

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

SECOND SOCIAL REFORM AND EQUITY PROGRAM

(CO-L1026)

LOAN PROPOSAL

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Annex I Policy Matrix, Phase II, CO-L1026

APPENDICES

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/countries/home.cfm?id_country=CO&Language=Spanish
Approved loans	
Loans under consideration	http://opsgs1/ABSPRJ/tentativelending.ASP?S=CO&L=SP
Loan proposal for a Social Reform and Equity Program Phase I	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=773575
Policy matrix for the Social Reform and Equity Program Phase I	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1207087
Annex II. Policy letter	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1315224
Annex III. Means of Verification Matrix	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1315230
Annex IV. Results matrix	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1315234
Annex V. Matrix of program-related financial and nonfinancial instruments	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1296599
Annex VI. Currency	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1207574
Independent macroeconomic assessment	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1296943

ABBREVIATIONS

BEPs	Beneficios Económicos Periódicos [Regular Economic Benefits]
CNSSS	Consejo Nacional de Seguridad Social en Salud [National Health Care Social Security Council]
CONPES	Consejo Nacional de Política Económica y Social [National Economic and Social Policy Council]
DANE	Departamento Administrativo Nacional de Estadística [National Administrative Department of Statistics]
DNP	Departamento Nacional de Planeación [National Planning Department]
FSP	Fondo de Solidaridad Pensional [Pension Solidarity Fund]
GDP	Gross domestic product
LCF	Local Currency Facility
MERPD	Misión para el Desarrollo de una Estrategia para la Reducción de la Pobreza y la Desigualdad [Mission to Develop a Strategy to Reduce Poverty and Inequality]
MHyCP	Ministry of Finance
MPS	Ministry of Social Protection
PBL	Policy-based loan
PND	Plan Nacional de Desarrollo 2007-2010 [2007-2010 National Development Plan]
PNPSS	Política Nacional de Prestación de Servicios de Salud [National Policy on Health Service Delivery]
SGP	Sistema General de Participaciones [General Pension System]
SNS	Superintendencia Nacional de Salud [National Health Care Superintendency]
SIGOB	Sistema de Programación y Gestión de Metas Presidenciales [System for the Programming and Management of Presidential Goals]
Sisben	Sistema de Identificación de Potenciales Beneficiarios de los Programas Sociales [system for the identification of potential social program beneficiaries]

PROJECT SUMMARY

COLOMBIA SECOND SOCIAL REFORM AND EQUITY PROGRAM (CO-L1026)

Financial Terms and Conditions ¹			
Borrower: Republic of Colombia Executing agency: Ministerio de Hacienda y Crédito Público [Ministry of Finance]		Amortization period:	20 years
		Grace period:	5 years
		Disbursement period:	1 year
Source	Amount	Inspection and supervision fee:	0%
IDB (Ordinary Capital)	US\$300 million	Interest rate:	LIBOR
Local		Credit fee:	0.25%
Other/Cofinancing		Currency:	U.S. dollars
Total	US\$300 million	Conversion to Colombian pesos	Local Currency Facility (LCF)
Project at a glance			
Project objective: This is the second operation in a programmatic series of three single-tranche policy-based loan (PBL) operations, the general objective of which is to address some of the main challenges facing Colombia in its efforts to make its social policies more effective in reducing poverty and economic inequality.			
Special contractual conditions: Regarding the policy of the LCF (document GN-2365-2, 4 November 2005): (i) waiver of the condition on the Bank’s interrupted access to financing for the second programmatic operation (paragraph 2.3 and Section 3 of Annex 6).			
Other financial conditions: To expand the borrower’s financing options, the conversion of disbursements and amounts payable in local currency for the second programmatic operation will be subject to two financial conditions in addition to those set forth in the LCF: (i) flexibility in repaying disbursements in local currency; and (ii) pricing based on the Bank’s actual financing costs in the event that the Bank obtains its financing by issuing bonds (paragraph 2.3 and Section 2 of Annex 6).			
Exceptions to Bank policies: A waiver has been requested of the condition on the Bank’s interrupted access to financing, as described in paragraph 3.15 of document GN-2365-2 on the LCF. (See Section 3 of Annex 6).			
Project qualifies as:			
	SEQ [X]	PTI []	Sector [] Geographic [] Headcount []

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. DESCRIPTION AND MONITORING OF RESULTS

A. Introduction

- 1.1 This document describes the second operation in a programmatic series of three single-tranche policy-based loan (PBL) operations, the general objective of which is to address some of the main challenges facing Colombia in its efforts to make its social policies more effective at reducing poverty and economic inequality.
- 1.2 Table 1 describes the general strategy of the programmatic series and the policy process it supports.¹

Table 1. Policy process supported by the programmatic series

	First operation (2006)	Second operation (2007)	Third operation (2009)
General objective of the operation	To develop a technical policy agenda.	To establish policy targets and develop the strategies to meet them.	To implement policies, measure outcomes, and adjust strategies.
Policy process	<ul style="list-style-type: none">• Enactment of regulations needed for development of the agenda.• Establishment of interministerial agreements on the agenda.	<ul style="list-style-type: none">• Establishment of a specific, financially viable mandate to develop the agenda.• Development of targets against which compliance with the mandate may be measured.	<ul style="list-style-type: none">• Progress in policy implementation.• Achievement of outcomes or adjustment of policies.

- 1.3 The first operation in the programmatic series focused on developing a technical policy agenda to fulfill the general objective of the program. This operation was designed during a change in administration. This restricted the policy actions that could be carried out in the immediate term, but it also represented an opportunity for the Bank to assist the new administration from the outset in developing its social strategy for the 2007–2010 period.²

¹ This strategy reflects the lessons gleaned from the evaluations of the Bank's actions and those of other international organizations (World Bank (2003), Programmatic Adjustment Lending Retrospective) in designing PBLs. Specifically: (i) the process of preparing the policy matrix may generate a discussion within the government that will help make the policies viable; (ii) the policy program should be based on a sound sector analysis; (iii) the programmatic modality can be a useful tool to mitigate the risks associated with implementing the policy actions; (iv) including outcomes in the Policy Matrix is recommended, provided that they are under the control of the government; (v) to ensure that the government takes ownership of the program, national strategy documents and their targets should be adopted; and (vi) it is important to program a series of nonfinancial products and technical assistance from the Bank related to the policy actions.

² The electronic link to the loan proposal for a Social Reform and Equity Program provides access to the conditions precedent to disbursement for the first operation and the triggers for preparation of the second and third operations, set during preparation of the first operation.

- 1.4 This second operation focuses on: (i) establishing the instruments and means needed to implement the technical policy framework developed in the first operation; and (ii) setting targets to measure progress in implementing this framework. One of these instruments is the establishment of specific targets and strategies in the 2007–2010 National Development Plan (PND), which establishes a specific fiscal and policy mandate for the national government during this period.³
- 1.5 Lastly, the third operation will focus on promoting policy implementation and meeting the targets proposed during the second operation. Preparation of the third operation will be triggered by evidence of progress in implementing the policies and meeting midterm targets or, in lieu of such evidence, by the implementation of actions aimed at increasing the likelihood that these targets will be met. The third operation is expected to be submitted to the Bank's Board of Executive Directors in the first half of 2009.

B. Recent macroeconomic developments

- 1.6 The Colombian economy has shown considerable strength in the last five years, and particularly in the last two years, and this is reflected in almost all measurements of economic performance. Growth in gross domestic product (GDP) has steadily increased from 1.9% in 2002 to 6.9% in 2007, with a growth rate of 5% expected in the coming years. Inflation steadily fell from 8.7% in 2000 to 4.5% in 2006, and rose unexpectedly in 2007 (5.7%). In sum, the combination of economic strength, political stability, and improved security conditions led to a reduction of country risk (EMBI + 188 at December 2007).
- 1.7 Total public sector debt fell from 56% of GDP in 2003 to 41.9% of GDP at the end of 2007. The debt risk profile improved as liabilities denominated in U.S. dollars have been gradually converted to debt denominated in Colombian pesos, with an emphasis on fixed-rate obligations and extended terms of payment. However, while the external debt repayment profile in the public sector did improve, the total debt repayment profile worsened, and this trend is expected to continue beyond 2008. Still, various assessments indicate that total debt sustainability has improved in recent years, as has the fiscal situation. Total external debt fell from 48.3% of GDP in 2003 to 24.5% of GDP in 2007 and is projected at 22% of GDP in 2009. Colombia projects its gross external financing needs at US\$2.628 billion in 2008.
- 1.8 The main macroeconomic challenge facing the government continues to be the need to reduce the central government's fiscal deficit. In fact, rating agencies have pointed to this as a factor harmful to the country's investment rating. The government has adopted an economic plan that depends on continued high levels of growth to solve the fiscal situation.

³ Annex 1 shows the policy matrix for this operation, including the conditions precedent to disbursement and the triggers agreed on for preparation of the third operation. Annex 3 presents the means of verification for fulfillment of the actions precedent to disbursement of the second loan.

C. Recent social developments

- 1.9 Colombia continues to face high levels of poverty and extreme poverty. Notably, however, these indicators have improved steadily in recent years. Table 2 shows the poverty rates as estimated by the Misión para el Desarrollo de una Estrategia para la Reducción de la Pobreza y la Desigualdad [Mission to Develop a Strategy to Reduce Poverty and Inequality] (MERPD). According to this program, while Colombia continues to be one of the most unequal countries in the region, 59% of last year's reduction in poverty can be attributed to economic growth and 41% to improved income distribution.

Table 2. Poverty rate in Colombia			
	2002	2005	2006
Poverty	56	49	45
Extreme poverty	22	15	12

- 1.10 Employment trends play an important role in the evolution of poverty. From 2003 to 2005, average quarterly unemployment fell steadily from 14.15% to 11.76%, as GDP grew at an average rate of 4.58%. However, average quarterly unemployment rose in 2006 to 12.03%, despite the fact that GDP grew at a rate of 6.8%. Nevertheless, unemployment dropped to 11.6% in the first quarters of 2007.

D. The problem of development

- 1.11 Despite favorable developments in the economy and a significant drop in poverty rates in recent years, poverty continues to affect nearly half of all Colombians.
- 1.12 The level of social development is a key determinant of the ability of economic growth to reduce poverty.⁴ Investment is needed to enable the poor to benefit more from economic growth, and these investments must be protected from the contingencies families face throughout their life cycle so they can avoid falling into "poverty traps." With the prospect of greater economic growth over the medium term, the Bank, in its discussions with Colombia, starting with preparation of the first operation in the programmatic series, has identified a number of challenges that must be met to boost the effectiveness of social policy for low-income, vulnerable groups:
- 1.13 **Social policies must address the new characteristics and demands of the labor market.** In recent years, the labor market has undergone a transformation that has heightened risks for the work force in general and risks for lower-skilled workers in particular. Compared to the mid-1990s, the labor market has been characterized by higher levels of unemployment and informal employment and a shift in occupational distribution impacting the level and composition of employment and

⁴ Bourguignon (2003), "The Growth Elasticity of Poverty Reduction; Explaining Heterogeneity Across Countries and Time Periods," in T. Eicher and S. Turnovsky, eds., *Inequality and Growth. Theory and Policy Implications*. Cambridge: MIT Press.

wages, resulting in higher wages for skilled workers and lower wages for less-skilled workers.⁵

- 1.14 **Greater emphasis must be placed on the quality of social services.** Policies in recent years have concentrated on expanding coverage with less emphasis on supervising and promoting quality and internal efficiency. Consequently, despite significant progress in providing access to education, the quality of these services remains low, and there are serious dropout problems, particularly among the very poor. Similarly, efforts have yet to coalesce in improvements to the quality of health service delivery, despite a significant expansion of health care insurance coverage, especially for the very poor.
- 1.15 **Initiatives must be coordinated to provide social program beneficiaries with more comprehensive service.** Key social policies, such as early childhood care and social welfare, are being implemented through programs administered by various institutions with no central coordination. Although some of these programs have produced significant results, the absence of a policy combining inter-agency initiatives makes it impossible to exploit the synergies of these interventions and limits their impact.
- 1.16 **Actions taken by central government and the subnational entities and technical support for these entities must be better coordinated.** The decentralization of social spending to subnational entities begun in the mid-1980s reveals problems that lessen the effectiveness of this social spending. It is clear that: (i) subnational entities' ability to execute social spending effectively varies widely, with higher poverty areas experiencing greater difficulty; (ii) central government supervision and control have been severely hampered by a lack of human and financial resources; and (iii) in general, there is ample scope to improve the technical and financial coordination between different levels of government.
- 1.17 **Lastly, the reform of the integrated social safety net must be consolidated.** Many households are still exposed to labor market, health, and violence-related risks through actions that have undermined their ability to escape poverty such as joining the work force, to the detriment of human capital accumulation and diet.⁶ To prevent these households from taking these types of actions, the coverage and effectiveness of risk-protection policies must be increased.

E. Program rationale

- 1.18 The programmatic series has the following characteristics: (i) it promotes improved coordination of programs and policies, the vast majority of which have been implemented as government policies in recent years; (ii) it supports a policy process that has been identified by the country, largely through the sector-specific analysis it has been carrying out since 2004 with support and assistance provided to the

⁵ Santamaría (2005), Labor Market Adjustment, Reform and Productivity in Colombia: How Have Things Changed in the Last Decades?

⁶ Núñez (2005), Asistencia Social en Colombia, Diagnóstico y Propuestas. This document is available in the SCL technical files.

MERPD by the Bank and other development agencies; and (iii) it focuses on areas of high strategic importance in terms of expected impact on social development. In addition, using a programmatic approach, the Bank has deployed a number of financial and nonfinancial instruments to help fulfill the specific objectives of the program.⁷

F. Objective and components

- 1.19 Specifically, the program is designed to support actions aimed at increasing: (i) the human capital of the very poor; (ii) insurance coverage for health care for the most vulnerable groups and for extreme poverty in old age; and (iii) the coordination and relevance of social welfare services. On a cross-cutting basis, the program will build institutional capacity to measure and monitor poverty and the capacity of the central government and subnational entities to better target their interventions. Described below are the program's components and subcomponents, the triggers identified during the first operation for each of them, actions undertaken by the national government prior to disbursement of the second operation—which are highly consistent with the expected prior actions—and agreed triggers for a third operation.

1. Component 1 – Promoting investment in human capital

- 1.20 The purpose of this component is to boost human capital (education and health care) of the low-income population as a means of increasing income potential and reducing vulnerability to labor market risks. This is achieved through the following objectives and specific actions.
- 1.21 *Improving the effectiveness of interventions to promote early childhood development*, by designing and implementing an early childhood policy to guide the various policy and program initiatives targeted to young children. As **triggers for a second operation**, the PND was to include a number of policy actions to be developed for implementation of the PPI and 2010 targets for such actions. As **actions precedent to disbursement of this second loan**: (i) the government included a mandate in the National Development Plan to develop guidelines and strategies for the early childhood policy and to form an intersector steering committee to implement the policy; (ii) the National Economic and Social Policy Council (CONPES) approved the specific guidelines and strategies that constitute an action plan for the early childhood policy, including targets for 2010, in line with the policy framework paper, which was drafted during the first operation in the programmatic series; and (iii) the government passed Law 1098 establishing the Code on Early Childhood and Adolescence, which sets forth substantive and procedural provisions for the comprehensive protection of young children and

⁷ A description of the various financial and nonfinancial instruments related to this operation that the Bank has deployed in Colombia can be consulted via the electronic links and references table.

teenagers. As a **trigger for a third operation**, progress must be made up to 2008 in implementing the action plan.⁸

- 1.22 *Raising student retention in elementary and secondary schools*, by developing a strategic vision to boost the effectiveness of a number of actions to this end. As **triggers for a second operation**, the PND was to include a number of policy actions to be developed regarding school retention rates in elementary and secondary school and a specific 2010 target for such actions. As an **action precedent to disbursement of this second loan**, the government made a commitment in the National Development Plan to reduce the year-to-year student dropout rate from 5.8% in 2006 to 5% in 2010, through a series of programs that are consistent with the framework paper for the early childhood policy, which was developed in the first operation of the programmatic series. Although reducing the dropout rate had been established as a general policy objective of previous administrations, this is the first time that a target has been set and that, pursuant to the mandate of the National Development Plan, the Ministry of Education has a specific budget item for reducing the dropout rate. As a **trigger for a third operation**: (i) progress must be made in implementing the policy actions to reduce the dropout rate; and (ii) midterm targets for 2008 must be met.
- 1.23 *Increasing access to and student retention in post-secondary education based on equity with an emphasis on technical and technological education*. As **triggers for a second operation**, the PND was to include policy actions to broaden higher education coverage, with emphasis on technical-technological equity-based education, and 2010 targets for such actions. As an **action precedent to disbursement of this second loan**, the government made a commitment in the National Development Plan to: (i) increase the rate of participation in post-secondary technical and technological education from 25% in 2006 to 34% in 2010; and (ii) implement financing strategies to improve access for the poor to post-secondary education: grants or soft loans for tuition (100,000 new loans/grants), living allowances while attending school, or a combination of the two. In awarding grants, priority will be given to students who have completed secondary school and are enrolled in the Families in Action program. As a **trigger for a third operation**, incremental targets must be met for the coverage of post-secondary education—particularly in technical and technological education—and for awarding grants for post-secondary education to lower-income students.
- 1.24 *Improving the quality of health service delivery*, by strengthening the central supervision and control operations, designing and implementing service standards, implementing an accreditation system for insurance companies and service providers, and disseminating information to help consumers make choices. As **triggers for a second operation**, the following was required: (i) adopting a strategy for strengthening the National Health Care Superintendency (SNS); (ii) progress in executing the implementation plan of the National Policy on Health Service

⁸ For practically all subcomponents, Annex 1 describes specific targets for 2008 to measure progress in implementing actions and, if met, trigger preparation of the third operation.

Delivery (PNPSS), through specific targets (described in Annex I); and (iii) public dissemination of the first ranking of institutional health care providers. As **actions precedent to disbursement of this second loan**, the government: (i) passed Law 1122 of 2007 amending Law 100, which established the Comprehensive Social Security System, and issued Decrees 1018 and 1019 of 2007, thus establishing a specific framework for strengthening the SNS in line with the framework paper for strengthening the Superintendency, which was developed during the first operation in the programmatic series; (ii) surpassed the targets set as triggers for this second operation in terms of progress in executing the plan to implement a national policy on quality health service delivery; and (iii) publicly disseminated the first ranking of institutional health care providers. As a trigger **for a third operation**: (i) progress must be made in executing the plan to strengthen the SNS; (ii) progress must be made in implementing the PNPSS; and (iii) a second ranking of institutional health care providers must be publicly disseminated.

2. Component 2 – Risk insurance

- 1.25 The purpose of this component is to boost coverage of the public insurance system for health care and for extreme poverty in old age, with a view to reducing the vulnerability of low-income households and individuals. This will be achieved through the following specific objectives and actions.
- 1.26 *Increasing health insurance coverage for low-income groups*, through the following lines of action: (i) supporting the development of an option (a partial subsidy program for contributions) for insuring those who are poor but have some payment capacity; and (ii) continuing to expand coverage of the subsidized system. As **triggers for a second operation**, the following was required: (i) adoption of an alternative partial subsidy scheme; and (ii) the addition of 390,000 new beneficiaries to the subsidized system. As **actions precedent to disbursement of this second loan**, the government: (i) presented a technical proposal to the National Social Security Council on Health to implement an economic model for the independent population's subsidized contribution to the General Social Security Health Care System; and (ii) increased the coverage of the subsidized system by adding 1.5 million new beneficiaries in 2006. As a **trigger for a third operation**: (i) progress must be made in implementing a partial subsidy option based on the findings of the midterm evaluation of the economic model; and (ii) a coverage increase in the subsidized system of 800,000 new beneficiaries in 2007 and 2008.
- 1.27 *Preventing pension loss in the low-income population registered with the General Pension System (SGP)*, by increasing the coverage of the pension solidarity subaccount of the Pension Solidarity Fund (FSP), which temporarily subsidizes low-income individuals' contributions to the SGP. As **triggers for a second operation** the regulations required to implement a proposal to improve the effectiveness of the Pension Solidarity Subaccount had to be approved. As an **action precedent to disbursement of this second loan**, CONPES adjusted the number of contribution weeks needed to be eligible for the SGP contribution subsidy, through the FSP pension solidarity subaccount, as well as the maximum period for the subsidy, in line with the policy framework paper for optimizing the

effectiveness of the subaccount developed during the first operation of the programmatic series. These changes are expected to boost the loyalty of subaccount beneficiaries to the SGP. Meanwhile, the government has introduced changes in laws and regulations to increase demand for the subsidy (among “*madres comunitarias*” and disabled workers). Through these changes, the government expects to expand coverage of the subaccount from 196,500 people in 2006 to 233,300 people in 2010. For reasons discussed in the next paragraph, this subcomponent and the following one share a single **trigger for a third operation**.

- 1.28 *Promoting insurance against extreme poverty in old age*, by designing and instituting a *savings system* for low-income people who are not eligible for a pension. Since the development of this savings system is still in its early stages and is technically complex, this subcomponent was designed with a lag with respect to the rate of implementation of the rest of the program-supported policy process. **Triggers for a second operation** was comprised of approval by the Ministry of Social Protection (MPS), the National Planning Department (DNP), and the Ministry of Finance (MHyCP) of a proposal for a long-term savings system (Regular Economic Benefits—BEPs). As an **action precedent to disbursement of the second loan**, the MHyCP presented a basic document—with MPS and DNP comments—presenting operational options for developing the BEPs system. While these actions represented less progress in the level of formalization of this line of policy compared with what was expected when the first operation in the series was approved, its technical difficulty needed to be recognized. Moreover, there was a possibility that this system could be financed through the pension solidarity subaccount, and therefore the **trigger for a third operation** for both this subcomponent and the previous one would be comprised of progress in the precision and formalization of the BEPs.

3. Component 3 – Social welfare

- 1.29 The purpose of this component is to enhance the coordination and effectiveness of social welfare programs, with a view to ensuring that households attain an acceptable minimum level of consumption and avoiding unconventional risk management strategies that heighten their vulnerability. This will be achieved through the following specific objectives and actions.
- 1.30 *Improving the effectiveness of social welfare services*, by designing and implementing a public social welfare system restructuring plan that, *inter alia*, coordinates actions across the various levels of government and civil society. As **triggers for a second operation**, it was agreed that the relevant recommendations of the framework paper for restructuring social welfare system, developed during the first operation in the programmatic series, would be included in the PND. As **actions precedent to disbursement of this second loan**: (i) CONPES developed the technical and operational guidelines for structuring social welfare programs through a program known as Red Juntos, in line with the framework paper for restructuring social welfare programs, which was developed during the first operation in the programmatic series; (ii) the government included the mandate to develop Red Juntos in the National Development Plan as one of its primary

strategies for combating extreme poverty; and (iii) implementation of the pilot phase of Red Juntos began. As **triggers for a third operation**, an operational assessment of Red Juntos will be conducted, and operational adjustments will be made on the basis of the assessment.

- 1.31 *Broadening social welfare coverage for elderly persons living in extreme poverty*, by designing and implementing a plan to improve operation of the FSP subsistence subaccount and to coordinate the various programs targeting the elderly. The **triggers for a second operation** required CONPES approval of a proposal to improve subsistence subaccount coverage. As an **action precedent to disbursement of this second loan**, CONPES established targets for annual increases in the coverage of the Social Safety Net Program for Older Adults, which is financed through the FSP subsistence subaccount, to increase coverage from 240,000 older adults in 2006 to 600,000 older adults in 2010. Meanwhile, the government passed provisions, including management of the National Supplementary Food Program for Older Adults as part of the FSP, which allowed CONPES to standardize the targeting criteria for the main programs that provide transfers (in cash and in kind) to older adults. Also, CONPES has given instructions for a pilot program to determine the most effective way of providing services to older adults, within existing budget restrictions. As **triggers for a third operation**, a national policy on aging and old age is expected to be approved to promote coordination of services targeted at this population, in view of the findings of the pilot evaluation.

4. Component 4 – Beneficiary selection and poverty monitoring

- 1.32 The purpose of this component is to boost the institutional capacity of the central government and subnational entities to make effective use of various targeting tools in designing and implementing social programs, as a means of prioritizing access to social services and programs and modifying their design if necessary. This will be achieved through the following specific objectives and actions.
- 1.33 *Developing and implementing technical guidelines for using targeting instruments*, particularly by strengthening the capacity of municipal governments to use these instruments to provide needy populations with priority access to social services. The **agreed trigger for a second operation** was implementation of a pilot program to strengthen municipal information systems and the use of targeting tools, consistent with the CONPES paper on targeting, developed during the first operation in the programmatic series. As an **action precedent to disbursement of the second loan**, the DNP submitted a report on implementation of the pilot program to strengthen municipal governments' information systems and their use of targeting instruments, which was carried out in 53 municipios. As a **trigger for a third operation**, guidelines for municipios would be prepared for targeting at least two national social programs, in a manner consistent with what the CONPES paper on targeting was exploring.
- 1.34 *Institutionalizing technical capacity and improving transparency in poverty measurement and monitoring*, by transmitting knowledge from the MERPD to the

institutions of the national government, and by developing mechanisms to provide transparency and generate public confidence in these measurements. The **agreed trigger for a second operation** was the establishment of institutional arrangements to promote transparency and technical quality in poverty measurement. As an **action precedent to disbursement of this second loan**, the National Administrative Department of Statistics (DANE) and the DNP signed an agreement that provides for: (i) the DANE to eventually be responsible for calculating poverty statistics, in accordance with the transfer of calculation methodologies used by the MERPD, at least twice per year; (ii) establishing a technical committee of national experts and an expanded expert committee to legitimize and contribute to poverty measurements and generate an enabling environment for their dissemination. As a **trigger for a third operation**, poverty indicators must be measured and disseminated in accordance with the new institutional arrangement in 2008.

G. Key results indicators

- 1.35 As this is a single-tranche PBL operation, the results matrix presents the direct outcomes of the program. However, Annex 4 presents a results matrix with indicators selected for monitoring and evaluating the scope of program objectives. The targets for these indicators are set for 2010. The vast majority of these indicators and targets are included in the National Development Plan, which encourages the country to take ownership of the proposed targets and the capacity to monitor these indicators using national surveys and information systems.

II. FINANCING STRUCTURE AND PRIMARY RISKS

A. Financial instrument, amount of financing, and currency

- 2.1 The programmatic approach has allowed the Bank to include in the program highly complex lines of action that have great potential in terms of social benefits but would not have been eligible under a multitranche approach, which would have required certainty with regard to the technical parameters.
- 2.2 The first loan was for US\$200 million. Each of the two remaining loans was initially expected to be for US\$200 million as well. The Government of Colombia is implementing a series of short- and long-term measures to adjust the central government deficit. However such measures will not have an immediate impact on the fiscal deficit. Accordingly, the government asked the Bank for an increase in the amount of unrestricted funds programmed for 2007 of US\$200 million. Due to high demand for financial programs in Colombia and in light of considerable progress in program implementation, the amount for this second loan operation has been increased by US\$100 million to total US\$300 million. The Board of Executive Directors approved the remaining US\$100 million in additional unrestricted financing requested by the Colombian government in late November 2007 through the Competitiveness Enhancement Program II (CO-L1027). The third operation is expected to be submitted to the Bank's Board of Executive Directors for approval in the first half of 2009, after the program's 2008 targets are measured.

- 2.3 The loan for this second programmatic operation will be denominated in United States dollars from the Single Currency Facility of the Bank's Ordinary Capital and will be subject to the Local Currency Facility (LCF) (document GN-2365-2, 4 November 2005). So as to minimize exchange risk, the government will have the right, as established in the LCF, to convert the disbursements and amounts payable under the program to Colombian pesos. To expand the borrower's financing options, the conversion of disbursements and amounts payable in local currency will be subject to two financial conditions in addition to those set forth in the LCF: (i) flexibility in repaying disbursements in local currency, as described in Section 2(a) of Annex 6; and (ii) pricing based on the Bank's actual financing costs in the event that the Bank obtains its financing by issuing bonds, as described in Section 2(b) of Annex 6. The conversion of disbursements and amounts payable under this operation to local currency will require an *exception to the LCF* to waive the condition on the Bank's interrupted access to financing⁹ (see Section 3 of Annex 6).

B. Social and environmental safeguards

- 2.4 As a PBL, in accordance with Policy Directive B.13, this program does not require classification. The program will make no physical investments and is therefore expected to have no direct impact on the environment. The program is expected to have a positive social impact on the low-income population.

C. Fiduciary risk

- 2.5 As a PBL (unrestricted), within a framework of responsible fiscal policy, this operation is deemed to have no fiduciary risk.

D. Risks

- 2.6 Achieving the development objectives of this program depends on the continuing stability of the macroeconomic framework. The framework's vulnerabilities are discussed in the independent macroeconomic assessment report, which can be consulted via the electronic link.
- 2.7 Supporting a reform process implemented by various ministries and public institutions presents a coordination risk. The probability that this risk will affect a potential third operation is considered medium because: (i) the program has been developed around the formal mandates of the Colombian government for these ministries and institutions, most of which have been publicized; and (ii) the country has been pursuing the lines of action proposed in this program in coordination with the various government entities.
- 2.8 Since the third operation is expected to be submitted to the Bank's Board of Executive Directors one year before the end of the current president's term of office, no risks to program objectives are anticipated as a result of the political cycle.

⁹ That clause stipulates that if Bank financing in local currency is interrupted and replacement financing cannot be obtained, the Bank may switch the local currency conversion back to a convertible currency.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Arrangements for implementation

- 3.1 The Bank's technical assistance in designing and implementing the program is a core element of the additionality the Bank brings to efforts to meet the development objectives. To provide this assistance, the Bank's project team will implement a strategy of: (i) programming technical-cooperation resources for previously identified areas (developing an administrative system for monitoring student graduation rates; designing and implementing the evaluation of the pilot program of partial subsidies for health care contributions; supporting development of the Regular Economic Benefits strategy; supporting development of the policy on aging and old age; and continuing support for the development of Red Juntos); and (ii) conducting special missions to coincide with critical times in program implementation (at least two missions are expected in 2008).

B. Arrangements for monitoring results

- 3.2 Most of the targets included in the Results Matrix will be monitored through the Sistema de Programación y Gestión de Metas Presidenciales [System for the Programming and Management of Presidential Goals] (SIGOB). This is a system implemented by the Office of the President of Colombia under an international cooperation agreement with the United Nations Development Programme, to strengthen the management capacities of the central government. The SIGOB establishes midterm targets for commitments of the central government, including those set forth in the National Development Plan. It features an early warning system for problems and a public consultation and comment system. Other targets will be monitored through national surveys.

SECOND SOCIAL REFORM AND EQUITY PROGRAM (CO-L1026)
POLICY MATRIX

Objectives	Actions precedent to disbursement of the second programmatic loan	Triggers for the third programmatic loan (2009)
To maintain a stable macroeconomic framework.	Compliance with the guidelines set forth in the Policy Letter and a macroeconomic framework that is consistent with program objectives.	Compliance with the guidelines set forth in the Policy Letter and a macroeconomic framework that is consistent with program objectives.
Component 1. Promoting human capital accumulation in the low-income population.		
To boost the effectiveness of interventions to promote early childhood development .	<p>1.1 Inclusion of a mandate in the National Development Plan to develop an action plan for the National Early Childhood Policy and to form an Intersector Steering Committee to implement the plan.</p> <p>1.2 Approval of a National Council for Economic and Social Policy (CONPES) paper setting out the guidelines and specific strategies that constitute an action plan for the National Early Childhood Policy, in line with the Framework Paper for the Early Childhood Policy.</p> <p>1.3 Enactment of Law 1098, establishing the Code on Early Childhood and Adolescence.</p>	Progress up to 2008 in implementing the National Early Childhood Policy, as measured by the following milestones: (i) 80,000 new children under the age of 5 receive early childhood education through community homes, a family environment, or private care; (ii) the monitoring and evaluation system has been designed for the Early Childhood Policy and arrangements have been made for the resources needed to implement it; and (iii) the minimum technical guidelines have been issued for the inclusion of childhood and adolescent policies in the subnational entities' development plans;
To increase retention levels in elementary and secondary education.	2.1 Inclusion in the National Development Plan of a specific 2010 target for the year-to-year dropout rate and a description of the specific strategies to meet the target, in line with the basic document for developing a student retention policy in primary and secondary education.	<p>The year-to-year dropout rate falls from 5.8% in 2006 to 5.5% in 2008.</p> <p>Progress in implementing the various specific strategies for reducing the year-to-year dropout rate.</p>

Objectives	Actions precedent to disbursement of the second programmatic loan	Triggers for the third programmatic loan (2009)
To increase access to post-secondary education , particularly technical-technological education, by poor young men and women and increase school retention.	3.1 Inclusion of 2010 targets in the National Development Plan for the rate of coverage of post-secondary education, participation in technical and technological education in post-secondary education, access of low-income youth to such an education, and description of the specific strategies to be implemented to meet the targets.	By the end of 2008, post-secondary educational institutions can accommodate 120,000 new students, and 40,000 of these spots are in technical and technological education. By the end of 2008, at least 25,000 new higher-education grants have been awarded for young people at SISBEN Levels 1 and 2.
To improve the quality of health care services .	4.1 Enactment of Law 1122 and issuance of Decrees 1018 and 1019, establishing a framework for strengthening the National Health Care Superintendency in line with the framework paper for strengthening the Superintendency. 4.2 Progress in implementing the plan in terms of quality, using the following indicators: (i) application of verification criteria to at least 47% of the services of public and private institutional health care providers; and (ii) 8 institutional health care providers accredited. 4.3 Public dissemination of the first ranking of institutional health care providers.	Progress as of 2008 in implementing the plan to strengthen the National Health Care Superintendency. Progress as of 2008 in implementing the plan in terms of quality, using the following, inter alia, as indicators: (i) application of verification criteria to at least 60% of the services provided by public and private institutional health care providers; (ii) 20 accredited institutional health care providers; (iii) 5 EPSs/ARSs undergoing accreditation; and (iv) public dissemination of the IPS and EPS Quality Information System quality indicators. Public dissemination of the second ranking of institutional health care providers.
Component 2. Expanding coverage of health insurance and insurance against extreme poverty in old age for the most vulnerable population.		
To expand health insurance coverage for low-income populations.	5.1 Delivery to the National Social Security Council on Health of an economic model for the independent population's subsidized contribution to the Social Security Health Care System. 5.2 Increase in the coverage of the subsidized health insurance program by 1.5 million new fully subsidized spots in 2006.	Midterm evaluation of the pilot program has been carried out, and policy decisions consistent with this evaluation have been made. Increase in the coverage of the subsidized system by 800,000 new fully subsidized spots in 2007 and 2008.

Objectives	Actions precedent to disbursement of the second programmatic loan	Triggers for the third programmatic loan (2009)
To prevent pension loss in the low-income population registered with the General Pension System (SGP).	6.1 Approval of a CONPES paper on adjustments to the number of contribution weeks needed to be eligible for the SGP contribution subsidy through the pension solidarity subaccount of the Pension Solidarity Fund (FSP) (from 600 to 500 weeks), as well as to the maximum period for the subsidy (from 500 to 750), in line with the framework policy paper for optimizing the effectiveness of the subaccount.	Progress in spelling out the system and products to develop the Regular Economic Benefits system.
To promote insurance against extreme poverty in old age through a long-term savings system for low-income persons ineligible for the SGP.	7.1 Development by the Ministry of Finance of a basic document that includes observations by the Ministry of Social Protection (MPS) and National Planning Department (DNP), presenting alternatives for developing a long-term savings system (Regular Economic Benefits).	
Component 3. Enhancing the coverage and effectiveness of social welfare programs.		
To boost the effectiveness of social welfare services.	8.1 Approval of a CONPES paper setting out the technical and operational guidelines for structuring social welfare programs through Red Juntos, in line with the framework paper for restructuring social welfare programs. 8.2 Inclusion of Red Juntos in the National Development Plan as a key strategy for combating extreme poverty. 8.3 Rollout of Red Juntos pilot program in 35 municipios, with an approximate coverage of 80,000 families classified as SISBEN Level 1 or displaced.	Assessment of Red Juntos completed, and operational adjustments made in accordance with this assessment.
To expand social welfare coverage for elderly persons living in extreme poverty through an economic subsidy.	9.1 Approval of a CONPES paper establishing targets for annual increases in the coverage of the Social Safety Net Program for Older Adults, which is financed through the FSP subsistence subaccount (from 240,000 older adults in 2006 to 600,000 older adults in 2010).	Formulation of a policy on aging and old age.

Objectives	Actions precedent to disbursement of the second programmatic loan		Triggers for the third programmatic loan (2009)
Component 4. Boosting institutional capacity to target social spending and monitor poverty trends.			
To improve the targeting of public social spending at the national and subnational level.	10.1	Implementation of a pilot program to strengthen municipal governments' information systems and their use of targeting instruments, in line with the proposals of CONPES, carried out in 53 municipios in the departments of Cundinamarca, Boyacá, and Huila.	Presentation of at least two targeting guides for national social programs by the municipios.
To institutionalize technical capacity and transparency in measuring and monitoring poverty indicators .	11.1	Agreement between the National Administrative Department of Statistics (DANE) and the DNP regarding the institutional arrangement for poverty measurement, taking into account the following aspects covered in the signed record: (i) the provision that the DANE could be the entity responsible for calculating poverty statistics, in accordance with the transfer of calculation methodologies used by the MERPD, at least twice per year; and (ii) the establishment of a technical committee of national experts and an expanded expert committee, to legitimize and contribute to poverty measurements and generate an enabling environment for their dissemination.	Measurement and dissemination of poverty indicators in accordance with the new institutional arrangement in 2008.