

COLOMBIA

**MULTIPHASE PROGRAM TO SUPPORT THE SECOND STAGE OF
EXPANSION OF THE FAMILIAS EN ACCIÓN CONDITIONAL CASH
TRANSFER PROGRAM—PHASE ONE**

(CO-L1021)

LOAN PROPOSAL

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution	http://ops/approvals/pdfs/COen.pdf
Tentative lending program	http://opsgs1/ABSPRJ/tentativelending.ASP?S=CO&L=EN
Procurement plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1228740

ABBREVIATIONS

CGR	Office of the Comptroller General
CTP	Conditional cash transfer program
DNP	National Planning Department
ECV	Quality of life survey
MERPD	Misión para el Diseño de una Estrategia para la Reducción de la Pobreza y Desigualdad [poverty and inequality reduction strategy design mission]
MGMP	Marco de Gastos de Mediano Plazo 2006-2010 [medium-term spending framework 2006-2010]
NCU	National Coordination Unit
PND	Plan Nacional de Desarrollo 2007-2010 [national development plan 2007-2010]
QCBC	Quality and cost-based selection
RCU	Regional Coordination Unit
SIFA	Sistema de Información del Programa Familias en Acción [Familias en Acción program information system]
SIIF	Sistema Integrado de Información Financiera [integrated financial information system]
SIPOD	Registro Nacional de Población Desplazada [National Displaced Persons Register]
Sisben	Sistema de Identificación de Potenciales Beneficiarios de los Programas Sociales [system for the identification of potential social program beneficiaries]
SISRED	Sistema de Información de la Red Juntos [Red Juntos information system]
SWAp	Sector-wide approach

PROJECT SUMMARY

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Financial Terms and Conditions ¹			
Borrower: Republic of Colombia Executing agency: Presidential Agency for Social Action and International Cooperation (Acción Social)		Amortization period:	25 years
		Grace period:	30 months
		Disbursement period:	30 months
Source	Amount (US\$ millions)	Interest rate:	Adjustable
IDB Phase one (OC)	306.0	Inspection and supervision fee:	0
Total	306.0	Credit fee:	0.25
		Currency:	U.S. dollars from the Single Currency Facility
IDB Phase two (OC)	362.5		
Project at a glance			
Project objective: <p>The aim of the program is to contribute to the Colombian government's strategy of reducing poverty and extreme poverty in the medium term. The overall purpose of the program is to help achieve this aim by temporarily increasing consumption and raising the level of human capital for at least 1.5 million poor families through support for the expansion of Familias en Acción.</p>			
Special contractual conditions: <p>Approval of the operations manual and placing it in effect (paragraph 4.16)</p>			
Exceptions to Bank policies: <p>None.</p>			
Project consistent with country strategy: Yes [X] No []			
Project qualifies as: SEQ [X] PTI [X] Sector [X] Geographic [] Headcount []			
Procurement: The consulting services financed under this operation will be governed by the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-7) as described in paragraph 3.21.			
Verified by CESI on: 4 October 2007			

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Socioeconomic framework

- 1.1 Despite the economy's good performance in recent years, poverty continues to affect just under half of all Colombians. Since 2002, annual average growth in GDP has topped 4% and annual inflation has been held to below 5%.¹ However, it was not until 2005 that poverty was brought down to below the levels that existed before the economic crisis at the end of the 1990s. Table 1 summarizes the poverty rates for the period 2002-2006.² According to these figures, in 2006 there were about 20 million poor people, and approximately six million of them lived in extreme poverty (about 1.5 million families).
- 1.2 Although unemployment shot up during the crisis (from 9.6% to 15.3% in the period 1996-2002), it had less impact on household income from employment (which only fell by 1.7% in that period) but more on wages (income per urban family member fell by 16.8%). In other words, households responded to the crisis by increasing the number of members in the workforce (mainly women and school-age children). The lower level of poverty since 2002 has been accompanied by an improvement in labor market indicators particularly in urban areas (nationally, unemployment is close to 12% while labor income per family in the two poorest quintiles in 2005 was 7.7% higher than in 1996, in real terms). However, labor income per family member in the rural area has not recovered to the same extent, owing to sluggish growth and low productivity in the agricultural sector.³
- 1.3 The armed violence has also been a key determinant of the dynamics of poverty in Colombia. The government reports that more than 1.9 million people were

Table 1. Per capita incidence of poverty in Colombia		
	2002	2006
Poverty		
National	56	45
Urban	50	39
Rural	70	62
Extreme poverty		
National	22	12
Urban	17	9
Rural	35	22

¹ This performance is the result of rationalizing spending and improving fiscal revenues in a favorable international context. In the coming years, the goal is to bring the public debt down to 40% of GDP and maintain inflation at below 4% a year. In parallel, reforms have been proposed in taxes, intergovernmental transfers, commercial orientation of public companies, and promotion of free trade. Progress with these proposals is crucial for consolidating the macroeconomic framework.

² Estimates by the Misión para el Diseño de una Estrategia para la Reducción de la Pobreza y la Desigualdad (MERPD) [Poverty and Inequality Reduction Design Strategy Mission]. In Colombia the municipal seats are located in urban areas while the rest of a municipality can be rural. According to the 2005 census, 75% of the population lives in urban areas. The monthly poverty and extreme poverty lines for June 2006 were US\$123 and US\$48.14 for urban areas and US\$80.60 and US\$35.72 for rural areas. Throughout this document, an exchange rate of C\$2.110 to the US dollar is used, following the macroeconomic projections of the National Planning Department (DNP) at May 2007.

³ Tenjo and Bernat (2006), *Algunos Aspectos del Funcionamiento del Mercado Laboral Rural* [Aspects of the operation of the rural labor market]. MERPD.

displaced between 1995 and 2006. Although the flow of displaced persons has slackened considerably in recent years (from 92,600 families in 2002 to 36,500 in 2005) and although funds to assist this population have grown substantially, forced displacement continues to be a serious humanitarian crisis. The displaced population has gone mainly to urban areas where on average their economic situation is worse than that of the urban poor who have not been displaced.⁴

- 1.4 Apart from the immediate need to alleviate the still-high levels of poverty, the prospects for a period of solid economic growth challenge Colombia to reinforce the impact of long-term growth on poverty reduction. By way of illustration, Botero⁵ estimates that if the Colombian economy is able to maintain annual growth at close to 5%, without changes in workforce skills and without redistributive interventions, by 2019 poverty and extreme poverty would fall to 36.1% and 10.1%, respectively. In contrast, the implementation of policies to improve the “initial endowment” of the very poor (skilled labor in the first five deciles rises from 7.5% to 30%) would permit poverty and extreme poverty to fall to 19.1% and 6.7%, respectively.
- 1.5 Thus, one specific challenge for Colombian social policy is to boost the capacity of the most disadvantaged households to benefit from economic growth. One of the key elements in that capacity is the store of human capital: nutrition and health status and the level of education of family members are key determinants in their results on the labor market. With regard to nutrition, according to ENSIN 2005⁶ 17.2% of children from birth to 4 years of age belonging to Sisben level 1⁷ suffer from chronic malnutrition, in contrast to 5.7% in level 3. The incidence of chronic malnutrition is particularly high in rural areas. There is ample empirical evidence linking nutritional condition in childhood to future labor income. Some studies for developing countries suggest that a 1% increase in height-for-age in childhood

⁴ Ibáñez (2006) *La Población Desplazada en Colombia: Examen de sus Condiciones Socioeconómicas y Análisis de Políticas Actuales* [The displaced population in Colombia: examination of its socioeconomic conditions and an analysis of current policies]. MERPD.

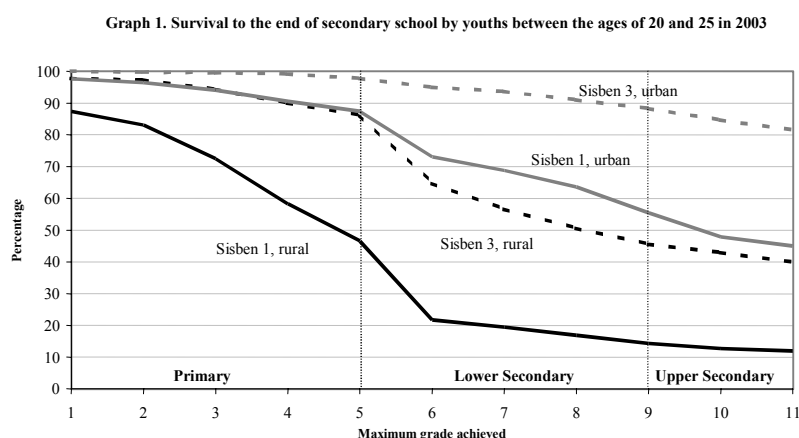
⁵ Botero (2006). *Crecimiento, Pobreza y Distribución del Ingreso: Un análisis de Equilibrio General Computable* [Growth, poverty, and income distribution: an analysis of the measurable general balance]. MERPD.

⁶ Encuesta Nacional de la Situación Nutricional en Colombia [National Survey on Nutrition in Colombia]. Estimates by the Colombian Family Welfare Bureau.

⁷ Begun in 1997, the Sistema de Identificación de Potenciales Beneficiarios de los Programas Sociales (Sisben) [system for the identification of potential social program beneficiaries] is a multidimensional index of well-being, based on household surveys, and has become the main tool for individual targeting in Colombia. The methodology for obtaining the index was revised between 2005 and 2006. The analysis presented in this document has been performed using the new methodology. The first Sisben level (out of six possible levels) corresponds to the neediest families (about 2.4 million households or 18%). Sisben is not a measurement of income. According to estimates by the project team using the 2003 quality of life survey (ECV), about 86% of Sisben level 1 households would have income below the poverty line and 41% below the extreme poverty line, with ‘better performance’ in urban areas.

could represent an increase of between 2% and 5% in earnings as an adult. This effect would be the direct result of greater physical strength and the indirect result of better cognitive development, timely entry into school, remaining in school longer, and improvements in school performance.⁸

- 1.6 Although with differences between rural and urban areas, the neediest households also acquire significantly lower levels of schooling and learning which, again, translates into lower future labor income. Compared to not completing primary school, the rates of return for completion of primary school (grades 1 to 5), lower secondary (grades 6 to 9), and upper secondary (grades 10 and 11), would be 5%, 9% and 11%, respectively.⁹
- 1.7 Graph 1 shows the school survival rate to the end of high school by young people between the ages of 20 and 25 years in 2003 by level of education and Sisben level. Analyzing this cohort, we can see that dropping out of primary school is a phenomenon that affects mainly the most disadvantaged rural population. Fifty-three percent of rural youths in Sisben level 1 failed to complete primary school, in contrast to 13.7% in level 3, and 12.5% for youths in level 1 in urban areas, with a significantly lower percentage in large urban centers (4% in Bogota, for example).¹⁰ School desertion on the lower and upper high school levels is a problem in urban areas. These conclusions continue to be valid despite the progress in terms of school access observed in Colombia in recent years, particularly in primary education.



⁸ Alderman, et. al. (2004). *Nutrition, Malnutrition and Economic Growth*. In “Health and Economic Growth: Findings and Policy Implications.” Cambridge, MA: MIT Press.

⁹ Social Information Service, Research Department, IDB, based on the 2003 ongoing household survey.

¹⁰ Project team estimates based on ECV 2003. The assignment of Sisben points was provided by the Social Development Directorate of the National Planning Department.

- 1.8 Despite the high returns on average from investing in human capital, a combination of supply and demand factors explains why poorer families make smaller investments in that capital.¹¹ The supply factors are related to problems of access and the poor quality and lack of relevance of public services directed to these households, which reduces their returns on such investments. The demand factors are related to low income levels (and lack of access to credit) to pay the direct and opportunity costs of investing in human capital, and factors in the family environment and lack of information.¹² The relative cost-effectiveness of interventions in supply and demand in Colombia, particularly those targeted to the low-income population, is one key topic of analysis that has not yet been addressed.

B. The Familias en Acción program

- 1.9 Conditional cash transfer programs (CTPs) have become one of the main tools for social protection used by most Latin American and Caribbean countries—and in Southeast Asia and Eastern Europe in recent years—to alleviate poverty and promote human capital accumulation. Through direct cash transfers, the programs propose to generate an ‘income effect’ that allows families to increase their levels of consumption and investment in assets. By making the transfers conditional on the performance of actions related to the investment in assets, they attempt to generate a ‘price effect’ by raising the opportunity cost of not performing those actions.
- 1.10 The popularity of CTPs is based on the good results that most of them have obtained in technically stringent evaluations. The evaluations have found that these programs have been well targeted and have had positive results with regard to increasing consumption by the beneficiaries, the quality of their diets, and school attendance. These impacts have been significantly higher in rural areas than in urban ones.
- 1.11 The Colombian CTP, Familias en Acción, has two explicit objectives: (i) to improve the health and nutrition levels of children under 18; and (ii) to increase

¹¹ See Sarmiento (2006), *Documento Base para desarrollar una Estrategia para Aumentar la Retención Escolar en los Niveles de Educación Básica y Media* [Basic document for developing a strategy for school retention in primary and secondary school]; National Planning Department and Ministry of National Education and Development (2005), *Informe Final del Diseño del Piloto de Subsidios Condicionados a la Asistencia Escolar en Bogotá* [Final report on the design of the pilot project on subsidies conditional on school attendance in Bogotá], for a discussion of the causes of school desertion nationally and in Bogotá, respectively.

¹² ECV 2003 suggests that the lack of resources to pay the direct costs of education could be the main reason why youths between the ages of 12 and 17 in Sisben level 1 (44%) do not attend school. However, the survey does not distinguish between the reasons for not attending and the reasons for not returning to school.

school attendance among that population.¹³ To attain the first objective, the program grants a nutrition subsidy per household to families with children under 7. The purpose is to complement family income to improve child nutrition during the critical stage of growth and development. The value of this subsidy is US\$22.04 a month and it is paid bimonthly for the full year, conditional on taking all children under 7 to checkups for growth and development at municipal health centers. To attain the second objective, the program grants a school cash transfer to households with children between the ages of 7 and 18 who attend primary and secondary school. Its purpose is to offset a good part of the direct costs of attending school. It is paid bimonthly for each child and is worth US\$6.64 a month for primary school and US\$13.27 for secondary school. The cash transfer is paid for 10 months of the year, conditional on the children not having more than eight unjustified absences in each two-month period.¹⁴

- 1.12 As a complement, the program has a family education and health promotion component in which the beneficiary municipalities are encouraged to carry out promotional activities (vaccination, anti-parasite treatments, cytology, literacy, family planning, etc.). Other impacts identified by the evaluation are excluded, such as: (i) change in income levels and consumption by the beneficiary families; (ii) targeting the very poor; and (iii) empowerment of women since both types of subsidies are paid to them.
- 1.13 Familias en Acción arose in 2001 as a temporary program to palliate the social effects of the economic crisis, and was mainly implemented in rural areas and small municipal seats. However, the good evaluations and public acceptance of the program have motivated the government to continue it. During the period 2001-2004, the program reached 340,420 families in Sisben level 1. These households were located in municipalities with fewer than 100,000 inhabitants that were not departmental capitals, with the capacity to supply health and education services to meet the demand created by the program, and with a banking institution. Between 2005 and 2006, 247,685 additional Sisben level 1 families were incorporated, mainly living in municipalities without a bank. Last, in 2006, 111,286 displaced families in the National Displaced Persons Population Register (SIPOD) were incorporated.
- 1.14 The most recent program evaluation (2006) indicates that Familias en Acción has had significant results, particularly in rural areas. Some of the main results in those zones are: (i) an increase in family consumption of 9% with an increase in food

¹³ According to the program impact evaluations, Familias en Acción has had positive impacts on such areas as poverty alleviation and women's empowerment, but they were not explicit goals in the design of the program.

¹⁴ In February 2007, the total average monthly cash transfer paid to beneficiary households was about US\$27.25, which represents 79% of the gap between the extreme rural poverty line and the average income of poor families in 2003 in constant prices, according to ECV 2003.

consumption nearly as high as total consumption; (ii) an increase in birth weight of 420 grams; (iii) an improvement in the nutritional status of children in both height and weight for age, and particularly a 9% reduction in the prevalence of chronic malnutrition among 7-year-olds; and (iv) an increase in school attendance of almost 2% for the 8- to 11-year-old group and of more than 7% among 12- to 17-year-olds. Although the evaluation of Familias en Acción was based on a predominantly rural sample, it studied the program's impact on small urban areas. The results have been significantly weaker in those zones with respect to total consumption, food consumption, and nutritional condition. However, the program had a significant impact on school attendance among 12- to 17-year-olds (5%).

C. Country strategy

- 1.15 At the end of 2004, the Colombian government established a mission to design a technical framework for medium-term social policy—the poverty and inequality reduction strategy—that would define specific actions to improve the living conditions of the poorest population, but respecting the fiscal framework. Consistent with the recommendations of that strategy, the 2007-2010 national development plan (PND) includes the expansion of Familias en Acción to cover 1.5 million beneficiary families in the country's 1,098 municipalities starting in 2007, including the large-scale introduction of the program to urban centers. The expansion will be instrumental for implementing two strategic lines in the PND: (i) rationalization of the programmatic supply of social assistance to steer it more toward the development of skills and less toward a welfare-type model (social promotion system); and (ii) implementation of a specific strategy targeted to reducing school desertion.
- 1.16 With regard to social promotion, the PND calls for implementation of a new management model for social programs targeted to families in extreme poverty, to increase their coverage and effectiveness. The model—the network to address extreme poverty (Red Juntos)—is proposed as a mechanism for managing the supply of public programs targeted to poor households that: (i) integrates those programs—on the level of policy design and evaluation and in financial and operational terms—to make the different benefits simultaneous; (ii) permits the relevance and quality of the supply of public services targeted to those households to be adjusted in the medium term, based on an evaluation of the 'package' of integrated programs; (iii) provides temporary direct support (through social promoters) and preferential access by households to those programs, so they can obtain a minimum quality of life; (iv) generates a feeling of joint responsibility among the beneficiaries; and (v) sets the stage for earning income that will eventually permit the household to rise out of poverty and reduce its vulnerability.

Currently in the design stage, Red Juntos will assist more than 1.5 million families between 2007 and 2010.¹⁵

- 1.17 Owing to the facility with which Familias en Acción is able to reach poor households, this program will form part of the series of programs that make up Red Juntos and will be its operational core. The introduction of Red Juntos will be organized around social promoters who: (i) will provide information and support (decreasing with time) for families to gain access to programs that correspond to their needs; and (ii) will provide information for the national and subnational governments on the initial situation of the families in terms of the deficit in “minimum living conditions” and on progress toward attaining them, so that programs can be adjusted on the basis of their effectiveness. The minimum conditions to be promoted by Red Juntos have been identified in the poverty and inequality reduction strategy as keys for breaking through the poverty trap and will be organized in eight dimensions: (i) identification; (ii) income and labor; (iii) education; (iv) health; (v) housing; (vi) nutrition; (vii) family dynamics; and (viii) insurance and bank access.
- 1.18 The PND also proposes to achieve a significant reduction in year-to-year school dropout rates in primary and secondary school (from 5.8% in 2006 to 5% in 2010). Recognizing the many causes of dropping out of school, the PND presents a series of actions to improve supply and promote demand to address those causes. The expansion of Familias en Acción is proposed as a key action on the demand side for attaining that goal in primary and secondary school.

D. Bank strategy

- 1.19 By supporting the expansion of Familias en Acción, the Bank is maintaining the programmatic approach it has used to work with Colombia in the social sector in recent years. That approach is based on: (i) the Bank’s broad working experience in the social sectors, particularly in the field of social protection; (ii) the Bank’s support for the country in defining medium-term social policies; and (iii) the coordination of a series of financial and nonfinancial instruments to achieve specific common objectives. Table 3 summarizes the main instruments that the Bank has used in recent years, which are closely related to implementation of Familias en Acción.
- 1.20 This operation is in line with the Bank’s strategy with the country approved in 2003, which establishes the promotion of social development and protection of the most vulnerable as a challenge and an area for priority support. The Bank is expected to approve a new strategy for the period 2007-2010 in December 2007. This operation is consistent with the dialogue being maintained with the country, which is discussing the Bank support for the development of conditions to enable

¹⁵ As described in paragraph 3.17, the relevance and efficiency of the criteria for entry and exit from Red Juntos are being discussed, which in time could modify the number of beneficiary families.

the poorest population to join in economic growth thereby hastening a reduction in poverty and inequality. The proposed operation is also in line with the poverty reduction and social equity promotion strategy, which describes conditional cash transfer programs as key tools for combating structural poverty and inequality.

Table 3
Main Bank instruments related to Familias en Acción

Instrument	Objective related to Familias en Acción	Current status
Social support network investment program (CO-0247)	Response to the social effects of the economic crisis at the end of the 1990s. Support for the design and implementation of phase one of Familias en Acción.	Approved in 2001, execution completed in 2006, with good external and Bank evaluations.
Technical cooperation to support development of the poverty and inequality reduction strategy (CO-T1006, CO-T1007, and CO-T1015)	Development of the medium-term social policy framework that includes the objectives of expanding Familias en Acción.	Approved in 2005, execution completed in 2006.
Reform and social equity programmatic series (CO-L1014 and CO-L1026)	Support for policies to reorganize the social welfare system—of which Red Juntos forms part—and development of a strategy to reduce desertion in primary and secondary school.	First loan approved in August 2006. The second loan will be presented to the Bank's Board of Executive Directors in November 2007.
Technical cooperation to support the pilot phase of Red Juntos (CO-T1042)	Design, implementation, and evaluation of the pilot phase of the mechanism to manage public supply, in which Familias en Acción will form the operational core.	Approved at the start of 2006, execution begun with an expected duration of one year.
Equity in education in Bogota investment program (CO-L1010)	Support for expansion of the Bogota CTP. The evaluation of its pilot program has been an important input in designing the expansion of Familias en Acción into urban areas.	Approved in 2006, currently under way.
Seminar on CTPs in urban areas (CO-T1020)	Learning from Colombian and international experience on the main analytical and operational challenges of expanding a CTP into urban areas.	Held in April 2007.

E. Coordination with other donors

- 1.21 The IDB and the World Bank have closely supported the development and implementation of Familias en Acción from the beginning (2001). The two institutions cofinanced the first stage and will cofinance this second stage under the arrangement described in paragraph 3.18. To promote even closer coordination between the IDB, the World Bank, and the government, this program will be implemented through a **sector wide approach (SWAp)** (document GN-2330-6). This approach is consistent with the sector policy framework established by the government with support from the IDB, the World Bank, the UK Department for International Development (DFID), the United Nations Development Programme (UNDP), and the Economic Commission for Latin America and the Caribbean (ECLAC) through their backing for the poverty and inequality reduction strategy. As part of that approach, the three parties will sign a memorandum of understanding to agree on mechanisms for joint consultation and review and harmonized procedures for financial reviews, procurement, and disbursements, which are described in Chapter III.

II. THE PROGRAM

A. General objectives

- 2.1 The **goal** of the program is to contribute to the government's strategy to reduce poverty and extreme poverty in the medium term. Although the feasibility of that goal depends on a series of actions that go beyond the social sphere and, in particular, requires that the economy maintain its current pace of growth, **the general objective** of the program is to contribute to it by temporarily increasing consumption and the level of human capital for at least 1.5 million poor families by supporting the expansion of Familias en Acción. The logical framework (Annex I) resents indicators and goals for monitoring progress and the attainment of these development objectives.

B. Program strategy

- 2.2 This new stage of support for Familias en Acción is taking place in a setting that is considerably different from the one that prevailed when it began in 2001. In the first program, Familias en Acción was a "shock component" to mitigate the social effects of the economic crisis. Today, the economic recovery is promoting a conceptual change in the nature of the social welfare system in Colombia, with less emphasis on mitigating an emergency and greater concern with escaping from the poverty traps that prevent economic growth from reducing it more quickly and steadily.
- 2.3 One of the fundamental differences in this new stage of Familias en Acción is that it fits in with a comprehensive social welfare model targeted to poor families, the Red Juntos. The process of implementing that model is just beginning but it is expected to have an impact on the operation of Familias en Acción over the next three years in several ways: (i) it has the potential to increase the program's impact by improving the quality of the services to be promoted through the use of CTPs; (ii) it presents a considerable operational challenge by broadening the extent of the coordination that the program will need to carry out with the rest of the national and local public supply; (iii) it increases the technical challenges of evaluating the impacts of the program, since it will be necessary to distinguish the impact of Familias en Acción from the impact of the overall services delivered to the beneficiaries; and (iv) based on that evaluation, it will eventually be necessary to redefine the role that the government assigns to the program as a social welfare tool; and could facilitate the transfer of Familias en Acción program beneficiary families to other social welfare components.
- 2.4 Another difference in this second phase of support for Familias en Acción is that the program will be delivered on a large scale to poor populations living in urban

centers.¹⁶ The improvements in the fiscal situation allow the government to increase the program's coverage to include a group of families that were not assisted as a priority even though they were needy. However, the program impact evaluations and international experience indicate that unless the model that has been applied in rural areas is adjusted, the program will be considerably less effective in urban centers. This is because: (i) the variables that the rural design of the program was intended to influence are at substantially higher levels in urban centers (for example primary school attendance) which lessens the program's added value; (ii) the higher cost of living and average income in urban centers reduce the marginal contribution to household income of a transfer of the same size as in rural areas; and (iii) there are higher transaction costs for complying with the conditionalities which, coupled with the preceding point, are reflected in lower participation rates by the eligible population, both at the time of enrolment and during the program.

- 2.5 As part of the government's commitment to substantially increase the coverage of Familias en Acción within a short time, the strategy of the present program to support the government in the design and implementation of this new stage of Familias en Acción consists of: (i) separating the specific financial and operational support for Familias en Acción from technical support for the development of Red Juntos; (ii) initially maintaining an experimental approach in implementing the program in urban centers; (iii) using a credit instrument that increases flexibility to adjust to possible changes in program operations; and (iv) as described in paragraph 3.18, concentrating Bank support by placing more emphasis on technical aspects.

1. Support for the development of Red Juntos

- 2.6 A Red Juntos pilot project is currently being carried out with support from a technical-cooperation operation (CO-T1042). The pilot project has the objectives of evaluating: (i) the different elements in the operation and implementation of Red Juntos (targeting, financial, institutional, and program coordination, training for the social support workers, the added value of the social support workers, and cofinancing with the subnational governments); (ii) the potential results in terms of giving families access to government programs so that eventually their living conditions can be improved; and (iii) whether Red Juntos should be used as a tool for reducing the vulnerability of families who could graduate from Familias en Acción in the future as a result of better living conditions. The technical-cooperation project also finances the design of a system for information, monitoring, and evaluation of the management model (SISRED) that will be fed by the social support workers and which, as mentioned in Annex 1, will generate information for monitoring the impacts of Red Juntos in general and Familias en Acción in particular.

¹⁶ As mentioned earlier, at present Familias en Acción serves the displaced population which is mainly located in urban centers. Pilot projects have also been carried out to assist the Sisben 1 population in Soacha and Medellín. These experiences have taught operational lessons for the large-scale expansion of the program into urban centers. The impact of the pilot projects is currently being evaluated.

2. Intervention models

- 2.7 For almost all municipalities, the program will maintain the same intervention model it has been using in rural areas (see paragraph 1.11). For the large urban centers, however, the program will introduce a series of innovations with a view to evaluating different intervention models that could heighten the impacts of the program in those centers. The innovations will be introduced in order to study: (i) the impact of changing the amount of the cash transfer;¹⁷ (ii) the value added of scaling it by grade; (iii) the impact of the primary school cash transfer; and (iv) the potential for paying incentives for graduation. The intervention models to be applied in the large urban centers will give priority to high school attendance as the development objective above other components in the human capital endowment of the beneficiary households. The models are presented in Table 4. Each of the urban models will make a similar annual cash transfer to the average beneficiary family, and therefore they can be viewed as redistributing resources within the family.

Table 4
Conditional cash transfer models (monthly amounts in US\$)

Type of subsidy	Age or grade	Rural model	Model 1	Model 2	Model 3
Nutrition	0-6 years	22.03	23.70	23.70	23.70
	7-11 years	-	-	9.48	9.48
Primary	1-5 grades	6.64	7.11	-	-
Lower and upper secondary	6 grade	13.27	11.85	14.22	11.85
	7 grade	13.27	11.85	14.22	11.85
	8 grade	13.27	11.85	14.22	11.85
	9 grade	13.27	16.59	21.33	16.59
	10 grade	13.27	16.59	21.33	16.59
	11 grade	13.27	18.96	26.07	18.96
Additional annual payment	Enrolment in grade 10	-	-	-	61.60
	High school graduation	-	-	-	142.10
Average annual transfer per household		300	325	330	325

¹⁷ It is not inconsequential to establish the ‘optimum’ level of the subsidy for promoting school attendance. Analytically it depends on the resources that the household has, its preferences, the prices (direct and shadow) it faces, and a series of possible market failures. Regardless, a series of average monthly parameters ‘observed’ by Sisben 1 families in Bogota in 2003 (in current prices) when making decisions on whether their children should attend school are presented here to give an idea of the importance of the proposed transfers: (i) direct costs of attending primary and lower and upper high school—US\$9.95, US\$13.13 and US\$20.04, respectively; (ii) labor income of youths between 12 and 15, and between 16 and 18 who attend school—US\$11.85 and US\$18.95, respectively (according to the ECV about 7% of youths in the first age group and 13% in the second work and study at the same time); and (iii) labor income of youths between 12 and 15 and between 16 and 18 who do not attend school—US\$28.43 and US\$42.64, respectively.

- 2.8 In comparison with the rural model, model 1 adjusts the level of the nutrition subsidy to reflect the higher cost of the basic food basket in the cities. It also redistributes the school cash transfer recognizing that the opportunity cost of attending school increases with age and with the last grade completed. This model was applied as a pilot project in Medellin and Soacha starting in mid-2006 and during the first phase of the present program it will be implemented on a large scale in those localities and in Cali.
- 2.9 In contrast with model 1, model 2 does not grant subsidies for attending primary school and redistributes the equivalent of the amount it would have had to pay for that subsidy into: (i) the high school level, through an incremental cash transfer per grade, given that the cash transfer is expected to have a low impact in terms of primary school attendance in urban areas; and (ii) an increase in the age range for which the family nutrition subsidy is paid. This cash transfer will be paid based on the age of the youngest beneficiary in the family (US\$23.70 if under 7 years of age and US\$9.48 if age 7 and over but under age 11). The nutrition subsidy for beneficiaries in the second age range will be conditional on a semiannual weight and height check for all children under 10, and a general medical checkup for 11-year-olds. Although the impact on consumption and anthropometric indicators of the cash payment for nutrition in the second age range is low, its main objective is to keep families in the Red Juntos who would otherwise be outside it because they are not covered by Familias en Acción. This model will be applied in the localities of Ibagué, Neiva, Popayán, Santa Marta, and Sincelejo during the first phase of the program.
- 2.10 Like model 2, model 3 does not pay subsidies for primary school and increases the age range for the nutrition subsidy. It also maintains the same subsidies for high school as in model 1, but makes cash payments to promote high school graduation. The program will make an annual payment to: (i) youths who having completed grade 9, enroll in grade 10; and (ii) youths who graduate from high school. This model will be applied in the localities of Bogota, Barranquilla, Bucaramanga, Yopal, Montería, Pasto, Pereira, and Villavicencio during the first phase of this program. Model 3 is justified below.
- 2.11 The main cause of dropping out is over-age. Therefore, a model that not only promotes attendance per se, but one that promotes progression through the different grades, with graduation from high school as the ultimate goal, should be considered. The progression is decisively related to supply factors. However, dropping out of school and therefore progression also obey demand factors. Models 2 and 3 will make it possible to study the advisability of promoting school progression through two different incentives for demand. The first is to pay a subsidy for attendance, increasing it by grade to cover the rising opportunity costs. Indirectly, this plan rewards passing (owing to the marginal difference in subsidies) which is potentially an additional mechanism that the program can use to have a positive impact on progression.

- 2.12 Alternatively, model 3, will make results-based payments, in which part of the incentive is paid upon high school completion. This plan promotes efficiency over equity, since part of the funds will be paid only if results are obtained, even though the not so poor have a greater possibility of obtaining them. However, given that a high degree of homogeneity among the beneficiaries is expected (Sisben 1), the trade-off will be smaller. The net present value of the incentive could be low for students in the different grades of high school (a far-off discount horizon) and therefore it is pertinent to pay the incentive in steps, as proposed in model 3.¹⁸

3. Credit instrument

- 2.13 Regardless of the good results noted in the evaluation of the impact of Familias en Acción, the novel aspect of the intervention in urban centers and the fact that Red Juntos is still in its infancy suggest that the most appropriate credit instrument for this operation is a **multiphase loan** divided into two phases. That instrument will permit the Bank to support the country with a program with definite long-term objectives but with sufficient flexibility in execution to incorporate whatever corrections are necessary in the medium term. Also, as mentioned in paragraph 2.19, this instrument is consistent with the government's external debt strategy, given that it would reduce the costs of that financing.

C. Program structure

- 2.14 **The purpose of phase one of the program** is to help at least 1.5 million poor families increase their consumption, improve their nutrition, and keep their younger members in school longer. The purpose of **phase two** will be to continue supporting Familias en Acción once its design has been evaluated and adjusted in light of that evaluation. It is anticipated that the second phase will be presented to the Bank's Board of Executive Directors in the second half of 2009. The **triggers** for the second phase will be: (i) compliance with the coverage and targeting goals of Familias en Acción; (ii) compliance with the benchmarks that suggest that the fiduciary risk of the program continues to be low (see paragraph 3.24); and (iii) performance of an evaluation of the impact of the expansion of Familias en Acción, coupled with adjustments to the operating manual based on that evaluation.
- 2.15 The program is structured into two components that are described below. Annex 1 presents the outputs that would tentatively be financed by a second operation with the World Bank and in the second phase of the program.

1. Component 1. Expansion of Familias en Acción

- 2.16 The objective of this component is to enable the beneficiary families to raise their consumption and increase their use of public health care and education services. To that end, the component will finance cash subsidies for 1.5 million families with at

¹⁸ A preliminary assessment of the evaluation of conditional cash transfers pilot project in Bogota (see Table 3) suggests that incentives targeted to academic achievements (such as graduation) might have a greater impact on attendance than incentives that are only conditional on attendance.

least one member under the age of 18—1.3 million in Sisben 1 level (about 900,000 in municipalities with less than 100,000 inhabitants and 400,000 in large urban centers), and 200,000 registered in the National Displaced Persons Register (SIPOD)—conditional on the families making use of services to monitor growth and development and have their younger members attend school regularly. This component will pay for the cash subsidies and the commissions charged by private banks for processing the payments to beneficiaries.

2. Component 2. Impact evaluation

- 2.17 The objective of this component is to evaluate the operational design and impact of the different intervention models of Familias en Acción in order to make the necessary adjustments in a quest to improve its efficiency. Since the effectiveness of the intervention in rural areas has already been proven, the evaluation will place particular emphasis on the interventions in urban centers and will simply monitor the impacts in rural areas. Chapter III, Section E (monitoring and evaluation), describes the specific scope of the evaluation and outlines its methods. The process of establishing the baseline for the urban centers is currently under way, paid for with local funds. As the baseline for the rural areas, the panel sample that has been used to evaluate the program since 2002 will be employed.
- 2.18 This component will finance two consulting contracts. The first will involve conducting a follow-up survey on the beneficiaries and the control group one year after the baseline is established. The second will analyze the baseline (first four months of 2008) and evaluate the program's impact (first quarter of 2009).

D. Cost and financing

- 2.19 The Colombian government has asked the IDB and the World Bank to coordinate a series of short-term loans that will reduce the commitment fee thanks to the brisk pace of disbursements that is expected given the nature of Familias en Acción and its operating experience. The total cost and financing of phase one of the present program is US\$306 million, which will be financed from the Single Currency Facility of the Bank's Ordinary Capital. In addition to these resources, the government asked the World Bank to increase the amount of an operation that was originally intended to finance Familias en Acción to the end of 2006 (US\$104.8 million). Coupled with local resources, these funds made it possible to reach about 1.5 million families in October 2007, when large-scale expansion of the program into urban centers will begin. The government expects to have funds from this first phase of the IDB loan (US\$306 million) starting in February and up to the end of 2008 to maintain the goal of 1.5 million beneficiary households.¹⁹ The World Bank is expected to approve a new loan (US\$563.5 million) at the end of 2008, which will be executed up to the start of 2010. Last, the second IDB loan will

¹⁹ It is anticipated that virtually all of the first IDB loan will be executed by the end of 2008, with only the evaluation during the second half of 2009 pending.

provide funds to maintain the coverage of 1.5 million beneficiaries to the end of 2010 (US\$362.5 million). Table 5 presents the Familias en Acción multiyear budget.

Table 5
Multiyear budget of Familias en Acción (in US\$ millions)

Component	2007	2008	2009	2010	Total
Component 1					
Nutrition subsidy	131.3	169.9	171.9	173.4	646.5
Education subsidy	196.9	254.9	257.8	260.0	969.6
Bank commissions	13.5	20.9	21.5	21.8	77.7
Component 2					
Evaluation		1.2			1.2
Administrative costs	24.6	19.4	18.7	18.6	81.3
Audits		0.3	0.3	0.3	0.9
Total	366.3	466.3	470.2	474.1	1,776.9

- 2.20 The cost table for phase one and a breakdown of the financing by source for the program overall during its four-year duration are presented in Table 6. The World Bank resources correspond to the last bimonthly disbursement of loan 7337-CO, which will be executed together with the first disbursement of the IDB loan. The resources allocated to the Familias en Acción program by the government come from the budget of the Presidential Agency for Social Action and International Cooperation.²⁰

Table 6
Cost table for the first phase of the present operation (in US\$ millions)

Component	IDB	World Bank	Acción Social	Total	% Total
Component 1					
Nutrition subsidy	53.7	14.7	100.9	169.3	32%
Education subsidy	231.8	22.1		253.9	91%
Bank commissions	19.0	1.8		20.8	91%
Component 2					
Evaluation	1.2			1.2	100%
Administrative costs			21.4	21.4	0%
Audits	0.3			0.3	100%
Total	306	38.6	122.3	466.9	66%

²⁰ At the request of the Ministry of Finance, Acción Social and the Colombian Family Welfare Administration are studying the feasibility of having the latter contribute significantly to local financing. If this is found to be feasible, the two institutions will sign an interagency agreement.

III. PROGRAM EXECUTION

A. Borrower, guarantor and executing agency

- 3.1 The borrower is the Republic of Colombia. The Presidential Agency for Social Action and International Cooperation (Acción Social) will be the executing agency. Acción Social executes the programs selected by the country's president to assist the most vulnerable population groups and is responsible for interagency coordination of the public supply targeted to those groups. It has been in charge of executing Familias en Acción since the outset, demonstrating good capacity for timely and transparent execution.
- 3.2 Execution of Familias en Acción is structured into three levels. Nationally, the national coordination unit (NCU) is responsible for strategic direction, logistics, financial execution, and monitoring of the program. Regionally, the regional coordination units (RCUs) (whose structure is determined by the number of municipalities and the number of Sisben 1 households in each department and by the characteristics of certain subregions) are the link between the central and municipal levels in program execution and are responsible for the promotion and start up of the program in the eligible municipalities. At a municipal level, the city governments appoint and finance a municipal liaison officer, who is responsible for coordinating the program in the municipality.

B. Program operating cycle

- 3.3 The operating cycle of Familias en Acción consists of two phases. The first includes the following processes: (i) classification of municipalities and determination of the universe of program beneficiaries on the municipal level; (ii) institutional coordination on the municipal level; (iii) registration of eligible families; and (iv) first cash transfer payment. These procedures take place once in each municipality. The government has already begun these processes in all the country's municipalities. When execution of the first phase of IDB financing begins, about 1.5 million households will already have received at least one payment.
- 3.4 The second phase of the operating cycle includes the recurrent program activities. It consists of the following processes: (i) receipt and processing of changes in status, complaints, and claims; (ii) institutional strengthening and health and education promotion; (iii) joint responsibility and verification of commitments; (iv) second and subsequent payments; and (v) exit of families from the program.

1. Classification of municipalities and determination of the universe of potential beneficiaries

- 3.5 The variables considered for targeting the beneficiaries are based on individual and geographic criteria and on municipal institutional capacity to operate the program. As the first step in the operating cycle, Familias en Acción performs an ex ante evaluation of municipal capacity to supply health and education services for

potential beneficiaries. All the municipalities that pass the evaluation are eligible.²¹ The evaluation also examines the availability of formal or alternative financing mechanisms to pay the subsidies.

- 3.6 The eligible municipalities are classified on the basis of two criteria: (i) more than 40% prevalence of Sisben 1 households; and (ii) population in rural parts of the municipality exceeding 55%. Type I municipalities comply with both criteria, while type II comply with the second condition. The remaining municipalities are classified as type III.
- 3.7 All Sisben 1 households with children under the age of 17 in type I municipalities are eligible to be program beneficiaries. In those municipalities the participation rate by potential beneficiaries is expected to be 70%. Once the quotas in type I municipalities are covered, the remaining quotas will be assigned to type II and III municipalities depending on the number of Sisben 1 households, weighted by the index for municipal living conditions. For type II and III municipalities, a maximum number of Sisben points is required to be eligible, so that expected participation will be close to the quota assigned to the municipality (in urban centers, the participation rate is estimated as 50%). In type II municipalities, priority will be given to households in the rural part of the municipality that comply with that criterion. Once this population is covered, the remainder of the quota is assigned to eligible families living in the urban part of the municipality. Last, the quotas for type III municipalities are covered by giving priority to zones where the gap between the cut-off point for Sisben level 1 and the average Sisben points for level 1 families in the zone is widest. The vast majority of new households to be covered with financing from the first IDB operation will be located in type III municipalities. All families registered in SIPOD are eligible to participate in the program, regardless of what classification applies to their municipality.

2. Institutional coordination on the municipal level

- 3.8 During this process, the municipality's institutional capacity to comply with the basic operating conditions is reviewed, and municipal responsibilities are made official under a participation agreement between the mayor and a representative of Acción Social. One of the key commitments in the agreement is to appoint and maintain a municipal liaison officer and support staff, whose main functions are to: (i) support the information and registration processes and the logistics required to incorporate beneficiaries; (ii) coordinate a meeting of mothers receiving the cash transfer to elect and train leader mothers in the commitments and rights acquired under the program; (iii) respond to community operational and/or conceptual concerns; (iv) train and advise education and health institutions in their commitments under the program; (v) act as an intermediary in collecting and submitting the forms required for the different processes; (vi) receive and process complaints, claims, and changes in status of the beneficiary families; (vii) promote

²¹ At present, virtually all the municipalities have already passed.

social control over the progress through oversight bodies and/or other citizen participation bodies; and (viii) periodically send reports to the RCU monitoring the indicators for implementation of the operating cycle.

3. Registration of eligible families

- 3.9 The registration of eligible families takes place in the following stages: (i) municipal promotion and information on the program by the local government; and (ii) registration of families, which is the responsibility of the municipal liaison officer. In this second stage beneficiary eligibility is verified against the type of municipality, and the mothers who collect the subsidies will be informed about the basic aspects of their participation in the program and continued eligibility.

4. Calculation and payment of the subsidies

- 3.10 The procedure for identifying and selecting the banking institutions that will make the payments to beneficiaries involves the following stages: (i) preparation of information and forms for transferring resources to the banks and making payments to the beneficiaries; (ii) request for funds and authorization of the transfer to the banks; (iii) the payment and monitoring period; and (iv) close and reconciliation of the payment process. The first step in this process is the responsibility of the Familias en Acción program information system (SIFA) which: (i) verifies that families comply with their commitments; (ii) reviews the reconciliations of payments and processing of the information on changes in status and claims from the previous cycle; (iii) generates information on each bank and municipality including the number of payments and their value; (iv) generates lists of the names of families receiving payments in the municipality (for public consultation); and (v) generates the forms to be signed by the recipient mother when she receives the cash transfer statement from the municipal liaison officer. Once this information is processed, Acción Social applies to the National Treasury Department to have the funds transferred to authorized accounts in each bank to pay the subsidies through the integrated financial information system (SIIF).
- 3.11 Once the funds have been deposited in the banks, the payment process overseen by the municipal liaison officer begins. The first payment is made in advance when the family registers. The following payments are made at the end of bimonthly periods to families that present a form stating that they have complied with their commitments in the preceding period. The payments are made directly through banks or unconventional strategies (cash through storekeepers or bank branches in nearby municipalities), when direct bank payments are not possible. During the payment process, the NCU monitors the municipalities to detect irregularities or problems in the process.
- 3.12 Twenty days after the start of payments in the municipalities, the banks automatically block payments to beneficiaries. Once the payments have been made and verified by Acción Social, it orders the funds not collected by the beneficiaries to be repaid into the Familias en Acción account opened by the National Treasury Department in the Central Bank. After that date, each bank has five calendar days

to submit a report, which should contain a list of the beneficiaries who collected and those who did not. This information is used as input for calculating payments in the following period.

5. Changes in status, complaints, and claims

- 3.13 This procedure is intended to solve problems related to payments identifying the causes, and to update information presented by the beneficiary families. The stages are: (i) receipt of changes in status, complaints, and claims; (ii) processing and evaluation; and (iii) response. Familias en Acción has operating mechanisms to input the results of the process into SIFA.

6. Institutional strengthening, and education and health promotion

- 3.14 This process is intended to optimize institutional and social conditions for the operation of the program by strengthening municipal institutions and through promotion and social development. It involves: (i) identification of municipalities whose operating indicators are problematic; (ii) strategic actions to improve those indicators; and (iii) monitoring and systemization of the institution-building experience. The process also includes the design and implementation of intervention strategies on the municipal level to train service providers and beneficiaries in order to promote improvements in social development that complement the direct objectives of the program and support the development of community social capital.

7. Joint responsibility and verification of commitments

- 3.15 Verification of compliance with commitments takes place in two stages: (i) identification and updating of the list of schools (at the start of the school year) and health establishments (at the start of the calendar year) that serve the children who benefit from the program; and (ii) control of attendance at schools and health institutions. This second stage is begun by the municipal liaison officer, who instructs the mothers receiving the cash transfer to visit those institutions to obtain certification that they have complied with program commitments, using the means determined (printed certification, cards with bar codes, or crosses of information systems in municipalities that have such systems). Once the period established for the mothers to demonstrate compliance with their commitments has expired, the verification cycle is closed, and the information is consolidated and uploaded into SIFA.

8. Exit from the program

- 3.16 Beneficiary families may exit the program: (i) if there is noncompliance with the commitments for three continuous or four discontinuous cycles in a year; (ii) when their children reach the age of 18; (iii) when it is found that they do not comply with any other prerequisite; or (iv) when the program ends. The government is in the process of formulating criteria and indicators to evaluate the status of the beneficiary families that have participated in Familias en Acción, based on the system for evaluating living conditions defined by Red Juntos, with the purpose of

determining whether the families should continue in the program or should 'graduate' or exit from it.

C. Mode of execution: SWAp

- 3.17 As mentioned in paragraph 1.21, the program will be implemented through a **SWAp**. As will be explained shortly, implementation of this approach in the case of Familias en Acción implies that: (i) virtually all of the financing for the first phase of the IDB operation and the future contributions from the World Bank and the IDB will be pooled with local funds; (ii) the system for financial review and evaluation will be simplified by using Colombian financial administration systems once they have been positively evaluated by the Banks; and (iii) strengthening of the national financial administration system will be actively promoted, particularly the Familias en Acción administrative and financial system. In addition, contracts paid for with financing that is not pooled will follow harmonized IDB and World Bank procedures.
- 3.18 Implementation of Familias en Acción under this approach: (i) is consistent with a sector policy framework established by the government with support from the multilateral banks and other development agencies, through their support for the MERPD; (ii) promotes technical, financial, and operational coordination between the IDB, the World Bank, and the Colombian government; (iii) aims at reducing the transaction costs to the country of external financing by establishing a single system for procurement, financial administration, and disbursements, with the consequent reduction in the administrative burden posed by parallel systems, making room to improve efficiency in the allocation of resources and development effectiveness; and (iv) promotes the strengthening of national financial administration systems, particularly those of the executing agency.

1. Procurement

- 3.19 As shown in Table 6, approximately 93% of the IDB's financing in phase one will be used to pay subsidies. It will be part of the pooled financing and does not involve procurements.
- 3.20 The remainder of the financing will be used to contract consulting and other services to be described below, which will be governed by the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-7) and the Policies for the procurement of goods and services financed by the IDB (document GN-2349-7), both of July 2006. A standard bidding document harmonized by the Colombia's Intersector Government Procurement Committee, the World Bank, and the IDB will be used. Given the estimated amounts of the contracts and the implications for attaining and measuring the development objectives, all contracts will be reviewed ex ante by the Bank.
- (i) Contracting of external services to audit operating, financial, and systems procedures (including spot checks every six months) and the financial statements for year one of the program, for an

estimated US\$300,000. Quality and cost-based selection (QCBS) will be used, with the possibility of natural continuity of the services. This contract is expected to be awarded during the first quarter of 2008.

- (ii) Contracting of services other than consulting services for a follow-up survey to measure program impact, for an estimated US\$800,000. The process will use QCBS and the contract is expected to be awarded during the last quarter of 2008.
- (iii) Contracting of services to analyze the baseline and evaluate program impact, for an estimated US\$400,000. The process will use QCBS and the contract is expected to be awarded during the first four months of 2008.
- (iv) Contracting of nonconsulting services for the payment of subsidies. At present, the bank commission amounts to approximately US\$2 per transaction, which means that about US\$20 million a year is paid in commissions. These banks have been processing payments to beneficiaries since 2001, contracted with external financing from both the IDB and the World Bank. The contracts will be extended during the present operation. However, the government has expressed an interest in seeking formulas to reduce the cost of the commissions paid to private banks. It has been found that a more efficient and economical way of paying for the service provided by the banks would be through a mixed model that includes payment of a commission and a reciprocity component (deposit of the funds in the intermediary banks for a given period of time prior to paying them out). An international competitive bidding will be held to award the contracts by lots that would group together the large and mid-sized cities with municipalities where there are no banks, for the purpose of interesting banks in paying the subsidies in the latter municipalities. This contract is expected to be awarded in mid-2008.

2. Financial administration

- 3.21 The program will promote the full use of the national financial administration system and procedures. The national financial system for execution of Familias en Acción is composed of: (i) control of the eligibility of subsidies performed by Acción Social on the central level through SIFA; (ii) the mechanism for paying the subsidies, assured through a system of transfers using SIIF and agreements with the commercial banks; and (iii) the financial auditing process which has used externally contracted consulting firms since the start of the program rather than the Office of the Comptroller General (CGR).
- 3.22 Although the most recent evaluation of the national financial administration system (Country Financial Accountability Assessment, 2005) determined that the degree of

fiduciary risk posted by the systems was moderate, with regard to SIIF in particular, it determined that “it records and incorporates information on the process of executing resources in a timely and reliable manner.” An evaluation performed by the IDB and World Bank project teams when this operation was being prepared determined: (i) that although SIFA has been operating in a timely and reliable fashion, the main fiduciary risk of the program lies in its monitoring capacity, given the increase in the volume of operations that it will have to handle with the expansion of the program; (ii) that SIIF continues to be a reliable system for budget, cash flow, and accounting management; and (iii) that at least in the short term, the CGR will not be in a technical, operational, or financial position to audit Familias en Acción, despite the quality of its audits of other programs financed by the multilateral banks.

- 3.23 In agreement with the government and the World Bank, in order to reduce the fiduciary risks of Familias en Acción while simultaneously promoting the strengthening and use of national financial systems: (i) the present operation will use SIFA and SIIF as the main instruments for program financial administration; (ii) financial and operations audits will be performed, with particular stress being placed on the latter during the initial cycles of payments under the expanded program;²² (iii) one of the triggers for the second phase of the IDB program will be implementation of the auditors’ main recommendations; and (iv) a transitional mechanism will be established so that during the program it will become feasible for the CGR to take charge of the financial audits, without detriment to the quality of its audits of other programs. The mechanism will be based on: (i) strengthening the technical capacity of the CGR to comply with internationally accepted auditing standards, to which end the IDB is exploring the possibility of providing resources under a nonreimbursable technical-cooperation project; and (ii) the establishment of technical and financial benchmarks that the CGR will have to comply with if it is to be put in charge of program audits.

3. Disbursements and financial monitoring

- 3.24 The IDB will disburse the proceeds of the financing in the percentages agreed with the executing agency, on the basis of the financial projections that the latter will need to present to the Bank, when it presents the disbursement request. The proportion of the financing must be less than the total estimated eligible expenses to be financed out of the program account. Within 60 days after the each disbursement of the financing, the Bank will review the integrated financial information system report as well as the reconciliation performed by the banks responsible for payment of the program-funded cash transfers. The executing agency will need: (i) to keep proper records of transactions funded from the program account; and (ii) to furnish

²² The financial audits will cover all the resources of Familias en Acción. Given that the program is to be executed under a SWAp, it is not necessary to identify the origin and application of funds by source of financing.

the IDB with such information and documentation as the latter might reasonably request.

D. Execution period and disbursement schedule

3.25 Table 7 summarizes the execution period and the disbursement schedule.

Table 7
Bimonthly disbursements by source of financing (in US\$ millions)

Disbursement cycles	2007						2008						2009						2010						2011						Total
	1	2	3	4	5	6	1	2	3	4	5	6	1	2	3	4	5	6	1	2	3	4	5	6	1	2	3	4	5	6	
Annual total IDB																															668.50
Disbursements IDB																															
Annual % IDB																															
Annual total World Bank																															668.50
Disbursements World Bank																															
Annual % World Bank																															
Annual total local																															439.91
Annual % local																															1,776.91

E. Operations monitoring and evaluation

3.26 As part of the external audits, two evaluations of the program and its operation, finances, and processes will be performed. Every six months, the IDB and the World Bank will send joint missions to review: (i) progress in the output indicators for phase one of the program that are presented in Annex I; (ii) the results of the operations evaluations performed; and ((iii) progress in the implementation of Red Juntos and its evaluation.

3.27 The impact evaluation of the program will differ in scope in rural and urban areas. In the former, the evaluation will focus on monitoring program impact over time. Given that Familias en Acción will be offered to all Sisben 1 families in municipalities with populations under 100,000, the program impacts will be conditional on participation in the program (possible bias for self-selection of program participants will not be considered) based on the behavior of the sample of beneficiaries and nonbeneficiaries that has been tracked to evaluate the program since 2001, through a new follow-up survey at the start of 2009. If most of these families are beneficiaries in 2009 (only families that ceased to be in Sisben 1 in 2006 are not eligible) some of them will not have been beneficiaries until 2004 and others not until 2007. Under a series of assumptions, it will be possible to use the nature of the data panel to establish how Familias en Acción has contributed to that behavior. The possibility of establishing that impact based on the length of time a family has been in the program will also be studied. The group of original

beneficiaries who are no longer eligible for the program could be of help in identifying the sustainability of its impact after the cash transfer is no longer paid.

- 3.28 The main objectives of the evaluation in urban areas are: (i) to determine the program impacts; and (ii) to evaluate the relative effectiveness of the different models to be used. The methodology will be quasi-experimental using a baseline (2007) and a follow-up survey (2009). The fact that there are quotas and geographic targeting by neighborhood in the urban centers will make it possible to identify ‘control families’ in nearby neighborhoods. ‘Similar’ families will be identified statistically that are: (i) beneficiaries; (ii) eligible in eligible neighborhoods but who do not participate in the program; and (iii) eligible in ineligible neighborhoods. This will allow selection biases to be taken into account in the impact that can be attributed to Familias en Acción.

IV. FEASIBILITY AND RISKS

A. Institutional feasibility

- 4.1 An evaluation of the capacity of Acción Social to execute the program determined that it has procedures and systems that ensure adequate execution of its activities and programs and an adequate knowledge of the Bank’s policies and rules (its performance is being certified through ISO 9001-2004). However, some insignificant weaknesses have been detected in SIFA, which will be studied in greater detail based on the process audits.

B. Benefits and socioeconomic feasibility

1. Rural areas and small urban areas

- 4.2 A cost-benefit analysis of Familias en Acción based on the second impact evaluation (2006) suggests that the program is highly feasible socioeconomically in rural and small urban areas. The analysis shows an overall benefit-cost ratio of 1.59 under a series of conservative assumptions. The most relevant considerations in arriving at that ratio are described below.
- 4.3 The analysis of the program’s costs and benefits is based on the two objectives that were established in designing the program: (i) to improve health and nutrition of children under the age of 18; and (ii) to increase school attendance by that population. Other impacts identified in the evaluation were excluded such as: (i) change in income and consumption levels of the beneficiary households; (ii) poverty targeting; and (iii) empowerment of women by paying the subsidies to them.
- 4.4 To calculate the benefits of the health, nutrition, and education components, the following common parameters were used: (i) the minimum wage as the base wage; (ii) a working horizon from 18 to 60 years of age; (iii) a long-term unemployment

rate of 7.4%; and (iv) a discount rate of 10%.²³ To calculate the benefits of the nutrition component, the net present value of the gains in future labor income that can be attributed to higher birth weight and lower malnutrition were estimated. The following parameters were used to monetize the impact of the program on these indicators: (ii) a 5% increase in future labor income for each 0.4 kilogram of additional birth weight; and (iii) a 2% increase in future labor income for each 0.25 cm increase in standardized height for age (z-score). To calculate the benefits of the education component, the net present value of the gains in future labor income was estimated for the net years gained in secondary education (discounting the impact of better nutrition). The parameter of an 8% increase in future labor income for each additional year attributable to the program was used to monetize the impact of the program on this indicator.

- 4.5 The value of transfers to the beneficiaries was not used in calculating the costs, since what is a cost for the government is a benefit for the families. Thus, the costs associated with the nutrition component are estimated as the sum of the net present value of: (i) the cost for the beneficiaries associated with the receipt of the nutrition cash transfer; (ii) the incremental cost to families of food; and (iii) the cost of administering the component. The costs associated with the education component are estimated as the sum of the net present value of: (i) the direct incremental cost of education for families; (ii) the cost for the beneficiaries associated with the receipt of the education subsidy; (iii) public spending to finance the cost of secondary education for the beneficiaries; and (iv) the cost of administering the component.
- 4.6 Accordingly, the program's benefit-cost ratio is estimated as the sum of the benefits and costs of both components, with the ratio being 1.66 for the health and nutrition component and 1.54 for the education component.

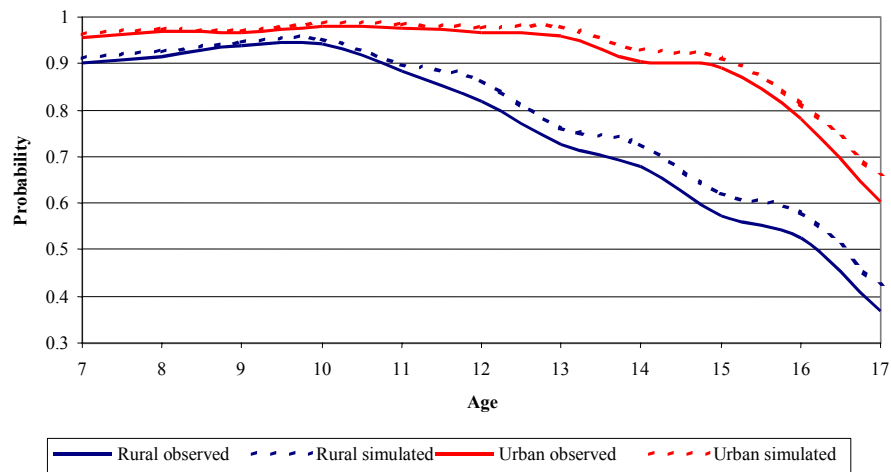
2. Urban centers

- 4.7 As mentioned earlier, during the first phase of the program, transfer payments will be offered for the first time on a massive scale in the large cities. The absence of ex post evaluations on the impact of the program in urban areas poses a challenge for analyzing the socioeconomic feasibility of Familias en Acción in those zones. To shed light on the potential effectiveness of the adjustments proposed by this program, the results of two microsimulation exercises (ex ante evaluation) are presented below. They were performed by the IDB project team based on the 2003 ECV and point to the socioeconomic relevance of the adjustments that this program proposes for urban centers.

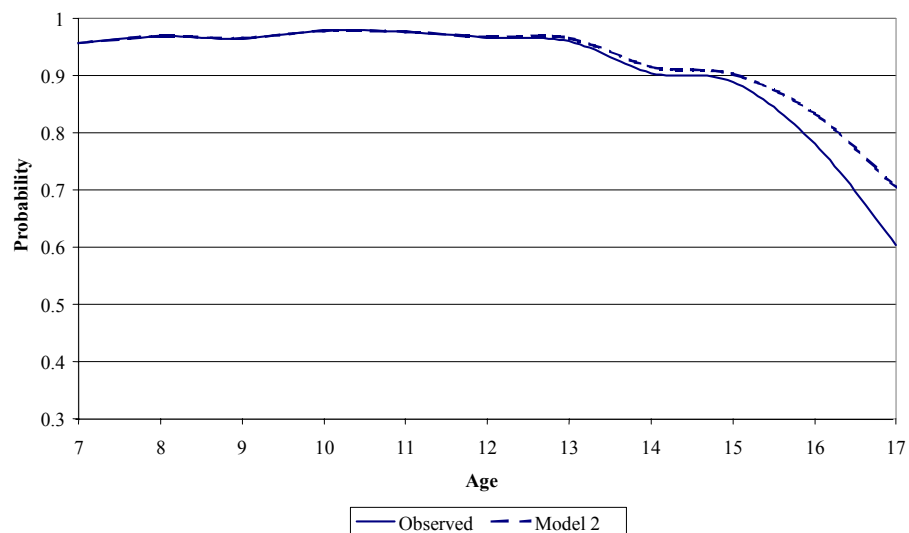
²³ According to Echavarría, et. al (2006), *La Tasa de Interés Natural de Colombia* [Colombia's natural interest rate], Banco de la República, this discount rate is significantly higher than the observed real interest rate and the natural real interest rate.

- 4.8 Graph 2 shows the results of simulating the impact of the conditional cash transfers on school attendance in both rural and urban areas under the rural model. Graph 3 simulates the impact of only paying transfers for youths in high school, in an amount equal to that proposed in model 2. These exercises suggest that: (i) maintaining the rural subsidies in urban areas would only have an impact on secondary school attendance, which would be significantly less than in rural areas; and (ii) the proposed increase in the cash transfer for high school could significantly increase attendance.

Graph 2. Probability of attending school by age. Rural model



Graph 3. Probability of attending school by age, subsidy only for High School. Model 2



C. Financial feasibility

- 4.9 The expansion of Familias en Acción is financially sustainable under the medium-term spending framework 2006-2010 (MGMP), which establishes ceilings on public investment and operating costs that are consistent with the fiscal goals. The framework envisages an increase in total spending of 10.3% in nominal terms in 2010 compared to 2007 (US\$36.6 billion) and that social spending will increase by 24% in nominal terms over the same period (US\$17.8 billion in 2007). The MGMP expects that Familias en Acción will represent 2% of social spending on average.

D. Impact on the environment and ethnic minorities

- 4.10 The program is classified as promoting social equity (SEQ) since it is a social protection program to alleviate and prevent extreme poverty. This operation also qualifies as a poverty-targeted investment (PTI) on account of its individual targeting, since using the Sisben will ensure that more than 50% of the beneficiaries belong to the poorest population quintiles.
- 4.11 The program will not finance physical investments and so is not expected to have any direct environmental impact. It is expected to have a positive social impact on the neediest groups and is therefore classified in environmental and social risk Category C.
- 4.12 Familias en Acción includes indigenous and Afro-Colombian groups among the beneficiaries and is consistent with the IDB's Operational Policy on Indigenous Peoples (OP-765) and the World Bank's safeguards for indigenous populations. Although the program has no negative effects on those populations, a significant percentage of them have not joined the program even though they live in poverty.²⁴ For the indigenous population living on reserves, there are a series of elements that impede the implementation of a standard operating cycle: (i) Sisben was not implemented on the reserves because it was not considered to be an adequate targeting instrument by the indigenous people themselves and therefore it is necessary to find an alternative system for identifying needy families; (ii) the organizational structure of some indigenous groups hampers the process of applying standard institutional coordination; and (iii) for some indigenous groups, the nature of the program might not be culturally pertinent (for example the use of cash or conditioning on the family level). Therefore the government, with support from the World Bank, has agreed with a group of reserves to implement a pilot program to establish conditions for introducing the program to those localities under a culturally-appropriate arrangement. The IDB is exploring the feasibility of providing nonreimbursable technical-cooperation funding for a diagnostic assessment of potential barriers to entering the program for indigenous and Afro-Colombian populations that have been displaced to urban centers and studying the

²⁴ Hernández, Leonardo (2005). Diagnóstico de la Aplicación del Programa Familias en Acción en Grupos Étnicos [Diagnostic of the Familias en Acción program applied to ethnic groups], World Bank.

pertinence of the intervention for those populations. This assessment will serve as the basis for discussions to make potential changes in the program in phase two.

- 4.13 With regard to the Afro-Colombian groups, the program does not present any design difficulties that could have a negative impact on them. However, it has adjusted its communications strategy in municipalities with large Afro-Colombian populations since it has found that these people have had disproportionate difficulties in gaining access to the program because they do not know about it.

E. Risks

- 4.14 Although Familias en Acción is a program with good evaluations, whose operation has been highly efficient, a series of risks has been identified whose probability is considerably higher at the start of the operation. Therefore, as a mitigation measure, the Bank will focus its technical and operational supervision on that stage. The results of a risk evaluation exercise based on interviews with different levels of the executing unit were used to identify the main risk areas that are described below.

- 4.15 **Coordination with the supply of local programs.** This is a risk area mainly in the urban centers since they have their own programs that could be complementary to or overlap operationally with Familias en Acción. Good coordination with complementary programs could increase the cost-effectiveness of Familias en Acción. One of the objectives of Red Juntos is precisely to create synergies and coordination between national programs and local ones. However, as mentioned earlier, this is still a fledgling process. The entry of the program into Bogota poses a high operational risk and a risk in terms of reduced impact. The city government has its own CTP for the population on Sisben levels 1 and 2, financed with IDB funds (CO-L1010) that does not include the nutrition or primary school subsidy and grants a smaller subsidy than Familias en Acción in secondary school (US\$14.21 in all grades). It is expected that this program will continue paying subsidies at least until the end of 2008. Owing to budget restrictions, the Bogota program does not cover all the Sisben 1 population, and therefore a highly needy segment exists that does not receive subsidies, which could be covered by Familias en Acción. Coordination between the managers of the two programs is crucial to avoid creating confusion among the beneficiaries and to prevent the programs from competing rather than complementing each other as Red Juntos proposes. At present, coordination is complicated by the fact that elections will be held in all the country's municipalities during October 2007, and the new Bogota administration has not yet taken power (it will do in January 2008).

- 4.16 As a means of mitigating this risk, the Bank will continue to promote dialogue between the managers of the two programs. Also, as a condition precedent to the first disbursement, a new version of the program operations manual will come into effect (with the approval of the multilateral banks), which will include a special annex on operating the program in large urban centers, particularly Bogota.

- 4.17 **Pace of program growth.** Prior to the most recent expansion of Familias en Acción, the program had achieved a high level of stable and timely operation.

- Although program management has introduced safeguards to ensure that it continues to operate in the same way in future, in response to the government's commitments the program has grown very quickly—in one year it virtually doubled the coverage it had taken the previous five years to achieve. The fact that Familias en Acción is close to reaching the goal of registering 1.5 million families by the end of 2007 indicates the organizational and operating capacity of the executing agency. However, the rapid growth has impeded the consolidation of learning to ensure: (i) that the operating cycle can be implemented efficiently with a significantly larger volume of payments—including a timely response to changes in status, complaints, and claims; (ii) that the program can operate efficiently under the new circumstances of its large-scale extension to urban centers; and (iii) that good coordination is achieved among a larger number of players responsible for program execution—particularly coordination between the NCU and the RCUs.
- 4.18 The proposed process of operations audits is an element to mitigate the risks to the program's operating cycle posed by rapid growth. The audits will place particular stress on distinguishing operational aspects in urban areas in comparison with rural ones, and on the relations between the two different geographic levels of program operations. Designing the present operation as a two-phase program, with a plan that allows for comparisons of design alternatives in urban centers, is a strategy to mitigate the development risks relating to program effectiveness, by promoting near-term learning about the suitability of the different types of intervention in phase one, which will be incorporated in phase two.

**MULTIPHASE PROGRAM TO SUPPORT THE SECOND STAGE OF EXPANSION OF THE FAMILIAS EN ACCIÓN CONDITIONAL CASH
TRANSFER PROGRAM – PHASE ONE
(CO-L1021)**

LOGICAL FRAMEWORK

Narrative summary	Performance indicators	Means of verification	Assumptions
Goal			
1. To reduce poverty and extreme poverty.	1.1 The poverty rate falls from 49.2% to 31.5% by 2014. ⁱ 1.2 The extreme poverty rate falls from 14.7% to 8% by 2014.	1. Integrated household survey (ongoing)	1.1 The economy continues to grow robustly. 1.2 The medium-term social framework is adopted as a government policy.
General purpose of the program By the end of 2010. ⁱⁱ			
1. The program beneficiaries increase their food consumption and improve the human capital of their younger members.	<p>For municipalities with fewer than 100,000 people:</p> 1.1 In constant prices, average food consumption of the beneficiary families increases compared to 2005-2006 levels (about US\$147 in current dollars). 1.2 The drop-out rate (attended school at some point but no longer) of the group of beneficiaries between the ages of 7 and 17 is reduced compared to 2005-2006 levels (approximately 13.43%). <p>For urban centers:</p> 1.3 In constant prices, average food consumption of beneficiary families increases compared to 2007 levels.	1. Follow-up survey on Familias en Acción indicators, 2009 2. SISRED	1. The economy grows at close to 5% between 2006 and 2010. 2. The government maintains its commitment to adjust the supply of social services based on the evaluations of Red Juntos.

ⁱ Estimates by the Mission for the Reduction of Poverty and Inequality in Colombia.

ⁱⁱ The survey for the evaluation of Familias en Acción 2005-2006 will be used as the baseline for municipalities with populations under 100,000, and for urban centers a baseline will be established in August-September 2007. Only one measurement to track the baseline indicators is planned, which will take place in early 2009. That measurement will serve to evaluate the results of the first phase of the program. Using the baseline and follow-up survey information, goals will be proposed for 2010, through a microsimulation exercise. The goals will be verified through the Red Juntos information system (SISRED).

Narrative summary	Performance indicators	Means of verification	Assumptions
	1.4 The drop out rate in lower and upper high school (attended at some point but no longer) of the group of beneficiaries between the ages of 12 and 17 is reduced compared to 2007 levels		
Purpose of Phase One			
1. The program beneficiaries are able to increase their consumption, particularly of food, and improve the human capital of their younger members.	<p>At the start of 2009:</p> <p>For municipalities with fewer than 100,000 people:ⁱⁱⁱ</p> <p>1.1 In constant prices, food consumption by the beneficiary families increases by 7% as a result of the program, compared to 2005-2006 levels.^{iv}</p> <p>1.2 The malnutrition rate among beneficiary children under 3 years of age is reduced by 3% compared to the 2005 level of 9%.</p> <p>1.3 The percentage of beneficiaries between the ages of 7 and 11 who do not attend school is reduced to 4% compared to its 2005 level of 6%.</p> <p>1.4 The percentage of beneficiaries between the ages of 12 and 17 who do not attend school is reduced to 17% compared to its 2005 level of 24%.</p> <p>For urban centers:</p> <p>1.5 In constant prices, the food consumption of beneficiary families increases by 2% as a result of the program compared to 2007 levels.</p> <p>1.6 The percentage of beneficiaries between the ages of 12 and 17 who do not attend school falls compared to its 2005 level of 12%.</p>	<p>1. Second follow-up survey on rural beneficiary families of Familias en Acción (2005-2006).</p> <p>2. Baseline for the expansion of Familias en Acción into urban centers (2007).</p> <p>3. Follow-up survey on the indicators for Familias en Acción (2009).</p> <p>4. Evaluation report on the short-term results of Familias en Acción (2009).</p>	<p>1. The economy grows at close to 5% between 2006 and 2010.</p> <p>2. The government maintains its commitment to adjust the supply of social services based on the evaluations of Red Juntos.</p>

ⁱⁱⁱ Given that Familias en Acción will be offered to all Sisben 1 families in municipalities with populations under 100,000, the impacts of the program will be established based on the behavior of development indicators for the sample that was used as the control group in phase one. Under a series of assumptions, it will be possible to use the nature of the data panel to establish the influence of Familias en Acción on that behavior. The possibility of establishing that impact as a function of the time a family has belonged to the program will also be studied, since a portion of the original control group (2002) received treatment in 2004.

Narrative summary	Performance indicators	Means of verification	Assumptions
Phase I components			
<p>1. Expansion of Familias en Acción</p> <p>The program beneficiaries receive cash transfers to complement their consumption and increase their use of public health and education services.</p>	<ol style="list-style-type: none"> 1. From the start (April 2007) to the end (December 2008), the program covers at least 1,500,000 beneficiaries. It is expected that about 900,000 live in municipalities with fewer than 100,000 people, 400,000 live in large urban centers, and 200,000 are displaced households. 2. 90% of regular beneficiaries who receive the education subsidy have a school attendance record of about 80% (without the program, the figure would be 62% in rural areas).^v 3. 90% of children from 0 to 2 years of age in beneficiary families regularly receiving the nutrition subsidy go for bimonthly checks of weight and height (without the program, 42% go for checks in rural areas). 4. 90% of children from 3 to 6 years of age in beneficiary families regularly receiving the nutrition subsidy go for at least two annual weight and height checks (without the program, this indicator would be extremely low). 5. In urban centers, 100% of children between 7 and 10 years of age in families receiving the school nutrition subsidy go for at least two checks of weight and height a year. 	<ol style="list-style-type: none"> 1. Familias en Acción information system (SIFA) 	<ol style="list-style-type: none"> 1. The Colombian economy grows at about 5% in 2008, and unemployment is close to 12%.

^{iv} The goals of the program are established pursuant to the results of the 2006 evaluation of Familias en Acción. That evaluation was based on a predominantly rural sample but included some municipal seats. The goals for the urban centers are preliminary, based on the results for those municipal seats. It is not possible at present to establish the results of the program in urban centers with greater accuracy, not just because the intervention is new in those centers, but also because the negotiations regarding the types of interventions the program will undertake in those centers have not been concluded with their city governments. However, using the baseline for urban centers (August-September 2007), the project team will simulate the effects of the program at the end of 2009.

^v The baseline in urban centers for this indicator will be obtained from the baseline survey of August-September 2007.

Narrative summary	Performance indicators	Means of verification	Assumptions
	6. In urban centers, 90% of 11 year olds that benefit under the school nutrition subsidy program have an annual check up.		
2. Outcomes evaluation The impact of Familias en Acción in rural areas is confirmed with regard to consumption and investments in human capital, and the pertinence of the different models for the program in urban centers is analyzed.	1. Baseline report for the expansion of Familias en Acción completed during the first two months of 2008. 2. Follow-up survey of Familias en Acción conducted during the first two months of 2009 and analyzed during the first four months of 2009.	1. Program reports	
Tentative components of the program financed by the World Bank in 2009			
1. Expansion of Familias en Acción	1. From the start (December 2008) to the end (February 2010), the program covers at least 1,500,000 beneficiaries. It is expected that about 900,000 of them live in municipalities with under 100,000 people, 400,000 live in large urban centers, and 200,000 are displaced families.		
Tentative components of phase II			
1. Expansion of Familias en Acción	1. From start (February 2009) to finish (February 2011), the program covers at least 1,500,000 beneficiaries. It is expected that about 900,000 of them live in municipalities with under 100,000 people, 400,000 live in large urban centers, and 200,000 are displaced families.		