

FAMILY ALLOWANCES PROGRAM - PHASE II

(HO-0132)

EXECUTIVE SUMMARY

BORROWER: The Republic of Honduras

EXECUTING AGENCY: Programa de Asignación Familiar [Family Allowances Program] (PRAF)

AMOUNT AND SOURCE:

IDB (FSO):	US\$45,226,000
Local counterpart funding:	US\$ 5,125,000
Total:	US\$50,351,000

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	40 years
Disbursement period:	42 years
Interest rate:	1% for the first
Inspection and supervision:	1%
Credit fee:	0.5% of the undisbursed

BACKGROUND: Honduras's Family Allowances Program (PRAF) has been in operation since 1990, as a transitional program intended to ease the burden of macroeconomic adjustment. The primary objective of a program of this kind is to compensate families for the reduction in income they will have to face during the adjustment period. The PRAF was thus originally designed as a cash transfer program for households. The channels selected for distributing this grant were health centers and schools.

Given the widespread poverty in Honduras, there is ample justification for continuing the PRAF even after the adjustment period. The objectives of the program, however, need to be adjusted so that it can become an effective instrument for breaking the vicious circle of poverty in which so many are trapped. To this end, the program should ensure that the assistance it provides will enhance the human capital of poor families and that its impact extends over the longer term.

OBJECTIVES: The general objective of the program is to increase the accumulation of human capital among children of the very poorest families and thereby help to break the circle of poverty.

The program will need to pursue the following concrete objectives: (i) boost the effective demand for education services; (ii) encourage the education community to take part in children's learning development; (iii) instruct mothers in feeding and hygiene practices; (iv) ensure that sufficient money is available for a proper diet; (v) promote demand for and access to health services for pregnant women and nursing mothers and children under age 3; and (vi) ensure timely and suitable health care for PRAF

beneficiaries.

DESCRIPTION:

The program is designed to redirect PRAF activities, to shift from the current model which is based on compensating for lost income and spurring demand to a model for accumulating human capital among the poorest of the poor, and one that includes incentives on both the demand and supply sides. It thus is designed with the following main features: (i) a new targeting system for selecting beneficiaries; (ii) interventions to stimulate demand for and supply of education, nutrition and health services; and (iii) a baseline information survey and annual panels on beneficiaries to measure outcomes and progress under the program. These activities will be conducted with four distinct population groups, to be selected using the new targeting system. The first group will be provided with demand incentives only (GC1). The second will have demand incentives, plus there will be interventions on the supply side (GC2).

For the third group there will be interventions only on the supply side (GC3). The fourth, which will receive no interventions, will serve as a survey control group (GC4).

The program has been structured with three components and two types of incentive payments.

Maternal and child nutrition and health component (US\$17.7 million). The current mother and child bonus will be changed into two types of incentive payments (in the form of cash-equivalent scrip) for nutrition and health. The first will target demand in both areas, and will consist of a transfer of funds aimed at: (i) encouraging the consumption of foods that can substantially improve the diet of children and pregnant women living in conditions of extreme poverty; and (ii) promoting the use of mother and child health services. The bonus will provide each family with a grant of US\$48 per capita each year, to a maximum of two recipients per family. This represents 29% of the target population. The second type of grant will be aimed at providers or supply both of health and nutrition services. In the case of nutrition, mothers will be instructed in feeding and hygiene practices. This work will be contracted out by the PRAF to local NGOs which will provide the instruction through selected health posts. In the case of health, the grant to providers will be channeled through Rural Health Centers, to ensure the delivery of timely and appropriate health care to PRAF beneficiaries (paragraphs 2.5-2.10 of the proposal which follows).

Education component (US\$22.6 million). Two types of transfers will be funded under this component. The first will remain a demand incentive payment, in the form of cash-equivalent scrip, but its amount (US\$38 per capita per year) has been calculated by reference to the opportunity cost to poor rural families of sending their children to school. This new education bonus will be given to families selected by way of the targeting formula, for each child under 13 attending school in grades one through four, to a

maximum of three children per family. This represents approximately 30% of the target population. In addition, a new bonus will be funded in the form of a Learning Development Incentive (IDA) that is intended to improve the provision of education services. It includes a financial transfer to parents' associations through local NGOs (paragraphs 2.11-2.16)

Institution-strengthening component (US\$8.4 million).

This component's objective is to design and implement a targeting system for poverty programs, refine monitoring and evaluation systems for PRAF programs and projects, and bolster the PRAF's capacity so that it can manage both systems efficiently (paragraphs 2.17-2.23).

**ROLE OF THE
PROJECT IN THE
BANK'S COUNTRY AND
SECTOR STRATEGY:**

A cornerstone of the Bank's social strategy in Honduras is the need to establish a dialogue with all social-sector stakeholders so as to move forward with a comprehensive strategy for combating poverty. At the same time, the Bank's poverty-reduction strategy places priority on actions that are not merely compensatory but will focus on creating human and social capital among beneficiary communities. The proposed project is fully in line with the Bank's strategy both for the sector and for the country.

The PRAF's transition from a compensatory model to one focused on human capital accumulation in the poorest segments of society will make the program a strategic piece of the battle against poverty. Actions under the PRAF, and their impact, will be vital to the development of permanent national policies for combating poverty. The program fits into the national strategy as a complement to initiatives of other players such as the FHIS (Honduran Social Investment Fund). The PRAF will be working with households to encourage greater and more effective use of social services, while the FHIS will operate at the local and municipal level to ensure timely access to social services. The Technical Analysis Unit (UNAT) of the Office of the President of the Republic will be the government body in charge of coordinating the efforts of these two programs, and other relevant programs.

**ENVIRONMENTAL AND
SOCIAL REVIEW:**

No environmental or social considerations of note were identified during the review of the operation.

BENEFITS:

Extreme poverty tends to perpetuate itself from generation to generation. Children born into a poor family typically have low birth weights and face a high risk of mortality during their first year. As well, they are exposed to recurrent infectious diseases and nutritional deficiencies that can stunt their normal growth and development. Children of poor families are more likely to start school later, having had no exposure to any kind of program to stimulate their innate abilities, such as preschool education. Nutrition, health, and education thus are strategic factors in any initiative to combat poverty. This program has been designed to remove obstacles that impede access by poor families to proper nutrition and to health and education

services. At the same time, the program will promote greater use of available services, and will encourage local participation in its activities.

RISKS:

The program calls for designing a new targeting tool. So that this instrument can be used in the field and as a basis for beneficiary selection, a national household survey will have to be conducted. Furthermore, the baseline for the evaluation will have to be put together at the start of year 1 of the program's execution, using the universe of target beneficiaries. This means that the evaluation team will need to be in place before these activities commence. To diminish the risk that the information might not be available in time, the project team has satisfied itself that the financial resources are available and that the survey design and field work will be completed before eligibility. Similarly, the proposed contract with the International Food Policy Research Institute (IFPRI) will assure that the evaluation team is in operation before the targeting and evaluation data gathering work begins (paragraphs 4.21-4.22).

**SPECIAL
CONTRACTUAL
CLAUSES:**

Conditions precedent to the first disbursement

(a) Demonstration that the Program Coordinating Unit and has the staff and other elements required for its

(b) Demonstration of model agreements to be used for contracts with NGOs, schools, and rural health centers, participation in the program, and presentation of the plan for year 1 of the project (paragraph 3.23).

Other contractual covenants

(a) Submittal by the executing agency of the list of selected by way of the new targeting mechanism paragraphs 3.18, 3.19, and 3.20.

(b) Entry into force of the program's operations including activities pertaining to supply-side incentives to centers, schools, and NGOs.

(c) Evidence that the baseline for program has been established and that amounts of transfers to centers have been reviewed, and the number of schools and centers is adequate.

**POVERTY-TARGETING
AND SOCIAL-SECTOR
CLASSIFICATION:**

The program qualifies as poverty-targeted, since it entails a targeting system for identifying the country's poorest households as beneficiaries.

**EXCEPTIONS TO
BANK POLICY:**

See section on procurement, below.

PROCUREMENT:

As an exception to the procedure for selecting consultants through open calls for proposals, it is recommended that the International Food Policy Research Institute (IFPRI) be engaged directly to take charge of technical supervision for the design and implementation of the targeting profile form and the beneficiary selection process (paragraphs 3.18

and 3.19). This is one of the most critical steps in the program's implementation, and is expected to last between 8 and 12 months. This contracting approach is concordant with the provisions of chapter GS-403 of the Procurement Manual (paragraph 3.13).