

MEXICO

**STRENGTHENING THE *OPORTUNIDADES* HUMAN DEVELOPMENT
PROGRAM – THIRD PROJECT**

(ME-L1080)

**UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT
PROJECTS (CCLIP) FOR STRENGTHENING THE
OPORTUNIDADES HUMAN DEVELOPMENT PROGRAM**

(ME-X1007)

LOAN PROPOSAL

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Proposed resolution

ELECTRONIC LINKS

REQUIRED

1. Annual work plan (Plan of activities for the first disbursement and the first 18 months of execution)
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35285177>
2. Monitoring and evaluation arrangements
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35285188>
3. Full procurement plan
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35285172>

OPTIONAL

1. Agreement and fiduciary requirements for procurement
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35296376>

ABBREVIATIONS

CCLIP	Conditional credit line for investment projects
CNO	Coordinación Nacional del PDHO [National Coordination Board for the <i>Oportunidades</i> Human Development Program]
CONEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social [National Council for the Evaluation of Social Development Policy]
CTO	Comité Técnico del PDHO [<i>Oportunidades</i> Technical Committee]
ENIGH	Encuesta Nacional de Ingresos y Gastos de los Hogares [National Survey of Household Income and Expenditure]
EsIAN	Estrategia Integral de Atención de la Nutrición [Comprehensive Nutrition Strategy]
INSP	Instituto Nacional de Salud Pública [National Public Health Institute]
MAPO	Modelo de Atención Personalizada del PDHO [<i>Oportunidades</i> Personalized Service Model]
MAS	Modelo Alternativo de Salud [Alternative health model]
NAFIN	Nacional Financiera
PAL	Programa de Apoyo Alimentario [Food support program]
SEDESOL	Department of Social Development
SEP	Department of Public Education
SHCP	Department of Finance
SIIOF	Institutional Information System for Program Operation

PROJECT SUMMARY

MEXICO

STRENGTHENING THE *OPORTUNIDADES* HUMAN DEVELOPMENT PROGRAM – THIRD PROJECT (ME-L1080)

UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR STRENGTHENING THE *OPORTUNIDADES* HUMAN DEVELOPMENT PROGRAM

(ME-X1007)

Financial Terms and Conditions				
Borrower: United Mexican States			Amortization period:	25 years
Executing agency: Department of Social Development (SEDESOL) through the National Coordination Board for the <i>Oportunidades</i> Human Development Program (CNO)			Grace period:	5 years
			Disbursement period:	24 months
Source	Amount	%	Interest rate:	LIBOR
IDB (Ordinary Capital)	US\$800,000,000		Inspection and supervision fee:	*
Local	US\$0		Credit fee:	*
Other/Cofinancing	US\$0			
Total	US\$800,000,000		Currency:	U.S. dollars from the Single Currency Facility Conversion to Mexican pesos: Local Currency Facility (GN-2365-6)
Project at a Glance				
<p>Project objective: The purpose of this operation is to help reinforce the process of adjusting the urban operating model for the <i>Oportunidades</i> Human Development Program, based on the operational evaluation of the initial phase of that process, in order to contribute to stopping the intergenerational transmission of poverty.</p> <p>Special contractual conditions: As a special condition precedent to disbursement eligibility: The trust agreement between the borrower, executing agency, Department of Public Education (SEP), Department of Health (SS), and Nacional Financiera (NAFIN) for execution and administration of the loan must be signed and enter into force (see paragraph 3.3). As a special condition precedent to execution, the borrower, through the executing agency, will carry out the steps listed in paragraph 2.6 (see paragraph 3.4).</p> <p>Exceptions to Bank policies: None.</p>				
<div style="display: flex; justify-content: space-between;"> Project consistent with country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Project qualifies as: SEQ <input checked="" type="checkbox"/> PTI <input checked="" type="checkbox"/> Sector <input checked="" type="checkbox"/> Geographic <input checked="" type="checkbox"/> Headcount <input checked="" type="checkbox"/> </div>				

* 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. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. RATIONALE, DESCRIPTION, AND RESULTS MONITORING

A. The Bank's support for *Oportunidades*

- 1.1 Launched in 1997, Mexico's Education, Health, and Nutrition Program (Progresa), now the *Oportunidades* Human Development Program, encourages the use of educational, health, and nutritional services by low-income families. It does so by making cash transfers contingent upon fulfillment by the program beneficiaries of their coresponsibilities (regular school attendance, use of health services, and participation in self-care workshops). With an annual budget of close to US\$3.750 billion (0.57% of the 2009 gross domestic product), the program currently covers 5.56 million families (just over 25 million people), a figure commensurate with the total number of families in capabilities poverty¹ in Mexico (5.38 million families in 2008).
- 1.2 The Bank began supporting *Oportunidades* in 2002 through a two-phase program, the purpose of which was to help increase the human capital of families living in poverty by improving their access to education, health, and nutrition. Specifically, the operation supported strengthening of the design and operation of the program in rural areas and its initial expansion to semiurban and urban areas. The operation received financing of US\$2.2 billion. After the performance triggers specified in the first phase (1388/OC-ME), approved in January 2002, were met, the second phase (1618/OC-ME) was approved in March 2005 and completed in June 2009.
- 1.3 The Bank started a new phase of support for *Oportunidades* in 2008, with approval of conditional credit line for investment projects (CCLIP) ME-X1007, for US\$2 billion. The main purpose of the two individual operations approved to date under this CCLIP has been to support implementation and evaluation of a pilot project to make adjustments to the program to increase its impact in urban areas. Execution of the first operation (2103/OC-ME), approved in January 2009 for US\$200 million, was completed in November 2009. The second operation (2140/OC-ME) for US\$600 million was approved in May 2009, and 99.7% of the proceeds have been disbursed to date. The proposed project is the third individual operation under the CCLIP.

B. Impact of the evaluations on the design and operation of *Oportunidades*

- 1.4 *Oportunidades* is one of the most important initiatives undertaken by the Mexican government to combat poverty. This assessment is based not only on the significance the program has acquired in terms of coverage of the country's poor, but also on the fact that it marks a before and after for social welfare programs in Mexico, Latin America and the Caribbean, and in several countries outside the region. In part, this significance is due to the fact that *Oportunidades* is a more efficient and transparent mechanism for channeling resources to needy families than are the mechanisms of traditional social welfare programs. But the program mainly owes it continuity over the course of three administrations and its influence

¹ Households with insufficient income to cover their food, education, and health needs.

at the global level to more than 10 years of solid evaluations that attribute to it significant increases in schooling and improved nutrition and health among the children and young people who were beneficiaries.²

- 1.5 These evaluations not only have shown the effectiveness of *Oportunidades* in developing the human capital of the beneficiary population, but are also part of an ongoing improvement process. In general terms, the current agenda for improvements to the program is implicitly focused on three areas: (i) strengthening its linkages with programs to improve the quality of available education, health, and nutrition services, the demand for which is promoted by *Oportunidades*; (ii) fine-tuning its mechanism for identifying beneficiaries and the rules for their continuance in the program, in order to reduce inclusion errors and to adapt to new official poverty measurement criteria; and (iii) tailoring its design and operation to make it more relevant to the specific nature of the development problems in communities with a high percentage of indigenous people and in urban areas.
- 1.6 The need to maintain close coordination with the health and education sectors is nothing new for *Oportunidades*. The objective of such coordination, however, has mainly been to ensure that beneficiaries have access to services under conditions that enable them to fulfill their coresponsibilities, while little emphasis has been placed on the quality of services. As a key determinant of returns on the investment in human capital, however, the quality of those services affects the program's potential long-term impact. Evaluations of the quality of services available to the program's beneficiaries point not only to the existence of deficiencies, but also to the fact that beneficiaries have less access to programs focused on improving quality (INSP, 2008). Although the National Coordination Board for *Oportunidades* (CNO) has no direct control over the quality of services offered, the program's importance in terms of coverage of the poor population creates opportunities for quality-compensation programs to focus their efforts on the poor through coordination with *Oportunidades*. For that reason, the CNO is actively trying to strengthen its operational linkages with these programs. Their decentralized operation by the states further complicates intersector coordination, which is always a challenge.
- 1.7 The evaluations also indicate that the targeting of *Oportunidades* has gradually become less effective, particularly in urban areas. The cause is a combination of inertia with respect to the algorithm used to identify potential beneficiary households and changes in the official definitions for measuring poverty. A significant expansion of *Oportunidades* was carried out in 2010, using a modified

² Noteworthy impacts in rural areas include: (i) 64% more children and young people completed at least five grades; (ii) 20% fewer sick days each year among children under six; and (iii) children 24 to 71 months in the program grew 0.67 centimeters more. Noteworthy impacts in urban areas include: (i) 30% increase in the proportion of children and young people who have completed one more grade of school and (ii) 24% fewer sick days each year for children from 6 to 15 years of age (National Institute of Public Health (INSP), 2005). Recently begun assessments of the long-term impact of *Oportunidades* in rural areas have found that its beneficiaries complete one more year of schooling and therefore fare better in the job market.

targeting mechanism to focus new enrollment on the poorest households, i.e. those below the food poverty line,³ which according to the 2008 National Survey of Household Income and Expenditure (ENIGH), totaled nearly 1.5 million urban families. Moreover, the Social Development Act calls for CONEVAL to begin in 2012 to evaluate the effectiveness of social program targeting based on multidimensional criteria. This is being taken into consideration by the CNO in defining criteria for both initial enrollment and recertification of eligibility.

- 1.8 With respect to program adjustments for better serving the indigenous population, while the program evaluations show positive impacts on that group in general, these impacts are significantly reduced when the analysis centers on communities with a high concentration of indigenous people. For that reason, the CNO has been taking steps to improve the ethnic relevance of its work in such areas. Those steps include: (i) using materials in indigenous languages for community workshops included as part of the program's coresponsibilities; (ii) training health workers that serve the indigenous population, to ensure an intercultural approach; and (iii) hiring bilingual operations personnel.
- 1.9 In 2008, *Oportunidades* also started a process to improve the design and operation of the program in urban areas, focused on both closing the program's coverage gap in those areas and on increasing the relevance of its interventions. Given that this is the main objective of support for this operation and the two preceding operations under the CCLIP, the following sections summarize the motivation behind these changes and their characteristics.

C. Recent phase of expanding *Oportunidades* to urban areas

- 1.10 Despite its broad national coverage, in 2008 *Oportunidades* was underserving the urban poor due to the priority initially given to rural areas, where poverty is deeper. According to the 2008 ENIGH survey, the rural expansion of the program (more than 3.5 million households at that time) was sufficient to cover the entire population living in capabilities poverty, but the urban expansion (around 714,000 households) covered just one third of the equivalent population. For that reason, and driven by the social effects of the food price crisis and the global financial crisis, the CNO started a massive expansion of program coverage in urban areas, facing at least two challenges of considerable technical and operational complexity: identifying potential beneficiaries and ensuring effective access to primary health care services.
- 1.11 One of the reasons why identification of potential beneficiaries in urban areas is a complex exercise is the high mobility of the urban poor, even within a geographical

³ The per capita capabilities poverty line in 2008 was 835 Mexican pesos for rural areas and 1,164 pesos for urban areas (approximately US\$64.40 and US\$89.90 in today's dollars, respectively). As of December 2009, the Consejo Nacional de Evaluación de la Política de Desarrollo Social [National Council for the Evaluation of Social Development Policy] (CONEVAL) estimates the rural and urban food poverty lines to be at 697 and 985 Mexican pesos, respectively.

area. This results in constant shifts in the geographical location of poverty in cities, in terms of both prevalence and depth.

- 1.12 Secondly, contrary to the general perception, ensuring effective access to health services in urban areas is not necessarily easier than in rural areas. The high mobility of the urban poor and the difficulty of expanding health services in step with urban growth create a geographical mismatch between health-care supply and demand, which sometimes translates into overloaded services.
- 1.13 As one of its main social-sector responses to the crisis, the Government of Mexico called for *Oportunidades* to be expanded, mainly in urban areas, where it was believed expansion could be achieved more quickly due to the perceived undercoverage. However, the pressure for rapid expansion and the difficulties in efficiently assigning potential urban beneficiaries to health centers resulted in a smaller-than-planned expansion of *Oportunidades* in urban areas and in the growth of the Food Support Program (PAL) in those areas. PAL is an unconditional cash transfer program originally designed to serve a scattered rural population without easy access to education or health services. Excluding educational scholarships, its transfers are close in value to those given by *Oportunidades*. Since 2010, PAL has been managed operationally by the CNO. The coexistence of PAL and *Oportunidades* in urban areas poses an important operational and reputation risk for the latter, since some communities have people with similar characteristics who receive different amounts and people who have to incur different costs to receive the transfers, since they are conditional for some but not for others. *Oportunidades* currently has an urban coverage of 1,057,000 families, while the urban PAL covers some 275,000 families.

D. Changes to the urban design and operational model for *Oportunidades*

- 1.14 In 2008, with Bank support, the CNO started to design a number of pilot innovations to its urban intervention model. The need to make changes to this model was made evident by the impact evaluations and by the program attrition rate in urban areas. Although the evaluations found significant impacts on the human capital of urban families, the increases were substantially smaller than those achieved in rural areas. Those lesser impacts were the result of having extrapolated the design of the rural program to urban areas, despite significant differences in the development challenges in each geographical area. The epidemiological profile in cities is characterized by a greater incidence of chronic illnesses, in part associated with a dramatic increase in the prevalence of obesity. Likewise, issues of access to education in urban areas already extend beyond the primary level and are concentrated in the secondary- and high-school levels.
- 1.15 Program attrition in the urban areas is much greater than in rural areas because of higher costs (direct costs and time costs) incurred by urban beneficiaries to fulfill their coresponsibilities. González, Heracleous, and Winters (2009) found that in a six-year period (2002-2008), 43% of urban beneficiaries on the roll dropped out of *Oportunidades*, at an annual rate twice the rate seen in rural areas. Nearly 25% of

those cases had to do with administrative causes, mainly the process of recertifying eligibility. The remainder involved failure to fulfill coresponsibilities. According to Álvarez and Winters (2008), coresponsibilities have the effect of leading to self-exclusion from the program at the far ends of the beneficiary income spectrum. A significant percentage of those leaving the program for failure to fulfill their coresponsibilities are less poor families, because the time costs of participating in the program increase when their employment incomes improve. However, coresponsibilities also lead to self-exclusion among a significant percentage of the poorest of the poor, because they are unable to absorb the direct costs and time costs of participating in the program.

- 1.16 Innovations to the urban model are geared toward increasing the relevance of *Oportunidades* with respect to the development challenges in urban areas and toward making the beneficiary roll more stable.
- 1.17 In order to tailor the health and nutrition service model to the epidemiological profile in urban areas and to the cost of fulfilling coresponsibilities in those areas, the Alternative Health Model (MAS) and Comprehensive Nutrition Strategy (EsIAN) were developed. MAS encompasses: (i) a reduction in the number of topics and the frequency of health workshops offered on self-care; (ii) implementation of the Family Health Plan (preventive focus) through verification of coresponsibilities via the national health record passbook (*Cartilla Nacional de Salud*); (iii) the option for a family member over the age of 18 to attend workshops in place of the head of household; (iv) the possibility for adherence to a “health actions” protocol (treatment) to substitute for certification of workshop attendance; and (v) more flexible hours for health services.⁴
- 1.18 For its part, EsIAN is not an exclusively urban strategy. It has the following components: (i) new food supplements, with lower calorie content for urban areas; (ii) enhancement of the equipment for monitoring nutritional status; and (iii) communication and training for health personnel to effectively provide nutrition services to children under five and pregnant and nursing women.
- 1.19 In order to increase the relevance of its educational approach in urban areas, two variants of the urban scholarship program are being analyzed at the pilot level. At least initially, those variants are not expected to have a budget impact, with resources from scholarships at the primary school level (where *Oportunidades* does not have a significant impact in urban areas) transferring to higher grade levels. One of the scholarship structure variants includes a bonus for academic performance, as measured by standardized tests.

⁴ As MAS is implemented, access by the low-income population (beneficiaries and nonbeneficiaries of *Oportunidades*) to the Guaranteed Health Services Package will increase through gradual access by families to *Seguro Popular*. *Seguro Popular* currently covers close to 70% of the *Oportunidades* population. As described in the monitoring and evaluation annex, the original impact assessment system for MAS includes an analysis of the marginal impact of *Seguro Popular* for the population served under the MAS model.

- 1.20 Leveraging the broad coverage of the banking network in urban areas, transfers began to be paid electronically, with over half a million beneficiary households receiving electronic payments today. This is expected to reduce the costs incurred by beneficiaries to receive their cash transfers, as compared to attending traditional payday events. In addition, electronic payment of transfers has the potential to become a platform for promoting bank usage by beneficiaries (and access to banking services such as utility bill payment or access to financial services).
- 1.21 Eliminating paydays as electronic transfers are implemented necessitates changing the program's model of interaction with its beneficiaries. Accordingly, the *Oportunidades* Personalized Service Model (MAPO) was designed, which mainly involves mapping and increasing the number of points of service for beneficiaries, in order to promote familiarity with their rights and obligations, facilitate transaction arrangements, and more effectively encourage actions leading to human capital accumulation at the community level. It is also expected to reduce the travel and time costs of program interactions for beneficiaries, although possibly at a higher administrative cost.⁵

E. Obstacles and progress in implementing urban innovations

- 1.22 Operational and outcome evaluations of these innovations were expected to have been completed by the beginning of this year, with a view to strengthening them and scaling them up. For the reasons laid out below, implementation of the innovations was delayed, so this objective has only been partially achieved to date (operational evaluations were performed).

a. General obstacles

- 1.23 First, the rush to quickly expand *Oportunidades* took up a good part of the CNO's technical resources and created pressure for the innovations to be scaled up before the operational lessons had become fully clear. At the same time, this translated into unforeseen operational situations that delayed the schedule for implementing some of the components.
- 1.24 Second, particularly when implementation of the innovations began, their components were executed unevenly at the local level. This was due in part to the fact that the expansion of innovations often outpaced the flow of information to the communities. It was also due to a complex negotiation to enable activities to be implemented that by law are executed by the states.
- 1.25 Lastly, owing to the high mobility of the urban poor, the georeferenced map of beneficiaries used in implementing the innovations proved to be inaccurate. As a result, when implementation began, the innovations coexisted in some areas with the traditional urban model, causing confusion among service providers and beneficiaries.

⁵ The program's traditional form of interaction with its beneficiaries is through service desks that cover an average of 500 heads of household. Under MAPO, one desk serves an average of 40 beneficiaries.

b. Specific milestones for each innovation

- 1.26 Described below are the main challenges encountered in implementing each urban innovation and the strategies applied by the CNO to overcome them.
- 1.27 Implementation of the MAS has faced two main challenges. First, the model was introduced with the community as its basic unit. However, beneficiaries from one community will commonly attend health centers in another community. As a result, MAS coexisted with the traditional model at many health units, causing confusion for both beneficiaries and service providers as to the type of actions that should be carried out. In early 2010, this difficulty began to be resolved by determining that specific health units would implement the MAS model for all *Oportunidades* beneficiaries seeking services there, irrespective of their place of residence. In addition, there are plans for a realignment of the service capacity of health units, to identify units that can provide services to new beneficiaries as well as units with urban dynamics, irrespective of how they are defined geographically. This process is critical, not only to establish a service model that is more appropriate for an urban population, but also because it has implications for certification of local health care services, which will permit an eventual transfer of the urban population served by PAL to *Oportunidades*.
- 1.28 Secondly, especially when MAS was first implemented, there was confusion among health workers with respect to the changes entailed by introduction of the new model. For example, some units confused MAS with EsIAN, assuming that the change in model was limited to the type of food supplement to be distributed. Adding to this confusion was a lag between expansion of MAS and the availability of materials for its implementation, insufficient training of human resources, and operational inconsistencies between MAS and EsIAN. This problem has been addressed through a new personnel training process for both MAS and EsIAN. In addition, the National Commission for Social Protection in Health (CNPSS), the agency that serves as a link between *Oportunidades* and the Department of Health (SS), is conducting oversight at the health unit level to verify the degree of dissemination and adherence to the MAS operating manuals, even though there are insufficient resources for oversight country-wide, and the resolution of problems identified through oversight depends on the level of commitment from the states to the program.
- 1.29 Addressing these challenges resulted in delayed implementation of MAS with respect to the original timetable. In order to achieve a minimum of exposure to the model, consistent with the desire to observe results, the decision was made to postpone baseline monitoring for the MAS impact assessment until 2011.

- 1.30 EsIAN, for its part, suffered operational delays in the procurement and distribution of the new food supplements that have now been resolved.⁶ As in the case of MAS, the decision was made to postpone baseline monitoring for the EsIAN impact assessment until 2011 in order to ensure minimum exposure to the model.⁷
- 1.31 The pilot phase of implementation of the alternative urban scholarship models suffered baseline data collection delays that should be resolved with administrative data on school enrollment and attendance. However, the main risk faced by this innovation is in its scaling. During the pilot phase, the alternative scholarship models were only assigned to new scholarship recipients. As previously noted, the new models involve a redistribution from families with primary education scholarship recipients to families with scholarship recipients in higher grade levels. Consequently, some of the beneficiary families under the traditional model would likely see their support reduced under the alternative model. If the results of the evaluation (expected for early 2011) confirm that one of the alternative models should be expanded, the CNO and the Department of Social Development (SEDESOL) will face the challenge of redesigning the system of transfers for all scholarship recipients.
- 1.32 The initial impact assessments of the electronic payment models suggest that they are appropriate because they reduce the cost incurred by beneficiaries to receive their transfers, in terms of both the distance they have to travel to receive them and the value they ascribe to flexible hours. These initial findings led the government to accelerate expansion of this payment model. However, the momentum of expanding electronic payments was slowed by the limited operating capacity of the financial institutions that currently provide that service. For that reason, the government has decided to halt expansion of electronic payments.
- 1.33 The qualitative evaluation of MAPO highlighted certain weaknesses, both in the conceptual design of the model and in the way it is being implemented. At the conceptual level, there is a lack of clarity with respect to the expected impact of the model, making evaluation and establishment of the oversight function difficult. At the implementation level, there were discrepancies in its structure and operation, lack of sector coordination at the local level, difficulties in mapping neighboring groups, and overlap with the traditional service model. Compounding these problems is the fact that MAPO, as initially proposed, has higher administrative costs than the traditional model.

⁶ One of the problems that still persists for EsIAN is the contradiction between the official rule on exclusive breastfeeding (four months) and the rule prescribed by the strategy (six months), which causes confusion among medical personnel. Simply updating the official rule will not be enough to solve this contradiction. Health personnel strongly lean toward promoting exclusive breastfeeding for a shorter period of time, despite what empirical evidence suggests.

⁷ The cost-effectiveness of the nutritional supplements provided by EsIAN was established through random assignment to different types of supplements (see optional electronic links for further details).

- 1.34 Based on these observations, the CNO has begun to reformulate MAPO's logical framework with the participation of all the program's general directorates and local offices. Greater conceptual clarity will still require definition of the operational and management process to implement it. This definition should be available by the start of the last quarter of this year. The main challenges in this process are: (i) mapping a population with high geographic mobility; (ii) designing interventions to promote human capital at the community level that do not overlap and that complement those being promoted at the family level through MAS; and (iii) finding a service model with costs that fit the budget.

F. Objective, components, and cost

- 1.35 The operation will cost US\$800 million and represents a continuation of the Bank's support for evaluation and implementation of the new operating model for *Oportunidades* in urban areas. The purpose of the CCLIP is to contribute to stopping the intergenerational transmission of poverty through the development of basic capacities in education, health, and nutrition among the poor. To aid in achieving that goal, the purpose of this operation is to help reinforce the adjustments to the urban operating model for *Oportunidades*. To that end, this operation will allow the Bank to continue its technical collaboration with Mexico and to supervise the attainment of key milestones for strengthening of the urban model. The operation has two components.
- 1.36 **Component 1. Promotion of human capital (US\$798.38 million).** To help close the population coverage gaps of *Oportunidades* in urban areas, this component will partially support conditional cash transfers designed to promote investment in human capital.
- 1.37 **Component 2. Impact evaluations of urban innovations in health and nutrition (US\$1.62 million).** The objective of this component is to generate information to guide decision-making on program operating changes. To that end, it will finance analytical changes to the design of the MAS and EsIAN impact evaluations that are potentially necessary based on the circumstances under which those innovations have been implemented. It will also finance the gathering of baseline monitoring data for evaluating the innovations and analyzing their impacts. Taxes associated with the corresponding consulting contracts will be financed with the loan proceeds.
- 1.38 This operation is consistent with the current country strategy (document GN-2181-1), in particular with its objective to reduce extreme poverty through improvements in health and education that target poor and vulnerable groups.

G. Results indicators

- 1.39 Annex II presents the outcome and output indicators to be used during execution of this credit operation. The main contribution of this operation and the two prior operations financed under the CCLIP is support for the CNO in the design, implementation, and evaluation of a new urban service model. The indicators for

monitoring and evaluation of *Oportunidades* refer to its beneficiary population in general rather than specifically to the urban population. Pursuant to a CONEVAL regulation, the logical framework for *Oportunidades* —and those used by all other Mexican social programs—is approved and monitored by the Department of Finance (SHCP), the Congress, and the Office of the Auditor General.

- 1.40 To align efforts with the federal government, this project will use a subset of the program's logical framework indicators as a main component of its results framework. It will also use the targets established for those indicators as part of the technical briefs for the *Oportunidades* logical framework. The evaluations financed by the three operations under the CCLIP will report on any marginal contribution to national indicators of improvements attributable to the new urban model.
- 1.41 In addition, the Bank and the borrower have agreed to monitor an indicators that is considered to represent the process of fostering linkages between *Oportunidades* and the health sector and the states: the percentage of accredited state health service units serving beneficiaries under MAS. The purpose of reporting this indicator will be to provide monitoring during execution of this operation, to contextualize the results of the credit operation, and to fuel the dialogue between the Bank, the CNO, SEDESOL, and the health sector with respect to progress in strengthening these strategic linkages.

II. FINANCING STRUCTURE AND RISKS

A. Execution period

- 2.1 According to the proposed timetable, US\$400 million will be disbursed in 2011 and US\$400 million will be disbursed in 2012.
- 2.2 Consistent with the nature of CCLIPs as a financing instrument, and in order to continue the Bank's support for the payment of conditional cash transfers under the program, retroactive financing of those transfers is proposed, provided they were made by the borrower in accordance with the requirements set forth in the loan contract, after the date the project abstract for this operation was approved (26 June 2010). In any case, the retroactive financing will not exceed 20% of the total amount of the proposed financing.

B. Environmental and social safeguard risks

- 2.3 This project does not include activities that could cause adverse social or environmental impacts. It has been classified as a category "C" operation pursuant to the Environment and Safeguards Compliance Policy (operational policy OP-703).

C. Fiduciary risk

- 2.4 The fiduciary risk of this operation is considered to be low, as determined based on ex post reviews of financial and procurement aspects of the first and second CCLIP operations. In 2007, the Bank assessed the program's risk, including fiduciary

aspects, and concluded that the executing agency has developed capacity and low risk in these areas. This conclusion was confirmed by applying the Institutional Capacity Assessment System in 2008 for the first CCLIP operation. The opinions issued by the external auditors of the IDB-financed loans have been clean and the observations on internal controls have been minor and refer to operation, not financial management.

- 2.5 As with execution of the second CCLIP operation, in order to support the efficient use of resources, and considering that the execution agency has developed fiduciary capacity and low risk, only one final audited financial statement will be required if all the resources are disbursed within 18 months from the effective date. Otherwise, annual audited financial statements will be required, and as in the previous case, the cost will be financed with local counterpart resources.

D. Other key issues and risks

- 2.6 **Strengthening of urban innovations.** Achieving the development objectives of the series of CCLIP operations hinges on overcoming the pending challenges to full implementation of the urban innovations. The borrower, through the executing agency, therefore agrees to carry out the steps listed below, enabling the Bank to include them in its technical supervision, with a view to strengthening implementation of the urban innovations:

- (i) Approval by the *Oportunidades* Technical Committee (CTO) of the methodology and cutoffs to be used to identify new beneficiaries, the criteria for the recertification process, and the procedure to be followed as a result of this process, based on the recommendations of a working group consisting of the CNO, SEDESOL, CONEVAL, the IDB, and the World Bank.
- (ii) Completion of the process of mapping the families to receive health services, based on capacity to serve the beneficiaries, making it possible to identify potential new transfers from PAL to *Oportunidades*.
- (iii) Submittal to the CTO of the findings of an evaluation to help determine if changes are needed in the urban scholarship model, including the proposed model, the implementation timetable, and the way in which it would be administered.
- (iv) Programming of the expansion of electronic payments based on operating capacity—of the program and of the financial institutions—and on the availability of budget resources for implementation of MAPO.
- (v) Definition by the CTO of the operational characteristics of the redesigned MAPO, to include: (i) outcome and monitoring indicators; and (ii) how it will be evaluated.

- 2.7 **Technical quality of evaluations.** Given the uneven, slow implementation of the urban innovations, it may be necessary to adapt the original impact evaluation framework. To mitigate this risk, a technical evaluation workshop will be held in

November 2010 to analyze information on operational implementation of MAS and EsIAN and to identify potential biases and measures to correct them, either as part of the monitoring surveys or through data analysis.

III. IMPLEMENTATION AND ACTION PLAN

A. Borrower, executing agency, and general implementation arrangements

- 3.1 The borrower is the United Mexican States, through the Department of Finance (SHCP). The executing agency is the Department of Social Development (SEDESOL), which will act through the National Coordination Board for the *Oportunidades* Human Development Program (CNO), which is supported by a board and a technical committee (CTO) tasked with drafting the Operating Regulations and amendments thereto and submitting them for consideration to the Deputy Secretary for Expenditure of the SHCP, among other functions. The CTO consists of representatives from SEDESOL, the CNO, SHCP, the Department of Public Education (SEP), and the Department of Health of the Mexican Social Security Institute.
- 3.2 The CNO will be responsible for the program's general execution, coordinating between agencies and taking the measures necessary for the project to be executed within the expected timeframes, under the agreed-upon budget, and in accordance with rules and contractual conditions. The interventions supported by the project will be governed by the current rules and provisions defined and contained in the *Oportunidades* program's Operating Regulations.
- 3.3 **As a special condition precedent to disbursement eligibility, the trust agreement between the borrower, executing agency, SEP (through the National Council for Educational Advancement), the Department of Health (through the National Commission for Social Protection in Health), and Nacional Financiera (which will serve as the borrower's financial agent for administration of the loan proceeds) for execution and administration of the loan must be signed and enter into force.** In that agreement, SEP and the Department of Health will agree to provide information when and as needed by the executing agency for preparing the initial and semiannual reports under the terms described in the monitoring and evaluation annex.
- 3.4 As a **special condition precedent to execution**, the borrower will, through the executing agency, carry out the steps listed in paragraph 2.6.

B. Consulting services

- 3.5 In accordance with paragraph 3.10(d) of the Bank's policies for the selection and hiring of consultants (document GN-2350-7), the National Public Health Institute (INSP) may be contracted directly to provide consulting services for this operation. The INSP is a decentralized federal government agency of Mexico in charge of public health research and teaching. It has full legal capacity and its own resources, in accordance with the provisions of the National Health Institutes Act. Direct

contracting of the INSP is justified as a continuation of the consulting services it has been providing under the first two CCLIP operations. Specifically, the INSP has provided consulting services for the original design of the impact evaluations for the alternative health model (MAS) and the Comprehensive Nutrition Strategy (EsIAN) and for the collection of baseline data for those evaluations, in addition to conducting operational evaluations of those innovations.

C. Summary of arrangements for monitoring results

- 3.6 The operation's outputs will be monitored based on the *Oportunidades* program's Institutional Information System for Program Operation (SIIOP). Its indicators are published twice monthly on the *Oportunidades* website. However, the initial report and the semiannual reports to be sent by the executing agency to the Bank will disaggregate the key indicators by rural, semiurban, and urban area. The urban innovation evaluations financed through the series of individual CCLIP operations will serve to ascertain the marginal contribution of those innovations to the change in outcome indicators analyzed by *Oportunidades* for the general population.

Development Effectiveness Matrix Summary

Indicator	Score	Maximum Score
I. Strategic Relevance	Low-High	
1. IDB Strategic Development Objectives	5.7	10
Country Diversification	0.7	2
Corporate Initiatives	2.5	2.5
Harmonization and Alignment	0.5	3.5
Beneficiary Target Population	2.0	2
2. Country Strategy Development Objectives	2.2	10
Country Strategy Sector Diagnosis	1.8	6
Country Strategy sector objective & indicator	0.4	4
II. Development Outcomes - Evaluability	Highly Satisfactory	
3. Evidence-based Assessment & Solution	9.9	10
4. Evaluation & Monitoring Plan	9.3	10
5. Cost-Benefit or Cost-Effectiveness	7.0	10
6. Risks & Mitigation Monitoring Matrix	10.0	10
III. IDB's Role - Additionality		
7. Additionality	3.0	10
Technical Assistance provided prior the project	3.0	3
Improvements in management of financial, procurement, monitoring or statistics internal controls	0.0	4
Improvements in environmental, health and labor performance	0.0	3

I. Strategic Relevance: This operation will take place in Mexico, which belongs to the A country group. There is evidence that country systems in the monitoring and evaluation area will be used by public sector executing entity. The project is aligned with the country strategy.

II. Evaluability: The project has a diagnostic based on empirical evidence and the main factors behind the development problem are clearly identified and quantified. The objectives and logic of the project are clear. Evidence is provided on how the results of previous studies regarding the same type of intervention have been used to design the operation. The project has a results matrix that includes outcome and output indicators and will allow for a proper monitoring and evaluation of the project. A quasi-experimental evaluation is expected to be carried out, and a budget for this evaluation has been allocated. A cost-effectiveness analysis has been undertaken for some of its components. Potential risks and mitigation measures have been identified and indicators defined to monitor the implementation of the mitigation measures.

III. Additionality: The project has additionalities in terms of technical assistance given before the implementation of the intervention.

RESULTS FRAMEWORK¹ MATRIX OF INDICATORS

Project objective	To help break the intergenerational cycle of extreme poverty for the population currently living in this situation, favoring the development of their basic capacities in education, health, and nutrition.		
Outcome indicator	Base level	Target	Source of information, frequency, and observations
1. Percentage of <i>Oportunidades</i> scholarship recipients who completed secondary school compared to the beneficiary population old enough to complete that level (15 years)	1. 63.19 (2009)	1. 67.92 (2011)	1. Institutional Information System for Program Operation (SIOP) of <i>Oportunidades</i> (annual). The marginal contribution to the indicator due to improvements to the urban model will be estimated based on the impact evaluations financed by the three CCLIP operations.
2. Percentage of boy and girl beneficiaries of <i>Oportunidades</i> between 0 and 59 months of age with a standardized height-for-size score less than two standard deviations below the reference average with respect to all beneficiary children in that age group	2. 27 (2006)	2. 23.46 (2011)	2. National Health and Nutrition Survey (every five years). The marginal contribution to the indicator due to improvements to the urban model will be estimated based on the impact evaluations financed by the three CCLIP operations.

¹ As agreed with the executing agency, this results framework will be adjusted at a technical evaluation workshop to be held in November 2010. As a result of that process, the matrix of indicators will place more emphasis on the project's marginal contribution to achieving the overall targets of the *Oportunidades* program.

Component 1: Incentives for the use of education, health, and nutrition services	Base (2009)	2010	2011	2012	Target	
<u>Output:</u> Number of urban families on the <i>Oportunidades</i> roll	0.8 million	1.06 million	1.36 million	1.36 million	1.36 million	Semiannual reports from the executing agency. The target increase for 2011 assumes a full transition from the urban food support program (PAL) to <i>Oportunidades</i> and expansion of coverage only to account for attrition owing to administrative reasons. This assumption also requires completion of the rezoning of health units, to ensure access to those services by the current beneficiaries of the urban PAL.
<u>Intermediate outcomes:</u>						
1. Percentage of total recipients of basic education scholarships (primary and secondary school) for whom the certification report was received on time and the coresponsibility was fulfilled	1. 95%	1. 95%	1. 95%	1. 95%	1. 95%	1. SIIOP (twice monthly). May be disaggregated for urban areas.
2. Percentage of total recipients of high school scholarships for whom the certification report was received on time and the coresponsibility was fulfilled	2. 94%	2. 94%	2. 94%	2. 94%	2. 94%	2. SIIOP (twice monthly). May be disaggregated for urban areas.
3. Percentage of pregnant women enrolled in the program who go in for prenatal checkups during the first trimester of their pregnancy	3. 34%	3. 36%	3. 38%	3. 40%	3. 40%	3. SIIOP (twice monthly). May be disaggregated for urban areas.

Component 1: Incentives for the use of education, health, and nutrition services	Base (2009)	2010	2011	2012	Target	
4. Percentage of registered beneficiary children under five who fulfilled their coresponsibility	4. 95%	4. 95%	4. 95%	4. 95%	4. 95%	4. SIIOP (twice monthly). May be disaggregated for urban areas.
Component 2: Impact evaluations for urban innovations	Base (2009)	2010	2011	2012	Target	
<u>Outputs</u>						
1. Final impact evaluation report for the Alternative Health Model (MAS)	1. Baseline ready for analysis		1. 2011 Urban Household Evaluation Survey ready for analysis	1. Final report		1. Semiannual reports from the executing agency
2. Final impact evaluation report for the Comprehensive Nutrition Strategy (EsIAN)	2. Baseline ready for analysis		2. Monitoring survey ready for analysis	2. Final report		2. Semiannual reports from the executing agency. The goal will be for baseline monitoring to be carried out through an oversample in the 2011 National Health and Nutrition Survey.
<u>Intermediate outcomes:</u>						
1. Based on the results of the evaluations financed under the CCLIP, adjustments will be made to the program's model for intervention in urban areas.						

SUMMARY PROCUREMENT TABLE

Period covered by this procurement plan: 2010 to 2011

Ref. No.	Category and description of the procurement contract	Estimated cost of procurement (US\$ thousands)	Procurement method ¹	Review (ex ante or ex post)	Source of financing and percentage		Prequalification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
					IDB %	Local / other %		Publication of Specific Procurement Notice	Contract completion		
1	GOODS										
	1. Good 1										
	Brief description										
	2. Good 2										
	Brief description										
2	WORKS										
	1. Works 1										
	Brief description										
	2. Works 2										
	Brief description										
3	NONCONSULTING SERVICES										
	1. Service 1										
	Brief description										
	2. Service 2										
	Brief description										

¹ **Goods and works:** **ICB:** International competitive bidding; **LIB:** Limited international bidding; **NCB:** National competitive bidding; **S:** Shopping; **DC:** Direct contracting; **FA:** Force account; **PSA:** Procurement through specialized agents; **PAs:** Procurement agents; **IA:** Inspection agents; **PLFI:** Procurement in loans to financial intermediaries; **BOO/BOT/BOOT:** Build, own, operate/build, operate, transfer/build, own, operate, transfer; **PBP:** Performance-based procurement; **PLGB:** Procurement under loans guaranteed by the Bank; **PCP:** Community participation procurement. **Consulting firms:** **QCBS:** Quality- and cost-based selection; **QBS:** Quality-based selection; **FBS:** Selection under a fixed budget; **LCS:** Least-cost selection; **CQS:** Selection based on the consultants' qualifications; **SSS:** Single-source selection. **Individual consultants:** **NICQ:** National individual consultant selection based on qualifications; **IICQ:** International individual consultant selection based on qualifications; **QC:** Qualifications comparison

4	CONSULTING SERVICES										
	<i>Consulting firms</i>										
	1. Evaluation of Alternative Health Model (MAS)	1,231.00	SSS	Ex ante	100	0	No	Q-IV 2010	Q-IV 2011	Pending	Contract with the National Public Health Institute (INSP)
	2. Evaluation of implementation of the Comprehensive Nutrition Strategy (EsIAN)	385.00	SSS	Ex ante	100	0	No	Q-IV 2010	Q-IV 2011	Pending	Contract with the INSP

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/10

Mexico. Loan ____/OC-ME to the United Mexican States. Third Project to Strengthen the Oportunidades Human Development Program, under the Conditional Credit Line for Investment Projects (CCLIP) for the Strengthening of the Oportunidades Human Development Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the United Mexican States, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the third project to strengthen the oportunidades human development program, under the Conditional Credit Line for Investment Projects (CCLIP) for the strengthening of the oportunidades human development program, approved by Resolution DE-102/08. Such financing will be for the amount of up to US\$800,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Executive Summary of the Loan Proposal.

(Adopted on _____ 2010)

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