

Colombia

The pandemic is likely to lead to higher informality, inequality and poverty - reversing years of improvement. Low-quality basic and professional education often disconnected from labour market needs, large connectivity gaps and high regional inequalities need to be addressed in order to tackle informality and boost growth and employment in the medium-term.

Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Colombia is 2019.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

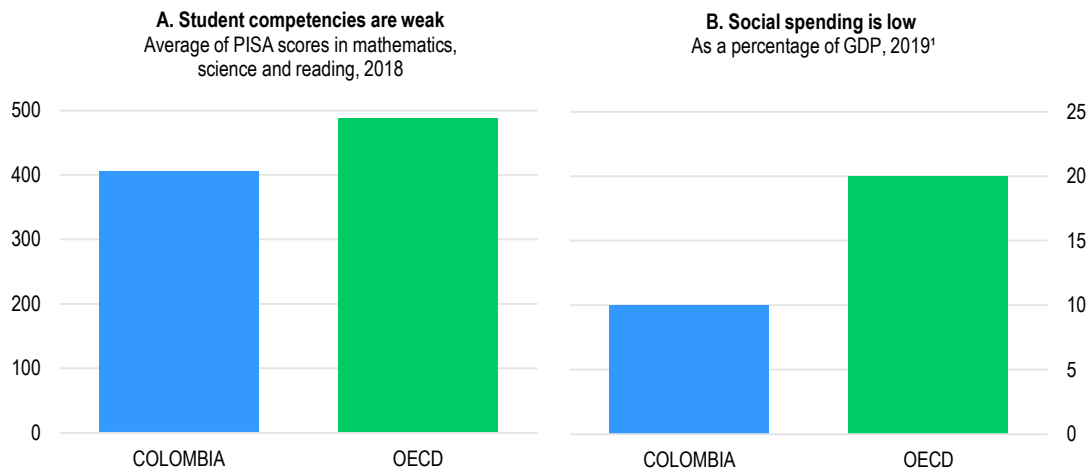
Tackling informality and inequality with skills and job creation

Informality remains high and despite some improvements, exhibits an entrenched regional divide. **A comprehensive strategy to fight informality is required** to make sure that the recovery brings high-quality jobs. High non-wage labour costs and a relatively high minimum wage should be reduced to encourage formal hiring, in particular of low-skilled workers, youth and people located in less developed regions. To encourage entrepreneurship, high registration costs for firms should be reduced, especially for SMEs and start-ups.

Formal job creation requires a stronger business sector. But, tariff and non-tariff barriers remain relatively high and regulatory burdens hamper entry and SME growth. **Lower trade barriers and stronger competition** can support resource reallocation and job creation in the wake of the crisis. Access to markets should be supported through further improvements in transport infrastructure, in particular multi-modal transport connectivity of ports and customs, and reducing barriers to entry and competition in transport. Distortive non-tariff barriers should be eliminated, and the entry and growth of firms facilitated by greater reliance on one-stop shops and online tools for administrative procedures.

Weak skills exclude many from the formal labour market. Although substantial progress has been made in the last decade, education outcomes remain subpar (Panel A), and are highly dependent on socio-economic background and show large regional disparities. **Improving outcomes and equity in education and training** should start from expanding access to early childhood education and full-day schooling, particularly in rural areas. Resources should be reallocated to vulnerable regions to make teaching more attractive there. Curricula and funding in vocational education and training should be adjusted according to labour market needs, and employers' involvement in delivery should be encouraged.

Vulnerabilities and areas for reform



1. 2019 or latest year available for the OECD average.

Source: Panel A: OECD, PISA Database; Panel B: Colombia, Departamento Nacional de Planeación (DNP) and OECD, Social Expenditure Database (SOCX).

StatLink  <https://stat.link/ide4x3>

The COVID crisis has further highlighted the need to close the gaps in social protection for vulnerable workers (Panel B). Further efforts to **expand social programmes** should include better targeting of social spending towards the vulnerable population, such as those living in rural areas. Cash transfers should be supplemented by a training component to enhance participants' chances of getting high-quality jobs.

The crisis has magnified the importance of digital connectivity for the public sector, households and firms. Despite an improvement, internet penetration rates are low, with low broadband speed and high prices for

both fixed and mobile telecommunications. Further efforts to **enhance connectivity by diminishing barriers to competition in the communications sector assuring the independence of the new ICT regulator**, would boost access to high-quality broadband networks at affordable prices.

Colombia: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Reduce barriers to formality	
<input checked="" type="checkbox"/> No actions taken	<input type="checkbox"/> Establish a comprehensive strategy to reduce the cost of formalisation. This should include: reducing non-wage costs, reviewing the minimum wage to achieve a more job-friendly level, reducing firms' registration costs and simplifying the registration of workers.
Competition and regulation: Reduce barriers to trade and strengthen competition	
<input checked="" type="checkbox"/> The 2021 budget provides ambitious funding for PPP infrastructure and transport projects as part of the recovery plan, with the aim of strengthening multi-modal transport and the national road network.	<input type="checkbox"/> Prioritise improving multi-modal transport connectivity of ports and customs, and reduce barriers to entry and competition in transport. <input type="checkbox"/> Phase out import restrictions and review other non-tariff barriers with a view to reducing them.
Education and skills: Improve outcomes and equity in education	
<input checked="" type="checkbox"/> To reduce the drop-outs caused by the pandemic, a strategy of monitoring and actively seeking out students who do not return to their academic activities is being implemented.	<input type="checkbox"/> Expand access to early childhood education and its quality, particularly in rural areas. <input type="checkbox"/> Provide full-day school and increase spending for education-related transfers to vulnerable families. <input type="checkbox"/> Reallocate resources to the most vulnerable territories and make teaching in rural areas more attractive through shaping the working conditions and professional opportunities in these areas.
Social protection: Expand social programmes to reduce poverty and inequality	
* New priority *	<input type="checkbox"/> Focus social spending on low-income households, especially those in rural areas. <input type="checkbox"/> Review the implicit subsidies in the public pension system and target them to the most vulnerable. <input type="checkbox"/> Boost coverage and benefit levels in the non-contributory scheme (Colombia Mayor).
Infrastructure: Boost digital infrastructure to promote connectivity and reduce prices	
<input type="checkbox"/> In 2019, the ICT Modernisation Law was passed. Some measures include creating a new ICT regulator, stating new objectives for access to communication technologies and services, and guaranteeing the efficient use of the spectrum to maximise social welfare and set the right investment conditions.	<input type="checkbox"/> Preserve the independence of the new ICT regulator, by making a clear distinction between the funding of the regulator and the funding of the Ministry, and assuring that the government has not a seat on the Board of Commissioners.

Recent progress on structural reforms

There has been limited progress on structural reforms, partly related to difficulties in building a broad-based consensus in favour of reforms. At the end of 2018, authorities passed a much needed and welcome tax reform, which was however overruled by the constitutional court, forcing the government to pass it again at the end of 2019. This lengthy process consumed significant political capital. The COVID-crisis could rekindle an appetite for discussing further structural reforms, but with elections coming in 2022, the political window for doing so is short.