

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **MEXICO**

### **SUPPORT FOR THE OPORTUNIDADES HUMAN DEVELOPMENT PROGRAM**

**(ME-L1091)**

#### **LOAN PROPOSAL**

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## CONTENTS

### PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING .....	1
A.	Background, problem addressed, and rationale.....	1
B.	Challenges facing the PDHO.....	4
C.	The redesign under way of the PDHO.....	8
D.	Objectives, components, and cost.....	11
E.	Key results framework indicators .....	12
II.	FINANCING STRUCTURE AND RISKS .....	12
A.	Financing instruments and retroactive financing.....	12
B.	Environmental and social safeguard risks .....	13
C.	Fiduciary considerations .....	13
D.	Other risks .....	13
III.	IMPLEMENTATION AND ACTION PLAN .....	14
A.	Borrower, executing agency, and general implementation arrangements .....	14
B.	Summary of results monitoring arrangements.....	15

ANNEXES	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

ELECTRONIC LINKS	
<b>OBLIGATORY</b>	
1.	Annual Work Plan (Work plan for the first disbursement and the first 18 months of implementation) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37813215">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37813215</a>
2.	Monitoring and Evaluation Plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37819798">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37819798</a>
3.	Procurement Plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37814864">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37814864</a>
<b>OPTIONAL</b>	
1.	Economic analysis <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37816055">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37816055</a>
2.	Project Execution Plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37824800">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37824800</a>
3.	Safeguard Screening Form for Classification of Projects <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37816676">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37816676</a>

## ABBREVIATIONS

CCLIP	Conditional credit line for investment projects
CNCH	Cruzada Nacional Contra el Hambre [National Crusade against Hunger]
CNO	Coordinación Nacional de Oportunidades [National Coordination Board for the Oportunidades Human Development Program]
CONEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social [National Council for the Evaluation of Social Development Policy]
ECD	Early childhood development
ENIGH	Encuesta Nacional de Ingresos y Gastos de los Hogares [National Survey of Household Income and Expenditure]
ENOE	Encuesta Nacional de Ocupación y Empleo [National Jobs and Employment Survey]
EsIAN	Estrategia Integral de Atención de la Nutrición [Comprehensive Nutrition Strategy]
LIBOR	London Interbank Offered Rate
NAFIN	Nacional Financiera
PAL	Programa de Apoyo Alimentario [Food support program]
PDHO	Programa de Desarrollo Humano Oportunidades [Oportunidades Human Development Program]
SEDESOL	Department of Social Development
SEP	Department of Public Education
SSA	Health Department

## PROJECT SUMMARY

### MEXICO SUPPORT FOR THE OPORTUNIDADES HUMAN DEVELOPMENT PROGRAM (ME-L1091)

Financial Terms and Conditions				
Borrower: United Mexican States		Flexible Financing Facility (FFF)*		
		Amortization period:		11 years
Executing agency: (a) the Department of Social Development (SEDESOL), through the National Coordination Board of the Oportunidades Human Development Program (CNO), and (b) the Department of Public Education (SEP), through the administrative unit it designates. The Health Department will also be participating.		Original WAL:		11 years
		Disbursement period:		36 months
		Grace period:		11 years
Source	Amount (US\$)	Interest rate:		LIBOR-based
IDB (Ordinary Capital)	600,000,000	Inspection and supervision fee:		**
Other/Cofinancing	0	Credit fee:		**
Local	0	Currency:		U.S. dollars from the
Total	600,000,000			Ordinary Capital
Project at a Glance				
Project objective:				
The general objective of this operation is to help break the intergenerational cycle of poverty, by promoting capacity-building associated with the food, health, and education of families benefitting from the Oportunidades Human Development Program (PDHO). The specific objectives are to: (i) contribute to financing conditional cash transfers under the PDHO; (ii) provide technical support on the implementation and evaluation of measures to improve the PDHO; (iii) promote effective coordination between the National Coordination Board for the Oportunidades Human Development Program (CNO) and the sectors delivering education, health, and food services; and (iv) collaborate on producing evidence to guide monitoring and evaluation of the PDHO (see paragraph 1.25).				
Special condition precedent to the first disbursement of the loan: the signing and entry into force of the Mandate Contract between the borrower, the executing agencies, and Nacional Financiera (NAFIN), which will serve as the borrower's financial agent for administration of the loan proceeds (see paragraph 3.3).				
Special contractual conditions: None.				
Exceptions to Bank policies: None.				
Project consistent with country strategy:		Yes [ X ]	No [   ]	
Project qualifies as:		SEQ [ X ]	PTI [ X ]	Sector [   ]      Geographic [   ]      Headcount [ X ]

(\*) Under 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, subject in all cases to the final amortization date and the original weighted average life. The Bank will take market conditions as well as operational and risk management considerations into account when reviewing such requests.

(\*\*) 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 the applicable policies.

## I. DESCRIPTION AND RESULTS MONITORING

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

- 1.1 **The economic environment and poverty in Mexico.** The Mexican economy was particularly hard hit by the crisis in the latter part of the first decade of the century. The effects of the economic downturn manifested themselves in the loss of purchasing power, rising unemployment, and increasing poverty. Although the economy started growing again in 2011, in 2012 unemployment had not returned to pre-crisis levels. This was compounded by the fact that over the last two decades the Mexican economy has not grown fast enough to create the conditions for prosperity for the majority of the country's population. The labor market combines low productivity and high levels of informal work.<sup>1</sup>
- 1.2 In 2010, 46.2% of the population was living in poverty, i.e. below the welfare line. This percentage was 64.9% in rural areas and 40.5% in urban areas. Although the country has made considerable progress in terms of the coverage of services such as health and education, turning this into effective access to high quality services, particularly for the poor, remains a challenge. Similarly, Mexico faces the challenge of creating the conditions for a more productive economy that generates sustained growth in per capita income.<sup>2</sup>
- 1.3 **The Oportunidades Human Development Program (PDHO).** The PDHO is an essential part of the fight against poverty and has two main roles: (i) redistribution, to guarantee a minimum income to poor households; and (ii) promoting investments in human capital (food, health,<sup>3</sup> and education). The PDHO currently reaches 24.36 million beneficiaries.<sup>4</sup> In all, 95.8% of recipients are women and 68% live in rural areas. The PDHO's budget in 2012 came to US\$4.641 billion.<sup>5</sup> This loan operation represents 13% of the Government of Mexico's total investment in the PDHO in one year. The technical support the Bank has provided since 2002 has contributed significant value-added to the design and implementation of the PDHO.
- 1.4 The PDHO provides cash transfers directly to poor households. Beneficiary selection is based on a targeted approach that includes running a household living conditions survey and is updated every five years. Transfer payments are contingent on members of the household taking actions to promote human capital investments. Educational support is granted when coresponsibilities for school enrollment and

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<sup>1</sup> Consejo Nacional de Evaluación de la Política de Desarrollo Social [National Council for the Evaluation of Social Development Policy] (CONEVAL), 2012. Avances y Retos de la Política de Desarrollo Social en México [Progress and challenges of social development policy in Mexico], consulted in May 2013, available at: <http://www.coneval.gob.mx/Paginas/principal.aspx>.

<sup>2</sup> CONEVAL, 2012. Ibid.

<sup>3</sup> In accordance of the 2013 operating rules, nutrition self-care is part of the actions that promote access to the Guaranteed Basic Health Package.

<sup>4</sup> [www.Oportunidades.gob.mx](http://www.Oportunidades.gob.mx) Indicadores de Resultado 2012 [2012 outcome indicators], Table 1101.3.

<sup>5</sup> Equivalent to 0.4% of GDP. The investment in current Mexican pesos was \$63,873.3 million in 2012, according to the Expenditure Budget of the Federation as of 12 December 2011.

attendance are met. The amount increases with each grade passed and a larger sum is provided for girls than boys. Health and food support require participants to attend preventive check-ups and workshops teaching them how to look after their own health. Over the last six years the PDHO has extended the types of support it grants. The supports that were created (for children, young people, and older adults) were linked only to health conditions being met. Moreover, the real value of the transfers rose in response to the crisis in the first decade of the century. In real terms, between 1998 and 2011 the average amount rose from 48% to 78% of the minimum wage.<sup>6</sup> In 2012 the transfer received by an average beneficiary household was approximately US\$130 per month.<sup>7</sup> It is estimated that 37.9% of the population below the minimum welfare line (and 20.7% of that below the welfare line) is covered by the PDHO.<sup>8</sup>

- 1.5 The PDHO has helped build capacities and reduce poverty and inequality in Mexico. If the PDHO's transfers were to be subtracted from household incomes, the percentage of the population below the minimum welfare line<sup>9</sup> would increase by 3.4 percentage points (1.5 among urban populations and almost 10 in rural ones). The PDHO also helps reduce inequalities. At the country level, without the PDHO's transfers the Gini coefficient would rise from 0.48 to 0.50 (from 0.48 to 0.55 in rural areas).<sup>10</sup>
- 1.6 **Impacts on education.** Impact assessments in rural areas found that, two years into implementation, the PDHO increased schooling by an average of 0.66 years among third to ninth grade children, with an impact of 8.7 percentage points on the transition to junior high school.<sup>11</sup> The PDHO has reduced absenteeism and drop-out rates, and improved school progression, particularly for women and indigenous persons. In urban areas, it achieved an increase in enrollments of between one and five percentage points among children and young people after the first two years of

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<sup>6</sup> If this calculation is repeated using CONEVAL's data on current per capita employment income (with information from ENOE reported by the National Statistics and Geography Institute (INEGI) and BANXICO), the transfer for an average household remained constant, at 23% of current per capita employment income between early 2005 and mid-2012. It is worth noting that the value of the minimum wage refers to the individual wage established by the official figures, whereas the support payments are estimated at the household level.

<sup>7</sup> Inter-American Development Bank (IDB). 2012. "La contribución del Programa de Desarrollo Humano Oportunidades a los ingresos de los hogares de México: un análisis de la Encuesta Nacional de Ingresos y Gastos de 2010" [The contribution of the Oportunidades Human Development Program to household incomes in Mexico: An analysis of the National Survey of Income and Expenditure 2010]. Working paper.

<sup>8</sup> IDB. 2012. Ibid. These data have been calculated using the 2010 National Survey of Household Income and Expenditure (ENIGH), which is the most up-to-date source available. It is worth highlighting that the survey precedes the expansion of the roll of beneficiaries in 2010.

<sup>9</sup> According to the definition in the glossary of terms in CONEVAL's Methodology for Multidimensional Poverty Measurement, this line identifies the population that, although not devoting all its income to buying food, is unable to buy the essentials necessary for adequate nutrition.

<sup>10</sup> IDB. 2012. Ibid.

<sup>11</sup> Schulz, T. Paul. 2004. "School Subsidies for the Poor: Evaluating the Mexican PROGRESA Poverty Program." *Journal of Development Economics* 74(1): 199-250.

expansion (with no difference between boys and girls)<sup>12</sup> and a decline in drop-out rates. Nevertheless, the increase in the number of grades passed, after seven years of implementation in urban areas, was just 0.5 grades among children ages 6-11, with no effect on other age groups.<sup>13</sup>

- 1.7 **Impacts on health.** The impact assessments on the PDHO in rural areas identified that the population has a greater tendency to use maternal/reproductive health services and that there is an increase in referrals to urban hospitals.<sup>14</sup> A further impact was up to an extra centimeter in height in children ages 12 to 36 months.<sup>15</sup> In urban areas, girls became sexually active later, the number of days' illness among young people was reduced, and the number of high blood pressure and diabetes tests increased.<sup>16</sup>
- 1.8 **Impacts on nutrition.** The experimental evaluation of the PDHO reported in 1999 that it had an impact of 6.4% on its beneficiaries' calorie consumption. This was manifested through increased intake of better quality foods, vegetables, and animal protein.<sup>17</sup> It has also been shown that a significant share of the cash transfer (around 75%) is spent on food consumption.<sup>18</sup> However, some of the nutritional outcomes identified in the first few years of the program in rural areas were not sustained over the medium term, when children who had been PDHO beneficiaries since birth had reached between 7 and 11 years of age.<sup>19</sup> It remains a challenge to maintain the significant gains in terms of reducing chronic malnutrition and anemia among PDHO beneficiary children (23.5% and 42%, respectively, among PDHO beneficiaries under 24 months).<sup>20</sup>
- 1.9 The launch of the PDHO in 1997 (originally with the name "Progresa") represented the recognition by national policy that poverty not only takes the form of

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<sup>12</sup> Behrman, Jere, J. Gallardo-García, S. Parker, P. Todd, V. Vélez-Grajales, 2011. "Are Conditional Cash Transfers Effective in Urban Areas? Evidence from Mexico," *Penn Economics Working Paper* # 11-024, available at: <http://economics.sas.upenn.edu/pier/working-paper/2011/are-conditional-cash-transfers-effective-urban-areas-evidence-mexico>.

<sup>13</sup> Department of Social Development (SEDESOL), 2011. "Evaluación externa del Programa Oportunidades 2010 en Zonas Urbanas" [External evaluation of the 2010 Oportunidades program in urban areas].

<sup>14</sup> SEDESOL, 2008. "Evaluación externa del Programa Oportunidades" [External evaluation of the Oportunidades program].

<sup>15</sup> Gertler, Paul. 2004. "Do Conditional Cash Transfers Improve Child Health? Evidence from PROGRESA's Control Randomized Experiment." *American Economic Review*. 94(2): 336-41.

<sup>16</sup> SEDESOL, 2011. Ibid.

<sup>17</sup> Hoddinott, John and Skoufias, Emmanuel. 2004. "The Impact of PROGRESA on Food Consumption". *Economic Development and Cultural Change*. Vol. 53, No. 1. October 2004, pp. 37-61.

<sup>18</sup> Angelucci, Manuela and Giacomo De Giorgi. 2009. "Indirect Effects of an Aid Program: How Do Cash Transfers Affect Ineligibles' Consumption?" *American Economic Review* 99(1): 486-508. Online appendix (PDF).

<sup>19</sup> SEDESOL, 2008. Ibid, and SEDESOL, 2011. Ibid.

<sup>20</sup> Data from the Encuesta Nacional de Salud y Nutrición [National health and nutrition survey] (ENSANUT), 2012. According to this survey, among nonbeneficiaries of the PDHO the level of malnutrition was 13.5% and that of anemia, 42%.



unsatisfactory living standards, but also that of low investments in education, food, and health (human capital), particularly among the youngest age groups. In turn, this low investment in the human capital of children and young people reduces their chances of overcoming poverty by themselves, thus creating a vicious cycle of poverty that is passed on from one generation to the next. The fact that the PDHO has been maintained over four presidential terms as one of the main tools to combat poverty, with the same intervention rationale, is an implicit acknowledgment by the Mexican government that breaking the cycle of intergenerational poverty requires sustained interventions over time.<sup>21</sup> It is also an indication of the program's effectiveness, which has been borne out by its multiple evaluations. At the same time, these evaluations have come to be used for more than just public spending accountability, becoming the backbone of an ongoing process of improvement allowing adjustments to the design and operation of the PDHO to be identified. The National Crusade against Hunger (CNCH), a major initiative under the Pacto por México [Pact for Mexico], constitutes the new government's strategy in the fight against extreme poverty. The CNCH proposes strengthening actions coordinated between the federal, state, and municipal levels of government to target interventions (in health, nutrition, employment, agriculture, education, social development, and other areas) on municipios with the highest percentages of extreme poverty and food insecurity. The PDHO has broad coverage and operational capacity in the municipios to which the CNCH has given priority. It is therefore envisaged that the PDHO will play a coordinating role in implementation of the CNCH, using its high level political mandate to create opportunities for operational links with other programs.

## **B. Challenges facing the PDHO**

- 1.10 **Function.** Scholarships have diminished in relative importance as new forms of support have been created and the total value of transfers has increased in real terms, without there being a change in the design of the PDHO's conditions. This has led to the PDHO's redistributive function taking the upper hand over its role in promoting human capital. The role of scholarships is fundamental, however, as they make better job opportunities available to young people, thereby making it possible to break the intergenerational cycle of poverty. In line with the 2013-2018 National Development Plan, the new government is determined to restore this emphasis on the PDHO's role in promoting human capital.
- 1.11 **Total amount of the support payments.** The value of PDHO transfers in real terms has grown rapidly in comparison with other similar programs in the region.<sup>22</sup> The expansion of the roll of beneficiaries in 2010 mainly benefited urban populations<sup>23</sup> and brought the number of recipients to more than the size of the

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<sup>21</sup> CONEVAL, 2012. Ibid.

<sup>22</sup> Levy, S. Schady, N. 2013. "Latin America's Social Policy Challenge: Education, Social Insurance, Redistribution," *Journal of Economic Perspectives*, Volume 27:2, pages 193–218.

<sup>23</sup> The expansion was concentrated in the cities in order to mitigate the effects of the economic crisis at the tail end of the first decade of the century, which had a bigger impact in the cities than in the country.

population below the extreme poverty line (food poverty) and close to the size of the population below the poverty line (poverty of capacities).<sup>24</sup> Expanding the rolls, creating new forms of support, and increasing the size of transfers, has increased the PDHO's budget. It is today one of the biggest programs of its kind measured as a share of gross domestic product (GDP). In the medium term, a valid concern is that the high levels of the transfers create disincentives to work.<sup>25</sup>

- 1.12 **Rationalization of the Food Support Program (PAL) and PDHO.** There needs to be a conceptual and operational reorganization of the PDHO's relationship with the PAL. The PAL was conceived of as an intervention addressing households the PDHO was unable to serve despite their meeting its eligibility requirements, because of the lack of health services with which to fulfill the coresponsibility requirements. The lack of effective access to health services justified the inclusion in PAL of households in rural and remote localities where there was no supply of these services, as well as in urban and densely populated areas where the supply of services was insufficient. In 2010 the PDHO was tasked with operating the PAL. In June 2013 the PAL covered approximately 695,000 families. The National Coordination Board for the Oportunidades Human Development Program (CNO) faces a dual challenge: (i) implementing the PAL as a strategy for covering the 75,000 localities that neither the PAL nor the PDHO reach, due to the lack of institutional health provision; and (ii) transferring PAL beneficiaries living in localities in which both programs coexist to the PDHO so as to avoid horizontal inequities, whereby different amounts are transferred to similar populations subject to different requirements.
- 1.13 **Challenges in education.** The PDHO has improved the utilization of educational services, although there is still room for improving enrollments, particularly at post-primary levels. Over 2009-2010, the PDHO ran a pilot-scale evaluation of a modification to its scholarship scheme. The change consisted of eliminating scholarships for primary schooling and increasing the amount of those for high school by 25%. This scholarship scheme achieved significant impacts (5-7 percentage points) on school enrollments among girls ages 13-18 in one of the two cities in which the pilot was implemented. The absence of a scholarship for primary schooling did not have any adverse effects on school enrollments or consumption levels.<sup>26</sup> The evidence suggests that the differences in impact may be related to the specificities of local labor markets, and in particular, to differences in labor-force participation and wages among young men and women in the cities in

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<sup>24</sup> IDB. 2012. Ibid.

<sup>25</sup> The majority of evaluations on Oportunidades' effects on labor indicators use rural data and do not find significant effects on the labor participation or wages of adults. Nonetheless, recent studies suggest that the expansion of Oportunidades could be positively related with the transition to self-employment.

<sup>26</sup> Attanasio, O. and Silvia Espinosa, Informe sobre Impactos de la Estimación de Modelos Estructurales [Report on the impacts of structural model estimation]. Unpublished paper by the Instituto Nacional de Salud Pública y Centro de Investigación en Evaluación y Encuestas, 2010.

- which the pilot trial was run.<sup>27</sup> The findings of the evaluation suggest that educational support can have a bigger impact on enrollments if scholarships are targeted on junior high and high school.
- 1.14 Together with the changes in the size of the scholarships for junior high and high school, the CNO considered that it might be possible to foster higher attendance rates if the support was to be transferred directly to grant beneficiaries. Models of household behavior consider the parents to be the sole decision-makers. However, young people also decide on the allocation of household resources, and they may have different preferences from their parents.<sup>28</sup> If we add parents' limited ability to control their children's school attendance, it might be conceivable that paying educational support to the parents might result in lower school attendance levels than desired. Given the lack of conclusive evidence on the impact of reform to transfer payment of support from parents to children (in either Mexico or elsewhere), the CNO proposed a pilot trial to evaluate this reform before its full-scale implementation.
  - 1.15 Together with encouraging attendance to improve enrollment rates, the PDHO is confronting the challenge of achieving better coordination with the Department of Public Education (SEP) in order to improve access, quality, and the relevance of PDHO's beneficiaries' educational experience. A mere 3% of PDHO beneficiaries at high school in rural areas attend a general high school, 88% are taught via Telesecundaria (a distance education program), and 5% study at a technical high school.<sup>29</sup> In rural areas, 20% of children and young people ages 6 to 18 in PDHO beneficiary households do not attend school (17% in urban areas). Approximately two thirds of potential scholarship beneficiaries who are not studying are over 15. This issue is linked to the quality and relevance of the school experience, as well as problems of access.
  - 1.16 **Challenges in health and nutrition.** The comprehensive nutrition strategy (EsIAN) was the result of a series of studies analyzing how to boost the PDHO's impact on the population's nutritional status. Between 2005 and 2007 a randomized study on the PDHO beneficiary population in urban areas was run to compare the impact of different types of nutritional supplements under controlled conditions. This led to the conclusion that the PDHO's supplement program needed to be

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<sup>27</sup> Araujo, M.C. and Sandoval, C. Una mirada al mercado laboral que enfrentan los jóvenes en Ecatepec y Puebla [A look at the labor market facing young people in Ecatepec and Puebla]. Unpublished paper by the Inter-American Development Bank, 2012.

<sup>28</sup> Dauphin, A., E. Lahga, B. Fortin, & G. Lacroix. 2011. "Are Children Decision-Makers within the Household?" *The Economic Journal* 121 (553):871–903.

Hao, L., V.J. Hotz, & G.Z. Jin. 2008. "Games Parents and Adolescents Play: Risky Behaviour, Parental Reputation and Strategic Transfers." *The Economic Journal* 118 (528):515–555.

Lundberg, S., J. Romich, & K. Tsang. 2009. "Decision-Making by Children." *Review of the Economics of the Household* 70 (1):1–30.

<sup>29</sup> These figures contrast with those for urban areas, where 45% of Oportunidades beneficiaries attend a general high school, 28% are taught via Telesecundaria, and 24% attend a technical high school.

changed. The EsIAN, which was run on a pilot scale and evaluated in 2012, was designed based on the results of this study. Its objectives are to: (i) prevent malnutrition and anemia among children under 2, treat anemia in children ages 2 to 4, and reduce the population's risk of obesity; (ii) use more effective supplement programs; (iii) run a communication and training strategy on nutrition aimed at health workers and the general population; and (iv) modify patterns of behavior among health workers and the general population regarding nutrition care. The EsIAN pilot trial was run at 91 health units. An evaluation showed the population's acceptance of the new supplement program and a reduced prevalence of anemia.<sup>30</sup> It also confirmed that a significant percentage of health care providers had taken on board EsIAN's messages on good nutritional practices. EsIAN also has the potential to play a key role in achieving the CNCH's targets for nutrition. From 2013 the coverage of EsIAN's new food supplements was scaled up nationwide and in previous years the budget was guaranteed for the equipment the strategy needs in health facilities. Training health workers, which is a key component of ensuring the strategy's continuity, will be phased in with the current project and scaled up at the national level starting in the last quarter of 2013.

- 1.17 **Investment in human capital during early childhood.** The first five years of life lay the foundations for subsequent health and cognitive and emotional development. The evidence on the impacts of conditional cash transfer programs on early childhood development (ECD) is varied. A PDHO<sup>31</sup> analysis found them to have no impact on ECD, on average, but households that received larger transfers appeared to obtain better results. Studies in Ecuador and Nicaragua<sup>32</sup> report modest effects not only due to the cash transfers but also because of changes in family behavior. There is currently a wide range of ECD programs and services in Mexico. However, its coverage does not include the PDHO population, which includes 1.6 million children ages 0 to 5 years. Recent studies suggest that PDHO children have a development coefficient 8.5% below the expected average, 15% have a

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<sup>30</sup> The randomized study is called "Eficacia de tres tipos de suplemento nutricional para mejorar el crecimiento, desarrollo y estado de micronutrientes de niños menores de dos años y el estado de micronutrientes y ganancia de peso en mujeres embarazadas" [Effectiveness of three types of nutritional supplement to improve growth, development, and micronutrient status of children under 2, and the micronutrient status and weight gain in pregnant women]. Bureau of Geostatistical Information, Analysis and Evaluation of the PDHO National Coordination Board, Síntesis del proceso de evaluación externa de la EsIAN de la población beneficiaria del PDHO 2008–2010 [Summary of the process of external assessment of the EsIAN of the PDHO beneficiary population 2008–2010], Mexico City, 2012.

<sup>31</sup> Fernald, L.C.H., Gertler, P.J. and Neufeld, L.M. *The Role of Cash in Conditional Cash Transfer Programs: An Analysis of Mexico's Oportunidades*. *The Lancet* 371: 828–837 (2008).

<sup>32</sup> Macours, K., Schady, N. and Vakis, R., 2012. *Cash Transfers, Behavioral Changes, and Cognitive Development in Early Childhood: Evidence from a Randomized Experiment*, *American Economic Journal: Applied Economics*, American Economic Association, vol. 4(2), pages 247–73, April.

Paxson, C. and Schady, N. *Does Money Matter? The Effects of Cash Transfers on Child Development in Rural Ecuador*. *Economic Development and Cultural Change*. Vol. 59, No. 1. October 2010. pp. 187–229.

possible development delay, and 2.5% have delays.<sup>33</sup> These figures suggest that ECD interventions have considerable potential. Thus, the PDHO faces the challenge of linking its beneficiaries with the appropriate programs and services to promote investments in human capital from the first years of life.

- 1.18 **Coordination with supply.** The PDHO needs to achieve closer integration with the other social programs at the various levels of government. Various experiences in the region have demonstrated that the availability of services, their quality, and the way in which they are organized, are critical variables in the outcomes of programs that seek to promote investments in human capital. The coordination between the PDHO and other programs is justified by the fact that: (i) comprehensive designs can help enable poverty to be overcome in an enduring way;<sup>34</sup> (ii) intersector coordination is necessary for the multidimensional improvement of household welfare;<sup>35</sup> (iii) interagency strategies make it possible to attend to priority populations; and (iv) it is essential to complement existing services in order to respond to the hardest vulnerabilities in a holistic way.<sup>36</sup>

### C. The redesign under way of the PDHO

- 1.19 **Adapting the PDHO.** The CNO was given the mandate to propose changes to improve the PDHO's effectiveness and align it with the CNCH, strengthening its goal of promoting investment in human capital. The reform of the PDHO is at its conceptual and technical development stage. This operation gives the Bank the opportunity to support the PDHO on the design, implementation, and evaluation of its proposals for improvement.
- 1.20 The CNO's proposed changes to the design of the PDHO include:
- a. **Revision of the scholarship scheme,** to increase junior high and high school enrollments, by increasing the level of support, setting up payments for completing grades, reducing primary school scholarships, and linking the PDHO with the SEP's scholarship program for higher education.

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<sup>33</sup> Rizzoli-Córdoba A., et al. 2013. *Diferencias en el cociente de desarrollo por tipo de riesgo en niños mexicanos menores de cinco años* [Differences in the development quotient by risk type in Mexican children under 5]. Boletín Médico Hospital Infantil de México, issue 4, July-August.

<sup>34</sup> World Bank. "Can Targeted Assistance Help the Very Poor?" *Evidence to Policy note series. Number 7. Human Development Network. Washington D.C. 2001.*

Raczynski, D. "Sistema Chile Solidario y la Política de Protección Social de Chile. Lecciones del pasado y agenda para el futuro" [Chile Solidario system and the social protection policy in Chile. Lessons from the past and agenda for the future]. Corporación de Estudios para Latinoamérica. Santiago. 2008.

<sup>35</sup> "Evaluación interna Red de Protección Social para la Superación de la Pobreza Extrema – JUNTOS" [Internal evaluation of the social protection network for overcoming extreme poverty – JUNTOS]. Coordinación de Planeación, Seguimiento a la Gestión y Sistemas de Información. Acción Social. Colombia. 2010.

<sup>36</sup> Solís, D. "Estudio de valoración cualitativa al funcionamiento de las redes de servicios desde la perspectiva de usuarias y usuarios adolescentes" [Quantitative evaluation study on service networks from the perspective of adolescent users]. Initiative SM-2015. IDB Social Protection and Health Division. 2012.

- b. **Delivering support directly to young people in high school**, in order to pay incentives to attend school directly to the beneficiary students.
  - c. **Incorporation of non-school-based forms of education in the scholarship scheme.** The possibility of introducing a more flexible system of support that incentivizes students to complete courses in some of these systems has been proposed.
  - d. **Fostering effective access to health and nutrition services by consolidating and expanding the EsIAN.** The evaluation of the EsIAN, which was supported by the Bank, enabled the topics requiring adaptation to enhance the effectiveness of the strategy to be identified, training strengthened, key messages reinforced, supplements and training materials distributed, and the monitoring and evaluation system created. With these adjustments the PDHO has proposed scaling up EsIAN at the national level.
  - e. **Investment in ECD among PDHO beneficiary families.** It has been proposed that PDHO beneficiaries could be linked to a set of ECD interventions coordinated with existing health services. The ECD model targets pregnant women and children ages 0 to 4. This model is underpinned by the active participation of the community. The application of an ECD model aimed at the PDHO-member population, originally at the pilot level to evaluate the most cost-effective way of delivering the intervention, will increase the likelihood that children with lags recover, and make it possible for children with delays to receive medical care.
- 1.21 **Cost-effectiveness of the reforms.** There is evidence<sup>37</sup> to support the cost-effectiveness of the main reforms proposed by the CNO as part of the redesign of the PDHO. The available evidence suggests that a reform of the scholarship program could achieve better results in junior high and high school, without an overall increase in the budget for transfers. The CNO has proposed a gradual reform in which the impacts of different scholarship sizes are carefully evaluated, and to consider the possibility of paying them directly to the young people concerned. As regards nutrition, the analysis backing the development of the EsIAN has documented the cost-effectiveness of this strategy and the importance of the use of different supplements in rural and urban areas. In the case of the child development component, the CNO's proposal is to implement as a pilot and evaluate the impacts of the two operating models implying different costs to be able to compare the results.
- 1.22 **Bank support to the sector.** With this operation, the Bank is starting a new phase of technical and financial support to the PDHO. The Bank began providing support to the PDHO in 2002 by helping it consolidate the program in rural areas and expand it into urban ones. In 2006, through a conditional credit line for investment projects (CCLIP), Strengthening the Oportunidades Human Development Program

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<sup>37</sup> This evidence is reviewed in detail in the Economic Analysis (optional Annex 1).

(ME-X1007), the IDB supported the design and evaluation of the adjustments to the model of operation in urban areas.<sup>38</sup> For this operation a new investment loan was chosen rather than a fourth phase of the CCLIP owing to the fact that the PDHO's redesign currently underway addresses a much wider range of areas than those covered by the CCLIP's topics and the amount requested exceeds the remaining CCLIP resources. It is also worth mentioning that the Bank has complementary operations in the health, education, and labor market sectors.

- 1.23 **Lessons learned.** The three operations under the CCLIP evaluated the feasibility of innovations to the Oportunidades urban model for their subsequent consolidation and scaling-up. The purpose was achieved for some of the proposed innovations (nutrition, operational model, electronic payments). The CCLIP also paid for the successful evaluation of EsIAN's implementation at the pilot scale. The PDHO managed to migrate all its payment processes onto different electronic payment systems. Additionally, an operational model was established that maintained regular contact with the beneficiaries in urban areas. However, challenges for the urban model nevertheless remain in terms of the design of the scholarship program and effective access to health-care services that could improve the PDHO outcomes in these areas. Two lessons emerged: (i) political commitment is crucial to shield the evaluation of innovations from calls for early expansion; and (ii) the operational scheme must emphasize the management of innovations at the local level to avoid non-uniform and asynchronous implementation.
- 1.24 **IDB country strategy (2013-2018) and GCI-9.** This operation is consistent with the objectives of the country strategy in force, which sets the objective of "support[ing] improvements in the design and efficiency of social protection programs targeting the poor population."<sup>39</sup> The operation is also consistent with the corporate priorities of the Ninth General Increase in the Resources of the Bank (GCI-9, document AB-2764) and the Strategy on Social Policy for Equity and Productivity (document GN-2588-4), as it contributes to reducing extreme poverty and income inequality, and encourages students to complete post-primary education.

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<sup>38</sup> The Bank began supporting the PDHO in 2002 through a two-phase multiphase lending program with the aim of helping increase human capital in families living in poverty by improving their access to education, health, and nutrition. The operation had financing of US\$2.2 billion. On fulfillment of the triggers envisaged in the first phase (loan 1388/OC-ME), approved in January 2002, the second phase (loan 1618/OC-ME) was approved in March 2005, and its execution completed in June 2009. The Bank started a new stage of support to the PDHO in 2008, with the approval of the CCLIP (ME-X1007), for US\$2 billion. The main purpose of the three individual operations approved under this CCLIP was to support the implementation and evaluation of a pilot trial to fine-tune the program to boost its impact in urban areas. The first operation (loan 2103/OC-ME) was approved in January 2009 for US\$200 million, and execution completed in November 2009. The second (loan 2140/OC-ME), for US\$600 million, was approved in May 2009. The third operation, for US\$800 million (loan 2425/OC-ME), was approved in October 2010 and has been disbursed in full.

<sup>39</sup> The Bank's 2010-2012 country strategy with Mexico, currently in force, can be found at: <http://www.iadb.org/es/paises/mexico/estrategia-de-pais.1078.html>

**D. Objectives, components, and cost**

- 1.25 **Objectives.** The general objective of this operation is to help break the intergenerational cycle of poverty, by promoting capacity-building associated with the food, health, and education of families benefitting from the PDHO. The operation's specific objectives are to: (i) contribute to financing conditional cash transfers under the PDHO; (ii) provide technical support on the implementation and evaluation of measures to improve the PDHO; (iii) promote effective coordination between the CNO and the sectors delivering education, health, and food services; and (iv) collaborate on producing evidence to guide monitoring and evaluation of the PDHO.
- 1.26 **Component 1: Conditional cash transfers (US\$585 million).** The objective of this component is to help alleviate poverty and promote investments in health, education, and nutrition among PDHO beneficiary households, through conditional cash transfer payments.
- 1.27 **Subcomponent 1. Financing monetary support for the educational component of the PDHO (US\$292.5 million).** The first subcomponent will directly finance educational support payments (scholarships and school supplies) and will be jointly executed by the SEP through the administrative unit it designates.<sup>40</sup>
- 1.28 **Subcomponent 2. Financing monetary support for the food component of the PDHO (US\$292.5 million).** This subcomponent will directly finance payment of monetary support for food and supplements and will be executed by the CNO.
- 1.29 **Component 2: Studies and evaluations (US\$15 million).** With a view to producing evidence to enable the ongoing adaptation of the PDHO's design and operation to enhance its effectiveness, this component will finance evaluations and studies on priority topics, targeting areas such as reforming the educational support program, and the EsIAN and the early childhood development model. This subcomponent will be executed by the CNO.
- 1.30 The following studies and evaluations will be included in this component: (i) taking surveys, supervising the collection and analysis of the data for: (a) assessment of the expansion of the EsIAN's training and communication program; and (b) assessment of the new junior high and high school support and payment of scholarships directly to students; (ii) a qualitative study to understand young people's work and study-related decisions; (iii) evaluation of various different operational alternatives for the early childhood development model; (iv) oversampling the PDHO's population in the National Survey of Household Income and Expenditure (ENIGH) 2014 and/or the National Jobs and Employment

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<sup>40</sup> Food support is executed directly by the PDHO, whereas educational support is executed by the SEP. These budgetary arrangements have led to institutional technical interaction between the SSA and PDHO through the National Social Protection in Health Commission (CNPSS), which reports to the latter. The SEP's inclusion as a co-executing agency in this operation aims to create a more institutional platform for technical coordination between it and the PDHO.



Survey (ENOE); and (v) other relevant studies and assessments for the PDHO's policy decision-making.

**Table 1. Project Costs (US\$ million)**

Component	Total	%
<b>1. Conditional cash transfers</b>	<b>585.0</b>	<b>97.50</b>
1.1 Subcomponent: Financing monetary support for the educational component of the PDHO	292.5	48.75
1.2 Subcomponent: Financing monetary support for the food component of the PDHO	292.5	48.75
<b>2. Studies and evaluations</b>	<b>15.00</b>	<b>2.50</b>
<b>Total</b>	<b>600.0</b>	<b>100.00</b>

## **E. Key results framework indicators**

- 1.31 The proposed indicators for monitoring the current operation are limited to the specific topics of the redesign on which the Bank is concentrating its support. [Annex II](#) presents the outcome and output indicators that will be used during execution of this loan. These are: (i) the percentage of students receiving PDHO scholarships who finish primary (secondary) school and who, three years later, have finished junior high school (high school) will be used to monitor the results of the educational support reform; (ii) the prevalence of chronic malnutrition among PDHO beneficiaries under 5 is the indicator proposed for monitoring the outcome of scaling up the EsIAN; and (iii) the percentage of PDHO beneficiary children ages 0 to 5 with a development lag. This will make it possible to determine the results of the ECD component.

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

### **A. Financing instruments and retroactive financing**

- 2.1 The total amount of the operation will be US\$600 million to be financed with an investment loan from the Bank's Ordinary Capital. The execution period will be 36 months.
- 2.2 In order to ensure the continuity of the financial and technical support, the Bank may use the loan proceeds to retroactively finance expenditures of up to 20% of the total loan made by the borrower prior to the date of loan approval, provided that requirements substantially similar to those established in the loan contract have been met. These expenditures must have been made on or after 15 May 2013, and under no circumstances may expenditures made more than 18 months before the loan approval date be included.

**B. Environmental and social safeguard risks**

- 2.3 This operation does not include activities that may cause adverse social or environmental impacts. In accordance with the Environment and Safeguards Compliance policy (OP-703), this has been classified as a category "C" operation.

**C. Fiduciary considerations**

- 2.4 The fiduciary, financial, and procurement risks of this operation are considered to be low. This is based on the review of the preceding operations. The opinion of the external auditors on the loans financed by the Bank was clean, and the observations on internal control were minor, and referred to the operation rather than financial management. [Annex III](#) describes the scope of the financial and procurement considerations.

- 2.5 **Financial.** Greater reliance on the country's and executing agency's own internal controls for financial matters is proposed, together with simplification of the cost accounting for expenditures requirements, particularly in the case of payments to beneficiaries included in Component 1. The proposed simplification is described in [Annex III](#).

- 2.6 **Procurement.** Given the nature of the project, only the procurement of nonconsulting services, consulting firms or individual consultants is envisaged, such that the Policies for the Procurement of Goods and Works (document GN-2349) and Policies for the Selection and Contracting of Consultants (document GN-2350-9), both dated 2011, will be applied. The direct contracting of the Instituto Nacional de Salud Pública [National Public Health Institute] (INSP) is allowed, in accordance with the provisions of section 3.10, subparagraphs (a) and (d) of the Policies for the Selection and Contracting of Consultants (document GN-2350-9), specifically since this is a continuation of consulting services provided previously and given its experience, which is of exceptional value. Direct contracting of the Instituto Nacional de Estadística y Geografía [National Statistics and Geography Institute] (INEGI) is also planned, in accordance with the provisions of section 3.10 (d) of the Policies for the Selection and Contracting of Consultants (document GN-2350-9), given the exceptional value of its experience. The details on these direct contracts can be found in Annex III.

**D. Other risks**

- 2.7 **Consolidation and implementation of the redesign.** The redesign of the PDHO is one of the strategic initiatives proposed by the new government. Although the general lines of action for the redesign have been sketched out, its operational implementation will need more time. Four risks may arise during this process: (i) problems encountered during implementation may lead to its objectives being reconsidered; (ii) the redesign of the PDHO is one of several policy decisions in the social policy sphere. Decisions by other federal government agencies or by state and municipal governments may weaken the PDHO's redesign; (iii) some of the planned activities in the redesign depend on effective coordination between the

PDHO and other sectors, such that a lack of coordination may delay action; and (iv) expanding the PDHO's coverage in the CNCH's priority municipios poses large-scale operational challenges that jeopardize the accomplishment of the proposed targets for expansion. In this regard, it is worth noting that the CNO has embarked upon various initiatives to launch a dialogue with the sectors and other bodies at the state level. The following measures are also proposed to mitigate these risks: (i) supporting the operational implementation of the redesign through dialogue and technical assistance; and (ii) concentrating the Bank's support on the key components of the redesign in order to provide the PDHO with quality technical assistance.

- 2.8 **Methodology and quality of evaluations and studies.** The quality of the PDHO's evaluations and studies has been somewhat mixed. This is due to the complexity of assessing a program of the PDHO's scale and scope experimentally. On top of this comes the fact that the pace of expanding the interventions relating to the urban model was faster than envisaged when the impact assessments were designed. The following actions are proposed in order to mitigate these risks: (i) planning studies and evaluations within a multiyear framework as required by their implementation; (ii) selecting studies and critical evaluations strategically on achievement of the outcomes of this operation, without overwhelming the capacity of the PDHO's or the Bank's teams to provide the necessary monitoring; (iii) supporting the PDHO on the recovery and strengthening of technical advisory bodies (such as the Studies Committee) which, in the past, offered a key platform for discussion, the exchange of ideas, criticism, and strengthening of PDHO's evaluation methodologies, and (iv) alignment with a structured process proposed by the National Council for Social Development Policy Evaluation (CONEVAL) for monitoring the PDHO's evaluations and studies.

### III. IMPLEMENTATION AND ACTION PLAN

- A. **Borrower, executing agency, and general implementation arrangements**
- 3.1 The borrower will be the United Mexican States, through the Department of Finance (SHCP). The Department of Social Development (SEDESOL) (through the CNO) will execute Subcomponent 2 of Component 1 and Component 2; and the SEP, through the administrative unit it so designates, will co-execute Subcomponent 1 of Component 1. The CNO has a Board and a Technical Committee.
- 3.2 The CNO will be in charge of submitting progress reports, disbursement requests, updating the procurement plan, and submitting the audited and unaudited financial statements, through NAFIN, serving as the financial agent. The Technical Committee will include the technical participation of the Health Department (SSA), through the National Social Protection in Health Commission.
- 3.3 **The signing and entry into force of the Mandate Contract between the borrower, the executing agencies, and Nacional Financiera (NAFIN), which**

**will serve as the borrower's financial agent for the administration of the loan proceeds,** will be a special condition precedent to the first disbursement of the loan.

**B. Summary of results monitoring arrangements**

- 3.4 The outputs of this operation will be monitored using the information provided by the PDHO roll of beneficiaries, the Results Indicators Matrix, the national income, health, and nutrition surveys, and the reports the CNO sends to the Bank through NAFIN. Moreover, the operation's outcome indicators are closely connected to the topics of the evaluations financed by this loan on critical aspects of the redesign (scholarships, nutrition, and child development).

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Lending for poverty reduction and equity enhancement.		
Regional Development Goals	Extreme poverty rate.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	Individuals (all, indigenous) receiving targeted anti-poverty programs.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2595-1	Improve the design and efficiency of social protection programs targeted to the poor.	
Country Program Results Matrix	GN-2696	The operation is included in the 2013 Country Programming Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.7		10
3. Evidence-based Assessment & Solution	9.1	33.33%	1
4. Ex ante Economic Analysis	10.0	33.33%	1
5. Monitoring and Evaluation	10.0	33.33%	1
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	C		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: i) Budget; ii) Accounting and Reporting, iii) External Control, and iv) Internal Audit. Procurement: i) Information System, and ii) Shopping Method.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	CCT transfers are paid to mothers, school grants are larger for girls than they are for boys for the secondary level.	
Labor	Yes	The focus of the reform to the educational component supported by this operation is on improving enrollment in post-primary levels, which is likely to have important impacts on building a more skilled labor force.	
Environment			
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	Technical assistance to some key dialogue areas with Oportunidades over time were financed by ME-T1112. In parallel to the preparation of this loan, new technical assistance, ME-T1235, is being prepared in order to support some of the key research activities supported by this operation.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The project's evaluation plan contemplates studies with experimental design for the proposed innovations. This rigorous evaluations will inform reform decisions in such areas.	

The operation is an investment loan to the United States of Mexico for US\$ 600 million, to be financed by the Bank's OC. The objective of the project is to contribute to the reduction of the intergenerational transmission of poverty, by incentivizing the accumulation of human capital among the most vulnerable families in the country.

The loan proposal presents an adequate diagnostic that identifies, based on empirical evidence, the prevailing poverty levels in Mexico, as well as the challenges that persist in the country in sectors like education, health and nutrition. The document analyzes in detail the effectiveness of the program's interventions, and emphasizes the need to prioritize specific reforms, especially in the areas of secondary education, nutrition and early childhood development. In addition, it proposes rigorous evaluations to inform reform decisions in such areas.

The proposal has an adequate vertical logic, as reflected in a results matrix with clear impacts, outcomes and outputs, and SMART indicators for each of them. The project's evaluation plan contemplates studies with experimental design for the proposed innovations. The project's economic analysis consists of a cost-effectiveness analysis of the suggested reforms in the transfer scheme for secondary education and the nutrition strategy. Besides, an ex-post cost-effectiveness of the early childhood development intervention will be carried out during project execution. The risk matrix identifies and rates the project's risks, and proposes mitigation measures with indicators to measure their implementation.

## RESULTS MATRIX

**Program objective:** The general objective of this operation is to help break the intergenerational cycle of poverty, by promoting capacity-building associated with the food, health, and education of families benefitting from the Oportunidades Human Development Program (PDHO). The specific objectives are to: (i) contribute to financing conditional cash transfers under the PDHO; (ii) provide technical support on the implementation and evaluation of measures to improve the PDHO; (iii) promote effective coordination between the National Coordination Board for the Oportunidades Human Development Program (CNO) and the sectors delivering education, health, and food services; and (iv) collaborate on producing evidence to guide monitoring and evaluation of the PDHO.

Impact indicators <sup>1</sup>	Baseline	Target	Means of verification
Average number of deficiencies among the population in extreme poverty. <sup>2</sup>	3.7 (2010) <sup>3</sup>	3.4 (2016)	CONEVAL poverty measurement report.

Outcome indicators <sup>4</sup>	Baseline	Target	Frequency	Means of verification
1. Percentage of active male Oportunidades scholarship recipients with primary education completed at the start of the school cycle who finish basic education three years later.	69.11 (2012)	72.57 (2016) <sup>7</sup>	Annual, in the first semiannual report of the year	Oportunidades roll of beneficiaries <sup>10</sup>
2. Percentage of active female Oportunidades scholarship recipients with primary education completed at the start of the school cycle who finish basic education three years later.	72.89 (2012)	76.53 (2016)	Annual, in the first semiannual report of the year	Oportunidades roll of beneficiaries
3. Percentage of active male Oportunidades scholarship recipients having completed junior high school at the start of the school cycle who finish high school three years later.	33.45 (2012)	35.12 (2016)	Annual, in the first semiannual report of the year	Oportunidades roll of beneficiaries
4. Percentage of active female Oportunidades scholarship recipients having completed junior high school at the start of the school cycle who finish basic education three years later.	37.77 (2012)	39.66 (2016)	Annual, in the first semiannual report of the year	Oportunidades roll of beneficiaries
5. Percentage of active Oportunidades beneficiaries under 5 who suffer from chronic malnutrition.	21.42% (2012) <sup>5</sup>	16% (2016) <sup>8</sup>	Upon project completion	National health and nutrition surveys
6. Average level of development of children ages 0-5 who are beneficiaries of Oportunidades in the early childhood development pilot group.	0.65 standard deviations below the expected level (2012) <sup>6</sup>	0.50 standard deviations below the expected level (2016) <sup>9</sup>	Upon project completion	Evaluation report

<sup>1</sup> 2013-2018 National Development Plan indicators. These indicators will be monitored using the performance assessment system every two years.

<sup>2</sup> The General Social Development Law (2004) establishes a series of criteria that the National Council for the Evaluation of Social Development Policy (CONEVAL) is required to follow for the definition, identification, and measurement of poverty, including the requirement that poverty must be measured at the state level every two years and at the municipal level every five. Based on these criteria, CONEVAL defines the population in extreme poverty as being that with an income of less than the minimum welfare line, and with at least three social deficiencies. The deficiency indicators: (i) educational lag; (ii) inadequate access to health services; (iii) inadequate access to social security; (iv) shortfall in housing quality and living space; (v) inadequate access to basic housing services; and (vi) lack of access to food. Oportunidades contributes directly to reducing the prevalence of deficiencies (i), (ii) and (vi).

<sup>3</sup> Based on the analysis of the 2012 National Survey of Household Income and Expenditure, CONEVAL is updating this data for 2012. When the official figure is available, the baseline will be updated for the program impact indicator.

<sup>4</sup> Although two of the strategic areas whose development this operation supports are addressed through pilot initiatives (scholarships and child development), the results framework for the operation envisages improvements in some of the key human capital indicators, at the level of the whole Oportunidades population, considering that the intermediate outcome of carrying out the evaluations is to close a knowledge gap, but its final outcome is to implement a policy change based on evidence from the whole population. These population-level results will not be seen until 2017. Nevertheless, it is proposed that evidence from evaluations be used as a proxy for what the outcomes of these reforms will be when scaled up to the population level.

<sup>5</sup> Source: INSP (2012) Módulo del Programa Oportunidades en la Encuesta Nacional de Salud y Nutrición [Oportunidades program module in the national health and nutrition survey] (ENSANUT) 2011-2012. Outcomes report. Available at: [http://evaluacion.oportunidades.gob.mx:8010/es/wersd53465sdg1/docs/2012/ensanut\\_2012\\_informe\\_resultados.pdf](http://evaluacion.oportunidades.gob.mx:8010/es/wersd53465sdg1/docs/2012/ensanut_2012_informe_resultados.pdf).

Component 1: Conditional cash transfers	Baseline	Target 2014		Target 2016		Frequency	Means of verification
<b>Intermediate outcome:</b> 1. Equivalent percentage of Oportunidades beneficiaries whose income is below the minimum welfare line (LBM). <sup>11</sup>	37.9% of Oportunidades beneficiaries are below the LBM <sup>12</sup>	41.3% of Oportunidades beneficiaries are below the LBM		44.6% of Oportunidades beneficiaries are below the LBM <sup>13</sup>		One measurement for each ENIGH available during the life of the project	Simulation based on the National Surveys of Household Income and Expenditure (ENIGH).
Output	Baseline	2013	2014	2015	Total	Frequency	Means of verification
1. Annualized equivalent number of people receiving conditional cash transfers on completing their coresponsibilities in education, health, and nutrition.	0 (2012)	650,195 persons	1,219,116 persons	1,219,116 persons	3,088,427 <sup>14</sup> persons	Annual	Oportunidades roll of beneficiaries
Component 2: Studies and assessments	Baseline	Target 2015		Target 2016		Frequency	Means of verification
<b>Intermediate outcomes:</b> 1. New structure of Oportunidades school support submitted to the Technical Committee for approval, based on the results of the evaluation of the referenced pilot program.	0	0		1		Once, in 2016	Technical Committee certified agreement
2. Improvements to the EsIAN training and communication model submitted to the Technical Committee for approval, for expansion to the whole Oportunidades beneficiary population, based on the evaluation of alternative schemes.	0	1		1		Once, in 2015	Technical Committee certified agreement
3. Early childhood development promotion scheme for Oportunidades beneficiaries submitted to the Technical Committee for approval, as a result of the evaluation of the referenced pilot program.	0	0		1			

<sup>6</sup> These figures are used as there is no similar figure for the Oportunidades beneficiary population. These figures are the result of applying the Battelle Developmental Inventory test (version 2) in Spanish to a sample of 178 children aged 1-59 months, at health facilities attended by Oportunidades beneficiaries (rural Yucatán and the urban area of Chihuahua) in 2011. The results of the study are presented in: Rizzoli-Córdoba A., et al. Diferencias en el cociente de desarrollo por tipo de riesgo en niños mexicanos menores de cinco años [Differences in the development quotient by risk type in Mexican children under 5]. Boletín Médico Hospital Infantil de México. 2013; No. 4 (July-August 2013).

<sup>7</sup> For the first four education indicators, an impact of 5% over the baseline is expected.

<sup>8</sup> For the nutritional indicator an impact of slightly more than one percentage point a year is expected. The date of the next national health and nutrition survey is not certain, however it is expected to be in 2016.

<sup>9</sup> For the child development indicator an impact of 0.15 standard deviations is expected.

<sup>10</sup> These indicators are estimated assuming that scholarship recipients who remain active in the last two months of the school cycle will complete that cycle.

<sup>11</sup> Monitoring indicator.

<sup>12</sup> Unexpanded ENIGH, 2010. Figure taken from: Inter-American Development Bank, Programa de Desarrollo Humano Oportunidades, evolución y desafíos [Oportunidades Human Development Program, evolution and challenges], internal discussion paper, February 2013.

<sup>13</sup> This target assumes that the 700,000 new beneficiaries joining the PDHO within the framework of the CNCH will be concentrated solely in households below the minimum welfare line. The working hypothesis is that with these 700,000 new members the PDHO rolls reach 6.5 million beneficiaries in 2016.

<sup>14</sup> These estimates are based on a budget of US\$570 million for transfers, of which US\$120 million will disbursed in 2013, US\$255 million in 2014, and US\$225 million in 2015.

<b>Outputs</b>	<b>Baseline</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Target</b>	<b>Frequency</b>	<b>Means of verification</b>
1. Evaluation report on the new structure of Oportunidades school support approved by CONEVAL.	0	0	0	1	1		Evaluator's reports
2. Qualitative evaluation report on the new structure of Oportunidades school support approved for publication.	0	0	0	1	1		Evaluator's reports
3. Evaluation report on alternative EsIAN training models approved by CONEVAL.	0	0	0	1	1		Evaluator's reports
4. Evaluation report on the early childhood development pilot scheme for Oportunidades beneficiaries approved by CONEVAL.	0	0	0	1	1		Evaluator's reports
5. According to the external evaluation, the 2014 National Survey of Household Income and Expenditure is representative of the Oportunidades population.	0	0	0	1	1		Outcome report and database



## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Mexico

**Project number:** ME-L1091

**Name:** Support for the Oportunidades Human Development Program (PDHO)

**Executing agency:** Department of Social Development (SEDESOL), Department of Public Education (SEP)

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### **I. EXECUTIVE SUMMARY**

- 1.1 The Bank began supporting the PDHO in 2002 through a two-phase multiphase program which aimed to help increase human capital in families living in poverty by improving their access to education, health, and nutrition. This was financed by loans 1388/OC-ME (ME-0244) for US\$1.377 billion and 1618/OC-ME (ME-L1007) for US\$1.600 billion. In 2008, with the conditional credit line for investment projects (CCLIP) ME-X1007, for US\$2 billion, three consecutive operations were approved to support the implementation and evaluation of the pilot trial to adapt the program to boost its impact in urban areas. The loans associated with the CCLIP were: 2103/OC-ME (ME-L1052) for US\$200 million, 2140/OC-ME (ME-L1067) for US\$600 million and 2425/OC-ME (ME-L1080) for US\$800,000. Execution of the latter was completed in December 2012 and the last disbursement was made in March 2013. The five operations represent IDB financing to the PDHO for a total of US\$3.800 billion and in all the operations the audited financial statements have received a clean opinion.
- 1.2 In view of the above, for this operation it is proposed that greater reliance be placed on the country's and executing agency's own financial controls and that the requirements for accounting to the Bank for expenditures be simplified.

### **II. EXECUTING AGENCY'S FIDUCIARY CONTEXT**

- 2.1 In order to ensure joint and complementary action by the different departments involved in execution, the National Coordination Board for the Oportunidades Human Development Program (CNO) was created as a deconcentrated body of SEDESOL.

- 2.2 The CNO has broad experience managing operations with the Bank, as demonstrated in the previous five loan operations. It also has a solid staff structure with appropriate profiles for the functions concerned, governed by the national regulations applicable to the program. In addition, for matters of coordination with the Bank, the PDHO will rely on NAFIN as the financial agent appointed by the Department of Finance (SHCP).

### **III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS**

- 3.1 Institutional capacity was analyzed in 2006, yielding a low risk. Subsequently, as a result of fiduciary visits, it was observed that the processes and controls over financial matters remained unchanged and that the risk assessment also remained low. Further evidence of this was the clean opinion on all the program's audited financial statements.

### **IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS**

1. Conditions precedent to the first disbursement: (a) signing of the mandate contract with NAFIN authorizing it to act as "Financial Agent" for this loan.
2. The exchange rate for the rendering of accounts will be that of the date on which the supplier or settlement institution is paid.
3. The project's audited financial statements, audited by auditors acceptable to the Bank in accordance with the terms of reference agreed with the Bank.
4. Before any call for bids or award of the contract can take place, the executing agency must submit the proposed procurement plan to the Bank for review and approval, in accordance with the Bank's procurement policies. This plan must be updated every 12 months during program execution, and each updated version will be subject to review and approval by the Bank, during which it will be decided which procurement items are subject to ex ante or ex post review.

### **V. RETROACTIVE FINANCING**

- 5.1 In order to ensure the continuity of the financial and technical support, the Bank may use the loan proceeds to retroactively finance expenditures of up to 20% of the total loan made by the borrower prior to the date of loan approval, provided that requirements substantially similar to those established in the loan contract have been met. These expenditures must have been made on or after 15 May 2013, and under no circumstances may expenditures made more than 18 months before the loan approval date be included.

## VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 6.1 Given the nature of the project, only the procurement of nonconsulting services, consulting firms or individual consultants is envisaged, for which the Policies for the Procurement of Goods and Works (document GN-2349-9) and Policies for the Selection and Contracting of Consultants (document GN-2350-9), both dated 2011, will be applied. If these policies are modified, the new version may be applied with the written consent of the executing agency.

**Table of thresholds (US\$ thousands)**

Works			Goods <sup>1</sup>			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International advertising Consulting services	Shortlist 100% national
>15 million	<15 million and >500,000	< 500,000	>= 3 million	<3 million and >100,000	<100,000	> 200,000	< 500,000

### 1. Main procurement items

Activity	Type of bidding procedure	Estimated date	Estimated amount (US\$ thousand)
<b>Nonconsulting services</b>			
Collection of information for the evaluation of EsIAN results (baseline and follow-up one year later)	NCB	2013-2014	677,521
External supervision of collection of information for the evaluation of EsIAN results (baseline and follow-up one year later).	S	2013-2014	67,752
Collection of information for the evaluation of pilot trial of the new structure of educational support (baseline and follow-up one year later).	NCB	2013-2014	2,245,670
External supervision of collection of information for the evaluation of the pilot trial of new structure of educational support (baseline and follow-up one year later).	NCB	2013-2014	224,567
Oversampling of the 2014 National Survey of Household Income and Expenditure to ensure the Oportunidades beneficiary population is representative.	DC	2014	195,869
<b>Consulting firms<sup>2</sup></b>			
Design, technical supervision in the field and analysis of the results of EsIAN.	DC	2013-2014	388,265
Design, technical supervision in the field and impact analysis of the pilot trial of the structure of educational support.	QCBS	2013-2014	388,265
Qualitative study of the study and work decisions of young people in the sample in the pilot trial of the structure of the educational support.	QCBS	2013-2014	402,305

<sup>1</sup> Includes nonconsulting services.

<sup>2</sup> In the case of consulting services, this means the shortlist comprises firms of different nationalities. See Policies for the Selection and Contracting of Consultants (document GN-2350-9), paragraph 2.6.

Design, collection of information and impact analysis of the different operational alternatives of the early childhood development stimulation strategy	QCBS	2014	890,329
Design and impact analysis of the pilot trial of different operational alternatives of the early childhood development stimulation strategy	QCBS	2014	388,265
Supervision of collection of information for impact analysis of the different operational alternatives of the early childhood development stimulation strategy	CQS	2014	89,033

- 6.2 **Direct procurement:** Pursuant to Section 3.10 (a) and (d) of the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), direct contracting of the National Institute of Public Health (INSP) will be allowed for the analysis of the impact assessment data on the expansion of the EsIAN's training and materials. The INSP is a decentralized body belonging to Mexico's federal public administration that is responsible for research and teaching on public health. It has an independent legal personality and its own assets, pursuant to the Law on the National Institutes of Health. The direct contracting of the INSP is justified as the continuation of the consulting services it has been providing under the previous CCLIP, and its extremely valuable experience for the services. Specifically, the INSP led the design and implementation of the EsIAN pilot trial assessment. In addition, the INSP may bid for the information gathering work relating to the various studies and evaluations financed by this loan, given that this is a separate service. Also pursuant to Section 3.10 (d) of the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), the direct contracting of National Institute of Geography and Statistics (INEGI) will be permitted for the consulting on the oversampling of the PDHO population in the National Survey of Household Income and Expenditure (ENIGH) 2014 or the National Jobs and Employment Survey (ENOE) 2015, as in addition to its having extremely valuable experience, it is the competent body responsible for issuing official statistics and is in charge of the administration and assessment of the ENIGH and the ENOE.

## 2. Procurement supervision

- 6.3 In view of the project's low level of fiduciary risk and the experience acquired in previous operations, reviews will be ex post, unless determined otherwise in writing in the procurement plan. One inspection visit per year is envisaged. Ex post procurement reviews will be conducted by an external audit firm, which will submit a special dossier with the procurement report, in accordance with the terms of reference agreed by the IDB and the SFP.

## 3. Records and files

- 6.4 The files must be available for any procurement reviews the Bank considers relevant.

## **VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS**

### **1. Programming and budget**

- 7.1 The exercise, control, and evaluation of federal public spending will basically be performed in accordance with the Expenditure Budget of the Federation (PEF) and the Federal Budget and Fiscal Responsibility Law (LFPRH) and its regulations. The PEF is issued each fiscal year, the provisions laid down in it are applicable to the year for which it is published. The PDHO budget envisages several coexecuting agencies, and this specific operation includes the budgetary resources of the two executing agencies, SEDESOL and the SEP. The PDHO has annually updated operating regulations that describe the program requirements, processes, and controls.
- 7.2 Once the loan is eligible, the execution costs to be financed with loan resources will be identified in the budget as expenditures financed with external credit (digit 2, according to the classification of expenses by source of financing). Expenditures made prior to eligibility may be labeled digit 1, or fiscal resources. If the fiscal year has not ended, the budgetary record of the expenditures may be updated to digit 2. In any event, the expenditures will be eligible for financing.

### **2. Accounting and information systems**

- 7.3 Considering that the Bank is financing only a portion of the total budget allocated to the program in the PEF, in accordance with the provisions of the loan contract the PDHO keeps an accounting system in which the loan operations are recorded using the chart of accounts approved by the Bank. This includes all the details necessary to allow the use of proceeds from the Bank's loan to be identified by investment category, such that this information can be included in the supporting documentation for the disbursed eligible expenditures.
- 7.4 This accounting system allows ongoing reports to be produced on the status of each investment category and to consolidate the financial information used to prepare the financial statements for the loan, using standard formats agreed by the Bank and the Civil Service Department (SFP). It also has the following systems supporting the operation:

#### **Institutional Information System for Program Operation (SIIOP)**

- 7.5 The [Institutional information system for Program Operation \(SIIOP\)](#) for the PDHO and the PAL is the system whereby the state coordination bodies carry out processes relating to maintaining the rolls of families, scholarship recipients, older adults and children, and the processes of printing and mass capture of coresponsibility formats, which will be the input for calculating and issuing the cash aid to the beneficiary families.
- 7.6 This is a transactional system for the inputting, updating, and storage of the information generated by program operation. It is a client-server system operating autonomously in each of the 32 state coordination bodies, as each of them has its

own database. Using a national level data replication arrangement, all the information is also pooled in a single central database (SIIOP-Central).

### **Federal Integrated Financial Management System (SIAFF)**

- 7.7 The SIAFF is a single integrated financial management system for the recording and control of budgetary execution, strengthening the planning, budgeting, and financial programming processes, and automating government accounting.

### **3. Disbursements, cash flows, and simplification of accounting of expenditures**

- 7.8 The necessary information for the acceptance of disbursement requests is supplied by the database of the active roll of Oportunidades program beneficiaries. Financial transfers to beneficiary families are made through BANSEFI as the settlement institution, which coordinates payments with other intermediaries, primarily DICONSA and TELECOM. BANSEFI subsequently provides the PDHO with an account reconciliation and evidence of the subsidies actually paid. The Roll and Settlement Bureau compiles the databases of information on cash payments and produces a bi-monthly database of payments to beneficiaries for amounts up to the total submitted to the Bank in disbursement requests.
- 7.9 Proposed simplification: The budgetary charges, registered in the SIAFF, will be made through certified accounts payable (CLCs). As the experience from the five preceding loans has been positive, it is proposed that the country's and the PDHO's own controls be used and details of the beneficiaries covered no longer be required. Therefore, for disbursement requests corresponding to Component 1, the executing agency will: (i) submit accounting evidence of the delivery of resources to BANSEFI for a sum equal to or greater than that requested from the Bank (this document is known as the "CLC con extrañamiento 7"); and (ii) pursuant to the regulations in force, the roll and settlement area will continue to codify or identify beneficiaries assigned to payments charged to the IDB loan proceeds.

### **4. Internal control and internal audit**

- 7.10 SEDESOL has an internal control body (OIC) which until 2013 was regulated by the SFP and all federal government regulations. Its work complies with generally accepted auditing standards and its work plan is approved by the SFP. The process of transferring the OICs to each Department is currently underway, such that in the future the OIC will report exclusively to SEDESOL. Although this change reduces the OIC's independence, no modifications to its rules of operation are anticipated that adversely affect program implementation or controls.
- 7.11 The exercise, control, and evaluation of federal public spending will basically be performed in accordance with the Expenditure Budget of the Federation (PEF) and the Federal Budget and Fiscal Responsibility Law (LFPRH) and its regulations.

## 5. Reports and external control

- 7.12 **Reports.** The disbursements area of Nacional Financiera (NAFIN), as financial agent, is responsible for overseeing the reports and rendering of expenditures submitted to the Bank. The SFP, IDB, and World Bank have harmonized forms for the annual and semiannual financial reports. The SFP has issued a document entitled “Guía para la Gestión Financiera de los Proyectos Financiados por Organismos Financieros Internacionales” [Guide on the financial management of projects financed by international lending institutions], which requires the executing agency to submit project financial reports to the financial agent every six months for their timely forwarding to the IDB. These reports describe the financial progress of the operation at the end of each six-month period and the cumulative report on each category of investment. They also detail the requests submitted during the fiscal year and expenditures pending processing.
- 7.13 The executing agency will submit revised financial statements annually following procedures agreed on by a firm of auditors acceptable to the Bank, within 120 days after the close of each fiscal year. The audit firm will be appointed by the SFP with the Bank’s no objection. The review of the audit work will be prepared based on specific terms of reference for the program agreed on by the IDB, the PDHO, and the SEP, requesting that the external auditor limit the review, on the basis of a sample, to the payments made from the IDB resources that correspond to beneficiaries included on the roll of beneficiaries.
- 7.14 It is worth highlighting that the PDHO is wholly or partially audited by the federation's auditor (ASF) and its reports are published 14 months after the close of the fiscal year. The Country Office in Mexico has reviewed these reports and the observations were minimal.

## 6. Financial supervision plan

Supervision activity	Supervision plan			
	Nature and scope	Frequency	Party responsible	
			Bank	Third party
<b>Financial</b>	Ex post review of disbursement requests	Periodic	Financial/fiduciary team for payments	
	Inspection visit / analysis of internal controls and control environment with participation of PTL.	Annual	Fiduciary and technical team and fiduciary/financial/procurement team	
	Annual allocation of budgetary resources required for project implementation	Annual	Financial/fiduciary team	Executing agency
<b>Compliance</b>	Delivery of financial statements	Annual	Fiduciary and technical team	External auditor
	Conditions precedent to the first disbursement:	Once	Fiduciary and technical team	Executing agency

## 7. Execution mechanism

- 7.15 The delivery of cash support charged to social development programs must be strictly in compliance with the provisions established in its rules of operation, ensuring that federal public resources are managed in compliance with criteria of legality, efficiency, oversight, and accountability.
- 7.16 In accordance with the PEF, the program is subject to rules of operation that need to take into account the social, economic, and cultural characteristics of the target population, promote efficient programming of the utilization of federal resources and include criteria ensuring transparency in the processes of distribution, application, and verification of public resources. The Chamber of Deputies may issue an opinion on the rules of operation established for the operation of federal programs, before their publication in the Official Journal of the Federation.

## 8. Verification of the eligibility of expenditures

- 7.17 In accordance with the 2013 rules of operation, the PDHO has the following mechanisms for verifying the eligibility of the families who receive transfer payments:
1. **Identification and evaluation of socioeconomic conditions:** This is done through a survey collecting rather detailed socioeconomic and demographic data. With this information and through the use of a statistical targeting model, eligible families are identified—that is those whose estimated monthly per capita income is below the minimum welfare line set by CONEVAL.
  2. **Recertification of beneficiary families:** A new evaluation of families' socioeconomic and demographic characteristics is used to determine whether they can stay in the PDHO and to determine the support to be received by families that do remain in the PDHO. Localities are recertified every five years. If at the end of recertification, in a locality there is a family that is not recertified for reasons not imputable to it, then their supports are suspended for up to three two-month periods, so that they can be located to evaluate their socioeconomic conditions before they are suspended indefinitely from the PDHO. The families for whom the PDHO has socioeconomic data from any other of its socioeconomic data collection processes (Identification, Reevaluation, or the Permanent Verifications of Socioeconomic Conditions Line—LVPCS) from the same year are exempt from recertification.
  3. **Permanent Verification of Socioeconomic Conditions:** As part of an ongoing review process, the roll of beneficiaries can be updated by verifying families' socioeconomic and demographic information. This can be done through:
    - a. Complaints sent to the National Coordination Board.
    - b. Data collected in the incorporation, recertification, support delivery, and educational and health service processes, among others.This process depends on the budgetary availability of the PDHO to implement verification actions.
- 7.18 In previous operations, the Bank has verified the eligibility of expenditures during the audit process, through a very small-scale verification of a sample.



Specifically, in the last three audits (2009, 2009-2010, 2011) of all receipts received (between 2.6 and 6.6 million) samples of 0.003% were selected for verification for the first two and 0.01% for the third. Of the 499 receipts verified, a total of 49 received observations in those three years. To address these, the conditions of the family were verified, making it possible to confirm whether they were eligible or should be dropped from the rolls. In only 20 cases was it found that the families needed to be dropped from the rolls (4% of all receipts verified, which seems a reasonable number). As this illustrates, this effort to verify the eligibility of expenditures through the auditing body is minuscule compared to the size of the population receiving transfers financed with loan proceeds.

- 7.19 Given the characteristics of the verification that has been done thus far (as described in the preceding paragraph) and because the processes outlined at the start of that paragraph are technically sound efforts that have been in place for several years, the proposal is to rely on the country's procedures for verifying the eligibility of expenditures in the execution of this operation.