

MULTIPHASE CONSOLIDATION AND EXPANSION PROJECT FOR THE EDUCATION, HEALTH AND NUTRITION PROGRAM (PROGRESA) - PHASE I

(ME-0244)

EXECUTIVE SUMMARY

Borrower: Nacional Financiera, S.N.C. (NAFIN)

Guarantor: Government of the United Mexican States

Executing agency: Department of Social Development (SEDESOL)

		Phase I (three years)	Phase II (three years)
Amount and source:	IDB: (OC)	US\$1.000 billion	US\$1.000 billion
	Local:	<u>US\$1.377 billion</u>	<u>US\$1.377 billion</u>
	Total:	US\$2.377 billion	US\$2.377 billion

Financial terms and conditions:	Amortization period:	25 years
	Grace period:	3 years
	Disbursement period:	3 years
	Interest rate:	variable
	Supervision:	1% on amount of loan

Objectives: The project's general objective is to increase human capital accumulation among families living in extreme poverty, by improving opportunities in education, health and nutrition.

The specific objectives are as follows: (i) to reinforce interventions in the areas of education, health and nutrition, in order to ensure their medium- and long-term impacts; (ii) to adapt program design in order to expand coverage to the urban sector; (iii) to enhance the program's operating efficiency, particularly in the monitoring and audit areas; and (iv) to continue with independent impact assessment.

Description: The proposed multiphase project has an estimated cost of US\$4.755 billion, divided into two phases of US\$2.377 billion each, to be implemented over a period of approximately six years. The multiphase modality is justified for the following reasons: (i) expansion of the program involves applying project designs adapted for the urban sector and upper secondary education, the impact of which will need to be evaluated during the first phase of the

operation; and (ii) consolidation of the program requires improved operating efficiency, to support the expansion of coverage to urban areas.

1. Component 1. Increase in human capital among populations living in extreme poverty (US\$2.35 billion in phase I)

This component will help consolidate targeted interventions in education, health and nutrition, in the rural localities where the program is already operating, and will finance the first phase of expansion to semi-urban and urban localities. The target population consists of households living in extreme poverty, as defined by a national poverty line based on per-capita household consumption. The beneficiaries will be households that qualify under the targeting criteria described below, in localities where access to primary education and basic health services can be verified. Actions will target the family in an integrated way, and mothers will be the official recipients of monetary support payments and inputs. Families eligible as program beneficiaries will receive support payments on condition that they assume specific co-responsibilities in relation to health and education.

The program will provide eligible support payments in decreasing amounts for new households in semi-urban, urban and rural localities, and to families qualifying through re-certification. This component will fund technical assistance and training, along with materials and equipment for the selection of localities, identification and incorporation of new families, and processes involved in the re-certification of current beneficiary families.

As regards enhancing the program's operating efficiency, the monitoring, operational audit and social communication areas will all be strengthened. Implementation of the institutional information system for the operation of PROGRESA (SIIOP) of monitoring indicators will be completed and the set of performance and evaluation indicators and indicators of the IMSS-Solidaridad and the SSA will be incorporated into the SIIOP. In addition, the Sentinel Points Operational Monitoring Program, consisting of a comprehensive bimonthly audit of the program's operational aspects, will be applied every two months. The component will develop a program communication strategy to foster a greater sense of ownership of the program by beneficiaries and other stakeholders. Information and training mechanisms on the program's rationale will be developed for the communities to be incorporated into it.

2. Component 2. Program evaluation and adaptation (US\$9 million in phase I)

This component will undertake diagnostic studies and make changes to the program's operating regulations in order to: (i) improve its operating efficiency; (ii) adapt its urban design; (iii) assess the impact of urban interventions, and medium-term impacts in rural areas; (iv) evaluate and implement the National Master Points Model for selecting households; and (v) coordinate with other social programs run by the Department of Social Development (SEDESOL), in order to avoid duplication between different programs with similar objectives.

The Bank's country and sector strategy:

The Bank's strategy for Mexico in the social sectors entails supporting programs to reduce regional inequalities, income disparities and extreme poverty. Particular emphasis has been given to sectors and interventions that help speed up the process of human capital accumulation among the poorest (paragraph 1.29).

Justification for the Bank's involvement is based on the importance of PROGRESA in the strategy of the fight against poverty in Mexico itself and also region wide.

Environmental and social review:

Talks on health education currently being given address the topics of basic sanitation, including domestic hygiene practices, potable water and solid waste management. Attendance at these talks is compulsory for beneficiary mothers, and participation by fathers is also recommended. The Department of Health (SSA) and the Mexican Social Security Institute (IMSS) currently require basic health units to make an analysis of medical waste management and disposal practices. The SSA finances the following actions: (i) review and updating of medical and biomedical waste management and disposal manuals; (ii) training of health unit staff in the application of new standards to protect patients and health care staff; and (iii) purchase of new equipment for medical and biomedical waste management (paragraph 4.26).

Benefits:

The independent impact assessment carried out in late 2000 gave the following results:

- a. PROGRESA is reducing poverty and income inequality among the communities in which it is operating (paragraph 4.2).
- b. PROGRESA is cost-effective in transferring resources to the poorest of the poor (paragraph 4.3).
- c. Impact on education: in its first two years of operation, PROGRESA has successfully raised transition rates between primary and secondary school (paragraph 4.14).

- d. Impact on health: the evaluation reveals significant health improvements among beneficiary children and adults. There has also been a significant increase in the use of health services and public clinics for preventive health measures (paragraph 4.19).
- e. PROGRESA reduces child labor, without affecting adult labor market participation (paragraph 4.23).
- f. PROGRESA has enhanced the role of women in the community and in the home, especially in decision-making affecting family and child welfare (paragraph 4.24).

Risks:

There are risks involved in consolidating the single nationwide targeting instrument to reduce leakage and under-coverage caused by changes in the geographical distribution of beneficiaries. This operation will mitigate such risks by supporting analysis of the new targeting instrument and preparing a transition strategy.

Secondly, there are risks involved in extending PROGRESA to urban areas and upper secondary schooling. These will be mitigated through: (i) an ex ante evaluation of the design of the PROGRESA urban program; (ii) testing and ex post evaluation of the different introduction schemes; and (iii) a thorough analysis of education supply.

Lastly, with the passage of time, there are increasing risks from a relaxation of mechanisms for controlling and supervising the operation on the ground by stakeholders. This operation will mitigate such risks by strengthening: (i) existing program supervision instruments; (ii) mechanisms for early identification and solution of execution-related problems; (iii) information systems; and (iv) coordination between sectoral agencies (paragraph 4.27).

Special contractual clauses:

Prior to disbursement of project funding: (i) the borrower must sign one or more agreements with the United Mexican States containing, among other things: (a) the terms and conditions under which the borrower transfers the resources of the financing to the guarantor; and (b) the executing agency's obligation to carry out the activities provided for in the project and to ensure the participation of the participating entities; and (ii) the borrower must present a report—in connection with the National Master Points Model for the selection of beneficiary households—containing the methodological guidelines, econometric estimates and simulations of impacts on the geographical distribution of project beneficiaries resulting from changes introduced by the model.

Other contractual clauses:

The Bank may reimburse up to the equivalent of US\$40 million from the resources of the financing and retroactively recognize up to the equivalent of US\$10 million from the resources of the local contribution, provided conditions substantially similar to those established in the loan contract are met (paragraphs 3.21 and 3.22).

Conditions complied with by the borrower prior to approval of this operation: presentation to the Bank's satisfaction of PROGRESA 2001 operating regulations, which will be applied as project operating regulations and will govern project execution.

Poverty-targeting and social sector classification:

This operation qualifies as a social-equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). It also qualifies as a poverty-targeted investment (PTI), in view of its geographic and beneficiary targeting (paragraph 2.31).

Exceptions to Bank policy:

None.

Procurement:

The project does not involve civil works. Goods and services procurement will be carried out in accordance with Bank policies and procedures. International competitive bidding will be required in contracts for goods and related services in excess of US\$350,000, and consulting services for over US\$200,000. Goods and services procurement for smaller amounts will be subject to the procedures attached to the procurement plan (paragraph 3.14).

I. REFERENCE FRAMEWORK

- 1.1 As a consequence of the economic crisis in 1995 and ensuing structural adjustment programs, Mexico introduced major reforms that led to greater rationalization and coordination of expenditure, together with more effective programs and increased social spending. Social expenditure as a proportion of gross domestic product (GDP) increased from 8.3% in 1996 to 9.6% in 2000, and grew by 30% on a per-capita basis during the same period. At the same time, the composition of expenditure underwent major changes. For example, 61% of federal funding for food subsidies in 1994 was provided across the board, but by late 2000, as much as 95.5% was being targeted. Targeting has made it possible for 76.4% of the rural population today to benefit from food subsidies, compared to just 31% in 1994.
- 1.2 The Mexican government is pursuing a two-pronged social policy: (a) universal actions aimed at the population in general; and (b) actions targeted on households living in extreme poverty. These are classified according to three different objectives: (i) human capital development among the poorest; (ii) creation of income opportunities; and (iii) development of basic social infrastructure. Of total social expenditure, 11% was destined for fighting extreme poverty in 2000, and about 50% was channeled into actions to increase human capital among the poorest. The emphasis on poverty reduction in recent years can be seen in the growth of expenditure on targeted programs compared to programmable expenditure. While targeted expenditure increased by around 20% in the period 1994-2000, programmable spending grew by just 4.4%.
 - A. **The health, education and nutrition program (PROGRESA)**
- 1.3 Created in 1997, PROGRESA is one of the central pillars of government actions to create human capital; it is seen as the most innovative counter-poverty program implemented in the region in recent decades. It targets families living in extreme poverty, not only on efficiency grounds but also for reasons of equity. Secondly, it encourages transparent actions, selecting families through homogeneous, verifiable and auditable procedures. Thirdly, families receive education, health and nutrition support as an integrated benefit. Fourthly, it elicits co-responsibility from the families, by imposing obligations in exchange for continued support. Lastly, it uses permanent monitoring mechanisms and a rigorous independent evaluation system¹ to measure the program's impact in the pursuit of its objectives.
- 1.4 The program will carry out the following actions in the education, health and nutrition areas: (i) education support payments to make it easier for children to complete their basic schooling; (ii) basic healthcare for all family members; and (iii) support payments to improve dietary consumption and the nutritional state of

¹ See chapter IV for the results of the evaluation.

family members. PROGRESA has a solid implementation scheme in place to deliver these benefits, involving close inter-institutional coordination between the Departments of Health (SSA) and Public Education (SEP), and the Mexican Social Security Institute (IMSS) through its "Solidaridad" program.

- 1.5 Families living in extreme poverty should be considered as "structurally poor". In other words, the characteristics they display, such as high rates of morbidity, infant mortality and fertility, inability to demand educational services, scant economic resources dispersed among numerous family members, compounded by the intergenerational transmission of such conditions, create a vicious circle that prevents them from benefiting from social policy actions implemented across the board. For this reason, the program not only integrates education, health and nutrition actions in a single intervention unit (the family), but also combines incentives that bring the supply and demand for social services together (see Table I-1).
- 1.6 Support actions take account of the individual life cycle and emphasize actions that have the greatest impact on people's well-being. The program implements actions catering for particular stages of individuals' development. An initial stage concentrates on ensuring that children are born and remain in healthy conditions, and receive nutritional support payments to assure them adequate growth until they reach school age. The second stage works to encourage school enrolment and improve educational performance, while the third stage seeks to forge information links with other programs enabling families to have access to, for example, job training to facilitate labor-market entry.

Table I-1. Components, co-responsibility and organizations responsible

Components	Interventions	Co-responsibility	Organizations responsible
Education	Student grants School utensils	No more than four unjustified absences during corresponding month.	PROGRESA PROGRESA and SEP
Health	Basic package Educational courses on hygiene, nutrition and preventive health. Food supplements.		Department of Health and IMSS-Solidaridad PROGRESA
Food and nutrition	Monetary transfer	Includes all periodic visits in the basic health package, and attending educational courses	PROGRESA SSA and IMSS-Solidaridad

- 1.7 Beneficiary families undertake to send and keep their children in school, attend clinics to receive a basic healthcare package, and participate in education sessions on health, hygiene and nutrition. If these co-responsibility commitments are not complied with, support is temporarily withdrawn and/or cancelled. To facilitate compliance with these commitments, PROGRESA provides guidance on the program's objectives and mechanisms to mothers, community promoters, institutional staff and other stakeholders. Although support actions respect family decisions on how these are to be used, opportunities and tools are provided for informed decision-making. PROGRESA deliberately chooses to make direct transfers to women, because of the growing body of evidence that funds controlled by women result in greater improvements in children's and family welfare.
- 1.8 The independent impact assessment made by the International Food Policy Research Institute (IFPRI)² found that the program is cost-effective, appropriately selects its target population, and has positive impacts in the education, health, nutrition and food areas. Program impacts include: (i) reduction of poverty and inequality in the communities in which it operates; (ii) increased rates of transition between primary and secondary school; (iii) significant health improvements among both children and beneficiary adults, even in the short run; and (iv) a reduction in child labor. PROGRESA also uses a systematic monitoring, audit and evaluation mechanism, to measure program processes, results and impacts, while providing periodic information on its operation, including an analysis of targets and objectives. This makes it possible to redirect actions and improve their effectiveness and efficiency.
- 1.9 **Target population, beneficiary targeting and selection.** The program's interventions are based on a precise diagnostic study of the beneficiary universe. The target population consists of families living in extreme poverty, whose number was put at 4.5 million nationwide in 2000. The Mexican government has set up a special commission of experts to measure poverty, and this is expected to identify the methodology for measuring official levels of poverty and indigence for the country as a whole. At the outset of the PROGRESA program, the coverage strategy defined for the target population gave priority to rural areas. The program was also designed to proceed under a dual strategy to achieve efficient operation of its three components. Firstly, new regions containing localities suffering from high and very high social exclusion would be incorporated; and, secondly, the number of excluded localities in regions where the program was already operating would be increased. This strategy was justified by the fact that poverty in Mexico is concentrated in rural areas,³ with 60% of all rural households classified as extremely poor.

² For access to the evaluation reports, see <http://www.ifpri.org/themes/progresaprogresareport.htm>

³ Defined as localities with fewer than 2,500 inhabitants.

- 1.10 Having identified the beneficiary universe, targeting is done in three stages. Firstly, geographic targeting is used to identify localities with the highest exclusion indices.⁴ Urban localities are classified in terms of basic geostatistical areas (AGEBs), representing the smallest possible census unit. This makes it possible to mitigate the greater geographic diversity of poverty in urban areas. Secondly, socioeconomic data is collected on all households located in the identified localities, and households are individually rated using a points system to determine their social condition in relation to a cut-off line.⁵ Lastly, in the case of rural localities, the list of potential beneficiaries is presented to local community assemblies for their approval.
- 1.11 The operating regulations establish that families can receive support payments for a three-year period following their incorporation into the program, provided they comply with the established co-responsibility actions. At the end of that period they can request re-incorporation via a recertification process in which the socioeconomic condition of each family is reassessed in accordance with the established beneficiary selection and identification criteria.
- 1.12 **Education.** Educational opportunities in rural areas have been expanded in recent decades, through supply-side programs aimed at pre-school, community primary schools⁶ and “telematic” secondary schooling. At the outset of the program, over 98% of eight-year-olds in the rural sector were attending school. Nonetheless, repetition and dropout rates among children from extremely poor families were higher than for non-poor children. In particular, school dropout tended to rise sharply after 12 years of age—particularly among girls, only 33% of whom were attending school at the age of 15. This situation reflected the need for girls to help in the home to enable other family members to increase their labor supply. Twice as many young people from extremely poor families work, compared to other households.
- 1.13 PROGRESA helps children from beneficiary families to remain in school, by providing student grants and school utensils. Grants are awarded to every child registered from third grade of primary school up to third grade of secondary school, provided they actually attend school.⁷ The size of the grant rises with each school grade attended, in order to encourage a longer period of schooling. From seventh-

⁴ The Basic Social Exclusion Index is constructed using the principal components technique, with indicators obtained from the Eleventh General Population and Housing Census, the 1995 Population Count and the “Territorial Integration Compendium”. The index will need to be updated with data from the Twelfth General Population and Housing Census.

⁵ The cut-off line was obtained from the extreme poverty line derived from the standard food basket.

⁶ Community programs are promoted by the National Education Promotion Council (CONAFE).

⁷ Secondary school 3rd grade is equivalent to 9th grade in basic education.

grade up, the grants are larger for girls in order to counteract the gender gap mentioned above.

- 1.14 **Health, food and nutrition.** The initial program diagnosis found that extreme poverty in rural areas displayed higher mortality and illness rates, and infant mortality among poor families was twice the non-poor level. As many as 14% of women living in extreme poverty were not attending pre-natal clinics and 17% of expectant women were not receiving any pre-natal checkup. The diagnosis also pointed to a delay in the demographic fertility transition among poor women, who were averaging 5.1 children each, compared to 2.6 in the case of non-poor women. Despite the fact that 72% of poor rural women claimed not to want another pregnancy, only 56% were using any kind of contraceptive four years ago.
- 1.15 By definition, the diet of extremely poor households is unlikely to be sufficient to ensure the minimum intake of calories, proteins and micronutrients needed for the normal development of family members. Mothers' nutrition during pregnancy affects the health of their children, and food vulnerability in the early years of a child's life can even have a permanent effect on his or her growth and development potential. In 1996, the prevalence of moderate and severe malnutrition⁸ in the states with the largest numbers of poor households, such as Guerrero, Yucatán, Puebla, Oaxaca and Chiapas was above 20%.
- 1.16 The program's health actions promote the following strategies: (i) provision of basic package of health services; (ii) averting under-nourishment from the gestation stage; and (iii) training in health, nutrition and hygiene. The basic package contains 13 highly effective preventive actions. On the supply side, through the sector's regular programs, health services are strengthened in the regions where the program operates. Prevention of malnutrition is carried out through nutritional surveillance, the provision of food supplements and education on food-nutrition issues. Supplements are provided free to all expectant and breast-feeding mothers, to all children between four months and two years of age, and to those between two and four years old displaying some degree of undernourishment. Two types of food supplements were prepared, one for children and another for women. Both provided 100% of required daily micronutrients, and on average 20% of daily calorie needs. PROGRESA also provides cash grants to families to enable them to improve the quantity, quality and variety of their diet. To receive food support, families must comply with a regime of medical consultations, and mothers are required to attend education sessions on health and nutrition.
- 1.17 **Coverage, budget and interinstitutional coordination.** At the present time, the program is operating in over 50,000 mostly rural localities, and catering for approximately 3.2 million families, representing over 70% of all families living in

⁸ Measured in terms of weight per age.

extreme poverty in the country. The vast majority of localities catered for are small, 96% of them with less than 1,500 inhabitants. Coverage has evolved very rapidly: in 1997 the program only had 400,000 beneficiaries, yet by 2000 the number had grown to 2.5 million. Budgetary allocations have increased in line with coverage, and the funding commitment for 2001 is expected to be around US\$1.5 billion, representing 0.2% of GDP and 2.2% of total social spending. Assuming current average benefit levels per household, expansion into the urban area is likely to involve an additional investment of US\$800 million per year.

B. Future challenges facing PROGRESA; project justification

- 1.18 **Expansion and evaluation.** The goal of the Mexican government is to bring all the country's extremely poor families into the program. This means expanding coverage to semi-urban and urban localities, where most indigent households not already covered by the program today are living. The current plan is to incorporate an additional 750,000 families to the roster of beneficiaries receiving cash grants between late 2001 and early 2002.
- 1.19 The extension of PROGRESA to semi-urban and urban areas poses two fundamental challenges: (i) validation of the family targeting instrument; and (ii) reconsideration of the relevance of the original design. Evaluation of the program's targeting instrument shows that its reliability declines not only at the locality level but also in terms of families, in the case of localities with moderate levels of poverty. Patterns of usage among basic health and education services can vary between rural, semi-urban and urban populations; school dropout among poor children occurs at higher-grade levels in urban areas, for example, and the epidemiological profile also varies between rural, urban and semi-urban areas. The latter areas display pathologies such as drug and alcohol abuse, violence, AIDS and non-transmissible illnesses, which suggests a need to adapt the design of the program's support actions.
- 1.20 In 2001 PROGRESA will start to cater for young people from beneficiary families enrolled in upper secondary education.⁹ Students attending this school level will receive educational grants, school utensils and health care. Although the extension of benefits to higher grades is consistent with recommendations made in the evaluation of the education component, the size of the benefits, together with co-responsibilities and major constraints on the supply of services at this level, all need to be assessed.
- 1.21 The additional public expenditure involved in covering 4.5 million indigent households points up the urgent need to make social spending more efficient and avoid duplication and overlap between programs with similar aims targeting the

⁹ Upper secondary education corresponds to grades 10-12 in formal schooling.

same population. The key strategic challenge for social policy is therefore to avoid duplication of effort in poverty reduction programs, in order to ensure investment sustainability. Eliminating duplications in the beneficiary roster of other social programs is crucial to making expenditure more efficient.

- 1.22 **Consolidation.** Breaking the vicious circle of poverty, and its intergenerational transmission, requires families to receive continuous support for a sustained period. Thus, despite all its achievements, PROGRESA is still in its infancy and many of its impacts are expected to show through more clearly in the medium- to long run. To secure that future, the program's investment needs to be consolidated by maintaining support for current beneficiary families, and persisting with the program's basic design characteristics.
- 1.23 In 2001, PROGRESA is expected to re-certify over 1.5 million families completing three years in the program. Preliminary results from the first re-certification operation suggest that around 92% of families will re-qualify for a further three-year period. Another result to emerge from re-certification is that population density has increased as new families have formed. Most of these are expected to be brought into the program since 90% have been classified as poor.
- 1.24 Based on the results of the evaluation, PROGRESA is appraising a new beneficiary selection methodology that uses a single points model at the national level. This differs from the previous model in the relative importance it attaches to the distribution of poverty regionally. Preliminary simulations point to the inclusion of a larger number of beneficiaries from the poorest states of the southeast, thereby bringing program coverage more into line with the distribution of poverty nationwide.
- 1.25 **Operating efficiency.** Although evaluations of the program's operational efficiency give generally positive results, there are areas that can be improved. Doing so will make it possible to increase the efficacy and equity of PROGRESA and lay solid foundations for its consolidation and expansion. Potential improvements include adjustments to operating, monitoring and audit processes, along with dissemination and communication mechanisms.
- 1.26 Operating procedures require full implementation of monitoring and audit systems. Although PROGRESA has an institutional information system for the operation of PROGRESA (SIIOP) designed for periodic reporting on monitoring, evaluation and management indicators, its implementation is as yet incomplete. There is also an audit system (Sentinel Points Operational Monitoring Program) for detecting irregularities in all operating areas, but application of this is very sporadic at the present time, which undermines its effectiveness. Full and periodic application of monitoring and audit systems would lead to: (i) more reliable certification of co-responsibilities; (ii) detection of any extra requirements being imposed on beneficiaries to gain access to support payments; (iii) better coordination with the

supply of health and education services; and (iv) establishment of clear procedures for dealing with irregularities.

- 1.27 The program also displays weaknesses in the communication and dissemination of its objectives, mechanisms and scope. Information deficiencies generally have a negative effect on the perception and acceptance of PROGRESA among beneficiaries, participants, communities and public opinion at large. For example, evaluation surveys show that communities, including teachers and doctors, have doubts about the precision and impartiality of the system used to identify beneficiaries. These confused and sometimes contradictory perceptions are largely the result of communication failures between PROGRESA, members of the community and local service providers. Thus, the lack of a global communications strategy leaves the program more open to outside criticism.

C. The Bank's strategy in the country and experience in the sector

- 1.28 The Bank's strategy in Mexico's social sector is to support programs to reduce regional inequalities of income and extreme poverty. In particular, special emphasis has been placed on sectors and interventions that help speed up the process of human capital accumulation among the poorest. The Bank has previously run programs in support of poverty reduction in the areas of education, labor and local development. The Government of Mexico has made its social development strategy part of the "**National Development Plan, 2001-2006**", which has three central pillars: (i) increasing welfare levels by breaking the vicious cycle of poverty; (ii) promoting equity in programs and equal opportunities; (iii) fostering initiatives among citizens. PROGRESA forms part of this strategy, especially with respect to the first pillar.
- 1.29 The setting for the proposed operation includes: (i) the guidelines of the Eighth Replenishment; (ii) the Country Paper dated 5 January 1999; and (iii) the Mexican government's "**National Development Plan, 2001-2006**". The Bank's Eighth Replenishment calls for broader inclusion of groups living in poverty, through an integrated approach to interventions aimed at human capital formation (paragraphs 2.8, 2.12-2.14). The Country Paper states that "the Bank's efforts would complement those of the government under the education, health and nutrition program, whereby these services are targeted at households living in extreme poverty in the country's marginalized regions" (page 13).
- 1.30 The funding proposed here is consistent with other innovative Bank operations that finance direct support for beneficiaries with social, productive or environmental objectives. These include: (i) the Family Allowance Program - Phase II (HO-0132, approved in December 1998); (ii) the Social Protection Network (NI-0075, approved in March 2000); (iii) the Agri-food Productive Restructuring Support Program (GU-0070, approved in December 1998); (iv) the Program to Support

Small-Scale Farmers through PROCAMPO (ME-0213, approved in August 2001) and (v) the Human Capital Development Sectoral Program (BR-0360).

- 1.31 Justification for the Bank's involvement is based on the importance of PROGRESA not only in the country's poverty reduction strategy, but also in the regional context. For the region as a whole, the opportunity for the Bank to support the consolidation and expansion of one of the largest poverty reduction programs in Latin America, is crucial for identifying better practices in design, execution and obtaining a higher return on interventions in the fight against poverty. Technical knowledge transfer is extremely important given the region's current needs.

II. THE PROJECT, ITS COST AND FINANCING

A. Objectives

- 2.1 The project's general objective is to increase human capital accumulation among extremely poor families, by improving opportunities in education, health and nutrition.
- 2.2 The specific objectives of the project are: (i) to consolidate interventions in education, health and nutrition to ensure their medium and long-term impacts; (ii) to adapt project design with a view to extending coverage to urban areas; (iii) to increase the program's operating efficiency, especially in the monitoring and audit areas; and (iv) to continue with independent impact assessment.

B. Structure and description

- 2.3 **Structure of the operation.** A multiphase project is proposed costing an estimated US\$4.755 billion, divided into two phases of US\$2.377 billion each, to be implemented over approximately six years. Use of the multiphase modality is justified because: (i) expansion of the program envisages the application of designs adapted to urban areas and upper secondary education, the impact of which will need to be evaluated during the first phase of the operation; and (ii) consolidation of the program requires greater operational efficiency, in order to support the expansion of coverage to the urban sector. These changes, and their evaluation, will make it possible to cope with the expanded coverage during the second phase.
- 2.4 Under the operational guidelines for multiphase programs, phase II should be activated by an evaluation of phase I, including: (i) proposed changes to the program resulting from diagnostic studies; (ii) results of impact assessment; (iii) disbursement of at least 50% of the loan proceeds; and (iv) achievement of coverage targets included in the logical framework (Annex I). Given that phase I aims to evaluate the program's relevance and impact on extreme poverty in urban areas, the main activating element is expected to be the evaluation of the impact of urban expansion. The results of this assessment need to be available before covering 50% of the target population of extremely poor urban households. Among other things, the evaluation needs to quantify the impact on average schooling levels, the demand for health services and nutritional behavior. The following will also be required in addition to the global evaluation: (i) adjustments to procedures for obtaining information concerning the identification, selection and incorporation of beneficiaries; (ii) operational evaluation of the system used for distributing medicines and food supplements; (iii) proof of implementation of the SIOP; (iv) evaluation and approval of the new National Master Points Model. Annex II gives details of the activating elements and their means of verification for each of the areas mentioned. Phase II will continue the main lines of action initiated during

phase I, adapting the design in areas where the impact assessment and operational evaluation so indicate.

1. Component 1. Increase in human capital among populations living in extreme poverty (US\$2.35 billion in phase I)

- 2.5 This component will support the consolidation of targeted education, health and nutrition interventions, in rural localities where the program is already operating; and it will finance the initial phase of expansion to semi-urban and urban localities. The target population consists of extremely poor families, as defined by a national poverty line based on per-capita household consumption. Beneficiaries will be households qualifying under the targeting criteria described below, in localities where access to basic education and primary healthcare services can be verified. Actions will target families in an integrated way, and mothers will be recipients of cash grants and inputs. Eligible families will receive benefits on condition they comply with specific co-responsibility actions in the health and education areas.
- 2.6 Interventions financed by the project will be governed by current rules and regulations defined and contained in the PROGRESA 2001 Operating Regulations, which will also form the basis for the operating regulations of this operation. Changes proposed to these rules in terms of general, specific and execution guidelines will be reviewed and approved by the Bank, in order to ensure the continuity of interventions. Putting the operating regulations approved by the Bank into force will be a condition precedent to eligibility of the operation.
- 2.7 For program specification purposes, rural localities are defined as those with less than 2,500 inhabitants; semi-urban have populations of between 2,500 and 15,000, and urban localities have over 15,000 inhabitants. The program currently caters to 2.5 million rural families, and it is expected to cover approximately 1.2 million additional households in semi-urban and urban areas, along with 500,000 new families in rural zones. In the first phase, the program will provide decreasing levels of support to new households in semi-urban, urban and rural localities, and to families qualifying through recertification.

Table II-1. Beneficiary coverage: flows and stock* (millions of households)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Beneficiary flow									
New entrants	0.4	1.5	0.6		0.7	0.1	0.1	0.1	0.7
Existing beneficiaries recertified-1st stage				0.4	1.5	0.6			
Existing beneficiaries recertified-2nd stage							0.4	2.2	0.7
Existing beneficiaries not recertifiable				2.1	1.0	2.6	2.9	1.2	2.8
Beneficiary stock									
Cumulative number of households	0.4	1.9	2.5	2.5	3.2	3.3	3.4	3.5	4.2

* Assumes 0% beneficiaries dropping off roster.

(i) Beneficiary selection and recertification, and operational audit mechanisms (US\$86 million)

- 2.8 Households will be chosen through a nationally homogeneous procedure, in which families are identified individually. Beneficiary household selection, as described in the Operating Regulations, consists of three stages, and these will apply in this operation. Firstly, a geographic targeting procedure will identify localities in rural areas and primary geographic units in eligible urban zones (basic geostatistical areas—AGEBs or urban blocks). Localities and primary geographic units will be chosen on the basis of their poverty level, using the Basic Exclusion Index algorithm included in the operating regulations. The classification of localities and primary geographic units in terms of the exclusion index will be updated with data obtained from the final results of the Twelfth General Population and Household Census, 2000. Localities and primary geographic units will be incorporated into the program in random order, giving priority to those of highest poverty levels. Lastly, for a locality or primary geographic units to be eligible, the following need to be verified: (i) its level of exclusion; (ii) access to basic education and health services; and (iii) construction of the locality's baseline (using ENCEL or CEVALURB). The geographic targeting stage in urban and semi-urban areas can be adjusted in the light of results obtained in the study to identify households by demand (paragraph 2.24).
- 2.9 Secondly, in eligible localities or primary geographic units, socioeconomic information on each household will be collected in order to identify beneficiary families based on their poverty level (the ENCASEH and ENCASURB surveys). Lastly, in rural localities an assembly will be convened to allow the community to validate the preliminary beneficiary roster. The selected families will be beneficiaries for a three-year period, after which they will be required to recertify their eligibility using same selection method.
- 2.10 The component will provide funding for technical assistance, training, materials and equipment for the selection of localities, identification and incorporation of new families and procedures to recertify current beneficiaries. This involves carrying out the ENCEL, CEVALURB, ENCASEH and ENCASURB surveys, and includes data processing and the costs of incorporating beneficiaries. In addition, for each stage of incorporation, the beneficiary roster will be checked to guard against duplication of beneficiary households. The results of this check will form an integral part of the project monitoring reports.
- 2.11 The monitoring, operational audit and social communication areas will be strengthened in order to increase the program's operating efficiency. As regards the first of these areas, implementation of the institutional information system for the operation of PROGRESA (SIIOP) of monitoring indicators will be completed, to enable potential "black spots" to be identified in the daily operation of the program. In addition, the set of monitoring, evaluation and management indicators will be

incorporated into the SIIOP, and indicators for IMSS-Solidaridad and the SSA will be identified. SIIOP data is expected to be accessible to other government bodies. The program is also expected to apply the Sentinel Points Operational Monitoring Program system on a bimonthly basis. This involves randomly selecting delivery points for a bimonthly audit that includes operational aspects of the program. The number of sentinel points to be included in the sample should ensure a good level of representativeness at the state level. The reports resulting from this bimonthly audit will form an integral part of the project's monitoring reports.

- 2.12 The component will develop a communication strategy for the program consisting of information and training for stakeholders, with a view to improving their sense of ownership. Mechanisms will be developed to communicate and raise awareness of the program's rationale among communities to be incorporated into it, and on the information required by survey interviewers. Training for beneficiaries will be strengthened on topics including program rules, co-responsibilities and mechanisms for receiving benefits. In addition, teachers, doctors and other social stakeholders will be made familiar with their role in the program and the importance of correct validation of co-responsibilities.

(ii) Education (US\$1.005 billion)

- 2.13 Keeping the children of beneficiary families in school by offering them educational grants and supplying school utensils. Grants will be awarded to the children of beneficiary families enrolled in schools authorized by the Department of Public Education, from third grade of primary school through third grade of upper secondary. The size of the grant will rise according to the grade level; from seventh grade girls will be given larger grants, since school attendance by girls in rural areas starts to fall off at this level. The grants will be provided to beneficiary households complying with the co-responsibility conditions for this component, as set out in the program's operating regulations. In urban areas, grant amounts and the gender differential may be altered in the light of results from the adaptation analysis (paragraph 2.24). At the upper secondary school level, adjusting the gender differential and reviewing alternatives to existing co-responsibilities will be considered. Any such amendments will be incorporated before the start of the 2002-2003 school year.
- 2.14 Decreasing levels of funding will be provided to cover the total cash cost of providing grants and school utensils to new families (both urban and rural) entering the program, and also to families that recertify. The program will also verify compliance with rules on selection, permanency and recertification of all beneficiaries covered.

(iii) Health and nutrition (US\$1.258 billion)

- 2.15 This component will continue to promote the following basic strategies: (i) provision of a basic package of health services; (ii) prevention of malnutrition starting at the gestation period; and (iii) supply of training on health, nutrition and hygiene issues. The design of the basic health package has been adjusted for urban households, mainly by adding extra interventions to those already specified in the rural package. Additional interventions already included relate to toxic substance abuse, violence, HIV/AIDS and the transmission of vector-borne diseases.
- 2.16 The prevention of undernourishment will be maintained through nutritional surveillance, together with the provision of food supplements, and education on food-nutrition issues. Eligible beneficiaries will continue to include all expectant and breast-feeding mothers, together with all children between four months and two years of age, and those between two and four years old displaying some degree of undernourishment. Food supplements will contribute 100% of required daily micronutrients, and an average of 20% of calorie requirements.
- 2.17 The program will maintain monetary support for families to enable them to improve the quantity, quality and variety of their diet. To receive food support, family members will need to comply with a schedule of medical consultations specific to each basic health package, and mothers will be required to attend education sessions on health and nutrition as a basic element of co-responsibility in this subcomponent. In the first year of execution, the program will adjust the content and number of talks that beneficiaries with over three years in the program are required to attend. In addition, the food supplements formula will be reviewed in the light of analysis of the urban nutritional profile and impact assessment, if justified (paragraph 2.24, point 5).
- 2.18 The component will provide declining levels of monetary support for nutrition in beneficiary households. It will also provide funding for inputs included in the basic health package, such as medicines and food supplements.

2. Component 2. Program evaluation and adaptation (US\$9 million in phase I)

- 2.19 **Operating efficiency.** Annual operational evaluations will be performed in order to improve the program's operating efficiency. Any recommendations arising will be reviewed and agreed with the Bank prior to their consideration by the PROGRESA technical committee, with a view to adjusting the program. The annual operational evaluations will cover the following five areas: (i) quality of processes and mechanisms for incorporating beneficiaries; (ii) design of formulas for solving problems arising in the delivery of benefits and services; (iii) distribution and availability of food supplements; (iv) analysis of factors relating to regular dropout from the beneficiary roster; (v) alternative mechanisms, setting of the date and place of payments, and the sequencing between verification of co-responsibility and

the corresponding payment deductions; and (vi) an analysis of patterns of use on the part of beneficiaries and availability of health services.

- 2.20 The first study to be carried out will analyze the quality of instruments and processes used in planning and implementing the following stages, in both the rural and urban sectors: (i) selection of localities; (ii) verification of access to services, and service capacity; (iii) collection and analysis of household socioeconomic data; and (iv) incorporation of beneficiary families. Special consideration will be given to factors in human resource training, productivity parameters in fieldwork (number of surveys required per interviewer/day), timely availability of financial and material resources for fieldworkers, validation and data-capture methodologies, coordinated and timely announcement of qualifying families, integration of the identification and incorporation stages. During the first year of execution, a workshop will be held with teams from state PROGRESA units, national experts, (INEGI, among others) and international experts in socioeconomic surveys, to review current procedures and consider alternatives to be implemented.
- 2.21 The SIIOP and “sentinel points” systems provide periodic information on operating problems in PROGRESA. The second study will use information from these sources to identify recurrent problems in program operations, and suggest alternative formulas for solving them. An analysis of patterns of use on the part of beneficiaries and availability of health services will be conducted in the health sector. In the case of service providers (both education and health), the procedures to be applied within their respective areas of responsibility need to be defined in conjunction with the institutions concerned.
- 2.22 Existing operating data shows that efficiency in the provision of food supplements varies substantially between providers, bimonthly periods, and state bodies. The third study will analyze the causes of these variations and propose alternative solutions. Special consideration needs to be given to the distribution processes used by DICONSA, state health departments, the IMSS and healthcare units. The fourth study will analyze factors causing beneficiary families to drop out of the program between each bimonthly period. This study will also analyze the quantity and socioeconomic characteristics of households qualifying through re-certification processes in each federal entity. Lastly, a study will be made of possible alternative payment mechanisms in rural areas to encourage families to save. The recommendations and conclusions arising from these studies and activities will be presented in a report for the Bank’s approval prior to their inclusion in the operating regulations.
- 2.23 **Adaptation of design.** During the first year of the project, a diagnostic study will be carried out in order to adjust design aspects for future urban expansion. This will include the following areas: (i) definition of the primary geographic unit to be considered in the geographic targeting stage (AGEBs, urban blocks, or other), and consideration of identification of households by demand; (ii) review of the level of

monetary support according to the urban poverty profile; (iii) review of the size of educational grants, eligibility for grants in terms of school grades and gender; (iv) analysis of the availability and modality of upper secondary education supply at the locality, municipio and federal entity levels; (v) review of the food supplement formula best suited to the urban nutritional profile; and (vi) adaptation of the topics and contents of talks in urban and rural areas. In the second quarter of the first year of execution, a workshop will be held to discuss results and agree a version to submit for consideration by the technical committee. Among others, the entities that comprise the technical committee will participate in the workshop. A report containing recommendations and conclusions from these activities and studies will be submitted to the Bank for its approval.

- 2.24 **Impact assessment.** The component will finance the second stage of the independent independent evaluation of PROGRESA, maintaining the methodological characteristics of the first stage, including: (i) measurement of impact among randomly selected groups of households with and without the project; (ii) recording of recurrent observations by families and individuals before and after the start of the program; and (iii) application of both quantitative and qualitative measures. Expansion of coverage in the rural sector to around 100% of eligible localities rules out the possibility of continuing to use localities not included in the program as a control group. The second stage of evaluation in the rural sector will assess program impacts by comparing beneficiary cohorts that have been in the program for different lengths of time, or the same beneficiaries at different time periods during their stay in the program.
- 2.25 The initial results of the evaluation in the urban sector will be available about 18 months from the start of execution; the second stage of the rural evaluation will begin towards the end of the first year of project execution, at the latest.
- 2.26 Impact assessment in the urban area will focus on the following topics, among others: (i) sample framework and randomness; (ii) consumption and nutrition; (iii) health; (iv) education; (v) community participation; and (vi) beneficiary targeting methodology in its two stages—geographic and household. Health issues to be evaluated will include aspects relating to maternal and early childhood morbidity, and the incidence of infectious illnesses and vector-borne diseases, such as diabetes and high blood pressure in adults and sexually transmitted diseases. The opportunity cost of the periodicity and scheduling of talks in urban and rural areas will also be assessed; and their impact in terms of inducing behavioral changes in the preparation of foods, household hygiene, potable water and solid waste management will be analyzed. Other health issues to be considered include effects on fertility and an analysis of the quality of services supplied. Area (ii) will include indicators of anthropometric growth, recovery from malnutrition, cognitive development and the composition and quantity of household consumption. In the education area, indicators of beneficiaries' school attendance, progress and performance, along with education service quality will be considered. A specific

analysis will be carried out at the upper secondary school level, covering issues including selection bias in absorption rates at that level, together with academic performance and external efficiency. In addition, an analysis will be made of the program's impact on the depth and severity of poverty, and of income distribution and saving among beneficiary households. A qualitative analysis will be made of issues relating to the construction of social safety nets, including the role of women, and community dynamics in the localities catered for, particularly indigenous ones. The urban beneficiary targeting methodology will be evaluated in its two stages—geographic and household.

- 2.27 In the rural area evaluation, the medium- and long-term effects will be measured, preferably maintaining the composition of the first stage evaluation panel. The rural analysis will be related directly to the panels from the first stage evaluation. Consideration will be given to the possibility of expanding these panels in order to make them more representative at the national level. Measurement of additional aspects such as children's cognitive development, the incidence of anemia, labor-market entry and other issues, will also be considered, provided comparison groups are defined in advance. The second stage evaluation may consider the differentiated effects caused by the various lengths of time beneficiaries have been in the program.
- 2.28 The terms of reference and preliminary versions of results reports for each aspect of the impact assessment, both rural and urban, will need to be approved by the Bank. The project team will also participate in working meetings with the evaluation team.
- 2.29 **Point scores.** The program includes the introduction and evaluation of the National Master Points Model for selecting households. Both the model for inclusion and the model and strategy for applying the points scores to the population to be re-certified will need to be approved by the technical committee. The first phase is expected to include approval for the proposed new model and adjustments to the program beneficiary roster. As a condition precedent to the disbursement of project resources, the PROGRESA National Coordination Office (CONPROGRESA) will submit a report containing methodological guidelines, econometric estimates of the model and impact simulations on the geographic distribution of program beneficiaries, arising from the change in the model points scores.
- 2.30 **Coordination with other social programs.** During the first phase, SEDESOL is expected to move ahead in entering the Master Population Record Code (CURP), or some other equivalent identification mechanism, in beneficiary rosters of social programs under its jurisdiction. This will make it possible to avoid duplication among different programs with similar objectives working with the same target population, thereby rationalizing public expenditure. In addition, the feasibility of implementing a strategy linking PROGRESA with other human development and basic social infrastructure programs will be analyzed. The strategy centers on

facilitating access by other federal and state programs to information relating to PROGRESA beneficiaries, to enable such programs to make their targeting homogeneous.

C. Project costs and financing

- 2.31 The project will have a total cost of US\$4.755 billion and will be structured in two phases with the Bank financing US\$1 billion in each case. The government will provide all local counterpart funding, amounting to US\$1.377 billion in each phase.

Table II-2. Project costs (in millions of U.S. dollars)

Components	Phase I		
	IDB	Mexico	Total
1. Increase in human capital	979	1,370	2,349
1.i. Selection and recertification		85	85
1.i.a. Incorporation		10	10
1.i.b. Recertification		30	30
1.i.c. Distribution of payments		45	45
1.ii. Education	549	456	1,005
1.ii.a. Grants	456	456	912
1.ii.b. School utensils	93		93
1.iii. Health and nutrition	430	829	1,259
1.iii.a. Food supplements		207	207
1.iii.b. Medical inputs		147	147
1.iii.c. Nutritional support	430	475	905
2. Evaluation and adaptations	9		9
2.i. Impact and operational assessment	8		8
2.ii. Studies and workshops	1		1
Subtotal	988	1,370	2,358
Financial costs	12	7	19
Credit fee		7	7
Inspection and supervision	10		10
Audit	2		2
TOTAL	1,000	1,377	2,377
Distribution of financing	42%	58%	

- 2.32 The estimated value of the first phase of the project is US\$2.377 billion. The Bank loan of US\$1 billion will be expressed in United States dollars and drawn from the single currency financing facility of the Bank's ordinary capital. This operation

qualifies as a poverty-targeted investment (PTI) because of its geographic and beneficiary targeting. It also qualifies as a social-equity enhancing project.

Table II-3. Loan conditions

Funding source:	Ordinary Capital (Single Currency Facility)
Amount:	US\$1 billion
Terms	
Amortization:	25 years
Grace period:	3 years
Disbursement:	3 years
Interest rate:	Variable
Supervision:	1% on amount of loan
Credit fee:	0.75% per year on undisbursed balance

III. PROJECT EXECUTION

A. Borrower, guarantor and executing agency

- 3.1 The borrower in this operation will be Nacional Financiera, S.N.C. (NAFIN), which acts as financial agent for the Mexican government. The executing agency will be the Department of Social Development (SEDESOL), acting through CONPROGRESA, the national coordination office of the education, health and nutrition program. The project will not affect NAFIN finances, as the resources needed for debt service and local counterpart funding will come from budgetary allocations from the federal government. NAFIN and the government will sign a funds transfer agreement prescribing the obligations and responsibilities of each of the parties, and setting out the mechanisms for channeling the loan proceeds to the executing agency. As a condition precedent to disbursement of funds for project execution, the funds transfer agreement between NAFIN and the Mexican State will need to be presented.

B. PROGRESA operating scheme¹⁰

- 3.2 CONPROGRESA, the PROGRESA National Coordination Office, is a deconcentrated body attached to SEDESOL. It was created by presidential decree on 8 August 1997, with a mission to formulate, coordinate and evaluate program execution. CONPROGRESA has a board consisting of the incumbent ministers of SEDESOL, the Department of Finance (SHCP), SEP and the SSA. This board is supported by a technical committee consisting of representatives from SEDESOL, SHCP, SEP, the SSA, the Comptroller General and Administration Office, IMSS and the PROGRESA national coordination body. The committee meets at least quarterly and is responsible for monitoring the program, reviewing compliance with obligations by each participating body, taking decisions in collegiate fashion on the characteristics of the program and in order to comply with the provisions of the budget decree, regarding PROGRESA operating rules. SEDESOL, SEP, the SSA, IMSS and CONPROGRESA all participate in program execution, in which they have the following responsibilities:
- 3.3 **Selection of localities.** In preparing the preliminary list of localities, SEP furnishes CONPROGRESA with the national compendium of primary, secondary and upper secondary schools, that provide education services valid for the program. In addition, through the National Education Promotion Council (CONAFE), SEP provides a list of primary schools in which CONAFE has a school utensils distribution program. In addition, the SSA and IMSS provide a compendium of health units and localities catered for by mobile units. CONPROGRESA is

¹⁰ The following section is based on the contents of PROGRESA 2001 operating regulations.

responsible for joint analysis of the preliminary localities roster together with state governments.

- 3.4 **Verification of access to services, and service capacity.** The Department of Health, acting through the incumbent heads of state health services, and the Department of Public Education, through state educational authorities, are responsible for verifying access to services from the list of localities proposed by CONPROGRESA for inclusion. Once services are verified, CONPROGRESA then furnishes SEP, SSA, IMSS and state health and education authorities, with the localities roster, together with the estimated number of beneficiary families, expected number of family members, parameters for calculating education grants, the number of women and children to receive food supplements, and so forth.
- 3.5 **Collection and analysis of household socioeconomic data.** CONPROGRESA is responsible for the work of collecting data in the Household Socioeconomic Characteristics Survey (ENCASEH), following the procedure laid down in the operating regulations. The municipal authority is requested to lend assistance by informing local representatives of the work to be carried out. CONPROGRESA is also responsible for obtaining and processing data collected through information cards.
- 3.6 **Incorporation of beneficiary families into the program.** CONPROGRESA is responsible for the integration, administration and updating of the beneficiaries' roster, and is the only body with power to add and remove families from the roster, and make changes resulting from operational processes. These have to be reported to its committee on a quarterly basis. It is also responsible for preparing, printing, distributing and delivering identification documents for beneficiary families, and basic forms for certifying the various co-responsibilities. CONPROGRESA state offices keep relevant documents on each family, together with minutes of assemblies and acts of incorporation.
- 3.7 **Certification of compliance with co-responsibility actions.** Each year CONPROGRESA will prepare and deliver to the families, health unit registration and school enrolment forms. Health staff record the medical unit information, open a family file (for new families) and schedule consultations for each family member as required by the program. In the case of education, certification of enrolment is made by the corresponding staff in each school. Those responsible for education and health services provide CONPROGRESA state offices with forms verifying attendance, in order to certify family co-responsibilities. This information is processed in state offices and electronically entered into the beneficiary history database.
- 3.8 **Make-up and delivery of monetary support.** Cash grants are paid to families through specialized payment institutions, on the premises of the institution itself or through units temporarily set up for this purpose in nearby localities, as previously

agreed. CONPROGRESA furnishes payment institutions with lists of families to receive support payments and deposits the funds corresponding to the respective contract. The payment institutions reconcile results with CONPROGRESA at the end of each payment process. Documentary evidence of the payment of support to families is retained by the payment institution for audit purposes. The SEDESOL internal comptroller audits CONPROGRESA bimonthly.

- 3.9 **Beneficiary identification document.** CONPROGRESA provides new families with provisional identification, together with a sheet of holograms, or a document for withdrawing the support payments from a bank account. The family representative has to present this identification, which contains security data, in order to receive support payments. The holograms are linked to beneficiary data; whenever the family representative receives a support payment, one of the holograms is removed from the sheet and is retained by the payment institution as proof of payment. Holograms remaining on the sheet represent payments not drawn, and are proof that the family did not receive the corresponding payment.
- 3.10 **Provision of school utensils.** SEP, acting through the National Education Promotion Council (CONAFE), distributes school utensils in CONAFE dependent schools. The latter provides CONPROGRESA with a list of schools covered, and CONPROGRESA provides beneficiaries not covered by CONAFE with cash grants to buy school utensils for themselves.
- 3.11 **Provision of food supplements.** The SSA is responsible for procuring, distributing and delivering food supplements. These are produced through LICONSA,¹¹ and distributed in rural areas by DICONSA, under a delivery program to points agreed in advance by the SSA and IMSS. Distribution to healthcare centers is the responsibility of federal health agencies and IMSS. Point 9 of the program's operating regulations requires the SSA to put the production and distribution of food supplements out to tender.
- 3.12 **Provision of education and health services.** Federal education and health bodies, together with IMSS-Solidaridad, are responsible for meeting the additional demand generated in the regions covered by PROGRESA. In order to maintain an adequate level of services, SEP, together with the SSA and IMSS-Solidaridad, receive specifically earmarked budgetary funds to meet the increase in demand and maintain service levels. In the case of health interventions, the program finances the cost of the basic health packages for PROGRESA families. In the case of SEP, funds are set aside for hiring additional teachers in schools where increased educational demand occurs.

¹¹ LICONSA, Leche Industrializada CONASUPO. DICONSA, Distribuidora CONASUPO. CONASUPO, Compañía Nacional de Subsistencias Populares.

C. Project management

- 3.13 The CONPROGRESA general management board will be responsible for coordinating project actions and activities, monitoring compliance with project indicators (Annex I), preparing project monitoring reports giving detailed information on each of its components (paragraphs 2.10-2.11, and component 2). It will also coordinate activities relating to impact assessment, both rural and urban, and keep the Bank informed as to the general progress of the project. In addition, the CONPROGRESA general management and finance office will prepare the documentation agreed for the loan disbursements. NAFIN will act as financial agent and will coordinate progress reports and specific disbursement documentation prepared by CONPROGRESA and other participating organizations, as necessary.

D. Goods and services procurement

- 3.14 The program does not include civil works. Goods and services will be procured in accordance with Bank policies and procedures. International competitive bidding will be required for contracting goods and related services for amounts in excess of US\$350,000, and consulting services for over US\$200,000. Procurements involving smaller amounts than these will be subject to procedures attached to the procurement plan. Annex D to the loan contract will be included for Bank procedures relating to smaller amounts.

E. Execution and disbursement periods

- 3.15 The execution and loan disbursement periods will each be three years, counted from the date on which the loan contract takes effect.
- 3.16 In the case of cash grants, CONPROGRESA will send the Bank lists of support payments, showing the date on which families entered the program, in order to identify new and re-certified households. At the end of each support payment operation, CONPROGRESA will send the Bank the documentation that payment institutions present for ex post verification of the transfers. The information verifying payment of monetary support will be kept available for review during the independent financial audit required by the Bank. In the case of specific studies for impact assessment and program diagnosis, CONPROGRESA will submit terms of reference for the Bank's approval prior to contracting. Table III-1 provides a summary of expected project disbursements, during the three years of implementation.

Table III-1. Projection of disbursements and eligible families (decreasing over time)

	2002	2003	2004	Total
Disbursements (millions of US\$)				
IDB	423	323	254	1,000
Local	571	452	354	1,377
Total	994	775	608	2,377
Flows and beneficiary families financing scheme				
% of financing for households	100%	60%	40%	
Year 1 of execution	2,200,000			
Year 2 of execution	700,000	2,200,000		
Year 3 of execution	500,000	700,000	2,200,000	
Total families eligible	3,400,000	2,900,000	2,200,000	

F. Monitoring reports, Bank supervision and evaluation

- 3.17 The project monitoring system will be ongoing; it will identify and evaluate progress in the indicators defined in Annex I for each component. The executing agency will present semiannual progress reports that will indicate the following, among other things: (i) the status of execution of each component; (ii) fulfillment of objectives and targets; (iii) problems encountered; and (iv) solutions adopted. A report containing information from the application of the sentinel points and the SIOP will be presented bimonthly, beginning no later than at the end of the first six months after entry into force of the loan contract. An annual report will be presented containing the results of the check on the SEDESOL roster of beneficiaries to guard against duplication of households. Periodic reviews between the government and the Bank will pay special attention to the project's scheduled targets and agree any changes needed to optimize execution. The Bank will supervise progress and project execution through its country office in Mexico, with substantial support from the project team. Technical monitoring missions will be made on a quarterly basis and will be accountable to the project team for the purpose of reviewing compliance with the targets established in the logical framework.
- 3.18 The executing agency will present the Bank with an initial report, representing the annual operating plan for the first year of execution. In the first three months of each calendar year, the executing agency will present the operating plan for program execution in that year. During the annual supervision and evaluation meetings (the first quarterly meeting), the executing agency, the borrower and the Bank will jointly analyze progress made in execution, based on monitoring indicators and project targets.
- 3.19 In addition, the executing agency will present the following evaluation reports to the Bank's satisfaction: (i) midterm evaluation report to be conducted when the

loan contract has been in force for 18 months or when 50% of the resources of the financing has been disbursed; and (ii) a final impact evaluation report before 75% of the funds have been disbursed.

G. External audit of the project

- 3.20 Project financial statements will be audited annually, throughout the execution period, by an independent firm of public accountants acceptable to the Bank. A clause to this effect will be included in the loan contract. Earmarked funds to cover the expense of such professional services will be provided by the borrower.

H. Recognition of expenditures from the financing and local counterpart

- 3.21 With the Bank's agreement, up to the equivalent of US\$40 million of the resources of the financing may be used to reimburse expenses incurred under the project by CONPROGRESA for education, food, and school supply support payments to households benefiting from the expansion of PROGRESA to urban and semi-urban areas and from the raising of the baseline for evaluation. Such expenses would have to have been incurred after 1 September 2001 and must have met requirements substantially similar to those established in the loan contract.
- 3.22 The Bank may recognize as part of the resources of the project's local counterpart expenses directly related thereto, up to the equivalent of US\$10 million, related to payment for food supplements and medical inputs for households benefiting from the expansion of PROGRESA to urban and semi-urban areas. Such expenses would have to have been incurred after 1 September 2001 and must have met requirements substantially similar to those established in the loan contract.

IV. BENEFITS AND RISKS

A. Evaluation of PROGRESA benefits

- 4.1 In late 2000, the International Food Policy Research Institute (IFPRI) published an independent impact assessment of PROGRESA that had been contracted by the Mexican government. The evaluation covered an 18-month period and included 24,000 families living in 506 localities. The strength of this evaluation stems from its rigorous methodology, based on: (i) random assignment of communities into a treatment group and a control group; (ii) recording of recurrent observations made by families and individuals before and after the start of the program; and (iii) application of quantitative and qualitative methods. The following sections summarize the main findings of this evaluation, in relation to: (i) poverty and inequality; (ii) cost-benefit analysis; (iii) targeting; (iv) education; (v) health; (vi) nutrition; (vii) consumption patterns; (viii) labor-market participation; (ix) gender; and (x) community social relations.
- 4.2 **Poverty and inequality.** PROGRESA reduces poverty and inequality among the communities in which it operates. The evaluation¹² concludes that the proportion of poor families has decreased by four percentage points in PROGRESA localities compared to those of the control group. In addition, the poverty gap and the depth of poverty both decreased sharply. Inequality in the distribution of consumption was also reduced in PROGRESA localities, compared to the control group. The coefficient of variation and the standard deviation of the logarithm of consumption, two traditional measures of inequality, fell by 5 and 12.8 percentage points respectively. Lastly, no distorting effects were detected on the level of inflation or the likelihood of families receiving private monetary or non-monetary transfers.¹³
- 4.3 **Cost-benefit analysis for poverty alleviation.** The results of the evaluation¹⁴ suggest that PROGRESA is cost-effective in transferring resources to the poorest. The program's administrative costs are estimated at US\$8.90 for every US\$100 transferred.¹⁵ The cost of household targeting (an expense incurred whenever families are certified or recertified) accounts for the largest proportion, equivalent

¹² Handa, S., M. Huerta, R. Pérez and B. Straffon, 2000. *Poverty, Inequality and Spill-over in Mexico's Education, Health and Nutrition Program*. IFPRI, Washington D.C.

¹³ Davis, B. and G. Teruel, 2000. *An Evaluation of the Impact of PROGRESA Cash Payments on Private Inter-Household Transfers*. IFPRI, Washington D.C.

¹⁴ Coady D., 2000. *Final Report: The Application of Cost-Benefit Analysis to the Evaluation of PROGRESA*. IFPRI, Washington D.C.

¹⁵ These costs relate to the selection of localities, identification and inclusion of beneficiaries, maintenance of the beneficiary roster, verification of compliance with co-responsibilities, and so forth.

to 30% of total administrative costs. Another 26% relates to verifying compliance with co-responsibilities by the families. Despite the complexity of PROGRESA, these costs are low compared to other targeted programs operating in the region.

- 4.4 Another cost component to consider consists of private direct and indirect expenses that families incur in order to comply with their co-responsibilities and receive the transfers. These private costs increase the total cost of the program by an estimated 27%, from US\$8.9 to US\$11.3 for every US\$100 transferred.¹⁶ Continued monitoring is needed to ensure that beneficiaries are not subjected to additional requirements apart from those indicated in the co-responsibility agreement.
- 4.5 Even taking private expenses into account, costs generated by household targeting and verification of co-responsibility still account for the largest proportion of the total. To justify this, household targeting and certification of co-responsibility need to generate adequate levels of benefit in terms of: (i) poverty alleviation through an improvement in the distributive power of the program; and (ii) human capital accumulation among extremely poor families. As regards the second type of benefit, the evaluation of interventions in education, health and nutrition will be seen to provide encouraging results.
- 4.6 In terms of poverty relief, the evaluation measured the welfare impact of PROGRESA on in the localities in which it operates, and compared this with the simulated impact of other viable alternatives, such as: (i) a program like PROGRESA but without household targeting; (ii) a program using the PROGRESA targeting method but with flat transfers, regardless of the demographic characteristics of the families receiving them; and (iii) a combination of the first two options. The welfare measure used in the evaluation is a weighted index of family welfare in PROGRESA localities.¹⁷
- 4.7 The results of the evaluation show that for every peso spent on transfers to households, the average impact of PROGRESA on the welfare index is between 3% and 14% more than in a similar program without household targeting.¹⁸ If one takes the costs of household targeting into account, the net benefit of PROGRESA is reduced by four percentage points on average compared to the alternative without

¹⁶ There are other costs—such as those relating to expansion or improvement of service provision by the SSA and SEP; and private costs incurred by families who, in order to enter the PROGRESA program, have to renounce benefits from other similar programs, etc.—which the evaluation does not take into account.

¹⁷ The index is a weighted average of the welfare measure for each family. The weights used in the index are function of: (i) the difference between household income and the poverty line; and (ii) the degree of income-inequality aversion. An X peso increase in the income of a poor family raises the welfare index by an amount that depends positively on the poverty of the family concerned and the degree of income-inequality aversion. See Coady D. (2000).

¹⁸ The increases are higher the greater the aversion to income-inequality.

household targeting. Although the net benefits of household targeting do not seem very high on average, they vary widely according to the degree of poverty in the PROGRESA locality concerned.

- 4.8 In the poorest localities, the benefits of household targeting are smaller because the percentage of beneficiaries in the total population tends to be very high. In these localities, household targeting does not make a big difference. The targeting instrument needs to be made more efficient, however, in order to minimize exclusion errors. In localities with a lower exclusion index, the net benefits of household targeting are greater, because the percentage of poor households is smaller. The evaluation shows that in less poor localities the benefits could be even greater if the efficiency of the household targeting system were improved and errors of inclusion were reduced. Improving the efficiency of the targeting mechanism is particularly important in view of the expansion of PROGRESA to semi-urban and urban areas.
- 4.9 The evaluation also shows that because the size of PROGRESA transfers depends on the demographic composition of the families, the average increase in the localities' welfare index, for every peso of budget transferred to households, is between 9% and 39% more¹⁹ than what would be achieved in the case of uniform transfers to beneficiary communities. Educational grants, particularly at the primary school level, have a greater distributive impact than food support payments, where the amount is the same for all households. Moreover, the welfare impact of PROGRESA in its localities is estimated at between 12% and 49% greater than would be achieved with a program of uniform transfers targeted only geographically.
- 4.10 Co-responsibility has a positive impact on the distributive power of the PROGRESA program. If the private costs involved in receiving transfers outweighed the benefits, families would reject them. The evaluation shows that rejection rates are higher among the less poor, which means that co-responsibility increases the distributive power of the program and helps to make PROGRESA cost-effective. Cost-effectiveness could be further improved, however, by strengthening mechanisms for the bona-fide certification of co-responsibilities and the role of the "sentinel points" system.
- 4.11 **Efficiency of the targeting methodology.** The evaluation of the targeting methodology²⁰ focused on the first two stages (geographic localities and families), since the beneficiary roster only suffered minor changes as a result of the

¹⁹ Benefits increase with the degree of income-inequality aversion.

²⁰ Skoufias E., Benjamin D. and S. de la Vega, June 1999. "An Addendum to the Final Report: An Evaluation of the Selection of Beneficiary Households in the Education, Health and Nutrition Program (PROGRESA) of Mexico". IFPRI, Washington D.C.

community review. To determine rates of inclusion and exclusion from the program, the PROGRESA targeting method was compared with an optimal targeting benchmark.²¹

- 4.12 The evaluation shows that, compared with the benchmark, the PROGRESA method for selecting localities is effective. The benchmark produces a stricter classification of localities than the PROGRESA method, attributing a lower degree of poverty than PROGRESA to a high percentage of them. Despite this, the difference between the two methods is particularly small when identifying localities with high and very high exclusion indices. This result suggests that, at the geographic targeting level, PROGRESA would be more likely to generate errors of inclusion than exclusion. The size of the inclusion errors seems to be greater when identifying households in communities with average levels of poverty. This suggests that there is room for improving the efficiency of the method, especially when expanding PROGRESA to less poor localities.
- 4.13 PROGRESA is also effective in identifying households living in extreme poverty within the selected localities. PROGRESA rates of inclusion and exclusion are estimated at 16% of those of the benchmark.²² Nonetheless, household targeting is less precise when dealing with moderately poor families, which again shows the need to continue fine-tuning the targeting instrument before entering localities with more heterogeneous household socioeconomic characteristics. The results of simulations carried out to compare PROGRESA with other viable targeting and transfer mechanisms (no targeting; geographic targeting only; two-stage geographic-household consumption-based targeting) found PROGRESA targeting to be the most cost-effective in reducing the extent and severity of poverty, by 30% and 45% respectively, after the “perfect” consumption-based targeting method.
- 4.14 **Impact on education.** In its first two years of operation, PROGRESA succeeded in raising transition rates between primary and secondary school. The secondary school enrolment index rose by between 7.2 and 9.3 percentage points for girls, and between 3.5 and 5.8 percentage points for boys,²³ compared to the control group. In PROGRESA localities, enrolment rates before program intervention were between 67% and 58% for girls and between 73% and 64% in the case of boys. The impact has been less at primary school level, where enrolment rates were already high for

²¹ The benchmark is a selection methodology based on an estimated measure of household consumption. The literature considers this benchmark as one of the most effective targeting methods. The evaluation exercise assumes that the benchmark method does not generate errors of inclusion or exclusion.

²² For the evaluation, the benchmark method used as a poverty line the 78th percentile of the distribution of consumption per equivalent adult. Thus, the poverty rate in the benchmark method coincides with the average poverty rate in PROGRESA localities, namely 78%.

²³ These results are sensitive to sample composition. For details see Schultz P., 2000. *Final Report: Impact of PROGRESA on School Enrollment*. IFPRI, Washington D.C.

both sexes prior to the program. Primary school enrolment rates increased by between 0.74 and 1.07 percentage points for girls and between 0.96 and 1.45 percentage points for boy beneficiaries, compared to the control group.

- 4.15 The available evidence suggests that much of the effect on enrolment is the result of higher-grade promotion rates, rather than re-enrolment by boys and girls who had previously dropped out of the education system. Participation in the program is thought to be associated with lower repetition and dropout rates and higher pass rates.²⁴ The program's impact on average school attendance was practically null.²⁵ Moreover, after one year, no change is visible in the school performance of beneficiary children, which could reflect shortcomings in the analysis, in particular the short time for which the program has been underway.²⁶
- 4.16 Analysis of the cost-effectiveness of educational grants shows that the impact of PROGRESA on enrolment indices at the secondary level is 10 times greater than what would have been achieved with an intervention on the supply side guaranteeing students schools and teachers no further than 4 km from their home. The evaluation estimated that to obtain the same impact as educational grants on secondary enrolment rates, by building new schools, would have cost at least seven times more.²⁷
- 4.17 The cumulative sum of the impacts on enrolment rates achieved by PROGRESA in such a short time, raised average schooling among beneficiary boys and girls by 0.72 and 0.64 years respectively. Based on estimates of private rates of return to education in Mexico, this increase in schooling is estimated to assure beneficiary boys and girls an 8% increase in labor incomes over their working lives. If in the future PROGRESA were to succeed in expanding enrolment in upper secondary education, even higher rates of return could be expected. Nonetheless, expanding PROGRESA to upper secondary education requires a careful evaluation of program design and supply constraints.
- 4.18 **Impact on health.** One of the most important results of the evaluation of PROGRESA is a significant improvement in health among both children and beneficiary adults, even in the short run. In particular, children from zero to five years of age show a 12% reduction in morbidity compared to non-beneficiaries. Among adults in the 18-50 age group, the number of days on which they had

²⁴ Berhman, J., P. Sengupta and P. Todd, 2001. *Progressing through PROGRESA: an impact assessment of a school subsidy experiment*, mimeo. University of Pennsylvania and IFPRI, Washington D.C.

²⁵ Schultz, P., 2000. *Impact of PROGRESA on School Attendance Rates in the Sampled Population*. IFPRI, Washington D.C.

²⁶ Berhman, J., P. Sengupta and P. Todd, 2000. *Impact of PROGRESA on School Performance during the First Year of Operation*. IFPRI, Washington D.C.

²⁷ See Coady D., 2000.

difficulties performing their daily activities because of illness was cut by 19%, and the number of days incapacitated fell by 17%.

- 4.19 In keeping with the focus of the health component, the evaluation shows that PROGRESA has significantly increased the use of health services and public clinics for preventive health measures.²⁸ In these centers, the number of daily consultations requested by beneficiary families is nearly double the number for non-beneficiaries. Moreover, estimates show that the number of consultations for curative services has fallen, which is consistent with the hypothesis that the program reduces the incidence of serious illness. There is a 58% drop in the number of hospitalizations among boys and girls between zero and two years of age.
- 4.20 **Impact on child nutrition.** The estimates show significant impacts achieved by the interventions as a whole (monetary transfers, provision of food supplements and monitoring of growth, participation by female beneficiaries in health, hygiene and nutrition courses) on child growth in the critical 12 to 36 months age range, and on the likelihood of stunting.²⁹ This occurs despite evidence that the food supplement does not regularly reach a significant proportion of beneficiary children. On average, the annual growth rate of PROGRESA children is estimated to be 16% greater than the control group.³⁰ Assuming anthropometric development changes among children persist to some degree, and based on estimates of the relation between income and anthropometrics for individuals from elsewhere in Latin America, PROGRESA children are being assured an increase of between 1.4% and 2.4% in labor income during the course of their adult lives.
- 4.21 **Household expenditures and consumption patterns.** PROGRESA has a positive effect on the quantity and quality of food consumption among beneficiaries, compared to the control group. The fact that monetary transfers are made in cash allows families to buy what they most need for their nutrition. The evaluation³¹ shows that the average level of expenditure among program beneficiary families increased by 14.5% compared to the control group.³² In late 1999, average monthly per-capita food consumption among beneficiary households was 10.6% higher than in the control group. The difference was greater still when comparing the poorest families within the two groups.

²⁸ Gertler P., 2000. *Final Report: The Impact of PROGRESA on Health*. IFPRI, Washington D.C.

²⁹ On average, these children are 1.76 standard deviations below the established height-age norm, that is, 44% of them are two standard deviations below the norm.

³⁰ Behrman, J. and J. Hoddinot, 2000. *Evaluating the Impact of PROGRESA on the Size of School-age Children*. IFPRI, Washington D.C.

³¹ Hoddinot, J., E. Skoufias and R. Washbrun. *The Impact of PROGRESA on Consumption: Final Report*.

³² Monetary transfers received by PROGRESA beneficiaries are roughly equivalent to 19.5% of the average value of consumption by non-beneficiary families in the control group.

- 4.22 **PROGRESA** also had a positive impact on diet quality among beneficiary families. The difference in the median value of fruit and vegetable consumption between the treatment and control groups, increased by 13.5 percentage points, and in the consumption of meat and animal products by 19.8 percentage points. As a result, daily per-capita calorie intake improved for beneficiaries compared to the control group. It is estimated that only half of the impact on calorie intake is due to the increase in family incomes resulting from monetary transfers. The other half can be attributed to the education sessions and their interaction with monetary transfers. This effect is mainly seen among families with children of pre-school age.
- 4.23 **Child and adult labor.** There is evidence that **PROGRESA** reduces the rate of child labor without affecting adult labor-market participation. The probability of labor participation (paid and unpaid work) among boys is estimated to have decreased by between 15% and 25% compared to the control group,³³ and by 15% among girls. The most significant reductions in paid work occur among boys and girls of between 12 and 13 years of age. Generally speaking there is a close relation between increases in school enrolment and decreases in labor participation, because paid work is usually full-time. In general, the impact has been to increase the number of boys and girls enrolling in school and reduce the number that only work. Nonetheless, this does not necessarily mean fewer hours of domestic or unpaid work done by children who also attend school. Lastly, adult labor-market participation is not affected by **PROGRESA** transfers.
- 4.24 **Gender impacts.** **PROGRESA** is having major impacts on the status of women in the home and in the community.³⁴ Focus groups have stressed that the program has served to strengthen the role of women in the community and in the home, especially in terms of decision-making affecting families' and children's welfare. **PROGRESA** is creating new forms of social capital among women. Educational talks on health, nutrition and hygiene, and having to go out to collect the program benefits, are activities that beneficiaries value greatly as occasions when they can meet, talk in confidence about their problems and seek solutions. Providing support to women individually, which most of the men interviewed do not seem to object to, is a crucial factor in the program's success. It also seems important to propose new contents for the educational talks, in order to continue stimulating interest among participants, and also encourage participation by men.
- 4.25 **Social relations in the community.** In **PROGRESA** localities, beneficiaries and non-beneficiaries live side by side. Non-beneficiaries may benefit indirectly from improvements in the supply of health and education resulting from the program.

³³ Parker, W. S. and E. Skoufias, 2000. *The Impact of PROGRESA on Work, Leisure and Time Allocation*. IFPRI, Washington D.C.

³⁴ IFPRI, 2000. *Is PROGRESA Working? Summary of the Results of an Evaluation by IFPRI*, Mexico City.

The evaluation shows,³⁵ for example, that the average rate of attendance at nutritional surveillance for children of pre-school age among non-beneficiary families in PROGRESA localities rose by seven percentage points compared to the control group. There is evidence³⁶ that community social relations in most cases “are the same as before PROGRESA”. Nonetheless, some discontent was detected in connection with the household selection process, because people think “we are all poor and we all have the same need.” Generally speaking, non-beneficiaries do not blame beneficiaries for their exclusion, but there have been cases of non-beneficiaries refusing to participate in community work activities, and other cases where non-beneficiaries have participated in the hope of later being included. This suggests a need to strengthen training among the main program stakeholders: families, health and education workers, and PROGRESA staff, to achieve a better understanding of the nature and rules of the program in the localities concerned.

- 4.26 **Environmental aspects.** The educational talks on health currently being given cover basic sanitation issues, including household hygiene, potable water and solid waste management. This talk is compulsory for beneficiary mothers, and participation by fathers is also recommended. The SSA and IMSS currently require basic health units to carry out an analysis of medical waste management and disposal practices. In May 2001, the World Bank approved a loan for the SSA to finance the following actions: (i) review and updating of medical and bio-medical waste management manuals; (ii) training of health unit staff in applying new standards to protect patients and sanitary staff; and (iii) purchase of new equipment for the management of medical and bio-medical waste.

B. Risks

- 4.27 In just three years of operation PROGRESA has rapidly and efficiently extended its coverage in rural areas, generating major impacts on beneficiary populations. This proves that many of the risks associated with program execution have been successfully managed. Nonetheless, in this next phase, PROGRESA faces a number of new risks. Firstly, there are those associated with consolidation of the single national targeting instrument to reduce leakage and under-coverage caused by changes in the geographic distribution of beneficiaries. This operation will mitigate such risks by supporting analysis of the new targeting instrument and drawing up a transition strategy. Secondly, there are risks involved in the expansion into urban areas and upper secondary education. The operation will mitigate these risks by promoting: (i) a diagnostic study and adaptation of the design for urban areas; and (ii) a solid analysis of education supply. Lastly, with the passage of time, there are increasing risks from a relaxation of mechanisms for controlling and supervising

³⁵ Handa, S., M. Huerta, R. Pérez and B. Straffon, 2000. *Poverty, Inequality and Spill-over in Mexico's Education, Health and Nutrition Program*. IFPRI, Washington D.C.

³⁶ Adato M., 2000. *The Impact of PROGRESA on Community Social Relationships*. IFPRI, Washington D.C.

the operation on the ground by stakeholders. The operation will mitigate such risks by strengthening: (i) existing program supervision instruments; (ii) mechanisms for early identification and solution of execution-related problems; and (iii) information systems.

LOGICAL FRAMEWORK

CASE CONSOLIDATION AND EXPANSION PROJECT FOR THE EDUCATION, HEALTH AND NUTRITION PROGRAM (PROGRESA) - PHASE I. (M)

NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Help the government reduce the generational transmission of poverty.	Reductions in the incidence, depth and severity of poverty.	National household socioeconomic characteristics surveys (ENIGH, ENCASEH, ENCASURB) and poverty studies.	Stable macroeconomic environment.
OBJECTIVE			
To promote human capital accumulation among families living in extreme poverty, by improving opportunities in education, health and nutrition.	<p>Verification of the following in beneficiary population compared to the control group:</p> <p>1.1 Increase in average years of schooling among boys and girls.</p> <p>1.2 Reduction in morbidity rates.</p> <p>1.3 Reduction in infant and maternal mortality rates.</p> <p>1.4 Reduction in rates of malnutrition.</p>	<p>1.1 National household socioeconomic characteristics surveys (ENIGH, ENCASEH, ENCASURB).</p> <p>1.2 Program evaluation surveys (baseline and follow-up).</p> <p>1.3 Beneficiary rosters.</p> <p>1.4 National health survey.</p>	<p>1. Program objectives and adequate budgetary allocations maintained after conclusion of project.</p> <p>2. Strengthening of quality and volume of education and health service provision.</p>
COMPONENTS			
Component 1. Increase in human capital of population living in extreme poverty.			
Purpose: to support the consolidation of tested interventions in education, health and nutrition in rural localities where the program is already operating;	1.1 Consolidation of program in localities where it is already operating (2.5 million households).	1.1 National Income and Expenditure Survey (ENIGH).	1. Satisfactory coordination between executing agencies at state and federal levels.

NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>to finance the first phase of extension to semi-urban and urban localities.</p>	<p>1.2 Expansion of program coverage to new households in urban and semi-urban localities and densified rural areas (1 million households).</p> <p>1.3 Evaluation of PROGRESA impact in urban areas before extending program coverage to more than 50% of urban households in extreme poverty nationwide (1.2 million households).</p>	<p>1.2 Surveys and program evaluation report.</p> <p>1.3 Beneficiary rosters.</p>	<p>CONPROGRESA/SEP/SSA/IMSS-Solidaridad and IMSS.</p>
<p>ACTIVITIES Component 1.</p>			
<p>Component 1. Selection and re-classification of beneficiaries, and additional audit mechanisms.</p> <p><i>Validation:</i></p> <p>Reclassify localities/primary geographic units (AGEBs/urban blocks, etc.) according to exclusion index, based on the Twelfth General Population and Housing Census.</p> <p>ENCASEH survey run to recertify eligibility of beneficiary households.</p>	<p>1.1 Updating of localities classification under new index (Q1 2002).</p> <p>1.2 100% of PROGRESA localities in 1998 to have been surveyed, households recertified and the beneficiary roster purged (Q1 2002). 100% of PROGRESA localities in 1999 to have been surveyed, and households re-certified (2nd semester 2002).</p>	<p>1.1 CONPROGRESA report presented to technical committee and the Bank, containing methodological description and characterization of classification changes introduced by National Population Commission (CONAPO) and INEGI.</p> <p>1.2 CONPROGRESA report presented to technical committee and the Bank containing total number of households surveyed, households surveyed and found eligible, number of households in localities where recertification is conducted according to Twelfth General Population Census, by federal entity and level of poverty. Report to give details of inconsistencies between the number of PROGRESA households and the Twelfth General Population Census in each locality.</p>	

NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Implementation of Integrated Information System (SIIOP).</p> <p>Incorporation of IMSS-Solidaridad and the SSA management and evaluation indicators into the SIIOP.</p> <p>Strengthening of "sentinel points" system.</p> <p>Training for beneficiary families on program rules, co-responsibilities and mechanisms for receiving benefits.</p> <p>Training for social stakeholders on their role in the program and the importance of correct validation of co-responsibilities.</p> <p>Expansion:</p> <p>Random inclusion in the program of localities/primary geographic units (AGEBs/urban blocks, etc.) selected by size and degree of poverty.</p>	<p>1.3 Integrated information system implemented and accessible to other government mechanisms (Q3 2002).</p> <p>1.4 IMSS-Solidaridad and the SSA management and evaluation indicators incorporated into the SIIOP (Q3 2002).</p> <p>1.5 Bimonthly implementation of "1,000 sentinel points" system starting first semester 2002.</p> <p>1.6 Review and adaptation of PROGRESA communications strategy towards beneficiaries (1st semester 2002).</p> <p>1.7 Approximately 90,000 teachers, 30,000 school directors and 120,000 members of medical and auxiliary staff trained during project execution.</p> <p>1.8 Percentage of total eligible localities/primary geographic units (AGEBs/ urban blocks, etc.) included at random in each phase of program expansion (January 2002 for inclusions from 2001, and in each successive phase of expansion).</p>	<p>1.3 Bimonthly report on monitoring indicators prepared by CONPROGRESA (information at state level: families benefited, clinics with supplements, support, etc.).</p> <p>1.4 Bimonthly report on management and evaluation indicators prepared by IMSS-Solidaridad and the SSA, and incorporated into the SIIOP.</p> <p>1.5 Bimonthly audit reports delivered to technical committee and the Bank (25 days following the end of the bimonthly period) on "sentinel points" system operated jointly by CONPROGRESA, the SSA, SEP and IMSS-Solidaridad.</p> <p>1.6 Training plan and workshops carried out.</p> <p>1.7 Training workshops carried out.</p> <p>1.8 CONPROGRESA report submitted to technical committee and the Bank on the selection of localities/primary geographic units (AGEBs/ urban blocks, etc.).</p>	

NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Running of ENCEL, CEVALURB, ENCASEH, and ENCASURB surveys in new localities/primary geographic units (AGEBs/urban blocks, etc.).	1.9 100% of localities/primary geographic units (AGEBs/urban blocks, etc.) included in PROGRESA during project execution to have been surveyed.	1.9 Note from CONPROGRESA to technical committee and the Bank giving: (i) total number of households surveyed, households surveyed and found eligible, number of households in localities where recertification is being carried out, by federal entity and level of poverty; (ii) indicators of localities' socioeconomic characteristics, based on ENCEL and CEVALURB surveys.	
<p>Components 2 and 3. Education, health and nutrition</p> <p><i>Consolidation:</i></p> <p>Evaluation of scheme for delivery of payment support and certification of compliance with co-responsibilities through "sentinel points".</p> <p>Adjustment of size of school grants and gender differentials in urban sector according to results of adaptation analysis.</p> <p>Review of co-responsibility alternatives at upper secondary education level.</p> <p><i>Expansion:</i></p> <p>Education grants and monetary support for school utensils for new families incorporated into the program and for those qualifying under recertification.</p>	<p>1.10 "Sentinel points" system implemented on bimonthly basis (starting 2002).</p> <p>1.11 Amounts and gender differentials reviewed and/or adjusted before start of 2002-2003 school year.</p> <p>1.12 Co-responsibility alternatives for upper secondary education reviewed before start of 2002-2003 school year.</p> <p>1.13 Approximately 1.8 million education grants paid and 1.0 million cash grants for school utensils provided in each year of project execution.</p>	<p>1.10 Delivery to technical committee and the Bank by CONPROGRESA of bimonthly audit reports on "sentinel points" system prepared by CONPROGRESA with assistance from the SSA, IMSS-Solidaridad and SEP.</p> <p>1.11 Any amendments approved by technical committee (Q1 2002).</p> <p>1.12 Any amendments approved by technical committee (Q1 2002).</p> <p>1.13 Bimonthly reports from CONPROGRESA, information from SHIP and budgetary execution data.</p>	

NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Grants paid at upper secondary level.</p> <p>Monetary support for new families incorporated into the program, and for those qualifying under recertification.</p>	<p>1.14 No. of grants paid in each year of project execution.</p> <p>1.15 1.8 million cash grants paid in each year of project execution.</p>	<p>1.14 Bimonthly reports from CONPROGRESA, information from SIIOP and budgetary execution data.</p> <p>1.15 Bimonthly reports from CONPROGRESA, information from SIIOP and budgetary execution data.</p>	
<p>Component 2. Program evaluation and adaptation</p>			
<p>Objectives: (i) to perform diagnostic tests to improve the program's operating efficiency and adapt aspects of its design; (ii) to conduct the second round of independent and external impact assessment; (iii) to evaluate the program's model; (iv) to promote implementation of a single beneficiary roster for SEDESOL social programs, and strategies for linking PROGRESA with other human development and social infrastructure programs.</p>			
<p>ACTIVITIES Component 2</p> <p>Component: Operating efficiency</p> <p>Perform diagnostic tests and hold discussion workshops on the following areas: (i) quality of processes and instruments for incorporating beneficiaries; (ii) distribution and availability of food supplements; (iii) analysis of factors relating to regular dropout from beneficiary roster; (iv) alternative mechanisms, setting of date and place for paying</p>	<p>1.16 Workshops to discuss results of diagnostic tests. Work plans to improve operational efficiency of program defined (Q1 2002).</p>	<p>1.16 Measures to improve program operating efficiency and scheme for monitoring implementation of those approved by the technical committee (Q2 2002).</p>	

NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>support and sequencing between verification of co-responsibility and the corresponding payment deductions. Workshop participants will include members of the technical committee, local and international experts and the Bank team.</p> <p>Undertake diagnostic studies and hold discussion workshops, with participation by members of the technical committee, to define standard formulas for solving problems in the delivery of benefits and services.</p> <p>Component: Adaptation of design</p> <p>Perform diagnostic study in order to adapt aspects of program design for urban expansion, including the following areas: (i) definition of basic unit for geographic targeting; (ii) review of monetary support according to urban poverty profile; (iii) review of eligibility and size of education grants in terms of grade level and gender; (iv) upper secondary education supply availability and modality by locality, municipio and federal entity; (v) adaptation of food supplement formula to urban nutritional profile; (vi) adaptation of topics and contents of educational talks for urban and rural areas.</p>	<p>1.17 Responsibilities of each entity participating in the program at central level and by federal entity reviewed. Manual of standard problem solving formulas prepared (Q3 2002).</p> <p>1.18 Diagnostic tests carried out. Workshop held to discuss results, with participation by members of the technical committee, local and international experts and the Bank. Proposed adaptations submitted to technical committee (March 2002).</p>	<p>1.17 Manual of standard formulas for solving problems in the delivery of benefits and services approved by technical committee (Q3 2002).</p> <p>1.18 Adaptations approved by technical committee (Q1 2002).</p>	

NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Component: Impact assessment</p> <p>Evaluate framework and randomness of sample for urban incorporation.</p> <p>Evaluate program's impact in urban areas using experimental methods, concentrating among other things on: (i) health; (ii) consumption and nutrition; (iii) education; (iv) community participation; and (v) targeting.</p> <p>Continue impact assessment in rural areas, seeking to maintain the composition of the 1st stage evaluation panel to measure the program's medium-term effects.</p> <p>Component: Point scores</p> <p>Evaluation, review and approval of national master points model.</p> <p>Preparation of strategy for applying new points model to re-certified population.</p>	<p>1.19 Sample framework reviewed (Q1 2002).</p> <p>1.20 Panel surveys carried out and 1st stage evaluation results available (2nd semester 2003).</p> <p>1.21 Design of evaluation in rural areas prepared (1st semester 2002). Data collected (2nd semester 2002). Results of evaluation available (1st semester 2003).</p> <p>1.22 Methodological guidelines, econometric estimates of the model and simulations of impact on geographic distribution of beneficiaries presented to technical committee and the Bank (subject to loan eligibility). National master points model evaluated and consistency verified (January 2002).</p> <p>1.23 Strategy proposal prepared and implementation plans approved by technical committee (Q1 2002).</p>	<p>1.19 Review report sent by CONPROGRESA for consideration by technical committee and the Bank (Q1 2002).</p> <p>1.20 Evaluation report sent by CONPROGRESA to technical committee and the Bank (2nd semester 2003).</p> <p>1.21 Report containing evaluation design sent by CONPROGRESA to technical committee and the Bank (1st semester 2002). Evaluation report presented by CONPROGRESA to technical committee and the Bank (1st semester 2003).</p> <p>1.22 Points model evaluation report delivered to technical committee and the Bank by CONPROGRESA. New methodology approved by technical committee (Q1 2002).</p> <p>1.23 Strategy approved by technical committee (Q1 2002).</p>	

NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Component: Coordination with social programs</p> <p>Consolidation of SEDESOL social programs roster.</p>	<p>1.24 SEDESOL social programs roster consolidated (1st semester 2004).</p>	<p>1.24 Consolidation report delivered to the Bank by SEDESOL (2nd semester 2004).</p>	

INDICATORS FOR PROCESSING THE SECOND PHASE OF THE PROGRAM

Indicator	Means of verification
<p>Evaluation. Completion of the project impact assessment showing a significant impact on PROGRESA families as compared with the control group in terms of the following indicators at least:</p> <p>1. Education: Analysis of the following indicators by grade level, age and sex.</p> <ul style="list-style-type: none"> ➤ School attendance ➤ Enrolment ➤ Promotion ➤ School performance <p>2. Health:</p> <ul style="list-style-type: none"> ➤ Use of service; number of consultations by type of supplier ➤ Morbidity by age group ➤ Frequency of anemia ➤ Frequency of infectious and vector-borne diseases by age group ➤ Health of adolescents and adults (number of days incapacitated for health reasons, number of days in bed for health reasons, etc.) ➤ Cognitive development of children <p>3. Nutrition:</p> <ul style="list-style-type: none"> ➤ Probability of childhood stunting by age group ➤ Recovery from malnutrition ➤ Anthropometric growth rate ➤ Composition of family consumption <p>4. Targeting:</p> <ul style="list-style-type: none"> ➤ Rates of leakage and under-coverage 	<p>Impact assessment report showing a significant impact on PROGRESA families as compared with the control group in the urban expansion and in rural areas. Beneficiary roster. The impacts are expected to be similar to those already achieved in the rural sector.</p>
<p>Adaptations to urban design have been implemented</p> <ul style="list-style-type: none"> ➤ Type of primary geographic unit to be used in geographic targeting stage (AGEBs, urban blocks or other) defined ➤ Size of monetary support adjusted according to urban poverty profile ➤ Size of education grant by grade level and sex adjusted 	<p>Diagnostic studies and approval of necessary adjustments by PROGRESA technical committee.</p>
<p>Adjustments to procedures used to obtain information from beneficiaries have been implemented</p> <ul style="list-style-type: none"> ➤ Procedures for obtaining information for identification, selection and incorporation of beneficiaries reviewed and implemented 	<p>Approval of necessary adjustments by PROGRESA technical committee.</p>
<p>Operational audit mechanisms in operation</p> <ul style="list-style-type: none"> ➤ Institutional information system (SIOP) in operation ➤ Bimonthly application of sentinel points ➤ IMSS-Solidaridad and the SSA monitoring, management and evaluation indicators system added to the SIOP 	

Indicator	Means of verification
<p><i>Operating efficiency of food supplement distribution system has increased since the start of the project as evidenced by the following SIIOP indicators</i></p> <ul style="list-style-type: none"> ➤ Percentage of children under nutritional surveillance. ➤ Percentage of children suffering from malnutrition by age group. ➤ Percentage of children receiving food supplements. ➤ Percentage of expectant women under prenatal control. ➤ Percentage of breast-feeding women under medical control. ➤ Percentage of expectant and breast-feeding women receiving food supplements. ➤ Average number of food supplement packages received by individuals under control. ➤ Qualitative assessment of food supplement production, distribution and delivery chains by entity responsible. 	<p>Bimonthly monitoring report</p> <p>Evaluation report</p>
<p><i>Coordination with other social programs implemented</i></p> <ul style="list-style-type: none"> ➤ Consolidation of list of SEDESOL social programs. 	<p>Annual report delivered to the Bank</p>
<p><i>New Master Point Model revised and approved</i></p> <ul style="list-style-type: none"> ➤ Master Points Model methodology reviewed. Adjustments approved by technical committee. 	<p>Master Model approved by PROGRESA technical committee.</p>

PROCUREMENT PLAN

PROGRESA Multi-phase Consolidation and Expansion Program - Phase I

Main procurement	Financing	Procurement method (US\$ thousand)	Expected SPN publication date
Technical assistance and materials (US\$49 million) Interviewer training for carrying out surveys: Survey materials Impact assessment Diagnostic studies Workshops	18% IDB 82% Mexican Govt.	ICB or ICP over US\$200 LCB or LCP from US\$100 to US\$199 LB under US\$99 and over US\$40 LS under US\$40	from I/02 to I/03
Distribution of support payments (US\$45 million)	100% Mexican Govt.	ICB or ICP over US\$350 LCB or LCP from US\$100 to US\$349 LB under US\$99 and over US\$40 LS under US\$40	
Food supplements and medical inputs (US\$354 million) Production and distribution	100% Mexican Govt.	ICB over US\$350 LCB from US\$140 to US\$349 LB under US\$139 and over US\$40 LS under US\$40	from II/02 to I/04
Food support and education grants (US\$1.91 billion)	51% IDB 49% Mexican Govt.	Not applicable	N/A

ICB = International competitive bidding
ICP = International call to present CVs or proposals
LB = Limited bidding
LCB = Local competitive bidding
LCP = Local call to present CVs or proposals
LS = Local shopping
SPN = Specific procurement notice

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**MEXICO. LOAN ____/OC-ME TO "NACIONAL FINANCIERA, S.N.C."
(Multiphase Project for the Consolidation and Expansion of the Education, Health and
Nutrition Program (PROGRESA) -Phase I-)**

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 "Nacional Financiera, S.N.C.", as Borrower, and the "Estados Unidos Mexicanos", as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the first phase of a Multiphase Project for the Consolidation and Expansion of the Education, Health and Nutrition Program (PROGRESA). Such financing will be for the amount of up to US\$1,000,000,000, which are part of 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.