

SOCIAL REFORM PROGRAM

(CO-0252)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Colombia	
Executing agency:	Department of Planning (DNP)	
Amount and source:	Sector loan (OC, fast disbursing):	US\$390 million
	Total, sector loan:	US\$390 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	5 years
	Disbursement period:	24 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
Objectives:	<p>The general objective of the program is to improve the impact and effectiveness of social spending by ensuring the soundness and sustainability of investments and reducing the adverse effect of economic crises. Its specific objectives are to: (i) establish countercyclical, transparent systems to finance targeted social welfare programs that will address the increase in poverty during times of economic crisis; (ii) strengthen and increase the transparency of targeting for social spending; (iii) improve the efficiency of social spending; and (iv) reduce non-salary labor costs and create incentives for job creation.</p>	
Description:	<p>The program will be carried out through two operations: a sector loan and a technical-cooperation loan. The sector loan consists of a program based on the adoption of policy measures supported by a sector loan to be disbursed in three tranches. Sector loan disbursements will be subject to fulfillment of the policy measures and goals agreed upon by the Bank and the country. These activities are summarized in the attached policy matrix (Annex 1).</p>	

The sector loan will be disbursed in the following three tranches: a first tranche in the amount of US\$175 million, the conditions for release of which will be fulfilled by date the proposal is presented to the Board, a second tranche for US\$155 million, and a floating tranche for US\$60 million. Since the issue is self-contained, the floating tranche will be independent of the conditionalities for the second tranche, which is fixed. This sector project will consist of five components:

The first component of the program will support macroeconomic stability. For the first two tranches, Colombia must continue to comply with the guidelines set forth in the Policy Letter and Contingency Agreement signed with the International Monetary Fund (IMF) for the period 2000-2002.

Under the second component, the legal, institutional, and operational foundations will be laid to establish a financial fund to mitigate the impact of macroeconomic crises on the poorest segments of the population. This instrument will collect resources during periods of economic growth so that they can be used, according to clear, transparent rules, for programs targeting the most vulnerable segments of the population to address the increase in poverty during crises.

The third component will improve the precision and transparency of the instrument used for targeting individuals, the beneficiary identification system (SISBEN) and will ensure its use at the subnational level and in the selection of beneficiaries for national social welfare programs. Under this component, a more transparent, reliable instrument is expected to be generated and social spending to be better targeted to the poorest, most vulnerable groups. Specifically, the project will emphasize three areas to strengthen the SISBEN: (i) adjustment and fine-tuning of the point system through updating of the algorithm used; (ii) design and implementation of a quality control system for SISBEN use to minimize screening and exclusion errors; and (iii) greater use of SISBEN for beneficiary selection in various social programs, and extension of SISBEN coverage in terms of the number of people added through the strengthening of local capacity to administer and manage the system.

The activities of the fourth component are designed to improve the efficiency of social spending. The expected result of the component is more effective social spending to maintain and improve the welfare of the poor and vulnerable during periods of both crisis and more stability. Activities will be carried out in health care (extension of insurance coverage, increase in vaccination rate), education, reorganization of teaching staff to improve the efficiency and quality

of the education system, regulation of the transition towards capitation of fiscal transfers in education and the information system) and vulnerable population groups (decentralization of the Colombian Family Welfare Agency—ICBF, institutional reforms and adjustments in other programs targeting vulnerable groups).

The fifth component will improve the capacity of the labor market to adapt to changing economic conditions, due to economic cycles and changes in the job skills needed on the market. The expected result is a reduction in non-salary labor costs and consequently a decrease in informal employment and in structural unemployment.

The second operation consists of a three-year technical-cooperation loan (CO-0261) to support the design and implementation of the reforms necessary to ensure that the program objectives can be achieved. The plan of operations for the proposed technical-cooperation loan is attached hereto as Annex 3. The second operation will finance an evaluation of the medium-term impact of the policies established under the Social Reform Program.

**The Bank's
country and
sector strategy:**

The proposed operation will support the Bank's country strategy and will supplement previously made investments. The current country paper for Colombia (document GN-2052-1) was approved in August 1999. It identifies five priority areas: (i) support the peace process and its sustainability; (ii) reduce poverty and inequality; (iii) achieve further decentralization; (iv) modernize the State; and (v) support sustainable growth. The proposed operation would contribute to objective (ii). Moreover, by organizing a social protection system that is financially sustainable, more effective in covering the needs of the population, and more efficient in the use of resources and coordinated with national and subnational programs, the program will also contribute to achieving objectives (iii) and (iv). Furthermore, protecting investment in human capital and making the labor system more flexible will enhance the economic growth potential of the country, thereby supporting objective (v). And through its support for the needy, the program will indirectly help achieve objective (i).

**Environmental
and social
review:**

The program will have a significant social impact. First of all, by ensuring financing for effective programs for social welfare and protection during economic crises, improving the quality and transparency of targeting for effective programs, and by reorganizing and increasing the efficiency of social programs, the program will help create the conditions necessary for a more effective response to structural poverty and the impact on welfare of the current crisis and any future ones. Secondly, the activities in labor will help promote formal employment and reduce unemployment and informal employment rates, especially among the segments most seriously

affected by the current crisis (women and youth), thereby providing greater access to the formal social protection system. The impact will be measured in the ex post evaluation.

The proposed program will not have any adverse environmental impact, since its activities are limited to policy reform. The Committee on Environment and Social Impact considered the operation at its 13 July 2001 meeting and made recommendations that were incorporated into the project report.

Benefits:

The immediate viability and long-term sustainability of social programs and the reorganized social protection system depend on public spending and central government revenues. The proposed program seeks to generate savings through the reorganization and through the development of financial instruments and to generate additional spending so that certain key programs can be extended. In fiscal terms, apart from the decline in parafiscal contributions, which will have a considerable impact on total social spending in Colombia, the additional costs associated with the program activities will be an estimated US\$18.5 million annually and the savings generated, close to US\$621 million a year.

Risks:

Fund capacity for savings. A series of simulations was conducted to model the savings capacity of the Fund based on macroeconomic scenarios for central government revenue developed by the government and used by the IMF. The estimates were based on the saving rules discussed in chapter II, according to different economic growth scenarios for the period from 2003 to 2010. The exercise showed that if the growth pattern for the next eight years stays the same as it was during the period from 1988 to 1995, the Fund will accrue 1% of GDP, the best-case scenario. However, if the pattern is the same as for the period from 1985 to 1992, the Fund will accrue barely 0.2% of GDP, the worst-case scenario. The government would then only have enough resources for a one-year crisis and would have to seek other sources of financing to respond to a longer one.

Program timing. Program timing is crucial, since the difficult policy decisions associated with the program activities are usually made during period of recovery from economic crises, not during healthier fiscal times. This is an opportunity for decisions to be made that will have an immediate effect on the welfare of the target population and a mitigating impact on future shocks. Nevertheless, there is a risk that, given the current economic situation, the political cycle may create difficulties for the necessary decisions to be made. Accordingly, the respective legislation should be passed prior to the change in government and an information campaign with intensive outreach activities with the main stakeholders should be carried out. In

addition, support for legislative initiatives that have broad-based political support will help ensure the viability of the measures proposed.

**Special
contractual
clauses:**

The contract for the sector loan will include the conditions established in the Policy Matrix (Annex 1) and will specify that the Policy Letter (Annex 2) is an integral part of the loan contract.

Procurement:

Not applicable

**Social equity
classification
(SEQ):**

This operation qualifies as a social equity enhancing project, as described in the key objective for Bank activity set forth in the Report on the Eighth General Increase in Resources (document AB-1704).

**Poverty-
targeted
investment
(PTI):**

As a sector loan, this operation does not qualify as a poverty-targeted project.

**Exceptions to
Bank policy:**

None

I. FRAME OF REFERENCE

A. Macroeconomic framework

- 1.1 In 1999, Colombia experienced its worst recession in 70 years, with gross domestic product (GDP) dropping by 4.3%. The situation is due in large part to the overspending that began in 1994 at both the central government and subnational levels and the Asian financial crisis that struck in late 1997. The nonfinancial public sector deficit worsened sharply in 1999, climbing to 5.5% of GDP, after averaging 3.8% during the previous three years.
- 1.2 The Colombian economy had been performing well in 2000, seeming to indicate that the recession was ending and economic recovery under way. Accordingly, projected growth for 2001 was optimistic, and a rate of 3.8% expected. However, economic performance was weak in the first quarter of 2001, forcing the government to reduce the target growth rate to 2.4%. Recently, the target was again adjusted, now to 2.2%, a significant reduction in the rate compared with the growth posted in 2000 (2.8%).
- 1.3 While projected economic growth declined, unemployment was high, averaging 17.8% for the 13 major cities in Colombia in July 2001. The increase is attributed to four main causes: (i) low levels of investment despite considerable reductions in interest rates to stimulate the economy (250 points from July 2001 to date); (ii) the crisis in the most active sectors of the economy, such as oil production, which dropped by 33% from July 2000 to July 2001 (due mainly to attacks by guerrilla groups), and coffee, exports of which decreased by 28% during the same period, due to fluctuations in coffee prices; (iii) weak demand for exports, especially from the United States and Venezuela; and (iv) political uncertainty, given the slow progress in the peace negotiations with the guerrilla groups.
- 1.4 As for the macroeconomic situation, the Colombian authorities met with the International Monetary Fund (IMF) during the first week of October 2001 to review the Extended Fund Facility (EFF) Agreement for the third time this year. As a result of the review and taking into consideration the economic downturn worldwide, the target consolidated fiscal deficit for 2001 was increased to 3.3% of GDP (it had previously been set at 2.8%). The review assumed that GDP would grow 2.2% in 2001. The target inflation rate remains less than 10%. The IMF review implies that the goals for 2002, especially with respect to the deficit, will also be relaxed, in response to the worsening international economic situation.¹ This increase in the targeted deficit is giving the government more flexibility for management of public spending, especially social spending. The Letter of Intent with the IMF that includes the new targets for 2001 and 2002 is to be signed in November 2001.

¹ The targets for 2002 are under review. The current targets are 1.8% of GDP for the consolidated deficit, assuming GDP growth of 4.5%, and 6.5% inflation.

B. Crisis and poverty

- 1.5 The unstable growth rates are reflected in the behavior of poverty rates.² During the growth period from 1978 to 1995, the national poverty rate dropped from 80% to 60%. During that time, extreme poverty in urban areas plummeted by almost two thirds, from 27% to 10%, while extreme poverty in rural areas decreased from 68% to 37%. By contrast, during the recession in the late 1990s, welfare indicators deteriorated, reaching levels higher than those observed in the 1980s.
- 1.6 In 1999, at the height of the crisis, according to a household survey in four major cities,³ 37% of the sample households had experienced a decline in income, 54% had changed their consumer habits, 21% had had to reduce their savings, and 17% went into debt.⁴ The poorest households in the country proved the most vulnerable and had the least access to self-insurance systems such as savings and credit, which implies that the likelihood of experiencing a decrease in income was 20% higher for poor households than for affluent households.
- 1.7 The drop in income had an irreversible adverse impact on the human capital of these families. Loss of income forced many poor households to decrease food consumption dramatically. For example, poor urban households reported a 39% reduction in their consumption of food in 1999. There was also a pronounced impact on school attendance: 6.5% of the households that had experienced a decline in income reported that one of their members had to drop out of school for financial reasons. In addition, the likelihood that a household member had to drop out of school was 8% higher in the households that reported a decrease in income than in the households that reported no decrease. The findings of a qualitative study⁵ on the strategies to offset the negative impact of a shock showed that although poor households do use formal social services as a means of offsetting the reduction in their income, they also turn to illegal activities to increase income, such as working with armed groups, dealing illegal drugs, and engaging in prostitution.

C. Pending agenda for social sector reform

- 1.8 Social spending in Colombia has not effectively alleviated the impact of the crisis on the welfare and the accumulation of human capital of the poor. In order to improve the effectiveness of social spending and to ensure responsiveness in crisis situations, reforms are needed to better target spending to vulnerable groups, to

² Velez, Carlos Eduardo et al., "Colombia Poverty Report", World Bank, 2001.

³ Fedesarrollo Social Survey, 2000. Although this survey is not representative of the nationwide situation, it can be taken as an indication of what is happening in households around the country.

⁴ Gaviria, Alejandro, "Sobre quién ha recaído el peso de la crisis? Un análisis preliminar usando la Encuesta social de Fedesarrollo 2000", Fedesarrollo, 2000.

⁵ González, Mary Elizabeth, "Colombia: Dimensiones Sociales de la Crisis", World Bank, 2001.

reorganize social programs and improve their efficiency, and to implement a system for countercyclical financing of social spending. These reforms should be supplemented with amendments to legislation to adapt the labor market to the changing economic conditions. The object of the legislative amendments would be to reduce unemployment and demand for social welfare programs. The reforms will be carried out in the areas described below.

1. Social program financing

- 1.9 Social spending and fiscal policy generally tend to be procyclical in developing countries. However, in the case of Colombia, a review of social spending trends during economic cycles over the past 50 years showed a different pattern. Social spending in Colombia⁶ consists of the following categories: education, public health, social welfare (the Social Support Network, Social Solidarity Network, Colombian Family Welfare Agency (ICBF), and other programs for the elderly, children, and the handicapped), social security (pensions and health care), housing, water supply and sanitation, and other social services. During the period from 1950 to 2000, the pattern of overall social spending was acyclical (neutral), whereas the pattern of certain components, such as social welfare and housing, was procyclical.⁷ Social welfare spending declined by Col\$9 per Col\$1 reduction in GDP. Analysis of a more recent period (1990-2000) shows a more dramatic correlation: four of the social spending components decreased during crisis periods: social welfare, social security, housing, and other social services. During all the periods under review, spending on education and water supply and sanitation remained acyclical.
- 1.10 The most procyclical component of social spending in Colombia in the past 50 years was social welfare. Considering that social welfare spending is precisely designed to support the most vulnerable population, cuts in that category during times of crisis jeopardize the main protection mechanism for that segment of the population. There are a number of reasons for such procyclical spending: financing for some of these programs is highly dependent on income tax revenues; Colombian tax revenues have procyclical behavior during phases of recession;⁸ and welfare spending is one of the budget items that suffers the first cuts whenever public finances need to be adjusted during times of crisis.
- 1.11 Graph 1 compares GDP growth, the general central government budget, and social welfare spending during the 1990s. Changes in the budget were erratic throughout the period, showing no correlation whatsoever with changes in GDP. After

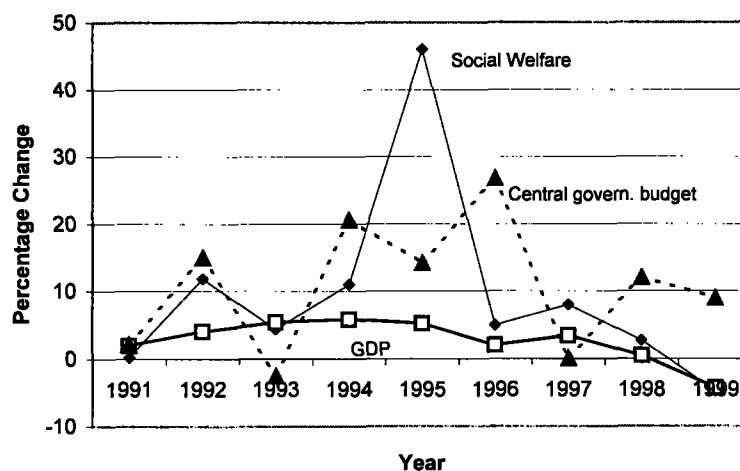
⁶ Definition from the Department of Statistics (DANE).

⁷ This section is a summary of the CRECE analysis (2001) using the Hodrick & Prescott methodology (1997), *Journal of Money, Credit & Banking*, vol. 29(1), to analyze the relationship between cyclical patterns in GDP and social spending and its components.

⁸ In Colombia, income elasticity with respect to GDP is 1, meaning that central government revenues are strictly correlated to economic growth.

increasing by 45% in 1995, social welfare spending showed a strong correlation with GDP growth during the second half of the period and during the crisis.

Graph 1: Growth in GDP and spending

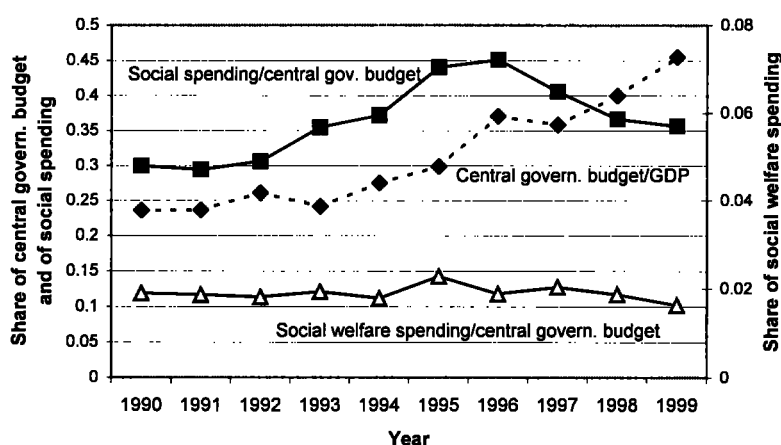


- 1.12 Public spending as a proportion of GDP increased considerably during the 1990s (see Graph 2). Beginning in 1993, the central government budget as a percentage of GDP grew rapidly, reaching 45% of GDP by 2000, a 20% increase over the figure in the early 1990s. Social spending as a share of the overall budget also increased during the first half of the 1990s, rising by 15% (from 30% to 45%) between 1990 and 1996.⁹ However, after 1996, precisely when the economy began to slow down, the share of social spending decreased to 35% by the end of the decade. The share of social welfare remained constant during the first half of the 1990s, increased in 1995, then fell at the end of the decade during the economic recession. During this period, the poverty rate increased by 15%. These cutbacks in social welfare spending, partially as a result of the direct connection between GDP and social welfare spending, led to lower program coverage precisely when it needed to be maintained or expanded to offset the impact of the recession.¹⁰ The procyclical pattern of social welfare spending demonstrates that the current systems for resource allocation also lack the flexibility they need to respond to demand for higher spending in order to maintain and in some cases expand coverage during a crisis.

⁹ The dramatic increase in social welfare during this period was due to two isolated factors. First of all, the final regulations were approved whereby the general share of the unallocated budget was reduced and the Constitutional Court must allocate the percentage established by law for social spending. Secondly, the government had not distributed the proceeds of the privatization of government enterprises, especially telephone service. The Constitutional Court ruled that the proceeds were to be distributed through transfers.

¹⁰ Although structural social spending on education remained acyclical throughout the 1990s, mainly because it is concentrated in salaries and pensions, it was not flexible and consequently could not respond to the increased demand that may arise during a crisis.

**Graph 2: Share of social spending
in the central government budget, 1990-1999**



2. Social program targeting

- 1.13 The beneficiary selection system (SISBEN) is the instrument used to target subsidies for social programs to the poor and vulnerable segments of the population. SISBEN is a welfare index based on unmet basic needs and income levels that assigns points to each individual household to assess its degree of poverty.¹¹ Given this focus, the SISBEN index captures structural poverty rather than economic poverty.
- 1.14 As an instrument for targeting, SISBEN is transparent, low-cost, and easy to use, but its coverage is low and varies. According to DNP data, approximately 40% of the population is registered in the system, with coverage rates ranging from 20% in the department of Cauca to 70% in San Andrés and Casanare. The highly variable coverage of SISBEN is due in part to the fact that use of the system is under the authority of municipalities, which have financial constraints that prevent them from expanding it. Furthermore, the poorest municipalities, which have the greatest needs, are the ones that can least benefit from the system. Although SISBEN has been widely used in the health sector, it has hardly been used for other social programs. In the late 1990s, over 80% of municipalities used SISBEN to select beneficiaries for the subsidized health care system and basely 20% used it for other social programs.
- 1.15 To improve SISBEN and expand its use, it needs to be updated and monitored so as to ensure its accuracy. As currently designed, the system is subject to risks of manipulation by both the interviewees and the subnational agencies that use it. System management, from conducting the survey to processing the data and managing the information, is the responsibility of the municipalities, which allows

¹¹ It is based on a series of factors that measure the assets of an individual, such as the quality of housing and amenities, utilities, demographic features, and human capital.

for discretionary, non-transparent use of the system and creates considerable political obstacles to system reform. The situation is compounded by the high turnover by the administrator in charge of the system, making it difficult to ensure technical system management and systematic updating.

- 1.16 In brief, SISBEN is a key instrument for the allocation of social sector resources in Colombia¹² that needs reforms to ensure its effectiveness and expand its use. Such reforms include: (i) implementation of a transparent quality control and monitoring system; (ii) updating of the algorithm to capture regional discrepancies; and (iii) strengthening of system administration, management, and oversight at the local level.

3. Reorganization and coordination of social programs

- 1.17 Reorganizing social programs and improving their coordination requires activities in the following three priority areas, in order to achieve more efficient allocation of social spending and more effective social protection during period of crisis: (a) expanding coverage for health care and public health; (b) reorganizing and improve the efficiency of resource management in education; and (c) consolidating, improving, and adjusting programs for the poor and vulnerable groups.
- 1.18 **Health.** One of the most important achievements of health care reform in Colombia has been to increase coverage, especially among the poor. According to central government estimates, health system coverage has tripled since 1993. Because of the fiscal crisis and increased unemployment, coverage of the General Social Security System for Health Care (SGSSS) has been limited to the poorest groups, through the subsidized health insurance regime, and enrollment in the contributory health-insurance plan has declined. Health program coverage has remained practically stagnant since 1997, creating intense pressure on the network of public services, the only source of health care for those individuals not covered under the SGSSS.
- 1.19 A barrier to expanding health care coverage is that it is difficult to include the self employed. For those earning more than twice the minimum salary, the cost of participating in the contributory scheme is high, and health promotion agencies hesitate to enroll such workers for fear of adverse selection. Furthermore, self-employed workers with incomes between one and two minimum salaries, classified in levels III and IV by SISBEN, are not eligible for the subsidized regime but cannot afford the entire charge for the contributory system and are therefore also excluded from the system.
- 1.20 The resources available for public health activities declined in the late 1990s, due largely to highly procyclical health spending, with a dramatic impact on vaccination

¹² In 1998, 10% of total social spending and 20% of the health budget were allocated using SISBEN.

rates in the country. From 1995 to 1998, vaccination coverage for tuberculosis dropped from 100% to 85%, diphtheria, pertussis, and tetanus (DPT) vaccinations from 94% to 73%, and polio vaccinations from 94% to 75%.¹³ Rubella vaccination coverage was close to 79% in 1999 and 2000. Preliminary estimates for 2000 show that the negative trend has continued. There is an urgent need for the country to restore vaccination rates: the low polio coverage produced a considerable group of individuals susceptible to the disease when outbreaks occurred in African and Asian countries and some cases in the Dominican Republic. Decreased diphtheria coverage led to outbreaks of that disease in such major cities as Bogota and Cali, where the Ministry of Health had to intervene. Thus, Colombia, which historically has had high vaccination rates, is now exposing the population to health risks that had not been seen in the country for several years and that tend to worsen during times of crisis.

- 1.21 **Education.** Despite the noteworthy increase in resources earmarked for education and neutral spending over time, along with the implementation of a series of innovative programs in recent years, the education system is experiencing programs that stem from inadequate management at the various subnational levels and a defective resource allocation system. Coverage for primary education is not universal and second education coverage is not sufficient, with huge discrepancies by geographic area and income segment. Inequity and inefficiency in the distribution of resources and teachers paid with central government transfers to departments and municipalities are due to the financing system that is basically designed to cover payroll costs, with little consideration given to issues of quality, coverage, and efficiency. This situation is reflected, for example, in a high concentration of teachers in department capitals and urban areas, without student/teacher ratios that are distinctly lower than those of rural areas. In addition, because of the lack of tools to assess public education performance and consistent, timely information and evaluation systems, it is difficult to ensure proper management. The government strategy to ensure efficiency, coverage, equity, and quality in education calls for four areas of activity: (i) execution of the new school system program (1202/OC-CO); (ii) performance agreements to be signed with subnational agencies; (iii) passage of Legislative Act 01 of 2001 on transfers; and (iv) reform of Law 60 of 1993 which regulates Legislative Act 01.
- 1.22 Under the new school system program, reforms will be launched in the Colombian education system to strengthen decentralized, autonomous school management and improve efficiency and social equity in resource allocation as a means of providing a higher-quality service. The program will be carried out in five departments, which will receive technical assistance and incentives to make progress towards the above-mentioned objectives. The performance agreements are agreements between the central government and the departments establishing efficiency, equity, and coverage goals to be achieved through equitable redistribution of human and

¹³ Since 1997, no useful coverage of polio vaccinations has been achieved.

financial resources and optimal use of installed capacity. To date, performance agreements have led to improvements in efficiency that have freed up US\$15 million in resources that have been reallocated to programs designed to improve the quality of education. Enactment of the Legislative Act on transfers laid the foundation for more efficient financing of education and has helped implement changes to increase efficiency and equity in education spending, particularly the transfer of resources based on the number of students rather than the number of teachers. Lastly, reform of Law 60 should create the conditions to correct part of the current rigidities and distortions in public education, which have prevented broader coverage and better quality despite the steadily increasing resources that have been allocated to the sector.

- 1.23 **Social welfare.** In addition to health and education, there is a set of programs designed to mitigate vulnerability and reduce structural and temporary poverty . These programs are called social welfare in Colombia, although some of them have a significant impact on the accumulation of human capital among the poor. An especially vulnerable group consists of children from birth to 18 years of age.¹⁴ A large portion of social welfare spending targets this through the Colombian Family Welfare Agency (ICBF). The purpose of the main ICBF programs is to protect families and strengthen the human capital of poor children by providing food, care, early childhood stimulation, and, to a lesser extent, nutrition. There are few evaluations of these programs. The most recent one conducted on child care programs did not demonstrate a significant impact of the programs on the nutritional status of the beneficiary children, even though the interventions are targeted progressively at the poorest segments of the population. Moreover, the subsidy-based in-kind food programs that use up a high portion of spending do not have impact evaluations or formal targeting mechanisms. Conducting such evaluation is a high priority and a prerequisite for making any necessary adjustments in targeting. At the institutional level, the ICBF is centralized, with little flexibility in its budget and too many responsibilities in the direct provision of services, which has led to inefficient, ineffective performance of its social mission to protect children and few opportunities to adjust the programs to local reality. The ICBF has launched an initiative to transform child care and nutrition programs in order to improve their targeting and impact at the municipal level. In addition, a diagnostic study has been carried out on ICBF management, which suggests that the functions of oversight and service delivery be separated and a framework for decentralization of the ICBF be established.
- 1.24 In addition to the ICBF, there are two main programs that target vulnerable groups. One is the Social Solidarity Network (RSS), which carries out a series of subprograms targeting vulnerable groups, including the population displaced or

¹⁴ In 1999, 69% of urban children and 86% of rural children lived below the poverty line. In 2000, 20% of children under five suffered from chronic malnutrition. Low food consumption and low vaccination rates compounded this situation.

affected by the armed conflict, the elderly poor, the different ethnic groups, and the homeless. In 2000, the Social Support Program (RAS) (loan 1280/OC-CO) was launched with a series of targeted programs designed to alleviate the impact of the high unemployment rate and human capital risk associated with the crisis.¹⁵ Given their development, the programs targeting vulnerable groups need adjustments in the following areas:

- a. The introduction of the new RAS programs means that programs that were originally to be carried out through the RSS need to be reviewed so as to avoid duplication of effort in the central government.
- b. Despite the efforts made under the RSS during the period from 1994 to 1998, there is no longer a program supplementing the income of the elderly poor in Colombia. Given that less than 3% of the population above the age of 60 living below the poverty line receives a pension, the lack of social welfare and pensions for this group constitutes a major gap in social protection coverage.
- c. A number of key programs targeting vulnerable groups operate out of the Office of the President. They need their operations and the institutional framework governing them to be established before the current administration's term of office ends.

4. Unemployment, labor costs, and their impact on social protection

- 1.25 Although the worst of the recent crisis has passed, Colombia still has one of the highest unemployment rates in Latin America. As of June 2001, 17.8% of the economically active population in the three main metropolitan areas was unemployed, with a disproportionate percentage of youth and women being affected. The crisis has also contributed to higher informal employment, with the consequent loss of social security benefits. The problem has structural causes, stemming from the legal rigidities and the quality of education, and other more short-term transitional causes associated with the economic cycle. According to the DNP, structural factors are responsible for 50% of the current unemployment rate and their weight in total unemployment has been on the rise. Until 1990, Colombia had among the most rigid labor legislations in Latin America. Although Law 50, which was enacted that year, dismantled some of the major obstacles to job creation, it maintained legal rigidities that make efficient operation of the labor market more difficult. Law 100, which governs contributions to the SGSSS and pensions, instead of reducing unit labor costs, led to a cumulative increase of 32.9% from 1990 to 1999, representing real increases in labor costs for manufacturers of close to 3.1% per annum.

¹⁵ This program is described in paragraph 1.36(d).

- 1.26 In addition, Colombian legislation still features many regulations that impose differential treatment for various subgroups of the work force. Although these measures were intended to ensure greater protection and labor stability, they have had the opposite effect and constitute a negative incentive, either against employment generation or stability among the groups that were supposed to be protected. For example, Law 50 increased indemnizations for unjustified separation under current contracts, creating a dual system with very high severance costs for existing contracts and very low ones for new contracts, which has contributed to concentrating the burden of unemployment on young workers. The legislature plans to standardize severance payments, thereby reducing labor costs by 3%. Moreover, bonuses associated with the legal definitions¹⁶ of day and night shifts, work on Sundays and holidays, and the steps to agree on the comprehensive salary¹⁷ have raised non-salary costs. The legislature is considering amendments that would give both employees and employers more flexibility in employment contracts, creating more incentives for new job creation. The measures to extend the day shift by one or two hours are expected to generate a 9%-12% reduction in labor costs for the targeted population groups. Similarly, the decrease in bonuses for Sunday work will reduce costs by 50%. Furthermore, payment of only regular salaries on holidays will reduce the bonuses by 9%. And lastly, by reducing the minimum level for the so-called "comprehensive salary" to three minimum salaries, labor costs will decrease by 20%. The elasticity of employment-labor costs is approximately -0.4, which means that the series of measures called for may be the equivalent of generating 250,000 to 300,000 new jobs.
- 1.27 In addition, payroll taxes in Colombia are the highest in Latin America, at 34.5% of salaries, which has also contributed to the increase in informal employment and the decrease in job creation. These contributions are used for various purposes, including "social" programs, which include for example training for skilled workers, with little progressive impact and therefore little impact on poverty reduction, through the National Learning Service (SENA)¹⁸ financed with a 2% payroll tax and the Equalization Funds (*Cajas de Compensación*)¹⁹ financed with a

¹⁶ As currently defined, night work (work carried out between 6:00 p.m. and 6:00 a.m. the following day), receives a bonus equivalent to 35% of day shift work, and work on Sundays is paid with a bonus of 100% of the regular daily salary, regardless of the number of days worked during the week. Work on holidays is subject to a bonus of 200% of the regular salary.

¹⁷ The "comprehensive salary" is an employment contract option under which bonuses are established upon recruitment. It applies to workers with incomes over 10 minimum salaries (the top 2% of salaried workers).

¹⁸ In Colombia, there is an extensive supply of training services in the private sector. An evaluation of SENA financed by the Bank showed that the program had little impact on the income of the workers trained, less than that of workers who received private-sector training. In addition, SENA trainees showed higher unemployment rates than the market unemployment rates for similar groups.

¹⁹ Since they represent cross-taxation, once the SGSSS and pension contributions were increased under Law 100 of 1993, contributions to the Funds for health care and family allowances should have decreased.

4% payroll tax.²⁰ Cutting these contributions in half will affect the universe of formal enterprises. Moreover, in the context of highly limited job opportunities, the current legal minimum salary²¹ acts as another rigidity on the market that translates into higher unemployment and higher informal employment, with a more pronounced impact on the poor. The legislature is considering amending the current apprenticeship contract to allow young people between 16 and 24 years of age—an age bracket disproportionately affected—to be hired at an incremental minimum salary, in order to create more job opportunities for that age group.

- 1.28 The impact of the high unemployment rate has been compounded by the lack of a mechanism to protect labor income. Currently, unemployment protection consists of a combination of unemployment insurance and a few emergency relief plans. The unemployment insurance plan, based on individual saving, only covers a small proportion of the work force in the country: of the 15 million employed workers, 8 million are salaried, and only 2.8 million have unemployment insurance. This is one of the reasons why many households have not been able to maintain their income and welfare during the current crisis and why effective participation in the contributory social security plan has declined. Although insurance for formal unemployment is not very feasible given current economic circumstances, the system needs to be adjusted to improve its performance, coverage, and impact on the most vulnerable groups.

D. Country strategy

- 1.29 The proposed operation falls within the framework of the ongoing reform process undertaken by the government and focuses on the primary objectives of concurrently **mitigating the impact of the crisis and improve the efficiency and effectiveness of social spending**. The experience of the recent crisis and constraints on the budgetary resources available for social programs, especially those targeting the most vulnerable groups, the lack of flexibility in public spending and the severe limitation on current financing point to the need to reduce labor costs, to prioritize, coordinate, and reorganize social programs targeting the poor and vulnerable groups and to ensure greater stability in their financing. **The program will thus support a reduction in future irreversible losses in the human capital of low-income groups as a result of economic recessions.**
- 1.30 In addition to this objective, the program will **support financial stability during the current domestic and international economic crisis Colombia is experiencing**. In terms of the source and application of financing for 2001, sources will total US\$11.108 billion, with disbursements of US\$9.638 billion

²⁰ A 7% reduction in these taxes will generate an estimated increase of some 9% in formal employment, a 2.6% reduction in the informal employment rate, and a 1% decrease in the unemployment rate (World Bank, 1994).

²¹ Estimated at US\$190/month, compared with a poverty line of approximately US\$88/month.

(US\$4.85 billion in external credit and US\$4.788 billion in domestic credit). Other sources of financing include mainly the transfer of US\$631 million in returns from the Central Bank (Banco de la República) to the central government and the use of US\$721 million in Treasury assets.²² As for the application of funds, US\$4,414 billion is being used to finance the fiscal deficit and US\$5.251 to make payments on loans. Resources will also be used to establish a Treasury portfolio of US\$1.003 billion (2001 prefinancing for 2002) and to pay the outstanding floating debt of US\$609 million.

- 1.31 As programmed for 2001, US\$175 million was included in the US\$4.85 billion in external credit for the proposed operation. However, to achieve a balance between the source and application of funds, an additional US\$57 million will be needed. Disbursement of the first tranche will be necessary to achieve the external resources programmed for 2001.
- 1.32 For 2002, sources of funding total US\$9.349 billion, with US\$7.033 billion in disbursements (US\$2.65 billion in external credit and US\$4.428 billion in domestic credit). An estimated US\$378 million in returns will be transferred to the central government from the Central Bank, and the Treasury will use the portfolio established the previous year with the prefinancing resources, which will generate US\$1.064 billion in resources.²³ As for application of the funds, and estimated US\$4.026 billion will be used to finance the fiscal deficit and US\$5.178 billion for debt repayment. Lastly, the government plans to continue to reduce the backlog in outstanding payments. Accordingly, the floating debt will total US\$205 million. According to the external credit programming, US\$155 million will be included in the US\$2.65 billion for the proposed operation, with US\$919 million in additional funding to be generated. Disbursement of the floating tranche for US\$60 million will help close the current funding gap.
- 1.33 It should be noted that the source and application of funds planned by the central government does not take into account the impact of possible financial and credit crises in other countries in the region. Given this possibility and the change in government next year, the need for these resources is even greater. Accordingly, the country needs a sufficient amount of available external resources to offset the impact of expectations that may threaten the gains the country has made in terms of adjustment and reform, especially in the areas of fiscal balance, subnational management, and protection of social spending that will be supported by the proposed program.

²² This includes US\$81 million in privatization proceeds from the sale of Carbocol and US\$168 million basically from methodological adjustments stemming from the fact that the deficit is measures in causal rather than cash terms.

²³ It is important to note that the data included in this document for 2002 are very preliminary and that the government is still in the process of working out its financing program for 2002.

E. Bank strategy

- 1.34 The proposed operation will **support the Bank's country strategy and will supplement previously made investments**. The current country paper for Colombia (document GN-2052-1) was approved in August 1999. It identifies five priority areas: (i) support the peace process and its sustainability; (ii) reduce poverty and inequality; (iii) achieve further decentralization; (iv) modernize the State; and (v) support sustainable growth. The proposed operation would contribute to objective (ii). Moreover, by organizing a social protection system that is financially sustainable, more effective in covering the needs of the population, and more efficient in the use of resources, the program will also contribute to achieving objectives (iii) and (iv). Furthermore, protecting investment in human capital and making the labor system more flexible will enhance the economic growth potential of the country, thereby supporting objective (v). Through its support for the needy, the program will indirectly help achieve objective (i).

F. Bank experience

- 1.35 Given the difficult economic situation in 1998 and 1999, the country paper for Colombia (GN-2052-1) assigned priority to providing support for Colombia through sector lending to ensure financial sustainability and promote structural reforms. The strategy was implemented with the approval of three emergency sector loans totaling US\$1.1 billion. The subsequent economic upswing in 2000 suggested that the crisis had been overcome and that future fast-disbursing operations would no longer be necessary. However, the economy deteriorated and the fiscal situation worsened in the second quarter of 2001, leading the government to resort again to multilateral lending institutions in order to obtain fast-disbursing resources. The lending program for 2001 therefore includes two sector loans for US\$790 million, one of which is the proposed operation. It should be noted that the four sector loans approved in recent years have all been successfully executed. Two of them have already been fully disbursed and 50% of the recently approved subnational fiscal reform program (1335/OC-CO) has already been disbursed. The conditions for release of the remaining tranche are expected to be fulfilled in the first quarter of 2002. The only exception in terms of satisfactory execution was the electric power sector program (1169/OC-CO): three of the tranches have been released, but the US\$105 million balance had to be cancelled because of problems in fulfillment of the last two floating tranches. This evidence of satisfactory execution is important for the proposed operation, because studies conducted by the external evaluation offices of the Bank and the World Bank showed that the most important factor for successful execution of sector loans was a history of satisfactory execution of previous sector loans.²⁴

²⁴ Branson, William and Nagy, Hanna, *Ownership and Conditionality*, OED Working Paper Series No. 8, Washington, D.C., World Bank, 2000.

1.36 The proposed operation will supplement and strengthen the impact of the other operations in the active portfolio and the Bank's lending program:

- a. In the area of **health**, the Bank approved two loans to Colombia, the program to improve health care services (716/OC-CO) and the program to support health sector reform (910/OC-CO). Execution of the latter program has been slow due to certain issues connected with Law 100 that were raised with the change of administration and problems in the awarding of consultants' contracts, particularly the selection of the scientific and technical support unit, a key element of the reform program, which focuses on the provision of technical assistance. Fortunately, by reorganizing the studies and implementing the technical support unit in 1998, the loan is now being processed more expeditiously. Despite the problems in implementation, there is a consensus that the loan is important to support the government in the design and implementation of the reform and its instruments. The program to improve health care services (716/OC-CO) has been executed to the Bank's satisfaction, from both an operational and technical perspective. The system for public hospital property records developed under the program is actually a model to be replicated in other countries. The Bank and the country are currently preparing a program to support adjustment and reform of the public health-care services network (CO-0139).
- b. In the area of **education**, the Bank is carrying out the new school system program (1202/OC-CO), approved in 1999, the objective of which is to undertake reforms in the Colombian education system to strengthen decentralized, autonomous management and to improve efficiency and social equity in the allocation of resources. The program is being carried out in a limited group of departments and municipalities. Both the design and execution of the program components are expected to be used as the basis for improvements in the allocation of resources in other departments and municipalities. One of the problems this program seeks to resolve in five departments is the lack of incentives for the various subnational governments to streamline and efficiently allocate their teaching staff, an area that will supplement the activities to be carried out under the proposed program.
- c. In terms of **social welfare**, the Social Solidarity Network loan (889/OC-CO) was approved by the Bank in 1995. At the government's request, since 1998, the Bank funding for this project has focused on housing subsidies. The project is scheduled for completion in late 2001. Since that time, the purpose of the network, which operates with central government financing, has been to provide untied social welfare assistance to specific vulnerable groups, including displaced persons, victims of the violence caused by the armed conflict, ethnic groups, the homeless, the handicapped, and the elderly. At the present time, the subsidies distributed through the RSS are targeting using the characteristics of the vulnerable groups. The only exception has been the subprogram for the

elderly which used the SISBEN system to target the poorest ones, but it has not had either the mechanisms or the financing necessary to reach the target population. Reform of this RSS subprogram is included in the proposed operation.

- d. In 2000, recognizing the urgent need to alleviate the social impact of the economic crisis and fiscal adjustments on poverty and the inability of current programs to respond to the phenomenon, three temporary subprograms were launched under the Social Support Network (RAS) (1280/OC-CO). These are: (i) the **employment subprogram**, which provides temporary employment to poor, unemployed workers²⁵ for construction works that require unskilled labor; (ii) the **family support subprogram**, under which subsidies are transfers to families in SISBEN I in exchange for investments in the health, education, and nutrition of their children, thereby attacking the roots of poverty and at the same time providing supplementary income for families living in extreme poverty; and (iii) the **youth worker training subprogram** provides job training for young people in SISBEN I and II through a competitive system. Each subprogram has undergone a rigorous impact evaluation and has established entry and exit criteria, the findings of which will be reviewed by the government in 2004 in order to determine whether they will be included in the permanent social safety net systems. The RAS was launched in 2001 and the subprograms will reach full capacity by the end of the year. During preparation of the RAS, all the government social programs were examined in order to identify any coverage gaps, the benefits accrued, inefficiencies in the allocation of social spending, and challenges in the sustainability of the programs. The proposed operation reflects the plan for reforms and pending evaluations set forth in the studies. Accordingly, it is part of a coordinated, cumulative process of investment and policy transformations to build an effective, sustainable social protection network.

²⁵ Given the salary paid, this subprogram is self-targeted.

II. THE PROGRAM

A. Program objectives

- 2.1 The general objective of the program is to improve the impact and effectiveness of social spending by ensuring the soundness and sustainability of investments and reducing the adverse effect of economic crises. Its specific objectives are to: (i) establish countercyclical, transparent systems to finance targeted social welfare programs during times of economic crisis; (ii) strengthen and increase the transparency of targeting for social spending; (iii) improve the efficiency of social spending; and (iv) increase the flexibility of the labor market so that it is more responsive to the changing economic conditions.

B. Program structure

- 2.2 The program will be carried out through two operations. The first consists of a program based on the adoption of policy measures, supported by a sector loan to be disbursed in three tranches. The sector loan disbursements will be subject to the implementation of policy measures and the achievement of goals agreed upon by the Bank and the country. These activities are summarized in the attached policy matrix (Annex 1). The tranches will be as follows: US\$175 million for the first tranche, the conditionality of which must be fulfilled by the date the operation is submitted to the Board of Executive Directors; US\$155 million for the second tranche; and US\$60 million for a floating tranche. Because it is self-contained, the floating tranche will not be subject to the conditionalities for the second fixed tranche. The second operation consists of a three-year technical-cooperation loan to support the design and implementation of the reforms necessary to ensure that the program objectives are achieved.

C. Program description

1. Macroeconomic stability

- 2.3 A condition for both tranches will be that Colombia continues to follow the guidelines established in the Policy Letter and Contingency Agreement signed with the IMF for the period from 2000 to 2002 (conditions 1 and 2).

2. Stabilization fund for social welfare spending

- 2.4 **Objective.** The objective of this component is to establish and implement a financial fund to mitigate the impact of macroeconomic crises on the poorest segments of the population. This instrument will be used to mobilize resources during periods of growth that can be used for programs targeting the most

vulnerable segments of the population during times of crisis, according to clear, transparent rules.

- 2.5 **Description.** This countercyclical instrument will be the Financial Fund for Stabilization of Social Welfare Spending (the Fund), which will supplement public spending on social welfare programs during times of economic downturn, so as to expand coverage to the lowest-income groups. The main features of the Fund are set forth below.
- 2.6 **Size of the Fund.** The size of the Fund will be approximately 0.5% to 1% of GDP. Preliminary DNP estimates suggest that some 0.8% of GDP would be necessary to address the cyclical component of a severe crisis, based on the experience gained during the crisis in the late 1990s. To avoid oversaving, the Fund will have a cap of 1% of GDP.
- 2.7 **Source of funding.** The Fund will be fed by regular central government funding according to a preset formula, in years in which economic growth exceeds certain parameters. The scenarios described below were determined on the basis of a study on the real saving capacity of the central government in Colombia and projected economic growth in the coming years. Given that the long-term elasticity of tax revenues with respect to economic growth is unitary, it can be assumed that economic growth will generate a proportionate increase in tax revenue. However, the Fund will not necessarily be fed exclusively from these resources. Through its institutional operating mechanisms, other special resources may be channeled into the Fund, such as capital income or external credit.
- 2.8 **Saving rule.** The Fund will be governed by a specific saving rule for the period from 2002 to 2008, based on estimated economic growth in the country in the medium term, which will be approximately 4% per annum. The rule will be as follows for the period: at the end of each year with a growth rate of more than 4%, the Fund must have accrued the equivalent of 50% of the difference in effectively collected revenues and the estimated revenues for the year assuming an economic growth rate of 4%, according to the following formula:

$$A_t = 0.5[T_t - E(T_t)]$$

where A_t is the saving for the Fund in year t , T_t the sum of all current revenue effectively received by the central government in year t , and $E(T_t)$ the hypothetical calculation of current revenue for year t assuming an economic growth rate of 4%. The methodology for calculating Fund income will be reviewed in 2009, since the formula for calculation of estimated income for computation of transfers to subnational governments will end that year. In addition, the 4% basic economic growth rate scenario will have to be reviewed. As for the period 2002-2008, the formula will have to be adjusted to offset the impact of any changes in tax policy.

- 2.9 **Rules for use.** The Fund resources may be used once two quarters of negative growth in GDP have been documented, which will constitute the definition of a “crisis” for the purposes of Fund management.²⁶ Use of the Fund resources will be discontinued once per capital GDP has been equal to or greater than what it was the quarter prior to the crisis for four consecutive quarters, by may be discontinued earlier if deemed appropriate by the governing body of the Fund. Use of the resources may not exceed 0.3% of GDP each fiscal year, calculated on the basis of a review of the unmet needs resulting from the increase in poverty associated with the crisis in the late 1990s.
- 2.10 **Eligible uses.** The poorest segments of the population are the most vulnerable in crisis situations, and there is a high risk of loss of human capital in those segments during periods of economic downturn. A program will be eligible to receive Fund resources if it meets the following four criteria: (i) use SISBEN to target its spending to the poorest groups; (ii) target the SISBEN I and SISBEN II levels;²⁷ and (iii) include among its objectives human capital protection and promotion. Examples of current programs that would be eligible for financing under the Fund are the RAS and RSS subprograms and certain ICBF programs.
- 2.11 The Fund proceeds will be used exclusively to expand coverage for the newly poor during crisis periods and may not replace current structural spending allocated annually in the central government budget to the targeted social programs that are eligible for financing from the Fund. To avoid such a substitution effect and ensure that the Fund resources are used for additional coverage, the operating regulations will specify the levels of structural spending that must be maintained as a condition for use of the Fund resources during crisis periods.²⁸
- 2.12 **Operating and institutional framework.** The Fund must be established by law and its operating mechanisms must be regulated by an executive decree. Fund management will be the responsibility of a reliable private institution (investment bank or another type of fund administrator). The Fund resources, initially collected in local currency, will be converted into foreign exchange and invested in highly secure, liquid financial instruments on the international capital market, in order to

²⁶ From 1950 and 1993 (the year in which decentralization was launched), Colombia only experienced two consecutive quarters of negative growth. Since 1993, this has occurred four times, highlighting the profound structural change in the Colombian economy since 1993.

²⁷ These levels are approximately equivalent to the poorest quintile in income distribution.

²⁸ It should be noted, however, that ICBF receives its resources directly from the collection of payroll taxes and that there is no budgetary discretion in the allocation of its resources.

guarantee maintenance of value and rapidly available resources during times of crisis.²⁹

- 2.13 The National Council on Economic and Social Policy (CONPES)³⁰ will be responsible for management of the Fund as the governing body, with support from the Social Development Department and a technical unit of the DNP, which will act as technical secretariat. The duties of these units will include: (i) establish the operating and budgetary mechanisms to feed the Fund according to the parameters agreed upon, ensuring compliance with the saving rules; (ii) monitor the socioeconomic indicators and determine when the Fund should be activated and deactivated; (iii) assign priority to the programs to be financed by the Fund and coordinate their implementation with the respective executing agencies; (iv) recommend special resources for the Fund where appropriate; and (v) ensure that management of the fund and the eligible programs is consistent with transparent rules and strict accounting.³¹
- 2.14 **Conditions for release of the first tranche (condition 3).** The DNP and the Ministry of Finance must submit a document approved by CONPES to the Bank, justifying and establishing the main features of the Fund as described in this section, that is: (i) objective; (ii) estimated size; (iii) source of funding; (iv) saving rule; (v) investment rules; (vi) deactivation rules; (vii) eligible uses; (viii) operating and institutional arrangements. In addition, CONPES will recommend legal establishment of the Fund.
- 2.15 **Conditions for release of the second tranche (condition 4).** The Fund will have to enter into effect, meaning: (i) enactment of legislation establishing it; and (ii) regulation of the institutional structure and issuance of operating regulations for the Fund.

3. Social program targeting

- 2.16 The purpose of the activities to be carried out under this component is to improve the accuracy and transparency of SISBEN and ensure its use at the subnational level and in the policies on national social welfare programs. These last two objectives will be achieved under the concurrent technical-cooperation project. The expected output is a more transparent, reliable instrument that will help better target social spending to the poorest, most vulnerable segments of the population.

²⁹ Although given the small size of the Fund, its management will not have any major macroeconomic impact, it should be noted that in principle the flight of foreign exchange during economic booms would tend to cause the currency to depreciate at a time when it would have a natural tendency to appreciate, and the reverse effect during periods when the foreign exchange is returned to the Fund. This may have a positive impact on stabilization of the real exchange rate.

³⁰ CONPES is a ministerial board that approves social and economic policy and proposed legislation.

³¹ This includes publication and regular updating of the Fund resources in DNP and MHYCP websites.

- 2.17 Specifically, the project will stress three areas to strengthen SISBEN: (i) adjustment and fine-tuning of the point system by updating the algorithm used; (ii) design and implementation of a quality control system for SISBEN use to minimize screening and exclusion errors; and (iii) greater use of SISBEN for the selection of beneficiaries in various social programs and extension of SISBEN coverage in terms of the number of new beneficiaries by strengthening local system management and administration capacity.
- 2.18 **SISBEN adjustment.** The program will support the adjustment and fine-tuning of the index used to evaluate individual eligibility for the various social programs and implementation of the new instrument. The index will be strengthened by taking into account regional factors in the measurement of welfare, since there are significant differences in the level of unmet needs across the country.³²
- 2.19 **Quality control.** The program will support the design and implementation of a quality control system to minimize screening errors in the use of SISBEN. The system will have two components. The first will be a centralized monitoring, follow-up, and evaluation system. The unit responsible will conduct evaluations by sampling on a rotating basis by region to review SISBEN records and will cross compare the SISBEN databases with other sources to ensure quality. The DNP unit responsible will also provide technical assistance to the municipalities in data management and security and will oversee the updating process. In addition, it will be recommended that the SISBEN technical administrator at the municipal level have continuity, with a better professional profile than currently required. The second component will consist of strengthening community oversight of SISBEN use and management. This will include community outreach to provide more public information on individual rights with regard to SISBEN and service delivery, and a more broad-based, open role for community oversight groups.
- 2.20 **Incorporation into social policy.** In order to create transparent, consistent social programs that serve the poorest, most vulnerable segments of the population, the program will promote the use of SISBEN in other social and social welfare programs, including certain ICBF programs for child nutrition and the elderly poor program, and will be carried out through the concurrent technical-cooperation project. These programs will be evaluated to determine where SISBEN could be most useful depending on how easily it could be applied (cost) and how much screening could be reduced (benefit). In addition, the program will create the conditions for SISBEN coverage to be expanded in terms of the number of individuals registered in the system, assigning priority to the poorest municipalities. To this end, the technical-cooperation funding will be used for staff training and strengthening of the local administration in SISBEN application, verification, and management. The program will require a work plan for the training and strengthening in preselected regions.

³² The index currently used varies between rural and urban areas, but not by region.

- 2.21 **Conditions for release of the first tranche (condition 5).** CONPES must approve the SISBEN reform, as follows: (i) adjust it to identify regional disparities and formulate a strategy for adoption of the new instrument; (ii) institute a quality control and centralized monitoring system, through evaluations by sampling on a rotating basis by region to review SISBEN records and specifying penalties for municipalities if they have an error rate above a percentage to be determined; and (iii) strengthen system administration and oversight at the local level.
- 2.22 **Conditions for release of the second tranche (condition 6).** The SISBEN reforms must be implemented, specifically: (i) apply the new SISBEN record to newly surveyed individuals in at least four municipalities; (ii) establish and launch the unit in charge of SISBEN quality control and monitoring with at least one evaluation (new survey) completed; and (iii) provide training in SISBEN management, administration, and oversight in at least four municipalities.

4. Reorganization and coordination of social programs

- 2.23 The activities to be carried out under this component are designed to promote more efficient use of social spending. The expected outcome of the component is more effective social spending to maintain and improve the welfare of poor, vulnerable segments of the population, during times of both crisis and more stability.

(i) Health

- 2.24 The purpose of this subcomponent is to strengthen social protection in health through different instruments to extend SGSSS coverage and to restore vaccination coverage rates. Specifically, the program will: (i) expand coverage of the subsidized system; (ii) expand health insurance to groups of self-employed workers who qualify for the contributory system and expand the subsidized system to self-employed workers classified in SISBEN levels III and IV; and (iii) restore vaccination coverage in Colombia.
- 2.25 **Conditions for the first and second tranches (conditions 7-10).** The program will support approval and implementation of expanded insurance coverage under the subsidized regime to self-employed workers classified as SISBEN levels III and IV (conditions 7 and 8). In Colombia, subnational governments are responsible for enrolling the population in the subsidized regime. Insurance coverage under the subsidized regime will thus be expanded to self-employed workers classified as SISBEN levels III and IV by the municipalities, which will reallocate resources from central government transfers and from their own collections. The municipal resources will finance 40% of the unit capitation charge for the subsidized system for level III workers and 20% of it for level IV workers. The difference will be covered by the workers. The subnational governments will have an incentive to promote worker enrollment because they are responsible for coverage of all health

care costs for the unaffiliated population. The municipalities will use an estimated one fourth of the their own resources to this end.

- 2.26 The program will help establish a system for cofinancing by self-employed workers and workers' associations, groups, or other institutions that will make their enrollment in the contributory system viable (condition 8). This system will minimize the risk of adverse selection by reducing resistance to enrollment of these workers on the part of health care providers and will establish mechanisms to finance the unit capitation charge for the contributory regime.
- 2.27 The program will also ensure that additional central government resources are allocated to finance expansion of the subsidized system to 350,000 individuals classified in SISBEN levels I and II who are not enrolled in the SGSSS (condition 7). The resources necessary for this expansion will be drawn from the *pari passu* the central government must contribute to a subaccount of the Security and Guarantee Fund to finance the subsidized regime, in the amount of 50% of the resources collected by the Security and Guarantee Fund through a 1% contribution by participants in the contributory regime. The cost of expanding coverage is an estimated US\$40 million. This additional expense for the central government budget will be offset by adjustments in non-social areas, so that the fiscal deficit goals can remain intact. It should be noted that once people are enrolled in the subsidized system, they will remain in it in subsequent years provided there is no change in their financial status.
- 2.28 In addition, for release of the first tranche, the budget for the year in which the disbursement is made must have sufficient resources to finance the purchase of the vaccines necessary to achieve a 95% vaccination rate (condition 9). For release of the second tranche (condition 10), it must be demonstrated, through the Annual Cash Plan drawn up by the Ministry Finance, that the resources needed for the vaccination program and maintenance of that coverage level for the following year will be available on a timely basis. The State must supply a sufficient quantity of vaccines on a timely basis in order to restore the vaccination coverage rates Colombia had posted in recent years and to reduce the morbidity and mortality caused by vaccine-preventable diseases. The cost of procuring the vaccines in sufficient quantities to meet these goals are not high, an estimated US\$18 million annually.

(ii) Education

- 2.29 The objective of this subcomponent is to improve the efficiency, coverage, and equity of the education sector by reorganizing the teaching, executive, and administrative staff at the subnational level, reallocating financial resources, and improving use of installed capacity.

- 2.30 Departments that enter into performance agreements will receive technical assistance to help them achieve the goals agreed upon. The technical assistance will be used for technical support and as an incentive to meet the goals. The activities to be carried out in education will improve: (i) primary and secondary education enrollment; (ii) equity in the assignment of teachers in the departments; and (iii) efficiency in the allocation of resources. Enrollment will be increased by making more student slots available. The new slots will be financed with the saving generated by enhanced efficiency, in particular through an increase in the student/teacher ratio. Equity in the assignment of teachers in the departments will be achieved by reassigning teachers and thereby improving the student/teacher ratio. Efficiency in resource allocation will be achieved by eliminating teaching and administrative positions and will be measures by an increase in the average student/teacher ratio. In addition, enactment of Law 60 laid the foundation for resources to be distributed to the departments by capitation, which will increase efficiency in the allocation of resources.
- 2.31 **Conditions for release of the first tranche.** Ten performance agreements will be signed (condition 11) by the Ministry of Education, the DNP, and the departments that will include the baseline data and goals for enrollment, efficiency, and equity described in the above paragraph. The departments that enter into the agreements agree to reorganize and reallocate their teaching and administrative staff so as to improve enrollment, enhance equity in teacher assignment among the municipalities in each department and among the departments, and increase the general student/teacher ratio for the departments.
- 2.32 **Conditions for release of the second tranche.** The following three conditions must be fulfilled: (i) five performance agreements with five additional departments must be signed, with the same provisions as the 10 first ones required for release of the first tranche; (ii) the benchmark performance indicators for enrollment, equity, and efficiency set forth in the 10 performance agreements entered into under the first tranche must be achieved (condition 12); and (iii) regulatory decrees on reform of Law 60 must be submitted (condition 13). If the benchmarks for the first 10 performance agreements are achieved, they will be monitored by the DNP quarterly and will be achieved by the municipalities through reorganization and reallocation of the teaching and administrative staff applicable under the current regulations. In accordance with the more recent bill to amend Law 60 currently under review by the legislature, regulation of the education sector will focus on the following areas: (i) requirements for teachers; (ii) technical ratios (student/teacher) to determine municipal teaching staff and reallocate the teaching and administrative staff so as to maintain equity among the departments; (iii) criteria for the allocation of central government transfers to subnational governments that may include measures for transfers based on the number of students (capitation); (iv) mechanisms to implement and update the education information system in the subnational governments; and (v) requirements for municipal certification in education.

(iii) Social welfare

- 2.33 The primary objective of this subcomponent is to increase the efficiency and effectiveness of spending on comprehensive child services provided by the ICBF and municipalities in the country through decentralization and increased flexibility in financing and programming at the municipal level. It will be achieved through a pilot project to evaluate decentralization of ICBF financing and separate financing from service delivery in the ICBF. The project could subsequently be extended, depending on the results of the evaluation, which will be carried out with financing from the concurrent technical-cooperation operation. The expected outcome is greater coverage and more effective, needs-based spending for poor children.
- 2.34 **Conditions for the first tranche** (condition 14). The program will support: (i) diagnostic studies on the status of children in 10 municipalities that will have a community outreach component³³ to help prioritize and program spending on child services based on identified needs; and (ii) approval and implementation of a pilot project to decentralize the family welfare system and increase its flexibility. The project will operate through agreements for matching grants between the ICBF and the municipalities based on performance in child services, the transfer of responsibilities, and more flexible resource allocation. The agreements will include financial incentives the help ensure timely achievement of the performance benchmarks. The municipalities to participate in the pilot project will be selected according to the size of their target population and their capacity to implement the project. Each agreement will: (i) set priorities as to which the population groups will be service, based on the diagnostic study and child service policy; (ii) identify public and private alternatives for services and/or types of services; (iii) commit and allocate the necessary financial resources; and (iv) establish the baseline data and benchmarks to be achieved through the services financed. A sample agreement is available in the technical files of the program.
- 2.35 **Conditions for release of the second tranche.** The program will support continuation of ICBF decentralization through 10 cofinancing agreements (condition 15). By year-end 2002, US\$280 million of the ICBF national budget, or approximately half of total ICBF income for that year, should be decentralized.
- 2.36 The second objective of this subcomponent is to consolidate, review, and adjust national programs targeting vulnerable groups that are being duplicated, are not well coordinated, and/or are not meeting their objectives.

³³ The community outreach will be carried out according to a methodology for participatory diagnostic study, consensus-building, and participatory planning and prioritization. Different interest groups in the community will participate in the outreach activities, including representatives of the ICBF, the municipal authorities in the areas of planning, health, and education, NGOs, universities, users, and the private sector. A special effort will be made to involve NGOs that represent marginal and vulnerable groups. These municipal outreach groups will be maintained over time and will also participate in the monitoring and evaluation of the agreements executed.

- 2.37 **Conditions for release of the first tranche.** An action plan agreed upon with the Bank will be submitted for consolidation, review, and adjustment of national programs targeting vulnerable groups (condition 16).
- 2.38 **Conditions for release of the second tranche.** The following activities will be required: (i) the plan referred to in condition 16 must be implemented, including suspension of RSS duplicated programs; (ii) the necessary adjustments in the elderly care program must be identified, in order to improve program impact and cover a higher percentage of the elderly poor; and (iii) the programs targeting vulnerable groups must be officially established in the Office of the President, including programs for domestic violence and family harmony and for care for the handicapped (condition 17). Institutionalizing these programs will mean that each one will have an operations manual and a file on its outputs that will allow the next administration to assess it and its achievements and maintain its operation immediately.

5. Labor measures

- 2.39 Under this component, the capacity of the labor market to adapt to the changing conditions in the economy, due to both economic cycles and changes in the skills needs on the market. The expected output is a reduction in non-salary costs and consequently a decline in informal employment and in unemployment.
- 2.40 **Condition for release of the first tranche (condition 18).** Evidence must be submitted that draft legislation has been submitted to the legislature to establish incentives for job creation and a reduction in non-salary costs. The legislation will include the following measures:³⁴ (i) modification of apprenticeship contracts to allow young people between 16 and 24 to be hired for a differential minimum salary in order to reduce unemployment among youth and increase their opportunities for job training; and (ii) a reduction in the premiums associated with the definition of the workday, work on Sundays and holidays, the cost of separation associated with permanent employment contracts, and “comprehensive salary” contracts.
- 2.41 **Condition for release of the floating tranche (condition 19).** The new labor legislation, which must at least include the provisions referred to above, must be enacted. Given the nature of legislative procedures, the floating tranche option was selected. Passage of the legislation is expected in the first half of 2002.
- 2.42 **Protection of worker income.** Given the limitations of the current unemployment insurance system, the program agreements include a study to design a set of activities and instruments to protect worker income, in order to address economic

³⁴ The proposed legislation under review by the legislature includes a reduction in parafiscal contributions to SENA and Equalization Funds.

crisis situations and to help promote better adaptation of the labor market to the changing conditions of the domestic and international markets. The objectives of the study are to: (a) assess all current programs for worker income protection; and (b) formulate recommendations to (i) improve and/or expand the programs; (ii) design and implement new programs; and (iii) improve the institutional framework and linkage between the different programs. Completion of the study is not included as a condition in the Policy Matrix, but is part of the Policy Letter.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Colombia and the executing agency will be the Department of Planning (DNP), which would be responsible for overseeing the program activities and coordinating them with other agencies. To fulfill the conditions set forth in the Policy Matrix, the DNP will take the necessary steps with other agencies and deliver the documentation required to demonstrate fulfillment of the conditionality for each component.
- 3.2 Given the multi-agency and multisector nature of the proposed operation, a technical group will be set up in the DNP that will be responsible for coordination and implementation of the program activities and for execution of the concurrent technical-cooperation project. The technical group will have the following duties with respect to the program: (i) oversee and monitor fulfillment of the program conditions; (ii) prepare and process disbursement requests; and (iii) coordinate, consolidate, and submit progress reports on the performance indicators. In addition, all the other requirements stipulated in the contract for the prospective loan must be met. To ensure proper fulfillment of the conditionality, the DNP will coordinate activities with the Ministries of Health, Education, and Labor, the ICBF, and the Office of the President.

B. Financing

- 3.3 The proposed financing will consist of a fast-disbursing loan for up to US\$390 million, which would be disbursed in three tranches, two fixed tranches and a floating tranche. The first tranche will be for US\$175 million, the second, US\$155 million, and the floating tranche, US\$60 million. Because of its self-contained conditionality, the floating tranche will be released independently of the conditionalities associated with the second fixed tranche. The amount to be disbursed for each tranche is proportionate to the importance of the policy measures and financial programming for external resources of the country.
- 3.4 Disbursements will be made once the requests have been received from the borrower, which will include supporting documentation confirming fulfillment of the conditions precedent for release of each tranche. The documentation will be detailed in the loan negotiation records and will be available in the technical files of the program.
- 3.5 As a condition precedent to release of each tranche of the loan, the borrower, through the executing agency, must agree to: (i) keep separate accounting records and supporting documentation so that the external audits and verifications the Bank

may require can be conducted; and (ii) open a separate bank account into which the loan proceeds will be deposited.

- 3.6 The Bank reserves the right to ask the borrower, through the executing agency, to submit reports on the use made of the loan proceeds, examined by independent external auditors acceptable to the Bank.
- 3.7 The disbursement schedule calls for the first disbursement to be made once the conditions precedent to release of the first fixed tranche have been fulfilled to the satisfaction of the Bank, which is expected to occur prior to presentation of this proposal to the Board of Executive Directors. The second disbursement will be made once the conditions precedent to release of the second tranche have been fulfilled to the satisfaction of the Bank, which is expected to occur approximately six months after signature of the loan contract.
- 3.8 The project team will review the information submitted by the country to verify execution of the policy measures agreed upon and prepare the respective reports for the Management and Board of Executive Directors of the Bank so that disbursements can be released according to current policies.

C. Monitoring and evaluation

- 3.9 The borrower has indicated that it would like an ex post evaluation to be conducted that will measure the impact of the policies supported by the program. The evaluation will be financed with resources from the concurrent technical-cooperation project. The performance indicators associated with the policies supported by the program, described in Table 1 below, will be measured at the end of year one and year two of the technical-cooperation project. The indicators were selected to reflect the medium-term objectives in each area of social policy covered by the proposed program. Several sources of information will be used to measure the indicators selected, including the 2002 quality-of-life survey to be conducted also with resources from the technical-cooperation loan, and data bases maintained by the DNP and respective ministries. The plan of operations for technical cooperation describes the framework for execution and the cost of the evaluation. The indicators will be broken down by sociodemographic categories such as poverty rate, ethnic group, and gender.

Table 1
Outline for program monitoring and evaluation

Program area	Expected outputs (indicators to be measured)	Baseline data³⁵	Year one goal	Year two goal
Targeting	<ul style="list-style-type: none"> ▪ Reduce exclusion error ▪ Reduce screening error ▪ Real increase in poor population served 	20% 30% 6.65 mil.	15% 22% 10 mil.	10% 15% 12 mil.
Health	<ul style="list-style-type: none"> ▪ Increase enrollment of eligible population in subsidized SGSSS system ▪ Increase enrollment of eligible population in SGSSS contributory system ▪ Increase vaccination coverage 	9.5 mil. 12.3 mil. 77%	9.85 mil. 13 mil. 95%	10 mil. 14 mil. 95%
Education ³⁶	<ul style="list-style-type: none"> ▪ Increase number of student slots ▪ Increase number of departments with minimum student/teacher ratio required ▪ Increase average student/teacher ratio 			
Children	<ul style="list-style-type: none"> ▪ Increase% of SISBEN level I and II children receiving child care, health care, and nutrition 	46%	50%	55%
Other social programs	<ul style="list-style-type: none"> ▪ Increase% of SISBEN level I elderly receiving minimum pension 	3%	10%	15%
Employment	<ul style="list-style-type: none"> ▪ Reduce non-salary labor costs 	36%	29%	29%

D. Conditionality

- 3.10 The Policy Matrix attached as Annex 1 lists the conditions to be fulfilled for release of the three tranches, which will be duly stipulated in the loan contract. The Policy Letter attached as Annex 2 details the policies the borrower will implement as the framework for program execution.

³⁵ Figures taken from the 1997 quality-of-life survey or official DNP statistics, to be updated with the 2002 quality-of-life survey.

³⁶ There are baseline data and benchmarks for each department that enters into a performance agreement, which are available in the program technical files.

IV. VIABILITY AND RISKS

A. Social and environmental impact of the program

- 4.1 This operation qualifies as a social equity-enhancing project, as described in the key objectives for Bank activity set forth in the Report on the Eighth General Increase in Resources (document AB-1704). As a fast-disbursing sector loan, the program cannot qualify as a poverty-targeted investment. However, the program activities do target the poorest segments of the population in the country and will directly contribute to improving their standard of living.
- 4.2 The program will have a significant social impact. First of all, by ensuring financing for effective programs for social welfare and protection during economic crises, improving the quality and transparency of targeting for effective programs, and reorganizing and increasing the efficiency of social programs, it will create the conditions for a more effective response to the structural poverty and to the impact of the current crises and any future ones on welfare. These activities also imply a more effective approach to reaching vulnerable and excluded groups. Secondly, the activities in the area of employment will help make employment contracts more flexible and reduce non-salary labor costs, which should lead to an increase in formal employment and a reduction in the unemployment and informal employment rates, especially among the segments most seriously affected by the current crisis (women and youth), thereby providing greater access to the formal social safety net. The impact of these measures will be measured in the ex post evaluation referred to above.
- 4.3 The proposed program will not have an adverse environmental impact, since its activities are limited to policy reform. The Committee on Environment and Social Impact considered the operation at its 13 July 2001 meeting, and the recommendations it made were incorporated into the project report.

B. Fiscal balance and poverty impact of the program

- 4.4 The immediate feasibility and long-term sustainability of the social programs and a reorganized social protection system depend on public spending and the general revenues of the central government. The proposed program will help generate saving through reorganization and new financial instruments, as well as through increasing spending to expand certain key programs. In terms of the central government budget, apart from the possible reduction in parafiscal contributions that would have a major impact on total social spending in Colombia, the additional costs associated with the program activities will total an estimated US\$18.5 million annually and the savings close to US\$621 million annually.

- 4.5 The savings associated with the reform and improvement of the SISBEN targeting system will be significant. There are currently an estimated 3.2 million individuals mistakenly enrolled in the subsidized health system due to errors in SISBEN use. The size of this group implies an additional cost of close to US\$600 million a year, whereas, given the magnitude of the poverty gap, for every Colombian to reach the poverty line, some US\$900 million would be necessary. According to simulations carried out with the Household Survey, the potential benefits of have a more accurately targeted instrument, if funding were channeled through a conditional subsidy system, would be to reduce the extreme poverty gap from 38% to 10%, a 74% drop.
- 4.6 In education, savings will total an estimated US\$20 million annually in 2001 and 2002, which amounts will be reinvested in the education system to improve service quality. In health, the estimated annual cost of the vaccination program is approximately US\$18 million, but the fiscal impact of the measures to extend insurance will have a neutral impact nationwide, as described in paragraph 2.26. Because the program will focus on more effective reallocation and use of current expenditures, the impact of the ICBF activities will have a neutral impact in terms of the budget. Elimination of duplicated RSS programs will free up US\$500,000, which will be reinvested in a revamped RSS program to assist the elderly poor. The elderly program will require additional spending in the same amount to expand benefits to the entire target population.

Table 2
Program-generated savings and spending

Program area	Savings	Additional spending
SISBEN	600 million	-
Education	20 million	-
Health	-	18 million
ICBF	-	-
RSS	0.5 million	0.5 million
Total	620.5 million	18.5 million

- 4.7 The fiscal balance does not reflect the benefits of the reorganized investments, the impact of the savings reallocated to more productive uses, no the savings in health spending generated by the increased vaccination coverage. As indicated in the monitoring and evaluation table in chapter III, the impact of the program activities on the performance indicators will be evaluated in each area.

C. Risks

- 4.8 **Fund capacity for savings.** A series of simulations was conducted to model the savings capacity of the Fund based on macroeconomic scenarios for central government revenue developed by the government and used by the IMF. The estimates were based on the saving rules discussed in chapter II, according to

different economic growth scenarios for the period from 2003 to 2010. The scenarios, average saving rate, years of saving, and accrued savings are shown in Table 3. The exercise showed that if the growth pattern for the next eight years stays the same as it was during the period from 1988 to 1995, the Fund will accrue 1% of GDP, the best-case scenario. However, if the pattern is the same as for the period from 1985 to 1992, the fund will accrue barely 0.2% of GDP, the worst-case scenario. The government would then only have enough resources for a one-year crisis and would have to seek other sources of financing to respond to a longer one.

Table 3
Simulated Fund Savings*

Assumed growth rate during 2003-2010 period	Average increase	Years of savings	Savings (% of GDP)
1. Equal to growth pattern in 1990-1997	4.13	4	0.56
2. Equal to growth pattern in 1989-1996	4.11	4	0.76
3. Equal to growth pattern in 1988-1995	4.38	4	1.00
4. Equal to growth pattern in 1987-1994	4.38	4	0.84
5. Equal to growth pattern in 1986-1993	4.38	4	0.48
6. Equal to growth pattern in 1985-1992	4.06	3	0.20
Average accrued savings:			0.64

*Accrued savings estimated based on saving rules described in paragraphs 2.9-2.11.

- 4.9 **Program timing.** Program timing is crucial, since the difficult policy decisions associated with the program activities are usually made during period of recovery from economic crises, not during healthier fiscal times. This is an opportunity for decisions to be made that will have an immediate effect on the welfare of the target population and a mitigating impact on future shocks. Nevertheless, there is a risk that, given the current economic situation, the political cycle may create difficulties for the necessary decisions to be made. Legislative elections will be held in March 2002 and the newly elected legislators will take office in July. Presidential elections will be held in May (with the second round scheduled for June) and the new President will take office in August. Accordingly, the respective legislation should be passed by March 2002 and an information campaign needs to be carried out with intensive outreach activities for the main stakeholders. In addition, support for legislative initiatives that have broad-based political support will help ensure the viability of the measures proposed.

POLICY MATRIX¹

Area/objective	First tranche	Second tranche
A - Macroeconomic Stability	1. Execution of the Extended Fund Facility (EFF) Agreement and of the macroeconomic program set forth in the Policy Letter	2. Execution of the Extended Fund Facility (EFF) Agreement and of the macroeconomic program set forth in the Policy Letter
B - Financing (Objective: Establish countercyclical mechanisms to finance social programs)	3. Fund to stabilize social welfare spending approved by CONPES and includes: <ul style="list-style-type: none"> countercyclical financing to expand targeted social welfare programs during crises objective, transparent rules for saving, investment, and spending recommendation to establish Fund 	4. Implementation of the fund to stabilize social welfare spending, which means: <ul style="list-style-type: none"> legal establishment of the Fund regulations issued
C - Targeting (Objective: Improve targeting and effectiveness of social spending)	5. SISBEN reform approved by CONPES and includes: <ul style="list-style-type: none"> adjustments to identify regional disparities quality control and centralized monitoring strengthening of local administration and oversight 	6. Implementation of SISBEN reform, including: <ul style="list-style-type: none"> new survey and training in at least 4 municipalities launching of supervision and oversight system
D - Reorganization (Objective: Reorganize institutional structure and generate efficiencies in social spending)	HEALTH: 7. Permanent expansion of coverage under subsidized system for 350,000 individuals and expansion of SGSSS for population in SISBEN levels III and IV. 9. Budget allocated to expand vaccination coverage to 95% of target population in next year	8. Expand enrollment of self-employed workers with the ability to pay and effectively expand health insurance coverage for population in SISBEN levels III and IV. 10. Budget programmed and executed to date to achieve 95% vaccination coverage of the target population during current year.
	EDUCATION: 11. 10 performance agreements signed by Ministry of Finance, DNP, Ministry of Education, and departments, to reorganize teacher assignments and expand coverage of education system.	12. 5 additional performance agreements signed to reorganize teacher assignments and expand coverage of education system, and progress made in achieving targeted benchmarks for efficiency indicators by first 10 departments that signed performance agreements. 13. Regulatory decrees approved for reform of Law 60 on national regulation, information system, and municipal certification.
	SOCIAL WELFARE: 14. Establishment of a pilot project for ICBF decentralization and separation of functions 16. Plan for consolidation, review, and adjustment of existing social welfare programs approved by CONPES.	15. ICBF pilot project implemented in at least 10 municipalities. 17. Plan implemented in: <ul style="list-style-type: none"> elimination of duplicated RSS programs reform of program for elderly poor selected programs officially established in the Office of the President
E - Labor market (Objective: Reduce non-salary costs and create incentives for more employment opportunities)	18. Submittal of draft legislation to legislature to help reduce labor costs, including: <ul style="list-style-type: none"> creating jobs for youth through amendment of apprenticeship contracts lower labor premiums 	19. (Floating tranche) Enactment of the measures listed under condition 18

¹ The means of verification for each condition will be specified in an annex to the negotiation papers.

POLICY LETTER

Republic of Colombia
Ministry of Finance
Office of the Minister

Bogota, 13 November 2001

Mr. Enrique Iglesias
President
Inter-American Development Bank
Washington, D.C.

Dear Mr. Iglesias:

The purpose of this letter is to describe the background and context based on which the Social Reform Program in Colombia has been designed and is being implemented. First of all, it is important to point out that the policies involved in this operation arose from an exchange of views between the Inter-American Development Bank and the Government of Colombia, including the Department of Planning (DNP), the Ministry of Finance, the sector ministries, and the agencies in charge of administering the various social sector programs. As a result of this dialogue, a program was devised to help mitigate the adverse impact of economic crises on the poorest segments of the population and to improve the impact and effectiveness of social spending, ensuring coordination of the investment and their sustainability. Please find below a review of recent economic developments and, in this context, a summary of the objectives and content of the reforms we are undertaking in the social sectors, along with the strategy we will be following to achieve the objectives established.

1. Ensuring macroeconomic equilibrium and reducing the adverse impact of economic crises

During the period from 1998 to 1999, Colombia experienced its worst recession in 70 years. Gross domestic product (GDP) did not grow in 1998 and dropped by 4% in 1999. The recession period was characterized by deteriorating fiscal accounts in the nonfinancial public sector, where the deficit reached a record 4% of GDP that year. This situation was due in to a great extent to overspending that began mainly in 1994, both at the central government and subnational levels, which main public finances unsustainable, and to the international crisis that struck in late 1997. Nevertheless, by year-end 1999, the outlook was more promising, since the economy had grown in the last quarter.

This positive development in the Colombian economy continued in 2000, when a growth rate of 2.8% of GDP, indicating that the recession had been overcome and that the country was on the way to economic recovery. This optimistic outlook prompted projected growth rates for 2001 (3.8%). However, economic performance was weak during the first half of

this year, forcing us to review projected growth downward, to 2.4%. Since the crisis began, urban unemployment has remained at historically high levels of approximately 18%, which has translated into sacrifices on the part of a considerable number of Colombians.

This persistent crisis in Colombia is associated with four main causes: (i) despite the efforts and reforms undertaken by the Government, the fiscal deficit remains at close to 3% of GDP. The fiscal deficits for the years 1996 to 1999, in conjunction with the financing strategy, were expressed in an unprecedented escalation of the cost of money, which of course reduced private investment to its lowest levels in history (dropping from 25% of GDP in 1994 to 10% in 1999). Interest rates have fallen over the past two years but private investment had still not returned to pre-recession levels; (ii) the difficult law and order situation seems to be having an adverse impact on the expectations of economic agents, preventing investment from growth. In addition, attacks on oil pipelines have led to a drop in the oil sector of close to 33%; (iii) the significant reduction in household and corporate wealth in Colombia, which the country is still recovering from compounded by the poor outlook, has led to a contraction of domestic demand; and (iv) the prices of some of the country's main exports have been falling.

As you are aware, in 1999, the Republic of Colombia entered into an Extended Fund Facility Agreement with the International Monetary Fund (IMF). After its second formal review last March, the IMF Board recognized the progress achieved in fiscal consolidation and recovery of economic activity in the country and highlighted compliance with the program agreed upon. Recently the Colombian authorities met with the IMF to begin the third review of the Agreement so that it can report to the IMF Board on compliance in December this year. As a result of the initial negotiations, and considering the international economic downturn, the goal for the consolidated fiscal deficit for 2001 was increased to 3.3% of GDP (up from 2.8%), assuming 2.2% growth in GDP in 2001. This increase in the deficit target gives the Government greater flexibility in managing expenditures, especially in the social sectors.

The economic crisis has also had a severe impact on poverty rates. During the recession that began in 1999, welfare indicators deteriorated. The poorest households in the country proved the most vulnerable, with the least access to personal safety nets like savings and credit. They were therefore more likely to experience a drop in income than households in higher income brackets.

We are aware that the challenge of economic policy continues to include consolidation of fiscal accounts at both the central and subnational levels. Accordingly, the Government, with the support of the Inter-American Development Bank, has launched a series of reforms to improve fiscal oversight and ensure fiscal sustainability, including a comprehensive reform of subnational finances. Along the same lines, as part of a long-term strategy, a Tax Revenue Mission has been set up to propose a series of structural reforms of the Colombian tax system that will do away with the current short-term tax reform cycles and implement an effective system that will help the country develop. The mission, which is also being supported by the Inter-American Development Bank, will conduct a review of how public

spending is financed in Colombia in terms of adequacy, sustainability, and impact on the economy and stability and on efficiency and equity, and will make concrete recommendations for reform that may serve the next administration. The mission will be led by the current administration, in consultation with the different political parties and currents, legislators, spokesmen for public opinion, the private sector, workers organizations, academics and experts, for outreach and consensus-building on fiscal management.

Although fiscal consolidation is a priority for the Government, just as important, in our view, is the protection of the most vulnerable groups during periods of crisis and subsequent adjustment. The experience of the recent crisis and the constraints on budgetary resources to finance social programs, especially those targeting the most vulnerable population, along with the lack of flexibility in public spending and the seriously limited financing available, have led to a need to prioritize, coordinate, and reorganize social programs for the poorest, most vulnerable segments of the population and to ensure greater stability in their financing.

In this connection, we are determined to improve the effectiveness of social spending in Colombia to mitigate the impact of the crisis on the welfare and human capital accumulation of the poor. Reforms are therefore needed to improve targeting in spending on vulnerable groups, to reorganize social programs and improve their efficiency, and to set up a countercyclical system for financing social spending that will address the increase in poverty during economic crises.

These reforms must be supplemented with measures to reduce non-salary labor costs to reduce unemployment and demand for social welfare programs.

In view of the foregoing, the Government of Colombia has prepared a series of social sector measures, in the context of its medium- and long-term economic and social policy, that are discussed below and for which it wishes to request support from the Inter-American Development Bank.

2. Guaranteeing coverage for key social programs during periods of recession and growth

Procyclical social spending and fiscal policy in general are widespread phenomena in developing countries. In the case of Colombia, a review of social spending during economic cycles over the past 50 years showed different trends depending on the type of social spending. For example, whereas spending on education, water supply, and sanitation remained acyclical, social welfare spending has been procyclical. For the most recent period, from 1990 to 2000, four of the social spending components decreased during crisis periods: social welfare, social security, housing, and other social services.

The component of social spending that has been the most procyclical in the past 50 years is social welfare. Since this is the type of spending that is precisely designed to serve the most vulnerable segments of the population, cutbacks during crisis periods have limited the main safety net these segments had, demonstrating that current systems for resource allocation to

such programs only partially address the increased pressure that arises during crisis periods. In response to this situation, the Government of Colombia has decided to devise a transparent countercyclical financing system to maintain and expand social program coverage for the poorest segments of the population during periods of economic crisis. A financial fund for stabilization will be set up to save resources during periods of high economic growth with a view to using them for social welfare programs during periods of economic crisis.

The fund will have funding equivalent to 0.5% to 1% of GDP and may be financed by regular central government resources based on a preset formula during years in which economic growth exceeds certain parameters. The institutional mechanisms for operation of the fund will also allow other resources to be channeled into it, such as capital income or external credit. The fund resources will be used once two quarters of negative growth in GDP have been documented. Use of fund resources may not exceed 0.3% of GDP per fiscal year.

Legislation will be passed to establish the fund, which will be regulated by Executive Decree.

3. Targeting social spending to the poor and vulnerable

The Beneficiary Identification System (SISBEN) is the instrument used to target social program subsidies to the poor and vulnerable segments of the population. SISBEN use is decentralized. Although it has achieved a coverage rate of over 60% of the poor, it is not uniformly used due to financial constraints in municipalities. Its limited use is more critical in the poorest municipalities, leading to a situation in which the ones that most need it are the ones that can least benefit from it. Moreover, its current design exposes it to manipulation on the part of both the people surveyed and the subnational agencies responsible for using it, a situation that creates major political obstacles to its reform.

In order to improve its accuracy, SISBEN will be updated and its use monitored. Activities will thus be carried out to evaluate SISBEN performance, make the necessary adjustments, expand its coverage, improve transparency in its operation, and ensure its use at the subnational level. The expected result is a more transparent, reliable instrument and better targeting of social spending to the poorest, most vulnerable segments of the population.

The Government will also expand the use of SISBEN to more social programs, in order to channel more funding to the neediest groups. Currently, only 10% of social spending is targeted using SISBEN. The Government will pay special attention in the use of SISBEN to programs that do not have any formal targeting mechanisms and that show evidence of regressive resource allocation. We expect to have a higher percentage of social spending targeted through SISBEN in three years. To this end, the Government has allocated US\$6 million in the 2002 Budget, in addition to the technical-cooperation funding for the Social Reform Program.

4. Promoting efficiency in social programs

Given that certain social programs currently suffer from problems in efficiency and effectiveness, an effort will be made to prioritize, coordinate, and reorganize activities for the health, education, and welfare of the poor, vulnerable segments of the population. The main problems to be addressed by the Government in each of these areas are described below.

Health. One of the main achievements of health reform in Colombia was to increase the health insurance coverage of the population, especially the poor. The fiscal crisis and increased unemployment have limited expanded coverage under the General System for Social Security in Health (SGSSS) to the poor through the subsidized health regime and have reduced new enrollments in the contributory system. As a result, health program coverage has remained practically stagnant since 1997 and pressure on the public service network has increased, since it is the only source of health care for people not ensured under the SGSSS. To address this situation, the Government has decided to expand insurance coverage as much as possible, subject to budgetary constraints, so as to support the transition from a supply-subsidy system to a demand-subsidy system.

In recent years, Colombia has also been experiencing reductions in vaccination coverage, exposing the population to health risks. It should be noted that this is not only a question of resources and economic crisis but a matter of decentralized functions as well, especially for vaccinations. Given the need to recover vaccination coverage, the Government has committed to ensuring that budgetary resources will be available to cover vaccination program needs to reach a coverage rate of 95%.

Education. Despite the noteworthy increase in resources earmarked for education and the implementation of a series of innovative programs over the past few years, the education system is experiencing management problems at the subnational level and inadequate resource allocation. Primary school enrollment is not universal and secondary school enrollment insufficient, with huge discrepancies by geographical area and income segment. Inequity and inefficiency in resource and teacher distribution covered by central government transfers to departments and municipalities have resulted from a financing system basically geared towards covering payroll costs, with little consideration for quality, coverage, or efficiency. In addition, the lack of tools to determine public education performance and consistent, timely information and evaluation systems limits proper management. Accordingly, the Governor plans to take measures in two areas: (i) it will enter into and subsequently monitor performance agreements with departments that stipulate the efficiency, equity, and coverage goals to be achieved through equitable reallocation of human and financial resources and optimal use of installed capacity; and (ii) it will consolidate decentralization, thereby creating the conditions to remedy some of the current rigidities and distortions in public education that have prevented broader coverage and better quality.

To support this process, technical assistance will be provided to the subnational governments through a program that will create an incentive for them to comply with the performance agreements.

Social welfare. Most social welfare spending targets children, through the Colombian Family Welfare Agency (ICBF), an appropriate approach considering the high vulnerability concentrated in this age group. The purpose of the main ICBF programs is to protect families and strengthen the human capital of poor children from birth to 18 years of age through food, childcare, and early childhood stimulation, and, to a lesser extent, through nutrition. However, most of the in-kind food programs do not have impact evaluations or formal targeting systems. The ICBF is a centralized institution, with little budget flexibility, and too much responsibility for direct service delivery. This situation has led to problems in the fulfillment of its mission for the social protection of children and had limited its ability to adjust its program to local reality. To address these problems, the ICBF has undertaken a process of transformation of the children services and feeding programs. Furthermore, it plans to separate its regulatory functions from service delivery and will establish a decentralized framework. In addition, impact evaluations will be conducted on the food programs to generate data that will be used to make any necessary adjustments.

The Social Solidarity Network (RSS) is the agency in charge of providing services to specific vulnerable groups, such as persons displaced by the armed conflict, the homeless, and indigenous and Afro-Colombian groups. The program activities in this area are designed to eliminate duplication. The Government will assess the situation and, based on the findings, will make the necessary adjustments in the social welfare program for the elderly poor.

5. Reducing non-salary costs to increase employment

Although the worst of the 1998 crisis has passed, the unemployment rate remains high; in fact, Colombia is one of the countries in Latin America with the highest unemployment rate. In July 2001, 17.8% of the economically active population in the three main metropolitan areas were unemployed. Unemployment disproportionately affects young people and women and has contributed to an increase in informal employment with the consequent loss in social security benefits. The increase in unemployment and consequent rise in extreme and absolute poverty is partly the result of high non-salary costs and the lack of flexibility in employment contracts. At 34.5% of salaries, Colombian payroll taxes are among the highest in Latin America.

In addition, the current minimum salary established by law and other inflexible contractual requirements, in the context of highly restricted employment opportunities, create market rigidity that translates into higher unemployment and informal employment, with a more pronounced impact on the poor.

This situation requires a review of labor legislation to create more job opportunities and mitigate the impact of the crisis, improve the capacity of the labor market to adapt to the

changing economic conditions, due to both economic cycles and changes in market demand for job skills. The Government will support legislative efforts to amend labor legislation so as to reduce labor charges and parafiscal contributions and to amend apprenticeship contracts to allow a differential minimum wage for young people.

6. Devising alternatives for worker income protection

An effective social protection strategy should consider worker income protection systems for two basic reasons. First of all, unemployment has both an immediate impact on the poor, placing additional pressure on social protection programs during crisis situations, and also adversely affects their chances of ever overcoming poverty. Secondly, from a broader perspective, a worker income protection system, especially a properly designed unemployment insurance, can have a very positive impact on the welfare of the insured by reducing fluctuations in income and consumption over time, increasing the flexibility of the labor market, reducing individual costs for training, and increasing the likelihood of workers finding jobs consistent with their skills and productivity. Since this issue is crucial for a social protection program to be sustainable, the Government of Colombia will conduct a study to design a coordinated set of activities and instruments for worker income protection during periods of crisis, with a view to better adapting the labor market to the changing domestic and international markets. The specific objectives of the study are to: (i) evaluate all current worker income protection programs; and (ii) make recommendations on: (i) improvement and/or expansion of the programs; (ii) the design and implementation of new programs; and (iii) improve the institutional framework and coordination of the various programs. The Government will use the findings of the study to deepen the adjustments in labor legislation and to move towards a more comprehensive and equitable system for unemployment insurance.

7. Creating an impact evaluation culture and information-based decision-making on policy

Under this program, the Government of Colombia will carry out and strengthen various components for impact evaluations of different social programs. Among other activities, it will conduct: (i) an impact evaluation on the ICBF food programs, including information on their impact on different ethnic groups; (ii) the quality-of-life survey in 2002; and (iii) an external impact evaluation of the overall program in the long term, using a series of performance indicators agreed upon, to be coordinated by the DNP.

In brief, through the above-described strategy, Colombia is taking significant steps to resolve the main problems in the social sectors. The Government is committed to making these policy changes and ensuring continuity of the process of reorganizing and expanding the social protection network. In our opinion, the evaluation activities to be financed with the technical-cooperation funding are important elements to ensure continuity in the process.

In this context, the Government of Colombia would like to request financial support from the Inter-American Development Bank to cooperate in implementing the reforms described in this Letter and in the documents attached hereto.

Sincerely yours,
[signature]
Juan Manuel Santos
Minister of Finance

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COLOMBIA

SOCIAL REFORM PROGRAM

(CO-0261)

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ABBREVIATIONS

ANEA	Asistencia Nutricional al Escolar y al Adolescente [Nutritional assistance for schoolchildren and adolescents]
CTI	Comité Técnico Interinstitucional [Interagency Technical Committee]
DANE	Departamento Nacional de Estadística [Department of Statistics]
DNP	Departamento Nacional de Planeación [Department of Planning]
ICBF	Instituto Colombiano de Bienestar Familiar [Colombian Family Welfare Agency]
QLS	Quality of Life Survey
RAS	Red de Apoyo Social [Social Support Network]
SISBEN	Sistema de Selección de Beneficiarios [Beneficiary Selection System for Social Programs]
SGSSS	Sistema General de Seguridad Social en Salud [General System for Social Security in Health]

**SOCIAL REFORM PROGRAM
(CO-0261)**

EXECUTIVE SUMMARY

Borrower:	Republic of Colombia	
Executing agency:	Department of Planning (DNP), Ministry of Education, Ministry of Labor and Social Security	
Amount and source:	IDB:	US\$10,000,000
	Local:	US\$6,700,000
	Total:	US\$16,700,000
Terms:	Implementation period:	36 months
	Disbursement period:	42 months
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	42 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
Objectives:	<p>The proposed technical cooperation project will shore up the social reform process envisaged by the government and outlined in the plan of operations for the sector loan (CO-0252), whose main goal is to strengthen the impact and sustainability of social spending and cushion the adverse effects of economic crises. The specific objectives of the technical cooperation project are to: (i) bolster selected reform efforts through the provision of technical assistance services; (ii) fine-tune and administer instruments designed to enhance the efficiency and effectiveness of social spending as part of the reform process; and (iii) evaluate the impact of projects and programs associated with social sector reform efforts.</p>	
Description:	<p>In furtherance of its objectives, the project is divided into the following three components:</p> <ol style="list-style-type: none"> 1. Technical assistance for the introduction of reforms (US\$1.2 million from IDB; US\$300,000 from local counterpart) <p>Technical assistance for educational reform agreements. Technical assistance services under this component will consist of the training and monitoring of departmental authorities in areas such as legal, educational, financial and administrative assistance and assistance in conflict resolution for the establishment and custom tailoring of</p>	

personnel rosters for teaching and administrative personnel. They will also support the information system through training in the installation and administration of GESTIONE system applications.

Technical assistance for the passage of new labor legislation. The project will finance the cost of workshops and seminars and the hiring of experts to advise the Colombian government on matters pertaining to the reduction of labor costs and the generation of employment.

2. Reform instruments (US\$6.2 million from IDB; US\$5.3 million from local counterpart)

Fine-tuning and implementation of the SISBEN. This subcomponent will shore up efforts to fine-tune and implement the screening system and targeting instrument for social spending through activities such as the development of materials, the provision of training, the establishment of quality control procedures and the administration of the new SISBEN survey.

Quality of Life Survey. The object of this subcomponent is to administer the 2002 Quality of Life Survey, or QLS-2002, measuring and examining changes in the living conditions of the Colombian population.

3. Impact evaluation (US\$2.4 million from IDB)

Impact evaluation of nutritional assistance. The objective of this subcomponent is to evaluate the outcomes and impact of the nutritional assistance program for schoolchildren and adolescents (ANEA) and the manufacturing, distribution and allocation of the product known as Bienestarina. The main activities included under this subcomponent are impact evaluations of the ANEA program and the distribution of Bienestarina, program institutional and operational analyses, cost- effectiveness and/or cost-benefit analyses and budget performance evaluations of the programs in question.

Evaluation of the pilot project for decentralization and unbundling of the Colombian Family Welfare Agency (ICBF). The objective of this subcomponent is to evaluate the pilot project conducted with backing from the Social Reform Program (CO-0252). The evaluation will measure the impact of implemented reforms on the efficiency of spending on child welfare services and their effects at the institutional and community levels. It will finance the cost of consulting services, materials and travel associated with the evaluation process.

Program evaluation. The Social Reform Program (CO-0252) will include an ex post evaluation of the policy measures, which will be supported by the proposed technical-cooperation project.

Environmental and social review:

The technical cooperation project is expected to have a positive social impact (see the section on project benefits). Project- financed activities should not have any adverse environmental effects, since there are no plans for the construction of any infrastructure.

Benefits:

Insofar as it bolsters the implementation of necessary measures to meet conditionalities for the social reform program (CO-0252), the project will help generate expected program benefits, including a positive fiscal impact, an expansion in the coverage of various programs through the investment of savings engendered by implemented reforms, and better designed and, hence, more effective social policies. More specifically, technical assistance services for the implementation of educational reform agreements will lay the groundwork for changes in management practices improving educational efficiency and fostering a more effective use of available resources. The passage of new labor legislation should help improve currently poor conditions on the labor market. The fine-tuning of the SISBEN should strengthen the targeting of a number of social programs and corresponding program benefits. The information produced by the new Quality of Life Survey and ICBF program evaluations will be used as input in policy-making and in the strengthening of a number of strategic programs.

Risks:

There are no material risks associated with the implementation of this project designed to finance the cost of studies and technical assistance services.

The Bank's country and sector strategy:

The proposed project bolsters the Bank's country strategy and complements previous Bank spending. The current country paper (GN-2052-1) approved in August of 1999 targets five priority areas, namely: (i) achievement of the peace process; (ii) reduction of poverty and inequities; (iii) solidification of the decentralization process; (iv) modernization of the State; and (v) sustainable growth. The project is expected to help further objective (ii). At the same time, the establishment of a financially sustainable social welfare system making more effective and more efficient use of available resources should also help further objectives (iii) y (iv). Moreover, any effort to protect human capital endowments and make labor legislation more flexible should boost economic growth, in furtherance of objective (v). In addition, by helping the poor, the program should indirectly help further objective (i).

Special contractual clauses:

Conditions precedent to disbursement:

- (1) Submission and Bank approval of terms of reference for the program coordinator and an administrative/financial assistant;
- (2) Appointment of a project coordinator;
- (3) Signature of an interagency agreement between the DNP and the Department of Statistics (DANE) to conduct the Quality of Life Survey, identify technical, financial, and institutional resources, review technical and progress reports, and draw up a plan for basic publications and a strategy for dissemination of the survey findings.

Exceptions to Bank policy:

None.

Social equity classification (SEQ):

This operation qualifies as a social equity enhancing project, as defined in the key objectives for Bank activity in the Report on the Eighth General Increase in Resources (AB-1704).

Poverty-targeted investment (PTI):

As a technical cooperation project loan, this operation does not qualify as a poverty-targeted project.

I. BACKGROUND

A. Macroeconomic framework and poverty levels

- 1.1 Colombia suffered its deepest recession in 70 years during the course of 1999, as its gross domestic product (GDP) shrank by 4.3%. The nonfinancial public sector deficit grew to 5.5% of GDP in 1999, after averaging 3.8% for the three previous years. The Colombian economy's good performance in the year 2000 suggested that the recession was over and that the economic recovery process had begun. Accordingly, projections for the year 2001 were optimistic, anticipating a GDP growth rate of 3.8%. However, the economy's weak performance for the first quarter of the year forced the government to scale back its growth forecast to 2.4%.
- 1.2 This same volatility in the growth of the economy is reflected in trends in poverty levels. The level of abject poverty in urban areas was cut back by nearly two thirds, or from 28% to 10%, during the period of economic prosperity between 1978 and 1995, with the rural poverty rate dropping from 68% to 37% over this same period. In contrast, the 1999 recession was accompanied by a regression in indicators of wellbeing to levels dating back to the 1980s. The virtually irreversible negative effects of this latest crisis hit the nation's poorest households especially hard, with their high dependency ratios and limited human capital endowments.

B. An agenda for pending social sector reforms

- 1.3 In an endeavor to enhance the effectiveness of social spending and ensure an appropriate response in crisis situations, the government has agreed to institute reforms designed to improve the targeting of social spending on low-income and high-risk groups, evaluate existing programs and produce needed information for decisionmaking within the social sector and streamline and strengthen the efficiency of social programs with assistance from the Bank. These reforms will be accompanied by changes in labor legislation helping to eliminate bottlenecks within the labor market and to reduce unemployment and demand for social welfare programs.
- 1.4 **Targeting of social programs.** The Recipient Selection System (SISBEN) is the instrument used to channel social program subsidies to low-income and high-risk population groups.¹ The SISBEN is an objective, low-cost tool. However, decentralization of the administration of the SISBEN has produced disparities in its coverage rate, which is just over 60% of the low-income population, from one municipality to another due, in part, to the limited financial and technical resources of the municipal governments administering the instrument, hampering efforts to

¹ The SISBEN is a welfare index in which each individual is given a score reflecting the extent of his or her poverty based on a series of factors measuring individual assets and capabilities, such as the quality of the dwelling unit and corresponding furnishings, public utility services, income, demographic variables and human capital.

expand its coverage. The situation is especially critical in poorer municipalities, suggesting that it is precisely the neediest municipalities which are less able to benefit from the system. Another major challenge with respect to the SISBEN is the need to update and properly monitor the system to improve its precision. The instrument's current design exposes it to manipulation, both by respondents and by the local authorities in charge of its administration² which, in turn, creates major policy-level obstacles to system reform efforts. The Social Reform Program provides for the development of policy measures designed to fine-tune the algorithm used to classify the population to improve its precision, set up a centralized oversight and control system to help reduce errors of omission and screening errors at the municipal government level and allow for the resurveying of the population in line with these new policies. This should strengthen the targeting of social spending, thereby helping the government reach the neediest segments of society.

- 1.5 **Streamlining and coordination of social programs.** The streamlining and better coordination of social programs requires efforts in the following three priority areas to help make the allocation of social spending more efficient and strengthen the effectiveness of social welfare programs in times of crisis: (a) extension of public health service and health insurance coverage; (b) changes in educational resource management processes; and (c) strengthening, realignment and fine-tuning of programs for low-income and high-risk groups. The main types of needed reforms are discussed in the following paragraphs.
- 1.6 **Health.** One of Colombia's most important achievements in the area of health reform is the expansion of health insurance coverage, particularly for low-income groups. In fact, according to nationwide statistics, the coverage rate for its health care system has tripled since 1993. The fiscal crisis and the growth in unemployment have hampered efforts to extend General Social Health Insurance System (SGSSS) coverage to low-income groups through subsidized health care programs and reduced the number of new enrollees in the social insurance system making social security contributions. As a result, program coverage rates have remained virtually stationary since 1997, placing increasing pressure on the public welfare system, the only source of health care for those not insured under the SGSSS. Solving this problem means extending insurance coverage to the largest possible number of individuals, to help facilitate the transition from a supply-side to a demand-driven subsidy system.
- 1.7 The structural changes required by efforts to reform the organizational structure of the health care system and the highly procyclical nature of public health spending have also affected the delivery of health care services. The regression in immunization coverage rates over the period from 1995 to 1998 is the most dramatic illustration of this phenomenon, with the immunization rate against

² DNP data puts errors of omission at approximately 20% of the eligible population and screening errors at 30%.

tuberculosis sliding from 100% to 85%, the immunization rate against diphtheria, whooping cough and tetanus falling from 94% down to 73% and immunization coverage against polio dropping from 94% to 75%. Preliminary estimates for the year 2000 show a continuing downward spiral. Thus, Colombia, which has historically had high immunization rates, is exposing its population to health risks which the country had not seen for many years and which tend to escalate in times of crisis. This is clearly not only a problem of resources and crisis conditions, but a problem created by decentralization, particularly with respect to inoculation services.

- 1.8 **Education.** Despite a considerable expansion in educational resources and the mounting of a series of innovative programs over the past several years, the nation's education system is still facing problems created by mismanagement at all levels and an ineffectual resource allocation system. Participation in primary education is not universal and enrollment rates in secondary education are unacceptably low, with enormous disparities between different geographic areas and income groups. The current inequity and inefficiency in the allocation of resources and teaching personnel funded by national government transfer payments to departments and municipalities is the product of a financing mechanism designed primarily to cover payroll costs, virtually overlooking considerations such as quality, coverage and efficiency. This is reflected, for example, in the high concentration of teachers in capital cities and urban areas, where student/teacher ratios are considerably lower than in rural areas of the country. The lack of tools for measuring the performance of the public education system and of timely, consistent information and evaluation systems makes good management that much more difficult.
- 1.9 The government strategy for strengthening educational efficiency, enrollment, equity and quality provides for the following four types of interventions. The New School System Program (1202/OC-CO) is designed to make reforms in Colombia's education system geared to strengthening decentralized, independent management practices and to improving efficiency and social equity in the allocation of educational resources as a means of delivering better quality service. The program is scheduled to be implemented in five departments, which will receive technical assistance and incentives in furtherance of these objectives. Educational reform agreements between the national government and the country's various departments set efficiency, equity and enrollment targets to be attained through the equitable reallocation of human and financial resources and the optimal use of operating capacity. Thus far, this instrument has produced efficiency gains which have freed up some US\$15 million in resources, which have been redirected to programs designed to strengthen educational quality. The passage of new revenue-sharing legislation lays the groundwork for streamlining education sector financing mechanisms and facilitates efforts to institute reforms designed to improve the efficiency and equity of spending on education, such as tying transfers of resources, for example, to the number of students rather than teachers. The proposed amendment of Law No. 60 would lay the foundation for eliminating a number of constraints and distortions in the public education system which have been

hampering efforts to boost enrollment and strengthen quality, despite the increasingly large amount of funding allocated to this sector.

- 1.10 The Social Reform Program will help strengthen educational reform agreements in 15 departments, whose goals include improving efficiency, equity and enrollment in Colombia's public education system. The proposed technical cooperation program will shore up technical assistance services based on the incentives system instituted in five departments under the New School System Program.
- 1.11 **High-risk groups.** Most Colombian Family Welfare Service (ICBF) programs are designed to build human capital and help the families of low-income children from 0 to 18 years of age through food assistance, day care and early stimulation programs and, to a lesser extent, nutrition programs. However, while most spending goes on social welfare services, the majority of in-kind food assistance programs have no impact evaluations or formal targeting mechanisms. An ICBF management audit recommends unbundling its oversight and service delivery functions and establishes a framework for its decentralization. This process is being set in motion as a pilot project under the Social Reform Program (CO-0252), which includes provisions for reforming child welfare and food assistance programs to strengthen their impact and targeting at the municipal level.
- 1.12 **Unemployment, labor costs and social welfare ramifications.** Although the worst of the 1998 crisis is over, Colombia is still suffering from high levels of unemployment, giving it one of the highest jobless rates of any Latin American country. As of June of this year, 17.6% of the working population in the country's thirteen major metropolitan areas were unemployed. Unemployment rates for youths and women are disproportionately high. Mass unemployment has fostered a greater reliance on income from informal sector activities, with the attendant loss of social security benefits. The rise in unemployment and resulting growth in abject and moderate poverty is largely a product of high nonwage labor costs and of the rigid provisions of labor contracts. At 34.5% of wages, payroll taxes in Colombia are among the highest in Latin America.³ Moreover, with job opportunities so limited, the current legal minimum wage⁴ and other contractual constraints are tightening the labor market, which is only serving to boost unemployment and reliance on informal sector activities, particularly among the poor. The Social Reform Program is helping to amend labor legislation to create more job opportunities and cushion the effects of the crisis. The proposed technical cooperation program will bolster efforts to implement and strengthen these measures.

³ Approximately 8% of these taxes are earmarked as parafiscal levies for highly regressive "social" programs with very little impact such as the Servicio Nacional de Aprendizaje (SENA) [National Apprenticeship Service], which is funded by 2% of payroll taxes, and equalization funds, funded by 4% of payroll taxes.

⁴ Approximately US\$190 per month, compared with a per capita poverty income threshold of roughly US\$88 per month.

C. Country strategy

- 1.13 Faced with a slowdown in the rate of economic growth, rising unemployment and weakening fiscal accounts, the government turned to multilateral financial institutions for fast-disbursing loans to ensure its financial sustainability. As part of this aid package, the Bank lending program includes three emergency sector loans for US\$1.1 billion approved over the course of 1998 and 1999. Moreover, to help restore confidence in the country and head off any additional adverse effects from the crisis, the country signed an EFF (*Extended Fund Facility*) arrangement with the International Monetary Fund (IMF) in the amount of US\$2.7 billion in December of 1999.⁵ At the same time, the government put a higher priority on strengthening its fiscal accounts, instituting sweeping reforms designed to improve fiscal controls at the central and subnational levels and ensure its sustainability. These reforms were initially shored up by a fiscal reform program (1166/OC-CO) and the three-year extended arrangement with the IMF and, later, by the Sector Program for Subnational Fiscal Reform (1335/OC-CO).
- 1.14 The current operation is fully in line with ongoing government reform efforts and should help further the objectives of the sector program for social reform (CO-0252) in a number of strategic areas. Joint implementation of the two operations, drawing on the experience gleaned from coping with the economic crisis dating back to 1998, will create mechanisms helping to *cushion the effects of the crisis and improve the efficiency and effectiveness of social spending. This, in turn, should reduce the extent of future irreversible losses of human capital among the poor in the wake of economic recessions.* The experience gleaned from the recent crisis, cuts in budget funds for social programs, particularly programs designed to serve high-risk groups, and the lack of flexibility in government spending have underscored the need to prioritize, coordinate and streamline social programs for low-income and high-risk groups and ensure more stable program funding. The government has identified a number of essential areas for the introduction of envisaged reforms with the greatest technical assistance needs and, accordingly, on which it intends to focus its efforts, namely: (i) study and evaluation of priority programs; (ii) fine-tuning and expansion of the SISBEN; (iii) collection and interpretation of demographic data for use in planning exercises and in evaluating the current program; (iv) assistance in the implementation of educational reform agreements; and (v) final design and implementation of new labor legislation. Moreover, the reform process has underscored the importance of

⁵ In the wake of its second review of the EFF arrangement in March of this year, the IMF found that Colombia had satisfactorily attained its agreed-on targets. Its fiscal accounts showed a large reduction in the size of the consolidated public sector deficit from 5.5% to 3.6% of GDP between 1999 and the year 2000. Reforms in the revenue-sharing system are expected to help bring the deficit down to 2.8% of GDP by the year 2001. A third review of the arrangement was conducted during the course of the first half of September. Although the mission's findings have not yet been made available, the review process is expected to expose a number of snags in the attainment of external debt and fiscal deficit reduction targets and in the introduction of pension reform legislation.

monitoring and evaluating the impact of reform efforts to make needed adjustments and produce inputs serving as the basis for a future reform agenda.

D. Bank strategy

- 1.15 The proposed operation ***bolsters the Bank's country strategy and complements previous Bank spending***. The current country paper (GN-2052-1) approved in August of 1999 targets five priority areas, namely: (i) achievement of the peace process; (ii) reduction of poverty and inequities; (iii) solidification of the decentralization process; (iv) modernization of the State; and (v) sustainable growth. The operation is expected to help further objective (ii). At the same time, the establishment of a financially sustainable social welfare system making more effective and more efficient use of available resources should also help further objectives (iii) y (iv). Moreover, any effort to protect human capital endowments and make labor legislation more flexible should boost economic growth, in furtherance of objective (v). In addition, by helping the poor, the program should indirectly help further objective (i).
- 1.16 The program complements and strengthens the impact of ongoing projects and of the Bank lending program.
- a. In the area of **education**, the Bank is in the process of implementing the New School System Program (1202/OC-CO) approved in 1999, whose objective is to make reforms in the Colombian education system designed to strengthen decentralized, independent management practices and improve efficiency and social equity in the allocation of educational resources. The program is currently being conducted in five departments and municipalities. Hopefully, the design and implementation of its various components will lay the groundwork for improving efficiency in the allocation of resources in other departments and municipalities. One of the problems addressed by this program is the lack of incentives for different levels of government to efficiently organize and deploy their teaching personnel, complementing social reform program activities.
 - b. In the **social** welfare area, three interim subprograms were instituted in the year 2000 under the umbrella program referred to as the Red de Apoyo Social (RAS) (1280/OC-CO) [the Social Safety Net Program] in response to the compelling need to mitigate the adverse social and impoverishing effects of the economic crisis and fiscal adjustments in the face of the inability of existing programs to deal with this phenomenon. The subprograms in question are: (i) **Jobs in Action**, providing temporary employment to poor unemployed workers on construction jobs requiring unskilled labor; (ii) **Families in Action**, making subsidies available to SISBEN I families in exchange for household spending on the health, education and nutrition of their children, attacking the causes of poverty while, at the same time, providing additional income for families living in abject poverty; and (iii) **Youths in Action**, furnishing skills and job training to SISBEN I and II youths under a competitive system. Each of

these subprograms includes a meticulous impact evaluation, whose findings are to be reviewed by the government in the year 2004 to determine whether to include it as part of the continuing social safety net program. Efforts to set up the Social Safety Net began earlier this year, with all three subprograms expected to be operating at full capacity by the end of the year. Preparations for instituting the Social Safety Net included an across-the-board study of government social programs, examining gaps in coverage, the impact of program benefits, inefficiencies in the allocation of social spending and challenges to their sustainability. The proposed project is fully in line with the agenda for pending reforms and evaluations established as part of this study process and, accordingly, is an integral part of a coordinated, continuing policy reform and investment effort to establish an effective, sustainable social safety net.

II. PROGRAM OBJECTIVES AND DESCRIPTION

A. Objectives

- 2.1 The concurrent technical cooperation project will shore up the social reform process outlined in the plan of operations for the Social Reform Program sector loan (CO-0252), whose main goal is to strengthen the impact and sustainability of social spending and cushion the adverse effects of economic crises. The specific objectives of the technical cooperation project are to: (i) bolster selected reform efforts; (ii) fine-tune and administer instruments designed to enhance the efficiency and effectiveness of social spending as part of the reform process; and (iii) evaluate the impact of projects and programs associated with the Social Reform Program (CO-0252).

B. Description

- 2.2 In furtherance of its objectives, the technical cooperation project is divided into the following three components:

1. Promotion of educational and labor market reforms (US\$1.2 million from IDB; US\$300,000 from local counterpart)

- 2.3 **Education.** The first objective of this component is to spur the attainment of educational efficiency, equity and enrollment targets established under departmental educational reform agreements by financing the cost of technical assistance and training services for 15 departments throughout the country in the following areas: (i) legal, educational, financial and administrative assistance and assistance in conflict resolution for the establishment and custom tailoring of personnel rosters for teaching and administrative personnel, including the redeployment of teaching personnel, the setting of working hours and class schedules, job rotation and teacher reassignments, etc.; and (ii) installation and administration of GESTIONE educational payroll management system applications, including a budget, chart of accounts, personnel roster and service records, basic mastery of the programming language and platform and the solution of problems encountered by subnational authorities with respect to the use and updating of this system.
- 2.4 **Employment.** The second objective of this component is to assist the Ministry of Labor disseminate information on new labor legislation and conduct studies of other potential labor market reforms. It will finance the cost of technical assistance in the form of workshops and seminars and the hiring of experts to advise the national government on matters pertaining to the reduction of labor costs, the generation of employment and the sustainability of the pension system.

2. Assistance in the fine-tuning and expansion of reform instruments (US\$6.2 million from IDB; US\$5.3 million from local counterpart)

- 2.5 **Fine-tuning and implementation of the SISBEN.** The objective of this subcomponent is to shore up efforts to fine-tune and administer the targeting instrument for social spending. It will finance the cost of technical assistance (consulting services and materials) for the following activities: (i) preparatory work – fine-tuning and instrument testing, design and testing of quality control procedures, technical, economic, policy-level and legal feasibility studies, testing of cost-cutting systems and alternatives; (ii) development of materials – development of primers and technical handbooks; (iii) training and implementation of quality control procedures – training of subnational authorities in the various components of the SISBEN and implementation of local quality control procedures; and (iv) expansion of the coverage of the new SISBEN survey – the new survey should initially cover an estimated 7.5 million households (30 million individuals) and should be extended to a third of the population by the year 2002.
- 2.6 **Quality of Life Survey.** The object of this subcomponent is to administer the 2002 Quality of Life Survey, or QLS-2002, measuring and examining changes in the living conditions of the Colombian population to facilitate policy-making and the designing of activities geared to reducing poverty and improving equity. It will finance the cost of technical assistance (consulting services and materials) for the mounting of the following activities pertaining to the administration of the Quality of Life Survey: (i) content planning; (ii) instrument design; (iii) instrument testing; (iv) fieldwork (including on-site corrections); (v) data entry; (vi) tabulation plan; (vii) analysis of inconsistencies; (viii) production of basic tables; (ix) dissemination of survey data; and (x) study and dissemination of survey findings. As in the case of QLS-1997, QLS-2002 will include measurements of wellbeing and poverty having to do with the quality of the surrounding environment and with whether the household in question has suffered the effects of a natural disaster. It will also include a new race and ethnicity variable. The draft survey form for QLS-2002 is available in the technical program files.
- 2.7 The Department of Statistics (DANE) is responsible for designing the content and methodology for QLS-2002, administering necessary human, physical and financial resources for its design and implementation, submitting technical and operational reports to an interagency technical committee (ITC), providing participating agencies with data bases for QLS statistical data, assisting in the disclosure and dissemination of survey findings, conducting studies of and publishing statistical survey data, etc. The FONDANE revolving fund will administer the financial resources for the project activities.

3. Assistance for impact evaluations of social programs and policies (US\$2.4 million from IDB)

- 2.8 This component will finance three social program and policy evaluations, namely an evaluation of food assistance programs, an evaluation of the decentralization and unbundling of ICBF functions, and an evaluation of changes in social policy.
- 2.9 **Impact evaluation of nutritional assistance and Bienestarina programs.** The objective of this subcomponent is to evaluate the outcomes and impact of: (i) the nutritional assistance program for schoolchildren and adolescents (ANEA); and (ii) the manufacturing, distribution and allocation of the product known as Bienestarina. It will finance the cost of retaining the services of a consulting firm specializing in outside evaluations of the impact of food assistance programs.
- 2.10 This should help establish the effective coverage of the programs and/or product in question, the degree of achievement of program objectives and/or product distribution targets, the impact on target population groups and corresponding institutional and financial arrangements for program operation, allowing for a determination as to whether the nutritional assistance and Bienestarina programs qualify for inclusion among the services to be offered as part of the Social Safety Net and as to the need for any improvements and provisions for strengthening their implementation, coverage and efficiency or, possibly, for designing alternative projects for meeting the nutritional needs of the target population.
- 2.11 This subcomponent is, in turn, divided into four parts. Part one focuses on establishing the impact of the ANEA program and the distribution of Bienestarina on the target population in areas such as nutrition, in direct furtherance of their objectives, as well as other possible spinoff effects in areas such as education for example. Part two is an institutional analysis of the different agencies and stakeholders involved in the program implementation process and the distribution of Bienestarina, intrinsic institutional constraints and existing administrative and operating mechanisms liable to affect program coverage and efficiency. Part three consists of a cost-effectiveness and/or cost-benefit analysis designed to establish the efficiency of the intervention mechanisms in question compared with possible alternative projects. Part four is a financial analysis designed to examine the budget performance of both intervention mechanisms, budgetary constraints hampering their implementation, the sources and uses of allotted funding, etc. The impact evaluation of ICBF food assistance programs will include a breakdown of study data according to the gender and ethnic origin of program recipients.
- 2.12 **Evaluation of the pilot ICBF decentralization and unbundling project.** The objective of this subcomponent is to evaluate the pilot project conducted with backing from the Social Reform Program. The evaluation will measure the impact of implemented reforms on the efficiency of spending on child welfare services and their effects at the institutional and community levels. It will finance the cost of consulting services, materials and travel associated with the evaluation process.

- 2.13 **Program evaluation.** The objective of this subcomponent is to measure the medium-term effects of policies and activities advanced by the Social Reform Program (CO-0252) and its policy letter. To accomplish this, it will measure performance indicators for program reform efforts at the end of Years 1 and 2 of the technical cooperation project, as outlined in Table 1 below. It will use the 1997 and 2002 Quality of Life Surveys and the National Planning Department (DNP) social information system to measure key indicators, breaking down these indicators by sociodemographic variables such as poverty income threshold, gender and ethnic origin. It will finance the cost of materials and consulting services associated with the evaluation process.

Table 1
Program monitoring and evaluation guidelines⁶

Program area	Expected outcomes	Baseline value⁷	Post TC project Year 1 target	Post TC project Year 2 target
Targeting	<ul style="list-style-type: none"> ▪ Reduction in errors of omission ▪ Reduction in screening errors ▪ Real increase in poor population served 	20% 30% 6.65 million	15% 22% 10 million	10% 15% 12 million
Health	<ul style="list-style-type: none"> ▪ Boost in enrollments among the population eligible for subsidized health care programs ▪ Boost in the size of the population insured under the SGSSS ▪ Boost in immunization coverage 	9.5 mill. 12.3 million 77%	9.85 mill. 13 million 95%	10 mill. 14 million 95%
Education (these values are to be established for each participating department)	<ul style="list-style-type: none"> ▪ Increase in the number of school spaces ▪ Increase in the number of jurisdictions with the required minimum teacher/pupil ratio ▪ Boost in the average teacher/pupil ratio 			
Children's services	<ul style="list-style-type: none"> ▪ Boost in the percentage of SISBEN I and II children receiving child care, health and nutrition services 	46%	47%	48%
Other social welfare services	<ul style="list-style-type: none"> ▪ Boost in the percentage of SISBEN I seniors receiving minimum pension benefits 	3%	4%	5%
Employment	<ul style="list-style-type: none"> ▪ Reduction in non-salary labor costs 	36%	29%	29%

C. Cost and financing

- 2.14 The aggregate cost of the technical cooperation project is US\$16.7 million. The Bank will furnish US\$10 million in ordinary capital resources and the government of Colombia will furnish US\$6.7 million in counterpart funding.

⁶ The targets and indicators appearing in the table will be itemized in the technical program files in the form of fractions.

⁷ These values were taken from the 1997 Quality of Life Survey or from official DNP statistics.

Cost breakdown (US\$000)				
Investment category	Total			% Total
	IDB	Local	Total	
ADMINISTRATION	145	0	145	0.9
Coordinator and Assistant	130	0	130	0.8
Outside auditing	15	0	15	0.1
DIRECT COSTS	9,755	5,300	15,055	90.1
Technical assistance for reforms: Education	649	300	949	8.6
Technical assistance for reforms: Labor	500		500	
Reform instruments	6,200	5,000	11,200	67.0
Impact evaluation	2,406	0	2,406	14.4
CONTINGENCIES	0	177	177	1.1
FINANCING COSTS	100	1,223	1,323	7.9
Interest	0	1,128	1,128	6.8
Credit fee	0	95	95	0.6
Inspection and supervision	100	0	100	0.6
TOTAL	10,000	6,700	16,700	100
% by source	60	40	100	

The totals have all been rounded off and, thus, may not be exact sums.

III. PROGRAM IMPLEMENTATION

A. Executing agency

- 3.1 The Department of Planning (DNP), the Ministry of Education, and the Ministry of Labor and Social Security will be the executing agencies in charge of implementing the plan of operations for the technical cooperation project.
- 3.2 The DNP will establish a small implementing unit attached to the Office of the Director, which will be in charge of the coordination and implementation of technical cooperation project activities, the drafting of reports as specified in Section D below and liaison with the Bank. The unit will consist of a technical coordinator and administrative/financial assistant, whose terms of reference are to be approved by the Bank prior to the first disbursement of project funding. The implementing unit will be in charge of hiring consultants and procuring goods and services through competitive bidding processes in accordance with Bank procedures. The Ministry of Education and the Ministry of Labor and Social Security will be responsible for the resources for the technical assistance components of the project in their respective areas, under the coordination and supervision of the DNP implementation and coordination unit.
- 3.3 Certain project activities will require the DNP to actively coordinate its efforts with those of subnational and other central government agencies, such as the National Education Ministry, the Ministry of Labor and DANE (the National Statistics Department). This cooperation is discussed in the following paragraphs, along with arrangements for project supervision.
 - a. Activities in the education sector will be supervised by the DNP Social Division in conjunction with the Ministry of Education. These operations, targeting different departments around the country, will be coordinated at the appropriate subnational level.
 - b. Activities with regard to the labor market will be supervised by the DNP Social Division in conjunction with the Ministry of Labor.
 - c. The Social Mission Office attached to the DNP Social Division will be responsible for the technical oversight of consulting services and procurements of goods for activities pertaining to the fine-tuning and implementation of the SISBEN.
 - d. The National Statistics Department and FONDANE, its revolving fund, are the executing and operating agencies for activities pertaining to the Quality of Life Survey, or QLS. However, an interagency agreement will be entered into with the DNP for purposes of administering the survey, and an interagency technical committee (ITC) will be formed and entrusted with the task of assessing

necessary technical, financial and institutional resources, reviewing technical and operational reports and establishing a basic publication schedule and strategy for the dissemination of survey data.

- e. The DNP Evaluation Unit will be responsible for the technical oversight of procurements and of evaluations of ICBF food assistance programs and the pilot ICBF decentralization and unbundling project. This same unit will evaluate policies formulated under the Social Reform Program.

B. Procurements of goods and services and hiring of consultants

- 3.4 Procurements of goods and services will be made in accordance with Bank procedure.

C. Implementation and disbursement periods

- 3.5 The implementation period will be approximately 36 months and the disbursement period will be approximately 42 months. The Bank will recognize allowable retroactive costs incurred in connection with the mounting of technical cooperation project activities between the time of approval of the technical cooperation project and its effective date.

DISBURSEMENT SCHEDULE (US\$000)					
	Year 1	Year 2	Year 3	Total	%
IDB	4,353.0	2,876.0	2,771.0	10,000.0	60.0
Counterpart	2,936.0	1,965.0	1,799.0	6,700.0	40.0
Total	7,289.0	4,841.0	4,570.0	16,700.0	100.0
%	43.0	29.0	27.0	100.0	

- 3.6 A revolving fund for the equivalent of 5% of the loan amount will be established for purposes of the management of Bank loan proceeds.

D. Monitoring and reporting

- 3.7 The agency in charge will monitor the project and keep the Bank abreast of its progress through the submission of regular and consultants' reports. Submission of the following information to the Bank is mandatory:
 - a. An inception report, due within two months from the approval of the technical cooperation project, containing revised terms of reference for required consulting services and in-depth action plans for each of its components;
 - b. Semiannual status reports on progress in the implementation of the action plans for each project component and in the attainment of the performance indicators

established in the logical framework, along with a summary of any problems encountered during the reporting period in question and corresponding corrective measures;

- c. A final report due within 60 days from the completion of the project, itemizing technical cooperation project outputs and presenting an action plan for the pursuit of social sector reforms and corresponding monitoring activities; and
 - d. Reports by the consultants hired under the technical cooperation project.
- 3.8 The Bank's Country Office in Colombia will be in charge of project supervision. The Social Programs Division for Region 3 will work closely with the Country Office in Colombia on technical project monitoring activities.
- 3.9 The executing agency will perform the following tasks pertaining to the management and control of project funding: (i) maintenance of separate, special bank accounts for the management of loan proceeds and counterpart funding for the technical cooperation project; (ii) maintenance of proper books of account and financial records and of an internal control system under the provisions of section 7.01 of the general regulations; (iii) submission of annual financial statements throughout the project implementation period in line with Bank-approved terms of reference and outside auditing requirements. The financial statements are to be audited by a private accounting firm approved by the Bank in advance, with corresponding auditing costs payable from the loan proceeds; (iv) the executing agency will be responsible to the Bank for the preparation and submission of disbursement requests, vouchers, audited financial statements and miscellaneous financial reports.

IV. BENEFITS AND RISKS

A. Benefits

- 4.1 Insofar as it bolsters the implementation of necessary measures to meet conditionalities for the social reform program (CO-0252), the project will help generate expected program benefits, including a positive fiscal impact, an expansion in the coverage of various programs through the investment of savings engendered by implemented reforms, and better designed and, hence, more effective social policies. More specifically, technical assistance services for the implementation of educational reform agreements will lay the groundwork for changes in management practices improving educational efficiency and fostering a more effective use of available resources. The passage of new labor legislation should help improve currently poor conditions on the labor market. The fine-tuning of the SISBEN should strengthen the targeting of a number of social programs and corresponding program benefits. The information produced by the new Quality of Life Survey and ICBF program evaluations will be used as input in policy-making and in the strengthening of a number of strategic programs.

B. Risks

- 4.2 There are no material risks associated with the implementation of this project designed to finance the cost of studies and technical assistance services.

**LOGICAL FRAMEWORK
SUPPORTING SERVICES FOR THE SOCIAL REFORM PROGRAM
(CO-0261)**

SUMMARY	PERFORMANCE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
OBJECTIVE:			
social sector reform efforts to strengthen the impact and sustainability of social spending and the effects of economic crises.	50% boost in the percentage of social spending on low-income groups.	QLS-2002, SISBEN reports.	Policy measures under the Social Reform Program are taken in a timely fashion, sustainability of the reform process.
POSE:			
<p>Implement reforms in education and on labor market through the provision of technical assistance.</p> <p>Re-tune and implement instruments designed to strengthen efficiency and effectiveness of social spending as part of the reform process.</p> <p>Conduct impact evaluations of social welfare programs and social policies advanced by the Social Reform Program (CO-0252).</p>	<p>1a. Attainment of at least 80% of educational efficiency, equity and enrollment targets under educational reform agreements.</p> <p>1b. Consensuses around proposed measures for pursuing efforts to cut nonwage labor costs.</p> <p>2a. Re-administration of the SISBEN survey to at least 3 million low-income households.</p> <p>2b. Administration of QLS-2002 to a representative sample and use of survey data to measure wellbeing and the effectiveness of social policy and spending.</p> <p>3a. Completed evaluations are used as input in decision making for the allocation and management of social spending.</p>	<p>Project reports, official National Education Ministry, Labor Ministry and DNP statistics.</p> <p>Quantitative report on the results of readministering the SISBEN survey, Social Mission.</p> <p>Qualitative DANE/DNP report on the use of QLS-2002 data, (quotations, etc.)</p> <p>Qualitative report by the DNP implementing unit on the use of impact evaluation data (# of references in the literature, in political addresses, etc.)</p>	<p>Passage of relevant legislation, successful handling of resistance to educational and labor reforms.</p>

SUMMARY	PERFORMANCE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENTS:			
Technical assistance for the introduction of reforms.	<p>1a. Provision of technical assistance for the introduction of educational reforms to departments around the country.</p> <p>1b. Provision of technical assistance for the introduction of labor reforms.</p>	<p>Report on technical assistance services.</p> <p>Report on technical assistance services.</p>	<p>Passage of relevant legislation, successful handling of resistance to educational and labor reforms.</p>
Form instruments	<p>2a. Strengthened targeting instrument (SISBEN).</p> <p>2b. Implementation of the SISBEN in several municipalities around the country.</p> <p>2c. Administration of the Quality of Life Survey.</p>	<p>Supporting document evaluating pilot tests of the instrument in 4 municipalities.</p> <p>Report on the administration of the SISBEN instrument at the municipal level.</p> <p>Production of basic QLS tables.</p>	<p>Proper coordination with municipal authorities and successful handling of political opposition.</p> <p>Signature of an interagency agreement by the DANE and DNP and formation of an interagency technical committee (CTI) to assess necessary technical, financial and institutional resources, review technical and operational aspects, and establish a basic publication schedule and strategy for the dissemination of survey data.</p>

SUMMARY	PERFORMANCE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
act evaluation.	3a. Completion of impact evaluations of the nutritional assistance and Bienestarina programs. 3b. Evaluation of the ICBF pilot project. 3c. Evaluation of policy measures advanced by the Social Reform Program.	Program evaluation report. Evaluation report. Evaluation report.	
UTS:	COST BREAKDOWN:		
ing services (technical ce and evaluation)	Instruments (including surveys): 6,200,000 Consulting services: 3,580,000 Auditing: 15,000 Administration: 130,000 Unallocated: 75,000	Financial reports Outside auditing	
ing g stration costs			

TERMS OF REFERENCE EVALUATION OF IN-KIND SUBSIDY PROJECTS

NUTRITIONAL ASSISTANCE FOR SCHOOLCHILDREN AND ADOLESCENTS (ANEA) AND PROCUREMENT AND DISTRIBUTION OF HIGH NUTRITIONAL QUALITY FOODS - BIENESTARINA

October 2001

1. BACKGROUND

Social programs for high-risk population groups are plagued by various types of design and implementation problems, including a lack of flexible, sustained financing mechanisms, limited coverage, faulty targeting and possible project and program duplication and fragmentation.¹ Moreover, current social programs are virtually incapable of addressing the risks to which these groups are being exposed as a result of the economic crisis and structural adjustment process. The reason for this is that social spending on high-risk population groups tends to be procyclical rather than countercyclical, which would be more expedient. To begin with, spending as a percentage of GDP tends to shrink in the wake of an economic crisis and fiscal adjustments. Even if social spending as a percentage of GDP were to remain constant, the decline in GDP, in real terms, in times of crisis would still translate into a cut in spending. Adding population dynamics to the equation, the net result is lower real per capita social spending.

Accordingly, it is important for Colombia to have a Social Safety Net. A Social Safety Net is a strategically coordinated program package for vulnerable and/or at-risk population groups during periods of crisis and/or structural adjustments. Timely, effective social welfare programs conducted as part of a Social Safety Net can cushion injurious effects on the wellbeing of high-risk population groups and help prevent the destruction of human capital.

One of the main requirements for a Social Safety Net is a timely, efficient information system with a project and program classification scheme with standardized indicators. It also requires transparent program evaluation (ex ante, follow-up and ex post), selection, prioritization and monitoring mechanisms which can be used to shape and realign management systems and project and program priorities under the Social Safety Net, perform cost-effectiveness and cost-benefit analyses of selected projects and programs and corresponding management procedures and processes and evaluate their impact and sustainability.

The identification of new projects and programs for inclusion as part of the Social Safety Net requires impact evaluations of current projects and programs establishing, among

¹ The preliminary study data advanced by Fedesarrollo supports this claim. Fedesarrollo, 2000. "Focalización, Cobertura y Efectividad de la Red de Protección Social en Colombia."

other things, their effects on the target population, their adequacy as a strategy for protecting the human capital of program recipients, the efficiency and effectiveness of the targeting strategies used therein, their cost-benefit ratio and their relevance and operational feasibility in times of crisis.

2. PROJECTS SUBJECT TO EVALUATION

The following projects are subject to evaluation: a) Food assistance for schoolchildren and adolescents (ANEA); and b) Procurement and distribution of high nutritional quality foods: Bienestarina. These projects form part of the “National Food and Nutrition Plan for 1996-2005” as in-kind subsidies, within the action areas of: i) Food security; and ii) Prevention and control of micronutrient deficiencies.

The food security action area focuses on “improving the access of low-income households to food products and the nutritional status of high-risk groups through comprehensive programs with food supplementation components.” The specific objective in the second action area is to “reduce micronutrient deficiencies such as iron and Vitamin A deficiencies and wipe out iodine deficiency disorders.”²

2.1. STATE OF NUTRITION IN COLOMBIA AND PROJECT RATIONALE

According to available statistics on nutritional status, the nationwide prevalence rate for global malnutrition in children under five years of age dropped from 21% in 1965 down to 8.4% in 1995 and to 6.7% in the year 2000. The rate of chronic malnutrition went from 32% in 1965 to 15% in 1995 to 13.5% over the same period, indicating a slowdown in the rate of decline in both types of malnutrition.³ However, there have always been striking regional and rural-urban disparities in these figures. For example, the region-wide chronic malnutrition rate for the year 1995 in Cauca/Nariño was 30.5%, compared with only 6.1% in Valle del Cauca. Moreover, the rural malnutrition rate was 19%, compared with 12.5% in urban areas.

The incidence rate for low birth weight in urban areas of the country in the year 1990 ranged from 5.3% to 11%, averaging out to 8.7%, or just under 10%, which is regarded by the World Health Organization as a public health problem.⁴

Turning to problems associated with micronutrient deficiencies, statistical data for 1995 puts the prevalence of anemia among school-age children (iodine deficiency) at 47% and the prevalence of goiter among the school-age population (iodine deficiency) at somewhere between 7% and 16%. In 1994, the Instituto Nacional de Salud (INS) [National Institute of

² DNP, Office of the Senior Advisor for Social Policy, 1996; pp. 9-10. “Plan nacional de alimentación y nutrición Colombia 1996-2005.”

³ National Population and Health Survey, 2000.

⁴ DNP, Office of the Senior Advisor for Social Policy, 1996; pg. 23.

Health] reported a chronic malnutrition rate of 16.7% and a global malnutrition rate of 5.1% among schoolchildren between 5 and 13 years of age in the city of Bogota⁵.

These statistics and, more importantly, their bearing on high-risk population groups justify the implementation of projects and programs promoting food security (ANEA) and preventing and controlling micronutrient deficiencies (Bienestarina), in these two particular cases, through in-kind subsidies.

2.2 NUTRITIONAL ASSISTANCE PROJECT FOR SCHOOLCHILDREN AND ADOLESCENTS (ANEA)

In compliance with its institutional mandate to furnish food assistance to the school-age population between 5 and 18 years of age,⁶ the ICBF's preventive health policy for schoolchildren and adolescents is embodied in the operation of school breakfast programs, fortified snack programs (in conjunction with parents associations and NGOs), school lunch programs (in conjunction with parents associations and NGOs), school breakfast and lunch programs (in conjunction with private businesses) and lunch programs (in conjunction with rural youth centers and Indian councils).

The ANEA project includes ... "a package of nutritional, meal, educational and community participation programs designed to sustain and/or improve the food security and nutritional status of children and adolescents and promote healthy lifestyles."... "The target population consists of children and adolescents between 5 and 18 years of age with basic unmet needs, in and out-of-school, in rural and urban areas of the country and on Indian reservations, with top priority placed on serving malnourished or displaced children and youths, youthful victims of the armed conflict, children of female heads of household, and children and adolescents living in poverty and at large distances from school facilities."⁷

An impact evaluation of existing food supplementation projects conducted back in 1981 found that school lunch programs had no significant effect on the prevalence of global malnutrition (weight-to-age), despite their positive impact on the nutritional status of schoolchildren between 6 and 8 years of age (with severe nutritional deficiencies). It also found food supplementation programs to have some positive effect on school attendance, but absolutely no effect on scholastic performance.

Beginning in 1991, later evaluations included nutritional considerations. However, a new study is needed to, first, examine cumulative and recent ANEA project outcomes under different types of programs and, secondly, to tackle areas not previously studied.⁸ In studying the Social Safety Net, it is important, among other things, to evaluate the impact of

⁵ INS, 1994, "Situación nutricional y hábitos alimentarios de los escolares de Santafé de Bogotá," 1991.

⁶ Pursuant to the provisions of Law 115 of 1993.

⁷ ICBF, 2000; pg. 10. "Diagnóstico de las modalidades refrigerio reforzado y almuerzo," Assessment 3. Technical Division, Department of Family Welfare Services.

⁸ Ibid.

the ANEA project covering 2.3 million program recipients in the year 2000 at an investment cost of \$104 billion pesos.

2.3 PROCUREMENT AND DISTRIBUTION OF HIGH NUTRITIONAL QUALITY FOODS: BIENESTARINA

The Instituto Colombiano de Bienestar Familiar (ICBF) [Colombian Family Welfare Service] is endeavoring to prevent and control micronutrient deficiencies through the purchasing, manufacturing and distribution of nutritional supplements, promoting the distribution of Bienestarina as a high nutritional quality food under various ICBF programs. The manufacturing and distribution of Bienestarina is helping to furnish recipients under various ICBF programs with an enriched food product with high nutritional value. Consumers of this product include children between 7 and 18 years of age, the elderly, and pregnant and breast-feeding mothers in high-risk groups.

The benefits of Bienestarina have been evaluated primarily in terms of its components, from the standpoint of its use as a food supplement. However, the product also needs to be examined from the standpoint of its manufacturing process and distribution channels to assess its benefits for different types of target populations and establish the efficiency and effectiveness of its manufacturing process and coverage with greater precision. This, in turn, provides an opportunity to examine the expansion, efficiency and impact of the manufacturing and distribution of Bienestarina under the Social Safety Net program and to establish the circumstances and arrangements under which this product could be furnished as part of the services offered by the Social Safety Net.

Bienestarina is distributed under all ICBF programs with a nutritional assistance component. The distribution channels for Bienestarina to be examined as part of this study include, without being limited to, day care centers, community welfare centers, maternal and child nutrition programs, nutritional assistance programs for schoolchildren and adolescents, and nutritional rehabilitation programs.

3. GENERAL OBJECTIVE

The general objective of the consulting assignment is to evaluate the impact and outcomes of the two projects: (1) the nutritional assistance project for schoolchildren and adolescents; and (2) the Bienestarina project for the procurement and distribution of high nutritional quality foods to establish the actual coverage of the projects and/or product in question and attain the project objectives and/or product distribution targets, their impact on the target population and their institutional and financial operating mechanisms. This, in turn, will provide needed information for ascertaining whether the nutritional assistance project and the distribution of Bienestarina qualify for inclusion among the services offered under the Social Safety Net, pinpointing any necessary changes and modifications to strengthen their operation, coverage and efficiency as part of the Social Safety Net or, where necessary, designing alternative projects and programs meeting the nutritional needs of the target population.

The consulting assignment is broken down into four major components, each of which has specific objectives. The objective of the first component is to establish the impact of the ANEA project and the distribution of Bienestarina on the target population in health and nutrition-related areas with a direct bearing on the objectives of the project in question and other potential spinoff effects, such as on the level of educational attainment for example. This study is to be conducted at the project level and from the strategic perspective of the National Food and Nutrition Plan.

The second component is an institutional and operational analysis of the different agencies and stakeholders involved in the implementation of the ANEA project and in the manufacturing and distribution of Bienestarina. It will examine the extent of interagency cooperation and coordination in the project design and implementation process and the relationship of each project to other institutional strategies in the areas of health and nutrition, particularly in the area of preventive health. It will also study their effects on the target population in terms of community organization, participation and training. The operational portion of the study will look at existing administrative and operating processes and procedures liable to affect their focus, scope and efficiency, including project monitoring and evaluation mechanisms.

The third component consists of a cost-effectiveness and/or cost-benefit analysis to determine whether the intervention mechanisms in question are preferable to other alternatives, including existing alternatives under the National Food and Nutrition Plan and other potential options.

Lastly, the financial component will examine the budget performance of both intervention mechanisms, corresponding financial arrangements and their impact on progress in project implementation, the sources and uses of allotted funding, etc.

This breakdown is a reflection of both the shortage of information on project operation and performance and of the importance of the study data from each of the four components as an input for decision-making in the event of the need to modify, adapt and possibly replace the intervention mechanisms in question.

The issues to be addressed by the consultants under each component are outlined below. The consultants will be expected to produce separate outputs and documents for the nutritional assistance project and the distribution and allocation of Bienestarina. The study of the ANEA project will examine the unique features of and differences in its various types of programs. In the case of the Bienestarina project, the consultants will examine the possibility of capitalizing on economies of scale while, at the same time, examining the different distribution channels for Bienestarina under selected types of nutritional assistance project operations (such as school meal programs) furnishing Bienestarina to targeted children and youths (see ICBF project operations supplying Bienestarina), as well as their impact on and coverage of different target population groups (children, adolescents, pregnant and breast-feeding mothers, the elderly, etc.)

Finally, all specific questions and issues discussed below and to be addressed under one of the four components of the consulting assignment are to be examined in relation to each and every type of ANEA project operation and distribution channel for Bienestarina.

3.1 IMPACT EVALUATION

Of the different types of methods which could be used to perform this study, experimental or quasi-experimental cross-sectional analyses allow for before-and-after tests, detecting project impacts through observations conducted prior to its commencement (with a baseline) and subsequent measurements, endeavoring to compare the situation of project recipients before and after project implementation and to identify changes attributable directly to the project in question. However, measurements of control groups consisting of individuals with similar characteristics to those of project beneficiaries but who are not part of the project needed to screen out changes attributable to exogenous factors (such as the economic cycle and regional and/or demographic differences).

The performance of an impact evaluation of the intervention mechanisms to be studied as part of this consulting assignment means establishing a baseline and making at least one subsequent measurement of the same sample for purposes of producing longitudinal data. These measurements are to be applied to a study group and to a control/comparison group based on random samples of project recipients and nonrecipients, respectively, drawn at the beginning of the study process. This study method is designed to establish: (i) whether the types of projects in question have a significant impact; and (ii) the differential benefit engendered by the projects in question through a comparison with a control group not involved in the project. These assessments will need to be rounded out and validated by a qualitative study of institutional and operational considerations associated with the projects in question or of their impact at the household level.

The use of such an approach rather than other possible evaluation methods such as ex post evaluations, in which it is impossible to distinguish between effects attributable solely to the project under examination and those attributable to exogenous factors, is recommended in this case. Nonetheless, this does not preclude the consulting firm from proposing another method of addressing the issues and questions outlined in these terms of reference.

The consultants will be expected to address the following considerations in evaluating the potential impact of the ANEA and Bienestarina projects on the target population:

- **Nutritional status**

What is the state of nutrition of the target population group compared with that of the control group before and after project implementation/product distribution?

Does the project/product help improve the nutritional status of corresponding recipients relative to their age (height-to-age, weight-to-age, height-to-weight) to a significant extent?

What type of foods are included in the food supplement supplied to ANEA and Bienestarina project recipients and how do these foods help improve their nutritional and health status? This question applies to each type of project operation.

Is there a marginal nutritional benefit for children and/or youths simultaneously served by a program under the nutritional assistance project and benefiting from the consumption of Bienestarina?

Is there a significant difference between the two population groups (project recipients and control group) with respect to the incidence of diseases associated with nutritional deficiencies?

What is the difference between of the basic diet of the target population and the control group in terms of caloric intake and nutritional quality?

Specifically as regards Bienestarina, does the nature of this product (its presentation, taste and color) make it more attractive to consumers?

To what extent are the objectives of each project being attained and how are they furthering the objectives of the National Food and Nutrition Plan?

- **School attendance and scholastic performance**

Although the projects in question have no direct bearing on school attendance and scholastic performance, it has been established that these types of projects do, in fact, have an impact on these factors. Accordingly, it is important that the study address the following considerations:

Is there a significant difference in school attendance rates for children benefiting from the project/product and corresponding control groups? To what is this difference attributable?

Do children served by these projects perform better in school than corresponding control groups? To what is this difference attributable?

Is there any difference in drop-out rates between the two groups? To what is such a difference attributable?

The study of each of these considerations is to be broken down by age group and gender. In other words, are there marginal impacts for certain groups?

- **Allocation of food within the home**

It is important to examine how food is allocated among the members of the household, changes in the family shopping basket and eating habits and how project recipients use their in-kind subsidies by addressing the following questions:

What are the criteria for allocating food within the home? Is it going to the household members served by/receiving the project/product in question or is it shared by others? Has any effort been made to provide training to recipient families/mothers to ensure that the Bienestarina is being consumed by the direct project recipient?

Have there been any qualitative or quantitative changes in household consumption patterns as a result of project implementation/product distribution? What are the food preferences of recipient households after project implementation/product distribution? Is money being spent on other foods with no nutritional value?

Is there any evidence of the in-kind subsidies being sold or traded for the procurement of other goods or services?

- **Targeting and coverage**

The consulting assignment should include a study of the strategy and instruments used for the targeting of both direct project recipients and of communities receiving subsidies. This is an important issue, in that a project's impact on different population groups can vary, depending on the targeting procedure used. More specifically, the study process should include an evaluation of the different mechanisms used to select recipients for the ANEA project and the distribution of Bienestarina, addressing the following types of questions:

- What types of problems are presented by the selection process for project recipients? What are the options for solving these problems?
- What percentage of the target population is not being served by the project/product? To what is this effect attributable?
- Do all potential candidates become project recipients? (horizontal efficiency)
- Do all recipients meet eligibility requirements? (vertical efficiency)
- Do proposed targeting procedures effectively help reach the largest possible number of members of the target population?
- How does the targeting mechanism used affect project coverage?
- In the case of the ANEA project, do the timing and length of its food supplementation programs allow it to successfully address previously identified malnutrition problems?

The consultants will be expected to recommend modifications or improvements in procedures for the selection of project recipients based on their findings.

3.2 OPERATIONAL AND INSTITUTIONAL ANALYSIS OF INTERVENTION MECHANISMS

Given the wide range of ANEA project implementation mechanisms and arrangements for the distribution of Bienestarina and the variety of different stakeholders involved, the consultants should identify and profile all existing options and evaluate their effectiveness, using the findings from this study to make recommendations with respect to alternative project implementation mechanisms.

- To what extent are the ICBF and all participating agencies and/or stakeholders meeting their responsibilities with respect to the project/product in question? What types of obstacles (bottlenecks) are being encountered and what are the recommended or viable options for overcoming these problems?
- What type of operating mechanism is best suited to the objectives of the ANEA and Bienestarina projects? What types of arrangements have worked best?
- What types of interagency and/or coordination agreements are applicable to the intervention mechanisms in question? Are they supplemented by other sectoral arrangements, in the preventive health area for example?
- What are the incentives for different agencies/stakeholders to take part in the project implementation process and the distribution of Bienestarina in due course? What types of disincentives could be operating in this case and how could they be neutralized?
- In the specific case of the Bienestarina project, what types of institutional processes and procedures are involved in the manufacturing and distribution of this product? Are they effective and can they be made more effective? What effect does the selected arrangement for product distribution have on project coverage (for example, distribution through welfare centers versus distribution directly to the elderly)?
- Are there project monitoring and evaluation mechanisms in place? If so, how do they affect decision-making and the focus of corresponding projects?
- Does the ICBF have the necessary management capacity for project implementation? What are its problem areas and the viable options for solving these problems?
- In the event of a major expansion in the ANEA project and in the distribution of Bienestarina, what is the best way of achieving such an expansion?
- Have the projects had any effect on community organization in the area of health and nutrition? Have they helped improve community education in related areas, both among the target population and among nonrecipients? In practice, to what extent are these programs fostering community participation?

3.3 COST-EFFECTIVENESS AND/OR COST-BENEFIT ANALYSIS

In this component, the consulting firm is expected to perform a cost-benefit and/or cost-effectiveness analysis. In the former case, the objective is to establish whether the benefits obtained by project recipients offset the costs incurred by society in implementing the project and supplying the Bienestarina. The findings from this analysis will be a major determinant in deciding whether to expand these intervention mechanisms into an ongoing social welfare strategy.

The cost-effectiveness analysis is designed to establish whether the projects are making as large an impact as possible with their operating budget. To accomplish this, it is important to determine whether operating costs account for a large percentage of total project costs and/or if there is any way of reducing operating costs without adversely affecting project benefits.

The consultants will be expected to compare the costs and benefits and/or the costs and effectiveness of both the ANEA and the Bienestarina project. What is the project/product cost per peso expended? What is the cost per recipient?

Specifically as regards the Bienestarina project, in addition to the foregoing considerations, the consultants will examine the possibility of optimizing the product manufacturing and distribution process to achieve better project coverage at a lower cost.

This component is basically designed to establish whether the intervention mechanisms in question are preferable to other alternative types of interventions contemplated in the National Food and Nutrition Plan or conducted in other countries or to other possible alternatives and, more specifically, to examine whether other comparable intervention mechanisms would have any more of an impact at the same or at a lower cost. This analysis will need to address strategic considerations such as economies of scale attainable by comprehensive projects forming an integral part of a sector plan, the reliability or availability of country inputs (foods, nutrients) affecting factors such as food security, etc.

3.4 FINANCIAL ANALYSIS

The consultants will be expected to perform a financial analysis to establish the long-term viability of the financial arrangement for the intervention mechanisms in question and whether it offers the degree of flexibility and responsiveness required of a Social Safety Net.

To accomplish this, the consultants will address the following issues:

- What are the sources of financing and the amount of funding appropriated and utilized by each source and/or operator? Are there alternative sources of financing and/or funds management?

- What is the breakdown of funding by region, department and municipality and at each of these levels? What is the breakdown by socioeconomic group served by or receiving the project/product?
- What were the aggregate costs of each intervention mechanism over the recent past (1995-2001)?
- What is the cost breakdown by project component? What is the percentage of administrative costs?
- In the specific case of Bienestarina, what is the product manufacturing cost as a percentage of the aggregate project cost and are there more economical alternatives for the manufacturing of Bienestarina?
- Are there alternative administrative and financial systems for the implementation of these intervention mechanisms?
- Are the executing agencies independent agencies with the ability to manage or redirect project funding?
- What types of budgetary and financial constraints have been encountered? What are the viable options for solving these problems?

4. CONSULTANT SERVICE PROFILE

All work is to be directed by a senior consultant with overall responsibility for service performance, who must be an economist familiar with the social sector and with extensive experience in child welfare and food assistance projects and programs. He is to be seconded by at least three experts in: i) institutional analysis and the administration of public funds; ii) design and evaluation of social projects; and iii) sampling and quantitative analyses. The assignment also requires a support staff for data collection purposes. The senior consultant has full discretion in the hiring of personnel, but the contracting authority reserves the right to express its opinion of the proposed team.

5. WORKING PROCEDURES

The consultant is to be in regular contact with the government unit in charge of designing the Social Safety Net. He will be required to attend all meetings called by the government unit.

All reports are to be drawn up in draft form and reviewed by the supervisor, who will make comments and suggest changes to be incorporated into the final version of the report.

6. REPORTS

The consultants will generate four reports: an **inception** report due within 15 days from the effective date of the contract, establishing the work plan and all corresponding working methods; a **second** report due at the end of 4 months, describing the initial progress made on work under components 3.2 and 3.4 of the terms of reference; a **third** report due 8 months from the date of signature of the contract, presenting preliminary data for components 3.1 and 3.3 of the terms of reference,⁹ and a **final** report due 14 months from the date of signature of the contract, presenting their findings for all four components and addressing each and every item under the terms of reference.¹⁰

7. LENGTH OF THE CONSULTING ASSIGNMENT

The length of the consulting assignment is 14 months, counted from the date of signature of the service contract, which is the minimum length of time required to adequately evaluate changes in nutritional status.

8. COST OF THE CONSULTING SERVICES

The cost of the consulting services is US\$XXXXXX, payable as follows:

xx% of the contract price payable under the concept of a retainer, upon signature of the contract;

xx% of the contract price payable upon approval of the second report;

xx% of the contract price payable upon approval of the third report;

xx% of the contract price due under the concept of final payment, upon approval of the final report.

9. SUPERVISION

The services performed by the consultants will be supervised by the technical impact evaluation team coordinator attached to the Special Investments Group at the National Planning Department.

⁹ Measurements of health effects require an interval of at least one year between the baseline and subsequent measurement. Any shorter a period could prove inadequate to evaluate project outcomes in this area. Nevertheless, the report could contain preliminary data on educational issues, consumption patterns in the home and targeting, as well as certain advance information with respect to the cost-benefit or cost-effectiveness analysis.

¹⁰ The final report will include a more in-depth impact evaluation in the area of nutrition, by which time the consultants will have before and after observations spaced a year apart, including measurements of changes in voluntary activities among schoolchildren, as well as changes in anthropometric variables.

10. BUDGET

Scenario 1				
Breakdown of total cost of consulting services (US\$)				
Surveying	1,440,000			
Staff	328,000			
Travel	18,500			
Subtotal	1,786,500			
Contingencies	89,325			
Overhead	131,200			
Total	2,007,025			
Surveying costs				
		Target pop.	Control group	
Serviced population (approx.)	2,400,000			
Sample = 0.5% of the serviced population	12,000	8,000	4,000	
Cost per inquiry (US\$)	60			
No. of surveys (baseline + 1 subsequent measurement)	2			
Project period (months)	16			
Total surveying cost	1,440,000			
Staffing pattern and cost				
	Cost/month	Project-months	Total	
Project manager	8,000	6	48,000	
3 senior experts in:				
Institutional analysis and administration of Public funds	5,000	16	80,000	
Design and evaluation of social projects	5,000	16	80,000	
Sampling and statistical methods	5,000	8	40,000	
2 supporting staff members	2,500	16	80,000	
Total Staffing Cost			328,000	
Overhead (40%)			131,200	
Travel				
	Trips/project	Trip Length	Daily cost	Total Cost
International manager	2	5	100	1,000
3 experts	3	5	100	1,500
International travel (11 trips)				11,000
Local travel				5,000
Total cost				18,500

Assumptions:

1. Sample size 0.5%
2. Cost per inquiry US\$60
3. Overhead (40%)
4. Contingencies (5%)
5. Figures in US\$

PROPOSED RESOLUTION

COLOMBIA. LOAN ____/OC-CO TO THE REPUBLIC OF COLOMBIA
(Social Reform Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Colombia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a social reform program. Such financing will be for an amount of up to three hundred ninety million dollars of the United States of America (US\$390,000,000) from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Financial Terms and Conditions" and the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.

PROPOSED RESOLUTION

COLOMBIA. TECHNICAL COOPERATION LOAN ____/OC-CO TO
THE REPUBLIC OF COLOMBIA
(Social Reform Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Colombia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a social reform program. Such financing will be for an amount of up to ten million dollars of the United States of America (US\$10,000,000) from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Financial Terms and Conditions" and the "Special Contractual Conditions" of the Executive Summary of Annex 3 of the Loan Proposal.