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MULTILATERAL INVESTMENT FUND

COLOMBIA

SAVINGS PRODUCTS FOR LOW-INCOME WOMEN

(CO-M1083)

DONORS MEMORANDUM

This project is part of the regional program “Linking Social Protection Payments to Savings” approved on 16 March 2011 (RG-M1198)

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ABBREVIATIONS

AusAID	Australian Agency for International Development
FIC	Financial intermediation cooperative
IDRC	International Development Research Centre
NBC	Nonbank correspondent
PSR	Project status report
SISBEN	Sistema de identificación de potenciales beneficiarios de programas sociales [System to Identify Potential Beneficiaries of Social Programs]
SPH	IDB Social Protection and Health Division
WOCCU	World Council of Credit Unions

EXECUTIVE SUMMARY
SAVINGS PRODUCTS FOR LOW-INCOME WOMEN
(CO-M1083)

Country: Colombia

Executing agency: Red de Servicios y Canales Electrónicos de Colombia, S.A. (SumaRed)

Beneficiaries: The project's immediate beneficiaries will be approximately 6,000 recipients of Families in Action subsidies, who will use a minimum of one contractual and/or liquid savings product offered by at least seven financial intermediation cooperatives (FICs) with coverage in eight or more departments in Colombia. Other financial intermediaries and their customers will also benefit through lessons learned from the project that will be disseminated by the regional program "Linking Government Payments to Savings" (Prosavings–RG-M1198). More than 80% of the beneficiaries will be women, who will have access to the formal financial sector through contractual and liquid savings accounts and other financial services tailored to their needs.

Amounts:

MIF: Technical cooperation ¹	US\$209,000	35%
AusAID: Technical cooperation	US\$200,000	34%
Local counterpart	US\$182,000	31%
Total	US\$591,000	100%

Objectives: The goal of the project is to help increase the availability of financial products and services for the recipients of government payments in Colombia. The purpose is to promote the development of contractual and liquid savings products tailored to the recipients² of government subsidies in Colombia through at least seven FICs that are members of SumaRed.

Execution timetable: Execution period: 36 months
Disbursement period: 42 months

No objection: The Government of Colombia gave its no objection to the project in a letter dated 20 December 2011.

¹ Thirty-five percent of the technical cooperation funding will be financed by Citi Foundation (ATN/CF-12734-RG).

² Mainly designed for women, but also meeting the needs of men.

Contractual clauses:	Prior to the first disbursement, SumaRed will present the following to the Bank's satisfaction: (i) evidence that at least seven cooperatives have joined the project, through signature of a cooperation agreement with SumaRed to execute the project; (ii) Operating Regulations approved by SumaRed management; and (iii) evidence of creation of the executing unit, which will be made up of a project coordinator and a head of finance and accounting.
Environmental and social review:	No adverse environmental or social impacts are expected. The project is part of program RG-M1198, which was classified as a Category "C" operation and was reviewed and obtained clearance by the Environmental and Social Review Committee on 18 January 2011.
Exceptions to Bank policy:	None.

I. BACKGROUND: LINKING SOCIAL PROTECTION PAYMENTS TO SAVINGS

- 1.1 **Program objectives and components.** In March 2011, the Donors Committee approved the nonreimbursable technical cooperation operation for the program “Linking Social Protection Payments to Savings” (RG-M1198) through document MIF/AT-1119. The general objective of the program is to increase the availability of financial products and services targeted to low-income populations in Latin America and the Caribbean. The specific objective is to formulate a business model for developing and implementing liquid and contractual savings products targeted to recipients of conditional cash transfers or other social protection payments in the region, in order to help reduce their vulnerability. The program consists of the following components: (i) program set-up and project selection; (ii) financing of individual projects; and (iii) learning, communication, and catalytic effects. The program plays a central role in implementation of the “Banking the Unbanked” agenda in the MIF’s new Access Framework, the objective of which is to increase financial access for those with the lowest incomes by linking remittances, government payments, etc. to savings and other financial products (see Document 1 in the Technical Files).
- 1.2 **Program cost.** The total cost of the program is US\$6,618,285, of which the MIF is contributing US\$3,758,285 (56.79%) in nonreimbursable resources. Other donors are expected to contribute US\$1,660,000 (25.08%), of which Citi Foundation and the International Development Research Centre (IDRC) of Canada authorized contributions of US\$1,000,000 and US\$150,000, respectively, following approval of the program.
- 1.3 **Program administration.** The Multilateral Investment Fund (MIF) is the executing agency for Components 1 and 3 of the program and created an executing unit comprised of a program coordinator and a project technical team of MIF specialists. Individual projects to be financed through Component 2 will be executed by the requesting institutions from the region. The program also has a consultative committee of organizations that help bring banking services to the recipients of government payments, including Citi Foundation, IDRC, the Andean Development Corporation, New America Foundation, and the Bank’s Social Protection and Health Division (SPH).
- 1.4 **Identification of projects.** Program RG-M1198,³ which is known in Latin America and the Caribbean as the “Regional Program for Savings and Social Protection Payments” or simply the “Prosavings” program,⁴ issued a first invitation from 6 April to 6 June 2011 to the 52 institutions that initially expressed interest in participating in the program to present a detailed project proposal. Proposals were received from 22 of those institutions. Subsequently, the program team, in

³ Linking Social Protection Payments to Savings (identifiable as RG-M1198 and MIF/AT-1119).

⁴ In order to differentiate between MIF/AT-1119 (the project approved by the MIF Donors Committee) and the subprojects presented herein, MIF/AT-1119 will be referred to as the “Prosavings” program and the subprojects to be financed will be referred to as “projects.”

- coordination with the members of the MIF at Headquarters and in the countries, made an initial evaluation of the proposals received and identified those that fulfilled the program selection criteria,⁵ to be evaluated and considered in terms of financing and execution together with the program's consultative committee.
- 1.5 **Selection process.** Two levels of selection were established. The first level included the project team, an independent evaluator for each proposal, and the MIF specialists in each country that submitted a proposal. This level was the first filter for the detailed proposals received, identifying those that best fulfilled the criteria defined by the program and the IDB/MIF strategy for the country. The second level of selection included the project's Advisory Committee.
- 1.6 **Project approval.** As established by the Donors Committee for approval of individual projects in the framework of the Prosavings program, the Donors Committee will evaluate the recommended proposals received in the form of project documents with a donors memorandum, a logical framework, and a budget. The projects will be considered approved if no comments are received within five business days from the date of distribution to the Donors Committee. Executing agencies selected to implement projects will sign a technical cooperation agreement with the Bank.
- 1.7 **Impact evaluation.** With resources from Citi Foundation, IDRC, and the MIF, the program will select between four and six projects to undergo a rigorous impact evaluation. As part of the process of selecting those projects and defining questions and methodologies, each one will be submitted for consideration by the program's Advisory Committee.

II. THE PROJECT: CO-M1083

- 2.1 **Conditional cash transfer program.** The Government of Colombia, through the Families in Action program, provides cash subsidies to families with children under age 18 in SISBEN⁶ level 1, with the goal of ensuring school attendance by children and improving their health conditions through scheduled check-ups and appointments for monitoring their growth and development. The program benefits 2,589,064 families, including those that have been displaced, indigenous families, and low-income families. The Families in Action program provides direct cash assistance to the beneficiary mother or father (head of household), contingent upon fulfillment of commitments by the family. In 2010, families registered with the

⁵ The criteria used were: (1) Organization: (a) the organization's financial and technical capability and its track record; and (b) degree of experience with project execution and provision of financial products and services in the region. (2) Proposal: (i) relevance of the proposal to the problem being addressed; (ii) alignment with the program objectives; (iii) characteristics in terms of innovation; and (c) scalability and replicability of the initiative. (3) Sustainability: (a) Cost-benefit relationship of the project idea; and (b) operational and financial sustainability of the proposal considering the institution's financial soundness.

⁶ System to Identify Potential Beneficiaries of Social Programs.

Families in Action program received US\$684,041,660 through cash subsidies paid every two months. On average, each family receives US\$56 twice a month.

- 2.2 **Payment of Families in Action subsidies.** In order to increase the efficiency of delivery of the conditional cash transfers, promote savings, and encourage the use of other financial services by the recipients, the Families in Action program started a plan in 2009 for banking the unbanked. Accordingly, payments are made via debit cards at automated teller machines, at the teller counters of Banco Agrario,⁷ and at stores and other entities like financial intermediation cooperatives (FICs) in the points of service network. In the same way, the Banca de las Oportunidades program⁸ has taken on bringing banking services to Families in Action beneficiaries as an area of work and is promoting a pilot test of cash transfer payments made through mobile banking. However, in the cases mentioned, bank-related payment methods, including the opening of bank accounts, direct deposit in bank accounts, etc. has not resulted in the use of bank savings products. So far, various surveys indicate that just 1% to 5% of the recipients of payments through the bank facilities mentioned leave a balance in the account or make deposits or withdrawals after the payment is processed.
- 2.3 **Recipient households of Families in Action subsidies and their saving potential.** Of the 2.5 million families that receive Families in Action subsidies, it is estimated that 80% are female heads of household.⁹ It is estimated that 60% of the female recipients of Families in Action subsidies are independent workers (or microentrepreneurs), 19% are employed by businesses, and 14% are domestic workers.¹⁰ It is important to note that just 20% of the income of recipients of Families in Action subsidies comes from conditional cash transfers.¹¹ That information is consistent with another study indicating that conditional cash transfers in Colombia (US\$56 twice a month) on average represent just 17% of the total income of the recipients.¹² Half of recipient families live in rural areas or municipios with less than 100,000 inhabitants.
- 2.4 **Saving capacity.** In an exhaustive study of informal financing in Colombia in 2007, it was observed that the poorest segments of the population save, but do so

⁷ State-run bank.

⁸ A financial inclusion program of the Government of Colombia created in 2006 and administered by Banco de Comercio Exterior (Bancoldex) with the purpose of promoting access to financial services for poor families, unbanked households, microentrepreneurs, and small businesses.

⁹ The remaining 20% are men, who in the absence of the mother in the household may register to receive the conditional cash transfer.

¹⁰ Bancarización y acceso a servicios financieros de beneficiarios urbanos del Programa Familias en Acción [Banking the Unbanked and Access to Financial Services for Urban Beneficiaries of the Families in Action Program], Jorge Higinio Maldonado and María Alejandra Urrea, Center for Studies on Economic Development (CEDE), Universidad de los Andes, Nov. 2010.

¹¹ See cited study by CEDE at Universidad de los Andes.

¹² See Conditional Cash Transfers Reducing Present and Future Poverty, World Bank, page 84.

informally and in many ways, including acquisition of assets (approximately 65% of households in Colombia), participation in savings clubs (9%), and cash savings (also 65% of families). However, just 1% has money saved in a bank.¹³ This is consistent with data corresponding to other parts of the region where the poorest population has been shown to save informally.

- 2.5 Likewise, the experiences of Banca de las Oportunidades and other institutions that promote community savings groups have demonstrated the capacity to save of the lowest-income population when products are designed that offer incentives and produce money-saving habits. These experiences are similar to those observed in the saving groups corresponding to MIF project CO-T1064,¹⁴ the pilot program carried out in Peru with Proyecto Capital, and various experiences in Latin America and other parts of the world where the lowest-income population shows a capacity to save with suitable products.
- 2.6 **Importance of savings for recipients of Families in Action subsidies.** Various meetings with Families in Action subsidy recipients have revealed that savings play a fundamental role in being able to respond to all sorts of emergencies affecting households, including illness, theft, loss of employment, natural disasters, etc., and are also the main source of capital for investment in microenterprises when their track record or size prevents them from qualifying for a microloan. In addition, women tend to use their savings to start new businesses, as it makes them feel more independent and secure than applying for a loan. In the absence of savings, families must turn to informal moneylenders or pawn shops, or simply have to sell off assets, including their home, land, animals, vehicle, or business.
- 2.7 **Low level of banking of recipients of Families in Action subsidies and the causes.** At this time, despite efforts related to payment systems and mechanisms, access to banking services for the recipients of Families in Action subsidies, understood as the use of savings accounts and execution of transactions, continues to be minimal. This low level of use of formal savings products is due to the limited availability of savings products with characteristics and a cost structure suited to the needs of that population, offered with financial advocacy and literacy strategies for their customers and that create habits and mechanisms that encourage savings. This situation results from a lack of knowledge and experience with this kind of savings products by financial intermediaries that if they serve this population only offer credit products. Consequently, most financial intermediaries in Colombia have not developed viable business models and strategies to offer savings services to the low-income population.

¹³ Market study of informal financing in Colombia (September 2007) by the United States Agency for International Development.

¹⁴ Executed by Consejería Presidencial de Programas Especiales [Advisory Office for Special Programs], financed by the Korean Poverty Reduction Fund.

- 2.8 **Regulatory environment for financial inclusion.**¹⁵ In Colombia, Banca de las Oportunidades was created in 2006 to promote access to financial services for poor families, unbanked households, and small businesses. In 2008, a decree was issued on financial services for low-income individuals, incorporating e-savings accounts in the list of authorized operations for lending institutions and FICs.¹⁶ E-savings accounts target individuals in SISBEN level 1 and those who have been displaced. The accounts have no management fees for the account holders, do not require a minimum deposit to open the account, and have no minimum balance. Technical file 5 contains a more extensive analysis of the regulatory framework applicable to the project, including the regulatory framework for nonbank correspondents (NBCs), FICs, and payment mechanisms for Families in Action subsidies.
- 2.9 **Financial inclusion and FICs.** Entities from the third sector in Colombia, such as cooperatives, employee funds, and mutual associations, have been increasing their participation in the provision of financial services. They are more geared toward the middle- and low-income population and have a large presence in remote areas of the country. In recent years, cooperatives that were traditionally oriented toward consumer credit have been venturing into microfinance services. By December 2010, FICs had 2,240,986 members in Colombia with savings of US\$2.7 billion in more than 700 agencies. Those figures include the 190 cooperatives supervised by Supersolidaria [superintendency of the social economy] and the seven financial cooperatives supervised by Superfinanciera [financial superintendency], which oversees financial cooperatives that elect to provide services to third parties (nonmembers of the cooperative) with the requirement that they have a minimum of US\$1,741,000 in contributions.
- 2.10 **Member cooperatives of SumaRed.** Red de Servicios y Canales Electrónicos de Colombia SumaRed S.A. is a corporation created in 2006 by a group of eight credit unions, EQUIDAD (an insurance company), and the World Council of Credit Unions (WOCCU). As of today's date, SumaRed has a total of eight member cooperatives, formally organized and supervised by Supersolidaria, with combined assets on the order of US\$700 million and 667,596 members.¹⁷ It also provides services to 25 other cooperatives (customers and allies other than company partners) that are potential participants in the project, such as COFINCAFE, COOMERCIACOOP, and COOFISAM, among others. SumaRed and its member FICs are part of the network of cooperatives supported by WOCCU, a U.S. entity specializing in cooperatives. For 2010, its membership increased to 43 organizations from 54 countries. Document 5 in the technical files contains information on SumaRed's member cooperatives.

¹⁵ Access to and use of savings, loan, and insurance services. However, the main indicator of financial inclusion is considered to be the opening of a savings account.

¹⁶ For purposes of this document, FICs are considered to include financial cooperatives and credit unions, both authorized to offer savings accounts.

¹⁷ This classification is based on the level of assets and was taken from SIAC Confecoop, Superfinanciera, Supervigilancia, Superservicios, Saludcoop, Acemi, and Gestar Salud.

Table 1-Summary of SumaRed cooperatives

Entity	Coverage	Assets (US\$)	Members
F. Comultrasan	43 agencies in 6 departments	358,183,137	299,793
Congente	10 agencies in 2 departments	30,447,745	32,670
Coprocenva	13 agencies in 2 departments	50,837,449	27,919
Prosperando	5 agencies in 2 departments	17,083,301	17,803
Coomuldesa	18 agencies in 2 departments	98,907,901	76,280
Cofinal	5 agencies in 2 departments	22,141,211	27,365
Crediservir	5 agencies in 2 departments	100,709,641	62,270
Alianza	Bogota	21,351,249	2,997
Total		699,661,634	667,596

- 2.11 **SumaRed cooperatives and recipients of Families in Action subsidies.** Cofinal in Nariño and Comerciacoop in Boyacá have been subpayers of Families in Action subsidies, gaining experience in serving the market niche of low-income individuals who have not yet become members. In this way, they have identified an opportunity to offer other financial services to this group, mainly savings. However, they do not have savings products tailored to the needs of this market and to their payment conditions. In response to this challenge, SumaRed which provides technology services for financial channels and develops financial products prepared a proposal in coordination with WOCCU for the MIF's Prosavings program, which consists of development and implementation of savings products for recipients of Families in Action subsidies.
- 2.12 Although there is the possibility that other SumaRed cooperatives will also be subpayers of Families in Action subsidies, the project's emphasis is on the development of contractual and liquid savings products by FICs for the recipient population. For that reason, the project activities will focus on banking the unbanked within that population and not necessarily on the payment mechanism, and the project will be implemented irrespective of whether the cooperatives are payers of the subsidies.
- 2.13 **Project alignment with the Bank's strategy.** This MIF project is aligned with the Bank's previous strategy for Colombia until 2010. It is also expected to be aligned with the current strategy in the pipeline since it will contribute to the social and financial inclusion of people living in extreme poverty, which will enable them to accumulate savings to reduce their vulnerability in the event of emergency situations, and to make investments that improve their quality of life, such as better housing, spending on education, and small business investments.
- 2.14 **Relationship with other Bank initiatives.** The project team will coordinate with social sector specialists in order to ensure the complementarity of this project with others in the area of conditional cash transfers that the Bank could support in the future.

- 2.15 **Additionality.** As mentioned, Banca de las Oportunidades prioritizes bringing banking services to the recipients of Families in Action subsidies. This project will generate new experiences in mobilization of the savings of recipients of Families in Action subsidies by financial intermediaries that have experience mobilizing the savings of the middle- and low- income population and could develop suitable products.
- 2.16 **Alignment of the project with the Government of Colombia.** In harmony with the project's "last tranche"¹⁸ focus geared toward making banking services available to the lowest-income individuals, as a long-term policy of the Government of Colombia, Banca de las Oportunidades has been making different attempts at banking this unbanked segment of the population.¹⁹ As of June 2011, Colombia has 13,296 NBCs serving municipios that did not have access to financial institutions, achieving financial sector coverage of 99% of the country's municipios, compared to 72% in 2006. In addition, in the framework of the policy for banking the unbanked, they have supported financial entities such as banks, nongovernmental organizations, and cooperatives in the adoption of community banking methodologies and the design of products tailored to the needs and characteristics of the low-income population, also developing savings accounts for payment of Families in Action subsidies.²⁰

III. OBJECTIVE AND DESCRIPTION

A. Objectives

- 3.1 The goal of this project is to help increase the availability of financial products and services for the recipients of government payments in Colombia. The purpose is to promote the development of contractual and liquid savings products²¹ tailored to the recipients of government subsidies in Colombia,²² through at least seven FICs that are members of SumaRed.²³

¹⁸ The "last tranche" refers to the last link in the financial sector's value chain, meaning the lowest-income customers as recipients of conditional cash transfers.

¹⁹ Marulanda B., Paredes M., and Fajury L. Acceso a Servicios Financieros en Colombia: retos para el siguiente cuatrenio. [Access to Financial Services in Colombia: Challenges for the next four years].

²⁰ "De la banca a la titular". ["From banking to account holder".] Portfolio, Sept. 2011. http://www.bancadelasoportunidades.com.co/documentos/especial_bancarizacion.pdf

²¹ Demand or liquid savings. "Contractual savings" refers to "commitment" or "personal development" savings, and does not mean "obligatory" or "forced" savings. Through this type of savings product, the customer agrees to deposit a defined amount on a regular basis, and to withdraw the funds only for a specific purpose and/or after a pre-determined period. Incentives to save may include participation in savings "clubs" or "groups", favorable interest rates, and in some cases tax or other benefits.

²² Mainly designed for women, but also meeting the needs of men.

²³ Including credit unions and financial cooperatives.

- 3.2 Expected outcomes by the end of the project are: (i) 6,000 beneficiaries of government payments²⁴ use at least one savings product developed with the project; (ii) users of the project's contractual savings product have saved US\$360,000; (iii) 2,000 users of the liquid savings product have made at least one transaction per month (withdrawals, deposits, payments, and queries); (iv) cooperatives have a financial education program for the recipients of government payments as a result of the project; (v) 10,000 project beneficiaries learn the benefits of saving and how to make use of savings; (vi) seven cooperatives join the project; (vii) in at least 10 Colombian cooperatives, management is aware of the lessons learned and best practices for savings products targeting the vulnerable population; and (viii) at least four cooperative networks in other countries learn about SumaRed's experience with introducing contractual and liquid savings products for the recipients of government subsidies.

B. Components and activities

- 3.3 **Component I: Development of contractual and liquid savings products (MIF US\$29,406; AusAID US\$21,000; Local counterpart US\$16,853).** The objective of this component is to design savings products based on the characteristics of the recipients of Families in Action subsidies that are attractive, sustainable, and have a high social impact. To that end, the following activities will be carried out: (i) design, fine-tuning, and regulation of the contractual and liquid savings products tailored to recipients of the Families in Action subsidy; (ii) validation of the products through a pilot test; (iii) development of an image handbook for the products designed; and (iv) design of the marketing plan for the products.
- 3.4 The following are expected to be obtained as a result of these activities: (i) at least one branded contractual savings product for the recipient population of Families in Action subsidies is promoted by SumaRed through participating cooperatives; (ii) at least seven boards of directors of the cooperatives establish regulations for and adopt the commitment to offer one or more savings products targeted to the recipients of Families in Action subsidies; and (iii) 90 commercial advisors from the seven cooperatives are trained in the savings products designed.
- 3.5 **Component II: Implementation of contractual and liquid savings products (MIF US\$62,809; AusAID US\$152,160; Local counterpart US\$66,341).** The objective of this component is to extend the savings products to the project cooperatives and to implement technology and commercial channels that are suitable for those products. The following activities will be carried out: (i) diagnostic and definition of the infrastructure and technology strategy to implement the savings products; (ii) procurement of equipment to implement withdrawal and deposit channels;²⁵ (iii) training of specialists from the cooperatives

²⁴ Government payments are mainly related to the Families in Action program.

²⁵ The total amount for procurement of hardware and software is 22% of the value of the project and 25% of the MIF contribution.

- in implementation of channels; and (iv) marketing, implementation, and monitoring of the savings products.
- 3.6 These activities are expected to result in the following: (i) central monitoring and tracking infrastructure is implemented in SumaRed; (ii) seven cooperatives have an effective technology infrastructure for implementing the savings products; (iii) technical specialists from the seven cooperatives are trained in implementation of the savings products; (iv) approval of the savings products by the boards of directors of the cooperatives; and (v) 90 points of service (agencies or NBCs) of the FICs offer the contractual and liquid savings products designed.
- 3.7 **Component III: Awareness-raising and dissemination of the new savings products (MIF US\$10,117; AusAID US\$25,340; Local counterpart US\$62,118).** The objectives of this component are to raise awareness concerning saving habits, generate knowledge, and disseminate the project among the target population, management, and personnel from the FICs and other stakeholders who can replicate the experience in both Colombia and other countries. In order to achieve those objectives the following activities will be carried out: (i) development of a financial education program to generate saving habits; (ii) training workshops for advisors of the cooperatives; (iii) reproduction of materials for training of Families in Action beneficiaries by the cooperatives; (iv) training seminars for Families in Action beneficiaries held by the cooperatives; (v) design and building of the website; and (vi) awareness-raising events held with the cooperatives and Families in Action beneficiaries, and monitoring and promotion of the project with other stakeholders from the sector.
- 3.8 These activities are expected to result in the following: (i) 430 commercial advisors of the project cooperatives are trained in financial education and microfinance; (ii) SumaRed has a website for the project as a forum for sharing the knowledge of the cooperatives; and (iii) Colombia's financial intermediaries are familiar with the experiences of the SumaRed cooperatives with savings products for the recipients of Families in Action subsidies.
- C. **Contribution to the “Banking the Unbanked through Payments and Transfers” agenda**
- 3.9 In addition to the results obtained by the project through the specific activities financed, outcomes will be achieved in two areas that will contribute to the agenda of banking the unbanked through payments and remittances: impact evaluation and generation and dissemination of knowledge.
- 3.10 **Generation of knowledge.** The project will generate learning, evidence, practices, and a demonstration effect among the audiences identified in the agenda's communication strategy. In particular, it is expected to generate learning in the following areas: (i) how to utilize NBC mechanisms for payments of conditional cash transfers and the contractual and liquid savings products offered by them; (ii) how to develop savings product branding for the low-income population, particularly the brand for the contractual savings product that SumaRed would

promote in at least seven cooperatives; (iii) how to incorporate technology in savings products linked to conditional cash transfers, considering the specific requirements of those products; (iv) different uses of savings by men and women; and (v) effective strategies for introducing nonfinancial intermediaries to methodologies for working with the very low-income population to generate saving habits and become potential customers of their products. This knowledge will be captured, developed, and manifested in products through activities executed under the Prosavings program in order to take advantage of synergies with other projects and to avoid redundant activities and costs.²⁶ Among the means that will be used to disseminate this knowledge are specific knowledge platforms, social networks, and events, put on by both the MIF and other stakeholders in the sector. The main audiences for this project are identified in document RG-M1198.

- 3.11 **Expected impact.** It is expected that 10,000 recipients of Families in Action subsidies will learn the benefits of saving and tactics for prioritizing savings, of which 6,000 are expected to accumulate contractual savings and to improve their ability to respond to frequent emergencies in the low-income population, such as floods, theft, illness, and deaths of family members, and other events that generally require them to sell assets or take usury loans. Those savings are also expected to be used for investments that require greater amounts of cash than low-income individuals usually have access to, such as better housing, the purchase of electrical appliances, education, investments in businesses (both capital and fixed assets), etc. In order to measure the degree of impact of those benefits, the project will define measurable impact variables and may be subject to an impact evaluation (see impact evaluation paragraph in the “Background” chapter).
- 3.12 **Sustainability workshop.** Before the end of the project, a sustainability workshop will be held with the participation of MIF representatives, SumaRed, and the cooperatives to evaluate progress made and to identify the necessary actions and measures to ensure the continuity of the savings products.

IV. COST AND FINANCING

- 4.1 The cost of the project is US\$591,000, of which the MIF will contribute a total of US\$209,000 (35%) in nonreimbursable funds, AusAID will contribute a total of US\$200,000 (34%) in nonreimbursable funds, and the local counterpart will contribute US\$182,000 (31%). Following is a summary of the estimated budget, which is found in Annex II.

²⁶ As approved in the learning, communication, and knowledge strategy of the RG-M1198 program, “Linking Social Protection Payments to Savings.”

Description	MIF	AusAID	Local	Total
C1- Development of contractual and liquid savings products	29,406	21,000	16,853	67,259
C2- Implementation of savings products	62,809	152,160	66,341	281,311
C3- Awareness-raising and dissemination of new savings products	10,117	25,340	62,118	97,574
Coordination, monitoring, midterm and final evaluation, and audit	60,000	1,500	36,689	98,188
Evaluations				
Baseline	10,000			10,000
Midterm and final evaluation	25,000			25,000
Audit	10,000			10,000
Contingencies	1,669			1,669
TOTAL²⁷	209,000	200,000	182,000	591,000

V. EXECUTING AGENCY AND EXECUTION MECHANISM

- 5.1 **Executing agency.** The project will be executed by Red de Servicios y Canales Electrónicos de Colombia SumaRed S.A. The purpose of SumaRed is to incorporate the largest number of FICs, so that through their channels it can build a network with the widest national coverage, offering products and services with excellence and establishing different patterns of financial inclusion through active participation in services, which until now have been the exclusive purview of the traditional financial sector, ensuring their relevance as they will be owned by the cooperatives. SumaRed was organized on 29 November 2006. Its main sources of income come from advising on services and electronic channels for FICs. It has equity of US\$400,869.
- 5.2 **Operating capacity.** SumaRed is dedicated to providing technology services to cooperatives in NBC, drafts, and technical assistance related to financial services. It has eight people on its work team who have executed different projects in the sector. The project benefits from the operating capacity of its participating cooperatives, which have 95 head offices and more than 650,000 members. This project will help eight FICs strengthen the operating and technical capacity of the entity they are members of that provides technology services and technical assistance. The other cooperatives served by SumaRed will also benefit.
- 5.3 **Financial capacity.** Total annual assets as of 31 December 2010 are US\$498,426 and total income is US\$177,445. Initially, SumaRed's objective was to focus on international remittances. However, legal procedures with the Government of Colombia to carry out that activity took around a year and a half to complete, without resulting in the cooperatives being able to pay remittances, limiting them to development of domestic transfer products. This affected established projections;

²⁷ Funds for the agenda activities and impact evaluations are included in the budget for program RG-M1198.

- and the break-even point should be reached in June 2012, considering new investments made with favorable short-term returns. SumaRed's financial capacity is strengthened by the cooperatives, which are both members and owners of SumaRed and have assets totaling US\$900 million.
- 5.4 **Project execution and management.** SumaRed will be responsible for project execution. For such purposes it will form an executing unit made up of a project coordinator and a head of finance and accounting. The project coordinator will be responsible for preparing the processes for hiring consultants to develop the components, preparing requests for disbursements and execution reports, and providing indispensable technical support for the effective development of the project. The coordinator will also be responsible for: (i) preparing, executing, and monitoring the project execution plan; (ii) coordinating the project activities; (iii) managing hiring pursuant to the Bank's policies and supervising the procurement of goods and services; (iv) processing disbursement requests; (v) submitting semiannual project status reports (PSRs) and financial statements to the Bank; (vi) monitoring the performance indicators defined in the Logical Framework; and (vii) reporting on achievement of the agreed milestones. The Operating Regulations contain a list of those responsibilities as well as the terms of reference for hiring the people to form the executing unit.
- 5.5 **Consultative committee.** A consultative committee will be formed for the project made up of representatives from the cooperatives participating in the project, SumaRed, and at least one ad honorem independent expert on bringing banking services to the low-income population. It will prepare feedback and recommendations at various stages of this project. The committee will meet at least once every six months to review the project monitoring reports and issue recommendations to help achieve the project objectives.
- 5.6 **Selection criteria for the cooperatives participating in the project.** FICs may participate in the project that are members of or have been supported by SumaRed. Technical file 6 contains the criteria SumaRed will use to select the participating cooperatives, which relate to intent and commitment to the project, financial structure, available technical resources, experience with the target population, and geographic location. The project will include support for those cooperatives with the greatest presence in areas with a high concentration of families that receive Families in Action subsidies, experience with savings products with populations with similar characteristics, and that show the greatest level of commitment.

VI. DISBURSEMENT BY RESULTS

- 6.1 Project disbursements will be contingent upon the achievement of milestones,²⁸ which will be agreed by the executing agency and the MIF, and verified using the

²⁸ Minimum targets to be met for critical indicators, which if not achieved compromise the technical feasibility of the project.

agreed means. Achievement of milestones does not exempt the executing agency from the responsibility to reach the targets set in the project's Logical Framework. Resources disbursed will be those required based on needs with respect to programmed activities and costs.

- 6.2 **Procurement.** The procurement of goods and contracting of consulting services will be carried out in accordance with the Bank's policies (documents GN-2349-9 and GN-2350-9). Before initiating project procurement, the executing agency must submit the procurement plan to the Bank for consideration. It will be reviewed and updated annually or when a modification is made. Given that the classification of the executing agency's institutional risk was low, the project's procurements will be reviewed ex post on an annual basis.

VII. MONITORING AND EVALUATION

- 7.1 **Project status reports.** The executing agency will be responsible for presenting PSRs to the MIF within 30 days after the end of each six-month period, or with greater frequency on the dates determined by the MIF, giving the executing agency 60 days' advance notice. These reports will follow a format previously agreed on with the MIF and will contain information on project execution, achievement of milestones, results obtained, and their contribution to attainment of the project objectives as stated in the Logical Framework and other operational planning instruments. The PSR will also describe project issues encountered during execution and outline possible solutions. Within 90 days after the end of the execution period, the executing agency will submit a final PSR to the MIF, which will highlight results achieved, the sustainability plan, and lessons learned.
- 7.2 **Evaluation of project execution.** In order to determine achievement of the project results, as well as the effectiveness of the products and services developed and the impact on the beneficiary population, a midterm and final evaluation will be made of the project, which will be contracted by the Bank. The midterm evaluation will be made when 50% of the funds are disbursed or at the midpoint of the execution period, whichever comes first. The final evaluation will be made when 90% of the contribution is disbursed or when three months remain in the execution period, whichever comes first. That evaluation will include: (i) analysis of results achieved with respect to the Logical Framework objectives and indicators; and (ii) lessons learned and project sustainability.
- 7.3 **Impact evaluation.** If selected for an impact evaluation as discussed in the "Background" chapter, the Prosavings program, with the advice of the IDRC, SPH, and the MIF's Development Effectiveness Unit will agree on an impact evaluation plan with SumaRed, which will include the selection of treatment groups, a control group, baselines, monitoring tools, report formats, and a budget. The results of the impact evaluation will be disseminated during Component 3 of the project and through the website of the MIF and the donors on the Advisory Committee.

- 7.4 **Financial supervision.** The executing agency will establish and assume responsibility for keeping adequate financial accounts, internal control mechanisms, and filing systems for the project, which shall be consistent with IDB/MIF financial management rules and policies.
- 7.5 The audit of the project's financial statements will be performed after the execution period has elapsed. Ex post reviews will be performed of supporting documents for disbursements annually. However, for the first disbursement, supporting documents will be reviewed ex ante until validation of the audit of processes.
- 7.6 Application and frequency of these ex post reviews of procurement processes and supporting documents for disbursements can be modified by the MIF based on the results of reviews and/or subsequent institutional evaluations performed during project execution.

VIII. BENEFITS AND RISKS

- 8.1 **Beneficiaries.** The project's immediate beneficiaries will be approximately 6,000 recipients of Families in Action subsidies, who will use a minimum of one contractual and/or liquid savings product offered by at least seven FICs with coverage in eight or more departments in Colombia. Other financial intermediaries and their customers will also benefit through lessons learned from the project that will be disseminated by the regional program "Linking Government Payments to Savings" (Prosavings, RG-M1198). More than 80% of the beneficiaries will be women, who will have access to the formal financial sector through contractual and liquid savings accounts and other financial services tailored to their needs. The project is expected to be carried out in at least 7 of the 15 departments where SumaRed's member cooperatives have a presence (see www.SumaRed.com.co).
- 8.2 **Benefits.** The results at the end of the project are: (i) 6,000 beneficiaries of government payments use at least one savings product developed under the project; (ii) users of the project's contractual savings product have saved US\$360,000; (iii) 2,000 users of the liquid savings product have made at least one transaction per month (withdrawals, deposits, payments, and queries); (iv) the cooperatives have a financial education program for recipients of government payments, as a result of the project; (v) 10,000 beneficiaries have learned the benefits of saving and how to use savings; (vi) seven cooperatives have joined the project; (vii) in at least 10 Colombian cooperatives, the managers are aware of the lessons learned and best practices in savings products for the vulnerable population; and (viii) at least four networks of cooperatives in other countries are aware of SumaRed's experience implementing contractual and liquid savings products for recipients of government payments, as a result of the project.

Table 3. Main project indicators

No.	Indicator*	Year 1	Year 2	Year 3
1	Beneficiaries of government subsidies using contractual savings products	300	2,400	6,000
2	Beneficiaries of government subsidies using liquid savings products	100	800	2,000
3	Total amount saved by beneficiaries of government subsidies using contractual savings products	US\$3,000	US\$120,000	US\$360,000
4	Transactions made by beneficiaries of government subsidies with liquid savings products (withdrawals, deposits, payments, and queries)	300	4,800	12,000
5	Project beneficiaries (direct and indirect) that have learned the benefits of saving and how to use savings	500	4,000	10,000
6	Points of service (agencies or NBCs) used by FICs to offer contractual and transactional savings products	40	60	90
7	Cooperatives linked to the project	2	5	7
8	Women participating in the project ²⁹	85%	85%	85%

*Annual closing data are historically accumulated.

8.3 Expected changes in the beneficiary population. The 6,000 recipients of Families in Action subsidies that accumulate contractual savings are expected to improve their ability to respond to frequent emergencies in the low-income population, such as floods, theft, illness, and deaths of family members, and other events that generally require them to sell assets or take usury loans. Those savings are also expected to be used for investments that require greater amounts of cash than low-income individuals usually have access to, such as better housing, the purchase of electrical appliances, education, investments in businesses (both capital and fixed assets), etc. In order to measure these benefits, the project may be subject to an impact evaluation if selected by the MIF and the program partners (see “Evaluation” chapter).

8.4 Risks. The following regulatory, technology service performance, and consultant performance risks are expected. The main regulatory risk is that changes in the framework for supervision of the cooperatives will require them to devote human and financial resources to other activities, limiting their prioritization of the project. The main risk related to technology service performance is that during implementation the technology channels will present deficiencies in the services channels after the products are validated (e.g. card deactivation) that discourage the use of the savings products. The main consultant performance risk is that the savings products they help define will not gain the expected acceptance among the population and will grow at a slower rate than the project targets.

²⁹ Assuming 5% more than the percentage of recipients of Families in Action subsidies.

- 8.5 In order to mitigate these risks, three strategies have been laid out: (i) strengthening of awareness-raising and training activities for both the beneficiaries of government subsidies and management of the cooperatives; and (ii) development by cooperatives of alternative channels not subject to technology risks, e.g. deposits and withdrawals at traditional branches, completion and remittal of feasibility studies to Supersolidaria, prior to opening the channels; and (iii) visits to successful experiences as part of the process of defining the products in order to ensure the incorporation of best practices in savings products for the low-income population.

IX. ENVIRONMENTAL AND SOCIAL STRATEGY

- 9.1 Adverse environmental or social impacts are not expected. Having a basic savings bank account, and being able to accumulate savings for future needs, is expected to reduce the vulnerability of social protection payment recipients. Special attention will be given to how the programs have positive impacts on the lives of women and indigenous populations. The project is part of program RG-M1198, which was classified as a Category “C” operation and was reviewed and cleared by the Environmental and Social Review Committee on 18 January 2011.