

Document of  
The World Bank

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Report No: 55859-MX

PROJECT PAPER

ON A

PROPOSED ADDITIONAL LOAN

IN THE AMOUNT OF US\$1,250 MILLION

TO THE

UNITED MEXICAN STATES

FOR THE

SUPPORT TO *OPORTUNIDADES* PROJECT

October 6, 2010

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

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CURRENCY EQUIVALENTS  
 (Exchange Rate Effective September 13, 2010)  
 Currency Unit = Mexican Peso (MX\$)  
 US\$1.00 United States Dollar = MX\$ 12.9

FISCAL YEAR  
 January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AGE	School Management Support Program ( <i>Apoyo a la Gestión Escolar</i> )
BANSEFI	National Savings and Financial Services Bank
CCLIP	Conditional Credit Line for Investment Projects
CCT	Conditional Cash Transfers
CN	National Coordination ( <i>Coordinación Nacional</i> )
CONAFE	National Council for Educational Development ( <i>Consejo Nacional de Fomento Educativo</i> )
CONEVAL	National Council for Evaluation of Social Development Policy ( <i>Consejo Nacional de Evaluación de la Política de Desarrollo Social</i> )
CPC	Community Promotion Committees ( <i>Comites de Promoción Comunitaria</i> )
CPS	Country Partnership Strategy
ENCELURB	Surveys for Urban Evaluation ( <i>Encuestas de Evaluación Urbana</i> )
ENIGH	Survey of Household Income and Spending ( <i>Encuesta de Ingresos y Gastos de los Hogares</i> )
EsIAN	Integrated Nutrition Strategy ( <i>Estrategia Integral de Atención en Nutrición</i> )
FM	Financial Management
FMA	Financial Management Assessment
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction for International Development
ICB	International Competitive Bidding
IDA	International Development Association
IMF	International Monetary Fund
IPP	Indigenous Peoples Plan
MIS	Management Information System
NAFIN	National Financing Agency
OECD	Organization for Economic Cooperation and Development
PEC	Quality Schools Program ( <i>Programa Escuelas de Calidad</i> )
PEI	Initial Education Program ( <i>Programa Educación Inicial</i> )
PRONABE	National Scholarship Program for Higher Education
PSBR	Public Sector Borrowing Requirements
SBD	Standard Bidding Documents
SEDESOL	Social Development Ministry ( <i>Secretaría de Desarrollo Social</i> )
SHCP	Ministry of Finance and Public Credit ( <i>Secretaría de Hacienda y Crédito Público</i> )
SINOS	Personalized Health Registry ( <i>Sistema Nominal de Salud</i> )
TELECOMM	Mexican Post and Telegraph Office ( <i>Telecomunicaciones de Mexico</i> )

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## **MEXICO**

### **ADDITIONAL FINANCING FOR THE SUPPORT TO *OPORTUNIDADES* PROJECT**

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**MEXICO**

**ADDITIONAL FINANCING FOR THE SUPPORT TO OPORTUNIDADES PROJECT**

**ADDITIONAL FINANCING DATA SHEET**

Basic Information - Additional Financing (AF)						
Country Director: Gloria M. Grandolini	Sectors: Other social services (100%)					
Sector Manager/Director: Helena Ribe/Keith Hansen	Themes: Social Safety Nets (P)					
Team Leader: Theresa Jones	Environmental category: C					
Project ID: P122349	Expected Closing Date: December 31, 2013					
Expected Effectiveness Date: December 15, 2010	Joint IFC: N/A					
Lending Instrument: SIL	Joint Level: N/A					
Additional Financing Type: Scale-Up						
Basic Information - Original Project						
Project ID: P115067	Environmental category: C					
Project Name: Support to <i>Oportunidades</i> Project	Expected Closing Date: December 31, 2010					
Lending Instrument: SIL	Joint IFC: N/A					
	Joint Level: N/A					
AF Project Financing Data						
<input checked="" type="checkbox"/> Loan <input type="checkbox"/> Credit <input type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other: Proposed terms: U.S. Dollar denominated commitment-linked IBRD Flexible Loan with a variable spread, principal to be repaid in full on Aug 15, 2027, with interest payment dates of the 15th of February and 15th of August of each year.						
AF Financing Plan (US\$m)						
Source	Total Amount (US \$m)					
Total Project Cost:	9,900					
Cofinancing:						
Borrower:	8,650					
Total Bank Financing:						
IBRD	1,250					
Client Information						
<b>Recipient:</b> United Mexican States <b>Responsible Agency:</b> SEDESOL/ <i>OPORTUNIDADES</i> National Coordination Contact Person: Dra. Maria Farell Campa Telephone No.: 52-55-5482-0700, Ext. 60048 Fax No.: Email: <a href="mailto:mariaf@oportunidades.gob.mx">mariaf@oportunidades.gob.mx</a>						
AF Estimated Disbursements (Bank FY/US\$m)						
FY	2011	2012	2013	2014		
Annual	500	250	250	250		
Cumulative	500	750	1000	1250		

### Project Development Objective and Description

The Additional Loan would finance a scaling up of the original project activities. There is no change to the original project development objectives:

- Increase the health, nutrition and education of poor families through investments in human capital by promoting regular health and nutrition check-ups among *Oportunidades* beneficiaries, improving the health status of *Oportunidades* beneficiaries, and raising school enrollment and attendance rates of the children of *Oportunidades* beneficiaries; and
- Build sustainable connections between the *Oportunidades* Program and other social programs of the Borrower in order to improve health and education outcomes for the *Oportunidades* beneficiaries.

#### Project Description

The proposed Additional Financing has the same two components as did the original Project. The first component is Support to the Continuation of the *Oportunidades* Program and the second component is Technical Assistance for *Oportunidades*. The only minor adjustment relative to the original Project is the financing of a small amount of operating costs to cover the salary costs of the Program staff responsible for administering the Bank loan.

**Component 1:** *Oportunidades* is a conditional cash transfer program which disburses cash transfers (grants) to extremely poor families, conditional on compliance with certain requirements. Under the first component, the proposed Project would finance bi-monthly cash transfers to the participant families who comply with the conditions and Program operating costs associated with administering the Bank loan.

**Component 2:** The proposed Project would finance consultancy services and studies which would support efforts to improve the connections between *Oportunidades* and other social programs and other initiatives to improve the operation of the Program, including implementation of the Indigenous Peoples Plan (IPP).

### Safeguard and Exception to Policies

Safeguard policies triggered: Environmental Assessment (OP/BP 4.01) Natural Habitats (OP/BP 4.04) Forests (OP/BP 4.36) Pest Management (OP 4.09) Physical Cultural Resources (OP/BP 4.11) Indigenous Peoples (OP/BP 4.10) Involuntary Resettlement (OP/BP 4.12) Safety of Dams (OP/BP 4.37) Projects on International Waters (OP/BP 7.50) Projects in Disputed Areas (OP/BP 7.60)	[ ] Yes [X] No [ ] Yes [X] No [ ] Yes [X] No [ ] Yes [X] No [ ] Yes [X] No [X] Yes [ ] No [ ] Yes [X] No [ ] Yes [X] No [ ] Yes [X] No [ ] Yes [X] No
Does the project require any exceptions from Bank policies? Have these been approved by Bank management?	[ ] Yes [X] No [ ] Yes [ ] No

Conditions and Legal Covenants:		
Financing Agreement Reference	Description of Condition/Covenant	Date Due
Article V	<p>Additional Condition of Effectiveness</p> <p>The Borrower through SHCP, has entered into a contract among the financial agent (NAFIN) and Project Implementing Entities (SEDESOL-CN and CONAFE).</p>	90 days after the date of the Loan Agreement but no later than 18 months after Bank's approval of the Loan.
Section 1.A.1 of Schedule 2	<p>Covenant</p> <p>Project Implementing Entities provide funds for implementing their respective parts of the Project.</p>	Throughout Project Implementation.
Section 1.A.3 of Schedule 2	Borrower shall maintain an Operational Manual, which shall include, <i>inter alia</i> , an Indigenous Peoples Plan and the Anti-corruption Guidelines	Throughout Project Implementation
Section I A.4 of Schedule 2	The Borrower through SEDESOL (through CN) shall issue a notice to BANSEFI, DICONSA and TELECOMM, including a copy of the Anti-Corruption Guidelines, exhorting them to their fulfillment while managing Loan proceeds.	10 business days after the signing of the Loan Agreement.
Section IV B.1 of Schedule 2	<p>Withdrawal Condition</p> <p>No withdrawal shall be made under Category 1 (Oportunidades Grants) unless the Borrower has fulfilled the Covenant referred to in Section 1.A.4 of Schedule 2 (obligation to inform BANSEFI, DICONSA, TELECOMM on Anti-Corruption Guidelines).</p>	Before disbursing under Category 1 ( <i>Oportunidades Grants</i> ).



## I. Introduction

1. The World Bank supports Mexico in improving the well-being of families. This support entails a gamut of financial, knowledge, convening and coordination services (Box 1) that aims to expand, strengthen and improve the coordination of Mexico's social programs and, in particular, expand and strengthen the central pillars of Mexico's social safety net, the conditional cash transfer program *Oportunidades* and the health insurance program *Seguro Popular*. Mexico's conditional cash transfer program, *Oportunidades*, is a large program with a demonstrated ability to reach a wide share of the poor and to have a positive impact on family well-being and human capital formation, both crucial underpinnings for economic growth. Given these features, the Program has been central to the domestic policy response of the Government of Mexico to the global economic crisis with good results. In April 2009, the Support to *Oportunidades* Project (Loan 7708) was approved by the Board of Directors, in order to provide financial resources and to provide technical support in order to contribute to the efforts of the Mexican authorities to improve the Program's effectiveness. Thus far, a range of technical support is being provided, including to revise the targeting instrument, to strengthen connections between *Oportunidades*, and other social programs, to improve the design and operation of the Program, including in indigenous communities, and to update the initial diagnostic and medium-term strategy.

2. This Project Paper seeks the approval of the Executive Directors to provide Additional Financing in an amount of US\$1,250 million to the United Mexican States for the Support to *Oportunidades* Project. The proposed Additional Financing (AF) would help finance the costs associated with the operation of *Oportunidades* during 2011-2013, including scaled-up activities and continued support for improvements in its effectiveness that would enhance the impact of a well-performing Project. No changes from the original Project are proposed in terms of project development objectives, design, approach, and implementation arrangements. The coverage of the Project would increase from 5.2 million to 5.8 million families. The same cash transfers (a subset of the full structure of transfers) would be financed by the Additional Financing Loan. There are some minor changes. The AF will finance a small amount of operating costs, directly related to loan administration. Based on the experience under the original Project, some minor streamlining of indicators is proposed and targets have been adjusted to reflect the extension of the closing date to December 31, 2013.

### **Box 1: Improving the Well-being of Families for Shared Growth**

Within the country partnership strategy and a renewed focus on results, the Government of Mexico and the Bank agreed on a comprehensive package of services for FY11 and 12 to improve the well-being of families for shared growth.

#### **Performance indicators of Bank HD Business Plan:**

Percentage of *Oportunidades* families complying with health and education conditions\*

Mid-term strategy for *Oportunidades* approved

Number of individuals affiliated with *Seguro Popular*

Accountability mechanisms for *Seguro Popular* strengthened

Number of children who regularly attend early child development services in the poorest municipalities

State level coordination of social programs improved

#### **Ongoing Financial Services:**

Loan for the Support to *Oportunidades* Project

Loan for the Support to *Seguro Popular* Project

Loan for the Compensatory Education Project

Grant for the *Oportunidades* State-Level Coordination Model Impact Evaluation Project (Guanajuato – “*Contigo vamos por Más*”)

#### **Knowledge Services (Bank-financed):**

Support in developing a mid-term strategy for *Oportunidades*

Review of *Oportunidades* targeting instrument

Strengthen the transition from school to work of *Oportunidades* beneficiaries, and active labor market policies

Comprehensive diagnostic of Mexico’s health financing system

Support in developing a disease risk management system

Support in strengthening the state level coordination of social programs

#### **Convening and Coordination Services:**

Regional community of practice on conditional cash transfer programs

Regional community of practice on early child development

Regional social network on health policy

Support to the organization of the World Youth Conference

\*Indicator in Original *Oportunidades* Project and proposed AF

3. Based on the results of previous rigorous impact evaluations, the continuation of the Program together with the higher coverage of the poor is expected to contribute substantially to higher household consumption (particularly for the poorest), poverty reduction and investment in human capital, particularly for children.<sup>1</sup> In the case of **education**, the Program has been shown to increase enrollment at the secondary level and at the transitions from primary to lower secondary level and from the lower secondary to upper secondary level, particularly for girls. The Program also reduces repetition and drop-out rates, and increases educational attainment. In

<sup>1</sup> For a summary of main results, see *Evaluación externa de impacto de Programa Oportunidades 2001-2006: Informe Compilatorio* by Cruz, de la Torre, and Velázquez.

the case of **health**, *Oportunidades* has been shown to reduce prevalence of diarrhea and respiratory disease, days of sickness, anemia and malnutrition rates in young children, and infant and maternal mortality rates.

4. **Partnership Arrangements.** The Bank is coordinating its technical support with the Inter-American Development Bank which has a long-standing active program with *Oportunidades*. Under a multi-year conditional credit line for investment projects (known as a CCLIP), approved by its Board of Directors in December 2008, so far two loans totaling US\$800 million have been approved, and a third loan for US\$800 million is expected to be negotiated in September 2010.

## **II. Background and Rationale for Additional Financing in the amount of US\$1,250 million**

### **Background – Country Context**

5. The Mexican economy is rapidly recovering from a brief but very deep recession. The collapse of external demand, particularly in durable consumer goods, in the last quarter of 2008 and the first quarter of 2009 led to an almost immediate and severe downturn in manufacturing industry and economic activity in Mexico. The ensuing loss of employment and income generation opportunities as well as the higher level of uncertainty and risk created by the global financial and economic crisis contributed to a fall in private consumption and investment further denting aggregate demand. A subsequent rebound in external demand as of the second half of 2009 is giving rise to a swift recovery, even though private consumption and investment are trailing behind and have not yet contributed significantly to the recovery of economic growth.

6. The sharp fall in aggregate demand of 2009 created a large output gap. The average annual growth of about 3.0 percent observed during the decade previous to the global crisis provides a reasonable indication of the country's potential output growth over the medium term. The financial crisis may have led to a temporarily lower rate of potential output growth<sup>2</sup> but, even if that is the case, the contraction of economic activity by 6.5 percent in 2009 created a large output gap. This implies that the economy may grow for a couple of years at moderately above its potential rates of growth absorbing excess capacity and without creating undue inflation pressures.

7. The government is proceeding with a gradual withdrawal of the fiscal stimulus during 2010 to assure markets of fiscal sustainability. By maintaining public expenditure in 2009 at about the same level in real terms as the previous year despite a sharp public sector revenue decline, a fiscal stimulus of about 2.5 percent of GDP was generated last year.<sup>3</sup> The stimulus was mainly financed by non-recurrent revenue that is not available in 2010. In view of market concerns regarding fiscal sustainability, largely related to a rapidly falling volume of oil production, the authorities opted to initiate a program of fiscal consolidation by increasing taxes and containing public expenditures. To moderate the withdrawal of fiscal support and in line

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<sup>2</sup> "The Global Crisis and Potential Growth in Mexico" in Mexico: Selected Issues, IMF Country Report 10/70 March 2010.

<sup>3</sup> Mexico: 2010 Article IV Consultation, IMF Country Report 10/71 March 2010.

with Mexico's fiscal responsibility law, the budget allows for additional deficit spending of 0.7 percent of GDP in 2010, which is reduced to 0.4 percent by 2011 and should be eliminated by 2012.

8. Monetary policy has been left unchanged after substantial easing in 2009. The increase in tax rates and public sector prices, that are part of the 2010 budget, are estimated to increase consumer price inflation by the end of 2010 to about 5 percent compared to 3.6 percent observed by the end of 2009. However, the monetary authorities have left the monetary policy intervention rate unchanged in view of the temporary nature of the price increases and the continued significant output gap that should contain inflation pressures.

9. The monetary authorities have expressed their intention to increase the level of international reserves to mitigate the impact of possible financial shocks. A rules based mechanism that allows market participants to sell foreign exchange to the Central Bank was reintroduced in February 2010 and should allow for a steeper increase of international reserves. In the meantime, the US\$47 billion Flexible Credit Line contracted with the IMF in April 2009 for the period of one year was recently renewed for another year.

10. To reduce pressures on domestic financial markets and to maintain access to more diversified sources of sovereign financing going forward, the Government of Mexico is planning to finance a larger fraction (up to 30 percent) of the public sector borrowing requirements (PSBR) externally and has requested support from the multilateral development banks. The net public sector financing requirement is 3.2 percent of GDP or about US\$30 billion in 2010, and is projected to decline slightly as a share of GDP in 2011-2012. The proposed Additional Financing for the Support to *Oportunidades* Project would represent nearly 40 percent of the expected US\$3.3 billion in commitments from the World Bank planned during FY11. Gross public debt remains within manageable proportions despite an increase in the gross debt-to-GDP ratio to about 44.6 percent of GDP in 2009 and 2010.<sup>4</sup>

### **Rationale for Additional Financing**

11. Additional financing is needed to support a scale-up of activities to enhance development impact. As a large program with a demonstrated ability to reach a wide share of the poor and to have a positive impact on human capital formation, *Oportunidades* has been central in the domestic policy response of the Government of Mexico to the global economic crisis, as reflected in both increases in cash transfer levels and higher coverage. Largely as a response to the global economic crisis and the corresponding increase in poverty levels, Mexico is implementing additional and expanded activities that scale up the Program's impact and development effectiveness. During the first part of 2010, *Oportunidades* expanded its coverage by about 8 percent (roughly 400,000 families, from 5.2 million at the end of 2009 to 5.6 million in June 2010), largely in urban areas, and added a new cash benefit for participants with very young children.<sup>5</sup> The proposed Additional Financing would support the operation of the scaled-up *Oportunidades* over the period 2011-2013 as well as continued efforts to improve its effectiveness.

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<sup>4</sup> Mexico: 2010 Article IV Consultation, IMF Country Report 10/71 March 2010.

<sup>5</sup> The new benefit would be financed with national resources.

12. The global financial crisis has hit Mexico at a time when income poverty was already increasing largely because of the previous food and fuel crisis. Up until recently, poverty levels in Mexico had been steadily declining. However, this favorable trend came to a sudden stop between 2006 and 2008 when, despite continued growth, there was a 4.4 percentage point increase in extreme poverty, with a similar deterioration in other poverty measures, affecting in particular rural areas. More than half of the total poverty change was accounted for by the impact of higher food prices. Results of ex-ante simulations suggest that the 2009 recession and subsequent slowdown in growth are likely to have brought about an additional increase in extreme poverty rates of about 2 percentage points in 2009 and that the crisis has had the strongest impact on those who were already poor.<sup>6</sup>

13. Analysis shows that *Oportunidades* has played an important and effective role in coping with the crisis. According to analysis done by CONEVAL (National Council for Evaluation of Social Policy), extreme poverty levels would have been even higher, particularly in rural areas, in the absence of social protection programs such as *Oportunidades*. An increase in the value of the *Oportunidades* cash benefit and of other transfers partially compensated for the decline in labor income for the bottom 20 percent of the population between 2006 and 2008. Likewise, ex-ante simulations done by Bank staff suggest that the expansion in social transfers (primarily *Oportunidades*) – in terms of both the number of program beneficiaries and amount of transfer per beneficiary – played a key role in moderating losses among the poor and the rise in the number of poor during 2009.<sup>7</sup> The fact that *Oportunidades* provides most of its transfers in cash has been critical for its effectiveness, including during the recent crisis.

14. The original loan amount was US\$1,503.76 million, nearly all of which has been disbursed. The loan was approved on April 9, 2009 and became effective on September 1, 2009. The original Project supports Mexico's conditional cash transfer (CCT) program, *Oportunidades* and has two Development Objectives:

- Increase the health, nutrition and education of poor families through investments in human capital investment by promoting regular health and nutrition check-ups among *Oportunidades* beneficiaries, improving the health status of *Oportunidades* beneficiaries, and raising school enrollment and attendance rates of the children of *Oportunidades* beneficiaries.
- Build sustainable connections between the *Oportunidades* Program and other social programs of the Borrower in order to improve health and education outcomes for the *Oportunidades* beneficiaries.

Under the on-going Project, progress towards achieving the Development Objective and Implementation Progress are both rated as Satisfactory. Implementation of the Project, including compliance with its loan covenants and ratings, is satisfactory. The outcomes and results recorded in the most recent supervision reports for most indicators are either consistent with or exceed the expectations set out in the Project Appraisal Document in most areas.

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<sup>6</sup> Recent Trends and Forecasts of Poverty in Mexico: A Poverty Note (June 2010, PREM, LAC).

<sup>7</sup> Recent Trends and Forecasts of Poverty in Mexico: A Poverty Note (June 2010, PREM, LAC).

15. The Bank has contributed to the on-going efforts to strengthen an already effective Program by providing technical support not only in the context of Project supervision, but also through related Bank-financed programmatic analytical and advisory services. Particularly considering the short period of time of implementation of the original Project, continuation of these contributions covering a wide range of areas, several of which are critical for the effectiveness or future development of the Program is key. In fact, technical support has been more extensive than expected when the loan was approved. In October 2009, at the request of the Mexican authorities, the Bank co-hosted with the Inter-American Development Bank a two day meeting with representatives from SEDESOL and *Oportunidades* to discuss possible responses to the financial crisis and increases in poverty levels in the country, including, but not limited to *Oportunidades*. One of the issues raised at that meeting was the need for the Program to update and revise its targeting instrument, particularly in the context of a proposed expansion concentrated in urban areas. At the request of the Mexican authorities, the Bank, together with the Inter-American Development Bank, worked with staff in the Program as well as in SEDESOL and CONEVAL (National Council for Evaluation of Social Policy) to revise and improve the targeting instrument in time for the expansion which took place in early 2010. The work had implications beyond *Oportunidades* as SEDESOL decided to apply the new instrument to other social programs under the Ministry.

16. As part of Bank supervision, technical support has been provided in several areas envisaged under the Project such as improving connections with other social programs (especially those financed by related Bank education and health projects), reviewing the state model of coordination and considerations around the issue of time limits. In addition, advice has been given in the context of the studies being financed under the technical assistance component of the Project which are part of the Program's long-standing evaluation efforts. These include evaluations of two innovative pilots (one related to early childhood stimulation, the other to parental support for their children's education), an analysis of the education trajectories of minors in the Program, in particular examining why some are not receiving the education transfers, an analysis of the issue of time limits and possible new areas of support and conditions for participant families, and a follow-up study on social mobility among *Oportunidades* "graduates" in rural areas, among others. These studies would be delivered at the end of 2010.

17. Themes covered outside of the loan, under the related Bank-financed analytical and advisory services, include developing an integrated communications and support strategy for secondary school youth; improving communication and the relationship between the Program and teachers and health staff; and the preparation of a medium-term strategy, including an updated diagnostic for the Program. In addition, working with health sector staff, the Bank supported the preparation of a nutritional video. The purpose of the video is to raise parental understanding and expectations regarding early childhood growth; to encourage take up of primary health and nutrition-related services; and to empower parents to put pressure on these services to improve the quality and intensity of nutritional monitoring and counseling. In addition, under the Bank-financed programmatic analytical and advisory services, advice is being provided on broader social protection issues. One example is a note prepared by Bank staff at the request of SEDESOL on best practices and international experience on work fare programs.

18. The original Project had two components. The first component was Support to the Continuation of the *Oportunidades* Program (US\$1,498.5 million of loan financing). Resources of the Bank loan were used to finance some of the cash transfers to the participants in *Oportunidades*. The Project financed the bi-monthly cash payments for 5 cash transfers (nutrition, transfer to compensate for the international food price increases, transfer to compensate for spending on energy, education and school supplies<sup>8</sup>) within the full structure of cash transfers to families. The loan was expected to cover these cash payments for roughly half of the total coverage of at least 5.0 million families. The second component was Technical Assistance to *Oportunidades* (US\$1.5 million of loan financing). Under this component the Project financed consultancy services required to support the implementation of a work program which aimed to: (a) increase the quality and accessibility of the health and education services used by *Oportunidades* families; (b) develop strategies to increase the level of self-sufficiency of *Oportunidades* families so that they would be able to increase their well-being; (c) further improve the design and operation of *Oportunidades* (including a review of the reasons for the incomplete take-up of education grants by school-age children of *Oportunidades* families and a study on possible community-level activities to support the Program); and (d) implement the Indigenous Peoples Plan (IPP). The proposed Additional Financing will make no changes to the original development objectives or project components.

19. The scaled-up activities are consistent with the current Country Partnership Strategy, which explicitly discusses the likely inclusion of additional support for strengthening the safety net through *Oportunidades* in the FY 11 program (Country Partnership Strategy Progress Report for the United Mexican States FY08-FY10, February 26, 2010, Report No. 52776-MX). Additional Financing is the best mechanism for the expanded activities to maximize development impact and results because they are a natural continuation of what has been supported under the original Project, as are the administrative and implementation arrangements. The use of Additional Financing would be simpler, faster, and more cost-effective for the borrower, compared to other lending tools, particularly considering that it has only been about a year since Project effectiveness. The commitment of the borrower to scaling up project activities has already been demonstrated. From the Bank side, there are substantial benefits from continuing involvement with *Oportunidades*, particularly in the areas of program innovation and monitoring and evaluation of conditional cash transfer programs. Many countries in and outside of the Latin America Region look to Mexico for best practices on CCTs and similar types of programs (See Box 2).

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<sup>8</sup> In the case of school supplies, the Bank loan would finance only the cash transfers, not in-kind transfers.

### **Box 2: *Oportunidades* - Key Role in South-South and South-North Learning**

Given its early start with a conditional cash transfer program (then known as *Progresa*), Mexico has long been an important resource for authorities in other countries in the Latin America region who want to learn from its experience as they set up their own programs. The process of knowledge sharing between countries is normally organized in the form of study visits to *Oportunidades*. These visits include field trips where the delegations can observe the payment of the cash transfers, have meetings with the health and education sector staff and talk directly to beneficiaries and the local staff of *Oportunidades*. Some interchanges are facilitated by the World Bank. Recent examples include Paraguay (January 2010) and Honduras (June 2010). This role extends beyond the region as the Program has hosted visits from the Philippines, Pakistan, and some African countries. Pakistan, for example, intends to scale up its CCT program and was interested in learning from the Mexicans on targeting systems, exit strategies and links with health and education. *Oportunidades* has developed best practice operational tools such as the payment mechanism, the management information system and the beneficiary registry. The Bank has facilitated exchanges on these best practices including a seminar on MIS in CCT programs (January 2010) and beneficiary registries (May 2010) in which Mexico presented their systems. *Oportunidades* representatives have participated in conferences organized in India, China, Vietnam and in several Latin American countries.

The experience of Mexico also attracted the interest of OECD countries. In June 2009, together with Colombia and Chile, Mexico participated in a forum on CCTs organized by the Manpower Development Research Corporation and the Rockefeller Foundation, which included New York City's conditional cash transfer program, NYC Opportunity. Finally, Mexico has been invited to share its experience in several international fora organized by the World Bank, for example, in Cairo in June 2009, which discussed social protection responses to address the finance, food and fuel crisis. Mexico continues to be an active participant in the CCT Learning Community (Brazil, Mexico, Colombia, Chile and El Salvador), facilitated by the Bank since 2005, which is now being expanded in order to incorporate the most recent generation of CCT programs in the Region.

20. The Additional Financing is classified as medium driven by Likelihood risk (See Annex 2 for details). *Oportunidades* is a CCT program with over a decade of operations. It has been not only sustained, but expanded, through two changes in political administration and has demonstrated positive impacts on poverty reduction, consumption levels, and human capital formation. The proposed Additional Financing would support the program in continuing its strategy of constantly seeking to improve the effectiveness of its operations, including by starting to address 2nd generation issues, such as using the program as a platform for linking participants to other services, working to improve the quality of education and health services, reviewing issues related to time limits, and strengthening the role of the Program in the country's overall poverty strategy.

### III. Proposed Changes

21. The proposed AF would have the same Development Objectives as the original Project. Reflecting the scale-up of activities to enhance the development impact of the Project, the scope would increase from financing a Program with slightly over 5 million beneficiaries to one with 5.8 million beneficiaries. The borrower has decided to finance the additional cash transfer for young children with domestic resources. Details on the expansion of Program coverage are shown in Table 1. Although two-thirds of the new households came from semi-urban and urban areas, there was also an important expansion to incorporate additional small, isolated rural areas.

**Table 1: Expansion of *Oportunidades* (2010)**

	2010 expansion	
	localities	households
<b>Total</b>	<b>10,004</b>	<b>396,316</b>
<i>Rural</i>	9207	133485
<i>Semi-urban</i>	418	57165
<i>Urban</i>	379	205666

22. The proposed AF would have the same two components as the original Project. The first component is **Support to the Continuation of the *Oportunidades* Program (US\$1,244.5 million of loan financing)**. Resources of the Bank loan would be used to finance some of the cash transfers to the participants of *Oportunidades*. It would not be used to finance in-kind support to families, nor the provision of education or health services to them. Under the first component, the proposed AF would finance the bi-monthly cash payments for the same 5 cash transfers included in the original Project (see para 18). The current structure of transfers is shown in Table 2. A minor adjustment relative to the original Project would be the financing of a small amount of operating costs to cover the salaries of Program staff responsible for administration of the Bank loan.

**Table 2: Structure of *Oportunidades* Cash Transfers to Families (US\$/month)<sup>9</sup>**

Health and Nutrition	\$ 16.2
Education	\$ 10.8- \$68.9
Youth with <u>Oportunidades</u>	\$ 300 (one time)
Elderly	\$ 22.7
<u>Vivir Mejor</u>	\$ 9.2
<u>Apoyo Infantil</u> <u>Vivir Mejor</u>	\$ 8-24
Energy Component <sup>2</sup>	\$ 4.2
<b>MAXIMUM AMOUNT PER FAMILY PER MONTH</b> (with children in primary school/ in secondary or high school)	<b>\$ 112</b> <b>\$ 181</b>

23. The second component is **Technical Assistance to *Oportunidades* (US\$2.3 million of loan financing)**. The same areas of focus would be maintained under the Additional Financing. These aimed to: (a) increase the quality and accessibility of the health and education services used by *Oportunidades* families; (b) develop strategies to increase the level of self-sufficiency of *Oportunidades* families so that they are able to increase their well-being; and (c) further improve the design and operation of *Oportunidades*; and implement the IPP. These activities would build on progress being made under the original Project, in for example, diagnostic work on the reasons for incomplete take-up of the education grants, a review of the issue of time limits, and evaluations of program innovations being tested on a pilot basis.

24. There are no significant changes in institutional, financial management, disbursement, and procurement arrangements from those described in the Project Appraisal Document for the original Project. The closing date of the Additional Financing loan would be December 31, 2013, three years from the original (and current) closing date of the original Project. The revised project costs and financing plan are provided below. Project indicators remain broadly the same, but have been updated to reflect the revised closing date (see Annex 1 for details).

<sup>9</sup> *Apoyo Infantil Vivir Mejor* would be financed with national resources.

**Table 3: Revised Bank Financing by Component with Additional Financing**

<b>Project Components</b>	<b>Original Cost (US\$M)</b>	<b>Changes with AF (US\$M)</b>	<b>Revised Cost (US\$M)</b>
Support to the Continuation of the <i>Oportunidades</i> Program	1,498.5	1,244.5	2,743.0
Technical Assistance to <i>Oportunidades</i>	1.5	2.3	3.8
Total Project Costs (excluding front-end fee)	1,500.0	1,246.8	2,746.8

**Table 4: Revised Project Financing by Financing Source with Additional Financing**

<b>Source</b>	<b>Original Project (US\$M)</b>	<b>Changes with AF (US\$M)</b>	<b>Total Revised Project (US\$M)</b>
Borrower	4,855.0	8,400.0	13,255.0
Bank (includes front-end fee)	1,503.76	1,250.0	2,753.76
Total Project	6,358.76	9,650.0	16,008.76

## IV. Appraisal Summary

### A. Economic and Financial Analysis

25. The expected beneficiaries of the Program are nearly 30 million people living in 5.8 million poor households in Mexico. The economic analysis draws on the most recent results of the external evaluations of *Oportunidades* undertaken to assess the impact of the program on the main outcome indicators in rural areas from 1997 to 2007. Box 3 summarizes some key findings from the impressive evaluation strategy of the Program, which is considered best practice. The results of the Program's impact evaluations show significant improvements on several dimensions. One of the objectives of *Oportunidades* is to increase consumption by complementing the income of poor families. Impact evaluation results show that *Oportunidades* has had a positive impact on household consumption, bringing about a 13 percent increase in consumption levels for poor households and a 22 percent increase in per capita consumption. A Bank review (Conditional Cash Transfers: Reducing Present and Future Poverty, World Bank 2009) highlights the large effects of *Oportunidades* on poverty, especially for the poverty gap and squared poverty gap measures.

26. An important objective of *Oportunidades* is to increase human capital investment in children. In the case of education, the Program has been shown to increase enrollment at the secondary level and at the transitions from primary to lower secondary level and from the lower secondary to upper secondary level, particularly for girls. The Program also reduces repetition and drop-out rates, and increases educational attainment.<sup>10</sup> In the case of health, *Oportunidades* has been shown to reduce prevalence of diarrhea and respiratory disease, days of sickness, anemia and malnutrition rates in young children, and infant and maternal mortality rates. The box below presents more detailed information.

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<sup>10</sup> See Behrman, Parker and Todd, 2004 and Parker and Behrman, 2008, as well as references in Conditional Cash Transfers, World Bank, 2009, p. 130.

### **Box 3: *Oportunidades* - Best Practice in Impact Evaluation and Key Results**

This box gives a short overview of the main results achieved by *Oportunidades*, focusing on recent findings on long-term impact.<sup>a</sup> *Oportunidades* is described as “iconic” in this regard, an example to follow for the evaluation of social programs in other countries.<sup>b</sup> The design of an impact evaluation was explicitly incorporated into the Program from the start. Extensive qualitative and quantitative data has been collected since 1997. The most recent surveys were 2007 for rural areas and 2009 for urban areas. All external evaluations have been made public, often posted on the program website and/or published in respected academic journals. In the area of education, a recent study examining longer-term effects (Parker and Behrman, 2008) confirms important increases in the grades of schooling achieved for both young male and female adults as a result of *Oportunidades*. The results also show significant and positive impacts of the Program on indigenous, as high as or higher than for non-indigenous youth. The study also showed some encouraging positive tendencies in achievement. In the case of health, a recent study of long-term effects showed increases in prenatal care, less likelihood of adolescents to engage in risky behavior, and reductions in obesity and chronic illness among Program participants. An analysis of households in rural areas who had participated in the Program for ten years confirmed several previous findings as, for example, the increases in both overall and food consumption had been sustained over time. In the case of indigenous, since they generally started out poorer, the consumption impact was greater, implying that the Program has helped to close the gap with other population groups. Other results include:

- Health**
  - Less morbidity of beneficiaries below the age of 2 during the last 15 days compared to non-beneficiaries: 35.5 percent vs. 39.9 percent.
  - Less prevalence of diarrhea in beneficiaries below the age of 2 compared to non-beneficiaries: 9.1 percent vs. 11.8 percent.
  - Increase of 57 percent in the use of contraceptive methods in female beneficiaries between 15 and 49 years
- Nutrition**
  - Reduction by 22.2 percentage points in the prevalence of stunting in beneficiaries below the age of two
  - Reduction of 11.8 percentage points in the prevalence of anemia in beneficiaries below the age of two
  - Reduction by 5.4 (urban areas) and 14.2 (rural areas) percentage points in the prevalence of anemia in pregnant women between 17 and 22 years
- Education**
  - Increase in additional years of schooling:  
Female and male beneficiaries (17-22 years): 0.85 and 0.65 additional years  
Youth (19-20 years): 0.9 additional years  
Indigenous beneficiaries 0.64 (women), 0.84 (men) additional years
  - Increase of 10 percent in the scores on the Woodcock-Johnson exams in mathematics for men and women between 19 and 22 years.

<sup>a</sup> For more detail see SEDESOL, *Evaluación externa del Programa Oportunidades 2008, Tomos I y II*, at [www.oportunidades.gob.mx](http://www.oportunidades.gob.mx).

<sup>b</sup> Conditional Cash Transfers: Reducing Present and Future Poverty, p.36, World Bank, 2009.

27. As part of the ongoing agenda for external evaluation of the Program, a cost-benefit analysis was undertaken taking into account only the benefits in terms of increased earnings that result from the demonstrated increase in educational attainment.<sup>11</sup> The effects of *Oportunidades* on this outcome are derived from the impact evaluation and are then monetized using evidence from a combination of sources. Costs were also estimated. These results only take into account the impact of *Oportunidades* on raising schooling levels. Since the calculations do not incorporate the benefits from the demonstrated results in improving health and nutrition status, the results represent a lower bound on the expected benefits. The calculation considers several scenarios using different discount rates and rates of return to schooling. The results show that the expected benefits outweigh the costs under most scenarios with positive cost/benefit ratios ranging from 1.4 – 7.1, except in some cases using a 10 percent discount rate. Based on these results, the continuation and scale-up of the Program to be supported by the proposed Additional Financing is expected to contribute substantially to poverty reduction and investment in human capital. In fact, taking into account the revisions in the targeting instrument which were incorporated as of the beginning of 2010, which improved the targeting efficiency to the poor, the effectiveness of the Program should increase as numerous studies have shown larger CCT program effects among households that are poorer at baseline.<sup>12</sup>

28. *Oportunidades* is in its 14th year of operation. The Program has successfully passed through critical operational transitions – expanding coverage from rural areas to semi-urban and then to urban- as well as political transitions in the course of three different federal government administrations (originating from two distinct political parties). Since the Program started in a context of tight budgetary conditions and the aim from the beginning was to cover eventually the entire population living in extreme poverty, budgetary feasibility was a key consideration. It was ensured because the Program expanded gradually, replacing several food transfers which were reduced and then eliminated over time. The Program continues to be financially sustainable. The chart below shows the budget share for *Oportunidades* relative to GDP and programmable budget spending in recent years and estimates for future years. Over the 2011-2013 period, it is estimated that the proposed Bank loan would cover about 13 percent of the overall costs of the Program.

**Table 5: *Oportunidades* Spending as Share of GDP and Budget 2004-2011**

	2004	2005	2006	2007	2008	2009	2010 (est)	2011 (est)
<b>GDP (%)</b>	.30	.32	.32	.37	.34	.40	.48	.46
<b>Share of Programmable spending (%)</b>	1.95	2.1	2.0	1.9	1.9	2.0	2.6	2.6

Source: *Progress against Poverty* by Levy (2006) for 2004/2005 and Bank staff estimates based on data from Ministry of Finance.

<sup>11</sup> Parker, S., Behrman, J (2008): “*Seguimiento de adultos jóvenes en hogares incorporados desde 1998 a Oportunidades: Impactos en educación, pruebas de desempeño*”, *Evaluación Externa del Programa Oportunidades 2008*.

<sup>12</sup> *Conditional Cash Transfers: Reducing Present and Future Poverty* (World Bank, 2009) p. 136.

## ***B. Technical Analysis***

29. International and Mexican experience shows that conditional cash transfer programs can be effective mechanisms for reducing poverty and inequality in the short run, and provide incentives for human capital development which can further reduce poverty and inequality in the long run. The use of cash (instead of in-kind food) transfers has several advantages including far lower operating costs than the cost of providing assistance in kind; from the recipients' point of view, greater freedom of choice in how to use the benefit to enhance their welfare, resulting in a higher level of satisfaction than in-kind transfers; and avoidance of price distortions. And empirical evidence demonstrates that people rarely seem to use the cash transfers for antisocial purposes (cigarette and alcohol consumption).<sup>13</sup> There are other key elements which have to be in place and monitored carefully to guarantee their success:

- An accurate system for identifying and selecting the targeted population.
- Clear operational procedures, strong coordination with all involved entities, including local agencies, and intensive training of staff and beneficiaries in rights and responsibilities.
- Financial checks and balances, including internal and external audits, periodic checks on procedures and social accountability mechanisms.
- A well-balanced and timely monitoring system to predict and adjust to any bottlenecks in the system, complemented by impact evaluations that periodically inform about outcomes and impacts.

30. The design of *Oportunidades* is of high quality and best-practice and there has been high interest in replicating it elsewhere in Latin America and, more recently, in other Regions. Nevertheless, improvements continue to be made in the Program, including supported by the technical advice of the Bank through the Project and related analytical and advisory work. For example, a revised targeting instrument developed by the Program in collaboration with the World Bank and the Inter-American Development Bank was used to identify families for the expansion which took place in 2010. It is expected that use of the new targeting instrument reduced both inclusion and exclusion errors, compared to the previous instrument.

## ***C. Fiduciary Analysis***

31. Based on performance under the ongoing Project, financial management and procurement arrangements are considered satisfactory and would continue to be used under the proposed Additional Financing. There are no exceptions to Bank policies.

32. **Financial Management.** There are no outstanding audits and financial management reporting requirements have been met under the original Project. As is usual with conditional cash transfer (CCT) programs, the large number of payments and their geographical spread pose significant FM implementation challenges. The project entails a complex process of flow of funds and information between different institutions at the state and central level, including a large number of payments in the form of CCTs that flow into different channels (e.g. BANSEFI, a financial intermediary, Diconsa, through a system of public retail outlets for basic

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<sup>13</sup> For Protection and Promotion: The Design and Implementation of Effective Safety Nets, World Bank, 2008.

commodities, and the Mexican Post and Telegraph Office- TELECOMM) in order to reach the program’s final beneficiaries. However, a strong system of internal and external controls, validated through extensive experience, is in operation at the National Coordination of the *Oportunidades* Program and its financial agents. The National Coordination of the *Oportunidades* Program, a de-concentrated unit of the Social Development Ministry (SEDESOL), would coordinate all relevant FM arrangements for the AF, as they did under the Original Project. The National Financing Agency (NAFIN) will act as financial administrator and financial agent of the Borrower with regard to the Loan. In that capacity, NAFIN will manage loan disbursement processes and provide other implementation support and oversight, based on its many years of experience with Bank-financed projects. Disbursement arrangements would be same as in the original Project, as follows:

Disbursement method	<ul style="list-style-type: none"> <li>• Advance to a <b>pooled</b> designated account in USD managed by NAFIN, with a ceiling of US\$200,000,000 (optional only for category 1).</li> <li>• Reimbursement of eligible expenditures (pre-financed by the Government) into a project account in USD designated by NAFIN.</li> </ul>
Supporting documentation	SOEs
Retroactive expenditures	<p>Eligible payments</p> <ul style="list-style-type: none"> <li>• That do not exceed 20 percent of the loan amount.</li> <li>• Made by the Borrower after March 1, 2010 and before the date of the Loan Agreement.</li> </ul>

33. Except for the front-end-fee (for the payment of which the Bank shall on behalf of the Borrower, withdraw funds from the Loan Amount), the Loan would be disbursed in US Dollars into a bank account opened by NAFIN. These funds would be transferred into a US Dollar account at the Federal Treasury. The Federal Treasury shall use those funds in accordance with the Borrower’s applicable laws. The Federal Treasury, through its annual budget regulations and mechanisms, and based on instructions from the National Coordination of the *Oportunidades* Program (SEDESOL) transfers directly to BANSEFI, Diconsa and TELECOMM or in the case of consultants selected, directly to the providers of consultant services under the Project, an amount equivalent to the amount disbursed in US Dollars under the Loan to finance Eligible Expenditures.<sup>14</sup>

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<sup>14</sup> The Bank finances eligible expenses that are actually paid (borrower “pre-finances” and pays expenses to be reimbursed later by the Bank.

**Table 6: Disbursement Table for Additional Financing**

	<b>Amount of the Loan Allocated (US\$)</b>	<b>% of Expenditures to be financed</b>
<b>Category</b>		
<b>(1) Grants under the CCT Component</b>	1,244,000,000	100%
<b>(2) Consultant Services</b>	2,345,000	100%
<b>(3) Operating Costs</b>	530,000	100%
<b>(4) Front-end Fee</b>	3,125,000	100%
<b>(5) Premia for Interest Rate Caps and Interest rate Collars (amounts due under section 2.07(c) of this Agreement)</b>	-0-	Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07 (b) of the General Conditions
<b>Total</b>	1,250,000,000	

Note: **Operating costs** mean reasonable costs for salaries of staff of the Borrower in charge of Project implementation, which would not have been incurred without the Project.

34. **Procurement.** Procurement activities will be carried out by the National Coordination Agency of the *Oportunidades* Program. Procurement for the proposed AF would be carried out in accordance with the World Bank’s “Guidelines: Selection and Employment of Consultants by World Bank borrowers” dated May 2004, revised in October 2006 and May 2010, and the provisions stipulated in the Legal Agreement. Loan proceeds will be used to finance cash transfers with a smaller portion of the loan (US\$2,345 thousand) being used for consultant services for studies and evaluations, and US\$530,000 for operating costs. The administrative procedures of the Federal Government (including *Oportunidades*) to be used for operating costs have been reviewed and are considered acceptable for the Bank. In the case of consultant services, for each contract to be financed by the Loan, the different consultant selection method, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan.

35. No works, goods, or non-consulting services will be procured under the AF. Consulting services from *firms and individuals* will include studies and advisory services. The selection of consultants would be carried out following Bank policies and using Harmonized Standard Requests for Proposal (RFP) agreed with the Ministry of Public Administration (*Secretaria de la Función Pública*). Short lists of consultants for services estimated to cost less than US\$500,000 equivalent per contract may be composed entirely of national consultants in accordance with the provision of paragraph 2.7 of the Consultant Guidelines. Consultancy services estimated to cost about US\$100,000 per contract and single source selection of

consultants (firms) will be subject to prior review by the Bank. The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for consultants procured are presented in the Operational Manual.

36. An acceptable procurement plan covering the first 18 months for the activities to be financed through the Additional Financing Loan has been received. There may be retroactive Financing up to an aggregate amount not to exceed 20 percent of the value of the loan for payments made for Eligible Expenditures within 12 months prior to the date of the Loan Agreement and on or after March 1, 2010.

#### *D. Safeguards*

37. As already discussed, no changes from the original Project are proposed in terms of project objectives, design, approach, and implementation arrangements. No new safeguard policies are triggered. The scaled-up project activities would not raise the environmental category of the Project which was classified as C. The only safeguard policy which is triggered is OP 4.10 (as was the case in the original Project). Given the nature, objectives and focus of the AF and taking into account the experience of implementation of the original Project, no negative impacts are expected on indigenous communities. The main conclusions of the social assessment<sup>15</sup> done for the original Project were that from the start, the Program (then known as *Progresa*) had had a significant proportion of indigenous participants; as of 2009 at least 26.2 percent of the 5 million families in *Oportunidades* were indigenous. The coverage by the Program of localities with 40 percent or more indigenous grew from 53 percent in 2000 to 83 percent in 2009 and to nearly 85 percent taking into account the 2010 expansion. Nearly all eligible indigenous localities are included in the Program, leaving out only some localities with less than 50 residents, which are not eligible because health and education services are not available. Estimates also suggest that Program coverage of indigenous households within participating localities is very high.

38. Since *Oportunidades* is one of the most extensively evaluated programs in Mexico, there is abundant quantitative and qualitative information on its results, including on whether the impact of the Program has been different among the indigenous population and, if so, to what extent this affected the achievement of the objectives of the Program.

- In the case of **education**, the results for indigenous have been somewhat more positive than for non-indigenous. As is the case for participants overall, the Program has had the most impact on improving the transition rate from primary to secondary school, secondary school attendance, and on the attainment of girls.
- From the beginning, the Program's co-responsibility had a positive impact on increasing **health** visits for participants, but the effect was somewhat less for indigenous. Also for this population group, there was a greater response for general consultations and nutritional monitoring of children, compared to reproductive health and women's health visits. Although there has been continuous improvement in this indicator since the

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<sup>15</sup> Given *Oportunidades*' long history and extensive program of qualitative and quantitative evaluations, as well as its management information system, including sentinel surveys, the methodology for the social assessment was a review of the relevant existing materials.

beginning of the Program, cultural barriers may have accounted for the slower impact. Evaluations show that the workshops in health promotion have had a favorable impact on the indigenous population. Data on the results of the Program show an impact on reducing infant mortality and lowering the rates of adult obesity and hypertension.

- Related to **nutrition**, in spite of a trend of improvement, indigenous children still suffer from malnutrition to a greater extent than other groups. In 2004, 31 percent of indigenous school-aged children were malnourished (low height for age), compared to the national average of 9 percent. *Oportunidades* has shown results in increasing the level of household consumption and over time has expanded the variety of foods consumed. Evaluation results for rural areas show that the Program has had a positive impact on increasing motor and cognitive skills of young children and improving behavior, as well as contributing to declines in the prevalence of anemia and malnutrition. On the other hand, there have been persistent problems with the effectiveness of in-kind supplements delivered as part of the Program, although their use has been well-accepted by the indigenous population.

39. In accordance with the OP 4.10, *Oportunidades* prepared and disclosed publicly on its website (February 2009) an Indigenous Peoples Plan (IPP) to address the requirements of the World Bank to ensure that the indigenous population participates and benefits from the Project and to avoid or mitigate any possible adverse effects of the Project on the indigenous population. The strategy for consultation took advantage of the extensive and effective participation and consultation mechanisms embedded in the operations of the Program. Drawing on evidence of the results of the Program, particularly in rural areas where there is a high concentration of indigenous beneficiaries, the IPP was ambitious and included several lines of action which aimed to improve the operations and results for the indigenous population. The main lines of action included: (a) activities to strengthen the components of the Program; (b) testing innovations using pilot projects; and (c) studies included in the Technical Assistance Component of the Project in order to be able to obtain the needed diagnoses and opinions of participants on specific topics. Given the participation and consultation mechanisms embedded in the operations of the Program, no additional consultations with indigenous communities were deemed necessary.

40. Although there have been some relatively minor adjustments to the IPP for the original Project, primarily due to the difficult fiscal situation of Mexico in 2009 and 2010, and some pilot activities were delayed (the PEI-CONAFE early childhood initiative), implementation of the IPP on the whole has been satisfactory. The work benefited from good technical supervision and coordination between *Oportunidades* and the Health and Education sectors. In the case of health, major progress was made to develop a specially-designed communications strategy for indigenous communities, following up on a weakness identified in an earlier evaluation. In some areas, progress was greater than anticipated, for example, in increasing the Program's coverage of indigenous localities (see discussion below), and in strengthening indigenous language capacity among Program staff. Details are available in a separate Note on Compliance with Safeguard Policies, available in Project files.

## **Mechanisms of Consultation and Complaint Resolution**

41. As described in detail in the original IPP, *Oportunidades* has mechanisms and instruments through which it has wide access and takes into account the opinions of stakeholders, including Program participants. The principal base of participation is the community assemblies of beneficiaries. Promotion Committees (CPC) are established in each community to engage beneficiaries in the management and monitoring of the Program. The members are volunteers selected among the beneficiaries. The specific objective of the CPC is to serve as a channel for the requests and suggestions of the participants and to strengthen the actions of the Program in the areas of nutrition, social control and transparency. In addition to the extensive set of household surveys which have been undertaken as part of the evaluation effort, since 2000 the Program has had a system of Sentinel Surveys. This system monitors implementation of the Program through biannual surveys of stakeholders' opinions and knowledge about the program. Through these various survey instruments, *Oportunidades* maintains a permanent consultative process with health and education providers and the direct beneficiaries, with the objective of monitoring the status of operations, results and impacts of the Program at the community level. There are sufficient mechanisms and instruments to provide the perceptions of the beneficiary population, service providers and other local actors involved in the Program. An important part of the process of participation within *Oportunidades* is the extensive and adequate functioning of channels to address and resolve complaints or other problems, beginning at the meetings during which families are incorporated into the Program. The indigenous population in the new localities incorporated in the 2010 expansion, as well as those living in localities already participating in the Program, have access to these existing, on-going mechanisms of consultation and complaint resolution.

42. Several activities were proposed to be implemented during the Project to expand consultations with the indigenous population. The main activities carried out during implementation of the original Project included:

- Direct consultations with beneficiaries through interviews, surveys or focus groups, in the context of studies financed under the technical assistance component of the Original Project (for example, among others, the analysis of the inter-generational mobility of youth in rural areas and the validation of the indigenous health education communications strategy), as well as the evaluations of innovative pilots being implemented in indigenous communities.
- Strengthening of the Community Promotion Committees and training them so they could promote more involvement of parents in the education of their children.

## **Program Developments in 2010**

### **Expansion of Coverage**

43. In 2010, in the context of the standard exercise of incorporating new localities able to meet the conditions for health and education service availability and capacity, as well as the decision to increase overall coverage of the Program, there were results relevant for the indigenous population. First, the Program incorporated beneficiaries in 923 communities with

less than 50 households, 384 of which were indigenous communities. 206 communities out of the 923 were new entrants into the Program. This was possible because of the extension of health and education services, including through an expansion of mobile health services (i.e. mobile health units or *Caravanas de la Salud*) so that these marginal, small localities with highly dispersed population could meet that eligibility criterion. As a result, the Program's coverage of indigenous localities rose from 83 percent in 2009 to nearly 85 percent in 2010.

44. Second, in 2010, 396,000 new families were incorporated in *Oportunidades*, and more than a quarter of them (nearly 105,000) were indigenous. Most of the expansion of coverage of the Program took place in urban areas, where a substantial share of the indigenous population now lives. Thirty six percent of the newly incorporated indigenous people came from urban and peri-urban localities (Table 7). Given the importance and special circumstances of the indigenous population in urban areas, the resources of the technical assistance component of the World Bank loan are being used to finance a study to better understand the Program's attention to this population.

**Table 7: Expansion of *Oportunidades* among Indigenous Population (2010)**

	<b>Localities</b>	<b>households</b>
<b>indigenous</b>	<b>4486</b>	<b>104745</b>
<i>Rural</i>	4291	66853
<i>semiurban</i>	176	28265
<i>urban</i>	19	9627

### **Changes in Operating Rules**

45. Some revisions in the operating rules of the Program which took effect in 2010 promoted the full participation of families in indigenous communities in the Program. These included arrangements to facilitate compliance with health conditions by migrant agricultural workers (i.e. by being able to attend an alternate health facility), as well as receipt of the monetary transfer by another member of the family, if necessary. The expansion of payment points to include Diconsa, a public agency which runs retail outlets for basic food commodities, particularly in rural areas, is expected to reduce the cost of participation of families in indigenous communities.

### **Approach to Indigenous Issues under the Additional Financing Activities**

46. Given the nature, objectives and focus of the AF and taking into account the experience of implementation of the original Project, no negative impacts are expected on indigenous communities. Given the satisfactory performance in carrying out the IPP, as well as the short period of time since its preparation and publication under the original Project (February 2009), it is considered that the existing IPP continues to be an appropriate and ambitious framework for the activities envisaged during the Additional Financing. The proposed

extension of the closing date of the AF to December 31, 2013, would facilitate follow-up and Bank support for the completion and selective expansion of some IPP activities initiated in 2009-2010. Of course, the IPP is not a static document, and would be updated as necessary to reflect progress, for example, in expanding coverage of indigenous communities and in carrying out specific initiatives, as well as any modifications to the strategy. Given the progress made so far and the experience with implementation of the original Project during the last 18 months, it is expected that the following would be the main areas of concentration during the proposed Additional Financing.

- **Access to early childhood education and stimulation.** The PEI-CONAFE and EsIAN pilots and their evaluations would continue. Support would be provided on the new initiative of an Integrated Strategy for Early Childhood Development including the possibility of using *vocales de Oportunidades* as promoters of early child development.
- **Efforts to reduce maternal mortality.** The Program would monitor and collaborate, as appropriate, with the health sector's initiatives to reduce maternal mortality including through implementation of EsIAN, SINOS, and expansion of coverage of *Seguro Popular* among the beneficiaries of *Oportunidades*.
- **Strategy of educational communication in indigenous languages.** The activities supported by the IPP aim to improve the communication of the Program with the indigenous population and therefore improve its impact in indigenous communities with respect to: increased coverage, better compliance with co-responsibilities, lower drop off due to operational errors, and stronger impact in final outcomes such as changes in health and care practices to improve nutritional outcomes and maternal mortality. In the context of the Additional Financing, some activities will be crucial to ensure these outcomes: (i) follow-up of any recommendations and other findings from the results of the validation of the communication strategy in indigenous languages; and (ii) follow-up of the results of the evaluation of the new attention model through the bilingual promoters, and its probable expansion, including into the new localities incorporated into the Program.
- **Activities to facilitate the Entrance of Youth to Secondary and Upper Secondary Schools and Improving Opportunities to Participate in Work-Related Training.** In this area the major activities would be the revision of the results of the ongoing studies including the analysis of inter-generational mobility of youth in rural areas and of educational trajectories, as well as design of the youth communications strategy, and support for the implementation of the recommendations. The program of *tutores de verano* would be continued and expanded.
- **Mechanisms of Community Participation.** Implementation of the AGE pilot as well as activities to promote more participation in PEC schools would continue.
- **Complementary Studies and Evaluations.** The proposed Additional Financing would include resources for technical assistance, including implementation of the IPP. One study identified is continuation of the later stages of the PEI-CONAFE evaluation.

## **Mechanisms of Consultation and Complaint Resolution**

47. *Oportunidades* has mechanisms and instruments through which it has wide access and takes into account the opinions of stakeholders, including Program participants. Nevertheless, several activities to be supported by the IPP for the Additional Financing are intended to improve the communication of the Program among indigenous population and therefore improve its impact with respect to: increased coverage, better compliance with co-responsibilities, lower drop off due to operational errors, and stronger impact in final outcomes such as changes in health care practices to improve nutritional outcomes and reduce maternal mortality. Following on the experience under the Original Project, the following activities are envisaged during implementation of the Additional Financing:

- Direct consultations with beneficiaries through interviews, surveys or focus groups in the context of studies and evaluations, including the pilots on innovations in the model of attention in indigenous communities.
- Continued strengthening of the Community Promotion Committees.

## Annex 1: Results Framework and Monitoring

### MEXICO: Additional Financing for the Support to *Oportunidades* Project Results Framework

Revisions to the Results Framework		Comments/ Rationale for Change
<b>PDO</b>		
<i>Current (PAD)</i>	<i>Proposed</i>	
<ul style="list-style-type: none"> <li>• Increase the health, nutrition and education of poor families through investments in human capital by promoting regular health and nutrition check-ups among <i>Oportunidades</i> beneficiaries, improving the health status of <i>Oportunidades</i> beneficiaries, and raising school enrollment and attendance rates of the children of <i>Oportunidades</i> beneficiaries.</li> <li>• Establish connections between the <i>Oportunidades</i> Program and other social programs in order to improve health and education outcomes for the <i>Oportunidades</i> beneficiaries.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase the health, nutrition and education of poor families through investments in human capital by promoting regular health and nutrition check-ups among <i>Oportunidades</i> beneficiaries, improving the health status of <i>Oportunidades</i> beneficiaries, and raising school enrollment and attendance rates of the children of <i>Oportunidades</i> beneficiaries.</li> <li>• Establish connections between the <i>Oportunidades</i> Program and other social programs in order to improve health and education outcomes for the <i>Oportunidades</i> beneficiaries.</li> </ul>	No change
<b>PDO indicators</b>		
<i>Current (PAD)</i>	<i>Proposed change*</i>	
% of families (pregnant women, children <5) complying with health conditions	Include only families	Detailed breakdown no longer available.
% of children complying with education conditions by level	Extend target value to 2013	
% of students who transition from primary to lower secondary education	Extend target value to 2013	
% of students who transition from lower secondary to upper secondary (" <i>media superior</i> ")	Extend target value to 2013	
% of women beneficiaries in upper secondary with respect to the gender ratio of national enrollment	Drop	National data subject to considerable delays.
Percentage of ex-beneficiaries who received the <i>Jóvenes</i> with <i>Oportunidades</i> transfer.	Drop	Loan is not financing that transfer and the structure of that aspect of Program has been modified.

Revisions to the Results Framework		Comments/ Rationale for Change
Number (and proportion) of schools with <i>Oportunidades</i> beneficiaries participating in the Program <i>Escuelas de Calidad (PEC)</i>	Extend target value to 2013	
Number of <i>Oportunidades</i> students in schools participating in the Program <i>Escuelas de Calidad (PEC)</i>	Drop.	Previous indicator is sufficient.
Number of PRONABES scholarship recipients whose families are/were in <i>Oportunidades</i>	Extend target value to 2013	
<b>Intermediate Results indicators</b>		
<i>Current (PAD)</i>	<i>Proposed change*</i>	
Number of municipalities, localities, families in <i>Oportunidades</i>	Extend target value to 2013	To take into account the recent expansion of the Program.
No. of exits by cause	Drop	Indicator too volatile and was not a good indicator for registry quality
Implementation of PEI-CONAFE pilot in indigenous and non-indigenous localities	Revised	To take into account delays and the extension of the closing date.
Implementation of AGE-CPC pilot in <i>telesecundarias</i>	Revised	To take into account the extension of the closing date.
Implementation of <i>madrinas y parteras</i> pilot	Drop	Difficulties experienced in expanding the pilot
Increase Number of beneficiaries with <i>Seguro Popular</i>	Drop	Incorporated into Bank project supporting the <i>Seguro Popular</i> .

\* Indicate if the indicator is Dropped, Continued, New, Revised, or if there is a change in the end of project target value

## REVISED PROJECT RESULTS FRAMEWORK

<b>Project Development Objective (PDO):</b>												
<ul style="list-style-type: none"> <li><i>Increase capacities in health, nutrition and education of poor families through human capital investment by promoting regular health check-ups, improving health status, and raising school enrollment and attendance rates.</i></li> <li><i>Establish connections between Oportunidades and other social programs in order to improve the impact of the program on child health and education.</i></li> </ul>												
PDO Level Results Indicators <sup>16</sup>	Core	UOM <sup>17</sup>	Baseline Original Project Start (2006)	Progress To Date (2009) <sup>18</sup> *July 2010	Cumulative Target Values <sup>19</sup>				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2010	2011	2012	2013				
1. % of families, pregnant women, and children <5 complying with health conditions	<input type="checkbox"/>		98.0 <sup>20</sup> 98.9 98.9	97.55* 97.72 98.86	96.0	96.0	96.0	96.0	Every two month cycle.	Program MIS	Program	
2. % of children complying with education conditions by level (primary, secondary, upper secondary)	<input type="checkbox"/>		Primary:98; Secondary: 94.3; Upper Secondary: 95.6 (2005)	97.59* 97.31* 96.11* (1 <sup>st</sup> semester 2010)	98.00 98.4 94.7	98.0 98.4 98.46	98.0 98.4 98.46	98.00 98.4 98.46	Every two month cycle.	Program MIS	Program	
3. % of students who transition from primary to lower secondary education	<input type="checkbox"/>		82.3 (2006)	85,12 (2009)	80.0	80.0	80.0	80.0 85.7	Every school year	Program MIS	Program	
4. % of students who transition from lower to upper secondary school	<input type="checkbox"/>		55.82 (2006)	59.85 (2009)	55.0	55.0	55.0	55.00 57.2	Every school year	Program MIS	Program	
5. Number (and %) of Oportunidades schools participating in the Programa Escuelas de Calidad (PEC).	<input type="checkbox"/>		24,955 23%	29,061 22.01 (2009)	30,824 22%	33,000 22 %	36,000 22%	40,000 22%	Every school year	Program MIS	Program	

<sup>16</sup> Please indicate whether the indicator is a Core Sector Indicator (for additional guidance – please see <http://coreindicators>).

<sup>17</sup> UOM = Unit of Measurement.

<sup>18</sup> For new indicators introduced as part of the additional financing, the progress to date column is used to reflect the baseline value.

<sup>19</sup> Target values should be entered for the years data will be available, not necessarily annually. Target values should normally be cumulative. If targets refer to annual values, please indicate this in the indicator name and in the “Comments” column.

<sup>20</sup> 2007.

PDO Level Results Indicators	Core	UOM	Baseline Original Project Start (2006)	Progress To Date (2009) *July 2010	Cumulative Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2010	2011	2012	2013				
6. Number (and %) of <i>Oportunidades</i> beneficiaries with PRONABES scholarships.			36,941 (15.4%)	45,523 (17.03%) (school year 08-09)	70,000 18%	75,000 19%	80,000 20%	90,000\ 20%	School year	Cross-check of <i>Oportunidades</i> and PRONABES data bases		
<b>Beneficiaries</b>												
Project beneficiaries,	<input checked="" type="checkbox"/>		28m	28m	28m	28m						
Of which female (beneficiaries)	<input checked="" type="checkbox"/>		14m	14m	14m	14m						

### Intermediate Results and Indicators

Intermediate Results Indicators	Core	UOM	Baseline Original Project Start (2006)	Progress To Date (July 2010)	Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2010	2011	2012	2013				
<b>Intermediate Result 1: Program able to manage new entries and its registry and coverage</b>												
1. Number of municipalities, localities, families and children in <i>Oportunidades</i> .	<input type="checkbox"/>		2,445 <sup>21</sup> municipalities; 95,819 localities; 5,049,206 families; 7,222,855 children (age 0-19 years)	2,445 97,773 5,560,540 11,677,166 (semester 1 2010, children age 0-19)	2,500 98,000 5,600,000 10,800,000	Same 5,8 m/ 11m.	Same	Same	Every six months	Program " <i>Inicadores de Seguimiento</i> " document, Tables 1.1 and 1.3	Program	

<sup>21</sup> Figures refer to 2008.

### Intermediate Results and Indicators

Intermediate Results Indicators	Core	UOM	Baseline Original Project Start (2006)	Progress To Date (July 2010)	Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2010	2011	2012	2013				
<b>Intermediate Result 2:</b> <i>Oportunidades</i> is utilized as a platform to link participants to other social programs of the Government of Mexico												
2. Implementation of PEI-CONAFE pilot with indigenous and non-indigenous families.	<input type="checkbox"/>		Pilot started. Proportion of <i>Oportunidades</i> beneficiaries participating in PEI-CONAFE identified.	More than 95% of social promoters were trained for the PEI CONAFE implementation (from a total of 112 promoters) The participation of all mothers from indigenous localities was reported. In 50% of localities of the baseline, surveys were conducted for evaluating the impact of PEI-CONAFE.	Continue training	2 <sup>nd</sup> round of evaluation	Analyze results	Act on recommendations.	Annual			
3. Implement AGE with <i>telesecundarias</i> Pilot.	<input type="checkbox"/>		Pilot started	2009-10 school year: 2 <sup>nd</sup> and last training round for the 125 treatment community committees July-August 2010: 2 <sup>nd</sup> follow up survey Bimonthly training for 125 Community Committees.	Continue training and do 2 <sup>nd</sup> round of evaluation	Continue training and do 3 <sup>rd</sup> round of evaluation	Analyze results	Act on recommendations.	Annual			

## SUPPLEMENTARY INFORMATION ON THE *OPORTUNIDADES* EVALUATION WORK PROGRAM

During 2009 the following external evaluations were carried out:

- 1) Urban Household Survey 2009 (“*Encuesta de los Hogares Urbanos – Encelurb*”)
- 2) The Evaluation of innovations related to *Oportunidades* in urban areas
- 3) The follow-up of the evaluation of the innovations included in the Agenda 2007/2008

The **urban household survey 2009** is the fourth survey round for the sample households and was carried out in November and December 2009. The data is collected in order to measure the tendencies of the living conditions of those households compared to the previous rounds. The results of the latest survey will be published at the end of 2010.

Type of survey	No. of households	No. Of youth
Panel - Encelurb 09	6,272	7,390
Education	7,880	9,550
MAS	13,162	10,353
Targeting	1,935	-
<b>T O T A L</b>	<b>29,249</b>	<b>27,293</b>

RURAL EVALUATION SAMPLE								
	Encel 98m	Encel 98o	Encel 99m	Encel 99n	Encel 00m	Encel 00n	Encel 03	Encel 07*
Households	22,021	24,067	22,328	23,266	22,627	22,364	33,844	43,947
URBAN EVALUATION SAMPLE								
	Encelurb 02	Encelurb 03	Encelurb 04	Encelurb 09**				
Households	15,545	16,125	15,021	29,249				

The **evaluation of innovations** has also been carried out in November and December 2009, including: (1) the multidimensional targeting model of households, (2) the alternative health model of *Oportunidades* in urban areas, (3) the differentiated scheme of transfers for education, (4) the scheme of payment via debit cards, and (5) the model of orientation, follow-up and personalized attention to beneficiaries (MAPO).

<b>Overview of Evaluations (2008-2010)</b>	2008	2009	2010
<b>IMPACT EVALUATION</b>			
Evaluation of the medium term effects of <i>Oportunidades</i> in urban areas		Survey	Technical documents: social aspects, health, education, nutrition
<b>FOLLOW UP EVALUATIONS</b>			
Follow-up: Young emigrants – ENCEL 2007*	Survey		
Study on social mobility of young <i>Oportunidades</i> beneficiaries from rural households*			x
Study on education trajectories of children and youth of <i>Oportunidades</i> families*			x
Study on Temporality and new schemes of transfers and co-responsibilities*			x
<b>EVALUATION QUALITY OF SERVICES</b>			
Additional study on the Quality of Education Services*			
Evaluation of the 2010 program of communication with indigenous groups*			Survey, Report of results
Study on the appropriateness of the services offered by <i>Oportunidades</i> to the indigenous population*			Survey, report of results
<b>EVALUATION OF INNOVATIONS</b>			
Evaluation of the innovations in urban areas (education, health, and MAPO)		Collection of information in the field	Collection of information Report of results
Follow up of implementation of EsIAN (impact evaluation)	Collection of baseline data in the field, Report of results	Collection of information Report of results	Next collection of information: 2011
Study on the ECD Program PEI-CONAFE in synergy with <i>Oportunidades</i> (impact evaluation)*	Collection of baseline data in the field, Report of results	Collection of information Report of results	Next collection of information: 2011
Evaluation of the Component “ <i>Jóvenes con Oportunidades</i> ”	Collection of information Report of results		
Section on <i>Oportunidades</i> in the Survey of Household Income and Spending 2010 ( <i>Encuesta de Ingresos y Gastos de los Hogares – ENIGH</i> )			Collection of information in the field Report of results

\*Financed under technical assistance component of original Bank loan for *Oportunidades*.

## Annex 2

### Operational Risk Assessment Framework (ORAF)

#### Project Development Objective(s)

- (1) Increase capacities in health, nutrition and education of poor families through human capital investment by promoting regular health check-ups, improving health status, and raising school enrollment and attendance rates.
- (2) Establish connections between *Oportunidades* and other social programs in order to improve the impact of the program on child health and education.

PDO Level Results Indicators:	1.% of families complying with health conditions
	2.% of children complying with education conditions by level
	3.% of students who transition from primary to lower secondary
	4.% of students who transition from lower secondary to upper secondary
	5. Number (and proportion) of schools with <i>Oportunidades</i> beneficiaries participating in the program <i>Escuelas de Calidad</i>
	6. Number and % of PRONABES scholarship recipients whose families are/were in <i>Oportunidades</i>

<b>Risk Category</b>	<b>Risk Rating</b>	<b>Risk Description</b>	<b>Proposed Mitigation Measure</b>
<b>1. Project Stakeholder Risks</b>			
1.1 Stakeholder	Low	Political pressures to change significantly the operational framework of <i>Oportunidades</i> .	None necessary
<b>2. Project Risks</b>			
2.1 Design	Low	Ineffective targeting of benefits of <i>Oportunidades</i>	During project implementation, the <i>Oportunidades</i> program staff, supported by the World Bank and the IDB will undertake a review of targeting performance and an analysis will be made of potential for further expansion of the Program into dispersed areas and those lacking required services. Also targeting and coverage performance will be monitored by both the Government and the Bank.
	Medium-L	Low beneficiary compliance with conditions	Under the technical assistance component, a detailed study would be undertaken to identify the explanatory factors and propose remedial measures
	High	In terms of FM the project entails a complex process of flow of funds and information between different implementing entities.	The program relies on robust operational and FM systems that allow for correlating payments with the fulfillment of the program's conditions by the beneficiaries, and also for an adequate traceability of funds during the various processes involved in the program.
2.2 Social & Environmental	Medium-L	Incomplete implementation of IPP. Difficult for Program to agree with sector ministries on activities to improve the connections with other social programs.	Diagnostic studies and other analyses would be supported by technical assistance and analytical and advisory services. Bank supports through other project lending in education and health.

<b>Risk Category</b>	<b>Risk Rating</b>	<b>Risk Description</b>	<b>Proposed Mitigation Measure</b>
2.3 Program & Donor	Low	Inconsistencies in policy advice between the World Bank and the IDB.	None needed
2.4 Delivery Quality	Low	Lack of sustainability of Program without loan financing.	None needed

<b>Overall Risk Rating at Preparation</b>	<b>Overall Risk Rating During Implementation</b>	<b>Comments</b>
Medium-L	Medium-L	The ongoing program is performing well and there are no risks apparent.