

MEXICO

3x1 PILOT PROJECT FOR MIGRANTS: INNOVATION AND STRENGTHENING - PHASE I

(ME-L1012)

LOAN PROPOSAL

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Proposed resolution

Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Active portfolio and approved loans	http://ops/approvals/pdfs/MEen.pdf
Tentative lending program	http://opsgs1/ABSPRJ/tentativelending.ASP?S=ME&L=EN
Information available in RE2/SO2 files	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=675477
Procurement plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=704114
3x1 Program and proposed changes	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=704111
Comparative analysis of productive programs	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=675465
Institutional evaluation of the Microregions Unit	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=689870

ABBREVIATIONS

AWP	Annual work plan
COF/CME	Country Office in Mexico
COPLADES	Comités de Planeación para el Desarrollo del Estado [State Development Planning Committees]
COVAMS	Comités de Validación y Atención a Migrantes [Migrant Validation and Service Committees]
CSOS	Civil society organizations
EPI	End of Phase I
EPII	End of Phase II
FIRAS	Fideicomisos Instituidos en Relación con la Agricultura [Agricultural Trust Funds]
FIRCO	Fideicomiso de Riesgo Compartido [Shared Risk Trust Fund]
FONAES	Fondo Nacional de Empresas [National Business Fund]
GDP	Gross domestic product
GREETS	Grupos Externos de Evaluación Técnica [External Technical Evaluation Groups]
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
ICT	information and communications technology
INDESOL	Instituto Nacional de Desarrollo Social [National Institute for Social Development]
MDGS	Millennium Development Goals
NAFIN	Nacional Financiera, S.N.C.
NCB	National competitive bidding
PND	Plan Nacional de Desarrollo [National Development Plan]
PTI	Poverty targeted investment
SAGARPA	Secretariat for Agriculture, Livestock, Rural Development, Food and Fisheries
SEDESOL	Secretariat of Social Development
SEMARNAT	Secretariat for the Environment and Natural Resources
SMES	Small and medium-sized enterprises
UBNs	Unmet basic needs
UMR	Unidad de Microrregiones [Microregions Unit]

PROJECT SUMMARY

Mexico

3x1 Pilot Project for Migrants: Innovation and Strengthening - Phase I (ME-L1012)

Financial Terms and Conditions ¹					
Borrower: United Mexican States Executing agency: Ministry of Social Development (SEDESOL), through the Office of the Deputy Minister of Social and Human Development, Microregions Unit				Amortization period:	25 years
				Grace period:	4 years
				Disbursement:	4 years
				Interest rate:	LIBOR
Source	Phase I (US\$)	%	Phase II (US\$)	Inspection and supervision:	0%
IDB (OC):	7 million	70%	21 million	Credit fee:	0.25% annually
Local:	3 million	30%	9 million	Currency:	U.S. dollars – Single
Total:	10 million	100%	30 million		Currency Facility
Project Scheme					
Objective of Phase I: The objective of Phase I is to consolidate an operational model that will allow the 3x1 Program to function on an efficient, transparent, and equitable basis in supporting productive and social infrastructure projects and viable, workable productive projects that will be replicable at the national level.					
Special contractual conditions: As conditions precedent to the first disbursement of component 1, the External Technical Evaluation Groups (GREETs) must have been formed (paragraph 3.8) and the Administrative and Technical Coordinator must have taken up his duties (paragraph 3.16).					
Exceptions to Bank policy: See paragraphs 3.27 – 3.29 (Procurement).					
The project is consistent with the Bank’s strategy with the country: Yes [X] No []					
The project qualifies as: SEQ[X] PTI [X] Sector [X] Geographic [X] % of beneficiaries[X]					
Procurement: International competitive bidding is not envisaged for the procurement of works or goods. The methods specified in article 26 and article 27, section (I) Competitive Bidding, and section II (Invitation to at least three bidders [IA3O]), of the Public Services Procurement, Leasing, and Services Act and of the Public Works and Services Act will be used for contracts in amounts below the ICB thresholds for works and goods. A harmonized document of the Inter-American Development Bank and the Ministry of the Civil Service (SFP) will be used for competitive bidding. A waiver is requested for the IA3O procedure, as a one-time exception to the shopping method specified in Bank policies. For component 1, market practices will be used in accordance with Bank policies. For component 2, a waiver is requested for use of the “single source selection” procurement method stipulated in the legislation mentioned above. For component 3, goods and services will be procured by the shopping method in accordance with Bank policies (document GN-2350-6). It is recommended that the Center for Economic Teaching and Research (CIDE) be engaged directly to evaluate the pilot project (see paragraphs 3.27 – 3.28).					
CESI review date: On 18 November 2005, the CESI decided (resolution 47-05) that: (i) an evaluation was not required; and (ii) no further action was required.					

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Rural poverty, migration, and remittances in Mexico

- 1.1 Since the late 1990s Mexico has made considerable progress in reducing poverty, with the result that its performance in this area has exceeded the Latin American average.¹ Although only 25% of the population lives in the countryside, rural areas are still home to 61% of those living in extreme poverty and 46% of the moderately poor. Between 2000 and 2004, extreme poverty declined by nearly 7% at the national level, an improvement ascribable primarily to the development of rural areas, where extreme poverty dropped from 42% to 28%. There were three main factors at work here:² (i) an increase in unskilled workers' incomes (especially in rural areas); (ii) an expansion of government transfers channeled to the poorest sectors of the population, particularly in rural areas, through programs such as the *Oportunidades* Human Development Program; and (iii) maintenance of the population's purchasing power, thanks to the country's success in keeping inflation under control. The expansion of employment and rising incomes in nonfarm rural industries such as tourism and services have also been contributing factors.
- 1.2 Rural zones whose economies depend entirely on agriculture generate the largest flows of migrants³ due to the sluggish pace of economic activity in these areas. The productivity levels of both the land and the workforce are very low.⁴ This is attributable mainly to the lack of financing to cover small-scale farmers' working capital and investment requirements, which prevents them from using optimum levels of inputs. Regional production infrastructure also exhibits shortcomings in terms of the attraction, management, and preservation of (mainly) agricultural and fishery products. As these constraints hinder the competitive development of productive projects, these areas are unable to make the most of their natural resources and productive capacities. Other difficulties faced by rural businesses include the problems in integrating into dynamic marketing chains that would allow them to reach new markets and add value to their products; an unfamiliarity with sustainable production and marketing techniques and strategies; and poor management capacity in terms of formulating and executing business plans. These factors set up a vicious circle in which insufficient production activity fuels emigration. Out-migration has been increasing rapidly, with 400,000 people (98% of whom go to the United States) leaving these areas each year.

¹ World Bank. "Mexico: Income Generation and Social Protection for the Poor". Mexico, 2005.

² *Gabinete de Desarrollo Humano y Social* [Human and Social Development Cabinet]. "Los Objetivos de Desarrollo del Milenio en México: Informe de Avance 2005"[The Millennium Development Goals in Mexico: Progress Report 2005], Mexico 2005.

³ Throughout this text, the term "migrant" is used to refer to emigrants from the local communities and to Mexican immigrants living abroad.

⁴ World Bank. "Mexico: Income Generation and Social Protection for the Poor". 2005.

- 1.3 Mounting emigration has led to a steep rise in the number of Mexicans residing in the United States. Mexicans represent 31% of all foreigners in that country and 57% of the Hispanic population, making them the largest minority in the United States, according to the most recent national census, conducted in 2000. In 2004, the National Population Council estimated the number of first-generation Mexican-Americans at 10.3 million. Approximately 60% of those people are between 20 and 44 years of age; around 66% live in California and a further 23% in Texas. The population of Mexican origin in the United States is estimated at 26.7 million, of whom as many as 6 million may be illegal immigrants. In the 1990s, with Mexico's participation, Migrant Service Offices were set up in both countries. The services provided by these agencies include the possibility of taking part in development initiatives being conducted in Mexico.
- 1.4 Family remittances have risen sharply in the last 15 years and were estimated to amount to some US\$20 billion (roughly 3% of GDP) as of 2005. As in all countries of origin, a majority of migrants' remittances are used to cover consumer spending.⁵ These remittances are often regarded as being an important factor in poverty reduction, but they actually represent a negligible percentage of the income received by the poorest households.⁶ In 2002, for example, family remittances accounted for just 2% of the disposable income available to households whose members were living below the food poverty line.⁷ This is partly because, given the initial investment involved in leaving the country, most emigrants are not from extremely poor households.
- 1.5 Alongside the flow of family remittances, the flow of community or collective remittances, one of the issues the present project focuses on, is gradually gaining in importance. This flow is composed of voluntary donations made by clubs or associations of Mexican migrants living abroad for social and productive projects in their communities of origin. As these clubs have grown, they have grouped together into federations. There are no accurate estimates of exactly how much these collective remittances amount to, but it is known that this flow is relatively small compared to the flow of family remittances.

⁵ Santibáñez Romellón, Jorge. "El Programa 3x1 desde una perspectiva de las remesas y el desarrollo sostenible"[The 3x1 program from the perspectiva of remittances and sustainable development]. Mexico Seminar: Migration, remittances, and the 3x1 Program. IDB, June 2005.

⁶ López Espinosa, Mario. "Remittances from Mexicans living abroad and their impact on the economic, social, and cultural development of their communities of origin". Studies of International Migration #59. ILO. Geneva, 2002.

⁷ Encuesta Nacional de Ingreso y Gastos de los Hogares [National Household Income and Expenditure Survey] (ENIGH). Mexico, 2002.

B. The country strategy and the role of the Secretariat of Social Development (SEDESOL)

- 1.6 The federal government employs the National Development Plan (PND) as its main planning tool and uses it to give direction to its sector and regional programs. The PND for 2001-2006 rests on four pillars of the nation's development: social inclusion, sustainability, compatibility, and regional development. These pillars are in keeping with the Millennium Development Goals (MDGs) for Mexico and are based on the premise that combating poverty, in all its complexity, is the first priority of the State.
- 1.7 **SEDESOL** designs and coordinates the federal government's anti-poverty social policy. Its mission is to promote social development by: (i) designing and coordinating national social policy to serve the common good and implementing it as a responsibility that it shares with society; and (ii) overcoming poverty by promoting integral human development with a view to achieving a sufficient level of well-being and equity through the implementation of land use, urban development, and housing policies and actions.
- 1.8 **The Microregions Strategy.** SEDESOL's subnational development guidelines include those contained in its Microregions Strategy, which is the responsibility of the Unidad de Microrregiones [Microregions Unit] (UMR) of the Office of the Undersecretary for Social and Human Development. The strategy is based upon the combined efforts of the three (federal, state, and municipal) levels of government and civil society to extend the development process to include chronically marginalized locations within the country. Its four pivotal components are: (i) a focus on land use; (ii) advancement of severely and very severely marginalized locations and/or areas in which indigenous groups make up 40% or more of the population; (iii) community participation; and (iv) interagency coordination. This strategy constitutes the foundation of "The 3x1 Program for Migrants", an innovative investment program that the Government of Mexico has been carrying forward successfully since 2002.

C. The 3x1 Program for Migrants

- 1.9 This program receives collective remittances sent by migrants living abroad and channels them into productive sector, social, and local development projects. It is funded by investment resources provided by the federal government, the states, municipios, and migrants (through their federations or clubs). Each of these funding sources provides 25% of the total investment. The program began working with 20 clubs in 2002 and now partners with over 527 migrant clubs. The funding from these sources rose from US\$9 million in 2002 to approximately US\$15 million in 2005. Rural localities have been the main recipients of these collective remittances and have been the beneficiaries of 99% of all projects.

- 1.10 Out of the 3,859 collective projects that have been conducted since 2002, 23% have dealt with urbanization works (plazas, gardens, and sidewalks), 15% with community development centers, 14% with urban paving works, 13% with drinking water projects, and 11% with electrification. The remaining 24% have concerned, in decreasing order, sewerage works, roads, educational and sports infrastructure, productive initiatives (4%), health centers, and other projects. Even though the beneficiaries' quality of life has improved, however, rural emigration continues to mount. In view of this situation, municipal and state governments and migrants clubs are interested in seeing a qualitative change in the 3x1 model that would orient it toward productive investments capable of generating economic benefits for communities with high levels of migration and poverty.
- 1.11 **The state and municipios** This initiative's solidarity effect is generating a multiplier impact by enabling subnational governments to increase their investments and broaden the coverage of the services they provide. As new clubs are founded in other countries, often mainly for the purpose of participating in the 3x1 Program, this impact may grow stronger. The program has created Comités de Validación y Atención a Migrantes [Migrant Validation and Service Committees] (COVAMs). These committees are chaired by SEDESOL delegates and afford equal representation to each of the sources of contributions, including the migrants. Their job is to issue informed opinions regarding the projects that are to be executed and to prioritize them on the basis of a balanced decision-making process. The 3x1 Program coordinates investments in each state, via the COVAMs, with the secretariats responsible for the appropriate sectors, the Comités de Planeación para el Desarrollo del Estado [State Development Planning Committees] (COPLADEs), and the relevant municipalities. This coordination needs to be reinforced so that social and productive initiatives can be undertaken within a participatory planning framework in line with municipal development and investment strategies.
- 1.12 The infrastructure project **beneficiaries** set up works committees or "mirror clubs" corresponding to the migrant clubs in other countries. These committees or clubs perform a social oversight function. They focus on the projects' organization and supervision, as well as monitoring their timetables, design, technical specifications, and the quality of the works in question. To a lesser extent, they also monitor resource use and the contractor's performance. The results obtained thus far indicate that this social oversight function is still weak and that beneficiary communities need to participate more actively in the works committees.

D. Strategic importance of the pilot project

- 1.13 **The Bank's strategy** with the country rests on four main pillars: (i) modernization of the social sector and poverty reduction, (ii) integration, (iii) modernization of the State, and (iv) improvements in the private sector's productivity. The proposed operation concerns the first and fourth of these pillars. In the past the Bank has supported the development and implementation of programs that subsidize the

demand for social service and poverty reduction, as well as income-generating projects. This operation is also in keeping with the Bank's Subnational Development Strategy for promoting the institution-strengthening needed in order to establish efficient, democratic subnational governments capable of: (i) promoting economic development, (ii) providing the necessary services to ensure a good quality of life, and (iii) furnishing the essential infrastructure for the population's well-being and increased economic activity.

- 1.14 **Pilot project strategy.** The Government of Mexico has approached the Bank for financing in support of an operation to introduce innovations to the 3x1 Program for Migrants and to strengthen the program.⁸ The operation will emphasize the implementation of productive projects based on the 3x1 model⁹ and adjustments in infrastructure project delivery. This approach will give the program a more strategic focus and offer a way of leveraging the impact of collective remittances in terms of local economic development and job creation in the communities of origin.
- 1.15 In view of the adverse conditions for the sustained implementation of productive projects existing in the rural environment, the following lines of action are essential: (i) bringing business training and development professionals into productive integration projects; (ii) setting up links between research institutions and technological innovation; (iii) compiling a broader range of market information; (iv) designing, in conjunction with stakeholders, less costly and more flexible microfinance models and products; and (v) fostering business opportunities by establishing networks among the private sector, migrants, and communities.
- 1.16 This operation will help link supply with demand in productive and infrastructure investment projects designed with the migrants' participation. The interface between migrants, beneficiaries, and the various levels of government will be streamlined by means of: (i) *the application of an ICT platform* to serve as a transnational channel for disseminating information on the projects' progress, outcomes, and impacts to all participants; (ii) *adjustments in participatory planning methodologies* aimed at ensuring that, in addition to reconciling migrants' investment priorities, the program is run on a beneficiary demand-driven basis; (iii) measures for strengthening *social oversight* in all infrastructure projects; (iv) the relevant agencies' adoption of efficient, sustainable mechanisms for the *preventive maintenance* of project works; (v) *introduction of a social communications strategy* to disseminate the 3x1 model and boost the program's credibility; and (vi) improvement of the *monitoring and evaluation* system. See [Programa 3x1 y Cambios Propuestos](#) for a comparative table on the current model and the pilot project.

⁸ See: www.sedesol.gob.mx/programas/3x1.

⁹ The 3x1 Program is just beginning to work with productive projects, and no separate evaluation of such initiatives is yet available.

E. Lessons learned and experiences

- 1.17 The program is complemented by the following technical cooperation projects now being executed: (i) Capitalization of Remittances for Local Economic Development (ATN/ME-7717-ME) (US\$1,115,000), which is using individual remittances to finance strategic plans for development-oriented private local investment in the states of Zacatecas, Puebla, and Guanajuato; (ii) Investment of Remittances for Rural Development (ATN/ME-7834-ME) (US\$460,000), which is organizing collective remittances into an accessible source of seed capital for agricultural producers in the states of Guerrero, Oaxaca, and Michoacán; (iii) Mobilization of Remittances through Microfinance Institutions (ATN/ME-8695-RG) (US\$1,620,000), which supports participation by senders and recipients of remittances in the formal banking system in Bolivia, Colombia, Haiti, Mexico, Nicaragua, and Peru; and (iv) International Migration, Remittances, and Impacts on the Rural Communities of Zacatecas (ME-M1014) (US\$131,000), which is setting up a program to promote institution-strengthening and support community development for small-scale productive projects.
- 1.18 The lessons learned include the following: (i) migrants clubs have little information about business opportunities in Mexico, and local investors are not very interested in taking part in collective investments; (ii) interaction with migrants clubs is expensive and infrequent; (iii) there is not yet sufficient transparency, and migrants are therefore skeptical about investments in the country; (iv) there is a lack of information about market access and local capacities for the proposal of productive ventures; (v) training services and technical assistance are in short supply; (vi) a sustainable mechanism for developing competitiveness at the local level is lacking; and (vii) strategies are needed for linking or coordinating technical assistance and business training.
- 1.19 A number of lessons have also been learned from the recently launched Habitat Program¹⁰ regarding ways of increasing the efficiency of procurement and contracting rules and supervisory mechanisms at the various levels of government. Habitat has over 10 years of experience in implementing shared investment schemes involving the three levels of government, and the current program will draw upon that experience.
- 1.20 The pilot project includes various means of targeting severely and very severely marginalized locations. This differentiates it from other agricultural support programs such as the Alianza para el Campo [Rural Alliance] and Procampo

¹⁰ Multiphase Program: Addressing Urban Poverty, Phase I (1583/OC-ME).

[Pro-Rural] initiatives,¹¹ which do not focus on the needs of the most disadvantaged groups (i.e., the indigenous population and landless campesinos).¹² The proposed project's integrated approach is another distinctive feature that sets it apart from other initiatives (see *Comparative Analysis of Productive Projects*). The project will seek to provide concurrent assistance in the areas of market identification, project design, business organization, technological innovation, capital inputs, and capacity-building and training for beneficiaries in the implementation of their business plans, while also supporting the consolidation and sustainability of business ventures.

- 1.21 The project will incorporate the lessons learned from the above-mentioned programs by employing various mechanisms to enhance transparency, information access, the identification of projects by means of participatory planning, and social oversight. It will also employ a two-way comprehensive communications strategy for migrants and beneficiary communities and will set up an ICT platform. Project rules will provide for the promotion of investment opportunities geared to initiatives with the potential for creating regionwide linkages.
- 1.22 The annual evaluations conducted in 2002-2005 indicate that: (i) 3x1 Program procedures have improved as execution has proceeded; (ii) fulfillment of physical and financial targets has been sufficient; (iii) the cost of making sure that subsidies reach the beneficiaries is fairly low; and (iv) the COPLADEs are coordinating with the relevant states and municipios in an efficient manner. Table I-1 lists the main difficulties encountered in the execution of the 3x1 Program, together with proposed solutions.

¹¹ Alianza para el Campo [Rural Alliance]: Program of the Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación [Ministry of Agriculture, Livestock, Rural Development, Food, and Fisheries (SAGARPA)]. This program seeks to resolve problems relating to productivity and marketing facilities for small-scale producers. The Procampo program provides direct subsidies for crop-farming, livestock, and forestry production.

¹² World Bank. "Mexico: Income Generation and Social Protection for the Poor". 2005.

Table I-1
Difficulties in Implementing the 3x1 Program

Difficulties	Solutions
<ul style="list-style-type: none"> ▪ Sustainable jobs are not being created in the communities that have traditionally experienced out-migration. 	<ul style="list-style-type: none"> ▪ Establishment of pilot productive projects.
<ul style="list-style-type: none"> ▪ Migrants are the only ones who propose projects. 	<ul style="list-style-type: none"> ▪ Creation of a participatory planning system that is linked to the municipal plan.
<ul style="list-style-type: none"> ▪ Communication with migrants is inadequate. Migrants are not sufficiently familiar with the 3x1 Program's rules and operational procedures. 	<ul style="list-style-type: none"> ▪ Implementation of a comprehensive communications strategy and an ICT platform.
<ul style="list-style-type: none"> ▪ Migrants feel that it takes too long for an application to be approved. 	<ul style="list-style-type: none"> ▪ Introduction of institutional reforms to speed up the process.
<ul style="list-style-type: none"> ▪ The communities do not participate actively enough in the works' supervision, monitoring, or maintenance. 	<ul style="list-style-type: none"> ▪ Strengthening of social oversight mechanisms and training in the technical aspects of each project's design and quality standards.
<ul style="list-style-type: none"> ▪ The program has won the migrants' trust, but some migrants are calling for greater transparency. 	<ul style="list-style-type: none"> ▪ Reporting on outcomes and progress via the ICT platform.
<ul style="list-style-type: none"> ▪ Arrangements for the works' preventive maintenance have not been clearly established. 	<ul style="list-style-type: none"> ▪ Steps to ensure that the resources needed for the works' maintenance are available and that the corresponding arrangements have been defined.

F. Coordination with other agencies

- 1.23 The 3x1 Program is aligned with the standards and regulations of the relevant secretariats, which endorse the projects it finances. It is also coordinating actions taken at the state and municipal levels through the COPLADEs, reviewing the relevance of proposed investments to avoid duplications, working to ensure rational resource use, and, when appropriate, channeling projects to other possible funding sources.
- 1.24 Three World Bank initiatives have provided support for the productive sector in rural areas: (i) the Municipal Development Program for Rural Areas seeks to reduce poverty by providing matching funds to municipios for investments in small-scale social and infrastructure projects; (ii) the Municipal Development Program for Marginal Areas targets the 24 poorest areas of the country with measures for promoting sustainable improvements in productivity and food security; and (iii) the Pro-Gender Program has, in conjunction with SEDESOL, implemented community initiatives to increase women's access to government-supported income-generating programs. The institutional capacities developed through the Pro-Gender Program have been drawn upon in developing the project's participatory methodologies and

its evaluation scheme. These experiences were reviewed when the pilot productive project was being designed.

II. THE PILOT PROJECT

A. Objectives

- 2.1 The project's objective is to contribute to the development of local and microregional economies as a means of improving the social and economic living conditions of low-income groups. The objective of Phase I is to consolidate an operational model that will allow the 3x1 Program to function on an efficient, transparent, and equitable basis in supporting productive and social infrastructure projects and viable, workable productive projects that will be replicable at the national level.

B. Project concept

- 2.2 A multiphase modality will be used to configure a medium- and long-term approach, based on the same objectives, that introduces innovative design modifications into a program that is already underway. The project will be executed over a seven-year period, divided into two phases of four and three years in length. Phase I will involve US\$10 million in financing. The amount to be covered in Phase II is estimated at US\$30 million. Two pilot projects will be executed in Phase I: the first will incorporate innovations into the 3x1 Program's productive project model; the second will make the necessary adjustments in order to consolidate the productive and social infrastructure support model. The pilot productive projects will furnish nonreimbursable cofinancing for new and existing ventures that will have an impact on the community. Because the pilot project's targeting methodology is based on the demand generated by migrants clubs, it cannot be geared only to severely and very severely marginalized areas. Nonetheless, the screening process will assign a greater weighting to projects sited in severely or very severely marginalized locations. A higher score will also be given to business plans in which the partners qualify as asset-poor partners under the provisions of the Operations Manual. A social communications strategy will also be used to encourage participation by clubs whose members come from severely and very severely marginalized areas. Legally constituted migrants clubs, federations, and associations in the United States may contribute funds (see the eligibility requirements set forth in the Operations Manual).
- 2.3 During Phase II, adjustments will be made based on the evaluation of the pilot projects. Steps may also be taken to scale up good practices. Phase II of the proposed project will go to the board for consideration once the indicators serving as triggers have been met (see Table II-1). It is hoped that businesses participating in the Phase I pilot productive projects will provide supplementary funding during Phase II by drawing upon financing that is currently available from the following sources: (i) financing arrangements for rural areas administered by development banks such as the Banco de México's Fideicomisos Instituidos en Relación con la

Agricultura [Agricultural Trust Funds] (FIRAs) and the Ministry of Agriculture's Fideicomiso de Riesgo Compartido [Shared Risk Trust Fund]; (ii) technical assistance and lines of credit for the purchase of fixed assets for use in primary production activities administered by the Alianza para el Campo program; and (iii) the Small and Medium-Sized Enterprise (SMEs) Fund of the Secretariat for Economic Affairs, which provides financing for investment projects dealing with activities that are positioned high up on the value chain.

Table II-1
Triggers for Phase II

Indicators	Means of verification
100% of the initiatives financed by the pilot project starting in 2007 will have been generated through participatory local development planning processes.	Reports on participatory planning processes and results of the final project evaluation.
100% of the infrastructure projects financed under the project since 2007 have an approved maintenance plan.	Results of the final project evaluation.
At least 33% of the productive projects are located in severely or very severely marginalized areas (end of Phase I).	Results of the final project evaluation.
The percentage of infrastructure investment located in severely or very severely marginalized areas has risen by at least 10 percentage points relative to the baseline of 31% set in 2005 by the end of Phase I.	Results of the final project evaluation.
At least 70% of pre-existing firms and 50% of the newly created ones have met the targets set in their business plans by the end of Phase I.	Final project evaluation.

2.4 Participating states. The states selected by the Government of Mexico for the launch of pilot productive projects are: Oaxaca, Michoacán, and Jalisco. These states were selected in order to provide a representative sample, with a view to future replicability, of states having the following characteristics: (i) severely marginalized indigenous populations; (ii) severely marginalized mestizo populations; and (iii) moderately marginalized mestizo populations. The selected states also had to meet the following requirements: (i) existence of migrants clubs interested in taking part in productive projects; (ii) prior experience with the 3x1 Program; (iii) state governments' fulfillment of their funding commitments; and (iv) the state COVAM's expressed willingness to adapt its procedures to the project's requirements. In order to minimize the risk that there might be an insufficient demand for productive projects in those states, SEDESOL, by common agreement with the Bank, may propose that the pilot project be expanded to include other states that meet the above eligibility requirements.

2.5 Based on the same criteria, the Government of Mexico selected the following states for implementation of pilot infrastructure projects: Oaxaca, Michoacán, Jalisco,

Yucatán, and Zacatecas. The geographical overlap of the two pilot projects may be conducive to the emergence of synergies between the productive and infrastructure projects in beneficiary communities.

C. Description of the pilot project

- 2.6 During the project's first year, methodological, informatics, and operational adjustments will be made in preparation for the start-up of the infrastructure investment projects in late 2006 and of the productive projects beginning in 2007. The project's Phase I objectives will be met by means of the following three components:

1. Component I. Productive projects (US\$2,145,000)

- 2.7 Nonreimbursable financing will be provided for pilot productive projects that help small-scale rural producers to become integrated into regional, national, and international markets. The objective is to buoy local economies by means of self-sustaining community-based productive projects.
- 2.8 **Beneficiary businesses.** Projects may be proposed by rural economic organizations and businesses constituted under the applicable national laws as socially responsible cooperatives, partnerships, and commercial enterprises or similar bodies which are made up of small-scale rural goods producers and/or service providers. Preference will be given to pre-existing firms with prior experience. Nevertheless, up to 40% of the total funds provided for under this component may be channeled to new or recently created (up to one year in operation) enterprises. In order to minimize the risk involved in supporting the latter type of firm, strict eligibility requirements, as outlined in the Operations Manual, will be applied. These projects will be executed by the beneficiary groups themselves, by delegation of the corresponding municipal governments.
- 2.9 **Eligibility requirements for business ventures.** Firms should be legally constituted and registered. **Recently established** firms must provide a legal, verifiable instrument that attests to the commitments they assume regarding the provision of contributions. The commitment must be for 100% of the portion of the contribution corresponding to that firm and may be paid in cash or in kind at the time of the firm's establishment. The expenses involved in the legal constitution of such firms, which form part of their assets, may be counted as part of the 10% contribution. Their participation should be undertaken in association with a "development agent".¹³ **Pre-existing firms**, which must have a minimum of two years of experience, must substantiate the status of their accounts in accordance

¹³ A "development agent" is a non-profit organization or consulting firm with expertise in providing business advisory services and market intelligence.

with the applicable legal procedures and must have a positive net equity position and a sound financial situation. The firm is to submit its two most recent certified statements of account for this purpose.

- 2.10 **Subcomponent 1.1: Productive investments.** Partial financing will be offered for productive projects that help small-scale producers to become integrated into national and international markets. The project will finance the federal government's share through SEDESOL. This funding will be supplemented by matching contributions from the migrants, municipios, and states (25% each) in order to make up 90% of the financing of each productive project, with the balance being covered by beneficiaries. The four funding sources for the pilot project will finance approximately 12 productive projects per state per year. The three project cycles will therefore encompass some 108 projects at a total average cost of US\$85,391 per project.
- 2.11 **Project eligibility.** The business plan *selection criteria* are: (i) expected profitability and a sustainable financial and equity position; (ii) economic impact (generation of income and regional productive specialization); (iii) social impact (geographical location, asset-poverty of partners, and social inclusion); (iv) implementation capacity; and (v) associativity (social responsibility and alliances) and environmental impact. These criteria will be set out in an evaluation chart and, along with the pre-established scoring guidelines specified in the Operations Manual, will be posted on the *project's internet portal*.
- 2.12 **External Technical Evaluation Group (GREET)** SEDESOL will establish a GREET in each participating state. The GREET will be composed of one representative each from SEDESOL, the microfinance sector providing the risk rating, and SAGARPA or, if unavailable, an institution of higher learning or specialized research institute. The GREET will be in charge of conducting a technical evaluation of business plan profiles and of vetting the participating firms.
- 2.13 **Sustainability.** The beneficiary firms are committed to creating a reserve in an amount equivalent to 75% of the funds they receive as *working capital and investment* to simulate payment of a loan, except that in this case the "amortization payments" will not diminish the beneficiary firm's stock of assets. Use of the reserve will be restricted, and the corresponding amortization and grace periods will be established in the Operations Manual.
- 2.14 **Project budget estimates.** The average benchmark cost per project includes: (i) the business plan design and monitoring costs, the cost of strengthening corporate management and of specialized assistance (approximately 47% of the total cost for new businesses and 23% for pre-existing firms); and (ii) working and investment capital (approximately 53% of the total cost for new firms and 77% for pre-existing ones).

- 2.15 **Subcomponent 1.2: Support activities.** This subcomponent's objectives concern reporting and training. Technical assistance will be funded in the following areas: (i) sensitization and training in business plan preparation; (ii) support for the GREET in evaluating preliminary business plans; (iii) reformulation of business plans; and (iv) development of support tools. Counterpart funding will be used to finance the training of technical assistance providers for this subcomponent.

2. Component 2. Productive and social infrastructure projects (US\$6,038,000)

- 2.16 Financing will be provided for productive and social infrastructure in migrants' communities of origin in line with the activities that the 3x1 Program has financed to date. Innovations introduced under this component will focus on ensuring effective, coordinated, transparent participation in the relevant processes by beneficiary communities, migrant clubs, and municipal and state planners. Tasks will include the identification of needs, priority-setting, and social oversight of projects and of the sustainability of project works. The above-mentioned adjustments will be made gradually. During the first, year, projects will be financed using 3x1 Program mechanisms while the new methodological and instrumental bases are refined with a view to the introduction of those adjustments starting in 2007. The pilot project will finance around 146 works per year in the five participating states, for a total of 440 initiatives during Phase I.
- 2.17 **Eligibility requirements.** Preference will be given to projects that: (i) come from locations with high or very high marginalization coefficients;¹⁴ and (ii) will help reduce that marginalization coefficient by implementing works that will have a direct impact on the variables included in the marginalization index. Projects with the following characteristics will also be eligible for financing: (i) they have been generated by participatory planning processes and have been incorporated into the corresponding municipal investment plan or some other equivalent instrument; (ii) they include a sustainable maintenance plan backed up by the necessary budget allocations to cover the work's serviceable life; (iii) they are of benefit to the community (infrastructure for public utilities, including access infrastructure); (iv) they have mirror clubs to assume social oversight duties and to monitor maintenance; (v) they provide evidence of their technical feasibility and sustainability; and (vi) they are linked, in the case of productive infrastructure, with a specific production or services chain having a rural development potential. In this last respect, preference will be given to associative schemes for small-scale producers.

¹⁴ The variables included in this index are water, sanitation, electricity, earthen floors, education, and employment.

- 2.18 Water and sanitation works to be developed and run by the relevant communities should cover budgetary outlays for essential advisory services to the operator in connection with the operation, management, and maintenance of the system as well as rates and collections.
- 2.19 **Social oversight.** Financing will be provided to support the creation and organization of works committees or “mirror clubs” that will be responsible for conducting social oversight of the projects, promoting local development, and monitoring maintenance. States and municipios will encourage voluntary participation by these committees or clubs in helping to ensure observance of the Operations Manual and proper resource use.
- 2.20 **Participatory planning.** Based on SEDESOL’s prior experience in strategic planning, a nonreimbursable technical-cooperation project financed by the Japan Special Fund (ME-T1019) will support the reinforcement of existing methodological tools for identifying and prioritizing projects. Emphasis will be placed on the communities’ perceived needs and on how they tie in with municipal investment plans and migrants’ preferences. The project will provide financing for culturally relevant planning materials and instruments and for participatory planning workshops. Actions taken to promote participation will encourage women and vulnerable groups to play an active role. Technical cooperation activities will precede the start-up of the proposed operation.
- 2.21 **Maintenance of works.** The technical cooperation funding (paragraph 2.20) will strengthen the methodology used to formulate maintenance plans covering the works’ entire serviceable life and to create a link between these plans and the bodies responsible for social oversight. The resulting methodology will be implemented from the second year onward. The project will finance technical assistance to prepare the mirror clubs to assume responsibility for the ongoing monitoring of those plans’ implementation in 2007 and 2008.

3. Component 3. Institution-strengthening (US\$1,617,000)

- 2.22 Financing will be provided for training and technical assistance for the various stakeholders and for the development of informatics, communications, and project evaluation and monitoring tools. Component 3 includes four subcomponents:
- 2.23 **Subcomponent 3.1: Training and technical assistance.** The project will finance legal consulting services to assist migrants clubs and federations to obtain legal accreditation in the United States as non-profit organizations. Only migrant clubs and associations that have been duly accredited under United States law may make direct contributions to the project. Counterpart funding will be provided for: (i) the engagement of an administrative and technical project coordinator and a webmaster, who will be attached to the Dirección General Adjunta de Proyectos Sociales [Office of the Associate Director-General for Social Projects] of the

Unidad de Microrregiones [Microregions Unit] (UMR); (ii) training for the clubs and federations and for key personnel in Mexico's consular network in the United States to familiarize them with the project's operational mechanisms. To this end, SEDESOL will promote close collaboration on the part of its representatives with the consulates and the Mexican Overseas Institute. These training sessions will cover such subjects as COVAM operations, balanced and transparent decision-making and contributions systems; and (iii) financing for information sessions concerning operational aspects of the project. These sessions will be held with the COVAMs, COPLADEs, and GREETs in each of the participating states and will be coordinated by SEDESOL.

- 2.24 **Subcomponent 3.2: Social communication strategy.** In order to achieve the project's objectives, technical cooperation funds (paragraph 2.20) will be used to design a comprehensive social communication strategy for the different levels at which action is to be taken. Emphasis will be placed on clubs formed by migrants coming from severely and very severely marginalized locations. This strategy will provide for the implementation of an awareness-raising campaign designed by a specialized firm. The campaign should encompass a communications plan and the definition of approaches, messages, audiences, and evaluation channels for disseminating project rules in participating states and abroad. At the local level, the campaign will encourage individuals or groups who have business initiatives with a strong potential for benefiting the community to develop projects. Project funds will be used to finance consulting services for coordinating the strategy's implementation and developing audiovisuals, with due consideration for the cultural relevance of such materials, as appropriate. Evaluation and monitoring of strategy outcomes will be incorporated into the means of verification (household and migrant surveys) for the project's evaluation and monitoring plan.
- 2.25 **Subcomponent 3.3: ICT platform.** The project will finance: (i) the design, development, and implementation of an internet portal that will include the following modules: (a) a project showcase, to include the productive and social infrastructure projects involved; (b) a mechanism for monitoring and overseeing the physical, operational, and financial status of each project in the active portfolio; (c) the design, development, and implementation of an online financial transactions module, to be operated in association with a certified intermediary agency, and trials of the initial transactions starting in the project's third year; and (d) a results-based evaluation system and the publication of each project's impact and lessons learned; (ii) development of a security system providing for differentiated access, by type of user, to information, applications, and networks that will maintain the internet portal's integrity and reliability; (iii) training of users and operators in the system's operation; (iv) development of a handbook, to be included as part of the Operations Manual, that defines the functions, duties, and areas of competence of each stakeholder at the various levels of project action; and (v) engagement of the services of a firm to host the internet portal and ensure that it and the associated applications work properly.

- 2.26 **Subcomponent 3.4: Monitoring and evaluation.** The pilot productive projects will be evaluated at two different levels of analysis: (i) the household; and (ii) the enterprise. At the household level, an effort will be made to gauge changes in the level of well-being. The analysis undertaken at the level of the business venture, will, among other things, seek to determine whether productive projects backed by collective remittances are more cost-effective than projects in a comparison group that do not have access to migrant financing. In order to assess the project's impact on the participating municipios, SEDESOL will identify a municipio in which productive projects are being financed by other programs (e.g., the Fondo Nacional de Empresas Sociales [National Business Social Fund] (FONAES) or Programa Opciones Productivas [Productive Options program]). This municipio will be used for purposes of comparison as part of a quasi-experimental evaluation scheme. In addition, for both productive and infrastructure projects, the evaluation will include an analysis of how satisfied the various participants are. The evaluation of the pilot infrastructure project will focus on the utilization and sustainability of the infrastructure works and the portfolio's composition as compared to investments made under the 3x1 Program. This will be a two-stage evaluation (midterm and final reviews) that will be conducted using a mix of quantitative and qualitative techniques. In order to ensure consistency and effective coordination, SEDESOL's Dirección General de Evaluación y Monitoreo de los Programas Sociales [Office of the Director-General for Social Program Evaluation and Monitoring] will be in charge of evaluation and monitoring of the pilot project. The Office of the Director-General will coordinate this system with the other evaluation initiatives being implemented by SEDESOL based on a plan of action that has been agreed upon with the Bank.

D. Cost and financing

- 2.27 Table II-2 provides a breakdown of project costs by component and source of financing. The figures in the columns under the heading "Operation" reflect the proposals for Phase I, with the costs being estimated at: (i) US\$7 million, to be financed by the Bank out of Ordinary Capital drawn from the Single Currency Facility; and (ii) US\$3 million in counterpart funds to be provided by the Government of Mexico. The Government of Mexico will pay the *interest and credit* fee directly to the Bank.
- 2.28 The subtotal of US\$2,145,000 represents 25% of the productive projects' total cost. The other 75% appears under the heading "Other" and represents the 50% to be contributed by the states and municipios participating in the pilot project and the migrants' 25% contribution.

Table II-2
Tentative costing table for Phase I (US\$ thousands)

Components	Operation			Other States / munic. and migrants	Total: 100%
	IDB	Gov. of Mexico	Subtotal		
1. Productive projects	1,327.9	817.1	2,145.0	6,225.0	8,370.0
i Project financing*	1,297.9	777.1	2,075.0	6,225.0	8,300.0
a. Preparation of business plans, assist.	327.0	344.0	671.0	2,013.0	2,684.0
b. Investment and working capital	970.9	433.1	1,404.0	4,212.0	5,616.0
ii Support activities	30.0	40.0	70.0	-	70.0
2. Productive and social infrastructure	4,429.1	1,608.9	6,038.0	16,089.0	22,127.0
i Infrastructure investments	3,754.1	1,608.9	5,363.0	16,089.0	21,452.0
ii Technical assistance	675.0	-	675.0	-	675.0
a. Social oversight.	75.0	-	75.0	-	75.0
b. Participatory planning.	600.0	-	600.0	-	600.0
3. Institution-strengthening	1,243.0	374.0	1,617.0	0.0	1,617.0
i UMR staff and capacity	35.0	200.0	235.0	-	235.0
ii Social communication strategy	56.0	24.0	80.0	-	80.0
iii ICT platform	802.0	-	802.0	-	802.0
iv Monitoring and evaluation	350.0	150.0	500.0	-	500.0
External audit	-	200.0	200.0	-	200.0
Total	7,000.0	3,000.0	10,000.0	22,314.0	32,314.0
Total %	70%	30%	100%		

* The beneficiary will be asked to contribute 10% of the total cost in order to ensure beneficiary ownership.

III. PROGRAM IMPLEMENTATION

A. Borrower and executing agency

- 3.1 The borrower will be the United Mexican States, which will use Nacional Financiera, S.N.C. (NAFIN) as its financial agent. The main executing agency will be the Secretariat of Social Development (SEDESOL), which will work through the Microregions Unit (UMR) of the Office of the Undersecretary for Social and Human Development.

B. Pilot project implementation and management

- 3.2 The UMR will be responsible for project coordination, management, monitoring, and execution. The projects will be implemented by the municipalities or, through them, by the beneficiaries themselves, depending on the type of project involved.
- 3.3 The UMR will serve as a lending window for eligible projects. The COPLADEs will ensure proper coordination and linkages with all other projects that receive financing, thus avoiding duplication of efforts.
- 3.4 During the project cycle, social oversight will be channeled through the works committees or mirror clubs formed by representatives of the beneficiaries. The Office of Social Program Evaluation and Monitoring, in coordination with the UMR and SEDESOL delegations in participating states, will be in charge of monitoring physical and financial aspects of the project and tracking progress toward specified targets.
- 3.5 Technical assistance packages will be delivered by eligible suppliers that are on the SEDESOL roster. The purpose of the roster will be to make sure that suppliers have taken the awareness building sessions offered by SEDESOL at least three times during Phase I. The subjects to be covered in supplier training sessions will include project operating and management rules, leadership for local economic development, and the promotion and implementation of productive projects in partnership with the private sector. Participating agents' duties in relation to project execution will be governed by the following interagency agreements, which are to be signed for each project: (i) a framework agreement among the contributors participating in the 3x1 Program; and (ii) in the case of productive projects, executory annexes (a contract governing the execution of productive projects entered into by the municipio—as project representative—and the beneficiary enterprise) to the framework agreement.

C. Implementation

- 3.6 Implementation will proceed in accordance with the social and environmental operating, technical, and financial requirements and the rules and procedures established in the proposed agreements and in the pilot project's Operations Manual.

1. Component 1. Productive projects

- 3.7 **Minimum and maximum amounts per project.** Individual projects to be financed by the pilot project will cover total amounts of between US\$30,000 and US\$320,000. In addition, in order to ensure an equitable distribution of project resources, a maximum of US\$3,000 per direct beneficiary (small-scale producer) will be used as a benchmark. This figure is based on the 3x1 Program's prior experience with productive projects and on SEDESOL thresholds for determining collective benefits in community projects.¹⁵ The minimum number of small-scale producers benefiting from each approved project will be 20, and the benefits of the business plan must encompass at least 20 households.
- 3.8 **Workflow of the productive project screening and approval process.** In order to foster a demand for productive initiatives in the participating states, SEDESOL will convene briefing sessions for the mayors in each state. These sessions will seek to raise the mayors' awareness of these initiatives. The mayors will also be encouraged to contact the corresponding migrants clubs and determine whether they are interested in engaging in productive projects. If these clubs express interest, SEDESOL will organize participatory planning seminars in the locations corresponding to those clubs for migrants, the relevant communities, and the municipality. These seminars will permit productive initiatives to be identified that are of interest to the parties concerned. At the state level, the COVAM will issue a call for proposals each year in accordance with the provisions set out in the Operations Manual. The deadline for submissions will be two months after the call for proposals. SEDESOL will pass on any business plan profiles that are received to the relevant GREET, which will analyze them and will gather any additional information it deems necessary by conducting visits in the field and through consultations with the corresponding migrants clubs before issuing its expert opinion. The proposals that are selected will be posted on the internet portal. There will be four weeks in which to obtain expressions of interest in participating in the pilot project's first financing cycle from migrants clubs after a proposal is posted. **A signed agreement for the establishment of the GREET in each state taking part in the pilot project will be a condition precedent to the disbursement of Component 1 funds in that state.**

¹⁵ The maximum federal contribution per project under the 3x1 Program is \$800,000 (roughly equivalent to US\$72,727).

- 3.9 SEDESOL will transfer projects that have obtained club sponsorship to the COPLADE, which will verify the contributors' interest and analyze the proposals from the standpoint of possible duplications of effort with other institutions. Projects passed by the COPLADE will be sent to the COVAM, which will be in charge of screening and pre-approvals. The project will finance technical assistance for the development of pre-approved profiles and their refinement into business plans. A representative of the state business association will issue an expert opinion concerning the business plans prior to their final approval by the COVAM. SEDESOL delegations will sign the framework agreements, will approve project start-up orders, and will authorize project advances. The clubs, state, and municipio will deposit their contributions in a common account under the municipality's name. These contributions will be proportionate to the advances. The municipal government will delegate responsibility for project execution to the beneficiary enterprise. The technical evaluation of productive projects will be conducted using methodologies previously agreed upon with the Bank.
- 3.10 **Technical assistance.** SEDESOL will administer training sessions for staff members at different levels. The development of the support tools described under this component will, however, be financed with technical cooperation funds (paragraph 2.20).

2. Component 2. Productive and social infrastructure projects

- 3.11 **Workflow of the productive and social infrastructure project screening and approval process.** (i) Using a transparent, inclusive participatory planning process, communities will propose projects to the COPLADE while ensuring that these initiatives fit in with municipal investment plans; (ii) these proposals will be brought to the attention of the SEDESOL delegations, which will post them on the internet portal for selection by interested migrants clubs; (iii) projects that obtain support from migrants will be taken up by the COPLADE, which will *confirm the municipios' interest* in cofinancing the relevant works; (iv) once an agreement has been reached, the COPLADE will remit the proposal to the COVAM, which will then determine its viability and priority; (v) in the case of infrastructure works, the COVAM will draw upon the technical advisory services provided by representatives of the Association of Engineers and/or Architects, which will issue a finding regarding the technical merits of the project; (vi) projects that have been assigned priority will, together with the relevant technical expert opinions, be sent to the SEDESOL delegation at the state level, which will review the technical files, give its approval, issue the budgeted advance payment to permit work to begin, and post this information on the internet portal; and (vii) migrants, the *government of the state concerned* and the municipio will deposit their contributions, which will be proportionate to the advance payment made by SEDESOL, in a common account. The municipalities will be responsible for project execution and for the contracting of works and/or services. They may delegate project execution to

beneficiary groups that provide evidence of their legal and administrative capability in line with the requirements set out in the project's Operations Manual.

- 3.12 **Participatory planning.** This component will promote active community participation in investment identification and monitoring. The development and implementation of participatory planning procedures will be based on the SEDESOL methodology, which will be adapted to meet the specific needs of the pilot projects with support from SEDESOL staff and/or other bodies equipped to deal with these issues. The internet portal to be financed by this operation will be used to promote effective participation on the part of migrants clubs in the joint definition of investment priorities, in close coordination with beneficiaries, across the project cycle. Technical cooperation funds (paragraph 2.20) will be used to finance the adaptation of methodological tools, design of the implementation plan, and its application in the five states.
- 3.13 **Social oversight.** The training provided to the works committees or mirror clubs will be overseen by SEDESOL and administered under the responsibility of state and/or municipal governments. The municipios are to provide the members of the works committees or mirror clubs with copies of the technical files indicating the desired characteristics, costs, and specifications to facilitate proper supervision of the works, which will be wholly independent of state and municipal administrations. Technical cooperation funds (paragraph 2.20) will also be used to finance the development of a training plan for the works committees and mirror clubs in the areas of social oversight, promotion of community participation, and maintenance supervision.
- 3.14 **Maintenance.** There are three different types of works, and the maintenance model for each one of those types is also different: (i) *municipal works*; (ii) *sector works*; and (iii) *community-run works*. The director of the works in question will be required to submit a maintenance plan. For the first two types of works, the framework agreement signed by the municipalities will specify the resources, which the municipios or federal government departments or agencies should allocate for their maintenance. For the third type of facility, maintenance will be conducted in accordance with the legal procedures and provisions established by the community. The rate structure will have to be incorporated into the eligibility requirements for submission of project profiles. The rates to be charged must, as a minimum, cover operating and maintenance costs. These arrangements will be reflected in the framework agreements with the bodies responsible for maintenance and will be incorporated into the project Operations Manual. The productive infrastructure works will be regarded as being of public utility, and their maintenance will be the municipio's responsibility unless the municipio delegates it to a third part. In that case, the procedures for community-administered works will be applied. The costs associated with infrastructure project contracts will include the formulation of the corresponding maintenance plan. This plan is to be signed with the relevant mayors and mirror clubs upon delivery of the work in question. The mirror clubs will

monitor the plan. Any doubts or complaints regarding the system may be directed to the State Government, Office of the Comptroller, SEDESOL delegate, and 3x1 Program Call Center.

3. Component 3. Institution-strengthening

- 3.15 During the execution of Phase I of this component, SEDESOL will be responsible for coordinating training sessions for consular staff with the Mexican foreign service through the consulates and for coordinating aspects relating to characteristics of the project with Migrant Service Offices and, through them, with migrants clubs in the United States. These training activities will seek to develop stable links with migrant organizations so that they can be kept abreast of project rules and operations and to receive instruction regarding access to the ICT platform. Training will be conducted at the local level with support from SEDESOL delegations, which will in turn receive training from SEDESOL headquarters.
- 3.16 **Additional staff.** Counterpart funds will be used to engage the following additional staff members: an administrative and technical coordinator, who will report to the Office of the Associate Director-General for Social Projects, and a webmaster, who will work out of SEDESOL headquarters. These staff members are to be incorporated into SEDESOL's staffing budget by the end of Phase I. **The engagement of an administrative and technical coordinator will be a condition precedent to the first disbursement of component 1.**
- 3.17 **Communications strategy.** This strategy will place priority on the promotion of projects involving clubs whose members come from severely and very severely marginalized locations. Technical cooperation funds will be used during the project's preparation to engage a specialized firm to design a comprehensive communication strategy for the project. The UMR will draw on project resources to coordinate the engagement of consulting services to assist with the strategy's implementation and to backstop the production and dissemination of information materials. Support will be provided for in-house SEDESOL activities, the migrants clubs, and participating states and municipios. The strategy will also include the tasks involved in evaluation and the corresponding indicators. In conducting these activities, the UMR will work in coordination with Mexico's foreign consular network and with SEDESOL's delegations in the relevant states.
- 3.18 **ICT platform.** During the first year, consulting services will be engaged to assist with the platform's overall design. This will serve as an input for the preparation of bidding documents and will inform the evaluation and screening process. Toward the end of the first year, the selected firm will develop a platform, which is to include the internet portal and project showcase. Monitoring, oversight, and evaluation modules will be developed during the second year of the project's execution. The financial transactions module will be developed for experimental implementation late in the third year of the project. A firm will be engaged to host

- the internet portal and provide security. In addition, the UMR will coordinate procurements for the teams to be set up in consulates, states, and municipalities that will be working to support the interface platform. The UMR will be responsible for training, dissemination, and the utilization of the appropriate tools, as well as compliance with the handbook to be funded by the project and incorporated into the Operations Manual.
- 3.19 **Monitoring and evaluation.** The Office of the Director-General for Social Program Evaluation and Monitoring has access to a results-based 3x1 Program monitoring system. This system will be fitted out with simple indicators for monitoring infrastructure investments, including participatory planning procedures and maintenance. The system will also monitor the performance and business management of productive projects. The targets for each individual project will be specified in the corresponding business plan. Responsibility for monitoring fulfillment of the established indicators will be borne by the technical staff member within the SEDESOL state delegations who is designated as being responsible for the pilot project.
- 3.20 **Infrastructure project evaluation.** Evaluations of the pilot infrastructure projects will focus on the sustainability of the works and on the composition of the investment portfolio and facility use as compared to the investments made under the 3x1 Program. Their effects, as reflected in the corresponding indicators, will be measured on the basis of: (i) the coverage of primary education; (ii) access to drinking water; and (iii) number of visits to healthcare centers. The evaluations will also cover maintenance and the implementation of planning and social oversight procedures.
- 3.21 **Evaluation of productive projects.** A quasi-experimental model will be designed for evaluating productive projects at an individual level. This model will involve the use of a comparison group composed of productive projects that are being financed by other programs (FONAES or the Opciones Productivas [Productive Options] initiative). The baseline for the group will be established once the projects for the first year have been approved. An effort will be made to conduct the approval process concurrently through the issuance of a call for expressions of interest by a certain deadline. Once the projects have been identified, they will be matched up with projects from other programs for which preparations have reached a similar stage. At that point, the corresponding baseline will be determined.
- 3.22 **Households** benefiting from the project will be compared with participating households in the comparison group. A baseline survey will be conducted using information on income level, type and quality of economic activity, direct transfers from outside the country, etc. (see midterm and final evaluations, paragraphs 3.32 and 3.33). The following indicators will be used to assess these projects' short- and medium-term **sustainability**: (i) at least 90% of the new businesses are still in operation after one year, and at least 70% are still functioning after three years; and

(ii) at least 60% of the beneficiary enterprises have succeeded in capitalizing at least 75% of the contributions they have received.

D. Disbursement procedures

- 3.23 The UMR, through NAFIN, will submit the executing agencies' consolidated disbursement request covering eligible expenditures to the Bank's Country Office in Mexico. The original basic and supporting documentation to substantiate the disbursements will remain in the possession of the executing agencies. The Bank will disburse loan funds upon receipt of a simplified itemization of expenditures, consolidated by investment category (projects will be grouped by modality and distributed by investment category, included in the table of costs). A breakdown by investment category, executing agency, and project will be annexed to the simplified list. Accounting and financial information (or budget execution data) of this type will be used to process disbursements. This information will also serve as an input for the auditors. Because the project will entail multiple payments over a wide geographic area, the average exchange rate for each month, based on the information provided by the Banco de México, will be used for accounting purposes. This rate will be applied to cumulative project investments and investment categories based on the project's monthly transfers as of the disbursement date.
- 3.24 The SEDESOL state delegations comprising the COVAMs will rank the projects and forward the project information required for the commencement of execution and budget control to SEDESOL headquarters. The executing agency will keep all supporting information on file and will ensure that it is available for review by the Bank, NAFIN, or external auditors. The executing agency will open a special commercial bank account for the deposit of project funds and will keep financial records on federal resources.
- 3.25 The original supporting documentation for expenditures and procurements will remain in the offices of the project's executing agencies (mainly municipios and civil society organizations (CSOs)) and will be available for examination by authorized staff of the Bank, NAFIN, and the external auditors. Bank inspection visits will be coordinated with SEDESOL and will serve to review the progress made in both physical and financial terms and to examine the supporting documentation for project expenditures first-hand in the states, municipios, and CSO co-executing agencies. These visits will be carried out jointly by the Bank, NAFIN, and SEDESOL.
- 3.26 SEDESOL's state delegations will also have the following substantiating documentation available for examination at any time: (i) framework agreements and annexes covering project execution; (ii) a copy of the technical file on each project; (iii) authenticated receipts from the executing agencies that assisted in delivering SEDESOL subsidies; and (iv) a rundown of expenditures in a format that

includes the project number, date, receipt or invoice number, supplier, description of the outlay, unit price, and total sum. The preliminary disbursement timetable for Phase I (see Table III-1) is in keeping with the local counterpart's implementation capacity and its available resources.

Table III-1
Preliminary disbursement timetable (US\$ millions)

Source	2006	2007	2008	2009	Total
IDB/OC	0.3	2.0	2.7	2.0	7.0
Local	0.2	1.0	1.0	0.8	3.0
Total	0.5	3.0	3.7	2.8	10.0
%	5%	30%	37%	28%	100%

E. Procurement of goods and services

3.27 It is not anticipated that international competitive bidding (ICB) will be used for procurement of project works and goods. The methods specified in article 26 and article 27, section (I) Competitive Bidding, and section II (Invitation to at least three bidders [IA3O]), of the Public Services Procurement, Leasing, and Services Act and of the Public Works and Services Act will be used for contracts in amounts below the thresholds for works and goods regardless of the source of the financing. If, however, competitive bidding is used, harmonized documentation of the Inter-American Development Bank and the Ministry of the Civil Service (SFP), whose policies are compatible with those of the IDB, will apply. Should it be found that the IA3O procedure available under Mexican law needs to be used, a waiver is requested as a one-time exception to the "shopping" method specified in Bank policies. This request is justified insofar as (i) national requirements for the invitation method are more rigorous than those of the Bank's shopping method; and (ii) the pilot project is part of a government program, which already has established standards and procedures. In accordance with document GN-2349-6, the municipios may request that the relevant communities take part in project execution. As an exception, a waiver is requested for the use of the "single source procurement" method stipulated in the legislation mentioned above, if necessary, for the implementation of component 2 since the pilot project is part of the government's 3x1 pilot project, with the same standards and procedures. In addition, the municipios will be requested to present at least three quotes in support of their decision. For component 1, market practices will be used in accordance with Bank policies. For component 3, goods and related services will be procured by the shopping method in accordance with Bank policies.

3.28 **Consulting services.** The selection and engagement of consultants will be conducted in accordance with the Bank policies set out in document GN-2350-6.

Based on criteria of economy, efficiency, and experience, it is recommended that the Centro de Investigación y Docencia Económicas, A.C. [Center for Economic Teaching and Research] (CIDE) be engaged directly for the evaluation of the pilot project since the institution is responsible for the quantitative impact evaluation of the 2006 3x1 program for migrants, whereby the impact of the program will be gauged.

- 3.29 **Review of procurements.** Supervision of the procurement of works and goods will be performed on the basis of a post review of a representative sample. Supervision of the selection of consultants with contracts in excess of US\$200,000 will be performed on the basis of prior reviews in accordance with the provisions set forth in Annex I of document GN-2350-4. Supervision of consultancy contracts for sums of less than that amount will be performed by means of post reviews. See the link: *Procurement Plan*.

F. Oversight, control, and monitoring of the pilot project

- 3.30 As noted earlier, since this is a multiphase project, monitoring and evaluation activities will be conducted on an ongoing basis in order to check on and monitor the effectiveness of the project's proposed mechanisms and to support SEDESOL's efforts to provide optimum services to the marginalized areas participating in this initiative. Post reviews and sampling techniques will be used. During technical and/or financial inspections, the Bank's Country Office in Mexico will also undertake post reviews and examine sample disbursements. In so doing, it will make sure that the files containing supporting documentation for disbursement requests are available and that the use of the resources in question has been in accordance with the terms of the loan contract. At least once per year SEDESOL, NAFIN, and the Bank will undertake an administrative mission to evaluate the progress made in implementing the project. The annual work plan (AWP) will be presented at that time. The AWP will include the activities report corresponding to the preceding year's AWP and the following year's. The report is to cover the subjects agreed upon with the Bank, which include: (i) the target met during the year; (ii) details and schedule of activities; (iii) the procurement plan; and (iv) the budget and disbursement schedule.

G. Activation of Phase II

- 3.31 Phase II of the proposed project may be submitted to the Bank's Board of Executive Directors for consideration once 50% of the funds have been disbursed and 75% of the funds earmarked for Phase I have been committed, providing that the indicator levels agreed upon with the executing agency as triggers for the second phase have been met (see Table II-1).

H. Evaluations

- 3.32 SEDESOL will use the monitoring system discussed in connection with Component 3 to monitor and evaluate the project. Under Mexican law, any program that receives federal funds must be evaluated each year by an independent agency. This evaluation is to cover both operations and management and will serve as a means of providing a continuous flow of feedback during project execution. The findings will provide inputs for the midterm and final evaluations to be conducted by external bodies. The **midterm evaluation** will cover the projects approved during the first year and will be conducted 18 months into the projects that commence in 2007.
- 3.33 Twelve months after the midterm evaluation, financing will be provided for a final project evaluation to measure the project's impact on beneficiary areas against the baseline and a control group. The midterm and final evaluations will be conducted by outside institutions in coordination with SEDESOL's Office of the Director-General for Social Program Evaluation and Monitoring based on terms of reference previously agreed upon with the Bank and the provisions regarding monitoring and evaluation contained in the project's Operations Manual.

I. Auditing

- 3.34 Each year SEDESOL will engage an outside auditing firm designated by the SFP and acceptable to the Bank in order to perform a financial audit under the terms of reference established by the Bank for application during the project's execution. The official documents certifying the delivery/receipt of infrastructure works will stipulate that the works are completely finished and that the community pledges to conserve them and oversee their proper operation. This certification is to be signed by the executing agency and by a representative of the organization taking receipt of the work, by the COPLADE, the corresponding SEDESOL delegation, and a representative of the works committee. Project beneficiaries may take part in drawing up the official documents certifying the delivery/receipt of such works. If the actions in question do not concern works, then a final report should be prepared and signed by a representative of the municipality, a representative of the relevant delegation, and three representatives of the beneficiaries/executing agencies.
- 3.35 The UMR will submit the project's annual auditors' reports to the Bank within 120 days after the end of the fiscal year and will submit a final auditors' report within 120 days after the last disbursement. An independent auditing firm that is acceptable to the Bank will conduct the audit. The same firm may be engaged for subsequent years under the terms of reference approved by the Bank.

IV. VIABILITY AND RISKS

- 4.1 **Technical viability.** An analysis of the technical viability of 3x1 Program investments in 2002-2005 determined: (i) what types of services and infrastructure investments are most successful in meeting the needs of locations with high and mid-level poverty rates; (ii) the works' environmental and social impacts; (iii) what technical problems arose and what solutions were found during implementation; and (iv) the 3x1 Program's cost structure. Based on this analysis, it was decided that the technical review of productive project proposals is to be conducted at two different levels of detail. The first will provide an advance profile channeled through the GREET. The second will entail a review of the business plan by an expert advisor (a prominent private-sector entrepreneur) prior to its submission for final approval by the COVAM. This requirement will ensure the technical consistency and financial and economic viability of the corresponding initiatives.
- 4.2 Most of the works financed by the 3x1 Program have dealt with social infrastructure and were completed successfully, thanks to the appropriate application of sectoral requirements and/or regulations, targeting and coverage and to their achievement of physical and financial targets. Project management costs are equivalent to 7% of the federal contribution, which is below the average cost for social programs administered by public agencies in Mexico.
- 4.3 **Socio-economic viability.** Application of the project screening criteria will make it possible to give precedence to the siting of priority initiatives in severely or very severely marginalized communities. In order to meet the eligibility requirements, the proposed business plans will need to indicate their expected rates of return and demonstrate the sustainability of their financial and equity positions. Other criteria will include: (i) their economic impact (income generation and regional productive specialization); (ii) their social impact (geographical location, asset-poverty of partners, and social inclusion); and (iii) implementation capacity, associativity, and impact (partnerships or alliances, environmental impact, and social responsibility). These criteria will be set out in an evaluation chart. The scoring system will be defined in advance in the Operations Manual and will be posted on the internet portal. Project screening criteria are intended to result in the selection of those initiatives that contribute most directly to lowering the marginalization coefficient (electrification, drinking water, and educational projects).
- 4.4 The government is under a constitutional obligation to carry out social infrastructure projects. Consequently, cost-benefit studies are not usually conducted for social construction works, since it is only necessary to choose the least costly option on the basis of its **cost-effectiveness**. The pilot project introduces several major innovations designed to give beneficiaries a greater role while also maintaining incentives for migrant contributions, streamlining project approval procedures, and improving social oversight and maintenance mechanisms.

- 4.5 Because the way in which productive projects are to be funded under the 3x1 Program is so new, these initiatives' **financial rates of return** have not yet been fully evaluated. The pilot project will place emphasis on aspects of the evaluation of investments and their sustainability via controlled tests or trials that will enable these initiatives to be scaled up during Phase II.
- 4.6 **Institutional viability.** SEDESOL has a great deal of experience in the successful execution of externally financed programs in conjunction with states and municipios. A special executing unit for this project is therefore unnecessary. The UMR is adequately staffed with qualified technical personnel and has the equipment and facilities it needs to set up coordination mechanisms for the project. The study conducted using the Sistema de Evaluación de la Capacidad Institucional [Institutional Capacity Evaluation System] (SECI) recommended measures for strengthening the UMR's administrative organization. These measures included an assessment of the risk of noncompliance with its AWP. The overall result of the SECI rates the UMR as a low-risk executing agency (see Table IV-1 and electronic reference [*Evaluación Institucional de la Unidad de Microrregiones*](#)).
- 4.7 Because this is a multisector project, its institutional viability hinges on SEDESOL's close coordination, via the UMR, with the various federal secretariats, public agencies at the state and municipal levels, and service providers in order to ensure project actions' consistency with initiatives financed by other government agencies. To that end, all activities involved in promoting and vetting proposals, whether for infrastructure projects or productive investments, should have the support of the COPLADE in each state. The fact that financing is to be provided by all four sources creates an institutional environment that will be conducive to the application of oversight and supervisory mechanisms designed to ensure the thoroughness of the project screening, monitoring, and follow-up process.
- 4.8 SEDESOL's state delegations will provide it with ready access to actions taken at the local level and have experience in coordinating activities with other social programs on the ground. In addition, the municipios that have benefited from project activities have demonstrated their technical capacity for contracting construction work and supervising them properly on their own. Shortcomings have been identified, however, in the areas of integrated planning and maintenance. The project will take steps to overcome these limitations and will support training for local governments and cooperatives in the areas of promotion, business start-ups, business plan preparation, and project management and administration.

Table IV-1
Results of the SECI Analysis

Capacity	System	Rating			Implementation	Risk level
		Rating	IR%	Weighted		
POC	APS	86.67%	50	43.33%	SI	LR
	AOS	73.68%	50	36.84%	MI	MR
Total				80.18%	SI	LR
EC	PMS	100.00%	30	30.00%	SI	LR
	PMS	83.08%	30	24.92%	MI	MR
	FMS	83.33%	40	33.33%	MI	MR
Total				88.25%	SI	LR
CC	ICS	100.00%	100	100%	SI	LR
	ECS	N/A	N/A	N/A	N/A	N/A
Total					SI	LR
Consolidated results and capacity ratings		Quantification			Implementation	Level
		Rating	IR%	Weighted		
Progr. and Organiz. Capacity		80.18%	25	20.04%	SI	LR
Execution capacity		88.25%	15	39.71%	SI	LR
Control capacity		100.00%	30	30.00%	SI	LR
Total				89.75%	SI	LR

* APS: Activities programming system; AOS: Administrative organizational system; PMS: Personnel management system; GSMS: Goods and services management system; FMS: Financial management system; ICS: Internal control system; ECS: External control system.

** SI: Satisfactory implementation; MI: Mid-level implementation; LR: Low risk; MR: Medium risk.

4.9 A strong, stable bond exists between the migrants and beneficiaries, which will provide a basis for the creation of permanent social oversight mechanisms. Nevertheless, the project's institutional viability will hinge, in large part, on the four contributors' continued interest in it. This is especially true in the case of the contributing migrants' groups. This means that the project's credibility and transparency are crucial, and a rigorous system will therefore be developed for the performance of monitoring, evaluation, and information and reporting functions.

A. Environmental impact

4.10 **The environment.** The project is intended to provide financing for fairly simple infrastructure works. Based on the experiences of previous community projects executed under the 3x1 Program, no adverse environmental impacts are expected.

During the preparations for this operation, the environmental regulations and standards of the Secretariat for the Environment and Natural Resources (SEMARNAT) were reviewed with a view to ensuring that the infrastructure projects comply with all the environmental provisions in force in the relevant states. Based on this analysis, criteria have been developed for use in making sure that the investments are environmentally feasible. The Operations Manual will incorporate these criteria and will require that consideration be given to each project's environmental feasibility prior to the award of the corresponding contract. The project will provide training in caring for the environment, including local disaster risk management and prevention.

B. Benefits and beneficiaries

- 4.11 **Gender.** Women have participated very little, especially as productive project leaders, in the participatory planning and monitoring of the projects implemented to date under the 3x1 Program. In order to address this situation, the proposed project provides for an initial 30% minimum quota of female participants in the resource planning and programming phase and in the execution, operation, and maintenance of investments. A social communication strategy targeting women will be implemented in an effort to increase women's participation to at least 40% before the project's completion. Training will also be provided in leadership, the promotion of women's participation in nontraditional productive activities, and the implementation of schemes for achieving a more equitable distribution of benefits.
- 4.12 **Indigenous communities.** The organizational patterns of beneficiary communities and of migrants clubs and federations in the United States are often based on indigenous community practices. These practices include: (i) the *tequio*, which is collective work performed by members of the community; (ii) the practice of having people occupy leadership positions on a rotating basis; and (iii) a system of customs and usages that calls for a community assembly to be convened in order to elect community authorities and make decisions. Both the institution-strengthening component and the pilot infrastructure and productive projects will be founded upon these practices. Priority will be placed on participatory processes and collective enterprises that take advantage of cultural identity and of traditional customs and usages.
- 4.13 The project's benefits will include the strengthening of: (i) the social fabric for migrants living abroad; (ii) ties between migrants and their compatriots in Mexico; and (iii) citizens and government officials. The pilot infrastructure and productive projects are expected to contribute to the identification and validation of the 3x1 model and the formation of production linkages. These projects are also expected to have a direct positive impact on the living conditions and income-generating capacity of the beneficiary population and on their communities' overall environmental quality. The two types of pilot projects, taken together, will benefit an estimated 2,160 households (equivalent to approximately 10,800 beneficiaries).

C. Social equity and poverty reduction classification (PTI/SEQ)

- 4.14 This operation automatically qualifies as a poverty-targeted investment (PTI) and as a social equity enhancing project (SEQ) because it will finance local social public investments targeting the poorest communities based on the use of a marginalization index and participatory planning processes. It is in keeping with the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704) (see paragraph 2.13 and 2.15).

D. Special considerations and risks

- 4.15 The project scheme is based on the assumption that the three levels of government will collaborate closely with one another. This could be a risk factor in terms of the project's performance. To mitigate this risk, SEDESOL will sign framework agreements with the state and municipal governments in which the roles and responsibilities of each party will be clearly set out. This operation will also promote the strengthening of local governments and community support.
- 4.16 The possibility that some municipios might not be able to provide their counterpart contributions has been identified as a potential risk. Bilateral donations or donations from local entrepreneurs, migrants, and the relevant state or federation would be acceptable substitutes for covering the municipal counterpart contribution.
- 4.17 Since this is a demand-driven project, there is a risk that the productive projects submitted for financing might not meet the quality and viability requirements established in the Operations Manual. To mitigate this risk, the project will foster partnerships between community groups and development agencies, both for new ventures and pre-existing ones. It will also include modules for the discussion of business opportunities at outreach workshops organized for the community and private sector.
- 4.18 Although SEDESOL has experience in coordination at both the intra-agency (e.g., the Habitat and Oportunidades programs) and interagency (e.g., line ministries, COPLADE, and other programs) levels, the 3x1 Program's success will depend on the proper operation and coordination of each and every group of stakeholders. This operation will mitigate this risk by consolidating, strengthening, and institutionalizing the processes involved in the project's execution.

3x1 PILOT PROJECT FOR MIGRANTS: INNOVATIONS AND STRENGTHENING - PHASE I (ME-L1012)

LOGICAL FRAMEWORK

Phase I		Phase II	
Goal			
Contribute to the development of local and microregional economies as a means of improving the social and economic living conditions of low-income people.	<p>Raise the income level of the population in locations subject to international out-migration that are covered by the program.</p> <p>Improve access to basic services for population groups participating in the pilot infrastructure project.</p>	<p>Help to buoy local and microregional economies.</p> <p>Reduce the marginalization coefficients of locations participating in the project.</p>	
Purpose			
The operational model of the 3x1 Program is consolidated so that it can function on an efficient, transparent, and equitable basis in supporting productive and social infrastructure projects and viable, workable productive projects that will be replicable at the national level.	<p>100% of the projects funded by the pilot project have been generated by participatory local development planning processes by the end of Phase I (EPI).</p> <p>The percentage of infrastructure projects located in severely or very severely marginalized areas has risen by at least 10 percentage points relative to the baseline of 31% set in 2005.</p> <p>100% of new infrastructure projects include an approved maintenance plan by EPI.</p>	<p>Replicate the productive project model within the 3x1 Program’s consolidated institutional scheme at the national level.</p> <p>Final project evaluation. This indicator will influence access to infrastructure activities in Phase II only.</p> <p>Idem</p>	<p>Per capita household income has risen by X% more than it has in the comparison group by the end of Phase II (EPII).</p> <p>The level of unmet basic needs (UBN) in municipalities participating in the program has decreased by EPII.</p> <p>The number of locations in the U.S. that have migrant clubs participating in the program has risen from 817 in 2005 to XX by EPII.</p>

Phase I		Phase II	
	<p>At least 33% of the productive projects are located in severely or very severely marginalized areas by EPI.</p> <p>At least 70% of pre-existing firms and 50% of the newly created ones have met the targets set in their business plans by EPI.</p>	<p>Final project evaluation. This indicator will influence access to productive activities in Phase II only.</p> <p>Idem</p>	

Narrative summary	Indicators	Means of Verification	Assumptions
Goal			
<p>Contribute to the development of local and microregional economies as a means of improving the social and economic living conditions of low-income people.</p>	<ul style="list-style-type: none"> ▪ Raise the income level of the population in locations subject to international out-migration that are covered by the program. ▪ Improve access to basic services for population groups participating in the pilot project. 	<p>Household surveys</p> <p>UBN index</p>	<p>A stable macroeconomic environment is maintained</p>
Purpose: Phase I			
<p>The operational model of the 3x1 Program is consolidated so that it can function on an efficient, transparent, and equitable basis in supporting productive and social infrastructure projects and viable, workable productive projects that will be replicable at the national level.</p>	<ul style="list-style-type: none"> ▪ 100% of the projects funded by the pilot project have been generated by participatory local development planning processes by the end of Phase I (EPI). ▪ The percentage of infrastructure projects located in severely or very severely marginalized areas has risen by at least 10 percentage points relative to the baseline of 31% set in 2005. ▪ 100% of new infrastructure projects include an approved maintenance plan by EPI. ▪ At least 33% of the productive projects are located in severely or very severely marginalized areas by EPI. ▪ At least 70% of pre-existing firms and 50% of the newly created ones have met the targets set in their business plans by EPI. 	<p>Replicate the productive project model within the 3x1 Program's consolidated institutional scheme at the national level.</p> <p>Final project evaluation. This indicator will influence access to infrastructure activities in Phase II only.</p> <p>Idem</p> <p>Final project evaluation. This indicator will influence access to productive activities in Phase II only.</p> <p>Idem</p>	<p>The three levels of government continue to want to participate in the program and to coordinate their efforts.</p> <p>The program maintains its credibility among Mexican migrants, and their donations for productive projects in their communities of origin increase.</p>

Narrative summary	Indicators	Means of Verification	Assumptions
	<ul style="list-style-type: none"> Beneficiaries' and migrants' degree of satisfaction with the 3x1 Program and its credibility as risen from the baseline value of X in 2006 to Y by EPI. 	Final evaluation, household and migrant surveys.	
Components			
1. Productive projects Self-sustaining community-driven pilot productive projects.	<ul style="list-style-type: none"> At least 12 productive projects in each state participating in the pilot project per year. An External Technical Evaluation Group (GREET) to assess productive projects has been organized in each participating state within the first year. SEDESOL has a productive project monitoring unit and methodology. At least US\$2 million in collective remittances has been channeled into productive projects by EPI. At least 75% of the new ventures are still in operation 18 months after the corresponding project began to receive financing. Womean account for at least 30% of direct beneficiaries at start up of the project and 40% upon completion. 	Evaluation as of EPI. Program report Program report Audited financial statements at the end of each firm's first year in business Monitoring report on productive projects.	<ul style="list-style-type: none"> SEDESOL has a great deal of drawing power with the migrants clubs. There is an available local supply of quality consulting and other services. The demand for productive projects is of sufficient quality to meet the pilot project's eligibility requirements.

Narrative summary	Indicators	Means of Verification	Assumptions
<p>2. Productive and social infrastructure</p> <p>The identification of productive and social infrastructure investments, their monitoring and their maintenance are conducted with the active and coordinated participation of beneficiaries, migrants, and the relevant municipalities.</p>	<ul style="list-style-type: none"> As of 2007, 100% of the projects to be financed by the pilot project have been identified and ranked and are backed up by participatory planning processes. 100% of the infrastructure financed by the pilot project is regularly supervised by the works committees or mirror clubs as of EPI. 100% of the infrastructure financed by the pilot project has a sustainable maintenance plan as of EPI. 	<p>Program reports</p> <p>Works committee minutes.</p> <p>Maintenance plans for each work, together with the specification of the responsible parties and funding sources</p>	
<p>3. Institution-strengthening</p> <p>Strengthen the management and operation of the 3x1 Program by:</p> <p>(i) improving communication among the three levels of government, beneficiaries, and migrants organizations in other countries;</p> <p>(ii) setting up an ICT platform; and</p> <p>(iii) implementing a robust monitoring and evaluation system.</p>	<ul style="list-style-type: none"> Increase the number of legally constituted migrants clubs by XX% by EPI. Base year 2006 (YY legally constituted clubs). Local government representatives are trained to carry out project management, monitoring, and maintenance tasks by the program's second year (2007). The migrant communities sending remittances and their communities of origin are more knowledgeable about the 3x1 Program by the end of the program's second year (2007). 100% of the eligible projects are accessible and up-to-date at each of the stages in the project cycle by the end of the program's second year. 	<p>ICT platform</p> <p>Evaluation at EPI</p> <p>Evidence that the population has been invited to become engaged in participatory planning processes at the municipal level, to participate in the COVAMs, to attend public/private consensus-building workshops, etc.</p> <p>Migrants survey and beneficiaries' opinion poll.</p> <p>ICT platform</p> <p>Evaluation at EPI</p>	

Narrative summary	Indicators	Means of Verification	Assumptions
	<ul style="list-style-type: none">▪ The 3x1 Program has a stringent (quasi-experimental) quantitative and qualitative evaluation system by EPI.▪ The 3x1 Program has a monitoring and follow-up system linked up to its ICT platform by EPI.	<p>Quantitative and qualitative reports.</p> <p>Random sample of physical and financial monitoring and implementation reports generated from the ICT platform.</p>	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/_

Mexico. Loan ____/OC-ME to the United Mexican States
Pilot Project 3x1 for Migrants: Innovation and Strengthening - Phase I

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the United Mexican States, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a pilot project 3x1 for migrants: innovation and strengthening - phase I. Such financing will be for the amount of up to US\$7,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Executive Summary of the Loan Proposal.

(Adopted on __ _____ 200_)

LEG/OPR/RGII/IDBDOCS#698195
ME-L1012