

# TECHNICAL COOPERATION BRIEF

MAY 20, 2008

TC.: ME-T1108

## I. BASIC PROJECT DATA

- **Country/Region:** Mexico
- **Program Name/Number:** Improving systems and operational procedures of PROCAMPO.
- **Team Leader/Members:** Leader: Sergio Ardila (INE/RND), Carmen Fernandez (INE/RND); Cesar Bustamante (INE/RND); and Heidi Fishpaw (INE/RND).
- **Date of Request:** March 19, 2008
- **Beneficiary:** Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación (SAGARPA), México
- **Executing Agency:** Inter-American Development Bank
- **Financing plan:**

IDB (KPK):	US\$	US\$100,000
Cofinancing:	US\$	US\$25,000
Total:	US\$	US\$125,000
- **Tentative dates:**

Execution	12 months
Approval	March 24, 2008

## II. BACKGROUND AND PROBLEM STATEMENT

### A. Agricultural and Rural Development policies in Mexico

- 2.1 Government intervention in agriculture was a major component of the development policies followed by Mexico from the second half of 1930 until the beginning of the eighties. In the sixties and seventies, state intervention in agriculture included: crop price support to staple producers, subsidies to agricultural inputs, subsidies to interest rates and insurance, government participation in marketing and processing of grains, oils and powder milk. The government had also retail shops to sell basic foods to the rural and urban poor, and was involved in the production of fertilizers and improved seeds.

- 2.2 Agricultural policies in Mexico have gone through a profound reform process that started at the end of 1980's, and continued in the 90's with the signing of the North America Free Trade Agreement (NAFTA). The most important reform to agricultural policies was the elimination of price subsidies to producers of basic crops and the elimination of CONASUPO, a company that was a major player in marketing agricultural products and the main vehicle for government intervention in the sector. Up to 1989 this company bought a considerable part of the domestic production of eleven crops at guaranteed prices, intervention that was eliminated in a progressive manner until the end of the 90's when it stopped buying corn and beans. These reforms, coupled with the signing of various Free Trade Agreements, have increased market integration with the rest of the world, particularly with the US, and the flow of agricultural goods.
- 2.3 As a result of this new environment, in the past two decades the Mexican Government has changed its approach to rural development and poverty alleviation by moving away from price subsidies toward more directed programs. In 1991, the Mexican Government started a program to provide subsidies and incentives to facilitate the marketing of agricultural products in regions with marketable surpluses and for that purpose ASERCA (Support and Services to Agricultural Marketing) was created within SAGARPA. ASERCA was intended to substitute the traditional direct interventions done through CONASUPO. Since its creation, ASERCA has been working with different mechanisms (subsidies to producers and/or buyers of grains and oilseeds to stabilize prices, incentives to promote the use of futures markets as a way to cover price risks, providing information, among others) to improve the marketing of agricultural crops and to stabilize prices. The first new program intended to provide decoupled support to farmers was PROCAMPO, which has been managed by ASERCA since its inception in 1993. PROCAMPO provides a direct payment, per hectare, to compensate farmers, during the following 15 years, for the expected lower prices they were going to face as a result of NAFTA. Other programs were created later, among them ALIANZA. Implemented in 1995, ALIANZA is a relatively large cost share program intended to promote the adoption of agricultural technologies.
- 2.4 PROCAMPO is Mexico's largest farm program, accounting for nearly one third of SAGARPA's budget. It has provided over US\$ 1.2 billion annually in direct payments, of about US\$ 100 per hectare, to approximately 3 million agricultural producers, covering more than 13 million hectares cultivated with corn, sorghum, beans, wheat, barley, cotton, safflower, soybeans or rice in any of the three agricultural cycles every year.
- 2.5 PROCAMPO, as decoupled transfer payments to farmers implemented in other countries seeks to improve the welfare of producers without changing the market price signals they perceive. This kind of programs, acceptable to the World Trade Organization, are now used in USA and the European Union as a way to support farmers without distorting decisions about what to produce and how much.

- 2.6 Transfer programs can improve the welfare level of recipients beyond the value of the income received. For PROCAMPO recipients, most of them poor, the payments can help overcome borrowing constraints and hence increase investments. Some research shows that one dollar of transfer payments in PROCAMPO increased farmers income by more than US\$1.8 on average. It is challenging to carry out detailed evaluations of PROCAMPO; the ample coverage of the program makes it very difficult to identify farmers not receiving payments that can be compared with those in the program.
- 2.7 With the approaching end of PROCAMPO's designated lifespan, the current Mexican Government has decided to extend it, and it is studying possible ways to improve its development impact on rural areas. Some possible objectives for a revised PROCAMPO, currently under discussion, are: i) improve agricultural production activities of small farmers in order to improve their well-being; ii) improve management and conservation of natural resources; iii) support traditional forms of agricultural production and family farming; iv) improve efficiency and productivity of most farmers facilitating technology adoption. The Inter-American Development Bank has supported a team of advisors helping SAGARPA analyze these alternatives, which would imply that several systems used by the current program would have to be adjusted as well.
- 2.8 ASERCA has been made responsible for managing other SAGARPA programs, and currently it administers, besides PROCAMPO: i) several programs to provide marketing supports to farmers; ii) stabilization fund for coffee producers and a fund to promote coffee production and quality improvement; iii) a program to provide subsidies for the use of diesel to agricultural producers and fishermen; iv) various programs to provide incentives to cattle and milk producers; and v) target income, a program introduced in 2001 that provides direct payments (i.e. a payment by ton of product) to producers of basic grains and oilseeds, among other programs.

## **B. Bank's support**

- 2.9 The IDB supported the agricultural sector in México through several loans during the seventies and eighties, and it also participated in the reform process started in the early nineties. In 2001, the Bank provided a US\$500 million loan (ME-0213) to finance PROCAMPO payments to small farmers, which was fully disbursed in four years. As part of this loan, some changes were introduced in the way the program operated, making payments available to farmers before planting and modifying the verification mechanism. Later, additional changes were introduced to make it possible for farmers to get loans from private banks backed by the PROCAMPO string of future payments, in what is now known as PROCAMPO Capitaliza.
- 2.10 In 2005 the Bank financed an ex-post evaluation of the program, carried out in order to complement yearly evaluations done by PROCAMPO authorities in SAGARPA to fulfill requirements of *Secretaría de Hacienda y Crédito Público*

(SHCP) and make an initial set of proposals to reform PROCAMPO. In the second semester of 2007, the Bank financed a group of advisers to help SAGARPA analyze main findings about PROCAMPO impacts and existing proposals for reform.

- 2.11 The Bank is organizing an International Seminar in the first semester of 2008 to review successful international experiences in income transfers and decoupled programs for rural areas. It is expected that a group of high-level experts will present research results for programs in Europe, USA and Latin America.
- 2.12 SAGARPA and SHCP requested in December 2007 the support of the Bank to help design: i) a unified registry of beneficiaries of all programs operated by ASERCA, including PROCAMPO; ii) a revised Integral Payment System for all programs operated by ASERCA, including PROCAMPO; iii) a Monitoring and Evaluation methodology for the new PROCAMPO; iv) review and update all PROCAMPO operational procedures; and v) write the new Operational Manual. The consultancies needed will be financed with resources from this technical cooperation.

### **III. PROGRAM OBJECTIVE AND DESCRIPTION**

- 3.1 The objective of the technical cooperation is to improve operational aspects of the current PROCAMPO program and adapt them accordingly for the new program that will start operating in 2009. The technical cooperation will finance five studies, described below, that will design improvements to critical systems used by ASERCA to operate PROCAMPO and other agricultural programs such as ALIANZA.
  - A. **Design of a unified registry of beneficiaries of all programs operated by ASERCA, including PROCAMPO. (US\$20,000).**
- 3.2 An international consultant with experience in the design and operation of complex databases and systems will be hired to link them with different types of applications used in network environments.
- 3.3 The objective of this consultancy is to provide a conceptual design for a data base system that would contain a unified registry of beneficiaries for all agricultural programs operated by ASERCA. This is not a trivial task in Mexico given the lack of a universal identification system, and the fact that most ASERCA programs have been formulated and implemented separately. Currently, every program has its own data base of beneficiaries and it is not possible to link them, so ASERCA can't analyze the aggregate impact of all programs and the level of overlap among them.
- 3.4 The consultant will have to study the requirements of each program (not all programs require the same type of information from the beneficiaries), evaluate alternatives and work needed to integrate the existing data bases taking into

account the specific needs of each program, and propose a conceptual design. Based on discussions with technical staff of ASERCA, the consultant would select one of the proposed alternatives and will provide terms of reference and estimated costs to implement the selected design. The cost of implementing the selected design would be part of the financing for the new PROCAMPO. It is estimated that this consultancy would require approximately 8 weeks of work in a period of three months. The consultancy can start once the objectives and coverage of the new PROCAMPO are decided by SAGARPA.

**B. Design of a revised Integral Payment System for all programs operated by ASERCA, including PROCAMPO (US\$25,000).**

- 3.5 An international consultant will be hired to design an efficient and effective system platform to deliver payments to beneficiaries for all ASERCA programs.
- 3.6 This consultancy will analyze current payment systems used by ASERCA for all programs (PROCAMPO, ALIANZA, Target Income, others) and will evaluate alternatives to create an integrated system that can interact with a unified registry system and be more efficient. The consultant will take into consideration Bank coverage for all areas in the country and technological alternatives that can be used to reach beneficiaries in distant places, considering technologies that use cell phone to deliver payments. Given the size of ASERCA programs, it will be important that the integral Payment System includes links to current budget management systems used by ASERCA, to help plan and monitor financial execution of the programs taking into account their seasonality and budget management rules used by SAGARPA. The consultant will also advise ASERCA on the definition of which parts of the system should be managed internally and which parts should be contracted, and the best ways to contract them.

**C. Design of a Monitoring and Evaluation methodology for the new PROCAMPO (US\$30,000).**

- 3.7 The objective of these consultancies is to design the methodologies needed to monitor and evaluate the new PROCAMPO.
- 3.8 To carry out the work two consultants will be hired. The first one will develop a detailed methodology to assess the economic impact of the new PROCAMPO program. Evaluating a program like PROCAMPO is not easy given the large coverage and the traditional difficulties arising when trying to control for unobserved regional or individual characteristics that are correlated with program placement or program participation. There is no doubt that unobserved household characteristics affect cropping patterns and income, and hence can distort comparisons between farmers participating in the program and those not participating. This consultancy will design a methodology that can deal with this type of problems, and the surveys and basic characteristics of the samples that will have to be analyzed in order to assess program impacts on income and other important variables.

- 3.9 The second consultant will develop the Logical Framework (LF) for the new PROCAMPO using the design that will be adopted by SAGARPA. The Logical Framework is required in México for all projects financed by the national budget. Following the LF methodology, the consultant will identify the purpose and indicators for all new PROCAMPO program components, their baseline values, means of verification and sources of information to monitor the program. The consultant will provide also draft terms of reference to contract this work once the program has started and will estimate the annual cost of these activities during project execution. This work will have to be coordinated with the full blown economic impact analysis such that information, and its processing, that will be used in both types of analysis is collected in a coordinated manner.

**D. Review and update of all PROCAMPO operational and information management systems and procedures. (US\$25,000).**

- 3.10 The objective of this consultancy is to review all operational, administrative, financial managing and information management systems and procedures used in the current PROCAMPO, except those covered in activities described above, to identify changes and adjustments needed to execute the new program in an efficient and effective manner.
- 3.11 The analysis will cover: i) the administrative/operational organization and the delegation of responsibilities to offices in the field; ii) the flow of funds between offices en Mexico city and offices in the field; iii) the information system used to manage the program. The consultant will review not only the organizational chart and the distribution of responsibilities but also the human resources and basic facilities needed and will prepare a proposal to update current systems with an estimated budget and implementation calendar.

**E. Operational Manual (US\$25,000)**

- 3.12 The objective of this consultancy is to produce a manual with the Operative Rules for the new PROCAMPO. The manual will have to be submitted by SAGARPA to SHCP at the time it will present the program for the 2009 federal budget. A local consultant with experience in drafting this type of documents will be hired to review the existing manual.

#### **IV. COST AND FINANCING**

- 4.1 The total cost of technical cooperation is US\$125,000 as shown on the following table:

**Table 1**

	<b>TOTAL</b>	<b>TC Funds (KPK)</b>	<b>Local Counterpart</b>
<b>A. Design of a unified registry of beneficiaries for all ASERCA programs</b>	20,000	20,000	
<b>B. Design of an Integral Payment System for all ASERCA programs.</b>	25,000	25,000	
<b>C. Design of a Monitoring and Evaluation methodology for the new PROCAMPO.</b>	30,000	30,000	
<b>D. Review and update of all PROCAMPO operational and information management systems and procedures</b>	25,000	25,000	
<b>E. Operational Manual for the new PROCAMPO.</b>	25,000		25,000
<b>TOTAL</b>	<b>125,000</b>	<b>100,000</b>	<b>25,000</b>
(%)		80	20

## **V. EXECUTING AGENCY AND EXECUTION STRUCTURE**

- 5.1 The technical and basic responsibility for execution of the technical cooperation is on INE/RND. The contracting activities will be carried out by the Bank using applicable Banks procedures (GN-2349-7 “Policies for the procurement of works and goods financed by the IDB” and GN-2350-7 “Policies for selection and Contracting of Consultants Financed by the IDB”). The selection of consultants will be carried according to GN-2350-7, and technical staff of PROCAMPO will participate in the selection process.
- 5.2 The PROCAMPO authorities, which are part of ASERCA, are the official requestor for the technical cooperation and will serve as coordinators of the different activities related to the technical cooperation.

## **VI. CRITICAL ASPECTS**

- 6.1 Two critical aspects can be identified. The first one comes from the fact that this TC is intended to help PROCAMPO authorities improve all operational aspects of the current program that will be used in the new one, including assistance for the design of monitoring and evaluation methodologies, but in order to do that, it will be necessary to have the basic elements of the new design: objectives, who are going to be the beneficiaries, what type of payments and how large are they going to be, what kind of cross conditionality will be have to enforced if any, among others aspects. This implies that the consultants for the different activities can be identified, but the starting time will depend on having those elements defined. SAGARPA/PROCAMPO will have to define by June/08 at the latest, the basic

elements of the new PROCAMPO in order to be able to present it as part of the 2009 budget, so it is expected that this will not be a problem for the execution of the TC.

- 6.2 The second one is related to the necessary coordination with other programs operated by ASERCA that will benefit from this TC. Since all these programs are operated by ASERCA it will be necessary to have the consultants work not only with the PROCAMPO staff but also with the ASERCA staff that manages these programs in order to take into account their specific needs and concerns.

## VII. ACTION PLAN

- 7.1 The TC will be executed in 12 months and will be disbursed in 18 months. Based on the activities described in section III, and in line with the guidelines of the Knowledge Partnership Korea Fund for Technology and Innovation (GN-2374-1), five major actions form part of the present initiative. The next table describes such initiatives in detail.

**Table 2**

<b>Activity</b>	<b>Starting month/duration</b>	<b>Deliverable</b>
<b>Design of a unified registry of beneficiaries for all ASERCA programs</b>	April/2 months	A final report with the conceptual design of the system, definition of its structure, how it will link with all computer applications used, and terms of reference and budget to contract implementation
<b>Design of an Integral Payment System for all ASERCA programs.</b>	April/ 2 1/2 months	A final report with detailed design of a payment system for all ASERCA program, definitions of which parts ought to be operated by ASERCA, and terms of reference and advice to contract service with financial institutions.
<b>Design of a Monitoring and Evaluation methodology for the new PROCAMPO.</b>	April/3 months	Two final reports with: i) Detailed methodology for the economic impact evaluation of the new PROCAMPO, terms of reference and estimated cost to contract the work; and ii) Logical Framework for the new PROCAMPO following all SHCP requirements, terms of reference and estimated cost for contract monitoring work every year.
<b>Review and update of all PROCAMPO operational and information management systems and procedures</b>	May/ 3 months	A final report with detailed proposals to adjust and improve the current administrative structure, operational procedures and information systems used by PROCAMPO.
<b>Operational Manual for the new PROCAMPO.</b>	June/ 1 ½ month  October/ 1 month	An initial report with revised Manual of Operations for the new PROCAMPO, fulfilling all requirements of SHCP and SAGARPA. A final report taking into consideration all adjustments introduced to the new PROCAMPO in the Mexican congress.



## **VIII. ENVIRONMENTAL AND SOCIAL STRATEGY**

- 8.1 The TC has been classified as a category “C” according to the Safeguard Classification Tool and will not generate any significant social or environmental negative impacts. Its objective is to support the Mexican authorities in designing a revised version of all operational, administrative, financial and information management system to improve the efficiency of the new PROCAMPO program that will be launched in 2009.

## **IX. RESPONSIBILITY IN THE BANK**

- 9.1 The Project will be under the technical responsibility of the Environmental, Rural Development and Disaster Risk Management Division (INE/RND), which will monitor the progress of the technical cooperation based on the agreed work plan and deliverables. All consultants will prepare an initial report, a mid-term report and a final report. INE/RND, in coordination with PROCAMPO staff, will oversee the quality of the outcomes and will provide feedback to consultants as the intermediate and final products are delivered.

## **X. RECOMMENDATION**

- 10.1 Sergio Ardila, designated team leader for the project, recommends the approval of this operation and the use of resources from the Knowledge Partnership Fund for Technological Innovation Fund (KPK) totaling up to one hundred thousand dollars from the United States of America (US\$100,000) in order to finance the corresponding project.

## **XI. CERTIFICATION**

- 11.1 I hereby certify that this operation was approved for financing under the Knowledge Partnership Korea Fund for Technology and Innovation Fund (KPK) through a communication via email dated on April 11, 2008 and signed by Hyungwan Joo, Senior Advisor, VPC/GCM. Also, I certify that resources from the Knowledge Partnership Korea Fund for Technology and Innovation Fund (KPK) are available up to US\$100,000 in order to finance the activities described and budgeted in this document. This certification reserves resource for the reference project for a period of twelve (12) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of

the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this TC Brief. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not a risk.

[Original Signed]

April 28, 2008

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Marguerite S. Berger  
Chief  
Grants and Cofinancing Management Unit  
VPC/GCM

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Date

## **XII. APPROVAL**

[Original Signed]

May 8, 2008

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Héctor Malarín  
Chief  
Environment, Rural Development and Disaster Risk  
Management Division  
INE/RND

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Date