



Board of Executive Directors

For consideration

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From: The Secretary
Subject: Colombia. Proposal for a loan for a social reform and equity program

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Source Single Currency Facility of the Ordinary Capital

Inquiries to: Mr. Mario Sánchez (extension 3627)

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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

SOCIAL REFORM AND EQUITY PROGRAM

(CO-L1014)

LOAN PROPOSAL

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/countries/indicators.cfm?language=English&id_country=CO&pLanguage=SPANISH&pCountry=CO&parid=8
Project pipeline	http://opsgs1/absprj/tentativelending.asp?s=co&l=en
Portfolio in execution	http://portal.iadb.org/approvals/pdfs/COen.pdf
Information available in the RE3 technical files	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=739160

ABBREVIATIONS

ARs	Administradoras del Régimen Subsidiado [Subsidized System Administrators]
CERES	Centros Regionales de Educación Superior [Regional Post-Secondary Education Centers]
CONPES	Consejo Nacional de Política Económica y Social [National Council on Social and Economic Policy]
DNP	Departamento Nacional de Planeación [National Planning Department]
EPSS	Entidades Promotoras de Salud [Health Promotion Entities]
ERP	Estrategia para la Reducción de la Pobreza y la Desigualdad [Poverty and Inequality Reduction Strategy]
FSP	Fondo de Solidaridad Pensional [Pension Solidarity Fund]
GDP	Gross Domestic Product
ICBF	Instituto Colombiano de Bienestar Familiar [Colombian Family Welfare Institute]
ICETEX	Instituto Colombiano de Crédito Educativo y Estudios Técnicos en el Exterior [Colombian Institute for Educational Grants and Technical Studies Abroad]
ICFES	Instituto Colombiano para el Fomento de la Educación Superior [Colombian Institute for the Promotion of Post-Secondary Education]
IMF	International Monetary Fund
IPS	Instituciones Prestadoras de Servicios de Salud [Health Care Providers]
MEN	Ministry of Education
MERPD	Misión para la Reducción de la Pobreza y la Desigualdad en Colombia [Mission for Poverty and Inequality Reduction in Colombia]
MHCP	Ministry of Finance
MPS	Ministry for Social Protection
OC	Ordinary Capital
PBL	Policy-based loan
PND	Plan Nacional de Desarrollo [National Development Plan]
PNPSS	Política Nacional de Prestación de Servicios de Salud [National Policy on Health Service Delivery]
POS	Plan Obligatorio de Salud [Compulsory Health Plan]
PPI	Política de Primera Infancia [Early Childhood Policy]
PTI	Poverty Targeted Investment
SGP	Sistema General de Pensiones [General Pension System]
SIGOB	Sistema de Programación y Gestión de Metas Presidenciales [System for the Programming and Management of Presidential Goals]
SISBEN	Sistema de Identificación y Clasificación de Potenciales Beneficiarios de Programas Sociales [Social Program Potential Beneficiary Identification and Classification System]
SNS	Superintendencia Nacional de Salud [National Health Care Superintendency]

SOGC	Sistema Obligatorio de Garantía de la Calidad [<i>Compulsory Quality Assurance System</i>]
UNDP	United Nations Development Programme

PROJECT SUMMARY

COLOMBIA SOCIAL REFORM AND EQUITY PROGRAM (CO-L1014)

Financial Terms and Conditions ¹				
Borrower: Republic of Colombia			Amortization period:	25 years
Guarantor: Republic of Colombia			Grace period:	5 years
Executing agency: Ministry of Finance (MHCP) through the Office of the Deputy Technical Minister. The National Planning Department (DNP) will act as technical coordinator for the program.			Disbursement period:	6 months
Source	Amount	%	Interest rate:	Adjustable
IDB (Ordinary Capital)	US\$200 million	100	Inspection and supervision fee:	0%
Local			Credit fee:	0.25%
Total	US\$200 million	100	Currency:	U.S. dollars
Project at a glance				
Project objective: The objective of the project is to support policy actions that respond to the main challenges Colombia must meet in order to boost the effectiveness of its social policies.				
Special contractual conditions: None				
Exceptions to Bank policies: None.				
Project consistent with country strategy: Yes [X] No []				
Project qualifies as: SEQ [X] PTI [] Sector [] Geographic [] Headcount []				
Procurement: Not applicable				
Verified by CESI on: 26 May 2006				

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

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

I. FRAME OF REFERENCE

A. Macroeconomic context

- 1.1 The Colombian economy slowed sharply in the late 1990s. Following a brief growth bubble in 1998, the first quarter of 1999 ushered in the severest economic crisis in 70 years. In 1999 and 2000, Colombia faced the simultaneous onslaught of falling GDP, a financial and mortgage lending system in disarray, subnational governments in financial straits coupled with exposure to contingent liabilities (pensions and infrastructure concession guarantees) and a growing imbalance in central government finances. These troubles all surfaced in a setting of restricted access to external financing and heightened violence by extremist groups. In August 2002, when it first came to power, the present Colombian administration (the President was recently reelected) set about addressing the economic and social effects of the macrofiscal crisis of the late 1990s and the problems besetting the public sector through a structural reform plan to curb the deficit and revitalize the economy, together with an alternative strategy to combat the widespread violence.
- 1.2 These policies have ameliorated economic conditions in Colombia and production has picked up strongly since 2003. The country's favorable macroeconomic performance has enabled it to meet all the IMF stand-by program targets. GDP expanded by 5.13% in 2005 and the CPI stabilized at 5.1%. Despite high levels of debt, domestic financial market liquidity has helped the government improve its debt repayment profile through currency conversion and the extending of maturities. The projected nonfinancial public sector deficit for 2005 stands at 0.9% of GDP, bettering the IMF-established target of 2.5%. Lastly, the conventional country risk indicator (EMBI+)* plunged from 583 basis points in mid-June 2002 to 224 basis points in mid-June 2006.¹
- 1.3 The improved macroeconomic climate is highly likely to continue. The current economic growth, estimated at a potential annual rate of between 4.1% and 5.5% of GDP, is unfolding in more stable conditions than in the previous growth period of the mid-1990s, with a much lower current account deficit and reduced financial sector exposure to credit risk. In addition, Colombia's payment and liquidity capacity suggest that the external debt situation is sustainable. Net external borrowing as a percentage of GDP dropped from 37.3% in 1998 to 30.3% in 2005. More importantly, the current account surplus (excluding factor income) required to stabilize net external public borrowing is estimated at 0.8% of GDP, well below the 1.5% figure estimated for 2006. This debt sustainability analysis shows a country

* Emerging Markets Bond Index Plus.

¹ On 1 May 2006, Colombian EMBI+ stood at 150 basis points. The recent rise in this index reflects a global trend for emerging markets in response to further interest-rate increases in the United States and other developed countries.

perfectly able to withstand “reasonable” price shocks to its principal exports (oil and coal) and exchange and interest rate shocks, at various rates of growth.²

- 1.4 On 12 June 2006, the IMF Executive Board approved the second review of Colombian performance under the 18-month Stand-By Arrangement approved in April 2005. In recognition of Colombia’s macro-fiscal progress, it was agreed that the government would: (i) maintain fiscal policy geared to reducing gross public borrowing to 40% of GDP by 2010; (ii) set a 2006 current account deficit target of 1.6% of GDP; (iii) propose strengthening fiscal policy still further in the budget sent to Congress in July 2007; and (iv) intensify structural reforms in 2006, especially to tax policy, the revenue-sharing system [*Sistema General de Participaciones*] and the financial sector. In its latest Letter of Intent signed with the IMF, the Colombian government reiterated its intention to exit from formal Fund support once the current arrangement expires and to continue treating the arrangement as precautionary.

B. Social context and social policy challenges

1. Social context

- 1.5 With the exception of the severest years of the economic crisis (1998, 1999 and 2002), Colombia has made steady progress in key aspects of social development in recent years.³ One of the main areas of progress has been increased access to education:⁴ (i) net compulsory pre-school grade enrollment (grade zero) rose from 37.9% in 1993 to 42.6% in 2003; (ii) net elementary education enrollment is now almost universal, rising from 82% in 1996 to 86% in 2004 for the first income quintile; and (iii) although lower secondary and upper secondary education have not reached satisfactory levels, net coverage at these levels rose from 51.1% in 1996 to 62.5% in 2003 for lower secondary education and from 24.1% in 1993 to 35.3% in 2003 for upper secondary education. In addition, enormous improvements have been made in terms of health insurance, particularly for the poorest quintile, with an increase in coverage in this quintile from 4% in 1992 to 58% in 2005. On a par with these strides forward, social spending in Colombia has risen strongly as a percentage of GDP and has almost doubled from the 8% recorded in 1995. On average, total expenditure included in the National Budget Annex on Social

² Ministry of Finance (2006), *Colombia is on its way to Sustainable 5% growth: How Vulnerable is the Recent Recovery?* This document is available in RE3 technical files.

³ In line with the United Nations Development Programme, *Human Development Report 2005*.

⁴ Barrera and Domínguez (2006), *Educación Básica en Colombia: Opciones futuras de Política*. MERPD. This document is available in RE3 technical files.

Spending accounted for 13.5% of GDP in the period 2001-2004 and reached its highest level in 2004 at 14.2%.⁵

- 1.6 Despite these achievements in social development, poverty continues to be a critical problem. Even though the poverty index has fallen in recent years from 57.5% in 1999 to 49.2% in 2005, this indicator continues to be very high and has only slightly improved from the level before the economic crisis (50.9% in 1996).⁶ This apparent contradiction in significant improvements in social development and a modest reduction in poverty levels is explained by the slow pace of per capita GDP growth over this 15-year period (an annual average of 1%)⁷ and a rise in historical unemployment levels.⁸
- 1.7 Colombia still has one of the highest levels of inequality in the region. In 2005, the top quintile accounted for just 2.9% of population income, but the bottom quintile for 61.7%. This income distribution inequality mainly reflects unequal distribution in the stock of household human capital. Furthermore, there is marked inequality between individual regions and ethnic groups. For example, while more than 70% of the population in the Departments of Chocó, Boyacá, and Córdoba were below the poverty line in 2004, this was true for less than 30% of the population of Bogotá. Similarly, while 55.6% of the Afro-Colombian and 71.8% of the indigenous population aged between 15 and 24 in the first income quintile had five years or more of schooling, the ratio was over 80% for the rest of the population with comparable income levels.⁹

2. Challenges to boosting the effectiveness of social policy

- 1.8 The level of social development is a key determinant of the ability of economic growth to reduce poverty.¹⁰ Investment is needed to enable the poor to benefit more from economic growth and protect these investments from the contingencies

⁵ The total was approximately US\$15 billion in 2004, equivalent to roughly US\$366.20 per capita. Government social spending in 2004 was basically distributed among social protection (36%), education (32.9%), health (16.7%), and housing and public areas (4.5%). Although Colombia has been among the countries with the highest growth in government social spending in Latin America in recent years, it is still below the average expenditure per capita in the region (approximately US\$540).

⁶ Mission for Poverty and Inequality Reduction in Colombia (MERPD) estimates.

⁷ It is estimated that, since 1992, violence has shaved 2 percentage points off GDP growth (*Human Development Report*, 2005).

⁸ According to the Banco de la República Economic Information System, the national unemployment rate stood at 17% in January 2001. Although this situation has improved in recent years, unemployment continues to be a serious problem in Colombia (13.4% in January 2006).

⁹ *Equity and Social Indicators*, IDB.

¹⁰ 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: The MIT Press.

families face throughout their life cycle and thus prevent them from falling into “poverty traps”. With the prospect of higher economic growth, Colombia is faced with a number of challenges to boosting the effectiveness of social policy for low-resource/high-vulnerability populations, as follows:

- 1.9 **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 labor risks in general and risks for lower-skilled workers in particular. 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 wages, resulting in higher wages for skilled workers and lower wages for low-skilled workers.¹¹
- 1.10 **Greater emphasis must be placed on the qualitative aspects of social services.** Policies implemented in recent years have concentrated on expanding coverage with less emphasis on supervising and promoting internal quality and efficiency. Consequently, despite the progress achieved in providing access to education, the quality of these services remains low by any standard and there are serious dropout problems,¹² particularly among the very poor. Similarly, efforts have yet to be consolidated to improve the quality of health services delivery.
- 1.11 **Coordinated initiatives must be undertaken to provide social program beneficiaries with more comprehensive service.** Key social policies, such as early childhood care and social welfare, are implemented through programs administered by various institutions with no central body to coordinate and direct these initiatives. Although some of these programs have produced a significant impact, the absence of a national policy combining inter-institutional initiatives makes it impossible to exploit the synergies of these interventions and limits their impact.
- 1.12 **Actions taken by central government and the subnational entities and technical follow-up for these entities must be better integrated.** The decentralization of social spending to subnational entities begun in the mid-1980s reveals problems that impact the effectiveness of this social spending. It is clear that: (i) subnational entities’ ability to execute social spending effectively varies widely with higher poverty area indices 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.

¹¹ Santamaría (2005), *Labor Market Adjustment, reform and productivity in Colombia: How have Things Changed in the Last Decades?*

¹² The System for the Programming and Management of Presidential Goals (SIGOB) reports an elementary and secondary school dropout rate of 7.53% for 2002 and 6.02% for 2004.

- 1.13 **Lastly, the reform of the integrated social protection system 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. Food consumption¹³ has also been adversely affected. To prevent these households from taking these types of actions, the coverage and effectiveness of risk-protection policies must be increased.

C. Institutional context

- 1.14 The 1991 constitutional reform represented a milestone in terms of mechanisms for defining, financing, implementing, and monitoring social policy in Colombia. The new Constitution declared a social State based on the rule of law and statutory regulations adopted pursuant to the Constitution have redefined the responsibilities of the central government, departments, and municipalities in terms of the social sphere, subnational transfer payments,¹⁴ and guidelines on the use of subnational transfer payments from the central government.
- 1.15 Within this constitutional framework, the objectives for each new government are set forth in the National Development Plan (PND). Since 1994, the PND has been formally approved by the legislative branch. The National Council on Social and Economic Policy (CONPES), the highest planning authority, acts as an advisory body to the government on national economic and social development issues. In the case of transfers, CONPES defines the allocation of social sector funding and approves budget proposals for the various programs in line with the targets stipulated in the PND.
- 1.16 While the National Planning Department (DNP) is responsible for the overall planning, organization, and evaluation of management and impact, the formulation monitoring, and coordination of specific policies rests with the particular sector ministries and their related institutions. The Ministry of Education (MEN) is in charge of directing pre-school, elementary, secondary, and post-secondary (technical-technological college and university) education policy. The recently established Ministry for Social Protection (MPS)¹⁵ is responsible for social risk management policies on social security, job security, and social welfare.

¹³ Núñez (2005), *Asistencia Social en Colombia, Diagnóstico y Propuestas*. This document is available in RE3 technical files.

¹⁴ Fund transfer schemes for health, education, and water and sanitation are based on demand-linked cross-subsidy systems that determine the costs per service performed (capitation).

¹⁵ Merges the former Ministries of Health and Labor.

D. Country strategy

- 1.17 Colombian social policy has been highly institutionalized since the enactment of the 1991 Constitution. Within this legal framework, the financing and delivery of basic social services were reorganized and decentralized to the municipalities based on principles of universalization, solidarity, and efficiency. The specific objectives and lines of action currently being implemented in Colombia in education, health, social protection, and social security (pensions, social assistance, employability promotion, and potential beneficiary identification) are described in the following paragraphs. More than 85% of the government social spending budget is allocated to these areas and they constitute the support framework for this operation. This will be followed by a description of the initiatives that Colombia is undertaking, with Bank support, to formally develop a government policy framework, particularly in the social area. Lastly, the strategy currently being implemented in Colombia to promote the well-being of minority population groups and reduce their degree of social exclusion will be summarized.
- 1.18 **In education,** Colombian policy has been targeting three major objectives: (i) broader coverage; (ii) improved system efficiency; and (iii) quality enhancement. In the 1990s, the focus of national education policy was to achieve these goals in elementary education (including a year of pre-school) and secondary education. To this end, the sector was reorganized to make more efficient use of school infrastructure and human and financial resources, and sector resources were augmented considerably. In particular, more funding was allocated to prioritizing vulnerable groups (indigenous peoples, populations in remote rural areas, displaced populations, people with disabilities, *inter alia*). The strategy of education quality for these groups has been to focus on developing and disseminating basic ability standards, evaluating educational outcomes and processes, strengthening school management, and a major effort to expand pre-school that is solidly integrated into subsequent levels as a means of introducing learning skills effectively. To boost external efficiency in education, initiatives were undertaken to allocate funds based on student numbers (weighted according to equity criteria), modernizing departmental and municipal education secretariats, strengthening sector information systems, and modernizing the MEN.
- 1.19 In recent years, Colombia has begun to place more emphasis on post-secondary education (technical-technological and university).¹⁶ Higher education coverage is being expanded through educational credit-related activities, mainly through the Colombian Institute for Educational Grants and Technical Studies Abroad

¹⁶ Gross higher education coverage is estimated to be 25.7% (19% university and 6.8% technical-technological).

(ICETEX),¹⁷ Regional Post-Secondary Education Centers (CERES),¹⁸ and a Program for Strengthening Technical and Technological Education Availability, a grant fund to effectively integrate secondary education, post-secondary education (including the CERES), the National Job Training System, and the goods-producing sector. A quality assurance system has been put in place through accreditation of programs and institutions and ongoing testing to evaluate higher education quality. To boost efficiency in higher education, the Colombian Institute for the Promotion of Post-Secondary Education (ICFES) and ICETEX are being modernized, in an effort to simplify procedures and response times and increase the number of educational credits approved.

- 1.20 **In the health sector,** Colombia's objectives are to: (i) improve service coverage and accessibility; (ii) improve quality; and (iii) boost the financial and operating efficiency of the Social Security Health Care System (SGSSS). To improve access to health services, Colombia's three-pronged strategy is to: (i) consolidate health service provider networks; (ii) improve response capability in low-complexity and emergency service delivery; and principally; (iii) ensure that a Compulsory Health Plan (POS) is universally available through two systems (the co-pay system and the subsidized system) based on user payment capacity. The subsidized system benefits persons in levels 1 and 2 of the Social Program Potential Beneficiary Identification and Classification System (SISBEN). The SGSSS distinguishes agent functions into: (i) those responsible for service delivery through health care providers (IPs); (ii) health promotion entities (EPSs) responsible for user affiliation in the case of the co-pay system and Subsidized System Administrators (ARs) for the subsidized system; (iii) entities responsible for quality control and follow-up (Ministry for Social Protection and the National Health Superintendency). Although Colombia is aiming for universal coverage under a single POS, financial constraints have resulted in a "transition" strategy featuring different compulsory health plans for each system. Even though priority is given to the poorest, insurance alternatives must be found for a population group that is not poor enough to qualify for the subsidized system but lacks the payment capacity for the co-pay system (basically persons in SISBEN level 3). This group has access to the system through: (i) subsidized (uninsured) service delivery or (ii) a free insurance scheme via a highly restricted POS.¹⁹

¹⁷ ICETEX currently awards 4,400 subsidized credits to young people from stratum 1 (geographic targeting system) and 14,611 to young people from stratum 2.

¹⁸ CERES centers are equipped with information and communications technology infrastructure, provide the community with access to professional-technical, technological, and university education programs offered by post-secondary institutions, and are located in areas with restricted geographical access to higher education.

¹⁹ Subsidized service delivery prevents the Colombian health system from being totally "demand-driven".

- 1.21 From the outset, one of the key elements of the health system reform from the outset was to improve service delivery quality. Yet, significant shortcomings became apparent in the regulatory, inspection, oversight, and control framework. Consequently, the Compulsory Quality Assurance System (SOGC) has steadily improved since its introduction in 1996.²⁰ This system introduced the following quality promotion tools: (i) an accreditation system that sets minimum standards for organizations; (ii) a single accreditation system for IPSs and institutions responsible for user affiliation (EPSs and ARSs), with monitoring to ensure that these institutions are accredited; and (iii) a quality-based information system to assist users in selecting service providers. The strategies are designed to improve the structural and operating conditions of the institutions involved, thus boosting system efficiency with a greater focus on the public health service provider network.
- 1.22 **In social protection and social security**, Colombia has been implementing a number of strategies to protect the low-income population against various risks throughout the life cycle and provide this population with a guaranteed minimum level of consumption. A strategy has been put in place to broaden social welfare coverage, mainly through expanded coverage of child and family protection programs run by the Colombian Family Welfare Institute (ICBF), which is attached to the Ministry of Social Protection, and the *Familias en Acción* [*Families in Action*] program run by the Social Action unit within the Office of the President. This unit grants cash transfers on the condition that beneficiary families invest these funds in human capital. As a result of the worst economic crisis in recent years and its social consequences, Colombia moved to restructure the social protection system. Consequently, as mentioned above, the MPS was set up in 2002 to promote better coordination of the various social protection and social security programs, instruments, and policies. Colombia is currently implementing a number of actions to enhance coordination of the social protection system. Most notable are the development of an Early Childhood Policy to align the various multisectoral initiatives in this area and a broader and better organized restructuring of social welfare policy.
- 1.23 In line with the solidarity principle, social security reform of the pension system features two mechanisms to protect people at risk of income loss in the final stages of life. The first of these mechanisms is preventive and partially and temporarily subsidizes pension contributions of contributors to the General Pension System (SGP) without the means to keep up their contributions (Pension Solidarity Subaccount). The second mechanism is welfare assistance in the form of direct

²⁰ Decree 2174/1996, Decree 2309/2002, and Decree 1011/2006.

transfers to the elderly in extreme poverty (Subsistence Account).²¹ The government has a series of programs based on employment and unemployment subsidies and job training to promote the employability of the most vulnerable. The current administration has provided ongoing support for SISBEN for the allocation of social spending to these programs as the main tool in the targeting of social protection spending.

1.24 The Poverty and Inequality Reduction Strategy (ERPD) and the 2019 Plan.

Since late 2004, the Bank has been actively supporting the efforts of a mission commissioned by the National Planning Department to: (i) diagnose the determining factors of poverty and draft policies to reduce poverty by 2015; (ii) head a consultation and consensus process on its recommendations, both within the government and with other key actors; and (iii) convert policies into proposals for modifying regulations, programs, and the allocation of government spending. All of these efforts are aimed at implementing government anti-poverty policy in Colombia. The diagnostic and technical proposal phase is almost complete. A public consultation process is also under way on a proposed national vision for Colombia as it approaches its bicentenary. This proposed strategy is entitled *Visión Colombia 2019* and the social component is based on the lines of action proposed by the mission.

1.25 Country strategy for minorities. The progressive nature of Colombian legislation on guaranteeing the social and political rights of ethnic minorities and displaced populations is internationally acknowledged. Although this process dates back to the 1970s, the 1991 Constitution adds new impetus to the process. The enactment of the Constitution led to the design of compensatory mechanisms for social spending allocation and a number of specific programs for health, basic sanitation, drinking water, education, social housing, etc. These interventions are targeted through geographic mechanisms (for the displaced) and ethnosubnational mechanisms. Although considerable social welfare gaps remain despite these efforts, some areas of progress must be highlighted. In particular, Colombia stands out for its indigenous health record.²²

E. The Bank's country strategy with Colombia

1.26 The Bank's country strategy with Colombia, approved in 2003, identifies three challenges and areas of Bank support for Colombia: (i) laying the foundations to revitalize and energize the economy; (ii) fostering social progress and ensuring

²¹ Both mechanisms are financed by two Pension Solidarity Fund (FSP) subaccounts. This fund is in turn financed by a 1% contribution from people earning more than four minimum salaries and by FSP financial returns.

²² See *Calidad Legislativa Indígena en América Latina. Compilación de Legislación sobre Asuntos Indígenas. IDB SDS/IND, 2003*, page 12.

the most vulnerable citizens are protected; and (iii) strengthening governance and further modernization of the State. In social progress and protection, the strategy specifically proposes: (i) strengthening social welfare programs and protecting the poorest groups; and (ii) increasing coverage, quality, and efficiency of social service delivery. The most recent update of the Bank's country strategy with Colombia (2004) ratifies the Bank's priority support areas.

- 1.27 The Bank's Social Development Strategy sets out four lines of activity to help countries accelerate social progress: (i) gearing reforms in health, education, and housing to the population's specific needs; (ii) implementing a lifelong human development program; (iii) promoting social inclusion and preventing social ills; and (iv) delivering geographically targeted integrated services. The Bank's Strategy for Sustainable Economic Growth also gives priority, *inter alia*, to raising the quality and coverage of education and health to promote human capital and social development.

F. Program strategy

- 1.28 The program has been designed as a programmatic series of three PBL operations aimed at meeting some of the main challenges Colombia faces in boosting the effectiveness of its social policies. In the context of a programmatic focus, it is based on: (i) Colombia's highly institutionalized social policies; (ii) the Bank's considerable track record in the Colombian social sectors; (iii) the follow-up the Bank has been providing Colombia in recent years of government social policy design; and (iv) the coordination of a number of financial and nonfinancial instruments to achieve specific common objectives. Consequently, the program supports the development, institutionalization, and implementation of a strategy that: (i) is devised on the basis of actions and policies Colombia has been introducing in recent years; (ii) seeks to improve the coordination and effectiveness of these actions and policies while addressing areas of high strategic importance; (iii) consists of objectives that have been identified by Colombia, largely through the sectoral analysis recently conducted with Bank support and follow-up; and (iv) is directly consistent with the Bank strategies described above.
- 1.29 The program has been prepared in the context of a change of government. Although this restricts immediate policy actions, it also represents an opportunity for the Bank to accompany Colombia from the outset in developing its social strategy for the next four years. In view of the highly institutionalized social policies supported by the program, no advantages in terms of information are foreseen that would justify looking for a better time to propose this operation, while approving the program now enables the Bank to address Colombia's financial programming demands. Using the programmatic modality increases the Bank's capacity to: (i) help achieve the program objectives which, although based on the country's current general policy lines, must remain consistent with any specific guidelines a new administration may opt to introduce and Colombia's current evolving general

policy framework on poverty and inequality reduction; and (ii) provide Colombia with follow-up on the technical challenge of drafting, defining, and implementing specific policies and targets in the medium term. Within this framework, the program has been designed as a series of three one-tranche PBL operations for the period 2006-2009. Bank technical follow-up in designing and implementing the program is critical to the additionality it would bring to achieving development objectives. A program monitoring strategy is outlined in paragraphs 2.18 and 3.3.

- 1.30 *The first operation* focuses on developing a technical policy agenda to achieve the program's general objectives. As actions precedent to disbursement of the first loan, it must be ensured that (i) regulations on policy design are approved; and (ii) interministerial agreements on policy technical frameworks are in place to promote coordination in interministerial action and encompass any technical options a new administration may introduce to achieve the program's objectives.
- 1.31 *The second operation* would focus on defining specific targets and formal approval of the instruments and means to ensure its implementation. The most important of these instruments include the establishment of specific targets and strategies in the National Development Plan for 2007-2010 that, as described in paragraph 1.15, is approved as a law establishing a specific mandate for government action over the four-year period. Preparation of the second operation would be triggered by progress indicating that the technical agenda has been completed. The degree of progress would be determined according to two criteria: (i) the actions result in a specific and feasible mandate to begin implementing policy actions consistent with the policy technical framework developed during the first operation; and (ii) the targets set for these actions are clear and measurable.
- 1.32 Lastly, *the third operation* would focus on promoting the policies and targets proposed during the second operation. The preparation of this operation would be triggered by proof of progress in implementing policies and meeting midterm targets reflecting clear progress towards achieving the program development objectives.²³

G. Lessons learned

- 1.33 The lessons learned from the evaluation of actions by the Bank and other international organizations on PBL design²⁴ taken into account in preparing this

²³ Some of these targets would be monitored through SIGOB. SIGOB is a system implemented by the Office of the President under an international cooperation agreement with the United Nations Development Programme (UNDP) aimed at boosting central government management capability. SIGOB establishes midterm targets for central government commitments, including those established in the National Development Plan, and has an alert system for identifying problems and a public opinion and consultation system.

²⁴ World Bank (2003), *Programmatic Adjustment Lending Retrospective*.

operation will now be summarized. It has been learned that (i) the preparation of a Policy Matrix can generate dialogue within government that boosts the feasibility of these policies; (ii) the policy program must be based on solid sectoral analysis; (iii) the programmatic format may be a useful tool in mitigating policy-related risks; (iv) a few conditions must be identified to reduce risks in implementing the program, with a view to targeting Colombian and Bank efforts; (v) it is important to include outcomes in the Policy Matrix, provided they are under government control; (vi) to ensure government ownership in the program, national strategy documents and the inherent goals should be adopted; (vii) given the prevailing uncertainty that generally exists in terms of policy change, a risk monitoring and control strategy needs to be built into the program design; and (viii) a number of policy-related Bank nonfinancial products and technical assistance must be programmed.

II. THE PROGRAM

A. Objectives

- 2.1 **The program's general objective** is to support policy actions to address some of the main challenges Colombia faces in order to boost the effectiveness of its social policies. Specifically, the program will support actions to (i) increase the poorest citizens' human capital; (ii) increase health insurance coverage for the most vulnerable and for the extreme poor in old age; and (iii) improve the coordination and suitability of social welfare services. The program will strengthen cross-institutional capacity to measure and monitor poverty and the central government's and subnational entities' capacity to target their interventions more effectively. **This operation's objective** is to develop a technical policy agenda to achieve the program's specific objectives.

B. Program structure

- 2.2 The objective of the program components and subcomponents and the proposed policy actions are described below.

1. A stable macroeconomic framework

- 2.3 This standard PBL requirement is particularly relevant to the program objectives, as this policy averts risks to which the most vulnerable families are exposed.

2. Component 1 – Promoting investment in human capital

- 2.4 The purpose of this component is to boost human capital (education and health) of the low-income population as a means of enhancing income potential and reducing vulnerability to labor market risks. This would be achieved through the following objectives and specific actions.
- 2.5 *Improving the effectiveness of interventions to promote early childhood development.* This will be achieved by designing and implementing an Early Childhood Policy (PPI) that guides the various policy and program initiatives targeted to childcare delivery (immunization, nutrition, child care and child development, pre-school, and expectant mother care). Although the PPI is designed to benefit the entire under-six population, it will target the most vulnerable groups. To support the development of the PPI, the Bank is executing a technical cooperation program (CO-T1017) for: (i) mapping national and international early childhood research; (ii) systemizing good practices and the inherent costs; (iii) piloting a municipal management model; (iv) developing a training plan for social and community education workers; and (v) developing a monitoring and evaluation system. As an action **precedent to disbursement of the first loan**, the

MEN, MPS, ICBF, and DNP must approve a policy framework paper including the institutions responsible for coordinating, monitoring, and evaluating early childhood programs and policies. Approval of a CONPES paper is expected for the second half of 2006. In addition to compiling the diagnostic report and the requirements defined in the framework document, the paper must identify the responsibilities of all sectors involved and the resources earmarked for policy implementation. As indicative progress **for a second operation**, the national development plan must include; (i) a number of mandatory policy actions for implementation of the PPI; and (ii) four-year targets for these actions. The **indicative progress for a third operation** requires: (i) progress in implementing the PPI; and (ii) attainment of the midterm targets (to 2008) addressed in the national development plan.

- 2.6 *Raising student retention in elementary and secondary schools.* Although Colombia is carrying out actions to achieve this objective, the program supports a strategic vision to increase the effectiveness of these actions. As an **action precedent to disbursement of the first loan**, the MEN and DNP must approve a basic document to develop a policy on improving student retention. This document must include: (i) a review of Ministry of Education Planning and Finance Office dropout statistics and indicators, with a breakdown of estimated intra and interannual dropout figures and the number of dropouts unlikely to return to the system based on the statistics available from the 2003 National Quality of Life Survey; (ii) a methodology proposal for calculating national dropout indicators; and (iii) retention strategies, including a discussion of their suitability to deal with the problems encountered and an estimated cost analysis of those that have already been evaluated or as information becomes available. As indicative progress **for a second operation**, the PND would include; (i) a number of mandatory policy actions to reduce school dropout rates; and (ii) four-year targets for these actions. The **indicative progress for a third operation** calls for: (i) progress in implementing policy actions to lower the dropout rate; and (ii) attainment of the midterm targets (to 2008) addressed in the PND.
- 2.7 *Increasing access to and student retention in post-secondary education based on equity with an emphasis on technical and technological education.* The pressures created by the growth in elementary and secondary education coverage and new labor market demands explain the greater emphasis Colombia is placing on post-secondary education. Although a number of actions are being implemented, initiatives to promote demand and expand and improve the post secondary education options available need to be coordinated. As **actions precedent to disbursement of the first loan**, the Bank must recognize: (i) passage of the ICETEX Transformation Act passed in December 2005. The legislation converted ICETEX into a special financial institution with greater financial autonomy, making it possible to increase its array of loans and subsidies, with an emphasis on low-income young men and women, as the law stipulates that 30% of the Institute's earnings must be allocated to subsidizing this population group; (ii) an MEN call

for projects as part of the Technical and Technological Education Strengthening Program (carried out in March 2006); and (iii) the setting up of 45 CERES with minimum coverage of 4,500 students in technical-technological education in remote areas and in depressed areas of major Colombian cities (achieved in December 2005). As indicative progress **for a second operation** the PND would include; (i) a number of policy actions to broaden higher education coverage, with emphasis on technical-technological equity-based education; and (ii) four-year targets for these actions. The **indicative progress for a third operation** requires: (i) progress in implementing the policy actions described; and (ii) attainment of the midterm goals for 2008 addressed in the PND.

- 2.8 *Improving the quality of health service delivery.* The Bank has supported the reform of the health system from the outset, with emphasis on expanding coverage and access in an effort to ensure system efficiency. This subcomponent supplements this support in terms of quality by strengthening the key functions of supervision and control, designing and implementing service standards, introducing an insurer and service provider accreditation system, and disseminating information to assist in user service selection. **As actions precedent to disbursement of the first loan:** (i) MPS and DNP must approve a framework document for strengthening the National Health Care Superintendency (SNS), with alternatives; (ii) MPS must approve a plan to implement a national policy on quality health service delivery (PNPSS); and (iii) an MPS report must be issued on progress in establishing a Health Care Provider (IPS) ranking. The **indicative progress for a second operation** requires: (i) adopting an alternative for strengthening the SNS; (ii) progress in executing the PNPSS implementation plan with indicators including verification criteria for at least 40% of public and private IPS services, and eight accredited IPSs; and (iii) public dissemination of the first IPS ranking. The **indicative progress for a third operation** requires: (i) progress in executing the SNS strengthening plan; (ii) progress in executing the PNPSS implementation plan with indicators including verification criteria for at least 70% of public and private IPS services, and 10 accredited IPSs, 5 EPSs/ARSs undergoing accreditation, and public dissemination of the Quality Information System indicators; and (iii) public dissemination of a second IPS ranking.

3. Component 2 – Risk insurance

- 2.9 The purpose of this component is to boost coverage of the public health and extreme poverty in old age insurance system, with a view to lowering the vulnerability of low-income households and individuals. This will be achieved through the following specific objectives and actions.
- 2.10 *Increasing health insurance coverage for low-income population groups.* This involves the following lines of action: (i) continuing to expand subsidized system coverage; and (ii) supporting the development of a technical and financially viable option (a partial subsidy scheme) to insure a group that, although poor, has not been

prioritized for cover and has some payment capacity (SISBEN level 3). **Conditions precedent to disbursement of the first loan** require (i) MPS and DNP approval of a framework document on the financial, budgetary, and operational viability of implementing insurance alternatives through partial subsidies, and the Bank would recognize; (ii) the 2,400,000 increase in the subsidized system full subsidy coverage quota in 2005. The **indicative progress for a second operation** requires: (i) adopting an alternative partial subsidy scheme; and (ii) an additional 390,000 increase in the subsidized system coverage quota. The **indicative progress for a third operation** requires: (i) progress in implementing a partial subsidy alternative; and (ii) an additional 800,000 increase in the subsidized system coverage quota in 2007 and 2008.

- 2.11 *Preventing pension loss in the low-income population registered with the General Pension System (SGP).* Although Colombia has a mechanism in place to promote this objective through the Pension Solidarity Fund (FSP) Pension Solidarity Subaccount, the eligibility requirements have resulted in low use (and consequently low coverage) of this account.²⁵ This subcomponent supports the design and implementation of a plan to render the use of this subaccount effective. As an action **precedent to disbursement of the first loan**, the MPS, DNP, and the Ministry of Finance (MHCP) must approve a framework document to boost the subaccount's effectiveness, taking due account of; (i) the subaccount's fiscally sustainable medium-term coverage target; (ii) changes in regulations to boost demand and FSP beneficiary loyalty; (iii) the most efficient arrangement for administering institutional resources; and (iv) a budget adjustment consistent with the coverage target. The **indicative progress for a second operation** involves approving the regulations required to ensure the proposed improvement in the effectiveness of the subaccount. The **indicative progress for a third operation** requires: (i) progress in implementing regulations; and (ii) achieving subaccount midterm coverage and meeting budget commitment targets by 2008.
- 2.12 *Promoting insurance against extreme poverty in old age.* As Pension Solidarity Subaccount coverage is restricted to persons registered with the SGP, this subcomponent supports the design and execution of a *savings system* for low-income individuals who do not meet the eligibility requirements for a pension. Since the development of this savings system is still in its early stages and is technically complex, the design of this subcomponent is lagging behind the other program policy actions. The programmatic approach thus allows the Bank to equip the program with a line of action with high potential in terms of social benefits and this would not have been possible under the multitranche modality that would have required certainty in the technical parameters and the savings system. As an action

²⁵ The main reason for the under use of the subaccount is low SGP loyalty because potential FSP beneficiaries are unlikely to draw a pension owing to difficulties in meeting the SGP qualifying period (i.e. the "weeks requirement"). Consequently, only 1,500 persons per annum have managed to draw an FSP-based pension.

precedent to disbursement of the first loan, the Bank would recognize approval of Legislative Act 01/05 that broadly provides for SGP reforms and specifically deals with the setting up of the savings system described above. This Legislative Act was passed in July 2005, when the government requested a PBL for the social sector, and the Bank had been making efforts to support this policy area with other PBLs. The **indicative progress for a second operation** involves MPS, DNP, and MHCP approval of a long-term savings scheme proposal. The **indicative progress for a third operation** involves submitting the regulations required to implement the proposal to the legislative branch.

4. Component 3 – Social welfare

- 2.13 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 aim would be achieved through the following specific objectives and actions.
- 2.14 *Broadening social welfare coverage for elderly persons living in extreme poverty.* This will be accomplished by designing and implementing a plan to ensure effective operation of the FSP Subsistence Subaccount and to coordinate the various programs targeting the elderly. As an action **precedent to disbursement of the first loan**, the MPS, DNP, and MHCP must approve a framework document to improve FSP Subsistence Account coverage, taking into account: (i) the subaccount medium-term coverage target; (ii) the most efficient institutional arrangement for administering the resources; (iii) coordination with other social welfare programs; and (iv) a budget adjustment consistent with the coverage target. The **indicative progress for a second operation** requires a CONPES document to implement the proposal on improving subaccount coverage. As indicative progress **for a third operation**, the subaccount midterm coverage targets and budget commitments (to 2008) must be fulfilled.
- 2.15 *Improving the overall effectiveness of social welfare services.* This will be achieved by designing and implementing a public social welfare system restructuring plan that, *inter alia*, coordinates the various public administration levels and civil society. As an action **precedent to disbursement of the first loan**, the DNP and MPS must approve a framework document for the restructuring of the social welfare system, taking into account: (i) policy formulation and coordination mechanisms; (ii) the relationship between various public administration levels and civil society, including co-financing strategies with subnational entities; (iii) terms and conditions of service delivery; (iv) sources of financing and resource allocation mechanisms; (v) strategies to enhance the relevance and effectiveness of social welfare programs; and (vi) the most appropriate monitoring, supervision, and evaluation mechanisms. As indicative progress **for a second operation**, the relevant social welfare system restructuring proposal recommendations must be

included in the national development plan, and be consistent with the framework document for the restructuring of the social welfare system. The **indicative progress for a third operation** requires progress in implementing the actions in the PND for the restructuring of the social welfare system.

5. Component 4 – Beneficiary selection and monitoring of poverty

- 2.16 The purpose of this component is to augment central government and subnational entity capacity to make effective use of various targeting tools in designing and implementing social programs, as a means of prioritizing access to social services and social programs and modify their design if necessary. This aim will be achieved through the following specific objectives and actions.
- 2.17 *Developing and implementing technical guidelines for using targeting instruments and improving transparency in measuring and monitoring poverty.* The Bank has been supporting the design and use of targeting instruments in Colombia. However, there is still room to improve the targeting of various social programs²⁶ and, in particular, to use these instruments as an effective tool in providing needy populations with priority access to social services. In preparing the ERPD, it became clear that Colombia's technical capacity to measure and monitor poverty levels needed to be institutionalized and mechanisms needed to be developed to provide transparency and generate public confidence in these measurements. Considering that now is not the best time politically to implement these actions, they are not considered actions precedent to the first disbursement. They are included, however, as indicative progress for both subsequent loans. As an action **precedent to disbursement of the first loan**, a CONPES document that targets social public spending must be approved. The document must take into account: (i) technical criteria for the choice of targeting tools in program design; (ii) guidelines on the use of these tools; and (iii) recommendations on coordinating the information systems used in targeting and program administrative records. The **indicative progress for a second operation** would gauge: (i) progress in implementing a pilot program to strengthen municipal information systems and the use of targeting tools in approximately 100 municipios across three departments, consistent with the objectives of the first action; and (ii) institutional arrangements to promote transparency and technical quality in poverty measurement. The **indicative progress for a third operation** requires: (i) a final evaluation of targeting improvements in the pilot program; and (ii) measuring and dissemination of poverty indicators as specified in the new institutional arrangement.

²⁶ For a discussion of inclusion and exclusion errors and the potential effect of improved targeting on increasing the consumption of low-income beneficiaries, see Núñez y Espinosa (2005), *Asistencia Social en Colombia: Diagnóstico y Propuestas*, MERPD. This document is available in RE3 technical files.

C. Relationship to other Bank operations and operations of other international financial institutions

- 2.18 A number of technical cooperation operations that provided input for the design of the present operation are currently in progress and serve as tools for monitoring and follow-up of the program. These operations are as follows: (i) CO-T1006, CO-T1007, CO-T1011 and CO-T1015 to help develop the ERPD; (ii) CO-T1017 for the development of a national early childhood policy; and (iii) CO-L0261 (reimbursable) supporting the reform of the SISBEN beneficiary classification system. In addition, the following investment loans are pursuing actions that complement those of the present operation: (i) CO-L0142, supporting, among other objectives, the institutional strengthening of the subnational education secretariats; (ii) CO-L1017, supporting the implementation of the SOGC scheduled for approval in the second half of this year; and (iii) CO-L1010, supporting, *inter alia*, a strategy implemented by the Office of the Mayor of Bogotá to lower the secondary school dropout rate. Lastly, the actions promoted by the following PBLs are closely connected with the financial and social development objectives of this program: (i) CO-L0270, supporting improvements in residential public utility services; and (ii) CO-L1007, for a program to enhance Colombian competitiveness. *Inter alia*, this program supports actions for job-training programs implemented by the National Training Service. Annex III describes the status of these operations and their relationship to the objectives of this program.
- 2.19 The World Bank has been executing a programmatic labor and social reform structural adjustment operation since 2003. This operation is scheduled for completion in mid-2006 with the approval of the third tranche of the loan. The World Bank also approved a second loan in late 2005 to expand coverage of the *Families in Action* program and improve the system for monitoring and evaluating the Colombian social safety net. Although the actions promoted by the present operation (CO-L1014) operation are additional to those of the World Bank operations, the objectives are closely linked and both institutions have therefore remained in close contact. A Rural Education Program to broaden education coverage in rural areas is also under way. Lastly, the CAF approved an investment program in late 2005 to finance a Technical and Technological Education Strengthening Program.

D. Cost and financing

- 2.20 The agreed amount of the first loan, scheduled to go to the Board of Executive Directors in June 2006, is US\$200 million. The aggregate amount of the series of three loans will be US\$600 million (US\$200 million for each of the two subsequent loans). The second loan would be approved on approval of the 2007-2010 PND in June 2007 and the third loan in early 2009, following measurement of the 2008 targets monitored by the program. This proposal is consistent with Colombian financial programming (Medium-Term Fiscal Framework for 2005) and its

objective to improve the public debt profile and provide pre-financing in the event of higher interest rates in the near future. It is also consistent with the latest review of central government financial programming for 2006 (CONFIS, January 2006) that includes forecasts disbursements from multilateral institutions of approximately US\$2.39 billion, without bond issues.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower and guarantor is the Republic of Colombia. The MHCP will be the executing agency through the Office of the Deputy Technical Minister and the DNP will act as technical coordinator of the program.

B. Execution mechanism

- 3.2 The executing agency will be responsible for: (i) coordinating the various Ministries (MEN, MPS, and MHCP) and public institutions (DNP, ICBF, ICETEX) in charge of adopting measures or executing technical activities; (ii) monitoring and promoting program activities to ensure their successful completion; (iii) staying in official contact with the Bank; (iv) preparing the required reports by the stipulated deadlines and in the quality expected; and (v) anticipating and appropriately resolving the strategic, technical, and coordination risks and problems associated with program execution. The DNP is responsible for overall preparation and orientation of the PND, a key program execution component. The Bank's previous experience with PBLs in Colombia, particularly in the social sector, has produced successful outcomes with coordination using a mechanism such as the one proposed here.

C. Strategy for monitoring and following up on the implementation of the program

- 3.3 Annex II presents an Outcomes Matrix with selected indicators for monitoring and evaluating the scope of the program objectives. The targets for these indicators are set for 2010 and almost all indicators and targets are contained in the *Visión Colombia 2019* document described in paragraph 1.24²⁷ promoting national ownership with respect to the proposed goals and the capacity to monitor these indicators through national information systems and surveys. The Bank project team will assist Colombia in implementing a strategy consisting of: (i) active ongoing support for preparing the ERPD and disseminating this strategy to the public; (ii) scheduling technical cooperation resources in areas already identified (locating alternative financing to expand coverage of early childhood programs, analyzing experiences with school dropout reduction policies, evaluating the impact of health reform in improving effective access to health services, and analyzing international experiences with retirement savings systems); and (iii) carrying out

²⁷ This document is currently in the public consultation phase and must therefore still be considered preliminary.

special missions at critical points in program implementation (upon appointment of the post-election government team and during PND preparation).

D. Policy letter

- 3.4 The Bank has concluded an agreement with the Government of Colombia establishing that the Policy Letter will: (i) describe the government's commitment to the objectives and actions for the entire programmatic operation, as opposed to only the first operation, with due account of the fact that greater detail must be provided on specific actions benefiting from the programmatic modality; and (ii) emphasize the stability of the social policies Colombia has implemented in recent years and the extent to which program-supported actions are consistent with these policies.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 The institutional viability of the operation is high. This assessment is based on: (i) the demonstrated ability of the technical teams handling social and macrofiscal issues; (ii) the fact that, although the program identifies opportunities to help boost social policy effectiveness, its structure is based on the highly institutionalized actions and policies that Colombia has been implementing in recent years; (iii) the likelihood of the elections results producing robust political support for program policy actions; (iv) the high degree of government control over program policy actions; (v) the fact that the program largely adopts Colombian strategy documents, goals, and monitoring mechanisms, with an inherently high degree of national ownership; and (vi) Colombia's solid track record in executing PBLs successfully, particularly in the social sector.

B. Socioeconomic viability

- 4.2 The program is expected to have a significant impact on social development and social equity in Colombia insofar as: (i) early childhood interventions have proved to be among the most profitable investments in human capital and have exerted a marked impact on promoting social equity,²⁸ (ii) these interventions have a strong impact on introducing learning skills and thus represent an investment in education quality enhancement; (iii) given the nature of the labor market, individuals with post-secondary education studies are less likely to be poor; (iv) in view of the disparity in rates of return at the various education levels in Colombia, investing in promoting access by low-income young people to post-secondary education, particularly technical-technological education,²⁹ is a way of preventing future income inequality; (v) raising an individuals' health status not only improves his/her quality of life but also impacts his/her productivity in the labor market; (vi) insuring social risks reduces the expected impact of contingencies throughout an individual's life and thus creates greater asset-building incentives,³⁰ and (vii) by promoting guaranteed minimum levels of consumption, social welfare is not only a tool for promoting equity but also a supplementary and necessary input in promoting effective human capital building among the very poor.

²⁸ Carneiro and Heckman (2003), *Human Capital Policy*, in J. Heckman and A. Krueger, "Inequality in America: What Role for Human Capital Policies", MIT Press.

²⁹ For a discussion on private and social returns in technical-technological education in Bogotá, see Gordillo and Ramírez (2005), *Evolución de los Resultados de la Educación en Colombia*, Archivos de Economía, DNP. This document is available in RE3 technical files.

³⁰ Morduch (1994), *Poverty and Vulnerability*, American Economic Review.

- 4.3 In addition, the program would help address the problem of the economic and social exclusion of ethnic minorities: (i) by targeting low-income population groups, as ethnic minorities represent a disproportionately large percentage of this population; (ii) by using ethno-geographic criteria in selecting municipalities in the early childhood component; and (iii) by employing the PND as the backbone of the execution strategy, since the population in general and minority populations in particular were consulted on this plan when it was being prepared.³¹
- 4.4 *SEQ/PTI classification.* The program is expected to help enhance equity in distributing the benefits of economic growth and the quality and timeliness of social services. Accordingly, it is classified as an SEQ.
- 4.5 In addition, the program has been designed to avoid increases in social public spending not provided for in the country's social policy commitments, in that it: (i) optimizes the use of available resources (improved program coordination and use of resources); and (ii) enables Colombia to select targets consistent with these commitments.³²

C. Environmental impact

- 4.6 The program does not involve any negative environmental impacts and the Committee on Environment and Social Impact's recommendations have been incorporated into the present operation (see paragraphs 1.25 and 4.3).

D. Risks

- 4.7 The main foreseeable risk to the program is associated with the formation of a new national government. Even though President Álvaro Uribe has been reelected, the new Colombian administration or its technical teams may prioritize policy alternatives that affect the extent to which the program is consistent with the national strategy. This risk is mitigated by the operational flexibility of the programmatic approach but is considered of low probability given the high degree of policy continuity of successive Colombian administrations in recent years.
- 4.8 Supporting the reforms of various ministries and public institutions, implemented, to some extent, through different levels of government, entails a degree of risk in terms of institutional coordination. This risk is considered of low probability since: (i) as mentioned above, previous Bank experience with sectoral loans in Colombia, particularly in the social sector, has produced positive outcomes in coordination

³¹ For a discussion of Colombian initiatives in developing information systems to design and evaluate policies targeting ethnic minorities, and the process for consulting this population in preparing the PND, see *Nota sobre Minorías Étnicas en Colombia* (mimeo).

³² Estimated annualized costs for the individual strategic lines included in the *Visión Colombia 2019* "closing social gaps" strategy are available in the program files.

with a mechanism such as the one here proposed; (ii) the program proposes policy institutionalization mechanisms that generate specific operating and financial mandates, most of which are determined through consultation with the various actors; and (iii) Colombia has been developing the lines of action proposed in this document in work plans carried out jointly by the government agencies concerned.

POLICY MATRIX
SOCIAL REFORM AND EQUITY PROGRAM (CO-L1014)

Objective	Actions precedent to disbursement	Indicative progress of the second programmatic loan	Indicative progress of the third programmatic loan
Maintain a stable macroeconomic framework.	1.1 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.	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.			
Boost the effectiveness of interventions to promote early childhood development .	2.1 MEN, MPS, ICBF, and DNP approval of a policy framework document to promote early childhood development including the institutions in charge of coordinating, monitoring, and evaluating various policies and programs targeting early childhood.	The National Development Plan (PND) must include a policy to promote early childhood development and containing: (i) strategies to be implemented; and (ii) targets.	Progress in implementing the early childhood policy and attaining mid-term targets consistent with the PND.
Increase retention levels in elementary and secondary education.	3.1 MEN and DNP approval of a basic document to implement a policy aimed at boosting retention levels in elementary and secondary education.	The PND must include a policy to boost retention levels in elementary and secondary education and containing: (i) strategies to be implemented; and (ii) targets.	Progress in implementing the retention policy and attaining mid-term targets consistent with the PND.

Objective	Actions precedent to disbursement	Indicative progress of the second programmatic loan	Indicative progress of the third programmatic loan
Increase access to post-secondary education , particularly technical-technological education, by poor young men and women and increase school retention.	<p>4.1 Passage of the law transforming ICETEX, including 30% of the profits allocated to subsidies for the poor.</p> <p>4.2 An MEN call for projects under the Technical and Technological Education Strengthening Program.</p> <p>4.3 Setting up 45 CERES and coverage of 4,500 pupils in technical-technological education in remote areas and depressed areas of major Colombian cities.</p>	The PND must include a policy to boost higher education coverage, with emphasis on equity-based technical-technological education and containing: (i) strategies to be implemented; and (ii) targets.	Progress in implementing the higher education enhancement policy, with emphasis on technical-technological education and attainment of mid-term targets consistent with the PND.
Improve the quality of health service provision.	<p>5.1 MPS and DNP approval of a framework document for the strengthening of the National Health Care Superintendency (SNS) supervision, control, and oversight model, with alternatives.</p> <p>5.2 MPS approval of a plan to implement the National Policy on Health Service Delivery (PNPSS) with emphasis on quality.</p> <p>5.3 An MPS report on a Health Care Provider (IPS) ranking based on the quality of services provided.</p>	<p>Adoption of an alternative consistent with the objective of strengthening the SNS.</p> <p>Progress in implementing the plan in terms of quality, with indicative progress including: (i) applying verification criteria to at least 40%¹ of public and private IPS services; and (ii) 8 accredited IPSs</p> <p>Public dissemination of the first IPS ranking.</p>	<p>Progress in implementing the SNS strengthening plan.</p> <p>Progress in implementing the plan in terms of quality, with indicative progress including: (i) the application of verification criteria to at least 70% of the services provided by public and private IPSs; (ii) 10 accredited IPSs; (iii) 5 EPSs/ARSs undergoing accreditation; and (iv) public dissemination of the Quality Information System quality indicators.</p> <p>Public dissemination of the second IPS ranking.</p>

¹ This indicator will consider cumulative amounts under Decree 2309 of 2002 and Decree 1011 of 2006.

Objective	Actions precedent to disbursement	Indicative progress of the second programmatic loan	Indicative progress of the third programmatic loan
Component 2. Boosting coverage of health and extreme poverty in old age insurance for the most vulnerable population.			
Boost health insurance coverage for low-income populations.	<p>6.1 MPS and DNP approval of a framework document on the financial, budgetary, and operational viability of implementing partial subsidy alternatives.</p> <p>6.2 A 2,400,000 increase in the Subsidized System full subsidy coverage quota in 2005.</p>	<p>Adoption of the partial subsidy alternative.</p> <p>An additional 390,000 increase in the Subsidized System full subsidy coverage quota in 2006.</p>	<p>Progress in implementing the partial subsidy alternative.</p> <p>An additional 800,000 increase in the Subsidized System full subsidy coverage quota in 2007 and 2008.</p>
Prevent pension loss in the low-income population registered with the General Pension System (SGP).	7.1 MPS, DNP, and MHCP approval of a framework document to improve effectiveness in executing the Pension Solidarity Fund (FSP) Pension Solidarity Subaccount based on: (i) a medium-term coverage target for the subaccount that is sustainable within the fiscal framework; (ii) amended regulations to promote the demand and loyalty of the fund's beneficiary population; (iii) a most efficient institutional arrangement for administering resources; and (iv) a budget adjustment consistent with the coverage target.	Approval of the regulations to implement the proposal to boost the effectiveness of the FSP Solidarity Subaccount.	Progress in implementing regulations and meeting FSP Solidarity Subaccount mid-term coverage and budget commitment targets.
Promote extreme poverty in old age insurance through a long-term savings system for low-income persons ineligible for the SGP.	8.1 Approval of Legislative Act 01/05 on introducing savings schemes to generate regular economic benefits for low-income persons failing to meet the conditions required to qualify for a pension.	MPS, DNP and MHCP approval of a long-term savings scheme proposal.	Submission of the regulations for the implementation of the regular economic benefits proposal.

Objective	Actions precedent to disbursement	Indicative progress of the second programmatic loan	Indicative progress of the third programmatic loan
Component 3. Enhancing the coverage and effectiveness of social welfare programs.			
Broaden social welfare coverage for elderly persons living in extreme poverty through an economic subsidy.	9.1 MPS, DNP, and MHCP approval of a framework document to improve FSP Subsistence Account coverage based on: (i) a medium-term coverage target for the subaccount that is sustainable within the fiscal framework; (ii) a most efficient institutional arrangement for administering resources; (iii) coordination with other social welfare programs; and (iv) a budget adjustment consistent with the coverage target.	CONPES approval to implement the proposal on improving FSP Subsistence Subaccount coverage.	Compliance with the mid-term coverage targets and budget commitments established for the FSP Subsistence Subaccount, consistent with the initial condition.
Boost the effectiveness of social welfare services.	10.1 DNP and MPS approval of a framework document for the restructuring of the social welfare system based on: (i) policy drafting and coordination; (ii) the relationship between various public administration levels and civil society, including co-financing strategies with territorial entities; (iii) terms and conditions of service delivery; (iv) financing and resource allocation; (v) strategies to enhance the suitability and effectiveness of social welfare programs and linkage of these programs; and (vi) monitoring, oversight, and supervision.	Include the relevant recommendations of the social welfare system restructuring proposal in the PND.	Progress in implementing the actions in the PND for the restructuring of the social welfare system.

Objective	Actions precedent to disbursement	Indicative progress of the second programmatic loan	Indicative progress of the third programmatic loan
Component 4. Boosting institutional capacity to target social spending and monitor poverty evolution.			
Improve the targeting of public social spending at the national and subnational level and institutionalize technical capability and transparency in measuring and monitoring poverty indicators .	11.1 Approval of a CONPES document on targeting social public spending, taking into account: (i) technical criteria for selecting targeting tools; (ii) guidelines on the use of targeting tools; and (iii) recommendations on linking the information systems used in targeting and program administrative records.	A report on implementing a pilot program to strengthen municipalities with respect to information systems and the use of targeting tools that is consistent with the initial condition and implemented in at least three departments. Institutional arrangements to promote transparency and technical quality in poverty measurement.	Submission of the final evaluation report on the pilot program in terms of improved targeting. Measuring and disseminating poverty indicators according to the new institutional arrangement.

OUTCOMES MATRIX
SOCIAL REFORM AND EQUITY PROGRAM (CO-L1014)

Objective	Indicator and base line	Indicative target for 2010
1. Improve the effectiveness of interventions to promote early childhood development .	1.a Percentage of children under 5 attending care programs for minors and receiving training in primary education basic learning and preparatory skills (27.7% in 2003). 1.b Percentage of overall undernutrition in children under 5 (7% in 2005). 1.c Mortality in children under 5 (22 per thousand live births in 2005).	1.a 56.6% 1.b 5.7% 1.c 18.7 per thousand live births.
2. Boost student retention in elementary and secondary education.	2. School dropout rate in elementary and secondary school (grades 0 to 11) (6.9% in 2003)	2. 5%
3. Increase access to post-secondary education , particularly technical-technological education, by poor young men and women and increase school retention.	3.a Gross post-secondary education coverage rate (19% university and 7.5% technical-technological in 2004). 3.b Number of level 1 and 2 young men and women receiving post-secondary education credit subsidies ¹ (4,400 in level 1 and 14,611 in level 2 in 2005).	3.a 19.4% university and 16.1% technical-technological.
4. Improve the quality of health service delivery . ²	4.1 Timeliness in the delivery of general medical consultation services. 4.2 Proportion of controlled arterial hypertension.	
5. Increase health insurance coverage for low-income populations.	5. Percentage of persons registered in the Social Solidarity Network (RSS) (66% in 2005. ³)	5. 100%
6. Broadening social welfare coverage to protect elderly persons living in indigence or extreme poverty through an economic subsidy.	6. FSP Subsistence Subaccount coverage (219,000 beneficiaries in 2005).	6. 360,000 beneficiaries

¹ The PND for 2007 will be used to set the 2010 target for this indicator.

² The MPS is preparing a base line and projections for 2010 for these indicators and they are expected to be available in November 2006.

³ Calculated on the basis of SISBEN 1 and 2 (25 million persons) with a 30 November 2005 cut-off date.

COLOMBIA - SOCIAL SECTOR - Complementary actions to CO-L1014

Loans approved in the period 2002-2006 or currently in execution*

PROJECTS	1	2	3	4	Execution stage (% disbursed, 04/2006)
	Investment in human capital	Risk insurance	Social welfare	Institutional strengthening	
CO-T1006 Support for the Development of the Poverty and Inequality Strategy				Provide the technical and analytical basis to organize poverty reduction and equity promotion initiatives. Provide assistance in developing and implementing reforms and public policies to attain the MDGs.	In execution (94)
CO-T1007 Assessment and Action Plan for Reduction of Rural Poverty in Colombia					In execution (86)
CO-T1015 Support for the Development of the Poverty and Inequality Strategy					In execution (74)
CO-T1017 Program to Support the Creation of a National Policy on Childhood Development	Establish an Early Childhood Development Ten-Year Plan including broadening coverage and improving the quality of current programs (0-6 years).				In execution (0)
CO-0252 and CO-0261 Social Reform Program (loan and TC)				Enhance and increase transparency in targeting social spending (support for the SISBEN reform).	In execution (71)

COLOMBIA - SOCIAL SECTOR - Complementary actions to CO-L1014

Loans approved in the period 2002-2006 or currently in execution*

PROJECTS	1	2	3	4	Execution stage (% disbursed, 04/2006)
	Investment in human capital	Risk insurance	Social welfare	Institutional strengthening	
CO-0142 New School System Program	Boost efficiency and social equity in resource allocation as a means of providing higher quality education.			Strengthen the institutional capacity of subnational education secretariats.	In execution (65)
CO-0139 and CO-L1017 Reorganization, Redesign, and Modernization of Health Services	Help implement the National Policy on Health Service Delivery (PNPSS) in pursuance of its core strategic elements of accessibility, quality, and efficiency.			Promote the implementation of the Compulsory Quality Assurance System (SOGC).	In execution (84) and in execution (0)
CO-T1029 Implementation of the Obligatory System for Quality Assurance in Health - SOGC				Support the design and implementation of the Compulsory Quality Assurance System SOGC for health care.	In execution (0)
CO-L1010 Education Equity in Bogota	Support a strategy implemented by the Office of the Mayor of Bogotá to lower the secondary school dropout rate.				Pipeline
CO-0270 Public Utilities Reform Program	Reduce water- and sanitation-related illnesses caused by public utility services.			Support initiatives to improve residential public utility services delivery.	In execution (33)

COLOMBIA - SOCIAL SECTOR - Complementary actions to CO-L1014

Loans approved in the period 2002-2006 or currently in execution*

PROJECTS	1	2	3	4	Execution stage (% disbursed, 04/2006)
	Investment in human capital	Risk insurance	Social welfare	Institutional strengthening	
CO-L1007 Competitiveness in Colombia	Support National Training Service (SENA) job training programs.				Pipeline
CO-L1002 Support for the Extended Vaccinations Program - PAI	Reduce immunization preventable illnesses in order to improve life-long health.	Improve public health ('herd immunity'; public good).		Boost technical capacity and transparency in measuring and monitoring vaccination rates.	In execution (18)
CO-0247 Social Support Network Program	(1) Increase job insertion opportunities for 100,000 low-income young people in 7 cities; (2) Increase and maintain investment by families living in extreme poverty in their children's human capital (school and nutrition subsidy and health).		(1) Increase job insertion opportunities for 100,000 low-income young people in 7 cities; (2) Increase and maintain investment by families living in extreme poverty in their children's human capital (school and nutrition subsidy and health).		In execution (99)
CO-L1008 2005 General Census Support Program				Strengthen technical capacity of the National Statistics Department.	In execution (10)

*This list excludes public utilities loans (1199/OC-CO), housing and citizen security (1087/OC-CO).

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/06

Colombia. Loan ___/OC-CO to the Republic of Colombia
Social Reform and Equity Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Colombia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a social reform and equity program. Such financing will be for an amount of up to US\$200,000,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

LEGIII/CO-765401-06
CO-L1014