

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **HONDURAS**

### **PROGRAM TO SUPPORT SOCIAL PROTECTION REFORMS**

**(HO-L1193)**

#### **LOAN PROPOSAL**

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Proposed resolution

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3.	<a href="#">Results matrix</a>
4.	<a href="#">Monitoring and evaluation plan</a>

## ABBREVIATIONS

BCH	Banco Central de Honduras [Central Bank of Honduras]
CCT	Conditional cash transfer
CENISS	Centro Nacional de Información del Sector Social [National Center for Social Sector Information]
EPHPM	Encuesta Permanente de Hogares de Propósitos Múltiples [Ongoing Multipurpose Household Survey]
FRP	Fondo de Solidaridad y de Protección Social para la Reducción de la Pobreza [Solidarity and Social Protection Fund for Poverty Reduction]
FSU	Ficha socioeconómica única [master socioeconomic profile]
IAIP	Instituto de Acceso a la Información Pública [Institute for Access to Public Information]
IGV	Impuesto general a las ventas [general sales tax]
IHER	Instituto Hondureño de Educación por Radio [Honduran Institute for Radio Education]
INE	Instituto Nacional de Estadísticas [National Statistics Institute]
LINVI	Listado de Niños y Niñas para Vigilancia Integral [List of Children for Comprehensive Surveillance]
LMPS	Ley Marco de Protección Social [Framework Law on Social Protection]
MGD	Modelo de Gestión Descentralizada [Decentralized Management Model]
PBVM	Programa “Bono Vida Mejor” [“Better Life Voucher” Program]
PCR	Project completion report
RENPI	Registro Nacional de la Primera Infancia [National Early Childhood Registry]
RNP	Registro Nacional de las Personas [National Registry of Persons]
RPPS	Régimen de Piso de Protección Social [Social Protection Floor Regime]
RUP	Registro Único de Participantes [Master Registry of Participants]
SACE	Sistema de Administración de Centros Educativos [Education Centers Administration System]
SCGG	Secretaría de Coordinación General de Gobierno [Ministry of General Government Coordination]
SEDIS	Secretaría de Desarrollo e Inclusión Social [Ministry of Development and Social Inclusion]
SEDUC	Secretaría de Educación [Ministry of Education]
SEFIN	Secretaría de Finanzas [Ministry of Finance]
SESAL	Secretaría de Salud [Ministry of Health]
SIG	Sistema de Información Gerencial [Management Information System]
SINOVA	Sistema Nominal de Vacunación [Individual Vaccination System]
SSIS	Subsecretaría de Inclusión Social [Office of the Deputy Secretary for Social Inclusion]
STSS	Secretaría de Trabajo y Seguridad Social [Ministry of Labor and Social Security]
UGI	Unidad de Gestión de la Información [Information Management Unit]

## PROJECT SUMMARY

### HONDURAS PROGRAM TO SUPPORT SOCIAL PROTECTION REFORMS (HO-L1193)

Financial Terms and Conditions						
Borrower:		Source		%	Amount (US\$)	
Republic of Honduras		IDB (Regular OC):		60%	29,868,000	
		IDB (Concessional OC):		40%	19,912,000	
Executing agency:		Total:		100%	49,780,000	
Ministry of Finance (SEFIN)						
		Regular OC (FFF) <sup>(a)</sup>			Concessional OC	
Amortization period:		20 years			40 years	
Disbursement period:		1 year				
Grace period:		5.5 years <sup>(b)</sup>			40 years	
Interest rate:		LIBOR-based			0.25%	
Credit fee:		<sup>(c)</sup>			N/A	
Inspection and supervision fee:		<sup>(c)</sup>			N/A	
Original WAL:		12.75 years			N/A	
Currency of approval:		U.S. dollars				
Project at a Glance						
<b>Objective/description:</b> The development objective of this programmatic series is to support the adoption of policy measures conducive to a reduction in extreme poverty among households in Honduras through the design and implementation of policies to improve the financial sustainability and efficiency of redistributive social protection spending, with an emphasis on human capital formation for children and adolescents, consolidation of the basic social welfare service offerings in health and education as a complement to redistributive programs, and strengthening of governance in information management and coordination capacity in the social sector. The objective of this first operation is to contribute to the design and enactment of legal instruments to strengthen the policy framework and facilitate the implementation of redistributive social protection policies that provide relief to households in conditions of extreme poverty. This operation was designed as a programmatic policy-based loan (PBP) and is the first of two individual operations.						
<b>Special contractual conditions precedent to the sole disbursement of the loan proceeds.</b> The sole disbursement of the loan proceeds will be contingent on fulfillment of the policy reform conditions, as established in the Policy Matrix (Annex II) and the Policy Letter, as well as the contractual conditions established in the loan contract (see paragraph 3.2).						
<b>Exceptions to Bank policies:</b> None.						
Strategic Alignment						
Challenges: <sup>(c)</sup>	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>	EI	<input type="checkbox"/>
Crosscutting themes: <sup>(d)</sup>	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>	IC	<input type="checkbox"/>

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. When reviewing such requests, the Bank will take into account operational and risk management considerations, prevailing market conditions, and the degree of concessionality of the loan, in accordance with relevant applicable Bank policies in force.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem to be addressed, and rationale

#### 1. Macroeconomic context

- 1.1 Honduras is a lower-middle income country with 2016 extreme and moderate poverty rates of 38.4% and 60.9%, respectively. In terms of income distribution, it is one of the most inequitable countries in the region, with a Gini coefficient of 0.52.<sup>1</sup> While government social spending was 16.6% of GDP, recent studies suggest that the fiscal policy of the Government of Honduras could generate greater equity.<sup>2</sup> The country closed out 2017 with economic growth of 4.8%, versus 3.8% in 2016. With annual population growth of 2%, nominal GDP per capita for 2017 was 60,870 lempiras (US\$2,566). The fiscal deficit of the nonfinancial public sector stood at 0.8% of GDP, versus 2.8% in 2016.
- 1.2 The external sector has been improving, characterized by a lower deficit on the current account and a continuing surplus on the capital and financial account. During 2017, Honduras saw an improvement in the current account, reaching 1.7% of GDP, as exports rose 9.3%, and imports 7.2%. In May 2018, net international reserves stood at US\$4.81 billion, equivalent to coverage of 5.1 months of imports. In December 2017 the average monthly exchange rate for the domestic currency was up 0.4% from the equivalent figure for December 2016.
- 1.3 In 2017, inflation was 4.7%, inside the band set by the central Bank (3.0% to 5.0%). As a result of rising international oil prices and their impact on domestic prices, as well the supply shocks produced by climate conditions and the public order situation in late 2017, the inflation rate accelerated, rising by 1.4 percentage points from its level in December 2016.
- 1.4 The fiscal position is expected to strengthen over the short and medium term, in accordance with the provisions of the Fiscal Responsibility Law.<sup>3</sup> In 2017, the country's tax ratio reached 18.8% of GDP, and is expected to be 18.3% of GDP for 2018, making Honduras one of the countries with the highest tax revenue intake in Central America. Central government wages and salaries represented 7.9% of GDP in 2017, after having reached 8% in 2016, and are expected to remain in the vicinity of 8% of GDP over the medium term. Central government debt stood at 49.2% of GDP (31.1% external and 18.1% domestic), i.e., at the upper limit set by the Fiscal Responsibility Law. Given this situation, social policy will require reforms to increase its redistributive efficiency without boosting the level of total expenditure.

#### 2. Redistributive social protection in Honduras

- 1.5 **Institutional configuration of redistributive social protection policy.** Historically, basic social protection services in health and education have been provided by the Ministry of Health (SESAL) and the Ministry of Education

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<sup>1</sup> Background Gini data are available at <https://data.worldBank.org/indicator/SI.POV.GINI>.

<sup>2</sup> See the Lustig study (2017) at:  
[http://www.commitmentoequity.org/wp-content/uploads/2017/08/CEQ\\_WP54\\_Lustig\\_June2017.pdf](http://www.commitmentoequity.org/wp-content/uploads/2017/08/CEQ_WP54_Lustig_June2017.pdf).

<sup>3</sup> The Government of Honduras is engaged in exploratory discussions with the International Monetary Fund with a view to arranging a new standby credit.

(SEDUC). In recent years, SESAL has implemented the Modelo de Gestión Descentralizada [Decentralized Management Model] (MGD), which currently covers 92 of the country's 104 poorest municipios, identified as part of the Mesoamerica Health Initiative. The MGD is based on capitation payments to health managers against the performance indicators identified in each contract. The Bank has supported implementation of this model through various investment loans.<sup>4</sup> In addition, in 2014 SEDUC approved a sector policy for expanding coverage of the third cycle of basic education ("middle school"), intended to strengthen education offerings in remote areas where there are high concentrations of the extreme poor.<sup>5</sup> For its part, the Ministry of Labor and Social Security (STSS) has responsibility for the country's contributory social security system and pursues active labor market programs. The institution responsible for designing and implementing redistributive interventions is the Ministry of Development and Social Inclusion (SEDIS). Formerly known as the Ministry of Social Development, it was established in 2010, with the mandate of allocating resources to combat the country's high poverty rates. Government activities are coordinated by a Ministry of General Government Coordination (SCGG).

- 1.6 The Solidarity and Social Protection Fund for Poverty Reduction (FRP) was created in 2013 as the main source of financing for SEDIS and for the active labor market policies pursued by the STSS. The FRP was established as a trust fund overseen by a Technical Committee.<sup>6</sup> Article 45 of the Law Governing Public Finance, Exemption Oversight, and Anti-Evasion Measures (Legislative Decree 278-2013), which originated the FRP, establishes the objective of "guaranteeing continuity and extension of beneficiaries of the "Bono 10,000" conditional cash transfer program and other social projects and programs promoted by the Office of the President of the Republic or the government ministry designated by the Council of Ministers." The FRP has a minimum budgetary allocation of 4,500 billion lempiras (US\$187.5 million). Pursuant to Legislative Decree 290-2013, the FRP is funded through a three percentage-point increase in the general sales tax (IGV), which was reformed and raised from 12% to 15% by Legislative Decree 278-2013. The intent of the FRP, then, is to collect general indirect taxes and redistribute the proceeds through redistributive programs.
- 1.7 The Framework Law on Social Protection (LMPS)<sup>7</sup> better enables the FRP to finance the Social Protection Floor Regime (RPPS) for redistributive interventions.<sup>8</sup> Under LMPS Article 7, the social protection floors (SPF) have two key components: (i) a core set of social entitlements and transfers, and (ii) the delivery of an essential level of social goods and services relating to health, water and sanitation, education, nutrition, low-income housing, job creation, and other areas. LMPS Article 10 indicates the following sources for strengthening of FRP financing:

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<sup>4</sup> Supported by loans 2418/BL-HO, 2743/BL-HO, 2943/BL-HO, and 3723/BL-HO.

<sup>5</sup> Also supported by the Bank through operation 4449/BL-HO.

<sup>6</sup> The funds are deposited into an account at the Central Bank of Honduras (BCH).

<sup>7</sup> Legislative Decree 56-2015.

<sup>8</sup> The LMPS defines a system of social protection in which the SPF is an initial noncontributory redistributive pillar. In addition to the RPPS, there are the Social Security Insurance Regime, the Healthcare Insurance Regime, the Occupational Risks Insurance Regime, and the Labor Coverage Insurance Regime.

- (i) the national government contribution indicated in legislative decree 278-2013; (ii) the national government contribution corresponding to 20% of total revenues from new concessions granted by the national government to third parties; (iii) 15% of the real return generated on nonfinancial investments concessioned by the national government to social security institutes; (iv) additional contributions; and (v) other sources of financing such as loans, contributions, and institutional subsidies.
- 1.8 Before the new government mandate 2018-2022, Executive Decree PCM-009-2018<sup>9</sup> instructed SCGG to establish a “Social Portfolios Council” to direct policy in the sector. Although SESAL, SEDUC, and SEDIS are part of the Social Portfolios Council, the STSS was located in the Economic Portfolios Council. SCGG also coordinates work of the government’s main agency for compiling and administering information on the social sector, known as the National Center for Social Sector Information (CENISS). The CENISS was created by Legislative Decree 38-2011, to: (i) assist other national government entities implementing redistributive programs with respect to characterizing persons living in poverty with a view to selecting beneficiaries; and (ii) monitor and support evaluation of the achievement of objectives. The CENISS reports directly to the Office of the President of the Republic.
- 1.9 **Redistribution programs in Honduras.** Since 2014 the Government of Honduras has been pursuing a strategy known as the Plataforma Vida Mejor [“Better Life” Platform), comprising a diversity of programs targeted to the poorest population and financed primarily from the FRP as provided by the LMPS. Interventions include the conditional cash transfer (CCT) program known as the Programa “Bono Vida Mejor” [“Better Life Voucher” Program] (PBVM), for which the Office of the Deputy Secretary for Social Inclusion (SSIS) of SEDIS is responsible.<sup>10</sup> The Bank has supported the design and implementation of the PBVM from its outset, including its reformulation vis-à-vis its predecessor, the “Bono 10,000” voucher. With a coverage of one-third of the country’s extreme poor population (up to 310,000 households), the geographic coverage of the PBVM, supported by the Bank, has been closely coordinated with implementation of the MGD and the SEDUC strategy for expanding the availability of the third cycle of basic education.<sup>11</sup> As with other programs of this kind, the PBVM has been successful in boosting demand for basic social protection services in health and education. In fact, the PBVM is the only program of the government’s “Better Life” strategy that has been evaluated, and has shown robust evidence of its effectiveness: it is the

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<sup>9</sup> See: <https://www.tsc.gob.hn/leyes/PCM-009-2018.pdf>.

<sup>10</sup> The strategy includes other programs such as Guías de Familia [“Family Guides”], Vida Mejor (upgrades to dwellings, neighborhoods and parks), Escuelas Saludables (‘‘Healthy Schools’’), Merienda Escolar (‘‘School Lunch’’), Crédito Solidario, Con Chamba Vivis Mejor (‘‘With a Job You Live Better’’), and others.

<sup>11</sup> See operations 3371/BL-HO and 3723/BL-HO.



sole intervention with a demonstrated capacity to build the human capital of beneficiary households and to alleviate extreme poverty.<sup>12</sup>

- 1.10 **Interagency coordination and information sharing in the social sector.** As with other redistributive programs of this kind,<sup>13</sup> the PBVM relies on the institutional configuration of the social sector to operate. Through the PBVM, the country has developed information systems that have improved public management in the social sector. Beginning with beneficiaries' incomes, the identification of households living in extreme poverty is the responsibility of the CENISS. The CENISS compiles data for the master socioeconomic profile (FSU) and enters the information in the Master Registry of Participants (RUP), which can be cross-referenced with the Management Information System (SIG) of the SSIS. The Educational Centers Administration System (SACE) was created in 2014 as a management tool for the education sector, reflecting the needs generated by the PBVM. The SACE is administered exclusively by SEDUC and contains a registry of enrollment, attendance, and grades for all schoolchildren in the country. The SACE has become the principal tool for monitoring the country's education system. In the health sector, however, there are major challenges to development of a basic personal information management system for users served at the health centers and hospitals. For example, in the absence of an institutional information system for verifying health coresponsibilities, the CENISS has implemented the National Early Childhood Registry (RENPI). The SSIS has financed an information survey on primary health care, in coordination with the PBVM at SESAL, as part of the Social Protection System Support Program I and II (loans 2937/BL-HO and 3371/BL-HO). That coordination includes funding for nationwide "sweeps" to obtain copies of the "List of Children for Comprehensive Surveillance" (LINVI) covering each of the country's 1,400 health centers. Once the SIG has completed the cycle of cross-checks with the SACE and RENPI, it issues a spreadsheet of PBVM payments three times a year.

### **3. Challenges for the financial sustainability and efficiency of redistributive social expenditure**

- 1.11 The Government of Honduras needs to adopt policy measures to improve the financial sustainability of redistributive social protection. Since 2014, the Bank has provided two loans to support the government in implementing redistribution programs. More specifically, program 3371/BL-HO was designed to finance the PBVM in rural areas and to expand coverage of the third cycle of basic education, while program 3723/BL-HO again financed the PBVM in rural areas, with implementation of the MGD. Both operations are now at an advanced stage of execution. Meanwhile, the government has begun to mobilize its own funds to replace external sources. In mobilizing these resources, the government will have to make changes in its social protection policy to secure funds from the FRP for

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<sup>12</sup> The program of health care for children under five is credited with increasing health center checkups by 11.3pp (+45%), reducing acute diarrhea by 3.8pp (-22%), reducing respiratory infections by 4.6pp (-12%) and reducing overall malnutrition (weight for age) by 1.8pp (-17.6%). In education, the PBVM increased enrolment among pupils in the third cycle of basic education by 5.1pp (+8.3%) in 2016 and reduced the over-age rate by 2.5pp (-4.6%). It is credited with reducing monetary extreme poverty by 12pp (-17%). See: <https://sedis.gob.hn/sites/default/files/Informe-final-de-EI-FEB-7.pdf>.

<sup>13</sup> See IDB publication "How Conditional Cash Transfers Work": <https://publications.iadb.org/handle/11319/8159?locale-attribute=es>

- financing of the PBVM. One of the most important challenges is to issue implementing regulations under Legislative Decree 278-2013, which at this time is unclear as to the destination of resources for redistributive programs.
- 1.12 One of the weaknesses of the FRP, according to a 2016 evaluation, is the lack of regulation over the destination of its resources:<sup>14</sup> for example, the specific allocation of funds for greater predictability in program financing. The FRP is governed by a Technical Committee stipulated in the trust fund contract between the Ministry of Finance (SEFIN) and the Central Bank of Honduras (BCH). That Technical Committee does not have specific rules on the allocation of resources or the eligibility of programs for financing. For example, in 2017 there were reportedly some 30 different interventions financed by the FRP, although the maximum number of programs financed by the FRP was 45 during 2014-2017. Although Article 45 of Legislative Decree 278-2013 stipulated that the FRP was ready to guarantee economic resources to finance the PBVM, the actual commitment in 2017 was only 4.2%, or 240 million lempiras (approximately US\$10 million), of the total amount of the fund for operating the PBVM in urban areas, where the government justifies the priority of implementing programs for dealing comprehensively with the public safety problems facing the country in its large and medium-sized cities. Nevertheless, the PBVM has not been managed under the same conditions in urban areas (evaluation, monitoring, and accountability) as the PBVM in rural areas financed by the Bank. With unification of the urban and rural domains of the PBVM, the institutional issues involved in this dual administration can be overcome,<sup>15</sup> and its financing from the FRP can be expanded. In this respect, a minimum annual allocation of 10% of the FRP could cover at least 40% of the PBVM's financing needs on a predictable basis (until now impossible), once the urban and rural domains are unified. This unification does not entail any change in the current distribution of beneficiaries between urban and rural zones.
- 1.13 According to SEFIN reports, five years after the FRP was established, SEDIS handles the bulk of funding in implementation of the "Better Life" Platform. For 2017, two programs accounted for 94% of the FRP allocation to SEDIS, which were divided between "Better Life" for the improvement of housing and parks (47% of the allocation to SEDIS) and the program known as Guías de Familia [Family Guides]<sup>16</sup> (46% of the allocation to SEDIS):

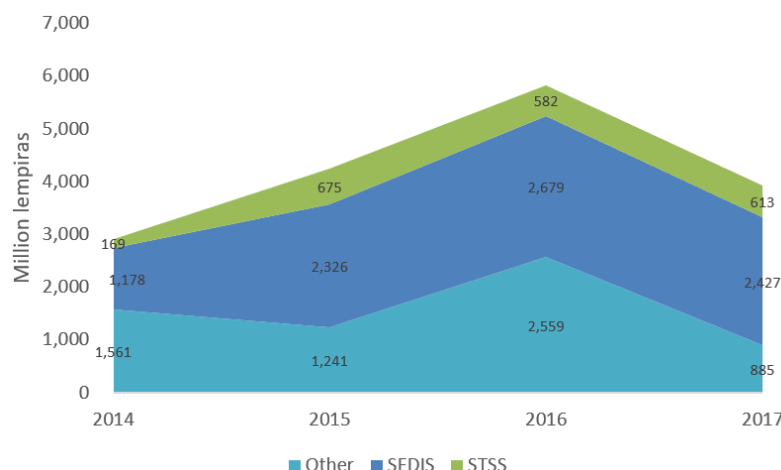
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<sup>14</sup> See [Final Report, Gerenssa](#).

<sup>15</sup> The spreadsheet of payments to urban beneficiaries is generated by the CENISS, while the spreadsheet of payments to rural beneficiaries is generated by the RUP.

<sup>16</sup> This intervention focuses on 15,551 individuals contracted with a view to monitoring them on issues of self-esteem, healthy eating habits and nutrition, prevention of teenage pregnancy, and support for entrepreneurial activities and family budgets.

**Figure 1. Annual execution of the FRP**



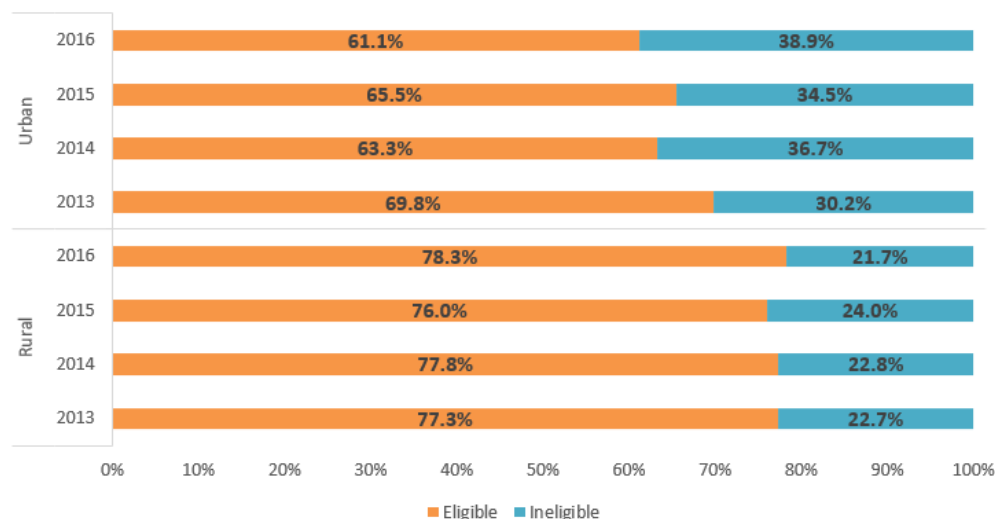
Source: SEFIN.

- 1.14 PBVM operations.** In order to achieve greater efficiency in the redistributive social protection policy, the PBVM will have to be unified and operationally deconcentrated. Its operations are currently fragmented between the urban domain, financed by the FRP, and the rural domain, financed with external lending from the Bank and, to a lesser extent, from the World Bank. A significant challenge facing the PBVM is to unify its implementation in urban and rural areas, in order to optimize its efficiency and take advantage of the inherent synergies. For example, at present the spreadsheet of payments to urban beneficiaries is generated by the CENISS, while the spreadsheet of rural payments is generated by the Management Information System (SIG) of the SSIS. This fragmentation creates duplication of functions among the two entities, as well differences in accountability and internal control mechanisms, and fragmentation of PBVM's financing. Moreover, the program has not succeeded in deconcentrating its operations in order to serve beneficiaries at the territorial level. Service to beneficiaries is conducted through short and infrequent consultation sessions, involving transfers, per diems, and other costs that result in limited resolution of questions, new issues and complaints under the program. Much of the administration of beneficiary care depends on the central level, and this results in weak contact with beneficiaries, thereby diminishing the effectiveness and the public perception of the PBVM.
- 1.15 Redistributive social protection policy.** In order to optimize the progressivity of redistributive social protection policy, the country will have to update the mechanisms for targeting low-income households. An important aspect for the efficiency of the redistributive social protection policy has to do with the targeting of extreme poverty. While the government's management of fiscal policy faces challenges in terms of the progressivity of redistribution, the current algorithm for identifying extreme poor households has shown itself to have one of the lowest margins of exclusion and inclusion error in the region.<sup>17</sup> However, the algorithm for measuring household incomes is now five years old and showing signs of obsolescence in urban areas. Generally speaking, according to the Ongoing

<sup>17</sup> See IDB publication, "Have Cash Transfers Succeeded in Reaching the Poor in Latin America and the Caribbean?" at <https://publications.iadb.org/handle/11319/7223>.

Multipurpose Household Survey (EPHPM) for 2016, 69.8% of extreme poor households in urban areas were classified as eligible for redistribution programs, but in 2016 that proportion fell to 61.5%. This trend is likely to continue until the algorithm for identifying poor households is updated.

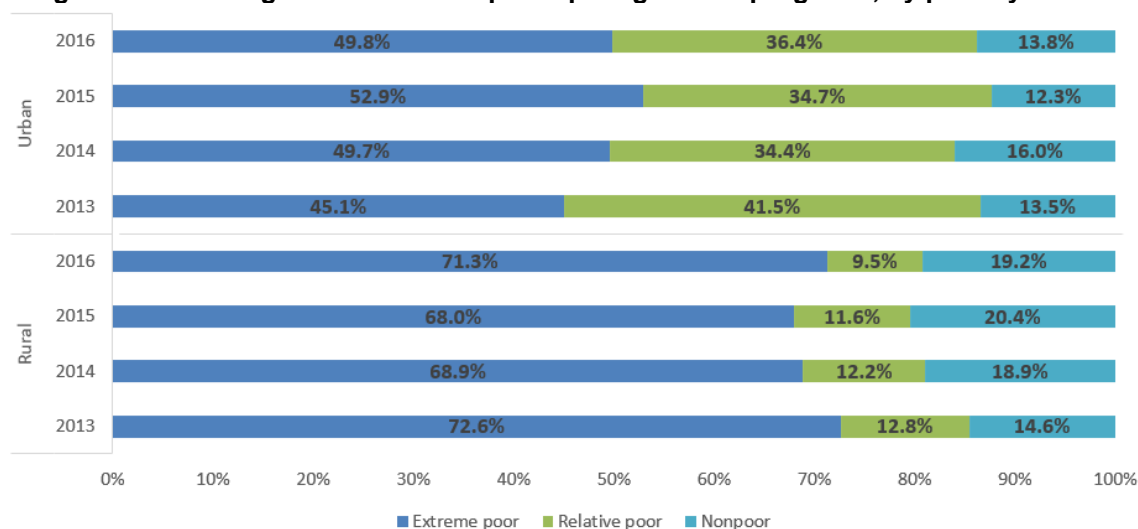
**Figure 2. Percentage of extreme poor households, according to the classification of eligibility for redistribution programs**



Source: EPHPM.

- 1.16 In the case of the PBVM, in urban areas only 49.8% of beneficiaries were living in extreme poverty in 2016, according to the EPHPM (although only 13.8% of beneficiaries are not at least below the moderate poverty line). In rural areas, 71.3% of program beneficiaries are living below the extreme poverty line: this percentage fluctuated over the base period, dropping to 68% in 2015. Notably, in rural areas the proportion of nonpoor PBVM beneficiary households rose from 14.6% in 2013 to 19.2% in 2016.

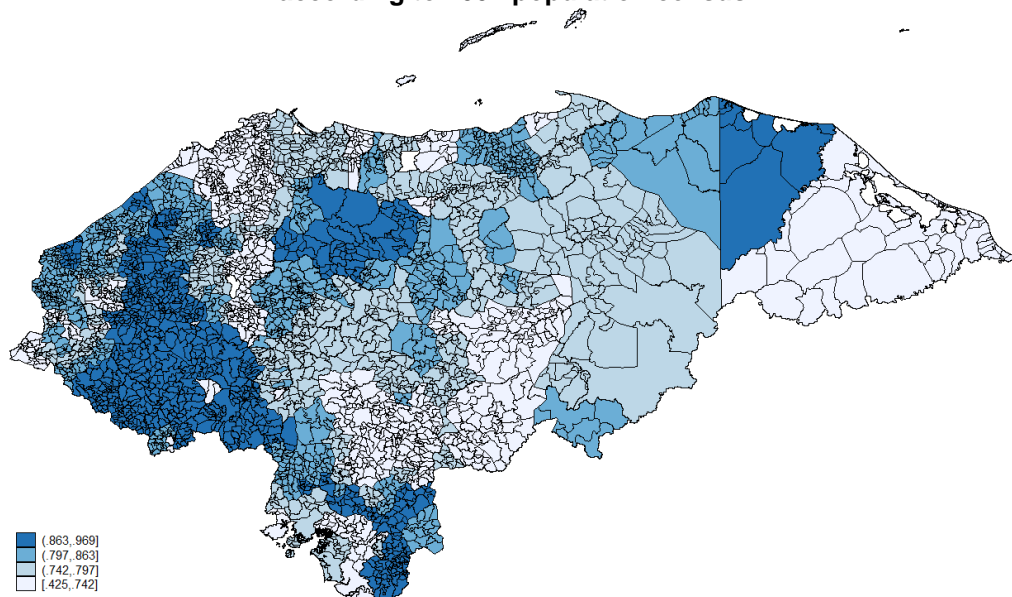
**Figure 3. Percentage of households participating in CCT programs, by poverty status**



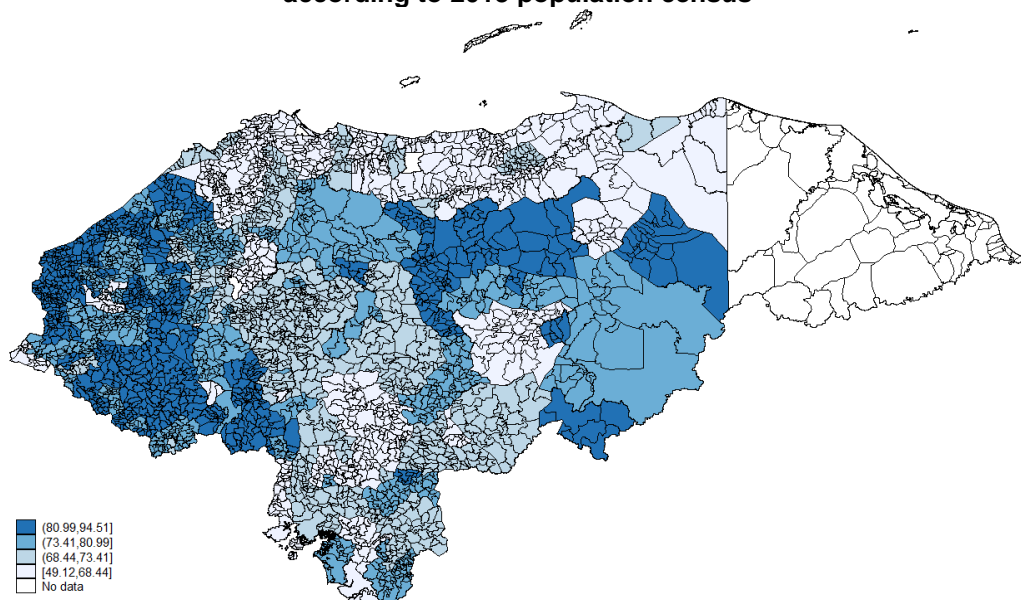
Source: EPHPM.

- 1.17 The incorporation of new beneficiaries into the country's redistribution programs is not based on any up-to-date poverty map designed for geographic targeting. The poverty map currently in use is based on the 2001 population census, although there is one based on the 2013 population census that has not yet been officially approved by SCGG for application in redistributive programs.

**Figure 4. Poverty map based on population census**  
**Proportion of extreme poor households by municipio,**  
**according to 2001 population census**



**Proportion of extreme poor households by municipio,**  
**according to 2013 population census**



Source: 2001 and 2013 population census.

- 1.18 **Poverty measurement methodology.** The redistributive social protection policy requires a revision of its methodology for measuring poverty. The extreme poverty line currently used is based on a basic food basket that does not reflect recommendations on caloric and micronutrient requirements for the Honduran population. Such recommendations are officially nonexistent and need to be

generated and institutionalized, to determine an extreme poverty threshold that reflects the anthropometric features and eating habits of the population. In addition, the current methodology for measuring monetary poverty in Honduras is based on the 1998 Income and Expenditure Survey, with a consumption basket defined in 1994. Those basic consumption baskets now date back more than 25 years and need to be updated to improve accuracy in the measurement of monetary poverty by the National Statistics Institute (INE).

- 1.19 The current measure of household incomes used in the EPHPM takes only work and nonwork incomes into account. These depend heavily on imputed self-consumption by households. The methodology should be updated to international standards, recognizing other sources and reflecting a standard model for attributing income. As of 2018, the BCH is heading up a new income and expenditure survey, for which SCGG must make institutional arrangements for revising the poverty measurement methodology. A ministerial decision is needed, establishing a committee to revise the methodology.
- 1.20 Similarly, the government must make institutional arrangements to centralize administration of official poverty measures. The INE publishes indices of monetary poverty, SCGG produces indices of multidimensional poverty, and the CENISS makes territorial measurements. It is important to have an entity responsible for giving official recognition to all poverty indicators, in order to avoid duplication of functions, facilitate accountability, and centralize the dissemination of results. An executive decree is therefore needed that gives SCGG the authority to administer poverty measurements and coordinate the standardization of methodologies.

#### **4. Challenges of basic health and education service offerings**

- 1.21 Bank support for redistributive social protection policy has shifted from an exclusive focus on financing CCTs (in 2010) to combined financing of education and health services in the territories targeted by the PBVM. The provision of “middle school” education services to more than 11,000 students in the western part of the country (75% of them beneficiaries under the PBVM) depends entirely on external funding, and the hiring of 625 educational facilitators has been outsourced to the Honduran Institute of Radio Education (IHER). Under ideal conditions, these facilitators should join the formal teaching corps of SEDUC. This outsourcing and the dependence on external funding does not ensure the delivery of services in the long term, and the signing of annual contracts with suppliers means that service delivery is unstable.<sup>18</sup> In the short term, SEDUC will have to begin replacing education facilitators with teachers funded through local financing. The government will have to define an institutional strategic plan for education, with a focus on the third cycle of basic education (“middle school”). Under this plan, the schools served today by the IHER should be incorporated into the SEDUC budget. In addition, SEDUC should develop a strategy for including over-age students and students with disabilities, and it should adopt guidelines for incorporating young people with no prebasic education, recognizing that this is a factor limiting access to education for vulnerable populations.

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<sup>18</sup> For institutional reasons, in 2018 the school year began in March for the 11,000 students in the western part of the country, whereas it should normally have started at the beginning of February.

- 1.22 **Challenge of gender focus.** As health services now stand, there is a sizeable shortfall related directly to maternal mortality: the current rate of maternal mortality in rural areas is 75 per 100,000 live births, compared to 39 in urban areas. As well, four of every 10 childbirths in rural areas are attended outside the institutional context. This, combined with the fact that 49% of deaths occur in the first 48 hours after childbirth, means that there is a dual problem relating to access to adequate health services and to quality in the emergency care offered in hospitals. The MGD seeks to resolve this problem by expanding the health services through implementation of a networking model, introducing a continuous improvement model in hospitals, and ensuring the availability of human and medical resources for emergencies. While the MGD has already produced some encouraging results,<sup>19</sup> it is slow in being institutionalized. SESAL currently has a strategic plan for expanding the model: this step is necessary, but not sufficient, to guarantee its long-run institutional sustainability. Guidelines are needed for the MGD policy, detailing, among other things: (i) the parameters under which the model will operate; (ii) the figure of service managers; (iii) the degree of autonomy of managers; (iv) mechanisms for certifying managers; (v) mechanisms for payment and dealings between SESAL and the manager; (vi) mechanisms for monitoring, supervision, and evaluation; (vii) responsibilities of the SESAL units and other external actors; and (viii) applicable standards.

## **5. Challenges of sustainability in interagency coordination**

- 1.23 Honduras needs to put institutional arrangements in place for strengthening the governance of information sharing in the social sector. In the education sector, the SACE, created in response to implementation of the PBVM, has today made continuous monitoring of nationwide school attendance possible for the first time in Honduras. In fact, since the SACE is an efficient system for monitoring student-specific information on recently implemented school services, it should be institutionalized as a source of official information for SEDUC, given that it now coexists with other, older sources of information that duplicate efforts and thus limit value-added and sustainability. Given the wealth of important information recorded in the SACE, it is imperative for SEDUC to make the institutional arrangements the SACE to be the sole source of official information on the education sector. Making the SACE the official source of education sector data through a ministerial decision would facilitate its future sustainability.
- 1.24 **Digital innovation needs in health.** In the health sector, the CENISS has developed the National Early-Childhood Registry (RENPI). Gathering the information recorded in the RENPI involves conducting “sweeps” throughout the country in an operation that transports photocopiers for recording the LINVI stored at each of the 1,400 health centers on paper. The work of copying the LINVI can take up to six months, which undermines the availability of information. A Bank

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<sup>19</sup> Although there has been no evaluation of the MGD’s impact, a before-and-after analysis produced the following findings: (i) the proportion of pregnancies registered prior to 12 weeks of gestation increased from 51% to 90%; (ii) the proportion of prenatal consultations rose from 23.7% to 94.1%; (iii) institutionally assisted childbirth rose from 68.6% to 84.7%; (iv) postpartum care in the first three days rose from 67% to 91%, and in the first seven days from 47% to 60%; and (v) standard care for neonatal complications rose from 7% to 43%, and for obstetrical complications from 11% to 63% (as measured by the Health Metrics and Evaluation Institute of the University of Washington, December 2017).



study found that the recording of LINVI is obsolete, and its institutionalization is threatened by SESAL's scant use of the RENPI, since it is administered externally by the CENISS.<sup>20</sup> Another study found that, in order to digitalize the information more effectively, use should be made of the Vaccination Records System (SINOVA) administered by the Information Management Unit (UGI) of SESAL. Improvements to the SINOVA depend on changes to the rules governing the gathering of information (use of forms), and such improvements tend not to happen without external incentives.<sup>21</sup> To adopt a more efficient way of digitizing information, SESAL needs to adjust its rules to facilitate the capture of information from SINOVA using character recognition through artificial intelligence and machine learning, as opposed to the manual digitization that now occurs.

- 1.25 **Governance of social sector information.** Effective management of social policy and intersector coordination depend on the availability of timely and high-quality information on the sector. One of the challenges facing social policy in Honduras is to remedy the bottlenecks that impede the sharing of information among the entities involved. The most important bottleneck identified thus far is the varying interpretations of the Law on Transparency and Access to Public Information. There is little consensus on the definition of the kind of information that must be classified as confidential among the information systems of the social sector, such as the RUP, the SIG, the SINOVA, and the SACE (names, identification, home address, etc.). The entities responsible for administering these systems restrict themselves in the sharing of information for fear of violating the law and incurring penalties. The Institute for Access to Public Information (IAIP), which regulates the Law on Transparency and Access to Public Information, needs to issue a resolution interpreting the law and establishing the terms and conditions for sharing information in the social sector. As part of information governance, the IAIP has the authority to approve and supervise the sharing of information in the social sector.

## **6. Relationship to other Bank operations in the sector**

- 1.26 This operation would complement operations 3371/BL-HO and 3723/BL-HO. Since 2014, these two operations have contributed to the financing of the PBVM and the expansion of coverage in health and education service offerings in the poorest municipios of Honduras. As the financing of these two operations comes to an end, and the government has made it a priority to ensure the sustainability of the programs and interventions financed, this programmatic series seeks to support the adoption of policy measures to facilitate the replacement of external loan funds for ensuring the financial sustainability of the PBVM and service offerings for the third cycle of basic education ("middle school"). It will also strengthen the operational sustainability of the redistributive social protection programs by optimizing social expenditure and the governance of information sharing in the social sector.
- 1.27 This operation is also related to the Program to Support Health Sector Reform (loan 4030/BL-HO), coordinated with redistributive social protection, and consisting of a programmatic series to support the government in mapping out a Strategic Plan for Expanding and Extending the MGD, in particular for expanding its

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<sup>20</sup> See [consultant's report](#).

<sup>21</sup> See [consultant's report](#).

coverage to the country's poorest municipios and consolidating financing from the government's own sources. This operation will support the Government of Honduras by enabling SESAL to set policy guidelines for the MGD in order to ensure its political and technical sustainability.

- 1.28 This programmatic series is coordinated with the current investment operation in the education sector, loan 4449/BL-HO, which seeks to improve educational quality in the third cycle of basic education. Whereas loan 4449/BL-HO bases its investments in teacher training and expanding the third cycle of basic education in the western part of the country, this programmatic series supports the government in bringing teachers within the SEDUC payroll (currently outsourced) through approval of the 2019-2022 Institutional Strategic Plan. This programmatic series will also support presentation to of the Inclusive Education Policy the National Education Council, as it relates to incorporating over-age students and those with disabilities.

## **7. Bank value-added and lessons learned**

- 1.29 This project is the first in a series of two operations under the programmatic policy-based loan (PBP) modality. The first operation in the series will recognize policy measures implemented by the Government of Honduras that are conducive to the sustainability of redistributive social protection so as to guarantee the government's own financing for the PBVM, consolidate the accompanying health and education service offerings, and strengthen the management and governance of information in the social sector for its interagency coordination. Technical cooperation operation HO-T1298 will support the executing unit in meeting the policy conditions of the programmatic series. Honduras has had good experience working with a combination of lending instruments, using investment loans to make key investments, and then building on those investments using policy-based loans. In the health sector, for example, a similar experience can be seen with operation 4030/BL-HO.
- 1.30 **Lessons learned.** The execution of investment operations 3371/BL-HO and 3723/BL-HO yielded a number of lessons applicable to this operation. Financing redistributive social protection in Honduras based on external funding has paved the way to a consolidation stage, where programs can now be funded from the government's own resources. Bank support has promoted the design and implementation of a redistributive social protection model that combines direct interventions targeting the poorest and most vulnerable population through the strengthening of offerings in basic health services (MGD) and education services (third cycle) for human capital formation of children. The country and the Bank have invested significant financial and human resources in evaluating these interventions, to confirm their value-added. This operation addresses that lesson learned by consolidating the PBVM and health and education service offerings for a transition from external financing to own financing by the Government of Honduras. These lessons have served as input for the Policy Matrix (Annex II) with conditionalities that will guarantee the sustainability of redistributive social protection as designed and implemented thus far. Specifically, the lessons learned have contributed to design of the policy conditions in the following ways:
- a. The execution of operations 3371/BL-HO and 3723/BL-HO has facilitated consolidation of the PBVM, which, with Bank support, has yielded sound

evidence of its effectiveness through scientifically robust impact evaluations. The creation of the FRP in 2013 demonstrated that mobilizing the government's own resources for the financing of redistributive social protection can facilitate the sustainability of that intervention. This led the Bank to design the second component of this first operation in the programmatic series, which provides budgetary support to the Government of Honduras in earmarking predictable funding from the FRP for the PBVM.

- b. The execution of operations 3371/BL-HO and 3723/BL-HO has incorporated into their components the expansion of education and health services to support the redistributive social protection policy in the territories where the PBVM is operational. Operation 3371/BL-HO included the construction of 150 "middle schools" and the delivery of education services by the IHER. Operation 3723/BL-HO also included a component for implementing the MGD in the health area. This led to the design of Component 3 of this first operation in the programmatic series, which seeks to ensure sustainability in the delivery of services for the third cycle of basic education, and sustainability of the MGD in implementing the redistributive social protection policy.
- c. The execution of operations 3371/BL-HO and 3723/BL-HO has resulted in the development of instruments for managing information in the social sector that ought to be strengthened through better governance and the development of digital tools with artificial intelligence to overcome the technological challenges. Implementation of the PBVM has been essential for creating the SACE, which today is a powerful tool for the individual tracking of students and management of education centers. In the health sector, there are still challenges in the area of information management. Those challenges provide an opportunity to incorporate new technologies for capturing information more efficiently, with the emphasis on early childhood. This led to the design of the fourth component of the Policy Matrix for this first operation in the programmatic series, to support the Government of Honduras in adopting policies that will facilitate information management and interagency coordination in the social sector.

## **8. Summary of reforms and balance between policy conditions formulated and implemented**

- 1.31 The programmatic series seeks to contribute to the financial sustainability and efficiency of redistributive social protection, the consolidation of basic service offerings in health and education, and the sustainability of interagency coordination in the social sector. Whereas this first operation in the programmatic series makes gains in terms of regulatory instruments (executive decrees, ministerial resolutions, committee decisions, etc.) for which the government is authorized by existing legislation, the second operation will focus on implementation with the final development objective of reducing extreme poverty. The programmatic series pursues regulation and implementation actions for the sustainability of the country's redistributive social protection policy. This will be accomplished with the country's existing legislative acquis in the social sector. However, the education and health policy measures begun here should be addressed, in the future following the programmatic series, through a legislative agenda.

- 1.32 The two operations in this series seek to close the gaps identified in three areas of reform: (i) the financial sustainability and efficiency of redistributive social protection, through implementing regulations for the FRP and the strengthening of geographic targeting criteria at the household level. In the future following the programmatic series, the 100% sustainability of the PBVM and the use of efficient criteria will be guaranteed for all redistributive social protection programs in Honduras; (ii) consolidation of basic service offerings in education and health, through the budgetization of policies of proven effectiveness currently financed with external funding, and the approval of policy guidelines for the institutionalization of the MGD. In the future, the extension of such policies to the national level should be addressed in all areas with a gap in offerings, accompanied by a legislative agenda for their institutionalization; and (iii) sustainability in institutional coordination, through the strengthening of social sector management via information access and exchange, with regulations approved and implemented, better management of SESAL's information, as well as its modernization with emphasis on early childhood and institutionalization of the SACE for monitoring and tracking targets in the education sector, with regulations approved and implemented. Regarding this last gap, the use (beyond generation) of information for policy decision-making in the education, health, and social protection sectors is expected to be consolidated in the future.

## **9. Strategic alignment of the program**

- 1.33 The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008), and aligned with the development challenge of social inclusion and equality through the eradication of extreme poverty by making health and education services accessible, combatting gender-based exclusion in education, and creating a more distributive fiscal policy in the tax area (intake of 3% of the general sales tax), as well as public expenditure targeting the lowest quintiles of the income distribution curve; and It will contribute to gender and diversity through increased access to maternal and women's health services. In addition, the program will contribute to the targets of the Corporate Results Framework 2016-2019 (document GN-2727-6) related to: (i) the poverty rate, and (ii) the Gini coefficient; and to the country development outcomes related to the number of beneficiaries of targeted anti-poverty programs. The program is included in the 2018 Operational Program Report (document GN-2915).
- 1.34 The operation is consistent with the Bank's country strategy with Honduras 2015-2018 (document GN-2796-1), which has the following strategic objectives: (i) protect minimum levels of consumption among the poor; (ii) promote human capital accumulation of minors in extreme poor households; and (iii) improve the health indicators of children under five. It is also consistent with the following sector framework documents: (a) Social Protection and Poverty (document GN-2784-7) under Dimension of Success 4, "Consolidation of conditional cash transfer programs;" (b) Health and Nutrition (document GN-2735-7) under Dimension of Success 4, "Promotion of intersector coordination for results;" and (c) Education and Early Childhood Development (document GN-2708-5) under Dimension of Success 1, "Monitoring of educational services." The operation will also contribute to the strategic action focus on human capital of the Plan of the Alliance for Prosperity in the Northern Triangle (PAPTN) by working to improve nutrition and access to health services for mothers and children.

**B. Objectives, components, and cost**

- 1.35 The development objective of this programmatic series is to support the adoption of policy measures conducive to a reduction in extreme poverty among households in Honduras through the design and implementation of policies to improve the financial sustainability and efficiency of redistributive social protection spending, with an emphasis on human capital formation for children and adolescents, consolidation of the basic social welfare service offerings in health and education as a complement to redistributive programs, and strengthening of governance in information management and coordination capacity in the social sector. The objective of this first operation is to contribute to the design and enactment of legal instruments to strengthen the policy framework and facilitate the implementation of redistributive social protection policies that provide relief to households in conditions of extreme poverty.
- 1.36 **Component 1. Macroeconomic framework.** The objective of this component is to ensure a stable macroeconomic context conducive to the program objectives and the guidelines established in the Sector Policy Letter, as well as the Policy Matrix (Annex II).
- 1.37 **Component 2. Financial sustainability and efficiency in redistributive social protection.** The objective of this component is focused on facilitating the adoption of policy measures by the Government of Honduras that contribute to predictable financing for the Programa “Bono Vida Mejor” [“Better Life Voucher” Program] (PBVM) and optimizing the efficiency of social expenditure. Actions under this component are targeted to:
- a. Strengthen the financial sustainability of the PBVM. The first operation in this programmatic series will recognize as policy measures the allocation by the President of the Republic and the Ministry of General Government Coordination of at least 10% of the Solidarity and Social Protection Fund for Poverty Reduction (FRP) for financing of the PBVM, and FRP Technical Committee approval of the operations manual with rules for its operation. The triggers for a second operation in the programmatic series will be the allocation of PBVM financing to keep the same or a greater number of beneficiaries than the immediately preceding fiscal year, and approval of an annual decision of the Technical Committee allocating at least 10% of FRP resources for financing of the PBVM.
  - b. Unify the urban and rural domains of the PBVM to facilitate its operational management. This first operation in the programmatic series will recognize as a policy measure the approval of general guidelines for unifying the urban and rural domains of the PBVM (including the unified process for issuing payrolls, the unified process for solicitation and delivery of CCTs, and the process for tracking and registration of coresponsibilities in the education component). The trigger for a second operation in this programmatic series will be the design and approval of a new PBVM operations manual consistent with the approved instructions for unifying the urban and rural domains of the PBVM.
  - c. Strengthen the operational deconcentration of the PBVM, to optimize use of its resources. The first operation in the programmatic series will recognize as

a policy measure the approval by decision of the PBVM Technical Committee of the guidelines for Comprehensive Care of Participants to operationalize the deconcentration and decentralization of the PBVM (including the roles and responsibility of the parties, monitoring and tracking indicators, and the operational schedule). The trigger for a second operation in the programmatic series will be implementation of the operational deconcentration strategy in at least half of the SSIS offices serving participants at the departmental level.

- d. Unify and institutionally strengthen the mechanisms for measuring poverty and inequality in Honduras. The first operation in the programmatic series will recognize as a policy measure the approval by the Council of Ministers of the National Policy for Measuring Poverty and Inequality in Honduras (including institutional unification for stewardship and publication of monetary and nonmonetary poverty indicators, the establishment of a technical committee to review the methodology for measuring poverty and inequality, and establishment of a technical committee to make recommendations on caloric and micronutrient requirements for the Honduran population). The trigger for a second operation in the programmatic series will be the approval and implementation of an updated methodology for measuring poverty and inequality, and formal publication of the findings by a designated lead agency for all official poverty indicators.
- e. Optimize progressivity in the distribution of public social spending by updating the identification of potential participants and geographic criteria in social programs with selection criteria based on monetary poverty and/or geographic prioritization. The first operation in the programmatic series will recognize as a policy measure the update by SCGG of the score generation algorithm for identifying poor households as potential participants in social programs, and the income poverty map based on the INE's 2013 Population and Housing Census. The trigger for a second operation in the programmatic series will be the admission of new participants in social programs, according to the algorithm for identifying households and the updated criteria for geographic prioritization.

1.38 **Component 3. Consolidation of basic service offerings in redistributive social protection.** The objective of this component is to consolidate education and health service offerings accompanying the redistributive social protection policy through support for reforms to:

- a. Ensure the sustainability of service offerings for the third cycle of basic education ("middle school") by incorporating outsourced schools into the SEDUC budget. The first operation in the programmatic series will recognize as a policy measure the approval by SEDUC of the Institutional Strategic Plan 2019-2022, including criteria for gradual incorporation of schools run by the Honduran Institute of Radio Education (IHER) into the SEDUC budget. The trigger for a second operation in the programmatic series will be incorporation of resources for hiring teachers at schools no longer be served by IHER into the SEDUC budget, according to the approved Institutional Strategic Plan 2019-2022.
- b. Promote human capital accumulation by making educational offerings more responsive to vulnerable population groups. The first operation in the

programmatic series will recognize as a policy measure the submission of the proposed Inclusive Education Policy to the National Education Council (including the formalization of policies for the school enrollment of over-age children and children with disabilities, and promotion of the enrollment of students completing sixth grade in seventh grade, through the networking structure) and SEDUC definition and approval of guidelines for implementation of the Education Act as it relates to the admission of students with no prebasic education. The triggers for a second operation in the programmatic series are approval of the Inclusive Education Policy, containing measures for enrolling over-age children and children with disabilities, and automatic enrollment of students completing sixth grade in seventh grade, and the admission of students to basic education centers without the requirement of completing prebasic education.

- c. Guarantee the sustainability of the MGD in health. The first operation in the programmatic series will recognize as a policy measure the approval by SESAL of a policy guideline for institutionalizing the implementation of the Decentralized Management Model (MGD) in health (including the definition of parameters under which the model will operate, the figure of decentralized service managers, the degree of autonomy of decentralized managers, mechanisms for certifying decentralized managers, mechanisms for payment and dealings between SESAL and the decentralized manager, mechanisms for monitoring, supervision, and evaluation, responsibilities of the SESAL units and other external actors, and applicable standards). The trigger for a second operation in the programmatic series will be the signing of new agreements for hiring managers in accordance with the approved guideline for improving implementation of the MGD.

1.39 **Component 4. Sustainability in the institutional coordination of the social sector.** The objective of this component is to support policy measures to strengthen the management and governance of information in the social sector. Policy measures will be adopted to:

- a. Strengthen social sector management through information exchange and access for monitoring and tracking compliance with targets. The first operation in the programmatic series will recognize as a policy measure the approval by the Institute for Access to Public Information (IAIP) of terms and conditions for sharing information among national government institutions in the social sector (including identification of the type of information provided by the national government information systems in the social sector—RUP, SIG, SACE, SINOVA, RENPI, and others—that can be shared among institutions in the performance of their functions, and identification of the relevant instruments, terms and conditions, time frames, and applicable rights and obligations for sharing information among social sector institutions in the performance of their functions, etc.). The trigger for a second operation in the programmatic series will be the signing of at least three agreements among national government institutions in the social sector to share information according to the terms and conditions issued by the IAIP.
- b. Improve SESAL's information management for monitoring and tracking sector objectives. The first operation in the programmatic series will recognize as a

policy measure the signing of an agreement between SESAL and the National Registry of Persons (RNP) for validating personal information on the users of health services treated at primary health care centers, with the priority on early childhood. The trigger for a second operation in the programmatic series will be approval of the PBVM Technical Committee decision verifying health coresponsibilities, using information from the Individual Vaccination System (SINOVA) as validated by the sharing of records between the RNP and the Information Management Unit (UGI) of SESAL.

- c. Modernize SESAL's information management with emphasis on early childhood. The first operation in the programmatic series will recognize as a policy measure the approval by SESAL of a plan for the digital capture of information from the SINOVA using automatic character recognition technology, according to the recommendations of the digital information survey report based on a field trial. The trigger for a second operation in the programmatic series will be the installation and operation of a new artificial intelligence technology for the digital capture of SINOVA at all of SESAL's local health care facilities (municipios, departments, and leagues of municipios).
- d. Institutionalize the SACE for monitoring and tracking targets in the education sector. The first operation in the programmatic series will recognize as a policy measure the designation of SACE as the official source of statistics for monitoring and tracking targets in the education sector, including:
  - (i) identification of the units responsible for monitoring and oversight; and
  - (ii) allocation of resources for administrative arrangements concerning the SACE. The trigger for a second operation in the programmatic series will be that authorities of all the country's departments (18) and at least 35 central units will consult SACE information via approved online user access.

### **C. Key results indicators**

- 1.40 **Results matrix.** The results matrix identifies the expected outputs and outcomes from implementation of policy measures geared toward strengthening the redistributive social protection policy in Honduras. In terms of ultimate development objectives, the impact indicator for this operation is the extreme poverty index, which the Government of Honduras expects to reduce from 40.7% to 38.6% during the current administration's term in office. The outcome indicators measure progress on implementation of the reform at the national level, for example: the percentage of the FRP that will be earmarked for financing the PBVM, the number of departments where the PBVM will be operationally deconcentrated, the number of redistributive programs adopting a poverty map for their geographic targeting, the percentage of IHER-served schools taken on by SEDUC, and the number of requests for social sector information handled by the IAIP. The outputs include legal instruments to facilitate social protection reforms, for example: the Executive Decree of the Council of Ministers allocating a percentage of the FRP to the PBVM, and the Institutional Strategic Plan 2019-2022 proposed by SEDUC.
- 1.41 **Vertical logic.** The vertical logic of this programmatic series is based on the institutional sustainability of redistributive social protection for the achievement of the ultimate development objectives. International evidence suggests that such



redistributive interventions should be approached as long-term efforts.<sup>22</sup> Such interventions must therefore shift in the direction of financing with national government resources, rather than resources from external sources, especially in the consolidation phase. This effort must be accompanied by better governance of social sector data and institutionalization of the services accompanying the redistribution strategies. An example of sourcing funds for the financing of redistribution programs can be found in Costa Rica, where a Social Development and Family Allowances Fund (FODESAF), similar to the FRP, has been established. The strength of the FODESAF lies in the predictability of the allocation of 80% of resources to redistribution programs, which has contributed to the sustainability of programs similar to the PBVM.<sup>23</sup>

- 1.42 The outputs listed in the Policy Matrix specify the legal instruments for moving toward the institutionalization of redistributive interventions in the programmatic operation. Certain policy conditions will be implemented and will remain in effect, once approved, while others will initiate a process of regulation to enter into effect in the future. This first operation in the programmatic series focuses on the approval of policy measures that will be strengthened in their implementation under the second programmatic operation. In component 2, the implementing regulations will be approved, and policy measures (a) and (e) will be implemented; in Component 3, implementing regulations will be approved, and policy measure (b) will be implemented; in Component 4, implementing regulations will be approved, and all the proposed policy measures will be implemented. In the future, all policy measures with implementing regulations approved under this first operation are expected to be implemented. The expected outcomes are closely linked to the triggers for the second operation, while also emerging from implementation of the outputs in the short term.
- 1.43 **Economic evaluation.** Based on recommendations of the Office of Evaluation and Oversight (OVE) in its 2011 Evaluability Review of Bank Projects,<sup>24</sup> and the results of the Review of Good Practice Standards for the Evaluation of Policy-based Lending, prepared by the Evaluation Cooperation Group (ECG) comprised of the independent evaluation offices of multilateral development banks,<sup>25</sup> as described in paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations (document GN-2489-5), indicating, inter alia, that there is no need to include an analysis of efficiency in the use of financial resources,<sup>26</sup> it was decided not to perform an

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<sup>22</sup> See: Cecchini, Simone, and Aldo Madariaga, 2011, Conditional cash transfer programs: Recent experience in Latin America and the Caribbean, Economic Commission for Latin America and the Caribbean (ECLAC).

<sup>23</sup> See: Sauma, P., and J. Trejos, 2014, Impacto de la política fiscal en la distribución del ingreso y la pobreza en Costa Rica. Ciencias Económicas, 32 No. 2.

<sup>24</sup> RE-397-1. "Currently, economic analysis section is computed as the maximum between the CBA (cost-benefit analysis) and the CEA (cost-effectiveness analysis). Yet neither a CBA nor a CEA is applicable to PBLs."

<sup>25</sup> Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

<sup>26</sup> The Evaluation Cooperation Group calls for policy-based loans to be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion because policy-based loans are sized according to the country's financing gap, independent of project benefits.

economic analysis for loans of this type, as reported to the Bank's Board of Executive Directors. Thus, this operation does not include an economic analysis and, consequently, the economic analysis is not considered for purposes of measuring the evaluability score in this program's Development Effectiveness Matrix (DEM).

## **II. FINANCING STRUCTURE AND MAIN RISKS**

### **A. Financing instruments**

- 2.1 This operation was designed as a programmatic policy-based loan (PBP) and is the first of two individual operations. Its structure is consistent with the guidelines established in document CS-3633-1, "Policy-based Loans: Guidelines for Preparation and Implementation." In this first operation, the government will adopt the necessary legal measures and institutional changes to achieve the ultimate development objectives. The second operation is contingent upon progress toward the triggers, which will give continuity to the first operation and are linked to implementation of the policy measures. The programmatic modality is appropriate in this context, as it offers flexibility and can provide feedback to the reform from the lessons learned during execution, so as to consolidate the gains made by the country based on the investments made in support of the redistributive social protection policy in Honduras. This modality makes it possible to accompany and support, in the medium term, the strategy for redistributive social protection reform in the areas of financial sustainability, the efficiency of social spending, consolidation of health and education offerings, and governance for institutional coordination. That reform has technical and coordination elements that justify the choice of the programmatic instrument to support its implementation.
- 2.2 **Dimensioning of the operation.** This first operation in the programmatic series involves financing of up to US\$49.78 million, with US\$29,868,000 drawn from the Bank's Regular Ordinary Capital (OC) resources, and US\$19,912,000 from the Concessional OC. Pursuant to paragraph 3.27(b) of the document CS-3633-2, "Policy-Based Loans: Guidelines for Preparation and Implementation," the operation was dimensioned on the basis of the country's fiscal resource needs. According to the Central Bank of Honduras (BCH), the 2018 external financing requirements of the central administration are projected at 2.7% of GDP, or US\$648 million. This operation would cover 7.7% of the 2018 external financing requirements. According to the Bank's analysis, the macroeconomic outlook for Honduras is positive, and the debt sustainability analysis indicates that total public debt, as a percentage of GDP, will remain stable. The amount of financing and the date of the second operation will be based on the country's financing requirements and the programming exercise with the Bank.

### **B. Environmental and social safeguard risks**

- 2.3 Pursuant to Directive B.13 of the Environment and Safeguards Compliance Policy (document GN-2208-20 and Operational Policy OP-703), the loan does not require classification. The social impact of the program's policy measures is expected to be positive.

**C. Fiduciary risks**

- 2.4 No fiduciary risks are identified for the operation. The proceeds of this operation will go directly into the treasury account, to cover the financing requirements of the national government, for which the executing agency has the necessary financial management instruments and control systems.

**D. Other project risks**

- 2.5 The project risk identification workshop identified a number of potential risks to achievement of the project objectives under both operations in the programmatic series. These include the following four public management risks: (i) high risk that, in the event of a change in an official related to fulfillment of the policy conditions, the project logic would have to be revisited, and the time frames for fulfillment of the policy conditions for the operation would have to be delayed; (ii) medium risk that, due to interagency coordination problems, fulfillment of the conditions requiring such coordination could be delayed; (iii) high risk that, due to delays in the process of publication in the official gazette, fulfillment of the loan conditions requiring such publication could be delayed; and (iv) high risk that, due to delays in the internal approval processes of each government ministry, the documents necessary for fulfillment of the conditions of the operation may not be signed. As a mitigation measure for the first two public management risks, it has been agreed with the government to establish a forum, chaired by the Ministry of Finance (SEFIN), that will meet weekly to monitor the operation. As a mitigation measure for the third risk, it was agreed that the entities involved will keep the Ministry of General Government Coordination (SCGG) informed of any delay in publication of decisions in the official gazette. As mitigation measures for the fourth risk, it was agreed that the monitoring forum led by SEFIN will review all processes and signatures at the entities involved, with SCGG support.
- 2.6 In addition, the following two technical risks were identified for both operations in the programmatic series: (i) high risk that, due to a lack of technical staff in information systems (SACE, CENISS, SINOVA, SIG), there could be delays in the flow of information necessary for fulfillment of the corresponding information management condition. To mitigate this risk, the institutions agreed to conduct a survey of the human resource requirements for mitigating that risk, and to take the necessary steps with their respective institutions; and (ii) medium risk that, due to the lack of knowledge and experience with deconcentration processes, implementation of the process of decentralizing the PBVM could be delayed. To mitigate that risk, it was agreed to hold a workshop to familiarize headquarters and field staff with decentralization processes, to be conducted by the Office of the Deputy Secretary for Social Inclusion (SSIS).

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

**A. Summary of implementation arrangements**

- 3.1 The borrower is the Republic of Honduras. The executing agency will be the Ministry of Finance (SEFIN), acting through the Directorate-General of Public Credit. The Adjunct Coordination Office of the Social Portfolios Council of the Ministry of General Government Coordination (SCGG) will be responsible for coordinating the design and implementation of the reforms, promoting actions to

achieve the objectives of the first operation of the programmatic policy-based loan (PBP). SCGG, together with SEFIN, will deliver reports and evidence of fulfillment of the policy conditions for the first operation. For this, they will coordinate with SEDIS, SESAL, SEDUC, CENISS and IIAIP, which will be responsible for the fulfillment of the policy conditions.

- 3.2 **Special contractual conditions precedent to the sole disbursement of the loan proceeds. The sole disbursement of the loan proceeds will be contingent on fulfillment of the policy reform conditions, as established in the Policy Matrix (Annex II) and the Policy Letter, as well as the contractual conditions established in the loan contract.**

**B. Summary of arrangements for monitoring results**

- 3.3 The program will be monitored through verification of the policy measures agreed upon as disbursement conditions and described in the [Results Matrix](#) and the [Means of Verification Matrix](#). The outcomes of the reforms will also be monitored through the indicators given in the Results Matrix. Achievement of the output indicators will be verified with the detailed information in the Means of Verification Matrix, which contains all the actions to be implemented in the program, the entities responsible for completing those actions, and the specific information enabling the Bank to verify their completion. The outcomes of the policy changes pursued will be monitored through information on achievement of those indicators generated by institutional reports or administrative systems of SCGG, SEFIN, SEDIS, SEDUC, SESAL, CENISS, and IIAIP.
- 3.4 The impact indicators for monetary poverty must be calculated from the Ongoing Multipurpose Household Survey (EPHPM) conducted by the National Statistics Institute (INE) and processed by the SGCC. Project outcomes will be evaluated as part of the project completion report (PCR), which will be prepared jointly for the two operations 12 months after the end of the second operation, and subsequently through the EPHPM reports. There are no plans for any additional ex post evaluation of the operation, beyond the PCR.

**IV. POLICY LETTER**

- 4.1 The [Policy Letter](#) reiterates the commitment of the Government of Honduras to the policy reform measures that Honduras has proposed for achieving the program's objectives.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Gender Equality and Diversity	
Country Development Results Indicators	-Students benefited by education projects (#)* -Beneficiaries receiving health services (#)* -Beneficiaries of targeted anti-poverty programs (#)* -Children receiving early childhood development services targeted to the poor (#)* -Public registries strengthened (#)* -Accountability institutions strengthened (#)* -Crime information systems strengthened (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2796-1	To protect minimum levels of consumption among the population in poverty. To promote human capital accumulation of minors in households in extreme poverty. To improve the health indicators of children under 5. <input type="checkbox"/>
Country Program Results Matrix	GN-2915	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		10.0
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		5.6
5.1 Monitoring Mechanisms		1.1
5.2 Evaluation Plan		4.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.  Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System, Statistics National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The Bank has collaborated closely with the Government in the design of the targeting tools now being considered for social programs in general. <input type="checkbox"/>

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The loan proposal describes the situation of the social protection policy in Honduras. Based on evidence, it argues that policy measures are required to guarantee the financial sustainability of the sector, and gradually replace external funds with national funds. To this end, the document proposes an adequate policy matrix and clear means of verification. It also includes a results matrix with SMART impact, outcome and output indicators with corresponding sources of information. The operation will be evaluated by simply tracking the indicators of the results matrix - an evaluation with attribution will not be carried out. Progress in the effectiveness of the targeting mechanisms will be assessed measuring errors of inclusion and exclusion.

## POLICY MATRIX

Component and objective	Programmatic loan I	Programmatic loan II
	Policy conditions	Triggers
<b>Component 1. Macroeconomic framework</b>		
1.1. Stability of the general macroeconomic policy framework.	1.1.1. Stable macroeconomic context conducive to the program objectives and the guidelines established in the Sector Policy Letter, as well as the Policy Matrix.	1.1.1. Stable macroeconomic context conducive to the program objectives and the guidelines established in the Sector Policy Letter, as well as the Policy Matrix.
<b>Component 2. Financial sustainability and efficiency in redistributive social protection</b>		
2.1. Strengthen the financial sustainability of the Programa “Bono Vida Mejor” [“Better Life Voucher” Program] (PBVM).	2.1.1. Allocation by the President of the Republic and the Ministry of General Government Coordination of at least 10% of the Solidarity and Social Protection Fund for Poverty Reduction (FRP) for financing of the PBVM.	2.1.1. Allocation of PBVM financing to keep the same or a greater number of beneficiaries than the immediately preceding fiscal year.
	2.1.2. FRP Technical Committee approval of the operations manual with rules for its operation.	2.1.2. Approval of an annual decision of the Technical Committee allocating at least 10% of FRP resources for financing of the PBVM.
2.2. Unify the urban and rural domains of the PBVM to facilitate its operational management.	2.2.1. Approval of general guidelines for unifying the urban and rural domains of the PBVM, including: - the unified process for issuing payrolls, - the unified process for solicitation and delivery of CCTs, and - the process for tracking and registration of coresponsibilities in the education component.	2.2.1. Design and approval of a new PBVM operations manual consistent with the approved instructions for unifying the urban and rural domains of the PBVM.
2.3. Strengthen the operational deconcentration of the PBVM, to optimize	2.3.1. Approval by decision of the PBVM Technical Committee of the guidelines for Comprehensive Care of Participants to	2.3.1. Implementation of the operational deconcentration strategy in at least half of the SSIS offices serving participants at the

Component and objective	Programmatic loan I	Programmatic loan II
	Policy conditions	Triggers
use of its resources.	operationalize the deconcentration and decentralization of the PBVM, including: <ul style="list-style-type: none"> <li>- the roles and responsibility of the parties,</li> <li>- monitoring and tracking indicators, and</li> <li>- the operational schedule.</li> </ul>	departmental level.
2.4. Unify and institutionally strengthen the mechanisms for measuring poverty and inequality in Honduras.	2.4.1 Approval by the Council of Ministers of the National Policy for Measuring Poverty and Inequality in Honduras, including: <ul style="list-style-type: none"> <li>- institutional unification for stewardship and publication of monetary and nonmonetary poverty indicators.</li> <li>- the establishment of a technical committee to review the methodology for measuring poverty and inequality, and</li> <li>- establishment of a technical committee to make recommendations on caloric and micronutrient requirements for the Honduran population.</li> </ul>	2.4.1. Approval implementation of an updated methodology for measuring poverty and inequality, and formal publication of the findings by a designated lead agency for all official poverty indicators.
2.5. Optimize progressivity in the distribution of public social spending by updating the identification of potential participants and geographic criteria in social programs with selection criteria based on monetary poverty and/or geographic prioritization.	2.5.1. Update by SCGG of the score generation algorithm for identifying poor households as potential participants in social programs, and the income poverty map based on the INE's 2013 Population and Housing Census.	2.5.1. Admission of new participants in social programs, according to the algorithm for identifying households and the updated criteria for geographic prioritization.

Component and objective	Programmatic loan I	Programmatic loan II
	Policy conditions	Triggers
<b>Component 3. Consolidating the availability of basic services in redistributive social protection</b>		
3.1. Ensure the sustainability of service offerings for the third cycle of basic education ("middle school") by incorporating outsourced schools into the Ministry of Education (SEDUC).	3.1.1. Approval by SEDUC of the Institutional Strategic Plan 2019-2022, including criteria for gradual incorporation of schools run by the Honduran Institute of Radio Education (IHER) into the SEDUC budget.	3.1.1. Incorporation of resources for hiring teachers at schools no longer be served by IHER into the SEDUC budget, according to the approved Institutional Strategic Plan 2019-2022.
3.2. Promote human capital accumulation by making educational offerings more responsive to vulnerable population groups.	3.2.1. Submission of the proposed Inclusive Education Policy to the National Education Council, including: <ul style="list-style-type: none"> <li>- the formalization of policies for the school enrollment of over-age children and children with disabilities, and</li> <li>- promotion of the enrollment of students completing sixth grade in seventh grade, through the networking structure.</li> </ul>	3.2.1. Approval of the Inclusive Education Policy, containing measures for enrolling over-age children and children with disabilities, and automatic enrollment of students completing sixth grade in seventh grade.
	3.2.2. SEDUC definition and approval of guidelines for implementation of the Education Act as it relates to the admission of students with no prebasic education.	3.2.2. Admission of students to basic education centers without the requirement of completing prebasic education.
3.3. Guarantee the sustainability of the Decentralized Management Model (MGD) in health.	3.3.1. Approval by SESAL of a policy guideline for institutionalizing the implementation of the Decentralized Management Model (MGD) in health, including the definition of: <ul style="list-style-type: none"> <li>- parameters under which the model will operate.</li> <li>- the figure of decentralized service managers,</li> <li>- the degree of autonomy of decentralized managers,</li> </ul>	3.3.1. The signing of new agreements for hiring managers in accordance with the approved guideline for improving implementation of the MGD.



Component and objective	Programmatic loan I	Programmatic loan II
	Policy conditions	Triggers
	<ul style="list-style-type: none"> <li>- mechanisms for certifying decentralized managers,</li> <li>- mechanisms for payment and dealings between SESAL and the decentralized manager,</li> <li>- mechanisms for monitoring, supervision, and evaluation,</li> <li>- responsibilities of the SESAL units and other external actors, and</li> <li>- applicable standards.</li> </ul>	
<b>Component 4. Sustainability in the institutional coordination of the social sector</b>		
4.1. Strengthen social sector management through information exchange and access for monitoring and tracking compliance with targets.	<p>4.1.1. Approval by the Institute for Access to Public Information (IAIP) of terms and conditions for sharing information among national government institutions in the social sector, including:</p> <ul style="list-style-type: none"> <li>- identification of the type of information provided by the national government information systems in the social sector—RUP, SIG, SACE, SINOVA, RENPI, and others—that can be shared among institutions in the performance of their functions,</li> <li>- identification of the relevant instruments, terms and conditions, time frames, etc., and</li> <li>- identification of the applicable rights and obligations for sharing information among social sector institutions in the performance of their functions.</li> </ul>	4.1.1. The signing of at least three agreements among national government institutions in the social sector to share information according to the terms and conditions issued by the IAIP.

Component and objective	Programmatic loan I	Programmatic loan II
	Policy conditions	Triggers
4.2. Improve SESAL's information management for monitoring and tracking sector objectives.	4.2.1. The signing of an agreement between SESAL and the National Registry of Persons (RNP) for validating personal information on the users of health services treated at primary health care centers, with the priority on early childhood.	4.2.1. Approval of the PBVM Technical Committee decision verifying health coresponsibilities, using information from the Individual Vaccination System (SINOVA) as validated by the sharing of records between the RNP and the Information Management Unit (UGI) of SESAL.
4.3. Modernize SESAL's information management with emphasis on early childhood.	4.3.1. Approval by SESAL of a plan for the digital capture of information from the SINOVA using automatic character recognition technology, according to the recommendations of the digital information survey report based on a field trial.	4.3.1. Installation and operation of a new artificial intelligence technology for the digital capture of SINOVA at all of SESAL's local health care facilities (municipios, departments, and leagues of municipios).
4.4. Institutionalize the Education Centers Administration System (SACE) for monitoring and tracking targets in the education sector.	4.4.1. Designation of SACE as the official source of statistics for monitoring and tracking targets in the education sector, including: (i) identification of the units responsible for monitoring and oversight; and (ii) allocation of resources for administrative arrangements concerning the SACE.	4.4.1. Authorities of all the country's departments (18) and at least 35 central units will consult SACE information via approved online user access.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Honduras. Loan \_\_\_\_/BL-HO to the Republic of Honduras  
Program to Support Social Protection Reforms

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to support social protection reforms. Such financing will be chargeable to the Bank's Ordinary Capital (OC) resources in the following manner: (i) up to the amount of US\$19,912,000, subject to concessional financial terms and conditions ("Concessional OC"); and (ii) up to the amount of US\$29,868,000, subject to financial terms and conditions applicable to loan operations financed from the Bank's regular program of OC resources ("Regular OC"), as indicated in the Project Summary of the Loan Proposal, and subject to the Special Contractual Conditions of said Project Summary.

(Adopted on \_\_ \_\_\_\_\_ 2018)

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