

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

RURAL LOW-INCOME HOUSING PROGRAM

(CO-L1003)

LOAN PROPOSAL

This document was prepared by the project team consisting of Patricia Torres (RE3/SC3), Project Team Leader; Verónica Adler (RE3/SC3); Fernando Cuenin (RE3/SC3); Mercedes Rochac (RE3/SC3); Guillermo S. Castillo (SDS/ICT); Gerónimo Frigerio (LEG); Fernando Balcazar V. (COF/CCO); and Marcelo Drago (consultant).

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COLOMBIA

Rural Low-Income Housing Program (CO-L1003)

Project Summary				
Financial terms and conditions ¹				
Borrower: Republic of Colombia			Amortization period:	25 years
Executing agency: Ministry of Agriculture and Rural Development (MADR)			Grace period:	48 months
			Disbursement period:	42 months
Source	Amount	%		
IDB (OC)	US\$30,000,000	75	Interest rate:	Adjustable
Local	US\$9,830,000	25	Inspection and supervision:	0.0%
Total	US\$39,830,000	100	Credit fee:	0.25%
			Currency:	US dollar
Project description				
Project objective: The general objective of the program is to support the Colombian government in its efforts to provide social housing in rural areas, improving the instruments used in the current rural social housing subsidy system and providing evaluation and monitoring mechanisms for decision making on public housing policies. The intent is to enhance the quality of life of low-income rural families through better housing.				
Special contractual conditions: Conditions precedent to the first disbursement: establishment of the program coordination unit (PCU) and its staff (paragraph 3.2); creation of the special committee (paragraph 3.8); entry into force of the Operating Regulations (paragraph 3.18); and the agreed annual work plan (AWP) for year one (paragraph 3.19). Work on these conditions is well advanced; the documentation will be finalized before the loan proposal is distributed to the Board of Executive Directors. Updating and implementing the system for project proposals, beneficiary selection, and subsidy allocation will be a condition precedent to the first disbursement of component 1: subsidies for rural social housing (paragraph 3.16).				
Exceptions to Bank policy: None				
Consistent with the country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> The project qualifies as: SEQ <input type="checkbox"/> PTI <input checked="" type="checkbox"/> Sector <input type="checkbox"/> Geographic <input checked="" type="checkbox"/> Headcount <input type="checkbox"/> Date reviewed by CESI: 30 July 2004				
Social and environmental review: See paragraphs 4.7 to 4.12				
Procurement: See paragraph 3.20				

¹ The interest rate, the credit fee and the inspection and supervision fee mentioned in this document have been established on the basis of document FN-568-3-Rev. and may be modified by the Board of Executive Directors, taking account of the background information and the Finance Department's recommendation. In no case will the credit fee exceed 0.75% or the inspection and supervision fee 1%. In no case will the inspection and supervision fee exceed, in a given six-month period, the amount that would result from dividing 1% of the loan amount by the number of six-month periods in the original disbursement period.

Electronic links and references	
Abbreviations	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=336187
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Tentative Lending Program, Approvals and Portfolio	http://ops.iadb.org/idbloans/
Information available in the files of RE3/SC3	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=336868
Logical framework	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=423434
Procurement plan:	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=423435

I. FRAME OF REFERENCE

A. The rural sector in Colombia

- 1.1 Colombia had an estimated population of 44.5 million in 2003, with 12.5 million (or 28%) living in rural areas. Of the total rural population, 30% live in concentrated settlements and the remainder is physically scattered.
- 1.2 The rural area covers 40% of the country and is mainly used for livestock farming and, to a much lesser extent, for forestry and crop farming. The agricultural sector employs 21.1% of the country's working population.
- 1.3 Close to 83% of the rural population is classified as poor and 43% is living in extreme poverty, which means that more than 10 million people live an hand-to-mouth existence in rural areas. The indicators also show that the rural population has a poorer quality of life than the urban population.

Table I-1
Quality of life indicators
Rural vs. urban population

Indicator	Urban	Rural
Piped water	98%	54%
Literacy	5%	18%
Population not covered by social security	39%	53%
Overcrowding	8%	18%
Substandard housing	4%	15%
Perception of poverty	61%	88%

Source: Own, based on the 1997 and 2003 quality of life surveys, National Statistics Administration Department (DANE).

B. The housing problem in rural areas

- 1.4 In Colombia, information on the rural housing deficit is outdated and not well organized. However, estimates suggest that today there are about 800,000 housing units that are overcrowded and lack essentials such as basic sanitation.
- 1.5 International experience demonstrates that housing problems in rural zones have certain features that distinguish them from urban problems: (i) the main shortfall has to do with quality rather than quantity; (ii) the availability of land for rural social housing is not a restriction; (iii) land tenure is a less significant restriction, since 65% of people living in rural areas own their land; (iv) because the housing is much more widely scattered, programs require an entity that consolidates demand; (v) low incomes and the characteristics of the rural population impede their access to credit, which is why government subsidies to buy or improve housing need to be complemented with contributions from other institutions (municipalities, departments, NGOs); and (vi) the types of interventions, the specific nature of the works, and scattered distribution make greater technical support and closer monitoring of the works necessary.

C. National rural housing policy

- 1.6 Colombia has a long tradition of policies to support social housing. For more than 40 years, the country has followed a learning curve, using different models to meet the housing requirements of low-income groups.
- 1.7 Between 1960 and 1990, the government attended directly to the housing requirements of the low-income rural population, taking charge of planning, design, construction, supervision, allocation and, last, the long-term financing needed by the beneficiaries. The weaknesses of this model led, in the early 1990s, to a redefinition of the policy and subsidy systems, moving to a system of subsidies for demand that stressed the role of government as facilitator of the process, which turned Colombia into a pioneer in the modernization of its low-cost housing policy.
- 1.8 At that time, the social housing system and the direct subsidy for demand for social housing were established as a means of giving urban and rural low-income families access to housing. It was also decided that 20% of the program's budget would be used to meet the special needs of the rural population. The institutions responsible for administering the subsidies for the rural sector at that time were Caja Agraria for the national government's funds and the Cajas de Compensación Familiar (CCF) that had rural members, which were designated to set up social housing funds (FOVIS).¹
- 1.9 The Caja Agraria operated until 1999, when it was replaced in that task by the Banco Agrario (BA). On average, during the period 2002-2003, the BA granted subsidies to about 10,000 families for close to US\$18 million a year. In the last four years, more than 350,000 families have applied to the subsidy system. However, the budget has only been able to satisfy 13% of that demand. These figures reflect the limited investment in the sector and the imbalance between supply and demand.

D. Institutional framework of the system

- 1.10 The Ministry of Agriculture and Rural Development (MADR) is responsible for rural housing policy, in conjunction with the Ministry of the Environment, Housing, and Land Development (MAVDT). The MADR is responsible for executing the rural housing policy, and administration of the subsidies has been delegated by the executive branch to the BA (an entity that reports to the MADR). Their responsibilities and those of other institutions involved in the process are described below.
- 1.11 **The interagency rural social housing committee.** The committee was established in 2000 to guide, coordinate, and monitor rural social housing policy. It is

¹ Participation by the CCFs in allocating rural housing subsidies has been marginal, accounting for just 3% of all subsidies paid out.

composed of representatives of the MADR, which chairs it, the MAVDT, the National Planning Department (DNP) and other public institutions with ties to the sector. Its main functions are to coordinate policy, evaluate the results of rural social housing programs, and establish priorities for the allocation of national subsidies linked to rural sector policy and credit programs.

- 1.12 **The Ministry of the Environment, Housing, and Land Development (MAVDT)** is responsible for formulating national rural housing policy in coordination with the MADR, and for managing the housing sector's information system.
- 1.13 **The Ministry of Agriculture and Rural Development (MADR)** is responsible for formulating policy on the rural social housing subsidy in coordination with the MAVDT.
- 1.14 **The Banco Agrario** administers the social housing subsidy system and accepts applications for subsidies financed out of the national budget through the MADR, allocates them and monitors execution. It is a joint public and private corporation, which has established a Housing Management Office to administer the subsidies (see paragraphs 3.5 and 3.6).
- 1.15 **Providers of rural social housing projects.** Under Decree 1042 of 2003, they are responsible for organizing households to apply for a subsidy. Their main responsibilities are to define the project with the families, design it and apply for the subsidy, and cofinance and execute the project using the subsidy. Providers include municipal and district governments, their social housing funds, decentralized institutions, cooperative housing organizations, NGOs and other legally-established entities whose purpose includes the promotion of low-cost housing.

E. The rural social housing subsidy

- 1.16 The housing subsidy is a government contribution in cash, made on a one-time basis to a beneficiary family, to facilitate access to housing by the low-income rural population belonging to households in the system for the identification and classification of potential beneficiaries of social programs (SISBEN) classified in level 1 or 2.² The types of eligible solutions are housing improvements and basic sanitation (A), construction on own lot (B), and new housing (C). Under the current regulations, the value of the subsidy is between 10 and 12 minimum monthly

² SISBEN is the information system used to identify, classify and select individuals and families living in poverty, who can gain access to subsidies and other benefits granted by the government through its different programs. The SISBEN index is a summary indicator of the quality of life measured using a point system from 0 to 100 for each family. A family is poorer the closer it is to zero and less poor the closer it is to 100. SISBEN rural level 1 includes families with less than 18 points, and SISBEN level 2 families with between 18 and 30 points.

wages³ for housing improvements and basic sanitation, and between 12 and 18 minimum monthly wages for construction on own lot and the purchase of new housing. In no case may the maximum value of the housing exceed 50 minimum monthly wages, (i.e. about US\$6,750). The national subsidy may not exceed 70% of the value of the solution and is complemented with contributions of at least 20% by the housing providers and at least 10% by the beneficiary families, either in cash or in kind.

- 1.17 Experience has shown that the average value of the national subsidy has been less than 70% of the total cost of the solution (61%); that more than 93% of the funds have been used for type A and B solutions; and that the average value of the national subsidy and the cost of the solution have been lower than the figures preestablished in the program's parameters.

Table I-2
Average cost of housing by type of solution
(in US\$)

Type of solution	Contribution			Total cost of the solution
	National subsidy	Housing provider	Beneficiary	
A. Improvements	1,462	632	301	2,395
B. Own lot	1,910	894	401	3,205
C. New house	2,037	731	410	3,178

Source: Own, based on information from the BA on subsidies it granted in 1999-2003.

- 1.18 **Distribution of funds.** Current policy requires that 70% of the subsidies be distributed among the departments based on an index that considers the socioeconomic situation of the population in each department. The remaining 30% is reserved for housing projects linked to rural sector policy programs. The criteria for selecting and prioritizing projects linked to sector policy are established by the MADR in coordination with the MAVDT. The sector policy programs that have benefited to date from the rural social housing subsidy system include: forest development to replace illegal crops, peace programs, programs for river and road improvement and the country's connectivity. The point system used to rank the applicants is the same for all projects that accede to the subsidy system, which ensures that it is targeted to low-socioeconomic groups.

F. The operating cycle of the rural social housing subsidy system

- 1.19 The government currently holds public calls for proposals for subsidies. The housing providers group families together and present the applicants and projects to the Banco Agrario. The bank verifies the information and assigns the subsidies based on a previously-established point system. Physical execution begins after the subsidies are awarded. An agreement is signed between the BA, the housing provider and a representative of the beneficiaries, and a project operating committee is established to manage the project. The committee contracts the works and reports

³ 1 minimum monthly wage was equivalent to about US\$135 in 2003.

to the BA through a project auditor, so that funds can be disbursed against certificates of progress in the works and financial investment, until the housing is completed and delivered.

G. Problems and alternative solutions

1.20 The rural social housing subsidy system has been improved since it was established at the start of the 1990s. However, after analyzing the results of the policy and its operating cycle, certain inefficiencies and flaws have been observed in the last four years that can be addressed by modifying or adjusting some of the system's elements. This will help to bring about a substantial improvement in the effectiveness with which it achieves its objectives and in its efficiency in administering the subsidy. These problems were confirmed during program preparation through work with professionals and officials involved in the system from its inception and through field visits to seven localities, which included interviews with different players in the project cycle (cooperative housing organizations, mayors, beneficiaries, BA branches, etc.). The most significant aspects are described below:

1.21 The limited funds available versus real demand in the system brings about two situations:

- a. **Overcosts incurred during project design and presentation.** Demand for rural housing subsidies is 87% higher than the national budget set aside for that purpose. In the last four years, over 350,000 families have applied for the subsidy but just 13% of that demand has been met. High demand and scant resources have led to frustration among families that did not obtain a subsidy despite the fact that they met the requirements. There are also monetary costs that are difficult to recover linked to the presentations: at least US\$10 million, or the equivalent of about 3,700 subsidies, has been spent on studies and designs each year.⁴ The Banco Agrario, the housing providers, and the applicants also invest time, resources and effort in evaluating and preparing a large number of proposals. When the program was being prepared, targeting criteria were analyzed to identify criteria that would allow for more efficient work on the calls for proposals and allocation of the subsidies. These inefficiencies can be corrected by making calls for proposals regional, only allowing municipalities to present projects, and limiting the number of projects that each municipality can present.
- b. **Tendency to favor municipalities with greater financial capacity.** Although the rural social housing subsidy by department is equitable and is targeted to the poorest people in rural areas, the shortage of resources and current allocation

⁴ Assuming presentations costing US\$1 billion in 2000-2004, a design cost of 1% of the value of the housing solution and an average subsidy of US\$2,754.

mechanisms benefit the municipalities with more resources in each department. An analysis performed by crossing referencing information in the quality of life index⁵ and the SISBEN level demonstrated that the poorest municipalities did not necessarily receive a higher percentage of subsidies. This aspect was also reviewed jointly with the country when the program was being prepared and it was proposed to create a classification of municipalities based on the unmet basic needs index, with a view to giving priority in the subsidies to municipalities with the greatest needs.

- 1.22 **The links between rural social housing subsidy projects and rural sector policies are not defined.** The criteria used to prioritize the projects presented as contributions to rural sector policy (see paragraph 1.18) cannot be clearly identified with the current regulations. When the operation was being prepared, alternatives were analyzed to find Operating Regulations that provide selection and prioritization mechanisms for the allocation of this portion of program resources.
- 1.23 **The current processes do not ensure that the counterpart contributions by housing providers will be available on time.** At present, when the national subsidy is paid, the housing providers have been significantly behind schedule in furnishing the counterpart funds. Execution of at least 30% of the projects approved in 2003 was delayed because the counterpart funds were not provided on time. When the operation was being prepared, alternatives were studied for modifying the requirements to ensure effective compliance with the commitments made by the housing providers, including the need for a minimum percentage of the counterpart to be paid in cash prior to delivery of the subsidy.
- 1.24 **The information systems currently used to administer the subsidy system are based on outdated technology and are not integrated.** The Banco Agrario has made major efforts to automate certain processes and create an information system to manage the subsidy. Today, the housing providers can present their proposals electronically, which facilitates the bank's work in the processes of receiving and ranking proposals and allocating the subsidies. In addition, to manage the subsidy, the BA through its Housing Management Office, has developed a series of independent modules that can process information in some of the stages in the process of the call for proposals for subsidies. However, these systems lack certain elements that bring substantial improvement, namely: (i) the independence of the modules poses the risk that data could be lost or manipulated, which means that the information is not reliable; (ii) the processes are not on-line in real time, and therefore the information cannot be used in a flexible and timely manner for decision making; (iii) the system was developed with tools that have been superseded technologically; (iv) some of the processes have weak systems support, such as the cross-checking of information with SISBEN, the National Registry, and

⁵ The quality of life index is a tool for measuring poverty on the municipal level.

other agencies, project monitoring, payments and reconciliations of accounts, and calls for proposals from project auditors.

- 1.25 The program provides funds to improve technology and information systems in the MADR, which is the main hub in managing sector information, and in the BA, as the administrator of the subsidy program.
- 1.26 **Absence of a monitoring and follow-up system.** The rural social housing subsidy system has no methodologies or instruments for monitoring and taking periodic measurements to establish the benefits and impacts of the policy and the subsidy. This information needs to be prepared at the time that each concrete request is made by the policy-making authorities and there are no routines or processes for doing so. The system's complete cycle and its statistical data are directed by a single player, which makes it difficult to access information. A system for open consultation by the parties involved in the program needs to be designed, which would lend greater transparency to the rural social housing subsidy system.
- 1.27 The MADR is responsible for executing the country's rural housing policy and therefore it is here that the monitoring and follow-up system will be established. There should be a methodology for managing information that will automatically ensure that data are obtained from reliable external sources and that impact indicators are used to determine the measurements to support regional and national decision making. In the absence of such a system, the MADR cannot perform comparative studies with historical information on the political, social and cultural impact of the different subsidies granted in the past.
- 1.28 When the operation was being prepared, the Bank worked with the country to resolve the problems described in paragraphs 1.21 and 1.22. The modifications form part of the program's Operating Regulations. They introduce major changes in the current system of allocating the subsidy, which do not require new investments but rather changes or adjustments in program procedures, which will be one of the main contributions of this operation to the rural social housing subsidy system. The other problems (paragraphs 1.24 to 1.27) are addressed by financing the activities included in components 2 and 3 of the present operation.

H. The Bank's country strategy

- 1.29 The strategy with Colombia (document GN-2267-1) identifies three main objectives for Bank actions: (i) laying the groundwork to invigorate and reactivate the economy; (ii) promoting social development and ensuring the protection of the most vulnerable groups; and (iii) improving the country's governance and supporting reform of the State. The Bank will promote social development and ensure protection of the most vulnerable groups by improving: (i) the social safety nets, to reduce the vulnerability of low-income groups; and (ii) the coverage, quality and efficiency of basic social services. The proposed program meshes with

that strategy, particularly with regard to the reduction of poverty and inequity and access to basic social services, since it helps to raise the standard of living of the country's rural population. With the improvement in the efficiency of the rural social housing subsidy system, the program contributes to the process of modernizing public management. Also, in accordance with the sequence established in the country strategy, protection and support for vulnerable groups and support for reforms to assure proper delivery of social services are priorities for the period 2003-2004.

I. The country's sector strategy

- 1.30 Colombia's constitution establishes that citizens have the right to decent housing and the program will provide resources to allow them to accede to that right. In addition, the 2003-2006 national development plan (approved under Law 812 in 2003) guides the government's activities in four basic areas: (i) democratic security; (ii) sustainable economic growth and job creation; (iii) social equity; and (iv) government transparency and efficiency. The proposed program is coherent and consistent with the country's strategy for the sector since promotion of housing and housing construction contributes to *sustainable economic growth* and access to basic infrastructure and housing contributes to *building social equity*.
- 1.31 Since 1998, the country has followed a sector strategy of making housing policy a municipal responsibility. The strategy is intended to motivate municipalities to invest their own resources in housing construction and to permit and promote low-cost housing as part of their land management plans. The program conforms to this strategy and strengthens it, since: (i) access to program resources can only be gained through the municipalities; and (ii) incentives are created for the neediest municipalities to obtain a larger share of the program.

J. The Bank's sector strategy

- 1.32 The Bank's operating policy for the sector (OP-752, Rural Development) identifies improving access by the rural population to basic services as a priority. The proposed operation responds directly to the policy objectives, since it supports the provision of rural housing and minimum sanitary conditions. Another Bank strategy for the sector is to improve the effectiveness of institutions responsible for the formulation and implementation of rural development policies and projects. Since the program will support actions to improve the management of resources, it also contributes to this objective.

K. Program strategy and the Bank's contribution

- 1.33 This operation is intended to lend continuity and sustainability to the country's rural social housing policy. The operation's strategy has been designed along two main lines: (i) to make the rural social housing subsidy system more competitive in the

quest for budgetary resources through efficient execution and the provision of tools for measuring the outcomes, by fine-tuning the system's operating cycle, updating the information system, and providing instruments for monitoring and follow-up; and (ii) to make the rural social housing subsidy system sustainable in the long run by creating an environment that promotes increased participation by other public and private stakeholders.

- 1.34 Although the rural housing subsidy system has demonstrated its merits and has been reasonably executed, the limitations on resources have subjected it to strong pressure from demand, which undermines its efficiency and means that it is perceived as a program that is not transparent. The proposed strategy (i.e. efficient execution through the modification and adjustment of the mechanisms for targeting, allocation, and prioritization of resources) will minimize this negative aspect of the system.
- 1.35 Through the Bank's work as facilitator, actions will be coordinated between the MADR and the Housing and Land Development Branch (VMVDT) to ensure that the information systems and the monitoring and evaluation systems generated under the proposed program are in line with those of the urban social housing program (CO-0241) that the Bank is also financing. This will help to establish a housing sector information system, which is also a strong demand of the private sector.
- 1.36 The proposed program intends to improve the targeting of the resources in the subsidy system, gradually assuring as well that they are directed to the country's poorer municipalities. Alternatives will be studied to identify sources to add to the funds invested in the program, through the design of mechanisms and incentives to create strategic partnerships with new players in the rural sector.

L. Value added by the Bank

- 1.37 The value added by the Bank to the program has mostly been its contribution to modifying the procedures used to allocate the subsidies. These modifications were agreed on when the operation was being prepared and form part of the Operating Regulations. Their implementation will not require new investments. Gains in efficiency and/or improvements in processes will be achieved through: (i) regional calls for proposals; (ii) greater clarity in the allocation of subsidies for rural sector policy projects; (iii) more active participation by municipalities as consolidators of projects; (iv) creation of incentives to increase participation by the departments; and (v) improvements in the formula for ranking applicants.

M. Lessons learned and coordination with other Bank operations and other donors

- 1.38 The country's experience in executing rural social housing programs has been taken into account in preparing this operation. Consideration has also been given to the

lessons learned from other Bank operations that have included components to finance rural social housing.⁶ Bank urban housing operations in Ecuador and Peru and the urban social housing program (1483/OC-CO) approved in 2003 have also been kept in mind.

- 1.39 As for the lessons learned in the administration of subsidies, rural social housing subsidy policies and the system in Colombia are the result of a continuous learning process since the start of the 1990s, which was supported by the Bank through the operations mentioned. Experience with these programs demonstrates that: (i) geographic dispersion and regional diversity make it necessary to encourage participation by civil society, NGOs, etc., as agents that are familiar with demand; and (ii) rural conditions do not promote the rise of a construction market as they do in the big cities, and it is therefore indispensable to have organizations that consolidate demand and to establish more complex control and monitoring systems.
- 1.40 The program's activities include coordination with the urban social housing program (1483/OC-CO) (see paragraph 2.32), which is a key for developing the country's public housing policy. Although the actions of the present operation will not be dependent on the actions carried out under the urban program, mechanisms will be developed to ensure coordination, complementation, and contribution to the housing sector information system operated by the MAVDT. Also, the technical-cooperation project on support for the Afro-Colombian community in participation, inclusion and transparency (ATN/NI-8636/NI, CO-T1002) will be used as an input for the present program.
- 1.41 While the operation was being designed, coordination meetings were held with those in charge of the following programs, which depend on the Ministry of Agriculture: Support for productive partnerships financed by the World Bank (7097/CO) and support for the development of rural enterprise, which is being financed by the International Fund for Agricultural Development (FIDA) (426-CO). Although these programs are not directly related to the housing sector, they target the development of areas and rural microenterprise that are part of the group of eligible projects in the program of the rural sector policy projects.

⁶ Social solidarity network (899/OC-CO) and reconstruction of the coffee-growing region (863/OC-CO and 774/OC-CO).

II. THE PROGRAM

A. Objectives and description

- 2.1 The general objective of the program is to support the Colombian government in its efforts to provide social housing in rural areas, improving the instruments presently used in the rural social housing subsidy system and providing evaluation and monitoring mechanisms for decision making on public housing policies. The intent is to enhance the quality of life of low-income rural families by improving their housing.

B. Program structure

- 2.2 A program with three components is proposed to achieve the objective: (i) subsidies for rural social housing; (ii) information system for administering the subsidy; and (iii) design and implementation of a system for follow-up and monitoring and for measuring the benefits and impact of the rural social housing subsidy.

1. Component 1. Subsidies for rural social housing (US\$35 million)

- 2.3 This component will finance about 17,000 subsidies for an equal number of low-income families. To obtain a subsidy, the families must be living in a rural area and be registered in SISBEN level 1 or 2. This assistance, coupled with the family's contribution (at least 10% of the price of the home) and the contribution of the housing provider (at least 20% of the home) will permit them: (i) to complete or improve substandard housing; (ii) to build a new home on land that they own; or (iii) to buy a new home. In no event may the total cost of the house exceed 50 minimum monthly wages. In the case of the Departments of Archipiélago de San Andrés, Providencia, and Santa Catalina up to a SISBEN level 3 will be accepted, and house price of one hundred and thirty-five minimum monthly wages. A tentative breakdown of the subsidies is given in Table II-1.

Table II-1*
Breakdown of the rural social housing subsidy
(in US\$)

	Type of solution	Subsidies	Average values			
		Number	Amount of the subsidy	Provider's contribution	Beneficiary's contribution	Cost of the solution
A	Improvement	9,500	1,400	600	300	2,300
B	Own lot	6,600	1,900	900	400	3,200
C	New housing	1,000	2,000	700	400	3,100
	Total	17,100				-

* The figures in this table are estimates and may fluctuate as the operation proceeds

- 2.4 Program resources will be distributed nationally by using regional distribution coefficients established on the basis of the UBN index, overcrowding, quality of housing and population concentration as shown in the table below:

Table II-2
Regional distribution

Department	Dist. %	Department	Dist. %	Department	Dist. %
Antioquia	8.81	Choco	3.39	Tolima	3.59
Atlántico	1.33	Huila	3.01	Valle del Cauca	2.25
Bogotá	1.33	La Guajira	1.52	Arauca	1.82
Bolívar	4.81	Magdalena	4.17	Casanare	1.95
Boyaca	4.62	Meta	2.31	Putumayo	2.39
Caldas	2.12	Nariño	7.14	San Andrés	1.33
Caquetá	2.71	Norte De Santander	2.95	Amazonas	1.33
Cauca	6.17	Quindío	1.33	Guaínia	1.33
Cesar	2.99	Risaralda	1.41	Guaviare	1.33
Córdoba	7.30	Santander	3.59	Vaupés	1.33
Cundinamarca	4.72	Sucre	2.31	Vichada	1.33

Note: This distribution may change if the indicators used to calculate it change.

- 2.5 In each call to participate in the process, applicants for the subsidy may register in two different pools: (i) ordinary, composed of 60% of the resources available each year; or (ii) integrated rural sector policy projects, for the remaining 40%. The projects in this category will need to be linked to one of the following programs:

productive chains, agrarian reform, rural development, environmental management, alternative development, and special subsidies. Up to 15% of total resources may be used to address emergency situations involving displaced and reintegrated persons, to be called special subsidies because they require procedures that differ from those applicable to the rest of the funds. Funds earmarked for special subsidies will be credited to the rural sector policy projects portfolio. However, the requisites for access to the program (paragraph 2.3) and the selection criteria (Table II-3) will be the same for every category.

- 2.6 The selection criteria for subsidy beneficiaries are shown in Table II-3 in order of priority in the point system for ranking and selecting applicants. The criteria are described in detail in the Operating Regulations, which can be consulted in the program's technical files.

Table II-3
Beneficiary selection criteria
Value of the subsidy requested
Municipal counterpart
Higher municipal UBNs
Number of times applied
Presence of dependent population
Departmental contribution to municipalities with higher UBNs
No. of family members
SISBEN level
Single parent family

a. Housing improvements or basic sanitation

- 2.7 Problems related to housing quality will be solved by awarding approximately 9,500 subsidies, worth an average of US\$1,400 each. This amount represents between 10 and 12 minimum monthly wages (i.e. between about US\$1,350 and US\$1,620). Broadly speaking, the improvements will remedy the following problems: lack of a sewer connection or final sewage disposal; dirt floors or inappropriate materials; roof made of unsuitable materials that pose a health risk; lack of a bathroom and/or kitchen; defects in the main structure; or overcrowding. The total value of the solution, which is composed of the national subsidy and the contributions by the beneficiary and the housing provider, is an average of US\$2,300.

b. New housing built on own lot

- 2.8 Subsidies averaging US\$1,900 will be provided for about 6,600 housing solutions to be built on own lots. In this case, the subsidy is between 12 and 18 minimum monthly wages (i.e. between US\$1,620 and US\$2,430). The housing solution should provide a minimum of one multiple-use space, one bedroom, basic sanitation (potable water and adequate sewage disposal) and residential installations and service connections. The design should permit the solution to be developed gradually. In this case, the average value of the solution is US\$3,200.

c. Purchase of new housing

- 2.9 Approximately 1,000 subsidies averaging US\$2,000 will be granted to buy new housing. The subsidy is between 12 and 18 minimum monthly wages (i.e. between US\$1,620 and US\$2,430). A new housing solution should provide a minimum of one multiple-use space, one bedroom, basic sanitation (potable water and adequate sewage disposal) and residential installations and service connections. The design should permit the solution to be developed gradually. In this case, the average value of the solution is US\$3,100⁷.

2. Component 2. Information system to administer the subsidy (US\$400,000)

- 2.10 The program will finance: (i) consulting services to develop new programs and upgrade existing programs and to design the network connection and a training program for users; and (ii) procurement of equipment to upgrade the equipment (network and hardware) of the Banco Agrario's Housing Management Office (system operator) and the Directorate of Rural Development, the MADR body responsible for national housing policy implementation.
- 2.11 This component is intended to improve existing information systems for rural social housing, particularly in areas linked to security—through logs of transactions—and the integration of information through on-line connections of the main participants in the process. Internal links will be developed for the BA, for example its regional branches will be connected to the Housing Management Office. The new system will permit information to be generated and updated in real time and allow for the systematic production of the reports required to monitor execution and compliance with the goals for the program and sector policy, factors that are a direct input for the follow-up and monitoring system. By using access logs, the system will offer operational transparency and mechanisms for the control and verification of information available to the general public.

3. Component 3. Design and implementation of a system for program monitoring and follow-up and impact and benefit measurement and other activities (US\$250,000)

- 2.12 This component will finance: (i) consulting services to design and define measurement indicators and methodologies and produce software for the system; and (ii) a training program for system administrators and users.
- 2.13 The follow-up and monitoring system will improve the information available on the rural social housing subsidy with regard to targeting, execution times, allocation costs, housing quality, and the impact of these factors on the socioeconomic

⁷ The average amount of the subsidies are between 10 and 18 current minimum monthly salaries.

situation of the beneficiaries. It will also provide information on progress in, and the impact of, institution building, monitoring the environmental indicators under the environmental and social management plan (paragraph 4.12), and monitoring execution of the IDB loan.

- 2.14 The system will be fully parametrizable and will be able to record the variables that are specific to the rural social housing subsidy and integrate them with the urban social housing subsidy managed by the VMAVDT. Training will be financed for staff of the Directorate of Rural Development in areas related to the production and analysis of sector information, turning the system into a major tool for decision making by the Colombian government and the agencies responsible for formulating and directing national housing policies.
- 2.15 This component will also finance a study to lay the groundwork for designing mechanisms and incentives to attract new participants and public and private resources to the sector. In addition to the counterpart funds that each housing provider assigns to the project, the municipalities and departments have other funds which, when added to the funds provided by this program, can bring about a substantial improvement in the coverage of rural social housing. Surveys will be financed for program monitoring during the last two years of execution.

C. Cost and financing

- 2.16 The total cost of the program, including the national counterpart contributions, is an estimated US\$39,830,000, including a Bank loan of US\$30 million from the Ordinary Capital and counterpart contributions of US\$9,830,000 equivalent. The counterpart funds will come from the contributions of (i) housing providers and beneficiaries in the form of cash, materials, and labor; and (ii) government contributions. The disbursement schedule is given in Table III-1.

Table II-4
Program cost
(in US\$ thousands)

ITEM	IDB	Local contribution	Total	%
I. Administration	752	650	1,402	3.5%
1.1 Program Coordination Unit	252	650	902	
1.2 Program auditing	200		200	
1.3 Mid-term and final evaluations	300		300	
II. Direct costs	28,648	9,180	37,828	95.0%
2.1 Subsidy component (*)	27,998	9,180	37,178	
2.2 Subsidy administration information system	400		400	
2.3 Follow up and monitoring	250		250	
Subtotal	29,400	9,830	39,230	98.5%
III. Contingencies	600		600	1.5%
IV. Financial costs				
Total	30,000	9,830	39,830	100%
%	75%	25%	100%	

(*) Includes the costs of administering the rural social housing subsidy system, which may not exceed 8% of the total subsidy amount (Decree 1042/03, Art.40).

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The Republic of Colombia will be the borrower and guarantor and the Ministry of Agriculture and Rural Development (MADR) will be the executing agency. A program coordination unit (PCU) that reports directly to the MADR's Rural Development Directorate will be responsible for overall coordination of execution.⁸ Since the program is designed to improve interagency coordination for the formulation and implementation of public housing policies, an interagency rural social housing commission will be established as liaison between the MADR and the MAVDT, which are the policy-making bodies, to monitor overall compliance with program policies and goals. Organization and functions for program implementation and the execution arrangement and mechanisms are described below.

B. Main players

1. Program Coordination Unit (PCU)

- 3.2 The PCU will be responsible for overall program administration and coordination. Its responsibilities are set out in the program's Operating Regulations and are summarized in the following paragraphs. **Technical:** (i) to consolidate the annual work plans (AWPs); (ii) to review terms of reference, prepare bidding documents, contract consulting services, and procure goods and services; (iii) to monitor the program, ensuring compliance with the operating procedures and contractual conditions; (iv) to follow-up on the recommendations arising from the monitoring system to ensure compliance; and (v) to prepare the technical reports required by the Bank. **Financial:** (i) to prepare and present to the Ministry of Finance and Public Credit and subsequently to the Bank the disbursement requests and substantiation of eligible program expenses, the semiannual reports on the revolving fund, the audited financial statements, and other reports required by the Bank; (ii) to maintain a suitable system for filing the supporting documentation of eligible expenditures for verification by Bank staff and the external auditors; (iii) to maintain separate records of program operations that are integrated into the MADR system, to permit accounting and financial management of the loan proceeds and the local counterpart, based on Bank requirements; (iv) to maintain separate and special bank accounts to administer the loan proceeds and local counterpart. **Management/control:** (i) to establish operational controls; (ii) to coordinate the evaluation of the AWPs and establish corrective measures; and (iii) to act as liaison for the program with the Bank and other public and private agencies.

⁸ The PCU has been assigned this place in the organization on the basis of technical and institutional criteria.

- 3.3 The PCU will report to the Directorate of Rural Sustainable Development. Initially, it will have a coordinator and a financial administration specialist, both financed from the program. This team will be complemented with MADR staff assigned to the program (i.e.: an expert, with expertise in contracts on a part-time basis, and two experts in economics or administration to serve in a technical and administrative support capacity for the program on a full-time basis). The PCU coordinator will be a professional with postgraduate studies and experience in projects financed by multilateral agencies, with emphasis on strategic planning and program follow-up and monitoring. Contracting the coordinator will require the Bank's non-objection. **Establishment of the PCU and its staff will be a condition precedent to the first disbursement.**

2. Directorate of Rural Development

- 3.4 In addition to being responsible for general program coordination, the Directorate of Rural Development will execute the monitoring and evaluation component. It will assign at least one directorate professional full time, for the purpose of: (i) taking part in preparing the action plan and the annual work plans; (ii) preparing the final terms of reference for personnel hired under contract for this component; (iii) writing the reports required by the PCU and the Bank; (iv) controlling and monitoring progress of the component; (v) evaluating the completed Action Plan and Annual Work Plan and the extent to which their aims have been fulfilled; and (vi) coordinating actions with the Banco Agrario to implement the information and monitoring system.

3. Banco Agrario

- 3.5 The Banco Agrario will be responsible for implementing the subsidy system and its responsibilities will include the following. **Financial:** (i) preparing and presenting the accounts for the subsidies and substantiation of other eligible program costs to the MADR/PCU, presenting the financial information and other reports required by the PCU, and keeping a suitable filing system for the documentation supporting the subsidies and eligible expenditures for verification by Bank staff and the external auditors; (ii) keeping separate records of program operations so that accounting and financial management of the loan proceeds and local counterpart will be in accordance with Bank requirements; (iii) maintaining separate and special bank accounts for the proceeds of the loan and the local counterpart. **Technical:** (i) participating in the selection process and contracting the goods and consulting services for the components that are its responsibility, in coordination with the PCU; (ii) allocating the subsidies in accordance with the program's rules; (iii) controlling the quality of the housing and the delivery of basic sanitation and/or associated public services, if applicable; (iv) implementing and maintaining suitable information systems for the accounting and financial management of the subsidies component; (v) coordinating actions with the Directorate of Rural Development (DDR) to implement the information and monitoring system; and (vi) training the

regional offices and project auditors in the new program regulations, including environmental aspects.

- 3.6 To carry out these responsibilities, the Banco Agrario⁹ has a Housing Management Office (GVR) with the following core structure: a management area, a financial and administrative coordination area, and a technical coordination area. The financial and administrative coordination area will be responsible for financial aspects of the subsidies. The technical coordination area is responsible for technical aspects of the subsidies, from the calls for proposals to final delivery of the works. The GV will be supported in its work by the other areas of the BA involved in the process, i.e.: administrative management for policy-related aspects; a general counsel for project related matters; a treasury office for making payments; an accounting management office for accounting control, and an internal audit and fiscal review offices for the subsidy award process.
- 3.7 Since the program will be carried out in different parts of the country, the BA, through the GV, will maintain departmental coordination units, whose functions will be to advise on project presentation, receive complaints, monitor the work of the project auditors, and carry out the technical and administrative formalities for authorizing and making project disbursements. These coordination units will have a civil engineer or architect and an administrative assistant, and will be strengthened during calls for proposals according to the specific demands of the program, including participation by social workers.

4. Interagency rural social housing commission

- 3.8 The interagency rural social housing commission is a body whose purpose is to guide, coordinate, and control and monitor rural social housing policy. It is composed of representatives of the MADR, the MVADT, the DNP, the BA and other public sector institutions with links to the sector. The commission will appoint a special committee to oversee general compliance with program policies and goals. The committee will be composed of one representative from the MADR, one from the MVADT, one from the DNP, and one from the BA. Its functions will be: (i) to define the rural sector policy programs to be given priority, before each call for proposals; (ii) to review compliance and the normal development of the program's policies and goals; (iii) to propose changes in the program policy to the commission; (iv) to review and approve the annual work plans and their budgets for subsequent approval by the commission; and (v) to review the proper use of the program's financial resources. The information needed to perform its functions will be provided by the PCU. The committee's functions, powers, and operating rules

⁹ The BA has been administering the rural social housing subsidy system since 1999 and has the structure, processes and resources for that purpose. The structure described here is the present one, with the adjustments needed to carry out the new project cycle. It should be maintained during the execution period.

have been included in the program Operating Regulations. **Establishment of the special committee will be a condition precedent to the first disbursement.**

C. Execution mechanism

1. Social housing subsidy component

- 3.9 **Call for proposals, submission, and selection of projects and beneficiaries.** The MADR, together with the BA, will issue public calls to present rural social housing projects. The primary allocation of funds will be by department, based on criteria that give priority to the population living in relative poverty and unmet basic needs identified in paragraph 2.4. The calls will be issued by region. This procedure may be modified at the country's request as long as the program objectives of efficiency and targeting are adhered to. In all cases, a balance will have to be struck between the annual budgetary funding available and primary allocation by department. The operating procedures of the method used will be part of the program Operating Regulations.
- 3.10 **Housing providers.** The housing providers are the municipalities, special departments, and the governing councils of legally-established indigenous reservations, which are eligible to present projects to the BA. The municipalities are responsible for organizing applicant households (which may not number more than 100) to apply for the subsidy, deciding on the project with the families, designing it, presenting it, cofinancing it, and executing it using resources from the subsidy. To carry out these functions, the housing providers may have departmental governments as advisors and/or contributing partners, their social housing funds, or decentralized institutions, cooperative housing organizations, NGOs and other legally-incorporated institutions whose objectives include the promotion of social housing.
- 3.11 The BA will answer consultations from potential providers during the submission period and will subsequently formally close the call for proposals at each of the regional offices. The BA will then verify the information received, rank the applicants and assign the housing subsidies to the projects with the most points, to which end it will use a score sheet (see the OR and Table II-3). The administrative instrument allocating the subsidies will be issued by the BA's board of directors.
- 3.12 **Payment of the subsidies to the beneficiaries.** For effective delivery of the proceeds of subsidies to projects awarded subsidies, once an agreement has been executed between the EO and the representatives of the beneficiaries, the BA will review the supporting documentation before processing disbursements into the current accounts of the projects, verifying in particular that the counterpart has been provided and checking the rest of the legal documentation required. Subsequently, the Housing Management Office will order the Treasury Management Office to allocate the funds directly into the current accounts of the projects, which have

- already been opened in the branch of the BA closest to the municipality where the project will be carried out. The operating committee of each project will have access to the funds in the current account and spend them according to the investment and expenditure timetable for the project, with technical advice and control by the project auditor hired by the BA.
- 3.13 **Execution and supervision of the works.** Once the subsidies have been awarded, the technical and financial execution stage begins. The main entities involved in this process are described below.
- 3.14 **Project operating committee.** Each rural housing project will have a committee responsible for its timely and efficient execution. The members of the committee, which will be legally established, will be a representative of the beneficiaries, the project auditor hired by the BA, and the legal representative of the project housing provider. The committee's tasks include: (i) ensuring that the project is carried out in accordance with the technical specifications, budgets, and timetables; (ii) approving the work programs and organization presented by the executing agencies of the physical works; (iii) giving the go-ahead for the BA to make payments and disbursements under the contracts, agreements, and work orders related to the project; and (iv) evaluating and recommending the procurements and contracts necessary for the project to ensure the transparency of the processes.
- 3.15 **Project auditors.** The project auditors are entitled to attend, without the right to vote, meetings of the project operating committees and are responsible for technical, administrative, economic, financial, and accounting control of the projects financed with the rural social housing subsidy. Project auditors will be selected by the administrative vice president of the BA in accordance with the OR program procedures. There will also be a permanent register of consultants. The details of the selection process are given in the OR.

2. Information systems component

- 3.16 The BA, through its Housing Management Office, will program activities and monitor and control the quality of the contracted system. It will appoint a permanent staff member, a system coordinator, to take charge of the subcomponent, acting as liaison with the PCU in all matters related to progress and reports in this area. The subsidy system currently has a basic operational information system, which will be complemented and expanded under the program. To begin program execution, however, it will be necessary to update and implement the modules for submissions, beneficiary selection, and subsidiary allocation, which do not require further spending. **This updating and implementation will be a condition precedent to the first disbursement of component 1 (Rural social housing subsidies).**

3. Monitoring and evaluation component and other activities

- 3.17 The MADR, through the DDR, will program activities and monitor and control the quality of the system contracted. It will appoint a permanent staff member to take charge of the subcomponent, who will act as liaison with the PCU in all matters related to progress and reports in this area. The staff member will prepare the terms of reference for the studies, in cooperation with the PCU.

D. Operating procedures

- 3.18 Component 1 will be executed on the basis of the Operating Regulations that are attached to this document. The OR include the program operating mechanisms, the functions of the participating institutions (the PCU, the interagency commission, the BA, the project operating committees, etc.), the eligibility criteria for the beneficiaries, types and amounts of the subsidies, eligibility criteria for the housing, financial mechanisms of the program, and environmental considerations. The OR also set out the limits and procedures to be used in procuring goods and services and purchasing equipment, which are consistent with Bank rules and procedures. **Placing the Operating Regulations in effect is a condition precedent to the first disbursement.**
- 3.19 The other components will be executed based on the AWP and the plan for year one is now ready. Preparation of the AWP will be directed by the PCU and they will be approved by the interagency commission. The AWP will contain information on the breakdown and timetable of activities to be carried out during the year, establishing targets and indicators based on the program logical framework. They will also need to contain details on budget execution, indicating sources of financing, terms of reference for the main contracts, and specifications for the bids to be carried out. Lastly, starting in the second year of the project, the AWP will also include an evaluation of the previous year's plan. **The Bank's nonobjection to the AWP for year one is a condition precedent to the first disbursement**

E. Procurement

- 3.20 Goods and related services will be procured and services contracted in accordance with Bank procurement policies and procedures. International competitive bidding will be used for goods and services costing more than US\$350,000 equivalent and for consulting services costing US\$200,000 and over. In both cases, procurement and contracts below those thresholds will be governed by local legislation, provided they are compatible with Bank policies. The procurement plan for the program is attached as Annex II.

F. Disbursement schedule

- 3.21 The disbursement period has been estimated as three years from the effective date of the loan contract. The following table shows the disbursement schedule for the loan proceeds and local counterpart.

Table III-1
Disbursement schedule
(in US\$ millions)

Source	2005	2006	2007	Total	%
IDB	9.334	10.550	10.115	29.999	75%
Local	3.058	3.386	3.386	9.830	25%
Total	12.392	13.936	13.501	39.829	100%
%	31%	35%	24%	100%	

G. Disbursements and revolving fund

- 3.22 **Revolving fund.** Given the nature of the program, a revolving fund will be established for up to 10% of the Bank financing for disbursement purposes. The figure of 10% is justified on account of the decentralized execution plan and the large number of projects to be carried out simultaneously. This involves a process that begins with MADR transferring the funds to the BA as subexecuting agency and continues with the transfer of funds by the BA to each of the projects, which triggers the execution process. After the first stages of the projects are completed, documentation supporting expenditures will be sent to the subexecuting agency and by the latter to the MADR and finally to the Bank. The 'advance of funds-decentralized execution' cycle will take an estimated 4 to 6 months, depending on the project. Since about 35% of the resources will be executed each year and given the length of the cycle, a revolving fund of up to 10% of the total loan is required to ensure liquidity in the program. Semiannual reports on the status of the revolving fund will be presented within 60 days after the close of each six-month period.
- 3.23 **Accounting.** The PCU will keep an accounting system for the program in accordance with Bank requirements and will perform the accounting for all program items. It will consolidate the accounts it receives from the BA for the subsidy component and be responsible for the semiannual presentation of reports to the Bank on the status of the revolving fund. The BA will be required to keep accounting records of the subsidy program. It will also perform monthly tallies of undisbursed subsidy resources and returned subsidies, transferring this information to the PCU for preparation of the statement on the revolving fund.
- 3.24 **Review of disbursements and procurements.** An ex post review will be performed of contracting procedures and substantiation of disbursements for procurement of works and services and consulting services below the thresholds for

international competitive bidding. All the contracts will conform to procedures acceptable to the Bank, as established in Annexes B and C of the loan contract. Notwithstanding, the Bank may determine, on the basis of the results of its reviews of those processes, to use ex ante supervision of procurement and/or disbursements.

- 3.25 **Cost reporting.** The cost reporting mechanisms for the loan proceeds and counterpart resources have been established in detail in the program Operating Regulations. The counterpart contributions are also covered in detail in the OR.

H. Internal control, monitoring, and evaluation

- 3.26 The monitoring and evaluation processes will be used to identify problems and propose whatever changes are needed in program execution. The Bank will monitor general progress of the program through the Country Office. The operation will be monitored using the indicators defined in the logical framework. The work of the consulting firm that designs the program monitoring and control system will include measurements of the indicators in question for the first year of the program.
- 3.27 **External auditing.** External audits will be operational and financial in nature. The audits of the financial statements will conform to terms of reference agreed on in advance with the Bank, which will include unannounced visits and reviews during the year and reviews based on a sampling of the entities participating in program execution. The external auditing will be performed by a firm of independent auditors acceptable to the Bank, based on terms of reference approved in advance by the latter (documents AF-400 and AF-500). Standard Bank procedures will be followed for the selection and contracting of external auditing services (document AF-200). The annual financial statements of the program will be presented within 120 days after the end of the fiscal year, and the final audit within 120 days after the last disbursement. The auditing costs are included in the program and will be financed from the loan proceeds.

I. Evaluations

- 3.28 **Mid-term evaluation.** The mid-term evaluation will be performed at the end of the first 18 months or when 50% of the resources have been committed, whichever comes first. The evaluation will include: (i) progress towards the goals established for the mid term of each component, in accordance with the mid-term performance indicators appearing in the logical framework (see Annex III-2); (ii) a description of any problems identified and of the steps to solve them; (iii) an evaluation of the monitoring systems; and (iv) an analysis of the work of the GV and other areas of the BA involved in the program.
- 3.29 **Final evaluation.** Consultants will be hired to perform the final evaluation when 90 percent of the resources have been disbursed. In addition to covering the areas included in the mid-term evaluation, the following will be examined: the outcomes

of the different components, compliance with and/or deviations from the goals proposed in the logical framework, and the level of beneficiary satisfaction with the program.

- 3.30 **Ex post evaluation.** The PCU will compile, file, and maintain all the information, indicators and parameters included in the AWP, the mid-term review, and the final evaluation, in order to assist the Bank in preparing the project completion report.

IV. FEASIBILITY AND RISKS

A. Institutional feasibility

- 4.1 The operating experience of the current program shows that Banco Agrario has the capacity to execute the subsidy, which is the largest item in the program. It should be underlined that the subsidy program is directed, at the technical level, by the bank's Housing Management Office which receives support from the BA's entire financial, legal, and control structure, which is regulated by the Office of the Superintendent of Banks. The program coordination unit will report to the Rural Development Directorate of the MADR, which will also be responsible for executing the program monitoring and evaluation component. The directorate has specific experience in executing programs with multilateral lending agencies.¹⁰ Its responsibility as PCU is limited to general coordination and the financial aspects of the operation, leaving execution of specific program activities to the line agencies of the ministry and Banco Agrario. When the program was being prepared in coordination with the Bank's Country Office, the capacity of the institutions in question to carry out the program was verified.

B. Socioeconomic feasibility¹¹

- 4.2 Colombia's constitution establishes that access to decent housing is a fundamental right of all citizens that should be guaranteed by the State. The present operation supports the country financially in its efforts to respond to housing problems. Beyond the possibility of responding to this social demand, a series of benefits (gains in efficiency and improvements in family health) have been identified and quantified, indicating that society will recover most of the investment in seven years.

¹⁰ Executing units that report to the directorate are currently carrying out the following programs: IBRD, Productive Partnerships Support Project (IBRD 7097-CO), and the Rural Microenterprise Development Programme (IFAD 426-CO).

¹¹ The complete analysis of socioeconomic feasibility, including the basic data, assumptions and estimates on which the figures given in this section are based, is available in the program technical files.

- 4.3 **Gains in efficiency.** They come mainly from: (i) the costs avoided by deterring demand through the regionalization of the calls for proposals, restrictions on the types of housing providers that are eligible, and the limitation on the number of projects to be awarded by each housing provider; and (ii) the costs avoided by computerizing the systems. In the first case, the costs avoided are mainly due to lower costs incurred by the housing providers in project preparation and presentation; the lower costs incurred by the BA in calling for proposals and their evaluation; and the lower costs to families of preparing and presenting documentation. They represent a savings to society of close to US\$2.4 million a year. The costs avoided by computerizing the systems, mainly based on automatic rejection and not permitting families to go forward in the process, will generate annual savings of about US\$160,000. In both cases, the primary beneficiaries will be the housing provider and the applicant households. The funds freed up each year through the regionalization of calls for proposals and computerization of processes have an economic value equivalent to 1,000 housing improvement solutions.
- 4.4 **Improvements in community well being.** In general, improvements in housing conditions provide protection against sanitary and environmental risks, they promote physical health and psychological well being, and make a positive contribution to family productivity. They also create a sense of stability and pride that motivates families to put down roots. The estimates made by the project team suggest that improvements in housing conditions also reduce the incidence of certain diseases,¹² and the number of accidents caused by defects in housing construction.¹³ This would imply an annual reduction in the medical costs of the families of US\$176,000; a reduction in income lost owing to the inability to work of about US\$210,000 a year,¹⁴ and a drop in public health spending of close to US\$2.2 million a year.¹⁵
- 4.5 **Other benefits.** Lastly, the improvements in the information systems and monitoring mechanisms should help: (i) to improve the targeting of the subsidies; (ii) to increase the transparency of the system, which will encourage the appropriate use of resources; and (iii) to avoid the waste of resources that society would

¹² Diarrhea, Chagas disease, and respiratory ailments.

¹³ The impact of fewer accidental injuries has not been quantified owing to the lack of data.

¹⁴ In the case of death, the loss to families would be substantially higher.

¹⁵ It should be noted that, in the case of families that receive new houses (about 7% of all beneficiaries), the increase in spending on certain public services (mainly running water) is quite insignificant, particularly when compared to the benefits identified.

experience if the housing is abandoned on account of problems with quality or lack of public services.¹⁶

C. Financial feasibility and sustainability

- 4.6 With regard to long-term financial sustainability, the country has been allocating funds from its budget to finance housing subsidies since 1990, and therefore it can be assumed that it will continue to do so. By improving efficiency, the program can compete better for budget resources and, through the incentives generated by the program, a larger contribution by the country's municipalities and departments is expected. Also, the national development plan approved under Law 812 of 2003 included rural social housing among the government's actions, which indicates that there is political consensus on the use of the funds budgeted for the sector. In the short term, financial feasibility is guaranteed since the counterpart is covered by the contributions made by the municipalities as a requirement for participating in the program. Historically, the municipalities' support has averaged 27% of the total cost of a housing solution, while the program took 20% as the average. Also, experience in the last four years has shown that the methodology of issuing calls for the presentation of projects, which spurs municipal participation, has achieved a positive response that considerably outstrips the program's possibilities of financing all existing demand. As for the financial sustainability of the beneficiary families, in other words, families able to remain in the housing and cover the obligations generated by their new situation (payment of utilities, taxes, and general maintenance), just 10% of the beneficiaries will be purchasing new housing, which will generate the costs in question. This effect will be mitigated, however, by the fact that the ORs call for a basic analysis of the financial capacity of the families to cover those future costs.

D. Environmental and social impact

- 4.7 **Social impact.** This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment. Furthermore, the program will use a point-based subsidy allocation system that considers family income and composition, among other factors, which reflects the degree of poverty so that priority can be given to the neediest families. Also, the system awards additional points for single-parent households headed by women. Special treatment will also be given to native groups or indigenous populations, which are classified as SISBEN level 1. The sociocultural situation of these groups has been taken into consideration, since their traditions and customs are reflected when defining the family and the topology of the housing. All these factors are

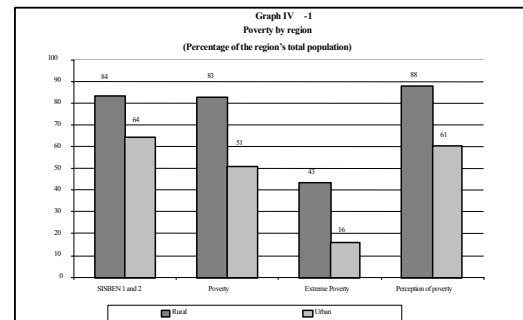
¹⁶ Although there are no data for the rural area, an evaluation of the subsidies granted by INURBE in 1999-2002 found that more than 7% of the houses were unoccupied owing to their poor quality or because they had no public utilities. If the same is true in the rural area, more than US\$500,000 a year is being wasted.

already included in the operational considerations of the rural social housing subsidy financed by the national government.

- 4.8 **Targeting and PTI.** This operation qualifies automatically as a social equity enhancing project.¹⁷ Based on the geographic criterion,¹⁸ the operation also qualifies as a poverty-targeted investment, since all the direct beneficiaries live in rural areas which are very backward economically and socially compared to the rest of the country. The data presented in Table I-1 support this affirmation, as do the figures on the size and depth of poverty in Colombia (see Graph IV-1). While more than 80% of the rural population is classified as SISBEN levels 1 and 2, the percentage is nearly 70% for the country as a whole. The difference is greater when extreme poverty is considered, since the value for this indicator in rural zones is nearly double the national average.

- 4.9 In addition to geographic targeting, the subsidies are exclusively intended to satisfy the housing needs of the poorest individuals in each locality (those in SISBEN levels 1 or 2).

- 4.10 In a situation where poverty affects eight out of every 10 rural dwellers, it is unlikely that the program will encounter leakage (benefit families with SISBEN levels above 2), particularly when: (i) in the same rural area, priority will be given to distributing resources to the poorest municipalities; and (ii) the monitoring and information systems will be improved so that the socioeconomic status of potential beneficiaries can be verified with greater efficiency and reliability.



Source: DANE. For SISBEN, period 1994 -2003; for poverty, 2000; and for perception of poverty the quality of life survey 2003.

- 4.11 **Environmental feasibility.** The Project Concept Document for the operation was presented to CESI on 26 March 2004. The committee's recommendations were included by the project team in the design of the operation. An environmental analysis was performed as part of the process, whose results can be consulted in the technical files. It was established that the impact of the program is highly positive, which has been verified in different housing operations in the region.

¹⁷ According to the criteria established in the Report on the Eighth General Increase in Resources of the Bank (document AB-1074).

¹⁸ Given that there is no adequate registry of the income of beneficiaries of previous projects, it was impossible to verify the headcount criterion (additional to the geographic one). However, given the severity of poverty in the rural region and the calculations by the DNP Social Mission (based on the 1997 quality of life survey) which indicate that close to 80% of people living in rural areas in levels SISBEN 1 and 2 are below the poverty line, it is likely that over 50% of the beneficiaries of the subsidies are poor.

- 4.12 The program plans to provide potable water and sewage disposal systems for the housing, which will help to improve sanitation. Most of the houses are isolated and built by the people themselves on land used for farming. Widespread use will be made of appropriate technologies for constructing the housing, sanitary cores, and septic tanks. Consequently, no negative environmental impact is anticipated other than the impact caused during execution of the works, which is transitory and can be mitigated. For the same reasons, housing will not be built in areas with environmental liabilities. Banco Agrario has detailed guidelines for designing rural housing projects, which will be evaluated and adapted to include measures to mitigate environmental and social impacts. The environmental and social management plan has defined the variables to be included in the monitoring and follow-up plan.

E. Benefits

- 4.13 The program will improve access to rural housing for the low-income population. It is anticipated that all of the 19 beneficiary families in the program will be below the poverty line. The program will also make it possible to improve the design, implementation and targeting of public policies in the sector. A detailed analysis of the program's benefits is presented in paragraphs 4.2 to 4.10.

F. Risks

- 4.14 **Centralization of the subsidy program cycle in a single player.** Unlike the urban subsidies, in this case and for different reasons, the BA has been the sole institution responsible for administering the subsidy. This situation creates the risk that if problems arise in program execution, they may go undetected by other stakeholders. To mitigate this risk, an evaluation and monitoring system will be headed by the MADR, which will measure compliance with the program's goals and requirements, the quality of the housing, and other parameters that help to analyze the administration of the subsidies.
- 4.15 **Availability of the budget contribution and sustainability of the program.** Under Law 546 of 1999, the national government must set aside at least US\$11 million annually for the rural social housing subsidy for five years. This means that in 2005, housing programs will have to compete for a budgetary allocation just like other investment sectors, which jeopardizes the long-term sustainability of the program. To mitigate this risk, it must be assured that resources already allocated will be used efficiently, which is something that the program is specifically supporting. Also, the program includes actions to identify alternative sources of financing.