

**FINAL REPORT ON ACTIVITIES  
AND RESULTS**

**COFFEE ZONE RECONSTRUCTION PROGRAM  
USAID NO. 527-C-00-00-00035-00**

**ARMENIA, QUINDIO, COLOMBIA**

**PREPARED FOR  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT**

**PREPARED BY  
PADCO**

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# GENERAL REVIEW

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## **Purpose of the Program**

A surface earthquake of a magnitude of M1 6.2 occurred in Colombia January 1999. Its epicenter was in Quindío Department, and it seriously affected the area known as the Colombian Coffee Zone; over 37,000 families were left homeless, more than 1,000 people died and 3,500 were injured.

Through USAID, the United States Government allocated the sum of US\$9,500,000, defining a "Limited Scope Grant Agreement" for the implementation of a reconstruction program to aid the victims of the earthquake in the area known as the Coffee Zone. The principal objective of the emergency aid to be provided by USAID was as follows:

- to support the local institutions in providing housing and basic infrastructure services to the low income victims of the earthquake;
- to provide sustainable mitigation models, which required the participation of both public and private sectors, also as a sustainable financial investment model.

PADCO Inc. was contracted by USAID to design and implement the aid program in the field, which targeted the poorest victims of the earthquake, and those renting accommodations when the disaster occurred.

## **Results Expected**

Through the implementation of this program (see Strategic Mission Plan 1999-2003), USAID initially had hoped to build approximately 1,000 permanent housing units, as well as the reconstruction and repair of 10 primary schools and eight health centers

It was also expected that the models used would provide elements of policy and educational methods and practical experiences in the use of appropriate technologies, the use of local seismic-resistant that would facilitate greater local capacity to face and respond to natural disasters in the future.

In addition, USAID assistance emphasized the need to support development of public/private alliances, which would help increase the number of available jobs and provide income opportunities for the base communities in relation to programs being undertaken by other donors in the region. The Project was designed to be completed in a period of 24 months.

As a result of PADCO's recommendations, in the Design and Strategic Activity Report (Phase 1, Task 2, March 31, 2000), the Program was adjusted to target the construction of 2,600 housing units or lots with services and two special projects, one for the education of street children and the other for the care of the elderly. At the same time, PADCO proposed the prioritization of the projects supported by civic organizations and NGOs, which would include investment, research, innovative solutions, self-construction development or personal savings programs.



## Results Achieved

In general, the Project achieved each and every one of the objectives proposed by the Mission, and even exceeded the scope of the work proposed by PADCO in its Design and Strategy Report. The following are among the results attained:

- Construction of 2,867 housing units for 14,335 persons, approximately 24% of the neediest families, those paying rent for temporary accommodation or in self-built shelters.
- The design and introduction of a system for the rapid revision and environmental diagnosis of the reconstruction project, in accordance with the USAID and GOC regulations.
- Construction of the Pilot *Guadua* (large bamboo) Seismic Resistant Housing, applying the new standards established in the post-earthquake Construction Code.
- Application of different building systems and the relative research, evaluation and improvement in technical and financial terms, which resulted in an improvement in the installed capacity of the participating NGOs.
- Construction of a home for 65 elderly persons and a school for 250 child street workers.
- A total of 467,000 direct day laborers and approximately 210,000 indirect day laborers were paid, which is equivalent to creating 1,200 direct and 570 indirect jobs for unskilled manual labor for one year.
- Productive alliances with nine NGOs and strengthening of their technical, administrative and financial administration.
- Mobilization of counterpart resources equivalent to US\$6,100,000; for each dollar invested by USAID, 0.72 cents were invested by counterparts.
- Generation of an official tax doctrine for the practical application of tax exemptions for the foreign donations established in Colombian Law.

Table 1 summarizes the general program and the characteristics of the 14 projects operated by nine NGOs. Annex No. 1 provides the technical, administrative and financial details of each project.

**Housing Projects:** Under the housing program, 12 projects with 2,867 housing units were built (i.e. 267 more than those fixed by the original program designed by PADCO and 1,867 more than those projected in the 1999 Strategic Mission Plan). Alliances were established with NGOs with recognized national and international experience, as well as some local NGOs with good development prospects for the future. The reconstruction process designed by the national government was supported and alliances were made with other donors to empower investment and carry out more and better works. In the majority of cases, the NGO operators worked with the communities, seeking to promote community processes and to develop coexistence among the citizens.

Work was centered on environmental education processes by applying novel diagnosis guidelines and stimulating communities to embrace the environment as a means of protecting the surrounding environment. Throughout the implementation of the project, stress was laid on the need for the operators to prioritize the environmental care required for building developments in new territories.



A pilot project of 80 housing units designed by the Colombia Seismic Engineering Society was implemented, based on the use of *guadua* (large bamboo) using the cemented adobe technique. *Guadua* is a local vegetal material considered to have high seismic resistance qualities, and was used when all the villages of the region were originally built. It was subsequently replaced by more expensive materials in processes using different technologies, omitting any prior evaluation and development of local materials. Today, the use of cemented adobe has been accepted by the Colombian Seismic Resistance Code on the initiative of the Colombian Seismic Engineering Association, AIS, supported by a research proposal financed with money from USAID/OFDA and FOREC (Coffee Zone Reconstruction Fund) in other reconstruction projects.

The region is better prepared to recoup from potential devastation resulting from natural disasters. The reconstruction plan took all seismic threats into account, as well as the vulnerability of the population. The maximum requirements of the Colombian Seismic Resistant Construction Code, NSF98, were complied with and the project was able to use the seismic maps made post-earthquake by several national institutions with resources contributed by the United States Government.

**Special Projects:** Two special projects were identified and built with USAID funds for groups of beneficiaries with particular needs. An initial education project for the poorest children of the region was built as part of a program undertaken by the Quindío University, which is now attended by over 250 children and has been named Pre-cooperative for the Care of Child Workers of Quindío Department.

Prior to the earthquake, development of this program had been under way within facilities of the University. The facilities were badly affected by the earthquake and subsequently demolished, leaving a group of children without a school to attend. The program director presented an unsolicited proposal to PADCO seeking financing, which was selected among others.

The program covers approximately 250 minor street workers, providing them with formal education and training in different jobs, so that they will be able to face their own challenges in the future.

A second project PADCO undertook was reconstruction of the Anita Gutierrez Home, a residence for the elderly that replaced a building damaged by the earthquake. The facility included a capacity for 65 elderly residents, both pensioned and on charity.

# PROGRAM FOCUS

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## Strategic Action Framework

The program was focused on the efficient, transparent application of the resources in order to achieve its specific objectives, which would complement other reconstruction resources established by authorities throughout the Coffee Zone. The following three strategic actions were considered essential:

**1. To establish and implement a policy and operative programming for the coordination of the USAID and FOREC (Coffee Zone Reconstruction Fund) resources, so that they would be complementary rather than competitive.**

*Even though it was PADCO's sole responsibility to administer and disburse the USAID resources, three operative policies aimed at establishing a "virtual alliance" with FOREC were put into operation.*

- Assisting FOREC in providing housing solutions to affected renter families who were living in the temporary emergency shelters and whose unit price did not exceed the cost of one corresponding FOREC subsidy.<sup>1</sup>
- To make effective use of the “property shop window,” or *vitrina inmobliaria*, set up by FOREC to identify and select projects for its housing reconstruction program, and to select and support the development of projects to satisfy the needs and preferences of the target beneficiaries of USAID.
- To assist FOREC and the other authorities responsible for reconstruction in identifying and solving generic problems encountered in planning and implementation processes.

**2. To ensure the effective, efficient mobilization of the resources and capacity of the civic society organizations, and to strengthen their technical and administrative capacity through reconstruction processes.**

*PADCO's action outlines for this purpose included the following:*

- To prioritize projects sponsored by organizations by including elements of investment by the sponsors, innovative solutions, self-help and/or personal savings efforts.
- To use these organizations to assist in the identification and classification of potential beneficiaries, their guidance, training, and active participation in all aspects of the reconstruction.
- To use the same housing reconstruction process to demonstrate sustainable participation models, as partners, between the public and private sectors.

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<sup>1</sup> USAID support did not estimate an amount of over \$Col. 5,900,000, the original figure defined by FOREC as a State Subsidy. Nevertheless, and in view of the continuous devaluation of the \$Col., higher investment figures were achieved, resulting in an average of \$Col. 6,380,000 per housing unit and 267 additional units.



- To promote a synergic relationship with the activities of the other donors and government entities in the region, to achieve rapid, long lasting results.

**3. To ensure the most efficient, effective and transparent management of funds donated by PADCO and the operator NGOs in full compliance with the requirements of USAID for the use and administration of the same.**

*The firm of accountants, OGR y Asociados, was contracted by PADCO to advise it on the design, implementation and internal auditing of the operating system and financial administration of the resources according to the following guidelines:*

- Definition of the Mandate Agreement as legal support for the actions and presence of PADCO in Colombia without the necessity of opening branches or agencies with a local domicile.
- To establish a single banking system consisting of a single cash transfer network with adequate internal controls and security to channel the resources of the donation; the implementation of a single accounting system and procedure to render accounts and the presentation of reports by all the Operator NGOs, thus facilitating localized control objectives in consolidated terms in compliance with the Auditing standards required by USAID.
- To treat donation resources as liabilities in the donation agreements between PADCO and NGOs, establishing the appropriate normal commercial requirements, including guarantee, insurance and other policies and establishing that such liability was paid or exhausted on handing over the housing units built to the beneficiaries.
- To provide technical assistance supporting integral administration of the donation resources in all financial and technical aspects.

**4. To guarantee compliance with Municipal and Construction Regulations making them appropriate to the post-disaster situation. To ensure the construction of the projects while observing the technical standards and seeking a high level of quality.**

*A basic principle which PADCO required of the operators was to respect general regulations, as well as the establishment of internal control procedures to ensure quality.*

- To ensure no building projects were located in the zones identified as high risk before they were approved by geographic identification of these on the risk maps.
- To require operators to work entirely in accordance with the NSR-98 Standard (the Colombian Standard that establishes the design and construction requirements to guarantee adequate performance of the structure in case of seismic activity) and other regulations as a contractual commitment.
- To implement a system of collaborative supervision, in which the operator did not cease to be responsible for quality, but received technical assistance from the PADCO Supervisor to improve the quality of the construction works.
- To support, evaluate and promote research and the implementation of innovative solutions to enable the needs of the target groups to be satisfied. For example, building systems using local materials and renewable resources.



## Implementation of Key Activities

**Definition of Beneficiary Population:** This was based on the Specific Donation Agreement, in which the target population of the project was defined as the poorest families renting accommodations in the Coffee Zone at the time of the earthquake. In order to implement that broad goal in functional terms, PADCO, with prior approval of USAID and together with the authorities in charge of the reconstruction, decided that the project would initially be targeted at *families affected by the earthquake who were living in the temporary shelters installed by the authorities at the time of the disaster and who were registered in the census of December 31, 1999 (carried out by the Solidarity Network and the NGOs responsible for the reconstruction).*

The temporary nature of the post-earthquake emergency shelters (*cambuches*) was the most complex problem and constituted the most delicate point of the reconstruction process. When the project started, there was no program addressing the needs of the population living in public parks, schools, sports facilities under the temporary measures introduced by the authorities at the time of the disaster. These temporary settlements were threatening to become permanent.

Not all the poor tenant families affected by the earthquake were counted by this census. It covered a target population of 14,500 families, concentrated in the so-called temporary shelters scattered in the different towns affected by the earthquake.

Many families did not go to temporary shelters and sought alternative transient housing. Because they were scattered, and because of the lack of a State policy to help them (a census sufficient to facilitate the control and location of the victims), many aid programs, including those of the Government of Colombia and of international donors, never reached such families.

Initially, the program only defined work with renter families included in the census of the shelters on December 31, 1999. A total of 2,300 families under this census were assisted, until the demand from this target group was fulfilled; it was covered by other housing subsidy programs set up by the Colombian Government some months after the USAID program began.

Some families identified in the census had still not been covered, basically due to inconsistencies arising from the aid qualification requirements established by the government authorities. Of these, some were classified as unqualifiable (e.g. those who had received housing subsidies from the State on other occasions), while others could be qualified once the inconsistency was clarified or eliminated.

For this purpose, PADCO asked the National University of Colombia (responsible for managing the temporary shelters in the town of Armenia), the NGO Chamber of Commerce (responsible for dealing with the temporary shelters in the town of Calarcá and the District of Barcelona), and the NGO, Fundaempresa, (responsible for the temporary shelters in the other towns affected by the disaster in Quindío Department), to take on the task of eliminating the inconsistencies affecting the families registered in the census in order to bring them into the USAID donation program. A total of 285 families were selected, including 30 families of national police officers that had been affected by the earthquake and were resident in temporary shelters.



During the final stages of the program, while taking into account that the program still had housing units under construction that had yet not been adjudicated in the first target group definition, PADCO decided to use beneficiary selection mechanisms different from those of the temporary shelters census. These selection mechanisms were put forward for USAID consideration and approval.

The following mechanism was used to deal with applications for the housing subsidy under the program set up by the Family Compensation Funds of Colombia in response to the disaster. This program received more applications from families affected by the earthquake than it could handle.

In this group, with over 2,000 registered families, there could be greater control over the transparency of the selection of beneficiary families.

PADCO proposed an agreement for the donation of 172 housing units through the FOCAFE Fund, specifically for families affected by the earthquake who were registered in the system as SISBEN 1 and 2 (workers' families earning one or two minimum wages registered in the National Health System).

The mechanisms approved by USAID ensured that the beneficiary families had been in rented accommodations and were among the poorest groups of the population.

**Definition of Operators and Projects:** In the beginning, proposals to finance housing programs of social interest were received by the project and were promoted by private housing groups or people's organizations. These were studied carefully, and it was found that the people registered in the projects did not fulfill the requirements to receive the donation and/or there was a clear political interest involved (Los Girasoles in Tebaida, Fumiemacaho in Montenegro).

In order to ensure transparency, the government authorities in charge of the reconstruction designed a mechanism called the Housing Shop Window (*Vitrina Inmobiliaria*). In this system, a national solicitation for the competitive offer of land, urbanized land and shelter solutions by private sector builders and developers was made. The solicitation covered all solutions to use all types and levels of funds available for the reconstruction, such as the individual housing subsidies established by the Government to help in dealing with the disaster,

Once such offers were qualified as suitable for different groups of affected families, exhibitions of the offered designs and models were organized throughout the region. The affected families were thus able to take an autonomous decision and choose their favored solution from a broad range of options. As a definition, this mechanism was close to the economic theory of perfect competition, in which the buyers had a large supply available to them and the sellers were aware of the clients' buying power.

PADCO considered that the mechanism offered all the transparency guarantees because of the transparency of the competitive solicitation and the level of potential customers. Suffice it to say that more than 90 qualified projects resulted from this procedure and were presented to the beneficiaries for their consideration in a number of day long sessions. The final selection of the



projects could be made if the project reached an economic break even point defined by the authorities and the administrators of the Housing Shop Window, by agreement with the owner of the project and determined by the number of beneficiaries registered in each program or, which is the same thing, the number of housing units placed.

Some of them, on the initiative of the NGOs in charge of the reconstruction, were selected by PADCO to invest the United States Government donation. This was the case in the project undertaken by *Corporación Antioquia Presente* NGO at La Chica which would later become El Cantarito with 962 housing units, which sought to solve the temporary housing problem in the municipality of Tebaida.

Others were presented directly to PADCO, as in the case of the Cántaro project of Mencoldes Foundation, with 124 housing units built on the basis of a community project developed on the same land as the temporary shelters. This program was led by the Menonite Christian Church of Colombia.

Vida y Futuro Foundation, one of the NGOs responsible for the reconstruction of the Coffee Zone, presented the Malaga and Pueblo Sol projects for 206 and 32 housing units, respectively, for PADCO's consideration. In addition, in order to cover all the requirements of affected renter families in the city of Pereira, the NGO presented an additional project to those available in the Housing Shop Window, and El Recreo, with 162 housing units, was later developed.

Other projects were the result of initiatives in which some NGOs approached PADCO/USAID as a consequence of FOREC's call for the aid of all the NGOs. In response to this effort, the Quintas de los Andes project for 201 housing units was presented to PADCO for its consideration, by the Armenia Chamber of Commerce, based on a project put forward by a private builder in the Housing Shop Window.

The Cartago Diocesan Corporation and Carvajal Foundation each presented a project for PADCO's consideration: El Jubileo for 320 housing units and Cañas Gordas for 250 units. The Corporation based its proposal on an urban lot offered in the Housing Shop Window and the Foundation had used the city's housing supply.

Some proposals were not successful, such as the one presented by a group of single parent family mothers led by FUMIEMACAHO, a NGO with no experience in construction and with political roots. This project was rejected because it did not fulfill requirements of the program.

Likewise, another unsolicited proposal was rejected because the beneficiaries did not fulfill the requirements of the program. This was called Granitos de Café in the town of Calarca, and led by the FUNCOP NGO. However, the program did evolve into another project, Plazuelas de la Villa, for 127 housing units, developed by a temporary association of Vivienda de Calarca Fund, the Calarca Society of Engineers and FUNCOP.

Lastly, as a result of the higher values in pesos available from the donation, the possibility arose of building a larger number of houses. A proposal was presented by FOREC (Coffee Zone Reconstruction Fund) for the use of some lots of land owned by it in the urban development of



the Nueva Ciudad Milagro Pilot Project, which would be handed over as a counterpart of the program.

To develop these lots and in view of the advanced stage of the program, the proposal of Pontificia Bolivariana University of Medellin, presented through the Dean of the Faculty of Architecture, to develop a social interest housing design for progressive development was accepted. This initiative allowed the University to undertake the Vista Hermosa and Palmar projects, of 103 and 128 housing units, respectively.

Likewise, a proposal was made for the Cartago Diocesan Corporation, an NGO which was already completing the Jubileo project, showing excellent performance, to manage the construction of part of the project designed by Bolivariana University. This initiative resulted in the construction of the Our Lady of Peace project for 182 housing units.

Lastly, and on the basis of the same agreement between FOREC for the Nueva Ciudad Milagro Pilot Project, the proposal of AIS (Colombian Society of Seismic Engineering) for the construction of a group of 80 housing units in cemented adobe was accepted. This is a traditional building technique of the zone, using renewable vegetal materials native to the region, such as *guadua* (large bamboo). This technique had been recently included in the NSR98 Seismic Resistance code, on the initiative of AIS, following studies financed by USAID, and resulted in the Bambusa project, operated by the Armenia Chamber of Commerce, an NGO already successfully developing another of the donation projects.

**Technical and Financial Administration:** The model applied for the administration of the project eliminated the need for PADCO to legally establish itself as a company in Colombia, thereby allowing a rapid start to the project, dedicating all its efforts to its development.

The project defined its operating group under General Management led by Joseph Arington as Vice President of PADCO, Diego Marulanda as Local Project Manager, Juan Miguel Villamil as Technical Manager, Patricia Guevara as Accounts Secretary and a general assistant.

The legal framework for the contracting, under which the administrative model previously designed was put into practice, was a mandate agreement. Under it, the Local Project Manager acted under a proxy granted by PADCO Inc.

The mandate consisted of the development of the program. The mandate agreement was also the appropriate instrument for the development of the technical part by Engineer Villamil. The other officials, secretaries and general services, were taken on under an ordinary work contract, with the Local Manager acting as the employer.

An office was set up on the city of Armenia to serve as the project operations center. This was provided with all communications services and working supplies necessary to undertake the different tasks required by the program, including the national and local codes and legislations covering the project.



OGC, an accountancy and tax advisory company with its head office in Bogota was contracted to provide such services following a prior request for quotations from several lawyers specialized in fiscal matters with a presence in the region. This firm was responsible for the accounts control of the entire project and for the definition of the fiscal management systems and procedures to meet requirements, in the light of the international agreements in force which covered the Specific Donation Agreement (see Annex: Accounts Procedures rendering reports drawn up by OGC and the memorandum on fiscal and tax aspects).

At contract startup, PADCO analyzed the banking system and the services available in the region in order to establish the outlines for the management of the donation funds. It was decided that Bancafé had the best banking coverage in the zone. Contact was made with the regional and national managers of the bank and established special agreements for the handling of international/national transfers of the US\$ donation and for the administration of the current accounts required for the management of each NGO project (See Annex with outlines of current account administration established by the NGOs for the development of the project and the handling of transfers from the donation).

A construction budget was defined based on an understanding with the authorities responsible for dealing with the disaster (FOREC), which pre-defined that the theoretical value offered for each housing unit donated per family could not exceed the housing subsidy provided by the Colombian Government in its programs. This amount, at the time of starting work, was Col\$5,900,000 or US\$ 3,026. This USAID policy served to avoid distortions that would undercut the government's effort and also served to further consolidate a strong working partnership between PADCO and FOREC.

It was clear to the project that care had to be taken with budgets, taking into account the real fact of an inflationary economy and, therefore, the project worked with a Colombian Peso budget protected by expected devaluation.

In the final phase of the project, when the time to transfer the shelter solutions to beneficiary families, Attorney Luz Estella Garcia was retained as specialist adviser in title deeds and ensured that all the deeds were in accordance with the terms of the Specific Donation Agreement and that all the relevant procedures for the legal conveyance of the different properties were carried out.

**Administrative Models:** Regarding the way in which the projects were managed and the works were built, two clearly identified systems were accepted. The first model, which we shall call DIRECT IMPLEMENTATION, is a scheme which turns the operator into a builder, undertaking all the activities relating to the project, from the designs, land purchase and the actual construction of the urban development works and houses. In this case, the operator implemented a technical and administrative organization, which carried out the project and, therefore, assumed all the risks involved.

This first model also includes the community self-administration system used by the Carvajal Foundation in its project, in which the community is the main actor in the building process and the operator acts as its facilitator and trainer.



The second model, which we shall call **FULLY SUBCONTRACTED**, consists of issuing a tender in order to select the best bidder as the contractor, which fulfilled all the requirements. In this situation, the NGO operator took on the role of Project Manager and Superintendent, but did not get involved in the detailed planning process, nor made direct purchases. The operator would delegate the entire operative process of the construction to a private builder.

In addition, certain operators implemented projects in which the two systems were combined. For example, in the Jubileo Project, the Diocesan Corporation subcontracted the urban development works, but built the housing units as the direct builder. Similarly, for the El Recreo Project, the Vida y Futuro Foundation subcontracted the urban development works and carried out the construction of the houses by delegated administration. In this case, the operator was involved in the planning and project purchasing process, using the private builder for the strictly operative implementation.

Program projects are divided into the following classifications:

<b>PROJECT/OPERATOR</b>	<b>MODEL USED</b>	
	<b>URBAN DEVELOPMENT</b>	<b>HOUSING UNITS</b>
Cantarito	Direct Implementation	Direct Implementation
Fundación Anita Gutiérrez	Fully Subcontracted	Fully Subcontracted
Málaga	Fully Subcontracted	Fully Subcontracted
Pueblo Sol	Fully Subcontracted	Fully Subcontracted
El Recreo	Fully Subcontracted	Delegated Administration
Precooperativa Juvenil	Fully Subcontracted	Fully Subcontracted
Cántaro	Direct Implementation	Self-construction
Cañas gordas	Fully Subcontracted	Direct Implementation
Quintas de los Andes	Fully Subcontracted	Fully Subcontracted
Jubileo	Fully Subcontracted	Direct Implementation
Plazuelas de la Villa	Direct Implementation	Direct Implementation
Vista Hermosa / palmar	Counterpart contribution (*)	Direct Implementation
Nuestra Señora de la Paz	Counterpart contribution (*)	Direct Implementation
Bambusa	Counterpart contribution (*)	Fully Subcontracted

(\*) Consisted of the counterpart contribution of 493 lots developed by FOREC to the donation program, with no major administrative burden for the operator.

No attempt will be made to rank each system in order to establish which was the best. In reality any system can be good; it is the conditions and willingness of the operator that allows for maximization of the advantages of each one.

The *Direct Implementation Model* has the theoretical and economic advantages. There is no profit from the transaction involved. The NGO charges its administrative and operative costs and implements an organization suitable to undertake the work of planning, implementation, and control required for the works.



The success of this model depends on the executive capacity of the organization in terms of organizing a human team in line with the demands of the size of the project and which has the specific experience in the type of work involved. Cases such as Antioquia Presente at El Cantarito and the Diocesan Corporation at Jubileo show that it is possible for a donation operator to be an excellent builder. However, the case of Mencoldes shows us that direct implementation is not a suitable model in all cases, in particular when the dimensions of the organization are below requirements and self-control processes are not implemented.

By accepting the proposal of Pontificia Bolivariana University (UPB), considered the possibility of supporting the development of academic knowledge. They implemented a construction project with a team led by their Dean of Architecture, whose members were local professionals and graduates of the University. The result, from our point of view, shows the difficulties of academia in working with competitive operative costs and self-control processes. These elements resulted in a substantial budget deficit at the project's end, which was assumed as the responsibility of the UPB.

It is sufficient to compare the costs of the Nuestra Señora de la Paz project, built by the Diocesan Corporation and those of the El Palmar and Vista Hermosa projects built by UPB. There is a great difference, in spite of fact that all three of the projects were built on the basis of a common house design by UPB, which was built on urbanized lots of the same cost. The cost of the project built by the Diocesan Corporation was 20% lower than the two projects built by the UPB. The high indirect cost of the Operation of the UPB projects compared with that of the Diocesan Corporation fully explains this result.

It is commonplace to believe that public entities are synonymous with inefficiency and squandering. This was not the case in Plazuelas de la Villa, with 127 housing units. It was directly carried out by a temporary association led by the Calarca Social Housing Fund, which achieved not only transparency and the fulfillment of terms, but also achieved impeccable quality in the houses and compliance with complex environmental commitments, such as closing down and transferring the rubbish dump alongside the lot where the project was built.

*In the case of subcontracting*, the operative and risk burdens are delegated in their entirety to a private builder, who therefore includes profit in its costs. For that reason, this model would supposedly be the most expensive of all. However, this is not necessarily true as is shown when the costs of the USAID donation projects program are compared. Projects carried out directly by the operation turned out to be more expensive than the fully subcontracted projects.

Good initial negotiation, supported by excellent plans and tender documents is, from the economic and technical points of view, the best way to maximize the benefits of the system. With its Quintas de los Andes Project, the Armenia Chamber of Commerce provided an example that this system can produce excellent projects at low cost.

The same happened with the Malaga Project of the Vida y Futuro Foundation, in which the ample spaces and the quality of urban works and amenities, combined with very dignified houses are clearly outstanding.



The case of El Recreo Project is special, as the Vida y Futuro Foundation subcontracted all the urban development works, but carried out the construction of the housing units under the delegated administration system. In this case, the operator assumed control of the purchasing and contracting process and used the builder for operative implementation. In this way, the profit motive disappears and the builder is remunerated through the allocation of a percentage of the costs by way of fees.

The system proved to be efficient and produced economic savings that could be capitalized in favor of the project. This project was in fact a singular in scope, in both its level of urban development and that of housing interiors, which were practically ready to continue progressive development in safe and economic conditions.

The two assistance projects, the Precooperativa and El Ancianato were undertaken using this system (Subcontracting), complying with all the goals and not encountering any problems.

Separate mention must be made of the model applied by the Carvajal Foundation in the construction of the Cañas Gordas project, *self-construction*. This is a model that is rich in community participation, leaving a community prepared for life in the development and aware of its responsibilities in progressive development.

As there was only one project that used this model in the program, we have no references for comparison. However, we can say that the system does not have lower costs; on the contrary, it tends to be among those of the highest unit cost. Although its social dividends are high, in this system the operator supports the greater burden of training and community management, and it is necessary to reinforce intervention in strictly technical aspects, as these tend to lose their importance.

Further analysis and detailed cost information for all of the projects is provided in the Second Annex, "Analysis of Construction Costs".

**Environmental Management:** PADCO stressed that no building work should be commenced until an environmental evaluation, in accordance with USAID and Colombian Government regulations, has been carried out and approved by USAID.

USAID has clear, precise policies and procedures to ensure that the environmental consequences of activities are identified and that preventive security measures are adopted and included by its local partners before proceeding with their works (22 CFR 216.1 (b)(1)).

The Colombian Government has also established a complete system of environmental laws and regulations. In addition, a series of environmental guidelines were drawn up, specifying the standards and regulations to guide works of reconstruction and recovery of the environment in the area affected by the earthquake of January 25, 1999 (Coffee Zone).

To complement and implement the intention of these regulations within the context of the reconstruction program, PADCO prepared guidelines for the rapid environmental revision and diagnosis for the planning and implementation of the reconstruction works financed by the



USAID donation (see Annex No. 2). The majority of the projects resulted, once an evaluation could be made, in positive environmental benefits. Nevertheless, some of the projects with a positive environmental evaluation caused undesired impacts. The early identification and description of these impacts helped PADCO and the NGOs to outline strategies designed to mitigate such impacts. Opportunities to improve the environmental conditions were also identified during this stage.

Based on the application of these guidelines, each NGO Operator included its mitigation strategies and also the opportunities for improvement of the environment in the basic reconstruction project, in ways that were technically and financially viable. This way of tackling the problem helped not only to satisfy basic USAID and Colombian Government environmental protection policy, but also to do so rapidly and effectively.

**Transversality:** PADCO considered the possibility of dividing the program into a substantial number of smaller projects, thereby amplifying the visible impact of its intervention, but this would necessarily have made the administration of the project more complex. Fourteen (14) projects were finally implemented in the course of the 20 months' work, each one with its own designs and peculiarities.

The Urban Reform Law No. 388/97 came into force in 1999, obliging each municipality to have a Land Use Plan (POT) drawn up by itself, following a study by the environmental authorities and Town Councils. In the case of Armenia, for example, the POT was approved on the day before the earthquake and set out the possible development of the city, at high norms and standards over a period of ten years. The municipal authorities did not revoke this Land Use Plan to take into account a realistic reconstruction of their city.

Other municipalities damaged by the disaster did not have a POT but drew one up post-earthquake in order to comply with legal requirements. However, the planners, who had the opportunity to establish realistic urban development bases, in line with reconstruction requirements, forgot to do so.

This decision weighed heavily on the development of the reconstruction projects in all the towns; the infrastructure development plans were not in harmony with the pace of the reconstruction and even less with the development zones. Theory and reality never met.

The POT required the development of zonal plans that broke the pace of the construction required in a city faced by disaster. UD Standards for urban land use and development were uniformly high and predicated on the construction of ideal cities and towns, thus increasing not only construction costs, but also of land. As a result of these measures, the percentage of use of urban lots for the actual construction of housing units reached only a maximum of 30% in the USAID Program Projects.

The result of this disparity in criteria which appeared in each POT, at each stage of implementation, the PADCO Team had to solve a problem with the different authorities, which involved either the Planning Department of each town or the environmental or political



authorities. All of them, authorities and builders, were acting under new legislation, and each favored its own differing interpretation of each Article.

PADCO decided to carry out these coordination procedures directly, while the operators progressed in the construction of the projects. We attended close to 400 meetings with different authorities, NGOs and affected communities and reached agreements that served not only to untangle the USAID projects, but also those of many other donors and reconstruction entities.

## CONCLUSIONS AND RECOMMENDATIONS

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### Experience Gained

How should a reconstruction process be approached from the point of view of the donor? How should geographic interventions be targeted from the perspective of International Cooperation? How can donors' funds be put to the best use? How can completion of the project be reached without dying in the attempt? How can the mandate under the Specific Donation Agreements be performed?

All of the foregoing questions, and many others, are particularly relevant to the effective implementation of international assistance post-disaster.

When this situation arises we are usually in unknown territory where the legislation varies, customs are different, learning experiences are uncertain, technical capabilities are unknown and the social organizations involved represent a question mark. It is difficult to recognize the political forces and their powers - political interests are intertwined. In the majority of cases, and without wishing to, we found ourselves in the crossfire and, worse still, information was normally non-existent or in chaos, which limits its reliability.

At first glance, it could be said that building 2,600 housing units should not be difficult so long as the money is available. However, one must first consider the potential power or threat that this represents for any politician - in terms of influencing beneficiary targets of the donation, or indeed, the impact of a reconstruction project such as this on the value of the land. A poorly conceived approach to the land market can wreak havoc with budgets and impact in some way on local economic factors. (See Costs Analysis regarding land prices in Armenia).

All the difficulties one can think of are bound to occur in a project of this nature and it is therefore vital to overcome them on a timely basis within the relevant context.

In order to successfully undertake a project of the magnitude of the one carried out with the USAID donation, its administrative, financial and technical policies, systems and procedures must be clearly defined and publicized from the outset so that local special and vested interest groups will not be able to substantially alter the direction already fixed for their own purposes or gain.

It could be said that, with one exception which was controlled, the project was free from political pressures. However, it should be clarified that by the time there was public knowledge of the program, it had already reached a high level of definition and it was impossible for these forces to attempt to influence its direction.

In addition, it could be thought that a series of micro-projects, such as those implemented in the program, should first have been placed under clear emergency legislation to expedite their implementation. As we said before, this is not always possible.



For example, reconstruction following disasters is not always undertaken in the same sites or place. It was clear in the reconstruction process of the Coffee Zone that the reconstruction and recovery was located on the outskirts of the affected towns.

Not only did the new urban legislation (POT) complicate the process, but also the experience of the professional builders of the region was conditioned to working in built up areas with infrastructure already available and established urban outlines.

The occupation of new territories was a challenge for the builders and it had to be closely monitored, both to ensure that suitable land was identified and developed under the best possible environmental conditions, and that the urban development and building designs considered the broader impacts of each project on the surrounding areas.

NGOs in Colombia are at different levels of development. Organizations with very different profiles and capabilities entered the Coffee Zone. Some of them, such as the Carvajal Foundation and Cartago Diocesan Corporation contributed their long, recognized experience in carrying out social programs involving the construction of housing.

Some local organizations were created or adapted and very rapidly succeeded in attaining management and working capabilities that were equal or superior to others of longer standing and prestige. This was the case of the Vida y Futuro Foundation in Pereira and the Armenia Chamber of Commerce.

PADCO, following the mandate of the Specific Donation Agreement, used several of them and, in general, the results were good. It may be said that experience showed us that it is easier to operate from a local or regional organization, if there is one, than simply to bring in organization from other regions backed by their prestige.

In some cases, there had been no experience in developing housing programs, as in the cases of Vida y Futuro, Armenia Chamber of Commerce and Pontificia Bolivariana University. In others, such as Antioquia Presente Corporation, the scale exceeded their prior experience. There were also new experiences - Plazuelas de la Villa Temporary Association - in which the Calarca Society of Engineers, the Calarca Housing Fund (a public entity of the same town) and FUNCOP, a community organization with experience in disaster management, all joined together. Today, the great majority of these organizations are capable of participating in construction programs under favorable conditions.

Most often, pressure to show progress led to the initiation of projects while there was still a considerable lack of full definitions. Clearly, the level of specificity solution of the project plans and specifications and, in general and the accuracy of its general objectives minimized unforeseen situations, facilitated operations and brought us closer to the possibility of project budgets and schedules.

Based on the different capabilities of the operators, it proved right, from organizational and strategic points of view, to have established a permanent presence in the field, as PADCO did.



This enabled us to have a continuous exchange of experiences and to solve the vast majority of the problems, which were not exclusively technical.

Reconstruction processes are fertile ground for dreams and one must always take advantage of opportunities: some concentrate on the ideal city, others on the deal or project of a lifetime, and each one will try to make his or her dream come true, if he or she is able to do so.

Mobility in the jobs of the public officials responsible for compliance with the regulations prevents them from having in depth knowledge of the relevant legislation that is essential to their position, and its efficient and equitable operation. In general, however, they legislate on the basis of their own knowledge from their small redoubts of power.

In order to resolve regulation problems with public officials, it is important to have the certainty, based on knowledge and facts, and to have the document in question at hand. Only in this manner can one hope to avoid the mistaken interpretations that result from learning acquired from frequent verbal communications between such officials. This method avoids unnecessary expenses and saves precious time.

There are two types of timing in projects of this nature – controllable and non-controllable. The first type is that of the development of works, such as designs, soil studies, contracting, and construction. The second type involves the formalities and bureaucracy, the latter being in the hands and at the pace which each bureaucrat tries to imprint on his or her work. Unfortunately, this latter type conditions the development of the former (construction licenses, connection permits, and environmental licenses) and it was from these timing discrepancies that the necessity to grant extensions for the implementation of the contractual terms of the agreement arose.

The Donation Agreements executed between countries usually bring with them a series of exceptional mechanisms for the application of the programs, which are certainly conceptually valid, but nevertheless cause difficulties during implementation.

In general, a document signed in a Foreign Relations Ministry office does not permeate into other public administration offices. The most important case to highlight is that of total exemption from taxes, rates or contributions granted between countries. As PADCO tried to enforce such contractual concessions, the tax officials had all sorts of interpretations of their own and issued many opinions denying acceptance of the agreements, which, in practice, made them impossible to apply.

In Colombia, charging obligatory, automatic taxes on transactions, such as VAT, has for many years been part of commercial culture. For both NGO operators and for PADCO, it became difficult, if not impossible to get materials suppliers accept the tax clause of the Agreement. On a number of occasions, suppliers refused not to invoice VAT, on the basis of erroneous opinions issued by the DIAN legal department.

The international auditors would check the payments of VAT and declared them ineligible expenditures, unaware of the inability of an operator in the field to exert any influence on the



fiscal policies of the country. Agreements of this kind should therefore be accompanied by the documentation required for effective implementation by the donor and/or his contractors. It is, definitively, easier to obtain a commitment from DIAN prior to the signature of a donation agreement between countries than to wait until the project is under way.

# Recommendations for the Future

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## 1. Establish Effective Operational Coordination of Policies and Programming.

*Even though USAID resources are administered independently, to maximize the effective use of scarce resources, we recommend that the following be taken into account:*

- Planning and implementing operative policy and programming for coordinating USAID resources in a complementary and not a competitive manner with those of other programs and donors in order to cover the priority target groups and to make effective use of the mechanisms and project identification sources.
- To collaborate, empower, and reach agreements with the responsible authorities and other donors related to the identification and solution of problems inherent in planning and implementation in reconstruction processes.

## 2. Maximize the Effective Mobilization and Use of Civic Society Organizations.

*We ratify the effectiveness of the outlines applied, with emphasis on the mobilization and strengthening of local resources, among others, those of local institutions and NGOs, as well as the following:*

- Prioritizing projects sponsored by organizations that include elements of investment by the sponsors, innovative solutions, self-help and/or personal efforts.
- Using these organizations to help in the identification and classification of potential beneficiaries, their guidance, training and active participation in all the aspects of reconstruction.
- Using the same housing reconstruction process to demonstrate sustainable participation models as partners between the public and private sectors.
- Promoting a synergic relationship with the activities of the other donors and governmental entities of the region to obtain rapid, lasting results.

## 3. Provide Mechanisms to Guarantee Administrative, Financial and Technical Effectiveness and Transparency.

- Perfect the mandate agreement model as the most appropriate instrument for the International Cooperation Agencies to avoid the establishment of costly and unnecessary bureaucracy.
- Ensure that money is channeled through a single banking network limited to the resources of the donation, and with special current accounts, signed between Operators and the Bank, as the exclusive receivers of transfers ordered by the Agency. These contracts should include control obligations clauses to be complied with by both operators and the banking entity.
- The single accounting model established for the management of the accounts and for reports to be rendered facilitated financial control and audit and led to key



conclusions, although it was not sufficiently automatic. Had it been so, the use of this instrument for control would have been maximized.

- From the point of view of taxes and contributions, it is vital that officials representing the State sensitize, at all levels, the commitments assumed by them before other governments; in this way, tax collection officials in the beneficiary country could act in accordance with the respective agreement, thus avoiding long and costly procedures for the agreements to be performed.

**4. Guarantee Compliance with the Municipal and Construction Regulations, Seeking Their Adjustment to the Post-Disaster Situation and in General, Respecting Technical Standards and Ensuring A High Level Of Quality.**

*It is important not to forget that dealing with disasters requires legislation, instruments and processes facilitating the response to emergencies in their entire context and with the required rapidity.*

- Local authorities should be involved from the start in the development of the corresponding instruments.
- Ensure the implementation of projects outside the zones detected as high risk prior to their approval, by thorough geographical risk identification according to the risk map.
- Require operators to adhere entirely to the post-disaster regulations framework, with greatest emphasis on the preventive regulations covering the catastrophe.
- Mobilize and use potentially available local technical resources (Communities, Professionals, Universities, Activity Sectors) to improve follow-up of the quality of the products, providing them with guidance on the different nature, objectives and characteristics of the Operators, thus reinforcing their capabilities towards the future.

**5. Continue Supporting Research and Development of Non-Traditional Building Systems that Represent Benefits in Terms of Costs, thus Achieving Considerable Progress in Optimizing Use of Local Resources.**

*The USAID Mission in Colombia has been a leader in the financing of risk mitigation work, by financing studies such as seismic risk micro-zoning for certain towns in the Coffee Zone and in the development and regulation of low cost, seismic resistant building techniques, such as cemented adobe. On the basis of the successful experience with this system in the Bambusa project, we recommend that the USAID Mission do the following:*

- Extend the experience of Bambusa, promoting its use as a safe and economical material for the construction of social housing, seismic resistant housing units for target groups such as the displaced.
- Contract typical designs and specifications for minimum housing in cemented adobe, making them known and promoting their use by entities relating to the general social interest housing system.
- Finance housing programs using cemented adobe to respond to the needs of Plan Colombia.















**Descripción del Proyecto:** Construcción de 320 viviendas en Armenia, Quindío. Las casas constan de un salón comedor, cocina, baño, tres alcobas y patio con un área construida de 40 M2, que se levantan sobre un Lote de 50 M2. La disposición de las viviendas permite que la totalidad de las casas cuenten con patios cerrados.

**Estructura Financiera**

FUENTE	APORTE TOTAL	APORTE X VIVIENDA
USAID	2,266,513,141	7,082,854
TCC	318,000,000	1,000,000
Pastoral Social Arm	318,000,000	1,000,000
<b>TOTAL ETAPA 1</b>	<b>2,902,513,141</b>	<b>9,082,854</b>
Ley Quimbaya	1,132,000,000	4,000,000
<b>TOTAL ETAPA 2</b>	<b>4,035,513,141</b>	<b>13,082,854</b>

**Estructura de Costos por Vivienda**

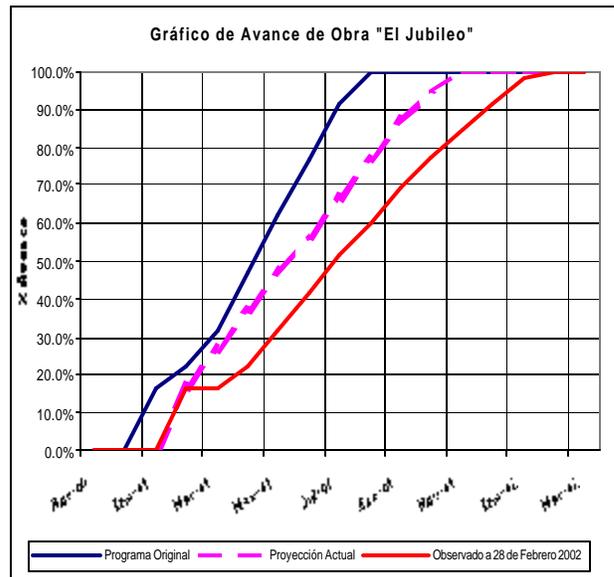
Descripción	Costos x Vivienda
Lote Urbanizado	4,907,452
Directos	7,737,902
Indirectos	437,500
<b>Total</b>	<b>13,082,854</b>



**Desarrollo del Proyecto:** El proyecto se concluyó satisfactoriamente a nivel de la construcción de las viviendas y el Urbanismo, entregándose las casas a los beneficiarios en el mes de Enero y terminándose el proceso de escrituración. El proyecto se destaca por tener el costo directo de construcción más económico entre los sistemas tradicionales. El costo final del urbanismo superó las previsiones y por otra parte solo 283 viviendas contaron con los \$ 4,000,000 de la Ley Quimbaya pero fueron construidas con las mismas especificaciones, lo que a la postre generó un déficit de caja importante que USAID pudo contribuir a solucionar.



**Gráfico de Construido**



FORCENTAJE	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
AVANCE OBRA										
AVANCE DESEMBOLSOS USAID										
INVERTIDO										





**USAID/PADCO – 31 de Diciembre de 2001**

**“PLAZUELAS DE LA VILLA” – UNION TEMPORAL PLAZUELAS DE LA VILLA-PADCO 9950-09**

**Descripción del Proyecto:** Construcción de 127 viviendas en Calarcá, Quindío. Cada vivienda consta de un salón múltiple, baño, alcoba, patio y cocina con área de construcción de 29.6 M2. Las viviendas se construyen sobre Lotes individuales de 54 M2.

**Estructura Financiera**

FUENTE	APORTE TOTAL	APORTE X VIVIENDA
USAID	790,161,000	6,221,740
<b>TOTAL ETAPA 1</b>	<b>790,161,000</b>	<b>6,221,740</b>
Ley Quimbaya	524,172,000	4,127,338
<b>TOTAL ETAPA 2</b>	<b>1,302,200,000</b>	<b>10,349,078</b>

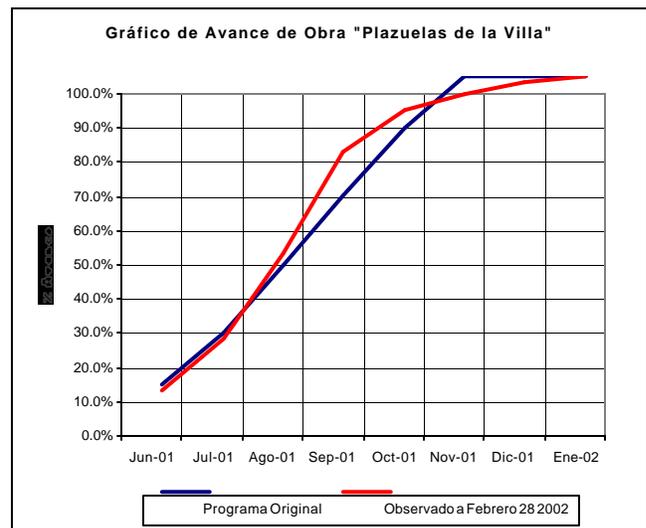
**Estructura de Costos por Vivienda**

Descripción	Etapa 2
Lote Urbanizado	3,019,674
Directos	5,808,790
Indirectos	1,520,614
<b>Total</b>	<b>10,349,078</b>



**Desarrollo del Proyecto:** El proyecto se terminó en el mes de Enero, destacándose por la generosidad de sus zonas comunes, la calidad de su urbanismos y sus viviendas e inclusive la velocidad de construcción.

**Gráfico de Construido**



PORCENTAJE	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
AVANCE OBRA										
AVANCE DESEMBOLSOS USAID										
INVERTIDO										







**USAID GRANT  
COFFEE ZONE RECONSTRUCTION PROJECT  
PADCO, INC.  
COST ANALYSIS**

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We consider it important to include in this Final Report an analysis of the end results of the costs of the housing projects.

It is important to stress that, in spite of the good quality of the available information, this analysis is focused on detecting trends rather than discovering laws or correlations. It is clear to us that each project is a world apart in terms of the variables which affect costs and therefore it could be somewhat audacious to reach conclusions on first sight without taking those variables into account.

It was foreseeable that the cost results of each project would be affected by the following variables, although they do not necessarily influence all of them.

- Size of the Project in terms of its number of housing units
- Size of the houses
- Original Topography of the Lot
- Soil characteristics
- Management Model applied (Direct Implementation, Subcontracting, Delegated Administration or Self-Construction)
- Start Time and duration of works
- Location of the project by Cities
- Effect of municipal regulations
- Design Accuracy Level at the time of commencing the project.
- Architectural Design
- Efficiency of processes
- Size and Cost of the Administrative Organization
- Type of construction system

These 13 variables, among others and in different combinations, determine the final project cost results. No two projects in the donation program were under same conditions or shared at least half of them and, therefore, and therefore comparisons must be made with care.

To facilitate the analysis, the cost components traditionally used will be divided, as follows:

**Whole Lot:** Cost of Land

**Cost of Urban Development Works:** Cost of the works to prepare the lot, which include Earth Movement, Water Supply and Sewerage Systems, Power Grid, Pedestrian Walkways and Vehicular Roads, Sidewalks, Green Zones, Parks and Environmental Mitigation Works.

**Direct Costs:** Cost of Materials, Manual Labor, Equipment and Tools directly associated with the construction of the housing units.

**Indirect Costs:** Housing construction Administrative costs, such as salaries of office support staff, stationery, policies, contractors' profits and other expenses resulting from the building process.

For the purposes of cost analysis, the most common measurement is Square Meter Construction, which is defined as the area of construction completely covered in and finished. Dividing the total cost of the project by the built up area gives us an indicator of the unit cost involved. While it shows a trend, it is not completely effective as a mechanism for comparison, because effects such as the scope of urban development works and the scale of the project are not taken into account. In addition, projects where the housing units are of different sizes cannot be compared on the basis of this indicator.

In fact, as the number of square meters constructed increases, so the unit cost is reduced, because investments in land and urban development works are distributed more widely, as is the case with the initial investments in the construction of the houses.

We shall refer to the following terms in this analysis:

**Cost of Developed Lot per Useful Square Meter:** this is the quotient between the Cost of the Developed Lot and the useful residential Area, that is, the size of the Individual Lot on which the housing units are built.

**Virtual Area:** This is the equivalent area in square Meters resulting from taking into account the additional investments made to facilitate the progressive development of the housing. Many of the projects not only hand over the habitable built up area, but also succeed in total closure of the individual Lot. This means that part of their investment is in progressive development, so that it is much cheaper for the beneficiary to obtain an additional living area in this space than it is in projects in which this closure is not built by the operator.

## **DIFFERENT SIZES OF THE PROJECT IN GENERAL**

The construction of 2,867 houses represents the following indicative sizes.

### **Quantitative Indicators**

<b>Item</b>	<b>Size</b>
Hectares of Land Acquired	51.4 Ha
Hectares of Land Used for Housing	15.7 Ha
Hectares of Vehicular Roads Built	5.1 Ha
Hectares of Green Zones Included	24.1 Ha

Hectares of Sidewalks and Hard Zones Included	6.4 Ha
% Effective Use of Land	30.6 %
Square Meters of Housing Units Built	89,208 M2
Square Meters of Possible Housing Construction (*)	194,344 M2
Tons of Cement Used	727 Ton
Tons of Iron Used	695 Tons
Sacks of Cement per Housing Unit	49 Sacks
Number of Houses per Hectare	56 Houses/Ha
Kilos of Iron per House	243 Kg

### **Costs Indicators and Financial Structure**

<b>Item</b>	<b>Value Col\$</b>	<b>Cost per House</b>	<b>% Incidence</b>
Total Value of Project	32,194,709,221	11,223,826	100%
Total Cost of Land	4,170,955,104	1,454,815	13%
Urban Development Costs	7,959,674,991	2,776,308	24.7%
<b>DEVELOPED LOT</b>	<b>12,130,630,095</b>	<b>4,231,233</b>	<b>37.7%</b>
Direct Cost of Houses	17,185,244,733	5,994,156	53.4%
Associated Indirect Costs	2,862,83,392	998,547	8.9%

### **Financial Structure of the Project**

<b>SOURCE OF FINANCING</b>	<b>TOTAL CONTRIBUTION</b>	<b>Contribution per House</b>	<b>% Incidence</b>
USAID	18,317,919,733	6,389,229	56%
FOREC Quimbaya Law	9,528,000,000	3,323,324 (*)	30%
USAID Operators	2,255,789,488	786,812	7%
BENEFICIARIES	810,000,000	282,525	3%
OTHERS (**)	1,135,000,000	395,884	4%
<b>TOTAL</b>	<b>32,194,709,221</b>	<b>11,223,826</b>	<b>100%</b>

The project mobilized resources equivalent to 13% of those used for the construction of Social Interest housing in Colombia, concentrated on a zone where only 2.5% of Colombians live. In fact, USAID and its counterparts in this project built the number of houses in Quindio Department that would be constructed under normal conditions in a period of six years.

### **COMMENTS ON COST RESULTS**

Practically all the traditional building systems were used in the different projects. Confined (*Confinado*) Masonry was the dominant system, followed by Partially Reinforced Masonry and the Poured (*Vaciado*) Concrete or Tunnel System.

The cemented Adobe system was also used in the Bambusa project, which merits a chapter apart because of the excellent results and its significance in terms of economy achieved with the use, in line with seismic resistant standards, of the most abundant building material in the Coffee Zone.

Excluding the latter project and bearing in mind the effect of the operators' investments in carrying out part of the progressive development (Completion of Patios and Blocks), we can distinguish between two levels of direct costs.

The direct unit costs of projects which produce houses with areas of between 20 and 30 M2 vary from COL\$ 188,501 to COL\$ 250,625 and average COL\$ 211,492. The direct unit costs of projects building houses with areas of 30 to 40 M2 are COL\$ 173,323 without evident dispersion.

There is, however, no direct ratio between the cost results and the building system, nor is any notable variation established between the comparable direct costs, separated by range of constructed area.

On the basis of these results we can state, in the case of this project, that traditional building systems tend to have the same costs and that the factor responsible for the differences is the size of the housing units. In practice, this difference is caused by the first 30 M2 being more expensive in unit terms than the following 10 M2 and not by one system being more economical than the other. In fact, if we simulate all the operators as building the same area per unit of 40 M2, the variation would be very small.

This leads us to conclude that the difference in the total costs per square meter, - the reason why one operator with the same level of financing manages to build a larger quantity of square meters than another, lies in the other components of the cost, mainly in the Developed Lot.

Table 3.2 shows the comparable result between these costs, taking one Useful Lot Square Meter as the unit that is relating the costs to the size of the lot actually built on. In this case, there is a clear difference between the cost of the developed lot from one town or city to another. The projects in small towns were definitively more economical in these terms, as in the case of Tebaida. Pereira is more economical than Armenia and it is in the latter, that the costs of land and urban development exert a greater influence on the end result.

The El Jubileo project is worth a special mention, built as it is on a Lot of land with very hilly topography, in which the investments in urban development are proportionally greater. In this case, the ratio between the cost of the land and that of a Developed Lot is 3.5/1, the largest of all, not including the Plazuelas de la Villa project where the Lot was contributed at 50% of its commercial value. What is interesting in this project is that the final result of El Jubileo will be the most economic in terms of total cost, even lower than that of Bambusa.

There are two reasons for this result. The first being that the Diocesan Corporation of Cartago operated the donation at the lowest indirect cost of only COL\$434,000 per house (half that of the next one on the scale). The second was the Architectural Design that provided for closing of all the patios of the houses without substantial additional costs, because the grouping of the houses

optimized cement and masonry costs by using the walls of one house to close spaces of the house next to it. This design meant a reduction of 50% in the cost of the progressive development.

Scale economy effects are important in the total cost. In fact, the largest project, El Cantarito with 952 housing units showed the second lowest cost, while the smallest, Pueblo Sol in Pereira, turned out to be one of the most expensive.

The results in the case of the Mencoldes El Cantarito project were also special, although it has not been included in the analysis because the lack of reliable information on its urban development costs. It is immediately obvious that it is the project with the largest area constructed per house at 55 M2 and that, even when it only had the USAID donation to use, it managed to build houses with an area of 39 M2.

This result can be explained in two ways. The first and most important is that it was the only project in the program, and the entire reconstruction effort, in which the investments in urban development to provide temporary shelter were capitalized in the final housing units. The construction of the houses on the same lot as the one where the families were lodged temporarily following the earthquake, made it possible for the donation and the additional resources to be applied almost entirely to the construction of the houses. However, the Mencoldes Foundation, in spite of the great success of this concept, invested the resources disproportionately, favoring private over public space.

For their part, the results of the Pilot Plan projects were affected by the high cost of the Developed Lots. The cost per useful square meter of Developed Lots is actually the highest in the program and the USAID donation was applied only to the construction of the houses.

In this same project, we found a great difference between the cost of the Projects Operated by the Bolivariana University and the Diocesan Corporation Project. These projects had the same design and were built on lots of the same price. However, the cost of the latter was 20% lower than that of the former. The High Indirect Operating Cost of Bolivariana University in comparison with that of the Diocesan Corporation completely explains this result.

The excellent result of the projects operated under the subcontracting system should be highlighted. This is the case of Quintas de los Andes, operated by the Armenia Chamber of Commerce and El Recreo and Malaga in Pereira, operated by the Vida y Futuro Foundation. The former, in particular, shows a very positive result in that, while it was the project with the smallest amount of resources per housing unit, it became one of the largest in scope in urban development with houses of a satisfactory size.

For their part, the projects in Pereira are outstanding for the generosity of the public space and the scope of the urban development works in comparison with other projects, with comfortably sized houses.

The information in the annex forms the base of later analyses and the following may be concluded from it:

- The traditional building systems do not explain the differences in costs. Independently of the building system and administrative model, Confined Masonry, Reinforced Masonry and the Tunnel system had similar direct costs per square meter built in comparable terms.
- The Cemented Adobe System shows the lowest direct cost of all at COL\$144,000 per square meter, making it an excellent alternative to reduce housing costs. The same sum of resources mobilized in this project would have produced 3,000 houses of 40 M2 on 50 M2 Lots in the city of Armenia. In other words, the mass use of this system on the same sites and with the same characteristics of Lots and Urban Development would have made it possible to build approximately 400 additional houses, each of 40 M2 and built on Lots with an area of 50 M2.<sup>1</sup>
- The differences in the total costs are explained by the cost of the Developed Lot and the Indirect Costs. In this respect it is clear that a Developed Lot is more expensive in the city of Armenia, mostly because of the cost of the land. In spite of being a smaller city than Pereira and notwithstanding the competitive effect of the Housing Shop Window (*Vitrina Inmobiliaria*), greater demand for land in this city increased the price.
- The largest variations are in the indirect costs. There are projects in which, proportionally, this cost represents only 3.32% of the total cost at one end of the scale and, at the other end, this cost is 17% of the value of the house. With the exception of the Bolivariana University project, those with the highest indirect cost were built under the subcontracting system.
- This fact is worthy of special consideration. In fact, the profit of the private contractor is specifically reflected in the indirect cost, but not necessarily in the total cost. While the Malaga and El Recreo projects are among those with the highest total cost, Cañas Gordas and Vista Hermosa, implemented directly by the operator, showed higher costs. For its part, Quintas de los Andes, which was subcontracted, was among those with the lowest costs.
- The Malaga and El Recreo projects have lower occupation indices, in particular El Recreo. The regulations in Pereira are more demanding in terms of public space than that of the other municipalities and this is reflected in the incidence of the cost of land and urban development on the total cost. However, in comparative terms, the cost per Developed Lot in these projects was not the highest, as it should have been.
- The private contractors' profit factor using the subcontracting system tends to be compensated by the more reasonable costs of the Urban Development of the land.

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<sup>1</sup> The application of the direct cost of cemented adobe at COL\$89,208 M2 constructed would have freed close to COL\$4,350,000,000, WITH WHICH 400 ADDITIONAL UNITS OF COL\$10,960,000 each would have been built.

**USAID GRANT  
COFFEE ZONE RECONSTRUCTION PROJECT  
PADCO, INC.  
ENVIRONMENTAL GUIDELINES**

For environmental revision and diagnosis in connection with the Earthquake Reconstruction under Limited Scope Agreement No. 514-9005

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The Colombian Government has a complete system of environmental laws and regulations. In addition, a series of environmental guidelines have been drawn up, specifying the standards and regulations to act as a guide for reconstruction works and the recuperation of the environment in the area affected by the Earthquake of January 25, 1999 (Coffee Zone).

These guidelines for environmental revision and diagnosis are intended to provide an important contribution to the planning and implementation of the reconstruction projects financed by USAID to assist the Colombian Government in its reconstruction Program. No reconstruction work may commence until an environmental evaluation has been made, according to USAID and the Colombian Government regulations, and approved by USAID.

The majority of the projects, on balance, result in positive environment benefits. However, even the projects with positive environmental results may have undesirable impacts. An early identification and description of these impacts will permit adequate strategies to be used to avoid them or mitigate their impact. Likewise, opportunities to improve environmental conditions can be identified at this stage.

Both the mitigation strategies and opportunities for environmental improvement can and should be included in the basic reconstruction project - when they are technically and financially viable. This will satisfy basic USAID policy to ensure that the environmental consequences of the activities financed by the Agency are identified and included by USAID and its local partners prior to the final decision to proceed with the works and, in such a way, that preventive security measures be adopted. (22 CFR 216.1(b)(1)).

**A. Description of the Project**

This is a brief description (including photographs and available and appropriate maps) of the proposed reconstruction project, including:

- Name of the Project, address and location
- Owner or Sponsor of the Project
- Estimated cost
- Beneficiaries (Number of Persons who will benefit from the reconstruction project)
- Date of commencement and termination of construction
- Person(s) responsible for the supervision of the project and acceptance of works.

**B. Description and Analysis of the Site**

A site visit will be made by the engineer or the person in charge of the NGO project(s). Based on this visit to the site and other available documentation, provide a brief, concise description of the area, including features such as size, topography, buildings or uses adjacent or close to it, access ways, public services, etc. Special attention must be paid to the "Sensitive Receivers," such as residential areas, schools, hospitals, rivers, parks and recreation areas. Include (or refer to if it has already been included) a map of the location, site plan and photographs of the key features.

Describe existing buildings and other structures and types of activities and operations that are being or have been developed in the area and its immediate surroundings. State whether these activities are (or have been) significant sources of pollution (water emissions, solid residues, heavy traffic, noise, air emissions) Identify any use of toxic or hazardous materials and describe procedures for the management, storage and disposal of any resulting residues. Identify any contaminated soil or unusual accumulations of waste or residues. Highlight all open bodies of water, streams, marshes, wetlands, woods, open spaces and other areas of natural resources.

**C. Checklist of Environmental Considerations**

Indicate which of the following resources or aspects may be affected by the proposed project, either during construction or the operation of the construction, using the following codes:

- Y = Yes
- M = Maybe
- N = No
- U = Uncertain; sufficient information is not available
- NA = Not applicable to this site or project

	<b>Impacts Construc- tion Phase</b>	<b>Long term Impacts</b>
1) Bodies of Water (Lakes, Rivers, etc.)	_____	_____
2) Water Supply/Use	_____	_____
3) Vegetation/Trees	_____	_____
4) Fish and Wildlife	_____	_____
5) Primary Agricultural Land	_____	_____
6) Pollution of Water	_____	_____
7) Pollution of the Air	_____	_____
8) Archeological Sites	_____	_____
9) Solid Wastes	_____	_____
10) Use of Hazardous Material/Waste Disposal	_____	_____
11) Generation of Heavy Traffic	_____	_____
12) Historical/Cultural Heritage	_____	_____
13) Infrastructure Adaptation	_____	_____
14) Other Aspects of Impact	_____	_____

#### **D. Discussion of Environmental Considerations**

Provide analysis of the nature and severity of the impact (or possible impact) expected for each resource or aspect for which probable (or uncertain) impacts exist. In the case of significant impacts, identify groups or individuals who may be affected and possible measures (those relating to both construction and operation) to avoid or reduce the impact.

#### **E. Mitigation of Environmental Impacts and Increase in Benefits**

For each mitigation measure or opportunity for feasible environmental improvement, describe the steps required to include such measures in the project and state the corresponding assignment of responsibility for action to the appropriate persons or organizations. These actions will be referred to in the Donation Agreement. Specify whether USAID Funds and/or assistance will be required to monitor the program.

#### **F. Environmental Decisions and Recommendations**

On the basis of environmental findings and in any adjustments to the project made as a result of same, recommend that the environmental status of the project be reviewed and approved by USAID.

- \_\_\_\_\_ No negative environmental impacts are expected; the project may go ahead.
- \_\_\_\_\_ Negative environmental impacts can be eliminated or reduced to acceptable levels through the impact mitigation measures agreed upon; the project may go ahead.
- \_\_\_\_\_ Considerable negative environmental impacts will probably occur; a detailed environmental diagnosis will be prepared for the proposed project.
- \_\_\_\_\_ Considerable negative environmental impacts will probably occur and a review of the location and project designs or the development of new alternatives are required.
- \_\_\_\_\_ Considerable negative environmental impacts will probably occur and the mitigation measures or new alternatives are not feasible. The project will be canceled.

#### **F. Documentation and Reports**

A brief environmental review report must be prepared for each project. The complexity of this review (and the resulting level of documentation) must be consistent with the probability and severity of the expected impacts. A project that clearly has few significant environmental impacts will require little attention and therefore generate little documentation. A project that will cause considerable environmental impacts will need more attention and documentation. In any event, however, brevity, simplicity and clarity are preferred, although not at the expense of the quality of the analysis.

An executive summary of the environmental supervision report, the resulting aspects of which must be included in each quarterly report forwarded to PADCO/USAID by the NGO setting up the project.

September 2000 Version 1.3

**USAID-DPN-PROJECT No. 514-9005  
DONATION AGREEMENT**

**PROCEDURE FOR ACCOUNTS AND RENDERING REPORTS OF THE  
NGO PARTICIPANTS IN THE PROGRAM**

**CONTENTS**

- 1. BACKGROUND.**
- 2. FUNCTIONAL TERMS OF REFERENCE.**
- 3. OPERATION AND FUNCTIONING MECHANICS.**
- 4. SINGLE ACCOUNTS PLAN AND ACCOUNTING DYNAMICS.**
- 5. INTERNAL CONTROL RECOMMENDATIONS.**
- 6. REPORTS.**

**I. BACKGROUND**

On January 25, 1999, a severe earthquake occurred in the Armenia/Pereira region (magnitude of 6.0 on the Richter scale) leaving an estimated 40,000 homes destroyed, more than the homes destroyed by Hurricane Mitch. Approximately a third of the families who lost their homes were poor and therefore the most vulnerable group. While many entities, such as the Coffee Federation, have come forward to help some families, strong pressure was brought to bear on the Government of Colombia (GOC) to provide assistance at no cost to the area.

On September 21, 1999, the U.S. Agency for International Development (USAID), Colombian Mission, signed an agreement with the National Planning Department for the Colombian earthquake reconstruction project (USAID) to be contracted with a United States company. (PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL-PADCO USAID Agreement No. 527-00-002). The purpose of this Agreement is to design

and implement a shelter and an infrastructure program for the community in the regions of Armenia and Pereira targeted to provide housing for approximately 2,600 families, and to reconstruct a school for street children and a home for senior citizens. The total USAID amount available for this program, including the design, administration and implementation, is 9.5 million dollars.

USAID collaboration will be focused on the poorest victims of the earthquake, those who were paying some sort of rent when it occurred. The aid will provide the affected families with access to a lot of land through an organized community group or NGO, chosen from among those already operating in the area or which have had long term experience in providing refuge and infrastructure for the Latin American community. This program is set to start on January 18, 2000, for a duration of 24 months.

## **2-FUNCTIONAL TERMS OF REFERENCE TO ACHIEVE THE PURPOSE OF THE USAID DONATION.**

### **2.1 PURPOSE OF THE DONATION.**

**2.1.1** To provide housing for approximately 2,600 families, including over 10,000 persons affected by the earthquake and which are at present lodged in temporary settlements sponsored by the Government or in informal settlements.

**2.1.2** To provide financial and technical assistance to reconstruct a school for street children and a home for senior citizens, - two facilities destroyed by the earthquake.

### **2.2 PURPOSES OF THE USAID-PADCO AGREEMENT.**

**2.2.1** To draw up a design and a strategy for the USAID assistance to the COFFEE ZONE Reconstruction Program in accordance with the specifications of the "Statement of Work".

**2.2.2** To implement all the aspects necessary for the activity, which includes contracts and subcontracts with local organizations.

**2.2.3** To develop a monitoring and evaluation plan in line with the automated system of USAID Guidelines, subject to the approval of USAID-COLOMBIA, following the prior commencement of construction activities.

### **3. OPERATIONAL AND FUNCTIONAL MECHANISMS.**

#### **3.1 SELECTION OF THE BENEFICIARY NGOS.**

PADCO has selected several NGOs in the COFFEE ZONE as its partners in the development of the Reconstruction Program (include here the list of NGOs), all in accordance with the USAID-DNP Agreement and in the implementation of the USAID-PADCO agreement.

#### **3.2 PROJECTS AND FUNDS OPERATIVE ADMINISTRATION.**

The following summarizes the system defined to administer aspects relating to the intervention of the NGOs in the Program, the approval and processing of the USAID disbursements and their transfer to the beneficiaries, and also provides guidelines for the plan to monitor and control the accounts, which shall be subject in its entirety to the Article H Reports, accounts records, Audits and Inspections" under Specific USAID-DPN Donation Agreement Project No. 514-9005.

##### **3.2.1 EXECUTION OF CONTRACT NGO-PADCO.**

Execution of the agreement between the NGO beneficiary and PADCO is the first action which must be recorded in the NGO accounts. Following signature of the Agreement, PADCO shall have approved the Budget for the Project that the NGO proposes to undertake, with the funds provided by the USAID Donation. This budget is the support document for the definition of the monetary value of the entry in the commencement accounts (which, in turn, is fixed by multiplying the number of beneficiaries by \$Col 5,900,000), to be entered in Memoranda Accounts in accordance with the provisions in the Single Accounts and Dynamics Plan

chapter of this document (SAP). The logical reason for this entry is to have a consultation instrument for the control of the execution of the project and the later analysis of any eventual deviations from it.

### **3.2.2 REQUEST FOR RESOURCES FROM PADCO.**

The NGO must complete form "SDPD" (see model in excel-Formats ONG), indicating the chapter and/or sub-chapter of the budget, the amount, item, period for which it is required and the use to be made of the funds required. This form shall be signed by the legal representative and treasurer of the NGO, must be prepared according to an ascending numbering system and drawn up in the number of copies directed by PADCO.

The first request for resources must be presented, supported by the project budget and duly approved by the Engineering Department of PADCO-ARMENIA and by the policy for the good management of the advance payment, issued as set forth in point # 2.1.1.2 of working draft #1. Requests shall also be in accordance with the requirements established in said working draft #1.

These requests for resources from PADCO constitute the second transaction that shall be entered on the books of the NGO and kept in memoranda accounts as directed in the SAP hereof. The logic of these entries is the need for the control which the NGO must exercise over resources in the process of disbursement by USAID, bearing in mind that the transfers must be made according to the pre-determined flow of funds defined in the project budget.

**COMMENT:** As a request for resources from PADCO (SDPD) is presented in Colombian pesos and PADCO, in turn, processes it in US\$ from Washington, there will be a difference in the exchange rate during the time taken for this process until the resources reach Colombia-Armenia, affecting the value of this account, which must be recorded and increased when the exchange rate rises or reduced when it falls. (See the dynamics for these accounts in the SAP chapter hereof.)

### **3.2.3 RECEIPT OF FUNDS**

#### **3.2.3.1 RECEIPT OF FUNDS PROVIDED BY USAID.**

Once the NGO has received the funds in the current banking account of the project, it shall record the value of same in the financial accounts kept on its books, opening and later increasing the corresponding INCOME RECEIVED FOR THIRD PARTIES-USAID DONATION account, which forms part of its deferred liabilities, up to the final handover of the houses to the natural person beneficiaries, which should be the procedure that exhausts collection for third parties through the final beneficiaries receipt of the respective title deeds. (See dynamics for these accounts in the SAP chapter hereof.)

#### **3.2.3.2 RECEIPT OF FUNDS PROVIDED BY OTHER SOURCES.**

When the NGO receives funds for the project which are not part of the USAID funds, these shall be deposited in a separate account of the NGO, other than the BANCAFE account (created to receive the USAID funds) and shall be entered in the cost center allocated by the NGO with the same dynamics as the SAP hereof.

#### **3.2.3.3. RECEIPT OF THE FUNDS AND/OR RESOURCES PROVIDED BY THE BENEFICIARIES.**

To control the contributions in money and/or work made by the beneficiaries, the NGO shall open a Ledger credit account named ADVANCES RECEIVED FOR THE ACQUISITION OF HOUSING, assigning it to the corresponding cost center. This Ledger account shall have at least two sub-accounts for the following purposes: one to accumulate contributions made in money for each beneficiary and at NIT level, and another to accumulate contributions in work for each beneficiary, also at NIT level. Contributions in work shall be quantified on the basis of the minimum monthly wage in force when the contribution is made. The NGO shall establish a mechanism to control hours of work so that, in

accordance with the agreement with each beneficiary, the respective contribution can be evaluated with clarity for its respective entry in accounts according to the SAP and to the accounting dynamics of this document.

**3.2.4 FORMATION OF INVESTMENT ACCOUNT WITH FUNDS PROVIDED BY THE USAID DONATION.**

NGO accounting shall create a set of first level ledger SAP accounts, to show the accumulated values of the investment made, with the funds provided by the USAID Donation and used for the implementation of the project or projects independently, even in the case of projects co-financed with funds from sources different from those of USAID. These ledger accounts shall contain all disbursements made, in whatever respect, including those of administrative and auditing expenses when they arise. The Ledger accounts described herein shall be named as shown in the SAP chapter of this Agreement. When an NGO is managing several projects, it shall assign a cost center for each one and a sub-cost center showing the contributions from other sources or the amounts of the counterparts. For example:

To implement a project, an NGO has 4 sources of funds. The project is identified with the first number and the funds or sub-centers by the second. The accounts plan accounts are the same for each project, as follows:

First digit 1	Project XXX-1 PADCO
Second digit 0	USAID Funds
CODE	DESCRIPTION
CC ACCOUNT	
10 14	USAID INVENTORIES
11 14	ONG INVENTORIES
12 14	TOWN/CITY INVENTORIES
13 14	BENEFICIARIES' INVENTORIES

First digit 2	Project XXX-2 PADCO
Second digit 0	USAID Funds

CODE		DESCRIPTION
CC	ACCOUNT	
20	14	USAID INVENTORIES
21	14	NGO INVENTORIES
22	14	TOWN/CITY INVENTORIES
23	14	BENEFICIARIES' INVENTORIES

and so on for the number of projects managed by each NGO.

#### **3.2.4.1-LEDGER ACCOUNT- CONSTRUCTION UNDER WAY - XXX-PADCO PROJECT.**

Only disbursements or uses which have actually been realized or included in the real physical progress of works in the form of land, fees, works management and materials shall be entered on the ledger account described here. Likewise, accounts or auxiliary accounts belonging to same shall be tabulated, defined, named and coded in a way identical to that used for their management in the project budget. (The Engineering Department of PADCO-ARMENIA has identified general use software for all the NGOs to use for this management.) The NGO shall make appropriate arrangements and allow the official responsible for the task of recording disbursements to gain the necessary knowledge of the project budget, its chapters and items, as well as information on the specific use to be made of the disbursements, such that he/she may enter them correctly according to such use or corresponding account, in which it shall provide training for the officials involved and provide the necessary resources for them to implement the works. Moreover, if the cost of the construction is consolidated, this account shall be for the purpose of controlling the investment of advance payment funds of the works and

the respective budget. See the dynamics for these accounts in the SAP chapter hereof.

#### **3.2.4.2 - LEDGER ACCOUNT-ADVANCE PAYMENTS AND PROGRESS OF XXX-PADCO PROJECT.**

This Ledger Account is used to control the disbursements, uses made of them by contractors and the suppliers of goods and services required for the development of the project. The auxiliary accounts are identified by the NIT and name of the contractor or supplier and should be under a defined contract or purchase order, fulfilling all the requirements of the NGO and in accordance with the PADCO and USAID guidelines. Works progress reports and entries in the materials store, as the case may be, show and record the reduction of legalization of the advance payment until it is exhausted. (The PADCO-ARMENIA Engineering Department has identified general use software for this management by all the NGOs, which facilitates its application to the accounts.) See the dynamics for these accounts in the SAP chapter hereof.

##### **3.2.4.2.1 –ADVANCE PAYMENTS, TAX AND CONTRIBUTIONS.**

This sub-account is used to accumulate amounts in respect of any Value Added Tax (VAT) paid, when suppliers of goods and services invoice and collect this tax.

The NGO shall process this refund regularly, adhering to the procedures established by the authorities for the refund of VAT paid on the acquisition of goods and services for the construction of social interest housing.

The same process shall be followed in the case of the special 2 x 1,000 tax when the Bank has deducted it.

If the consultation filed with DIAN and recorded under No. 057926 of June 1, 2000, is resolved by exempting the NGO from these taxes, so that the goods and services suppliers neither invoice nor charge it, and the

Bank does not deduct the 2 x 1,000 tax, the account described herein shall no longer exist. See the dynamics of these accounts in the SAP chapter hereof.

#### **3.2.4.3 -MATERIALS, SPARE PARTS AND ACCESSORIES ACCOUNT.**

This account records all disbursements for the acquisition of materials to be used in the execution of the works. Its auxiliary accounts are kept in the form of a "kardex" or stock control showing the inventory of stocks available for use in the construction, their use in same, their availability and subsequent exhaustion. Entries to the store are recorded by a Receipt issued by the person responsible or according to a duly numbered receipt certifying with his/her signature satisfactory delivery of the materials. This document shall require, as a prerequisite for the disbursement to the supplier or to legalize the advance payment.

Removals from the store, or requisitions of materials, shall be certified in a written document, also numbered, drawn up by the person responsible for the works, but in all cases shall state, in addition to the quantity, the use of the materials according to the corresponding budget chapter and must first have been approved by the resident. (The PADCO-ARMENIA Engineering Department is identifying general use software for handling by all the NGOs, thereby facilitation its application to accounts.) See the dynamics for these accounts in the SAP chapter hereof.

**3.2.4.4.-CLARIFICATION.** The specific items accounts described in numerals 3.2.4.1, 3.2.4.2 and 3.2.4.3 shall be adapted for use in cases in which the NGO develops the projects with its own operative structure and personnel. When the NGO contracts the implementation of the projects with construction companies which assume complete responsibility (turnkey contract) it shall not be necessary for the NGO to handle the **140103-MATERIALS STORAGE** account, but in any event the **1415-CONSTRUCTION WORKS UNDER WAY** account and the **1330-ADVANCE**

**PAYMENTS** account, using the same dynamics referred to in the SAP chapter hereof.

#### **3.2.4.5.-RECOMMENDATIONS.**

**3.2.4.5.1.** When the NGO implements the projects under so-called "Turnkey Projects" it shall include a contractual clause under which the contractor acquires responsibility for keeping the project accounts using the methodology required by the NGO.

**3.2.4.5.2.** There shall be a clause under which the contractor assumes the commitment to supply all the information required by the USAID and/or PADCO Auditors as well as to carry out the audits that said Auditors require.

**3.2.4.5.3.** For these contracts, the NGO shall require contractors to provide the good advance payment management, guarantee and performance and works stability defined by PADCO.

**3.2.4.5.4.** In any event, the contractors shall define the supply of funds to the NGO contractor in accordance with "Article C Contribution of USAID, Sections C1 and C2 of the Specific Donation Agreement" signed by the Governments of Colombia and the USA.

**3.2.4.5.5.** As the financial accounts of the NGO records the funds actually received by way of deposits of the USAID contributions through PADCO, constitute, in practice, cash accounting of the total commitments and liabilities arising from all the contracting and shall be managed in Memoranda Accounts. See dynamics for these accounts in the SAP chapter hereof.

## 4. SINGLE ACCOUNTS AND ACCOUNTING DYNAMICS PLAN

### 4.1 ACCOUNTS CATALOGUE

CODE	DENOMINATION
1	ASSETS
11	FUNDS AVAILABLE
1105	CASH
110510160	PETTY CASH-USAID DONATION
1110	BANKS
111005	LOCAL CURRENCY
111005313	BANCAFE
13	DEBTORS
1330	ADVANCE PAYMENTS
133005100	TO SUPPLIERS
133010100	TO CONTRACTORS
133015100	TO WORKERS
133095100	MISCELLANEOUS
1355	ADVANCE TAXES AND CONTRIBUTIONS
135530100	VAT PAYABLE
135535100	2 X THOUSAND PAYABLE
135595100	MISCELLANEOUS
14	INVENTORIES

<b>1415</b>	<b>CONSTRUCTION WORKS UNDER WAY</b>
<b>1415011</b>	<b>DIRECT COSTS</b>
<b>141501101</b>	<b>PRELIMINARIES</b>
<b>141501102</b>	<b>FOUNDATIONS</b>
<b>141501103</b>	<b>DRAINS AND UNDERGROUND INSTALLATIONS</b>
<b>141501104</b>	<b>CONCRETE STRUCTURES</b>
<b>141501105</b>	<b>MASONRY</b>
<b>141501106</b>	<b>HYDRAULIC AND SANITATION INSTALLATIONS</b>
<b>141501107</b>	<b>ELECTRICAL INSTALLATIONS</b>
<b>141501108</b>	<b>ROOFS</b>
<b>141501109</b>	<b>CEILINGS</b>
<b>141501110</b>	<b>PLASTERING</b>
<b>141501111</b>	<b>PAINT</b>
<b>141501112</b>	<b>FLOORS</b>
<b>141501113</b>	<b>SURFACING AND ACCESSORIES</b>
<b>141501114</b>	<b>WOOD CARPENTRY</b>
<b>141501115</b>	<b>METAL CARPENTRY</b>
<b>141501116</b>	<b>GLASS AND MIRRORS</b>
<b>141501117</b>	<b>BATHROOM SUITES</b>
<b>141501118</b>	<b>TOOLS AND EQUIPMENT</b>
<b>141501119</b>	<b>EXTERIOR WORKS</b>
<b>141501120</b>	<b>WORKS PERSONNEL EXPENSES</b>
<b>141501121</b>	<b>XXXXXX</b>
<b>1415012</b>	<b>INDIRECT COSTS</b>
<b>141501201</b>	<b>STUDIES AND DESIGNS</b>
<b>141501202</b>	<b>LICENSES</b>
<b>141501203</b>	<b>FEES</b>
<b>141501204</b>	<b>AUDITS</b>
<b>141501205</b>	<b>OTHER INDIRECT COSTS</b>
<b>141501206</b>	<b>XXXXXX</b>

1415013	LAND
141501301	LAND
1440	FINISHED HOUSING UNITS
1440011	PADCO XXX-1 PROJECT
144001101	USAID DONATION HOUSING UNITS #1
144001102	USAID DONATION HOUSING UNITS #2
144001NNN	USAID DONATION HOUSING UNITS #NN
1455	MATERIALS, SPARE PARTS AND ACCESSORIES
1455251	MATERIALS AND SPARE PARTS
145525100	MATERIALS AND SPARE PARTS
1455351	TOOLS
145535100	TOOLS
2	LIABILITIES
22	SUPPLIERS
2205	NATIONAL
220505100	NATIONAL
A23	ACCOUNTS PAYABLE
2320	TO CONTRACTORS
232001100	PHYSICAL WORKS

<b>2335</b>	<b>COSTS AND EXPENSES PAYABLE</b>
<b>233510100</b>	<b>LEGAL COSTS</b>
<b>233515100</b>	<b>BOOKS, SUBSCRIPTION, NEWSPAPERS</b>
<b>233525100</b>	<b>FEES</b>
<b>233535100</b>	<b>MAINTENANCE SERVICES</b>
<b>233540100</b>	<b>RENTAL</b>
<b>233545100</b>	<b>FREIGHT AND CARRIAGE</b>
<b>233550100</b>	<b>PUBLIC SERVICES</b>
<b>233555100</b>	<b>INSURANCE</b>
<b>233560100</b>	<b>TRAVELING EXPENSES</b>
<b>233565100</b>	<b>PUBLIC RELATIONS EXPENSES</b>
<b>233595101</b>	<b>EMPLOYEES</b>
<b>233595102</b>	<b>TEMPORARY EMPLOYEES AND GUARD SERVICES</b>
<b>2365</b>	<b>WITHHOLDING AT SOURCE</b>
<b>236505100</b>	<b>WAGES/SALARIES AND LABOR RELATED PAYMENTS</b>
<b>236515100</b>	<b>FEES</b>
<b>236520100</b>	<b>COMMISSIONS</b>
<b>236525101</b>	<b>SERVICES AND TRANSPORTATION</b>
<b>236525102</b>	<b>TEMPORARY WORKERS</b>
<b>236525103</b>	<b>PERSONNEL TRANSPORTATION, MEALS</b>
<b>236525104</b>	<b>SERVICES IN GENERAL</b>
<b>236525105</b>	<b>CONSTRUCTION CONTRACTS</b>
<b>236530101</b>	<b>RENT FOR MOVABLE GOODS</b>
<b>236530102</b>	<b>RENT FOR REAL PROPERTY</b>
<b>236535100</b>	<b>FINANCIAL YIELDS</b>
<b>236540101</b>	<b>FUEL PURCHASE</b>
<b>236540102</b>	<b>PURCHASE OF AGRICULTURAL PRODUCTS</b>
<b>236540103</b>	<b>PURCHASING IN GENERAL</b>
<b>236565100</b>	<b>STAMP TAX</b>
<b>2370</b>	<b>WITHHOLDING AT SOURCES AND PAYROLL CONTRIBUTIONS</b>

237005100	CONTRIBUTIONS TO E.P.S.
237006100	CONTRIBUTIONS TO A.R.P.
237010100	CONTRIBUTIONS TO ICBF, SENA, FAMILY SUBSIDY FUNDS
237015100	FIC CONTRIBUTIONS
237025100	LEGAL EMBARGOS
237045100	PENSION AND/OR SEVERANCE PAYMENT FUNDS
237095100	MISCELLANEOUS
25	LABOR RELATED OBLIGATIONS
2505	SALARIES/WAGES PAYABLE
250505100	SALARIES/WAGES PAYABLE
2510	CONSOLIDATED SEVERANCE PAYMENTS
251010100	LAW 50 OF 1990 AND SUBSEQUENT REGULATIONS
2515	INTEREST ON SEVERANCE PAYMENTS
251505100	INTEREST ON SEVERANCE PAYMENTS
2525	CONSOLIDATED VACATIONS
252505100	VACATIONS
26	ESTIMATED LIABILITIES AND RESERVES
2610	FOR LABOR RELATED OBLIGATIONS
261005100	ACCUMULATED SEVERANCE PAYMENTS
261010100	INTEREST ON SEVERANCE PAYMENTS
261015100	VACATIONS
261020100	LEGAL SERVICE BONUS
261025100	BONUS

<b>28</b>	<b>DEFERRED</b>
<b>2805</b>	<b>ADVANCE PAYMENTS RECEIVED (CC)</b>
<b>280520</b>	<b>ACQUISITION OF HOUSES IN CASH</b>
<b>280520100</b>	<b>NIT OF BENEFICIARY</b>
<b>280520101</b>	<b>NIT OF BENEFICIARY</b>
<b>280520XXX</b>	<b>NIT OF BENEFICIARY</b>
<b>280525</b>	<b>MANUAL LABOR FOR ACQUISITION OF HOUSES</b>
<b>280525100</b>	<b>NIT OF BENEFICIARY</b>
<b>280525101</b>	<b>NIT OF BENEFICIARY</b>
<b>280525XXX</b>	<b>NIT OF BENEFICIARY</b>
<b>2815</b>	<b>INCOME RECEIVED FOR THIRD PARTIES-USAID</b>
<b>281505101</b>	<b>BENEFICIARIES</b>
<b>281505105</b>	<b>MISCELLANEOUS</b>
<b>8</b>	<b>DEBTOR MEMORANDA ACCOUNTS</b>
<b>83</b>	<b>CONTROL DEBTORS</b>
<b>8301</b>	<b>CONSTRUCTION WORKS UNDER WAY</b>
<b>8301131</b>	<b>DIRECT COSTS</b>
<b>830113101</b>	<b>PRELIMINARY</b>
<b>830113102</b>	<b>FOUNDATIONS</b>
<b>830113103</b>	<b>DRAINS AND UNDERGROUND INSTALLATIONS</b>
<b>830113104</b>	<b>CONCRETE STRUCTURES</b>
<b>830113105</b>	<b>MASONRY</b>
<b>830113106</b>	<b>HYDRAULIC INSTALLATIONS, BATHROOM SUITES</b>

830113107	ELECTRICAL INSTALLATIONS
830113108	ROOFS
830113109	CEILINGS
830113110	PLASTERING
830113111	PAINT
830113112	FLOORS
830113113	FINISHINGS AND ACCESSORIES
830113114	WOOD CARPENTRY
830113115	METAL CARPENTRY
830113116	GLASS AND MIRRORS
830113117	BATHROOM SUITES
830113118	TOOLS AND EQUIPMENT
830113119	EXTERIOR WORKS
830113120	WORKS PERSONNEL EXPENSES
830113121	XXXXXX
8301132	INDIRECT COSTS
830113201	STUDIES AND DESIGNS
830113202	LICENSES
830113203	FEES
830113204	MISCELLANEOUS INDIRECT COSTS
830113205	XXXXX
8301133	LAND
830113301	LAND
8302	CONTRACTS
8302131	CONTRACTS
830213101	PADCO CONSTRUCTION CONTRACTS
8303	REQUEST FOR RESOURCES

<b>8303131</b>	<b>REQUEST FOR RESOURCES</b>
<b>830313101</b>	<b>REQUEST FOR PADCO RESOURCES</b>
<b>86</b>	<b>CONTROL PER CONTRA DEBTORS (CR)</b>
<b>8601</b>	<b>CONSTRUCTION WORKS UNDER WAY</b>
<b>8602</b>	<b>CONTRACTS</b>
<b>8603</b>	<b>REQUEST FOR RESOURCES</b>
<b>9</b>	<b>CREDITORS' MEMORANDA ACCOUNTS</b>
<b>93</b>	<b>CONTROL CREDITORS</b>
<b>9301</b>	<b>USAID-PADCO AGREEMENT</b>
<b>9301281</b>	<b>USAID-PADCO RESOURCES</b>
<b>930128101</b>	<b>USAID-PADCO RESOURCES</b>
<b>96</b>	<b>CONTROL PER CONTRA CREDITORS (DB)</b>

## 4.2. DYNAMICS

The following is a description of the dynamics of each account in the accounting process, in the order in which they were presented above.

<b>ACCOUNT CODE:</b> 1 11 1105 110510160	<b>DESCRIPTION OF ACCOUNT:</b> ASSET AVAILABLE CASH PETTY CASH-USAID DONATION
<b>DEBIT</b>	<b>CREDIT</b>
For the value of the creation of the fund.	For the value of the payment of the fund once the program is terminated.

<b>ACCOUNT CODE:</b> 11 1110 111005 111005313	<b>DESCRIPTION OF ACCOUNT:</b> AVAILABLE BANKS LOCAL CURRENCY BANCAFE ACC ONG-PADCOXXX
<b>DEBIT</b>	<b>CREDIT</b>
Deposit of the PADCO-USAID disbursements received by the NGO at Bancafé. Credit notes issued by the Bank. Sum of checks annulled after entry in accounts. Value of tax refunds (VAT AND 2 X THOUSAND) to USAID donation.	Checks for payments and disbursements for approved project. Value of debit notes issued by the Bank.

<b>ACCOUNT CODE:</b> 13 1330 133005100/NN	<b>DESCRIPTION OF ACCOUNT:</b> DEBTORS ADVANCE PAYMENTS TO SUPPLIERS /NN
<b>DEBIT</b>	<b>CREDIT</b>

Amounts drafted for purchase of goods and services according to stipulations in the respective contracts.	<p>Legalization with works progress report for work and services actually received at the work site and receipt of materials at the store.</p> <p>Value of refund of moneys and other items delivered in excess of this account.</p>
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<b>ACCOUNT CODE:</b> <b>13</b> <b>1355</b>  <b>135530100</b> <b>135535100</b>	<b>DESCRIPTION OF ACCOUNT:</b> <b>DEBTORS</b> <b>TAXES AND CONTRIBUTIONS OR</b> <b>BALANCE IN FAVOR ON ADVANCES</b> <b>VAT COLLECTABLE</b> <b>2 X THOUSAND COLLECTABLE</b>
<b>DEBIT</b>	<b>CREDIT</b>
Amounts invoiced and drafted for purchase of goods and services and value of 2 x thousand tax when charged by the Bank.	<p>Legalization with works progress report for work and services actually received at the work site and receipt of materials at the store.</p> <p>Value of refund of moneys and other items delivered in excess of this account.</p>

<b>ACCOUNT CODE:</b> <b>14</b> <b>1415</b> <b>1415011</b> <b>141501101/NN</b>	<b>DESCRIPTION OF ACCOUNT:</b> <b>STOCKS</b> <b>CONSTRUCTION WORKS UNDER WAY</b> <b>PRELIMINARY</b> <b>DIRECT COSTS /NN</b>
<b>DEBIT</b>	<b>CREDIT</b>
Cost of manual labor according to physical progress	Transfer of cost of the project to the Finished Houses Inventory sub-account.

<p>report of the works. Inclusion of materials either direct or removed from the store. Construction or services contracts identified directly at the time of the disbursement.</p>	<p>Vale of refund of materials and other costs charged in excess to this account.</p>
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<p><b>ACCOUNT CODE:</b> <b>14</b> <b>1415</b> <b>1415012</b> <b>141501201/NN</b></p>	<p><b>DESCRIPTION OF ACCOUNT:</b> <b>STOCKS</b> <b>CONSTRUCTION WORKS UNDER WAY</b> <b>INDIRECT COSTS</b> <b>STUDIES AND DESIGNS /NN</b></p>
<b>DEBIT</b>	<b>CREDIT</b>
<p>Value of fees specified in respects such as studies, licenses and others based on the charging per disbursement identified or as the result of legalization of the advance payment.</p>	<p>Transfer of cost of the project to the Finished Houses Inventory sub-account.</p>
<p><b>ACCOUNT CODE:</b> <b>14</b> <b>1415</b> <b>1415013</b> <b>141501301</b></p>	<p><b>DESCRIPTION OF ACCOUNT:</b> <b>STOCKS</b> <b>CONSTRUCTION WORKS UNDER WAY</b> <b>LAND</b> <b>LAND</b></p>
<b>DEBIT</b>	<b>CREDIT</b>
<p>Value of cost of acquisition according to purchase deed.</p>	<p>Transfer of cost of the project to the Finished Houses Inventory sub-account.</p>

<b>ACCOUNT CODE:</b> 14 1440 1440011 144001101/NN	<b>DESCRIPTION OF ACCOUNT:</b> USAID DONATION INVESTMENT FINISHED HOUSES PROJECT XXXX-1 PADCO USAID DONATION HOUSE#1/NN
<b>DEBIT</b>	<b>CREDIT</b>
Total value of account 1415 Construction works under way when works are definitively completed and available for delivery identifying house by house in each project.	Value of title deeds adjudicated to the beneficiaries of the plan.

<b>ACCOUNT CODE:</b> 14 1455  1455251 145525100/NN	<b>DESCRIPTION OF ACCOUNT:</b> STOCKS MATERIALS, SPARE PARTS AND ACCESSORIES MATERIALS AND SPARE PARTS MATERIALS AND SPARE PARTS
<b>DEBIT</b>	<b>CREDIT</b>
Cost of acquisition of materials and spare parts used for the works. Value of adjustments for surplus. Value of refunds for return of items to the store.	Cost of materials and accessories used in the works, as removed from the store. Items returned to the suppliers.

<b>ACCOUNT CODE:</b> 2 22 2205 220505100	<b>DESCRIPTION OF ACCOUNT:</b> LIABILITIES SUPPLIERS NATIONAL NATIONAL
<b>DEBIT</b>	<b>CREDIT</b>
Total or partial value of payments made. Value of credit notes issued by the supplier of goods and services.	Cost of materials and accessories used in the works, as removed from the store. Items returned to the suppliers.

<b>ACCOUNT CODE:</b> 2 23 2320 232001100	<b>DESCRIPTION OF ACCOUNT:</b> LIABILITIES ACCOUNTS PAYABLE TO CONTRACTORS PHYSICAL WORKS
<b>DEBIT</b>	<b>CREDIT</b>
Total or partial value of payments made. Value of credit notes issued by the supplier of goods and services.	Cost of materials and accessories used in the works, as removed from the store. Items returned to the suppliers.

<b>ACCOUNT CODE:</b> 2 23 2335 233510100/NN	<b>DESCRIPTION OF ACCOUNT:</b> LIABILITIES ACCOUNTS PAYABLE COSTS AND EXPENSES PAYABLE LEGAL COSTS /NN
<b>DEBIT</b>	<b>CREDIT</b>
Value of payment made to beneficiaries after the services were provided.	Value of services received in accordance with the respective invoices and accounts.

<b>ACCOUNT CODE:</b> 2 23 2365 236505100/NN	<b>DESCRIPTION OF ACCOUNT:</b> LIABILITIES ACCOUNTS PAYABLE WITHHOLDING AT SOURCE LABOR RELATED PAYMENTS /NN
<b>DEBIT</b>	<b>CREDIT</b>
Value of payments made to DIAN.	Value of withholding at source required under the existing regulations.

<b>ACCOUNT CODE:</b> 2 23 2370 237005100/NN	
<b>DEBIT</b>	<b>CREDIT</b>
Value of payment of labor contributions to the respective beneficiaries. Return of excess deductions and withholding.	Value of labor contributions pending payment. Value of deductions of workers.

<b>ACCOUNT CODE:</b> 2 23 2380 238020100/NN	<b>DESCRIPTION OF ACCOUNT:</b> <b>LIABILITIES</b> <b>ACCOUNTS PAYABLE</b> <b>MISCELLANEOUS CREDITORS</b> <b>REFUNDS PAYABLE /NN</b>
<b>DEBIT</b>	<b>CREDIT</b>
Value of total or partial payments to beneficiaries.	Value of commercial obligations acquired which are different from the foregoing.
<b>ACCOUNT CODE:</b> 2 25 2505 250505100/NN	<b>DESCRIPTION OF ACCOUNT:</b> <b>LIABILITIES</b> <b>LABOR RELATED OBLIGATIONS</b> <b>SALARIES/WAGES PAYABLE</b> <b>SALARIES/WAGES PAYABLE / NN</b>
<b>DEBIT</b>	<b>CREDIT</b>
Total or partial payment to the respective beneficiaries.	Value of transfer of sub-account 2610. Value of interest pending payment.

<b>ACCOUNT CODE:</b> 2 26 2610 261005100/NN	<b>DESCRIPTION OF ACCOUNT:</b> <b>LIABILITIES</b> <b>ESTIMATED LIABILITIES AND</b> <b>RESERVES FOR LABOR RELATED</b> <b>OBLIGATIONS</b> <b>SEVERANCE PAYMENTS /NN</b>
<b>DEBIT</b>	<b>CREDIT</b>
Value of transfer to the respective group 25 accounts -	Monthly provision. Value of the adjustments for consolidation.

labor related obligations.	
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<b>ACCOUNT CODE:</b> 2 28 2805 280520  280520100/NN	<b>DESCRIPTION OF ACCOUNT:</b> <b>LIABILITIES</b> <b>DEFERRED</b> <b>ADVANCE PAYMENTS RECEIVED</b> <b>FOR ACQUISITION OF HOUSES IN</b> <b>CASH</b> <b>NIT BENEFICIARY /NN</b>
<b>DEBIT</b>	<b>CREDIT</b>
Credit balance of this account when the title deed is given to the beneficiary supported by certificates of freedom from encumbrance and conveyance.	Value of deposits made by project beneficiaries.

<b>ACCOUNT CODE:</b> 2 28 2805 280525  280525100/NN	<b>DESCRIPTION OF ACCOUNT:</b> <b>LIABILITIES</b> <b>DEFERRED</b> <b>ADVANCE PAYMENTS RECEIVED</b> <b>FOR ACQUISITION OF HOUSES</b> <b>MANUAL LABOR</b> <b>NIT BENEFICIARY/NN</b>
<b>DEBIT</b>	<b>CREDIT</b>
Credit balance of this account when the title deed is formally recorded in the name of the beneficiary supported by certificates of freedom from encumbrance and conveyance.	Value of hours worked, duly supported according to the control procedure established by the NGO.

<b>ACCOUNT CODE:</b> 2 28 2815  281505101 281505105	<b>DESCRIPTION OF ACCOUNT:</b> <b>LIABILITIES</b> <b>DEFERRED</b> <b>INCOME RECEIVED FOR THIRD</b> <b>PARTIES-USAID</b> <b>BENEFICIARY</b> <b>MISCELLANEOUS</b>
<b>DEBIT</b>	<b>CREDIT</b>
Value of title deeds adjudicated to the beneficiaries of the plan, supported by certificates of freedom from encumbrance and conveyance.	Deposit of disbursements made by PADCO-USAID and received by the NGO at Bancafé, distributed proportionally to each beneficiary.

<b>ACCOUNT CODE:</b> 8 83 8301 8301131/NN	<b>DESCRIPTION OF ACCOUNT:</b> <b>MEMORANDA ACCOUNTS</b> <b>CONTROL DEBTORS</b> <b>CONSTRUCTION WORKS UNDER WAY</b> <b>DIRECT COSTS /NN</b>
<b>DEBIT</b>	<b>CREDIT</b>
Value of works budget, according to the contract approved with details of the investment by headings. Duly approved additions to the contract budget. Value of the exchange rate adjustment between the date of the request for resources from PADCO and the date of the deposit when the rate increases.	Value of the adjustment for the exchange rate on the date of the request for resources from PADCO and the date of the deposit when the exchange rate goes down. Value of the final balance on termination of the project.

<b>ACCOUNT CODE:</b> 8 83 8302 8302131	<b>DESCRIPTION OF ACCOUNT:</b> MEMORANDA ACCOUNTS CONTROL DEBTORS CONTRACTS CONTRACTS
<b>DEBIT</b>	<b>CREDIT</b>
Value of the contract signed between the NGO and the contractor implementing the project. Duly approve budgetary additions to the contract. Note: The balance of this account indicated the value of the contract to be implemented.	Value drafted according to the contracted between the NGO and the contractor which implements the entire project.

<b>ACCOUNT CODE:</b> 8 83 8303 8303131	<b>DESCRIPTION OF ACCOUNT:</b> MEMORANDA ACCOUNTS CONTROL DEBTORS REQUEST FOR RESOURCES REQUEST FOR RESOURCES FROM PADCO.
<b>DEBIT</b>	<b>CREDIT</b>
Value of the "SDPD" request, duly processed and received by PADCO Inc. Armenia. Value of the exchange adjustment between the date of the request for resources from PADCO and the date of the deposit when the exchange rate has increased in value.	Value of the draft received by the NGO from PADCO Inc.  Value of the exchange rate adjustment between the date of the request for resource from PADCO and the date of the deposit when the exchange rate has fallen down.

<b>ACCOUNT CODE:</b> 8 86  8601/NN	<b>DESCRIPTION OF ACCOUNT:</b> MEMORANDA ACCOUNTS CONTROL DEBTORS PER CONTRA(CR) CONSTRUCTION WORKS UNDER WAY /NN
<b>DEBIT</b>	<b>CREDIT</b>
Value of the credit entry in the respective memoranda account.	Value of the debit entry on the respective memoranda account.

<b>ACCOUNT CODE:</b> 9 93 9301 9301281 930112801	<b>DESCRIPTION OF ACCOUNT:</b> MEMORANDA ACCOUNT CREDITORS CONTROL CREDITORS USAID-PADCO AGREEMENT USAID PADCO RESOURCES USAID-PADCO RESOURCES
<b>DEBIT</b>	<b>CREDIT</b>
Value of the legalization of the draft received by the NGO.	value of the draft received by the NGO from PADCO Inc.

<b>ACCOUNT CODE:</b> 9 96  9601 9601281 960112801	<b>DESCRIPTION OF ACCOUNT:</b> MEMORANDA ACCOUNTS CREDITORS CONTROL PER CONTRA CREDITORS CONTRARY CONTROL (DB) USAID-PADCO AGREEMENT USAID PADCO RESOURCES RESOURCES USAID-PADCO
<b>DEBIT</b>	<b>CREDIT</b>
Value of the credit entry on the respective memoranda account.	Value of the debit entry on the respective memoranda account.

## 5. INTERNAL CONTROL RECOMMENDATIONS.

### 5.1. CURRENT ACCOUNT.

**5.1.1. HOLDER:** The NGO selected

**5.1.2. NAME OF THE ACCOUNT:** ONGXXX/Proyecto-PADCO (e.g. Antioquia Presente/Tebaida-PADCO)

**5.1.3. DEPOSITS:** This account will receive funds only and exclusively from the USAID donation. Deposits made by PADCO INC. by transfer from its account in Miami through BANCAFE Internacional.

**5.1.4. INCOME IN FOREIGN EXCHANGE:** Exchange declarations nationalizing foreign exchange shall be signed in Colombia by the PADCO representative DMG prior to income being deposited in the current account of the NGO/Project-PADCO.

**5.1.5. DRAFTING CHECKS:** All checks drafted which are payable against this account shall be nominal and free from the special crossing of *"páguese únicamente al primer beneficiario"* (pay only to first beneficiary). Likewise, checks drafted against this account shall be exclusively for payments relating to the project and duly supported by the invoices and contracts, which shall be issued in the name of NGO-PADCO. Transfers of moneys shall not be made from this account under any circumstances, unless the drafts are for payments of wages/salaries of personnel employed at the works and programmed against Donation resources.

**5.1.6. SIGNATURES OF CHECKS:** Without exception, it is obligatory for checks issued against this account to have two signatures, one of the Legal Representative of the NGO or, in the absence of same, by his/her duly authorized delegate, and the second of the NGO Treasurer or whoever fulfills this function.

### 5.2. INCOME

For the NGO to obtain income from the Donation, it shall proceed as follows:

**5.2.1. FIRST DISBURSEMENT OF USAID.** By written requested on the form First Disbursement Request "**DPD**" to the PADCO office in Armenia, fulfilling the following requirements, and it will proceed to make the transfer when it is approved.

**5.2.1.1.** Current Account Number, names and signatures of the authorized officers.

**5.2.1.2.** Establishment of a policy for the correct management of the advance payment, issued by an Insurance company of recognized solvency and experience in Colombia, the beneficiary of this shall be PADCO-INC and/or DIEGO MARULANDA, to remain valid throughout the implementation of the project.

**5.2.1.3.** Detailed, approved budget of the costs of the Project.

**5.2.1.4.** Cash flow of the works according to the approved budget.

**5.2.1.5.** Approval of the Technical Representative of PADCO in Colombia.

**5.2.1.6.** Cash flow according to sources.

**5.2.1.7.** Copies of FOREC specifications and FOREC Subsidy Waiver agreements signed between the beneficiaries and the NGO.

**5.2.2. SECOND AND SUBSEQUENT DISBURSEMENTS BY USAID.** For the NGO of each of the projects to have access to the subsequent disbursement, it is necessary for them to fulfill the following requirements, which, once approved by PADCO, will authorize the corresponding transfer.

**5.2.2.1.** NGOs shall regularly render accounts on the use and purpose of the last advance payment, in accordance with the schedule defined by PADCO-Armenia, that is, legalization according to the "**LAPD**" form and, in turn, submit the request for the disbursement by completing the corresponding "**SDPD**" form, which, once approved, shall form the basis for the related transfer.

**5.2.2.2.** Comparative budgeted vs. provided flow of Funds.

**5.2.2.3.** Budgeted flow of Funds adjusted according to use.

**5.2.2.4.** Investment Report on construction under way.

**5.2.2.5.** Stocks report.

**5.2.2.6.** Report of Advance Payments handed over to Contractors, Suppliers and employees.

**5.2.2.7.** Originals of expense vouchers, invoices, bills and contracts shall be available to PADCO Inc. USAID or its auditors or any auditor authorized by the government of the United States of America.

**5.2.2.8.** All financial statements shall be signed by the Legal Representative of the NGO, the treasurer or the person replacing him/her, the Technical Management of the project and the office of the Auditor or internal Fiscal Auditor of the NGO.

### **5.2.3. FINAL USAID DISBURSEMENT.**

In addition to fulfilling the requirements stipulated in Point **5.2.2.** hereof, the following shall also be processed:

**5.2.3.1.** Update of the Advance Payment Management Policy to include values not supported by consolidated with the new advance payment. This Policy shall be valid for 6 months from the date of the final disbursement. For its expiration, the Beneficiary-Operator shall furnish a copy of the certificates of Freedom from Encumbrance and Conveyance, proving that ownership is certified in the name of the Beneficiary under the donation and has been established as the property of the family.

**5.2.3.2.** Once the reports and documents presented have been verified, the final transfer and settlement of the account shall proceed.

### **5.3. DISBURSEMENTS BY NGO.**

All disbursements made by the NGO against the ONG/Project-PADCO current account shall be used only and exclusively for the purposes of the chapters set forth in the approved Flow of Funds.

**5.3.1.** Authorized disbursements are shown in the flow of funds approved by PADCO and constitute those considered necessary for the implementation of the project. Therefore, no disbursements may be made which are not duly approved in such flow of funds. When, under exceptional circumstances, one or several disbursements which do not figure in the flow of funds are required, the prior written approval of PADCO must be obtained.

**5.3.2.** All ordinary disbursements shall be made by check on the ONG/Project-PADCO and the relative supports shall be certified in suitable documents, such as: invoices, contracts, payrolls and bills, etc., which must be issued or drafted in the name of ONG-PADCO. Disbursements not set forth in these documents cannot be recognized.

**5.3.3.** NGOs shall make payments against the project following prior verification of the goods and services received to its satisfaction. These shall be authorized and approved exclusively by its Legal Representative or his/her delegate, duly authorized in writing and shall be certified on individual outlay vouchers for each check issued, the minimum content of which is:

**5.3.3.1.** Date and consecutive number of the voucher.

**5.3.3.2.** Name and identification of the beneficiary.

**5.3.3.3.** Item paid, showing the quantities of materials or a detailed description of services.

**5.3.3.4.** Code and name of the account according to PADCO coding, will be provided. This is in addition to the accounts coding of the SAP, which the NGO must comply with in its accounts in Colombia to the respective authorities.

**5.3.3.5.** Charging against the budget chapter of the works of each project.

**5.3.3.6.** All vouchers supporting disbursements shall remain on file in strict chronological order, in accordance with the regulations of the Colombian Commercial Code, and kept at the disposal of the USAID and PADCO auditors, as well as those of the Government of the United States of America.

**5.3.3.7.** The NGO shall require the guarantee policies detailed below, issued by an insurance company legally established in Colombia and of recognized experience for contracts which are considered necessary, but, in any event, ensure that it is certain of the proper use and protection of the resources.

**5.3.3.7.1.** Good Management of the Advance Payment of the value of the agreement, for the duration of the works contracted, plus three additional months.

**5.3.3.7.2.** Performance Bond for 10% of the agreement and valid for the duration of the works contracted, plus three additional months.

**5.3.3.7.3.** Works Stability Policy for 20% of the final value of the Agreement, with duration of two years from the date of the settlement of same.

**6. REPORTS** (See NGO Excel-Format documents).

**DOCUMENT DRAWN UP BY:                   ROBERTO QUIÑONES CORTES CPT**  
**Member of OGC Contadores.**

**LED AND REVIEWED BY:                   OSCAR GUTIERREZ**  
**Managing Partner**