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Report No: 54132-HN

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 26.5 MILLION  
(US\$40.0 MILLION EQUIVALENT)

INCLUDING SDR 12.3 MILLION IN PILOT CRISIS RESPONSE WINDOW RESOURCES  
(US\$18.5 MILLION EQUIVALENT)

TO THE

REPUBLIC OF HONDURAS

FOR A

SOCIAL PROTECTION PROJECT

May 27, 2010

Human Development Sector Management Unit  
Central America Country Management Unit  
Latin America and the Caribbean Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective May 19, 2010)

Currency Unit = Honduran Lempiras

18.8 Lempiras = US\$1

US\$1.5111 = SDR 1

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

AIN-C	Community-based Child Care Program ( <i>Atención Integral a la Niñez – Comunitaria</i> )
APF	Parent Association ( <i>Asociación de Padres de familia</i> )
CAS	Country Assistance Strategy
CCT	Conditional Cash Transfer
CRW	Crisis Response Window
CUS	Beneficiary Health Committee ( <i>Comité de Usuarios de Salud</i> )
EHPM	Multiple Purpose Household Survey ( <i>Encuesta de Hogares de Propósitos Múltiples</i> )
ENCOVI	National Living Standards of Measurement Survey ( <i>Encuesta de Medición de Condiciones de Vida</i> )
ENDESA	Demographic Health Survey ( <i>Encuesta Nacional Demográfica de Salud</i> )
GDP	Gross Domestic Product
GOH	Government of Honduras
MIS	Management Information System
MOP	Ministry of the Presidency ( <i>Secretaría de Estado de la Presidencia</i> )
IDA	International Development Association
IDB	Inter-American Development Bank
IGR	Institutional and Governance Review
INE	National Statistics Institute ( <i>Instituto Nacional De Estadística</i> )
IPP	Indigenous and Afro-Honduran Peoples Plan
ISN	Interim Strategy Note
PCU	Project Coordination Unit
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PMT	Proxy Means Test
PETS	Public Expenditure Tracking Survey
PRAF	Family Allowance Program ( <i>Programa de Asignación Familiar</i> )
PRONAE	National Health Care Attention Program for the Ethnic Communities in Honduras ( <i>Programa Nacional de Atención en Salud a la Etnias de Honduras</i> )
PRONEEAAH	National Education Program for the Autochthonous Communities of Honduras ( <i>Programa Nacional de Educación de los Pueblos Autóctonos de Honduras</i> )
SDS	Ministry of Social Development ( <i>Secretaría de Desarrollo Social</i> )
SIRBHO	Beneficiary Registration System ( <i>Sistema de Información y Registro de Beneficiarios y Hogares</i> )
UAP	Project Administration Department ( <i>Unidad de Administración de Proyectos</i> )
UEP	Project Execution Unit ( <i>Unidad de Ejecución de Proyectos</i> )

Vice President:	Pamela Cox
Country Director:	Laura Frigenti
Country Manager:	Geoffrey Bergen
Sector Manager:	Helena Ribe
Task Team Leader:	Cornelia M. Tesliuc

**HONDURAS**  
**HN- Social Protection**

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HONDURAS

HN- SOCIAL PROTECTION

PROJECT APPRAISAL DOCUMENT

LATIN AMERICA AND CARIBBEAN

LCSHS-DPT

Date: May 27, 2010		Team Leader: Cornelia M. Tesliuc	
Country Director: Laura Frigenti		Sectors: Other social services (100%)	
Sector Manager/Director: Helena G. Ribe		Themes: Social safety nets (100%)	
Project ID: P115592		Environmental category: Not Required	
Lending Instrument: Specific Investment Loan		Joint IFC:	
		Joint Level:	
Project Financing Data			
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Credit <input type="checkbox"/> Other: <input type="checkbox"/> Grant <input type="checkbox"/> Guarantee			
For Loans/Credits/Others: Total Bank financing (US\$m.): 40.00 Proposed terms: Standard IDA credit with a service fee of 75 basis points, calculated on the disbursed and outstanding balance of the IDA Credit. The debt service payment dates will be on the 15th of June and the 15th of December of each year, payable in 20 years, including a 10-year grace period.			
Financing Plan (US\$m)			
Source	Local	Foreign	Total
RECIPIENT	0.00	0.00	0.00
International Development Association (IDA) <sup>1</sup>	40.00	0.00	40.00
Total:	40.00	0.00	40.00
<b>Recipient:</b> Republic of Honduras <b>Responsible Agency:</b>  Secretaría del Despacho de la Presidencia Edificio Ejecutivo Las Lomas, 2do piso Boulevard Juan Pablo II, Tegucigalpa, Honduras Tel: (504) 231-3043   Fax: (504) 239-3298 mabogran@hotmail.com http://www.sdp.gob.hn/		Programa de Asignación Familiar Edificio Maya, Colonia Palmira Tegucigalpa, D.C. Honduras Tel: (504) 220-5240   Fax: (504) 220-5154 <a href="mailto:info@praf.gov.hn">info@praf.gov.hn</a>	

<sup>1</sup> US\$18.77 million equivalent of the IDA funds will be financed through the pilot Crisis Response Window (CRW) resources.

Estimated disbursements (Bank FY/US\$m)									
FY	11	12	13	14					
Annual	10.00	15.00	13.00	2.00					
Cumulative	10.00	25.00	38.00	40.00					
Project implementation period: Start October 1, 2010 End: December 31, 2014 Expected effectiveness date: October 1, 2010 Expected closing date: December 31, 2014									
Does the project depart from the CAS in content or other significant respects? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>Ref. PAD I.C.</i>									
Does the project require any exceptions from Bank policies? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>Ref. PAD IV.G.</i>									
Have these been approved by Bank management? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No									
Is approval for any policy exception sought from the Board? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No									
Does the project include any critical risks rated "substantial" or "high"? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>Ref. PAD III.E.</i>									
Does the project meet the Regional criteria for readiness for implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>Ref. PAD IV.G.</i>									
Project development objective <i>Ref. PAD II.C., Technical Annex 3</i> The proposed Project would support the Government's objective of building an improved social protection system mainly by strengthening institutional capacity to design and implement a new Conditional Cash Transfer (CCT) program, the <i>Bono 10,000</i> Program. Within this context, the Project's development objectives are to: (a) strengthen the institutional capacity of the MoP and PRAF to administer and manage the <i>Bono 10,000</i> Program (the "Program"), through the development of transparent mechanisms and instruments for targeting Program beneficiaries, monitoring compliance with Program co-responsibilities, and making payments to Program beneficiaries; and (b) increase: (i) school attendance among students in grades 1 to 6; and (ii) the use of preventive health services among families participating in the Program.									
Project description <i>Ref. PAD II.D., Technical Annex 4</i>  <b>Component 1. Institutional strengthening of the Bono 10,000 Program (US\$8.7 million).</b> This component would strengthen the efficiency, effectiveness, and management of the CCT Program by building capacity in the MoP and PRAF and will contribute to the development of a social protection strategy.  <b>Component 2. Co-financing Conditional Cash Transfers (grants) (US\$31.3million).</b> This component would provide Education Grants and/or Health and Nutrition Grants to Eligible Beneficiaries.									
Which safeguard policies are triggered, if any? <i>Ref. PAD IV.F., Technical Annex 10</i> The project is classified as category C and does not trigger environmental safeguards. Given the presence of Indigenous peoples in the project area, the project triggers the OP/BP4.10. To this effect, an Indigenous and Afro-Honduran Peoples Plan (IPP) has been prepared by the Recipient to seek broad community support for the project, and to ensure the services rendered by the project fully respect the dignity, human rights, and culture of indigenous and Afro-Honduran peoples. In-country consultations were held between April 12 and May 5, 2010 and the IPP was publically disclosed in Honduras (in Spanish) on May 10, 2010. The Bank disclosed the IPP (in English) in the Infoshop on May 14, 2010.									

Significant, non-standard conditions, **if any**, for:  
**Ref. PAD III.F.**

Credit effectiveness: The Subsidiary Agreement has been duly authorized or ratified by the Recipient and PRAF and is legally binding upon the Recipient and PRAF in accordance with its terms.

Covenants applicable to project implementation as presented in the Financing Agreement:

- **Subsidiary Agreement**: For purposes of carrying out Parts A.2 and B of the Project, the Recipient shall enter into a Subsidiary Agreement with PRAF, containing, among others, the following provisions:
  - (a) the obligation of the Recipient: (i) through SEFIN, to promptly disburse to PRAF part of the proceeds of the Financing to finance the carrying out of Parts A.2 and B of the Project with due diligence and efficiency, and in accordance with the pertinent provisions of this Agreement; and (ii) through MoH and MoE, to provide the health and education services necessary for Eligible Beneficiaries to comply with their respective Grant Co-responsibilities; and
  - (b) the obligation of PRAF: (i) to make available, on a grant basis, the proceeds of the Financing allocated to Category (1) to the corresponding Eligible Beneficiary, according to the terms and procedures set forth in the Project Operational Manual, which terms shall include compliance with the pertinent Grant Co-responsibilities, and pursuant to the pertinent provisions of the Financial Institution Agreement; (ii) to monitor and verify compliance of Eligible Beneficiaries with their Grant Co-responsibilities; and (iii) to comply with the provisions of the pertinent Financial Institution Agreement.
- **Financial Institution Agreement**: Without limitation to the provisions of Section 4.10 of the General Conditions, and in case PRAF has decided (in consultation with the Association) to replace the existing Financial Institution (in accordance with the terms of the pertinent Financial Institution Agreement) with one or more new Financial Institutions, or to select and contract one or more additional Financial Institutions for purposes of assisting PRAF to carry out Part B of the Project, the Recipient shall cause PRAF to:
  - (a) not later than one hundred and twenty days: (i) prior to the replacement of the existing Financial Institution; or (ii) after the decision to select and contract one or more additional Financial Institutions has been made, select one or more new or additional Financial Institutions (each of which with qualifications and experience acceptable to the Association), as the case may be; and
  - (b) (i) in case PRAF has decided to replace the existing Financial Institution with one or more new Financial Institutions and immediately after the termination of the existing Financial Institution Agreement, enter into a separate new Financial Institution

Agreement with each of the selected Financial Institutions, as applicable, all under terms and conditions acceptable to the Association, which terms and conditions shall be identical to those set forth in paragraph C (e) of Schedule 4 to this Agreement; and (ii) in case PRAF has opted for the selection of one or more additional Financial Institutions, immediately after said selection has taken place, enter into a separate new additional Financial Institution Agreement with each of said selected Financial Institutions, as applicable, all under terms and conditions acceptable to the Association, which terms and conditions shall be identical to those set forth in paragraph C (e) of Schedule 4 to this Agreement.

- **Safeguards**: The Recipient shall carry out the Project, and cause the Project to be carried out in accordance with the IPP.
- **Concurrent Audits**: Pursuant to terms of reference previously agreed with the Association, including *inter alia*, the scope of the audits to be conducted and furnished to the Association, and as further specified in the Project Operational Manual, the Recipient shall: (a) not later than one month after the Effective Date, hire independent auditors, with experience and qualifications acceptable to the Association, and under terms of reference acceptable to the Association, for purposes of carrying out concurrent audits of the Program, each of which shall audit: (i) to be carried out for each Program payment cycle; (ii) that Program beneficiaries receiving payments are registered in the Program beneficiary's registry; and (iii) that information related to compliance with Program responsibilities is accurately recorded; (b) not later than 90 days after the end of the period covered by each such audit, prepare and furnish to the Association, a report of such scope and in such detail as the Association shall reasonably request concerning the result of the pertinent audit.

## I. STRATEGIC CONTEXT AND RATIONALE

1. **Despite notable progress in poverty reduction over the past decade, Honduras still experiences high levels of poverty.** Both total poverty and extreme poverty remained stable between 2002 and 2005 at about 65 percent and 45 percent, respectively, and declined to 58.7 percent and 36.4 percent, respectively in 2009. Much of this reduction can be attributed to Honduras' sustained annual domestic economic growth rate of 6.3 percent between 2004 and 2007. Still, with a population of more than 7.2 million and an estimated Gross National Income (GNI) per capita of US\$3,870 in 2007 (in constant 2005 purchasing power parity US dollars), Honduras remains one of the poorest countries in the region.<sup>2</sup> Rural households and indigenous communities are disproportionately affected by poverty, with nearly 52 percent of rural households living in extreme poverty.<sup>3</sup>

2. **The Government of Honduras (GoH) is committed to breaking the intergenerational cycle of poverty by creating opportunities and developing human capital for families in extreme poverty.** The new President, Porfirio Lobo Sosa, who took office on January 27, 2010, formed a reconciliation cabinet and presented a National Plan 2010-2022 (*Plan de Nación 2010-2022*) in which one of the main objectives is to reduce income inequality and extreme poverty. This is to be achieved through increased coverage and better quality of basic health, nutrition and education services, and through the creation of an integrated social protection system.<sup>4</sup> To support these objectives, the Government is preparing a new Conditional Cash Transfer Program, *Bono 10,000*, with the aim of encouraging families to increase investments in education and child health and nutrition. The Program is expected to cover about 600,000 families living in extreme poverty and provide more adequate benefits (US\$44 per month per family) conditional on their making efforts to improve children's school attendance and the family's use of preventive health services.

3. **Assistance through the proposed Social Protection Project (the Project) is the Association's response to the Government's request for assistance to design and implement the new Conditional Cash Transfer Program, *Bono 10,000*.** The proposed Project would support the Government in improving its social protection system mainly by strengthening institutional capacity for the operation of the Conditional Cash Transfer (CCT) Program and by co-financing conditional cash transfers to extremely poor families, conditional on children's school attendance and regular health check-ups. The Project builds on CCT experiences from other countries and on successful experiences under existing Honduras cash transfer programs.

### A. Country and sector issues

4. **Honduras remains one of the poorest and most unequal countries in the Latin American and Caribbean (LAC) region, with poverty being perpetuated across generations by insufficient schooling and poor health and nutrition, which translates into low future earnings capacity.** Families living in extreme poverty face liquidity and credit constraints, thus limiting their investment in their children's health and education. These inequalities start early in life: in 2006, the incidence of chronic malnutrition among children (aged 5 years or less) was

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<sup>2</sup> World Bank. 2009. World Development Indicators Report.

<sup>3</sup> PRAF. Enero 2009. *Presentación del Programa integral de Protección Social: Evolución de los PTC en Honduras*.

<sup>4</sup> *República de Honduras–Visión de País 2010-2038 y Plan de Nación 2010-2022*. Circulated on January 12, 2010.

43 percent among the poorest quintile, compared to 5 percent among the richest quintile.<sup>5</sup> And in 2009, school enrollment among children aged 12-14 years-old was 65 percent in the poorest quintile, compared to 92 percent in the richest quintile.

5. **Efforts to reduce poverty have been challenged by the negative effects of the global economic crisis and the difficult fiscal situation that was exacerbated by it.** After a period of relatively high economic growth between 2004 and 2007, annual growth in 2008 slowed to 4 percent and in 2009, the economy contracted by 2.1 percent. Unemployment in the manufacturing sector has increased with the reduction of export demand especially from *maquilas*, and remittances fell from 20 percent of GDP in 2008 to 17 percent of Gross Domestic Product (GDP) in 2009. Furthermore, the fiscal situation deteriorated in 2009, creating serious challenges in 2010. Government spending declined from 21.7 percent of GDP in 2008 to 20.6 percent of GDP in 2009, but tax receipts fell even more sharply, from 15.6 percent of GDP to 13.8 percent of GDP. As a result, the Central Government fiscal deficit increased from 2.4 percent of GDP in 2008 to 4.2 percent of GDP in 2009.

6. **The crisis is likely to affect the poor in two main ways. First, it will have a direct negative impact on consumption and the ability to smooth consumption.** The decrease in remittances and the lower dynamism of the export oriented sector of the economy are likely to have a direct impact on consumption patterns, especially of the poor. The poor are directly affected by the decline in remittances as 27 percent of the bottom quintile receives remittances which constitute 22 percent of their household income.<sup>6</sup> Additionally, low savings and the aggregate nature of the shock make poor households more vulnerable as they are unable to smooth consumption (either by using savings or by pooling resources with relatives). Most likely, poor households will have to reduce food consumption, which represents a high share of their total consumption. While the crisis is expected to have a higher impact on the urban households, the rural poor will not be shielded from it.

7. **There is also a risk that poor families, confronted with a reduction in their incomes, will rely on costly coping strategies, such as taking kids out of school, to encourage them to find paid work and/or to reduce the use of preventive health care services.** These coping strategies could further reduce their chances to break the cycle of poverty. Experience in Honduras has shown that short run shocks can have very high long term consequences. After Hurricane Mitch in 1998, school enrollment among 6-11 year-olds living in households from the poorest consumption quintile decreased by 3.1 percent and among 15-17 year-olds by 7.5 percent. It took the country nine years to get back to the pre-hurricane enrollment level among 15-17 year-olds, much longer than the time it took to recover the lost income.<sup>7</sup>

8. **Matters were made worse by the political crisis that hit Honduras in the middle of 2009, which divided the country and left a significant portion of official aid frozen.** Decreased aid flows put additional pressure on the 2009 budget that was carried over into 2010. Resolution of the political crisis was set in motion by the completion of a regularly scheduled national election in November which was judged to be "free and fair" by international observers. With the arrival in power of a new democratic elected government, Honduras' international partners have been gradually resuming their programs and dialogue with the authorities.

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<sup>5</sup> ENDESA 2005/2006. Ministry of Health, Honduras.

<sup>6</sup> EHPM, September 2008.

<sup>7</sup> *Impactos Económicos y Sociales de la Recesión mundial en Honduras*, UNDP, 2009.

9. **Education. Although the national net enrollment in primary education had reached 96 percent in 2006, demand side constraints were binding for many poor families with children in education.** For children from the poorest quintile, the enrollment rate decreases sharply after 12 years of age to 63 percent for children aged 13 years old and to 50 percent among children aged 14 years old, compared to 90 percent for children aged 13 and 14 years old in the wealthiest quintile (*Encuesta de Hogares de Propósito Múltiple-EHPM*). The drop in enrollment rates after age 12 is associated with the rising opportunity cost of schooling. Differences in enrollment rate by geographical location are also significant. Enrollment of children aged 11 to 14 years in rural areas is 76 percent while it is 91 percent for children of the same age in urban areas.

10. **Health. Gains in health have been slow, though notable.** Infant mortality has decreased from 37 deaths per 1,000 infants in 1995 to 31 per 1,000 in 2005; the maternal mortality ratio declined sharply from 182 in 1990 to 108 maternal deaths per 100,000 live births in 2000;<sup>8</sup> and currently intermediate indicators related to malnutrition and maternal-infant mortality display positive tendencies, particularly with respect to prenatal care coverage and well-baby checks, institutional births, access to family planning, and infant mortality due to diarrhea.

11. **Nonetheless, disparities in the access and use of health services remain and a significant proportion of households did not seek medical attention because they used home remedies or lacked funds.** According to the latest Demographic and Health Survey (ENDESA 2005/2006) only 35 percent of women in the poorest quintile gave birth in an institutional facility compared to almost a hundred percent in the richest quintile. And according to the 2004 ENCOVI household survey, approximately 30 percent said that medical attention was not necessary, nearly 24 percent said they resorted to home remedies, and approximately 20 percent cited lack of funds for treatment as a reason for not seeking services. More than a quarter of poor households (first quintile) cited that lack of money was a serious issue, compared to only 9 percent in the richest households. Nearly 10 percent of households in the poorest quintile also mentioned supply-side constraints including the distance to the clinic and closure of the clinic.

12. **Nutrition.** Infant and child malnutrition also remains a chronic problem in Honduras. Currently one in every three children under the age of five years suffers from growth retardation, and more than 10 percent of children under the age of five are severely stunted. While acute malnutrition remains moderate (1.38 percent), the rate of chronic malnutrition, or stunting, is one of the highest in the region (30.15 percent).<sup>9</sup> When disaggregated by region and geographic location, chronic malnutrition is found to be highly concentrated in rural areas and some of the poorest departments in Honduras. In 2008, 39 percent of children under the age of five years living in rural areas were chronically malnourished, which was more than 20 percent greater than urban areas that reported 18 percent. Furthermore, children from families who come from the poorest quintile are eight times more likely to be stunted compared to children in the wealthiest quintile. Lack of access to basic vitamins and nutrients and an absence of basic knowledge on infant and young children feeding practices have contributed to high levels of malnutrition.

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<sup>8</sup> Pena, Christine Lao, Olympia Icochea and Jack Fielder. 2008. "Evaluation of Birthing Centers in Honduras." World Bank.; "Progress Report on the Country Assistance Strategy for the Republic of Honduras." May 2008. The World Bank Group.

<sup>9</sup> Pan-American Health Organization. 2008. Malnutrition in Infants and Young Children in Latin America and the Caribbean: Achieving the Millennium Development Goals. World Health Organization.

Currently, vitamin A deficiency is present in one out of seven children 6-49 months, and those with nutrient deficiency are highly concentrated in the lowest income quintile.

### *Social Protection*

13. **Honduras has a large number of social assistance programs with varying coverage, which are not well coordinated. The most important of these has been a cash transfer program, the Family Allowance Program (*Programa de Asignación Familiar–PRAF*), which was initiated in 1990 and which served as a mechanism to mitigate the effect of crises and reduce structural poverty.** Over the past five years until August 2009, when it faced financing difficulties due to the political crisis, PRAF was implemented in a two-tier approach (see Annex 1.A for details on PRAF) depending on whether the funding came from national or external sources. Both tiers were implemented by the PRAF agency operating under the Presidency. Under the PRAF program funded with national funds, most beneficiaries (about 132,000 families living in the poorest villages) received an unconditional cash transfer, called *Bono Solidario*, of about US\$10 per family, per month to cover basic nutritional needs. In parallel, an Integrated Social Protection Program (PRAF/PIPS), which was supported by a credit from the Inter-American Development Bank<sup>10</sup> provided additional health and education transfers (up to US\$25 per family, per month) based on the families' compliance with certain education and health co-responsibilities for their children to about 44,000 families living in four of the poorest departments (Lempira, Intibucá, Santa Barbara, and La Paz). As PRAF/PIPS evolved over the past decade, it included supply-side incentives to Parent Teacher Associations (APF) to improve the quality of education through parental involvement, and to Health User Committees (CUS) to ensure access to institutionalized births and other medical services. PRAF also provided cash assistance to youth, women, and the elderly through a series of other *bonos*.

14. **The limited coverage, low adequacy and limited enforcement of co-responsibilities have kept impact of the PRAF program low.** The key safety net program under PRAF, *Bono Solidario*, despite being fairly well targeted, has covered less than eight percent of the population, or 20 percent of the extreme poor, and the adequacy of its benefits relative to the income deficit of the poor was very low. Despite the increase in the number of beneficiaries and benefits under the PRAF/PIPS, there remain large coverage gaps.

15. **Other existing social assistance programs such as school scholarship programs (transportation, textbooks, etc.) and school feeding programs are pro-poor, but their coverage also remains low.** In the recent 2009 Household Survey, 83 percent of the total beneficiaries receiving school scholarships were extremely poor. Similarly, 68 percent of beneficiaries receiving benefits from the school feeding program came from extremely poor households.<sup>11</sup> While targeting of these programs is good, coverage remains low with only half of the households living in extreme poverty having at least one student receiving benefits from the school feeding program, while a mere four percent of extremely poor households have beneficiaries that are receiving school scholarships.

16. **Additional social assistance programs such as energy subsidies and old age pensions are poorly designed or fragmented and do not explicitly target the poorest.** There are over 80 social assistance programs/projects coordinated and administered by over twenty agencies. Currently, contributory pensions in Honduras are highly regressive. Half of the pensioners are

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<sup>10</sup> Inter-American Development Bank, Programa Integrado de Protección Social, Credit Line #1568.

<sup>11</sup> EHPM. 2009. *Encuesta de Hogares de Propósitos Múltiples* (EHPM).

non-poor. This tendency is common in many countries, as old age pensions are linked to formal employment. Energy subsidies, the program with the greatest coverage among social assistance programs favor more of the middle of the income distribution and less the extreme poor households.

17. **In 2006, the previous Government established the *Red Solidaria*, a social protection strategy, to coordinate the delivery of social assistance programs and basic infrastructure to the poorest communities.**<sup>12</sup> The *Red* focused on improving living conditions in the poorest 1,500+ communities (*aldeas*), identified based on a poverty map using the 2001 Population census and a 2004 MECOVI household survey where about 218,000 extremely poor households live. Furthermore, it was expected to articulate the supply of services and opportunities to meet the demands of the targeted population. Given the diversity of programs that the *Red* is trying to coordinate, in late 2008, a new Ministry of Social Development (*Secretaría de Desarrollo Social*–SDS) was created under the previous administration, for the formulation and coordination of social policy. This Ministry, however, has not been staffed or become fully operational.

18. **Despite these steps, currently, there is no effective and comprehensive social safety net program to reach the poor and help mitigate the impact of shocks and crisis. However, the conditional cash transfers under the PRAF program, the only social assistance program to be have been rigorously evaluated, has had significant impact on human capital indicators.** In particular, school attendance rates were shown to increase by 0.8 days per months (conditional on enrollment) and dropout rates for grades one to four decreased by two to three percentage points. In health, there was an increase in immunization rates among program participants. This suggests that the national-scale CCT program, with appropriate targeting, adequate benefits and coverage, could become an effective instrument to reduce extreme poverty and provide protection against shocks, and could also improve capital outcomes and become one of the building blocks for creating a more comprehensive social protection system.

#### *The Government's New Vision and Program*

19. **The new Government of Honduras proposes to strengthen the social protection system, starting with a national Conditional Cash Transfer Program, *Bono 10,000* (the Program) which subsumes some of the earlier cash transfer programs and which will improve coverage, benefits and accumulation of human capital for eligible families<sup>13</sup> living in extreme poverty.** The earlier PRAF cash transfers *Bono Solidario* and *Bono Escolar* have been discontinued as separate transfers and integrated within the *Bono 10,000*. The eligible population for this Program ultimately comprises the approximately 600,000 extremely poor families with children aged 0 to 59 months, children in primary school (grades 1 to 6), and pregnant mothers. These families represent about 87 percent of all extremely poor families. The Program aims to provide more adequate benefits to these households conditional on investments in human capital accumulation through regular use of health and/or education services. The Government intends to incorporate about 60,000 families beginning in 2010, and continuing with 150,000 families each year over the next four years; however, the actual rate of Program expansion will depend on the rate at which capacity to implement the Program can be scaled up and on financing availability.

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<sup>12</sup> Red Solidaria includes investments associated with Conditional cash transfers PRAF, Social Funds FHIS, Health and Education programs, Housing, Water and Sanitation, and Energy Subsidies, among others.

<sup>13</sup> The terms families and households are used interchangeably throughout the PAD.

20. **The Program represents an important advance, in several ways, as it improves the design of social assistance programs in Honduras and lays the ground for a more comprehensive approach to social protection.** First, the Government has announced that there will be one national program, which different donors will finance, rather than different donor funded projects. Second, there will be a systematic method of identifying and registering beneficiaries and a phased approach to expanding coverage. Third, compliance with the conditions, and hence behavior change leading to greater human capital accumulation, will be enforced. Finally, the size of the benefit relative to poor households' income is in line with that in other countries and expected to have a significant contribution to reducing the poverty gap—much greater than what could be achieved with economic growth over a longer period of time.

21. **Because the Program is high profile and close coordination is required with the health and education sectors, the Government has decided that the Ministry of the Presidency (*Secretaría del Despacho de la Presidencia, MoP*) will be responsible for its overall vision, coordination, and administration, while the PRAF agency will be responsible for the execution of the conditional cash transfers under the leadership of a National Coordinator.** To coordinate the participation of other ministries and agencies, especially with respect to supply of health and education services and verification of co-responsibilities, a National Coordinator, who has been appointed by the President, heads a Technical Committee comprised of those ministries and agencies. The Ministry of Presidency is setting up a Technical Coordination Unit for the *Bono 10,000*, which will be headed by the National Coordinator. The Technical Coordination Unit will be responsible for developing and implementing accountability mechanisms for the Program and for administering the institutional procedures and systems for inter-institutional coordination and monitoring and evaluating overall implementation.

22. **The Program will finance cash transfers (grants) to households in exchange for their compliance with health and/or education co-responsibilities.** This transfer will help ease the income deficit of extremely poor households. Currently, these co-responsibilities include:

(a) Ensuring that children between 0 and 59 months (including child growth monitoring, vaccines, and the provision of micronutrients as necessary) and pregnant and postpartum mothers attend preventive health controls (including pre- and post-natal check-ups) according to established protocols, which are detailed in the Program's guidelines;<sup>14</sup>

(b) Ensuring that children from 1<sup>st</sup> to 6<sup>th</sup> grade (primary level) be enrolled in school and attend classes at least 80 percent of official school days.<sup>15</sup>

23. The Government has established a maximum transfer amount of 10,000 Lempiras per year, the equivalent of about US\$44 per month, per family based on eligibility and compliance with both the health and education co-responsibilities. Depending on the demographics of each household, some families will be eligible for the entire transfer, while others will be eligible only for either the health or the education transfer. The Government has determined that this latter group of families will receive (conditional on compliance with the education or health co-responsibility) a portion of the maximum monthly transfer, which they have tentatively defined

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<sup>14</sup> The Program would promote institutional births; though, it will not include it as a co-responsibility.

<sup>15</sup> The Program would promote enrollment and attendance in kindergarten (*pre-básica*); though, it will not include it as a co-responsibility.

to be about US\$22 per month, per family. In all cases, families who fail to meet the pre-defined co-responsibilities applicable to their demographic will not receive any cash transfer.

24. **Eligibility and targeting of families for the Program will be divided into two phases.** During the first phase (2010/2011), the Program will use a geographical targeting mechanism, covering all households living in the 1500+ poorest villages (*aldeas*) out of a total of a little more than 3,000 villages. These villages have been identified with a poverty map, which ranked all 3,000+ villages in the country from the poorest to the least poor. Recent simulations suggest that 60 percent of the families in these villages are living in extreme poverty. Currently, there are about 218,000 households living in these villages, each of which is already registered in the Beneficiary Registration System (*Sistema de Registro de Beneficiarios de Honduras*, SIRBHO). These households would be the first to become eligible for transfers under the new Program after re-verification by the PRAF agency of their demographic composition and validation by the local Community Committee (*Comités Escolares Comunitarios*) and after certifying that the supply of the relevant education and health services is accessible.<sup>16</sup>

25. In the second phase (2012/2013), the Program would expand to include villages with relatively lower incidences of extreme poverty, but which have a higher density of extreme poverty. Eligibility would be determined using a proxy-means test (PMT) and a pre-determined cut off score. Estimates using the 2009 income household survey show that targeting using this PMT approach would be reasonably accurate with 75 percent of potential beneficiaries living in extreme poverty (see Annex 9 for further details). The Program guidelines will define the specific eligibility criteria for the first and second phase.

26. **Finally, the Program will be an integral part of the GoH's effort to strengthen the social protection strategy and improve overall governance in Honduras.** The *Bono 10,000* Program will be a key element of the Government's social protection strategy, including streamlining the multiple social assistance programs and subsidies. One of the critical aspects of the strategy is to develop a single National Registry of beneficiaries that includes all the beneficiaries from the multiple programs that currently exist. The Program supports this through the enrollment process, which requires household members to possess a national identification card or birth certificate in order to receive the Program benefit. In case beneficiaries do not have this, the National Registry will increase outreach through the use of mobile registry units to ensure that undocumented beneficiaries are able to obtain an identification card/number. The Program will adopt feasible best practices for transparent and accountable Program operations, including, but not limited to: a social audit, a beneficiary satisfaction survey, a concurrent audit of the transfers, a public website that would be updated frequently with Program information, an impact evaluation and a grievances and complaints mechanism. In addition, the Program aims to create institutional mechanisms and processes for coordinating the delivery of basic social services to the poor.

#### *Current Status of Program Definition and Design*

27. **To date, the *Bono 10,000* Program has been implemented as a pilot in a few of the poorest villages in Honduras, and the Government has sought the support of the World Bank and the IDB to help finalize the design and support implementation of the Program.** Between March and May 2010, the Government has distributed transfers to just over 7,000

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<sup>16</sup> Community Committees exist in each community and are made up of parents, teachers, municipal leaders, priests, farmer's cooperatives and other local leaders. They have an active role in matters involving the community affairs.

families in some of the poorest, smallest and more isolated villages of Honduras, conditional on the children in the families being enrolled in primary education (grades 1 through 6). These families are already in the Beneficiary Registration System (*Sistema de Información y Registro de Beneficiarios en Honduras*–SIRBHO) and have been re-certified. Various elements of the Program have been defined in discussion with the World Bank and IDB and as part of project preparation. The Program builds on existing capacity within the PRAF agency to implement conditional cash transfers. However, additional details of many implementation mechanisms and processes will be supported by both this IDA financed and IDB financed Projects. These include mechanisms for accurate targeting of the poorest households, timely verification of compliance with co-responsibilities, regular payments of transfers and for producing relevant data and information needed for decision making and accountability purposes. Table 1 below illustrates what has been delineated within the Program and what remains to be defined during implementation.

**Table 1. Current Status of Program *Bono 10,000***

<b>Program Activities</b>	<b>Defined</b>	<b>To be supported during implementation</b>
Targeting /Enrollment	<ul style="list-style-type: none"> <li>• First phase of Program will use geographical targeting and the SIRBHO to enroll beneficiaries.</li> <li>• Only villages that have access to both primary schools and basic preventive health services will be included in the Program. The National Coordinator will lead the Technical Committee to support close coordination of supply with Program goals.</li> <li>• <i>Comités Escolares Comunitarios</i> would be part of process to validate eligible beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Targeting model for communities/municipalities that are not extremely poor but have a high concentration of poor families</li> <li>• Update Poverty Map provided a new Population Census is carried out</li> <li>• Carry out massive Program census for determining eligibility and recertification</li> </ul>
Transfer: amount and structure	<ul style="list-style-type: none"> <li>• Structure: the transfer is defined by two types of transfers: an education transfer and a health transfer. Beneficiary families must comply with all applicable co-responsibilities to receive the transfer.</li> <li>• Amount: Depending on the beneficiary household’s co-responsibilities, the amount of the transfer is either about US\$44 per month, per family (equivalent of 10,000 Lps. per year) or a portion of the monthly transfer, which the GoH has tentatively defined as about US\$22 per month, per family (equivalent 5,000 Lps./year).</li> </ul>	<ul style="list-style-type: none"> <li>• Process of payment suspension for not complying with co-responsibilities</li> <li>• Amount: With the goal of covering all families in extreme poverty, the GoH will re-evaluate and determine the transfer amounts, noting that these amounts will not go above 10,000 Lps. per year.</li> </ul>
Determine supply availability and Verification of Co-responsibilities	<ul style="list-style-type: none"> <li>• The health and education sectors have agreed to provide data on beneficiaries compliance with co-responsibilities at the local level and pass the information to the Program</li> </ul>	<ul style="list-style-type: none"> <li>• Complete mapping of supply</li> <li>• Develop an improved system for verification of compliance</li> </ul>
Management Information System	<ul style="list-style-type: none"> <li>• Use current PRAF Management Information System (MIS)</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced MIS to integrate SIRBHO with information on compliance and payments</li> </ul>

Payment of transfers	<ul style="list-style-type: none"> <li>In first phase, continue to BANADESA, the same local Bank as PRAF has used previously. A concurrent audit that checks on eligibility and receipt of benefits will accompany every payment cycle</li> </ul>	<ul style="list-style-type: none"> <li>Assess alternative payment mechanism</li> </ul>
Monitoring and evaluation of Program	<ul style="list-style-type: none"> <li>A quasi experimental case/control approach agreed. The phase in rollout plan allows for households that will enter the program at a later stage to serve as controls.</li> </ul>	<ul style="list-style-type: none"> <li>Develop a M&amp;E system</li> <li>Conduct impact and process evaluations, targeting assessments, social audits, satisfaction surveys</li> </ul>

**28. The fiscal sustainability of the Program will be a key element entering into decisions regarding its design and implementation, including the structure of benefits and coverage.**

The Government’s target is to cover 600,000 families over a four year period, incorporating each year about 150,000 families. Based on the structure of benefits and the estimated coverage, the total cost of the transfers for reaching this target would increase from US\$21 million in the first year to about US\$210 million in the fourth year or about 1.29 percent of GDP, when full coverage is achieved. The Government has prepared a financing plan for the Program to include both national and external financing from IDA, IDB, the Central American Bank of Economic Integration and other sources. The Government has so far secured financing from the IDB through restructuring of an existing project (US\$20 million) and preparation of a new project (additional US\$60 million) over two years with most of the resources allocated for cash transfers. This proposed Project would provide an additional US\$31.3 million for cash transfers over three years. Domestic financing will depend on the availability of resources and will likely be the limiting factor in expanding the Program. Possible sources are to come from rationalizing and consolidating some of the existing social assistance programs and from improving the targeting of some of the subsidies for transport and energy. The technical assistance, to be provided under the proposed Project, will support the Government in a Program design and expansion path that is fiscally sustainable.

**B. Rationale for Bank involvement**

**29. The proposed Project would contribute to achieving the GoH’s social goals set out in its National Plan 2010-2022 to reduce extreme poverty, augment human capital accumulation and improve its social protection system.**

The proposed Project would provide financial and technical support to overcome demand-side barriers to social services, and enhance institutional capacity for the administration and operation of the Government’s Program, *Bono 10,000*.

**30. The proposed Project has important synergies with ongoing IDA financed operations.**

Since 2002, the World Bank has supported the Government of Honduras’ effort to address health and education supply gaps through the Health System Reform Project (HSRP) and the Education Quality, Governance, and Institutional Strengthening Project. The HSRP focuses on improving the quality of health care services, while the education project focuses on scaling up interventions that address the needs of the poor and on strengthening community participation in school management for better performance. In addition, a Nutrition and Social Protection Project, which began implementation in 2006, is supporting the expansion of the community-based nutrition services Community-based Child Care Program (*Atención Integral a la Niñez – Comunitaria, AIN-C*). All of these supply-side interventions are critical to ensure availability of

services as many are located in communities where new or additional demand will be generated under the proposed Project.

31. **The proposed Project has identified key opportunities for coordination with other donors for the design and implementation of the new CCT Program.** The Association has worked closely with counterparts from the IDB during the technical discussions and design of the new Program to ensure that both institutions support common systems and processes. The activities under the proposed Project will complement the activities contemplated under the approved IDB operation. In addition, the Association will coordinate with the IDB to ensure consistency with its second operation anticipated for the end of 2010.

32. **The proposed Project would focus on areas in which the World Bank has expertise.** The Bank has provided technical assistance and supported other countries in the region in the design and implementation of conditional cash transfer programs. Some of these programs include Mexico's *Oportunidades*, Brazil's *Bolsa Familia*, Colombia's *Familias en Acción*, and Chile's *Chile Solidario*, all of which have assigned co-responsibilities to the family or individual in exchange for a cash transfer. Lessons learned on implementation, evaluation, and sustainability of these programs have been applied to the design of the GoH's new CCT Program.

33. **The proposed Project puts to use the findings of previous and ongoing Bank studies, enabling a coordinated approach to sectoral policy dialogue with the GoH, structured support to operations and a common approach to work with other Bank partners.** Some of the most recent studies include country-specific analytical work such as the Institutional Governance Review (IGR), the Public Expenditure Tracking Survey (PETS), the Public Expenditure Review (PER), and the IDB review of options for the organizational reform of the PRAF agency. The Project will also draw on key results from the ongoing local analytical work that aims to analyze the performance of existing social protection programs and projects in Honduras to understand its strengths and weaknesses and to review the performance of existing targeting mechanism with the aim of informing new policies for improved targeting.

### **C. Higher level objectives to which the Project contributes**

34. **The Project directly contributes to the Government's higher level objective of developing human capital for families in extreme poverty.** To achieve a reduction of income inequality and extreme poverty the Government is proposing efforts to increase coverage and better quality of basic health, nutrition and education services, and in building an improved social protection system. The proposed project would support the implementation of the new CCT, *Bono 10,000*, which would aim to smooth household consumption while building human capital accumulation through verifying health and education co-responsibilities for beneficiary households. The Project would also contribute to improving overall governance in Honduras through strengthening the Government's capacity to carry out social monitoring activities and to report Project performance. Moreover, the Project will contribute towards building a comprehensive social protection system.

35. **The proposed Project, while not envisaged in the World Bank Group's Country Assistance Strategy (CAS) (Report No. 37280-HN) discussed by the Board on November 7, 2006, is fully consistent with its objectives.** This operation is aligned with the CAS pillar to develop human capital. Specifically, the proposed Social Protection Project directly supports the CAS outcomes under this objective which include: improved efficiency and quality in basic and

technical-vocational for education; increased quality and coverage of basic health care services; improved impact of social assistance to vulnerable populations; and strengthened capacity of the ethnic and Afro-Honduran population of Honduras. By addressing demand-side constraints, the proposed Project will complement other ongoing IDA financed education and nutrition operations that are more supply-side oriented. This Project is being proposed as it fits well within the CAS strategic framework and the current administration has made it a top priority in order to help address persistent poverty and inequality. In the context of the post global financial crisis, this operation has also been chosen to use Honduras' allocation under the CRW to mitigate the impact of the crisis on the most vulnerable households.

36. **The proposed Project supports the objectives of the Association's Crisis Response Window (CRW) approved by IDA's Board of Directors in December 2009.** The main objective of the CRW is to assist eligible countries in developing, implementing and monitoring programs to manage the poverty, social and economic impact of the crisis. As mentioned earlier, the impact of the global economic crisis in Honduras has negatively affected household income. CRW resources will finance this project by an amount of US\$18.77 million out of a total of US\$40 million. This project has been chosen to use Honduras' allocation under the CRW because the co-financing of conditional cash transfers will directly benefit the most vulnerable households and mitigate the impact of the crisis on them.

## **II. PROJECT DESCRIPTION**

### **A. Lending instrument**

37. The proposed Project will be financed through an IDA Credit in the amount of SDR 26.5 (equivalent to US\$40.0 million) including SDR 12.3 million (US\$18.5 million equivalent) in from the Crisis Response Window (CRW). The credit will be structured as a Specific Investment Loan (SIL).

### **B. Project development objective and key indicators**

38. The proposed Project would support the Government's objective of building an improved social protection system mainly by strengthening institutional capacity to design and implement a new Conditional Cash Transfer (CCT) program, the *Bono 10,000* Program. Within this context, the objectives of the Project are to: (a) strengthen the institutional capacity of the MoP and PRAF to administer and manage the *Bono 10,000* Program (the "Program"), through the development of transparent mechanisms and instruments for targeting Program beneficiaries, monitoring compliance with Program co-responsibilities, and making payments to Program beneficiaries; and (b) increase: (i) school attendance among students in grades 1 to 6; and (ii) the use of preventive health services among families participating in the Program.

39. The key performance indicators that will be used to track progress towards these objectives include:

- Targeting: Percentage of conditional cash transfers received by households in the poorest quintile (goal: 65 percent of households)
- Percentage of registered households of the Program whose co-responsibilities are verified and reported (goal: 80 percent of households)
- Percentage of students in grades 1 to 6 participating in the Program who comply with the co-responsibility of 80 percent school attendance (goal: 80 percent of students)

- Percent of children, aged 0-5 years participating in the Program with complete vaccination scheme (goal: 98 percent of children)

40. In addition, intermediate outcome indicators are detailed in Annex 3.

### C. Project components

41. **The proposed Honduras Social Protection Project would support the GoH with a US\$40.0 million credit to be implemented over four years.** The proposed Project would finance activities in two components, including: (i) institutional strengthening for improving management processes, monitoring, inter-sectoral coordination for the implementation and sustainability of the new *Bono 10,000* Program, and for the development of an integrated social protection strategy; and (ii) the co-financing of cash transfers under the Bono 10,000 Program.

42. **Component 1. Institutional strengthening of the Bono 10,000 Program (US\$8.7 million).** This component would strengthen the efficiency, effectiveness, and management of the CCT Program by building capacity in the MoP and PRAF and will contribute to the development of a social protection strategy. Under this component, three sets of activities would be financed: (i) strengthening the Ministry of the Presidency's institutional capacity for improving the design and operation of the Program; (ii) strengthening the operational and administrative capacity of PRAF for the implementation of the Program; and (iii) developing an integrated social protection strategy to design, implement, and monitor coherent social protection programs and policies.

43. *Subcomponent 1.1: Strengthening the Ministry of the Presidency's Institutional Capacity (US\$3.5 million).* This sub-component would strengthen the MoP's institutional capacity to improve the design and operation of the Program, through, *inter alia*: (a) the provision of technical assistance and training for building the institutional capacity of the Technical Coordination Unit; (b) the review of the current targeting mechanism for Program beneficiaries; (c) the development and implementation of a monitoring and evaluation system for the Program; (d) the carrying out of a Program beneficiary satisfaction survey; (e) the carrying out of a social audit for the Program; (f) the carrying out of an impact evaluation of the implementation of the Program; (g) the review and piloting of alternative payment mechanisms; and (h) the design and implementation of a communications campaign.

44. Under this subcomponent the Project would finance consultancy services, training, workshops, ICT equipment, non-consultant services and operational costs.

45. *Subcomponent 1.2: Strengthening operational and administrative capacity of the PRAF agency (US\$5.0 million).* This sub-component would strengthen the operational and administrative capacity of PRAF for the implementation of the Program, through, *inter alia*: (a) the carrying out data collection activities to identify Program beneficiaries; (b) the development of an updated management information system; (c) the development of an operational monitoring system; (d) the development and implementation of a web page providing information about the Program; (e) the creation of a unit to attend grievances and complaints; (f) the review and redesign of the institutional and organizational structure of PRAF; and (g) the development and implementation of a strategy to involve local community organizations in the operation and oversight of the Program. Given PRAF's operational experience with cash transfers in the past, the new Program will make use of many key systems for the administration of the new CCT that are already in place. However, with the scope and inter-sectoral

coordination and responsibilities of the new CCT Program, improvements in the functioning of PRAF are necessary.

46. This sub-component would finance consultancies, training, equipment, non-consultant services and operating expenses for the project coordination unit in PRAF.

47. *Subcomponent 1.3: Development of an integrated social protection strategy (US\$0.2 million).* This subcomponent aims to develop an integrated social protection strategy, through, *inter alia*: (a) the formulation of a strategy for streamlining the multiple social assistance programs and subsidies and for the development of a unique registry of beneficiaries; (b) the carrying out of diagnostic studies, including vulnerability and social safety net assessments and institutional assessments, all under terms of reference acceptable to the Association; (c) the carrying out of workshops to discuss the results of the diagnostic studies; and (d) formulation of a social protection strategy outlining recommended policy and institutional reform options.

48. ***Component 2. Co-financing Conditional Cash Transfers (grants) (US\$31.3million).*** This component would provide Education Grants and/or Health and Nutrition Grants (cash transfers) to eligible beneficiaries, that is families who comply with co-responsibilities set forth in the Project Operational Manual, which include: (a) children between 0 and 59 months attending preventive health controls; (b) pregnant and postpartum mothers completing their pre- and post-natal check-ups; and (c) children from 1<sup>st</sup> to 6<sup>th</sup> grade (primary level) being enrolled in school and attending classes.

49. As defined under the operational guidelines of the Program, payments would occur every three months. IDA Credit disbursements would finance payments made to beneficiary families who comply with Program co-responsibilities.

50. The process by which payments will be approved is as follows: (i) only those villages in the geographically targeted areas, where primary schools and health services are available, will be included; when a new village is covered by the Project, there will be a process of verification of the availability of services by the PRAF agency; (ii) beneficiaries are identified and enrolled according to the agreed targeting criteria; and (iii) payments to eligible beneficiaries will be made after verification of compliance with the co-responsibilities. A concurrent independent audit, to be carried out at each payment cycle, will check that benefit recipients are included in the Registry of Beneficiaries and that information on compliance with co-responsibilities was accurately recorded. This will be based on a representative sample of paid beneficiaries. This audit will also serve as an instrument to determine implementation bottlenecks, which will be corrected and/or further investigated through other instruments including spot checks and process evaluations to obtain more systematic information.

51. *Project Coverage.* The *Bono 10,000* Program aims to expand coverage of families as the PRAF agency verifies eligibility and enrolls beneficiaries, validates compliance with co-responsibilities, and arranges for payment transfers. Although the Program target is about 150,000 families each year, with a goal of reaching some 600,000 families living in extreme poverty over a four year period, actual coverage will depend on budget availability and the PRAF agency's operational capacity. In 2010, the Program is expected to enroll about 60,000 families. This component would finance a share of the cash transfers made to beneficiaries conditional on their compliance with co-responsibilities. During the first year of project implementation, the Project will aim to cover 50 percent of the Program's conditional cash

transfers; in the second year, it will aim to cover 40 percent of the Program's transfers; and in the third year, it will aim to cover 30 percent of the Program's transfers.

52. The Association has appraised the key Program aspects including the system registry, verification of co-responsibilities, payments of transfers, and audits, which are designed to ensure that the Program is targeting extremely poor families and has adequate controls to guarantee that cash transfers reach eligible families who comply with co-responsibilities. These features have been piloted for the *Bono 10,000* and are based on approaches that were employed under the IDB PRAF/PIPS Project. This proposed Project will support the development of institutional capacity that will enable these key aspects to function on a larger scale. As these capacities are ready and appraised any changes or modifications to key accountability aspects of targeting and payments to eligible beneficiaries that may be deemed necessary during implementation will be incorporated into the Project's Operations Manual. Continued Association financing of component 2 will be dependent on the Program's use of key accountability mechanisms elaborated in the Project's Operational Manual, which will be reviewed as part of the concurrent audit.

#### **D. Lessons learned and reflected in the project design**

53. **Strengthening human capital of poor children requires coordination between demand- and supply-side social interventions.** Previous operations in the Latin America and the Caribbean region have shown that for CCT programs to have the desired impact, it is important to strengthen the collaboration and align sector objectives between the program and sector ministries. Unless the supply and quality of such services is adequate to meet the increased demand, these programs alone will not succeed in improving the educational and health status of the targeted population. The Program's design in Honduras will ensure inter-sectoral coordination and collaboration through: (i) the National Coordinator of the Program, who is appointed by the President and facilitates the coordination of financing, provision of education and health services and verification of co-responsibilities, and the execution of the Program across sectors; and (ii) the *Bono 10,000* Technical Committee, under the leadership of the Program's National Coordinator, which includes the Ministries of the Presidency, Social Development, Health, Education, Finances, Technical Planning and External Cooperation, and the Family Planning Program (PRAF) and National Institute of the Woman (INAM).

54. **The previous experience with CCT implementation agencies in several countries in LAC demonstrates that strong institutional capacity is critical for effective implementation and sustainability.** Resources under the proposed Social Protection Project will aim to strengthen the institutional capacity of the Ministry of Presidency to improve inter-institutional coordination and oversight, and the operational capacity of PRAF to strengthen program implementation. The proposed Project will also support the integration of the existing information systems in the education and health system with the new MIS of PRAF to mainstream the verification of co-responsibilities.

55. **The size or amount of the benefit should be determined by the expected impact on reducing the poverty gap and providing an incentive for poor families to invest in human capital accumulation.** Though there is no definitive answer on the right amount of the benefit, impact evaluations of CCT programs in the LAC region have demonstrated that programs with larger benefits relative to household consumption had a bigger impact on reducing consumption deficits and improving health and education outcomes than programs with smaller benefits. The

general practice has been to set the size of the transfer high enough to be both a real incentive for households to invest in the human capital of their children and to have a poverty mitigation effect, while being low enough to avoid creating disincentives for labor market participation and income generation decisions. In Honduras, the benefit has been calculated to be about 25 percent of the median income of extremely poor households, a level that is comparable to other programs in the region such as Mexico's *Oportunidades*. Structuring and unbundling the aggregate benefit to better link it to the family's co-responsibilities can help in promoting human capital investments, and this is being considered as part of the Program design. At the same time, a structured benefit is unlikely to substantially reduce the average cash transfer to a family if it complies with both education and health co-responsibilities because most extremely poor families are quite homogenous in terms of demographic composition (89 percent of extremely poor families have children).

56. Finally, the Project also draws on other lessons from the experience of CCT programs in the region in that its design takes into account the importance of: (a) good targeting mechanisms to ensure that the transfer reaches its intended beneficiaries; (b) modern and efficient transfer payment mechanisms (the Project will support the Government in determining alternative payment transfer mechanisms to be used, and provide technical assistance and institutional capacity building for their design and implementation); (c) rigorous monitoring and evaluation to inform Program operations and design improvement; and (d) an accountability framework that relies on making information about the Program publicly available and on mechanisms for solving complaints and grievances.

#### **E. Alternatives considered and reasons for rejection**

57. **The proposed Project examined the possibility of including a component that supported supply-side interventions.** The inclusion of a component strengthening the provision of health care services was ruled out given that possible future investments in the health sector (financed by both IDA and IDB) will expand coverage of basic prevention and promotion of health care and nutrition services.

58. **The proposed Project also considered promoting the use of *mancomunidades* for the verification of co-responsibilities at the local level.** This was considered as an alternative to the NGOs used under the PRAF/PIPS model. Given the strong involvement of the health and education sectors from the beginning in Program design, the provision of services and of verification of compliance with co-responsibilities will be with the education and health Ministries.

59. **Finally, the Ministry of Social Development (*Secretaría de Desarrollo Social*–SDS) was considered as the implementing agency for the Project.** The SDS was created in October 2008 with the mandate for formulating, coordinating, implementing and evaluating public social policies and programs to reduce poverty in Honduras. However, given the conditions of the political crisis, the capacity of this Ministry could not be built; as a result, it would not have been to play the role of coordinating the Program and ensuring the delivery of social services. Given the high profile of the Program and the close coordination required with the other social sectors, the Government decided that the Ministry of the Presidency, through the UAP, would be responsible for the overall coordination and administration of the Program, while PRAF will execute the Program's conditional cash transfers. Nevertheless, as part of the institutional

capacity building under the proposed Project, the role of the SDS in the social protection system of Honduras will be defined.

### III. IMPLEMENTATION

#### A. Partnership arrangements

60. **The proposed Project foresees no formal co-financing agreements with other donors or organizations.** However, the IDA has established a strong collaboration with the IDB, who will also finance the GoH's Program *Bono 10.000*. The Association and the IDB will support and finance the Program's design which includes a common set of systems and procedures to ensure that there is no overlap or parallel projects. In this way, both financiers will support efficient Government administration of the Program and contribute to building sustainable institutional arrangements for the Program. The Association will continue to work closely with the IDB to promote supply- and demand-side synergies across the social sectors in Honduras.

#### B. Institutional and implementation arrangements

61. **The arrangements for the implementation of this Project conform to the institutional arrangements that the Government is establishing for carrying out the *Bono 10,000 Program*.**<sup>17</sup> The Ministry of the Presidency (MoP) has been given line-Ministry authority for implementation of the Program and is supported by PRAF, an independent Government agency, which will execute the Program's conditional cash transfers. A National Coordinator has been appointed by the President to coordinate and lead the Program under the direction of the Ministry of the Presidency.

62. **The Ministry of the Presidency recently established a Project Administration Department (*Unidad Administradora de Proyectos-UAP*), which has been set up to coordinate, administer and monitor the technical and financial elements of projects and programs for which the MoP is responsible.** The Ministry of Presidency, through the UAP, is setting up a Technical Coordination Unit for the Bono 10,000, which will be headed by the National Coordinator. The Technical Coordination Unit will be responsible for developing and implementing accountability mechanisms for the Program and for administering the institutional procedures and systems for inter-institutional coordination and monitoring and evaluating overall implementation. The UAP will coordinate and oversee the budgeting and management of Program funds, including the financing from this project.

63. The UAP was created in April 2010 through an Executive Decree to assume project and program administrative functions under the MoP and has absorbed staff from within the units of the former MoP project administration structure and so has substantial initial capacity. With the creation of the UAP, the MoP has defined the lines of reporting for the Program within the Ministry of the Presidency. Specifically, the Technical Coordination Unit, under the leadership of the National Coordinator, will be responsible for the management and technical oversight of the Program. In this capacity, the National Coordinator will work directly with the PRAF agency and the agencies represented under the Technical Committee for the implementation and execution of the Program.

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<sup>17</sup> The framework was set out in the Presidential Decree No. PCM-101-2010 that established the Program. A regulation that provides more details on the Program characteristics and responsibilities of participating agencies and ministries was prepared prior to negotiations and shared with the World Bank.

64. **Responsibility for the execution of project funds will be shared between the MoP and PRAF.** PRAF will sign a Subsidiary Agreement with MoP and MoF describing its responsibilities under the project. The MoP will execute subcomponents 1.1 and 1.3 of the project, while PRAF will carry out subcomponent 1.2 and component 2. Under component 2, PRAF will pay the conditional cash transfers to beneficiaries through a payment agency, pursuant to the provisions of a Financial Institution Agreement signed between PRAF and the relevant Financial Institution, and under terms and conditions that are acceptable to the Association. In the first phase of the project, a Financial Institution Agreement between BANADESA, a local state bank, and the PRAF agency was signed on May 19, 2010 for the management of the cash transfers and it was found to be satisfactory to the Association. BANADESA has been serving as the payment agent for other cash transfer programs administered by the PRAF agency and will continue in the role of payment agent. During implementation, alternative payment agents and mechanisms will be considered (see Annex 7).

### **C. Monitoring and evaluation of outcomes/results**

65. Project outcomes and results will be assessed using a monitoring and evaluation (M&E) system to track progress on the indicators specified in the results framework. The M&E system would be developed as part of the institutional strengthening component. The system will draw on multiple information sources and instruments: (i) the Management Information System (MIS) developed for the Program; (ii) Targeting and coverage assessments based on the annual *Encuesta de Hogares de Propósitos Múltiples* (EHMP); (iii) program impact evaluation; (iv) program process and implementation evaluations to be financed under the Project; (v) beneficiary satisfaction surveys; (vi) social audits; and (vii) the Project Management Reports prepared every quarter.

### **D. Sustainability**

66. Three sets of factors underlie the sustainability of the proposed Project: political ownership, institutional, and financial. The Government demonstrated its political support for the Program through the National Plan 2010-2022, which was approved by Congress in early 2010 and which has as its first long term overarching objective “a Honduras without extreme poverty, educated and healthy with consolidated provision of social services.” The conditional cash transfer Program has been identified as the key program to achieve this objective as reflected in the Presidential Decree (PCM-010-2010) that approves the establishment of *Bono 10,000*. This Decree will go to Congress to establish legal permanence of the Program.

67. From an institutional perspective, the Program will build on PRAF’s experience of almost twenty years with implementing cash transfers. At the same time the Government has recognized the importance of inter-sectoral coordination for the success of this type of program and has placed the Program under the Ministry of the Presidency and created an inter-ministerial Technical Committee led by the Program’s National Coordinator. The Project is supporting investments in building capacity in both the Ministry of Presidency and PRAF to improve coordination and administration of the Program.

68. The financial sustainability of the Program remains a critical challenge and is affected by the following factors: (i) the rate of expansion of the Program; (ii) the availability of external financing; (iii) the availability of domestic resources; and (iv) the potential savings from the consolidation of other social assistance programs. The World Bank is supporting the Government to mitigate risks emerging from all these dimensions.

69. With regard to the first factor, the rate of expansion, the Program will gradually scale up in areas where education and health services are available, and expansion should be limited by the expected availability of financing. As for the availability of external resources, in addition to IDA financing, the Government has secured external financing for the Program for 2010 and 2011 from the IDB in the amount of US\$80 million and has approached the Central American Bank of Economic Integration for additional US\$150 million funding for 2011 to 2013. The authorities are also considering actions including increasing government revenues and reductions in public spending, particularly on the wage bill. Finally, the Project will support the formulation of a strategy and action plan for streamlining the multiple social assistance programs and subsidies which will contribute to the fiscal sustainability of the program.

#### E. Critical risks and possible controversial aspects

70. All possible risks were identified during Project preparation and mitigation measures have been identified to manage their potential impacts.

71. **The Project faces several critical risks, some of which are common to a CCT program in its initial phase, and some which are related to the country context.** Within the context of the Program, the Ministry of the Presidency is under great pressure to expand the coverage of the *Bono 10,000 Program*. The main challenges in doing this are the following: (i) the certification and consolidation of the Registry, including a revision of the targeting mechanism; (ii) the full development of the Management Information System; (iii) the definition of information flows and processes for monitoring compliance with co-responsibilities; and (iv) the existence of supply-side gaps. The Honduran country context also poses some risks including weak internal controls and capacity for implementation and fiscal constraints for funding programs in the short and medium term.

72. **The start-up status of the institutional arrangements is an additional critical risk for project implementation.** PRAF, as an agency directly under the President, has a strong track record in execution of cash transfers, including small-scale conditional transfers. The implementation arrangements for this program envision that PRAF will continue in this role, but under the direction of the Ministry of the Presidency and more specifically under institutional arrangements that are still under construction for which the reporting lines are still being defined. The main risks the Project faces and the proposed mitigation measures are described in the following table. It should be noted that the risks associated with CCT programs within LAC have tended to decrease over time as the programs become established on a national level. This project is designed to support the systems and institutions that will help to reduce risks.

Risks	Risk Level	Mitigation Measures	Risk Level after Mitigation
<b>I. Project Stakeholder Risk</b>			
<b>Resistance to new Program:</b> Stakeholders who have supported prior CCT programs are likely to resist the Bono 10,000 Program. Additionally, given that the new Program will consolidate other <i>bonos</i> , other resistance could occur from those responsible for the administration and implementation of the transfers.	S	<b>Develop Program with stakeholders' participation:</b> During implementation, the Project will finance the design and implementation of a communication strategy to reach out to key stakeholders. In addition, the Project will support activities to inform policies to rationalize social assistance programs and build consensus.	S
<b>II. Operating Environment</b>			
<b>Politics and Governance; weak internal management controls:</b> Honduran institutions are influenced by populism and politics. This reduces	H	<b>Transparency and Support for Civil Society Feedback:</b> The proposed Project design includes oversight arrangements focusing on results,	H

<p>the transparency of policy decisions and accountability for their implementation.</p> <p><b>Weak Inter-institutional Coordination:</b> CCT programs require strong political commitment and technical inter-institutional cooperation between ministries of education, health, (for the supply of services) and program management. In Honduras, inter-institutional cooperation is weak and it will take time to build up.</p>		<p>beneficiary assessments and social audits, together with communications activities that allow beneficiaries and stakeholders to access information.</p> <p><b>Inter-Institutional Strengthening.</b> The Program has strong support from the current Administration. The current Administration has given the MoP the authority to ensure greater inter-sectoral coordination for the implementation of the Program. Policy and implementation decisions related to the Program will be guided by a multi-sectoral Technical Committee headed by the National Coordinator for the <i>Bono 10.000</i> Program. Furthermore, the Project supports activities to help the MoP build a technical coordination unit.</p>	
<b>III. Implementing Agency Risks (including FM and PR Risks)</b>			
<p><b>Emerging institutional arrangements mean reporting lines lack clarity and capacity constraints:</b> The National Coordinator has been appointed, but technical staff has yet to be hired. The MoP Project Administration Department (UAP) was created in April 2010 and absorbed some staff with project administration experience, but has no staff with technical experience related to the Program. PRAF has technical expertise, but limited staff. These institutional weaknesses may delay implementation and scaling up of the Program.</p> <p><b>Financial Management:</b> weak internal controls, audit delays; risk of duplicate payments, phantom beneficiaries, and ineligible beneficiaries.</p>	H	<p><b>Define responsibilities and build capacity.</b> The Project will include activities to build institutional and technical capacity both in the MoP and the PRAF Agency. The outcomes of these activities will support not only the execution of the Project, but also the implementation of the Program as a whole. The Project will provide technical assistance including exchanges with Mexico and other countries with successful CCT programs to build capacity for scaling-up the Program.</p> <p><b>Strengthen Financial Management Controls.</b> The Project supports TA activities to strengthen registry of beneficiaries &amp; MIS; FM continuous training of staff; Help Government develop ToR for audit to go beyond just assessing adherence to financial regulations to also carry out an operational concurrent audit. This project will use the country FM reporting system already certified by the World Bank and the IDB, which will allow for better FM analysis. Furthermore, it will support training for technical staff on financial management and procurement to ensure they are well versed in the World Bank's requirements.</p> <p><b>Operational Concurrent Audit.</b> The practices of Program beneficiary enrollment, verification of co-responsibilities, and payment of cash transfers will be audited by an external audit firm under ToR acceptable to the World Bank.</p>	H
<b>IV. Project Risks</b>			
<p><b>Transparency, consolidation and controls on Registry of Beneficiaries and Compliance with Co-responsibilities:</b> Given that this is a new program, and there is a desire to have a quick and large impact, there is a risk that the Registry of Beneficiaries or Payment lists may be tampered with or does not adequately represent the target population.</p> <p><b>Inadequate Supply of health/nutrition services:</b> The most marginal and poor areas face notable gaps in the supply of health services and, to a lesser extent, education services. Such gaps could make it impossible for targeted households to fulfill their co-responsibilities. The gaps need to be identified,</p>	H	<p><b>Strengthen accountability for registration process.</b> During Project preparation, a consultancy was carried out to identify areas for improving the targeting mechanisms to identify beneficiaries. The Project will support activities that will use these findings to improve targeting and the Registry of Beneficiaries.</p> <p><b>Program (and project) expansion will follow the availability of supply.</b> The Program has been designed to gradually reach the target population and will only register beneficiaries where the supply of health and education services is confirmed. The Program design focuses on preventive health services which are easier to make available in</p>	H

<p>budgeted and resourced.</p> <p><b>Sustaining payment of transfer after Project closing.</b> The Government is fiscally constrained as such, it would either need to borrow funds to sustain the program, rationalize existing programs (cost savings), or increase taxes.</p> <p><b>Safeguards Risk- Exclusion of Indigenous Peoples from services:</b> Public institutions have not always been responsive in including indigenous groups in project design and implementation. Indigenous communities suffer from high levels of poverty, exclusion from decision making and pressures on their cultural and economic patrimony.</p>		<p>remote areas. The Program relies on the Education and Health Ministries to identify gaps in targeted areas, budget for needed supply increases and identify or move resources around so that gaps can be filled.</p> <p><b>Fiscal sustainability to finance Program.</b> The World Bank will maintain a dialogue with the Government on the need to pace the Program to the expected availability of fiscal resources. The World Bank is also working with the authorities and other multilaterals (including the IMF and the IDB) to find additional fiscal space that could be directed to finance the program without endangering fiscal sustainability. Finally, the Project includes activities for the formulation of a strategy and action plan for streamlining the multiple social assistance programs and subsidies which will contribute to fiscal sustainability of the Program.</p> <p><b>Indigenous Peoples Plan and consultations:</b> The proposed Project includes activities that support the Government for the articulation of the IPP in close coordination and agreement with Indigenous Peoples organizations.</p>	
<b>OVERALL PROJECT RISK</b>			<b>H</b>

H=high; S=Substantial; M=Moderate; L=Low

## F. Credit conditions and covenants

73. Prior to effectiveness, the Project requires that a Subsidiary Agreement has been duly authorized or ratified by the Recipient and PRAF and is legally binding upon the Recipient and PRAF in accordance with its terms.

74. **Covenants applicable to project implementation as presented in the Financing Agreement include:**

- **Subsidiary Agreement:** For purposes of carrying out Parts A.2 and B of the Project, the Recipient shall enter into a Subsidiary Agreement with PRAF, containing, among others, the following provisions:
  - (a) the obligation of the Recipient: (i) through SEFIN, to promptly disburse to PRAF part of the proceeds of the Financing to finance the carrying out of Parts A.2 and B of the Project with due diligence and efficiency, and in accordance with the pertinent provisions of this Agreement; and (ii) through MoH and MoE, to provide the health and education services necessary for Eligible Beneficiaries to comply with their respective Grant Co-responsibilities; and
  - (b) the obligation of PRAF: (i) to make available, on a grant basis, the proceeds of the Financing allocated to Category (1) to the corresponding Eligible Beneficiary, according to the terms and procedures set forth in the Project Operational Manual, which terms shall include compliance with the pertinent Grant Co-responsibilities, and pursuant to the pertinent provisions of the Financial Institution Agreement; (ii) to monitor and verify compliance of Eligible Beneficiaries with their Grant Co-

responsibilities; and (iii) to comply with the provisions of the pertinent Financial Institution Agreement.

- **Financial Institution Agreement:** Without limitation to the provisions of Section 4.10 of the General Conditions, and in case PRAF has decided (in consultation with the Association) to replace the existing Financial Institution (in accordance with the terms of the pertinent Financial Institution Agreement) with one or more new Financial Institutions, or to select and contract one or more additional Financial Institutions for purposes of assisting PRAF to carry out Part B of the Project, the Recipient shall cause PRAF to:
  - (a) not later than one hundred and twenty days: (i) prior to the replacement of the existing Financial Institution; or (ii) after the decision to select and contract one or more additional Financial Institutions has been made, select one or more new or additional Financial Institutions (each of which with qualifications and experience acceptable to the Association), as the case may be; and
  - (b) (i) in case PRAF has decided to replace the existing Financial Institution with one or more new Financial Institutions and immediately after the termination of the existing Financial Institution Agreement, enter into a separate new Financial Institution Agreement with each of the selected Financial Institutions, as applicable, all under terms and conditions acceptable to the Association, which terms and conditions shall be identical to those set forth in paragraph C (e) of Schedule 4 to this Agreement; and (ii) in case PRAF has opted for the selection of one or more additional Financial Institutions, immediately after said selection has taken place, enter into a separate new additional Financial Institution Agreement with each of said selected Financial Institutions, as applicable, all under terms and conditions acceptable to the Association, which terms and conditions shall be identical to those set forth in paragraph C (e) of Schedule 4 to this Agreement.
- **Safeguards:** The Recipient shall carry out the Project, and cause the Project to be carried out in accordance with the IPP.
- **Concurrent Audits:** Pursuant to terms of reference previously agreed with the Association, including *inter alia*, the scope of the audits to be conducted and furnished to the Association, and as further specified in the Project Operational Manual, the Recipient shall: (a) not later than one month after the Effective Date, hire independent auditors, with experience and qualifications acceptable to the Association, and under terms of reference acceptable to the Association, for purposes of carrying out concurrent audits of the Program, each of which shall audit: (i) to be carried out for each Program payment cycle; (ii) that Program beneficiaries receiving payments are registered in the Program beneficiary's registry; and (iii) that information related to compliance with Program co-responsibilities is accurately recorded; (b) not later than 90 days after the end of the period covered by each such audit, prepare and furnish to the Association, a report of such scope and in such detail as the Association shall reasonably request concerning the result of the pertinent audit.

#### **IV. APPRAISAL SUMMARY**

##### **A. Economic and financial analyses**

75. An economic analysis conducted as part of project preparation suggests that the *Bono 10,000* Program has the potential for significant positive impact on the poorest segments of the

Honduran population. Ex-ante simulation results presented in Annex 9 suggest that the Program is associated over the short term with a likely 10 percent reduction in extreme poverty headcount and a reduction of Gini coefficient of inequality from 52 to 50. However, the largest impact is on helping extremely poor households in reducing their income deficit, with the cash transfer program showing the potential to reduce the national poverty gap by 22 percent. These are upper bound estimates provided that Program targets are achieved. In the absence of the Program, to attain a 10 percent reduction in the extreme poverty rate the economy would have to grow 20 percent between 2010 and 2013, which is well beyond the growth forecast for this period.

76. The Program will also contribute to reducing future poverty through investments in human capital. The largest expected benefits from the Program are those associated with gains in education over the long term. Under the hypothesis that the observed short-run effects of the program are stable over time and that the actual structure of returns to education persist over time, the labor income of the *Bono 10,000* Program participants is estimated to be 19 percent higher than those who will not participate.

77. While the above mentioned outcomes are the results of an ex-ante simulation, an impact evaluation of previous PRAF *bono* suggests that the Program was successful in improving some human development indicators, while areas for improvement remain. The results show that the PRAF Program was effective in increasing enrollment rates by 15 percentage points in the first grade among the targeted population, reducing dropout rates for grades one to four by 2-3 percentage points, increasing school attendance (conditional on enrollment) by about 0.8 days per month, and increasing annual promotion rates by 2-4 percentage points. In health, there was an increase in immunization coverage; however, there was no effect on nutrition.<sup>18</sup>

78. International evidence also shows that CCTs can improve consumption and enhance human capital investments in low income countries. In Nicaragua, the program “*Red de Protección Social*” had positive and significant average effects on a broad range of indicators and outcomes (IFPRI, 2004). The pilot phase of this Program increased total household expenditures by 18 percent. Most of the increase in expenditures was spent on food. Expenditures on education also increased significantly. In El Salvador, the CCT *Red Solidaria* was also found to have a positive impact on key education outcomes (enrollment and repetition rates).<sup>19</sup> Finally, in Malawi, the CCT program not only served as a useful tool for improving school attendance, but also reduced sexual activity, teenage pregnancy, and early marriage.<sup>20</sup>

## **B. Technical**

79. For effective Program implementation, the proposed Project draws on international experience of CCTs and supports activities that are critical including: (i) an accurate system for identifying and selecting the target population; (ii) an enhanced MIS to support key operations; (iii) verification of co-responsibilities using information provided directly by the education and health providers; and (iv) an integrated system for monitoring and evaluating program activities, processes and outcomes, and for making evaluation results publicly available.<sup>21</sup>

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<sup>18</sup> Glewwe, P. and P. Olinto. 2004. Evaluating of the Impact of Conditional Cash Transfers on Schooling: An Experimental Analysis of Honduras’ PRAF Program. Final Report for USAID. Washington, DC: USAID.

<sup>19</sup> IFPRI and Fundacion Salvadoreña para el Desarrollo Economico y Social (2009).

<sup>20</sup> Baird et al (2009, 2010). Impact Evaluation.

<sup>21</sup> World Bank (2009) “Conditional Cash Transfers Reducing Present and Future Poverty.”

80. Experience in Mexico, Brazil, Colombia, and Jamaica suggests that strong institutional capacity is critical for implementation and sustainability. The project will support building of capacity within the MoP for overall policy direction, planning, budgeting, evaluating and reporting about the Program and within PRAF to carry out key operations including selection of beneficiaries, verification of compliance with co-responsibilities and payment of transfers.

### C. Fiduciary

81. **Financial Management.** A financial management capacity assessment for Project Administration Department (*Unidad Administrativa de Proyectos–UAP*) in the MoP and the Project Execution Unit (*Unidad de Ejecución de Proyectos–UEP*) in the PRAF agency was carried out in accordance with OP/BP 10.02 and applicable guidelines. The assessments reached the following conclusions (Annex 7 provides more details):

- (i) The UAP, in the MoP, has prior experience with managing fiduciary aspects of externally funded projects through Presidential Commission for the Modernization of the State (*Comisión Presidencial Modernización de Estado–CPME*) and National Technical Assistance Unit (*Unidad Nacional de Asistencia Técnica–UNAT*) that under the new Administration, were merged to become the UAP and has in place a basic administrative structure and systems (FM and internal control system), which puts it in a good position to manage the fiduciary aspects of the project.
- (ii) The UEP, in the PRAF agency, has prior experience with managing fiduciary aspects of externally funded projects (IDB 10035; 2096; 8366; and 1026), including specific experience with managing conditional cash transfer programs and has also in place a basic administrative structure and systems (FM and internal control system) which puts it in a good position to manage the fiduciary aspects of the project.
- (iii) The FM capacity assessment (FMA) has identified project-specific actions in order to enable the UAP and UEP to monitor the financial activities of the project and carry out the financial activities of the proposed project effectively and to mitigate the identified fiduciary risks.
- (iv) The Project will use country systems (SIAFI and UEPEX) for accounting and reporting purposes, as these systems would provide adequate information for monitoring specific project expenditures. No additional system is expected to be needed for FM purposes. In addition to the use of country systems (SIAFI), the proposed project will also use the single treasury account to make project payments. The UEPEX module will allow the accounting system to interact with the finance and budget system, so the system's coding of hierarchical accounts reflects the balances or initial amounts in cash, total in banks, fund transfers, investment categories, expense categories, and the origin of the funds. Using the UEPEX module, the required reports can be generated for closing program accounts periodically, to be reviewed and approved by each administrative unit. MoP will consolidate and submit reports in the formats required by the Bank and will ensure their quality, comprehensiveness, reliability, and timely submission.

82. **Procurement.** Procurement activities will be carried out by the MoP and the PRAF Agency, through the UEP. The institutions will be responsible for following standard Association procedures for all Project procurement. A procurement assessment was undertaken and overall the procurement risk is considered high. The factors supporting this assessment are based on: high staff turnover in project fiduciary staff and weak planning capacity, which leads

to overuse of direct contracting; late preparation of procurement plans; and frequent changes. An 18-month Procurement Plan and all procurement procedures are included in the Project Operational Manual. Annex 8 provides more details on procurement arrangements.

#### **D. Social**

83. Given the Program's target population, its objectives and its multi-sectoral approach, the inter-institutional coordination and synergies among the Ministries of Health, Education, the Presidency and PRAF agency will increase the social capital of the social protection interventions in Honduras. Likewise, social pressure from a higher demand for education and health services in rural and urban areas is likely to contribute to an increase in the supply for opportunities for education, primary health care, nutrition, and economic growth of targeted families. The proposed Project supports gender equity where the recipient of the cash transfer is preferably the mother.

84. The social participation strategy is being designed to ensure community ownership of the Program, where families do not merely receive assistance, but they are responsible for complying with education and health co-responsibilities. Social control mechanisms have been built into the program, from local inception in the communities to the exit strategies, ensuring good governance and transparency in program resource management. The communications campaign will ensure consultations are carried out prior to entering new communities to ensure a culturally-adequate delivery of the CCT. Other social benefits included in the project are the mass issuance of birth certificates and identification cards, better control of teacher attendance in schools and an increased presence of health staff in health units during working hours. Grievance redress mechanisms are also included in the Program, online and via local authorities.

85. Free, prior and informed stakeholder consultations were carried out by a local consultant with support of an inter-institutional team consisting of operational staff of the Secretariats of Health, Education, Presidency, PRAF and Social Development, in 10 communities in the departments of Intibucá and Choluteca. As part of the communications strategy, further consultations will be carried out in the rest of the country where the Program will expand. Among other things, these additional consultations seek to obtain broad community support for the project. The results of the consultations are discussed in inter-institutional workshops with stakeholders including the *Bono 10,000* Technical Committee. Modifications agreed on by stakeholders, if applicable, will be reflected in the Program guidelines.

#### **E. Environmental**

86. The project is classified as a category C and does not trigger environmental safeguards.

#### **F. Safeguard Policies**

87. Given the presence of Indigenous peoples in the project area, the project triggers the OP/BP4.10. To this effect, an Indigenous and Afro-Honduran Peoples Plan (IPP) was prepared by the Recipient to seek broad community support for the Project, and to ensure the services rendered by the Project fully respect the dignity, human rights, and culture of indigenous and Afro-Honduran peoples. In-country consultations were held between April 12 and May 5, 2010 and the IPP was publically disclosed in Honduras (in Spanish) on May 10, 2010. The Bank disclosed the IPP (in English) in the Infoshop on May 14, 2010. The proposed Project will capitalize on the lessons learned from cash transfers under PRAF, in four Western departments of Honduras. The latter have a strong Mayan and Chorti tradition.

88. An Indigenous and Afro-Honduran Peoples Plan (IPP) was agreed with the National Education Program for the Autochthonous Communities of Honduras (*Programa Nacional de Educación de los Pueblos Autóctonos de Honduras–PRONEEAAH*) at the Secretariat of Education, and the National Health Care Attention Program for the Ethnic Communities in Honduras (*Programa Nacional de Atención a la Salud de las Etnias de Honduras–PRONAE*), at the Secretariat of Health. See Annex 10 and the Project Operational Manual for a complete description of the IPP.

<b>Safeguard Policies Triggered by the Project</b>	Yes	No
<a href="#">Environmental Assessment (OP/BP 4.01)</a>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Natural Habitats ( <a href="#">OP/BP 4.04</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management ( <a href="#">OP 4.09</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Physical Cultural Resources ( <a href="#">OP/BP 4.11</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement ( <a href="#">OP/BP 4.12</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples ( <a href="#">OP/BP 4.10</a> )	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Forests ( <a href="#">OP/BP 4.36</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams ( <a href="#">OP/BP 4.37</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas ( <a href="#">OP/BP 7.60</a> )*	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways ( <a href="#">OP/BP 7.50</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>

## G. Policy Exceptions and Readiness

89. No policy exceptions are envisioned.

90. **The GoH's readiness to implement the proposed Project is well advanced.** The Government has prepared a satisfactory Project Operational Manual. The Project Operational Manual includes procedures for procurement and financial management and the systems are in place. The MoP has established a Technical Coordination Unit, headed by a National Coordinator. Terms of reference for the key staff including the M&E coordinator and communications strategist have been prepared and MoP plans to contract staff by the end of August 2010. A procurement plan for the first 18 months was presented to the Bank on May 18, 2010 and was found to be acceptable by the Bank. Bidding documents for the procurement activities in the first year will be prepared during the first phase of Project implementation. Results assessment arrangements have been established and M&E obligations are spelled out in the Project Operational Manual. A plan to prepare the design and collection of baseline data for the impact evaluation is in the process of being elaborated in collaboration with the IDB.

\* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

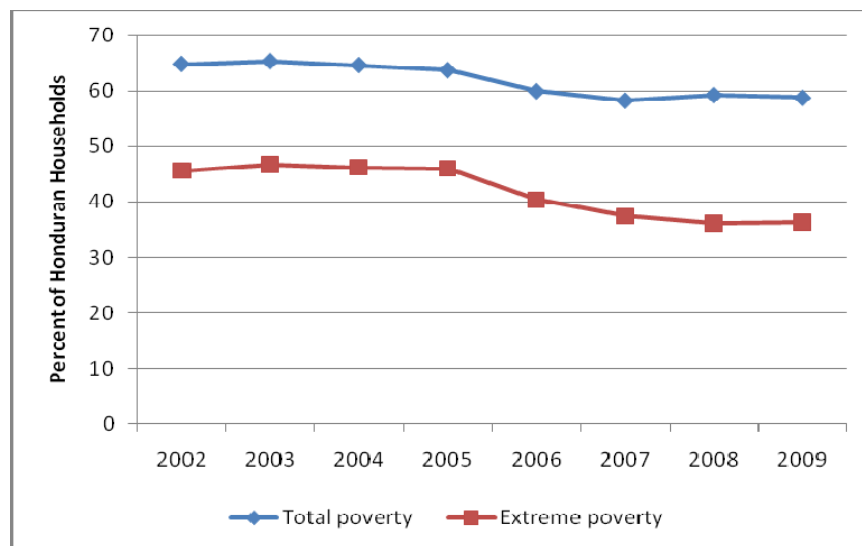
## Annex 1: Country and Sector or Program Background

### HONDURAS: Social Protection

#### *Country Political and Economic Context*

1. **Despite notable progress in poverty reduction over the past decade, Honduras still faces high levels of poverty and a difficult economic situation.** Both total poverty and extreme poverty remained stable between 2002 and 2005 at about 65 percent and 45 percent respectively and declined to 58.7 percent and 36.4 percent, respectively, in 2009 (see Figure 1). An annual economic growth rate of 6.3 percent between 2004 and 2007 contributed to a significant reduction in extreme poverty. Nonetheless, with an estimated Gross National Income (GNI) per capita of US\$3,870 in 2007 (in constant 2005 purchasing power parity US dollars), Honduras remains one of the poorest countries in the region.<sup>22</sup> The recent global economic crisis and domestic political crisis led to a contraction in GDP of 2 percent in 2009. The latest estimates of poverty show that poverty reduction has stalled in 2008 and 2009 remaining at the same level as in 2007.

**Figure 1. Overall and Extreme Poverty in Honduran Households by Year**



*Sources:* World Bank (2008). Honduras: Informe sobre revisión de la medición de la Pobreza en Honduras. Own calculations using the Encuesta de Hogares de Propósitos Múltiples (EHPM) 2009. Note: all data are from May of each year.

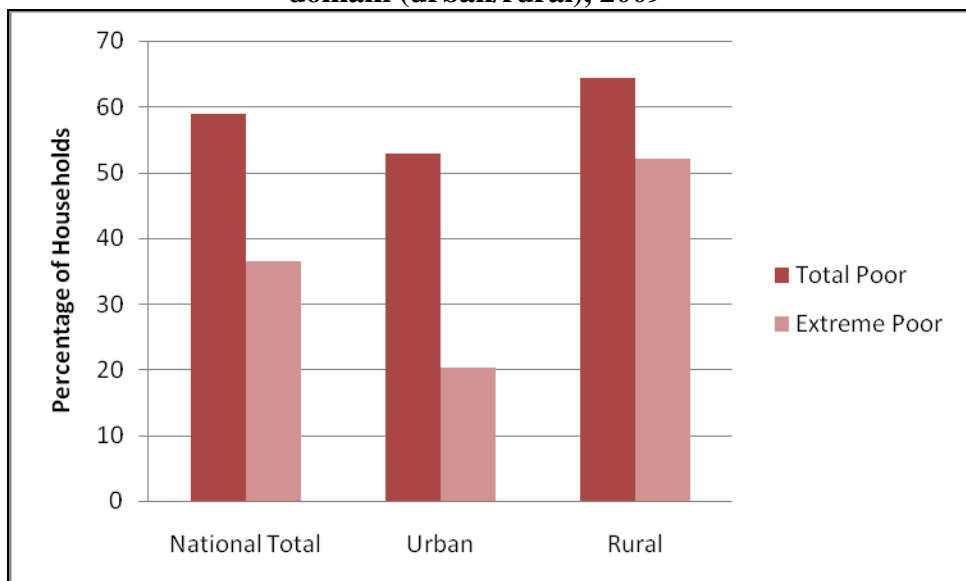
2. **While there have been some gains in poverty reduction, these have not been evenly distributed.** Currently, extreme poverty remains highly concentrated in rural areas and among indigenous populations. Of households living in rural areas, 52 percent of them are living in extreme poverty, while, in urban areas, extreme poverty is just below 21 percent (Figure 2).<sup>23</sup> The incidence of extreme poverty is also high among indigenous populations,

<sup>22</sup> World Bank. 2009. World Development Indicators Report. Note: Only Haiti and Nicaragua reported lower per capita GDP.

<sup>23</sup> Encuesta de Hogares de Propósitos Múltiples (EHPM) 2009.

with more than a third of the Lenca (the largest indigenous population) living in extreme poverty.<sup>24</sup>

**Figure 2. Percentage of households living in poverty by geographic domain (urban/rural), 2009**



Source: INE (Instituto Nacional de Estadísticas Hondureño). 2009. Encuesta de Hogares de Propósitos Múltiples (EHPM).

3. **Inequality in access to basic education and health services also remains severe.** Families living in extreme poverty face liquidity and credit constraints, thus limiting their investment in their children’s health and education. These inequalities start early in life: in 2006, the incidence of chronic malnutrition among children (aged 5 years or less) was 43 percent among the poorest quintile, compared to 5 percent among the richest quintile.<sup>25</sup> In 2009, school enrollment among children aged 12-14 years-old was 65 percent in the poorest quintile, compared to 92 percent in the richest quintile.

4. **Honduras is at a critical point in its development after a recent political standoff and Government transition.** Political turmoil and broad international condemnation following the removal from power of President Manuel Zelaya on June 28, 2009, led the Bank and many other donors including the IDB to “pause” their programs with Honduras. In November 2009, national elections took place and the National Party candidate, Porfirio Lobo Sosa, won the presidential elections. International observers (including the National Democratic Institute and the EU) concluded that the elections were free and fair, and the elections were recognized by a number of countries. The new President Porfirio Lobo Sosa, who took office on January 27, 2010, formed a reconciliation cabinet and announced that the reduction of income inequality and extreme poverty was one of the main objectives of the Government. With the arrival in power of the new democratically-elected Government, Honduras’ international partners have been gradually resuming their programs and dialogue with the authorities.

<sup>24</sup> PRAF. Enero 2009. Presentación del Programa integral de Protección Social: Evolución de los PTC en Honduras.

<sup>25</sup> ENDESSA 2005/2006. Ministry of Health, Honduras.

5. **The new Administration presented the Government's Vision for the Country 2010-2038 and the National Plan 2010-2022 (*Visión del País 2010-2038 y Plan de Nación 2010-2022*) which outlines the main national policy objectives and priorities of the country and strategic areas.**<sup>26</sup> One of the main objectives of this Plan is to reduce income inequalities and extreme poverty through investments in human capital development and the creation of an integrated social protection system. To achieve this objective, the Plan emphasizes the importance of inter-institutional coordination and harmonization of sector efforts and goals. The Plan also notes the key role of civil society and communities in ensuring that services are delivered and that providers and the Government are held accountable. Finally, the Plan addresses other issues and objectives including rooting out violence, job creation and sustainable economic growth, and regional development.

6. **The six-month political crisis compounded the negative effects of the global economic crisis and pre-existing macroeconomic imbalances.** Economic growth slowed in 2008 to 4 percent and GDP declined by 2.1 percent in 2009. Unemployment in the manufacturing sector has increased with the reduction of exports especially from *maquilas*, and remittances fell from 20 percent of GDP in 2008 to 17 percent of GDP in 2009.

7. **The fiscal situation deteriorated in 2009 creating serious challenges in 2010.** Central Government spending declined from 21.7 percent of GDP in 2008 to 20.6 percent of GDP in 2009, but tax receipts fell even more sharply, from 15.6 percent of GDP to 13.8 percent of GDP. As a result, the Government's fiscal deficit increased from 2.4 percent of GDP in 2008 to 4.2 percent of GDP in 2009. Although the size of the fiscal deficit was similar to that in many other countries during the crisis, fiscal challenges worsened due to the political crisis which led to the suspension of much of the planned international development assistance. Honduras experienced an estimated shortfall of US\$130 million in grants and US\$190 million in credits during the second half of 2009. Arrears had accumulated to roughly 2.7 percent of GDP by the end of 2009.<sup>27</sup> Current projections do not anticipate a recovery in tax revenues in 2010, while expenditures remain rigid due to the public wage bill, especially in education and health. Hence, fiscal challenges will remain serious over the short run. However, the new Administration's commitment to a pro-poor agenda and to a macroeconomic framework aimed at enhancing growth has positioned them well to address remaining challenges.

8. **The economic crisis is likely to affect the poor in two main ways. First, it will have a direct negative impact on consumption and the ability to smooth consumption.** The decrease in remittances and the lower dynamism of the export oriented sector of the economy are likely to have a direct impact on the consumption pattern especially of the poor. The poor are directly affected by the decline in remittances as 27 percent of the bottom quintile receives remittances which constitute 22 percent of their household income.<sup>28</sup> Additionally, low savings and the aggregate nature of the shock make poor households more vulnerable as they are unable to smooth consumption (either by using savings or by pooling resources with

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<sup>26</sup> República de Honduras–Visión de País 2010-2038 y Plan de Nación 2010-2022. Circulated on January 12, 2010.

<sup>27</sup> Ibid.

<sup>28</sup> EPHPM, September 2008.

relatives). Most likely, poor households are going to have to reduce food consumption, which represents a high share of their total consumption. While the crisis is expected to have a high impact on the urban households, the rural poor will not be shielded from it.

9. **There is also a risk that poor families confronted with a reduction in their incomes will rely on costly coping strategies, such as taking kids out of school to encourage them to find paid work and/or to reduce the use of preventive health care services.** These coping strategies could further reduce their chances to break the cycle of poverty. Short run shocks can have very high long term consequences. After Hurricane Mitch in 1998 the school enrollment among 6-11 year-olds living in households from the poorest consumption quintile decreased by 3.1 percent and among 15-17 year-olds by 7.5 percent. It took the country nine years to get back to the pre-hurricane enrollment level among 15-17 year-olds, much longer than the time it took to recover the lost income.<sup>29</sup>

### *Education*

10. **Over the past two decades, the Government of Honduras has devoted an increasing share of public spending to the education sector, which has contributed to notable increases in enrollment.** Between 1990 and 2007 public sector education expenditures rose from 5.0 percent to 8.6 percent of GDP. Public education spending has nearly doubled as a proportion of total Government spending between 1999 and 2007, rising from 17.3 percent to 32.5 percent.<sup>30</sup> This jump in spending has, no doubt, contributed to some progress in terms of increase in coverage of primary education and equity. Between 1998 and 2006, net enrollment for primary education (grades 1-6) increased to 96 percent.

11. **Most of primary education (grades 1-6) is provided through public schools, but many students living in rural areas have gained access to education through a community-based education program called the Honduran Community Education Project (PROHECO—see Box 1).** In 2007, 93 percent of students of primary students were enrolled in public institutions and 7 percent were enrolled in PROHECO schools (up to 25 percent in rural area). Gender differences in overall primary education enrollment are also minimal. In 2007, primary education enrollment for girls in public and PROHECO schools was 49 percent while it was 51 percent for boys, and in rural areas, enrollment rates for girls was 49.2 percent, while it was 50.8 percent for boys.<sup>31</sup>

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<sup>29</sup> *Impactos Económicos y Sociales de la Recesión mundial en Honduras*, UNDP, 2009

<sup>30</sup> World Bank. 2010. Public Expenditure Tracking and Service Delivery Survey: Education and Health in Honduras. Draft Report.

<sup>31</sup> ESA Consultores. 2009 “Rendición de Cuentas y los servicios sociales en Centroamérica. El Caso de Honduras Educación.” Tegucigalpa, Honduras.

### **Box 1. PROHECO Model of Service Delivery in Honduras<sup>32</sup>**

Since February 1999, the Government has supported a community-based education program called the Honduran Community Education Project (PROHECO), which has aimed to provide services to the underdeveloped regions of the country, in particular primary education services (grades 1-6) in rural areas. PROHECO is a school-based management (SBM) model that has established parental associations called Community Education Associations (AECOs), which are responsible for managing human resources including hiring, firing and paying teachers' salaries; overseeing budgets; and, allocating government funds for infrastructure maintenance of preschool and primary schools.<sup>33</sup> Each of these school councils has a legal framework that was adopted to give legal status to these entities to perform certain responsibilities. By the end of 2006, PROHECO schools were present in all 18 departments with more than 2,100 schools, providing services over 111,000 students (8 percent of the total enrollment at the preschool and primary school levels) and about 4,200 teachers.<sup>34</sup> More recent data from 2008 indicate that there are over 131,500 students enrolled in some 3,018 preschool and primary PROHECO schools.<sup>35</sup>

Today, the program continues to achieve its objective of extending coverage of primary education in rural and isolated areas. In terms of quality and efficiency, student learning has been at least as good as learning in traditional public schools. That said, the model remains highly controversial because of the stark differences between traditional and PROHECO schools in teacher salaries and benefits, teachers' 1-year renewable contracts, and the role of parent councils in the management of human resources (hiring/firing) schools.

**12. Thanks to efforts to increase supply of education through conventional and community-based schools, enrollment rates in primary education were relatively high prior to the economic crisis.** As shown in Figures 3 and 4, enrollment was about 90 percent with no significant differences between the poorest and richest households. However, the experience of past crises shows that enrollment and attendance can fall off sharply during and after an economic crisis, as households try to reduce spending and use child labor to supplement income. Hence, efforts must be made to prevent this decline in investment in primary education.

**13. Equally significant, though, even before the economic crisis, demand side constraints were binding for many poor families in post-primary education.** According to the 2009 national Multi-Purpose Household Survey *Encuesta de Hogares de Proposito Multiple* (EHPM) school enrollment for children from the poorest quintile decreases sharply after 12 years of age to 63 percent for children aged 13 years old and goes further down to 50 percent among children aged 14 years old; this contrasts with an enrollment rate of 90 percent in for children aged 13 and 14 years old the wealthiest quintile (see Figure 3). This age is also the critical point when earnings from child labor increase and parent may decide to keep children out of school so they could engage in gainful employment. This variation in enrollment rates between the poorest and wealthiest quintiles is even greater for children aged 15 to 17 years, equaling 43 and 77 percent

<sup>32</sup> Adapted from World Bank study, "Strengthening Accountability in Social Service Delivery in Central America in the Education Sector," by Sarah Berger and Maria Eugenia Bonilla-Chacin (*mimeo*).

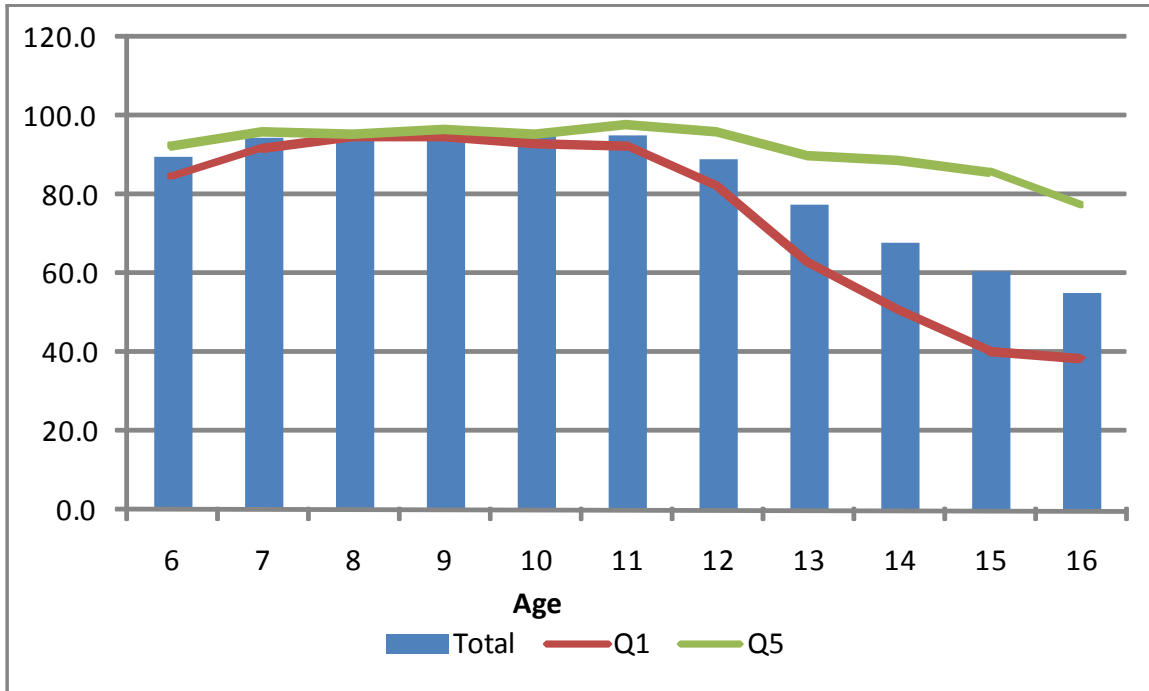
<sup>33</sup> Payne, Mark. 2009. "Political Economy of Reform Innovations in the Education sector in Honduras."

<sup>34</sup> World Bank. 2007. "Education Quality, Governance and Institutional Strengthening Project." Project Appraisal Document. Washington, D.C.: The World Bank.

<sup>35</sup> ESA Consultores. 2009 "Rendición de Cuentas y los servicios sociales en Centroamérica. El Caso de Honduras Educación." Tegucigalpa, Honduras.

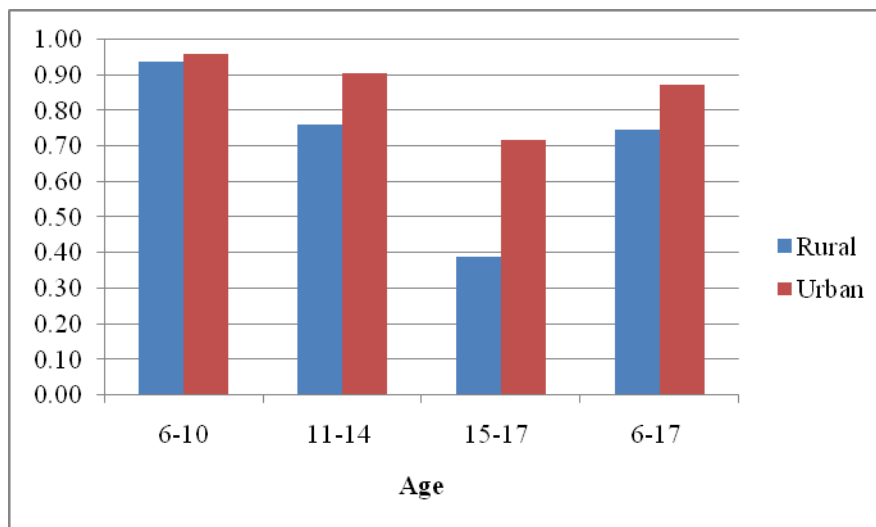
respectively. Differences in enrollment rate by geographical location are also significant. Enrollment of children aged 11 to 14 years in rural areas is 76 percent while it is 91 percent for children of the same age in urban areas. The rural-urban gap for school enrollment is even greater for children aged 15-17 years (see Figure 4).

**Figure 3. Enrollment Rate by age, total, Q1 and Q5, 2009**



Source: Encuesta de Hogares de Propósitos Múltiples (EHPM) 2009.

**Figure 4. Enrollment Rate by geographical location and age group, 2009**



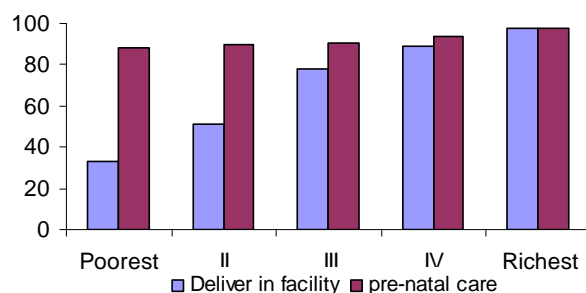
Source: Encuesta de Hogares de Propósitos Múltiples (EHPM) 2009.

14. **Low access to primary education is the result of demand- and supply-side barriers for poor families.** Data from the Program for the Improvement of Surveys and the Measurement of Living (*Programa para el Mejoramiento de las Encuestas y la Medición de Condiciones de Vida*–MECOVI, 2004) indicate that nearly one out of every four students (24.8 percent) in grades 1-9 missed at least one day of school in the week before the Survey was observed. The major reason for this was personal illness (22.9 percent); however, teacher absenteeism was the second most common reason (21.5 percent). The MECOVI data also confirm that lower income students and students from less-educated households are more likely to have missed class due to teacher absenteeism compared to their counterparts. The probability of a teacher absenteeism increases significantly with the remoteness of the school and when a school is multi-grade.<sup>36</sup> The experience with conditional cash transfers programs in the region shows that parents can exercise some pressure on teachers to reduce absenteeism when there is a risk they might lose the transfers if kids are marked absent because of school being closed or teacher not being present. While programs will not penalize beneficiaries they can increase awareness and thus reduce the prevalence of teacher absenteeism.

### Health

15. **Over the past two decades, Honduras has achieved slow but steady improvements in national health indicators.** Infant mortality has decreased from 37 deaths per 1,000 infants in 1995 to 31 per 1,000 in 2005; the maternal mortality ratio declined sharply from 182 in 1990 to 108 maternal deaths per 100,000 live births in 2000.<sup>37</sup> Currently, intermediate indicators related to malnutrition and maternal-infant mortality display positive tendencies, particularly with respect to prenatal care coverage and well-baby checks, institutional births (see Figure 5), access to family planning, and infant mortality due to diarrhea.

**Figure 5. Percentage of women delivering at a health facility and of pregnant women receiving prenatal care across wealth deciles**



Source: ENDESSA 2005/06.

16. **These results have been achieved by expanding coverage of basic health care services in rural areas through the implementation of a community-managed decentralized model of health care facilities.** This model has been supported by the IDA, IDB, USAID, and the Italian government through funds from debt remission. Under the previous IDA health project

<sup>36</sup> World Bank. 2010. Public Expenditure Tracking and Service Delivery Survey: Education and Health in Honduras. Draft Report. A Probit model was calculated, with teacher absenteeism as the dependent variable.

<sup>37</sup> Pena, Christine Lao, Olympia Icochea and Jack Fielder. 2008. “Evaluation of Birthing Centers in Honduras.” World Bank.; “Progress Report on the Country Assistance Strategy for the Republic of Honduras.” May 2008. The World Bank Group.

*Improving Access and Quality of Basic Health Care Services*, basic health care services were financed by the MOH but provided by *mancomunidades* (groups of municipalities/local governments), community-based organizations and NGOs, using performance-based contracts.<sup>38</sup> The decentralized models also emphasized disease prevention and promotion of healthy behaviors, and as payments were linked to results, they contributed to an improvement in outcomes.

**17. Nonetheless, disparities in the use of health services remain and a significant proportion of households did not seek medical attention because they used home remedies or they lacked funds.** According to ENDESA 2005/2006 only 35 percent of women in the poorest quintile gave birth in an institutional facility compared to almost hundred percent in the richest quintile. And according to the 2004 ENCOVI household survey, approximately 30 percent said that medical attention was not necessary, nearly 24 percent said they resorted to home remedies, and approximately 20 percent cited lack of funds for treatment as a reason for not seeking services. More than a quarter of poor households (first quintile) cited that lack of money was a serious issue, compared to only 9 percent in the richest households (see Table 1). Nearly 10 percent of households in the poorest quintile also mentioned supply-side constraints including the distance to the clinic and closure of the clinic were other reasons.

**Table 1. Reasons for Not Seeking Care among Those who said they were Ill, 2004**

Reasons	Not Necessary	Home Remedy	No Money	Not Serious	Too far	Just Ill	Clinic Closed	Other
<b>Income Quintile</b>								
Poorest Q1	24.5	19	26.9	9.7	7.2	3.1	2.5	7.1
Q2	24.3	26.9	24.2	11.7	2.6	2	1.7	6.6
Q3	31.6	26	18.7	12.9	1.8	3.5	0.6	4.9
Q4	36.6	23.7	15.6	16.1	0.8	2.1	0.8	4.3
Q5	40.2	25.5	9	16.1	0.9	2.5	1	4.8
<b>Location</b>								
Urban	40.3	18.4	16.4	15.4	0.5	2.6	0.6	5.8
Rural	24.6	26.8	22.3	11.5	4.5	2.7	1.9	5.7
<b>ALL</b>	<b>30.2</b>	<b>23.8</b>	<b>20.2</b>	<b>12.9</b>	<b>3.1</b>	<b>2.7</b>	<b>1.4</b>	<b>5.7</b>

*Source:* ENCOVI data cited in WB Poverty Assessment (2006) appendix tables; Adapted from Honduras Public Expenditure Review (World Bank, 2005).

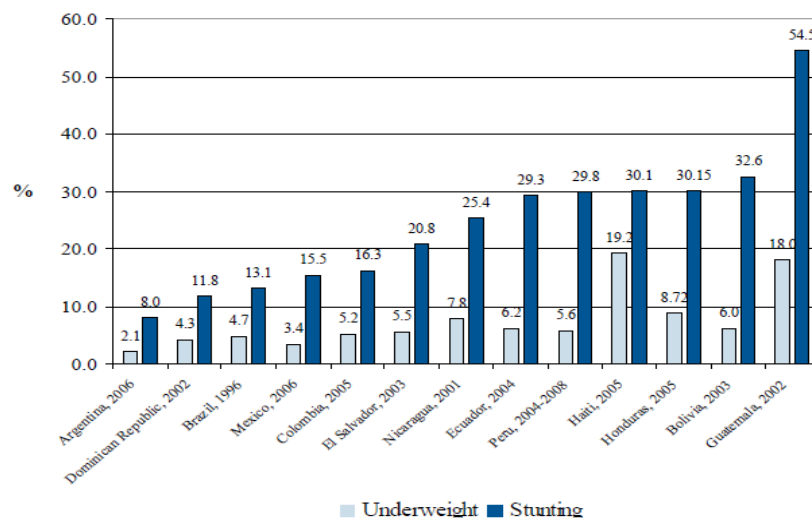
### *Nutrition*

**18. Infant and child malnutrition remains a chronic problem in Honduras.** Based on the latest demographic and health survey, ENDESA 2006/2006, one in every three children under the age of five years suffers from growth retardation, and more than 10 percent of children under the age of five are severely stunted. While acute malnutrition remains moderate in Honduras (1.38 percent), the rate of chronic malnutrition, or stunting, is one of the highest in the region

<sup>38</sup> World Bank. 2002. Health Services Reform Project.

(30.15 percent).<sup>39</sup> In the Latin American and the Caribbean region, only Bolivia and Guatemala have malnutrition rates which are higher than those in Honduras; other countries in the region that have lower malnutrition rates include Haiti (30.13 percent), Nicaragua (25.37 percent) and Peru (29.83 percent) (see Figure 6).

**Figure 6. Prevalence of underweight and stunting for children under the age of 5 years, by country, using new WHO Child Growth Standards**



Source: PAHO. 2008. *Malnutrition in Infants and Young Children in Latin America and the Caribbean*. For HN data from ENDESA 2005-2006

19. **When disaggregated by region and geographic location, chronic malnutrition is found to be highly concentrated in rural areas and some of the poorest departments in Honduras.** In 2005/2006, 39 percent of children under the age of five years living in rural areas were chronically malnourished, which was more than 20 percent greater than urban areas that reported 18 percent. Furthermore, 10 out of the 18 departments reported malnutrition rates above the national average. To mention a few, these included Copan (47 percent), Ocotepeque (48 percent), Lempira (50 percent), La Paz (51 percent), and Intibucá (54 percent).

20. **In many of the aforementioned poor and rural areas (Lempira, Ocotepeque, and Intibucá), acute malnutrition has also become a problem.** According to the World Food Program, the recent effect of the global financial crisis, food crisis, and environmental deterioration have exacerbated the general state of nutrition and food security among already vulnerable populations in Central America, contributing to an increase in acute malnutrition by nearly three to five times from what it usually is.<sup>40</sup>

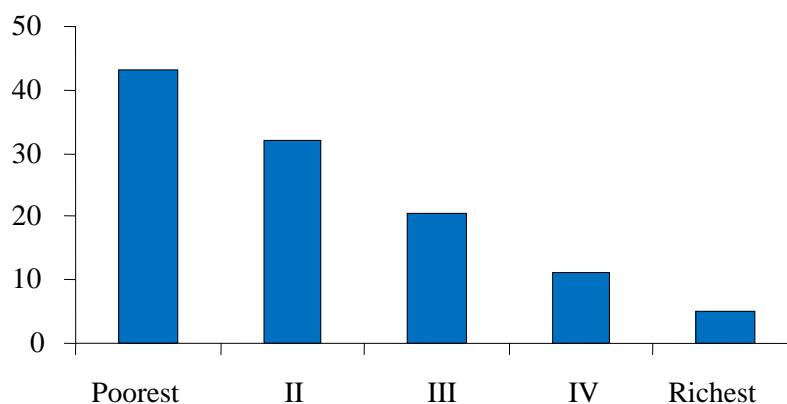
21. **Household income is also negatively correlated with malnutrition and anemia.** Children from families who come from the poorest quintile are eight times more likely to be stunted compared to children in the wealthiest quintile (see Figure 7). Furthermore, anemia is also an increasing public health problem, having an adverse affect on more than 50 percent of

<sup>39</sup> Pan-American Health Organization. 2008. *Malnutrition in Infants and Young Children in Latin America and the Caribbean: Achieving the Millennium Development Goals*. World Health Organization.

<sup>40</sup> Programa Mundial de Alimentos. 2010. *Resumen: Dimensión Nutricional de las Redes de Protección Social en Centroamérica*. World Food Program.

children 6-24 months, which can cause irreversible damage to psycho-motor skills and general learning. Poorer children are 1.5 times more likely to be anemic than richer children. Anemia also affects one out of five pregnant and lactating women in the Honduras.

**Figure 7. Percentage of chronically malnourished children by wealth quintile (2005/2006)**



Source: WHO Growth References. 2005/2006.

22. **Lack of access to basic vitamins and nutrients has also contributed to high levels of malnutrition.** Currently, vitamin A deficiency is present in one out of seven children 6-49 months, and those with nutrient deficiency are highly concentrated in the lowest income quintile. It is also estimated that almost half of the population (44.3 percent) currently receives an inadequate amount of zinc.<sup>41</sup> Yet, only a small percentage of these target groups receive the appropriate treatment to redress micronutrient deficiencies. ENDESSA reported in 2005/2006 that less than half of malnourished children 6-49 months received vitamin A supplements and de-worming medicine, and only 21.7 percent received iron supplements. Pregnant women are also at high risk. While 70 percent of them reported consuming 90 or more iron tablets during their last pregnancy, only seven percent received de-worming medicine and 51 percent received vitamin A supplementation post-partum.<sup>42</sup>

23. **Finally, there is an absence of basic knowledge on infant and young child feeding (IYCF) practices in Honduras, reducing the opportunity for optimum growth for children.** Currently, WHO recommends that children be exclusively breastfed until six months of age, introduced to complementary food at that age and continue to be breastfed until at least the age of 24 months. While 96 percent of Honduran infants are breastfed for some period of time, less than a third of infants under six months of age (29.7 percent) are exclusively breastfed. Only 16 percent of infants between four and five months are exclusively breastfed while more than half (53 percent) are bottle fed and a quarter are receiving either complementary foods or liquids, exposing them to harmful pathogens that can lead to diarrhea. Feeding practices after the age of 6 months also need to be improved. More than 40 percent of children aged 6-24 months are not fed according to the three recommended IYCF practices based on diet diversity, adequate

<sup>41</sup> The Micronutrient Initiative. 2009. Global Report: A United call to Action on Vitamin and Mineral Deficiencies.

<sup>42</sup> ENDESSA. 2005/2006. Secretary of Health, Honduras.

feeding frequency and the consumption of breastfeeding or milk products.<sup>43</sup> Regularizing these practices and reducing malnutrition in Honduras will require a concentrated effort to improve prevention and promotion activities among the targeted population.

### *Social Protection*

**24. Honduras has a large number of social assistance programs with varying coverage and which are not well coordinated. The most important of these has been a cash transfers program, the Family Allowance Program (*Programa de Asignación Familiar- PRAF*), which was initiated in 1990 and served which as a mechanism to mitigate the effect of crises and reduce structural poverty.** Over the past five years until August 2009, when it faced financing difficulties due to the political crisis, PRAF was implemented in a two-tier approach (see Annex 1.A for details on PRAF) depending on whether the funding came from national or external sources. Both tiers were implemented by the PRAF agency operating under the Presidency. Under the PRAF program funded with national funds, most beneficiaries (about 132,000 families living in the poorest villages) received an unconditional cash transfer, called *Bono Solidario*, of about US\$10 per family, per month to cover basic nutritional needs. Additionally, 44,000 families living in four of the poorest departments (Lempira, Intibucá, Santa Barbara, and La Paz) benefitted from the Integrated Social Protection Program (PRAF/PIPS), which was supported by a credit from the Inter-American Development Bank.<sup>44</sup> PRAF/PIPS provided additional health and education transfers (up to US\$25 per family, per month) based on the families' compliance with certain education and health co-responsibilities for their children. As PRAF/PIPS evolved over the past decade, the program included supply-side incentives to Parent Teacher Associations (APF) to improve the quality of education through parental involvement, and to Health User Committees (CUS) to ensure access to institutionalized births and other medical services. PRAF also provided cash assistance to youth, women, and the elderly through a series of other *bonos*.

**25. The limited coverage, low adequacy and limited enforcement of co-responsibilities have kept impact of the PRAF program low.** The key safety net program under PRAF, *Bono Solidario*, despite being fairly well targeted, covered less than eight percent of the population and 20 percent of those living in extreme poverty, while the adequacy of its benefits relative to the income deficit of the poor was very low. Despite the increase in the number of beneficiaries and benefits under the PRAF/PIPS, there remained large coverage gaps and overall, the PRAF programs covered less than one quarter of extremely poor households.

**26. Other existing social assistance programs such as school scholarship programs (transportation, textbooks, etc.) and school feeding programs are pro-poor, but their coverage also remains low.** In the recent 2009 Household Survey, 83 percent of the total beneficiaries receiving school scholarships were extremely poor. Similarly, 68 percent of beneficiaries receiving benefits from the school feeding program came from extremely poor households (see Table 5).<sup>45</sup> While targeting of these programs is good, coverage remains low with only half of the households living in extreme poverty having at least one student receiving

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<sup>43</sup> Addendum to the 2006 Honduras DHS, Infant and Young Child Feeding (IYCF) Practices

<sup>44</sup> Inter-American Development Bank, Programa Integrado de Protección Social, Credit Line #1568.

<sup>45</sup> INE (Instituto Nacional de Estadísticas Hondureño). 2009. Encuesta de Hogares de Propósitos Múltiples (EHPM).

benefits from the school feeding program, while a mere four percent of extremely poor households have beneficiaries that are receiving school scholarships (see Table 6).

**Table 5: Percentage of households receiving of Social Benefits by Quintile**

	<i>Direct and indirect beneficiaries</i>									
	Quintiles of per capita consumption						Poverty Status			
	Total	Q1	Q2	Q3	Q4	Q5	XP	MP	NP	
All social protection	100	28	25	20	16	11	59	19	22	
All social insurance	100	3	8	13	24	52	16	24	60	
Pensions	100	1	9	19	31	40	17	35	48	
Old age pensions	100	3	8	12	22	56	16	21	63	
All labor market programs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
All social assistance	100	29	26	21	15	8	61	19	20	
Scholarships	100	60	17	17	5	1	83	13	4	
Energy subsidies	100	21	26	25	18	10	54	23	22	
School feeding	100	33	27	19	13	7	65	17	18	

Notes:

Beneficiaries' incidence show the proportion of beneficiaries in each group.

Specifically, beneficiaries' incidence is: (Number of individuals in the group who live in a household where at least one member receives the transfer)/(Total number of direct and indirect beneficiaries). Beneficiaries' incidence is calculated setting as expansion factor the household expansion factor multiplied by the household size.

**Table 6: Program Coverage by Quintile**

	<i>Direct and indirect beneficiaries</i>										
	Quintiles of per capita consumption						Poverty Status			Area of residence	
	Total	Q1	Q2	Q3	Q4	Q5	XP	MP	NP	Urban	Rural
All social protection	47	66	59	48	37	25	60	40	32	34	58
All social insurance	3	0	1	2	3	7	1	3	5	5	1
Pensions	1	0	0	1	1	1	0	1	1	1	0
Old age pensions	2	0	1	1	2	6	1	2	4	4	1
All labor market programs	0	0	0	0	0	0	0	0	0	0	0
All social assistance	45	66	58	47	34	19	60	38	28	30	57
Scholarships	2	6	2	2	0	0	4	1	0	1	3
Energy subsidies	15	16	20	19	14	8	18	16	11	14	16
School feeding	35	58	48	34	24	13	50	27	20	19	49

Notes:

Program coverage is the portion of population in each group that receives the transfer.

Specifically, coverage is: (Number of individuals in the group who live in a household where at least one member receives the transfer)/(Number of individuals in the group).

Program coverage is calculated setting as expansion factor the household expansion factor multiplied by the household size.

**27. Additional social assistance programs such as energy subsidies and old age pensions are poorly designed or fragmented and do not explicitly target the poorest.** There over 80 social assistance programs/projects coordinated and administered by over twenty agencies. Currently, contributory pensions in Honduras are highly regressive, with half of the pensioners being non-poor. This tendency is common in many countries, as old age pensions are linked to formal employment. Energy subsidies, the program with the greatest coverage among social assistance programs favor more of the middle of the income distribution and less the extreme poor households.

**28. In 2006, the previous Government established the *Red Solidaria*, a social protection strategy, to coordinate the delivery of social assistance programs and basic infrastructure to the poorest communities.**<sup>46</sup> The *Red* focused on improving living conditions in the poorest 1,500+ communities (*aldeas*), identified based on a poverty map using the 2001 Population

<sup>46</sup> Red Solidaria includes investments associated with Conditional cash transfers PRAF, Social Funds FHIS, Health and Education programs, Housing, Water and Sanitation, and Energy Subsidies, among others.

census and a 2004 MECOVI household survey where about 218,000 extremely poor households live. Furthermore, it was expected to articulate the supply of services and opportunities to meet the demands of the targeted population. Given the diversity of programs that the *Red* is trying to coordinate, in late 2008, a new Ministry of Social Development (*Secretaría de Desarrollo Social*–SDS) was created under the previous administration, for the formulation and coordination of social policy. This Ministry, however, has not been staffed or become fully operational.

29. **Despite these steps, currently, there is no effective and comprehensive social safety net program to reach the poor and help mitigate the impact of shocks and crisis. However, the conditional cash transfers under the PRAF program, the only social assistance program to be have been rigorously evaluated, has had significant impact on human capital indicators.** In particular, school attendance rates were shown to increase by 0.8 days per months (conditional on enrollment) and dropout rates for grades one to four decreased by two to three percentage points. In health, there was an increase in immunization rates among program participants. This suggests that the national-scale CCT program, with appropriate targeting, adequate benefits and coverage, could become an effective instrument to reduce extreme poverty and provide protection against shocks, and could also improve capital outcomes and become one of the building blocks for creating a more comprehensive social protection system.

#### *The CCT Program, Bono 10.000*

30. **The new Government of Honduras has launched a new national Conditional Cash Transfer Program, Bono 10,000.** The eligible population for this Program ultimately comprises the approximately 600,000 extremely poor families (or about 30 percent of the population that roughly corresponds to the extreme poverty rate) with children aged 0 to 59 months, children in primary school (grades 1 to 6), and pregnant mothers. These families represent about 87 percent of all extremely poor families. The Program aims to provide more adequate benefits to these households conditional on investments in human capital accumulation through regular use of health and/or education services. The Government intends to incorporate about 60,000 families beginning in 2010, and continuing with 150,000 families each year over the next four years; but the actual rate of Program expansion will depend on the rate at which capacity to implement the Program can be scaled up and on financing availability.

31. **The Program will finance cash transfers (grants) to households in exchange for their compliance with health and/or education co-responsibilities.** This transfer will help ease the income deficit of extremely poor households. Currently, these co-responsibilities include:

- (a) Ensuring that children between 0 and 59 months (including child growth monitoring, vaccines, and the provision of micronutrients as necessary) and pregnant and postpartum mothers attend preventive health controls (including pre- and post-natal check-ups) according to established protocols, which are detailed in the Program's guidelines;<sup>47</sup>

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<sup>47</sup> The Program would promote institutional births, though not include it as a co-responsibility.

(b) Ensuring that children from 1<sup>st</sup> to 6<sup>th</sup> grade (primary level) be enrolled in school and attend classes at least 80 percent of official school days.<sup>48</sup>

32. The Government has established a maximum transfer amount of 10,000 Lempiras per year, the equivalent of about US\$44 per month, per family based on eligibility and compliance with both the health and education co-responsibilities. Depending on the demographics of each household, some families will be eligible for the entire transfer, while others will be eligible only for either the health or the education transfer. The Government has determined that this latter group of families will receive (conditional on compliance with the education or health co-responsibility) a portion of the maximum monthly transfer, which they have tentatively defined to be about US\$22 per month, per family. In all cases, families who fail to meet the pre-defined co-responsibilities applicable to their demographic will not receive any cash transfer.

33. The maximum benefit represents 25 percent of the extreme poor median household income (US\$176) and less than 15 percent of the extreme poverty line (food basket). This amount compares well with benefits under other CCT programs, such *Oportunidades* in Mexico and *Bolsa Familia* in Brazil.

34. *Payments of Benefits:* Payments will be made every three months, as done previously under PRAF. Payments of transfers will be completed through the use of the formal banking system. In the beginning, the Program will use the same bank that PRAF has been using in the past to make the transfers. Once the Program has matured, it will consider expanding the payment mechanism to other bank and financial intermediaries to improve the service options to client households. This may include access to modern banking instruments such as prepaid cash cards and savings accounts and increase beneficiaries' accessibility to the cash transfers without having to travel long distances.

35. **Eligibility and targeting of families for the Program will be divided into two phases.** During the first phase (2010/2011), the Program will use a geographical targeting mechanism, covering all households living in the 1500+ poorest villages (*aldeas*) out of a total of a little more than 3,000 villages. These villages have been identified with a poverty map, which ranked all 3,000+ villages in the country from the poorest to the least poor. Recent simulations suggest that 60 percent of the families in these villages are living in extreme poverty. Currently, there are about 218,000 families living in these villages, each of which is already registered in the Beneficiary Registration System (Sistema de Registro de Beneficiarios de Honduras, SIRBHO). These households would be the first to become eligible for transfers under the new Program after re-verification by the PRAF agency of their demographic composition and validation by the local Community Committee (*Comites Escolares Comunitarios*) and after certifying that the supply of the relevant education and health services is accessible.<sup>49</sup>

36. In the second phase, the Program would expand to include villages with relatively lower incidences of extreme poverty, but with a higher density of extreme poverty. Eligibility would be determined using a proxy-means test (PMT) and a pre-determined cut off score. This means that

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<sup>48</sup> The Program would promote enrollment and attendance in kindergarten (*pre-basica*), though not include it as a co-responsibility.

<sup>49</sup> Community Committees exist in each community and are made up of parents, teachers, municipal leaders, priests, farmer's cooperatives and other local leaders. They have an active role in matters involving the community affairs.

only households that fall below a predetermined cut-off score will be eligible to receive cash transfers of the Program. The PMT will be developed during project implementation using the latest available household survey. Estimates using the 2009 income household survey show that targeting using this PMT approach would be reasonably accurate with 75 percent of potential beneficiaries living in extreme poverty. (see Annex 9 for further details). The Program guidelines will define the specific eligibility criteria for the first and second phase.

**37. In addition, beneficiaries would sign an “acuerdo social” or a social contract/agreement with the Government that would acknowledge and define the responsibilities of the participant in the Program.** The purpose of the contract/agreement is to hold the beneficiary accountable for complying with the co-responsibilities in exchange for the transfer.

**38. Finally, the Program will be an integral part of the GoH’s effort to strengthen the social protection strategy and improve overall governance in Honduras** The *Bono 10,000* Program will be a key element of the Government’s social protection strategy, including streamlining the multiple social assistance programs and subsidies. One of the critical aspects of the strategy is to develop a single National Registry of beneficiaries that includes all the beneficiaries from the multiple programs that currently exist. The Program supports this through the enrollment process, which requires household members to possess a national identification card or birth certificate in order to receive the Program benefit. In case beneficiaries do not have this, the National Registry will increase outreach through the use of mobile registry units to ensure that undocumented beneficiaries are able to obtain an identification card/number. The Program will adopt feasible best practices for transparent and accountable Program operations, including, but not limited to: a social audit, a beneficiary satisfaction survey, a concurrent audit of the transfers, a public website that would be updated frequently with Program information, an impact evaluation and a grievances and complaints mechanism. In addition, the Program aims to create institutional mechanisms and processes for coordinating the delivery of basic social services to the poor.

**39. Program administration and implementation.** The Ministry of the Presidency (MoP) has been given line-Ministry authority for implementation of the Program and is supported by PRAF, an independent Government agency, which will execute the Program’s conditional cash transfers. A National Coordinator has been appointed by the President to coordinate and lead the Program under the direction of the Ministry of the Presidency. Furthermore, the Ministry of the Presidency recently established a Project Administration Department (*Unidad Administradora de Proyectos- UAP*), which has been set up to coordinate, administer and monitor the technical and financial elements of projects and programs for which the MoP is responsible. The Ministry of Presidency, through the UAP, is setting up a Technical Coordination Unit for the *Bono 10,000*, which will be headed by the National Coordinator. The Technical Coordination Unit will be responsible for developing and implementing accountability mechanisms for the Program and for administering the institutional procedures and systems for inter-institutional coordination and monitoring and evaluating overall implementation. The UAP will coordinate and oversee the budgeting and management of Program funds, including the financing from this Project. A Presidential Decree (PCM-010-2010) has been approved and establishes these roles. The Decree will go to Congress to establish legal permanence of the Program.

## Annex 1.A: Main Characteristics of the Family Allowance Program (*Programa de Asignación Familiar - PRAF*)

1. **In 1990, Honduras established the Family Allowance Program (Programa de Asignación Familiar - PRAF) with the objective of compensating the poor, who were adversely affected by structural adjustment policies.** In the beginning, the aim of PRAF was to keep poor families from falling critically below consumption levels. At its inception, PRAF distributed vouchers to poor families, which they could later redeem for food or for cash. Teachers and health center employees defined who the beneficiary households were by choosing which children came from the poorest households and vouchers were distributed in schools and health clinics. Under this original model, there were six types of vouchers that targeted beneficiaries could receive: *Bono Escolar* (children 1<sup>st</sup> through 3<sup>rd</sup> grade), *Bono Materno Infantil* (pregnant and nursing mothers, children under five years), *DI-Mujer* (female development-participation in training courses 6-8 hours a week for six months), *Bolsón Escolar* (school materials), *Bono para la Tercera Edad* (persons over 65 years of age), *Bono Nutricional* (children under five years of age at risk of malnutrition).<sup>50</sup> Each eligible family could receive anywhere from one to six vouchers. Overall, PRAF reached an average of 233,000 individuals between 1992 and 1997, and expanded to some 318,000 in 1998.

2. **By 2009, PRAF had evolved into a program aimed at breaking the cycle of intergenerational poverty.** In 1998, PRAF was modified to include conditional cash transfers for health and education to increase demand for and stimulate investment in human capital among the poorest families. This required inter-institutional cooperation across and within sectors and notable internal and external support.

### *Institutional and Legal Framework*

3. The former PRAF cash transfer Program was operated by the PRAF agency, which is a Government institution that created by the President's Office. It is led by a Steering Committee presided by the President of the country and the Ministers of Health, Education and Finance, one representative from Congress, and PRAF's Director. Over the past couple of years, the PRAF agency has entered into contracts with NGOs to provide the following services: communication on the program in municipalities, administration of the lists of beneficiaries, organization of the payment logistics for mobile tellers and verification of those who receive payments are in the beneficiary roster.

### *Benefits*

4. Until 2009, PRAF offered two main types of cash transfers: PRAF and PRAF/PIPS.<sup>51</sup> In 2008, PRAF transfers, the majority financed through national funding, benefitted approximately 130,000 families. Most families received the *Bono Solidario*, which was about US\$115 per year, per family. While it did promote the use of health services and school attendance, it did not

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<sup>50</sup> International Poverty Center. 2008. "Assessing Honduras' CCT Programme PRAF, Programa de Asignación Familiar: Expected and Unexpected Realities." Country Study IPC No. 15.

<sup>51</sup> PRAF-PIPS: PRAF-Programa Integral de Protección Social was an IDB-funded program that provided conditional cash transfers in four of Honduras' to families in the poorest villages in 4 departments.

require compliance with co-responsibilities. This transfer was meant to provide a minimum food security to the chronic poor.

5. Additionally, 44,000 families living in four of the poorest departments (Lempira, Intibucá, Santa Barbara, and La Paz) benefitted from the Integrated Social Protection Program (PRAF/PIPS), a program that has been supported by an Inter-American Development Bank credit, which provided additional health and education transfers (up to US\$25 per family, per year) based on the family's compliance with certain school and health co-responsibilities for their children. In 2009, the number of registered families was 44,000; however, only half of them received benefits because of the pause in external funding after the political standoff in June 2009.

6. The PRAF/PIPS program also attempted to boost community involvement in education and health through providing supply-side incentives to Parent Teacher Associations (APF) and Health User Committees (CUS). The aim of this incentive was to stimulate access to and demand for education services and adequate health care for pregnant women. PRAF/PIPS provided a US\$1,000 annual incentive to Parent Associations in 550 beneficiary schools for small works to repair the school and purchase school supplies. Community Health Committees received a US\$900 transfer per year to ensure transportation for pregnant mothers to go to health clinics for their deliveries and for emergency situations.

7. The PRAF agency continues to provide other types of interventions, the most important being: *Bono Juvenil* to youth in urban cities, which consists of a per diem payment for them to attend vocational training during six months; *Dimujer*, a micro-credit program for women in 10 urban cities; *Bono de la Tercera Edad*, for 12,000 elderly people; and *Mano Solidaria*, among others, which promotes the development of technical skills for self-employment (see Table 1).

#### *Targeting, Identification of Villages*

8. Since 2006, PRAF has used the Beneficiary Registration System (*Sistema Integrado de Registro de Beneficiarios*, SIRBHO), a registry that captures information on the poorest villages (*aldeas*) in Honduras. Using the Poverty map built with the 2001 Population Census and consumption survey data from the ENVOVI 2004, the SIRBHO identified the poorest families in the poorest villages that would be eligible for benefits. Currently, there are 1,543 villages registered in the SIRBHO. Of those villages, 218,575 households were identified as possible candidates for the PRAF program. Of those identified, some 130,000 families were receiving PRAF cash transfers and another 44,000 are receiving PRAF/PIPS conditional cash transfers.

9. A recent review of the SIRBHO, conducted by the National Statistics Institute (Instituto Nacional de Estadísticas- INE), suggested that the households in the system be recertified through field visits to ensure that their socioeconomic status has not changed since 2001. Additionally, the report encourages that new targeting measures be defined to better capture a families current income levels.<sup>52</sup>

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<sup>52</sup> Instituto Nacional de Estadísticas. January 2010. "Recomendaciones Para La Depuración Del Sistema De Registro De Beneficiarios De Honduras (SIRBHO)." Tegucigalpa, Honduras.

**Table 1. PRAF transfers and programs**

Program	Objective	Eligibility criteria	Number of beneficiaries		Budget, planned 2010
			Households	Beneficiaries	HN Lempiras ( millions)
<b>Bono Materno Infantil**</b>	CCT for poor families living in extreme poverty conditions to provide basic health care services to reduce child mortality rates, child and maternal mortality, and malnutrition.	Pregnant women, breastfeeding women, children under six years of age in malnutrition risk and handicapped	132,158	396,474	150.6
<b>Bono Escolar 1st to 6th grade**</b>	CCT for poor families living in extreme poverty conditions to provide basic and primary education for children 6 to 14 years of age attending Public schools. The program will contribute to reduce the illiteracy rates, absenteeism, and child labor.	Children 6-14 years of age attending public schools.	132,158	264,316	133.5
<b>Bolsón Escolar</b>	Promote positive attitude in children, less absenteeism and a more qualitative and equitable educational process.	*Children registered in 1st and 3rd grades in Public schools in the poorest communities in Honduras			7.0
<b>Bono Tercera Edad</b>	Assist Senior Citizens to improve their status in society. It is considered a social investment.	People older than 65 years of age		61,528	36.9
<b>PRAF + BID Programa Apoyo Integral a la Red de Protección Social (PIPS)**</b>	Contribute to increase the human capital in the poorest households in Honduras through a Social Protection Strategy. It promotes changes in the people's habits as to improve their living standards.	Children attending 1st-6th grades, pregnant and breastfeeding women, and children 0-59 months of age	45,510		41.5
<b>Desarrollo Integral de la Familia Componente Bono Juvenil Urbano Rural</b>	Support youth at risk population by providing training and vocational training in the technical areas of information technology, arts, Culture and Sports as to reinsert them in the labor market.	Teenagers 14- young people 24		12,000	41.6
<b>Mano Solidaria</b>	Promote the integral development of families living in extreme poverty that work as "pepenadores de basura" in Tegucigalpa, San Pedro Sula, and Danli. It will promote the development of technical and productive capacities and micro enterprise's abilities to increase their income and improve their living standards	Families living in extreme poverty working as "pepenadores de basura"	800	4,000	5.6

\*\* These *bonos* have been discontinued and the resources reassigned to finance the *Bono 10,000*.

### *Payment of benefits*

10. Payments have been processed through the national bank, BANADESA. Payments were made three times per year. The bank, through mobile tellers, made payments on a specific date, verifying that the signature or fingerprints of beneficiaries who were registered. A representative of the *Tribunal Superior de Cuentas* traveled to communities to verify that payments were made with due diligence. For the PRAF/PIPS, an independent audit firm was hired to carry out a concurrent audit of the program implementation at each scheduled payment.

11. *Transparency and accountability.* The lists of beneficiaries that receive payments were printed and published in public places, such as schools and health centers at the community level.

12. **Finally, as previously mentioned, in 2004, an evaluation of PRAF was completed using a randomized design, showing that the program had a positive impact in some areas, while little impact in others.**<sup>53</sup> The main findings from the evaluation are the following:

- Significant impacts on per capita consumption (7 percent).
- Cash transfer did not crowd out any private transfers (i.e. remittances), most likely because of the small size of the payments;
- Impact on education: Increased enrollment rates by 1-2 percentage points, reduced the dropout rate by 2-3 percentage points, increased school attendance (conditional on enrollment) by about 0.8 days per month, and increased annual promotion rates to the next grade by 2-4 percentage points;
- No effect on child labor force participation;
- Impact on health outcomes: Increased fertility among eligible households in Honduras by 2-4 percentage points; increased coverage of immunization for diphtheria/pertussis/tetanus, but not for measles; no effect on nutrition (had no effect on child height) probably due to the small size of the transfers; no significant effect on the prevalence of anemia.

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<sup>53</sup> Fiszbein and Schady (2009), Glewwe and Olinto (2004), Maluccio and Flores (2005), Hoddinott (2008).

**Annex 2: Major Related Projects Financed by the Bank and/or other Agencies**  
**HONDURAS: Social Protection**

**Related Projects financed by IDA in Honduras**

IDA Financed	Sector Issue Addressed	Project ID	Project Name	Status	Latest Supervision (ISR) (IDA Financed Projects Only)	
					Implementation Progress (IP)	Development Objective (DO)
IDA	Improve access and quality of health care services for the low-income population.	P053575	Health System Reform	closing 5/31/2010	S	S
IDA	Increase the participation of indigenous and Afro-Honduran groups in the holistic development processes of their communities and their nation.	P083244	<i>Nuestras Raices</i> Program	closing 7/31/2010	MU	MU
IDA	Improve social safety net for children and youth with special focus on nutrition and basic health.	P082242	Nutrition and Social Protection	ongoing	MS	MS
IDA	Expand pre-school coverage, improve completion rates and improve teachers and schools accountability.	P101218	Education Quality, Governance & Institutional Strengthening	ongoing	MS	MS
IDA	Improve the quality of life for residents in selected poor urban neighborhoods in eligible municipalities.	P088319	Barrio-Ciudad Project	ongoing	S	MS

**Related Projects financed by IDA in Honduras that closed in the last five Fiscal Years**

IDA Financed	Sector Issue Addressed	Project ID	Project Name	Status	IEG Outcome (Bank Financed Projects Only)
IDA	Increase access among the poor to small-scale social and economic infrastructure; develop social assistance programs for disadvantaged groups.	P064895	Fifth Social Investment Fund	closed on 12/6/2005	Moderately Satisfactory
IDA	Improve the quality of education services for preschool and grades 1-6 and provide targeted education services to excluded and poverty-afflicted communities.	P007397	Community-based Education	closed on 12/31/2007	Moderately Satisfactory

### Related Projects by other Agencies in Honduras

Other Agencies	Sector Issue Addressed	Project ID	Project Name	Status
IDB	Social Protection	HO-L1042	Support to the Social Protection Network II	Under preparation
IDB	Social Protection	2096/BL-HO	Integrated Support for the Social Safety Net Program	Being restructured
IDB	Social Protection	1568/SF-HO	Integrated Social Protection Program (PIPS)	Ongoing – Closing end of YR2010
IDB	Health	HO-L1059	Primary Health Care Program	Under preparation
IDB	Health	1619/SF-HO	Improvement of Health Conditions	In Execution
IDB	Education	1552/SF-HO	Secondary Education and Job Training Program	In execution
Korea	Health	N/A	Construction and Modernization of the Regional Hospital in Choluteca	Pending approval from Ministry of Finance in Korea
Central American Bank of Economic Integration, CABEI	Health	1849-A	Health Sector Equipment Program	Approved

### Related Trust Funds

Donors	Sector Issue Addressed	TF #	TF Name	Status
Japan		TF055813	Children and Youth Innovation Fund	closing on 5/1/2010
Japan	Education	Pending	Piloting New Forms of Community-administered Education for Socially Vulnerable Communities	Pending signature
Multi-donor	Prevention and control of flu pandemic	TF092191	Highly Pathogenic Avian Flu H5N1 Prevention and Control	Ongoing

## **Annex 3: Results Framework and Monitoring**

### **HONDURAS: Social Protection**

#### **Results Framework**

1. **Project outcomes and results will be assessed using an M&E system to track progress on the indicators specified in the results framework.** The M&E system will be developed as part of the institutional strengthening component. The system will draw on multiple information sources and instruments: (i) the Management Information System (MIS) developed for the Program; (ii) targeting and coverage assessments based on the annual *Encuesta de Hogares de Propósitos Múltiples* (EHPM); (iii) program impact evaluation; (iv) program process and implementation evaluations; (v) beneficiary satisfaction surveys; and (vi) social audits. The Project will finance the development of the MIS as well as some of the various studies and evaluations listed below.

2. **Program MIS.** Most of the results indicators for Component 2 would be monitored as part of on-going supervision and Project Reports, relying primarily on administrative data from the Program's MIS. The PRAF agency, under the current IDB CLIPP operation, is currently assessing the performance of the existing information system with the objective of redeveloping it for greater efficiency and ease of operation. The MIS enhancement is expected to be carried out in the first year of project implementation. To date, the existing information system within PRAF has been critical for providing key information such as the number of beneficiary families, number of beneficiaries complying with program co-responsibilities, number of paid beneficiaries, and the total amount of transfers paid under every payment cycle. During implementation, the enhancement of the MIS aims to incorporate information from PRAF as well as information from other agencies participating in the execution of the Program (namely Ministry of Health, Ministry of Education, Ministry of Finance, INE, and the National Registry, among others). This information will allow for the provision of information in timely manner, with greater accuracy and for a higher level of disaggregation to permit identification of possible bottlenecks in implementation.

3. **Targeting and coverage assessments based on the *Encuesta de Hogares de Propósitos Múltiples* (EHPM).** Twice a year, the INE implements a nationally-representative annual survey that collects information on household income, which can be used to estimate the incidence of poverty and inequality as well as assess whether the household received a benefit from social safety net programs. In addition, this survey collects information on education attainment of household members. During project implementation the survey's module measuring whether the household received a benefit from safety net programs will be revised to include specific questions on the receipt of the new *Bono 10,000* Program. This would allow for bi-yearly assessments on coverage of the extremely poor and descriptive statistics about beneficiaries poverty status and income groups, which is a proxy for the true distribution of actual benefits received. In addition, changes in school enrollment by age and income groups could also be monitored, even though no causality could be attributed to the Program.

4. **Program Implementation/Process Evaluations.** At least two implementation evaluations will examine whether the Program's procedures as specified in the Operations Manual are being implemented as intended and whether different staff, health centers and schools, or different

municipalities were implementing the Program in the same way an, identify bottlenecks; and suggest remedial actions. They will rely on qualitative data collection techniques (key informant interviews, focus groups among others) to provide answers to key questions about the Program's operations and performance. These types of evaluations are particularly important at early stages of Program development when it is important to understand how it influences the behavior of beneficiary families and service providers and thereby improve its design and operations procedures. While qualitative techniques lack representativeness and precision, they offer a richer understanding than surveys alone of how a program operates as well as of the chain of causality (how and why beneficiaries react to the program). The implementation evaluations will also help the design and deployment of the quantitative survey used for the impact evaluation to help formulate key hypotheses or questions to be investigated and to better explain the impact results.

**5. Program Impact Evaluation.** The impact evaluation to be conducted under Subcomponent 1.1 *Enhancing the Ministry of Presidency's Institutional Capacity* would provide further data on outcomes. Outcomes analyzed will include, among others, school enrollment, school attendance, grade progression, and utilization of health services and of nutrition interventions. The impact evaluation methodology will rely on the planned rolled out to the *Bono 10,000* Program and the propensity score matching (PSM) method. The prioritization of municipalities and *aldeas* to be gradually included into the Program in the next four years should follow a detailed and objective set of criteria. A stratified sample of *aldeas* would be drawn so that it represents the population of *aldeas* selected to enter the Program in each of the next four years. That is, stratification will be by the year of entry into the Program. Thus, *aldeas* entering later into the Program will serve as control for *aldeas* entering early into the Program. If prioritization of *aldeas* follows a well defined set of criteria, selection will be on observable variables only. The PSM method will be used to identify household in the control *aldeas* that best compare to household in the treatment *aldeas*. Both baseline and follow-up surveys will be conducted. The evaluation will be designed and carried out in collaboration with the IDB project to avoid duplication.

**6. Beneficiary Satisfaction Surveys.** Beneficiary surveys and citizen report cards will be financed under the Project to obtain timely feedback from clients. Beneficiary satisfaction surveys will assess the Program's performance based on clients experience with it. Such surveys will be an important source of information about service quality, beneficiary constraints in accessing the Program or receiving the payment in a timely manner and in its entirety, and responsiveness of Program officials to complaints/appeals. For instance, beneficiaries will be able to rate specific service quality characteristics, such as ability to enter the Program, facility to understand the Program co-responsibilities, difficulty in accessing the health and education services, waiting times to receive the transfers, and helpfulness of personnel. The survey can also collect information about intermediate outcomes, such as actions beneficiaries have taken because of the program and overall satisfaction. Such surveys will allow the Program to know the constraints beneficiaries face in using the program as well as suggestions for improving services. At the same time survey to assess satisfaction of health providers, schools and municipalities will also be carried out.

**7. Social Audit:** Given the size of the transfer and the large number of beneficiaries, the existence of co-responsibilities is important for ensuring accountability at the community level.

The Program would include a Social Audit to ensure that the program’s operating rules are applied consistently and transparently and that participating families understand them. The audit would allow verification that the resources are used within the program’s guidelines. Within this framework the committee that would implement the social audit, which would be integrated by members of the community itself. The committee would be comprised of: (a) community school committees (e.g., parent associations and/or health committees); and (b) community leaders responsible for supervision of services provided to families. These committees will be included in each village as the instance to provide oversight over program implementation.

## Results Framework

PDO	Project Outcome Indicators	Use of Project Outcome Information
<p>Strengthening institutional capacity to administer and manage <i>Bono 10,000</i></p> <p>Increased utilization of health and education services by Program participants</p>	<ul style="list-style-type: none"> <li>• Targeting: Percentage of conditional cash transfers received by households in the poorest quintile (goal: 65%)</li> <li>• Percentage of registered households of the Program whose co-responsibilities are verified and reported (goal: 80 %)</li> <li>• Percentage of students in grades 1 to 6 participating in the Program who comply with the co-responsibility of 80 percent school attendance (goal: 80%)</li> <li>• Percent of children, aged 0-5 years participating in the Program with complete vaccination scheme (goal: 98%)</li> </ul>	<p>Assess the extent to which the Program effectively targets the poor and determine if targeting and enrollment strategy needs to be changed</p> <p>Determine whether changes are needed in the benefit package</p>
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
<p>Outcome 1. Ministry of Presidency exercises its role of inter-sectoral coordination and oversight over the program</p>	<ul style="list-style-type: none"> <li>• Percent of schools reporting compliance in accordance to payments cycle</li> <li>• Percent of health centers reporting compliance in accordance to payments cycle</li> <li>• Monitoring and evaluation system developed and information about program is publically available and are used for evidence based decision making</li> <li>• Communication strategy implemented; Information on Program disseminated through local media &amp; adapted to the target population</li> </ul>	<p>Used to determine responsiveness from supply</p> <p>Improve accountability and transparency</p> <p>Feed into strategy to improve effectiveness of social protection sector and identify sources to finance the new CCT program</p>
<p>Outcome 2. The PRAF agency has the capacity to select extremely poor families, verify</p>	<ul style="list-style-type: none"> <li>• Percent of families registered in SIRBHO with updated information</li> <li>• Number of families whose compliance with co-responsibilities is verified and reported</li> </ul>	<p>Low level of reporting may flag poor communication, lack of proper training for the education and health providers about the rules of the program including</p>

<p>compliance with co-responsibilities and make regular payment to eligible beneficiaries</p>	<ul style="list-style-type: none"> <li>• Percent of Complaints and appeals attended to and resolved, as defined under the pre-defined standards</li> <li>• Number of visits to the Program web page</li> </ul>	<p>monitoring compliance with co-responsibilities This affects verification of co-responsibilities</p>
<p>Outcome 3. Families complying with co-responsibilities receive their cash transfers on a regular basis</p>	<ul style="list-style-type: none"> <li>• Number of families receiving payments on a regular basis</li> <li>• Rate of desertion rate among students in grades 5 and 6 participating in Program</li> <li>• Graduation Rate for children in Primary school, from 5th to 6th grade</li> <li>• Percent of pregnant women who receive prenatal controls</li> </ul>	<p>Improving accountability and transparency of Program implementation and reduce the risk of political capture. Information on eligibility criteria, budget allocation and execution, evaluation findings etc. will be placed in the public domain and allow feedback from beneficiaries and civil society</p>

### Arrangements for results monitoring

Project Outcome Indicators	Baseline	Target Values					Data Collection and Reporting		
		Year 1	Year 2	Year 3	Year 4	Year 5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Targeting: Percentage of conditional cash transfers received by households in the poorest quintile	0	NA	50%	55%	60%	65%	Annual	INE EHPM survey	MoP /Bono 10,000 National Coordination
Percentage of registered households of the Program whose co-responsibilities are verified and reported	0	65%	70%	75%	77%	80%	Quarterly	PRAF	PRAF/ Bono 10,000 National Coordination
Percentage of students in grades 1 to 6 participating in the Program who comply with the co-responsibility of 80% school attendance	0	70%	74%	76%	78%	80%	Annual	Ministry of Education/PRAF	Ministry of Education/PRAF
Percent of children, aged 0-5 years participating in the Program with complete vaccination scheme	tbd	80%	85%	90%	95%	98%	Quarterly	Ministry of Health	Ministry of Health
<b>Intermediate Outcome Indicators</b>									
<i>Component 1. Institutional Strengthening of the CCT Program</i>									
<i>Subcomponent 1.1 Enhancing the Ministry of the Presidency's Institutional Capacity</i>									
Percent of schools	0	70%	75%	80%	85%	90%	Every Quarter	Ministry of	MoP/PRAF

Project Outcome Indicators	Baseline	Target Values					Data Collection and Reporting		
		Year 1	Year 2	Year 3	Year 4	Year 5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
reporting compliance in accordance to payments cycle								Education	
Percent of health centers reporting compliance in accordance to payments cycle	0	30%	35%	40%	45%	50%	Every Quarter	Ministry of Health	MoP/PRAF
Monitoring and evaluation system developed and information about program is publically available and are used for evidence based decision making	N.A.	x	M&E Conceptual Design	System functioning; Information publically accessible	Running	Running	Per Product		MoP
Communication strategy implemented; Information on Program disseminated through local media & adapted to the target population	N.A.	Strategy designed	70% of beneficiaries have received information from local media	At least five national radio / TV stations broadcast results on Program	Running	Running	Per Product		MoP/PRAF
<i>Subcomponent 1.2 Strengthening operational and administrative capacity of the PRAF Agency</i>									
Percent of families registered in SIRBHO with updated information	3%	30%	40%	50%	x	x	Quarterly	SIRBHO	PRAF
Percent of Complaints and appeals attended to and resolved, as defined	N.A.	x	50%	60%	70%	80%	Every 6 months		PRAF

Project Outcome Indicators	Baseline	Target Values					Data Collection and Reporting		
		Year 1	Year 2	Year 3	Year 4	Year 5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
under the pre-defined standards									
Number of visits to the Program web page	0	25,000	50,000	100,000	250,000	500,000	Every 6 months		PRAF
<i>Subcomponent 1.3 Development of an Integrated Social Protection System</i>									
Strategy for streamlining social assistance programs and subsidies approved and implemented	None	x	Draft strategy	Strategy approved by Social Cabinet			Yearly		Ministry of Social Development
<i>Component 2. Co-financing Conditional Cash Transfers</i>									
Number of families receiving payments on a regular basis	0	10,000	20,000	30,000	X	x	Quarterly	SIRBHO	PRAF
Number of families whose compliance with co-responsibilities is verified and reported	0	10,000	20,000	30,000	x	x	Annual	PRAF MIS	PRAF /Bono 10,000 National Coordination
Rate of desertion rate among students in grades 5 and 6 participating in Program	10%	9.8%	9.4%	9.2%	9.0%	8.8%	Every 6 months	Ministry of Education	Ministry of Education/PRAF
Graduation Rate for children in Primary school, from 5 <sup>th</sup> to 6 <sup>th</sup> grade	63%	68%	72%	75%	78%	80%	Yearly	Ministry of Education	Ministry of Education
Percent of pregnant women who receive prenatal controls	Tbd	40%	50%	60%	70%	75%	Quarterly	Ministry of Health	Ministry of Health

## Annex 4: Detailed Project Description

### HONDURAS: Social Protection

1. The proposed Project would support the Government's objective of building an improved social protection system mainly by strengthening institutional capacity to design and implement a new Conditional Cash Transfer (CCT) program, the *Bono 10,000* Program. Within this context, the objectives of the Project are to: (a) strengthen the institutional capacity of the MoP and PRAF to administer and manage the *Bono 10,000* Program (the "Program"), through the development of transparent mechanisms and instruments for targeting Program beneficiaries, monitoring compliance with Program co-responsibilities, and making payments to Program beneficiaries; and (b) increase: (i) school attendance among students in grades 1 to 6; and (ii) the use of preventive health services among families participating in the Program.
2. **The proposed Project would contribute to achieving the GoH's social goals set out in its National Plan 2010-2022.** In doing this, the proposed Project would provide financial support to overcome demand-side barriers to social services and finance investments to enhance institutional capacity for the administration and operation of the Government's Program, *Bono 10,000*.
3. **The proposed Honduras Social Protection Project would support the GoH with a US\$40 million IDA credit that includes US\$18.5 million credit under the Crisis Response Window to be implemented over 4 years.** The proposed Project would finance activities in two components, including: (i) institutional strengthening for improving management processes, monitoring, and inter-sectoral coordination for the implementation and sustainability of the new *Bono 10,000* Program, and for the development of an integrated social protection strategy; and (ii) the co-financing of cash transfers to extremely poor families, conditional on a child's primary school attendance and regular health check-up.
4. ***Component 1. Institutional strengthening of the Bono 10,000 Program (US\$8.7 million).*** This component would strengthen the efficiency, effectiveness, and management of the CCT Program by building the capacity in the MoP and PRAF and will contribute to the development of a social protection strategy through (i) enhancing the organizational and technical capacity of the Ministry of Presidency to coordinate, monitor, and evaluate the CCT program, and (ii) improving the operational and administrative capacity of the PRAF agency. Under this component, three sets of activities would be financed: (i) strengthening the Ministry of the Presidency's institutional capacity for improving the design and operation of the Program; (ii) strengthening the operational and administrative capacity of PRAF for the implementation of the Program; and (iii) developing an integrated social protection strategy to design, implement, and monitor coherent social protection programs and policies.
5. ***Subcomponent 1.1: Strengthening the Ministry of the Presidency's Institutional Capacity (US\$3.5million).*** This sub-component would strengthen the MoP's institutional capacity to improve the design and operation of the Program, through, *inter alia*: (a) the provision of technical assistance and training for building the institutional capacity of the Technical Coordination Unit; (b) the review of the current targeting mechanism for Program beneficiaries; (c) the development and implementation of a monitoring and evaluation system

for the Program; (d) the carrying out of a Program beneficiary satisfaction survey; (e) the carrying out of a social audit for the Program; (f) the carrying out of an impact evaluation of the implementation of the Program; (g) the review and piloting of alternative payment mechanisms; and (h) the design and implementation of a communications campaign.

6. Inter-sectoral coordination is needed to ensure the articulation of the Program with supply side investments in health and education and the verification of compliance with co-responsibilities. Specifically, the activities to be carried out under this subcomponent would aim to:

- (i) Build the capacity of the *Bono 10.000* Technical Coordination Unit in the *Ministry of The Presidency*, a unit which will be responsible for the overall Program management and inter-sectoral coordination with the health and education sectors, and evaluation of the Program. This will include consultants, training, and advisory services to ensure that qualified staff is included for the management of critical areas such as social protection policy design, monitoring and evaluation, communication and supply-side coordination with the health and education sectors, among others.
- (ii) Strengthen the Design of the Program, including a review of the targeting mechanism with the aim of moving towards a combination of geographic and household level targeting that will rely on a proxy-means test, using the latest available household survey and census data;
- (iii) Develop a Monitoring and Evaluation system for the Program to generate information and analysis needed for improving Program design, implementation and accountability. Specific activities include: an impact evaluation to assess the effect of the CCT program on school enrollment, attendance, and use of health and nutrition services; a program implementation evaluation to determine how the rules of the program are understood and implemented by various actors; an assessment of the targeting mechanism to measure the incidence of program benefits and simulate their contribution to poverty reduction; and a beneficiary assessment to measure their satisfaction with the Program; and social audits.
- (iv) A review and piloting of alternative payment mechanisms. A feasibility assessment of alternative payment mechanisms available in the financial system will be carried out to ensure that the operating costs and means of paying the cash transfers are efficient and effective, the mechanisms are easily accessible to beneficiaries (so that beneficiaries do not have to travel long distances), and the payments are secure and accurate. Within this context, the Government's interest in using biometrics for the verification process will be assessed and compared with alternative identification tools available in the county. Pending on results from the feasibility study, and the implementation of a new payment system, the project would finance: (a) adaptation of computer software to provide the needed interlinkages and information platforms; (b) adjustments to administrative processes (if applicable); and (c) costs for biometrics or other unique identification systems. Furthermore, a new transfer system will be piloted and the results assessed to determine the impact of the payment mechanism.

(v) Pilot innovations to improve the operational efficiency of the Program to improve its results such as verification of co-responsibilities, extending verification of co-responsibilities to students in kindergarten (pre-basica) and later secondary school, the adaptation of the program to indigenous population, among others.

(vi) Communications Campaign to improve Program information and transparency. An information and communications campaign that targets beneficiaries and communities, service providers, and other key social stakeholders involved in Program financing and operation will be designed and implemented.

7. Under this subcomponent the Project would finance consultancy services, training, workshops, ICT equipment, non-consultant services and operational costs.

8. *Subcomponent 1.2: Strengthening operational and administrative capacity of the PRAF agency (US\$5.0 million).* This sub-component would strengthen the operational and administrative capacity of PRAF for the implementation of the Program, through, *inter alia*: (a) the carrying out data collection activities to identify Program beneficiaries; (b) the development of an updated management information system; (c) the development of an operational monitoring system; (d) the development and implementation of a web page providing information about the Program; (e) the creation of a unit to attend grievances and complaints; (f) the review and redesign of the institutional and organizational structure of PRAF; and (g) the development and implementation of a strategy to involve local community organizations in the operation and oversight of the Program.

9. Given PRAF's operational experience with cash transfers in the past, the new Program will make use of many key systems for the administration of the new CCT that are already in place. However, with the scope and inter-sectoral coordination and responsibilities of the new CCT Program, improvements in the functioning of the PRAF agency are necessary. More specifically, this subcomponent will finance the following activities:

(i) Data collection to select and recertify beneficiaries. This will require the verification and re-certification of existing beneficiaries originally in the SIRBHO and of new beneficiaries. This includes carrying out home visits to collect information about the socioeconomic status of households in the targeted communities to determine eligibility and/or recertification of continued eligibility of beneficiaries who were earlier receiving PRAF transfers as well as improving SIRBHO capability for periodical cross checks with other administrative databases for better screening and updates of changes in household circumstances.

(ii) Development of an updated Management Information System (MIS) to enable the linkage between the SIRBHO Beneficiary Registration System with information about compliance with co-responsibilities generated by the education and health sector information systems. This will allow for the automatic generation of a beneficiary list. An assessment of the existing information system of the PRAF agency is scheduled to be completed by June 2010 as part of an ongoing IDB-financed project. This will provide inputs to determine the necessary adaptation and improvements to accommodate the rules of operation of the new CCT Program. The MIS enhancement will ensure integration with the existing information systems in the education and health sectors to mainstream the verification of co-responsibilities. This activity will be coordinated with IDB to avoid duplication of efforts.

- (iii) Development of an operational monitoring system to provide necessary information on program results and processes, and to identify possible operational bottlenecks; this will be complemented with just-in-time process evaluations and spot checks to better understand problems and identify solutions.
- (iv) Development of a web page for the Program to allow all information related to the Program to be published in public domain
- (v) Development of a Customer Service Unit within PRAF. This service unit will rely on clearly defined service standards and will be staffed with trained personnel. The unit would include a free hotline number to address general questions, complaints, and grievances.
- (vi) Redesign of the institutional and organizational structure of PRAF agency following the discontinuation of existing cash transfers and re-distribution to the new Program, and to establish local operational offices;
- (vii) Development of a strategy to promote involvement of Community Committees (*Comités Escolares Comunitarios*) in the operation and oversight of the Program

10. This sub-component would finance consultancies, training, equipment, non-consultant services and operating expenses for the project coordination unit under PRAF.

11. *Subcomponent 1.3: Development of an integrated social protection strategy (US\$0.2 million).* This subcomponent aims to develop an integrated social protection strategy, through, *inter alia*: (a) the formulation of a strategy for streamlining the multiple social assistance programs and subsidies and for the development of a unique registry of beneficiaries; (b) the carrying out of diagnostic studies, including vulnerability and social safety net assessments and institutional assessments, all under terms of reference acceptable to the Association; (c) the carrying out of workshops to discuss the results of the diagnostic studies; and (d) formulation of a social protection strategy outlining recommended policy and institutional reform options.

12. ***Component 2. Co-financing Conditional Cash Transfers (grants) (US\$31.3 million).*** This component would provide Education Grants and/or Health and Nutrition Grants (cash transfers) to eligible beneficiaries, that is families who comply with co-responsibilities set forth in the Project Operational Manual, which include (a) children between 0 and 59 months attending preventive health controls; (b) pregnant and postpartum mothers completing their pre- and post-natal check-ups; and (c) children from 1<sup>st</sup> to 6<sup>th</sup> grade (primary level) being enrolled in school and attending classes.

13. Under this component the Project will co-finance payments to beneficiaries. As defined under the operational guidelines of the Program, payments would occur every three months. IDA Credit disbursements would finance payments made to beneficiary families who comply with Program co-responsibilities.

14. The process by which payments will be approved is as follows: (i) only those villages in the geographically targeted areas, where primary schools and health services are available, will be included; when a new village is covered by the Project, there will be a process of verification of the availability of services by the PRAF agency; (ii) beneficiaries are identified and enrolled according to the agreed targeting criteria; and (iii) payments to eligible beneficiaries will be made after verification of compliance with the co-responsibilities.

15. A concurrent independent audit, to be carried out at each payment cycle, will check that benefit recipients are included in the Registry of Beneficiaries and that information on compliance with co-responsibilities was accurately recorded. This will be based on a representative sample of paid beneficiaries. This audit will also serve as an instrument to determine implementation bottlenecks, which will be corrected and/or further investigated through other instruments including spot checks and process evaluations to obtain more systematic information.

16. *Project Coverage.* The *Bono 10,000* Program aims to expand coverage of families as the PRAF agency verifies eligibility and enrolls beneficiaries, validates compliance with co-responsibilities, and arranges for payment transfers. Although the Program target is about 150,000 families each year, with a goal of reaching some 600,000 families living in extreme poverty over a four year period, actual coverage will depend on budget availability and the PRAF agency's operational capacity. In 2010 it is estimated that about 60,000 families will be enrolled in the program. This component would finance a share of the cash transfers made to beneficiaries conditional on their compliance with co-responsibilities. During the first year of project implementation, the Project will aim to cover 50 percent of the Program's conditional cash transfers; in the second year, it will aim to cover 40 percent of the Program's transfers; and in the third year, it will aim to cover 30 percent of the Program's transfers.

17. The Bank has appraised the key Program aspects including the system registry, verification of co-responsibilities, payments of transfers, and audits, which are designed to ensure that the Program is targeting extremely poor families and has adequate controls to guarantee that cash transfers reach eligible families who comply with co-responsibilities. These features have been piloted for the *Bono 10,000* and are based on approaches that were employed under the IDB PRAF/PIPS Project. This proposed Project will support the development of institutional capacity that will enable these key aspects to function on a larger scale. As these capacities are ready and appraised any changes or modifications to key accountability aspects of targeting and paying eligible beneficiaries will be incorporated into the Project's Operations Manual. Continued IDA financing of component 2 will be dependent on the Program's application of the use of key accountability mechanism elaborated in Project's Operational Manual, which will also form the basis for the concurrent audit.

18. *Financing for transfers.* Based on the Government's financing plan for the Program, in 2010 the total funds from the Government, IDB, IDA, and other sources is about US\$54 million, US\$6.4 million of which are the Government's contribution. For the first two years, the Government has secured financing from the IDB through the restructuring of an existing credit (US\$20 million) and the preparation of a new project (additional US\$60 million) with most of the resources allocated for cash transfers. The proposed project would provide an additional US\$31.3 million for cash transfers over three years. Domestic financing will depend on the availability of resources and will likely be the limiting factor in expanding the Program.

**Annex 5: Project Costs**  
**HONDURAS: Social Protection**

Project Cost By Component and/or Activity	Local US \$million	Total US \$million
<b>Component 1: Institutional Strengthening</b>	<b>8.7</b>	<b>8.7</b>
Subcomponent 1.1	3.5	3.5
Subcomponent 1.2	5.0	5.0
Subcomponent 1.3	0.2	0.2
<b>Component 2: Transfers</b>	<b>31.3</b>	<b>31.3</b>
Total Baseline Cost	40.0	40.0
Physical Contingencies		
Price Contingencies		
<b>Total Project Costs</b>		
Interest during construction		
Front-end Fee		
<b>Total Financing Required</b>	<b>40.0</b>	<b>40.0</b>

## Annex 6: Implementation Arrangements

### HONDURAS: Social Protection

1. The arrangements for implementation of this project conform to the institutional arrangements that the Government is establishing for carrying out the *Bono 10,000* Program.<sup>54</sup> (See Table 1 on the next page) The **Ministry of the Presidency (MoP)** has been given line-ministry authority for implementation of the Program. A **National Coordinator** has been appointed by the President, through the MoP, to coordinate and lead the Program under the direction of the Minister of the Presidency. The National Coordinator is being supported by **PRAF**, an independent Government Agency under the Presidency, which is responsible for executing the Program's conditional cash transfers. To coordinate the participation of other ministries and agencies, especially with respect to supply of health and education services and verification of co-responsibilities, the National Coordinator heads a Technical Committee comprised of those ministries and agencies.

2. The Ministry of the Presidency recently established a Project Administration Department (*Unidad Administradora de Proyectos*–UAP) which has been set up to coordinate, administer and monitor the technical and financial elements of projects and programs for which the MoP is responsible. The Ministry of Presidency, through the UAP, is setting up a **Technical Coordination Unit for the Bono 10,000**, which will be headed by the **National Coordinator**. The Technical Coordination Unit will be responsible for developing and implementing accountability mechanisms for the Program and for administering the institutional procedures and systems for inter-institutional coordination and monitoring and evaluating overall implementation. The UAP is also equipped with procurement, financial management and M&E units and functionaries who are experienced in the execution of foreign financed operations, including for the Bank. The UAP will coordinate and oversee the budgeting and management of Program funds, including the financing from this project.

3. The UAP was created in April 2010 through an Executive Decree to assume project and program administrative functions under the MoP and has absorbed staff from within the units of the former MoP project administration structure and so has substantial initial capacity. With the creation of the UAP, the MoP has defined the lines of reporting for the Program within the Ministry of the Presidency. Specifically, the Technical Coordination Unit, under the leadership of the National Coordinator, will be responsible for the management and technical oversight of the Program. In this capacity, the National Coordinator will work directly with the PRAF agency and the agencies represented under the Technical Committee for the implementation and execution of the Program.

4. Responsibility for the *execution* of project funds will be shared between the MoP and PRAF. PRAF will sign a Subsidiary Agreement with MoP and MoF describing its responsibilities under the project. The MoP will execute subcomponents 1.1 and 1.3 of the project. PRAF will execute subcomponent 1.2 and component 2. Under component 2, PRAF will finance the conditional cash transfers to beneficiaries through a payment agency, pursuant

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<sup>54</sup> The framework was set out in the Presidential Decree No. PCM-101-2010 that established the Program. A regulation that will provide more details on the Program characteristics and responsibilities of participating agencies and ministries is in advanced stages of preparation and is expected to be finalized prior to negotiations.

to the provisions of a Financial Institution Agreement signed between PRAF and the relevant Financial Institution, and under terms and conditions that are acceptable to the Association. In the first phase of the project, a Financial Institution Agreement between BANADESA, a local state bank, and the PRAF agency was signed on May 19, 2010 for the management of the cash transfers and it was found to be satisfactory to the Association. BANADESA has been serving as the payment agent for other cash transfer programs administered by the PRAF agency and will continue in the role of payment agent (see Annex 7). The project will finance an evaluation of additional or different payment arrangements and an alternative arrangement may be adopted by the Program and used by the project based on this evaluation. PRAF is experienced in the execution of foreign financed operations, including various operations financed by the IDB.

5. The MoP will rely on specialized financial and procurement units within the UAP to support execution of subcomponents 1.1 and 1.3. The Technical Coordination Unit will be responsible for technical aspects of designing and overseeing the execution of activities, including monitoring of Program indicators, which will also be used to track project implementation. The Technical Coordination Unit will be supported by specialists in the procurement unit to ensure that both the Government and the World Bank’s procurement policies and procedures are followed.<sup>55</sup> Specialists in the financial management unit will track Program and project commitments and payments in the national financial management system (SIAFI) and for the project these will be concurrently through UEPEX (Unidad de Extensión de Proyectos Externos) in a project financial management system.

6. Annual operational plans, budget requests and procurement plans will be prepared by each executing agency and consolidated by the UAP, with support from financial and procurement specialists, for submission by the UAP to the Bank. Reports on project progress, including on project indicators and financial progress (FMRs) will also be prepared by each executing agency and consolidated by the Technical Coordination Unit, with support from the M&E and financial management specialists for submission by the National Coordinator to the Bank.

**Table 1- Key Roles and Responsibilities under the Bono 10,000 Program**

	<b>National Coordinator</b>	<b>Ministry of the Presidency</b>	<b>PRAF</b>	<b>Ministries of Health &amp; Education</b>	<b>Comités Escolares Comunitarios</b>
<b>Program Management</b>	<ul style="list-style-type: none"> <li>• Program-level policy decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Manages Program budget and behalf of the NC</li> <li>• Technical support</li> <li>• Program M&amp;E</li> </ul>	<ul style="list-style-type: none"> <li>• Manages the Execution of conditional cash transfers</li> </ul>	<ul style="list-style-type: none"> <li>• Participate in Technical Committee</li> </ul>	

<sup>55</sup> Bank procurement policies and procedures as set out in the Project’s Operational Manual would take precedence over national procedures when they two are not aligned.

	<b>National Coordinator</b>	<b>Ministry of the Presidency</b>	<b>PRAF</b>	<b>Ministries of Health &amp; Education</b>	<b>Comités Escolares Comunitarios</b>
<b>Outreach &amp; Communication</b>	<ul style="list-style-type: none"> <li>• Design of Communication Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of communication strategy</li> <li>• Develops M&amp;E system to provide info on results/impact</li> </ul>	<ul style="list-style-type: none"> <li>• Maintains website with up-to-date information for users</li> <li>• Develop Customer Service Unit for solving complaints and grievances</li> </ul>	<ul style="list-style-type: none"> <li>• Coordinate training for local officials involved in verification of co-responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>• Serve as local contact point for beneficiaries</li> </ul>
<b>Targeting</b>	<ul style="list-style-type: none"> <li>• Develops targeting mechanism and operational strategy to identify beneficiaries</li> </ul>		<ul style="list-style-type: none"> <li>• Apply targeting mechanism</li> </ul>		<ul style="list-style-type: none"> <li>• Validate beneficiaries identified through targeting still eligible</li> </ul>
<b>Supply side</b>	<ul style="list-style-type: none"> <li>• Heads Technical Committee to support coordination of supply</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure that institutional goals for sectors addresses Program's supply needs</li> </ul>	<ul style="list-style-type: none"> <li>• Certifies availability of health and education services prior to registration and provides schools/health centers with list of beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Provide accurate data on status of supplies</li> <li>• Support provision of supply in targeted areas</li> </ul>	<ul style="list-style-type: none"> <li>• Report lack of supply</li> </ul>
<b>Registration of Beneficiaries</b>		<ul style="list-style-type: none"> <li>• Coordinate with National Registry to facilitate identification for undocumented beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Register beneficiaries</li> <li>• Coordination with National Registry to help undocumented beneficiaries secure IDs</li> </ul>		
<b>Verification of Co-responsibilities</b>		<ul style="list-style-type: none"> <li>• Verify PRAF financial statement for transfer payments</li> </ul>	<ul style="list-style-type: none"> <li>• Collects information on compliance provided by sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Provide information on compliance</li> </ul>	
<b>Payment of Benefits</b>			<ul style="list-style-type: none"> <li>• Provides list of eligible beneficiaries to pay agency</li> <li>• Reconciles actual payments with eligible list</li> </ul>		<ul style="list-style-type: none"> <li>• Inform beneficiaries of date and location of payments distribution</li> </ul>
<b>Audits, Monitoring &amp; Evaluation</b>	<ul style="list-style-type: none"> <li>• Defines overall framework for M&amp;E</li> </ul>	<ul style="list-style-type: none"> <li>• Finance annual audit</li> <li>• Program M&amp;E and impact evaluations</li> </ul>	<ul style="list-style-type: none"> <li>• Finance concurrent audit</li> <li>• Monitor implementation of cash transfers</li> </ul>	<ul style="list-style-type: none"> <li>• Provide information required to carry out process evaluation/spot checks</li> </ul>	<ul style="list-style-type: none"> <li>• Consider role for Social audits</li> </ul>

## Annex 7: Financial Management and Disbursement Arrangements

### HONDURAS: Social Protection

#### A. Summary Conclusion of Financial Management Assessment

1. The approach to project implementation would be to use existing capacity in both Implementing Agencies involved, which is as follows: a) Subcomponents 1.1 and 1.3 will be implemented by the Ministry of the Presidency through the UAP and, b) the subcomponent 1.2 and component 2 (CCT payments) will be implemented by PRAF through their UEP. Each of the units will be responsible for procurement and financial management and will be in charge of FM tasks for their subcomponents. The salient features of the program will be: (i) the overall financial management reporting activities of the project for all the components will be handled by the MOP, which will consolidate the information and prepare the reports required by the Bank and will manage the Designated Accounts as well; and (ii) Conditional Cash Transfers for the program will be paid to the beneficiaries through a payment agent, under terms and conditions acceptable to the Bank.

2. A financial management capacity assessment for Project Administration Department (*Unidad Administrativa de Proyectos- UAP*) in the MoP and the Project Execution Unit (*Unidad de Ejecucion de Proyectos- UEP*) in the PRAF agency was carried out in accordance with OP/BP 10.02 and applicable guidelines. The assessments reached the following conclusions:

- (i) The UAP, in the MoP, has prior experience with managing fiduciary aspects of externally funded projects through Presidential Commission for the Modernization of the State (*Comisión Presidencial Modernización de Estado-CPME*) and National Technical Assistance Unit (*Unidad Nacional de Asistencia Técnica-UNAT*) that under the new Administration, were merged to become the UAP (IDA 3939-HO PRSTAC; TF091447; TF 091178 PRODEMIN, IDA 4536-HO PROMEF; 4097-HO PNPS-Comp.1; TF058250; IDB: HO-L1015 *Programa Consolidación Gestión Fiscal y Municipal*; ATN99-07-HO, ATN 10719-HO; ATN-11284-HO, Fondo Multidonante, Convenio Food 2004-017-003; and *Bono 10,000*) and has in place a basic administrative structure and systems (FM and internal control system), which puts it in a good position to manage the fiduciary aspects of the project.
- (ii) The UEP, in the PRAF agency, has prior experience with managing fiduciary aspects of externally funded projects (IDB 10035; 2096; 1026; and 8366), including specific experience with managing conditional cash transfer programs and has also in place a basic administrative structure and systems (FM and internal control system) which puts it in a good position to manage the fiduciary aspects of the project.
- (iii) The FM capacity assessment (FMA) has identified project-specific actions in order to enable the UAP and UEP to monitor the financial activities of the project and carry out the financial activities of the proposed project effectively and to mitigate the identified fiduciary risks.

(iv) The project will use country systems (SIAFI and UEPEX) for accounting and reporting purposes, as these systems would provide adequate information for monitoring specific project expenditures. No additional system is expected to be needed for FM purposes. In addition to the use of country systems (SIAFI), the proposed project will also use the single treasury account to make project payments. The UEPEX module will allow the accounting system to interact with the finance and budget system, so the system's coding of hierarchical accounts reflects the balances or initial amounts in cash, total in banks, fund transfers, investment categories, expense categories, and the origin of the funds. Using the UEPEX module, the required reports can be generated for closing program accounts periodically, to be reviewed and approved by each administrative unit. MoP will consolidate and submit reports in the formats required by the Bank and will ensure their quality, comprehensiveness, reliability, and timely submission.

## **B. Organizational Arrangements and Staffing**

3. The approach to project implementation would be to use existing capacity in both Implementing Agencies (IAs) involved, which is as follows: a) Subcomponents 1.1 and 1.3 will be implemented by the Ministry of the Presidency through the UAP, and b) the subcomponent 1.2 and component 2 (CCT payments) will be implemented by PRAF through their UEP. Each of the units will be responsible for procurement and financial management and will be in charge of FM tasks for their subcomponents.

4. Each IA will be in charge of financial management (FM) tasks for the components under their execution. These will basically include: (i) budget formulation and monitoring; (ii) cash flow management (including processing payments and submitting credit withdrawal applications to the Bank); (iii) maintenance of accounting records, including the maintenance of an inventory of fixed assets for the project; and (iv) administration of underlying information systems. The MoP will liaise with PRAF and will consolidate the information for: (a) preparation of in-year and year-end financial reports, and (b) arranging for the execution of the external audit and the operational concurrent audit.

5. For implementing Component 2, PRAF will enter into a Financial Institution Agreement with a financial institution in order to channel the funds to the final beneficiaries of the CCTs. The financial institution and the terms of the Agreement will be subject to the Bank's review and approval.

6. The Government has selected BANADESA, a state owned bank, which PRAF has used previously for these types of programs, as the payment agent for the initial implementation of the Project. The terms under which it would operate have been agreed in a Financial Institution Agreement. During implementation, alternative payment agents will be considered. Additionally, other mechanisms for payment delivery such as debit cards, will be considered to establish a more effective payment cycle.

7. Therefore, both IAs already have the capacity necessary to administer the financial aspects of the proposed project, including a basic administrative structure and FM systems in place. Under this arrangement, the Technical Coordination Unit within MoP will be responsible for the technical content of the project, while UAP and UEP will be responsible for the flow of funds, procurement of goods and services, making project payments, financial

reporting, and other related fiduciary activities. The IAs will carry out FM functions with its existing staff and be required to maintain professional staff in numbers and with qualifications and experience acceptable to the Bank as described in Program's Operational Manual. However, since both IAs will continue to administer other projects, it is expected that additional FM staff will be necessary within the IAs to carry out the increased workload generated by the program. Additionally, enhanced FM training to both IAs will be delivered during project start-up and on an ongoing basis.

### **C. Budget Planning**

8. Between April and May of each year, each IA will prepare its tentative investment program for the next year (including the investment program for the proposed project) and submit it to the Ministry of Finance (SEFIN) for review and approval. The program should be consistent with the budget preparation policies provided by the Ministry of Finance, and be incorporated into the national budget for its submittal to Congress in September.

9. On the basis of the approved budget, both implementation units will adjust as needed the annual operations plan (AOP) and procurement plan, which will be reviewed by the Bank.

10. Under this project, each IA will have a specific budgetary line that will be used for recording budget execution in SIAFI and thereafter, to report project execution with the UEPEX module.

### **D. Accounting and Financial Reporting**

11. *Accounting Policies and Procedures.* The main FM regulatory framework for the project will consist of: (i) Honduras' laws governing budget management; (ii) Program's operating manual; and (iii) the IAs' operating norms.

12. These documents will be complemented by project-specific FM arrangements documented in the FM section of the Program's operational manual. Among others, specific reference will be made to: (i) the internal controls appropriate for the project; (ii) the formats of project financial reports, and (iii) auditing arrangements (both for the Financial Statements and for the Concurrent Operational Audit).

13. *Information Systems.* The proposed project will utilize country systems for budgeting, budget execution, treasury and financial reporting. The financial activities of the project (especially budgeting and budget execution) will be recorded in SIAFI. In addition, to meet reporting requirements of the proposed project, the project will use the UEPEX, which is a module of SIAFI specifically designed for the accounting and reporting of externally-financed projects. The use of these systems was harmonized with IDB as to reduce the administrative burden on the PIUs.

14. *Treasury System.* It is important to note that with the use of country systems (SIAFI) comes the use of the single treasury account. As expenditures/commitments arise, they will be recorded in SIAFI, and once approved; funds will be converted into local currency by the National Treasury in the Ministry of Finance (SEFIN) and channeled through the single treasury account to make payments to suppliers, contractors or consultants.

15. **Financial Reports.** On a *semester* basis, the MoP (consolidating the information from both implementing agencies) will prepare and submit to the Bank an unaudited interim financial report (IFR) containing at least: (i) a statement of sources and uses of funds and cash balances (with expenditures classified by subcomponent); and (ii) a statement of budget execution per subcomponent (with expenditures classified by the major budgetary accounts). The interim reports will be submitted not later than 45 days after the end of each quarter. In this case, the IFRs are not expected to be utilized for disbursement purposes.

16. On an *annual* basis, MoP (consolidating the information for both IAs) will prepare project financial statements including cumulative figures for each fiscal year of the financial statements cited in the previous paragraph. The financial statements will also include explanatory notes in accordance with the Cash Basis International Public Sector Accounting Standard (IPSAS), and the project implementation unit's assertion that credit funds were used in accordance with the intended purposes as specified in the Financing Agreement. These financial statements, once audited, will be submitted to the Bank not later than six months after the end of the Government's fiscal year (which equals the calendar year).

17. The supporting documentation of the semester and annual financial statements will be maintained in each IA's premises, and made easily accessible to World Bank supervision missions and to external auditors.

#### **E. Flow of Funds**

18. **World Bank Disbursement Methods.** Considering the results of the assessments, the following disbursement methods may be used by MoP to withdraw funds from the credit: (a) reimbursement, (b) advance, and (c) direct payment.

19. **World Bank Designated Account.** For this project, it is envisaged that two different Designated Accounts (DAs) will be used. DA-A will be used for expenditures under Component 1 of the Project and DA-B will be used for expenditures under Component 2 of the project (CCT payments). Both DAs will be under the control of the MoP. Under the advance method and to facilitate project implementation, the MoP will have access to both Designated Accounts in US dollars that will be maintained in *Banco Central de Honduras* in the name of the project. Funds deposited into the DAs as advances, would follow Association's disbursement policies and procedures, as described in the Disbursement Letter and Disbursement Guidelines.

20. To make payments to providers and consultants for goods or services provided under this project, each IA will use SIAFI and make payments directly from the DAs through the SIAFI system (as explained in the treasury systems section above).

21. The ceiling for advances to be made into DA-A will be established based on a forecast estimated to be sufficient for the next conditional cash transfer. The ceiling for advances to be made into DA-B will be US\$1,000,000 estimated to be sufficient for project execution for a period of 4 months. The reporting period to document eligible expenditures paid out of both the DAs is expected to be on a quarterly basis.

22. The reporting requirements for payments made from DA-A for conditional cash transfers to the beneficiaries, will require: (i) customized Statement of Expenditures in the

format acceptable to the Bank, (ii) results of the concurrent audit required for each payment cycle, (iii) a forecast for the next conditional cash transfer, and (iv) a reconciliation of the DA-A.

23. The reporting requirements for payments made from DA-B and eligible expenditures paid using the reimbursement methods will require: (i) records evidencing eligible expenditures (e.g. copies of receipts, invoices) for payments for Goods and Consultant Services with firms under contracts valued at US\$100,000, for payments for Non-Consultant services and Consultant services of individuals under contracts valued at US\$40,000 and for payments for Operating Costs valued at US\$20,000. For all other expenditures below these thresholds, supporting documentation for documenting project expenditures will be with Statements of Expenditures (SOEs).

24. All consolidated SOEs documentation will be maintained for post-review and audit purposes for up to three year after the final withdrawal from the credit account or 18 months after the World Bank has received the final audit, whichever is later.

25. The reporting requirements for Direct Payments will be supporting documentation consisting of records (e.g. copies of receipts, supplier/ contractors invoices). The minimum value for applications for direct payments and reimbursements will be US\$500,000.

26. ***Disbursement Deadline Date:*** four months after the closing date specified in the Financing Agreement.

## **F. Audit Arrangements**

27. *Internal Audit.* In the course of its regular internal audit activities vis-à-vis the institutional budget, internal auditors for both IAs may include project activities in their annual work plans. If such audits occur, the IAs will provide the Bank with copies of internal audit reports covering project activities and financial transactions.

28. *External Audit.* The annual project financial statements prepared by the MoP will be audited following International Standards on Auditing (ISA), by an independent firm and in accordance with terms of reference (TORs), both acceptable to the Bank. The audit opinion covering project financial statements will contain a reference to the eligibility of expenditures.

29. The MoP will arrange for the first external audit within three months after Credit Effectiveness. Each audit engagement is expected to cover at least two years.

30. In addition, memoranda on internal controls (“management letters”) for the fiduciary activities of the IAs will be produced on a semi-annual basis, covering (i) weaknesses noted by the auditors in the internal control systems of the project, (ii) cases of application of inappropriate accounting policies and practices, (iii) issues regarding general compliance with broad covenants, and (iv) any other matters that the auditors consider should be brought to the attention of the Recipient.

## **G. Incremental Fiduciary Control Framework**

31. Given the characteristics of the operation and the Honduran portfolio performance, complementary measures on standard FM arrangements will be part of this proposed project control framework. Incremental control measures are described below:

32. Smart Supervision Approach: As part of the Honduras Governance and Anti-Corruption Strategy, this project will use the SIAFI and UEPEX systems for project execution and reporting. As the Bank has been granted access to Government's SIAFI integrated database, the FM team will be able to continuously monitor project's execution. By using Computer Assisted Auditing Techniques (CAATs), the Bank team would be able to detect "red flags" during execution that might trigger the need to request additional information to the project on selected operations or to perform spot checks to the project.

33. Operational Concurrent Audit: Program CCT payments and appropriate use of the credit proceeds including the practices followed in enrollment, the verification of co-responsibilities and its reporting will be audited by an external audit firm and under Terms of Reference, both acceptable to the Bank. The Operational Concurrent Audit will review the compliance of control mechanisms as established in the Project Operational Manual and will have a continuous engagement since the beginning of the project. It is a central piece of the project's control framework and will focus mainly on: (i) the validation of the integrity of the beneficiaries' database, and (ii) the control systems implemented by the PRAF for CCT payments. Reports of the concurrent auditor will be submitted to the Bank for review not later than 90 days after each payment cycle. The obligation to contract and maintain the program's operational concurrent audit during the life of the project will be established in the Subsidiary Agreement between MoP and PRAF. The contracting of the Concurrent Auditor will follow Terms of Reference acceptable to the Bank and reviewed by the Financial Management Specialist (FMS) and will include:

- (i) An opinion on the integrity of the Beneficiaries' database.
- (ii) An opinion on the Control System implemented by PRAF for payments of the CCTs.
- (iii) Conclusions on, and recommendations for, modifying the processes used for the Maintenance and update of the database and for maintaining valid information on eligible beneficiaries. Opinions, conclusions and recommendations will be given every three months. The team presented by the firm to be selected would have as a minimum requirement, experience in supervising and/or auditing CCT Programs, public administration procedures and financial auditing.

34. The Project Operational Manual will include the mechanisms for taking the remedial actions to respond to the findings of the audit report. These will include, at least (i) the prompt devolution of the amounts incorrectly paid, and (ii) a follow-up mechanism for solving the audit findings.

35. In the course of its regular internal audit activities vis-à-vis the institutional budget, internal auditors for MoP and PRAF may include project activities in their annual work plans.

If such audits occur, they will provide the Bank with copies of internal audit reports covering project activities and financial transactions.

36. *Disbursement Schedule* is as follows:

<b>Category</b>	<b>Amount of the Financing Allocated (expressed in SDR<sup>1</sup>)</b>	<b>Percentage of Expenditures to be Financed</b>
(1) Education Grants and Health and Nutrition Grants under Part B of the Project	20,700,000	100%
(2) Goods, Consultant Services, Non-consultant Services, Operating Costs, and Training under Parts A.1 and A.3 of the Project	2,500,000	100%
(3) Goods, Consultant Services, Non-consultant Services, Operating Costs, and Training under Part A.2 of the Project	3,300,000	100%
<b>TOTAL AMOUNT</b>	<b>26,500,000</b>	

<sup>1</sup>SDR rate applied to the disbursement table was US\$1.5111 which was the rate in effect on the last day of the month prior to negotiations.

## **H. Country Issues**

37. As stated in the Governance Strategy Note (2006), significant improvements have been made in strengthening public financial management systems in Honduras, with the launch of a comprehensive reform program to support the implementation of the 2004 Finance Law, the implementation of SIAFI at the central level of Government and the National Payment System. However, corruption remains a serious concern and the attitude toward compliance and control as well, which impedes growth and development. Therefore, as an effort to support improvements in governance in Honduras, accelerate growth and make sustained progress in poverty reduction, the World Bank produced a Governance Strategy Note which provides a framework for the World Bank's involvement in Honduras. This note recommends specific actions to strengthen transparency accountability and the demand for

good governance across the portfolio through among others: extensive disclosure of project procurement information, strengthened partnerships with civil society and beneficiaries in project design and monitoring, regular risk assessments and enhanced supervision where needed and continuity of project staffing. This assessment has taken into account the conclusions of the Governance Strategy Note.

### I. Risk Assessment Summary

38. The FM risk for this project has been assessed at *High* and once there is evidence that the mitigating measures have been implemented and are working as intended, the level of FM risk for this project will be re-assessed and revised accordingly. The following table presents the risk assessment, as well as the risk mitigating measures incorporated into the design of the project and the financial management implementation arrangements.

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Condition of Negotiations/Board or Effectiveness (Y/N)?
<b>Inherent Risk</b>			
Country Level	S	In part because of the poor rating of Honduras in Transparency International's Corruption indices, and despite recent measurable improvements in the country's public financial management systems, inherent risk is still considered to be substantial.	
Entity Level	S		
Project Level	H	Although the risk is mitigated by the use of SIAFI UEPEX and the enhanced supervision strategy, the specific project-risk for this operation remains High. An Operational Concurrent Audit which will validate the integrity of the Beneficiaries' database and the control mechanisms implemented by PRAF on the CCT payments will be carried out by an independent firm. The Financing Institution Agreement includes a covenant that IAs will be required to maintain adequate implementation arrangements at all times.	
<b>Control risk</b>			
Budgeting, Accounting, Internal Control	M	Project budget and accounting will be registered in the national system (SIAFI), and both IAs will utilize UEPEX (module of SIAFI developed especially for projects). The project will operate under an operational manual approved by the Bank. A dedicated FM staff will be added to each of the PIUs.	Negotiations: Y
Funds Flow	M	The Project will use the single treasury account to make payment to suppliers, contractors and consultants. Conditional Cash Transfer Payments will be done through a payment agent and under ToRs both acceptable to the Bank.	
Financial Reporting, Auditing	M	The project will utilize country systems (SIAFI and UEPEX) for accounting and financial reporting. MoP will furnish Project Financial Statements' audit reports to the Bank.	
<b>FM Risk</b>	<b>H</b>		

## J. Financial Management Action Plan

39. The FM Action Plan is proposed as follows.

<b>Action</b>	<b>Responsible Entity</b>	<b>Completion Date<sup>56</sup></b>
1. Contract the incremental staff required to properly administer the project (1 dedicated FM staff for each IA)	MoP/PRAF	By effectiveness
2. Finalize draft audit TORs and short list.	MoP	By effectiveness
3. Finalize the draft FM section of the Project Operational Manual.	MoP/PRAF	Completed
4. Receive a FM “on the job” training focused in use of SIAFI UEPEX for IDA-funded projects	MoP/PRAF/WB	1 month after effectiveness
5. Finalize the proposal in relation to the chart of account and incorporation of the project into SIAFI’s structure and the implementation of UEPEX.	MoP/PRAF	By effectiveness
6. Contract external auditors, based on short list satisfactory to the Bank.	MoP	3 months after effectiveness

## K. FM Supervision Plan

40. The Bank will perform a supervision mission prior to effectiveness to verify the implementation of the unit and the FM system. After effectiveness, the Bank will perform continuous monitoring of the project as part of the smart supervision approach that is being set for the Honduran portfolio. Additionally, the Bank will review the annual audit reports, the financial sections of the semester IFRs, and will perform at least two formal supervision missions during the first 6 months of project’s execution and then will review the supervision plan that might be adjusted as needed.

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<sup>56</sup> This column solely presents the estimated completion date, not an indication of legal conditions.

## Annex 8: Procurement Arrangements

### HONDURAS: Social Protection

1. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 and revised in October 2006 and May 2010; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 and revised in October 2006 and May 2010, and the provisions stipulated in the Financing Agreement. The general description of various items under different expenditure categories is described below. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Government and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

2. **Civil Works.** The project will not finance civil works.

3. **Procurement of Goods.** The project will finance the acquisition of computer equipment, software, office equipment, and information system and office supplies, and vehicles, as appropriate. The procurement will be carried out using Bank's Standard Bidding Documents for all ICB. For National Competitive Bidding (NCB) procedures, bidding documents agreed with or satisfactory to the Bank will be used.

4. **Non-Consulting Services.** It is expected that the project will finance leasing of vehicles, social promoters, registry services to attend beneficiaries.

5. One of the overall objectives of the World Bank is to achieve and implement with the other donors and Office for the Regulation of Procurement and Contracts (ONCAE) harmonized procurement documents for processing procurement activities, excluding international competitive biddings processes, (ICB).

6. Without any limitations to any other provisions set forth in this Section or in the Procurement Guidelines, the following shall expressly govern the procurement of goods and services (other than consultant services) under this Section:

(i) Contracts shall be awarded to the lowest evaluated bid in accordance with criteria set forth in the bidding documents, and without taking into account, in the evaluation, the financial cost of foreign exchange components.

(ii) Foreign bidders shall not, as a condition for submitting bids, be required to: (A) be registered in the Recipient's territory; (B) have a representative in the Recipient's territory; (C) be associated with suppliers or contractors of the Recipient's territory; and (D) certify that, in their country of origin, suppliers or contractors of the Recipient's territory are allowed to participate in competitive bidding procedures under equal conditions with other bidders.

(iii) Contracts shall not be divided for the sole purpose of reducing contract amounts.

7. **Selection of Consultants.** The project will finance technical assistance to strengthen the institutional capacity of the MoP and PRAF, design and evaluation of the M&E Plan, Impact Evaluation, evaluation of the implementation of the program, designs of pilot projects, technical assistance to improve program designs, feasibility studies for alternative payment mechanisms, external audit, update of beneficiary registry, system design of the operational monitoring, surveys of co-responsibilities, technical assistance to re-design the organizational structure of PRAF, web page design and maintenance, customized MIS system, technical assistance for the design of an integrated Social Protection Strategy.

8. **Firms.** All contracts for firms would be procured using Quality and Cost Based Selection (QCBS), except for small contracts for assignments of standards nature and with an estimated cost of less than US\$100,000 equivalent or less per contract, other Bank's selection could methods be used. **Short lists** of consultants for services estimated to cost less than US\$100,000 equivalent or less per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

9. Without limitation to any other provisions set forth in this Section or the Consultant Guidelines, the following shall expressly govern the procurement of consultants' services under this Section:

- (i) Foreign consultants shall be permitted to participate in the selection process even if there is availability of consultants of the Recipient's territory for the services being procured; and
- (ii) Foreign consultants shall not be required to be registered with associations of the Recipient's territory or to be associated with consulting firms of the Recipient's territory as a condition for participating in any selection process.

10. **Individual consultants.** Would be selected through the comparison of at least three CVs and in accordance with Section V of the Association's guidelines for consultants.

11. **Training.** The proposed Project is expected to finance expenses related to socialization of the monitoring plan and events, workshops of community pilot projects, and staff training.

12. **Recurrent/Operational Cost.** These costs include the financing of expenditures related to registry beneficiaries (SIRBHO), monitoring and supervision, communication, office support staff, office supplies and equipment, utilities, and computer maintenance.

13. **Advertisement.** **Honducompras** shall be used to advertise all procurement activities, including request for expression of interest for consulting firms or individuals, and to publish information on awarded contracts in accordance with provisions of paragraphs 2.28 of the Consultant Guidelines and as mandated by local legislation. Contracts expected to cost more than US\$100,000 and above shall also be advertised in UNDB online and in dgMarket. An electronic system for management of procurement plans (**SEPA**), provided by the Bank, shall also be used for the publication of procurement plans and processes.

14. **Assessment of the agency’s capacity to implement procurement.** On April 27 and 28, 2010, the Bank conducted an assessment of both the UAP-UCAC of MoP and UCP in PRAF to determine their capacity and needs to implement the proposed project. The assessment reviewed the organizational structures for implementing the project and the interaction between project staff responsible for procurement and the relevant unit for technical, administration and finance units.

15. **Staffing of the Procurement Unit in MoP.** At present, the UCAC at MoP is staffed by a procurement specialist responsible for the coordination and quality control of procurement and two procurement assistants to implement procurement of projects and programs currently undertaken by the MoP (IDA 3939-HO, TF091447, PRODEMIN –TF 091178, IDA 4536 (PROMEf); Programa Consolidacion Gestion Fiscal y Municipal; Component 1 of 4097; TF058250, ATN99-07-HO, ATN 10719-HO; ATN-11284, Fondo Multidonante, Convenio Food 2004-017-003; and Bono Diez Mil. It is important to recognize that, although the procurement staff in the UCAC is experienced in World Bank procurement procedures, the workload generated by the projects and programs may become overwhelming; therefore, it is necessary that the procurement function of the UCAC be reinforced by an additional staff in order to be able to respond to the demands of the projects and programs undertaken by the MoP.

16. **Staffing of the Procurement Unit in PRAF.** At present there is one procurement person in PRAF responsible for all procurement activities for four IDB projects managed by PRAF. The procurement officer has experience in handling projects financed by IDB, but not much experience with IDA–financed procurement. Currently, PRAF is managing the following projects financed by IDB: 10035, 2096, and 8366.

17. **Risk Assessment.** The overall risk assessment for Honduras in general and for the project is high. The factors supporting this assessment are based on high staff turnover in projects fiduciary staff and weak planning capacity which leads to overuse of direct contracting; procurement plans are prepared late and updated frequently. In addition, there are insufficient procurement personnel to handle all the demands from the projects and programs undertaken in both of the executing agencies, as well as PRAF’s lack of experience with IDA–financed procurement.

18. **Action Plan.** Most of the issues/risks concerning the procurement component for implementation of the project have been identified and the time frame to mitigate these risks proposed as follows:

Action	Status
1. Finalize the Preliminary (Global) procurement plan.	Completed before Negotiations
2. Submission of the Revised Project Operational Manual to the Association for its No Objection	Completed by Negotiations

3. Formalization of Contracts of Staff	Completed
4. Contracting of two additional Procurement Staff, one for each of the implementing agencies.	By Mid-June 2010
5. Building capacity on WB procurement procedures and SEPA Workshop/Access in SEPA to designated staff.	By July 2010

19. **Threshold for Procurement Methods and Prior Review.** Considering the risk assessment rating, the proposed prior review thresholds for the project are US\$150,000 and above for goods and non-consulting services; and US\$100,000 and above for consulting services for firms; US\$50,000 and above for individual consultants. Also, all single-source of consultants as well as direct contracting for goods and non-consulting services shall be subject to prior review by the Association regardless of the amount involved.

20. **Frequency of Procurement Supervision.** Based on the assessment, the recommendation is to carry out annual procurement post reviews of project activities below the thresholds indicated above.

21. **Procurement Plan.** The Government submitted the preliminary (Global) procurement plan on May 18, 2010 and it has been accepted by the Bank. The procurement plan will be made available in the project database and on the electronic SEPA system. The procurement plan will be updated annually in agreement with the Bank or as required to reflect planned and actual project implementation activities.

22. **Inter-Institutional Arrangement.** For the survey of beneficiaries required under the program, the services of the National Institute of Statistics (INE) are critical to the project implementation. INE's services are of unique and exceptional nature and not suitable alternatives from private sector consultants are available are being contemplated under the project. INE is an autonomous entity, managing its own budget, created under the Decree 86-2000 of July 8, 2000. In such circumstances, INE may be eligible to participate in IDA-financed projects under the circumstances set out in para.1.11 (c) of the Guidelines, Selection and Employment of Consultants by World Bank Borrowers ("Consultant Guidelines"), or 1.8 (c) of the Goods, Works and Non-Consulting Services. A comprehensive justification for retaining the INE's services should be furnished to the Association.

**Details of the Procurement Arrangements Involving International Competition.**

**23. Goods, Works, and Non Consulting Services.**

(a) List of contract packages to be procured following ICB and direct contracting:

1	2	3	4	5	6	7	8
Contract (Description)	Estimated Cost (US\$)	Procurement Method	P- Q	Dome stic Prefe rence (yes/n o)	Review by Bank (Prior / Post)	Expected Bid- Opening Date	Comme nts
Acquisition of MIS equipment	300,000.00	ICB	N	N	Prior	May 2011	
Equipment for Regional Offices	341,000	ICB	N	N	Prior	March 2011	

**24. Consulting Services**

(a) List of consulting assignments with short-list of international firms.

1	2	3	4	5	6
Description of Assignment	Estimated Cost (US\$)	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Comments
MIS Design System	200,000	QCBS	Prior	March 2011	
PRAF Structure Re-design (1.2.6)	200,000	QCBS	Prior	Jan. 2011	
Design and Implement. Operational Monitoring System	300,000	QCBS	Prior		
Impact Evaluation (surveys and social audits)	800,000	QCBS	Prior	Feb.2011	
Feasibility Study and Piloting of alternative payment mechanisms (for transfers)	300,000	QCBS	Prior	July 2011	

25. **Threshold for Procurement Methods and Prior Review:**

	<b>Expenditure Category</b>	<b>Control Value (Threshold)</b>	<b>Procurement Method</b>	<b>Contracts Subject to Prior Review</b>
1	Goods/Non-Consulting Services	>150,000 >10,000 <150,000 <10,000	ICB NCB  Shopping	All First Two of each Agency First Two of each Agency
2	Consulting Services Firms	>100,000 <100,000  Regardless of Value	QCBS LCS, CQS, QBS, FBS  SSS	All First two processes of each Agency, including TORs. All
3	Individuals	>50,000 <50,000  Regardless of Value	Comparison of 3 CVS  Chapter V of Guidelines  SSS	All processes including TORs TOR by TTL  All with Justification

ICB: International Competitive Bidding  
 NCB: National Competitive Bidding  
 Shopping: Price Quotation

QCBS: Quality and Cost Base Selection  
 LCS: Least-Cost Selection  
 CQS: Consultant Qualification Selection  
 QBS: Quality-Based Selection  
 FBS: Fixed-Budget Selection  
 SSS: Single-Source Selection

## Annex 9: Economic and Financial Analysis

### HONDURAS: Social Protection

1. **An economic and financial analysis conducted as part of project preparation suggests that the *Bono 10,000* Program has the potential for significant positive impact on the poorest populations in Honduras.** Analysis results indicate a likely 10 percent reduction in extreme poverty headcount and a 19 percent increase in the beneficiaries' long term labor incomes. After the first year of intervention, the reduction in extreme poverty is assessed at 3 percent. However, the largest impact is on the poverty gap, with the cash transfer program showing the potential to reduce the gap by 22 percent. In the absence of the Program, to attain a 10 percent reduction in the extreme poverty headcount the economy would have to grow 20 percent between 2010 and 2013, which is well beyond the growth forecast for this period. The elasticity of poverty to growth in Honduras is 0.5, implying that a GDP growth of 1 percent reduces the extreme poverty headcount by 0.5 percent. Consequently, without the intervention, the Honduran economy will have to grow at an extraordinary pace.

2. The Program will also contribute to reducing future poverty through investments in human capital. In the long term, the labor income of the children that participate in the *Bono 10,000* Program when becoming adults is estimated to be 19 percent higher than those who will not participate. These are upper bound estimates provided that Program targets are achieved.

3. This description of the analysis is organized into 5 parts. The first presents the targeting strategy of the *Bono 10,000* Program and simulates by using the national household survey (*Encuesta de Hogares de Propósitos Múltiples*). Next, the amount of the cash transfer is discussed. The third section simulates the short- and long-term effects of the *Bono 10,000* Program. The fourth section presents international evidence on the cost-benefit analysis of CCT programs. Finally, the fifth section presents the fiscal impact of the Program, its cost and financing sources.

#### 1 - Targeting

4. The Program aims to reach extremely poor households, adding 150,000 new households each year for the next four years. By 2013, 600,000 households will be participating in the *Bono 10,000* Program which is the equivalent of about one third of the national population.

5. As explained, the Program *Bono 10,000* would implement a targeting strategy in two sequential phases. In the first, the Program would use geographical targeting to provide transfers to all households in the 1,534 poorest villages (*aldeas*) out of a total of more than 3,000 in the country. The poorest villages have been identified with the existing poverty map. In the second phase, the Program would expand to include villages with relatively lower incidences of extreme poverty. Within this second group of *aldeas*, communities with the highest extreme poverty density would be identified using a Proxy Means Test (PMT targeting).

6. For phase 1, the target group of villages has already been selected, and is the same group that has been receiving PRAF benefits in recent years. These rural villages include more than 200,000 households. According to estimates, this first phase of geographical targeting will last

more than one year. In 2010, 150,000 households will join the program, while the remaining 50,000+ will enter in 2011. The Program would consolidate all the assistance from the *Bono Solidario* and *Bono Escolar* that PRAF was giving in these areas.

7. In the Program's second phase, a household targeting mechanism (PMT) will be adopted in the villages with a lower percentage of extreme poor. The ranking of villages will rely on the poverty map done by INE.

8. The Proxy Means Test (PMT) is a mechanism that predicts a household's welfare level based on a set of household characteristics, such as location, dwelling quality, ownership of durable goods, access to services, demographics and education. The PMT aims to proxy permanent income or consumption and identify the chronic poor.

9. Using the 2009 household survey, the analysis team estimated a PMT for Honduras. First, variables were selected that are highly correlated with consumption and cannot easily be manipulated by respondents. Second, a stepwise regression was estimated in order to eliminate from the set of covariates those variables that are not statistically significant. Third, an OLS regression was estimated using the selected variables, under a separate strategy for urban and rural areas. Results are shown in Table 1. These probabilities were estimated and were used to simulate the beneficiaries of the *Bono 10,000* Program (phase 2) in this economic analysis.

10. These targeting mechanisms are likely to include a reasonable level of leakage that would be expected for such a large program. Table 2 shows that in 2010, 76.4 percent of Project beneficiaries will be extremely poor, while this percentage will drop to 65.1 in 2013. As they are proxy strategies for targeting, it is inevitable that both geographical universal targeting (phase 1) and PMT (phase 2) will include exclusion errors. However, the estimates show reasonable values.

**Table 1: Proxy Means Test<sup>57</sup>**

VARIABLES	Stepwise		OLS	
	Urban	Rural	Urban	Rural
Wall of concrete	0.270*** (0.00756)	0.405*** (0.00867)	0.270*** (0.00645)	0.405*** (0.00756)
Roof of mud or zinc	-0.0708*** (0.00736)	-0.153*** (0.0134)	-0.0708*** (0.00632)	-0.153*** (0.0118)
Floor of ceramic or brick	0.191*** (0.0105)	0.265*** (0.0256)	0.191*** (0.00900)	0.265*** (0.0227)
Floor of cement	-0.0715*** (0.00664)	0.127*** (0.00771)	-0.0715*** (0.00581)	0.127*** (0.00678)
Access to water within the property	-0.214*** (0.0189)	-0.0367*** (0.00983)	-0.214*** (0.0167)	-0.0367*** (0.00838)
Electricity is the main source of energy	0.124*** (0.00662)	0.356*** (0.0168)	0.124*** (0.00562)	0.356*** (0.0149)
Toilet	0.185*** (0.0243)	0.202*** (0.00940)	0.185*** (0.0219)	0.202*** (0.00820)
Private toilet	0.0287*** (0.00996)		0.0287*** (0.00901)	
Households with one room	-0.101*** (0.00754)	-0.193*** (0.00800)	-0.101*** (0.00675)	-0.193*** (0.00715)
NBI	-0.189*** (0.00465)	-0.191*** (0.00563)	-0.189*** (0.00408)	-0.191*** (0.00493)
Household head age	0.00190*** (0.000271)	0.00224*** (0.000311)	0.00190*** (0.000223)	0.00224*** (0.000280)
Female head		0.130*** (0.00825)		0.130*** (0.00736)
Number of hh members below 18 years old	-0.121*** (0.00335)	-0.0641*** (0.00252)	-0.121*** (0.00241)	-0.0641*** (0.00200)
Number of hh members above 65 years old	-0.0104* (0.00538)	0.0420*** (0.00535)	-0.0104*** (0.00398)	0.0420*** (0.00471)
Household members	0.00802*** (0.00249)	-0.0153*** (0.00234)	0.00802*** (0.00177)	-0.0153*** (0.00196)
Head with complete primary school	1.353*** (0.161)	0.589*** (0.0936)	1.353*** (0.141)	0.589*** (0.0899)
Head with incomplete secondary school	0.254*** (0.00799)	0.445*** (0.0173)	0.254*** (0.00676)	0.445*** (0.0157)
Head with complete secondary school	0.206*** (0.0113)	0.382*** (0.0279)	0.206*** (0.0101)	0.382*** (0.0252)
Head with incomplete superior education	0.526*** (0.0168)	0.987*** (0.0423)	0.541*** (0.0153)	1.002*** (0.0384)
Head with complete superior education	0.840*** (0.0128)	0.982*** (0.0567)	0.840*** (0.0106)	0.982*** (0.0502)
Constant	7.695*** (0.0299)	7.081*** (0.0238)	7.713*** (0.0268)	7.059*** (0.0205)
Observations	52617	51196	52617	51196

Notes: Robust standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1  
 Source: Team estimates based on the 2009 National Household Survey (EHPM)

<sup>57</sup> The dependent variable of the PMT estimation is the logarithm of the per capita income, and covariates were constructed as follows: “Wall of concrete” includes households with brick, stone or concrete walls. The base category consists of wood, mud and other materials; “Roof of mud or zinc” has as base category the households with concrete roofs as well as with wood or mud. The stepwise regression dropped the variable “Roof of concrete”; covariates “Floor of ceramic or brick” and “Floor of cement” have as base category wood or mud floors; “Access to water within the property” and “Electricity is the main source of energy” are dummy variables that express the access to those services; “Toilet” indicates that the household has toilet, while “Private toilet” expresses that it is property exclusively of the household; “Households with one room” indicates the houses with only one bedroom; “NBI” is the official index of basic necessities; “Household head age” and “Female head” are variables that show the age and gender of the household head; the quantity of children and youngster members as well as the elderly are represented with the variables “Number of hh members below 18 years old” and “Number of hh members above 65 years old”; “Household members” indicates the size of the household, measured as the number of members; finally, a set of independent dummies expresses the education of the household head, using as base category the absence of education or do not finishing the primary level. This PMT estimation could include other correlates of poverty such as ownership of certain durables, which are also difficult to manipulate. However, the data available do not allow including them.

**Table 2: Distribution of simulated beneficiaries by income group**

%	2010	2013
Extreme poor	76.4	65.1
Poor	8.5	13.5
Non-poor	15.1	21.4
Quintile 1	60.0	46.0
Quintile 2	24.3	27.7
Quintile 3	9.1	13.5
Quintile 4	4.1	7.4
Quintile 5	2.5	5.3

Source: Team estimates based on the 2009 National Household Survey (EHPM).

## 2 - Cash Transfers

11. The Government has established a maximum transfer amount of 10,000 Lempiras per year, the equivalent of about US\$44 per month, per family based on eligibility and compliance with both the health and education co-responsibilities. Depending on the demographics of each household, some families will be eligible for the entire transfer, while others will be eligible only for either the health or the education transfer. This benefit amount represents 25 percent of the median household income of the extreme poor (US\$176).

12. The benefit amount is slightly higher than that of other CCT programs such as *Bolsa Familia* (19 percent) and *Oportunidades* (20 percent), and is in line with many other Social Safety Net programs.<sup>58</sup> Because the extreme poverty gap is so high in Honduras, the transfer is actually a modest share of the food staples basket. The *Bono 10,000* Program's US\$44 transfer amount represents only 14 percent of the food staples basket (extreme poverty line) in rural areas and 11 percent in urban areas

13. The GoH considered the possibility of differentiated transfers based on the number of people in the household. Currently, about 66 percent of potential beneficiary households have three or more members. This, however, would be difficult to implement.

## 3 - Simulations of the effects of the *Bono 10,000* Program

14. Measuring the potential impact of CCT programs is a daunting task, given the multi-dimensionality of these programs and the large numbers of sectors and outcomes involved. As a result, the economic analysis implemented two different strategies. First, the team simulated the potential effects of the cash transfers on extreme poverty. Second, the team analyzed the potential effect of an increase in total years of schooling on future income. These are simple simulations that estimate direct effects and do not consider behavioral responses or other relevant dimensions.

15. The simulations consisted of selecting fictional beneficiaries based on the targeting mechanisms that the Program will implement, and analyzing the potential effects that the intervention might have. For this analysis, simulations were done using the 2009 national household survey<sup>59</sup> and taking into account the two-phase targeting mechanism that will be

<sup>58</sup> See Grosh et al (2008) and World Bank (2009).

<sup>59</sup> *Encuesta Permanente de Hogares de Propósitos Múltiples*.

followed by the Program. As the *Bono 10,000* Program will incorporate 150,000 families each year, starting with a geographical targeting strategy and then using a PMT estimation, the simulated beneficiaries were selected as follows: 2010 beneficiaries are 150,000 households in the villages identified by the Government as the poorest ones.<sup>60</sup> This is a universal strategy, thus all the household of these villages are beneficiaries. In 2011, beneficiaries were the remaining households of the poorest villages as well as households selected using the PMT strategy. This latter group includes villages with relatively lower incidences of extreme poverty, but with a high density of extreme poverty (according to the poverty map); the same method was used for in 2012 and 2013.

***Short term objective: Extreme Poverty Reduction***

16. Cash transfers will increase the income and consumption of beneficiary families, and therefore will reduce their extreme poverty gap. Estimates show that the reduction of the extreme poverty headcount would be modest: the headcount would be reduced by 3 percent in 2010 and 10 percent in the fourth year of intervention. However, as the extreme poverty depth is so high in Honduras, the real effect of the cash transfers will be reducing the extreme poverty gap. According to the simulations, the extreme poverty gap would fall by 7 percent in 2010 and by 22 percent in 2013. The effects on poverty reduction overall are not as significant, since the beneficiaries that escape from extreme poverty conditions would still be poor. Table 3 shows these findings.<sup>61</sup>

17. Although the main effect is closing the extreme poverty gap, these simulations show that the *Bono 10,000* Program will also contribute to reaching the objective established in the *Plan de Nación* (National Plan) of reducing the extreme poverty headcount to 32 percent. According to these simulations (including their assumptions), cash transfers can reduce the headcount indicator to 32.7 percent.

**Table 3: Poverty, extreme poverty and Gini indicators (%).**

		Simulations		
		2009	2010	2013
	FGT0	36.4	35.5	32.7
Extreme Poverty	FGT1	15.8	14.7	12.3
	FGT2	9.2	8.2	6.2
	FGT0	58.7	58.3	56.6
Poverty	FGT1	27.7	26.7	24.3
	FGT2	16.7	15.7	13.5
Gini		52.0	51.5	50.1

Source: Team estimates based on the 2009 National Household Survey (EHPM)

<sup>60</sup> Though estimations in the national survey cannot be disaggregated by villages, the villages are ordered by the poverty estimated by GoH in the national poverty map.

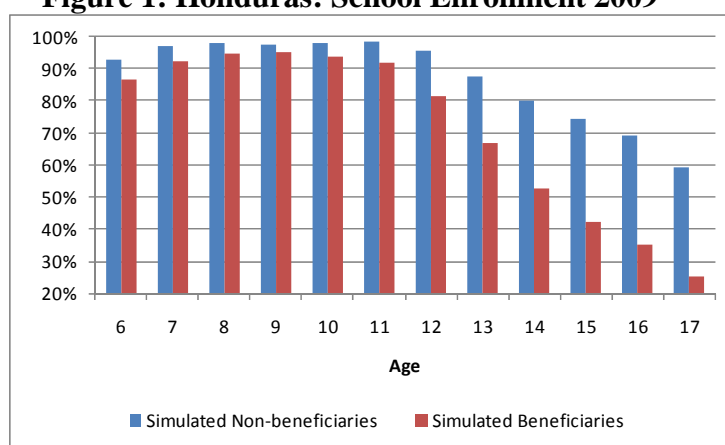
<sup>61</sup> As GoH measures poverty using income as welfare aggregate instead of consumption, no assumptions about the propensity to consume have to be done. Thus, every dollar transferred reduces in one dollar the poverty gap.

18. However, reducing current extreme poverty is just the short term objective of the Program. *Bono 10,000* aims to reduce future poverty as well. To that end, the Program enhances human capital investments in education, health and nutrition.

**Long term objective: human capital investment**

19. Human capital investments are rather low in Honduras. As Figure 1 shows, current trends reflect that school drop-outs sharply increase when children reach 12 years old. Even if school enrollment for the potential Program beneficiaries is always lower than the one for non-beneficiaries, once children reach 12 years old this gap becomes dramatically larger. Moreover, differences between the investment in human capital of potential beneficiaries and non-beneficiaries are also clear in Table 4: 10 percent of children in potential beneficiary households were working in 2009, while this ratio falls to 4.7 for non-beneficiaries.

**Figure 1: Honduras: School Enrollment 2009**



Source: Team estimates based on the 2009 National Household Survey (EHPM)

**Table 4: Honduras: Child labor 2009<sup>62</sup>**

	Child labor
Simulated Non-beneficiaries	4.7%
Simulated Beneficiaries	10.0%

Source: Team estimates based on EHPM 2009.

20. The *Bono 10,000* Program aims at closing these gaps. By enhancing school attendance and health checkups, the program should provide the human capital investments that are likely to increase future incomes and reduce inter-generational poverty.

21. Impact evaluations have shown significant effects of CCT programs on the use of education and health services. Almost all Latin American CCT programs have had positive effects on school enrollment and attendance, and on monitoring visits to health centers by children. However, evidence on the impact of CCTs on “final” outcomes in education and health is mixed.

22. Given that the long-term impact on future poverty of Program activities cannot be fully estimated, this analysis took into account international evidence on the topic. World Bank (2009)

<sup>62</sup> Children are defined as younger than 16 years old.

summarizes the findings of the impact evaluations of the following programs: *Chile Solidario* (Chile), *Familias en Acción* (Colombia), *Bono de Desarrollo Humano* (Ecuador), *Programa de Asignación Familiar* (Honduras), *Program of Advancement through Health and Education* (Jamaica), *Oportunidades* (Mexico), *Atención a Crisis* (Nicaragua), and *Red de Protección Social* (Nicaragua).

23. According to those evaluations, CCT program effects on the use of education and health services are significant. All of the programs mentioned above had significant effects on school enrollment and attendance, at least for some age groups. Furthermore, most of the evaluations suggest there were positive effects on growth and development monitoring visits to health centers by children.

24. Furthermore, the Program is expected to trigger a higher capital investment rate among beneficiaries. Currently, most beneficiary households under invest due to credit constraints. They lack savings, do not have access to formal credit markets and rely only on expensive credit from moneylenders. As observed in Gertler and Martinez's (2006) analysis, beneficiaries in Mexico's *Oportunidades* invested about 12 percent of their transfers, allowing them to raise their consumption by about a third after 5.5 years in the program. A similar effect is anticipated under the *Bono 10,000* Program.

25. International evidence also shows that CCTs can improve consumption and enhance human capital investments in low income countries. In Nicaragua, the program "*Red de Protección Social*" had positive and significant average effects on a broad range of indicators and outcomes (IFPRI, 2004). The pilot phase of this Program increased total household expenditures by 18 percent. Most of the increase in expenditures was spent on food. Expenditures on education also increased significantly. In El Salvador, the CCT *Red Solidaria* was also found to have a positive impact on key education outcomes (enrollment and repetition rates).<sup>63</sup> Finally, in Malawi, the CCT program not only served as a useful tool for improving school attendance, but also reduced sexual activity, teenage pregnancy, and early marriage.<sup>64</sup>

26. In addition to the international evidence, the analysis simulates the effect of an increase of schooling years among potential beneficiaries. Although the simulation required the use of assumptions and simplifications, it describes the magnitude of the likely effects. The exercise follows some of the techniques used and developed by the authors that are in the reference list on the last page of this Annex.

27. The simulation addresses the effects that the compliance with the *Bono 10,000* Program conditionality on school attendance would have on future earnings. Since the Program is planned and designed for only four years (2010-2013), the simulated increase on school attendance will be modest. Furthermore, as households join the program progressively, some of them will have to fulfill the conditionality requirements for four years, but others for only one year.

28. The simulation used a two-step methodology. First, workers were divided into two occupational groups; salaried employees and employers (group A) and self-employed workers, domestic workers and other labor relationships (group B). The analysis then estimated Mincerian earnings regressions for both groups (Table 5). These results show the returns to

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<sup>63</sup> IFPRI and Fundación Salvadoreña para el Desarrollo Económico y Social (2009).

<sup>64</sup> Baird et al (2009, 2010). Impact Evaluation.

schooling, controlled by some stable covariates; the returns express how much an additional year of schooling, supported by the Program, will increase income.

**Table 5: Mincerian regression – Earnings equation (dependent variable: Log labor income)**

VARIABLES	OLS	
	Group A	Group B
Age	0.0808*** (0.00292)	0.0842*** (0.00524)
Age square	-0.000809*** (3.88e-05)	-0.000906*** (6.36e-05)
Male	0.108*** (0.0121)	0.594*** (0.0193)
Urban	0.442*** (0.0122)	0.622*** (0.0208)
[6] years of schooling	0.203*** (0.0262)	0.158*** (0.0354)
[7-11] years of schooling	0.408*** (0.0175)	0.415*** (0.0248)
[12] years of schooling	0.508*** (0.121)	0.185 (0.266)
[13-15] years of schooling	0.641*** (0.0230)	0.747*** (0.0391)
[>16] years of schooling	1.092*** (0.0187)	0.885*** (0.0357)
Constant	5.769*** (0.0538)	4.909*** (0.104)
Observations	16898	13181
R-squared	0.419	0.217

*Source:* Team estimates based on the 2009 National Household Survey (EHPM)  
Robust standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1  
Population between 18-64 years old

29. Second, the simulation constructed an occupational choice model. Using a discrete choice model (multinomial logit), the probability of choice of each occupation (group A or B) as a function of a set of family and personal covariates was estimated. Table 6 shows the results. This model provided the probability of working in one sector or the other, and then simulated the effect of a two-year increase in schooling for the potential beneficiaries. Then, using the occupational probabilities and the returns to education estimated in previous steps, the future income of the beneficiaries was estimated and compared with the actual figures. The two-year increase in schooling is a lower boundary. However, because these simulations consider only the 2010-2013 intervention, and that beneficiaries will join the program progressively, it seems appropriate to assume a modest average increase.

**Table 6: Estimated occupational choice – Multinomial Logit (Dependent variable: Occupational category).**

VARIABLES	Multinomial Logit	
	Group A	Group B
Age	0.243*** (0.000774)	0.271*** (0.000760)
Age square	-0.00324*** (9.88e-06)	-0.00310*** (9.26e-06)
Male	2.539*** (0.00326)	1.636*** (0.00339)
Urban	0.236*** (0.00314)	0.000340 (0.00307)
[6] years of schooling	0.176*** (0.00631)	0.0665*** (0.00542)
[7-11] years of schooling	0.406*** (0.00425)	0.149*** (0.00374)
[12] years of schooling	0.522*** (0.0289)	0.149*** (0.0327)
[13-15] years of schooling	0.577*** (0.00590)	0.158*** (0.00574)
[>16] years of schooling	0.918*** (0.00480)	-0.511*** (0.00491)
Household head	0.738*** (0.00358)	0.843*** (0.00339)
Single	0.223*** (0.00332)	0.0362*** (0.00336)
Number of children in the household with 17 or less years old	-0.00997*** (0.000762)	0.0127*** (0.000728)
Number of adults above 64 years old in the household	-0.0310*** (0.00223)	0.0451*** (0.00226)
Constant	-6.054*** (0.0150)	-6.444*** (0.0152)
Observations	16898	13181

Notes:

Source: Team estimates based on the 2009 National Household Survey (EHPM)

Robust standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1; Population between 18-64 years old

30. According to the model, an average increase of two years of schooling will raise the beneficiaries' average labor income by 18.8 percent by 2025. Table 8 shows the effects of this increment on poverty outcomes. Naturally, short- and long-term effects on poverty outcomes were calculated independently. This means that cash transfers given in 2010-2013 have no effect on poverty reduction in 2025.

31. The estimated long-term effect is quite high if it is taken into account that it represents a lower boundary of the possible impact of the Program. The effects of nutrition and health checkups are not considered in this exercise, and they are likely to raise future earnings to an even greater extent. In addition, during the period 2010-2013 when the families will receive cash transfers, this might have some additional behavioral effects that will serve to increase the future income of their children. Finally, as investing on human capital is a long-term investment, positive effects are likely to be multiplied if the program continues over time.

32. It is important to notice that this methodology relies on certain clear assumptions: returns to school and coefficients of the occupation choice model are constant over time; the simulation does not include any behavioral response to the program intervention; the two years of schooling increase is arbitrary.

**Table 7: Poverty, extreme poverty and Gini indicators (%).**

		Simulation	
		2009	2025
	FGT0	36.4	32.8
Extreme Poverty	FGT1	15.8	13.6
	FGT2	9.2	7.6
	FGT0	58.7	55.8
Poverty	FGT1	27.7	25.0
	FGT2	16.7	14.6
Gini		52.0	51.0

Source: Team estimates based on the 2009 National Household Survey (EHPM)

### Cost-benefit analysis

33. International evidence shows that CCT programs are worth their cost. As some of the *Bono 10,000* Program benefits cannot be measured in advance, this section relies on international experience. It is difficult to find rigorous cost-benefit analyses of these types of programs because of the information required: (i) results of an impact evaluation (i.e. schooling increase); (ii) monetization of those results (i.e. returns to education); and (iii) comparison of those benefits with the program's cost, using different discount rates. In spite of this difficulty, the CCT programs *Familias en Acción* (Colombia) and *Oportunidades* (Mexico) did good analysis. The analyses of these program results show that benefits significantly outweigh their costs.

34. A detailed cost-benefit analysis of the Colombian program *Familias en Acción* was done in 2006.<sup>65</sup> The analysis considered as benefits the outcomes identified in a prior impact evaluation, which consisted of an increase in future earnings due to lowered incidence of underweight infants, malnutrition and child morbidity, and an increase in secondary schooling. The cost-benefit analysis found a ratio of benefits to costs of 1.59, a figure that is high by traditional cost-benefit standards.

35. Similarly, in 2008 a cost-benefit analysis of the Mexican program *Oportunidades* was conducted. The analysis, based on a previous impact evaluation, confirmed a significant increase

<sup>65</sup> Fiscal Studies, Econometría, and Sistemas Especializados de Información (2006).

in schooling among young beneficiaries. The authors valued this benefit in the form of increased future earnings that were projected to result from additional years in school. It is important to note that this estimate should be considered a lower boundary for the benefit to cost ratio. The results of the cost-benefit analysis show that the expected benefits significantly outweigh the costs. The result was consistent under almost all scenarios, with the exception of the case with the highest discount rate and lowest rate of return on schooling.

### Fiscal cost analysis

36. The Government is fully aware of the financing needs that will result from this program and more generally of the fiscal constraints the new administration is facing. To start addressing these concerns the Honduran Congress has already approve a tax package that eliminates exemptions and loopholes and which is expected to raise revenue by more than 2 percent of GDP. The Government is also working on a plan to reduce current spending so that in addition to bringing the fiscal situation under control the budget will be able to accommodate the new program. To facilitate achievement of these objectives, the authorities are exploring the possibility of an IMF supported program.

37. The *Bono 10,000* Program represents a significant expense for the GoH, and as a result, its financial sustainability has been carefully analyzed by the Government. With an annual benefit level of 10,000 Lempiras per family (US\$44 per month), the total cost of the transfers for reaching this target would increase from US\$32 million in the first year to about US\$317 million in the fourth year or about 2 percent of GDP (see Table 8). With a benefit structure that awards only half of the amount to families that are eligible for either just the health or just the education transfer, the total cost is likely to be less, reaching only US\$210 million per year or 1.29 percent of GDP when full coverage is achieved. The GoH has prepared a financing plan that includes both national and external (International Development Association, Inter-American Development Bank, and Central American Bank for Economic Integration) financing with an increasing share of domestic sources. Moreover, some of the program costs (less than 10 percent) are not incremental since they will replace existing programs.

**Table 8. Estimated cost of the Bono 10,000 Program**

Year	Number of Beneficiaries	Total cost, US\$ million		Total cost as Share of GDP, %	
		Uniform benefit*	Differentiated benefit**	Uniform benefit *	Differentiated benefit**
2010	60,000	32	21	0.2	0.14
2011	150,000	111	73	0.7	0.48
2012	150,000	190	126	1.2	0.80
2013	240,000	317	210	2.0	1.29
Total	600,000	651	430		

Note: Implementation in the first year started in April 2010 and is estimated that about 60,000 families will be enrolled.  
 \*Uniform benefit refers to the situation in which each family receive a uniform benefit of Lempiras 10,000 per year;  
 \*\*Differentiated benefit refers to the situation in which families who have to comply with only one co-responsibility (health or education) receive half of the transfer, up to Ls 5000 per year and families who have to comply with both co-responsibilities receive the full amount of Ls 10,000 per year.

## Annex 10: Safeguard Policy Issues

### HONDURAS: Social Protection

1. **The project is classified as a category C and does not trigger environmental safeguards. Given the presence of Indigenous peoples in the project area, the project triggers the OP/BP4.10.** To this effect, an Indigenous and Afro-Honduran Peoples Plan (IPP) was prepared by the recipient to seek broad community support for the project, and to ensure the services rendered by the project fully respect the dignity, human rights, and culture of indigenous and Afro-Honduran peoples. In-country consultations were held between April 12 and May 5, 2010 and the IPP was publically disclosed in Honduras (in Spanish) on May 10, 2010. The Bank disclosed the IPP (in English) in the Infoshop on May 14, 2010. The proposed Project will capitalize on the lessons learned with cash transfers under PRAF, in four Western departments of Honduras. The latter have a strong Mayan and Chorti tradition.

#### **Social assessment and Free, Prior and Informed Consultations**

2. **The social assessment reviewed existing documents,** including those reflecting the lessons learned from the IDB experience with cash transfers. It also reviewed the assessments and consultations implemented for the current education project (Education Quality, Governance and Institutional Strengthening Project), and a health project in latter part of preparation (Improving Access and Quality of Basic Health Care Services Health project).<sup>66</sup> A general conclusion was that strategies aiming at good governance, transparency and equitable distribution of program resources cut across all components and activities. Thus, inclusive strategies were agreed on with the recipient to ensure all targeted families in extreme poverty conditions, including those systemically excluded for reasons of geographic remoteness, benefit from the project.

3. **Consultations were carried out by an independent consultant team with support of an inter-institutional team consisting of operational staff of the Secretariats of Health, Education, Presidency, PRAF and Social Developments.** Among other things, the consultations sought to incorporate strategies for broad community support for the project. They were carried out in 10 communities in two Western departments of Honduras. Some important stakeholders were: (a) local financial institutions that make monetary transfers available; (b) Health and Education Departments and districts which provide supervision to schools and health units; (c) health units and brigades providing health services in remote areas; (d) local schools; (e) at the community level: Health Care Users' Committees and Education Councils that provide social control; (f) parents receiving the transfers; and (g) school-age children.

4. **The general objective of the assessment/consultations was to assess the opportunities, constraints, impacts and risks in decentralized departmental, district, and local levels for the delivery of conditional cash transfers to the poorest segments of the population,** within their geographic and socio-political contexts. Some specific objectives were: (a) to assess the potential bottle-necks for the delivery of the conditional cash transfers (i.e., personal identification documents, transport, language, poverty); (b) to learn from beneficiaries about their perceptions of the opportunity-cost of cash transfers; (c) to assess the supply of

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<sup>66</sup> This Project, although fully prepared, has been dropped from the pipeline.

education services which will determine success factors of the education co-responsibility; (d) to assess the supply of health care and nutrition services which will determine success factors of the health co-responsibility; (e) to assess the readiness of financial institutions to make transfers accessible at the local level and particularly in remote areas; (f) to assess security of those receiving the transfer, and to assess conditions of crime and violence that may interfere in rural settings; (g) and to make specific recommendations to improve the project design. The results of the assessment and consultations will be presented by the inter-institutional teams at a Workshop to take place with the participation of all institutions involved. The results of the consultations informed: (a) the project design; and (b) the Indigenous and Afro-Honduran Peoples Plan. Further consultations will be carried out during project implementation prior to the introduction of the CCT program in new Departments of Honduras.

### **The Indigenous and Afro-Honduran Peoples Plan (IPP)**

5. **The presence of autochthonous peoples in the project area triggers the application of the OP/BP 4.10.** According to the 2001 census, 7.2 percent of the population are indigenous or Afro-descendants, speaking 7 languages. Based on the results of the assessment, an IPP was prepared by the recipient with support of the inter-institutional teams. The IPP was based on consultancies carried out with the Indigenous and Afro-Honduran representations (Federations) through PRONEEAAH and PRONAE. The purpose of the IPP is to ensure all eligible Indigenous and Afro-Hondurans in the project area benefit from the project, and that the services rendered by the CCT program are delivered in a culturally-adequate manner. See Plan below.

### **Other Bank-financed projects directly contributing to a successful realization of the CCT program**

6. **The IPP will benefit from the experience with Indigenous Peoples Plans in Bank-financed projects in Health, Education, Social Protection and HIV/AIDS (2006-2010).** Three other Human Development projects and a JSDF grant are contributing directly to the optimization of resources and provision of education, health, and nutrition services at the local level: (a) the Honduras: Education quality, Governance and Institutional Strengthening project (2008); (b) the Honduras: Nutrition and Social Protection project (2006); and an Education JSDF grant (2010) targeted to Bay Islands and Comayagua. The Nutrition project promotes the AIN-C program and concentrates on the same 4 departments of Occident where PRAF has operated in the past 5 years.

7. The three above-mentioned SILs included social assessments and informed consultations with stakeholders and beneficiaries. They trigger the OP/BP4.10 and include Indigenous and Afro-Honduran Peoples Plans. The stakeholders and beneficiaries of those projects are, to a large extent, the same population groups of the proposed CCT project. Therefore, the latter capitalizes on lessons learned from the above-mentioned projects.

8. A common goal of ongoing IPPs mentioned above is the institutional strengthening of official Indigenous institutions in the public sector in Honduras and the adaptation of services to respond to the needs of IPs. Moreover, effective synergies will be needed among Indigenous Peoples Plans of all Bank-financed projects.

## **Results and recommendations of the social analysis for the Education Quality, Governance and Institutional Strengthening Project (2008)**

9. The proposed CCT project will benefit from the social assessment and consultations carried out in 2007 for the Education project:

- a. **The World Bank carried out four consultation workshops on governance in the education sector in Tegucigalpa, La Paz and Olancho.** Some of the problems identified during the governance workshops were: (i) absence of accountability and commitment of public employees, teachers, unions and donors; (ii) lack of information which results in absenteeism of teachers; (iii) absence of coherent education legislation capable of transcending all forms of Government, and resisting partisan interference and corruption; (iv) poor administration of human resources such as: inadequate teacher preparation, absence of teacher supervision and evaluation, and lack of accountability; (v) inadequate administration of educational materials, including negligence to distribute existing stock; (vi) lack of empowerment of civil society (particularly parents' associations) and weak mechanisms to exercise social control, which results in distrust among stakeholders of public and private education sector; and (vii) low level of interest of academic sector and media to denounce problems.
- b. **A Social Assessment** of a sample of non-indigenous and indigenous school communities was commissioned by the Education Secretariat in three main regions of Honduras: (a) Western Region (Copan, Lempira and Intibuca), and (b) Northern region, Bay Islands and Moskitia; and (c) Central and Southern Regions (Olancho, Comayagua and La Paz). Some results were:
  - i. **Information Systems.** Information systems for school networks were weak or non-existent. Equipment exists at the central and department levels although operational conditions are inadequate (lack of back-up hardware, insufficient RAM). The weakest point in the data collection system is at the school and district levels.
  - ii. **Community participation.** Although there are several community organizations (AECOs, parents associations, municipal commissions, NGOs, foundations, churches), they do not always know how to participate in school life and/or what they are accountable for. With very few exceptions, participation of the school community in school planning does not exist. AECOs are the most active parents associations, but only in the administrative realm, not in academic issues.
  - iii. **School Infrastructure.** Inadequate infrastructure, poor equipment and limited texts and materials affect the implementation of 'active participatory' teaching models, particularly in multi-grade settings. The creation of new PROHECO and CCEPREB schools has been very successful in terms of expansion of coverage, but not necessarily in terms of education quality. Preschool materials are sometimes under-utilized due to poor training of volunteer teachers.
  - iv. **Students' absenteeism decreased with nutrition programs and the teaching of IBE particularly for first and second grades.** Almost as important seems to be teachers' training in IBE and Spanish as second language to improve students' performance. Linguistic mismatches, between the language of the teacher and that of the students, on the other hand, appear to be detrimental to both parties.

10. The main recommendations put forth by those being consulted were:

- Improve or create the info-technology school network at the central, department and school levels and train those collecting data.
- Install solar panels in schools lacking electricity.
- Train school staff and parents in monitoring results agreements.
- Provide training and mechanisms for systematic participation of parents, students and stakeholder tied to the *Proyecto Educativo de Centro* (PEC) and *Proyecto Educativo de Red* (PER), and social control of teachers and students performance.
- Ensure a match of IBE teachers and bilingual students.
- Strengthen and promote teachers’ encounters and forums on academic/developmental topics, with clear products.

**The social analysis for the HN: Improving Access and Quality of Basic Health Care Services (2009)<sup>67</sup>**

11. For the Health Project, two types of consultations took place: (a) a social assessment, involving the participation of stakeholders from the public health sector, including promoters and volunteers, and traditional health care providers, i.e., midwives, traditional healers, bone-setters, AIN-C monitors; and (b) consultations between the MOH and the Indigenous and Afro-descendant Council (CONPAH) and federations. The first encounter took place in February, 2009 at Lake Yojoa, with the participation of the Confederation of Autochthonous Peoples of Honduras (CONPAH), the IDB-funded project (Autochthonous Peoples Development Project), nine Indigenous federations, and the World Bank. The consultations were carried out in 2009 by a team of local consultants (an anthropologist and a public health specialist) in fourteen municipalities targeted by the *Red Solidaria* Program, including poor *mestizo*, Indigenous or Afro-Honduran population.

**The IPP for the Education Project**

**Box 1. Education Quality, Governance and Institutional Strengthening Project (2008)**

The IPP of the Education Project includes the following elements, which may contribute to the performance of the proposed CCT Project:

- Support for the preschool level in rural areas by increasing student coverage: training of at least 300 volunteer preschool teachers in IBE pedagogy and use of materials; production of materials to accompany existing IBE preschool texts; procurement and distribution of fungible preschool materials (*Valijas didácticas*); to complement IBE texts in 7 languages, teachers’ guides;
- Teacher training and materials for education in a multi-grade setting: Elaboration of teacher’s guides for teaching IBE multi-grade school using “Escuela Nueva” methodology. Design, validation and printing. Training for trainers; procurement and distribution of didactic materials for multi-grade IBE schools; Training of multi-grade IBE school teachers in the use of multi-grade “Escuela Nueva” methodology in the classroom.
- Community participation in School Management for Better Performance: Creating a system of key performance indicators at the school level (AEDOC, parent councils); Strengthening participation of AECOs student Governments and teachers councils in IBE and indigenous multi-grade schools in school networks; Training of 15 IBE promoters for the organizational and

<sup>67</sup> This Project, although fully prepared, has been dropped from the pipeline.

administrative accompaniment of the IBE and Indigenous schools; Fostering local participation in strategic planning and school management through the School Education Projects (PEC); Training of 500 school principals, 500 parents councils, the PRONEEAAH Technical Team, 16 Department Coordinators and IBE Promoters on the techniques for elaboration and monitoring of PEC and PER in school networks.

- Governance and institutional strengthening of the MOE: Information for improved performance and greater accountability; Add the 'ethnicity' and "native language" variables to the SIARHD information system, to be able to know automatically which vulnerable groups are being served, the teachers' level of instruction and training opportunities offered to them, the language of instruction and students' achievement in standard tests (Math and Spanish, 3'd and 6' grades) compared to mainstream students.
- National System of Assessment of Learning Outcomes: Ensure a sample of IBE schools is included. Sensitivity training of testers, IBE teachers and IBE students on National Standardized Testing.
- Human Resource Management and Evaluation: Training of IBE Technical Teams at central and departmental levels, schools and community levels on management and monitoring of data systems. The training should include: (i) a sensitivity module to teach awareness of importance of data des-aggregation; and (ii) a technical module to ensure data collection and monitoring is done properly.

## Legal framework

### **Box 2: Legislation for the Promotion of Health and Education among Ethnic Groups**

(a) Constitution of the Republic of Honduras, Art. 172, 173 and 346 support the protection and promotion of the use of the languages that are part of cultural heritage.

(b) International Labor Organization (ILO) Convention 169 on the Rights of Indigenous Peoples, ratified by Honduras in April 1994, Part VI, Art. 25 states that Governments shall oversee adequate services are rendered and administered under the control and responsibility of Indigenous Peoples. Art. 26: calls for the adoption of measures to guarantee education at all levels (preschool, primary, secondary, tertiary), at least equal to the rest of the country. Art 27 states that governments should recognize the right of peoples to create their own institutions, making funds available for their maintenance. Art. 28 states that whenever possible, children should be taught to read and write in their own language or the language most commonly spoken in the ethnic group. Efforts should be made to ensure indigenous peoples have the opportunity to become fluent in Spanish; at the same time, measures should be taken to preserve the indigenous languages of those interested, as well as promote the development and use of said languages.

(c) Code of the Child and Adolescent, Chapter 5, Art. 50, paragraph C which states the importance of the promotion of culture for children and youths through the media.

(d) Honduras ratified the UN Agreement on the Rights of Indigenous Peoples in September 2007.

(e) Starting in 2000 the Honduran Government launched a commitment of inclusion of vulnerable groups within the Poverty Reduction Strategy for the attainment of the MDGs.

(f) A recently proposed Law for Integrated Development of Indigenous and Afro-descendent Peoples was submitted to Congress for approval in 2009. Art 25 proposes the following:

- Acknowledgement and protection of traditional medicine.
- Consultations and coordination of health programs with Indigenous and Afro-Honduran peoples.

- Institutional adaptation of public health programs to respond to the needs of ethnic peoples, and free provision of services.
- Training and inclusion of Indigenous and Afro-Honduran human resources in the health sector.
- Nutritional support for children <5 years old, pregnant and postpartum mothers.
- Creation of the National Directorate of Ethno-Health under the MOH, as the entity that will be responsible for the design and definition of public Health policies for Indigenous and Afro-Honduran peoples, and for overseeing the provision of said services.

## The Indigenous and Afro-Honduran's Institutions and networks

**Table 1: Honduras Ethnic population by Group and Federation**

Ethnic Group	Population Census 2001	Population projection 2006	Approx % of Total Ethnic Population	Name(s) of Federations
Lenca	279,507	313,047	63.2	ONILH, COPINH, MILH, FONDILH
Tolupán	9,617	10,771	2.2	FETRIXY
Pech	3,848	4,309	0.8	FETRIPH
Chortí	34,453	38,587	8.5	CONIMCH
Garífuna	46,448	52,021	10.4	OFRANEH
Creole English	12,370	13,854	2.8	NABIPLA
Miskito	51,607	57,799	11.5	MASTA (7 sub-federations)
Tawahka	2,463	2,758	0.6	FITH
Total	440,313	493,146	100	

The 2001 census count was based on self-identification. According to *Gobernación*, those affiliated to federations may double in 2009 the numbers of the 2001 census.

### Box 3: Indigenous and Afro-Honduran Institutions Officially Recognized

Two official Programs oversee Indigenous and Afro-Honduran Education and Health:

**The National Program for Intercultural Bilingual Education (PRONEEAAH)** was created by Executive Agreement No. 0719 in 1994, and operates in the Secretariat of Education with a technical team of staff representing all the federations. At the Department level, they are represented by 16 IBE-Delegates responsible for overseeing the successful execution of education programs. The Technical Unit includes 9 representatives of all linguistic groups, nominated by the Indigenous and Afro-Honduran Federations. The Unit exists since 1998 but only in 2001 it was able to develop as a program, with financing of World Bank project 3497-HO (approximately US\$7 million), Education for All (since 2004), and national funds.

**The National Program for Indigenous Health (H)** was also created by Legislative Decree in 1994, but was dormant until 2005 when the Bank-financed Nutrition and Social Protection (2005) began to revitalize it. The Program is now staffed and it will be further strengthened under an IPP for the Bank-financed Improving Access and Quality of Basic Health Care Services Project (2010).

**The Indigenous and Afro-Honduran Federations.** Moreover, most of the Indigenous and Afro-Honduran peoples are affiliated to a national Federation. There are 11 federations in Honduras, representing the Indigenous and Afro-Honduran population nationwide at the central and decentralized levels of government, as follows:

- The Lencas are represented by 4 federations: *Organización Nacional Indígena Lenca de Honduras (ONILH)*, *Consejo Popular Indígena de Honduras (COPINH)*, *Movimiento Indígena Lenca de Honduras (MILH)*, and (FONDIL).

-The Miskitos are represented by the Moskitia Asla Tawanka I.L.C. (MASTA), which is subdivided into 7 sub-federations.

-The Garifuna by the *Organización Fraternal Negra de Honduras (OFRANEH)*.

- The English-speaking Bay Islanders by the Native Islanders Professionals and Laborers Association (NABIPLA).

-The Tolupan by the *Federación de Tribus Xicaques de Yoro (FETRIXY)* representing 30 tribes in Montaña de la Flor and Yoro.

-The Pech by *Federación de Tribus Pech de Honduras (FETRIPH)*.

-The Chortí by the *Consejo Nacional Indígena Chorti de Honduras (CONICHH)*.

-The Tawahka by the *Federación Indígena Tawahka de Honduras (FITH)*. Despite multiple federations within a group, only one representation per group is admitted in the Technical Unit of PRONEEAAH. H does not include representatives per federation.

## **Diagnosis of the health of Indigenous and Afro-descendant Peoples of Honduras<sup>68</sup>**

12. Population projections for 2005 put infant mortality rate at 30 per 1,000 live births. The last census and recent family health surveys all show a high correlation between infant mortality levels and the mother's level of poverty and education. The health status of the eight Indigenous/Afro groups of Honduras reflects their impoverishment, lack of access to basic services, and limited social participation. Of special concern are the high prevalence of Chagas' disease among the Tolupán in central Honduras, the Lenca in the Southwest, and the Chortí in the Northwest; the surge in the incidence of HIV/AIDS among the Garifuna on the Northern coast; and the high prevalence of accidents among the Miskito people of *Gracias a Dios*<sup>69</sup>.

13. Among the communicable diseases, there were 19,000 cases of dengue in 2005, and 10 percent of those were hemorrhagic dengue fever. Malaria is endemic in Honduras, primarily affecting the northern and eastern parts of the country; there are 25 municipalities with a combined population of close to 350,000 inhabitants showing rates of more than 1,000 cases of malaria per 100,000 inhabitants. There were 1,000 cases of Leishmaniasis, 66 percent of which were in Olancho, Choluteca and Colon. A serologic survey of blood samples from school children under 15 years of age yielded a sero-prevalence rate of 29 percent in La Paz, and up to 7 percent in Copan, Lempira, Intibuca, Yoro and Santa Barbara.

<sup>68</sup> Health in the Americas 2007, PAHO, 2007.

<sup>69</sup> Health in the Americas 2007, PAHO, pg. 435.

14. Of all reported cases of acute diarrhea each year, 77 percent involve children under the age of 5, with a prevalence rate of 22.5 percent in this age group and even higher rates in urban areas excluding Tegucigalpa and San Pedro Sula and rural areas, particularly La Moskitia. The most affected age group is that of children ages 6-23 months old. Most children under age 5 suffering from diarrhea are treated with drugs.

15. Among the chronic communicable diseases, tuberculosis-associated morbidity slowly declined from 72 per 100,000 inhabitants in 1993 to 50 per 100,000 inhabitants in 2004; 54 percent of all cases occurred among males. The incidence of HIV/tuberculosis co-infection has been on the rise since 1986.

16. Acute respiratory infections, including pneumonia, are still a leading cause of morbidity in children under age 5, particularly in the poorest municipalities in the country's western region. According to the findings of a 2001 survey of mothers who had lost children under 5 years of age, acute respiratory infections accounted for one out of every three deaths of children between the ages of 1 and 11 months and one out of every five deaths of children between 1 and 4 years of age.<sup>70</sup>

17. In terms of HIV/AIDS and other sexually transmitted diseases, AIDS has been present in Honduras since 1985. At the end of 2005 there were over 17,000 cumulative AIDS cases, with 970 new cases diagnosed in the year 2004 (incidence of 138 per 1 million people). San Pedro Sula and Tegucigalpa accounted for 40 percent of the new AIDS cases reported in 2005. The male-female ratio went from 2:1 to 0.95 at the beginning of the last decade. The most affected age group was the population 25-34 years old, and the principal mode of transmission was heterosexual relations (88%). Nine percent of all new cases were due to prenatal exposure.

18. In terms of the metabolic and nutritional diseases, one third of all Honduran children under age 5 are suffering from iron deficiency and from chronic malnutrition.

**Table 2: Leading indicators of exclusion in health, by type, Honduras, 2004**

Coverage	Percentage
Population without health care	30.1
Population without health insurance	83.1
Financial and work-related accessibility	
Households living under poverty line	64.5
Population with per capita income under US\$1/day	41.1
Workers employed in the informal sector	55.9
Cultural accessibility	
Illiteracy among ethnic population	38.1
Average number of years of formal schooling among ethnic population	2.2
Structure	
Number of physicians per 1,000 population	0.8
Number of beds per 1,000 population	0.6
Processes	
Home deliveries	45.6
Pregnant women without health care during first trimester of pregnancy	43.6
Households without indoor plumbing	26.0

<sup>70</sup> Health in the Americas, PAHO 2007, pg. 437.

Source: Pan American Health Organization. Exclusion in Health in Latin America and the Caribbean. Washington, DC: PAHO. 2004

## **The Indigenous and Afro-Honduran Peoples Plan for the Conditional Cash Transfer Program (IPP)**

19. The IPP incorporates protocols applicable in the two project phases (2010-2011; and 2012-2015). In the first phase the program will use geographic targeting mechanisms to incorporate households living in 1500+ villages with the highest incidence of extreme poverty, as per poverty map. In the second phase (2012/2013), the Program would expand to include villages with relatively lower incidences of extreme poverty, but which have a higher density of extreme poverty. Eligibility would be determined using a proxy-means test (PMT) and a pre-determined cut off score. Based on the consultations mentioned above, the IPP is being formulated by the research team in conjunction with the *Programa Nacional de Educación para las Etnias Autóctonas de Honduras* (PRONEEAAH), and the *Programa Nacional de Atención (en Salud) a las Etnias de Honduras* (PRONAE). Some activities included in the IPP are:

- **Stakeholder Consultations:** Prior to expanding CCT program in new areas during project implementation, the recipient will carry out consultations in a sample of communities.
- **Sensitivity training** of teams at the central, department and local level of the Secretariats of Health and Education will be carried out through PRONEEAAH and PRONAE to ensure program administrators, Education and Health care providers are knowledgeable of program rules and conditions, provisions and protocols to deal with Autochthonous communities.
- **Protocol to enter an autochthonous community:** To enter a new community, the program will coordinate with PRONEEAAH and/or PRONAE to formally announce visit to local traditional authorities (i.e. Auxiliary Mayor) to ensure an amicable reception; explaining program objectives and requesting participation of specific community groups. Such coordination will be important for signing off on the commitments (co-responsibility), the (re)confirmation of the community-based school committee, the social auditing, and the monitoring of processes.
- **Promotional campaign, dissemination of information, and rules** at community level: The program will develop a special module per ethnic group to include promotional materials pertinent to language and cultural diversity, to ensure participation and comprehension of rules, commitments and access to benefits. Recipients of information should include: schools, health providers, parents, students, indigenous federations.
- **Eligibility and Enrollment.** Re-certification at Village level (1500 villages). Families will be integrated into the program after they are re-certified at village level by a Community Committee (ej. *Comite Escolar Comunitario*). The committee will seek to exercise social control, i.e. to check eligibility of those in the system, and also eligibility of those who are not included in the system. PRONEEAAH and PRONAE will assist the

program in the identification of eligible indigenous communities which have a supply of services in health and education.

- **National Identification Card or birth certificate.** There will be coordination with National Registry to carry out mass issuance of birth certificates and Identification Cards.
- **Signing of an “Acuerdo Social”.** The program will coordinate with PRONEEAAH and PRONAE for beneficiaries’ signing of an agreement to acknowledge the responsibilities as a participant of the Program. For those that do not know how to read or write, the terms of the “*acuerdo social*” would need to be explained to them, in their language.
- **Benefit level and transfer mechanism.** As indicated in the OM, transfer of L/10,000 per beneficiary, per year, in trimester tranches. In the case of isolated areas, the program will agree with Banks on mechanisms to facilitate access/delivery of transfers.
- **Conditionality/co-responsibility.** The program will use PRONEEAAH’s and PRONAE’s support to ensure beneficiaries understand transfer conditions: (a) for Education, to ensure teachers understand their own commitment of attendance in order for students to fill in the condition of 80 percent attendance rate; and (b) for Health, to ensure health providers involved have the human resources and supplies needed to provide services for co-responsibilities. Program has included school attendance for grades 1-6 as co-responsibility in order to ensure a decrease in student absenteeism and an increase in the completion of primary education. In a possible second phase of the Project, if supply becomes available, the program may consider using demand-side incentives and conditionalities to increase enrollment in kindergarten.

20. **Arrangements, including staffing and resources, for supervising the implementation of the agreed plans.** The program includes experienced social scientists that will be responsible for monitoring and supervision of the IPP. The National Coordinator will be responsible for inter-institutional coordination for an adequate implementation of this IPP. Some of the coordination mechanisms will be:

- (a) Internal coordination of PRONEEAAH and PRONAE with the other Departments of the Secretariat of Education and Health Involved.
- (b) The Coordinator of *Bono 10,000* will request the Secretariat of Education and Health bi-monthly reports on the work implemented by PRONEEAAH and PRONAE for the Program.
- (c) Once the villages are identified for transfers, the Secretariats of Education and Health will inform the National Coordinator of the *Bono 10,000* Program about the activities carried out by PRONEEAAH and PRONAE to guarantee inclusion of Indigenous and Afro-Honduran communities, the formation of the School Committee, and reception of program benefits.
- (d) In the meetings of the Technical Committee, the representatives of Education and Health will report on the activities carried out by the Secretariats towards the implementation of the IPP.

21. **The assessment of the capacity and commitment of the institutions responsible for implementing and monitoring the agreed plans.** The Government has experience in cash transfers through PRAF. For the new CCT operation, the National Coordination of *Bono 10,000* is committed to guarantee the inclusion of Indigenous and Afro-Honduran beneficiaries to the program. The National Coordination is articulating with PRONEEAAH and PRONAE to access and screen potential beneficiaries, and to assist in monitoring performance.
22. **Arrangements for funding and a schedule of implementation of the plans.** Funding for the IPP is included in the Communications budget for the project. The operational manual includes a description of all the activities and budget to implement the IPP.

### **23. Mechanism for Monitoring the Implementation of the IPP**

The Bono 10,000 Program includes in its monitoring system indicators to ensure Indigenous and Afro-Hondurans are included as project beneficiaries. The variables: ethnic group, main language of beneficiary will be included in the information systems of the Program. Moreover, the Bono 10,000 Coordination will share the quarterly reports of the program with the Secretariats of Education and Health, and within those Secretariats, with the PRONEEAAH and PRONAE.

## Annex 11: Project Preparation and Supervision

### HONDURAS: Social Protection

	Planned	Actual
PCN review	February 15, 2010	February 23, 2010
Initial PID to PIC	March 15, 2010	March 12, 2010
Initial ISDS to PIC	March 15, 2010	March 19, 2010
Appraisal	May 17, 2010	May 17, 2010
Negotiations	May 19, 2010	May 20, 2010
Board/RVP approval	June 29, 2010	
Planned date of effectiveness	October 1, 2010	
Planned date of mid-term review	October 10, 2012	
Planned closing date	December 31, 2014	

Key institutions responsible for preparation of the project: Ministry of the Presidency, Ministry of Health, Ministry of Education, The Family Allowance Program (*Programa de Asignación Familiar*), Ministry of Finance.

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Cornelia Tesliuc	Task Team Leader	LCSHS
Patricia Orna	Language Program Assistant	LCSHS
Maria Concepcion Steta	Sr. Social Protection Advisor	LCSHS
Sarah Berger	ET Consultant	LCSHS
Pedro Olinto	Senior Economist	LCSPP
Rodolfo Beazley	Jr. Professional Associate	LCSHS
Anna Fruttero	Economist	LCSHS
Diómedes Berroa	Procurement Specialist	LCSPT
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José Rezk	Financial Mgt. Analyst	LCSFM
Jimena Garrote	Counsel	LEGLA
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Ilka Funke	Financial Sector Specialist	LCSHS
Sabine Perrissin	Operations Analyst	LCC2C
Andrea Kucey	Senior Country Officer	LCC2C
Jessica Poppele	Operations Advisor	LCC2C
Sajitha Bashir	HD Sector Leader	LCC2C

Bank funds expended to date on project preparation:

1. Bank resources: US\$330,000.00
2. Trust funds: N/A.

3. Total: US\$330,000.00

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US\$10,000
2. Estimated annual supervision cost: US\$100,000.

## **Annex 12: Documents in the Project File**

### **HONDURAS: Social Protection**

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## Annex 13: Statement of Loans and Credits

### HONDURAS: HN- Social Protection

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P104034	2009	HN Power Sector Efficiency Enhancement	0.00	30.00	0.00	0.00	0.00	31.31	3.83	0.00
P101209	2008	HN Rural Competitiveness Project	0.00	30.00	0.00	0.00	0.00	28.52	5.67	0.00
P101218	2008	HN Education Quality, Governance & Insti	0.00	15.37	0.00	0.00	0.00	13.41	1.59	0.00
P109058	2008	HN Road Reconstruction & Improvement II	0.00	73.60	0.00	0.00	0.00	69.46	9.50	0.00
P103881	2007	HN WATER AND SANITATION PROGRAM	0.00	30.00	0.00	0.00	0.00	24.84	1.09	0.00
P082242	2006	HN Nutrition and Social Protection	0.00	20.00	0.00	0.00	0.00	10.62	10.05	0.00
P081516	2006	HN JUDICIAL BRANCH MODERNIZATION	0.00	15.00	0.00	0.00	0.00	5.62	3.46	0.00
P086775	2006	HN (CRL1) Rural Infrastructure Project	0.00	47.00	0.00	0.00	0.00	33.45	20.61	0.00
P088319	2006	HN (CRL) Barrio-Ciudad Project	0.00	15.00	0.00	0.00	0.00	10.70	5.82	2.99
P070038	2004	HN Trade Facilitatio & Productivity Enha	0.00	28.06	0.00	0.00	0.00	6.96	3.48	2.28
P083851	2004	HN PRS TAC	0.00	8.00	0.00	0.00	0.00	0.99	0.45	0.00
P055991	2004	HN LAND ADMINISTRATION PROGRAM	0.00	25.00	0.00	0.00	0.75	0.00	0.21	0.21
P083244	2004	HN Nuestras Raices Program	0.00	15.00	0.00	0.00	0.00	1.67	1.27	0.00
P040177	2003	HN Financial Sector Technical Assistance	0.00	9.90	0.00	0.00	0.00	5.63	4.62	0.00
P064913	2000	HN EMERG DISASTER MGMT (TAL)	0.00	19.82	0.00	0.00	0.14	4.31	-5.34	0.37
Total:			0.00	381.75	0.00	0.00	0.89	247.49	66.31	5.85

### HONDURAS STATEMENT OF IFC's Held and Disbursed Portfolio In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1999	Granjas Marinas	2.45	0.00	0.00	0.00	2.45	0.00	0.00	0.00
	International...	9.00	0.00	0.00	0.00	9.00	0.00	0.00	0.00
	Total portfolio:	11.45	0.00	0.00	0.00	11.45	0.00	0.00	0.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
Total pending commitment:		0.00	0.00	0.00	0.00

## Annex 14: Country at a Glance

### HONDURAS: HN- Social Protection

#### Honduras at a glance

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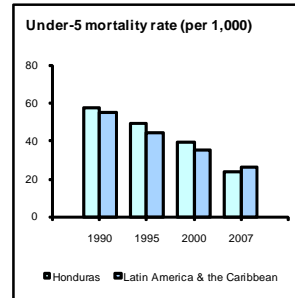
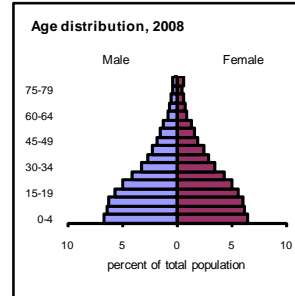
##### Key Development Indicators

(2008)

	Honduras	Latin America & Carib.	Lower middle income
Population, mid-year (millions)	7.2	565	3,702
Surface area (thousand sq. km)	112	20,421	32,309
Population growth (%)	1.9	1.1	1.2
Urban population (% of total population)	48	79	41
GNI (Atlas method, US\$ billions)	12.7	3,833	7,692
GNI per capita (Atlas method, US\$)	1,760	6,780	2,078
GNI per capita (PPP, international \$)	3,870	10,309	4,592
GDP growth (%)	4.0	4.4	7.6
GDP per capita growth (%)	2.0	3.2	6.3

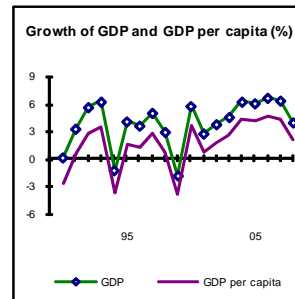
(most recent estimate, 2003–2008)

Poverty headcount ratio at \$125 a day (PPP, %)	18	8	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	30	17	..
Life expectancy at birth (years)	70	73	68
Infant mortality (per 1000 live births)	20	22	46
Child malnutrition (% of children under 5)	9	5	26
Adult literacy, male (% of ages 15 and older)	84	92	88
Adult literacy, female (% of ages 15 and older)	83	90	77
Gross primary enrollment, male (% of age group)	120	119	112
Gross primary enrollment, female (% of age group)	119	115	106
Access to an improved water source (% of population)	84	91	86
Access to improved sanitation facilities (% of population)	66	78	52



##### Net Aid Flows

	1980	1990	2000	2008 <sup>a</sup>
(US\$ millions)				
Net ODA and official aid	102	448	449	464
Top 3 donors (in 2007):				
Spain	..	6	35	111
United States	19	215	110	71
European Commission	5	10	18	41
Aid (% of GNI)	4.2	16.0	6.5	4.0
Aid per capita (US\$)	28	92	72	65



##### Long-Term Economic Trends

Consumer prices (annual % change)	..	23.3	11.0	3.8
GDP implicit deflator (annual % change)	13.2	21.2	30.8	9.8
Exchange rate (annual average, local per US\$)	2.0	4.1	15.0	20.1
Terms of trade index (2000 = 100)	..	129	100	..

1980–90 1990–2000 2000–08  
(average annual growth %)

Population, mid-year (millions)	3.6	4.9	6.2	7.2	3.0	2.4	1.9
GDP (US\$ millions)	2,566	3,049	7,106	13,343	2.7	3.2	5.3
		(% of GDP)					
Agriculture	23.7	22.4	15.9	13.6	2.7	2.2	3.8
Industry	24.3	26.4	32.5	31.0	3.3	3.6	4.6
Manufacturing	15.0	16.3	22.7	21.7	3.7	4.0	5.4
Services	52.0	51.2	51.7	55.4	2.5	3.8	6.4
Household final consumption expenditure	69.4	66.8	70.8	83.5	2.6	3.0	6.1
General gov't final consumption expenditure	12.7	12.9	13.4	16.0	3.3	2.0	6.1
Gross capital formation	24.8	23.0	28.3	33.5	3.0	6.9	7.2
Exports of goods and services	37.2	37.2	54.0	48.6	1.1	1.6	6.5
Imports of goods and services	44.1	39.9	66.4	81.6	1.2	3.8	7.9
Gross savings	..	..	21.2	18.1			

Note: Figures in italics are for years other than those specified. 2008 data are preliminary. .. indicates data are not available.

a. Aid data are for 2007.

Development Economics, Development Data Group (DECDG).

**Balance of Payments and Trade**

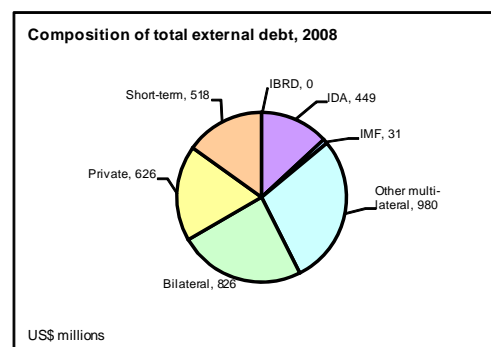
	2000	2008
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	1,306	6,100
Total merchandise imports (cif)	2,980	9,742
Net trade in goods and services	-831	-4,647
Current account balance	-508	-1,977
as a % of GDP	-7.2	-14.8
Workers' remittances and compensation of employees (receipts)	416	2,824
Reserves, including gold	1,319	2,723

**Central Government Finance**

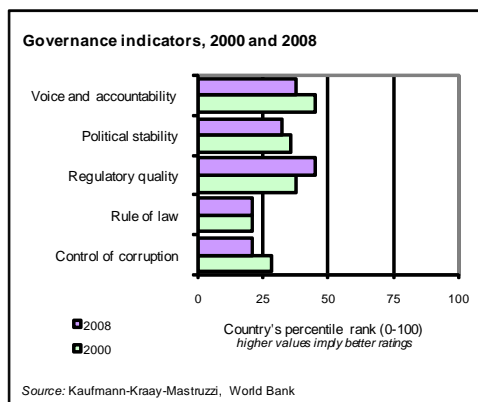
	2000	2008
<i>(% of GDP)</i>		
Current revenue (including grants)	15.1	19.3
Tax revenue	13.8	15.7
Current expenditure	14.8	17.2
Overall surplus/deficit	-5.2	-2.5
Highest marginal tax rate (%)		
Individual	25	25
Corporate	5	25

**External Debt and Resource Flows**

	2000	2008
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	5,402	3,430
Total debt service	392	367
Debt relief (HIPC, MDRI)	776	1,543
Total debt (% of GDP)	76.0	25.7
Total debt service (% of exports)	8.8	3.7
Foreign direct investment (net inflows)	282	877
Portfolio equity (net inflows)	0	0

**Private Sector Development**

	2000	2008
Time required to start a business (days)	-	20
Cost to start a business (% of GNI per capita)	-	52.6
Time required to register property (days)	-	23
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2008
Corruption	..	62.7
Access to/cost of financing	..	62.4
Stock market capitalization (% of GDP)	8.8	..
Bank capital to asset ratio (%)	8.8	8.4

**Technology and Infrastructure**

	2000	2008
Paved roads (% of total)	20.4	..
Fixed line and mobile phone subscribers (per 100 people)	7	97
High technology exports (% of manufactured exports)	0.3	12

**Environment**

	2000	2008
Agricultural land (% of land area)	26	26
Forest area (% of land area)	48.5	41.5
Nationally protected areas (% of land area)	..	19.6
Freshwater resources per capita (cu. meters)	14,882	13,504
Freshwater withdrawal (billion cubic meters)	0.9	..
CO2 emissions per capita (mt)	0.81	1.1
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	6.0	5.5
Energy use per capita (kg of oil equivalent)	486	621

**World Bank Group portfolio**

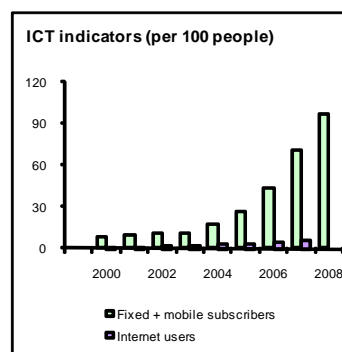
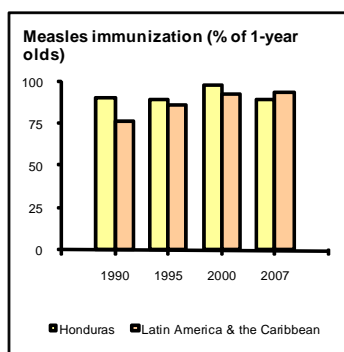
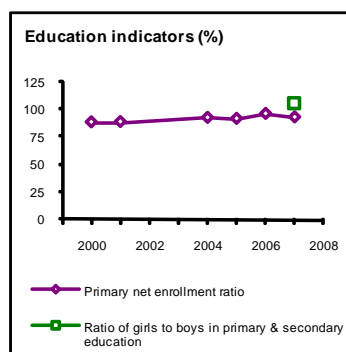
	2000	2008
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	151	0
Disbursements	0	0
Principal repayments	27	0
Interest payments	15	0
<b>IDA</b>		
Total debt outstanding and disbursed	838	449
Disbursements	38	51
Total debt service	8	3
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	42	11
Disbursements for IFC own account	27	11
Disbursements for IFC own account	9	2
Portfolio sales, prepayments and repayments for IFC own account	26	2
<b>MIGA</b>		
Gross exposure	16	6
New guarantees	0	0

Note: Figures in italics are for years other than those specified. 2008 data are preliminary.  
.. indicates data are not available. - indicates observation is not applicable.

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With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

	Honduras			
	1990	1995	2000	2008
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$ 1.25 a day (PPP, % of population)	43.5	15.6	14.4	18.2
Poverty headcount ratio at national poverty line (% of population)	..	..	52.5	50.7
Share of income or consumption to the poorest quintile (%)	2.8	3.1	3.3	2.5
Prevalence of malnutrition (% of children under 5)	..	19.2	12.5	8.6
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	88	..	89	93
Primary completion rate (% of relevant age group)	64	71	..	89
Secondary school enrollment (gross, %)	33	33	..	64
Youth literacy rate (% of people ages 15-24)	..	..	89	94
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	106	..	..	106
Women employed in the nonagricultural sector (% of nonagricultural employment)	48	45	51	45
Proportion of seats held by women in national parliament (%)	10	8	9	23
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	58	49	39	24
Infant mortality rate (per 1,000 live births)	45	39	32	20
Measles immunization (proportion of one-year olds immunized, %)	90	89	98	89
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	280
Births attended by skilled health staff (% of total)	45	55	56	67
Contraceptive prevalence (% of women ages 15-49)	47	50	62	65
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	13	13	0.9	0.7
Incidence of tuberculosis (per 100,000 people)	98	84	73	59
Tuberculosis cases detected under DOTS (%)	..	..	106	87
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	72	77	80	84
Access to improved sanitation facilities (% of population)	45	51	58	66
Forest area (% of total land area)	66.0	57.3	48.5	41.5
Nationally protected areas (% of total land area)	..	..	..	19.6
CO2 emissions (metric tons per capita)	0.5	0.7	0.8	1.1
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	5.4	5.2	6.0	5.5
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	18	2.9	4.8	114
Mobile phone subscribers (per 100 people)	0.0	0.0	2.5	85.8
Internet users (per 100 people)	0.0	0.0	12	9.1
Personal computers (per 100 people)	..	0.3	1.1	2.0



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

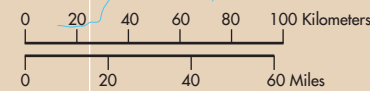
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**Annex 15: Map IBRD 33418**  
**HONDURAS: Social Protection**



## HONDURAS

- SELECTED CITIES AND TOWNS
- ⊙ DEPARTMENT CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- PAN AMERICAN HIGHWAY
- MAIN ROADS
- RAILROADS
- DEPARTMENT BOUNDARIES
- INTERNATIONAL BOUNDARIES



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## **Annex 16: Governance and Anti-Corruption**

### **HONDURAS: Social Protection**

1. Although Honduras is making advances towards a stronger governance framework, the country continues to face several challenges for improving accountability, transparency, and governance. Given the increasing emphasis on improving accountability and governance, through the Banks' technical dialogue,<sup>71</sup> the Bank has supported the GoH to ensure that governance is a cross-cutting theme in the design and implementation of its Conditional Cash Transfer Program and the proposed Credit and that the correct mechanisms are in place to mitigate possible acts of fraud and corruption.<sup>72</sup>

2. This annex describes the actions undertaken in the proposed Project to guarantee that short- and medium-term institutional responsibilities and accountability mechanisms are part of the Government's Program. The first section briefly summarizes governance issues in the Honduran public sector, while the second section highlights Project supported activities that aim to prevent corruption and fraud and improve transparency and accountability of the overall Program, *Bono 10,000*.

#### **Governance in Honduras**

3. The Honduran Government has put governance reform and institutional strengthening as a strategic priority in its agenda, focusing on issues of transparency and performance management as tools for improving accountability with citizens and taxpayers.

4. At the end of 2006, the GoH passed the Transparency and Access to Information Law. The Law was fully implemented with the creation of the Access to Information Institute (IAIP) in 2007, the appointment of the Institutes' Access to Information Commissioners', and the creation of Access to Information Offices and Officials in all line ministries and decentralized agencies. The Law is an important entry point for advancing further public sector reforms, improving transparency, and involving civil society organizations and communities in strengthening accountability.

5. Additionally, in the National Plan 2010-2022 (*Plan de Nación 2010-2022*) published under the current Administration, the GoH acknowledges that improving governance and being more accountable to citizens, particularly after the political standoff in 2009, is critical for Honduras' development and stability. In the Plan, the Government proposes to strengthen governance and accountability through increasing citizenship participation and feedback in the decision-making process, delivering electoral promises, improving transparency at the central and municipal levels, and guaranteeing access to health and education services.

6. While the GoH has placed considerable emphasis on measures for improving accountability, notable issues remain. Some of them, identified in the National Plan 2010-2022, include the lack

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<sup>71</sup> The proposed Project would support one of the main pillars in the current CAS: Good Governance through State Modernization and Civic Participation.

<sup>72</sup> The proposed Project would support one of the main pillars in the proposed Interim Strategy Note: Intensified support for efforts to improve governance and fight corruption.

of legitimate democratic processes and transparent financial and non-financial transactions and decisions, the absence of accountability for good performance in the public sector, and the deficiency of civil liberties and human rights. Additional findings from the 2009 World Bank Institutional Governance Review (IGR) (Report No. 53517) complement the Government's conclusions suggest that there is a growing need to strengthen the country's accountability framework, in particular, the accountability framework for municipal governments to enhance the effectiveness of poverty reduction programs at the local level and to raise public support for the decentralization process.

7. Some of the principle conclusions from the IGR include (i) strengthening the existing decision-making/consultative bodies at the national and local level and empowering other stakeholders, especially civil society and local community organizations, to effectively participate in democratic processes; (ii) enhancing, expanding and making performance results public through various channels of information; and (iii) improving management structures and human resources capacity for enhancing efficiency and accountability.

### **Mechanisms for improving accountability in the proposed Project**

8. The principal governance risks identified for the implementation of the new Program, *Bono 10,000*, and the execution of the proposed Project include: (i) weak management structures and lack of defined internal roles; (ii) lack of National transparency with regard to control of Registry of Beneficiaries (certification and compliance with co-responsibilities); (iii) weak local capacity to monitor compliance of co-responsibilities; and (iv) absence of mechanism for adequate delivery of health and/or education services.

9. To mitigate these risks and promote greater accountability, the Project supports the development and strengthening of a number of innovative mechanisms, including: a social audit, a beneficiary satisfaction survey, a concurrent audit of the transfers, a public website that would be updated frequently with Program information, an impact evaluation and a grievances and complaints mechanism.

10. Accountability mechanisms supported by the Project draw from the governance measures that were included in previous PRAF programs such as the use of community organizations to hold local service providers accountable for supplying health and education services and to serve as communications promoters of previous transfer programs. As a result, PRAF has experience with ensuring that the correct accountability transparency mechanisms are in place.

11. Below is a table that outlines the *Governance and Accountability Action Plan* for the proposed Project.

## Governance and Accountability Action Plan

Governance Risks	Risk Description	Mitigation Actions and Controls	
		Prevention	Transparency
Weak management structures and lack of clarity in new institutional framework	Honduran institutions are influenced by populism and politics. This reduces the transparency of policy decisions and accountability for their implementation.	During implementation, the Project will finance the design and implementation of a communication strategy to reach out to key stakeholders.	<p>The proposed Project design includes oversight arrangements focusing on results, beneficiary assessments and social audits, together with communications activities that allow beneficiaries and stakeholders to access information.</p> <p>Development and implementation of a webpage for the Program to allow all information related to the Program to be published in a public domain.</p>
Lack of National transparency with regard to control of Registry of Beneficiaries (certification and compliance with co-responsibilities)	Given that this is a new program, and there is a desire to have a quick and large impact, there is a risk that the Registry of Beneficiaries or Payment lists may be tampered with or does not adequately represent the target population.	During Project preparation, a consultancy was carried out to identify areas for improving the targeting mechanisms to identify beneficiaries. The Project will support activities that will use these findings to improve targeting and the Registry of Beneficiaries.	<p>The Project is supporting a concurrent audit, which will review the list of beneficiaries at certain points each year prior to the reimbursement of transfers from external funding sources.</p> <p>The Project will also support the formal activities of the <i>Comites Escolares Comunitarios</i>. These Community Committees will provide local level accountability, ensuring that registered beneficiaries are eligible for the transfer.</p>
Weak local capacity to monitor compliance of co-responsibilities	Weak management at the local levels may contribute to fragmented coordination and lack of compliance with co-responsibilities.	The Project will include activities to build institutional and technical capacity both in the MoP and the PRAF agency. These include the execution of trainings, provided by PRAF, for local service providers who will be responsible for the verification of responsibilities.	<p>Transfers will only be made to those beneficiaries who have complied with co-responsibilities, as reported to the PRAF agency by the health and education sector providers.</p> <p>The Project will support the development of a Customer Service Unit within the PRAF agency to address complaints and grievances, particularly if</p>

Governance Risks	Risk Description	Mitigation Actions and Controls	
		Prevention	Transparency
			the beneficiary has complied with the co-responsibility and it is reported otherwise.
Inadequate delivery of health and/or education services	There is a risk that services may be inadequate or that the service providers are absent.	The current Administration has given the MoP the authority to ensure greater inter-sectoral coordination for the implementation of the Program. Part of this inter-sectoral coordination includes aligning resources and objectives to ensure that Program beneficiaries have an adequate supply of services. The will only register beneficiaries where the supply of health and education services is confirmed.	