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Transfers)

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Sector Social Assistance

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Borrower(s) GOVERNMENT OF COLOMBIA

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1. Country and Sector Background

Colombia is experiencing its worst economic performance is over 60 years. GDP growth has decreased from an average of 3-4 percent during the first half of the 1990s to 0.6 percent in 1998 and - 4.5 percent in 1999. This decline has been accompanied by deterioration in nearly all other areas of the economy: (i) the fiscal accounts of the non-financial public sector, which were roughly balanced in the early 1990s, showed a deficit of 3.7 percent of GDP in 1998, rising to 5.5 percent of GDP in 1999; and (ii) the current account of the balance of payments reached a deficit of 5.7 percent of GDP in 1998, although it fell to 1.1 percent of GDP in 1999 as a result of a sharp decline in imports and an increase in oil revenues. The Colombian economy has begun to show signs of recovery during the first months of 2000, with GDP growing at an estimated annualized rate of 3 percent. Nevertheless, the increase in unemployment and poverty arising from the economic crisis remain a grave concern. And how to restore fiscal balance while protecting the welfare of the poor and vulnerable continues to be a serious challenge. A. Main Sector Issues Effects of the Crisis on Employment, Poverty and Income Inequality High unemployment. In June 2000, Colombia's unemployment rate reached a historic high of 20.4 percent, almost double its traditional rate of 11 percent. Government data reveal that most of the affected are young workers in urban areas, who are accessing the labor market for the first time. Of the approximately three million unemployed workers, about a third are located in the seven largest cities. Growing poverty and income inequality. Colombia's poor economic performance has resulted in a worsening of most social and economic indicators. Data indicate that the gains made in terms of poverty reduction have been lost as a result of the 1998-99 recession. Poverty and extreme poverty rates had been decreasing almost continuously since the 1970s when the country was growing relatively rapidly. But during the second half of the 1990's, extreme poverty --defined in terms of an

individual's inability to meet basic caloric requirements -- in the urban areas has increased by more than 4 percentage points. The extreme poverty rate in urban areas was around 10 percent in 1995, and after the crisis it increased to 11.5 in 1998 and 14.5 in 1999. As for the poverty rate, which was around 48 percent in 1995 and 1998 (down from 70 percent in 1978 and 55 percent in 1988), it increased almost 8 percentage points in 1999. The crisis has affected both the rural and urban population, but there are indications that urban areas were more heavily affected. Based on the information contained in the last two national surveys (CASEN 1993 and ECV 1997) a striking increase in the incidence of urban poverty is observed, while poverty in rural sectors seems to have decreased. Similar behavior is observed with regards to income inequality: in the urban areas the lowest quintile suffered a 50 percent loss in income participation while it remained approximately constant among the rural population. Other income distribution parameters like the Gini coefficient show an increase in income inequality in the urban sector. Although poverty in the rural sector is more widespread, it is in urban areas where the situation has deteriorated relatively more. The Gini coefficient increased during the 1990s, but between 1998 and 1999 it increased almost two percentage points, to 0.55. An additional indicator of welfare, the Índice de Calidad de Vida (ICV), shows a negative impact among the poorer groups. The ICV is an index of welfare that incorporates a number of factors like access to public services, present and potential human capital, and variables measuring quality of life. After 1996 the ICV shows a worsening of conditions for the lower deciles of the population. Again this is worse in urban than in rural sectors. The ICV also shows that the smaller municipalities have suffered the most from the effects of the crisis. Inadequate and deteriorating investment in human and social capital. Decline in education. Basic education in Colombia is still far from being universal, especially among the poor many of whom dropout before completing primary education. Moreover children in the poorest quintiles are entering the school system late; only 17 percent are in the correct grade for their age, compared to the total average of 38 percent. Furthermore, dropout rate remains high and learning achievement among the poor needs improvement. Given these education challenges, any deterioration or threat against the education of the poor should be viewed with grave concern. The National Planning Department (DNP) estimates that enrollment rate among 7-11 year old children from the poorest income decile decreased from 87.3 percent in 1996 to 83.2 percent in 1998. For the second poorest decile, the decline was from 89.7 percent to 85.9 percent. During the same period, the enrollment rates of 12-17 year olds also fell among the poorest quintile from 66.3 to 64.6 percent. The education effect could be greater after 1998. As the crisis continues, poor families are likely to run out of options and more of them have to cope by pulling children out of school to save money and augment current disposable income. Resort to this short term coping mechanism, however, has long term consequences on the accumulation of human capital and the ability of poor children to break out of the intergenerational cycle of poverty. There is also evidence of a decrease in the quality of education received by children. As some middle income families become poor due to the economic crisis, they pull their children from private schools and send them public schools, a phenomenon observed recently in Colombia. There are other possible educational effects that have not been captured yet by available data. In this regard, it should be noted that one of the education-related responses to similar crises elsewhere includes a

decrease in time children spent doing their homework or studying, as they go into the labor market to help their families. Reduction in the capacity of the health system to subsidize the poor. Colombia has a health insurance system in which the poor are subsidized. Despite the achievements of the country's health reform program, which include rising number of individuals affiliated to the system since 1993 (in both the subsidized and non-subsidized tiers), many of the poor are not enrolled in the system. As a result of the crisis, the number of individuals contributing actively to the health insurance system, dropped significantly. Between 1998 and 1999 the number of active/regular contributors went from 63 to 47 percent. A decrease in the number of active contributors puts additional strain on the finances of the subsidized scheme, as cross subsidy becomes more difficult. Declines in food consumption among the poor. Given data limitations there is no rigorous way to evaluate the impact that the crisis has had on malnutrition (the necessary anthropometric information will be available at the end of this year when the 2000 Demographic and Health Survey is concluded). However, household survey performed by Fedesarrollo in Colombia's four largest cities suggests that the consumption of certain items has decreased significantly. Food consumption went down 6 percent during the first half of 1999 compared to the first half of 1998. About 39 percent of households reported a drop in consumption in 1999 relative to the previous year. Reversal of gains in social spending. During the 1990s public expenditure on social sectors more than doubled. However in 1999 the amount of social expenditures decreased for the first time in the decade, by approximately 5 percent compared to 1998 levels. The main decrease has been in the education sector, where expenditure levels decreased about 10 percent. In 1999 social spending (without pensions) amounted to 11 percent of GDP, including expenditures on health, education, ICBF, SENA, and other sectors. Colombia's health and education expenditures stand at around 2.5 and 4.2 percent of GDP, respectively, relatively low levels by Latin American standards. Projections for year 2000 are not optimistic: social sector spending are likely to remain constant, with a slight increase in education and a slight decrease in health. Inadequate and inefficient social safety net Colombia's principal social safety net has historically been reliance on strong economic growth rates. The advent of the economic crisis has underscored the absence of a safety net strategy and established the urgent need for, first, identifying existing programs and establishing new social assistance mechanisms well-suited to helping the poor cope with the negative effects of the crisis. This is the objective of the Red de Apoyo Social (RAS) programs. Second, the crisis calls for a re-examination of the battery of largely disarticulated safety net programs and the crafting of a social protection strategy that will help Colombia be better prepared to respond to future crises. This is part of the analytical work presently being carried out by the Bank in collaboration with the GOC in preparation for a possible social sector adjustment operation in FY 02. The need for re-examining the social assistance programs and developing more efficient and credible alternatives is illustrated by their mixed accomplishments. Some programs like Hogares Comunitarios de Bienestar, which aims at improving the nutritional and health status of low income children under seven years of age, seem to be well targeted but produce poor results. A problem seems to be the lack of coordination among programs as well their being supply driven. Some programs have been designed with geographical criteria, others have been targeted to specific groups, but there is no

detailed knowledge of the interactions among them, overlapping objectives and target populations. Another example of a program whose effectiveness and efficiency have been seriously questioned, is the Red de Solidaridad Social essentially a social fund (in structure) established in the mid-1990s. From 1994 to 1998 it reached close to four million individuals through different programs, like Revivir, which provides assistance to the vulnerable elderly, or Desplazados, to provide assistance to households that have been displaced by the violence in Colombia. The problem is that it has shown inadequate strategic and programmatic focus, lacked monitoring and evaluation capacity, and failed to retain qualified personnel. The weaknesses were reasons for rejecting the Red as implementing agency of the Manos a la Obra project. A further example is SENA, a training and information agency that administers about 111 training centers and 29 employment information centers. Various studies have questioned the efficiency with which training funds (financed by a payroll tax) are allocated and used.

B. Government Strategy

The new safety net strategy. To deal with the economic crisis and mitigate its social consequences, GOC has adopted a strategy that has two main parts. First, the Government will implement fiscal adjustments and economic reforms to achieve stability and sustainable growth. This objective is fundamental to poverty reduction and the long-term improvement of living standards of the poor. It is also critical to the GOC's ability to strengthen, expand and maintain an adequate social safety net in the long run. Second, acknowledging the urgency of alleviating the social consequences of the economic crisis and fiscal adjustments, GOC has established the aforementioned Red de Apoyo Social (RAS) to cushion their impact on the welfare of the poor and vulnerable population. The RAS complements the objectives and social policies established in the National Development Plan 1999-2002, which seeks economic and social changes that would promote the establishment of peace in Colombia. The RAS would have three major elements: (i) a community works program called Manos a la Obra, which aims to provide temporary employment to poor, unemployed, unskilled workers; (ii) a conditional cash subsidy program for poor families that would give cash assistance to the poor provided that they keep their children in school and provide them with basic preventive health care; and (iii) a training/apprenticeship program for young adults based on competitive bidding among private firms. To implement the RAS, GOC is determined to spend an additional 0.3 percent of GDP per year (about US\$250-\$300 million annually), over and above current public social expenditures, to be targeted to the provision of social safety net programs during the next three years (2000-2002). The Bank, IDB, and CAF have pledged to support the program through a series of lending operations and analytical studies. The Bank has just approved on May 11, 2000 a \$100 million loan to Manos a la Obra. This Project would add another \$150 million to support the implementation of RAS. Bank support is expected to be complemented by an IDB loan of US\$269.0 million, prepared in close collaboration with the Bank, to support employment generation, welfare assistance initiatives, and a pilot training program for young adults. GOC recognizes that in the long run the sustainability and impact of the new RAS depends on the reform of the existing social safety net programs. Consequently, while the above projects are focused on the short run objective of mitigating the effects of the crisis in urban areas, GOC expects them to also contribute towards the long term goal of reforming the current social protection and poverty alleviation system. In this regard, Manos a la Obra is expected to contribute to the long term goal by

developing the software and experience that would enable GOC to quickly and efficiently deal with future fluctuations in employment demand. Likewise, the youth training program not only would address the unemployment problem of current out-of-school urban youth; it would also test a training strategy that could be useful in the reform of Colombia's training system. Furthermore, in the case of the conditional transfers project, GOC is looking beyond mitigating the immediate effects of the crisis toward introducing a more efficient system of demand-side subsidies to address structural poverty. The hope is that all these new RAS approaches would prove useful in reorienting and redesigning the current social safety net and poverty alleviation system. GOC is now in the process of identifying these inefficient programs and is ensuring that above Red de Apoyo Social projects are well evaluated. In line with this vision, the Bank (as mentioned) is currently doing a sector analysis of Colombia's social assistance programs and other related analytical work to prepare for a possible social sector adjustment loan in FY02.

2. Objectives

The goal of the Project is to ameliorate the impact of Colombia's current economic crisis on the poor. Its objective is to protect and promote human capital formation of poor children (aged 0-17) by supporting their families maintain and enhance investments in their health, nutrition, and education in the face of sharply reduced incomes. In the longer term, the Project seeks to contribute to the Government of Colombia's (GOC) reform of its social safety net by setting in place a modern, well targeted, and efficient program. In this regard, the Project is a key part of GOC's evolving Red de Apoyo Social (RAS) program designed to expand and strengthen Colombia's social safety net system, enabling it to respond faster and better during times of crisis. To achieve these objectives, the Project would finance the provision of two kinds of conditional grants to nuclear families classified as SISBEN 1. (Families in SISBEN 1 belong approximately to the poorest quintile of the income distribution.) A nutrition grant would be provided to eligible families with 0-6 year old children who are not in the community nutrition and pre-school program (Hogares Comunitarios de Bienestar) of the Instituto Colombiano de Bienestar Familiar (ICBF, Colombian Institute of Family Welfare). The family would receive the grant in cash for as long as it complies with agreed health/nutrition requirements, which include the immunization of its 0-6 children, the monitoring and control of their development according to pre-specified norms, and their mother's participation in group discussions on health and child care issues. The other grant is a scholarship (also in cash) that would be provided to each eligible children aged 7-17 years old who are registered in school and keep a class attendance rate of not less than 80 percent. Through these grants, the Project would allow families to avoid coping mechanisms that are damaging to the future earnings of their children. Colombia has thousands of poor vulnerable children who can benefit from the Project. These children belong to families whose income and assets are so low that even during normal economic times they have very little resources to cushion the impact of idiosyncratic shocks. Social assistance programs exist to help these families; they are, however, inadequate. Given the depth of the current economic crisis and the inadequacy of the social safety net, the fear is that the crisis could have serious impact on the well-being of those children. Apart from its immediate impact on their present consumption, the crisis threatens to reduce family investments in their

human capital, which is already low to begin with. In particular, it threatens to undermine the ability of the above-mentioned families to adequately invest in their children's basic health and education. The consequence is that for many of those children, their future ability to escape the poverty cycle could become even more difficult, depending on the duration of the crisis and the rapidity by which Government is able to strengthen its social safety net.

3. Rationale for Bank's Involvement

Bank support adds value in several areas. First, the GOC values the Bank's analytical capacity and broad international experience with social protection. In this regard, the Bank has contributed significantly to the discussion of the conditional cash transfer idea, drawing from its familiarity and review of PROGRESA and other similar programs. This discussion was helpful in the choice of the Project and alternative design features. Second, Bank support for the project during implementation would assist GOC in ensuring that the technical criteria are applied appropriately and that any adjustments made to project design take into account best practices in social protection projects. Finally, in its effort to rationalize its social safety net, GOC could benefit from ongoing and recently completed Bank studies. As mentioned, the Bank is currently undertaking various analyses of Colombia's social safety programs, unemployment and the labor market, and poverty issues. Relevant recently published Bank studies include Social Protection Strategy: From Safety Net to Spring Board (2000) and Securing Our Future in a Global Economy (2000), which lay out analytical frameworks for assessing and developing a coherent social protection reform strategy for Colombia. Bank's expertise in this area is an important consideration for Project sustainability and impact in the long run.

4. Description

The Project consists of four components (see table below). The first component (US\$67.2 million) is the Educational Grants (EG). This would finance scholarships for children aged 7-17 years old belonging to families with SISBEN 1 classification. Beneficiary families would receive the education grant during the duration of the project (three years) for as long as they are enrolled in primary or secondary schools, maintain a class attendance rate of not less than 80 percent, and do not repeat grades more than once. Each education beneficiary would receive a monthly stipend to be agreed between the Bank, IDB and GOC by appraisal. The current idea of GOC is to set the monthly stipend per eligible child at US\$6 per month and US\$12 for primary and secondary school students, respectively. These amounts are about equal on average to the direct expenditures of households on education. The second component (US\$60.8 million) is the health/nutrition grant (HNG). This component would finance direct cash grants to eligible (SISBEN1) families with 0-6 year old children. Selected families would receive the grant for as long as they comply with agreed health/nutrition requirements. These include the immunization of their 0-6 children and their use of basic health services according to norms established by the Ministry of Health, and mothers' participation in child health/development group discussions. This grant would enable and motivate beneficiary mothers of 0-6 year old children to give them the nutrition and health care they need during this critical period of growth and development. Just as with the education grant, the amount of health/nutrition grant to be provided eligible families would be

agreed by appraisal. The current thinking of GOC is to set the health/nutrition grant at US\$20 per month per eligible family with a 0-6 year old child regardless of the number of children. It is claimed that on average this amount represents about \$13 per child aged 0-6 years old per month. The grant of US\$20 per month is more or less equal to the gap between the cost of a basic food basket for determining the poverty line and the average income of indigent families. The health/nutrition as well as education grant per beneficiary would be indexed so that its real value is maintained over the years. The selection of grant beneficiaries and the verification of compliance with requirements of their receipt would be done in accordance with procedures and criteria to be established in the Operations Manual satisfactory to the Bank. The Project Management component would finance the operational costs of the temporary National Coordinating Unit (NCU). These costs would partly be shared by the Manos a la Obra project. Finally, the Monitoring and Evaluation component would finance the external review and evaluation of the performance and impact of the project. Only about 10 percent of Bank loan would be spent for non-Grant cost. The conditional subsidy program would have a total loan funding of \$248 million from the Bank and IADB. This Project would contribute US\$150 million, while IADB's Apoyo Familiar would provide another US\$98 million. The total Project cost (US\$198) shown below includes a rough estimate of the value of the in-kind contribution of ICBF and the local governments. The EG and HNG components would be financed 100 percent by both Banks. The other components would be wholly or partly funded by counterpart resources. Counterpart funding would be agreed by appraisal. It would appear at this stage that Colombia could provide counterpart funding of about 10-20 percent of Project cost. Total administrative cost is expected to be about, if not less than, that of Mexico's PROGRESA (roughly 30 percent).

- (1) Education Grants (EG)
- (2) Health/Nutrition Grants (HNG)
- (3) Project Management
- (4) Monitoring and Evaluation
- (5) Unallocated

5. Financing

Total (US\$m)

GOVERNMENT 30

IBRD 150

IDA

LOCAL GOVTS. (PROV., DISTRICT, CITY) OF BORROWING COUNTRY 18

Total Project Cost 198

6. Implementation

National management. Just as with Manos a la Obra and other RAS projects, the Administrative Department under the Office of the President, through the Peace Investment Fund (DAPRE-FIP), would be responsible overall for implementation of the Project. Day-to-day operations would be handled by a National Coordinating Unit (NCU), to be set up under DAPRE-FIP with full-time staff, which would operate with relative autonomy. The NCU would be responsible for ensuring implementation of project activities according to agreed criteria and guidelines and for loan administration, supervision, and control. Some of NCU staff will be shared between this Project and the Manos a la Obra. They include staff of finance and

administration, legal office, communications, management information system (MIS), and internal control. Others involving training, monitoring and operations will be dedicated exclusively to the Project. DNP would be responsible for monitoring and technical review of the Project's progress.

As DAPRE-FIP would be responsible for other programs with different objectives, agenda, and governing procedures, it has been agreed that the RAS would be maintained operationally and financially separate from the other DAPRE-FIP programs. To this end, the RAS would have its own Bank accounts and accounting system. Moreover, a Steering Committee, which would comprise high-level representatives of stakeholders such as the Departments of Planning, ICBF and SENA, would be established to ensure that RAS operations are technically sound and well coordinated. The principal responsibilities of the Committee are to provide technical orientation, coordination of the various RAS projects, and supervision of their performance. Inclusion of high level representatives of the Ministries of Education and Health will be proposed to GOC to ensure cooperation on supply side issues. It will also be proposed to include representatives from reputable Non-Governmental Organizations will be proposed to lend credibility to the program. DAPRE-FIP would contract a fiduciary agent (Fiducia) to manage and control the flow of funds. One of the most important responsibilities of the Fiducia would be to contract a network of Banks to deliver directly to the beneficiary mothers said grants and ensure that they are properly documented. The ICBF, which has a national mandate to provide child development services, would support the NCU. Its involvement with the Project is an opportunity for ICBF to transform itself into a more efficient, demand-driven agency.

Local management. Project administration at the regional and local level will rely on two foundations: the existing ICBF administrative infrastructure and community-based monitoring. ICBF Infrastructure. Regional and local project implementation will be carried out primarily through the use of ICBF staff and facilities. The ICBF network includes offices and staff at 3 levels: (i) the central, national level in the capital of Bogota; (ii) the regional level with one office per department (Colombian departments are equivalent to Mexican or US states); and (iii) the local level with a zonal office serving 5-10 municipalities. The regional offices will be responsible for the incorporation of participating municipalities, regional implementation of the management information system, and management of the network of zonal offices within the department. The zonal offices will be responsible for the project's local administration, including the incorporation of beneficiaries, the delivery and collection school and health center and other project monitoring data, and the coordination of the training programs for project beneficiaries and local actors. The zonal office will also serve as the Project's liaison with the groups responsible for community-based monitoring. At full implementation, the Project will rely on the ICBF network through the use of 26 regional offices and 129 zonal offices.

Community-based Monitoring. The direct involvement of beneficiaries and local actors is critical to successful project implementation. Two local networks will provide the foundation for community-based project monitoring: the mothers receiving the transfers and the Technical Committee for Social Policy (Comite Tecnico de Politica Social) based in each municipality. Mothers receiving transfers will be convened to elect one coordinator per neighborhood, with a coordinator representing no more than 100 mothers. The coordinator will serve as the principal agent between the program and the beneficiaries and will be responsible for

providing information on training and program benefits and assisting mothers in resolving questions and problems. The elected coordinators will provide bimonthly community reports and serve as a liaison with the Technical Committee for Social Policy. The Technical Committee for Social Policy based in each municipality is responsible for meetings and coordination between the health, education, municipal government and national government representatives. This group, already established through ICBF, is responsible for channeling demands and recommendations to the Program's zonal and regional offices and for serving as a direct liaison with the beneficiary mothers. It will be recommended that this group also include local civil society representatives and an elected beneficiary mother. A community-based citizen watchdog (Veeduría Ciudadana) would be established to oversee Project implementation and provide a vehicle by which citizens can register their complaints against the Project, including issues pertaining to selection of beneficiaries, delivery of grants, and beneficiary compliance with grant conditions. How the Veeduría Ciudadana would be organized and function needs further elaboration during Project preparation and close supervision during the pilot.

Monitoring Beneficiaries' Compliance with Health and Education Objectives. The monitoring of beneficiaries' compliance with program requirements will be based on the combined use of program participation data, community-based monitoring and spot checks.

(i) Program participation data on compliance with the education, health and training requirements will gathered through the use of two forms, one filled out at the school and one at the health center. Mothers will be responsible for working with teachers and health center workers to fill out the forms, a system that places incentive for compliance with the stakeholder, but relies on verification from the providers. The forms will be collected and processed on a bimonthly basis through the Program zonal office and will serve as the primary inputs to the Program's management information system.

(ii) Participatory, community-based monitoring will take place through communication with the network of coordinators elected by participating mothers, regular town hall meetings organized by Project staff in beneficiary communities, and the community-based watchdog system.

(iii) Spot checks reviewing Program operations will be conducted on a sample basis in participating municipalities by external firm every three months. These will be used to validate the accuracy of the data being collected for the Program, particularly regarding compliance with participation requirements, and the efficiency of the Program's operational systems. These external spot checks will serve as a check on the monitoring data collected through the Program's management information system.

Monitoring Supply Capacity in the Health and Education System. Databases maintained by the Ministries of Health and Education in collaboration with municipal governments on health insurance coverage and supply capacity in schools and health centers will be monitored to ensure that the system is able to supply needed health and education services.

Guidelines and Manual of Operations. An Operations Manual satisfactory to the Bank will govern the implementation of the Project. The Manual, which is already in an advanced state of preparation, will be reviewed in the pre-appraisal mission. It will cover topics on operational procedures and guidelines regarding loan administration and staffing, beneficiary selection, grant amounts, verification of compliance with grant conditions, procurement, flow of funds, financial management and control (accounting, auditing, and reporting), coordination, supervision, monitoring and evaluation. The following gives an outline of the process

by which financial issues will be dealt with and laid out in the Operations Manual. Financial management. The NCU will be responsible for maintaining project management arrangements acceptable to the Bank. The NCU will initially follow SOE procedures until it is ready to apply LACI procedures. The Operations Manual would concretely specify internal controls over project transactions, including control procedures for project flow of funds. In addition, the Manual would include specific administrative and accounting procedures to assure sufficient control and accurate information. The Government has also agreed to a time-bound action plan designed to prepare the NCU for full LACI compliance. The first part of the action plan, which establish the capacity to ensure that Project funds can be accounted for in a timely maner and that they will be used in accordance with the purposes of the loan, would be completed as a condition of effectiveness. Accounting, financial reporting and auditing arrangements. The NCU under DAPRE-FIP will be responsible for the management of project funds, including national counterpart funds, and for keeping track of local counterpart resources. In order to ensure provision of accurate and timely information about the use of project funds, the NCU would install an integrated financial system acceptable to the Bank. This system would include planning, internal controls, accounting, and financial reporting. The Project Chart of Accounts would be structured accordingly. During each year, the NCU shall prepare and submit to the Bank quarterly Project Management Reports (PMRs) linking project expenditures to key monitoring indicators of activities carried out during the quarter. The formats and basis to produce those reports would be in accordance with the Bank's Financial Management Manual and LACI procedures. In addition to PMRs, external audits of project financial statements will be required on an annual basis. An independent private sector firm acceptable to the Bank will carry out the auditing of project accounts. A specific shortlist of audit firms and Terms of Reference for audits (TOR) would be prepared by the NCU and a no-objection letter would be issued by the Bank. The TOR will be included in the final version of the Operations Manual. Flow of funds. Under the SOE arrangement, the Bank would deposit loan funds in the Special Account (SA) in Banco de la Republica (BR). BR debits the SA for the amount of payment received using current exchange rate and informs the National Treasury (DGTN) and DAPRE-FIP of receipt of funds. DGTN records SA transactions into the Integrated Financial Information (SIIF) system. This information can be accessed immediately by Credito Publico which would authorize disbursement. DAPRE-FIP gives instruction to DGTN to make payments to the Fiduciaria, using the SIIF system. In turn, the Fiducia would make payments to the Project's beneficiaries. DAPRE-FIP through the SIIF system will have access to the following data: (i) PAC (Plan Annual de Caja); (ii) balance of the SA; and (iii) Credito Publico approvals. Phasing of implementation. Implementation of the Project would done in stages. Pilot Stage. The first stage would pilot the operations of the Project in four municipalities within two departments, Boyaca' and Tolima. 5,809 SISBEN 1 nuclear families living in these municipalities could apply for the education and health grants. These areas were selected for ease of access and security, the size of their potential beneficiary population, and their poverty rate, which is close to the average. The pilot is intended to generate the experience, capacity, and information necessary to make adjustments on project design and expansion plan. Project Expansion. After the pilot, the project would be expanded to 27 departments and up to 440 municipalities that meet the eligibility

criteria. These municipalities, 58 percent of which are located in rural areas, would be included in the Project according to their priority status. The exact method by which municipalities would be prioritized for inclusion would be agreed by appraisal. Although there is agreement at present that the expansion of project coverage would move from the poorest to the less poor municipalities, there is no consensus yet on the exact methodology. Proposed methods, which would be discussed during preparation, include: use of the ICV index, the size of SISBEN 1 population, and a combination of these approaches. The manner by which the program would be expanded is very important, since there could be "excess demand", necessitating the establishment of a transparent method for rationing the limited amount of grants the Project could finance.

Municipal Eligibility Criteria. Municipal capacity and willingness to participate in the Project will be confirmed prior to any municipality's incorporation into the Project. Details on municipalities' eligibility criteria will be refined during the Project appraisal process. Municipal eligibility will include an assurance of municipal capacity to provide complementary supply-side investments in health and education and their ability to apply the SISBEN proxy means test to determine families' eligibility for Project benefits in cases where the SISBEN test has not been applied or is outdated.

7. Sustainability

Total cost of the conditional transfer program, including both Bank and IADB projects, is roughly 5 percent of non-pension national social spending. It appears possible, therefore to sustain the program in principle. This would be feasible particularly if the Project is established solely to alleviate the impact of the economic crisis on the welfare of the poorest population and is intended recede into the backburner as the economy recovers. Under this scenario, the idea would simply be to establish in the long run a social assistance system whose funding would be countercyclical and would minimize use by poor families of crisis-coping mechanisms detrimental to their long term welfare (e.g. pulling out children from schools). But the above-mentioned program cost as a share of current social spending further suggests that a more ambitious view of the program's future could also be sustainable. In this regard, GOC wants to address not only countercyclical but also structural issues. That is, GOC wants to use the program to address also structural poverty. The program is appealing for this purpose not only because it allows poor families to cope with economic crises more efficiently, but also because it enables and motivates them to invest in their children's human capital -- and, hence, improve their chances of exiting the vicious poverty cycle. The vision here is that although program funding would be reduced once the crisis has subsided, GOC in principle would maintain the program at a certain affordable level to address the problem of structural poverty. Such policy would simultaneously maintain a tested system that would be ready to expand quickly and efficiently, as needed to meet severe cyclical economic downturns. Whether in fact and to what extent GOC will support the program over the long term will depend on two broad factors. First, given that the Project approach is new, continued political support will depend on a clear demonstration of success in reaching the intended beneficiaries and improving their welfare, particularly of the children's health, nutrition and education. Second, financial support will be determined by GOC's ability to reform Colombia's social safety net system. The hope is that by reducing the budget of existing inefficient social

safety net programs, reform would generate enough savings to maintain needed funding for the conditional transfer program. The experience of Mexico in this regard is instructive. PROGRESA has been sustained by (i) showing that it is a highly effective social assistance program for the poor; and (ii) reducing some untargeted subsidy (tortilla) to finance a more credible alternative. GOC has expressed its intention of reforming the system. On this point, the Bank and GOC have agreed to undertake a social assistance study, currently ongoing, to help identify ways of improving efficient use of social assistance resources. A possible Social Sector Adjustment Loan subsequent to this Project has also been discussed. Finally, GOC has agreed that the share of IADB and Bank in Project financing would be on a declining basis. The exact percentage would be agreed up by appraisal.

8. Lessons learned from past operations in the country/sector

The choice of project design has benefited from a study of Mexico's conditional cash transfer project, Progresas. In fact, GOC sent key staff to Mexico during the identification/preparation stage to learn from the Mexican experience. Other similar experiences with conditional transfers to assist the poor in Brazil (Bolsa Escola, PETI) and Bangladesh were also examined. Among the lessons learned from these non-Bank experiences as well as Bank projects that are reflected in the design and preparation of the Project are:(i) Effectiveness and operational feasibility: Providing conditional cash transfers to poor families is a feasible and politically acceptable approach to social assistance. Research has shown that much of the opposition to cash subsidies due to concern of "asistencialismo" or socially inappropriate use of the subsidy (e.g. drinking and gambling) can be overcome by linking the assistance to desirable behavior such as sending children in school and keeping them healthy and by giving the transfers to mothers whose decisions regarding the intra-household allocation of resources often favor children's health and education. This research and the experience of Progresas, Bolsa Escola and similar programs influenced the choice of conditional cash transfer program as a cornerstone of the Red de Apoyo Social (RAS) strategy.(ii) Need to keep an eye on long reform and sustainability: The Progresas experience points to a interesting approach to reform of the social assistance system. As in Mexico, the GOC through this Project hopes to successfully establish a credible and more efficient alternative to certain existing program that are untargeted, expensive, and ineffective. For this purpose, the Project ensures that it has a credible monitoring and evaluation component. Moreover, it has been agreed to complement this Project and the Manos a la Obra with a Bank study of the social assistance system in Colombia and, possibly, a subsequent Social Sector Adjustment lending operation. (iii) The importance of transparency and citizen oversight: Transparency in the rules of the game with citizens acting as watchdogs is a key to minimizing corruption and ensuring that the money reaches the intended beneficiaries with the least leakage. The Project is designed with this lesson in mind. To this effect, the Project will be guided by the principle of keeping the rules simple, the manual of operations clear, and communication with the target population and other stakeholders effective.(iv) Participation of and commitment by all stakeholders: In addition to strong commitment by the Government, the extent to which civil society and stakeholders, including the local schools and health centers, participate and enforce good implementation is crucial for program success. Consultation with beneficiaries also contribute greatly in this

regard. The Progresa program in Mexico emphasizes active participation and co-responsibility of parents. Local communities are also involved thorough regular meetings to promote transparent project implementation and to monitor the adequate use of subsidies by the beneficiary families. In Brazil, NGOs support the programs through working with families and educators, and providing training for monitors.

(v) Effective targeting mechanism: Key to the success of conditional transfer programs has been good targeting. Rates of undercoverage have been high while leakage rates are reported to have been low. In decentralized programs, the issue of nationwide targeting is crucial. The federal government needs to make its own calculations to prioritize geographical areas where interventions are needed most, so as to remain consistent with the objective of reaching the most needy in the country. The Project will be relying on the well-regarded SISBEN proxy means testing system and will seek to ensure that it is properly applied within participating municipalities.

(vi) Selection criteria for program beneficiaries: Excessively rigorous criteria for selection of beneficiary families can lead to exclusion of the needy. Minimum residency requirement on beneficiaries are introduced to discourage in-migration. This, however, can result in excluding needy groups, which raises concerns about equity. For this reason, it will be recommended that residency requirement should be kept to a minimum of approximately a year.

(vii) Effect on educational attainment: The programs have improved educational indicators and outcomes. Mexico's Progresa program has had significant impacts in improving school enrollment, especially at the secondary level where 8.4 percent increase in school attendance was observed from a base of 65 percent. In the Bolsa Escola programs in Brazil, school attendance is higher and dropout rates lower for the beneficiaries compared to non-beneficiaries. Furthermore, more beneficiary children enter school at the right age and exhibit higher promotion rate (80 percent) compared to their non-beneficiary counterparts (72 percent). However, no significant difference was observed in terms of learning outcomes. The Project will study the necessity of investment in school quality when the program is expanded to poorer regions.

(viii) Health and nutrition attainment: Data on health indicators are not yet available. However, according to preliminary evaluation of the Progresa program, improvements in access and usage of facilities was observed in areas where programs address health and nutrition. The number of health visits increased by 20 percent in Progresa-areas, while only 5 percent in non-Progresa areas. Looking at increase by types of beneficiaries, there has been a 30 percent increase for families with children under age 5 and 16 percent for those with pregnant women. On nutrition, it is reported that beneficiary families increased their expenditure on some important food items by one-third more than non-beneficiary families. Furthermore, participation in Progresa lowered the probability of illness by 22 percent among children aged 0-2. These results influenced the decision to include nutrition grant in the Project and condition it on basic health care indicators.

(vi) Optimal level of cash transfer: First, the level of the subsidy needs to be carefully determined through a clear and systematic method, keeping in mind the priorities of the program; that is, compensating beneficiary families for lost wages, or bringing them up to the poverty line. Making use of a program-by-program approach can perhaps result in the most appropriate subsidy level. Second, since older children are likely to have a higher opportunity cost for their school time, subsidy increase with age seems reasonable. This is the case with Progresa where secondary school children receive higher subsidy. Third,

some programs give flat rate subsidy per family rather than per child. This may discourage families with many children to participate in the program, and therefore, subsidies determined by number of children in the family is preferable. However, considering the need for institutional capacity and the high administration cost that may incur, governments may decide to keep the scheme simple. During Project preparation the team has assessed the value of the subsidy relative to the poverty line and indigence line, the opportunity cost of school attendance relative to children's earnings and the cost of the transfers relative to other GOC programs.

(vii) Combination of supply and demand: Without the availability of adequate and reasonable quality services (schools, health clinics etc.), demand side interventions (i.e. conditional cash transfers to the poor) are not likely to succeed. At the same time, however, good quality supply is not sufficient for attaining positive human development outcomes. Thus the capacity to meet the increase in demand from these demand side programs matters. Mexico's Progresa program provides additional funding for schools and clinics while the PETI program in Brazil pays a transfer to local schools for every child in the program. On the other hand, most of the Bolsa Escola programs in Brazil do not provide support to schools given that the quality of local schools in urban areas (where these programs operate) is adequate enough to meet the increased demand for schooling that results from the program. For these reasons the Project is (i) providing demand-side subsidies in conjunction with an assessment of municipalities' health and education supply capacity and (ii) considering financial support to ensure the quality of health and education services in poorer areas.

(viii) The need to establish a solid monitoring and evaluation system: Any new, large-scale social sector projects needs to have a system to monitoring project outcomes and evaluate project impact established from the beginning of the project. The Project has established an integrated internal monitoring and evaluation system and included financing for a comprehensive external impact evaluation in recognition of the importance of these activities.

(ix) Implementation capacity: Programs of this nature require sophisticated administrative capacity. Countries that consider introducing them should ensure that they build the implementation capacity first. Political and technical support as well as consensus on the need for the program within the country would certainly facilitate project implementation. One way to deal with this issue is to begin the Project, as is contemplated here, with pilot communities and using the experience (through good process evaluation) to make corrections and adjustments. The Project will also work through the national and regional offices of ICBF, relying on their established administrative capacity and their national presence to facilitate project implementation.

9. Program of Targeted Intervention (PTI) Y

10. Environment Aspects (including any public consultation)
 Issues : None

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Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.

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