

HONDURAS

COMPREHENSIVE SOCIAL SAFETY NET PROGRAM

(HO-0222)

LOAN PROPOSAL

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ANNEXES

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://ops.iadb.org/idbloans/>

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN THE RE2/SO2 TECHNICAL FILES

Preparation:

“Alternatives for targeting the HO-0222 program”, Gustavo Arcia, April 2004.

“Institutional assessment of the Family Allowances Program 1026 SF-HO”, Carlos Lacayo, February 2004.

“Evaluation of the information system for the Beneficiaries Registry” (draft), Victor Garrido, April 2003.

“Consultant’s report: Electronic Funds Transfer”, Hernando Marin Rodriguez, May 2003.

“Estimates of municipal poverty and inequality indicators in Honduras” (draft), Marcos Robles, November 2003, IDB/MECOVI-INE/Honduras, Tegucigalpa.

“Report on Analysis of the Situation Before the Beginning of Project Implementation”, International Food Policy Research Institute, September 2001.

“Interim Impact Report”, International Food Policy Research Institute, July 2003.

Execution:

Operating Regulations for the program

Terms of reference: Program evaluation

Terms of reference: Study on the cost-effectiveness of the PRAF programs

Terms of reference: Approval of operating and technical procedures

Terms of reference: Institutional strengthening of PRAF

Terms of reference: Audit of services provided by NGOs

Terms of reference: Coordination of preparatory activities for the HO-0222 program

PRAF-National Statistics Institute contract

ABBREVIATIONS

ADEL	Asociación de Desarrollo Educativo Local [Local Education Development Association]
AIDS	Acquired immune deficiency syndrome
AIN-C	Atención Integral a la Niñez Comunitaria [Comprehensive Community Child Services]
AWP	Annual work plan
APF	Asociación de Padres de Familia [parent-teacher association]
CNPV	National Population and Housing Census
CT	technical committee
CU	user committee
FHIS	Fondo Hondureño de Inversión Social [Honduran Social Investment Fund]
HIV	Human immunodeficiency virus
INE	Instituto Nacional de Estadísticas [National Statistics Institute]
IPI	Incentivo para Partos Institucionales [Institutional Childbirth Incentive]
MDG	Millennium Development Goals
MTE	Midterm evaluation
NGO	Nongovernmental organization
PCU	Program coordination unit
PRAF	Programa de Asignación Familiar [Family Allowances Program]
PRS	Poverty Reduction Strategy of Honduras
STD	Sexually Transmitted Diseases
USAID	United States Agency for International Development



HONDURAS

IDB LOANS

APPROVED AS OF APRIL 30, 2004

	US\$Thousand	Percent
TOTAL APPROVED	2,500,004	
DISBURSED	2,040,743	81.62 %
UNDISBURSED BALANCE	459,260	18.37 %
CANCELATIONS	165,347	6.61 %
PRINCIPAL COLLECTED	730,755	29.23 %
APPROVED BY FUND		
ORDINARY CAPITAL	556,030	22.24 %
FUND FOR SPECIAL OPERATIONS	1,873,220	74.92 %
OTHER FUNDS	70,753	2.83 %
OUTSTANDING DEBT BALANCE	1,309,989	
ORDINARY CAPITAL	158,735	12.11 %
FUND FOR SPECIAL OPERATIONS	1,151,037	87.86 %
OTHER FUNDS	217	0.01 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	301,764	12.07 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	79,872	3.19 %
ENERGY	423,922	16.95 %
TRANSPORTATION AND COMMUNICATIONS	413,252	16.53 %
EDUCATION	73,833	2.95 %
HEALTH AND SANITATION	260,752	10.43 %
ENVIRONMENT	99,542	3.98 %
URBAN DEVELOPMENT	155,573	6.22 %
SOCIAL INVESTMENT AND MICROENTERPRISE	401,190	16.04 %
REFORM AND PUBLIC SECTOR MODERNIZATION	256,752	10.27 %
EXPORT FINANCING	6,908	0.27 %
PREINVESTMENT AND OTHER	26,644	1.06 %

* Net of cancellations with monetary adjustments and export financing loan collections.



HONDURAS

STATUS OF LOANS IN EXECUTION

AS OF APRIL 30, 2004

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF LOANS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1998	4	58,960	48,382	82.06 %
1998 - 1999	6	183,616	99,754	54.33 %
2000 - 2001	14	225,790	74,221	32.87 %
2002 - 2003	9	145,100	3,758	2.59 %
2004	2	55,000	0	0.00 %
<u>PRIVATE SECTOR</u>				
2002 - 2003	1	13,700	0	0.00 %
TOTAL	36	\$682,166	\$226,115	33.15 %

* Net of cancellations. Excludes export financing loans.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Honduras

Tentative Lending Program

2004

Project Number	Project Name	IDB US\$ Millions	Status
HO0212	Poverty Reduction Sector Program	30.0	APPROVED
HO0219	Financial Sector Program	25.0	APPROVED
HO0208	Strengthening of Fiscal Management	15.0	APPROVED
HO0202	Middle Education and Labor Program	30.6	APPROVED
HO0207	Improvement of the PPP Atlantic Corridor (Sections of the CA-5 Norte Highway)	50.0	
HO0222	Social Protection Program	20.0	
* HO0201	Privatization Four International Airport	22.0	
HO0224	PPP Energy Sector Support	35.0	
HO1002	Health Sector Strengthening	16.6	
HO0195	Sustainable Tourism National Program	35.0	
Total - A : 10 Projects		279.2	
HO1001	Municipal Development Program Tegucigalpa II	22.5	
Total - B : 1 Projects		22.5	
TOTAL 2004 : 11 Projects		301.7	

2005

Project Number	Project Name	IDB US\$ Millions	Status
HO0174	Sanitation and Water Investment Complem.	14.0	
CA1001	Support for Infrastructure	50.0	
HO0192	Credit Global Program	30.0	
HO0197	Poverty Reduction Program focusing on Indigenous peoples and Afro descendants	10.0	
HO0223	Fiscal Reform	25.0	
RG0059	Etnoturísticos Mesoamericanos Fund Projects	30.0	
Total - A : 6 Projects		159.0	
HO1005	Rural Reactivation	30.0	
Total - B : 1 Projects		30.0	
TOTAL - 2005 : 7 Projects		189.0	
Total Private Sector 2004 - 2005		22.0	
Total Regular Program 2004 - 2005		468.7	

* Private Sector Project

COMPREHENSIVE SOCIAL SAFETY NET PROGRAM

(HO-0222)

EXECUTIVE SUMMARY

Borrower:	Republic of Honduras	
Executing agency:	Family Allowances Program (PRAF)	
Amount and source:	IDB (FSO):	US\$20.0 million
	Borrower:	<u>US\$ 2.2 million</u>
	Total:	US\$22.2 million
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4.5 years
	Interest rate:	1% annually during the grace period and 2% thereafter
	Inspection and supervision:	1% of the total
	Credit fee:	0.5% annually on the undisbursed balance, as of the date of approval by the Board of Executive Directors
	Source of financing:	Fund for Special Operations
	Currency:	U.S. dollar
Objectives:	<p>The principal objective of this program is to help enhance the human capital of the country's poorest families through a comprehensive social protection strategy. The program seeks to encourage families to change their behavior by promoting their active participation in improving their welfare.</p> <p>The specific objectives of the program include: (i) to improve family consumption of nutritious foods; (ii) to promote the health, growth and development of children from birth to the age of five; (iii) to protect women's health, particularly for pregnant and nursing women; and (iv) to raise school enrollment and attendance rates for children in the first to sixth grade.</p>	
Description:	<p>This program is part of a new generation of social programs that offer conditional financial incentives in exchange for use by the beneficiaries of education and health services and investment in their</p>	

human capital. The program has a comprehensive approach and offers specific subsidies targeted to the poor. The financial incentives are delivered to women heads of household, recognizing the importance of their responsibility and commitment for family development.

The program is structured in three main components: (i) health and nutrition; (ii) education; and (iii) institutional strengthening. It will finance actions to promote demand and strengthen supply, stressing the integration and complementarity of those actions with other key stakeholders. It is based on the experience and the lessons learned from the ongoing program of conditional transfers in Honduras and other countries in the region.

Component 1. Health and nutrition (US\$13 million)

This component is designed to improve the health and nutrition of family members. It will encourage people to take a preventive approach to maintaining their own health and to pay proper attention to family nutrition. The component includes a *nutrition and health bonus*, in the form of a direct transfer to families to increase family food consumption and to induce demand for basic maternal-and-child services; an *incentive for childbirth in a health care center*, also in the form of a transfer, to encourage mothers to give birth in a health care center from the referral network; and *community-based child services* to promote active participation by families in monitoring their children's growth. It is important to note that the cash transfers to the family are untied, delegating decision-making on spending to the women heads of household.

Component 2. Education (US\$4.9 million)

This component is designed to improve school enrollment, attendance and retention rates for children in the first six years of basic education in the targeted areas. It will finance a *school bonus*, a financial incentive that will be delivered to families with at least one child in the first to sixth grade in order to stimulate the demand for education services; and *cash transfers* to parent-teacher's associations to improve the quality of education services in the school. Those transfers will pay for teaching materials, furnishings and equipment, as well as for teacher participation in training workshops.

Component 3. Institutional strengthening (US\$800,000)

The purpose of this component is to enhance the efficiency and effectiveness of the social safety net in Honduras. The resources will be used to strengthen the PRAF as an institution, by helping it to standardize objectives, regulations, mechanisms and information

systems for its various programs for human capital accumulation, targeting the poorest families; and improve capacity in the entities that will support program execution.

The Bank's country and sector strategy:

The Bank's strategy with Honduras is designed to help the government reduce poverty by promoting higher sustainable growth, driven by improvements in competitiveness and in the productive capacity of the poor. One of the strategic areas of activity is human capital accumulation, which is considered a decisive factor in increasing productivity. Bank programming in this area takes a comprehensive approach to poverty, combining measures to strengthen both the supply of and the demand for social services. The Bank's operations program thus focuses on support for achieving the goals of the Poverty Reduction Strategy (PRS) of Honduras by improving the coverage and quality of health and education services, and strengthening the social safety net.

The proposed program is precisely an important element of the Honduran social safety net, offering beneficiaries an attractive, comprehensive package for addressing the weaknesses in health and education through financial incentives, working with mothers. In addition to its current program in Honduras, the Bank is supporting similar programs in Mexico ("Opportunities", 1388/OC-ME), Ecuador (social sector reform program, 1466/OC-EC), Colombia (social safety net program, 1280/OC-CO) and Nicaragua (social safety net, 1109/SF-NI).

Coordination with other official development institutions:

There are a number of initiatives and operations in preparation that will complement the proposed program. The program for strengthening the health sector (HO-1002) will expand the coverage and quality of health services. The Bank is also participating in a government-led dialog with international aid partners to develop a focus for the health sector that will harmonize the efforts of multilateral organizations and bilateral agencies in the country. The World Bank is preparing an operation to provide comprehensive service for at-risk children, through comprehensive development and nutrition programs. Because these operations are being prepared simultaneously, they are being properly coordinated and generating synergies (paragraphs 1.22 and 1.23).

Environmental and social review:

The deliberate decision to transfer funds directly to mothers is based on recent research showing that resources controlled by women are more likely to produce significant improvements in children's health and nutrition. The program is also expected to contribute to women's empowerment by giving them more control over resources and thereby increasing their bargaining power.

The geographical targeting of the program to the poorest municipalities and villages of the country should mean a focus on indigenous people. To ensure more accurate monitoring of this factor, the program information system will include a variable on the ethnic self identification of recipients.

The program is not expected to have any adverse environmental impact, since it involves only family support and the purchase of teaching materials for schools. On the contrary, it is expected to have a positive impact by promoting a change in family behavior with respect to the environment in the home and in the community, through training sessions in environmental health and hygiene.

Benefits:

The program will stimulate demand for health, nutrition and education services on the part of the poor, through US\$11 million in financing for conditional cash transfers to beneficiary families and actions to strengthen the supply of those services.

Malnutrition and the lack of health care are having a negative impact on children's academic performance and on infant mortality rates. Under the health component, the incentives are designed to increase family consumption of nutritional foods, induce demand for basic maternal-and-child services, and improve the growth and development of children from birth to the age of five. That component is expected to benefit approximately 20,000 households. By improving the nutritional status of children under five and the use of health services, the project should have a lasting impact on the children's mental and physical development. In education, the school bonus is expected to benefit 12,000 households and some 22,000 children of primary school age. According to impact assessments, the education activities should have a positive impact on school enrollment, attendance and retention rates and on the average years of schooling of the population in the target areas.

In the medium term, once the operation is completed, the educational workshops and the required family responsibilities assumed, combined with the financial incentives, are expected to have raised awareness and led to behavioral change in the participating families so that they will continue to use the health, nutrition and education services, and to enhance their human capital. The project will thus contribute to achieving of the Millennium Development Goals and those of the PRS for education and health.

Risks:

The main program risks concern beneficiary targeting and interagency coordination.

In any program of conditional cash transfers, there is the risk that ineligible, in this case nonpoor, beneficiaries may receive program resources. To minimize this risk, the program uses a rigorous targeting system for selecting villages from among the 70 poorest municipalities in the country. At least 70% of the inhabitants of those villages live below the extreme poverty line. Moreover, at the outset of the program, community meetings will be held to validate the roster of beneficiaries. During this process, families will be able to opt out or they may be excluded by other residents. Only the poorest families will thus be included.

Interagency coordination poses a risk, since the program's success depends on the combined efforts of various stakeholders from different social sectors. The PRAF will have to work closely with the health and education ministries to assure adequate coverage of services. This risk will be reduced by the PRAF's active participation in the Social Safety Net Roundtable (*Mesa de Redes de Protección Social*), under the leadership of the President's Office, which will afford many opportunities for creating synergies with other, complementary activities in the sector.

**Special
contractual
clauses:**

Conditions precedent to the first disbursement. The executing agency will submit evidence to the Bank's satisfaction that it has fulfilled the following conditions: (i) signature of coordination agreements with the ministries of education and health (paragraph 3.8); and (ii) entry into force of the Operating Regulations (paragraph 3.2).

Conditions precedent to the first disbursement of components 1 (health and nutrition) and 2 (education). Disbursement of funds for health, nutrition and education activities will be conditional upon the executing agency's having submitted evidence to the Bank's satisfaction that it has complied with the following conditions: (i) establishment of the baseline data for the program (paragraph 3.34); (ii) preparation of the final list of villages in which the program will be implemented (paragraph 3.30); and (iii) selection of the entities (NGOs and private bodies) that will provide local technical assistance and training (paragraph 3.11).

The loan contract will also include provisions requiring the borrower to conduct a midterm evaluation and a final evaluation (paragraphs 3.32 and 3.33), and to provide satisfactory evidence of progress in improving administration, targeting, monitoring and evaluation of other PRAF programs, as a condition precedent to disbursement of more than 50% of the loan proceeds earmarked for components 1 and 2 (paragraph 3.38).

Poverty-targeting and social sector classification:	<p>This operation qualifies as a social equity enhancing project as described in the key objectives set forth in the Report on the Eighth General Increase in Resources (document AB-1704). It also qualifies as a poverty-targeted investment (PTI), because of its geographic targeting. It uses the small area poverty mapping method to channel funds to the poorest villages (paragraph 4.22).</p>
Exceptions to Bank policy:	<p>See section on procurement below.</p>
Procurement:	<p>This program does not call for the construction of works. The procurement of goods and related services and the hiring of consulting services will be carried out in accordance with the Bank's procurement policies and procedures. International competitive bidding will be required when the estimated cost of goods is the equivalent of US\$250,000 or more. International competitive bidding will be required for consulting services in amounts equivalent to US\$200,000 or more. Procurement of goods for amounts below the above thresholds will be governed by local legislation (paragraph 3.36).</p> <p>The current consultants for the program coordination unit under loan 1026/SF-HO have accrued considerable experience in the technical and operational aspects of conditional cash transfer programs, and their performance has been satisfactory. In the interests of ensuring the success of the proposed program, the Board of Executive Directors is asked to allow the IDB-financed consultants now working for the PCU to be hired for the proposed program without a competition (paragraph 3.7).</p>

I. FRAME OF REFERENCE

A. The social sectors

- 1.1 The Millennium Development Goals (MDG)¹ have established targets for human development in all countries, in order to secure a world that is more just and equitable and less poor by the year 2015. Specifically, those goals stress the need to eradicate extreme poverty, improve education, health and nutrition levels, and promote gender equality and empower women. As a participating country, Honduras is committed to making progress towards the MDGs. Thus, the Honduras Poverty Reduction Strategy contains medium- and long-term targets for human capital development and the protection of vulnerable groups. According to statistics, Honduras faces great challenges in achieving the MDGs and the PRS targets for comprehensive human development (see Table I-1). In order to speed up progress towards those goals, the country is convinced that it must have an active instrument to improve health, nutrition and education for extremely poor families.

Table I-1
MDGs and PRS targets

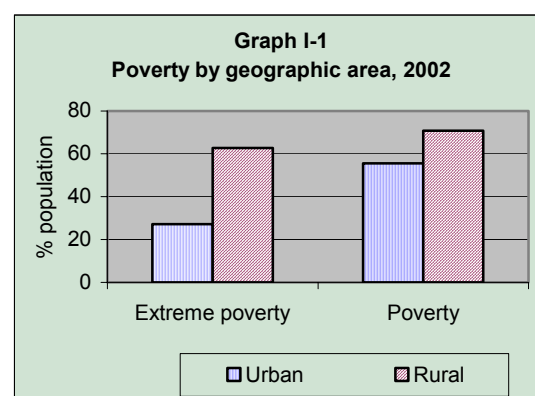
Indicator	2002	PRS 2015	MDG 2015
Households living in poverty	63.9%	42%	38.0%
Net enrollment in primary education	88.3%	95%	100.0%
Chronic malnutrition in children	36.2%	20%	17.4%
Infant mortality (*)	34	17	13
Mortality for children under 5 years (*)	55	22	18
Maternal mortality (**)	108	46	28

(*) per 1000 live births

(**) per 100,000 live births

B. Poverty situation

- 1.2 While the Government of Honduras has made significant efforts in the last two years to target investments to the most vulnerable segments of society, the results have not been very encouraging: 63.9% of the population still lives in poverty, and 45% in extreme poverty.² Households below the

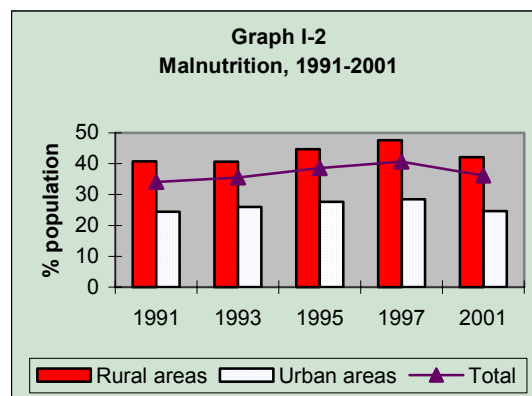


¹ "Report on the Millennium Goals", United Nations, Honduras, 2003.

² In Honduras, poverty is defined as the inability to afford a basic consumption basket that includes food and other goods and services, while extreme poverty is defined as the inability to afford a basic food basket. National Statistics Institute (INE), Honduras.

extreme poverty line are those whose income does not cover the cost of the basic food basket. More than 3.5 million people are in this situation, with an average monthly per capita income of 292 lempiras, or approximately US\$17. Poverty is concentrated in rural areas, where 70.8% of the population lives below the poverty line, compared to 55.5% of the urban population. This gap is even greater for families in extreme poverty, 62.7% of which live in rural areas, and only 27.2% in urban areas (see Graph I-1).

- 1.3 In addition to inadequate incomes, poor families suffer significant deficiencies in terms of health, nutrition and education. Maternal mortality in Honduras stands at 108 deaths for every 100,000 live births, and while it has declined in recent years it is still high in comparison with other countries of the region. Similarly, the infant mortality rate (under one year) has declined in recent years to 34 deaths per 1,000 live births, but it is still far above MDG and PRS targets. The greatest proportion of maternal and infant deaths occur at childbirth or within the following 24 hours,³ and can generally be attributed to preventable causes. Respiratory infections and acute diarrhea with dehydration are the major causes of death in children under five years, and mortality rates in this group are highly correlated with area of residence and with the level of the mother's education. Chronic malnutrition among children in Honduras rose between 1991 and 2001 from 34.1% to 36.2%, and is as high as 42% in rural areas (see Graph I-2), where it is the cause of more than half of the deaths of children under five years.⁴



- 1.4 There is great inequality in access to basic health care services that translate into low coverage in rural, poor and isolated areas. To address this situation, the government's new strategy includes outsourcing services to nongovernmental organizations (NGOs), private firms, and other specialized entities in order to increase the coverage of health care services, particularly in the more remote rural areas. In terms of demand, participation by families and communities in the prevention and control of disease is relatively low because of various factors. These include a lack of awareness of health risks and requirements, assistance

³ It is important to note that 72.7% of maternal and infant deaths occur because the births do not take place at a health care center, reflecting the fact that the population is dispersed in rural areas and access to health care centers is difficult.

⁴ "The Challenge of Health Reform: Reaching the Poor", Europe and the Americas Forum on Health Sector Reform, San Jose, Costa Rica, 24-26 May 2000.

interventions that fail to empower the target population, and a curative rather than a preventive approach.

- 1.5 A similar situation prevails in education. According to the 2003 Regular Multipurpose Household Survey, Hondurans 15 years of age and older have a nationwide average of 6.5 years of schooling, which declines to 4.9 years in rural areas (see Table I-2). The illiteracy rate among this segment of the population is 20%. In primary education, the net enrollment rate is 88.5%, having risen by 0.94% a year during the 1990s. On average, 38% of children in primary school are one or two years overage, and only 27% of students complete primary education by the age of 12.

Table I-2
Average years of schooling in Honduras*

Poverty status	Areas		Total
	Urban	Rural	
Extreme poverty	6.1	4.4	5.0
Poverty	7.2	5.1	6.8
No poor*	9.7	6.0	8.4
Total	7.9	4.9	6.5

*Population over age 14

- 1.6 These low schooling levels are related primarily to late enrollment in first grade, irregular school attendance, repeating grades and dropping out. In rural and poorer areas, 25% of children begin school after the age of 8 1/2 years, 22% repeat the first grade, and 7% of those enrolled at the beginning of the school year do not complete it. Given the production and harvest cycles, it is not uncommon for a child to miss up to 20 consecutive days of school to work. Poverty prevents children from attending school, especially in the case of extremely poor families, who cannot afford sufficient food, much less school supplies and uniforms. Moreover, a substantial proportion of children drop out of school to supplement the family income by working full-time. While the enrollment rate for children between the ages of seven and 11 varies between 80% and 86%, it drops to less than 70% for children of 12 and 13 years. For poor people, most of whom live in rural areas, the quality of education services is low. It is common to find teachers who have no teaching or supporting materials. For example, more than 56% of primary schools have no dictionary, atlas or compass; more than 85% lack workbooks, writing paper, crayons or colored pencils. Only 14% of schools have a library, and they hold on average four books.⁵

C. Effectiveness of conditional cash transfer programs

- 1.7 Conditional transfer programs are part of a new generation of social programs fostering human capital accumulation among poor families, with an emphasis on children. In contrast to compensation programs that provided subsidies without any conditions, these new programs provide subsidies to beneficiaries on the condition that they use education and health services to invest in their human capital. The

⁵ Statistics from the "Report on the Analysis of the Situation Before the Beginning of Project Implementation", International Food Policy Research Institute, September 2001.

approach is comprehensive, with specific subsidies targeted to the poor people. Evaluations of two similar programs (“Opportunities” in Mexico and the social safety net in Nicaragua) have shown that they are an effective instrument for supporting poverty reduction strategies and achieving the MDGs. Experience shows that the families use the financial support to improve the amount and variety of their diet and keep their children in school.

- 1.8 One important feature of these programs is their potential to expand their geographic and demographic coverage. Generally speaking, they begin modestly in order to start up the necessary systems and demonstrate the effectiveness of the model. The success of the initial program in Mexico led to its gradual expansion from a regional to a national scope. Similarly, the pilot safety net project in Nicaragua is being expanded.
- 1.9 By their very nature, these programs spark demand for education and health services and often exert pressure on the supply of those services. Since the focus is multisectoral it is important to involve the respective ministries in designing an interagency coordination system that will help balance supply and demand. In addition, experience shows that specific care and attention to supporting supply in program areas can offset sector limitations in part. Finally, the operating model includes sophisticated management tools. The success of these programs depends on the management and operational capacity of the executing agency to ensure that its actions are clearly targeted, monitor family compliance with its shared responsibilities, and evaluate project impact. The system must be transparent and shielded against political interference.

D. Family Allowances Program and lessons learned

- 1.10 The Family Allowances Program (PRAF) is a deconcentrated agency of the Office of the President of the Republic of Honduras, with full legal capacity and of indefinite duration, established by Legislative Decree 127-91 on 15 October 1991. Since 1991, it has carried out a number of projects for the most vulnerable segments of the population. The Executive Director of the PRAF is a member of the Social Cabinet, the government’s senior coordinating body for social policy, and she also participates in the Social Safety Net Roundtable⁶. In the last 13 years the PRAF has undertaken projects with differing focuses and selection criteria that have covered nearly all age groups. Yet in light of the PRS commitments, and in order to improve its effectiveness, the PRAF has launched a process of change that will bring coherence to all its activities. In fact, the institution has already begun to standardize its targeting and transfer methodologies, management models and

⁶ The Social Safety Net Roundtable, coordinated by the President’s Office, was established to monitor PRS programs and projects. The Roundtable involves all public-sector bodies with social protection programs, as well as representatives of civil society.

monitoring mechanisms. The timing is therefore considered right to expand and deepen these initiatives with specialized technical assistance in order to help it improve the effectiveness and linkage of its projects. It also needs to strengthen its organizational structure and carry out training programs in such areas as strategic planning, information processing, and internal oversight.

- 1.11 The Government of Honduras, through the PRAF, has gained experience with the implementation of conditional cash transfer projects, including one financed by the Bank, the Family Allowances Program, under loan 1026/SF-HO, approved in 1998. That operation is promoting human capital accumulation among beneficiary families, through incentives that will boost both the demand for and the supply of health, nutrition and education services. The project design is experimental: it has three groups of beneficiaries receiving transfers, plus a control group, covering a total of 70 municipalities and approximately 60,000 households. It uses a geographic targeting system that allows all households within the selected municipalities to be eligible. Table I-3 summarizes the specific incentives and the beneficiary responsibilities, according to the original design.

Table I-3
Principal interventions under project 1026/SF-HO

Incentive	Amount	Family responsibility
<i>On the demand side</i>		
Nutrition and health bonus	US\$48/child/year (up to a maximum of two children)	Pregnant mothers and children 0-5 years use health services according to the established protocol.
School bonus	US\$38/child/year (up to a maximum of three children)	School enrollment and attendance from grade 1 to 4 (6-13-year-olds).
<i>On the supply side</i>		
Learning development incentive	An average of US\$4,000 a year per school	Parent-teacher associations use the funds to improve the quality of education.
Health quality incentive	US\$5,000 a year per rural health care center	Centers deliver timely, appropriate health care to beneficiaries.

- 1.12 In 2002, a midterm impact evaluation was undertaken to examine the project's progress to date. The results of that evaluation were mixed. On one hand, interventions on the demand side were effective in having beneficiaries make greater use of health and education services. There were positive changes in growth monitoring and vitamin supplements for children under five years of age, in the percentage of pregnant women receiving five or more prenatal checkups, and in the enrollment of children who had been out of school, among other factors. Yet the results showed the program to have had no significant impact on the food intake

habits of the beneficiary households, on the variety of their diet and the nutritional status of children under five years, or on the academic performance of students.

- 1.13 A number of factors may have contributed to these results. First, the project's experimental design was complex and difficult to execute in a country with limited institutional capacity. As well, interventions on the demand side were cumbersome to implement because of the legal framework that required substantial guarantees for the transfers. Moreover, the evaluation was conducted before the program was sufficiently advanced. Second, the evidence suggests that the demand-side family bonuses were too small to have much impact on consumption, representing less than 5% of the target population's total spending.⁷ Third, the frequency of payments to families (twice a year) meant that recipients did not clearly associate the money they received with the family responsibilities to be assumed in exchange for the payments, nor could they count on the payment as a regular supplement to their household budget. Fourth, the PRAF has no adequate information and monitoring system for tracking compliance with the family responsibilities.
- 1.14 These conclusions constitute some important lessons learned. A further lesson was the importance of public information for fostering an attitude of shared responsibility on the part of the participating families. At the local level, information on the program must be widely disseminated, training must be collaborative, and people must be encouraged to use the cash transfers for goods and services that will improve family nutrition, health and education.
- 1.15 Based on the results of this evaluation, the PRAF has been making adjustments in project design and other efforts to overcome the weaknesses identified. For example, it is taking steps to build an up-to-date database on beneficiaries and an effective system for monitoring compliance with family responsibilities. For example, it has defined instruments and procedures for monitoring compliance, which will be taken into account when payments are being generated. It has begun bidding procedures for the equipment needed such as servers, scanners, Internet infrastructure, laptops and accessories. The PRAF has also made efforts to accelerate activities in support of education and health supply and to automate payments to beneficiaries through the banking system. The domestic legal framework has been adjusted to facilitate cash transfers to community organizations. While those changes represent an important step forward, the model still needs refining to make it more effective for human capital accumulation for the poorest families. At the same time, it is essential to modernize the information system as an effective operations management tool.

⁷ By comparison, in Mexico the grant represented roughly 20% of the total family budget, and in Nicaragua 18%.

- 1.16 To date, loan 1026/SF-HO is 85% committed and 72% disbursed, and has benefited more than 60,000 households. All the lessons learned to date have been taken into account in the design of the proposed operation.

E. Country strategy for the social sectors

- 1.17 The main priorities of the Government of Honduras, as established in its national plans,⁸ are to reduce poverty, maternal and child mortality rates, and malnutrition, and to achieve universal graduation from sixth grade for the country's children. These goals are also part of the PRS and the MDGs.
- 1.18 The PRS for Honduras calls for policies and social investments in six programming areas, including greater investment in human capital and efforts to strengthen the social safety net for vulnerable groups. In order to improve implementation of the PRS as it relates to social safety nets, the government is seeking to develop a conceptual and operational framework for social policy. The framework will guide and coordinate not only the activities of the national government but also those of local governments, international institutions, and nongovernmental organizations. The PRS also stresses targeting, monitoring and evaluation of PRS programs and projects.
- 1.19 The comparative advantage of the PRAF and its value added in the social sectors, particularly in the country's poorest and most remote areas, is that it stimulates demand for education and health services, and encourages community participation through local capacity development and cash transfers. In addition, the PRAF is supporting preventive health care by outsourcing to local initiatives that supplement public services and are cost-effective. The ministries of education and health are focusing their efforts on improving the quality and expanding the coverage of their services. At the same time, the Honduras Social Investment Fund (FHIS), another key player in social protection, is directing its efforts at strengthening the country's basic social infrastructure.

F. Bank strategy

- 1.20 The Bank strategy with Honduras⁹ is to help the government reduce poverty by promoting higher sustainable growth, driven by improvements in competitiveness and in the productive capacity of the poor. One of the strategic areas of activity is human capital accumulation, which is considered a decisive factor in increasing productivity. Bank programming in this area takes a comprehensive approach to poverty, combining measures to strengthen both the supply of and the demand for

⁸ National Health Plan, 2002-2006; National Nutrition Policy (2003), Strategic Plan for the Health Sector through 2021, and "Education for All" Plan 2003-2015.

⁹ See Honduras Bank Strategy 2002 and "Honduras: Facing the Challenge of Reducing Poverty", draft report for the Consultative Group, 2004.

social services. The Bank's operations program thus focuses on support for achieving the goals of the Poverty Reduction Strategy (PRS) of Honduras by improving the coverage and quality of health and education services, and strengthening the social safety net.¹⁰

- 1.21 The proposed program is precisely an important element of the Honduran social safety net, offering beneficiaries an attractive, comprehensive package for addressing the weaknesses in health and education through financial incentives, working with mothers. In addition to its current program in Honduras, the Bank is supporting similar programs in Mexico ("Opportunities", 1388/OC-ME), Ecuador (social sector reform program, 1466/OC-EC), Colombia (social safety net program, 1280/OC-CO) and Nicaragua (social safety net, 1109/SF-NI).

G. Donor coordination

- 1.22 There are a number of initiatives and operations in preparation that will complement the proposed program. The program for strengthening the health sector (HO-1002) will expand the coverage and quality of health services. The Bank is also participating in a government-led dialog with international aid partners to develop a focus for the health sector that will harmonize the efforts of multilateral organizations and bilateral agencies in the country. The World Bank is preparing an operation to provide comprehensive services for at-risk children, through comprehensive development and nutrition programs. Because these operations are being prepared simultaneously, they are being properly coordinated and generating synergies.
- 1.23 Similarly, the proposed program has been designed in coordination with those of other donors in the health sector, including the National Child Care Program financed by the United States Agency for International Development (USAID) to reduce child mortality by maintaining vaccination coverage and breast-feeding practices. In education, the most important coordination has been with the Honduran Program for Community Education financed by the World Bank to expand and improve the quality of preschool and basic education in rural areas.

H. Program strategy and rationale

- 1.24 Although the impact of project 1026/SF-HO has been evaluated as mixed, experience in the region shows that cash transfer programs can be effective instruments for improving the human capital of poor families. It is clear that fundamental changes are needed in certain aspects of the model, such as its

¹⁰ The Bank's projects in this strategic area are: Poverty Reduction and Local Development Program, Phase I and II (1068/SF-HO and 1478/SF-HO); Health Reform Program (1005/SF-HO); Basic Education Program (1000/SF-HO); National Education Reform (1069/SF-HO); Poverty Reduction Support Program (1532/SF-HO); and Family Allowances Program (1026/SF-HO).

complex design and structure, the scope of interventions on the supply side, the low amount of the demand-side transfers, the system for monitoring family responsibilities, and the beneficiary payment system. While the PRAF is already working to adapt the model and its management tools, it is important to ensure that those efforts are effective before the model is expanded. The program described in this document is designed precisely on this basis, simplifying the model and defining its scope.

- 1.25 In short, the proposed program will consolidate the demand-side cash transfers and increase their amount; simplify the supply-sided interventions in health and nutrition, based on the comprehensive child services program and a series of community workshops; limit education supply activities to delivering transfers to parent-teacher associations for the purchase of teaching materials and other eligible investments;¹¹ increase the frequency of cash transfers to four times a year, using the banking system; use the monitoring system to verify compliance with family responsibilities, and streamline the evaluation process while maintaining its rigor.

¹¹ With respect to supply-side health activities, equipment and supply purchases and training for health units will be eliminated; in education, teacher training and transfers to the PRAF's departmental offices for "nonexpendable" supplies will be eliminated. The proposed program combines all eligible education expenditures into a single list so that parent-teacher associations can spend their transfers on any eligible item.

II. THE PROGRAM

A. Objectives and description

- 2.1 The principal objective of this program is to help enhance the human capital of the country's poorest families through a comprehensive social protection strategy. The program seeks to encourage families to change their behavior by promoting their active participation in improving their welfare.
- 2.2 The specific objectives of the program include: (i) to improve family consumption of nutritious foods; (ii) to promote the health, growth and development of children from birth to the age of five; (iii) to protect women's health, particularly for pregnant and nursing women; and (iv) to raise school enrollment and attendance rates for children in the first to sixth grade.

B. Program structure

- 2.3 The program is structured in three main components: (i) health and nutrition; (ii) education; and (iii) institutional strengthening. It will finance actions to promote demand and strengthen supply, stressing the integration and complementarity of those actions with other key stakeholders. It is based on the experience and the lessons learned from the ongoing program of conditional transfers in Honduras and other countries in the region. In order to refine the assistance model and maximize its effectiveness as an instrument for human capital accumulation, the program scope will be limited to approximately 20,000 households, representing roughly 4% of extremely poor households. If the model is successful, the program will subsequently be consolidated and expanded, targeting its resources to the neediest to expand coverage, the proceeds of debt relief and support from other donors will be leveraged. A summary of expected outcomes upon program completion is presented in Table II-1.

Table II-1
Selected program benchmarks for 20,000 beneficiary households*

Component	Benchmark
Health and nutrition	<ul style="list-style-type: none"> • 10% increase in per capita spending on food • 10% reduction in malnutrition among children under two years • 10% increase in births in health care centers • 10% increase in exclusive breast-feeding for infants under six months
Education	<ul style="list-style-type: none"> • Net enrollment in grades one to six increases by 5% in target communities by program completion • Attendance in target schools increases by 8% by program completion
Institutional strengthening	<ul style="list-style-type: none"> • The percentage of extremely poor households included in the program is at least 70% • The program's administrative costs do not exceed 8.5% after the first year of execution • The communication and coordination system with sector agencies is enhanced

* These benchmarks will be updated at the program startup workshop, and will refer to the baseline.

1. Component 1. Health and nutrition (US\$13 million)

- 2.4 This component is designed to improve the health and nutrition of eligible families. It will encourage people to take a preventive approach to maintaining their own health and pay proper attention to family nutrition. On the demand side, it will finance nutrition and health bonuses as well as an incentive for childbirth in a health care center. On the supply side, it will provide community services for children and a program of educational workshops.
- 2.5 **Nutrition and health bonus (US\$7.7 million).** The nutrition and health bonus is a direct transfer to all beneficiary families to increase family consumption of nutritional foods and to induce demand for basic maternal-and-child services. The value of this grant will be US\$135 per year per family, regardless of family size and composition.¹² All households registered in the program will be eligible for it. In order to receive the bonus, families must participate in a series of educational workshops and follow a predetermined monitoring program for children under five years, pregnant women and new mothers, following the protocol established by the Ministry of Health. Services for children will include growth monitoring (height and weight), deworming vaccinations, micronutrient supplements, deworming for children under two, and nutritional counseling and referrals. Pregnancy care will include monitoring maternal weight and fundal height, checking vital signs of the fetus, micronutrient supplements, vaccinations, referrals in the case of danger signs

¹² This bonus represents 10.6% of the average consumption level of extremely poor households, and 58% of the maximum transfer per family.

- and assisted childbirth, as well as counseling in feeding, nutrition and family planning.
- 2.6 **Incentive for institutionalized childbirth (US\$500,000).** An additional subsidy will be provided in the form of an institutional childbirth incentive (IPI) for mothers who give birth in one of the health care centers identified in the referral network, which are listed in the Operating Regulations for the program. That incentive, of up to US\$60, is intended to cover the costs of travel and internment. The incentive will be paid after childbirth, following a checkup of the baby and its registration in the Vital Records.
- 2.7 **Supply-side incentives (US\$4.8 million).** On the supply side, the main activity to be financed will be the provision of outpatient services, with a preventive and wellness approach. The services will be provided in part by the Comprehensive Community Child Services Program (AIN-C), a cost-effective preventive health and nutrition program sponsored by the Ministry of Health that makes use of community mother volunteers as monitors to encourage active participation by families and the community in monitoring the growth of children under two years.¹³ The idea is to teach people who care for children to identify the warning signs of illness and to know when to seek help from a health unit. The AIN-C also supports early detection of unsatisfactory growth and develops strategies for improving child nutrition in beneficiary households.
- 2.8 At the same time, local educational workshops will be conducted periodically, covering topics that will include family planning and HIV/AIDS/STD,¹⁴ domestic violence, dental health, nutrition and hygiene, early childhood stimulation, accident prevention, and the promotion of childbirth in health care centers and breast-feeding. In addition, the component will support the creation or strengthening of user committees to monitor the satisfaction level of beneficiaries¹⁵ and to conduct a social audit of the health services delivered by the providers contracted. These two activities are expected to promote a community ownership of local healthcare.
- 2.9 The PRAF will contract NGOs or other specialized organizations for training and supervision of AIN-C monitors. Those organizations will work with the user committees to compile information on compliance with family responsibilities in

¹³ This program links preventive care with the promotion of healthier lifestyles by fostering new paradigms that will encourage families to take responsibility for their own health and nutrition. Since 1994 the Government of Honduras has been promoting AIN-C as an integral part of the process of decentralizing the health services and reinforcing the community's health role. That program has helped to reduce malnutrition rates in participating communities.

¹⁴ Human immunodeficiency virus (HIV)/acquired immune deficiency syndrome (AIDS)/sexually transmitted diseases (STD).

¹⁵ The Health Ministry's Strategy calls for these committees, thus it is not a question of creating a new body.

health and nutrition. They will also promote, prepare and conduct periodic educational workshops for beneficiaries since the basic skills and requirements for supervising the monitors, verifying compliance with family responsibilities for health, and organizing workshops are not very complicated and will not require a full-time physician or professional nurse, NGOs and local entities may participate in the program.

2. Component 2. Education (US\$4.9 million)

- 2.10 This component is designed to improve school enrollment, attendance and retention rates for children in the first six years of basic education, in the targeted areas. It includes two principal incentives, one for demand and one for supply. In the short term, the demand incentive is expected to reduce truancy and dropout rates, increase timely enrollment of six-year-olds in the school system, and encourage dropouts to reenroll. On the supply side, the idea is to strengthen the provision of education services in the schools. Over the longer term, the program interventions financed are expected to increase the average number of years of schooling in the beneficiary population.
- 2.11 **School bonus (US\$3.3 million).** The school bonus is a cash transfer that will be delivered to families with at least one child in the first to sixth grades in order to stimulate the demand for education services. As in the case with health, there will be one school bonus per household, of a fixed amount, and independent of the number of school-age children. The amount of the bonus has been set at US\$97 per household per year. According to the demographic makeup of poor households, 12,000 families are expected to benefit from the support. The family responsibilities will be to enroll all their children aged six to 12 in school for the official school year and to ensure that they attend regularly. Each child will be allowed up to nine unexplained absences during each quarter. Since nearly three quarters of Honduran children do not complete grade six by the age of 12, families with 13- and 14-year-olds who want to continue primary schooling will be eligible for the school bonus. However, school attendance by children in this age group will not be compulsory. The school bonuses will help families to buy uniforms, school supplies and other inputs needed during the school year. At the same time, it will partially offset the opportunity cost of school attendance and will mean therefore that children will not have to drop out of school prematurely in order to get a job. This should increase the percentage of children completing the sixth grade in the poorest rural areas.
- 2.12 **Supply-side incentives (US\$1.5 million).** On the supply side, the program will provide cash transfers to parents-teacher associations or, where they exist, to local education development associations. These incentives are designed to encourage teachers to perform efficiently and to improve the quality of education services provided by the schools. PRAF will sign cooperation agreements with those educational associations, setting out the rights and obligations of both parties. The total annual amount of the transfers will be the equivalent of US\$1,000, and they

will be used to purchase teaching materials for schools in the target areas; for minor maintenance of buildings, furnishings and equipment; and for teacher participation in training workshops. The program will support the establishment of parent-teacher associations and the costs of obtaining legal recognition so that they can handle funds. The associations will also be given instruction in conducting an annual analysis of local needs, opening bank accounts for the transfers, proposing and prioritizing key educational materials, and accounting for the funds. The communities will thus be encouraged to assume a more proactive role in the education of their children.

3. Component 3. Institutional strengthening (US\$800,000)

- 2.13 The purpose of this component is to enhance the efficiency and effectiveness of the social safety net in Honduras. The resources will be used to strengthen the PRAF as an institution and to improve the capacities of the entities that will support program execution.
- 2.14 **Support for the PRAF (US\$500,000).** The PRAF will be given support in standardizing objectives, regulations, mechanisms and information systems in its various human capital development programs, targeting the poorest families. Technical assistance will be provided for the process of harmonizing the mechanisms used for this program with those used for cash transfers for education and health financed with local funds. The purpose of the support will be to improve the targeting of activities and the selection of beneficiaries, reduce administrative costs, modernize the system for paying beneficiaries, and provide a comprehensive monitoring and evaluation system. The fact that the Program Coordination Unit (PCU) will be located in the PRAF offices will encourage the exchange of lessons learned and help to drive the harmonization process.
- 2.15 This component will also help the PRAF fulfill its role as a key agency in the social safety net. It will strengthen PRAF's capacity and efficiency in collecting, organizing and processing information for the effective management of its activities. The component will pay for computer hardware and software and technical assistance for systems development and staff training. Consulting services will be hired to strengthen the PRAF's organizational structure, including: (i) preparation, updating and formalization of organizational manuals (with job descriptions and internal procedures); (ii) assistance with strategic planning; and (iii) strengthening the internal audit function. Technical support will also be provided for the design and implementation of a coordination and communication system with other bodies serving the same target groups, and a cost-effectiveness analysis of the various programs will be conducted.
- 2.16 **Strengthening implementation capacity (US\$300,000).** Funds for strengthening the execution capacity of the PCU will be used to: (i) improve administrative and operational information systems for management decision-making;

- (ii) institutionalize operational and administrative procedures through documentation, review and improvement; (iii) strengthen the system for targeting, monitoring and evaluation, including the design and testing of an instrument for selecting beneficiaries by household; (iv) staff training; and (v) a public information campaign. These activities will have a significant impact on decision-making and on streamlining operations, particularly for updating the database on beneficiaries, making transfers to beneficiaries, generating data and indicators on the impact of health, nutrition and education interventions, and monitoring project execution. In addition, to make its work more effective, the information system will contain a variable for ethnic self-identification of recipients, and will raise awareness among officials of the country's ethnic groups and Afro-descendants.
- 2.17 The program will depend on support from NGOs and other private organizations for delivering technical assistance and training to local communities in poor and inaccessible areas, and special efforts will be made to encourage their participation. As a first step, information sessions have already been organized through meetings and seminars to discuss the program scope and plans for the procurement of services. In addition, this component will provide funds for the institutional and financial strengthening of NGOs so that they can participate in the bidding and execution of services.
- C. Cost and financing**
- 2.18 The total cost of the program is estimated at US\$22.2 million, of which US\$20 million will be financed by the Bank from its Fund for Special Operations (FSO), and the remaining US\$2.2 million will be contributed by the Government of Honduras as the local counterpart funding, broken down as shown in Table II-2.

Table II-2
Program cost (in US\$ thousands)

Component	IDB	LOCAL	TOTAL	%
1. Nutrition and health	11,410	1,607	13,017	58.6
1.1 Health bonus	6,137	1,607	7,744	34.8
1.2 Incentive for childbirth in health care center	505	-	505	2.3
1.3 Supply incentives	4,769	-	4,769	21.5
2. Education	4,522	334	4,856	21.9
2.1 Education bonus	3,005	334	3,338	15.0
2.2 Supply incentives	1,518	-	1,518	6.9
3. Institutional strengthening	654	117	771	3.5
3.1 Support for PRAF				
3.1.1 Training and technical assistance	305	-	305	1.4
3.1.2 Furnishings and equipment	181	-	181	0.8
3.2 Strengthening execution capacities				
3.2.1 Operational reengineering	108	-	108	0.5
3.2.2 Development of information systems	47	-	47	0.2
3.2.3 Training and technical assistance	13	117	130	0.6
4. Operating expenses	2,105	52	2,157	9.7
4.1 External audit	100	-	100	0.4
4.2 Audit of NGO services	100	-	100	0.4
4.3 Operation of PCU and related services	1,672	52	1,724	7.8
4.4 Promotion and public information	233	-	233	1.1
5. Startup, monitoring and evaluation	653	-	653	2.9
5.1 Diagnosis of education and health centers	49		49	0.2
5.2 Community meetings	174		174	0.8
5.3 Expanded surveys	200		200	0.9
5.4 Midterm and final evaluations	230		230	1.0
6. Financial charges	655	110	766	3.4
6.1 Credit fee	-	110	110	0.5
6.2 Interest	455	-	455	2.0
6.3 Inspection and supervision	200	-	200	0.9
TOTAL	20,000	2,220	22,220	100.0
	90%	10%	100%	

2.19 The loan will have the following terms and conditions:

Source of financing:	Fund for Special Operations (FSO)
Currency:	Dollars of the United States
Grace period:	10 years
Amortization period:	40 years
Disbursement period:	4 ½ years
Interest rate:	1% annually during the grace period and 2% thereafter
Inspection and supervision	1% of the total
Credit fee:	0.50% annually on the undisbursed balance, as of the date of approval by the Board of Executive Directors.

III. PROGRAM EXECUTION

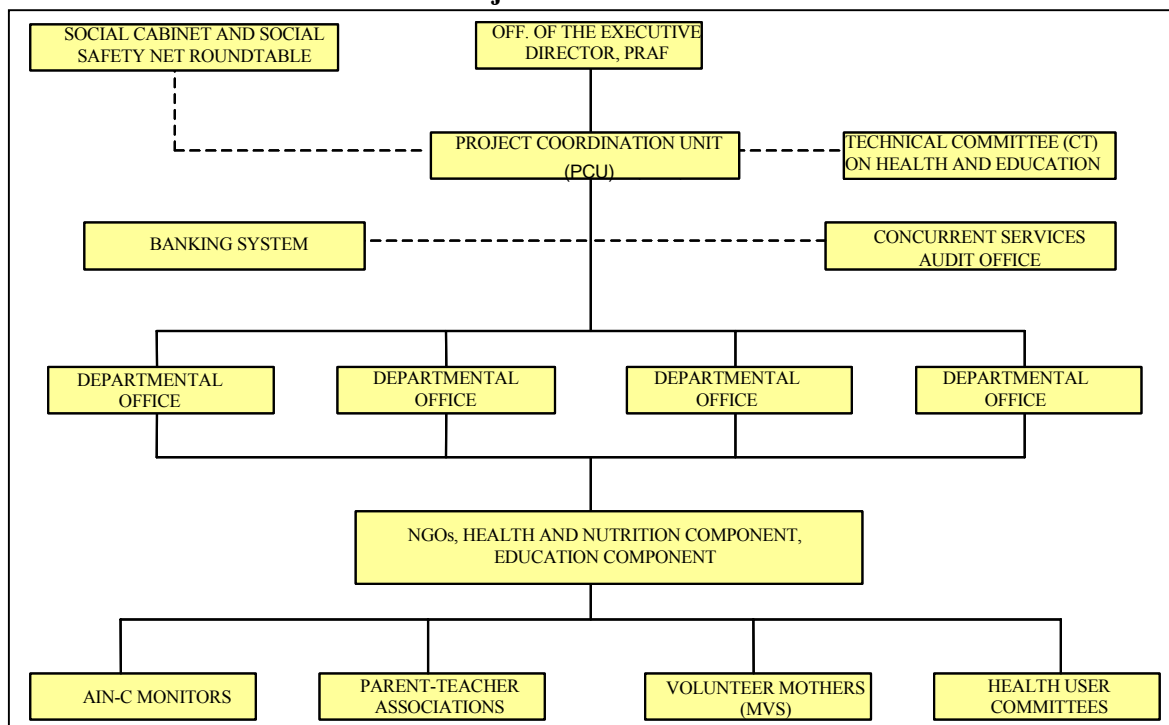
A. Borrower, guarantor and executing agency

- 3.1 The borrower will be the Republic of Honduras and the executing agency will be the Family Allowances Program (PRAF), a deconcentrated entity of the Office of the President of the Republic of Honduras, with its full legal capacity, established by Legislative Decree 127-91 of 15 October 1991. According to Legislative Decree 135-92 of 20 October 1992, approved by the National Congress, the PRAF is of indefinite duration. It is one of the country's most important social protection agencies, with responsibilities for formulating, coordinating and executing projects for the human capital accumulation targeting the most vulnerable groups. For execution of the current loan 1026/SF-HO, a Coordination Unit was created and is still operating in the PRAF.

B. Institutional organization

- 3.2 The basic organization of the program is reflected in Table III-1, and includes three levels: central, departmental, and community. The specific functions, reporting relationships, operating rules and procedures for coordination among the various levels are detailed in the Operating Regulations that will enter into force before the first disbursement under the program.

Table III-1
Project execution chart



- 3.3 **Central level.** *The central level comprises the Office of the Executive Director of PRAF, the Social Cabinet, the Social Safety Net Roundtable, the Program Coordination Unit, and the Technical Committee for Health and Education.*
- 3.4 Interagency coordination of the program policies and general rules will be ensured through meetings of the Social Cabinet and the Social Safety Net Roundtable, in which the PRAF Executive Director participates. Those bodies will also report on program progress and the results of evaluations.
- 3.5 As was the case with loan 1026/SF-HO, this program will be implemented by a program coordination unit (PCU) under the PRAF that will consist of: (i) a *coordination unit* with a project general manager, an operational and technical coordinator, and an assistant; and (ii) an *administration and procurement unit*, with an administrator and two assistants, one for procurement and the other for payments; (iii) a *legal advisory unit*, with a legal adviser; (iv) an *accounting unit*, with a chief accountant and two assistants; (v) a *planning and monitoring unit*, with a planning officer and a monitoring officer; and (vi) an *information technology unit* with a chief, three system developers, and a high-level international consultant.
- 3.6 The PCU will be responsible for: (i) preparing the initial list of beneficiaries in the targeted areas, and keeping it updated; (ii) assessing basic education and health

- services and coordinating coverage with the line ministries; (iii) hiring consulting services (NGOs and private firms) to support the community child services program, the health users' committees, and the parent-teacher associations, and assessing their performance; (iv) monitoring compliance with family responsibilities; (v) making quarterly payments to beneficiaries; (vi) conducting user satisfaction surveys and other studies to provide timely feedback for the information system; (vii) analyzing welfare trends for families participating in the program; (viii) hiring audit and evaluation services; (ix) conducting a public information campaign to improve awareness of the program, locally and nationally; (x) disseminating program results and impact at the national level; and (xi) submitting the annual work plan and performance report to the Bank.
- 3.7 The current consultants for the program coordination unit under loan 1026/SF-HO have accrued considerable experience in the technical and operational aspects of conditional cash transfer programs, and their performance has been satisfactory. In the interests of ensuring the success of the proposed program, the Board of Executive Directors is asked to allow the IDB-financed consultants now working for the PCU to be hired for the proposed program without a competition.
- 3.8 A Technical Committee (CT) will be established for interagency coordination at the operating and technical level with the Ministry of Health and the Ministry of Education. Members of the CT will include the PCU's operations and technical coordinator, and an official from each ministry. The CT will meet at least at the beginning and the end of each year. The CT will coordinate activities carried out by the different sectors in light of the program's sector targets, including the response to any increase in the demand for teachers or nurses. It will establish agreements with those ministries, clearly setting out the roles and responsibilities of each party for program execution.
- 3.9 **Departmental level.** *The departmental level will consist of the departmental offices of the PRAF, NGOs or private firms and banks.*
- 3.10 Each departmental office of the PRAF will have a program liaison officer who will work under the supervision of the PRAF's departmental coordinator. The liaison officer will be responsible for: (i) coordinating program activities with the departmental directorates of education and regional health offices; (ii) maintaining dialogue with the NGOs and making inspection visits to the APFs, health centers and education facilities; (iii) representing the PRAF at all local meetings; (iv) promoting the program through monthly town hall meetings; and (v) organizing the community meetings at the village level.
- 3.11 NGOs or other specialized organizations will be hired through competitive bidding and will be responsible for: (i) training and coaching the monitors in implementing

- the AIN-C, supporting the users' committees, organizing community workshops, and verifying compliance with family responsibilities in health;¹⁶ and (ii) supporting the training and professional development process and monitoring the APFs, as well as verifying compliance with family responsibilities in education. The organizations will act as a consulting firm. The services delivered by them will be assessed on an ongoing basis by an audit entity using as inputs the progress reports provided by the NGOs to the PCU, interviews with the NGOs, focus groups with links to the project, users' committees, parent-teacher associations, the monitors and volunteer mothers.
- 3.12 The banking system will be used to make the cash transfers to beneficiary households. The funds will be transferred at existing bank branches, or at mobile units that will be set up in convenient places.¹⁷ Payments will be made quarterly so that beneficiary households will clearly associate compliance with their family responsibilities with the payment of the health and education bonuses.
- 3.13 **Community level.** *The community level will be composed of the parent-teacher associations (APFs), the health users' committees (CUs), volunteer mothers, and the AIN-C monitors.*
- 3.14 The APFs, or where there are none the local education development associations (ADELs), will be responsible for: (i) prioritizing and budgeting for key materials; (ii) making the purchases; and (iii) accounting for the use of resources.
- 3.15 The CUs will conduct social audits of health services to measure user satisfaction. The CUs will consist of four beneficiaries, and will be responsible for: (i) monitoring user satisfaction; (ii) verifying the NGO's fulfillment of the work plans; and (iii) offering recommendations for improving the quality of services.
- 3.16 The volunteer mothers will be beneficiaries who volunteer to cooperate with the program. They will support other recipient mothers in complying with their family responsibilities by: (i) reminding them of what they must do; (ii) answering any questions they may have; and (iii) advising them of payment dates.
- 3.17 The AIN-C monitors will be responsible for: (i) providing counseling to beneficiaries; (ii) monitoring child growth and identifying any danger signs; (iii) family-planning counseling; (iv) sending sick children to the health care center; and (v) supplementing children's diets with micronutrients provided by the

¹⁶ Because the planned interventions have been simplified, the basic skills and requirements for supervising the monitors, verifying compliance with family responsibilities for health, and organizing the community workshops are not very complicated and will not require a full-time physician or professional nurse, NGOs can be hired to provide those services.

¹⁷ A pilot experiment in November 2003 with delivering bonuses for the banking system showed that such mechanisms could improve the transparency and efficiency of the payment system.

Ministry of Health. These activities will be conducted during monthly checkups for each child under two years, and during home visits in particular cases. Home visits will be arranged where there is a newborn, a sick child, or one whose growth is unsatisfactory, or when mothers have nursing problems. Although the monitors are volunteers, they will be given incentives such as certificates and T-shirts identifying them as part of the program, as well as financing for annual training and discussion events in which all monitors in the given region will participate.

C. Implementation rules

- 3.18 **Acceptance and registration of beneficiaries.** The program will serve approximately 20,000 households in the country's poorest municipalities. The PCU will have the assistance of a consulting firm in setting up the registry of beneficiaries and in designing a registration survey form with no more than 20 variables, including: (i) first and last names and ages of family members; (ii) school enrollment of children in the household; (iii) the geographic location of the household; (iv) ethnic self identification of beneficiaries, and other information. The firm will test the validity of the survey form and the manual, and will conduct the survey in the target villages. It will be responsible for collecting data and entering them into the database, which the PRAF will use to establish the roster of program beneficiaries. In order to ensure compatibility with program information needs and format, the monitoring officer and the systems staff will participate actively in this process. At the outset of the program, community meetings will be held to verify that the information collected in the field is correct. The community meetings will be organized by NGOs hired by the program under the supervision of the departmental liaison officer. To ensure broad participation in the meetings, information (purpose, time and place) will be distributed in advance by radio and through town hall meetings. As well, the PRAF will provide operational guidelines for convening and organizing the meetings to ensure that they are conducted in a consistent manner. Two PRAF representatives, including a data-entry technician, will attend each meeting to confirm the authenticity of the registry. During the meetings, families identified as beneficiaries will be provided with information on the support offered by the programs and the family responsibilities they will have to accept in order to receive that support. Information materials will also be provided about the program, its operating mechanisms, and the timing and procedures for receiving the bonuses. Beneficiaries will have to present their identification card and sign an agreement in order to be officially registered in the program. The roster of beneficiary families will remain constant for the duration of the program.
- 3.19 **Family responsibilities.** In order to receive the school bonus and the nutrition and health bonus, families will have to commit to investing in their human capital and to comply fully with the education and health care plan. Family responsibilities, i.e. active participation by beneficiaries, is an essential feature for the success of the program.

Table III-2
Family responsibilities by type of incentive

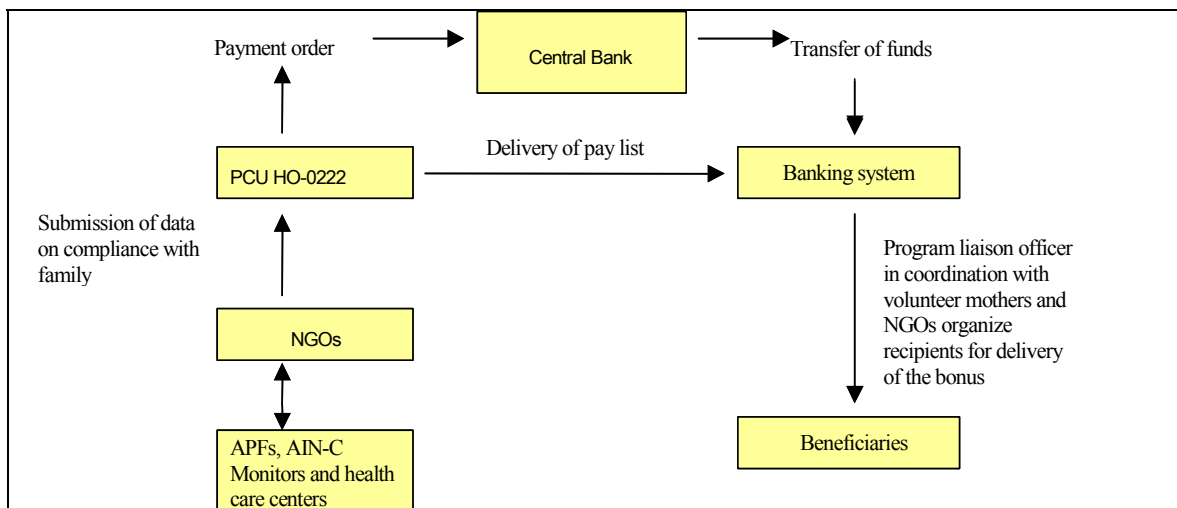
Component	Incentive	Family responsibilities
Health and nutrition	Health and nutrition bonus (equivalent to US\$135 per family per year)	Recipients must attend at least 3 of the 4 educational workshops each year. Fulfill the health services plan, including monitoring of children under 5, pregnant women and new mothers.
	Incentive for childbirth in a health care center (equivalent to US\$60 per delivery)	Give birth in one of the health care centers in the referral network and register the baby with Vital Records.
Education	School bonus (equivalent to US\$97 per family per year)	Enrolment of all children from first to sixth grade, with no more than 9 absences per child during any 3-month period.

- 3.20 Family responsibilities for delivery of the nutrition and health bonus will consist of: (i) attendance by children, pregnant women and new mothers at checkups according to the protocol established by the Ministry of Health; and (ii) attendance by all mothers at no fewer than three of the four educational workshops a year. Children under two years will be monitored in the community by the AIN-C program monitors, who will provide all services except for the vaccinations. Since checkups are to be done monthly during the first year of the child's life, and bimonthly in the second year, having them performed in the community will be easier for the mothers. For children aged two to five years, pregnant women and new mothers, the required checkups will be performed in the rural health care centers. If the recipient or a child fails to show up for one of the scheduled checkups, the household will lose its bonus rights for that period.
- 3.21 Family responsibilities for the education bonus will consist of enrolling all children in primary school and having them attend regularly. A child will be allowed up to nine unexplained absences during each three-month period. As in the health component, in the case of noncompliance with family responsibilities, the family will lose its school bonus rights for the corresponding period.
- 3.22 **Supervision and monitoring.** The program will have two types of technical and operational audit: social and concurrent. The social audit will be the responsibility of the APFs and the CUs, which will organize consultations with groups of beneficiaries twice a year to monitor the health, nutrition and educational services provided. On the basis of these focus groups, the APFs and the CUs will report to the departmental liaison officer on the level of satisfaction of beneficiaries. That information will be forwarded to the PCU for input to the central monitoring system, which will assess satisfaction, for example, with teacher attendance, the effectiveness of APF training, the usefulness of the educational workshops, the quality of the AIN-C services provided in the communities, and the efficiency of

the payment system. This feedback mechanism will help local organizations to play a more proactive role in their communities and at the same time will allow the PRAF to address program elements that require adjustment.

- 3.23 The concurrent audit of the quality and coverage of services provided by NGOs and private entities will be the responsibility of an audit entity, using as inputs the progress reports delivered by the NGOs to the PRAF, interviews with the NGOs, and focus groups with the program liaison officers and beneficiaries. To this end, the contracts with the NGOs will have an initial term of one year, with the possibility of extension based on the audit entity's report.
- 3.24 **Delivery of cash grants.** The total amount of cash that a family receives under the school bonus and the nutrition and health bonus may be up to US\$232 per year, regardless of family size. This amount represents approximately 18% of the annual household budget for an extremely poor family. Payments will be made quarterly through the banking system and will allow families to improve their level of consumption and supplement their incomes. The grants will be delivered directly to the female head of household, recognizing the importance of her responsibility and her commitment to the development of her family. Nevertheless, in motherless households, the transfers will be delivered to the father, provided he agrees to comply with the family responsibilities. Information on compliance will be collected by the APFs, the CUs and the health centers, and transmitted to the PCU through the NGOs hired. On the basis of this information, the PCU will draw up the payment schedule, which the banks will use for making transfers to the beneficiaries. Payment will be made on a quarterly basis so that beneficiary families will clearly associate compliance with their family responsibilities with the payment of the health and education bonuses.

Table III-3
Payment of bonuses



- 3.25 **Exit strategy.** For households receiving the demand incentives during the first three years of the program, the exit strategy will consist of continuing to finance the IPI bonus, the AIN-C services, and the transfers to the APFs during the fourth and last year. The education workshops and family responsibilities, together with the economic incentives provided during the previous three years, are expected to raise awareness and change family behavior so that over the medium term the families will continue to use the health, nutrition and educational services and improve their human capital.
- 3.26 **Amendments to rules.** The execution rules may be amended by agreement between the executing agency and the Bank. Any amendments must be justified, and will be reflected in the program Operating Regulations.

D. Targeting

- 3.27 The targeting system for the program uses econometric poverty indicators, based on data from the 2001 National Population and Housing Census (CNPV), together with data from the household surveys for selecting the areas of influence. Since program resources are limited and the incidence of poverty in Honduras is high, the targeting system is based on the small area poverty mapping method,¹⁸ and includes three basic steps for ensuring that only the neediest are selected as beneficiaries.
- 3.28 First, those municipalities in the country that have the highest levels of extreme poverty and that have access to basic education and health services were selected. The poverty map prepared by the National Statistics Institute (INE) was used to identify them: it provides an estimate of per capita income per municipality, based on the “proximate variables” method.¹⁹ That model analyzes in detail the municipality’s incidence and depth of poverty and the poverty gap, taking all the variables common to the CNPV and to the Permanent Multipurpose Household Survey. Second, that targeting model was prepared to select the poorest villages within the selected municipalities. In this case, key variables and relative weighting were identified that best predict family welfare in the country. These variables have a high degree of correlation to poverty, and a high margin of validity and reliability. Those weightings were then applied to the CNPV variables in order to estimate the probability of being poor for each household in the selected municipalities. Next, those probabilities were aggregated by village, and the villages were ranked according to their mean probability of being poor. All villages below a certain poverty threshold qualify for the program, recognizing that poverty in Honduras is very homogeneous at the village level, and therefore all households in a qualified

¹⁸ In Spanish: *mapeo de pobreza de areas pequeñas*.

¹⁹ Robles, Marcos, November 2003. “*Estimaciones de Indicadores de Pobreza y Desigualdad a Nivel Municipal en Honduras*” (draft). IDB/MECOVI-INE/Honduras, Tegucigalpa.

villages will be eligible to participate in the program.²⁰ The third and final step consists of registering the families and verifying the information compiled during the community meetings, during which families may opt out or may be excluded.

- 3.29 The program will also finance the development and testing of a targeting tool for individual family selection, based on the proximate variables methodology for estimating poverty. This will probably be done in the second half of the project. The method will allow individual families to be selected in areas of the country where poverty is less severe and less homogeneous. The purpose of this activity is to examine the costs and benefits of this method for possible use in a future expansion phase.
- 3.30 At this time, the PRAF already has a list that ranks the 70 poorest municipalities in the country. The great majority are in the departments of Lempira, Santa Bárbara, Intibucá and La Paz. The list is being reviewed to ensure that there is an adequate supply of health and education services in the priority areas. As a condition precedent to the first disbursement of components 1 (health and nutrition) and 2 (education), the list of selected villages will be submitted to the Bank for its nonobjection.

E. Evaluation

- 3.31 In order to measure the program results and impact, and to make any necessary adjustments, a robust evaluation system will be used. Nevertheless, in light of lessons learned to date from the behavioral changes that cash transfer programs induce among beneficiaries, it is not considered necessary to conduct as sophisticated and costly an evaluation as was done for loan 1026/SF-HO, where there were three distinct intervention groups plus a control group. The impact evaluation for the proposed program calls for a somewhat experimental design using two main groups, one consisting of the beneficiaries, and one for comparison. The latter will be selected from a sample of households in nonparticipating villages whose socioeconomic characteristics are very similar to those of beneficiary families.²¹ In addition, efforts will be made to ensure that the comparison group has the same ethnic makeup as the program beneficiaries. Both quantitative and qualitative instruments will be used for purposes of examining the program's potential impact on beneficiary individuals, families and villages. Annex I contains the logical framework that was prepared in conjunction with the PRAF and others involved during the project preparation stage. On that basis, the program will be

²⁰ In the municipalities assigned priority for PRS investments, 80% of the population lives below the poverty line, and 70% is below the extreme poverty line. At the village level, these percentages are even higher. There is thus a very high probability that each household in the selected villages will be poor.

²¹ The difference between a comparison group and a control group is that in the latter case a randomly selected percentage of otherwise eligible beneficiaries is excluded from project interventions for evaluation purposes.

evaluated on two occasions, at midpoint and upon completion. A specialized consulting firm will be hired to conduct the two evaluations.

- 3.32 **Midterm evaluation.** Once 50% of the budgeted funds has been disbursed to the APFs, and AIN-C services have been provided in program villages for at least one year, an independent firm will be hired to carry out a midterm evaluation. The evaluation will be conducted according to the guidelines set forth in the terms of reference agreed upon by the PCU, and will include, among other things, a review of: (i) the efficiency and effectiveness of the procedures for targeting and for enlisting and registering beneficiaries, particularly in terms of coverage of eligible families and any leakage of funds; (ii) the efficiency of the distribution system for the demand subsidies as well as the supply-side transfers and payments; (iii) the beneficiary monitoring system, particularly compliance with family responsibilities by program beneficiaries, and enforcement of conditionalities by the PCU; (iv) the effectiveness of the public information strategy among the target populations; (v) interagency coordination between the PRAF and the line ministries, particularly the ministries of health and education; (vi) the progress and sustainability of PRAF's institutional reforms with respect to the standardization of targeting and transfer methodologies, administration models, transparency mechanisms, etc.; and (vii) progress towards the benchmarks for health, nutrition, education, and institutional strengthening, set forth in the logical framework. The PCU and the Bank will use the results of the midterm evaluation as feedback on the program to make any necessary adjustments in program design and implementation, and assess progress to date, by program component and purpose.
- 3.33 **Final evaluation.** Once 90% of the loan proceeds have been disbursed, a consultant will be hired to conduct a final, independent evaluation. The final evaluation will review the same elements as those in the midterm evaluation, as well as indicators for health, nutrition, education, and institutional strengthening impacts, by objective, as stipulated in the logical framework. By using a multivariate econometric analysis of the program and control groups, the evaluation will allow inferences to be made with respect to the program impact on the target population. The results of the final evaluation will provide input for the preparation of future operations of this type in the Bank.
- 3.34 **Baseline data.** The baseline data will be compiled before program startup, for purposes of the midterm and final evaluations, and for monitoring progress in the various interventions relating to health, nutrition, education, and institutional strengthening. The baseline data for the health, nutrition and education indicators will be compiled from a living standards survey that the INE plans to conduct during the period between May and September 2004. The survey will cover the health and nutrition indicators contained in the logical framework, so that complete baseline data can be compiled to measure progress under the program. In addition, to ensure that the eligible population is adequately represented in that survey, funding will be provided for oversampling in the program target areas. The INE

will conduct another survey of living standards in 2008, which will contribute significantly to evaluating program impact. For the remaining interventions, independent studies and surveys will be used. As part of the program impact assessment, basic socioeconomic data will be collected from the program and comparison groups, including the ethnic self-identification of beneficiaries.

- 3.35 **Monitoring and data collection.** In light of the benefits for evaluation purposes of an efficient mechanism for data collection and for monitoring indicators in any conditional transfer program, the PRAF will be strengthened through the consolidation and establishment of data collection systems, such as those for registering beneficiaries, bonus payments and compliance with family responsibilities, as well as financial and administrative information. Strengthening the PRAF's installed capacity for monitoring and evaluation will help track progress under the program and ensure timely identification of areas that require adjustments.

F. Procurement of goods and services

- 3.36 The program does not call for the construction of works. The procurement of goods and related services, and the hiring of consulting services, will be carried out in accordance with the Bank's procurement policies and procedures. International competitive bidding will be required when the estimated cost of goods is the equivalent of US\$250,000 or more. International competitive bidding will be required for consulting services when the cost is the equivalent of US\$200,000 or more. Procurement of goods in amounts below the above thresholds will be governed by local legislation. The detailed Procurement Plan is attached as Annex II.

G. Execution period and disbursement schedule

- 3.37 The maximum disbursement period for the loan will be 54 months from the effective date of the loan contract. Table III-4 shows the disbursement schedule by source of financing. Given the capacity of the PRAF, which succeeded in executing on average more than US\$14 million annually between 2000 and 2003, this schedule is considered reasonable.

Table III-4
Disbursement schedule (in US\$ thousands)

Source of financing	Year 1	Year 2	Year 3	Year 4	Total	%
IDB/FSO	6,402	5,753	5,604	2,241	20,000	90
Local	753	771	682	15	2,220	10
TOTAL	7,155	6,524	6,285	2,256	22,220	100
%	32	30	28	10	100	

- 3.38 In order to ensure standardization of the procedures to be followed under the proposed program and those used by the PRAF for cash transfers financed with local resources, disbursement of over 50% of the resources for component 1 (health and nutrition) and 2 (education) will be conditional upon submittal to the Bank of satisfactory evidence of progress in improving systems for administration, targeting beneficiaries, paying transfers, and monitoring and evaluating other conditional cash transfer programs (School Bonus and Mother-and-Child Bonus) that the PRAF is implementing with local funds [Component 3 (paragraph 2.14)]. Table III-5 presents a list of targets agreed upon with the executing agency that must be achieved in order to demonstrate satisfactory progress in standardization and institutional strengthening. Compliance with those targets will be verified through an independent evaluation.

Table III-5
Targets for the PRAF strengthening and standardization plan

Administrative targets	
1.1	Annual work plan correlating the goal, objectives, activities, indicators and budgets, updated semiannually
1.2	Duly formalized organizational procedures
1.3	Strengthened internal audit and supervision mechanisms
1.4	External evaluation of program cost-effectiveness completed and proposal for streamlining prepared
Technical and operational targets for cash transfers in education and health financed with PRAF resources	
2.1	Computer hardware for conditional education and health transfer programs installed and operating
2.2	50% of beneficiary households are selected using the HO-0222 targeting system and receiving benefits for a period of two to three years
2.3	50% of payments to beneficiaries are made quarterly through the banking system
2.4	Compliance with family responsibilities in a sample of villages is being monitored

- 3.39 **Revolving fund.** Loan resources will be deposited by the Central Bank of Honduras into a PRAF account reserved exclusively for program execution. The counterpart funds will also be deposited in a separate account devoted exclusively to the program. To facilitate program execution, and in accordance with Bank policies, it is recommended that a revolving fund be established in the amount of up to 8% of the resources earmarked for the PRAF activities. Since the delivery of transfers to beneficiaries will total an estimated US\$900,000, a revolving fund of 8% is considered necessary in order not to constrain the execution of other program activities, such as transfers to the local education associations and payments to NGOs.
- 3.40 **Bank monitoring and supervision.** All procurement procedures carried out by the PRAF will be reviewed on an ex ante basis. The Bank's Country Office in Honduras will conduct field inspections at least semiannually and, through a sampling of localities, will verify: the teaching materials purchased using the transfers to the education associations; adequate performance by the NGOs

supporting the program of comprehensive child services; school attendance by beneficiary children; the mothers' participation in the education workshops; and timely payment of bonuses to beneficiaries; among other things. As well, annual administration missions will review the performance of program activities and agree on any necessary adjustments.

H. Reports

- 3.41 Throughout the program execution period, the PRAF will submit semiannual progress reports to the Bank within 60 days after the end of each six-month period. The reports will include information on progress achieved and problems encountered during the respective period. In November of each calendar year during program execution, the executing agency will submit its annual work plan (AWP) to the Bank for approval, in accordance with previously agreed upon guidelines.

I. Audits

- 3.42 In accordance with Bank policies and procedures (AF-100, AF-200, AF-300, AF-400 and AF-500), the executing agency will hire an independent firm of public accountants acceptable to the Bank to conduct an external audit of program operations, financing, and compliance. Since the costs of the audit will be covered using proceeds from the Bank loan, the firm will be hired on the basis of the selection and contracting procedures for audit firms approved by the Bank (AF-200).
- 3.43 Throughout the program execution period, the executing agency will submit annual financial statements to the Bank, audited by the audit firm. The financial statements must be submitted within 120 days after the end of each fiscal year, and within 120 days after the last disbursement.
- 3.44 In addition, an Operating and Financial Audit Report will be submitted to the Bank annually. The report will contain: (i) a review of compliance with contractual conditions; (ii) a review of procurement procedures and disbursement requests presented to the Bank; (iii) an evaluation report on the internal control system for the project; and (iv) a review of supplementary financial information, including reconciliation of accounting and financial records for the project with information from the Bank, and reconciliation of the revolving fund.

IV. FEASIBILITY, BENEFITS AND RISKS

A. Institutional feasibility

- 4.1 The PRAF is a decentralized agency of the Office of the President of Honduras, with administrative, technical and financial autonomy. The PRAF Director has the rank of minister and participates in meetings of the Social Cabinet. Today the PRAF plays an important role in implementing the PRS, through locally and internationally financed programs of cash transfers and family development targeting vulnerable groups. The institutional analysis shows that the PRAF has the capacity to manage a significant volume of resources. To maximize its impact on social protection, the PRAF is implementing a number of measures to enhance the efficiency and transparency of its activities.
- 4.2 Given the experience accrued by the current consultants in the PCU under loan 1026/SF-HO in the technical and operational aspects of conditional cash transfer programs, it is recommended that those consultants be retained for the proposed program, thereby assuring the success of the planned activities. The PCU is located in the PRAF offices, and consequently the lessons learned during implementation of 1026/SF-HO on targeting, monitoring and evaluation have been thoroughly shared with the PRAF. In addition, that institutional arrangement will help drive standardization of the procedure for cash transfers under the proposed program and those of the PRAF.

B. Socioeconomic feasibility

- 4.3 The small area poverty mapping method promotes the cost-efficient use of resources and ensures that transfers are channeled to the neediest people, reducing the risk of leakage. As well, the community meetings to be held at program startup (in which all residents of the target villages will participate to review and validate the list of families) will allow the nonpoor to be excluded or to exclude themselves. The target villages will be located in the 70 poorest municipalities of the country, identified in the INE poverty map, which estimates per capita income at the municipal level on the basis of proximate variables. Among the departments most affected are La Paz, Lempira, Intibucá and Santa Bárbara. The targeting mechanism also pays special attention to the indigenous population, which for the most part lives in the country's poorest villages. By targeting benefits to villages with high poverty levels, the program is expected to have a greater social and economic impact.
- 4.4 Malnutrition and the lack of health care also have an adverse impact on children's academic performance and on child mortality rates. In the health component, the incentives are aimed at: increasing family food consumption, raising demand for basic maternal-and-child services, and improving the growth and development of

children up to the age of five. The component is expected to benefit approximately 20,000 households, which will receive the equivalent of US\$135 each in lempiras. Improving the nutritional status of children under five years and making greater use of health services will have a lasting impact on these children's mental and physical development. The school bonus (equivalent to US\$97 per family per year) will benefit 12,000 households and some 22,000 children of primary school age. The midterm impact evaluation of loan 1026/SF-HO showed that education interventions have a positive impact on enrollment, attendance and retention rates as well as on the average level of schooling for people in the targeted areas. Those incentives are not granted automatically, but are conditional upon family compliance during each period with the established health, nutrition and education conditions.

- 4.5 This program will produce an immediate 18% increase in income on average for the beneficiary families, through the cash transfers. Over the medium term, once the operation is completed, the educational workshops and the family responsibilities, together with the financial incentives, should raise awareness and change behavior among the participating families so they continue to make use of the health, nutrition and education services to enhance their human capital. In the long run, the beneficiaries will see their incomes rise once they enter the work force.

C. Technical feasibility

- 4.6 The program design is based on a series of studies on the institutional and operational aspects of the PRAF and loan 1026/SF-HO, and on targeting and evaluation methods. Moreover, the program addresses the supply of education and health services in the areas of influence to ensure that they will be adequate to meet the increased demand. The meetings held with various NGOs in Honduras during the project preparation stage showed that the NGOs had both the capacity and motivation to support program execution. Finally, the design and the execution plan incorporate the lessons learned from other conditional transfer programs in Latin America.

D. Financial feasibility

- 4.7 Between 2000 and 2003, the PRAF handled an average of US\$14.8 million a year through programs targeting the poorest population. Most of that money went to cash transfers for poor families to increase their use of education and health services. The remaining funds were channeled to at-risk youth for job training, the elderly poor, and to women for comprehensive development. Over the last four years, funds from Bank loan 1026/SF-HO represented 44% of PRAF spending. The remainder of its budget has come primarily from local sources. In addition, PRAF began in 2003 to receive proceeds from debt relief.

- 4.8 If the program proves successful, it will be gradually expanded, maintaining its focus on the neediest groups. It will serve as a catalyst for mobilizing debt relief resources, funds from other, less effective projects, and support from other donors, to help increase coverage. It should be noted that the investment in human capital and strengthening of the social safety net are among the six programming areas of the PRS of Honduras, thereby guaranteeing to some extent that greater investments will be made in programs similar to the proposed project in the future. In fact, the country now has transparent operating systems to determine eligibility and set priorities for programs and projects to be financed with the proceeds of debt relief. Among them, the Consultative Council plays an important role as the participatory collegiate body that advises the Social Cabinet and whose members include representatives of civil society and the donor community. In addition, a cost-effectiveness study on the PRAF's many projects will be financed by the program and should provide the necessary tools to determine which activities have the greatest impact on human capital accumulation among the poor. Those finding will thus help redirect national resources to the most successful programs and projects.
- 4.9 As described in paragraphs 2.14 and 2.15, the program will include efforts to standardize the targeting, monitoring and evaluation procedures used by PRAF in its other cash transfer programs with those followed by the Bank project. At the same time, disbursement of over 50% of the resources for components 1 (health and nutrition) and 2 (education) will be subject to progress in the standardization process. The idea is to ensure that the national resources the PRAF allocates for the education and health subsidies are executed following the same procedures as those set forth for the proposed program, so that there is a single system for conditional transfers. Moreover, the technical assistance that will be provided, and the location of the PCU within the PRAF, will generate synergies that will make those programs more efficient and will consolidate PRAF's position as a key player in the PRS.
- 4.10 Administration costs for this operation are estimated at 8.81% of the total amount. Those costs include wages and salaries for the PCU's central and departmental offices (6.61%); operating supplies and services (0.36%); costs of making payment to beneficiaries (0.79%); and promotion and media work (1.05%). Other conditional cash transfer programs that the Bank is currently supporting, such as those in Mexico ("Opportunities", ME-0244), Colombia (social safety net program, CO-0247) and Nicaragua (social safety net, NI-0161), have kept their administration costs to between 6% and 10% of total program cost. The administrative costs for the proposed operation are thus reasonably comparable to those of other programs in the region. Nevertheless, such comparisons must be approached cautiously, given the differences in components and startup costs and the types of activities involved. It must also be recognized that there can be economies of scale in larger programs that generally cannot be achieved in smaller operations.

E. Benefits and social impact

- 4.11 The program will stimulate demand for health, nutrition and education services on the part of the poor through US\$11 million in financing for conditional cash transfers to beneficiary families and activities to strengthen the supply of those services. These incentives should help to increase primary school enrollment and improve academic performance; encourage the use of primary health care services and increase the vaccination coverage rate; and reduce the incidence of malnutrition, diarrhea and maternal-and-child mortality in the target areas. The program will thus support human capital accumulation among poor families and help achieve the MDGs and PRS targets in education and health.
- 4.12 **Gender impact.** The deliberate decision to transfer funds directly to the mother in a household is based on recent research showing that when a mother controls the money it is more likely to produce significant improvements in her children's health and nutrition. The program is also expected to contribute to women's empowerment by giving them more control over the funds and thereby increasing their bargaining power. One recent evaluation showed that transfers to women can empower them, because they no longer have to ask their husbands for money, and they can make their own decisions about family spending.²² Nevertheless, while preference will be given to women in the delivery of transfers, fathers are not excluded: in households where there is no mother, the father will be eligible to receive the bonuses.
- 4.13 The program will also empower women through the content of the community workshops. For example, in terms of reproductive health, men and women will increase their awareness of family planning and the prevention of STDs and HIV/AIDS.
- 4.14 It is possible that the transfers to women may have some unforeseen adverse effects. For example, if the program changes power relations within the family, it could have a negative impact on levels of domestic violence. To minimize this possibility, men will be encouraged to participate in the community workshops where they will increase their awareness of domestic violence, and the impact of program interventions on family relations will be monitored.
- 4.15 The program is not expected to have any adverse effect on fertility levels, since it will provide a fixed amount per family regardless of the number of children. Any negative impact in terms of additional burdens, such as attending community workshops, traveling to collect the transfer payments, and taking up chores that

²² "The Impact of PROGRESA on Women's Status and Intrahousehold Relations", Michelle Adato, D. Mindek de la Briere, and Agnes Quisumbing. 2000.

were formally performed by children now in school, will be offset by the program's benefits.

- 4.16 **Social inclusion.** Project 1026/SF-HO has no information system to reflect the ethnic or racial background of beneficiaries. However, the vast majority of inhabitants in the beneficiary municipalities are indigenous. Based on this demographic makeup, and on practical experience with the project, it can be assumed that the vast majority of beneficiaries belonged to one of the following three indigenous groups: Lencas, Chorti and Tolupanes. The proposed program's targeting of the poorest municipalities and villages of the country also implies a focus on indigenous groups. The program information system will include a variable on ethnic self-identification that will allow this factor to be monitored more closely.

F. Environmental impact

- 4.17 The program is not expected to have any adverse environmental impact, since it involves only family support and the purchase of teaching materials. On the contrary, it is expected to have a positive impact by promoting a change in family behavior towards the environment in the home and in the community, through training sessions in environmental health and hygiene. As well, health care providers will be given training in the proper disposal of medical waste (for example used syringes) which will minimize any adverse impact on the immediate environment in the communities.

G. Risks

- 4.18 The main program risks concern beneficiary targeting and interagency coordination.
- 4.19 In any program for conditional cash transfers there is a risk that some funds will flow to ineligible, in this case nonpoor, recipients. To minimize this risk, the program used a rigorous targeting system for selecting villages from among the 70 poorest municipalities in the country. At least 70% of the inhabitants of those villages live below the extreme poverty line. Moreover, at the outset of the program, community meetings will be held to validate the roster of beneficiaries. During this process, families will be able to opt out or may be excluded by other residents. Only the poorest families will thus be included.
- 4.20 Interagency coordination poses a risk, since the program's success depends on the combined efforts of various stakeholders from different social sectors. The PRAF will have to work closely with the health and education ministries to assure adequate coverage of services. This risk will be reduced by the PRAF's active participation in the Social Safety Net Roundtable, under the leadership of the

President's Office, which will afford many opportunities for creating synergies with other, complementary activities in the sector.

- 4.21 Irresponsible use by beneficiary families of the cash transfers they receive is not considered a risk to achieving the program's objectives, because: (i) the target population are families living in extreme poverty, which should ensure to some extent that the resources they receive will be used to cover their most basic needs, such as food and medicine; (ii) the transfers will not be seen as constituting a surplus for families, since on average they represent only 18% of their income; (iii) the education workshops will raise family awareness about their consumption habits; and (iv) the transfers will go to the mothers, who according to experience in the region tend to make efficient and responsible use of resources.

H. Social equity and poverty reduction classification

- 4.22 This operation qualifies as a social equity enhancing project as described in the key objectives set forth in the Report on the Eighth General Increase in Resources (document AB-1704). It also qualifies as a poverty-targeted investment (PTI). The project has no explicit performance indicators for measuring reductions in poverty and improvements in social equity. The justification for its PTI/SEQ classification is based on its geographic targeting. It uses the small area poverty mapping method, described in paragraphs 3.27 and 3.28, to channel funds to the poorest villages, where more than 70% of the population lives below the extreme poverty line.

COMPREHENSIVE SOCIAL SAFETY NET PROGRAM (HO-0222)
LOGICAL FRAMEWORK

Narrative summary	Indicators ¹	Means of verification	Major assumptions
Goal Help improve human capital among the poorest families	In beneficiary communities (baseline to 2004): - Reduction in maternal-and-child mortality rates - Reduction in the incidence of specific diseases ² - Increase in the average school enrollment rate for the 6 to 12 year age group - Beneficiary women empowered ³		
Objective A strengthened comprehensive social safety net	1.1 10% reduction in malnutrition in children under two years in program areas by program completion. 1.2 10% increase in infants under six months in target areas who are exclusively breast-fed, by program completion. 1.3 10% increase in childbirths at health care centers among the beneficiary population by program completion. 1.4 10% increase in per capita food spending among beneficiary households 2.1 Net enrollment rate in grades one to six in target communities increases by 5% by program completion. 2.2 Attendance rate of children enrolled in beneficiary schools increases by 8% by program completion. 2.3 Dropout rate among beneficiary children decreases by at least 15% during the three years of program execution.	1.1.1 Initial and final survey by AIN monitors 1.1.2 Initial and final survey by AIN monitors 1.1.3 LISEM (roster of pregnant women); family responsibility compliance records kept by NGOs 1.1.4 Final program evaluation 2.1.1 Annual report from the project information system: teachers' annual pupil promotion report prepared for the Ministry of Education 2.1.2 Report from the project information system: attendance records kept by teachers	Teachers show up for at least 90% of their classes at beneficiary schools. Parents encourage school enrollment and attendance, using the education bonuses for the intended purposes (uniforms, school supplies).

¹ These indicators will be updated at the program startup workshop and will refer to the baseline data.

² In particular, the incidence of diarrhea and respiratory infections will be examined.

³ Women's empowerment is defined as an index composed of three proximate indicators: (i) possibility of making small purchases; (ii) involvement in household decision-making; and (iii) relative freedom of domicile within the family. The information needed to construct this index will be collected from focus groups of selected program beneficiaries.

Narrative summary	Indicators ¹	Means of verification	Major assumptions
	<p>3.1 Program administrative costs no higher than 8.5% after the first year of execution.</p> <p>3.2 At least 70% of extremely poor families are included in the program.</p> <p>3.3 At least 90% of transfers are made within 10 days of the scheduled date, and on a quarterly basis.</p> <p>3.4 Beginning in the first six-month period, 100% of cash transfers are based on compliance with family responsibilities.</p>	<p>2.1.3 Annual report from the project information system: teachers' annual pupil promotion report prepared for the Ministry of Education</p> <p>3.1.1 Annual financial reports</p> <p>3.1.2 Coordination agreements with the Ministries of Education and Health</p> <p>3.1.3 Report from the project information system: report on transfers to beneficiaries</p> <p>3.1.4 Report from the project information system: report on transfers to beneficiaries</p>	<p>Mothers use the cash transfers to increase family consumption of nutritious foods.</p> <p>Teachers cooperate in collecting data on enrollment and attendance.</p>
<p>Components</p> <p>1. Provision of nutrition and health care services to the extremely poor target population, with citizen participation</p>	<p>1.1 At least 80% of children under two years have monthly checkups by community monitors (weight and height, etc.)</p> <p>1.2 At least 80% of communities have Health User Committees established and trained during the first year of program execution</p> <p>1.3 85% of AIN-C beneficiary households recognize at least two warning signs of childhood illness by the end of the second year of execution</p> <p>1.4 90% of beneficiary mothers have participated in three of four annual community workshops</p>	<p>1.1.1 Family responsibility compliance forms; bank payment schedules; monthly monitor reports.</p> <p>1.1.2 Minutes of the User Committee meetings.</p> <p>1.1.3 Initial and final survey of the AIN program.</p> <p>1.1.4 Proceedings of the workshops presented by the service providers hired.</p>	<p>NGOs covering the eligible areas meet the capacity and quality requirements to provide services.</p> <p>The Ministry of Health delivers sufficient vaccines and micronutrients to the service providers.</p> <p>The Ministries of the Interior and Education grant legal status to the APFs during the first year of execution.</p>

Narrative summary	Indicators ¹	Means of verification	Major assumptions
<p>2. Very poor rural and marginal urban communities have strengthened educational incentive systems.</p> <p>3. Improved operating and administrative efficiency</p>	<p>2.1 75% of the APFs have been organized, legally established and trained during the first year of program execution.</p> <p>2.2 90% of the APFs have carried out their school project (included in the procurement plan) and have spent their annual transfers by the end of the second year of program execution.</p> <p>2.3 By the beginning of the second year, 80% of teachers have held at least four coordination meetings with the APFs.</p> <p>3.1 Local public information plan developed and implemented within six months.</p> <p>3.2 By the end of the first year, the management information system (beneficiary modules, payment schedules, tracking of bids, and accounting data) is installed and functioning.</p> <p>3.3 After six months of execution, at least 85% of PCU personnel are trained and certified in their areas of responsibility (including procedural manuals).</p>	<p>2.1.1 Quarterly/monthly reports by the departmental project coordinator; project information system; bank payment schedule</p> <p>2.1.2 Quarterly financial reports and procurement payment reports by the APFs to the project central coordinator</p> <p>2.1.3 Minutes of APF meetings; quarterly report by the departmental project coordinator; project information system</p> <p>3.1.1 Semiannual report by the PRAF</p> <p>3.1.2 IDB inspection visits</p> <p>3.1.3 Attendance records and training reports</p>	<p>The APFs prepare the school projects (work plans) during the first year of execution.</p> <p>Bidding procedures for equipment and services for developing the PCU systems are implemented without any delays.</p>

PROCUREMENT PLAN
(IN US\$000)

Purchases	Amount (US\$000)	Financing		Method [1]	Prequalif.	Planned publication date (quarters)
		IDB (%)	Local (%)		Yes/No	
1. GOODS						
Computer hardware						
Inst. Strengthening: PRAF	181.0	100%	0%	LCB	NO	III/2005
Office supplies						
Health & Nutrition: materials for delivery of bonus	6.0	100%	0%	S	NO	II/2005
Education: materials and guides	16.8	100%	0%	S	NO	II/2005
PCU operation: Project Coordination Unit	36.0	0%	100%	S	NO	I/2005
Startup, Mon. & Eval.: community meetings, manuals	11.5	100%	0%	S	NO	II/2005
Office space						
PCU: Office rental	24.0	0%	100%	S	NO	I/2005
2. SERVICES						
Distribution of bonuses						
Health & nutrition: bonus distrib. service and AIN-C	3,489.8	100%	0%	LCB	Yes	I/2005
Education: bonus distr. service and APFs	89.5	100%	0%	LCB	Yes	I/2005
Training						
Health & nutrition: monitors, User Committees and T.	1,359.2	100%	0%	S/LCB	Yes	I/2005
Education: APFs & volunteer mothers	19.8	100%	0%	S	Yes	I/2005-II/2005
Inst. strengthening.: PRAF & PCU	190.0	44%	56%	S	NO	III/2005-IV/2005
Startup, mon. & eval.: Community assemblies	163.0	100%	0%	S	Yes	II/2005
Individual consulting services						
Inst. strengthening.: PRAF & PCU	399.8	100%	0%	S	NO	I/2005-II/2005
PCU operation: Project Coordination Unit	1,468.0	100%	0%	S/ICB	NO	I/2005
Consulting firms						
PCU operation:	433.0	100%	0%	LCB	NO	I, II, III/2005
Startup, Mon. & Eval.:	478.5	100%	0%	S/LCB/ ICB	Yes	I/2005-II/2005
Other services						
PCU operation: Internet, telephone, etc.	20.0	0%	100%	S	NO	I/2005

(1) Procurement procedures for goods and services

ICB: International Competitive Bidding

LCB: Local Competitive Bidding

S: Shopping