

## **FAMILY ALLOWANCES PROGRAM - PHASE II**

(HO-0132)

### **EXECUTIVE SUMMARY**

**BORROWER:** The Republic of Honduras

**EXECUTING AGENCY:** Programa de Asignación Familiar [Family Allowances Program] (PRAF)

**AMOUNT AND SOURCE:**

IDB (FSO):	US\$45,226,000
Local counterpart funding:	US\$ 5,125,000
Total:	US\$50,351,000

**FINANCIAL TERMS AND CONDITIONS:**

Amortization period:	40 years
Disbursement period:	4½ years
Interest rate:	1% for the first 10 years, 2% thereafter
Inspection and supervision:	1%
Credit fee:	0.5% of the undisbursed balance

**BACKGROUND:** Honduras's Family Allowances Program (PRAF) has been in operation since 1990, as a transitional program intended to ease the burden of macroeconomic adjustment. The primary objective of a program of this kind is to compensate families for the reduction in income they will have to face during the adjustment period. The PRAF was thus originally designed as a cash transfer program for households. The channels selected for distributing this grant were health centers and schools.

Given the widespread poverty in Honduras, there is ample justification for continuing the PRAF even after the adjustment period. The objectives of the program, however, need to be adjusted so that it can become an effective instrument for breaking the vicious circle of poverty in which so many are trapped. To this end, the program should ensure that the assistance it provides will enhance the human capital of poor families and that its impact extends over the longer term.

**OBJECTIVES:** The general objective of the program is to increase the accumulation of human capital among children of the very poorest families and thereby help to break the circle of poverty.

The program will need to pursue the following concrete objectives: (i) boost the effective demand for education services; (ii) encourage the education community to take part in children's learning development; (iii) instruct mothers in feeding and hygiene practices; (iv) ensure that sufficient money is available for a proper diet; (v) promote demand for and access to health services for pregnant women and nursing mothers and children under age 3; and (vi) ensure timely and suitable health care for PRAF beneficiaries.

**DESCRIPTION:**

The program is designed to redirect PRAF activities, to shift from the current model which is based on compensating for lost income and spurring demand to a model for accumulating human capital among the poorest of the poor, and one that includes incentives on both the demand and supply sides. It thus is designed with the following main features: (i) a new targeting system for selecting beneficiaries; (ii) interventions to stimulate demand for and supply of education, nutrition and health services; and (iii) a baseline information survey and annual panels on beneficiaries to measure outcomes and progress under the program. These activities will be conducted with four distinct population groups, to be selected using the new targeting system. The first group will be provided with demand incentives only (GC1). The second will have demand incentives, plus there will be interventions on the supply side (GC2). For the third group there will be interventions only on the supply side (GC3). The fourth, which will receive no interventions, will serve as a survey control group (GC4).

The program has been structured with three components and two types of incentive payments.

Maternal and child nutrition and health component (US\$17.7 million). The current mother and child bonus will be changed into two types of incentive payments (in the form of cash-equivalent scrip) for nutrition and health. The first will target demand in both areas, and will consist of a transfer of funds aimed at: (i) encouraging the consumption of foods that can substantially improve the diet of children and pregnant women living in conditions of extreme poverty; and (ii) promoting the use of mother and child health services. The bonus will provide each family with a grant of US\$48 per capita each year, to a maximum of two recipients per family. This represents 29% of the target population. The second type of grant will be aimed at providers or

supply both of health and nutrition services. In the case of nutrition, mothers will be instructed in feeding and hygiene practices. This work will be contracted out by the PRAF to local NGOs which will provide the instruction through selected health posts. In the case of health, the grant to providers will be channeled through Rural Health Centers, to ensure the delivery of timely and appropriate health care to PRAF beneficiaries (paragraphs 2.5-2.10 of the proposal which follows).

Education component (US\$22.6 million). Two types of transfers will be funded under this component. The first will remain a demand incentive payment, in the form of cash-equivalent scrip, but its amount (US\$38 per capita per year) has been calculated by reference to the opportunity cost to poor rural families of sending their children to school. This new education bonus will be given to families selected by way of the targeting formula, for each child under 13 attending school in grades one through four, to a maximum of three children per family. This represents approximately 30% of the target population. In addition, a new bonus will be funded in the form of a Learning Development Incentive (IDA) that is intended to improve the provision of education services. It includes a financial transfer to parents' associations through local NGOs (paragraphs 2.11-2.16)

Institution-strengthening component (US\$8.4 million). This component's objective is to design and implement a targeting system for poverty programs, refine monitoring and evaluation systems for PRAF programs and projects, and bolster the PRAF's capacity so that it can manage both systems efficiently (paragraphs 2.17-2.23).

**ROLE OF THE  
PROJECT IN THE  
BANK'S COUNTRY AND  
SECTOR STRATEGY:**

A cornerstone of the Bank's social strategy in Honduras is the need to establish a dialogue with all social-sector stakeholders so as to move forward with a comprehensive strategy for combating poverty. At the same time, the Bank's poverty-reduction strategy places priority on actions that are not merely compensatory but will focus on creating human and social capital among beneficiary communities. The proposed project is fully in line with the Bank's strategy both for the sector and for the country.

The PRAF's transition from a compensatory model to one focused on human capital accumulation in the poorest segments of society will make the program a strategic piece of the battle against poverty. Actions under the PRAF, and their impact, will be

vital to the development of permanent national policies for combating poverty. The program fits into the national strategy as a complement to initiatives of other players such as the FHIS (Honduran Social Investment Fund). The PRAF will be working with households to encourage greater and more effective use of social services, while the FHIS will operate at the local and municipal level to ensure timely access to social services. The Technical Analysis Unit (UNAT) of the Office of the President of the Republic will be the government body in charge of coordinating the efforts of these two programs, and other relevant programs.

**ENVIRONMENTAL AND  
SOCIAL REVIEW:**

No environmental or social considerations of note were identified during the review of the operation.

**BENEFITS:**

Extreme poverty tends to perpetuate itself from generation to generation. Children born into a poor family typically have low birth weights and face a high risk of mortality during their first year. As well, they are exposed to recurrent infectious diseases and nutritional deficiencies that can stunt their normal growth and development. Children of poor families are more likely to start school later, having had no exposure to any kind of program to stimulate their innate abilities, such as preschool education. Nutrition, health, and education thus are strategic factors in any initiative to combat poverty. This program has been designed to remove obstacles that impede access by poor families to proper nutrition and to health and education services. At the same time, the program will promote greater use of available services, and will encourage local participation in its activities.

**RISKS:**

The program calls for designing a new targeting tool. So that this instrument can be used in the field and as a basis for beneficiary selection, a national household survey will have to be conducted. Furthermore, the baseline for the evaluation will have to be put together at the start of year 1 of the program's execution, using the universe of target beneficiaries. This means that the evaluation team will need to be in place before these activities commence. To diminish the risk that the information might not be available in time, the project team has satisfied itself that the financial resources are available and that the survey design and field work will be completed before eligibility. Similarly, the proposed contract with the International Food Policy Research Institute (IFPRI) will assure that the evaluation team is in operation before the targeting

and evaluation data gathering work begins (paragraphs 4.21-4.22).

**SPECIAL  
CONTRACTUAL  
CLAUSES:**

Conditions precedent to the first disbursement

- (a) Demonstration that the Program Coordinating Unit has been set up and has the staff and other elements required for its operation.
- (b) Demonstration of model agreements to be used for the required contracts with NGOs, schools, and rural health centers, to secure their participation in the program, and presentation of the annual work plan for year 1 of the project (paragraph 3.23).

Other contractual covenants

- (a) Submittal by the executing agency of the list of beneficiaries selected by way of the new targeting mechanism described in paragraphs 3.18, 3.19, and 3.20.
- (b) Entry into force of the program's operations manual governing activities pertaining to supply-side incentives to rural health centers, schools, and NGOs.
- (c) Evidence that the baseline for program beneficiaries has been established and that amounts of transfers to service providers have been reviewed, and the number of schools and rural health centers is adequate.

**POVERTY-TARGETING  
AND SOCIAL-SECTOR  
CLASSIFICATION:**

The program qualifies as poverty-targeted, since it entails a targeting system for identifying the country's poorest households as beneficiaries.

**EXCEPTIONS TO  
BANK POLICY:**

See section on procurement, below.

**PROCUREMENT:**

As an exception to the procedure for selecting consultants through open calls for proposals, it is recommended that the International Food Policy Research Institute (IFPRI) be engaged directly to take charge of technical supervision for the design and implementation of the targeting profile form and the beneficiary selection process (paragraphs 3.18 and 3.19). This is one of the most critical steps in the program's implementation, and is expected to last between 8 and 12 months. This contracting approach

is concordant with the provisions of chapter GS-403 of the Procurement Manual (paragraph 3.13).

## I. BACKGROUND

### A. Poverty in Honduras

- 1.1 The country's present development status bespeaks a per capita income that is among the lowest in the region, and the presence of widespread poverty. Over the last decade, annual income per capita remained at around US\$600. Within the region, only Haiti and Nicaragua have lower income figures. Poverty is high not only as measured by conventional indices such as the proportion of poor people in the total population, but also in terms of income distribution within the poor segment of the population. The low degree of urbanization in Honduras relative to its level of development makes the poverty situation even more acute, since people living in rural areas are the most likely to be poor.

Table I-1  
Distribution and severity of poverty

Poverty index (1996)	National	Urban	Rural
FGT 0	46.0%	27.3%	60.1%
FGT 1	21.3%	9.8%	29.9%
FGT 2	12.8%	5.0%	18.6%

Source: 1996 INEC Household Survey

- 1.2 The level of inequality in income distribution is relatively high (the Gini coefficient being .55 in rural areas and .52 in urban zones). There is evidence to suggest that the country's income distribution pattern is a major factor that must be taken into account in any policy for combating poverty. In the first place, severe income inequality can hold down growth, whereupon the poverty reduction rate will slow even further. <sup>1/</sup> Secondly, even if initial income distribution were neutral with respect to economic growth, the poor will benefit to a lesser proportion from each unit of additional growth in average income.
- 1.3 As to family characteristics, it is important to note that female heads of household are a highly relevant factor for distinguishing poor from non-poor families. In the bottom income quintile, 34% of households are headed by women, while this is the case in only 10% of the upper quintile. Moreover, 44% of female-headed households in the bottom quintile have at least one child under the age of five.

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<sup>1/</sup> M. Ravallion, "Can high-inequality developing countries escape absolute poverty?" Economics Letters 56 (1997), 51-57.

B. Policy framework and institutional apparatus

1. The social safety net in Honduras

- 1.4 Honduras's poverty-targeted programs are the Fondo Hondureño de Inversión Social (FHIS) [Honduran Social Investment Fund] and the Programa de Asignación Familiar (PRAF) [Family Allowances Program], the latter having grown as a pilot venture out of the former. Whereas the FHIS is concerned with basic social infrastructure, the PRAF provides two types of cash transfers to poor families. The first, the *Bono Escolar* (BE) [education bonus], is given to families that send their children to school, up to a maximum of three children in the first, second and third grades. The second, the *Bono Materno-Infantil* (BMI) [mother and child health-care bonus] is provided to pregnant women or nursing mothers on condition that they undergo basic checkups for themselves and their young children.
- 1.5 The country's social investment funds have attempted to broaden the coverage of basic infrastructure services for the poorest of its citizens. Yet there is evidence that, even when social services are accessible, demand for them remains low. For example, the demand for education is relatively low in Latin America, considering the high returns this particular investment yields. It has been argued that quality is important, and that the return is lower if the quality of schooling is low.
- 1.6 The PRAF has been in operation since 1990, as a transitional program intended to ease the burden of macroeconomic adjustment. The primary objective of a program of this kind is to compensate families for the reduction in income that they will have to face during the adjustment period. The PRAF thus was originally designed as a cash transfer program for households. The channels selected for distributing this grant were health centers and schools. This in fact has been a fairly common practice in similar programs in Latin America, since these services have broad geographic coverage and are public in nature. (This is the case, for example, with the food allowance program in Venezuela.)
- 1.7 Given the high poverty levels in Honduras, there is still ample justification for maintaining the PRAF beyond the adjustment period. However, the program's objectives will need to be reshaped so as to make it an effective tool for breaking the vicious circle of poverty in which so many are trapped. To this end, the program should ensure that the assistance it provides will increase the human capital of poor families benefiting from it and that its impact extends over a longer horizon. In its new phase, therefore, the program will have to focus on reaching the poorest children and ensuring that they receive a minimum standard of education and health services. Through its new targeting mechanism, the program will identify and incorporate families in the lowest deciles of income distribution.



## 2. Current status of the PRAF

- 1.8 In the transition from its status as a provisional program to one that is more solidly institutionalized, the PRAF has suffered a series of problems that have limited its effectiveness, and that must be addressed in the short term if the program is to truly combat poverty. These problems are described below, on the basis of assessments performed by the Bank in the course of preparing the proposed project.
- 1.9 In its work, the PRAF has given priority to operational tasks at the expense of developing its strategic capabilities. While the program has been outstanding in its efforts to distribute incentive grants and develop the logistics for this task, it has fallen short in terms of its health and education goals and in coordinating its work with line ministries, measuring and evaluating its impact on poverty, and recasting its activities and policies.
- 1.10 **The beneficiary selection system.** The Bank's own studies and the 1996 CARE household survey have pointed up the weaknesses of the current PRAF beneficiary selection system. The data reveal problems that are compromising to a large extent the program's ability to truly help reduce poverty in Honduras. Forty percent of women receiving the mother and child bonus (BMI) and 30% of households receiving the education bonus (BE) in the country's poorest departments fall within the two highest quintiles of income distribution. Moreover, higher-income families have a greater number of recipients per household of the mother and child bonus. 2/
- 1.11 **Nature of program activities.** The assessments made during preparation of this project show a glaring discrepancy between the program's goals and the approaches pursued to achieve them. For example, the program currently uses the BMI as an income transfer mechanism, in the hope that this will encourage greater consumption of essential health services by women receiving this incentive. Whatever the potential advantages of greater access to basic health services, an increase in demand for such services is no guarantee of better health: that outcome will depend on factors relating to supply and the characteristics of the potential users.
- 1.12 One of the main findings of the Bank's studies, which is supported by experience in other developing countries, is that a program such as the PRAF, which is based solely on demand-side subsidies, will be inadequate in the absence of matching efforts on the supply side. Unless steps are taken to improve the quality of health and education services and there are programs to help women receiving these financial incentives to make better decisions affecting

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2/ CARE, Food Security Survey, 1996.

health and nutrition in the home, an increase in household income on its own will have very little impact on a family's nutritional and health status. 3/

- 1.13 The limitations that have been observed with respect to the mother and child health-care bonus come from problems in defining the program's health goals, the lack of sound beneficiary-selection mechanisms, the fragmentation of benefits and recipients, and the absence of an information system for assessing the program's specific effects on the health of its beneficiaries. 4/
- 1.14 Furthermore, there is no assurance that the PRAF's health benefits are concentrated within the family nucleus, or that the beneficiary family will receive PRAF comprehensive assistance. This factor reduces considerably the known impact of synergy between raising family income, on one hand, and providing education and health support on the other.
- 1.15 Table I-2 presents a summary of the program's current constraints from both supply and demand standpoints. This matrix was used to design the measures to be financed with Bank funds, starting in 1999.

**Table I-2**  
**Summary of current PRAF institutional constraints**

User side	Provider side
It is not known whether the amount of the bonuses is sufficient to induce and sustain demand for services and/or to improve nutrition of beneficiaries.	No action has been taken on the quality of service provided.
There is no assurance that recipients selected are really the poorest of the poor.	There is no incentive for providers to offer more or better health and education services to PRAF beneficiaries.
Beneficiaries are cast in a passive role as bonus recipients.	Structural problems in the public sector limit beneficiaries' options in seeking services.
Low education levels among beneficiary women reduce the impact of health interventions.	Service providers and schools play a passive role, essentially as bonus distribution centers.

- 1.16 In addition to the equity problems described above, the PRAF's beneficiary-selection system suffers from problems of continuity and lack of a comprehensive approach, which sharply curtail its potential poverty-reduction impact in Honduras. To begin with, there is no continuity of benefits nor of beneficiaries; the list of beneficiaries changes frequently for no apparent reason. As

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3/ H. Alderman and M. García, *Poverty, Household Food Security, and Nutrition in Rural Pakistan*. International Food Policy Research Institute, Washington, 1993.

4/ J. C. De la Hoz, *Consultant's Report*. Inter-American Development Bank, Washington, D.C., August 1998.

well, both the pattern of coverage and the level of program spending in the last few years have been very volatile (Table I-3).

**Table I-3**  
**PRAF coverage and spending**

	1992	1993	1994	1995	1996	1997	1998
<b>Social spending</b> (millions of lempiras)							
Education and health	1,180	1,353	1,621	2,150	2,475	3,035	
FHIS	110.8	285.9	125.9	169.1	461.1	650.3	
PRAF	38.5	62.9	47.9	132.2	188.7	215.2	
Cost per bonus (US\$ 1997)	3.54	2.86	1.42	1.57	2.59	3.05	3.66
<b>Coverage</b> (thousands of persons)							
Education bonus	33.0	193.6	159.5	157.2	165.0	172.3	84.7
Mother and child bonus	29.0	89.5	93.6	123.2	113.3	137.0	75.4

C. Barriers to efficient social-service delivery in Honduras

- 1.17 **Education sector.** The chief problems in the country's education system are the following: weak managerial and administrative capacity, inadequate information on the system's performance, lack of any tie-in between performance and rewards, little or no accountability to parents and students, inadequate personal incentives both for parents and teachers, and lack of consensus as to the role of the public sector in funding and delivering education services.
- 1.18 As a result of these problems, the education system is characterized by: (i) high repeater rates (30% in the first grade) and dropout rates (50% in the sixth grade); (ii) low school completion rates (of every eight pupils enrolled, only one will finish secondary school); and (iii) high illiteracy rates (30% rural, 15% urban).
- 1.19 Contrary to the public perception, education funding is not the major problem: Honduras allocates more than 100 dollars per pupil at the primary school level, and more than 140 dollars for secondary education. This compares favorably with per-student spending in countries that are posting higher internal returns. For example, Nicaragua spends US\$51 and Guatemala US\$67 per year. Mexico and Costa Rica spend US\$664 and US\$496 on secondary education, respectively (UNESCO).
- 1.20 **Health sector.** In recent decades, Honduras has made significant progress in improving the health status of its people. Fertility and infant mortality rates have both declined significantly, while coverage rates for immunization and safe drinking water have improved, and life expectancy has risen.

- 1.21 The delivery of health services to the poorest sectors has traditionally been based on a public system whose defining characteristics were extremely centralized operations and administrative weaknesses at all levels of the system. On the financing front, the budget system provides funds only for production inputs - and inadequately at that - with the lion's share being allotted to hospitals.
- 1.22 Meanwhile, the network of primary care providers is heavily dependent on external funds to defray a large part of its capital and operating costs. This reliance on external sources, combined with the structural problems cited above, brings with it financial and administrative constraints for the system to respond effectively to its users' basic health care needs. Lastly, the absence of any effective method for targeting public spending means that there is little assurance that public subsidies to the health system will actually reach those in greatest need.
- 1.23 In light of the situation as described here, the system is incapable of improving access to health services for persons living in extreme poverty, and who are therefore all the more firmly trapped in a vicious circle of poverty and illness. Nevertheless, the results of a series of local innovations that have been essayed suggest that a properly designed system of incentives, grounded in community participation and with organizational autonomy, can help remedy the problem of access to basic services.
- D. Conceptual basis of the program: from mitigation to combating poverty
- 1.24 As part of a new frame of reference, the future institutional development of the PRAF will have to focus on strengthening it as a core element in the process of developing, executing and evaluating a social policy aimed at combating poverty in Honduras. To this end, the program must ensure that it attains its goals and must adjust its policies continuously in light of its outcomes. When the PRAF was viewed simply as a program to offset the effects of structural adjustment, an operational approach to its tasks could be sufficient. Given its new objectives, however, it will have to be able to determine what mix of measures can most efficiently and effectively boost the demand for social services, have a real impact on health status and educational performance and, in general, break the vicious circle of poverty in which its beneficiaries are trapped.
- 1.25 The starting point for the new program will be to devise clear criteria for coverage, for improving the quality of education and health services, and for beneficiary selection. Its primary institutional-development feature will be to monitor and evaluate the costs and effectiveness of its interventions. These have been designed to address the shortcomings detected in the course of the studies and diagnoses produced during preparation of the program,

and they have been structured so that their outputs and outcomes will be measurable over the time horizon of the project.

- 1.26 The foregoing implies that, from the outset, the program must be equipped with new targeting tools that can identify the beneficiary population clearly. Without prejudging which kinds of interventions will produce the most or best results, the program will make use of a system of incentives intended to modify behavior on the part both of households and of providers of health and education services.

E. The Bank's country and sector strategy

- 1.27 A cornerstone of the Bank's social strategy in Honduras is to help foster a dialogue with all social-sector stakeholders, so as to move forward with a comprehensive strategy for combating poverty. At the same time, the Bank's poverty-reduction strategy gives priority to actions that are not only compensatory in their thrust, but focus on creating human and social capital among beneficiary communities.
- 1.28 The transition of the PRAF from a compensatory model to one dedicated to human-capital accumulation in the poorest segments of society will make the program a strategic piece of the battle against poverty. PRAF actions and their resulting impact will be crucial to the ongoing development of national policies for combating poverty. The program fits into the national strategy as a complement to the work of other players such as the FHIS. The PRAF will be working with households to encourage more active and effective use of social services, while the FHIS will operate at the local and municipal level to ensure timely access to social services. The Technical Analysis Unit (UNAT) of the Office of the President of Honduras will be the government body responsible for coordinating efforts pertaining to these two programs, and other relevant programs.

## II. PROGRAM DESCRIPTION, COST AND FINANCING

### A. Objectives

- 2.1 The program's general objective is to increase the accumulation of human capital among children of the very poorest Honduran families and thereby help break the circle of poverty.
- 2.2 The program will pursue the following concrete objectives:  
(i) boost the effective demand for education services;  
(ii) encourage the education community to take part in children's learning development; (iii) instruct mothers in sound feeding and hygiene practices; (iv) ensure that sufficient money is available for a proper diet; (v) promote demand for and access to health services for pregnant women and nursing mothers and children under age 3; and (vi) ensure timely and appropriate health care for PRAF beneficiaries.

### B. Description

- 2.3 The program is designed to redirect PRAF activities to move it from the current model, which is based on compensating for lost income and on demand incentives, to a model for accumulating human capital among the poorest of the poor. Its main features would be as follows: (i) a new targeting system for selecting beneficiaries; (ii) measures to stimulate the demand for and supply of education, nutrition and health services; and (iii) collection of baseline data and information from annual panel surveys on beneficiaries, to measure outcomes and progress under the program. These activities will be conducted with four distinct population groups, to be selected using the new targeting system. The first group will be provided with demand incentives only (GC1). The second will receive demand incentives, plus there will be interventions on the supply side (GC2). For the third group there will be interventions only on the supply side (GC3). The fourth, which will receive no interventions, will serve as a control group (GC4).
- 2.4 The program has been structured into three components with two types of incentive payments, as described below:

**Table II-1**  
**Program components and incentives**

Component	Grant (incentive payment)	
	Consumers (demand)	Providers (supply)
Nutrition	Nutrition and Health Bonus (BNS)	Instruction for mothers in sound feeding and hygiene practices
Health	Nutrition and Health Bonus (BNS)	Health Service Quality Incentive (ICS)
Education	Education Bonus (BE)	Learning Development Incentive (IDA)

1. Maternal and child nutrition and health component  
(US\$17.7 million)
- 2.5 The PRAF's current action in the area of nutrition and health is limited to its mother and child bonus (BMI), which is a cash transfer that, on one hand, raises household income (to enable greater consumption), and on the other hand encourages mothers to make use of mother and child health services (since a requirement for receiving the bonus is that beneficiaries keep current with their medical check-ups). Nonetheless, delivery of the bonus is to a large extent unrelated to compliance with these requirements, because there is no efficient follow-up system. This has a definite impact on the effectiveness of the health benefit. Furthermore, the lack of reliable survey data on consumption patterns for either beneficiaries or control groups makes it impossible to know the impact of the transfer on consumption, or on family nutrition.
- 2.6 Under the proposed program, the BMI will be changed into two types of incentive bonuses for nutrition and health (in the form of cash-equivalent scrip). The first will be directed at demand in both areas, and will consist of a transfer of funds aimed at: (i) encouraging the consumption of foods that will substantially improve the diet of children and pregnant women living in conditions of extreme poverty; and (ii) promoting the use of mother and child health services.
- 2.7 The bonus will give each household US\$48 per capita each year, to a maximum of two beneficiaries per family. This amount has been estimated on the basis of the cost of one third of the minimum food basket for rural residents. It is expected that the new bonus will benefit some 69,000 persons yearly during the last three years of program execution, or 29% of the target population for this component. To facilitate the transition from the current BMI to the new arrangement, in its first year the program will fund the current BMI bonuses at an annual rate of 600 lempiras per person, for an expected beneficiary base of about 33,425 persons.
- 2.8 The second type of incentive payment will be targeted to providers (or supply) both of health and nutrition services. For nutrition,

mothers will be taught sound feeding and hygiene practices. This task will be contracted out by the PRAF to local NGOs that will provide the instruction at selected health posts. The program will pay the cost of such training and the design, printing and distribution of materials, among other things. It is expected that some 27,500 persons will benefit each year.

- 2.9 In the case of health care, the grant to providers will be channeled through rural health centers, and will include a payment of US\$5,000 a year to ensure the delivery of timely and appropriate health care to PRAF beneficiaries. It is expected that the program will cover some 150 centers under this new modality during the execution period.
- 2.10 The following table provides details on the costs and benefits of this component each year, by population group and type of bonus.

**Table II-2**  
**Number of beneficiaries by type of incentive payment**  
**and annual unit cost of transfers**

<b>Beneficiaries</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>
<b>Group 1.</b>				
Nutrition/health bonus		42,483	42,483	42,483
<b>Group 2.</b>				
Nutrition/health bonus		27,500	27,500	27,500
Health centers		75	75	75
Nutrition instruction		13,750	13,750	13,750
<b>Group 3.</b>				
Health centers		75	75	75
Nutrition instruction		13,750	13,750	13,750
<b>Mother and child bonus, loan 949/SF type</b>	33,425			
<b>Total beneficiaries</b>				
Demand	33,425	69,983	69,983	69,983
Supply				150
<b>Unit cost of transfers:</b>				
Demand	600 lemp.	US\$48	US\$48	US\$48
Supply		US\$5,000	US\$5,000	US\$5,000

## 2. Education component (US\$22.6 million)

- 2.11 The current Education Bonus (BE) is an incentive to families to keep their children in school for an additional year. This scheme suffers from the same problems as the mother and child bonus, since payment of the bonus is not tied to compliance with the school attendance obligation. In the case of the education bonus,



adherence to the requirements is easier to track, since children must go to school more frequently than their mothers have to visit health centers. Yet the PRAF has no information system for monitoring school attendance of the children concerned in a way that would substantiate a decision by the teacher to withdraw benefits. <sup>5/</sup> As well, there is evidence to suggest that beneficiaries may be withdrawn from the list without the teacher's being aware of the reasons. The new model is intended to address the lack of continuity in benefits for individual families, the failure to provide follow-up and monitoring, and the absence of any supply-side actions that could help assure a positive return on the investment implied in sending children to school in rural areas.

- 2.12 For the poorest households, the implicit cost of sending a child to school (i.e. reduced consumption of other goods and services) is higher than the benefits to be reaped from that investment. On the other hand, there is evidence that other factors, such as the poor quality of education offerings, may also dampen the potential demand for education services. <sup>6/</sup>
- 2.13 This education component will fund two types of transfers. The first will remain a demand subsidy, but its amount (US\$38 per person per year) has been calculated in terms of the opportunity cost to poor rural families of sending their children to school. This new education bonus (in the form of cash-equivalent scrip) will be paid to families selected under the targeting formula, for each child under the age of 13 attending school in grades one through four, with a ceiling of three children per family.
- 2.14 The total number of children aged 5 to 12 in the lowest income distribution quartile amounts to some 379,000. About 112,500 persons will benefit each year during the last three years of program execution, or about 30% of the target population. To smooth the transition between the current BE and the new arrangement, during the first year of the program, the present BE bonus will be funded at an annual rate of 500 lempiras per beneficiary, for an expected beneficiary population of approximately 40,110.
- 2.15 In addition, a new bonus will be financed in the form of a Learning Development Incentive (IDA) that is intended to enhance the delivery of education services; this arrangement includes a financial transfer to parents' associations, through local NGOs. The size of the transfer will be determined by the number of students in each beneficiary school, with a weighted average of US\$4,000 per school. Four hundred schools will benefit each year, of which 300 will have PRAF pupils. The new bonus will foster

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<sup>5/</sup> [Grammatical footnote not applicable in the English text.]

<sup>6/</sup> Behrman and Birdsall (1985), "The Quality of Schooling: A Reply". American Economic Review, Vol. 75, No. 5, pp. 1202-1205.

school self-management and encourage parents to become involved in school activities. The use of the bonus will be supervised by a local NGO. Parents will be able to draw upon a portion of this bonus to reward good teacher performance.

- 2.16 The following table provides details on the costs and benefits of this component each year, by population group and type of bonus.

**Table II-3**  
**Number of beneficiaries by type of grant and**  
**annual unit cost of transfers**

Beneficiaries	Year 1	Year 2	Year 3	Year 4
<b>Group 1.</b>				
Education bonus		97,500	97,500	97,500
<b>Group 2.</b>				
Education bonus		15,000	15,000	15,000
Schools		300	300	300
<b>Group 3.</b>				
Schools		100	100	100
<b>Education bonus, loan 949/SF type</b>	40,110			
<b>Total beneficiaries</b>				
Demand	40,110	112,500	112,500	112,500
Supply		400	400	400
<b>Unit cost of transfers:</b>				
Demand	500 lemp.	US\$38	US\$38	US\$38
Supply		US\$4,000	US\$4,000	US\$4,000

### 3. Institutional strengthening component (US\$8.4 million)

- 2.17 The objective of this component is to design and implement a targeting system for poverty programs, improve the monitoring and evaluation system for PRAF programs and projects, and strengthen the capacity of the PRAF so that it can manage both systems efficiently. To these ends, the following activities will be financed:

#### a. Beneficiary targeting and selection (US\$3.2 million)

- 2.18 The actions called for in this program in support of education, health and nutrition for the poor will include a new mechanism for targeting and selecting beneficiaries. This mechanism will be based on identifying and selecting families living in extreme poverty through the use of a standardized form [*ficha*] to record the socioeconomic profile of each family.

- 2.19 To design this profile form, a representative household survey will be commissioned, funded with proceeds of loan 949/SF-HO. This will provide a basis for defining the variables, with their relative weighting, to be included in the beneficiary selection form. Consultants will be hired to perform an econometric analysis of the survey data, for use in designing the form. As well, the program will pay for the form's design and printing and the cost of administering it in a survey of all families in the target areas, following the procedures referred to in paragraph 3.18. The PRAF will be given training, equipment and technical assistance for putting this system into place.

b. Monitoring and evaluation system (US\$5.2 million)

- 2.20 The PRAF's capacity to monitor and evaluate all of its interventions will be bolstered. This will include the delivery of bonuses and monitoring the quality of services provided and the frequency with which they are used, among other elements. The Program Coordinating Unit will be given funds for preparatory work pertaining to the targeting mechanism, measures aimed at the supply side, and the new mechanisms for distributing and supervising bonuses, without overburdening the PRAF in its day-to-day operation.
- 2.21 Funds will be provided for gathering longitudinal data on beneficiary and non-beneficiary households, in the following combinations: (i) beneficiaries of demand subsidies by way of the education bonus (BE) and the nutrition bonus (BN); (ii) beneficiaries of BE and BN grants, plus supply-side interventions in respect of these services; (iii) those receiving the services who do not have demand subsidies, and (iv) people who are not beneficiaries of any intervention. The information includes the baseline needed for financing under the new operation, and four annual longitudinal (panel) surveys to be conducted in the course of the program.
- 2.22 Technical assistance, equipment, furnishings, and vehicles will be funded to assist with the work entailed in beneficiary selection, administering household surveys, taking anthropometric measurements, and systems for monitoring the progress of activities. Impact evaluations of the program will be done by local and international experts and their findings will be disseminated in seminars and publications included under the financing package. This will allow the evaluations to be conducted independently from the program. The information and data needed for the evaluations will be generated over the course of the program.
- 2.23 The mid-term evaluations of the program's operation and its impact will be disseminated through seminars, in which all stakeholders which are striving to endow the country with a working social safety net are expected to participate. These will include the

Ministry of Education, the Ministry of Health, the UNAT of the Office of the President, and the FHIS.

C. Program costs and financing

2.24 Table II-4 gives a breakdown of program costs and financing by cost item and funding source.

**Table II-4**  
**Cost and financing (In US\$000)**

Cost Item	IDB	Govt.	TOTAL
<b>1. Nutrition and health</b>	<b>15,834</b>	<b>1,850</b>	<b>17,684</b>
Traditional mother and child bonus	1,500		1,500
G1. Demand subsidy (BNS)	4,267	1,850	6,117
G2. Demand subsidy (BNS)	3,960		3,960
Health supply subsidy (ICS)	1,125		1,125
Nutrition supply subsidy	206		206
G3. Health supply subsidy (ICS)	1,125		1,125
Nutrition supply subsidy	206		206
NGO administrative costs	1,849		1,849
Materials	721		721
Consultants	275		275
Contingency	600		600
<b>2. Education</b>	<b>19,599</b>	<b>3,000</b>	<b>22,599</b>
Traditional education bonus	1,500		1,500
G1. Demand subsidy (BE)	8,115	3,000	11,115
G2. Demand subsidy (BE)	1,710		1,710
School supply subsidy (IDA)	3,600		3,600
G3. School supply subsidy (IDA)	1,200		1,200
NGO administrative costs	2,644		2,644
Consultants	110		110
Contingency	720		720
<b>3. Institutional strengthening</b>	<b>8,437</b>		<b>8,437</b>
<b>3.1 Beneficiary targeting and selection</b>	<b>3,194</b>		<b>3,194</b>
3.1.1 Equipment and materials	794		794
3.1.2 Profile form design and analysis	100		100
3.1.3 Survey using profile form	2,300		2,300
<b>3.2 Evaluation and monitoring</b>	<b>5,243</b>		<b>5,243</b>
3.2.1 Baseline and panel surveys	1,400		1,400
3.2.2 Evaluations	1,600		1,600
3.2.3 Strengthening of PRAF	1,590		1,590
Contingency	653		653
<b>4. Audits</b>	<b>80</b>		<b>80</b>
<b>5. Subtotal</b>	<b>45,950</b>	<b>4,850</b>	<b>48,500</b>
<b>6. Financial costs</b>			
6.1 Interest	836		836
6.2 Inspection and supervision	440		440
6.3 Credit fee		275	275
<b>TOTAL</b>	<b>45,226</b>	<b>5,125</b>	<b>50,351</b>
<b>Percentage</b>	<b>90</b>	<b>10</b>	<b>100</b>

- 2.25 The total program cost is estimated at US\$50.35 million, as shown in Table II-4, to be funded as follows: (i) US\$45.22 million by the Bank, from the Fund for Special Operations in U.S. dollars, and (ii) US\$5.1 million by the Government of Honduras. Since the program qualifies as a poverty-targeted investment, 10 additional percentage points would be added to the Bank's funding. The loan terms are shown below.

**Table II-5**  
**Loan terms and conditions**

Source of financing	Fund for Special Operations
Currency	U.S. dollars
Terms	
Amortization	40 years
Grace period	10 years
Disbursement period	4½ years
Interest rate	1% for first 10 years and 2% thereafter
Inspection and supervision	1% of total loan
Credit fee	0.5% of the undisbursed balance

### III. BORROWER AND EXECUTING AGENCY

#### A. The borrower

- 3.1 The borrower would be the Republic of Honduras, which would appoint as executing agency the Family Allowances Program (PRAF) which operates out of the Office of the President of the Republic.

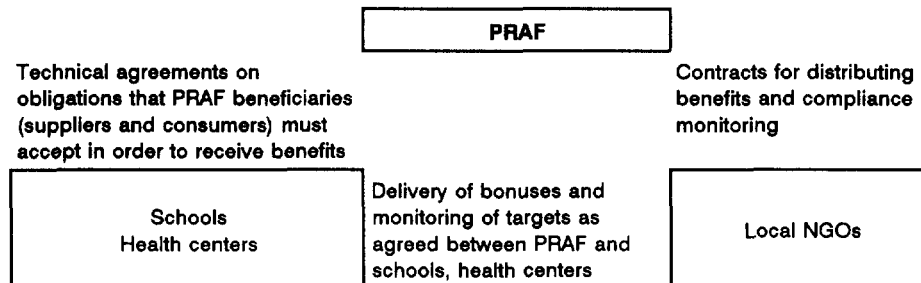
#### B. Implementation and disbursement periods

- 3.2 The execution period would be 4 years and the loan disbursement period 4½ years, both counting from the effective date of the loan contract.

#### C. Basic implementation scheme

##### 1. Conceptual underpinning

- 3.3 The basic program implementation scheme has been designed to allow activities to be shared among the PRAF, which is the executing agency for loan 949/SF-HO, schools, rural health centers, and nonprofit NGOs. The following diagram shows the relationship between these parties.



- 3.4 The PRAF will establish the technical, accounting and legal requirements under which schools, through parents' associations, and rural health centers, through their own staff, will receive funds for achieving the education, nutrition and health targets among the various sets of PRAF beneficiaries. Those targets will be set out in the operating manuals referred to above. The PRAF will enter into agreements with the schools and rural health centers to spell out the obligations of each party with respect to pursuing the nutrition, health, and education targets.
- 3.5 Local NGOs will be assigned responsibility for distributing the bonuses both to families and to providers in the education, nutrition and health sectors, and for supervising compliance with the covenants of the agreements cited in paragraph 3.4. The PRAF will engage the services of these NGOs in accordance with the program's procurement plan.

- 3.6 In this context, it was thought that work was needed to bolster the current installed capacity of the PRAF to: (i) create and implement efficient targeting mechanisms; (ii) improve its systems for creating and distributing bonuses to eligible beneficiaries; (iii) broaden the coverage and improve the systems for tracking, monitoring and evaluating projects and programs; (iv) improve financial and administrative controls over the use of resources; (v) strengthen coordination with specialized private institutions; (vi) inform the public of the outcomes and scope of the activities being funded; and (vii) conduct prospective studies on the sector and publish the findings.

## 2. Institutional, financial, and operational arrangements

- 3.7 **Institutional:** The Family Allowances Program (PRAF), which operates out of the Office of the President of Honduras, began as a pilot project under the Honduran Social Investment Fund, its aim being to provide cash transfers in the form of education bonuses as an incentive to poor families to send their children to school, and paying a mother and child bonus to pregnant women and nursing mothers provided they undergo medical checkups for themselves and their infants and young children.
- 3.8 Between 1992 and 1998, PRAF bonuses under both categories benefitted an average of 233,000 poor people a year, a figure 37% higher than the original target. In the course of these activities the PRAF has built up considerable institutional capacity for distributing such incentives in an effective and timely manner, with the resulting social regard today for initiatives to benefit the poor.
- 3.9 Full use will be made of that capacity in executing the program proposed herein, supplementing and bolstering it in the following key areas: (i) **financial and technical management**, by way of technical assistance in budgeting, accounting, auditing, disbursements, procurement, and management of the new beneficiary targeting and selection system; (ii) **computerized information processing**, through the purchase of computer hardware and systems, training for current staff and technical assistance in information processing, electronic communications, records and statistics; (iii) **monitoring and evaluation**, through the purchase of systems, software and hardware for gathering data needed to establish the baseline data and record data annually for use in tracking, monitoring and evaluating the program, by way of technical assistance in those areas; and (iv) **bonus distribution and supervision**, through contracts with specialized NGOs.
- 3.10 For purposes of this program, the PRAF schools must have a duly constituted parents' association and must pledge to use the funds to enhance the quality of education, ensure that children covered by the program stay in school, and furnish education statistics and

attendance indicators. Rural health centers must undertake to deliver a basic basket of health services as jointly defined in accordance with Ministry of Health standards and protocols, to achieve health targets for the beneficiary population as established in the baseline and annual reviews, and to supply information on the services they provide.

- 3.11 Nongovernmental organizations will be contracted through competitive bidding. They will be responsible for the following basic functions, by sector: (i) **education**: (a) deliver the education bonus to beneficiary families; (b) verify education statistics and indicators supplied by the school on attendance and other items; and (c) deliver the IDA incentive to the parents' association for the purchase of approved goods and services required to operate the school properly, and supervise expenditure; and (ii) **nutrition and health**: (a) deliver the nutrition and health bonus to beneficiary families and to rural health centers; (b) track attainment of the anthropometric targets for children; and (c) verify that health care providers are applying universal quality standards in their service delivery and are meeting the health targets agreed with the PRAF.
- 3.12 The NGOs will report to the PRAF on the findings of their supervision of the two sectors, and will offer recommendations as to payments to be made and improvements to processes and systems, among other things.
- 3.13 In addition, as an exception to the procedure for selecting consultants through open calls for proposals, it is recommended that the services of the International Food Policy Research Institute be engaged directly for technical supervision for design and implementation of the targeting form, and the beneficiary selection process (paragraphs 3.18 and 3.19), which is one of the most critical steps in the program's implementation and is expected to take between 8 and 12 months to complete. These services would also cover technical checking of the collection of baseline data for use as inputs to the tracking, monitoring and evaluation of the program and for verifying the relevance of the benchmarks for progress and output and their targets. In addition, the Institute would coordinate the required evaluation studies and, in concert with the PRAF, would disseminate their findings. The Institute has extensive experience in this type of work, and it was recently in charge of evaluating the PROGRESA initiative in Mexico, a program with features similar to those of the operation described in this proposal.
- 3.14 **Financial**: Between 1992 and 1997, the budget executed by the PRAF rose by 435% - in absolute terms, from US\$2.4 million to US\$19 million. Consolidated spending under the poverty programs, which stood at US\$51 million in 1992, had risen to US\$112 million by 1997. PRAF expenditures account for 18% of consolidated



spending on poverty programs. According to the investment timetable outlined below, estimated annual local counterpart funds could be provided in full from the budget resources available in 1998 and planned for 1999.

- 3.15 **Operational:** Since the initial phase of the new program will overlap with the final phase of loan 949/SF-HO, and bearing in mind that this program calls for designing and putting in place a new beneficiary-targeting system as a precondition for awarding bonuses (paragraph 2.3), activities have been synchronized as follows to make for orderly implementation.

a. Distribution of current bonuses

- 3.16 In order not to interrupt the aid now being received by poor families, the PRAF would use up to an aggregate of US\$3 million of the proceeds of the proposed program to award about 40,000 education bonuses and 67,000 mother and child bonuses of the same kind and following the same procedures used in loan 949/SF-HO. According to demand data, the PRAF would likely award these grants within 12 months.

b. Procedure for distributing the new bonuses to families

- 3.17 To distribute the new bonuses throughout Honduras the PRAF would draw up a list of localities based on the findings of the 1997 anthropometric (height for age) census. From that list it will select localities whose chronic malnutrition indices fall below a standard deviation from the mean. From this preliminary selection of eligible localities it will choose a random statistical sample to which the targeting profile form will be administered, and on that basis the new bonuses will be allocated. Only families residing in the aforementioned localities who qualify under the targeting system described below will be eligible for the new incentive payments.

c. Criteria for selecting schools and rural health centers for the new bonuses

- 3.18 Schools and rural health centers will be selected on the basis of the following criteria:

GROUP	
GC-2	Localities with PRAF beneficiaries
GC-3	Localities with no PRAF beneficiaries

d. Design and introduction of the targeting form for beneficiary selection

- 3.19 **Design of the profile form:** In designing the targeting form, funds from loan 949/SF-HO will be used to hire a consulting firm to conduct a nationwide survey of representative households, to come up with statistical data for use in the design and econometric analysis of the form. In addition, specialized consulting services will be hired to map out the system to be used in weighting the relevant variables to be included in the form, and thereby to determine prospective beneficiaries' eligibility for PRAF grants. These same consultants will design software to use in gathering the data and processing the profile forms.
- 3.20 **Implementation of the profile form and selection of beneficiaries:** Specialists will be hired to implement the profile form, a process that will begin with a census survey of families living in the selected localities and proceed with data entry into the system and delivery of the software to the PRAF, with the data and other pertinent documentation. The PRAF will process the information and produce a list of potential beneficiaries, by family, showing their geographic location and the type and amount of grant to be paid in each case. Only those on this list may receive the new bonuses under the program, and the Bank's non-objection will be sought for the list before bonuses begin to be distributed to recipients.
- 3.21 The above-mentioned list of beneficiaries will be kept constant during program execution. The executing agency will need to clear any modifications to it with the Bank, providing an explanation for the desired change. It is expected that minor adjustments to the list may need to be made in cases where beneficiaries fail to fulfill the requirements of the program, such as regular attendance by children at school or pre- and post-natal visits by women to rural health centers.

D. Other implementation arrangements

1. Investment timetable and special conditions precedent to the first disbursement
- 3.22 **Disbursement timetable:** The following table shows the funds to be disbursed by type of activity during implementation of the PRAF.

**Table III-1**  
**Disbursement timetable**  
**(US\$ million)**

Activity	Year 1	Year 2	Year 3	Year 4
<b>Bonuses:</b>				
Education	1.5	4.8	4.8	4.8
Nutrition and health	1.5	5.8	5.8	5.8
Consulting services	4.0	0.3	0.3	0.3
Hardware and software	0.3			
Administration	1.3	3.0	2.2	2.0
<b>TOTAL</b>	<b>8.6</b>	<b>13.9</b>	<b>13.1</b>	<b>12.9</b>

- 3.23 **Special conditions precedent to the first disbursement:** The table below lists the special conditions that must be fulfilled prior to the first disbursement, estimated time for compliance, and means of verifying compliance.

**Table III-2**  
**Special conditions precedent to the first disbursement**

CONDITION	COMPLIANCE TIME	MEANS OF VERIFICATION
Model PRAF-NGO agreements PRAF- Schools PRAF - Rural health centers	1 month	Negotiated agreement

2. Follow-up, monitoring and evaluation

- 3.24 The executing agency will prepare annual monitoring reports and submit them to the Bank within the first 60 days of the respective year. These reports will examine progress on the PRAF and will include measurement variables such as nutritional status of children, household consumption patterns, children's school attendance and performance, care and services received by pregnant women, and vaccinations.
- 3.25 The PRAF will be evaluated twice: (i) at the end of the first year of execution, taking into account the design and implementation of the targeting profile form, the procedures for gathering and processing data, and efficiency of the bonus-distribution system. The findings of this evaluation will be used to adjust the profile form's design and the distribution of bonuses, as well as the amount and coverage of supply-side bonuses, before making further use of them to select beneficiaries and to award grants in subsequent cycles. The evaluation will also measure progress against the benchmarks devised for education, nutrition, and health; and (ii) at the end of the third year of program execution,

on the basis of the same indicators as to efficiency of the form and education, nutrition, and health benchmarks. The Logical Framework in Annex I contains the monitoring benchmarks that will be used to measure progress under the program.

3. Retroactive recognition of expenses and financing

- 3.26 The Government of Honduras has indicated that there are no outlays that could be recognized and/or financed retroactively under the program.

4. Revolving fund

- 3.27 It is recommended that a revolving fund equivalent to 5% of the financing be set up during the first year of program execution, and that it be increased to 10% during the second, third and fourth years. This recommendation takes account of the fact that the bonuses would be funded largely by Bank resources and that, during the second, third and fourth years, outlays under this heading will come to roughly US\$10 million each year. The size of the proposed revolving fund will give the executing agency adequate assurances of being able to honor its commitments in a timely manner in terms of distributing grants to beneficiaries, and avoid delays that might affect its credibility. It is expected that the executing agency will be in a position to justify its use of the recommended revolving fund within the time limits set in the Bank's regulations, since what is involved is the payment of direct subsidies for the demand for and supply of education, nutrition and health services. It is further recommended that the executing agency maintain proof of payment records for program-funded expenditures, for review by the Bank.

5. Procurement of goods and services

- 3.28 The program does not call for civil works construction. Bank procedures will be followed for the procurement of goods and the hiring of consulting services. Direct contracting of consultants will require prior clearance by the Bank.
- 3.29 The loan contract would contain the Bank's standard covenants as to land and easements, accounting and audits, and inspection and supervision.

#### IV. VIABILITY, BENEFITS, AND RISKS

##### A. Institutional viability

- 4.1 According to the institutional analysis, the PRAF has experience in managing and distributing transfers to local entities throughout Honduras and has demonstrated that it can manage a significant volume of funds. It has administrative, technical, and financial autonomy, and experience in implementing beneficiary-targeting systems and in working under agreements with local institutions such as schools and rural health centers. The PRAF's operational capacity is solid, and it has shown itself to be an efficient executing agency for international projects.
- 4.2 The new model called for in the program will require a more complex database, which in turn will have to run on a more sophisticated computer system than the one currently in use; the PRAF's systems management thus will need to be bolstered. The new targeting system, supply-side subsidies, and new approaches to bonus distribution will require strengthening of the PRAF's human capital. This will mean early and suitable training for its technical staff so that they can take on the new tasks envisaged in the program.

##### B. Technical viability

- 4.3 The program's technical viability is based on the results of international experience with similar programs and those of specific programs in the nutrition, health, and education areas. 7/ As well, the technical viability of the program's supply-side interventions is based on similar experiences within Honduras and elsewhere in the region, such as the ACCESO program of the Honduran Ministry of Health, the EDUCO programs of the Ministry of Education of El Salvador, and the PROHECO program of the Education Ministry in Honduras. 8/

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7/ See, for example: "Progresas: Program for Education, Health and Nutrition", Government of Mexico; "Poverty, Household Food Security, and Nutrition in Rural Pakistan", Alderman and García, Research Report 96, IFPRI; K. A. Weis, 1990, "Influence of economic incentives on the clinical performance of the physician agent", University of North Carolina, Chapel Hill.

8/ N. Hernández. "Study of the Socioeconomic Viability of Supply and Demand Interventions in Nutrition and Health". IDB mimeo, August 1998.

C. Benefits, beneficiaries, and impact

- 4.4 The program will make a comprehensive contribution to the Honduran government's poverty-alleviation effort and will serve as a valuable instrument to help weave a sound and effective social safety net in the country. It is expected to enhance the effectiveness of poverty-alleviation programs by introducing and evaluating interventions on both the demand and the supply side, and determining the relative importance of these two approaches.
- 4.5 Extreme poverty tends to perpetuate itself from generation to generation. Children born into a poor family typically have low birth weights and face a high mortality risk during their first year. As well, they are exposed to recurrent infectious diseases and nutritional deficiencies that can stunt their normal growth and development.
- 4.6 In Honduras as elsewhere, children of poor families typically start school later, having had no exposure to any kind of program or intervention that could stimulate their innate abilities, such as pre-school education. Specific studies in Honduras have shown that the probability of acquiring one additional year of education is strongly correlated to the age at which the child begins school. That study concludes that for each additional year beyond the age of six that a child waits before starting school, the dropout probability increases by 25%. <sup>9/</sup>
- 4.7 Nutritional and dietary deficiencies continue when children reach school age, and may impair their ability to absorb instruction. As well, the economic difficulties facing poor families may induce parents to keep their children at home in order to supplement the family's income. In this way, conditions are created that bequeath poverty from one generation to the next.
- 4.8 Nutrition, health, and education thus are strategic factors in poverty-reduction initiatives. The proposed program has been designed to remove obstacles that impede access by poor families to proper nutrition and to health and education services. At the same time, the program will promote greater use of available services, and will encourage local participation in its activities. The specific benefits expected to flow from each of the program actions are set out in detail in the Logical Framework appended to this proposal.

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<sup>9/</sup> J. Edwards and S. Parandenkar, 1997. "Primary Education Efficiency in Honduras. What Remains to be Done?". LASHD Paper Series No. 7, World Bank.

- 4.9 **Impact on women.** One important consideration in the program is that it will be transferring cash bonuses to mothers, whether or not they are the head of the household, and it is assumed that they will distribute the resources in a different way than would men.
- 4.10 **Monetary transfers** may have side effects not foreseen under the program. The greater control that women will exercise over family incomes may lead to more efficient use of the resources, but it could at the same time reduce men-to-women transfers and see men's consumption of personal goods rise. Similarly, changes in the relationships of control over family resources and any correlated increase in the likelihood of domestic violence will have to be watched for during program execution.
- 4.11 **Evaluation methodology.** The program's design takes account of the considerations outlined below, so as to ensure that the program can be properly evaluated.
- 4.12 **Intervention groups and control groups.** To be able to evaluate the impact that supply and demand incentive payments have on nutrition, health, and education indicators, it will be necessary to set up intervention groups by means of which the separate effects can be identified. To this end, the program design calls for the inclusion of four distinct population groups.

**Table IV. Intervention and control groups**

G1	Demand subsidies
G2	Supply and demand subsidies
G3	Supply subsidies
G4	Control group, no transfers

- 4.13 The above classification suggests that only four experimental groups are needed. However, the selection of control groups must take into account other variables that may influence the impact indicators for the interventions. It is critical in this regard that the control groups be located in the same geographic areas. Moreover, in order to distinguish the impact on the poorest households, the control groups must include families in both selected and non-participating municipalities, and families that have qualified under the new targeting system as well as those that have not.
- 4.14 **Sizing the beneficiary groups.** The size of each group has been determined so as to afford sufficient statistical confidence against Type I errors (the risk of assuming that there are effects

when in reality there are none), and to assure that the results have sufficient statistical power to detect effects when they do indeed exist (Type II statistical error). The first consideration is known as statistical significance, and the second as statistical power. The group sizes for the program have been selected to have a significance of 0.05 and a power of 0.90. This means that, in order to measure an impact on the use of health services by women of childbearing age, it is necessary to finance about 27,000 beneficiaries in each group, which is 73% of current coverage. In the case of education, the idea is to measure the impact on children's learning, and for this, 15,000 beneficiaries are required. In order not to drastically reduce the coverage of the current program, additional funding has been included, but even so, only 48% of the present coverage would be financed.

- 4.15 The group sizes have been adjusted in light of the following factors: (i) design effects (where the sample may not be purely random), (ii) the proportion of complete information on households, which should be 80%, and (iii) the proportion of individuals in each household who are eligible to participate in the program.

D. Economic and financial sustainability

- 4.16 **Economic sustainability.** This is based on achieving the targets with respect to the health, nutrition and education benchmarks identified in the program's logical framework. The strengthening of human capital in program beneficiaries will assure that the investments have been economically viable. The available evaluations of PRAF bonuses show them to be relatively cost-effective, but there has been no estimate of the impact of distinct interventions. The program will ensure that the information needed for an impact evaluation will be compiled throughout the course of the program, so that a cost-effectiveness assessment can be made of demand versus supply subsidies, or a combination of both.



**Table IV-2**  
**Costs and effectiveness of mother and child support programs**

Indicator	Bonuses (BML)	PAMI (food distribution)	PAC (food provided in the establishment)
Number of beneficiaries	117,041	39,500	56,561
Number of families	78,027	19,750	26,934
Total costs	24,002	17,072	22,077
Cost per beneficiary	205	432	390
Transfers in lempiras	23,174	3,002	11,043
Cost per transfer (lempiras)	1.03	2.00	5.69

Source: "An evaluation of SMI programs for distributing bonuses (BML) and food", Fiedler, Sanghvi, Sáenz, Rogers, Behrman, Phillips and Tatian, September 1995.

- 4.17 **Financial sustainability.** The PRAF program was set up in 1990 as a form of economic compensation to cushion the impact of macro-economic adjustment on the country's poor and indigent population while economic management efforts sought a better and more equitable division of income among the poor. Since 1992, and especially between 1995 and 1998, the PRAF has received international financial contributions totaling some US\$80 million from the IDB and the World Bank. The balance (to a total of US\$100 million) has come from local contributions and support in smaller amounts from other countries such as Japan. This has allowed spending to be kept at the level posted during the period 1990-1994, and to defray the new demands that were generated by the adjustment process. The country's effort to keep the PRAF financially sustainable can be seen in the size of the budget, which rose from US\$2.4 million in 1992 to US\$19 million in 1997. Budgeted spending of US\$12 million in 1998 and the projected level of US\$10 million for 1999 attest to the government's commitment to shift from a compensatory model to one of human capital accumulation among the country's poorest.
- 4.18 The proposed program will enhance the efficiency of PRAF spending by adjusting the size of transfers, to keep them adequate but not excessive in terms of achieving the desired impact on education and health. More important still, the PRAF will target its transfers to the lowest-income groups (the poorest 25%), in order to increase the impact of such spending. It is estimated that there are about 205,203 families in the lowest income quartile in Honduras. Thus, the total number of potential PRAF beneficiaries is equal to the number of mothers of children from newborn to three years, and the number of children from 5 to 12 in these families, giving a total universe of 622,000 prospective recipients. The following table shows the maximum funds the PRAF would need in order to serve 100% of this population.

Table IV-3  
Funds needed to serve 100% of the target population

Beneficiary category	Universe	Unit transfer	Total funds
Mothers and children from 0-3 years	242,178	US\$48	US\$11,624,544
Children from 5 to 12 years	378,913	US\$38	US\$14,398,694
TOTAL	621,091	10% administration	US\$28,523,238

- 4.19 The above-noted funds take into account only demand subsidies; if it is found essential to offer supply subsidies as well in order to achieve the desired results, then considerably more resources would be needed. This is particularly the case for education, where an additional transfer of US\$4,000 per school should be considered, covering a minimum of 7,500 schools, which would add US\$30 million for education supply incentives alone. On the health front, it is estimated that a further US\$5 million would be needed, at a basic package cost of US\$5.
- 4.20 The foregoing considerations point up the importance of ensuring that PRAF interventions are effective, i.e. that they result in a real increase in human capital among the target population. The volume of funds necessary to serve the poorest of the poor accounts for a very high share of social sector spending. The financial sustainability of the PRAF will depend in the final analysis on its ability to target its resources to the neediest and to ensure that its interventions are continuously evaluated and adjusted in order to maximize their impact on the target population. Finally, interventions in the areas of health, nutrition and education must be closely linked to the efforts of the line ministries, which will need to undertake compensatory activities and programs to complement or substitute for the PRAF investment among the same target population.

E. Risks

- 4.21 **Beneficiary targeting.** During the project identification stage the project team evaluated the targeting mechanisms in use by the PRAF, and found that the program would need to develop selection mechanisms that are more family-focused. In addition to the risk that people who are not poor might be included in the program, there is the possibility that some of the very poorest will be excluded from it, since it is likely that those families are not using social services.
- 4.22 To make the program more effective, a new targeting tool will be designed. To be able to use such an instrument in the field and to help select recipients, a national household survey will have to be conducted. Furthermore, the baseline for the evaluation will have to be put together at the start of year 1 of the program, from the universe of target beneficiaries. This means that the evaluation

team will have to be in place before these activities commence. To counter the risk that the information might not be available in time, the project team has satisfied itself that the funding is available and that the survey design and field work will be completed before eligibility. Similarly, the contract with the International Food Policy Research Institute (IFPRI) will ensure that the evaluation team is in operation before the targeting and evaluation data gathering work begins.

HONDURAS  
FAMILY ALLOWANCES PROGRAM (PRAF)  
(HO-0132)

**LOGICAL FRAMEWORK**

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	MAIN ASSUMPTIONS
<p>Goal:</p> <p>1. An adequate and working social safety net to combat poverty in Honduras</p>	<p>1.1 Social safety net model in operation in Honduras</p>	<p>1.1 Ex post evaluation of the program</p>	<p>(Goal to super-goal)</p>
<p>Purpose:</p> <p>1. To break the circle of poverty by increasing human capital accumulation in children of the poorest families</p>	<p>1.1 At the least, best practices identified by the end of the program</p>	<p>1.1 Evaluation documents</p>	<p>(Purpose to goal)</p> <p>1. Sociopolitical consensus of the government to break the circle of poverty nationwide</p>

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	MAIN ASSUMPTIONS
<p>Outcomes:</p> <p>1. Effective use of suitable and adequate health services; better diet and hygiene in the home thanks to health and nutrition incentive bonuses for children and pregnant women living in extreme poverty</p>	<p>1.1 Chronic malnutrition levels in children under age 3 reduced by 30% in 4 years</p> <p>1.2 13,750 women of childbearing age given instruction in nutrition and caring for their health</p> <p>1.3 25% increase in demand for health services in beneficiary families over 4 years</p> <p>1.4 Prenatal checkups increase by 25% by program end</p> <p>1.5 Growth and development check-ups for children under age 3 years increase by 15% by program end</p> <p>1.6 30% of mothers have postnatal mother and baby check-ups within 10 days after delivery</p> <p>1.7 All pregnant women have tetanus shots</p> <p>1.8 55,000 nutrition and health bonuses dispensed annually to beneficiary families in years 2, 3 and 4</p> <p>1.9 Average annual increase of 10% in demand for basic health services among beneficiary families in years 2, 3 and 4</p> <p>1.10 Nutritional education program designed and approved in year 1</p> <p>1.11 Nutritional education materials produced and distributed in years 2, 3 and 4</p>	<p>1.1 Bimonthly panel survey of anthropometric data during the program (years 2, 3 and 4)</p> <p>1.2 Baseline survey and periodic measurements of household health and nutrition knowledge and practices</p> <p>1.3 Annual panel surveys on demand and on determinants of access to health services in households</p> <p>1.4 Prospective household survey</p> <p>1.5 Annual program reports</p>	<p>(Outcome to purpose)</p> <p>1. Willingness of beneficiaries to take part in the program</p>

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	MAIN ASSUMPTIONS
2. Bonuses spur demand for education services and education-community involvement in child development	2.1 Education bonuses benefit 40,110 children in year 1 and 40,000 children in following 3 years 2.2 400 schools benefit from incentives in each of last 3 years of project 2.3 Increase of 20% in 6-year-old enrolment in first grade as from year 1 2.4 95% of pupils going on to second and third grade as from year 2 2.5 10% decrease in repeater rate by end of year 2, and 20% dropout as from year 1 2.6 400 parents' associations trained as from year 1	2.1 NGO demonstration that bonus was delivered and signed for by recipient mother 2.2 NGO demonstration that incentive was delivered to parents' association 2.3 NGO report on number of pupils enrolled in first grade; number of pupils going on to grades 2 and 3; repeater and dropout rates for beneficiaries and number of unjustified absences 2.4 Educational activities generated by parents' association as from year 2	
3. PRAF institutional capacity strengthened for targeting, evaluation and operations	3.1 Bonuses distributed in selected municipalities as from year 2 of program 3.2 Econometric analysis to design the targeting profile form during year 1 3.3 IFPRI installed and operating in year 1 3.4 Baseline data survey in year 1 3.5 Informatics training for current personnel and hiring of 6 person/months in information systems 3.6 Regularized relations between NGOs and schools 3.7 Equipment and training for new systems installed and running in year 1	3.1 National survey 3.2 Census survey in communities 3.3 New database	

**HONDURAS  
FAMILY ALLOWANCES PROGRAM (PRAF)  
(HO-0132)**

**PROCUREMENT PLAN**

Major items	Funding	Procurement method	Prequalification	Planned publication SPN
<b>1. Program implementation</b>				
<b>Technical assistance (US\$13 million)</b>  Nutrition instruction  NGO training  Educational materials in nutrition, health and education  School, health center and NGO operating manuals  Evaluation and monitoring	IDB 100%	ICB over US\$200,000  LCB from US\$100,000 to US\$199,000  LB less than US\$99,000 and greater than US\$40,000  DC less than US\$40,000	No	from II/99 to I/03
<b>Computer hardware and software (US\$1 million)</b>  Hardware: computers, printers, scanners  Software	IDB 100%	ICB over US\$250,000  LCB from US\$140,000 to US\$249,000  LB less than US\$139,000 and greater than US\$40,000  DC less than US\$40,000	No	from II/99 to I/03
<b>Transfers (US\$33 million)</b>	IDB 85% GHO 15%	N/A	No	N/A
<b>2. Program administration</b>				
Short- and long-term consulting contracts (US\$1.5 million)  Program logistical support  Courses and seminars PRAF personnel	IDB 100%	ICB over US\$200,000  LCB from US\$100,000 to US\$199,000  LB less than US\$99,000 and greater than US\$40,000  DC less than US\$40,000	No	NA

DC: Direct contracting  
 ICB: International competitive bidding  
 LB: Limited bidding  
 LCB: Local competitive bidding  
 SPN: Special Procurement Notice

**PROPOSED RESOLUTION**

**HONDURAS. LOAN \_\_\_\_/SF-HO TO THE REPUBLICA DE HONDURAS  
Poverty Alleviation Program - Phase II**

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 República de Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Poverty Alleviation Program - Phase II. Such financing will be for the amount of up to forty five million two hundred twenty six thousand dollars of the United States of America (US\$45,226,000), or its equivalent in other currencies, except that of Honduras, which are part of the resources of the Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.