

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

COLOMBIA

**THE ROLE OF REMITTANCES IN THE DEVELOPMENT OF THE
LOW-INCOME HOUSING MARKET**

(CO-M1022)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: María Victoria Sáenz (MIF/OPS), Project Team Leader, Carlos Novoa (COF/CCO), Gregory Watson (MIF/OPS), Diego Buchara (LEG/OPR), Milena Gómez (consultant), Antonio Gaspar (MIF/DEU), and Natalia Laguyás (MIF/OPS).

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ABBREVIATIONS

ASOCAJAS	Asociación Nacional de Cajas de Compensación [National Association of Family Equalization Funds]
CAMACOL	Cámara Colombiana de la Construcción [Colombian Construction Association]
CCF	Caja de Compensación Familiar [Family Equalization Fund]
CEU	Central Executing Unit
COMFAMA	Caja de Compensación Familiar de Antioquia [Family Equalization Fund of Antioquia]
DNP	Departamento Nacional de Planeación [National Planning Department]
PRO	Project Operating Regulations
REU	Regional Executing Unit

**THE ROLE OF REMITTANCES IN THE DEVELOPMENT OF THE LOW-INCOME
HOUSING MARKET
(CO-M1022)
EXECUTIVE SUMMARY**

Beneficiary/ Executing agency:	Caja de Compensación Familiar de Antioquia [Family Equalization Fund of Antioquia] (COMFAMA),		
Beneficiaries:	Members and nonmembers of the CCFs who receive family remittances.		
Financing:	MIF - III A ¹	US\$1,725,000	
	Local:	US\$1,200,000	
	Total:	US\$2,925,000	
Objectives:	<p>The project's general objective is to contribute to improving the quality of life of low-income Colombians through access to housing solutions. The specific objective is to implement a pilot model for channeling remittances from Colombians to investment in low-income housing, thereby contributing to the expansion of the housing market.</p> <p>The project will have the following components: assessment of the environment, proposed changes to the regulatory environment, financial output design and implementation, sales and publicity strategy, and lessons learned.</p>		
Execution timetable:	Execution period:	36 months	
	Disbursement period:	42 months	
Special contractual conditions:	As conditions precedent to the first disbursement of MIF financing, it must be demonstrated, to the Bank's satisfaction, that: (i) the executing agency and entities participating in the project have duly approved the project Operating Regulations; and (ii) the executing agency has selected the project coordinator in accordance with Bank procedures.		
Exceptions to Bank policies:	None.		
Environmental and social review:	The Committee on Environment and Social Impact (CESI) reviewed this project without comment on 1 September 2006.		

¹ The MIF contribution includes US\$25,000 for coordinating activities of the cluster "Creation of inclusive housing markets in Latin America and the Caribbean".

Coordination with other official development agencies:

There was no coordination with other development agencies. The programs carried out in Colombia by the International Organization for Migration have a very different approach, and the multilateral agencies working in the country have not even expressed interest in the subject of remittances.

I. BACKGROUND

A. Inflow of remittances to the country

- 1.1 According to characteristic studies conducted for the IDB, 16% of the Colombian adult population (4 million people) received remittances in 2004, from both the United States (75%) and Europe (12%), mainly Spain. The average frequency of remittances was five times per year and the average amount was US\$250. While on the one hand remittances represent the second largest inflow of foreign exchange to Colombia, surpassed only by oil revenue, the housing shortfall, in terms of quantity and quality, is increasing by the day. According to IDB/MIF surveys, housing is the second category in which family members living abroad would like their relatives in the origin countries to invest by buying or upgrading.
- 1.2 Various studies and surveys indicate that one of the priorities of those remitting money and those receiving the remittances is to be able to invest part of them in a housing purchase or upgrade. Nevertheless, there are legal, exchange, formal, and procedural obstacles that stand between the desire of a low-income Colombian living abroad to invest in real estate and the possibility of doing so. The same is true of a Colombian who has an account with the Ahorro para el Fomento de la Construcción [Construction Development Savings Fund] and expects to obtain a housing subsidy, only to find that although his cash flow would enable him to afford the housing solution of his choice, he is not a good bank customer because he cannot demonstrate, in the exact way that the financial institution requires, that “other income” that suspiciously “adjusts” the cash flow. Such other income is nothing other than the family remittances that he regularly receives. The objective of this project is to develop an intervention scheme for converting this flow of money from abroad into a means of payment or a mortgage credit guarantee.

B. Participants in the intervention scheme

1. Cajas de Compensación Familiar

- 1.3 The Cajas de Compensación Familiar [Family Equalization Funds] (CCFs) are private nonprofit entities organized as community-based organizations, supervised by the Superintendencia del Subsidio Familiar [Family Subsidy Superintendency], whose function is to redistribute part of worker income to low-income workers. According to Law No. 21 of 1982, “the family subsidy is a social benefit payable in cash, kind, and services to medium and low-income workers in proportion to the number of dependents, and its fundamental objective is to alleviate the economic burden of supporting the family, which is the basic nucleus of society.”
- 1.4 In 1954 the government authorized the creation of independent CCFs to grant family subsidies to meet worker household needs, in proportion to the number of child dependents. No obligations were established either for the enterprises or for the government. In that same year, the Asociación Nacional de Industriales [National Association of Industrialists] (ANDI) organized the first such CCF, entitled “Caja de Compensación Familiar de Antioquia” [Family Equalization Fund of Antioquia] (COMFAMA), which arose out of an agreement between employees

and employers seeking to leverage resources to improve the general living conditions of Colombian workers. In 1957 this effort acquired the status of law and family subsidies became mandatory.

- 1.5 There are now 52 CCFs throughout Colombia. The percentage of Colombian workers who are members of a CCF is 21.3%, and those workers who receive less than four times the current legal minimum wage,² which varies according to the different remuneration levels, also receive family subsidies. Ninety percent of worker members receive less than four times the current legal minimum wage, and of those, 90% receive less than twice the minimum wage. With reference to housing issues, it is estimated that around 50% of CCF members do not own their own homes, and around 60% of homeowners have problems with housing quality.
- 1.6 Some government social functions, including the administration of the national social housing subsidy system, have been delegated to the CCFs. They carry out these functions using their own and governmental resources, and approximately 89,000 subsidies in the amount of US\$271 million have been allocated. This has given them a thorough knowledge of the low-income housing market and their members' needs in relation to that market. For these reasons, and because they have been the government's principal private-sector partners in the implementation of social housing policies, the CCFs are the main participants in the inter-agency scheme to deepen the housing market through the use of remittances.

2. Financial intermediaries

- 1.7 The financial intermediaries that have been handling the remittances market are the exchange houses. Recent regulatory changes have compelled these financial intermediaries to professionalize themselves, merge, and begin to comply with a number of requirements laid down by the Banco de la República. Up to now, the banks had shown no interest in this market. Nevertheless, the situation is changing, and the result is that for more than a year now Bancolombia has been intervening actively in this market alongside the microenterprise market. In the context of this project, a strategic partnership was sought to ensure that relatives living abroad, and CCF members themselves, would become bank customers. That is why work will be carried out initially with Bancolombia, and it is expected to be replicated subsequently with other banks.
- 1.8 Bancolombia will be associated with the project by granting mortgage credits to members and nonmembers whose applications are submitted to it by the CCFs. It will assume the credit risk and in return will receive the product descriptions and customer profiles ("Know your customer"). Once the model is implemented, other financial entities are expected to play a more active role in the housing-related remittances market.

² The legal minimum wage for 2006 is Col\$408,000, or approximately US\$164 per month.

3. Cámara Colombiana de la Construcción

- 1.9 The Cámara Colombiana de la Construcción [Colombian Construction Association] (CAMACOL) is a professional association established in 1957 to represent the interests, further the development, and promote the social and environmental responsibility of enterprises, entities, and individuals connected with the construction value chain in Colombia. It will be associated with the project as a strategic partner and strategy committee member (see paragraph 4.3). It will participate without receiving compensation, representing the point of view of the housing fairs, in which it already has some experience. It will bring to the project its experience and the name of the fairs, which is already recognized, thus averting additional costs to the project.

C. Housing situation in Colombia

- 1.10 In 2003 Colombia suffered a serious mortgage crisis, which has now been overcome. Nonperforming loans are below 9% and payment on account has diminished. Nevertheless, this situation, the circumspection produces as regulations that have only just begun to go into effect have generated a large unmet demand, exacerbated by a housing shortage which is increasing by around 170,000 new homes per year.
- 1.11 The problems in buying housing in Colombia have to do with the gap between purchasing power and sales conditions, in other words, low financing possibilities owing to the debtor's ability to pay and his proven family income. The Departamento Nacional de Planeación [National Planning Department] (DNP) recently issued the "Strategic Growth Program: Colombia 2019," which, among other considerations, provides for very strong growth in the housing sector. Initial steps have been taken to this end, such as reducing mortgage interest rates, but these are insufficient. Meeting the program targets will, as the Instituto Colombiano de Ahorro y Vivienda [Colombian Institute of Housing and Savings] well notes, require "a major effort by the financial sector, which will have to quintuple its current disbursements. To that end, it will need a massive intake of savings, and 70% of low-income Colombians do not save, nor do they have credit histories."³ Certain institutions and banks, however, have come to see that Colombians do in fact save, although in an unconventional way. Some accumulate assets, while others receive remittances, a sustained flow of which over time can well be converted into a positive credit history.
- 1.12 Lastly, up to now no one has considered the possibility of using remittances for purchasing low-income housing and therefore legislation is geared principally toward channeling currency flows into foreign direct investment. Given the challenges that money laundering present, there are numerous obstacles to legalizing the transfer of small sums on a regular basis. This situation gives rise to regulatory gaps in some cases, and to excessive paperwork in others.

³ "Colombian Institute of Housing and Savings." María Mercedes Cuellar, *El Tiempo*, 2 June 2006.

- 1.13 In short: (a) the CCFs know their members, know that they receive remittances but that there is no specific characterization, deliver short-term housing credits, but, owing to the risk and funding profile, are not interested in delivering long-term credit with mortgage guarantees; (b) while commercial banks have recently begun to open up to the remittances market and the housing finance market, they have not intervened in the low-income housing market up to now because of lack of knowledge about it and asymmetrical information; (c) there are procedural systems that could be studied and simplified and other regulatory aspects that could be adapted to the increasing flow of remittances and facilitate their use in supporting housing investment.

II. THE PROJECT

A. Objectives and description

- 2.1 The project's objective is to contribute to improving the quality of life of low-income Colombians through access to housing solutions. The purpose or specific objective is to implement a pilot model for channeling remittances from Colombians to investment in low-income housing, thereby contributing to the expansion of the housing market.

B. Components

- 2.2 **Component I. Analysis of the environment (MIF: US\$112,125; Counterpart: US\$101,125).** The objective of this component is to refine the existing knowledge of demand for the products and services offered by the project and support the construction of a statistical index to provide information on at least the following two parameters: the average amount of remittances received, and their frequency or seasonality. Relevant data can thus be obtained that could subsequently be used as inputs for a credit scoring system.
- 2.3 The following activities are envisaged: (i) characterization⁴ and location of the member population's relatives living abroad; (ii) characterization of the members in Colombia in relation to their potential use of remittances in housing projects; (iii) purchase of software to manage the information on characterization of the potential demand by mortgage credit, supply of housing, supply of remittances, etc.; and (iv) cross-comparison of data on receipt of remittances, based on data on remittances negotiated by commercial banks associated with the project, in order to build a statistical base for parameterizing regional data in terms of the main characteristics required to "give reliability to the remittance" (seasonality, amount, origin). Specialized consultants, whose terms of reference have been incorporated into the design of the operation and are part of the project Operating Regulations (Annex IV), will be contracted for most of the activities.

⁴ Investment/utilization preferences, restrictions on remittances, seasonality, confidence in financial systems, place of work, family income, socioeconomic status of the relatives living abroad, etc.

- 2.4 As a result, the following outputs are expected: (i) a characterization study⁵ of the Colombian potential housing buyer population that receives/sends family remittances, indicating the population's investment preferences, the type of housing solution in which it wishes to invest, the investment horizon, financial conditions, available liquidity, available savings, the existence of a government or CCF subsidy, the existence of mortgage credit from associated banks, foreign banks, etc.; (ii) the installation of software in COMFAMA that can track the basic indicators of the characterization study and keep the potential demand database up to date; and (iii) a database containing financial data on the remittances negotiated by financial intermediaries in the past five years, and construction of the parametric base index.
- 2.5 **Component II. Analysis of proposed changes to the legal and regulatory environment (MIF: US\$139,525; Counterpart: US\$24,725).** This component is designed to support the study of proposed amendments to the procedures and regulations that affect the development of the housing finance market for low-income persons and, in particular, its connection to remittances from abroad. Analysis of the proposed amendments will be based on the findings of an expert workshop to which academics, economists, researchers, legislators, lawyers, bankers, remittance companies, and builders of low-income housing solutions will be invited. The workshop will analyze the difficulties and opportunities associated with the remittances market, specifically, the utilization of remittances for mortgage payments. It will reach a consensus on the critical items on which current legislation should be amended (particularly some chapters of the Exchange By-laws) and on some regulations and procedures that would facilitate the flow of remittances to the housing sector.
- 2.6 Based on this consensus, a specialized consultant will study the frame of reference of each situation and write a statement of reasons underpinning a new law or decree that would support the growth of a housing market utilizing remittances as a payment means or guarantee. The consultant will present approximately five proposed changes in registration and notarial procedures, representation and power of attorney, access to credit in Colombia and abroad, property titles and guarantee review, know-your-customer (USA Patriot Act) provisions, and origin of resources from abroad. The component includes activities to build support for the project in the legislative arena. It is noteworthy that these activities will give expatriates who wish to purchase a home in Colombia greater access to the housing market. Nevertheless, failure to introduce such changes will not affect fulfillment of project objectives.
- 2.7 **Component III. Design and implementation of financial products (MIF: US\$594,800; Counterpart: US\$355,650).** The objective of this component is to develop financial and nonfinancial products and instruments to support the channeling of financial and technical resources that can leverage family remittances

⁵ Studies that are part of MIF projects are available to the public. In this particular case, the outcomes are to be published on the MIF-administered website www.migrantremittances.org

- in the asset creation process for Colombia's low-income population. Based on the results obtained in the characterization of demand, the objective of this component is to design new financial and nonfinancial products adapted to the type of customer and cash flow that they manage, including remittances. This requires the contracting of a consultant who specializes in designing microfinance/mortgage products, including the implementation plan for these products and the respective procedures, processes, and training manuals for operative personnel of the CCFs, Bancolombia, and for the beneficiaries.
- 2.8 The consultant selected should deliver at least two new financial products, designed, implemented, and in operation (this means training operative personnel) in the CCFs (and any other financial institution that wishes to partner with the project). He should also deliver the product design for the “mortgage credit adapted to the flow of remittances” to be implemented by Bancolombia. The products for the CCFs should be innovative products that do not currently exist in the CCF portfolios, involve the use of remittances as payment or guarantee, do not include a mortgage guarantee, and have a maturity of no more than five years. The consultant will also deliver a portfolio of three nonfinancial products to be offered at the same time, such as: savings accounts for remittances, housing improvement, housing legalization, purchase of do-it-yourself construction materials via <http://www.paypal.com/> or similar systems, etc. This component includes activities to adapt the general processes of the CCFs to bring the new product and the new staff training and requirements into line with their policies, standardize the individual policies of each CCF with general association policies, and develop a credit scoring system.
- 2.9 The principal output of this component will be the achievement of financial literacy by at least 6,000 Colombians living abroad, 1,000 of whom will be trained in the use and advantages of financial products designed to facilitate the utilization of remittances in the mortgage credit market. Of those 1,000, 600 will receive mortgages credits with Bancolombia and 400 will receive different products for improving or expanding property or clearing property titles through the CCFs.
- 2.10 **Component IV. Communication and sales strategy (MIF: US\$265,575; Counterpart: US\$393,675).** The purpose of this component is to create mechanisms of convergence between the four basic variables in the low-income housing market: remittances, credit resources from financial institutions, a supply of housing solution projects, and persons needing or wishing to improve or purchase housing. To this end it is necessary to: (i) support the construction of the project's visual identity; (ii) create the website; (iii) select the channels for project dissemination and the frequency of its dissemination; and (iv) organize and participate in four housing fairs in Colombia and abroad.
- 2.11 Specialized consultants will be hired to carry out the first three objectives. Hosting and maintenance of the project website will be contributed in kind by one of the participating CCFs. Participation in the housing fair will be coordinated with CAMACOL so that it is simultaneous and the costs represent economies of scale.

The specific organization of housing projects for low-income persons and services and sales to the participants will depend on the project.

- 2.12 The outputs of this component will be: (i) a communication strategy designed and operating – visual identity, media strategy, etc.; (ii) a designed and active website; (iii) participation in four international and four national housing fairs, whereby the housing supply will be connected to at least four construction projects promoted by the CCFs with at least 25 relatives remitting money.
- 2.13 **Component V. Lessons learned, monitoring, evaluation, and audits (MIF: US\$305,125; Counterpart: US\$13,125).** This component includes activities related to the workshop on dissemination of outcomes and lessons learned. This workshop will be international and invitations will be extended to other entities working on the development and deepening of housing finance markets. Successful and unsuccessful cases will be presented. A special publication is expected to be prepared for the workshop. In addition to workshop activities as such, this component includes activities related to the development and implementation of the system for internal monitoring and evaluation of the project by COMFAMA and by each participating agency.

III. COST AND FINANCING

- 3.1 The total project cost is US\$2,900,000, of which US\$1,700,000 (60%) will be financed by the MIF and the remaining 40% (US\$1,200,000) by COMFAMA and the entities participating in the project, with 57% in cash.

Expenditure category	MIF	Counterpart	Total	%
I. Analysis of environment	112,125	101,125	213,250	7.4%
II. Proposed improvement of legal environment	139,525	24,725	164,250	5.7%
III. Financial and nonfinancial products	594,800	355,650	950,450	32.8%
IV. Communications and sales strategy	265,575	393,675	659,250	22.7%
V. Lessons learned	305,125	13,125	318,250	10.9%
Administration	135,850	311,700	447,550	15.4%
Contingencies	147,000		147,000	5.1%
Subtotal	1,700,000	1,200,000	2,900,000	100%
Cluster activities	25,000		25,000	
TOTAL	1,725,000	1,200,000	2,925,000	

- 3.2 The amount equivalent to US\$25,000 assigned to “Cluster activities” will be administered by the Bank with a view to monitoring it and carrying out the cluster activities entitled “Creation of inclusive housing markets in Latin America and the Caribbean” in conformity with document MIF/GN-110. This amount will be deducted from the contribution as from the effective date of the technical cooperation letter of agreement for this operation without the need for a disbursement request from the executing agency.

- 3.3 **Sustainability.** The basis of project sustainability is that the financial services required by the project beneficiaries and their relatives living abroad will be provided by a commercial bank. This guarantees that those receiving the remittances will become bank customers and supports the likelihood of the relatives living abroad becoming bank customers as well. Moreover, since it is a banking entity that is smashing paradigms, the objective of promoting a mortgage finance market is easier to achieve. Lastly, the technology development and infrastructure remain and can be utilized to continue participating in the housing fairs that CAMACOL has been organizing, and for which this project has opened up a vast window of new business opportunities and possibilities. Despite the foregoing, CCFs will organize a sustainability workshop during the project's last year. The workshop will consider strategies to follow once MIF resources have been exhausted for inviting other CCFs and financial institutions to participate and having them implement this program in their particular areas, as an integral part of their normal activities.

IV. PROJECT EXECUTION

A. Executing agency

- 4.1 The executing agency will be the Caja de Compensación Familiar de Antioquia (COMFAMA), which will be responsible for overall project coordination, including institutional coordination, monitoring of activities, and attainment of outcomes. This entity has been in existence for over 50 years and has assets totaling approximately US\$100 million, including US\$74 million in equity. To date COMFAMA has not worked with the MIF, but has worked with the Inter-American Investment Corporation (IIC). Moreover, both COMFAMA and the other participating CCFs are depositories of substantial resources from Colombian employees and employers, and have exceptional experience in managing resources. Bancolombia is the financial partner and is in charge of issuing and approving at least 600 mortgage loans to customers the CCFs present. ASOCAJAS is the CCF professional association through which it will be possible to replicate this model for the country's remaining CCFs. It is also the right instrument for executing the component relating to regulatory changes, as it represents the entire sector.

B. Execution mechanism

- 4.2 A Central Executing Unit (CEU), which will operate in the headquarters of the executing agency, and six regional executing units (REUs), one in each CCF participating in the project, will be formed for project execution. The CEU will consist of an accountant/administrative assistant and a secretary in addition to the project general coordinator. The REUs will have a regional coordinator and will receive administrative support from the respective CCF; these resources will be accepted as a counterpart contribution. The project will be managed by the executing agency in a centralized fashion, but on the basis of policies adopted by consensus by the project steering committee (see paragraph 1.1). The CEU will

- delegate regional activities and their implementation to the REUs. Procurement will be carried out by the executing agency. In general, the executing units must perform the following functions: (i) prepare and execute annual work plans; (ii) coordinate project activities; (iii) expedite procurement processes in accordance with the Bank's standards and procedures and supervise the procurement of goods and services; (iv) supervise the timely and effective execution of project components; (v) the CEU must process disbursement requests submitted to the Bank; (vi) prepare and submit statements of account and management reports to the steering committee and the Bank; (vii) monitor the indicators in the logical framework; and (viii) verify the counterpart contribution. The terms of reference for the contracting of persons who will constitute the CEU and the REUs are incorporated into the Operating Regulations (paragraphs 3.5-3.8).
- 4.3 A project steering committee will be established, consisting of COMFAMA as executing agency and of the other participating CCFs, ASOCAJAS, and Bancolombia. The steering committee will make operational decisions for the project. A strategy committee will be formed, consisting of CAMACOL, ANDI, and Proantioquia. Technical bodies, such as the Superintendencia Bancaria [Banking Superintendency], the Banco de la República, the DNP, Fedesarrollo, and the Asociación Nacional de Instituciones Financieras [National Association of Financial Institutions] will be invited to participate in the strategy committee as and when the topic so warrants. The strategy committee will have a consultative function and will provide strategic guidance. There will be no remuneration for participation in the strategy committee.
- 4.4 **Disbursements.** There will be a revolving fund for 10% of the loan amount.
- 4.5 **Accounting and finance.** The executing agency will be responsible for: (a) establishing and maintaining appropriate accounting/finance and internal control systems. Project records must be kept in such a way as to: (i) allow identification of sums received from different sources; (ii) show project expenditures out of MIF resources and other funds contributed for project execution; (iii) include an itemized list identifying goods procured and services contracted, as well as the use to which such goods and services were put; and (iv) show the cost of component activities; (b) opening separate bank accounts for managing the MIF contribution and the local counterpart funds; (c) processing disbursement requests and justification of expenses, in accordance with standard Bank procedures; and (d) preparing and submitting annually to the Bank project financial statements, audited by a consultant or an independent auditing firm acceptable to the Bank, and in accordance with the terms of reference previously agreed upon with the Bank. Auditing costs will be defrayed using MIF resources.
- 4.6 **Procurement of goods and services.** Procurement of goods and services will be carried out by COMFAMA in accordance with the policies set forth in documents GN-2349-7 and GN-2350-7. The procurement plan found in the project files can be summarized as follows: (i) the plan will be reviewed every six months; (ii) goods will be procured through the shopping method; (iii) contracting of consultants

through the consultant selection method; and (iv) all procurement of goods and consulting services that exceeds US\$75,000 will be reviewed ex ante, while procurement below that threshold will be reviewed ex post.

V. PROJECT BENEFITS AND RISKS

- 5.1 **Benefits.** These refer mainly to the development of a replicable model for channeling and utilization of remittances in the purchase and improvement of new and used housing for low-income populations.
- 5.2 **Beneficiaries.** Members and nonmembers of the CCFs who receive family remittances. It is expected that approximately 6,000 Colombians—living at home and abroad—will be trained, and approximately 600 mortgage loans and 140 home improvement loans will be made in Colombia.
- 5.3 **Risks.** The project's principal risks are that: (i) the regulatory changes that are deemed necessary will not be accomplished or will be made outside the envisaged time frames; (ii) the amount of the remittances sent will not be sufficient to cover the minimum mortgage payments established by the financial institutions; (iii) the housing offered at the housing fair will be beyond the expectations of low-income persons and their relatives living abroad, making it impossible to have access to such housing with the flow of remittances. Even if the regulatory reforms are not accomplished, the project can still achieve its objectives, since the time frames and procedures currently required for the execution of mortgage loans for persons living abroad have been taken into account in its planning. To mitigate the second risk, the project includes product designs specifically tailored to the potential portfolio of the banks and financial institutions. Lastly, to mitigate the third risk, the project's strategy committee includes the construction sector. Work will also be carried out directly with that sector to ensure that housing designs and the housing supply are adapted to the needs of low-income persons.

VI. MONITORING AND EVALUATION

- 6.1 **Supervision and control.** The CEU will prepare reports on the progress of the project and submit them to the Bank within 30 days following the end of each six-month period, and a final report within 30 days following the last disbursement. For the first annual status report, the CEU will prepare the work plan for the second year. These reports will follow a format previously agreed on with the Bank and will cover the activities and financial performance of the project, as well as its outcomes measured against the execution and performance indicators specified in the project's logical framework. The Bank will utilize these reports to supervise the progress of project implementation and prepare a Project Completion Report (PCR) within three months following the last disbursement. On the basis of these six-month progress reports, the Bank will review the progress of the project.

- 6.2 **Evaluation.** The Bank, with resources from the MIF contribution, will contract independent consultants to carry out a midterm evaluation of the project when 50% of the resources have been disbursed or 18 months after signing of the agreement, whichever comes first. This evaluation will take into consideration at least the following factors: (i) performance of logical framework indicators; (ii) number of expatriate Colombians contacted; (iii) number of national and international housing fairs held; (iv) result and status of the legislative study; (v) number of CCF and Bancolombia employees trained in this new financial product/service; and (vi) number of financial products and services designed especially for this target market and expected to be implemented with remittances. A final evaluation, financed with resources from the MIF contribution and commissioned by the Bank, will also be prepared three months before the end of the project. Based on the logical framework indicators and the project reports, the evaluations will establish whether or not there are significant deviations in the implementation of project activities, and may recommend corrective measures and emphasize the lessons learned and how they can be shared with other projects.

VII. SOCIAL AND ENVIRONMENTAL IMPACT

- 7.1 The Committee on Environment and Social Impact (CESI) reviewed the project without comment on 1 September 2006.

THE ROLE OF REMITTANCES IN THE HOUSING FINANCE MARKET FOR LOW-INCOME PERSONS (CO-M1022)

LOGICAL FRAMEWORK

Narrative summary	Indicators	Means of verification	Assumptions
<p>Goal:</p> <p>To contribute to improving the quality of life of low-income Colombians through access to housing solutions.</p>	<p>Three years after project completion:</p> <ol style="list-style-type: none"> The number of low-income persons who have access to mortgage credit using remittances as a payment means or guarantee has increased by 100%. 	<p>Ex post evaluation (to be considered)</p> <p>Statistics from the Colombian Family Equalization System</p> <p>Statistics from Bancolombia and the banks associated with the project</p>	<p>The macroeconomic scenario remains stable and the flow of remittances to Colombia continues to grow and remains the country's second-ranking export.</p>
<p>Purpose:</p> <p>To implement a pilot model for channeling remittances from Colombians to investment in low-income housing, thereby contributing to the expansion of the housing market.</p>	<p>By the end of the project:</p> <ol style="list-style-type: none"> The remittance channeling model has been documented and is being implemented successfully with the participation of at least four CCFs and one financial institution. Approximately 600 mortgage loans worth US\$6.9 million have been granted using remittances as guarantee. In addition, at least 400 housing improvement or expansion loans that do not require a mortgage guarantee will be granted through the CCFs. They will be granted for a term of less than five years and at market interest rates. 	<p>Six-month project reports prepared by the executing agencies</p> <p>Midterm and final project evaluation reports</p> <p>Contracts with consultants</p> <p>Accounting by executing agencies</p> <p>Project monitoring reports and Project Completion Report</p> <p>Internal control and management reports of the executing agencies</p>	<p>There are no unforeseen events that adversely affect the achievements made by the project.</p> <p>The CCFs and Bancolombia remain interested and other financial intermediaries continue to be interested in participating in the project.</p>

Narrative summary	Indicators	Means of verification	Assumptions
	<p>4. At least 600 customers will be registered in the network using the products and services developed.</p> <p>5. At least 80% of the clients who use the products developed by the project report that they are very satisfied with their quality (final evaluation survey).</p> <p>6. At least two additional financial institutions and three more CCFs have joined the project.</p>		
Components:			
<p>1. Analysis of the environment</p> <p>The objective of this component is to refine the existing knowledge of demand for the products and services offered by the project and support the construction of a statistical index to provide information on at least the following two parameters: the average amount of remittances received, and their frequency or seasonality. Relevant data can thus be obtained that could subsequently be used as inputs for a credit scoring system.</p>	<p>Eighteen months into the project:</p> <p>(i) COMFAMA has an up-to-date database, accessible through the project website, with at least 12,000 records.</p> <p>By the end of the project:</p> <p>(ii) A statistical model has been developed for estimating the size of the average remittance, the frequency of transfers, the origin of transfers, their security, and the standard deviation of the frequency and amount.</p>	<p>Monitoring reports prepared by the executing agencies</p> <p>Consultants reports</p> <p>Project monitoring reports and Project Completion Report</p> <p>Internal control and management reports of the executing agencies</p>	<p>The population group that sends and receives remittances is interested in participating in the project and provides reliable information.</p>

Narrative summary	Indicators	Means of verification	Assumptions
<p>2. Analysis of proposed changes to the legal and regulatory environment</p> <p>This component is designed to support the study of proposed amendments to the procedures, regulations, and enactments of various kinds that affect the development of the housing finance market for low-income persons.</p>	<p>Eighteen months into the project:</p> <p>(i) Around five proposals have been made to the authorities for changes in procedures, including registration and notarial procedures, representation and power of attorney, access to credit in Colombia and abroad, property titles and guarantee review, know-your-customer (USA Patriot Act) provisions, and origin of resources from abroad.</p> <p>By the end of the project:</p> <p>(ii) The proposals are under legislative review.</p>	<p>Project reports</p> <p>Contracts with consultants</p> <p>Accounting by executing agencies</p> <p>Project monitoring reports and Project Completion Report</p> <p>Internal control and management reports of the executing agencies</p>	<p>The required regulatory changes occur within the envisaged time frames.</p>
<p>3. Design and implementation of financial products</p> <p>The objective of this component is to develop financial and nonfinancial products and instruments to support the channeling of financial and technical resources that can leverage family remittances in the asset creation process for Colombia's low-income population.</p>	<p>Eighteen months into the project:</p> <p>(i) At least two financial products involving payment or guarantee with remittances and with different maturities have been designed and implemented in the participating CCFs and financial institutions; they may or may not include a mortgage guarantee.</p> <p>(ii) A new financial product, "mortgage credit adapted to the flow of remittances," has been designed, implemented, and placed in operation in Bancolombia.</p> <p>(iii) A portfolio of at least three nonfinancial products has been delivered to be offered</p>	<p>Project reports</p> <p>Contracts with consultants</p> <p>Accounting by executing agencies</p> <p>Project monitoring reports</p> <p>Internal control and management reports of the executing agencies</p> <p>Statistics of the participating financial institutions</p> <p>Inspection visits</p>	<p>Coordinating and cooperative relations between the executing agency and the co-executing agencies are maintained, enabling the financial products to be designed and implemented.</p>

Narrative summary	Indicators	Means of verification	Assumptions
	<p>simultaneously to clients, such as: plans for housing improvement, housing legalization, purchase of do-it-yourself construction materials via www.paypal.com or similar systems.</p> <p>(iv) Financial literacy has been provided to at least 2,000 Colombians living abroad, at least 400 of whom will be trained in the use and advantages of the financial products designed by the project.</p> <p>(v) 210 mortgage loans have been signed with Bancolombia with an average value equivalent to US\$12,000 each (30 loans per CCF).</p> <p>(vi) Each CCF has carried out 10 credit operations with an average value of US\$4,500 each.</p> <p>By the end of the project:</p> <p>(vii) The average number of employees trained per institution is around 30 (approx. 250 employees).</p> <p>(viii) Each CCF has carried out 20 credit operations with an average value of US\$5,500 each.</p> <p>(ix) Six hundred mortgage loans have been delivered by Bancolombia.</p>		

Narrative summary	Indicators	Means of verification	Assumptions
	(x) The resulting portfolio will have a delinquency rate of no more than 5%.		
<p>4. Communication and Sales Strategy</p> <p>The purpose of this component is to create mechanisms of convergence among the four basic variables in the low-income housing market: remittances, credit resources from financial institutions, a supply of housing solution projects, and persons needing or wishing to improve or purchase housing.</p>	<p>Eighteen months into the project:</p> <p>(i) A communication strategy has been designed and placed in operation – visual identity, media strategy, etc.</p> <p>(ii) A website has been designed and activated.</p> <p>(iii) Project representatives have participated in two international and two national housing fairs, through which the housing supply has been connected to at least two construction projects promoted by the CCFs with at least 13 relatives remitting money.</p> <p>(iv) At least 20,000 persons have visited the housing fairs, of whom 25% are considered to be potential project clients.</p> <p>By the end of the project:</p> <p>(v) Project representatives have participated in four international and four national housing fairs, through which the housing supply has been connected to at least four construction projects promoted by the CCFs with at least 25 relatives remitting money.</p>	<p>Project reports</p> <p>Contracts with consultants</p> <p>Accounting by executing agencies</p> <p>Project monitoring reports and Project Completion Report</p> <p>Internal control and management reports of the executing agencies</p> <p>Statistics of the participating financial institutions</p> <p>Inspection visits</p>	<p>The target population responds positively to the proposal.</p>

Narrative summary	Indicators	Means of verification	Assumptions
	(vi) At least 40,000 persons have visited the fairs, of whom 25% are considered to be potential project clients.		
5. Lessons learned, monitoring, evaluations, and audits	<p>After six months of execution:</p> <p>(i) COMFAMA has a data monitoring and collection system specific to the project.</p> <p>By the end of the project:</p> <p>(ii) At least three successful case studies have been developed and are available on the project website.</p> <p>(iii) A pilot model has been systematized and made available on the project website, showing how remittances can be channeled effectively into housing investment.</p>	<p>Project reports</p> <p>Contracts with consultants</p> <p>Accounting by executing agencies</p> <p>Project monitoring reports and Project Completion Report</p> <p>Internal control and management reports of the executing agencies</p> <p>Statistics of the participating financial institutions</p> <p>Inspection visits</p>	

Narrative summary	Indicators	Means of verification	Assumptions
Activities:			
<p>A. Under Component 1:</p> <p>1. Characterization of the demand. Surveys conducted among members of the CCFs and their relatives living abroad.</p> <p>2. Purchase of software to manage the information on characterization of the potential demand.</p> <p>3. Cross-comparison of data on receipt of remittances, based on data on remittances negotiated by commercial banks associated with the project, in order to build a statistical base for parameterizing regional data in terms of the main characteristics required to “give reliability to the remittance” (seasonality, amount, origin).</p>	<p>Within six months after the start of the project, a characterization study of the Colombian potential housing buyer population that receives/sends family remittances has been prepared. Cost: US\$80,800.</p> <p>Within six months after the start of the project, software has been installed in COMFAMA that can track the basic indicators of the characterization study and keep the potential demand database up to date. Cost: US\$47,400.</p> <p>Within six months after the start of the project, a database containing financial data on the remittances negotiated by financial intermediaries in the past five years is available, and the parametric base index has been constructed. Cost: US\$40,600.</p>	<p>Project reports</p> <p>Contracts with consultants</p> <p>Accounting by executing agencies</p> <p>Project monitoring reports</p> <p>Internal control and management reports of the executing agencies</p> <p>Statistics of the participating financial institutions</p> <p>Inspection visits</p>	<p>The authorities remain interested in supporting the project.</p> <p>The CCFs continue to be interested in participating in the project.</p> <p>Builders, banks, and financial intermediaries are interested in penetrating this market.</p> <p>There are independent consultants and consulting firms specializing in characterization of the demand for housing solutions for the low-income population receiving remittances.</p>
<p>B. Under Component 2:</p> <p>1. Workshop on analyzing regulatory issues.</p> <p>2. Study of the current regulatory framework and proposed changes thereto. The study on the regulatory framework has been conducted and pertinent proposals for changes have been made.</p>	<p>Within eight months after the start of the project, a workshop has been held with the participation of experts in economic, civil-law, tax, and exchange matters relating to the purchase, improvement, and legalization of housing solutions and remittances from abroad, used as a payment source to meet financial obligations arising from the aforementioned housing measures. Cost: US\$23,700.</p>	<p>Project reports</p> <p>Contracts with consultants</p> <p>Accounting by executing agencies</p> <p>Project monitoring reports</p> <p>Internal control and management reports of the executing agencies</p> <p>Statistics of the participating financial institutions</p>	<p>Independent professionals, public and private technical bodies, consulting firms, and academics express interest in the remittances phenomenon and have the ability and the time to devote to active and constructive participation in the workshop analyzing regulatory bottlenecks in the field of utilization of remittances for the purchase of housing solutions.</p>

Narrative summary	Indicators	Means of verification	Assumptions
<p>3. Adaptation of the administrative processes of the CCFs.</p> <p>4. Lobbying. Raising public awareness of the issue.</p>	<p>Within 12 months from the start of the project, around five proposals for regulatory changes of various kinds have been made. Cost: US\$63,800.</p> <p>Within 16 months, this proposal will be submitted to the relevant committees of the Chamber of Representatives of the Colombian Congress for the initiation of the respective legislative procedures. Cost: US\$23,200.</p>	<p>Inspection visits</p>	
<p>C. Under Component 3:</p> <p>1. Design of products and instruments. Financial and nonfinancial products and instruments are designed. The design of each one includes its corresponding procedures manual, staff training manual, and implementation plan.</p> <p>2. Start-up. The selected products are implemented and staff in the credit, operative, legal, and operational areas of the CCFs and participating financial entities are trained.</p> <p>3. Software. Software for adapting these new instruments to the systems currently used by each CCF for its accounting, financial control, and management data will be installed and tested.</p>	<p>Five months into the project, the proposed product portfolio will be available. Cost: US\$52,550.</p> <p>By month 5, advisory support for design of the software will be procured.</p> <p>By month 9, the manuals of processes and procedures for the proposed products will be available. Cost: US\$23,200.</p> <p>By month 11, the relevant staff of the CCFs participating in the project will be trained. At least three training events will be held in each CCF, at the rate of one per month. Cost: US\$52,200.</p> <p>By month 12, the relevant staff of the bank participating in the project will be trained. Cost: US\$5,200.</p> <p>By month 12, specific software will be installed and operating in the CCFs and the bank participating in the project. Cost: US\$35,000.</p>	<p>Project reports</p> <p>Contracts with consultants</p> <p>Accounting by executing agencies</p> <p>Project monitoring reports</p> <p>Internal control and management reports of the executing agencies</p> <p>Statistics of the participating financial institutions</p> <p>Inspection visits</p>	

Narrative summary	Indicators	Means of verification	Assumptions
<p>4. Scoring system. A scoring system will be designed and implemented for risk analysis of credit operations, with a payment plan that includes remittances.</p>	<p>By month 18, the administrative procedures of the CCFs will be standardized. Cost: US\$11,600.</p> <p>By month 21, the scoring system will be implemented. Cost: US\$130,500.</p> <p>By month 21, the population will be sensitized and trained. Cost: US\$178,100.</p>		
<p>D. Under Component 4:</p> <p>1. Support the construction of the project's visual identity.</p> <p>2. Set up the website.</p> <p>3. Select the channels for project dissemination and their frequency.</p> <p>4. Organize and participate in four housing fairs in Colombia and abroad.</p>	<p>Within 12 months from the start of the project, the design for participation in the fairs will be completed. Cost: US\$34,800.</p> <p>Within 12 months from the start of the project, the communication strategy design will be completed. Cost: US\$58,000.</p> <p>In month 13, the program website will be implemented. Cost: US\$75,000.</p> <p>In month 13, program dissemination will begin. Cost: US\$58,000 + US\$34,800 in materials.</p> <p>In month 13, a call center will be implemented. Cost: US\$58,000.</p> <p>By month 15, project dissemination within the CCFs will be completed. Cost: US\$40,600.</p> <p>By the end of execution, project representatives will have participated in four international and national housing fairs. Cost: US\$176,600.</p>	<p>Project reports</p> <p>Contracts with consultants</p> <p>Accounting by executing agencies</p> <p>Project monitoring reports</p> <p>Internal control and management reports of the executing agencies</p> <p>Statistics of the participating financial institutions</p> <p>Inspection visits</p>	<p>There are specialized international consultants at housing fairs who are interested in supporting the efforts of Colombian national and international housing fairs.</p>

Narrative summary	Indicators	Means of verification	Assumptions
<p>E. Under Component 5:</p> <ol style="list-style-type: none"> 1. Project closing with international workshop on “Migration and Housing,” Medellín, 2010. 2. Publication. 	<p>Six months into the project, the monitoring and evaluation system will have been developed. Cost: US\$46,400.</p> <p>At the end of the project, a workshop will be held on lessons learned. Cost: US\$185,600.</p>	<p>Project reports</p> <p>Contracts with consultants</p> <p>Accounting by executing agencies</p> <p>Project monitoring reports</p> <p>Internal control and management reports of the executing agencies</p> <p>Statistics of the participating financial institutions</p> <p>Inspection visits</p>	

ITEMIZED BUDGET

COMPONENT	TOTAL	MIF	COUNTERPART	
			KIND	CASH
COMPONENT 1 - Analysis of the environment	213,250	112,125	44,000	57,125
Characterization and location of the population (United States surveys)	46,000	46,000	0	0
Characterization and location of the population (Colombia surveys)	34,800	34,800	0	0
Characterization of the demand (creation and maintenance of member databases of the receiving CCFs (software))	47,400	0	23,700	23,700
Cross-comparison of information on receipt of remittances	40,600	0	20,300	20,300
Technical work of the CCF coordinators	26,250	13,125	0	13,125
Technical work of the general coordinator	18,200	18,200	0	0
COMPONENT 2 - Analysis of proposed changes to the legal and regulatory environment	164,250	139,525	11,600	13,125
Workshop analyzing remittances/housing market	23,700	23,700	0	0
Analysis of legal and legislative environment and creation of appropriate legislation	63,800	63,800	0	0
Raising awareness of legislators, technical experts, academics, and the public	23,200	11,600	11,600	0
Technical work of the regional coordinator	26,250	13,125	0	13,125
Technical work of the general coordinator	27,300	27,300	0	0
COMPONENT 3 - Design of financial and nonfinancial products	950,450	594,800	111,680	243,970
Consulting service specializing in design of mortgage products	52,550	52,550	0	0
Implementation plan and manuals of processes and procedures	23,200	0	11,600	11,600
Training of CCF employees in use of financial products, software, and pocket PCs	52,200	26,100		26,100
Training of bank employees	5,200	0		5,200
Development of scoring system	130,500	110,500	5,000	15,000
Training and raising awareness of the Colombian population in Colombia (fin. ed.)	85,800	0	83,480	2,320
Training and raising awareness of immigrants (30 promoters @ US\$10/hour)	92,300	92,300	0	0
Adaptation and standardization of CCF administrative processes	11,600	0	11,600	
Software (information management)	35,000	35,000	0	
Pocket PCs	40,000	40,000		
Technical work of the CCF coordinators	367,500	183,750	0	183,750
Technical work of the general coordinator	54,600	54,600	0	0
COMPONENT 4 - Communication and Sales Strategy	659,250	265,575	85,600	308,075
Project dissemination within the CCFs	40,600	0	40,600	0
National (Colombia) housing fairs (16)	45,000	0		45,000
Participation in international (United States/Spain) housing fairs (6 x 4 persons)	131,600	79,600		52,000
Consultant on design of fairs	34,800	34,800		
Consultant on systematization of information	17,400	17,400		
Program website (design, hosting, and 30 months' maintenance)	65,000	20,700	35,000	9,300
Training of CCF webmasters	10,000	0	10,000	
Advertising material	34,800	17,400	0	17,400
Communication strategy (communicator, materials, visual identity)	58,000	29,000		29,000
Program dissemination (radio, etc.)	58,000	0		58,000
Call Center	58,000	0	0	58,000
Technical work of the CCF coordinators	78,750	39,375	0	39,375
Technical work of the general coordinator	27,300	27,300	0	0
COMPONENT 5 - Lessons learned and dissemination of outcomes	318,250	305,125	0	13,125
Workshop on lessons learned (IDB Annual Meeting, April 2009)	185,600	185,600		
Monitoring and evaluation	46,400	46,400		
Project audits	41,800	41,800		
Technical work of the CCF coordinators	26,250	13,125		13,125
Technical work of the general coordinator	18,200	18,200		
ADMINISTRATION	447,550	135,850	262,900	48,800
Contingencies (5%)	147,000	147,000	0	0
PROJECT TOTAL	2,900,000	1,700,000	515,780	684,220
TOTAL PERCENT SHARE		58.6%	17.8%	23.6%

MIF CLUSTER PROJECTS
COLOMBIA: THE ROLE OF REMITTANCES IN THE HOUSING FINANCE MARKET FOR LOW-INCOME INDIVIDUALS (CO-M1022)

A. Project cluster “Creation of inclusive housing markets in Latin America and the Caribbean”

Project number / date of approval	Title of project, sector, executing agency and amount	Date of signature, original disbursement period, and extension in months	Percentage disbursed	Comments
<u>ATN/ME-8945-PE</u> 17-Nov-04	MiCasita - The First Full Service Mortgage Finance Company in Peru MiCasita Compañía Hipotecaria \$70.000	20-Jan-06 42 0	86%	The entity will begin the operation this month (Oct. 2006) The MIF is in the process of making disbursements from the equity funds.
<u>ATN/ME-9465-ME</u> 26-Oct-05	Direct Savings by Mexicans Living in USA toward Purchase of Housing in Mexico Hipotecaria Su Casita S.A. de C. V. \$250,000		0%	As the project has not yet been signed, component activities have not gotten under way (the project was approved by the Donors Committee on 26 October 2005). In principle, this was because the executing agency was unable to deliver the documents as requested by the deadline (single annex, logical framework, Operating Regulations, procurement plan, etc.). Accordingly, the executing agency hired a specialized consultant who speeded up procedures. All that remains now is for the IDB Legal Department to complete the contract for signature.
<u>ATN/MT-9138-ME</u> 23-Mar-05	Facilitation of Access to Housing Finance for Recipients of Remittances SOCIEDAD HIPOTECARIA FEDERAL \$1,700,000	14-Nov-05 42 0	0%	In November a meeting was held to launch the project with SOFOLES active in the remittance-financed housing market. The executing agency has requested that INEA, one of the coexecuting agencies be replaced by OREVIS (Organismos Estatales de Vivienda) [State Housing Agencies] so that they can participate in disseminating information on the program at the state level. It has also requested expenses incurred by the private sector be considered part of the local counterpart contribution. Still pending are the conditions precedent to the declaration of eligibility.