

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **HONDURAS**

### **SOCIAL PROTECTION SYSTEM SUPPORT PROGRAM**

**(HO-L1093)**

### **LOAN PROPOSAL**

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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	Annual work plan (Plan of activities for the first disbursement and the first 18 months of execution) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38726214">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38726214</a>
2.	Monitoring and Evaluation Plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38725044">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38725044</a>
3.	Procurement Plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38771690">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38771690</a>
4.	Environmental and Social Management Report (ESMR) <a href="http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38769806">http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38769806</a>
<b>OPTIONAL</b>	
1.	Economic analysis of the Bono para una Vida Mejor program <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38725038">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38725038</a>
2.	Impact evaluation report on the Bono 10,000 program <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38724146">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38724146</a>
3.	Updated Technical Note on Gender and Diversity for the program <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38725113">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38725113</a>
4.	Analysis of the Economic and Fiscal Sustainability of the Bono para una Vida Mejor program <a href="http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38769786">http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38769786</a>
5.	Coverage Expansion Strategy for the Third Cycle <a href="http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38769796">http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38769796</a>
6.	Social Protection Policy <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38724127">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38724127</a>
7.	Territorial Focus of the Program to Support the BVM and EVM <a href="http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38769800">http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38769800</a>
8.	Technical Note on the Cost-Effectiveness of Payment Mechanisms in the Bono 10,000 Program <a href="http://publications.iadb.org/handle/11319/6033?locale-attribute=es">http://publications.iadb.org/handle/11319/6033?locale-attribute=es</a>
9.	Description of the new transfer mechanism <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36810250">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36810250</a>
10.	Manual for Planning Education Infrastructure with German Cooperation based on the PEC Model <a href="http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38769802">http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38769802</a>
11.	Institutional Analysis of SEDIS <a href="http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38770793">http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38770793</a>

12. Technical Note on Targeting  
<http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38791459>
13. Multisector Note on Social Inclusion of the Extremely Poor Population in the Rural Western Region  
<http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=39155279>
14. Safeguard Screening Form for classification of projects (SSF)  
<http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=38769806>

## ABBREVIATIONS

BANADESA	Banco Nacional de Desarrollo Agrícola [National Agricultural Development Bank]
BVM	Bono Vida Mejor
CABEI	Central American Bank for Economic Integration
CCTP	Conditional Cash Transfer Program
CENISS	Centro Nacional de Información del Sector Social [National Social Sector Information Center]
CEPROBAN	Centro de Procesamiento Interbancario [Interbank Processing Center]
EHPM	Encuesta de Hogares de Propósito Múltiple [Multi-purpose Household Survey]
ENDESA	Encuesta Nacional de Demografía y Salud [National Demographic and Health Survey]
ESMR	Environmental and Social Management Report
EVM	Estrategia Vida Mejor [Strategy for a Better Life]
FACACH	Federación de Cooperativas de Ahorro y Crédito de Honduras [Honduran Federation of Credit Unions]
FSO	Fund for Special Operations
GDIS	Gabinete Sectorial de Desarrollo e Inclusión Social [Sector Cabinet for Development and Social Inclusion]
GDP	Gross domestic product
IHER	Instituto Hondureño de Educación por Radio [Honduran Radio Education Institute]
INE	National Statistics Institute
LFE	Fundamental Law on Education
PCU-SEDIS	SSIS Project Coordination Unit, under SEDIS
PRAF	Programa de Asignación Familiar [Family Allowance Program]
RENPI	National Early Childhood Registry
RUP	Single Registry of Participants
SACE	Sistema de Administración de Centros Educativos [Education Centers Administration System]
SEDIS	Ministry of Development and Social Inclusion
SEFIN	Ministry of Finance
SSIS	Department of Social Integration

## PROJECT SUMMARY

### HONDURAS SOCIAL PROTECTION SYSTEM SUPPORT PROGRAM (HO-L1093)

Financial Terms and Conditions					
<b>Borrower:</b> Republic of Honduras				<b>Ordinary Capital</b>	<b>FSO</b>
<b>Executing agency:</b> Ministry of Development and Social Inclusion (SEDIS)			<b>Amortization period:</b>	30 years	40 years
			<b>Grace period:</b>	6 years	40 years
			<b>Disbursement period:</b>	3.5 years	3.5 years
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>	SCF-Fixed	0.25
<b>IDB (Ordinary Capital):</b>	76,909,000	63.6	<b>Inspection and supervision fee:</b>	**	N/A
<b>IDB (FSO):</b>	32,961,000	27.3			
<b>Local:</b>	10,987,000	9.1	<b>Credit fee:</b>	**	N/A
<b>Total:</b>	120,857,000	100.0	<b>Currency:</b>	United States dollars	United States dollars
Project at a Glance					
<p><b>Program objective:</b> The general objective of the project is to promote the accumulation of human capital among minors in families living in extreme poverty, with a territorial focus on rural areas in western departments of the country. The specific objectives are to: (i) support consumption among participating households; (ii) support the expansion of third-cycle educational offerings and increase the use of educational services; (iii) increase the use of health and nutrition services among participating households, particularly pregnant women and children; and (iv) support the strengthening of SEDIS's lead role, through the implementation of operational improvements in the <i>Bono para una Vida Mejor</i> program (BVM).</p> <p><b>Special contractual clauses:</b> <b>Conditions precedent to the first disbursement:</b> (i) SEDIS will have approved the project's Operating Regulations; (ii) SEDIS will have approved the project's Manual of Administrative and Financial Procedures; and (iii) the interagency agreement between SEDIS, the Ministry of Finance (SEFIN), the Ministry of Health, and the Ministry of Education will have been signed, establishing the terms for project execution (paragraph 3.3). <b>Environmental and social conditions:</b> In addition to the above conditions, the borrower will meet the environmental and social requirements established in Section VI of the Environmental and Social Management Report (ESMR) (paragraph 2.3). <b>Exceptions to Bank policies:</b> None <b>Special considerations:</b> Direct contracting is anticipated in accordance with the Bank's procurement policies (paragraph 5.3 of Annex III). <b>Project qualifies as:</b> SEQ [X] PTI [X] Sector [X] Geographic [ ] Headcount [X]</p>					

(\*) The borrower will pay interest on the debt balances for the portion of the loan from the Ordinary Capital at a LIBOR-based rate. Each time the debt balance reaches 25% of the net amount approved, or US\$3 million, whichever is greater, the base rate on the balance will be set.

(\*\*) 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 provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

## I. DESCRIPTION AND RESULTS MONITORING

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

- 1.1 The Honduran economy grew an average of 3.6% per year between 2010 and 2013, with inflation remaining stable at an annual 5.5%, a reversal of the decline caused by the 2009 financial crisis. This, added to economic growth of 5.1% annually between 2000 and 2008, is reflected in the change in the Human Development Index, which rose from 0.56 in 2000 to 0.59 in 2007, and then to 0.63 in 2012.<sup>1</sup> Per capita gross domestic product, calculated in terms of purchasing power parity, reached a historic high of US\$4,744 in 2012, a figure that is expected to exceed US\$5,000 in 2015.<sup>2</sup>
- 1.2 According to the most recent official data (May 2013), the poverty rate declined from 66.5% to 64.5% between 2012 and 2013; extreme poverty fell from 46.0% to 42.6%; and inequality, measured by the Gini index, declined from 0.57 to 0.54.<sup>3</sup> Despite these results, Honduras continues to be one of the poorest and most unequal countries in the region, with the third-lowest per capita income. Inequality can be seen in geographical terms: in 2013, extreme poverty was 21.1% in Tegucigalpa, 19.7% in San Pedro Sula, 36.0% in the remaining urban areas, and 55.6% in rural areas (overall poverty figures are 51.5%, 54.0%, 66.9%, and 68.5%, respectively). Also notable is the structural nature of the country's poverty and inequality: between 2001 and 2012, the growth elasticity of poverty was 0.6, while the regional average was nearly double this figure (1.1).<sup>4</sup> Moreover, with the exception of 2013, and unlike the other countries in the region, inequality in income distribution has increased during periods of economic growth. All of this confirms the need for active, targeted social policies to foster increased access to opportunities, in order to accelerate poverty reduction.
- 1.3 **Education.** While there have been improvements in educational achievement<sup>5</sup> and major advances in regulation and management, the system continues to face challenges. In terms of attendance, only 45% of youth 25 years of age have completed basic education (ninth grade: 64% in urban areas and 26% in rural areas). In rural households living in extreme poverty, declines in attendance can be

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<sup>1</sup> Between 2007 and 2012, when the global Human Development Index rose from 0.67 to 0.69, Honduras advanced by three positions (reaching 120 out of 186), placing it in the eighty-second percentile in terms of changes in ranking.

<sup>2</sup> IMF World Economic Outlook, October 2013.

<sup>3</sup> The Gini index uses values between 0 (absolute equality) and 1 (absolute inequality).

<sup>4</sup> The elasticity of poverty with respect to GDP growth measures the circumstances under which poverty would decline in a given year, with income distribution remaining fixed, if GDP increases by one percentage point. The countries are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, and Paraguay.

<sup>5</sup> The 2013 Multipurpose Household Survey (EHPM) shows that in the population 70 years old and older, 63% of people have two years or fewer of schooling, with only 19% having completed six or more years of schooling, while among the 25- to 30-year-old generation the corresponding figures were 13% and 75%, respectively.

seen, regardless of gender: from 89.3% for 11-year-olds to 73.6% for 12-year-olds and 30.1% for 15-year-olds. Given that average earnings per additional year of education are around 8% for males and 12% for females, each year of schooling not completed by members of poor households represents a lost opportunity for increasing household income from work in a significant and sustained manner. The challenges in educational coverage are largely reflected in the low advancement and retention rates in the third cycle, which can be traced to problems in both supply and demand, often related to financial constraints.<sup>6</sup> Thus, in approximately 66% of districts, there is no access to third-cycle education for the student population, meaning that 23% of the population lacks adequate access to that level of schooling. This has resulted in a marked gap between coverage in primary and secondary education: for the 20-29-year-old age group, the completion rate for primary education increased from 13% to 78% between 1970 and 2010, while the completion rate for secondary education only increased from 5% to 20%. At present, despite the fact that enrollment in primary schools is above 95%, only 87% complete sixth grade, while 54% complete the third cycle (70% and 37%, respectively, in the poorest departments of Intibucá, Lempira, La Paz, Copan, and Ocotepeque).

- 1.4 **Health and nutrition.** The health sector has seen significant progress in recent years; however, there continue to be challenges in terms of the need for vulnerable households to increase their use of the health services, particularly in relation to child health and women's reproductive health. Between 1990 and 2010, life expectancy at birth rose from 66 years to 72 years, while the maternal mortality rate fell by 60%, from 182 per 100,000 live births to 74 per 100,000 live births (with the mortality rate being higher for poor women, in rural areas, and among indigenous groups). At the same time, the 2011-2012 Encuesta Nacional de Demografía y Salud [National Demographic and Health Survey] (ENDESA) reports that institutional births increased from 71% to 83% between 2006 and 2012, nearly doubling in the lowest quintile, where there was an increase from 33% to 57.6%. In the same period, in the lowest quintile, infant mortality fell from 37 per 1,000 live births to 30 per 1,000 live births, while child mortality declined from 50 per 1,000 to 39 per 1,000. These improvements are attributable, in part, to the expansion of coverage under the decentralized management model, which has improved women's access to family planning, early identification of pregnancies, timely access to delivery care, and quality post-partum care. The high prevalence of adolescent pregnancies and nutrition levels in early childhood continue to pose challenges, particularly for the poorest populations. The rate of anemia among children 6 months to 59 months of age fell from 39.0% to 30.9%, but remains high

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<sup>6</sup> Data from the 2013 EHPM show that school attendance among the extremely poor in rural areas falls dramatically, from 89.3% for 11-year-olds, to 73.6% for 12-year-olds, and 50.7% for 13-year-olds. These figures are higher in the nonpoor rural population, but exhibit the same trend (100%, 84.8%, and 65.2%, respectively). This gap between the poor and nonpoor in rural areas reflects the magnitude of the problem of demand, while the gap between rural and urban nonpoor reflects the problem of supply (attendance in urban areas is 98.7%, 98.8%, and 95.4% for 11-, 12-, and 13-year-olds, respectively).



for children between 6 months and 11 months (46%). Between 2005-2006 and 2011-2012 there was an increase in the number of adolescent girls who had at one time been pregnant, rising from 21.5% of that cohort to 24.0% (ENDESA).

- 1.5 **Government response.** The Government of Honduras, with support from the Bank, is promoting major reforms to accelerate efforts to reduce poverty and improve nutrition, health, and education. The overall social policy framework is defined in the *Estrategia Vida Mejor* [Strategy for a Better Life] (EVM), based on the Social Protection Policy (2012) and the Social Policy Framework Law (2013). The EVM prioritizes human development, the reduction of inequalities, and the protection of the most vulnerable sectors, with emphasis on the poorest departments, located in the Dry Corridor, and on the indigenous population. The pillars of the EVM are a guaranteed minimum wage, access to basic education, primary health care, the promotion of healthy housing, and food security.
- 1.6 The design and implementation of the EVM coincides with a major effort to streamline and increase the efficiency of social spending. In December 2013, a comprehensive fiscal reform was approved, which included increasing the tax ratio, measures to streamline, control, and manage exemptions, spending, and public debt, as well as strengthening tax administration. The reform establishes a solidarity contribution to finance social spending, emphasizes the importance of targeting, and creates the Solidarity and Social Protection Fund for Reducing Extreme Poverty (Solidarity Fund). This fund, created by Decree 278-2013, will be made up of 4.5 billion lempiras (about US\$185 million). According to the Honduran government, the fund will be establishing using 50% of the increase in taxes resulting from the fiscal reform, with around 60% of it devoted to the EVM, mostly for the *Bono Vida Mejor* (BVM).<sup>7</sup> This serves as a clear signal of commitment to gradually taking over the program's financing.
- 1.7 **The Bono Vida Mejor.** A central pillar of the EVM is the *Bono Vida Mejor* conditional cash transfer program (CCTP). This program, previously known as *Bono 10,000*, which was created in 2010 and deepened and expanded the transfer mechanisms under the Programa de Asignación Familiar [Family Allowance Program] (PRAF), became the central feature of social policy, and is one of the public programs most valued by the population.<sup>8</sup> The BVM seeks to reduce poverty through transfers to support family consumption, delivered to mothers and conditional on promoting the accumulation of human capital among minors, actions that improve their income prospects and help break the inter-generational cycle of poverty. Beneficiary households are selected through a process of targeting, based on a household's level of well-being, and the household commits to encouraging

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<sup>7</sup> See Article 45 of the law.

<sup>8</sup> According to the survey, "Perceptions of the Honduran situation in 2012," by the Reflexión, Investigación y Comunicación team, the program is considered the main achievement of the previous government.

children's school attendance and use of health services.<sup>9</sup> The Bank has been the Honduran government's main partner in designing and implementing *Bono 10,000*, providing four loans since 2010: 2096/BL-HO, 2372/BL-HO, 2737/BL-HO, and 2937/BL-HO, for US\$20 million, US\$55 million, US\$75 million, and US\$100 million, respectively. The first two loans have been fully disbursed, while the remaining two have been 96% and 42% executed, respectively. The Bank's support has made it possible to consolidate the program, achieve the outcomes indicated below, and identify the improvements that will be promoted by this operation.

- 1.8 In health, the priorities for 2014-2018 involve extending coverage of the decentralized management model to the 104 poorest municipios in the western region, creating 500 primary health care teams, consolidating integrated health care service networks, and instituting decentralized management in hospitals. The Bank is supporting this agenda with two operations for strengthening decentralized management of health services (loans 2418/BL-HO and 2943/BL-HO). In addition, the Mesoamerica Health Initiative 2015, focused on the poorest population, is helping to improve access, coverage, and quality of health services and maternal and child nutrition, through the provision of micronutrients, improved family planning services, and implementation of community-based comprehensive child care. Lastly, the Mother and Child Hospital Network Strengthening Program (loan 2743/BL-HO) seeks to expand the coverage and quality of labor and delivery care and emergency obstetric care, through implementation of the decentralized management model at hospitals.
- 1.9 In education, the priorities are to move forward in implementing the Fundamental Law on Education (LFE), approved in 2012, and to consolidate improvements in system management.<sup>10</sup> One key point of the LFE is to increase coverage of pre-basic and third-cycle (grades 7 to 9) education in rural areas. The Bank has provided support for expanding third-cycle education through loans 1069/SF-HO and 1552/SF-HO. At present, through technical cooperation operation ATN/OC-13428-HO, support is being provided for developing a strategy to expand third-cycle offerings. In addition, the Social Safety Net Support Program II (loan 2937/BL-HO) included a component for implementing flexible mechanisms to increase educational offerings in rural areas by contracting the Instituto Hondureño de Educación por Radio [Honduran Radio Education Institute] (IHER) to provide educational services under the guidelines of the Ministry of Education. This intervention provides access to seventh grade for more than 3,750 students in rural areas covered by the BVM, a population that was not being served by the education system.

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<sup>9</sup> The targeting model for selecting beneficiaries consists of a Proxy Mean Test based on the households' incomes and socioeconomic characteristics. With the proposed model, the exclusion and inclusion errors for rural areas are 17% for targeting poverty and approximately 25% for extreme poverty (see [Targeting Note](#)).

<sup>10</sup> For example, according to *Transformemos Honduras*, in 2013 there were 200 days of school attendance, a figure that exceeded the number of attendance days for 2012 and 2013 combined.

- 1.10 As part of the reorganization of the Executive Branch, the Sector Cabinet for Development and Social Inclusion (GDIS) was created as a lead agency for social policy. The GDIS coordinates ministries including the Ministry of Development and Social Inclusion (SEDIS), the Ministry of Education, and the Ministry of Health. The lead and executive roles of SEDIS are also being strengthened, by consolidating institutions (such as the National Youth Institute, PRAF, and the Ministry of Indigenous Peoples and Afro-Hondurans), with the goal of streamlining the spending of social programs to be executed by SEDIS. This has the potential to strengthen synergies and coordination among different demand stimuli, through the BVM, and to increase investment to improve the quality of offerings, an element that has been lacking in the history of CCTPs in Honduras.<sup>11</sup>
- 1.11 **Results of the BVM.** The program is the main instrument for combating poverty, and to date has reached 350,000 households,<sup>12</sup> representing some 30% of the extremely poor and 25% of all poor people nationally. The program has benefited approximately two million Hondurans, and operates in nearly 7,200 educational centers and 900 health care units. In 2013, the first monitoring took place of the program's impact evaluation;<sup>13</sup> it showed that the poverty rate fell by three percentage points, while per capita consumption increased by around 10%; at the same time, the poverty gap fell by 2.6 percentage points and the extreme poverty gap by 3 percentage points. School attendance rose by 6.2 percentage points in the second cycle and by 4.3 percentage points in the third cycle. Though the effects on health and nutrition were limited, among children under three years old there was a 2.6% increase in the number of children whose last visit to a health center was for a medical examination; in maternal health there has been an impact among women in households that receive health care support (12 percentage points in anti-tetanus immunizations and 22 percentage points in postpartum examinations). An increase has also been seen in autonomous decision-making by women with regard to household consumption, whether they work outside the home, as well as on their health, and the education and health of their children. A social audit was also conducted with support from a Civil Society Consultative Group (ConSOC), which recognizes the importance of the BVM for the support it provides for consumption by families and its effect in driving the use of health and education services. The audit suggested improving the efficiency of the payment process, creating public service facilities for resolving complaints and fielding reports, promoting transparency in certifications, aligning and improving the quality of health and education services, and targeting extreme rural poverty.
- 1.12 Results show that the program has fulfilled its short-term expectations and objectives, making it possible to identify areas of improvement (see paragraphs 1.13 to 1.18). In both health and education, greater effects have been seen when the

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<sup>11</sup> The [SEDIS Institutional Analysis](#) contains details on the entities and their responsibilities.

<sup>12</sup> To date, the BVM program includes around 350,000 beneficiary households (250,000 rural and 100,000 urban), financed with foreign and national funds.

<sup>13</sup> See [impact evaluation report](#). Further monitoring is planned in 2015.

support is related to individual behavior. For example, in families with only one child age six to eighteen, the impact on school attendance is twice the average; in health, the impact is greater when the family is not eligible for education support. This suggests the need to change the structure of transfers to a payment differentiated by child, relating the support to the behaviors the program aims to encourage. The findings of the social audit highlight the importance of strengthening the supply of health services and the third cycle of basic education. For the latter, this operation proposes a territorial approach to ensure that, beginning with municipios with high levels of vulnerability, primary health care services (through decentralized management) and third-cycle educational offerings are available.

- 1.13 **Improvements to the BVM.** The central principles of the BVM redesign, with inputs from the evaluations, the social audit, and accumulated experience in implementing CCTPs in the region, are to: (i) target households in extreme poverty, particularly in rural areas; (ii) implement a transfer mechanism based on fulfilling individual joint responsibilities; (iii) increase the efficiency and frequency of delivering the transfers;<sup>14</sup> and (iv) move toward operational deconcentration to improve care.
- 1.14 **Targeting extreme poverty.** The Honduran government has decided to target the program to families living in extreme poverty, with a target of serving 350,000 beneficiaries in rural areas (areas the Bank will continue targeting) by 2018, and 100,000 families in urban areas and municipal seats. In this context, and to increase the efficiency of social spending, the Bank will support the Honduran government in designing a mechanism for a gradual transition to focus BVM actions on the extremely poor, while referring the moderately poor to other EVM interventions. This will include updating the list of beneficiaries in the Registro Único de Participantes [Single Registry of Participants] (RUP), implementing a communication campaign targeting participating households, and defining exit schemes within the EVM framework.
- 1.15 **New transfer scheme, payment by child and educational cycle.** The impact evaluation showed that joint responsibility, linked to a particular household member meeting specific goals, has a greater impact. In addition to emphasizing that family commitment involves all family members fulfilling their joint responsibilities, a new scheme of transfers will be adopted to promote school attendance in the third cycle, where there are larger gaps in attendance. The new scheme will be implemented starting in 2015, after a communication campaign; to this end, the information systems for managing and verifying joint responsibilities will be

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<sup>14</sup> Expenses incurred for capacity-building in households for the use of new payment mechanisms will be eligible for the project.

consolidated. With the Bank's support, the Honduran government defined the following transfers scheme:<sup>15</sup>

**Table I-1 *Bono Vida Mejor* Program Transfer Scheme**

<i>Bono Vida Mejor</i> Program Transfer Scheme				
Annual amount of transfers (lempiras)	Rural		Urban	
	Amount per child	Maximum amount per family	Amount per child	Maximum amount per family
Support for consumption		2,040.00		1,020.00
Payment for children aged 0-6	1,260.00	2,520.00		0
Payment for children grades 1-6 (6 - 12 years)	600.00	1,200.00	1,020.00	2,040.00
Payment for children grade 7 and above	2,280.00	4,560.00	2,040.00	4,080.00

- 1.16 **Increasing the efficiency and frequency of transfers.** The PRAF developed an effective mechanism for transfer payments using cash payments in mass events with the Banco Nacional de Desarrollo Agrícola [National Agricultural Development Bank] (BANADESA), but this involved high transaction costs for the beneficiaries and irregular frequency. Since the end of 2012, alternative mechanisms have been explored, and for the first payment in 2014, nearly 25% of payments were made at either BANADESA agencies, at rural credit unions, or at branches of private banks. The IDB has supported this process and has documented its positive results.<sup>16</sup> This operation will consolidate those efforts, promoting payment through the private banking system to increase the frequency and regularity of the payments and reduce the time, cost, and security risks experienced by women receiving the transfers.
- 1.17 **Operational deconcentration of the program.** In order to strengthen community processes and provide better service to beneficiaries, the plan is to form partnerships with local governments and establish on-site support points, as a means of promoting ongoing updates to beneficiary information, responding to complaints and reports promptly, and providing training activities for families. The plan is to implement this last aspect using Family Guides, which will have a direct relation to the families and will help in implementing the EVM at the local level.
- 1.18 **Sector and territorial approach.** In order to boost the impacts of the BVM in the context of the EVM and achieve greater accumulation of human capital for the extremely poor population, the Honduran government and the Bank have proposed an integrated sector and territorial approach. To this end, a multisector social inclusion strategy has been proposed for the population living in extreme poverty in the western region of the country. This will include investment in conditional cash transfers, expansion of the third cycle of basic education, and strengthening of

<sup>15</sup> The parameters considered were: to reduce the average amount by 25% to strengthen the program's sustainability; to ensure that no household receives more than 10,000 lempiras per year; and to provide incentives for the third cycle of basic education. All household members must fulfill their joint responsibilities.

<sup>16</sup> See electronic link <http://publications.iadb.org/handle/11319/6033?locale-attribute=es>.

primary health care. The operation includes transfer and educational components, to be complemented by other health-related operations targeting the same beneficiary population. Taking advantage of the coordinating potential of SEDIS, the operation will work with the Education and Health ministries to ensure access to the health plan and micronutrients at the primary care level, and to the third cycle of basic education. For this purpose, priority will be given to the areas served by the Ministry of Health in the targeted departments. The management contracts will verify that all of the services are available to BVM beneficiaries, and will certify fulfillment of joint responsibilities.<sup>17</sup> The Ministry of Education has developed a strategy for closing the coverage gap for the third cycle in the western departments, based on the educational networks model that incorporates teaching modalities relevant to the context of isolation and low population density.<sup>18</sup> This strategy will be partially financed through this operation.

- 1.19 **Rationale.** Based on the IDB's cumulative experience in the sector and in the country, the Honduran government has requested Bank support in coordinating and implementing the EVM, and in consolidating the BVM as the central program of the EVM. Bank operations have made it possible to identify key elements related to operational improvements, along with improvements in the sector offerings described in paragraphs 1.13 to paragraph 1.18. The design of this operation takes into account lessons learned, such as promoting the participation of local governments and supporting the supply of educational services through flexible modalities.<sup>19</sup>
- 1.20 **Country strategy and IDB strategy.** The project is consistent with the Bank's Country Strategy with Honduras (document GN-2645), which assigns priority to the social protection and health sectors. The project is aligned with the Strategy on Social Policy for Equity and Productivity (document GN-2588-4) and will contribute to the lending priorities of the Ninth General Capital Increase in the Resources of the Inter-American Development Bank (document AB-2764) (GCI-9), namely: (i) lending to small and vulnerable countries; and (ii) lending to reduce poverty and promote equity through cash transfers and the promotion of investments in the human capital of households living in extreme poverty. It will also contribute to the regional goals of improving: (i) the rate of extreme poverty; (ii) the Gini coefficient of per capita household income; (iii) the proportion of youth aged 15 to 19 who complete the ninth grade; (iv) the maternal mortality ratio; and (v) the infant mortality ratio.
- 1.21 **Coordination with other donors.** The BVM has been cofinanced by the IDB, the Central American Bank for Economic Integration (CABEI), and the World Bank. In the 2010-2014 period, World Bank financing amounted to US\$52 million, and

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<sup>17</sup> See [Multisector Note](#).

<sup>18</sup> See [Note on Expansion of the Third Cycle](#).

<sup>19</sup> See [Multisector Note](#), which provides greater detail on lessons learned from prior operations supporting the BVM.

CABEI financing was US\$126 million. Beginning in 2014, the Honduran government committed fiscal resources to finance the BVM, with plans to dedicate an average of US\$70 million per year starting in 2015 from the Solidarity Fund (see paragraph 1.6), approximately half for urban areas and half for rural areas. The banks (IDB, World Bank, and CABEI) are working in coordination to harmonize procedures and provide technical and financial support to the Honduran government. For its part, the Japan International Cooperation Agency, in coordination with these banks, has agreed to provide support to families on issues of financial inclusion. In education, the IDB and the Ministry of Education are collaborating with a German cooperation agency to offer alternatives for providing education in rural areas, through the networks model.<sup>20</sup>

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

- 1.22 The general objective of the project is to promote the accumulation of human capital among minors in families living in extreme poverty,<sup>21</sup> with a territorial focus on rural areas in western departments of the country.<sup>22</sup> The specific objectives are to: (i) support consumption among participating households; (ii) support the expansion of third-cycle educational offerings and increase the use of educational services; (iii) increase the use of health and nutrition services among participating households, particularly pregnant women and children; and (iv) support the strengthening of SEDIS's leading role, through the implementation of operational improvements to the BVM.
- 1.23 **Eligibility criteria.** The target population of the BVM is households living in extreme poverty in rural areas with children under 18 years of age residing in the priority departments. The expansion of educational services will take place preferentially in communities where the decentralized health care management model is in place, and in those where the students of families that are BVM beneficiaries make up at least 50% of the total. Support will be provided through the following components:
- 1.24 **Component 1. Conditional cash transfers (US\$66,818,000).** In order to promote the use of health, nutrition, and educational services and support consumption among households living in extreme poverty, cash transfers will be financed for at least 80,000 BVM participating households in rural areas in departments in the western part of the country. They will cover the cost of the banking fee associated with the transfer payments, in order to encourage the use of alternative payment

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<sup>20</sup> The German contribution involves a grant of US\$15 million and a soft loan of 15 million euros.

<sup>21</sup> Defined as those households with per capita monthly income of less than 1,474.79 lempiras in urban areas and less than 1,145.45 lempiras in rural areas.

<sup>22</sup> Includes Copán, Lempira, Intibucá, La Paz, Santa Bárbara, Ocotepeque, and the departments in the Dry Corridor.



mechanisms and ensure quarterly payments. The average annual transfer in rural areas will be 7,250 lempiras per household.<sup>23</sup>

- 1.25 **Component 2. Strengthening service offerings in the third cycle of basic education, with emphasis on targeted rural areas (US\$33,301,100).** Support will be provided to expand the offerings for third-cycle education in order to partially reduce the gap in offerings.<sup>24</sup> To this end, the operation will finance: (i) the rehabilitation/expansion of educational infrastructure (150 modules<sup>25</sup>), with access to information technologies, educational materials, and teacher training; (ii) continued provision of educational services for the third cycle, based on flexible modalities, developed by the Ministry of Education with support from IHER, in hopes of generating some 30,000 slots for students;<sup>26</sup> (iii) institutional support for the Ministry of Education; and (iv) a quantitative and qualitative evaluation of the results achieved.
- 1.26 **Component 3. Institutional strengthening (US\$6,750,900).** The following activities will be financed: (i) in order to support improvements in managing the verification of joint responsibilities, there will be coordination with those overseeing the decentralized health care management model in order to consolidate verification of use of health service facilities; there will also be financing for the purchase of micronutrients and/or antiparasitic medications;<sup>27</sup> (ii) in terms of management of the EVM, there will be support for improving the BVM, as described in paragraph 1.13, and a communication and information campaign will be implemented to explain to participating households their rights within the framework of the BVM, along with a program for members and their partners to strengthen their capacities with regard to reproductive and child health, and to promote joint responsibility for family development;<sup>28</sup> and (iii) financing will also be provided for evaluation activities to assess outcomes, and for technical verification of joint responsibilities, as well as social audits and technical support for developing a strategy to combat urban poverty and for establishing operating agreements with leagues of municipalities and municipios.
- 1.27 **Project administration and audits (US\$3,000,000).** Financing will be provided for the project's operating expenses, including the costs of the SSIS Project

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<sup>23</sup> Corresponds to 21% of per capita income for households in extreme poverty in rural areas. The project's Operating Regulations will define the rules determining the amounts of the transfers per household, according to the conditions and their fulfillment, as well as the frequency of delivery and other operational considerations.

<sup>24</sup> [Strategy to extend third-cycle coverage.](#)

<sup>25</sup> Each third-cycle module consists of three classrooms, one restroom, and one multi-use room. The Ministry of Education is responsible for the operation and maintenance of educational infrastructure.

<sup>26</sup> The participating students will be subject to the same formalities as students attending regular educational institutions (they will be enrolled through the Sistema de Administración de Centros Educativos [Education Centers Administration System] (SACE) and will participate in Ministry of Education evaluations).

<sup>27</sup> To support the strategy to reduce anemia and the strategy to reduce soil-transmitted helminthiasis.

<sup>28</sup> See [Gender Note](#).



Coordination Unit, under SEDIS (PCU-SSIS/SEDIS), as well as the cost of financial audits.

- 1.28 **Cost of the project.** The estimated cost of the project is US\$120,857,000, made up of: US\$109,870,000 in IDB financing (US\$76,909,000 charged to Ordinary Capital (OC) resources and US\$32,961,000 charged to resources from the Fund for Special Operations (FSO)) and US\$10,987,000 in local contributions.<sup>29</sup>

**Table I-1 Cost and Financing (US\$)**

Component	IDB	Local	TOTAL	%
<b>Component 1.</b> Cash transfers	66,818,000	10,987,000	77,805,000	64.4
<b>Component 2</b> Strengthening services offerings in the third cycle of basic education	33,301,100		33,301,100	27.5
<b>Component 3.</b> Institutional strengthening	6,750,900		6,750,900	5.6
Project management and audit	3,000,000		3,000,000	2.5
<b>Total</b>	<b>109,870,000</b>	<b>10,987,000</b>	<b>120,857,000</b>	<b>100.0</b>

### C. Key results indicators

- 1.29 The project's impact indicators include those related to: (i) increasing the number of children enrolled in the third cycle; (ii) reducing the poverty gap; (iii) reducing anemia in children four years old and younger who are project beneficiaries; and (iv) increasing the percentage of pregnant women beneficiaries who received prenatal examinations during the first trimester of their pregnancy. The project's results indicators include increasing the use of educational, health care, and nutrition services, and increasing efficiency in project management. The Results Matrix (Annex II) details the expected impacts and outcomes. Progress will be measured through evaluations detailed in the Evaluation Plan.
- 1.30 **Economic evaluation.** A cost-benefit analysis was conducted, taking into account the results of the impact evaluation and microsimulations of changes in the structure of the project ([optional electronic link 1](#)). The main benefits are an increase in household consumption and an increase in future income associated with greater labor productivity resulting from more years of education (both from stimulating demand with the BVM and from support for offerings in Component 2), along with better nutrition. At the same time, the costs include investment in transfers, operating, administrative, and management costs, and the variable expenses and investment associated with expanding the third cycle of basic education and purchasing micronutrients. Based on conservative scenarios, net

<sup>29</sup> The Honduran government will contribute national resources of approximately US\$150 million for the BVM (rural and urban) between 2015 and 2017. For purposes of this project, there will be an accounting of US\$10.9 million in counterpart resources to cover transfers in rural areas, consistent with Decree 360-2013, article 80, which establishes that the national counterpart for loan agreements will be of up to 10%. The funds for the local contribution will come from the Solidarity Fund.

annual benefits from the BVM will be at least US\$25 million, and the benefit-cost ratio of Component 2 will be two to one.<sup>30</sup>

## II. FINANCING STRUCTURE AND RISKS

### A. Financing instruments

- 2.1 This is a specific investment loan.

### B. Environmental and social safeguard risks

- 2.2 **Environmental risks.** Based on the environmental and social safeguard filters, (Operational Policy OP-703), the project is classified as a category “B” operation, considering that the potential negative impacts and socioenvironmental risks are localized and short-term, and that the mitigation measures are known and easy to implement. The most important environmental risks relate to the location of certain schools in areas at risk from floods and landslides, and in protected natural areas. Therefore, the executing agency will present to the Bank an evaluation of the condition of schools located in at-risk areas and in natural areas. This evaluation will include specific recommendations for removing from the program schools located in these at-risk areas, replacing them with schools in more appropriate locations outside at-risk areas.
- 2.3 The Environmental and Social Analysis and the corresponding Environmental and Social Management Plan, whose main results can be found in the Environmental and Social Management Report (ESMR), have been prepared. The project is expected to generate positive social impacts. The borrower will comply with the environmental and social requirements established in Section VI of the ESMR, which will be reflected in the loan contract. The terms of reference for contractors responsible for the construction of classrooms and additional sanitary services at existing schools will include guidelines for carrying out the identified mitigation measures and for obtaining the relevant environmental licenses and permits required by local regulations. Compliance with Directive B.6, on community participation, through public consultations in each of the schools where a project intervention occurs, has been assured.
- 2.4 **Social risks.** The project is expected to have positive social impacts on the most vulnerable population, strengthening their consumption capacity and increasing the accumulation of human capital. The project has adopted a strategy of positive inclusion for the indigenous population, in accordance with the Bank’s Indigenous Peoples Policy (Operational Policy OP-765), with culturally appropriate communication mechanisms, such as the protocol on entering indigenous communities. In line with the Gender Equality in Development Policy (Operational Policy OP-761), efforts to empower women will continue, with actions to increase

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<sup>30</sup> This value assumes a discount rate of 7%, which is consistent with the literature regarding the economic evaluation of social projects.

their capacity to make informed decisions regarding their reproductive health, as well as the healthy development of their children, while promoting shared responsibilities with their partners.

### **C. Fiduciary risks**

- 2.5 There is considered to be a high risk related to possible delays in counterpart execution. As a mitigating measure, evidence of budgetary allocation and availability of the counterpart allocated to the project will be requested from SEFIN. Other fiduciary risks are identified in Annex III. Disbursements will be subject to ex post supervision, and support will be provided through external audits and reports on fulfillment of joint responsibilities.

### **D. Other risks**

- 2.6 **Financial sustainability.** The financial/budgetary sustainability of the BVM, and the lack of definition regarding use of the Solidarity Fund for financing it are considered to be high-level risks. As a mitigating measure, efforts will be made to establish better regulations on the use of the Solidarity Fund, an outcome of the fiscal reform approved in December 2013,<sup>31</sup> regarding the reallocation of nontargeted social spending, review and adjustments to the transfer amount, and a list of beneficiaries aligned with the budget. The Honduran government has increased funding for the BVM, which at the outset (2010) was financed exclusively with external funds and in 2014 is now 25% financed with fiscal resources. In its commitment to the BVM program in accordance with the law establishing the Solidarity Fund, the Honduran government expects to contribute US\$30 million annually to cover beneficiaries in rural areas, on top of the annual US\$30 million currently being contributed for urban areas. The new structure of transfers, described in paragraph 1.17, is also expected to produce savings of up to 25% of the transfer budget. In terms of investments in education, the fiscal impact on operational expenditures beginning in 2018 will be around US\$4 million annually, and the Ministry of Education has confirmed its commitment to allocate resources for this purpose.<sup>32</sup>
- 2.7 **Public policy and governance risks.** The changes in the social sector's institutional structure represent a step forward in terms of defining responsibilities and a strategic vision, but at the same time entail risks during the adjustment period. PRAF's PCU, which was executing the BVM, is being placed within the Office of the Deputy Minister of Social Integration (SSIS), under SEDIS (PCU-SSIS/SEDIS). However, it will maintain its former structure, responsibilities, and personnel, with a direct connection to the management of the Family Allowance Program (SEDIS/PRAF), which reports directly to SSIS. SEDIS's

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<sup>31</sup> This included increased taxes on fuel and on sales, along with a freeze on automatic transfers to municipios and universities. The fiscal efforts are expected to boost revenues (2.6% of GDP) and reduce spending (1% of GDP).

<sup>32</sup> These resources would come, at least in part, from the teacher resource optimization plan being implemented by the Ministry of Education.

Institutional Capacity Assessment (ICAS) indicates that despite the institutional changes that directly affect the execution of the project, there is a medium-level risk, with SEDIS/PRAF continuing to provide technical assistance, and with a strengthened PCU-SSIS/SEDIS.<sup>33</sup> At the same time, in order to consolidate the BVM as a state policy, provisions will be included in the Operating Regulations to define a closure period for the payment of cash transfers during the month preceding elections, with a suspension of new additions during the electoral process. The changes in the program's structure may give rise to a negative reaction in the population due to the fact that some households will no longer be eligible and others will receive a lower amount. This risk is expected to be low, based on the reaction observed in populations where the beneficiary rolls are being purged.

- 2.8 **Operational and supply limitations.** The Honduran government has implemented the basic BVM processes, and while there are challenges, the project is seeking to resolve them, supporting the consolidation and strengthening of the management cycle. A concurrent operational evaluation will be conducted in the first year of execution to verify functioning under the new Operating Regulations. Moreover, the multisector strategy seeks to strengthen and expand the coverage and quality of health and education services. The decentralization of the program may generate risks in terms of operating quality, but given that the change will be gradual and the tasks are not complex, this risk is expected to be low.

### III. IMPLEMENTATION AND ACTION PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agencies.** The borrower will be the Republic of Honduras, and the executing agency will be SEDIS.
- 3.2 **Operational structure of SEDIS.** For purposes of project execution, SEDIS will have administrative and financial support from PCU-SSIS/SEDIS, which reports directly to SEDIS's SSIS, and is made up of five units: (i) Coordination, (ii) Monitoring; (iii) Administrative and Financial; (iv) Procurement; and (v) Technical. PCU-SSIS/SEDIS will be strengthened with a specialized team that will provide assistance on actions needed to address the recommendations identified in BVM program evaluations, including those of the external audit. Technical and operational responsibility for the project will be assumed by SSIS. SSIS will coordinate with the National Social Sector Information Center (CENISS), which is responsible for the RUP and the National Early Childhood Registry (RENPI).<sup>34</sup> For purposes of component 2, coordination will be undertaken with the Ministry of Education, through the Office of the Deputy Minister for Technical Pedagogical Matters, and PCU-SSIS/SEDIS will be strengthened with technical

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<sup>33</sup> The [Institutional Analysis](#) report highlights areas that could be strengthened to improve internal control channels, which will be considered in the implementation stage.

<sup>34</sup> CENISS contains the RUP and the RENPI. The RUP is used for collecting information on beneficiaries of social programs, while the RENPI documents health joint responsibility.

staff specialized in procurement for the execution of works. For component 3, coordination will be undertaken with the Ministry of Health through the Office of the Deputy Minister for Networks and Services.

- 3.3 **Special contractual conditions:** The following will be special conditions precedent to the first disbursement of the loan proceeds: (i) SEDIS will have approved the Operating Regulations for the project; (ii) SEDIS will have approved the program's Manual of Administrative and Financial Procedures; and (iii) the interagency agreement between SEDIS, the Ministry of Finance (SEFIN), the Ministry of Health, and the Ministry of Education will have been signed, establishing the terms for project execution.
- 3.4 **Fiduciary agreements and requirements.** Annex III sets forth the guidelines for financial management and procurement that are to be followed during execution.
- 3.5 **Advances of funds and audits.** For purposes of disbursements: (i) the modality will be used whereby the flow of necessary funds and the advances of funds dictated by that flow are submitted; this may include the delivery of more than one advance, in accordance with the flow. The advances of funds may be made by component, according to the project's operational structure; (ii) the program will employ the services of independent auditors acceptable to the Bank, in accordance with auditing standards and principles acceptable to the Bank, in order to carry out annual financial audits, as specified in the terms of reference to be agreed beforehand with the Bank; and (iii) consulting services will be contracted to provide a technical review of the degree to which joint responsibilities have been fulfilled, as well as regarding internal control measures and improvements that should be adopted to strengthen the program.
- 3.6 **Procurement of goods and services.** The procurement of goods and services and the selection and contracting of consulting services will be undertaken in accordance with the Bank Policies set forth in documents GN-2349-9 and GN-2350-9. Procurement will be subject to ex post and ex ante supervision, as set forth in the Procurement Plan, which will be updated annually or as necessary.
- 3.7 In order to ensure continuity in the delivery of the CCTP, direct contracting is planned, pursuant to document GN-2349-9, paragraph 3.6(a), of BANADESA to deliver transfers of up to US\$1.5 million. To support the BVM's innovative payment mechanisms, and in light of the fact that this involves services obtained from a single source, the program will directly contract the Honduran Federation of Credit Unions (FACACH), for up to US\$120,000, the Interbank Processing Center (CEPROBAN), for up to US\$200,000, and Telefónica Celular, a mobile telephone enterprise, for up to US\$63,000. All such amount will represent fees for services rendered in delivering BVM benefits, according to their respective areas of expertise. In order to compile socioeconomic data on households for purposes of recertification, a contract will be signed, in accordance with document GN-2349-9, paragraph 3.6(c), with the National Statistics Institute (INE) for the delivery of services, for up to US\$500,000, given that this is the sole source for such services in

the localities where the BVM is being delivered. With regard to Component 2, and pursuant to document GN-2349-9, paragraph 3.6(c), the plan is to directly contract IHER, for up to US\$8.5 million, since it is the only organization recognized by Ministry of Education that uses a flexible modality for the third cycle and that has the capacity to provide services tailored to the needs of the beneficiary population. In the case of services necessary to ensure verification of use of the basic health care package, the mechanism will involve financing a per capita benefit established by the nongovernmental organizations contracted by the Ministry of Health under the decentralized management model, in accordance with paragraph 3.17 of document GN-2349-9 regarding community participation. This will be done through addenda or direct contracts with managers. Lastly, in order to promote operational continuity and preserve institutional knowledge, the program will allow the direct contracting of consultants who are part of the PCU for loan 2937/BL-HO, pursuant to the provisions of document GN-2350-9, paragraph 5.4(a).

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

- 3.8 The executing agency will present the Bank with project execution plans and semiannual progress reports, based on the indicators in the Results Matrix. Other activities that will contribute to improving monitoring include: (i) an evaluation of the processes for making adjustments to the BVM; (ii) the contracting of consulting services to provide a technical review of the degree to which joint responsibilities have been fulfilled; and (iii) the program's impact evaluation. See [Monitoring and Evaluation Plan](#).

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program	i) Lending to small and vulnerable countries; and ii) Lending for poverty reduction and equity enhancement.			
Regional Development Goals	i) Extreme poverty rate; ii) Gini coefficient of per capita household income inequality; iii) Share of youth ages 15 to 19 who complete ninth grade; iv) Maternal mortality ratio; and v) Infant mortality ratio.			
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Students benefited by education projects; and ii) Individuals receiving targeted anti-poverty programs.			
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix	GN-2645	Increase the effectiveness and efficiency of the conditional cash transfer program.		
Country Program Results Matrix	GN-2756-2	The intervention is included in the 2014 Operational Program.		
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
		9.6		10
3. Evidence-based Assessment & Solution		9.8	33.33%	10
3.1 Program Diagnosis		3.0		
3.2 Proposed Interventions or Solutions		4.0		
3.3 Results Matrix Quality		2.8		
4. Ex ante Economic Analysis		10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		1.5		
4.3 Identified and Quantified Costs		1.5		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		1.5		
5. Monitoring and Evaluation		9.0	33.33%	10
5.1 Monitoring Mechanisms		1.5		
5.2 Evaluation Plan		7.5		
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Medium		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		B		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/PDP Criteria)	Yes	Financial Management: i) Budget; ii) Treasury; and iii) Accounting and Reporting. Procurement: Information System.		
Non-Fiduciary				
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality	Yes	The project has a gender strategy that provides training to the program's beneficiary heads of household and their partners on reproductive health issues and child care practices from a gender perspective.		
Labor				
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	The Bank has provided high level technical support and policy dialogue through technical cooperation HO-T1170, participating in the Latin-American Social Protection Forum and promoting knowledge exchange with other CCTs in the Region.		
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 has an experimental evaluation for the CCT program. A second follow up survey will be carried out in 2015, with two treatment groups (with different time participating in the program) and a control group. This longitudinal dataset will allow estimating differential effects according to the degree of exposure to the treatment.		

The loan proposal identifies the country's challenges regarding poverty, inequality, low transition to high school, teenage pregnancy and child malnutrition. It also documents the possible causes of such problems, including macro factors like the low elasticity of poverty reduction to economic growth, and micro factors like the insufficient supply of education and health services in some areas of the country and the financial restrictions faced by households to access them.

The document presents solid empirical evidence on the effectiveness of the conditional cash transfer program in the country, based on a first follow up survey of the project's experimental impact evaluation. It also includes evidence on the effectiveness of education models comparable to the one proposed for the expansion of high school education.

The results matrix is adequate. It includes SMART impact, outcome and output indicators, with their corresponding baselines and targets. However, sources of information are not specified for the output indicators.

The economic analysis annex presents a cost-benefit analysis of the conditional cash transfer program and the education intervention, based on reasonable assumptions about the impact of changing the transfer structure and the increases in education.

The monitoring and evaluation plan is adequate. However, it does not include annual costs of the products in the results matrix. The evaluation plan proposes continuing with the experimental evaluation of the program, in order to measure differences in impacts according to the time households are exposed to the intervention.

The risk matrix is adequate. It rates project risks according to their magnitude and likelihood, and proposes mitigation measures with indicators to track their implementation.

## RESULTS MATRIX

**Objective of the program:** The general objective of the project is to promote the accumulation of human capital among minors in families living in extreme poverty, with a territorial focus on rural areas in western departments of the country. The specific objectives are to: (i) support consumption among participating households; (ii) support the expansion of third-cycle educational offerings and increase the use of educational services; (iii) increase the use of health and nutrition services among participating households, particularly pregnant women and children; and (iv) support the strengthening of SEDIS's lead role, through the implementation of operational improvements in the *Bono para una Vida Mejor* program (BVM).

### IMPACT INDICATORS

Impact	Unit of measurement	Current value	Year	End of project	Source of verification	Notes/Remarks
Accumulation of human capital and reduction in the intensity of poverty among beneficiary families living in poverty.						
<b>Poverty</b>						
Poverty Gap (PG) of program beneficiaries <sup>1</sup> $PG = \frac{1}{n} \sum_{i=1}^q \left( \frac{z - y_i}{z} \right)$	%	49.62	2013	45.5	Household survey to evaluate the impact of the BVM	Monitoring data (EDH 2013).
<b>Education</b>						
Beneficiary children ages 13 to 15 who completed at least six grades of basic education					Household survey to evaluate the impact of the BVM	Monitoring data (EDH 2013).
All	%	71.12	2013	82		
Men		67.58	2013	80		
Women		74.94	2013	83	Baseline is for rural areas in the west, according to EPH 2013	Monitoring data (EDH 2013).
Children ages 15 to 18 in selected towns who completed basic education (ninth grade)						
All	%	23.41	2013	31		
Men		20.33	2013	27		
Women		27.01	2013	32		

NOTE: The indicator targets for the “end of project” were determined based on observed changes between the baseline and monitoring of the impact evaluation (EDH 2012 and EDH 2013), as well as on proposed improvements such as per-child payments, improvements in joint responsibilities, and better quality of care for beneficiary families. Similarly, the educational component will seek to improve the coverage indicators for the third cycle of basic education.

<sup>1</sup> q = number of poor persons; n = size of the population; z = poverty line; and y<sub>i</sub> = individual income i.



Impact	Unit of measurement	Current value	Year	End of project	Source of verification	Notes/Remarks
<b>Health</b>						
Maternal and Child Health:						
Percentage of pregnant women beneficiaries who receive prenatal examinations during the first trimester of pregnancy	%	65.35	2013	73	Household survey to evaluate the impact of the BVM	Monitoring data (EDH 2013).
<b>Nutrition</b>						
Prevalence of anemia in children aged 4 and under who are program beneficiaries	%	44.07	2013	34	Household survey to evaluate the impact of the BVM	Monitoring data (EDH 2013); anemia according to WHO classification.

**OUTCOME INDICATORS**

Outcome	Unit of measurement	Baseline	Year	End of project	Source of verification	Notes/Remarks
<b>Education</b>						
Net enrollment rate for the first and second cycle of basic education					Household survey to evaluate the impact of the BVM	Monitoring data (EDH 2013).
All	%	84.51	2013	88		
Men		85.02	2013	88		
Women		84.00	2013	87		
Net enrollment rate for the third cycle of basic education					Household survey to evaluate the impact of the BVM	Monitoring data (EDH 2013).
All	%	30.51	2013	37		
Men		27.90	2013	35		
Women		33.33	2013	40		
Rate of school attendance for basic education					Household survey to evaluate the impact of the BVM	Monitoring data (EDH 2013).
All	%	78.20	2013	85		
Men		77.71	2013	85		
Women		78.70	2013	85		
Rate of school advancement of students enrolled in IHER in the targeted towns					Baseline values were calculated using EPH2013 for poor populations in rural areas, based on the number of children attending each grade.	Defined as the % of students enrolled in sixth grade who, three years later, are enrolled in ninth grade. This will be calculated for towns that are Component 2 beneficiaries.
All	%	51.7	2013	64		
Men	%	38.9	2013	54		
Women	%	66.3	2013	76		

Outcome	Unit of measurement	Baseline	Year	End of project	Source of verification	Notes/Remarks
Number of students enrolled in third-cycle modules supported by the program in targeted towns						
All	Number of students	0	2013	22,500	The targets, by year, are: 5,375 in 2015, 8,125 in 2016, and 9,000 in 2017.	
Men		0	2013	10,250	Here the target is that the participation of males should be 45% of the total; at present, third-cycle attendance is higher among females.	
Women		0	2013	14,250		
Health						
Percentage of women beneficiaries (ages 15 to 49) who received at least four prenatal examinations by qualified personnel during their most recent pregnancy in the last two years	%	77.02	2013	82	Household survey to evaluate the impact of the <i>Bono 10,000</i>	Monitoring data (EDH 2013).
Percentage of women beneficiaries who received post-partum care from qualified personnel during the first ten days following their most recent delivery in the last two years	%	56.38	2013	66	Household survey to evaluate the impact of the <i>Bono 10,000</i>	Monitoring data (EDH 2013).
Beneficiary children between the ages of 12 months and 23 months identified as having received a full set of vaccinations appropriate to their age	%	44.18	2013	50	Household survey to evaluate the impact of the <i>Bono 10,000</i>	Monitoring data (EDH 2013).
Efficacy and effectiveness of the <i>Bono 10,000</i> Program						
Percentage of participating households living in extreme poverty	%	72.64	2013	80	Permanent Household Survey 2012, 2013, 2014 <sup>2</sup>	There will be annual monitoring using the EHPM; the target is expected to be reached in 2016.
Percentage of rural households living in extreme poverty that receive the BVM	%	31.76	2013	45	EPH 2012, with projections of coverage in 2013	
Age of the database of beneficiaries (number of years of lag = current year minus the year in which the information was collected)	Years	5.3	2013	3.3	Administrative data, <i>Bono 10,000</i>	Calculated from the weighted average of the most recent surveys.
Percentage of participating rural households that have received at least one transfer through an alternative payment mechanism	%	15	2013	30	Management Information System	

<sup>2</sup> During preparation of the project an agreement was reached with the National Statistics Institute to include relevant questions in the survey questionnaire.

Outcome	Unit of measurement	Baseline	Year	End of project	Source of verification	Notes/Remarks
Number of payments made in the calendar year to participating households	Payments	3	2013	4	Management Information System	
Relevance of the information on joint responsibilities for health care (average age, in months, of the information used to issue the list of payees)	Months	10	2013	6	Management Information System	
Relevance of the information on joint responsibilities for education (average age, in months, of the information used to issue the list of payees)	Months	8	2013	4	Management Information System	
Percentage of households receiving the first payment of the year that receive all of the payments	Percentage	75.6	2013	85	Management Information System	Number of families that receive all of the year's payments / Number of families that received the first payment of the year.

#### OUTPUTS

Output	Unit of measurement	Baseline	2015	2016	2017	Total	Remarks
COMPONENT 1. Conditional cash transfers							
Number of persons in households that receive cash transfers	Transfers	469,600	469,600	469,600		1,408,800	Quarterly transfers benefiting the western departments. The average household size is 5.87 persons, according to EPH 2013.
COMPONENT 2. Strengthening service offerings in the third cycle of basic education, with emphasis on targeted rural areas							
Number of facilitators trained by IHER providing third-cycle educational services at selected education centers	Number of facilitators	100	250	400	450	1,100	The total value includes an overlap in the number of facilitators working 2 or 3 years.
Basic Education Centers with third-cycle facilities constructed	Number of schools	0	50	50	50	150	
Basic Education Centers with third-cycle facilities equipped with furnishings and educational technology	Number of schools	0	50	50	50	150	
Solar panels installed in Expanded Basic Education Centers	Number of panels installed	0	0	15	15	30	

Output	Unit of measurement	Baseline	2015	2016	2017	Total	Remarks
Basic Education Centers that offer third-cycle services in collaboration with IHER	Number of centers	100	150	150	150	150	The total figure is not cumulative. It includes supervision by heads of departments and necessary connectivity services.
Number of education centers that report verification of joint responsibilities through SACE according to the timetables in the new Operating Regulations	Number	2,000	2,000	2,200	2,300	2,300	The total is not cumulative.
Operational Evaluation and Results Reports on the Strategy to Expand the Third Cycle	Reports	0	1	1	1	3	
COMPONENT 3. Institutional strengthening							
Number of children under two years of age who receive micronutrients and antiparasitic medication	Number	0	15,000	15,000	15,000	45,000	There will be coordination with IM2015 and loan 2418/BL-HO. According to EPH 2013, in the rural west there are 33,700 children under two years of age living in BVM households.
Number of RUP files established	Number	0	0	50,000	0	50,000	Agreement with INE.
Consulting projects to improve the processes for targeting and administration of the list of beneficiaries	Number	0	2	1	1	4	
Number of health centers that report verification of joint responsibilities through the RENPI system at least once every six months	Number	237	237	300	320	320	The total is not cumulative, with 500 centers reporting through RENPI in 2017.
Family Guides contracted and trained to serve participating households	Number	0	50	50	50	150	
Leagues of municipalities with processes for verifying joint responsibilities for decentralized health care	Number	0	2	3	5	5	The total is not cumulative.
Training workshops on gender issues	Number	4	10	10	10	30	
Report on technical review of degree to which joint responsibilities have been fulfilled	Number	1	1	1	1	3	

Output	Unit of measurement	Baseline	2015	2016	2017	Total	Remarks
Impact evaluation survey (follow-up)	Number	1	0	1	1	2	Evaluation of the BVM Program and of Component 2.

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Country:** Honduras

**Project number:** HO-L1093

**Name:** Social Protection System Support Program

**Executing agencies:** Ministry of Development and Social Inclusion (SEDIS)

**Prepared by:** Kelvin Suero (Financial Management FMP/CHO); and  
Juan Carlos Martell (Procurement FMP/CHO)

### I. EXECUTIVE SUMMARY

- 1.1 The institutional capacity of Honduras's public sector constitutes a risk factor in executing projects to be financed during the development of the Bank's current country strategy. In order to mitigate this risk, the Bank is developing technical support and measures to strengthen the public sector in a range of areas, particularly with respect to improving country systems for managing public finances. In terms of the fiduciary management systems, the latest diagnostic assessment of Honduras's **public finance management systems** shows major progress toward adopting good practices and international standards, primarily in modernizing the institutional framework and integrating the systems of budget, cash management, and government accounting. The Bank supported the development and implementation of the SIAFI/UEPEX module for managing projects with external financing, and is currently helping to strengthen it. At present, major efforts are being made with the country's authorities to strengthen the national system of controls over public resources. While validation of this system is being completed, external auditing services are being employed for Bank-financed operations in Honduras. With regard to the **public procurement system**, the country shows strengths identified in the 2010 MAPS/OECD assessment, specifically, a legal framework adapted to most international best practices. However, there continue to be challenges in attaining standards that would allow the Bank to use the country system for the operations it finances.

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

- 2.1 The execution mechanism for operation HO-L1093 will be carried out the following executing agency: the Ministry of Development and Social Inclusion (SEDIS). Recently, due to changes in the organizational structure of government, the Family Allowance Program (PRAF) was incorporated as a department under the SSIS, which reports to SEDIS. Thus, SEDIS has absorbed the institutional capacity

gained by PRAF in executing Bank-financed operations.<sup>1</sup> With regard to procurement, even when, in the case of Honduras, use of the country system for Bank-financed operations is not envisaged, it is a widespread practice to use HONDUCOMPRAS for disseminating information about State procurement and contracting opportunities, using standard national competitive bidding and shopping documents for the procurement of goods and works, which have been harmonized with the lead agency for public procurement in Honduras.

### III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The fiduciary team determined that the overall project risk associated with financial management and procurement is MEDIUM. Specifically, with regard to financial management and accounting, the executing agency has prior experience and proven capacity in executing Bank-financed operations in the sector in support of the *Bono 10,000* program. To develop this function, the SIAFI/UEPEX system and all of the existing national controls related to its use are being employed. With regard to procurement, the risks are mitigated by the designation of SEDIS as executing agency, since it will have personnel specializing in procurement using IDB procedures.<sup>2</sup>

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

- 4.1 Following are the agreements and requirements that should be considered in the special provisions of the loan contract:
- a. **Conditions precedent to the first disbursement.** Special conditions precedent to the first disbursement are reflected in paragraph 3.4 of this loan proposal.
  - b. **Exchange rate agreed with the executing agency/borrower for accounting purposes.** For purposes of the provisions of Article 4.01(b) of the loan contract's General Conditions, the parties agree that the applicable exchange rate will be the one indicated in Article 4.01(b)(ii) of the loan contract. In this case, the applicable exchange rate will be that which is in effect on the day the borrower, the executing agencies, or any other individual or legal entity authorized to incur expenditures makes payments to a contractor or provider.
  - c. **Financial statements and other audited reports.** The borrower agrees to submit, on its own behalf or through the executing agency: audited financial statements for the project, duly certified by an independent audit firm acceptable to the Bank, within 120 days following the close of each fiscal period of the executing agency throughout the loan's disbursement period. The last such

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<sup>1</sup> Operations HO-L1032, HO-L1042, HO-L1071, and HO-L1087.

<sup>2</sup> Notwithstanding the foregoing, updating workshops on Bank procedures will be held, as needed, and the monitoring system will be implemented to address planning for procurement necessary for the program, using the Procurement Plan Execution System (SEPA).

report will be submitted within 120 days following the date stipulated for the last disbursement of the loan proceeds.

## **V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 5.1 The fiduciary agreements and requirements for procurement establish the provisions applicable for the execution of all planned procurement under the project.

### **A. Procurement execution**

- 5.2 SEDIS, through the SSIS Project Coordination Unit (PCU-SSIS/SEDIS), will be responsible for the processes of selection, bidding, contracting, supervision, and acceptance of project procurement, which will be carried out pursuant to the Bank's procurement policies (documents GN-2349-9 and GN-2350-9) and as provided in the Procurement Plan, which will detail: (i) the contracts for works, goods, and consulting services required to execute the project; (ii) the proposed methods for the procurement of goods and the selection of consultants; and (iii) the procedures used by the Bank to review each of the procurement processes.

- a. **Procurement of works, goods, and nonconsulting services:** Contracts for works, goods, and nonconsulting services<sup>3</sup> generated under the project and subject to International Competitive Bidding (ICB) will be executed using Standard Bidding Documents (SBDs) issued by the Bank. Bids subject to National Competitive Bidding (NCB) will be carried out using National Bidding Documents agreed with the Bank and published on the website of the Regulatory Office of State Contracting and Procurement (ONCAE), [www.honducompras.hn](http://www.honducompras.hn).
- b. Due to the nature of the operation that is funding ongoing activities financed by the Bank and developed by the Honduran government, and the incorporation of new and better approaches, effective execution of this operation requires continuity in the innovative benefit payment mechanisms, community participation for decentralized health care management, and retention of the management capacity gained by the executing agency through the execution of previous operations.
- 5.3 Paragraph 3.6(a) of document GN-2349-9 provides for direct contracting to extend nonconsulting services related to benefit payments, since these involve services from a single source, as follows: (i) Banco Nacional de Desarrollo Agrícola (BANADESA), for up to US\$1.5 million; (ii) Honduran Federation of Credit Unions (FACACH), for up to US\$120,000; (iii) Telefónica Celular S.A. de C.V. (CELTEL), for up to US\$63,000; and (iv) Interbank Processing Center (CEPROBAN), for up to US\$200,000. All such amount will represent fees for

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<sup>3</sup> Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document [GN-2349-9](#)), paragraph 1.1: Nonconsulting services will be treated in the same way as goods.



services rendered in delivering BVM benefits, according to their respective areas of expertise.

- a. In the case of services necessary to ensure verification of use of the basic health care package of services, including the provision of antiparasitic medications and micronutrients, the mechanism may consist of financing a per-capita benefit established for the nongovernmental organizations contracted by the Ministry of Health within the centralized management model, pursuant to paragraph 3.17 of document GN-2349-9 on community participation, through addenda or direct contracts with managers, establishing the necessary scope for the services provided.
- b. Additionally, and for purposes of collecting socioeconomic information on households for the process of recertification, an service agreement will be signed with the National Statistics Institute (INE), for up to US\$500,000, pursuant to the provisions of paragraph 3.6(c) of document GN-2349-9, given that the INE is the sole source for these services in the localities where the BVM is being delivered.
- c. With regard to Component 2, there is expected to be a direct contract with the Honduran Radio Education Institute (IHER) for US\$8.5 million, pursuant to paragraph 3.6(c) of document GN-2349-9, given that it is the only organization recognized by the Ministry of Education that employs a flexible modality for the third cycle, and that has the capacity to provide services tailored to the needs of the beneficiary population.
- d. **Selection and contracting of consultants:** Contracts for consulting services generated under the program will be executed using the Standard Request for Proposals (SRFP) issued by or agreed with the Bank. The project's sector specialist will be responsible for reviewing the terms of reference for contracting consulting services.
- e. **Selection of individual consultants:** At the discretion of each executing agency, the contracting of individual consultants may be solicited through local or international announcements, as a means of forming a shortlist of qualified individuals. However, to promote operational continuity and preserve institutional knowledge, SEDIS may directly contract consultants who have been part of the execution unit, pursuant to the provisions of document GN-2350-9, paragraph 5.4(a).
- f. **Recurring expenses:** These consist of operating and maintenance expenses required for the functioning of the project during its useful life. They would be financed by the project as specified in the Procurement Plan and any modifications thereto, to be carried out according to the procedures agreed with the Bank. In addition, recurring expenses include the costs of consultants contracted to assist the executing agency during the operation's execution period. Operating costs do not include salaries for public employees, or other

ordinary SEDIS operating expenses; such costs are to be prioritized for project development within the entity's institutional budget.

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

- 5.4 The thresholds for the use of international competitive bidding and for the shortlist of international consultants will be made available to the executing agency on the website [www.iadb.org/procurement](http://www.iadb.org/procurement).

**C. Main procurement items**

- 5.5 The executing agency will be responsible for preparing Procurement Plans<sup>4,5</sup> for the activities under its management. The main procurement items envisaged are detailed below.

**Main procurement items**

Activity	Type of Bidding	Estimated Date	Estimated Amount in US\$
<b>Services</b>			
Delivery of the BVM at BANADESA branch offices	DC		1.5 million
Delivery of the BVM at offices of FACACH and affiliated credit unions	DC		120,000
Delivery of the BVM at Bancarias branches, through the CEPROBAN mechanism	DC		200,000
Delivery of the BVM through mobile telephony (CELTEL)	DC		63,000
Collecting socioeconomic information on households for the process of recertification, National Statistics Institute (INE)	DC		500,000
Basic education services, using flexible modalities of the Ministry of Education, Honduran Radio Education Institute (IHER)	DC		8.5 million
Basic package of health care services, including the provision of antiparasitic medications and micronutrients	DC		1 million
<b>Firms<sup>6</sup></b>			

\* To access the 18-month Procurement Plan, PA<sub>18</sub>, click [here](#).<sup>7</sup>

<sup>4</sup> Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (document [GN-2349-9](#)), paragraph 1.16; Policies for the Selection and Contracting of Consulting Services (document [GN-2350-9](#)), paragraph 1.23: The Borrower shall prepare and, before loan negotiations, furnish to the Bank for its approval, a Procurement Plan acceptable to the Bank for an initial period of at least 18 months.

<sup>5</sup> See: [Guidelines for the preparation and implementation of Procurement Plans \(PA<sub>18</sub>\)](#).

<sup>6</sup> In the case of consulting services, this means including firms of various nationalities on the shortlist. See the Policies for the Selection and Contracting of Consulting Services (document [GN-2350-9](#)), paragraph 2.6.

<sup>7</sup> To create the link, right click, edit hyperlink, and include the IDBDocs number at the end of the link.

**D. Procurement supervision**

- 5.6 In accordance with the fiduciary risk analysis on procurement, the supervision method will be established in the executing agency's respective procurement plan.
- 5.7 **Special provisions:** (i) **Measures to reduce the likelihood of corruption:** Comply with the provisions of documents GN-2349-9 and GN-2350-9 regarding prohibited practices (lists of enterprises and physical persons considered ineligible by multilateral agencies); and (ii) **Other special procedures:** The Bank may, at its discretion, change the procurement supervision method, based on experience during execution and through institutional capacity updates or fiduciary visits.
- 5.8 **Records and files.** SEDIS will be responsible for maintaining original files and supporting documentation for procurement processes.

**VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS**

- 6.1 **Programming and budget.** Prudential and disciplined management of cash resources and decentralization of the treasury function is achieved through implementation of the Integrated Financial Management System (SIAFI) and Treasury Account (CUT). The Bank's financial parameters for the country allow for financing an entire project or program.
- 6.2 **Accounting and information systems.** For financial reports and accounting for Bank-financed projects, the SIAFI/UEPEX module is being used. The project's financial and accounting transactions will be supported by country system practices. The accounting record will be kept on a cash basis.
- 6.3 **Disbursements and cash flow.** For the advance of funds modality, the executing agency will open a special account in the project's name for the disbursement of funds at the Central Bank of Honduras. The maximum amount of each advance of funds will be set by the Bank based on the cash-flow analysis presented by the executing agency. This may include more than one advance, depending on the cash flow. These advances of funds may be for a specific component, based on the project's operational structure. Thus, the executing agency may provide separate accounting for the corresponding advances. In the case of reimbursement of resources, the borrower/executing agency will identify the official account to which the transfer of funds is to occur.
- 6.4 **Internal control and internal audit.** The executing agency will carry out its fiduciary functions with support from the Project Coordination Unit, made up of suitable personnel and appropriate systems. The Bank is considering continuing to carry out actions to strengthen internal control in the country.
- 6.5 **External control and reports.** According to the Organic Law of the Audit Court (TSC), external control falls under that body's authority. In principle, the external audit function for the operation will be carried out by an independent audit firm acceptable to the Bank and will be financed with loan proceeds. However, after

- proper analysis, the project team may agree with the Bank to employ the services of the TSC to carry out partial or entire audits of the project.
- 6.6 Based on the foregoing, it has been determined that the following financial agreements and arrangements should be considered:
- a. Utilize services to provide external financial audits of the project on an annual basis, including with semiannual preliminary audit reports.
  - b. The standards to be used in this operation are those contained in the Financial Management Policy for IDB-financed Projects (document OP-273-2), the Operational Guidelines for Financial Management (document OP-274-2), the Guidelines for Financial and Auditing Reports (document AF-200), and the Bank's Model Terms of Reference for Financial Audits and updates thereto.
  - c. The total cost of auditing services is estimated at US\$680,000, to be financed with loan proceeds.
  - d. The mechanism for selecting and contracting the independent audit firm will follow the process outlined in document AF-200, based on established guidelines.
- 6.7 **Financial supervision plan.** The Bank will supervise the project's financial management, monitoring the actions to be taken by the executing agency or the borrower in order to address any observations and findings that may be identified as part of the external audits. The supervision will be carried out by the financial management specialist assigned to the operation, with support from the external auditing services and consultants, in coordination with the Project Team Leader, other project team members, and authorities from the Bank's Country Office and from VPC/FMP.
- 6.8 **Execution arrangements.** The project's execution arrangements will be formulated by the following executing agency: SEDIS, which will draw on administrative and financial support from the PCU, which reports to the SSIS (PCU-SSIS/SEDIS). Details concerning the execution arrangements are reflected in paragraph 3.2 of this loan proposal.
- 6.9 For purposes of component 2, coordination will be undertaken with the Ministry of Education, through the Office of the Deputy Minister for Technical Pedagogical Matters, and PCU-SSIS/SEDIS will be strengthened with technical staff specialized in procurement for the execution of works. For component 3, coordination will be undertaken with the Ministry of Health through the Office of the Deputy Minister for Networks and Services.