information available for each regulatory project, such as the AIN, the concepts of the entities prior etc.

iii) see the public comments of other citizens,

iv) have access to different filters such as the most commented projects or those close to closing,

v) know the regulatory agendas of all entities, among others.

For entities, the benefits are maintaining the traceability of the regulatory process, automatically compiling the comments received by citizens, and certifying compliance with the times required for public consultation, etc.

The challenges of the public consultation and the SUCOP will be further elaborated on in section 4.

3.3.3.5. Regulatory Agenda

The regulatory agenda is one of the tools recommended by the OECD in its Recommendations on Regulatory Governance (OECD, 2012). It lets citizens know the regulatory projects that entities will likely issue in advance. Ministries must publish their Regulatory Agenda on October 31 each year and receive comments for 30 days. The entities must keep their regulatory agendas visible to the public with all the modifications presented during the year.

3.3.3.6. Better Regulation Observatory

The Regulatory Improvement Observatory is an innovative tool that allows the analysis of regulatory production by converting the regulations published in the Official Gazette (laws, decrees, resolutions, and others) into a manageable database. The Official Gazette publisheses all the laws and regulations of the country.

The Observatory, made up of a joint agreement between the DNP and the Imprenta Nacional, collects all laws and regulations from the Official Gazette, to analyze the behavior of normative production from 2000 to 2021 by type of regulation, sectors, entities, regions and even content or purpose of regulations. Citizens can access the information on the DNP – Better Regulation Website:

https://www.dnp.gov.co/programas/Grupo-Modernizacion-del-Estado/Mejora-Regulatoria/Paginas/default.aspx

3.3.3.7. Training Strategy in the BRP

The implementation of the BRP has a robust ongoing training strategy for officials and citizens interested in this policy. Training strategy has prepared certificate programs with the Higher School of Public Administration (ESAP), workshops, and conferences on the different topics, practical guides and MOOCs for elaborating RIA and ex-post evaluation. The virtual courses can be found in the Virtual School of the DNP (https://escuelavirtual.dnp.gov.co/) and are free to access for any interested party.

3.3.3.8. Regulatory Depuration due to Obsolescence Exercises

Due to the excessive production of regulations in the country, it is common for them to become obsolete for multiple reasons. As they are not systematically reviewed, they keep adding to a sizable inventory. Either they have already fulfilled their purpose, were repealed by later statutes, or are no longer applicable for technological or cultural reasons. This obsolesce leads to the need to review regulations more systematically. To this matter, the Ministry of Justice and Law carried out an exercise that allowed the repeal of more than 7,000 legal rank provisions issued as early as 1873, with Law 2085 of 2021.

Subsequently, the Ministry of Justice replicated this exercise of regulatory purification with the Single Regulatory Decrees (SRD) through the SUCOP, in which citizens helped to identify those provisions that are no longer applicable and should be repealed. The criteria for regulatory purification are found at: https://www.sucop.gov.co/Paginas/DUR.aspx

Obsolescence

ii. Regulatory duplication

iii. Objective accomplished

iv. Compliance with the term or transitional rule

v. Disappearance of the legal basis (decay)

vi. Violation of the constitutional or legal regime

This exercise has been carried out in the administrative sectors of justice, education, culture, foreign relations, statistics, and planning.

On the other hand, there have been another handful of exercises for purging of obsolete normative by the CRC, the Superintendency of Industry and Commerce (SIC), the Ministry of Commerce (MinCIT), and the Central Board of Accountants (Junta Central de Contadores), which have used other channels but SUCOP.

Although this depuration is necessary, this does not replace the need to increase the use of ex-post impact assessments.

3.3.3.9. Regulatory Compilation (Single Regulatory Decrees) and Single Regulatory Information System - SUIN

Knowing which administrative acts are in force is essential for legal certainty. In 2015, the government promoted the compilation of more than 10,000 scattered decrees in the Single Regulatory Decrees or DUR (for its acronym in Spanish). Each new decree must be incorporated into one of the 28 existing DUR.

On the other hand, the Ministry of Justice manages the SUIN-Juriscol, a web-based platform that allows access to all laws and decrees since 1864, which benefits citizens by knowing the current rules. The SUIN-Juriscol has also been compiling, but to a lesser extent, resolutions and circulars, jurisprudence (judgments issued by the judiciary), international treaties, and technical regulations.

3.3.4. "Colombia Simple, Estado Ágil": Campaigns to Simplify Regulatory Burdens and Procedures

Under the government of President Iván Duque, the MinCIT, Public Function, Ministry of Justice and DNP carried out the strategy Colombia Simple, Estado Agil, for simplifying administrative burdens and regulations to make life easier for citizens and companies. The process began with the national order but expanded with mayors and officials of the territorial order.

With the Estado Simple, Colombia Ágil´s strategy, 4,561 interventions were carried out on topics such as paying taxes, business formalization, and housing[4].

4. Understanding the Regulatory Environment in Colombia Activities of the OECD Regulatory Reform Policy Committee

4.1. Survey of the OECD Recommendations on Regulatory Reform

The Regulatory Policy Committee in OECD recommended the Government of Colombia several actions concerning regulatory consultation, regulatory impact assessment (RIA), and the governance of regulatory bodies for the purpose of accession to the organization. These recommendations were:

Regulatory consultation

- Make regulatory consultation compulsory for all institutions in the national administration.
- Prepare and publish guidelines for consultation to sustain the implementation process.
- Incorporate a principle of proportionality, where the process is more exhaustive for

4 See Colombia Agil https://www.colombiaagil.gov.co/

those regulations with high impact in regulatory consultations as well as in RIA.

- Establish a systematic capacity-building programme to give continuity to the current consultation initiatives.

Regulatory Impact Assessment (RIA)

- Design the governance of the RIA system - allocating the functions of coordination, challenge, facilitation, and advocacy- to a regulatory oversight body.
- Sustain the capacity-building efforts to create a better regulation culture in the public administration.

Governance of regulatory bodies

- Review the governance arrangements of Superintendencias.
- For the case of regulatory commissions, review the procedures for directors, board appointments, and dismissals.
- Define clear guidelines and policies on conflict of interests for expert commissioners and Superintendents.
- Review the role of control bodies to avoid their interference with the substantive decisions of regulatory and supervisory bodies.

4.2. Comparing Colombia's Existing Regulatory Framework with the OECD Recommendations

This section seeks to compare the current situation in Colombia with the recommendations issued by the OECD in its Formal Opinion on Colombia's Accession to the Organization (OECD, 2018). It should be noted that the recommendations identified by the CPR are opportunities for improvement and are not an access requirement, but the country must present a report on progress in these areas as a post-access commitment.

4.2.1. Regulatory Consultation

In its analysis, the OECD identified that the public consultation did not have criteria on time and the requirements were not met nor did they improve the quality of regulations. The following were their specific recommendations on this topic.

<Table 4-2> Recommendation by OECD and Respective Progress in Colombia: Regulatory Consultation

Recommendation	Progress
Make regulatory consultation compulsory for all institutions in the national administration	Public consultation was made mandatory for technical regulations, regulatory commissions, draft decrees, and resolutions prepared by the entities of the executive branch of the national order.
Prepare and publish guidelines for consultation to sustain the implementation process.	DNP developed a Guide for public consultation in the regulatory production process in 2017 and the DNP is working on a new version for 2022.
Incorporate a principle of proportionality, where the process is more exhaustive for those regulations with high impact in regulatory consultation as well as in RIA.	The draft decrees and resolutions of national entities must complete a consultation period of 15 calendar days. Still the entities could establish fewer days if the project merits it with an adequate justification. The principle of proportionality in the process of preparing technical regulations is shown as fewer days of public consultation for the Simplified RIA (10 days) and 15 days for the Complete RIA.
Establish a systematic capacity-building programme to give continuity to the current consultation initiatives.	The virtual courses offered by the DNP in regulatory improvement have a component in public consultation and stakeholder engagement. Likewise, the training strategy via workshops and webinars also includes these topics.

4.2.2. Regulatory Impact Assessment (RIA)

With CONPES 3816 of 2014, the Government of Colombia established a gradual implementation of the RIA policymaking process although the objective was to make it mandatory for all the regulatory proposals after the three first years. In 2022 it is only compulsory for the preparation of technical regulations and they are missing a big part of the regulatory projects of the Executive branch.

<Table 4-3> Recommendation by OECD and Respective Progress in Colombia: Regulatory Impact Assessment

Recommendation	Progress
Design the governance of the RIA system - allocating the functions of coordination, challenge, facilitation, and advocacy- to a regulatory oversight body.	RIA is mandatory for technical regulation projects. In 2022, DNP started reviewing the RIA quality through a non-binding technical concept. However, it is still necessary to determine the mandatory nature of the RIA for the other entities that issue regulatory projects and define whether the DNP or another entity oversees its quality. Regarding the regulatory commissions, it has not been defined whether the DNP would give its technical opinion at any of the stages of the regulatory process, nor if this would be binding.
Sustain the capacity-building efforts to create a better regulation culture in the public administration.	There is a robust training strategy in regulatory improvement tools, including certificate programs, virtual courses, and guidelines that are made accessible for officials and any interested party.

4.2.3. Governance of the Regulatory Bodies

OECD has pointed out that the regulatory commissions and the superintendencies do not have to complete political autonomy given the participation of government entities in their decision-making process. This suggests the need for increasing their accountability and autonomy (OECD, 2018). The main recommendations in this regard and the progress made by the national government are presented below.

<Table 4-4> Recommendation by OECD and Respective Progress in Colombia: Governance

Recommendation	Progress
Review the governance arrangements of Superintendents.	The national government issued Decree 1817 of 2015, which established conditions for appointing and removing Superintendents (SIC, Super Financiera and Supersociedades). The three superintendents continued to be appointed by the President of the Republic. Still, the decree established: i) conditions in terms of experiences and qualifications, ii) a fixed period to perform their duties and iii) that the resignation had to be motivated. However, the Council of State declared the nullity of these provisions since the position of superintendent corresponds to the category of free appointment and removal and therefore does not require a reasoned resignation, and a fixed period could not be attributed via regulations.[5]
For the case of regulatory commissions, review the procedures for director and board appointments and dismissals.	Commissioned experts direct the regulatory commissions and are appointed by the President of the Republic with a fixed period to exercise their position. The CRA has four (4) experts, the CREG eight (8) and the CRC seven in total, four (4) experts for the area of communications and three (3) experts for audiovisual content. However, commissioners must meet the sector's minimum education and experience requirements (see Annex 4-1), among which the CRC has the highest entry requirements. Law 1978 of 2019 introduced new procedures for appointing the Commissioners at the CRC. The President appoints one commissioner and few commissioners are elected through an open public competition process. Any citizen who meets the requirements can apply for the position; the regulated sector chooses one commissioner and the civil sector chooses the last one. On the other hand, the CRC has gained more independence in regulatory decision-making by limiting the participation of the ICT Minister or his delegate. Unlike the other commissions that require the presence of at least two ministries to approve their regulatory decisions (Annex 4-2).
Define clear guidelines and policies on conflict of interests for expert commissioners and Superintendents.	The Single Disciplinary Code (Law 1952 of 2019) contains the provisions related to disabilities, impediments, incompatibilities, and conflict of interest that apply to all public officials, including commissioners, and superintendents. Likewise, all public officials, including commissioners and superintendents, must prepare this declaration of conflicts of interest, which is shared in the SIGEP platform (Public Information and Employment System).

5 Annulment decreed Judgment of the Council of State SENTENCE 11001032400020150054200 de 2020

<Table 4-4> Continued

Recommendation	Progress
Review the role of control bodies to avoid their interference with the substantive decisions of regulatory and supervisory bodies.	In Sentence C-557 of 2009, the Council of State ruled on the activities carried out by control agencies to avoid becoming co-administrators.

5. Thematic Issue: Public Consultation and Stakeholder Engagement

5.1. Overview of the Current Status

5.1.1. What is Public Consultation, When to Carry it Out, and Benefits and Disadvantages of Public Consultation

Before pointing out the current consultation and stakeholder engagement situation, we must define what we mean when we speak of public consultation. The OECD defines it as providing a real and meaningful opportunity for citizens and stakeholders to contribute to preparing regulatory proposals and their quality (OECD, 2012).

It is noteworthy that public consultation does not only refer to the obligation to publish regulatory projects on web pages to receive comments but also includes a variety of face-to-face and online mechanisms at all stages of the regulatory process. Other consultation mechanisms include informal consultations, the circulation for comments, focus groups, expert groups, and public hearings.

Consultation mechanisms can be characterized based on their openness and costs as follow <Table 4-5>.

<Table 4-5> Classification of Consultation Mechanisms by Openness and Costs

	Less open and inclusive	Focus groups Public hearings
More expensive	• Export groups	• Focus groups • Public hearings
Less expensive	• Informal consultation • Circulation for comment	• Publish for comments

It is clear why government entities tend to use posting for comments on their website as it is the least expensive and most open and inclusive mechanism (assuming that stakeholders have internet access and know where and how to look).

Below are some benefits and drawbacks of public consultations so that entities can better design their consultation processes.

5.1.1.1. Benefits of Public Consultation and Stakeholder Engagement

There seems to be a consensus among policymakers and academia that public consultation and participation benefit government decision-making. For the OECD, “involving those who are concerned and affected by the regulation is essential to improve the design of the regulation, increase its compliance, and increase public confidence in the government.” (OECD, 2012)

The benefits of consultation occur both in the regulatory process and the outcomes. Irvin (2004) identifies benefits for citizens and government investment in public consultation and stakeholder engagement.

<Table 4-6> Benefits of Public Consultation and Stakeholder Engagement

	For citizens	For government
Decision making process	• Obtain information from the government and its intention to intervene • Anticipate regulatory impacts and how to solve them • Anticipate regulatory compliance issues	• Obtain information from the regulated and the sector • Anticipate potential regulatory compliance issues • Anticipate possible support and opposition to the regulation • Provide transparency to the process • Gain legitimacy of decisions • Persuade citizens, build trust, reduce anxiety and hostility towards decisions • Build alliances, generate public interest
Results	• Break gridlock • Gain some control over the decision process • Better regulatory decisions, better implementation	• Break gridlock • Avoid litigation costs • Better regulatory decisions, better implementation

Source: Own elaboration based on Irvin & Stansbury (2004).

5.1.1.2. Disadvantages of Public Consultation?

It is noteworthy to point out that even when public consultation can have benefits in regulatory and policy decisions; some authors have found that there are some conditions under which it could become costly and inefficient. Taking these conditions into account can help design consultation processes appropriate for a particular community (Irvin & Stansbury, 2004).

Some of these conditions are:

i. Consultation costs: There are costs associated with the time, preparation, implementation and feedback of the consultation for the government, but also for the citizens who decide to participate in them (Irvin & Stansbury, 2004).

ii. Count on the will of the citizens to participate. In large communities, it is difficult to capture the attention and time of the citizens to attend the participation spaces (Irvin & Stansbury, 2004).

iii. Complacency/reluctance: Some communities can become complacent, particularly when regulatory agencies bring strong efficiency arguments. In the opposite case, some communities might be reluctant to any proposition, no matter the entity's arguments. In both cases, engagement processes seem to be unnecessary (Irvin & Stansbury, 2004).

iv. Representation: People who have the ability and time to participate do not necessarily represent all who are or will be affected by the proposals (Irvin & Stansbury, 2004).

v. Loss of credibility happens when citizens believe their comments will affect the final decision but are ignored or overlooked. This generates greater dissatisfaction on the part of the citizenry (Irvin & Stansbury, 2004).

vi. Selfishness: The literature believes that participation processes automatically bring about more altruistic decisions for everyone. However, it is possible that those who participate see participation as an opportunity to influence policy/regulation in favor of personal interest (Irvin & Stansbury, 2004).

5.1.2. Current Status

5.1.2.1. Web Platforms Related to BRP in Colombia

Technological tools have become a necessity for governance in all aspects of public policy. With them and the use of data, governments can design more proactive approaches, better detect, and respond to social needs, collaborate with citizens in creating public value and, in general, make more efficient use of resources (OECD, 2018).

However, many times the State creates a proliferation of platforms without considering the needs of citizens. These platforms sometimes fail to fulfill their purpose because they are little known and used among citizens and the government itself, and there is a duplication of effort.

Just as there are a variety of entities with dispersed functions within the Better Regulatory Policy, there are also several platforms with similar functions. This generates, at least, a great challenge of articulation to maintain coherence with the objectives of the policies and provide a better use of the platforms.

<Table 4-7> Web Platforms Related to BRP in Colombia

Platform	Objective	Advantage	Disadvantage / Challenge
Official Gazette Diariooficial.gov.co	It is the official repository of the Government of Colombia that contains the laws, decrees, acts, and most of the pertinent documents issued by the Congress of the Republic and the executive branch of the national and territorial order since 1864.	It has had official information since 1864. It shows the original text of each rule as it was approved.	The search must be done by the number of the Official Gazette, which makes it difficult to find specific regulations. A percentage of the Official Gazette are in image format which makes it difficult to search. Opportunities for improving the performance of the search engine.
SUCOP – Unified System for Public Consultation sucop.gov.co	It was created with the aim of centralizing the public consultation of regulatory projects, their RIA and other support documents, and to increase traceability of the comments and responses to comments.	Citizens and the private sector strongly support the objective to find in one place the projects that are in public consultation for comments and their related information.	It is used voluntarily andits use has not been made official. It is little known among officials and citizens.
SUIT – Unified System for Procedure Information suit.gov.co (no longer operating)	This page was developed to centralize all the information corresponding to the procedures, including the requirements, steps, deadlines and costs for the citizens. According to the law, the procedure cannot be required if it is not published on this platform.	All the information has been transferred to the Single Portal of the Colombian State “gov.co”	N/A

<Table 4-7> Continued

Platform	Objective	Advantage	Disadvantage / Challenge
Single Portal of the Colombian State gov.co	It is the Government's commitment to digital transformation. It intends to become the electronic headquarters through which citizens will be able to access all the information, services and procedures that they must carry out before the authorities.	• Search engine, which allows you to find specific information quickly • Participation exercises and news of interest • Library with normative resources, guidelines, instructions to link procedures • The Digital Citizen Folder – users access to the information that State entities keep • Digital authentication to mitigate the risk of impersonation	Challenge of centralizing all State information and at the same time making it relevant so that citizens can access the different State services and procedures.
Colombia Ágil colombiaagil.gov.co	The Colombia Agile platform has been used to communicate the results of a strategy to reform cumbersome or useless procedures, obsolete regulations and regulations that hinder interaction with the State or make business activity more expensive.	It presents in a clear way information of interest on the regulations, procedures that have been reformed to improve the lives of citizens and businessmen.	It is not used on a recurring basis so that citizens can identify and propose reforms on regulations and procedures that are cumbersome or useless.
SUIN Juriscol-Unified System for Normative System suin.gov.co	This platform allows quick and free access to general and abstract regulations such as the 1886 and 1991 Political Constitutions, legislative acts, laws and decrees, Single Regulatory Decrees, technical regulations, international treaties and jurisprudence.	The regulations are updated with their respective modifications or jurisprudence.	It has had difficulties updating the information of resolutions and circulars and of the territorial level. There is still a lack of disclosure work because it is little known among officials and citizens.
Urna de Cristal urnadecristal.gov.co	It was designed as a digital strategy for citizen participation.	-	Information is outdated. The function has been moved to the Single Portal of the Colombian State.
SICAL – National Quality System sical.gov.co	This platform was developed with the objective of centralizing the processes of the National Quality System – including the process of technical regulation, standardization, and conformity assessment processes.	It consolidates tools of interest to consumers and entrepreneurs of the national quality infrastructure.	At the time it was developed, the function of drafting technical regulations and public consultation was duplicated by SUCOP. The information appears to be outdated.

<Table 4-7> Continued

Platform	Objective	Advantage	Disadvantage / Challenge
Website platforms for each national entity entidad.gov.co	It contains all the information related to an entity.	Users directly check the page of their interest. The information on the pages has been standardized.	The large number of pages Citizens may not be aware of which entity the normative project of interest comes from.

5.2. Biases in Regulatory Impact Analysis and Suggested Remedies

This section looks at the various biases that may occur in regulatory policy through specific cases, and finds ways to minimize the problems caused by regulatory policy biases based on case studies.

5.2.1. Disparity of the Cost Bearer and the Beneficiary

One of the representative types of bias that can arise in the regulatory design process is that the cost bearer is different from the benefit beneficiary. The cost bearers of regulation have an incentive to minimize the cost burden of regulations because they do not receive the benefit. This will increase the likelihood of policy makers' ability to communicate their compliant-driven opinions in order to minimize the cost burden of regulations; it may also become difficult to gather opinions from stakeholders fairly. In the perspective of beneficiaries, they do not need to burden the cost of regulations, so beneficiaries communicate their opinions with policy makers. Thus, the difference between the cost bearer and beneficiary of regulation are that the opinions of cost bearers are reflected strongly in stakeholder engagement at the policy implementation stage, and may lead to bias in regulatory policy.

A representative example of this type is environmental regulations. Most of the cost of environmental regulations is imposed by companies, but the general public receives the benefit of environmental protection and improvement policies.

<Box 4-1> Case 1: Act on the Allocation and Trading of Greenhouse-gas Emission Permits

Companies that have emitted an average of more than 125,000 metric tons of carbon dioxide over the last three years must report their carbon emissions and receive certificates and, if necessary, purchase emissions credits from other companies. The regulation is intended to reduce greenhouse gas emissions by imposing obligations on companies. The costs and benefits arising from the regulation and the cost bearers and beneficiaries are as follows.

-	Cost bearer / Beneficiary	Costs / Benefits
Cost	Companies	- Administrative costs for issuing certificates. - The cost of ownership of time, capital, manpower, etc. - Opportunity cost of purchasing emission certificates.
Benefit	The general public	- Promotion of public health by reduction of greenhouse gas. - A reduction in social costs including a decrease in mortality and medical costs. - Reduction of natural disasters caused by greenhouse gas reduction.

Due to the environmental regulation policies, companies face regulatory compliance costs such as the cost of issuing certificates related to greenhouse gas consumption, their resources such as time, capital, manpower, and the cost of purchasing emission credits. On the other hand, the people who benefit from regulating greenhouse gas emissions can be seen as the entire nation. In other words, the general public will benefit from the reduction of social costs such as the health promotion of the general public and the reduction of medical expenses due to the reduction of greenhouse gasses. These environmental regulations are designed to promote the benefits of the public, but in this process the burden of regulatory costs of the enterprise will inevitably arise. There is an incentive for companies that bear regulatory costs to not achieve socially desirable reductions in greenhouse gas emissions, because they do not receive the benefits of regulation. In addition, the cost bearer will act to minimize the cost burden through communicating compliant-driven opinions to policy makers in stakeholder consultation in the process of policy design. Thus, the regulatory bias that the anticipated effects of regulation are distorted may occur in the policy making stage.

In the light of this case, the decision-making process of the regulatory policy should be carried out by carefully analyzing the cost bearer and beneficiary to evaluate whether the regulation reflects the opinions of stakeholders in a balanced way. In other words, it is important to collect opinions during the initial stage of the policy design and engage the views of the stakeholders, thus to design an unbiased regulatory policy with a fair and transparent manner. It is also necessary to recognize the cost bearer and beneficiary accurately at the policy design stage, and persuade each target group about the purpose and necessity of the policy.

5.2.2. Business vs. Non-business Sectors

Currently, Korea implements a CICO (Cost-in Cost-out). The CICO was introduced with the goal of managing the costs of regulation effectively and improving the quality of RIA through more objective quantification of the regulation costs. This was previously simply managed by the number of regulation cases. However, the CICO only focuses on the Annual Equivalent Net Cost to Business (EANCB) of business sectors; there is a side effect that the importance of the indirect costs of business and benefits are not taken into consideration. For example, if the cost of an enterprise increases due to the regulation, the price of a product manufactured by a company may rise and the increased price may be transferred to consumers. If the price of a product rises, consumer surplus decreases, and consequently the benefits of regulation may not be as effective. Therefore, in order to conduct a more efficient and accurate RIA, the regulatory policy should be designed by taking into account not only the cost imposed on the business sectors but also considering how the regulation affects society as a whole.

Consider the regulations introduced by the Ministry of Land, Infrastructure, and Transport to encourage construction companies to use higher quality construction materials and to promote residential electricity and energy conservation. The regulation is intended to save the occupants' energy use by strengthening the construction requirements of construction companies. It is a regulation to be applied to the CICO. However, under the cost-benefit analysis, we should consider not simply the construction companies but other regulated parties and the costs and benefits of regulation.

<Box 4-2> Case 2: Strengthened Requirements for Eco-friendly Housing Construction

The government has strengthened the construction requirements for eco-friendly housing for energy reduction and environmental protection. In order to meet greenhouse gas reduction goals and increase energy efficiency in residential buildings, higher levels of insulation are needed for windows, exterior walls, and balcony construction.

The construction company will have to pay more for the use of high-quality interior materials as regulatory compliance costs. On the other hand, residents of the house can reduce the cost of using electricity and gas.

Due to the regulation, the construction cost increases because of encouraging higher quality of insulation to construction for companies. Thus, the construction companies incur an incentive to sell the house at a high price as the construction cost increases. That is, the increased cost of the product is transferred to the consumer. In this process, the demand for products is likely to decline, but assume that it is not effective or very small. So, the reason for the consumers purchasing eco-friendly houses is that they predict the energy cost of living in an eco-friendly house will be lower than living in other houses, even if they have to pay for the increase in the price of the houses. Therefore, construction companies that build eco-friendly houses transfer the additional construction costs which incurred in order to satisfy the regulation to the buyer of the house, it can be thought that the compliance cost of the companies will be zero or at least not positive.

However, from the perspective of the general public, the price of houses that the consumer burdened will be rising, but considering the future energy cost reduction, it can be seen as the costs and benefits of the regulation becoming a zero sum. If so, this regulation can be regarded as an indiscriminate regulation that does not affect all the regulated parties such as construction companies and the general public, but it is not.

First, under the CICO, the impact of regulation cannot be neutral for all the regulated groups and stakeholders. One of the goals of CICO is to reduce the net cost of regulation incurred by the business sectors. Therefore, when strengthening the eco-friendly housing construction standards, among the costs and benefits of both companies and the general public, the cost of construction companies that are in the business sector is only considered under the CICO. In other words, the decreased consumer surplus due to the increased price of products or the benefits from reducing energy use by the public is not taken into consideration under the CICO.

Secondly, in the point of view of the enterprise, the benefits of enterprise caused by the regulation can be regarded as the price increases of the eco-friendly houses, but this benefit is strictly not the benefit of this regulation. If the profits are generated by the increase in house price, that is nothing but transferred from the consumers that buy the houses. So, it is not counted as a benefit under the cost-benefit analysis covering the economic analysis.

Finally, we should consider additionally how to analyze the cost and benefit of regulation under the point of view of the consumer which is the general public, instead of the view of business sectors. The cost of consumers due to the regulation can be regarded as the purchase of eco-friendly houses, and the benefit can be seen as a reduction of future energy use. In this case, there is a blind spot that it is difficult to consider the cost of purchasing eco-friendly houses as the compliance cost of the regulation from the perspective of the general public. This is because the consumers can decide voluntarily whether to purchase the house or not.

As a result, when analyzing the economic impact of the regulation, the direct costs of a firm are an increase in the cost of housing construction to comply with the regulation. But, the costs and benefits of the general public due to the regulation are needed to be analyzed more rigorously. Therefore, if we analyze the economic impact and the feasibility of the regulation by only focusing on the direct costs that business sectors have to bear, a more rigorous analysis may not be conducted such as the numerous spillover effects caused by regulation excluding the direct costs.

In the case of the UK, only the cost of the business sector was calculated and managed quantitatively in the early stage, but the qualitative analysis was also conducted to minimize the adverse effects of the CICO. In addition, they decide whether to introduce the regulation or not by the overall economic impact assessment, considering the effects on the economy as a whole, taking into account the costs incurred by the affected groups such as the public and civil servants in the second and third stages.

In order to effectively manage the bias that arises from the CICO, it is necessary to focus on the effects on society as a whole, as well as focusing on the costs of the business sector.

5.2.3. Incumbent Firm vs. Potential Firm

This section looks at the bias in regulatory policy when certain regulations are playing a role as the entry barriers. In the case of entry barrier regulations, the analysis of the impacts on potential firms entering the market in the future has two major problems. First, it is hard to figure out the scale of potential firms that enter the market, second, it is really difficult to analyze the behavior of each firm even if it can be estimated the scale of potential firms. In other words, it is almost impossible for policy makers to figure out how many firms enter or do not enter the market due to the entry restrictions. For this reason, the cost benefit analysis in case of entry regulations is conducted mainly for the firms that have already entered the market at present, and the analysis of the impact on the potential firms tends to be somewhat neglected. Therefore, in the case of the entry regulation, it is difficult to properly analyze the economic effect with the cost-benefit analysis due to the structural characteristic of the regulation itself. If these regulations are introduced and enacted without accurately estimating the size and behavior of potential firms, it may bias regulatory policy and may lead to undesirable consequences.

The newly introduced entry regulation does not incur the additional regulation cost for the existing firms that are already complying with the regulation. On the other hand, firms planning to enter the market will reach more costs than before introducing the regulation.

As discussed above, it is very difficult to analyze the impacts of regulations by identifying the size and behavior of potential firms that will plan to enter the market in the future. It implies that more assumptions are needed in terms of cost-benefit analysis. As a result, the RIA with the cost-benefit analysis for potential firms may be underestimated or overestimated as it is hard to accurately predict the behavior of potential firms.

<Box 4-3> Case 3: Amendment on Standards for Automobile Transportation Service

The government has decided to upgrade the standard of registration from one to three for new transportation firms such as cargo transportation, taxi, and charter bus.

In this regulation, firms that have already met these standards do not increase the regulation cost and this regulation plays a role in assuring consumers that they can use low-risk businesses.

The regulation also serves as an entry barrier to potential market entry firms. So, when entering the market, potential firms are required to bear higher costs than those who already entered the market. And this may cause the potential firms to abandon the business due to the entry barrier.

As an example, related to the entry regulation, consider revising the registration standard of automobile transportation services. This regulation was introduced with the aim of adjusting the oversized market and protecting consumers from financial and stable insecure firms. These regulations create entry barriers, and potential market entrants must bear the cost of regulation. Consider that the cost-benefit analysis is conducted to analyze the regulatory impact of the above case. For the cost-benefit analysis, we first need to know who the regulated parties are and how large they are. Potentially, regulated firms will be the companies engaged in the transportation industry in the future. At this time, it is very difficult for policy-makers to understand whether individual firms enter the market or not. For example, while a new company invests in infrastructures in order to enter the transportation industry, these types of regulations are introduced. They will determine the future behavior by comparing the funds invested to enter the market, the cost due to the entry regulation, and the expected profit when entering the market.

The problem is that the costs invested by individual companies and the expected future earnings will be different for each firm, and the decision-making process of each firm can also be very diverse. Therefore, additional assumptions are needed for the cost benefit analysis. For example, a company with revenue that is lower than the average of all regulated firms may be considered to enter the market to get the future profits even if they will bear the costs incurred by the entry regulation. These assumptions may be necessary in terms of cost benefit analysis, but introducing multiple assumptions implies that accurate analysis cannot be performed. This means that regulation which creates an entry barrier may be difficult to carry out a more accurate RIA due to its structural characteristics, which may lead to bias in regulation policy without thoroughly conducting RIA. Therefore, a more rigorous RIA should be needed for regulatory policy design.

In addition, one of the issues related to entry regulation is that entry barriers can be used as means of protecting vested interests. Regulatory Capture Theory argues that entry regulation is not intended to cure market failures but to protect vested interests already in the market. The professional qualification system is one of the most representative examples of regulatory capture theory. A group of professionals acts through lobbying policy makers in the process of designing regulations in order to protect their interests.

In this way, the firms who have already entered the market have incentives to change new entry regulations rather than originally intended in favor of using the entry barrier as a means to prevent potential firms from entering the market. Telecom, oil refinery, and aviation industries are in the form of oligopoly in which a small number of companies occupy most of the market. In the case of these markets, the number of existing companies is small, so they can gather organizational and uniform opinions. This may affect policy makers' decision making and may lead to bias in regulatory policy, such as the direction in which regulatory policy is originally intended.

In the policy design process, the analysis of how the potential firms entering the market will respond to regulations and how many firms enter the market should be preemptively analyzed. It is important for the policy maker to conduct the RIA by predicting the behaviors of individual companies. In addition, firms that have already entered the market can influence decision-making through their favorable opinions at the stage of regulatory design and opinions that are somewhat unfavorable to potential firms. Also, the existing firms may be tempted to restrict the potential firms by using the entry regulation as a barrier to entering the market. In this process, existing firms have an incentive to act by colluding with their behavior and demand policy makers opinions that are favorable to existing firms, which makes regulatory policy biased.

Therefore, it is important for policy-makers to reflect fairly and transparently on the opinions of related stakeholders during the regulatory policy design by taking into account the direct and indirect effects that potential firms will face due to the regulations.

5.2.4. Large Enterprises vs. SMEs & Micro Enterprises

This section looks at the bias that arises from the cost burden of regulation in either large enterprises or small-and-medium size enterprises (SMEs). Since SMEs are smaller in absolute size than large firms even if they are subject to the same regulations, the burden of compliance with regulations can be greater than that of large firms. According to the Korea Institute of Public Administration (2012), the regulatory burden ratio of firms with less than 20 employees is more than three times higher than the regulatory burden ratio of firms with more than 100 employees.

It has been constantly argued that the competitiveness of SMEs and small business owners has declined because of the relatively high regulatory compliance costs due to the low capital and manpower. In order to reduce their regulatory compliance costs, various measures have been introduced to balance the burden of regulation for both SMEs and large enterprises. One of the representative systems, the tailored regulatory approach for SMEs is considered. It is a system to mitigate the burden of regulation by applying different regulations to SMEs and small business owners. The tailored regulatory approach for SMEs is operated with the aim of raising the equity of the regulatory burden imposed on SMEs and small business owners and reducing it through exemption and postponement of regulations[6].

However, it is necessary to consider in-depth whether the tailored regulatory approach for SMEs substantially mitigates the burden of regulatory costs for SMEs. This can be thought of in two ways. First, it is pointed out that the implementation of the tailored regulatory approach for SMEs is not regarded as important in the actual regulatory design stage, but rather is regarded as a reference. In other words, the tailored regulatory approach for SMEs is based on the impact assessment of SMEs, but this assessment depends on the subjective opinions of the policy-makers rather than quantitative and objective analysis. According to the Regulatory Reform Book (2015), among the 8,291 regulations related to SMEs, 137 regulations of which only 1.7% are subject to a tailored regulatory approach for SMEs taking into account substantial equity. This implies that there is a lot of red tape in the current SMEs impact assessment, and the tailored regulatory approach for SMEs through equity improvement is not practically conducted. Second, even if the tailored regulatory approach for SMEs considering fairness is conducted through the accurate impact assessment of SMEs, there may be other spaces of regulation due to the tailored regulatory approach for SMEs. Thus, when the tailored regulatory approach for SMEs is applied to mitigate the regulatory burden of SMEs and small business owners, it is necessary to consider a system to replace the regulation to avoid space of regulation, but this is not practically implemented.

6 , 6) KIPA (2018), The tailored regulatory approach for SMEs of SMEs.

The tailored regulatory approach for SMEs has been introduced to mitigate the regulatory compliance costs of SMEs and small business owners, however, without a strengthened conducting system, it causes the regressive regulatory burden that SMEs which have less ability to take regulatory burden are bearing the high regulatory burden. Also, the ongoing benefits such as the reduction of regulatory costs that are given only to SMEs can lead to a Peter Pan syndrome[7], which can result in inefficiency across the economy. This implies that the tailored regulatory approach for SMEs cannot achieve the expected effects as originally intended, suggesting that there may be a bias in the direction of regulatory policy design.

The Act on the Development of the Distribution Industry and the Act on the Promotion of Cooperation between large enterprises and SMEs are examples of strengthening regulations to protect and nurture SMEs. It is difficult to implement an accurate economic analysis because the costs and benefits are closely linked to each other, but it is a measure that reflects the opinions of specific stakeholders strongly. The results of the RIA of these regulations show that the analysis of the regulations focuses on the protection of the SMEs rather than the strictness of RIA itself.

<Box 4-4> Case 4: Distribution Industry Development Act and Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises

In Korea, there are business-type supermarkets operated by large enterprises called super-supermarkets (SSM). In order to protect SMEs, traditional culture and markets, the government has imposed restrictions on business-type supermarkets from operating on the second and fourth Sunday of each month. These Acts are introduced with the intention of attracting more customers to local traditional markets.

The initial results of the regulations increased the revenues in the SME markets and secured various shopping options for consumers, however, since the relationship between SSM and traditional markets is complex; it is unclear whether to expect that these regulations will only benefit SME markets.

As the regulations may adversely affect the competitiveness of the market, which results in reducing the overall social welfare, protection measures for SMEs need to be introduced with more careful analysis of regulatory impacts. It is important to reflect the opinions of both groups in a balanced manner, so that the effect of the regulation is equally distributed to both large and small companies without being influenced by one side. Establishing standards to prevent SMEs from supporting more than necessary government subsidies can also be a way

7 A phenomenon that as SMEs grow into mid-size and large corporations, there are more regulations to be applied while the benefits will be reduced, so they will not be able to grow themselves and continue to be a SMEs.

to prevent the side effects of excessive benefits to SMEs. Even though the tailored regulatory approach for SMEs can reduce the burden on SMEs, it can cause a policy bias if this system is implemented without the objective and quantified impact analysis of SMEs. Therefore, it should be assumed that e more effective and qualitative systems can be operated.

5.2.5. Departments Responsibility

This section examines the bias that may arise within the government departments. There are three main types of bias in the process of regulatory design that can occur within the government departments. First, the opposition between the central government and the local government may lead to a bias in the direction of regulatory policy. In the case of regulations with safety and environmental protection, regulations should be introduced as needed throughout the country. However, if some regulations are concentrated on specific regions or facilities, which cause the decline in economic development of that region, deregulation will be required. In such cases, it may lead to a bias such as the design of regulatory policy in a different direction than originally intended in the policy-making process to avoid concentration of regulation in a particular area.

Second, there may be a bias in regulatory policy due to the difference in work characteristics between each ministries and the Regulatory Reform Office which oversees and coordinates the overall regulations in Korea. If the regulatory policies are required in each ministry, the RIA and cost-benefit analysis must pass the examination of the Regulatory Reform Office. However, due to the process of examination, there is a possibility that the RIA including cost-benefit analysis and stakeholders consultation is carried out only as a formal procedure, so the strict and accurate RIA cannot be implemented.

Finally, there may be a bias in the regulatory policy due to the different opinions between each ministry. When strengthening or mitigating regulations, it is desirable to design regulatory policies in consideration of the characteristics of each department. For example, departments responsible for the environment, safety and welfare, may need to maintain existing regulations and want to introduce new regulations. On the other hand, departments responsible for national industries such as technology, finance, and trade may have a view that these regulations are obstacles to industrial development, and demand the relaxation or elimination of related regulations. In other words, there may be a difference in viewpoints between the regulations of each working ministry, and the bias may arise in the policy design process if opinions of specific ministries are strongly reflected or opinions of specific stakeholder groups are over-reflected.

<Table 4-8> The Biases and Causes that Arises with in the Government Department

Regulatory subjects	Causes of bias
Central government vs. Local government	Conflicting opinions due to regulatory bias in specific areas and facilities
The Regulatory Reform Office vs. Ministries	Regulatory design due to review process inefficiency
Ministries vs. Ministries	Conflict between ministries

As a representative example, consider the case where policy bias occurs due to the differences within the government departments. The importance of new industries is emerging due to the recent 4th Industrial Revolution. The emerging industry related to the 4th industrial revolution is characterized by the fusion of existing industries and the production of new industries and products, which is the case for drones, self-driving cars, and smart cities. As the importance of new industry has emerged, there is a conflict between ministries regarding where the related ministries are responsible.

<Box 4-5> Case 5: The Conflict between Ministries Regulatory Emerging Industries

Among the eight leading core industries of 2018 designated by the government, there were conflicts among the ministries on which ministries would lead the three areas of smart city, drone, and self-driving car. In particular, regarding the drone industry, there was a confrontation between the Ministry of Trade, Industry, and Energy and the Ministry of Land, Infrastructure and Transport, regarding whether drones should be regarded as industries or infrastructure including regulations. As a result, the two ministries decided to nurture the industries in a complementary relation. In addition, self-driving car sectors also decided to share their roles in that the development of machinery is taken to the Ministry of Trade Industry and Energy, and roads and GPS systems are taken to the Ministry of Land, Infrastructure, and Transport.

In the case of the new industry, which is made of a mixture of traditional industries, related experts point out that similar problems will arise in the future because the responsibilities of the ministries are somewhat unclear. In the era of the 4th Industrial Revolution, it is also pointed out that a network-type government systematizing or collaboration system between ministries is needed.

Source: Maeil Business Newspaper (2018).

The above example shows the disagreement between the government ministries due to the absence of a control tower to coordinate inter-ministry duties. As the 4th Industrial Revolution in the future intensifies the fusion of industries, there is a concern that the overlapping of government policies. The problem of regulatory vacancies will be an issue, which may cause a bias in regulatory policy that cannot achieve the expected effects. In particular, regulatory policies about new industries are directly related to the safety of the people as they focus on new industries and products. Therefore, this is the reason why a structured governmental system is needed such as the establishment of efficient and organized policy processes owing to the minimum conflicts between ministries.

In order to reduce the bias of regulations that occur between departments, policy makers need to clarify the purpose of existing regulations. And it is necessary to accurately understand the effects of regulations during decision-making; each ministry needs to thoroughly review how these regulations are applied. Particularly, when designing regulations, detailed analysis and discussion are needed to consider different characteristics in departmental affairs and determine the appropriate level of regulation. Regulatory reforms which do not consider the characteristics of each ministry may reduce the utility of society as a whole. Also, regulatory reforms focused specifically on the total amount of regulations or regulatory costs should be avoided.

5.2.6. Domestic vs. International Standards

This section examines the bias that occurs due to the difference between domestic and international law and standards. It is possible to consider the policy bias in relation to exports and imports. In case of the exporting goods, it may be necessary to establish the criteria above a certain condition for certifying the stability and harmfulness of the exports. In this case, the exporting firms must additionally obtain the certification required abroad as well as the domestic certification.

<Box 4-6> Case 6: The Certification Regulation about Technical Barriers to Trade

India has mandated the stamping of the Indian National Certification Mark for all tire products produced, distributed, and sold in its own country. As a result, the firms exporting to India have incurred additional costs due to the forced certification. They are worried about lowering sales as a result of higher product prices due to the certification costs such as factory inspection, delayed sample tests and increased production costs for imprinting.

Also, in the United States and Japan, the ban on the use of environmental hormone materials has been extended from children's products to indoor interior materials. So, the use of Korean PVC flooring materials has been prohibited in the United States and Japan.

The above example shows the case that the overall costs of the domestic firms are increased as a result of the difference between the domestic certification system and that of the international. If a certification system is introduced for the purpose of product safety and consumer protection, an appropriate level of certification system will be operated by collecting opinions from various stakeholder groups affected by the system. However, if the products are exported overseas, it will inevitably incur additional costs because the exporting firms have to gain the additional certification to meet the foreign standards. If the costs are increased due to the duplication of domestic and international certification, it leads to a rise in the price of the products, which causes the decrease of the overall competitiveness of domestic exporters and declines in the welfare of consumers. This can be the cause of distortion in the expected effects of the policy when the domestic certification system is adopted, which is the case that the bias of the regulation arises. Therefore, in case the exporting goods are inevitably certified to comply with foreign standards, it is necessary to minimize the regulatory policy bias as a result of the duplication in the certification system. Also, alleviating the expense burden on exporting firms through the agreements such as the recognition of domestic certification being equally treated overseas will be needed.

5.3. Obstacles and Future Tasks

5.3.1. For the Implementation of BRP

- It is necessary to generate greater consensus on regulatory policy: despite the efforts to coordinate and articulate the regulatory reform policy through the CMR, related entities are somewhat segmented.

- An explicit and clear mandate to oversee the BRP is required: although the collegiate institutional form has served the first years, and the DNP has exercised the role of coordinator, promoter, and articulator with the other entities, there is not an explicit and clear mandate about its responsibility and scope in this policy. This situation has made the policy inconsistent and dependent on other priorities of the directives. On the other hand, it makes it difficult to push through the reforms that are still required.

- Consider creating a specific regulatory improvement strategy to support SMEs in line with the objectives of promoting and sustaining business formalization. The plan could include the obligation for the ministries to carry out an ex-ante RIA when it is presumed that the provisions of their regulatory proposal could affect SMEs. Also include ex-post evaluations, review clauses (sunset clause), two-way public consultation mechanisms, and depuration of unnecessary regulations and procedures. Consolidate the strategy with the Ministry of Commerce, Industry and Tourism, the organizations representing SMEs, and other actors at the national and territorial levels.

- Consider including in the MIPG reform satisfaction surveys of the business environment at the territorial level, such as the Business Friendliness Index or the Business Sentiment Index, to encourage local entities to compete to improve their regulatory environment. Review other surveys that are being carried out at the local level to enhance synergies. One of the available indices is the Doing Business Index by the World Bank. "Doing Business" announced by the World Bank evaluates the degree of business friendliness in consideration of the regulatory level of each country. Doing Business, announced in 2004, has significantly improved its measurement method once in 2015 and once in 2017. However, due to misconduct by China, Saudi Arabia, Azerbaijan, and the United Arab Emirates, the release of the indicator has been suspended since the last report for 2020. The World Bank is expected to present new business environment indicators that complement these points.

- Consider the "Ombudsman of the SMEs" figure through a representative with a voice that can expose regulatory problems before the Regulatory Improvement Committee. The Committee must review the request and send it to the Ministry in charge of regulation, which must respond within 15 days to the applicant. If the response is negative, the entity is in charge of regulation and must justify to the Committee the need to maintain it. Suppose the MRC considers that the arguments are still not sufficient. In that case, it may urge the entity commissioned to carry out a new review, an ex-post evaluation or to consider differential requirements due to the company's size.

- In the medium term, review the possibility of creating an "Office of the Ombudsman for Small and Medium Enterprises" as an independent body that can identify regulatory reform tasks that affect SMEs through on-site visits.

- At the territorial level, create the initiative for the Advancement of Public-Private Regulation as a joint operation between the Chambers of Commerce of each city. The association of SMEs and the Committee for Regulatory Improvement or regulatory improvement group in the DNP to identify reforms at the city or department level.

- Start laying the foundations for a Cost In-Cost Out system, in which the total costs of regulations by sector are kept at one specific level (in monetary terms) or reduced to an agreed level per year. Only when value conversion and reduction target settings are established based on accurate regulatory impact analysis can reform and achieve more timely and practical results. The Regulatory Cost Management System (Cost In-Cost Out) offsets the regulatory costs (Cost In) resulting from the strengthening of new regulations that cause a cost burden on business activities by offsetting the cost-out of existing regulations with corresponding costs. It is a system designed to reduce the burden on the regulated. It has been in effect since July 2016 based on the Prime Minister's directive, "Guidelines for Administrative Regulations to Reduce Public Burden."

- Conduct a census of sectoral regulations at the national level. Although the DUR is a beginning for the compilation of the different decrees, it is possible to go a step further by proposing to the sectors to identify which provisions have regulatory effects. That means the requirements that individuals must fulfill and those that affect a certain number of people. In the medium term, the public entities can review the Resolutions and other instruments that impose compliance costs on regulated parties.

- Promote constant purging exercises since the economic benefits of regulatory reforms are temporary. Since regulatory innovation results are temporary, it is important to keep the driving force of regulatory reform steadily. This is because the life cycle of the product and service is short, and even if the regulatory innovation is reduced in 2-3 years, the effectiveness will be reduced, requiring continuous regulatory innovation. In the past, the change of commodity and services has been shorter, while it is now shorter, which in turn suggests that more intensive regulatory innovation and advancement efforts for the area are needed. However, Korea's regulatory reform system is showing a rationalization of reform efforts due to the reasons such as the circular position system of civil servants. There is a lack of regulatory reform-friendly bureaucrats in the ministries, revealing structural limitations and problems. As a result, the domestic regulatory reform system has introduced new agendas and means every time the regime changes, and even though it has various regulatory management systems due to the existing means and management system that is not suitable for operating the newly introduced regulatory management system.

- Introduce initiatives to promote a proactive attitude of public officials and strengthen disciplinary standards. Regulatory reforms are greatly dependent on the political will of the agent, so their continuous interest and effort are required, but the importance is likely to be weakened or abolished in the existing system where their interests are relatively low. As a result, the know-how for regulatory reform is difficult to accumulate, and the government officials in charge of each department are likely to not make much of the importance of work. It is necessary to provide incentives for public officials to actively participate in the regulatory reform process.

In Korea, when a regulatory system is introduced, a new system is often added to an existing system or organization, and as a result, it acts as an additional burden on public officials. However, when no additional incentives are given, it isn't easy to implement the system faithfully. Therefore, it is necessary to motivate active regulatory reform.

5.3.2. For the Implementation of Regulatory Impact Assessment

- Improving the quality of RIAs is a fundamental step toward improving the BRP. The implementation of the RIA was the cornerstone of the policy. However, the adoption of the tool is low. Introducing an e-RIA module within SUCOP could help increase the quality of the RIA, by including all the required sections of the report, and progressively helping officials to calculate costs and benefits automatically. While such a system may impose a certain level of burdens on public officials, it is purposely designed to train them in drafting an RIA report. Also, it would increase the traceability of the documents and the comments received.

- Increase the use of ex-post evaluations and not only that of regulatory purification. Although the regulatory purification exercises are essential and generate short-term results, they do not replace the systematic assessment of the impacts of regulation on the economy.

- Introduce the obligation to carry out RIA for regulatory projects that impact SMEs, given their impact on employment and gross domestic product in the country.

- To give more validity and weight to the technical concept of the RIA. Consider that the person who signs the technical concept should be in a managerial position at the DNP.

- Consider returning the RIA if it is not demonstrated that the regulatory proposal has been widely discussed with the affected industry or sectors.

5.3.3. For Public Consultation and Stakeholder Engagement

- Promote other consultation mechanisms in addition to the publication for comments. The publication of regulatory projects to receive comments is much more widespread among officials and policymakers and is seen less as a burdensome procedure. Citizens and business people also make more and more use of their right to submit their comments and opinions and receive feedback from State entities. However, it is possible to continue advancing in promoting other spaces for citizen participation from earlier stages, such as identifying problems and necessities.

- Design and establish two-way consultation and participation channels for interested parties so they can participate at any time of the year pointing out the opportunities for regulatory reforms and procedures.

- Establish the principle of proportionality, not only for shorter consultations but also for deeper and longer ones.

5.3.4. For the Implementation of SUCOP

- SUCOP continues to be a platform for voluntary use by entities, undermining its primary objective of centralizing public consultation of draft regulations. There is an opportunity to introduce this reform in the new National Plan of Development 2022-2024.

- Build and earn trust. The potential users of the SUCOP have a high expectation of finding all the regulatory projects at the national level in one place. However, a platform that is not fully operational may undermine the trust of the users.

- Increase socialization of SUCOP among public entities and citizens. Several public and private entities related to the BRP are not aware of or have not used the SUCOP platform.

- Integrate SUCOP with the Single Portal of the Colombian State and the entities' websites. There is an opportunity for people to access SUCOP from the Single Portal of the Colombian State and consider regulation projects as part of the information and services of the State. In the same way, taking advantage of the fact that citizens are more accustomed to searching for information of interest from the entities' web pages, link them to SUCOP to consult their regulatory projects to increase the use of the platform.

- Use of data to generate relevant information. The SUCOP could take advantage of the data generated from the platform to show new relevant information: "how many comments did SUCOP receive this month?", "which are the trendiest topics of regulation?", "which entities have more projects receiving comments?". Also, allow registered users to receive notifications (email, text messages, or other) about the projects or entities of interest, upcoming events, or other relevant information.

- Consolidate the purification exercises of norms and regulations through a single website. While some regulatory purging exercises are carried out through the SUCOP page, other similar processes are carried out on other pages such as Colombia Ágil, or institutional web pages.

- Display a specific section for public consultation of the technical regulations since the page Sical.gov.co is not being used for this purpose.

- Similar to the process of SINMUNGO, introduce a module for the reception of requests for regulatory reforms by any interested party and formulate the procedures to review, transfer and answer these requests by the competent entities.

- It is recommended to review the SUCOP page through tools such as information architecture and User and Interface Design with the support of focus groups. Redesigning the platform can focus on questions such as:

- What information exists on the SUCOP page? And organize it into categories

- How easy is it to find the information?

- How many ways are there to get to the same content?

- What people understand when they see the titles of the sections of the page?

- Based on this, redesign a new sitemap to make it easier for users to navigate.

6. Policy Recommendations

6.1. Opening a Window of Communication on Pan-Government Regulatory Issues

According to Yang (2017), the Regulatory Reform Sinmungo (RRS) is “an online petition system through which any person can make a suggestion on a specific regulation.” Since it was introduced in Mar. 2014, the RRS has been widely used by regulated entities or other stakeholders. A request for regulatory improvement that was made through the RRS is reviewed in three stages as follows (Regulatory Reform Committee, 2022):

1. An officer from the competent authority responds under a real name within 14 days from the date of receipt of the request.

2. If the request is not accepted, the Prime Minister's Office may ask the competent authority to explain with regard to the necessity of the regulation within three months.

3. If the request is once again refused, the Regulatory Reform Committee (RRC) may directly look into the case and suggest recommendations for improvement.

Yang (2017) notes it is a distinct feature of the RRS that it makes the suggestions reviewed in three stages, demanding more efforts from the government in later stages. Once the request is made, the relevant regulation must be reviewed within 14 days. Due to the time constraint, the first-stage review simply focuses on whether the regulation is still necessary for the purpose it initially aimed at. Switching to alternative regulations is seldom considered at this stage. If the relevant ministry does not accept the request in the first round but the Prime Minister's Office does not agree with the ministry's decision, the second-stage review may take place. Then the ministry is forced to review the regulation again, and if it rejects the request again, it must explain the reason more concretely in three months. The ministry may consider more alternatives and carry out a quantitative analysis at this stage. But it does not have enough incentives to do so, and consequently, the review result may not be satisfactory. If the RRC does not agree with the ministry's second-stage decision, it may suggest recommendations by itself. Since the RRC has incentives to improve regulations, its active role would contribute much to the good implementation of ex-post evaluations. Considering the resource constraints, it is desirable to design the review mechanism in such a way that reviews are made multiple times and regulatory oversight intervenes more heavily in later stages.

Yang (2017) analyzed press release data for the years 2014, 2015, and 2016 to identify how many suggestions were initially rejected and went through a second review. In 2015, 3,201 suggestions were made, and 1,038 suggestions were accepted.[8] 866 of them were accepted in the first round (see Table 4-9) and 172 of them were additionally accepted in different phases of the review processes. At least 115 suggestions were rejected in the first round, but investigated again by the request of the Prime Minister's Office or the RRC and some of them were finally accepted. Some of the accepted suggestions went through a long-term review which usually took several months. First round decisions of the long-term reviews were also appealed by the Prime Minister's Office or the RRC.

8 The figures were calculated from the Press Releases of the Prime Minister's Office (2015.7.26., 2016.1.21., 2016.7.13). The number of accepted suggestions in 2015 is different from that in Table 2 because some were additionally accepted in 2016.

<Table 4-9> Acceptance and Re-investigation of Requests via the RRS

(Unit: Number)

Area	2014		2015		2016	
	Accepted in the 1st round	Reviewed in the 2nd round	Accepted in the 1st round	Reviewed in the 2nd round	Accepted in the 1st round	Reviewed in the 2nd round
Budget, Finance	224	17	60	12	52	3
Construction, Ship	636	35	210	23	120	28
Agriculture, Marine	235	29	162	12	87	2
Education, Culture	260	21	75	12	59	4
Employment, Welfare	286	13	51	13	48	2
Health, Food	296	34	59	13	114	0
Transportation, Safety, Environment	333	41	133	18	103	7
Science, Technology	27	0	3	0	6	3
Biology, Energy, Climate	45	3	6	0	10	0
Information, Communication	53	5	20	0	14	2
Industry, Trade	135	28	52	6	42	12
Foreign Affairs, Defense, etc.	209	12	35	6	24	1
Total	2739	238	866	115	679	64

Source: Yang (2017)

A couple of changes have been made to the RRS since it was initially introduced in 2014. First, in 2017, an independent internet domain “www.sinmungo.go.kr” was assigned to the RRS (Regulatory Reform Committee, 2018). This made people easily access the RRS website. Until 2017, people had to search for the RRS webpage on the Regulation Information Portal website, which took some effort and time. The RRS consolidated more suggestion channels in 2018 through 2020, and as a result, people can make a suggestion on regulations of local governments.

In 2018, a legal basis for the RRS was made explicit. (Regulatory Reform Committee, 2019) Article 17, Clause 1 of the “Framework Act on Administrative Regulations” declares “Any person may request the (Regulatory Reform) Committee to abolish or amend (omitted) existing regulations, by means of a public notice.” Before it was revised on Apr 17th, 2018, the same clause said “Anyone may submit his/her opinion(s),” which does not seem to explicitly enforce the government to review the opinions. Article 12-2 of the “Enforcement Decree of the Framework Act on Administrative Regulations” that was newly inserted on

Oct. 16th, 2018 specifies the procedures to deal with the request made through the RRS, as was outlined on the previous page.

The RRS is one of the successful approaches to reviewing the existing regulations. As of the end of 2021, 23,174 suggestions have been made through the RRS (Regulatory Reform Committee, 2022). In the year 2021, 1,549 suggestions were received in total, 217 of them were accepted and 1,081 of them were rejected. 1 suggestion was replaced by an alternative policy, 183 suggestions were those already in forces, and 67 suggestions were left for long-term reviews (See Table 4-10). According to the Regulatory Reform Committee (2022), there are 6 suggestions that were rejected in the first round, but went through a second review by the request of the Prime Minister's Office.

<Table 4-10> Responses to the Suggestions through the RRS in 2021

(Unit: Number)

Year	Suggestions Received	Accepted in Full	Accepted in Part	Replaced by an Alternative	Already in Force	Rejected	Left for Review
2021	1,549	92	125	1	183	1,081	67
2020	1,750	171	131	1	232	1,128	87
2019	1,735	149	156	4	196	1,167	63
2018	1,731	122	115	4	208	1,224	58

Source: Regulatory Reform Committee (2019, 2020, 2021, 2022).

The Regulatory Reform Sinmungo (RRS) is operated based on Article 17 of the Framework Act on Administrative Regulations to more actively and continuously reflect the voice of the people. In order for this opinion gathering system to operate effectively, legal stability must be guaranteed. In particular, it is necessary for the central government to oversee this, give the relevant regulatory departments responsibility and resolve them, and transparently disclose this process into the system. Without the backing of these systems and transparent operation, there is a risk that only administrative costs will be incurred.

6.2. Adopting Regulatory Sandbox for Technological Regulations

In 2018, the 'Korean regulatory sandbox' system was introduced to promote innovative growth of new technologies and new products in the era of the 4th industrial revolution, but there are limitations due to the insufficient operation method. The current regulatory sandbox is operated in a bottom-up method based on the demand and application of individual operators, showing limitations in terms of scalability and sustainability. The

ICT/industrial convergence/financial regulatory sandbox has a limited number of target operators as it is granted special regulatory exceptions on a company-by-company basis, and the Special Regulatory Free Zone, a regional regulatory sandbox, has a limited target area. In addition, it takes a long time from approval to actual commercialization because it is operated in a bottom-up method in which business operators discover regulations and request regulatory exceptions. If the relevant regulatory laws are not amended by the end of the grant period, there is a possibility that the project will be suspended.

From the point of view of regulatory reform, the regulatory design system necessary for regulatory gaps without separate legal provisions, such as permitting or prohibiting specific business areas, is insufficient. When revising the laws related to the demonstration project, it is expected that the regulation will be revised in a positive way that allows the project to the extent that the regulatory department alone does not violate the current legal system, which can greatly undermine the purpose of the regulatory sandbox.

Currently, Korea is actively trying to utilize the regulatory sandbox in various fields compared to other countries. In particular, the new technology utilization industry is a business area that did not exist before, and the role of the regulatory sandbox is very important to resolve the legal gap and regulatory gap. Therefore, it is necessary to improve the consistency of the regulatory sandbox system to derive results that match the purpose of the system.

To this end, the government plans to strengthen the expedited processing system for similar and identical tasks and shorten the period from application to approval to less than one month if the business model is the same as the existing special project. In addition, the current minimum verification period of 6 months will be abolished and adjusted so that changes can be made in a timely manner according to the characteristics of the project. The reorganization of the regulatory sandbox is expected to promote qualitative changes in new technologies and new industries in addition to the quantitative results so far.

However, in addition to these changes in the system, there is an urgent need to change the behavior of the ministries as regulators. It is necessary to change the culture of civil servants in the direction of improving the quality of regulations together, as well as taking the position of the regulated companies and the public into consideration. In addition, it would be desirable for sufficient resources to be invested in the field of regulatory reform in consideration of the speed and expertise of new technologies and new industries.

It is necessary to operate a sandbox to properly respond to new technologies and new industries. However, if the operation of the sandbox is limited to the extent of resolving civil complaints, it is difficult to revitalize the new technology industry. The Colombian government should carefully review the system for introducing and operating the sandbox. It is desirable to prepare a roadmap for regulatory reform by identifying the emergence of new industries and which sectors require regulatory reform. According to the government's plan, a sandbox needs to be operated to create high-quality regulations. In addition, in order to introduce and operate the sandbox system and see practical effects, it is necessary to actively utilize experts. At the government level, continuous efforts should be made to change the culture of public officials regarding new technologies and new industries.

6.3. Using Cost-in, Cost-out to Boost the Regulatory Impact Analysis

The Cost-in, Cost-out framework was first announced at the 2014 New Year's press conference of President Park Geun-hye, and was later embodied at the first regulatory reform ministers' meeting. The Cost-in, Cost-out framework was to be obtained by measuring the total number of regulations and not just the number of cases, in a more scientific and objective way. The background of the introduction of the Cost-in, Cost-out framework is due to the problem that one of the preemptive policies to cope with the stagnation of internal and external economic conditions and the fixing of low growth is that the maintenance process is too long despite the regulatory reform. In 2014, in order to secure the effectiveness of regulatory reform and to promote the sensitivity of regulatory reform, the regulatory reform evaluation was implemented in each department, etc. The performance of the business has been established.

Unlike before, when the reduction in the number of regulations was considered as important, the evaluation focused on evaluating how much the quality of regulations was improved from the perspective of the subject of regulation. In this regard, the evaluation of the regulatory reform system such as improvement of core regulations, reduction of existing regulations, and the Regulatory Report, the performance of the total regulatory cost system pilot project, and the performance of regulatory reform by the department was included as evaluation targets. The establishment and operation of research institutes were promoted as the regulatory total cost system pilot project was implemented and an institution to verify it was required. Accordingly, a regulatory research center was established under the Korea Development Institute and the Korea Institute of Public Administration. The Korea Development Institute performed the verification of the regulatory cost analysis of the economic ministries, and the Korea Institute of Public Administration performed the verification in the administrative and social fields.

The Cost-in, Cost-out framework or the regulatory cost management system has 27 ministries through the first and second pilot projects. In enforcement, the legal foundation was established through the enactment of the Prime Minister's Ordinance (Administrative Regulatory Handling Guidelines to Reduce the National Defense). The subject of regulatory cost management is a regulation that generates a cost burden on business activities of companies, small business owners, and individuals who are regulated among the regulations that are newly established and strengthened. However, regulations for excluding the application of the people's life and safety regulations, such as regulations related to life and safety, prevent situations in which socially necessary regulations cannot be introduced, which excludes the application of regulatory cost management.

7. Conclusion

First, for strengthening establishment of participatory regulatory reform in Colombia, institutional framework of better regulatory policy should be pursued. For instance, even though better regulation policy in Colombia has been implemented by many initiatives and policies that are spread over various entities, a clear and specific mandate to oversee and manage the BRP is still required. Also proposal for regulatory change that might affect SME's business activity must get accompanied by ex-ante regulatory impact assessment with special consideration of relevant SMEs. Ombudsman of the SMEs would be a good option, which can represent SME's opinion and expose regulatory problems at the Regulatory Improvement Committee. On the other hand, institutional framework should extend to the territorial level through a public and private initiative to identify local or departmental level of regulatory reforms. Of course, it is necessary to promote constant purging exercises as the economic benefits of regulatory reforms are temporary.

Another area for the policy consultation is implementation of regulatory impact assessment or RIA. It is desirable to create an e-RIA platform in public sector to enhance traceability and transparency of the information during documentation and the comments received. While regulatory impact assessment focuses on ex-ante analysis, the use of ex-post evaluation with the new regulation should be increased. However, the ex-post evaluation, being supplementary to the formal regulatory impact assessment, should not replace the systematic assessment of the regulatory impact on the economy.

Based upon the performance of Regulatory Reform Sinmungo (RRS) in Korea, strengthening public consultation and stakeholder's engagement is needed in Colombia. It is necessary to promote other consultation mechanisms in addition to the final publication for comments. That includes designing and establishing two-way consultation and participation channels for interested parties so that they can participate at any time of regulatory time span, identifying the opportunities for regulatory reforms and procedures. It requires changes in the public consultation process or opinion gathering system toward more active and continuous hearing the voice of the people.

One of plausible options for regulatory reform is regulatory sandbox. Korea is actively implementing regulatory sandboxes in various fields compared to other countries. Colombia could learn about how to resolve legal or regulatory gaps to implement regulatory sandboxes applied to new technology or new business model, or to introduce Special Regulatory Free Zone, which is regional regulatory sandbox.

This study examines the various biases that may appear in the process of designing a regulatory policy. The policy makers collect various opinions of related stakeholders in the policy design process and establish the regulatory policy. In many cases, regulatory policy is not equivalent to the cost bearers and the beneficiaries of regulations. An example of this case is regulations which require the certification of products for the consumer protection or safety-related regulations. In the regarding of the certification system, most of the companies that produce the goods incur the cost of regulation, but the beneficiaries become the consumer who consumes the product, such as the general public. Safety regulations also have similar characteristics. As the cost bearer and the beneficiary are not equivalent, the cost bearer has an incentive to actively reflect their opinions to policy makers and the process of designing regulatory policy to minimize the cost burden of regulations. In addition, beneficiaries do not pay direct costs of regulation, so they tend to not actively respond to stakeholder consultations. As a result, the direction of policy design may be biased such that it is established in a somewhat different direction from the original intended.

Also, it is possible to consider whether the cost burden occurs in the business sector or non-business sector. In other words, regulation bias may arise depending on the subject of the cost burden. Currently, advanced countries such as Korea, the UK and Australia are implementing the Cost-in, Cost-out (CICO). The CICO is a system for managing the total amount of regulatory costs for business sectors, policy-makers may have incentives to reduce the cost-burdened by firms in regulatory design, which can lead to bias in regulatory policy. It is also possible to consider the bias caused by the fact that CICO is not operated efficiently and objectively. Under the CICO, there is a blind spot that the costs and benefits to non-business sectors and the general public are not analyzed in depth, but are only focused on the direct costs that the business sectors incur. Therefore, the costs and benefits of the non-business sector and the general public except for the business sector tend to be somewhat neglected, and inaccurate RIA is conducted. The introduction of regulations that do not involve objective and quantitative RIA and cost-benefit analysis is a factor that causes bias in regulatory policy design. Therefore, it is necessary to operate RIA and CICO more effectively.

It is also possible to take into account the bias that arises when certain regulations play a role as barriers to entry. When a new entry regulation is introduced, policy-makers must figure out the potential size of the regulated parties due to entry restrictions and design the regulation by predicting the behavior of individual regulated parties. In particular, when strengthening business registration standards or safety-related standards, existing entry barriers will be further enhanced or new entry barriers will be created. In the case of companies that plan to enter the market, there is an incentive to generate a greater cost burden for potential firms. In this case, the expected effects from the policy design process are biased to be more advantageous to existing firms that have already entered the market.

The regulatory bias may also occur if the cost burden is large enterprises or SMEs. Even if they are subjected to the same regulations, SMEs may incur more costs than large corporations. SMEs may have higher regulatory compliance costs due to their absolute size, manpower, capital, and skill level. In order to mitigate the regulatory compliance costs of these SMEs, the tailored regulatory approach to regulations on SMEs has been introduced and operated. However, it is pointed out that this system is operated only in a somewhat formal process.

Therefore, if the system is not supported by substantial operation, it may lead to the side effects such as Peter Pan syndrome. Therefore, it is required to establish precise standards to ensure that SMEs do not receive excessive benefits, and it is crucial to implement an objective and quantitative tailored regulatory approach to regulations on SMEs. Balancing the opinions of large and small businesses during the regulatory design process can also be a way to eliminate and mitigate the bias of regulation.

Finally, it is possible to take into account the bias caused by the difference between domestic and overseas standards, in particular, the certification system related to the product safety and harmfulness of the exporting goods. Even if a domestic company has obtained the required certification in its own country, it will incur additional costs to comply with overseas-related standards when exporting products abroad. This may result in a slight distortion of the anticipated effects of the policy when the domestic certification system is initially introduced. Moreover ensure that the anticipated effects exerted through proposing such agreements that domestic certification can be handled overseas equally, and engaging sufficient stakeholder consultation for exporting firms.

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Annex

<Annex Table 4-1> Appointment Requirements Commissioned Experts

Regulation Commission on Communications (CRS)	Communications Commissioners Colombian citizen over 30 years of age With an undergraduate degree (at least one commissioner must be an electronic or telecommunications engineer, one commissioner must be a lawyer and one commissioner must be an economist) Master's degree or related doctorate. Minimum related experience of eight (8) years in professional practice.
	Audiovisual content Commissioners Colombian citizen over 30 years old Bachelor's degree in law, social communication, journalism, psychology, sociology, economics, education, international business, financial, public or business administration; telecommunications, systems, electrical or electronic engineering; film and television. Master's or doctoral degree Minimum related experience of eight (8) years in professional practice or • Title of related specialization and ten (10) years of experience in matters of regulation, control or supervision in the audiovisual sector, in addition to the eight (8) years of minimum professional experience.
Regulation Commission on Drinking Water and Basic Sanitation (CRA)	Professional degree in an academic discipline Postgraduate degree in any modality • If you do not have a graduate degree with a graduate degree, have 25 months of related professional experience.
Regulation Commission on Energy and Gas (CREG)	Have a university degree in engineering, economics, business administration or similar. • Have recognized preparation and technical experience, preferably in the energy area and have held positions of responsibility in public or private entities in the mining-energy sector, national or international, for a period of more than six (6) years; or have served as a consultant or advisor for an equal or greater period.

<Annex Table 4-2> Board of Directors of Regulatory Commissions

	CRA	CREG	CRC
Board of Decisions	Regulation Commission on Drinking Water and Basic Sanitation: • Minister of Housing, City and Territory, or delegate • Minister of Environment and Sustainable Development • Minister of Health and Social Protection • Director of the National Planning Department • 4 commissioned experts • Superintendent of Residential Public Services with voice but no vote	Regulation Commission on Energy and Gas: • Minister of Mines and Energy • Minister of Finance and Public Credit • Director of the National Planning Department • 8 full-time experts commissioned • Superintendent of Residential Public Services with voice but no vote • Superintendent of Industry and Commerce- for liquid fuel issues	Regulation Commission on Communications: • Minister of Information Technologies and Communications, or his delegate, the Vice Minister of Connectivity and Digitization or whoever acts on his behalf. • 4 commissioned experts Audiovisual Content Commission: • 3 commissioners
Expert Commisioners	• 4 commissioned experts chosen by the President of the Republic • Administrative and Financial Deputy Director	• 8 experts commissioned exclusive dedication for 4 years appointed by the President of the Republic, not subject to administrative career. Commissioners may be reelected. • Administrative and Financial Deputy Director	Communications commissioners • 4 commissioned experts with voice and vote, with exclusive dedication for 4 years, non-reelectable. Audiovisual Content Commission • 3 commissioned experts with voice and vote, with exclusive dedication for 4 years, non-reelectable. Executive Coordinator

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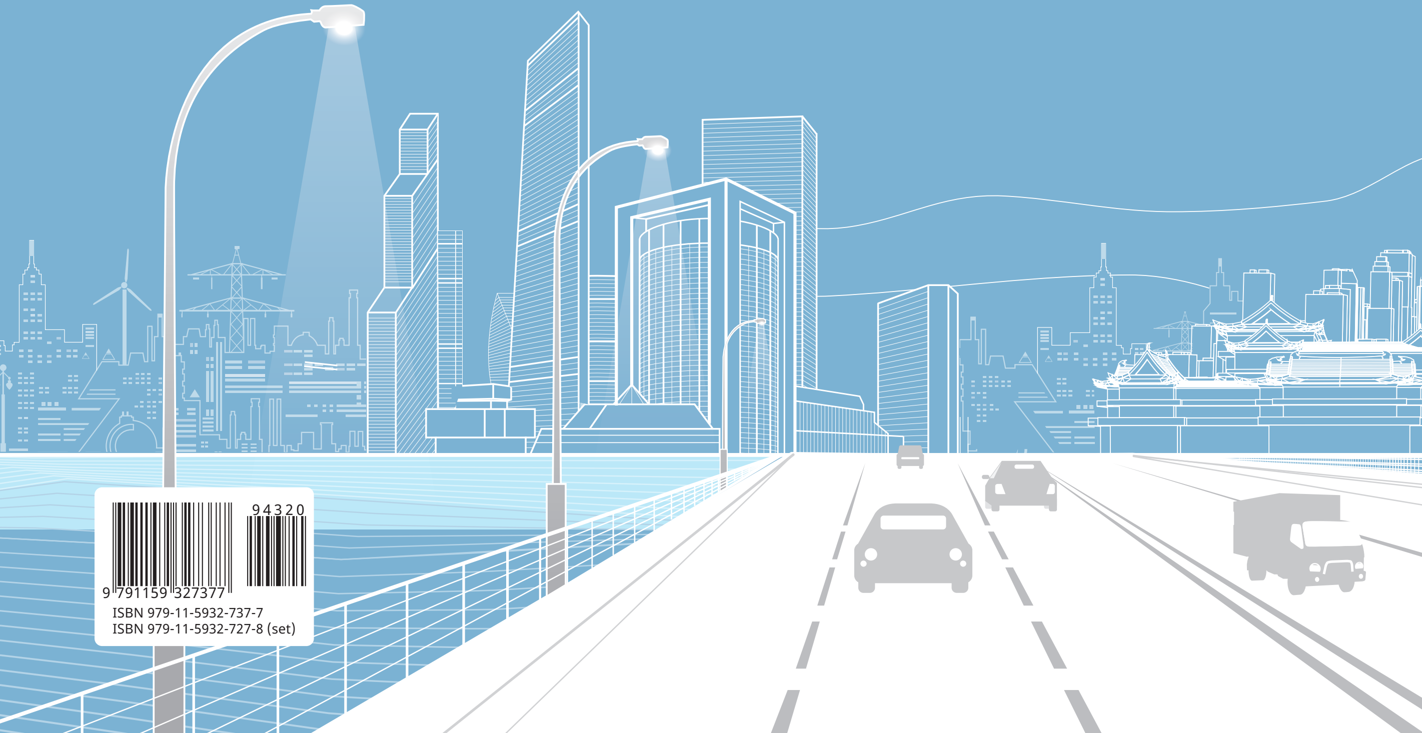
Knowledge Sharing Program (KSP)
www.ksp.go.kr



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