

A NEW GOVERNMENT

BEGINS IN COLOMBIA

FIRST IMPRESSIONS

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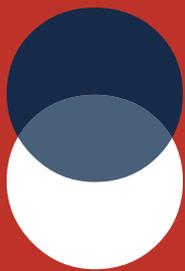
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On August 7, Gustavo Petro was sworn in as president of Colombia for the four-year term 2022 - 2026. His arrival to power can be read as a historic event, as he is the first leftist politician to assume the most important position in the country.

Institutional dissatisfaction, corruption, security, unemployment and lack of access to basic opportunities are some of the factors that explain the arrival of Gustavo Petro to the presidency. Firstly, this transition of power represents a change related to the traditional political class. Secondly, factors like multidimensional poverty and lack of access to goods and services such as education, health, among others, have led citizens to seek a transformation in the exercise of power, which is represented in the Pacto Histórico leader and his vice-president, Francia Márquez, who comes from the Pacific region, one of the most affected by violence and poverty throughout Colombian political history.

Thus, the arrival of a leftist president to one of the most important and fastest growing economies in Latin America will undoubtedly have implications in the reconfiguration of regional integration priorities (considering the recent ideological shift in the region). In this regard, once elected President, Gustavo Petro initiated a dialogue with the different regional leaders, prioritizing his potential allies, where his discourse has focused on the need to generate a solid group of countries that intend to pursue a social and environmental transformation agenda, while enhancing the comparative advantages of the region regarding food production and services.

Furthermore, in view of the relevance that Gustavo Petro's arrival to the presidency of Colombia means to the national but also regional level, Vali Consultores, a government and public affairs consulting firm, presents its paper on the beginning of the new government, in which there are three components. First, we describe the country that the president received in economic and social matters. Secondly, we develop an analysis of the reforms that have been socialized by the new president throughout the presidential campaign and once he was elected. Moreover, we analyze the main elements that are intended to be reformed. Finally, we describe the main aspects of Gustavo Petro's inauguration speech.



PART 01

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THE COUNTRY THAT INHERITS PRESIDENT GUSTAVO PETRO.

MACROECONOMIC INDICATORS

Upon taking office, the new government will face an uncertain international economic scenario. In the first place, as a result of the economic reactivation in the world and the conflict between Russia and Ukraine, there is a worldwide phenomenon of inflation, while in the American continent, a period of economic recession begins.

In the specific case of Colombia, President Gustavo Petro receives an inflation of 10.21%, a significantly high percentage if compared to the accumulated data in 2021, which was 4% (Dane, 2022). This element has led to two factors in recent months in the country: 1. Increased uncertainty for foreign investment, as prices have begun to fluctuate constantly and rapidly, making it impossible to project investments and businesses in the short and medium term; 2. Citizens' purchasing capacity has decreased, as the Colombian peso has lost value compared to the significant increase in prices of goods and services.

This phenomenon of global inflation and the beginning of an economic recession has led the Colombian Central Bank to increase its interest rates to 9% in order to regulate the amount of money circulating in the economy and to establish mechanisms to control inflation. Nonetheless, there are some significant positive indicators as Foreign Direct Investment increased by 77% (USD 5.339 million) in the first semester, compared to the same period registered last year. The OECD predicts a growth of 6,1% in the Gross Domestic Product (GDP) by the end of the year, making Colombia the country with more growth in the region.

SOCIAL INDICATORS

The social overview inherited by President Gustavo Petro can be analyzed from two perspectives (multidimensional poverty and social discontent), on which the incoming government must seek ways to achieve a higher level of governance as well as legitimacy through favorability and/or popularity in the eyes of the citizens.

Multidimensional poverty and unemployment

In terms of multidimensional poverty and unemployment, according to the Statistics authority in Colombia (DANE), Colombia currently has an unemployment rate of 10.6% for the month of July and an employment rate of 57% (DANE, 2022). Regarding this last figure, it is important to mention that informal workers are registered there, on which Gustavo Petro should seek measures to reduce informality, which was one of his campaign proposals. The multidimensional poverty index in the country, for 2021, was 16% for urban areas, while for rural areas it was 31.1% (Dane, 2022). In this regard, President Gustavo Petro's government program has a broad social component aimed at reducing inequalities, especially in rural areas. Moreover, one of the great challenges that the new executive branch will have to face has to do with the reduction of the aforementioned indicators.

Social and institutional distrust

President Gustavo Petro receives a series of social problems in terms of discontent on various fronts, which he must seek to solve in order to avoid possible social mobilizations and/or elements that reduce his popularity and legitimacy in the eyes of the citizens. Furthermore, the president arrives with the banners of the social movement and political sectors that supported the National Strike of 2021. They expect the president to comply with the expectations of the campaign.

Among the challenges that are evident in terms of social discontent in the country, the following aspects stand out, as reflected in the latest perception survey published by the pollster Invamer in July: Insecurity, 87% of colombians feels security is worse than before; Corruption, 85% of colombian considers corruption has increased; and Unemployment, 75% of colombians feel the situation has worsened even though indicators show otherwise.

Establishing a road map to provide solutions to these issues will be fundamental for President Gustavo Petro, as they are some of the banners promulgated by the social movements that supported his campaign and on which a new cycle of protests and mobilizations could begin, in case the measures implemented by the new government do not provide effective responses to these issues.

PART 02

REFORMS PROPOSED BY THE NEW GOVERNMENT

The following chapter describes the aspects of the reforms proposed by President Gustavo Petro. The approval of these issues will depend to a great extent on the political capacity that the new government will be able to generate in the legislative branch. Additionally, some topics will be prioritized as a response to the current social and economic context of the country..

Tax Reform

This reform initiative will be the spearhead of the new government, since the resources it proposes to raise could give certainty to the other reforms that Gustavo Petro has proposed. Thus, this initiative was the first one presented before Congress. The main objective is:

- 01 | *To transform the tributary system to achieve greater progressivity through a collection that focuses on individuals with greater resources, while at the same time seeking to alleviate some company taxes, mainly regarding income tax.*
- 02 | *Implement regulation to punish evasion and elusion as well to strengthen Colombian Tax Authority (DIAN) to generate strict and effective tax collection.*
- 03 | *This reform will be focused on people rather than legal entities and is expected to collect 25 billion (a million of millions) COP. The final amount will be greatly dependent on the agreements achieved within congress negotiations.*

This bill will have one month to pass on committees and congress floor as the government presented it with a message of urgency, shortening the usual amount of time require for this type of bill to pass (one legislative year).

National Development Plan

The National Development Plan is the document that serves as the basis and provides the strategic guidelines for the public policies formulated by the President during his four-year term. According to the statements made by president Gustavo Petro and his vice-president Francia Márquez, the government's priorities will revolve around peace, social justice and environmental sustainability.

With respect to peace issues, two objectives are proposed:

- 01 | *Address some issues of the Peace Agreement and deepen them, mainly related to the causes of the conflict and measures that allow overcoming violence in the country.*
- 02 | *To broaden the discourse of peace building, beyond the public policies related to the Peace Agreement.*

In the area of social justice and environmental sustainability, the new government starts from the premise that Colombia is one of the most unequal countries, which makes it necessary to overcome such inequities and exclusions in order to prevent violence and crime in the territory. The concrete proposals are:

- Creation of redistributive public policies, such as the basic income.
- Differential attention to women heads of household.

- Tax actions that contribute to closing economic gaps.
- Use of economic models that respond to environmental problems and promote rural work.

The National Development Plan has to be discussed and sanctioned before June 2023, nevertheless this, together with the tax reform, will be the first project that the new government will file, since it is the road map and the regulatory support that will allow the development and execution of the different plans that President Gustavo Petro has for the four-year term 2022 - 2026.

Energy, mining and hydrocarbons

A priority of Gustavo Petro's government is framed in the energy transition to reduce the dependence of the Colombian economy on hydrocarbons and mining. In this sense, the incoming government has raised the possibility of pausing the awarding of conventional exploration and exploitation contracts, prioritizing the exploitation of relevant minerals for the energy transition. This will be achieved by reforming the mining codex (Law 685 of 2001) whilst fracking pilots are banned.

01 | The new government will prioritize mining regulation and control over the exploration and exploitation of minerals and materials essential for the energy transition. It also plans to review and adjust the instruments of surveillance, accounting and control to guarantee mining income.

02 | Several regions depend on the income received from mining and hydrocarbon exploitation, so there may be resistance, especially from congressmen from mining regions (Boyacá, Córdoba, Guajira, Cesar, Norte de Santander) if their finances are affected

The government will pass this bill in the next legislative year. As is a reform to a codex, the time for it to be discussed will be one legislative year.

Health reform

The health reform of Gustavo Petro's government will seek the elimination of Law 100 of 1993 and the strengthening of Statutory Law 1751 of 2015. Within his proposal, the following points stand out:

- Unification of health regimes and coordination from a single entity.
- Elimination of Privates Health Entities, which could become public service provision holdings, due to their capacity to provide them.
- Creation of a single public health system, governed by a National Health Council.
- Creation of the Single Health Fund, with the objective of guaranteeing transparency in the management of resources.

- Control of drug prices as a way of guaranteeing the financial sustainability of the system, through a value-added analysis of all technologies.

According to the Minister, Carolina Corcho, the bill will be presented and discussed in 2023, although the reform already has a draft. This decision is based on the need to prioritize tax reform.

Agricultural reform

One of the main priorities of the new government will be the agricultural sector since, during the campaign, President Gustavo Petro highlighted the importance of the industrialization of the countryside to strengthen the national economy. Agricultural reform will be a priority in this government, which will be based on guaranteeing the right of access to land through two main pillars; the implementation of the multipurpose landowning policy and the implementation of point 1 of the Havana Peace Agreements on Integral Rural Reform (IRR).

- These two initiatives will not be presented by a bill through congress because they are centered in the implementation of mechanisms that already exist.
- Access to land will be guaranteed by the multipurpose land owing policy by increasing taxes to unproductive land so they could either make them productive or sell them to the State for redistribution.
- Finally, a structural agrarian reform is not on the government agenda, but as they want to guarantee equitable access to land, they might modify the land owing and distribution policy (Law 160 of 1994) which regulates said aspects. President Petro tried to modify this law when he was a Senator in 2006 without any success.

As this reform is an ordinary bill to modify an existing law, it will have over two legislative years to be approved by Congress.

Other challenges

While the government's priority is agrarian reform through the implementation of existing mechanisms (multipurpose land policy, Integral Rural Reform), other challenges in the agrarian sector cannot be ignored and will be crucial in the first 100 days of government. Thus, these elements can be incorporated into the reform plans or can be dealt with separately.

01 | Among other topics the new government will have the challenge to deal with the rising prices of agroindustrial products. While many governments have decided to lower import tariffs to reduce manufacturing costs to producers, Petro wants to raise these tariffs while also renegotiating Free Trade Agreements. This could trigger the detriment of investors' trust since there would be a sort of legal uncertainty.

02 | Gustavo Petro has a marked line on the prohibition of the use of agrochemicals in order to transition to agroecology, this may go against his goal of industrialization of the countryside. In addition to protecting crops from pests and diseases, the use of agro inputs allows higher productivity at a faster pace guaranteeing food security but also technification and innovation of the countryside.

ICT sector

Regarding the ICT sector, through the campaign and the government plan, President Gustavo Petro has shown that his primary objective is to close gaps in connectivity and digital transformation, with the purpose to strengthen and promote education, business and agriculture

The sector has established a series of priorities:

- Consolidation of regional connectivity coverage, through the optical fiber model.
- Access to content, education platforms, business platforms, closing gender gaps and territorial development.
- Support for small Internet service providers to balance the market.
- Development and promotion of open source software projects and emerging technologies.
- Implementation of a digital industry.

Environment

The main challenges in the environmental agenda will be focused on the following topics: climate change and biodiversity loss; protection of environmental leaders; transition to clean energy; and finally, a roadmap for the protection of the Amazon, including measures to mitigate deforestation.

Climate change: Gustavo Petro has promoted compliance with the environmental agreements signed by Colombia, including the Paris Agreement. Likewise, he has proposed the delimitation of reserve and environmental protection areas that are susceptible to climate change. Likewise, within his government plan he referred to carbon sequestration programs in the Amazon.

Petro has also proposed to lead a climate agenda at the international level, with the aim of protecting the Amazon rainforest. This agenda would be financed by obtaining dividends for carbon absorption, obtaining compensation for burying coal and oil reserves, and imposing taxes on the commercialization of products that are carbon dioxide intensive.

Energy transition: Regarding the transition to clean energy, President Gustavo Petro stated that it is necessary to create a fund for the energy transition with resources from royalties and from the elimination of some tax benefits to the hydrocarbons, hydroelectric and coal mining sectors. He has also referred to the creation of the National Institute of Clean Energy, which would contribute to the energy transition. This includes the gradual reduction of the extractive model to avoid economic dependence on oil and coal.

Infrastructure

President Petro's government plan projects the reactivation of the national railway network, the consolidation of river mobility, as tools for connectivity and industrial strengthening of the country. Likewise, the development of tertiary and fourth generation road projects will be prioritized in order to improve road connections in productive rural areas.

On the other hand, the civil infrastructure sector will focus on the development of social interest real estate projects and financing for the construction of homes in remote areas of the country. The development of the housing sector will seek to be a platform for the development of social projects of dignity and economic initiatives to promote regional productivity and competitiveness.

PART 03



INAUGURATION SPEECH

Regarding the speech made by President Gustavo Petro and the President of the Senate, Roy Barreras, it is important to highlight two elements: 1. Barreras referred to the current problems the country has and the way in which, through reforms, they will overcome them. He also made a series of comparisons with the outgoing government and the differential approaches of the new government; 2. In his speech, President Gustavo Petro focused on the need to generate a national agreement through a broad dialogue, while highlighting Colombia's role in international relations and the relevance that the country will have in environmental and social issues. This shows the role that each of them will play in the short term, where the president of the Senate will focus his efforts on advancing the legislative and reform agenda of the national government, while President Petro will seek to articulate the different political sectors and regional governors in pursuit of the progressive elements that allowed him to come to power.

President Gustavo Petro's speech focused on emphasizing the change that his government intends to bring about, therefore, he has proposed an economy based on production, work and knowledge; he announced that he will present a tax reform that generates justice, where the payment of taxes will be understood as an element of solidarity, which will lead to a fairer and more peaceful country. He also stated that food sovereignty is required to achieve zero hunger, so he invited the private sector to work together in order to ensure full healthy food for the whole Colombian society and achieve export surpluses.

He assured that his government will discuss the construction of policies and programs with everyone, without exceptions or exclusions. This means that the government will publicly discuss the country's problems in order to find solutions that contribute to the development of the national industry, the popular economy and the Colombian rural sector.



Finally, he unveiled a decalogue that will guide the government's actions:

- 1.** Work to achieve true and definitive peace.
- 2.** To provide care for elderlies, childrens, people with disabilities and people who have been marginalized by history or society.
- 3.** To govern with and for the women of Colombia.
- 4.** To dialogue with everyone, without exceptions or exclusions.
- 5.** To listen to Colombians.
- 6.** Defend Colombians from violence and work to make families feel safe and secure.
- 7.** Fight corruption with a firm hand.
- 8.** Protect the soil and subsoil, sea and rivers
- 9.** Develop national industry, the popular economy and the Colombian countryside.
- 10.** Comply with the Constitution.



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