

SUPPORT FOR SMALL FARMERS THROUGH PROCAMPO

(ME-0213)

EXECUTIVE SUMMARY

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| Borrower: | Nacional Financiera, SNC (NAFIN) | |
| Guarantor: | United Mexican States | |
| Executing agency: | Department of Agriculture, Rural Development, Fisheries, and Food (SAGARPA) | |
| Amount and source: | IDB: (Ordinary Capital) | US\$ 500,000,000 |
| | Local counterpart: | US\$ 980,700,000 |
| | Total: | US\$ 1,480,700,000 |
| Financial terms and conditions: | Amortization period: | 25 years |
| | Disbursement period: | 4 years |
| | Grace period: | 4 years |
| | Interest rate: | variable |
| | Inspection and supervision: | 1% |
| | Credit fee: | 0.75% |
| | Currency: | Single Currency Facility |
| Objective: | The project's objective is to build the capacity of small-scale dryland farmers to make more efficient use of their resources in their productive operations. | |
| Description: | <p>The project will pursue this objective by way of the Farmers Direct Support Program (PROCAMPO), by funding advance payments of PROCAMPO allowances so they reach small farmers before they plant their crops, and increasing the certainty that such payments will be forthcoming in future seasons. The project's technical assistance component will help strengthen PROCAMPO's operations and environmental management sides.</p> <p>PROCAMPO payments are made to farmers post-planting, sometimes even at harvest time. Small farmers have been calling on the government to have PROCAMPO payments disbursed before they plant their crop, so they can use the funds in production activities and avoid high financial costs.</p> | |

The project's beneficiaries are farmers legally cultivating eligible land during PROCAMPO's Spring-Summer (SS) rainfed crop season on plots of five or fewer hectares (over 2 million campesino households, encompassing some 10 million rural poor). The operation will have two components: (a) provide funding to deliver PROCAMPO payments in advance, before planting for the SS season, and (b) technical assistance to strengthen PROCAMPO management, assess its environmental impacts, analyze alternative operational approaches, and identify the uses to which beneficiaries put the payments they receive. SAGARPA will be responsible for executing the project, through ASERCA.

**The Bank's
country and
sector strategy:**

The proposed operation is closely tied to and in line with: (a) the Eighth Replenishment mandate to modernize and strengthen agriculture sectors (August 1994); (b) the Bank's rural development operational policy (OP-752, December 1994); (c) the Bank's strategy for agrifood development approved by the Board on 12 January 2000; and (d) the country paper of 5 January 1999, which sets forth the Bank's strategy for Mexico (paragraph 1.18).

**Environmental
and social
review:**

According to the 1996 household survey, 90% of the beneficiaries of the project live below the poverty line. PROCAMPO was designed to be environmentally neutral as far as natural resource conservation is concerned. The proposed operation will support an assessment of the Program's indirect environmental impacts and help lay the foundations for a possible complementary program for a transformation of production patterns, to heighten PROCAMPO's positive impact on the environment. This technical assistance subcomponent will be executed during year 1 of the project.

Benefits:

The project will improve the timing of PROCAMPO support payments and increase small farmers' certainty that they will be forthcoming, thereby improving their cash flow, lowering their financial costs and, as a result, boosting their productive capacity and net income.

Risks:

The fact that PROCAMPO is an ongoing program that already has budgetary appropriations provides some assurance that fiscal revenues will be available for the project. On the other hand, the project requires that part of PROCAMPO's budget line be disbursed before Spring-Summer crops are planted, i.e., during the first half of the year, which would alter ASERCA's pattern of expenditure over the fiscal year. In the first year of the project, in particular, there is a risk that budget funds might not arrive in time to cover the advances to project beneficiaries. This risk, which was originally anticipated in the project report, did not materialize. The resources required for project

execution were appropriately allocated, in terms of amount and timing, thereby allowing ASERCA to cover advances of the support payments to project beneficiaries for 2001.

Special contractual clauses:

Special conditions precedent to the first disbursement:

The first disbursement of the financing is subject to the presentation of evidence that: (i) NAFIN and the United Mexican States, through the Department of Finance, have signed an agreement containing, *inter alia*, the conditions under which the borrower will transfer the resources of the financing to the United Mexican States for project execution; and (ii) NAFIN and the executing agency have signed an agreement establishing, *inter alia*, SAGARPA's commitment to meet its obligations as executing agency and carry out the activities envisaged in the project (paragraph 4.1).

For disbursement of funds in Component 1, in year 2 of the project, evidence will have to be provided that the survey contemplated in subcomponent 2.4 on how PROCAMPO beneficiaries are using the support payments has been completed and processed (paragraphs 2.26 and 4.2).

Other conditions

Disbursement of funds will be subject to annual ceilings as described in paragraph 3.13.

With the Bank's acceptance, up to US\$100 million equivalent of the resources of the financing may be used to reimburse the executing agency for expenses under component 1 of the project incurred between 1 February 2001 and the date of approval of the project by the Board of Executive Directors (paragraph 4.4).

The Bank may also recognize, as part of the project's local counterpart resources, expenses under component 1 of up to US\$320 million equivalent incurred between 1 February 2001 and the date of approval of the project by the Board of Executive Directors (paragraph 4.5).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing project, as described in the indicative targets for Bank activities mandated in the Eighth Replenishment report (document AB-1704). The operation also qualifies as a poverty targeted investment by virtue of head count and automatic sector classification (see paragraph 5.2). The borrower will not use the 10% additional financing.

Exceptions to Bank policy:

No exceptions to Bank policies are envisaged.

Procurement: The Bank's procedures will be followed for procurement of goods and services. International competitive bidding will be required for purchases of goods or equipment worth US\$350,000 or more and for consulting services costing US\$200,000 or more.

I. FRAME OF REFERENCE

- 1.1 As part of a package of macroeconomic stability, trade liberalization, and structural adjustment programs, Mexico began planning sweeping reforms of its agrifood sector in the second half of the 1980s. The first of them were implemented toward the end of the 1990s, radically altering the framework of incentives in the sector, the structure of the State apparatus, and the system governing ownership of resources. This process was supported by two sector loans: the first from the World Bank (IBRD) in 1988 and the second, cofinanced by the IBRD and the IDB, in 1991.
- 1.2 In August 1994, the IDB launched a new stage in its dialogue with the government and in its technical and financial support of agrifood sector reforms. Support was mainly in the form of preparation (1994-1996) and subsequent execution (1996-1998) of the "Food and Agricultural Sector Restructuring Program" sector loan (960/ME-OC, US\$400 million), which aimed to: (i) enhance the sector's efficiency and competitiveness; (ii) support a restructuring of production patterns; and (iii) ease the adjustment for low-income producers and consumers.
- 1.3 As sector loan 960/ME-OC was being prepared and executed, the phasing out of support prices (including those for corn and beans) was completed and the PROCAMPO compensation schemes began. Parallel to these developments, widespread consumer subsidies, which were particularly significant in the case of corn tortillas, were gradually phased out. The process culminated on 1 January 1999 with the elimination of subsidies for corn tortillas, and *Corporación Nacional de Subsistencias Populares* (CONASUPO), which handled these subsidies, was declared in "liquidation by extinguishment." Equally significant was the privatization of the *Almacenes Nacionales de Depósito, S.A.* (ANDSA) and *Bodegas Rurales CONASUPO, S.A.* (BORUCONSA) warehousing operations. The project completion report for loan 960/ME-OC attests to a very high level of performance by SAGARPA in its execution. In particular, coordination with the Department of Finance and other agencies involved, the use of information, and the analytical skills of the executing agencies made it possible to spot problems in time to take well-coordinated steps to solve them. Similar coordination will be needed in executing the operation proposed here.
- 1.4 As a result of the reforms and changes in the structure of incentives, there has been a decline in the relative importance of basic food grains—the losers in the trade liberalization associated with the North American Free Trade Agreement—compared to output of fruit, vegetables, and sugar. These latter crops account for the bulk of the expansion of agrifood exports, which have more than doubled, in value terms, over the past four years, to US\$7.3 billion in 1999. Whereas, in the 1994-1999 period, primary agricultural output grew at a rate (2%) slightly below that of the overall economy (2.3%), food processing, beverages, and

tobacco (including fruits and vegetables) grew at a markedly faster pace (3%) than the economy as a whole.

- 1.5 Agricultural GDP has accounted for approximately 6% of aggregate GDP in recent years. However, the economically active population in the sector accounts for over one fifth of the total EAP. Much of this rural population (close to 60% of farmers) are campesinos who work five or fewer hectares of land, growing mainly basic grains and producing meager, if any, marketable surpluses.
- 1.6 Catering to the needs of the agricultural sector in general, and of subsistence farmers in particular, a set of programs are under way to help producers survive the hardships of the transition generated by economic reforms. They include: (i) PROCAMPO, the primary support program for farmers in terms of size (involving almost US\$1 billion a year, 3.3 million producers, and close to 14 million hectares) and outreach to small producers; and (ii) the technological support programs for production restructuring through *Alianza para el Campo* (Rural Alliance), in the amount of over US\$200 million a year. In 1999, over half *Alianza del Campo's* resources were earmarked for rural development programs, which include technical assistance, training, and equipment supply services for small farmers. The Education, Health, and Nutrition Program (PROGRESA) supplements the poor-farmer support programs. Like PROCAMPO, PROGRESA provides direct support, although in this case it promotes comprehensive actions focusing exclusively on urban and rural families living in extreme poverty. The lines of action include educational support for children and young people, basic health care for all family members, and assistance to improve their food intake and nutritional status. In 2000, PROGRESA will reach out to 2.6 million families, spread across Mexico, at a cost of over US\$417 million.
- 1.7 PROCAMPO provides a per-hectare payment to compensate basic-grains farmers for the liberalization of the economy and consequent abolishment of price subsidies. The eligible acreage is "the area of land planted to an eligible crop in any of the three corresponding (autumn-winter or spring-summer) growing seasons prior to August 1993" (Decree regulating PROCAMPO, published in the *Diario Oficial* of 24 July 1994, Article 2.VI). The eligible crops were corn, beans, wheat, rice, sorghum, soybean, cotton, safflower, and barley (*idem*, Article 2.V).
- 1.8 The two central features of the Program are: (i) freedom of farmers to pursue the farming or conservation activity of their choice in the current growing cycle (although verification is required of the crop sown or the environmental activity in question); and (ii) uniform payments per hectare (i.e. the support payment does not vary with the land's productivity). When PROCAMPO started up in the 1994 crop year, the uniform payment was N\$330/hectare, the equivalent of US\$100/hectare at the time. Both the reduction in support prices and PROCAMPO's launch were agreed upon by the government, small farmers, and the private business sector. The

Program is to run for up to 15 years, subject to annual federal budget appropriations approved by the Chamber of Deputies of the National Congress.

- 1.9 The implementation of PROCAMPO and the price-subsidy elimination that the program facilitated paved the way for Mexico to join the North American Free Trade Agreement (NAFTA). At the same time, thanks to the “free choice of productive or conservation activity on eligible land” feature, PROCAMPO support qualifies as decoupled, nondistorting payments under the Agreement on Agriculture of the World Trade Organization (WTO). The Program also helps narrow the fiscal deficit, since the budget line it requires is significantly lower than what it would cost to maintain price subsidies.
- 1.10 The per-hectare payment is adjusted annually in line with the inflation rate projected in the Revenue and Expenditure Budget of the Federation. By and large, annual inflation has been higher than projected so, in real terms, the payment has declined. The 1994/1995 crisis, in particular, triggered a 23% real-terms drop in the payment between Spring/Summer cycle 1994 and Spring/Summer cycle 1996. A further 8% decline took place between Spring/Summer cycle 1996 and Spring/Summer cycle 1999. For crop year 2000, the support payment has been set at 778 Mexican pesos, approximately US\$78.
- 1.11 In addition to enhancing production efficiency and helping to alleviate rural poverty, PROCAMPO is concordant with recent international experiences and with the WTO's trade liberalization and subsidies paradigm. At around the same time and in a process similar to that described for Mexico, the United States revamped its support system for grain and cotton farmers. For them, the 1996 Federal Agricultural Improvement and Reform (FAIR) Act tied direct payments to the subsidies each farmer had received in the past. These payments are scheduled to decline over the seven years of the program (30% in all); they do not vary with price levels and they permit, but do not require, farmers to plant any crop on program lands (except for a list of excluded fruits and vegetables). The chief difference from PROCAMPO is that Mexico's program does require verification of the crop sown, though the farmer can freely choose the crop or environmental conservation activity (e.g. reforestation) on lands designated under the program.
- 1.12 The European Union (EU) has also introduced direct support payments to offset reductions in support prices and uncultivated-land regulations, and plans to continue this arrangement in its 2000 Agenda. The difference with respect to the above-mentioned Mexican and U.S. programs is that the EU payments are established for (and tied to) the planting of specified crops.
- 1.13 Key components in PROCAMPO's design have enabled it to contribute to the goal of combating poverty and to have a strong distributive impact. Almost half PROCAMPO's resources (around US\$500 million) are distributed to farmers working five or fewer hectares. These payments account for a significant proportion

of the total income and revenue per hectare of the poorest *ejidatarios*, who typically are those with the smallest acreage, in dryland areas.¹ PROCAMPO payments have raised the income of over two million subsistence farmers who, because they do not produce for the market, were excluded from previous price-support systems and at a disadvantage vis-à-vis farmers who sold their harvests. These poor farmers, working land that is eligible under PROCAMPO, are the beneficiaries of the operation proposed here.

- 1.14 SAGARPA and its decentralized Agricultural Marketing Support and Services Agency (ASERCA) are responsible for implementing the Program. Payments are made to farmers legally working the eligible acreage. Usually, the farmer and owner of rights to the land are one and the same, *ejidatarios* or landowners directly working the qualifying plot.
- 1.15 Farmers of eligible plots must re-register for every season for which they are applying for support payments. Re-registration facilities are opened in the Rural Development Support Centers (CADERs, SAGARPA) when ASERCA considers that most farmers have their crop in the ground. Generally speaking, beneficiaries can collect their payments at the CADERs within two months of re-registration. In any event, currently PROCAMPO funds reach farmers after they have sown their crops and, in some cases, shortly before harvesting, rather than early on when they could use the money for the planting phase.
- 1.16 Farmers have repeatedly called on the government to deliver these payments before the planting season, when their cash flow needs are most acute. For approximately a quarter of the acreage covered by PROCAMPO payments there is a way for farmers to improve their cash flow, namely, assigning their Program entitlements. The rights are assigned to moneylenders or input suppliers who advance money or needed inputs, and collect finance charges up front. At best, these charges are considerable.² At worst, as is the case for most of the project's beneficiaries, farmers have no access to financing at all, however expensive it might be. In cases in which rights are ceded, and the ceding farmer meets the planting and other requirements, ASERCA pays the lenders the amounts owed directly. Pre-planting payment disbursement would make it unnecessary to assign PROCAMPO entitlements on these terms. Moreover, it would be a first step toward enabling farmers to use the entitlements as

1 For further details, see: J.C. Martínez and N. Quezada, "México 1995: Oportunidades de Eficiencia y Equidad en la Política de Precios Agropecuarios". Sector Policy Note, IDB/RE2, Washington, D.C., 1995. E. Sadoulet, A. de Janvry and B. Davis, Cash Transfer Program with Income Multipliers: PROCAMPO in Mexico. University of California, Berkeley, revised 9/29/99. SAGARPA/ASERCA, "PROCAMPO 1994-1998" in *Claridades Agropecuarias*, Mexico D.F., December 1998.

2 In 1999, these charges amounted to 10%-20% of the support payment. That percentage is deducted when the loan is disbursed (consequently, the interest on the part advanced is higher than the aforementioned percentages) and constitutes the cost of the financing for a period that generally lasts only two or three months. This puts effective annual interest rates at 44%-100%.

loan collateral, obviating the limitations inherent in the rights assignments, with respect to both terms and cost (effective interest rate.)

- 1.17 On the basis of PROCAMPO's achievements—in particular, its massive outreach to Mexico's poor farmers—the bringing forward of payments to these farmers contemplated in the operation proposed here would enhance their ability to allocate resources efficiently, reduce their financial costs, and raise their net income. Consequently, this project will help boost the productive capacity and income of the vast majority of these small farmers (approximately 2.5 million campesino households, accounting for over 10 million rural poor).
- 1.18 **The Bank's strategy in the sector.** The proposed operation ties in and is concordant with: (i) the Eighth Replenishment mandate to modernize and strengthen agriculture sectors (August 1994); (ii) the Bank's rural development operational policy (OP-752, December 1994); (iii) the Bank's agrifood development strategy, adopted by the Board on 12 January 2000; and (iv) the country paper dated 5 January 1999, presenting the Bank's strategy for Mexico. The following paragraphs highlight the key factors substantiating these links and consistency.
- a. Paragraph 2.35(f) of the Eighth Replenishment document states, *inter alia*, with respect to the agricultural sector, that: "Efforts must be directed at enhancing competitiveness at regional and international levels and substituting for crops with declining commercial potential. In this regard, particular attention should be given to programs that benefit productive capacity and marketing of small producers." The proposed project's focus on making for more efficient resource use by small farmers complies with this Eighth Replenishment mandate.
 - b. The general objective of the Bank's rural development policy is "the sustained improvement of the quality of life of the low-income rural population while at the same time seeking to assure an effective and efficient contribution by the rural economy to the national development process."... To that end, among other things, "...in the process of promoting the transformation of marginal and subsistence activities and attaining sectoral and regional development objectives, consideration may need to be given to the provision of various forms of income transfer over the time period necessary to attain increased productivity and eventual economic viability" (OP-752, pages 1 and 4).
 - c. One of the priority investment areas in the Bank's new strategy for agrifood development is the consolidation of economic reform programs and support to ease the transition, including funding for programs designed to help restructure production, through mechanisms such as temporary income transfers for farmers affected by the reforms (document GN-2069-1, pages 18-19).

- d. For its part, the country paper recognizes the difficulties involved in the productive and social transition taking place in the Mexican agrifood sector and the need to support PROCAMPO, giving low-income farmers priority. It includes the operation proposed here in its project pipeline (document GN-2045, Table 5, page 11).

1.19 **Background on similar operations.** The proposed financing is in line with other innovative operations currently under way to fund various types of direct payments to target groups of producers and/or consumers to pursue social, economic, and/or environmental objectives. Those other operations include: (i) the Program to Support the Restructuring of Agrifood Production (GU-0070, approved on 12/9/98), which, among other things, finances income transfers (US\$55/hectare) to reward owners of strategic forest land for engaging in sustainable forest management; (ii) the Honduran Social Compensation Program's Family Assistance Subprogram (HO-0114, approved on 6/28/95); and (iii) the Family Allowance Program, Phase II (HO-0132, approved on 12/2/98). The last two programs provide direct transfers to poor Honduran families

II. THE PROJECT

A. Objective and description

- 2.1 The project aims to better equip small dryland farmers to make efficient use of their resources in crop-farming, stock-raising, and/or reforestation activities by moving up the disbursement of PROCAMPO support payments to deliver them to farmers before they plant their crop. The intent of the proposed financing is to make such disbursements more timely and heighten farmers' certainty that they will in fact receive support payments under the Program. It will improve their cash flow, lower their financial costs, and boost their productive capacity and net income. By making the payments before farmers plant their fields, the project will ensure that PROCAMPO funds for its beneficiaries are available for productive uses. The technical assistance component will help strengthen PROCAMPO's operations and environmental management sides.
- 2.2 The project's beneficiaries are farmers legally cultivating PROCAMPO-eligible land (five hectares or less) during the Spring-Summer (SS) largely rainfed crop cycle. Those covered are mainly low-income *ejidatarios*. According to the 1996 household survey, 90% of the project's beneficiaries live below the poverty line. The operation will have two components: (i) financing of payments of SS season allowances before planting, targeting them to small farmers; and (ii) technical assistance to strengthen the Program's management, evaluate its environmental impacts, look at operating approaches, and ascertain how recipients are using the money. SAGARPA will be responsible for the project's execution, through the Office of the Deputy Secretary of Planning and its decentralized agency ASERCA. The project will run for four years, covering SS crop seasons from 2001 to 2004.
- 2.3 The financing envisaged under the project will make it possible to reinforce PROCAMPO's positive impact on the small farmers benefiting from the project. This impact will be measured as part of the implementation activities and in the project's final evaluation, in accordance with the Logical Framework appended to this proposal as Annex I. The environmental subcomponent of the technical assistance will leave PROCAMPO better equipped to encourage sustainable management of natural resources, particularly in the project's marginal eligible lands.

B. Structure

- 1. Component 1. Financing advances of support payments (US\$1,394.7 million)**
- 2.4 This component will help small farmers make more efficient use of their land for productive or conservation (e.g. reforestation) purposes. To that end, the Bank will

finance up to 50% of the advance on PROCAMPO allowances for farmers legally working eligible SS season land, provided that: (i) the beneficiaries are farmers with at most five hectares of eligible land; (ii) the payment is disbursed before planting starts; and (iii) the farmer has actually sown the land, or, in the case of reforestation, has adequately maintained the reforested area. Planting will continue to be a requirement but it will be verified *a posteriori* by ASERCA.

- 2.5 PROCAMPO's Operating Regulations contain, pursuant to the Expenditure Law, operational aspects of the program. These Operating Regulations, published in the *Diario de la Federación* [official gazette] of 15 February 2001, made it possible for PROCAMPO to make support payments to the project's beneficiaries.
- 2.6 Actions envisaged in this component will improve the beneficiaries' cash flow situation, lower their financial costs, and raise their net income while providing greater certainty that allowances will be forthcoming. All of this will boost the productive capacity of the small farmers targeted by the project.

2. Component 2. Technical assistance (US\$3.0 million)

- 2.7 Through the technical assistance component, the operation aims to: (i) strengthen ASERCA's geographical information system in order to build capacity in that agency to monitor the operational side of advance disbursements of support payments under the project; (ii) analyze PROCAMPO's environmental impacts and lay the foundations for the design of a sustainable production restructuring plan promoting environment-friendly activities and practices; (iii) review and develop new ways for PROCAMPO to operate, above and beyond advance payments of allowances to small dryland farmers; and (iv) identify and quantify the uses to which support payments are put by the project's beneficiaries, in order to establish a link between disbursement of these advance payments and the productive uses made of the funds by recipients.

a. Subcomponent 2.1. Strengthening of ASERCA's Geographical Information System (SIGA) (US\$2.2 million)

- 2.8 The objective of this subcomponent is to improve the SIGA's operation so it can be used to: (i) indirectly verify (by georeferencing) agricultural activities on PROCAMPO farms, and in particular on farms belonging to the project beneficiaries; and (ii) analyze land-use patterns on these farms.
- 2.9 This technical assistance will be executed by ASERCA's directorate for the direct support information system, in coordination with its regional offices and with support from all the CADERs. This component's specific activities include, in an initial phase: (i) completing the PROCAMPO cadaster; (ii) identifying further technical and administrative ways of incorporating the Ejido Farmers Rights Certification Program (PROCEDE) database in SIGA; and (iii) obtaining satellite

images for states in which the PROCAMPO cadaster database is complete and whose climatic features warrant indirect verification. Subsequently: (i) the models used in the first states in which SIGA is implemented will be verified, and (ii) the model will be applied in the country's southern and southeastern states, where, given the frequent cloudiness, an experimental component of SIGA would be implemented, requiring the use of radar images.

- 2.10 To make SIGA a functional tool nationwide, the PROCAMPO cadaster will have to be completed using data from the rural cadaster of the National Agrarian Registry (RAN) and of PROCEDE. Once this database has been set up, radar satellite images and data on environmental variables can be superimposed in order to determine the nature of the agricultural or conservation activity carried out on PROCAMPO farms.
- 2.11 **The PROCAMPO cadaster.** The proposed technical assistance will help ASERCA complete the PROCAMPO cadaster. So far the work is finished in 10 states, and has still to be completed in the remaining 22. This requires boosting ASERCA's systems for gathering, processing, and analyzing geographic data and hiring specialized staff to input and verify the rural and PROCAMPO cadaster data.
- 2.12 **PROCEDE-SIGA interface.** Furthermore, to ensure greater precision in the farm-level data, a study will be made of the technical and administrative viability of inputting the PROCEDE database, which contains data identifying individual farms and owners of *ejido* rights to those farms.
- 2.13 **Indirect verification.** In addition to what has already been accomplished in Chihuahua,³ indirect verification (using imaging) will be extended to a further five zones per year. These will be in states in which, for climatic reasons (e.g. drought), it is deemed necessary to check that PROCAMPO land is being planted. This will mean obtaining satellite images captured and reproduced when most crops in those areas are established. Subsequently, using Global Positioning System (GPS) receivers, steps will be taken to verify, *in situ*, farms for which the stated intention to plant has not translated into a planted crop. This will reveal, before advances are disbursed in the following corresponding season, which farms in these areas do not qualify for PROCAMPO advances because they did not comply with the planting requirement in the previous period.

b. Subcomponent 2.2. Design of a Sustainable Production Restructuring Program (US\$600,000)

- 2.14 This subcomponent aims to assess the environmental impacts of PROCAMPO and, based on the findings, to identify core elements for a program of direct

³ A pilot project to verify agricultural activities on PROCAMPO farms was carried out in 1997, using satellite imaging and a methodology similar to that proposed in this operation.

environmental incentives that would internalize positive environmental externalities of the agrifood production process (including reducing the sector's adverse impacts). This subcomponent will take nine work months, during year 1 of the project.

- 2.15 **Assessment of PROCAMPO's environmental impacts (US\$350,000).** The basic strategy pursued in agrifood sector reforms has been to eliminate across-the-board price subsidies for products and inputs and partially replace them with direct payments to the farmers affected (PROCAMPO). To gauge the environmental impact of this policy, it is necessary to work out a scenario in which land use and agricultural-chemical use are similar to a "without the reforms" scenario. Having obtained that scenario and the actual "with reforms" scenario, it will be possible to evaluate the difference between the two in terms of environmental impacts both on-farm and off-farm (externalities). The study envisages carrying out this work in the following stages:
- a. **Identification of large agricultural regions and selection of populated zones to represent regions in which subsistence farming predominates.** Given the enormous diversity of Mexican agriculture, different methodological approaches would be needed for commercial and subsistence farming zones. In this phase, a regionalization and sampling proposal will be put forward to represent subsistence economies. In principle, the country is likely to be divided into six regions in which either commercial or subsistence (*campesino*) agriculture predominates.
 - b. **Effects of the reforms on decisions as to what acreage is planted and on input use.** For each of the selected zones, models will be developed to estimate farmers' behavior with and without policy changes. For the commercial farming areas, supply function or benefit function modeling will be done to estimate the response to price changes in the supply of products and demand for inputs. In subsistence or *campesino* farming zones, Multisector Computable General Equilibrium (MCGE) modeling will be done. With the MCGEs, estimates can be run not just of responses to price changes but also of impacts of PROCAMPO transfers.⁴ Once the models have been estimated, scenarios can be generated with and without policy changes, and with and without PROCAMPO payments, and they will then be extrapolated for the zones they represent.
 - c. **Environmental impacts of farming activities.** In parallel with the above-mentioned activities, the main farming activities in the selected regions will be profiled, along with the degree of on-farm impact (e.g. soil erosion) and off-farm effects (e.g. water quality and habitat preservation). The impact will be described as either high or low, depending on relief and soil features and

⁴ With the MCGEs an estimate can be done not just of environmental impacts that are of interest in this subcomponent, but of other economic impacts required by subcomponent 2.3 as well.

common practices. If the data permit, a correlation will be established between land use and impacts on water quality observed in the measurement network that already exists at the national level.

- d. **Estimation of impacts at the national level.** Using the findings of activities b. and c., an estimate will be made of impacts for each of the regions at the national level.

- 2.16 **Groundwork for a Sustainable Production Restructuring Program (US\$250,000).** The aim here is to define the foundations for an eventual program of direct environmental payments to internalize environmental externalities associated with on-farm practices, crops, or activities that benefit the environment (including a reduction in adverse environmental impacts of common practices). The program will be designed on the basis of the findings of the environmental assessment and an evaluation of existing support programs (e.g. *Alianza para el Campo*) and will seek to identify key areas of positive environmental impacts and the incentive (support) levels needed to persuade farmers to adopt them. This work will be carried out in stages, as follows:
- 2.17 **Analysis of the effectiveness of existing programs.** This will gauge the environmental impacts associated with conventional farming activities and with the government programs currently in operation. Existing models may be used for these estimates, such as the Erosion Productivity Impact Calculator (EPIC). These are tools for estimating soil productivity and externalities for watercourses, using very large scale approaches in order to cover the national territory. As an alternative, impacts could be characterized based on the environmental impact assessment of the project described earlier on in this section. Ideally, the same methodology should be employed in the two studies.
- 2.18 **Estimation of support (incentive) level needed to elicit changes in farmers' behavior for various existing instruments.** The aim here would be to ascertain the direct support levels required in order to get farmers to adopt new practices in a broad range of already existing programs, such as PROCAMPO's conservation-related projects, the menu of options of *Alianza para el Campo*, or other programs in SAGARPA or other Departments. Ideally, functions should be estimated indicating the amount of the required transfer by intervention type, depending on production conditions, socioeconomic characteristics, and other relevant variables.
- 2.19 **A proposed program.** Based on the outcomes in the above-mentioned areas, a series of alternative scenarios for the program should be devised, specifying: (i) targets for reducing adverse on-farm and off-farm environmental impacts, for different regions of the country; (ii) the most efficient instrument mix for achieving those targets, "efficiency" meaning the unit cost of an environmental impact obtained on and beyond the farm; (iii) estimates of the amount of incentives to be granted each year, by region; and (iv) the most efficient delivery procedure, having

analyzed a series of options such as fixed payments or competitive mechanisms. In addition, it would be important to include at least a very preliminary estimate of the economic returns to society as a whole in the different scenarios put forward for the program.

c) Subcomponent 2.3. Review of operating approach options (US\$100,000)

- 2.20 The objective of this technical assistance subcomponent is to explore design and/or operational options that might make PROCAMPO more efficient and effective, other than the improvements introduced in this project. In principle, SAGARPA has identified the option of scrutinizing the implications of eliminating the planting requirement for PROCAMPO payments. This option would increase certainty that payments will be forthcoming to an even greater extent than the payment-in-advance proposal. However, there are as yet no studies of the productive-efficiency budgetary implications of that alternative.
- 2.21 In principle, the area for which support payments have been made, with planting as a prerequisite, has averaged 14 million hectares per crop year (comprising the Autumn-Winter and Spring-Summer seasons). However, the total eligible acreage of the register is larger than that and could be as much as 17 million hectares. Consequently, eliminating the planting requirement entails analyzing options with respect to freezing the eligible-land register based on the experience of its seven years in operation. At the same time, an abolishment of the planting requirement would make the allocation of factors of production, including conservation-type projects, even more flexible and would facilitate use of PROCAMPO payments as collateral for loans to farmers.
- 2.22 These issues will be analyzed in the study planned under this subcomponent, which will take three work months during year 1 of the proposed project. Execution will be coordinated with that of subcomponent 2.2, since the Applied General Equilibrium (MCGE) models developed in that subcomponent will be used here. The work will consist of three activities, as described below.
- 2.23 **Impact modeling.** Modeling will be done of the impacts of the advance payment contemplated in the operation, together with elimination of the planting condition, on the finances of the pertinent strata of farmers, productive efficiency in the sector, and the sector's environmental sustainability. The MCGEs of the previous subcomponent will be used in this modeling, having been designed for that purpose.
- 2.24 **Operating scenarios.** Based on the experience of seven years of operating the Program, minimum requirements for activities thereunder will be set for farmers to qualify for the additional benefit of not being obliged to plant (keeping this differentiated from the advance-payment scheme, which can operate with or

without the planting prerequisite). For each case the corresponding budgetary and administrative implications will be analyzed.

- 2.25 **Financial instruments.** A study will be made of the possibility of using financial instruments that would be workable if the planting requirement were done away with. These instruments would be geared to maximizing certainty that payments will be forthcoming in the remainder of the Program, as well as the beneficiaries' ability to use the future payments as collateral for medium-term loans. In each case, the instruments' budgetary implications would have to be analyzed, along with the consequences of a bond issue on financial markets.

d) Subcomponent 2.4. Identification of uses to which support payments are put by beneficiaries (US\$100,000)

- 2.26 This subcomponent aims to associate PROCAMPO pre-planting payments with the productive uses made of them by the project beneficiaries. This will be shown by means of a survey to verify the productive uses made of the advance payments and the patterns of productive investment (crops, fertilizers, seeds, soil preparation, etc.) by beneficiaries in the SS season 2001. Given that: (i) PROCAMPO verifies that eligible acreage has been planted (including reforestation, where applicable), and (ii) per-hectare production costs are higher than PROCAMPO's per-hectare payments, this operation assumes that small farmers will use the entire payment for production purposes. This will be made possible by bringing payments forward, and it will be verified by the survey financed under this subcomponent.
- 2.27 **Design of the survey.** ASERCA will be responsible for implementing this survey, to be conducted by a private firm engaged in a public call for proposals, based on specific terms of reference. The terms of reference will include the questionnaire to be used, the interview sample, output tables to verify the use made of PROCAMPO support monies, and timeframes for gathering data and compiling the preliminary and final survey results. The survey findings will be available before the second cycle of disbursements under the project (SS 2002).
- 2.28 The questionnaire will elicit information from a random sample, representative of the project beneficiaries, regarding actual use of PROCAMPO funds. The way the questionnaire is designed assumes that the interviewer has key information about the respondent. This information includes: (i) date on which the PROCAMPO allowance was paid; (ii) amount of the payment received by the beneficiary; and (iii) the stated intention with respect to the farming or conservation activity to be performed.
- 2.29 **Conduct of the survey.** Once the data-gathering tool (questionnaire) has been designed, the survey firm will carry out a pilot test that will serve to modify the original questionnaire format, where necessary, and to determine the best time to gather data (e.g. days/weeks after PROCAMPO payments have been disbursed).

The survey firm will deliver the data to ASERCA in digital format that can be used by different statistics software packages and spreadsheets.

C. Cost and financing

- 2.30 The project will cost an estimated US\$1,480.7 million. Table II-1 shows the two categories of costs and the two proposed sources of financing. The cost of the PROCAMPO advance-payments component was based on an average of about 4.5 million eligible hectares per year qualifying for advances. These eligible hectares were multiplied by PROCAMPO's current per-hectare payment of 778 Mexican pesos. The annual sum computed was converted to dollars at US\$1=10 new Mexican pesos. Annual advance payments came to US\$348.5 million or US\$1,394.7 million over the four years of project execution. The other direct costs correspond to the technical assistance line.

| Table II-1 Project costs (US\$ million) | | | | |
|--|---------------------------|-----------------|----------------|-------------------|
| | IDB (OC) loan* | Borrower | Total | Percentage |
| Direct costs | | | | |
| Direct payments to farmers | 492.0 | 902.7 | 1,394.7 | 94.1 |
| Technical assistance in support of the project | 3.0 | - | 3.0 | 0.2 |
| Subtotal | 495.0 | 902.7 | 1,397.7 | 94.3 |
| Financial costs | 5.0 | 78.0 | 83.0 | 5.6 |
| Interest (during disbursement period) | | 71.4 | 71.4 | 4.8 |
| Credit fee | - | 6.6 | 6.6 | 0.4 |
| Inspection and supervision | 5.0 | - | 5.0 | 0.3 |
| TOTAL | 500.0 | 980.7 | 1,480.7 | 100.0 |
| Percentage share of financing | 33.8 | 66.2 | 100 | |

* The percentage of the financing may be up to the equivalent of 50% of the project's total cost.

- 2.31 The project will be financed by: (i) an Ordinary Capital loan from the Bank for US\$500 million and (ii) a counterpart contribution equivalent to US\$980.7 million, distributed in annual allotments out of the Federal Expenditure Budget appropriation for SAGARPA for four consecutive years, as itemized in the foregoing table. The counterpart includes annual allocations for the borrower to pay interest throughout the project's disbursement period.

III. PROJECT EXECUTION

A. Borrower, guarantor, and executing agency

- 3.1 Nacional Financiera, S.N.C. (NAFIN) will be the borrower and the United Mexican States will guarantee the loan. SAGARPA will be executing agency for the project through ASERCA. SAGARPA is part of the Executive Branch of the Federal Government of Mexico and oversees the country's food and agriculture policy.
- 3.2 Established in 1991 and restructured in 1994, ASERCA is the agency in charge of marketing and direct (PROCAMPO) support to Mexican farmers. It was set up as part of the transition process leading to elimination of support prices and across-the-board agrifood price subsidies, and, institutionally, to the liquidation in 1999 of CONASUPO that had previously handled those facilities.
- 3.3 The objectives, targets, and outcomes of ASERCA activities are supervised by a collegiate body, its Technical Council, which is composed of the Deputy Secretaries and Chief Administrative Officer of SAGARPA and a Deputy Secretary representing each of the Departments of Finance, Trade and Industrial Development, Communications and Transport, and the Office of the Comptroller and Administrative Development. ASERCA is managed, technically and administratively, by a Chief Executive Officer appointed by the Federal Executive through the Secretary of SAGARPA, to whom the CEO reports. The CEO's functions include: (i) appointing the General Coordinator of Direct Support Payments (CGAD), the unit in charge of PROCAMPO's operation, and (ii) preparing the agency's internal organization and procedures manuals, including PROCAMPO Operating Regulations.
- 3.4 ASERCA currently employs 840 people in executive, technical, administrative, and service posts, approximately 600 of them deployed in CGAD. This General Coordination Office has seven years' experience running PROCAMPO. Over that interval the agency has developed a very efficient operating and institutional capacity to manage PROCAMPO, and it has the human and physical resources it needs for that work.

B. Project execution and administration

- 3.5 PROCAMPO's Operating Regulations prescribe administrative, financial, and accounting procedures for the support-payment system. They are revised and updated annually, a process that culminates each crop year with their formal approval by the Secretary of SAGARPA. The regulations in force as of SS season 2001 include payment to the project's beneficiaries, in accordance with the provisions of the loan contract.

- 3.6 Apart from the eligibility criteria mentioned in paragraph 2.4, the farmers involved must have received the PROCAMPO payment in the previous corresponding season in order to qualify for advance payments in any of the SS cycles during the project's execution. This will make it possible to estimate, prior to each SS season, the maximum projected budget appropriation and/or change in the seasonal weighting of PROCAMPO fiscal outlays compared to the current pattern (without the project).
- 3.7 Following its Operating Regulations and acting through its 16 regional offices, ASERCA carries out, for each crop cycle, a comprehensive process involving planning, recording, processing, verifying, paying, and auditing nearly four million direct payment transactions totaling close to US\$1 billion annually. The process culminates with the delivery of a check for the amount of the support payment corresponding to each PROCAMPO recipient. Checks are distributed through SAGARPA's 712 Rural Development Support Centers (CADERs).⁵ This process is carried out under strict technical-administrative-accounting supervision chiefly by SAGARPA's and ASERCA's regional offices, with occasional involvement of ASERCA's head office. To that end, ASERCA has a modern and effective computerized financial-accounting system. This system operates with on-line connections to each and every one of ASERCA's 16 regional directorates and is the linchpin of PROCAMPO's decentralized operations management. Using its computerized system, ASERCA exercises technical, budgetary, accounting, and financial control. A review of this system revealed a high degree of technical reliability, qualified, well-trained professional staff, and timely and suitable generation of administrative and financial data and documents.
- 3.8 With this computerized system, ASERCA will be able to comply with timely presentation of supporting documentation required by the Bank prior to disbursements of the loan. As it supplies this documentation ASERCA will post the accounting records of operations corresponding to the project. ASERCA is also expected to use its current internal audit mechanisms to control the direct-payment operations to be financed under the project.
- 3.9 Through ASERCA, SAGARPA will produce substantiating documentation to identify the respective beneficiaries and the Bank will be shown evidence that the conditions have been met. This set of documents will constitute the financial and accounting evidence needed for the request for disbursement by the Bank. Receipts for payments made to each beneficiary will remain in the custody of the corresponding CADERs. This supporting documentation, together with the accounting records to be posted by ASERCA in the accounting system to be set up for the project, will be audited by the firm of public accountants engaged for the purpose.

⁵ The CADERs are grouped into 192 Rural Development Districts which in turn are grouped under SAGARPA's 32 State Departments (*Delegaciones Estatales*).

- 3.10 Patterns of beneficiaries' use of PROCAMPO payments in their productive operations (for crops, fertilizer, seeds, soil preparation, etc.) will be estimated by surveying SS 2001 season beneficiaries in the course of that cycle (see subcomponent 2.1 in section III), using funds from the project's technical assistance component. The survey will elicit information on how the project's beneficiaries have used their PROCAMPO allowances, without thereby curtailing these farmers' right to freely choose the crops they grow, the productive activity they engage in and/or the technology they use (see section II.d).
- 3.11 Operations relating to handling of project funds must be recorded, in line with Bank policies in this regard, in an accounting system that ASERCA will establish for this purpose. The system will generate annual financial statements for the project which, in accordance with Bank policy, must be audited and presented to the Bank within 120 days after the end of the respective financial year. To that end, SAGARPA will engage, each year for the life of the project, a firm of independent public accountants acceptable to the Bank. The estimated annual cost of auditors' fees incurred by SAGARPA/ASERCA for these yearly project audits is explicitly built into the project's cost. The estimated audit costs are US\$200,000 over the four years of project execution.

C. Procurement of goods and services

- 3.12 The hiring of consulting services and the purchase of computer hardware, satellite imaging, and related inputs are contemplated under the technical assistance component. In procuring these goods, services, and inputs, the executing agencies will abide by the Bank's policies. An international public tender will be called for procurement of goods or equipment worth US\$350,000 or more and consulting services costing US\$200,000 or more. Only one international tender call is planned.

D. Execution and disbursement schedule

- 3.13 Table III-1 summarizes the disbursements envisaged for the project over the four years of execution. Annual disbursements by the Bank may defray up to 50% of the costs of the eligible direct payments, subject to annual ceilings established for each year of execution, as shown in the table.

Table III-1
Anticipated disbursement timetable (US\$ million)

| Year of execution | IDB /OC loan | Local counterpart | Total |
|-------------------|--------------|-------------------|----------------|
| Year 1 | 100.0 | 258.0 | 358.0 |
| Year 2 | 180.0 | 187.0 | 367.0 |
| Year 3 | 140.0 | 235.0 | 375.0 |
| Year 4 | 80.0 | 300.7 | 380.7 |
| Total | 500.0 | 980.7 | 1,480.7 |

E. Monitoring and evaluation

- 3.14 The project will be evaluated at the end of the execution period. One element to be taken into account will be the monitoring system used by ASERCA in its capacity as executing agency. At the same time, through the technical assistance component (subcomponent 2.2), Applied General Equilibrium Models will be calibrated for a regionalization representing the distribution of subsistence farming in Mexico. These models will make it possible to estimate, among other things, changes in the cash flow of representative campesino households in with-project and without-project scenarios. These cash flow changes will come about not only as a result of bringing forward PROCAMPO payments to the pre-planting period, but also as a result of changes in output quantities and associated impacts on product and input prices.
- 3.15 The project's Logical Framework includes verification indicators with which to measure the project's performance. The borrower is to submit progress reports at the end of each SS crop cycle, recounting, among other aspects, progress made in the support-payment funding component and the technical assistance component. In addition, annual project monitoring meetings will be held in the first quarter of each calendar year, to review progress reports, track attainment of objectives and agreed targets and, in general, examine the project's status. The first progress report will include the findings of the survey on utilization of PROCAMPO payments referred to in paragraph 2.28. The IDB Office in Mexico, with support from RE2/EN2, will be responsible for supervising the project's implementation.

F. External audit of the project

- 3.16 The project's financial statements will be audited annually throughout the disbursement period by a firm of independent public accountants hired by the executing agency and acceptable to the Bank. To that end, the respective contractual clause will be incorporated into the loan contract. The funds needed to cover the costs of such professional services will be provided by the borrower.

IV. SPECIAL CONTRACTUAL CONDITIONS

- 4.1 **Conditions precedent to the first disbursement.** The first disbursement of the financing is subject to the presentation of evidence that: (i) NAFIN and the United Mexican States, through the Department of Finance, have signed an agreement containing, *inter alia*, the conditions under which the borrower will transfer the resources of the financing to the United Mexican States for project execution; and (ii) NAFIN and the executing agency have signed an agreement establishing, *inter alia*, SAGARPA's commitment to meet its obligations as executing agency and carry out the activities envisaged in the project.
- 4.2 **Other conditions.** For disbursement of Component 1 funds in year 2 of the project, evidence must be furnished to show that the survey of uses made of PROCAMPO payments by project beneficiaries, contemplated in subcomponent 2.4 (paragraph 2.26), was completed and processed.
- 4.3 The Spring-Summer (SS) crop season planting generally begins in June. PROCAMPO's advances prior to the planting take place between February and June of each year. While the project report was approved by the Bank in October 2000, negotiations for the operation took place in July 2001. ASERCA, with technical support from the Bank, completed the legal requirements for the advance of support payments in accordance with the provisions of the project and, with annual budget resources from PROCAMPO as a whole, proceeded to begin paying advances between February and June 2001, as provided for in the project. At the time of the negotiations (11 and 12 July 2001), since planting had begun, there were no more project eligible expenses for 2001. Accordingly, the Mexican negotiating team requested, and the Bank's Management agreed to, recognition of expenses incurred under component 1 of the project during February to June 2001 for both the Bank's financing and the local counterpart in the form of fiscal resources allocated to the project. Ceilings were established in each case as specified in the following paragraphs.
- 4.4 With the Bank's acceptance, up to US\$100 million equivalent of the resources of the financing may be used to reimburse the executing agency for expenses under component 1 of the project incurred between 1 February 2001 and the date of approval of the project by the Board of Executive Directors.
- 4.5 The Bank may also recognize, as part of the project's local counterpart resources, expenses under component 1 of up to US\$320 million equivalent incurred between 1 February 2001 and the date of approval of the project by the Board of Executive Directors.

V. VIABILITY AND RISKS

A. Institutional viability

- 5.1 The project's institutional viability is assured since it is to be executed within the PROCAMPO organizational and operational structure. Through ASERCA, SAGARPA has gained seven years' experience with PROCAMPO and, as mentioned in section III.A of this proposal, it has both the institutional and operational capacity needed to execute the project.

B. Socioeconomic viability

- 5.2 The PROCAMPO advance payments will benefit more than 2 million campesino families, encompassing some 10 million rural poor. According to the 1996 household survey, which included PROCAMPO as one of the variables, 90% of the project's beneficiaries live below the poverty line. The operation will help reduce poverty and enhance social equity. It qualifies, therefore, as a poverty targeted investment on a headcount basis (over 50% of the beneficiaries live below the poverty line) and automatically by virtue of the targeted sector (small farmers). The operation will use household surveys conducted by the Government of Mexico, which include PROCAMPO beneficiaries, to devise performance indicators with respect to poverty reduction and social equity enhancement.

- 5.3 PROCAMPO is gender- and ethnicity-neutral. Nevertheless, given the association between the indigenous population and basic-grain subsistence plots between 1991 and 1993 (eligibility conditions), indigenous farmers and communities participate on a massive scale in PROCAMPO. In states in which the indigenous population predominates, this is clearly reflected in the ethnic makeup of the beneficiaries. For instance, in Oaxaca, 84% of PROCAMPO beneficiaries are communal farmers or *ejidatarios* belonging to one or other of the 16 ethnic groups inhabiting the state. Given the small size of their plots, all these farmers are potential beneficiaries of the project. Similarly, rural women's participation is factored in to the extent that women are directly in charge of farming eligible plots of land. Though only a small percentage of direct PROCAMPO support-payment recipients are likely to be women, the payments have a widespread impact on rural women by way of the households benefiting from PROCAMPO, according to the 1996 household survey mentioned in paragraph 5.2.

C. Financial viability

- 5.4 The project funds will form part of the annual stock of fiscal resources that SAGARPA will require in order to execute the whole of PROCAMPO in each fiscal year in the 2001-2004 period. The annual allocation under the Expenditure Budget of the Federation for aggregate PROCAMPO payments has averaged

approximately US\$1 billion. Nearly 35% of that figure will be needed to finance, in each SS crop cycle, pre-planting advances for beneficiaries with fewer than five eligible hectares. The Bank will finance up to 50% of these advance payments. Given these arrangements and the fact that PROCAMPO as a whole has received the needed budget appropriations over the past seven years, the local counterpart for the project is considered to be virtually guaranteed for the four years of project execution.

D. Environmental impact

- 5.5 PROCAMPO was conceived as environmentally neutral, as far as conserving natural resources is concerned. Through its technical assistance component, the proposed operation will help assess PROCAMPO's indirect environmental impacts and lay the foundations for an eventual complementary sustainable production-restructuring program designed to heighten PROCAMPO's positive environmental impact (see section II.b). This technical assistance subcomponent will be executed during year 1 of the project.

E. Benefits

- 5.6 In the SS 1995 growing season, PROCAMPO's uniform per-hectare payments made up approximately 60% of the gross income per hectare of a subsistence corn farmer with a one-ton-per-hectare yield.⁶ The relative importance of PROCAMPO for small farmers was confirmed in 1996, when surveys of beneficiaries⁷ showed that the Program's payments accounted for a higher proportion of total income for farmers with less qualifying land and dependent on rainfall than for those with more qualifying land or access to irrigation systems. At the same time, poor farmers with meager or no marketable surpluses gained nothing from price subsidies (in fact, some subsistence farmers, being net purchasers of grains, benefited from the elimination of those subsidies).
- 5.7 Studies of the communal farm plots sector (*sector ejidal*) based on 1994 and 1997 household surveys conducted by the Department of Agrarian Reform, the World Bank, and the University of California at Berkeley throw further light on PROCAMPO's impact.⁸ Given the multiplier effect of per-hectare payments, PROCAMPO cushioned not so much the decline in support prices (which had scant, or even a positive, effect on subsistence farmers) as other adverse impacts on

⁶ See J.C. Martínez and N. Quezada, "México 1995: Oportunidades de Eficiencia y Equidad en la Política de Precios Agropecuarios" [Opportunities for efficiency and equity in agricultural price policy]. Sector Policy Note, IBD/RE2, Washington, D.C. 1995.

⁷ See SAGARPA/ASERCA, "PROCAMPO 1994-1998" in *Claridades Agropecuarias*, Mexico, D.F., December 1998.

⁸ See E. Sadoulet, A de Janvry, and B. Davis, "Cash Transfer Program with Income Multipliers: PROCAMPO in Mexico." Revised 9/29/99.

farmers' incomes and rural wages. Without PROCAMPO, poverty among *ejidatarios* would have declined by two percentage points over the period. Thanks to PROCAMPO, it actually fell by eight percentage points.⁹

- 5.8 Building on the achievements described above, financing the bringing forward of payments to the pre-planting phase for the targeted small farmers will mean improving their cash flow at a crucial moment in the production process. It will contribute to more efficient allocation of these farmers' resources, a lowering of their financial costs, and, ultimately, an increase in their net income.

F. Risks and special issues

- 5.9 On the one hand, the fact that PROCAMPO is an ongoing program that has budget appropriation mechanisms helps ensure that public monies will be available for the project. On the other hand, the project requires that part of PROCAMPO's budget funds be disbursed before the planting of rainfed crops, in the first half of the year, which will affect the pattern of ASERCA expenditure in the course of the fiscal year. In year 1 of the project, in particular, there is a risk that budget funds might not arrive on time to cover advances to project beneficiaries. This risk, which was originally anticipated in the project report, did not materialize. The resources required for project execution were appropriately allocated, in terms of amount and timing, thereby allowing ASERCA to cover advances of the support payments to project beneficiaries for 2001.

⁹ See B. Davis, A. de Janvry, E. Sadoulet, and T. Deihl, "An Analysis of Poverty in the Mexican Ejido Sector." Fifth Mexico-Canada-United States Conference on Policy and Adjustment in the North American Food Industry. Acapulco, Mexico, 4-6 March 1999.

MEXICO
SUPPORT FOR SMALL FARMERS THROUGH PROCAMPO
(ME-0213)

LOGICAL FRAMEWORK

| Narrative summary | Indicators | Means of verification | Assumptions |
|---|---|---|--|
| | | | Sustainability |
| Reduce rural poverty and enhance sector competitiveness. | 1.1 Decline in incidence of poverty among groups of small dryland farmers. 1.2 Agrifood exports increase. | Household survey SECOFI | The government maintains macroeconomic stability and the Mexican currency does not appreciate in real terms. |
| | | | Purpose to goal |
| Help small-scale dryland farmers (es) to make more efficient use of their land in production. | 1.1 Cash flow of farmers working less than five hectares improves between 2000 and 2004. 1.2 Financial costs diminish between 2000 and 2004. | ASERCA reports on changes in the temporal pattern of distribution of payments ASERCA reports on average payments advanced and real financial or opportunity cost savings | |
| | | | Components to purpose |
| Financing support payments for farms smaller than 5 hectares in the Spring-summer (SS) crop season. | At least 3 billion new Mexican pesos per year advanced to SS cycle beneficiaries. Advances are delivered for at least 4 million eligible hectares a year. Beneficiaries' assignment of entitlements for production purposes in SS cycle cut to less than half of the 2000 figure. | ASERCA implementation reports for crop years 2001 to 2004 | |
| Technical assistance | | | |
| ASERCA's geographical information system (SIGA) institutionalized | - PROCAMPO cadaster is digitized nationwide by 2002. - Indirect verification used in at least 10 states by 2003. | ASERCA | |
| Studies and surveys conducted. | - Environmental impact assessment completed in 2001. - Study on foundations for a production restructuring program completed in 2001. - Study on alternative operational approaches completed in 2001. - Survey identifying use made of support payments completed in 2001. | SAGARPA ASERCA | |

| Narrative summary | Indicators | Means of verification | Assumptions |
|---|---------------------|---|---|
| <p>ment of advances in SS cycle for plots beneficiaries who received support ments in the previous corresponding on and met the requirements.</p> | US\$1,394.7 million | List of payments to beneficiaries supported by documents evidencing the transaction, on file with the executing agency. | <p>Activities to components</p> <p>Expenditure budget allocates p funds and PROCAMPO Opera Regulations permit advance pa</p> |
| <p>Technical assistance</p> | | | |
| <p><i>analyze the SIGA:</i> complete PROCAMPO cadaster k PROCEDE-SIGA tain satellite and radar images orm indirect verification</p> | US\$2.2 million | Semiannual reports | SAGARPA's and ASERCA's budget includes allocations req these activities. |
| <p><i>Sustainable Production Restructuring</i> : ntify regions and zones mate effects of the reforms asure environmental impacts mate national impacts lyze actual effectiveness mate incentives pose a program</p> | US\$600,000 | Semiannual reports Reports on studies | SAGARPA's and ASERCA's and 2002 budgets include allo required for these activities. |
| <p><i>Operational options:</i> del impacts ise operational scenarios lyze financial instruments</p> | US\$100,000 | | |
| <p><i>How farmers use support payments:</i> ign survey duct a pilot trial duct the survey lyze survey returns</p> | US\$100,000 | | |

**PROCUREMENT PLAN
TECHNICAL ASSISTANCE COMPONENT**

| SUBCOMPONENT/ACTIVITY | DIRECT COST (US\$000) | TYPE OF PROCUREMENT | MODALITY | YEAR/ QUARTER |
|---|-----------------------|-----------------------------------|----------|---------------|
| SUBCOMPONENT 2.1: STRENGTHENING OF SIGA | | | | |
| Completing and incorporating PROCAMPO cadaster | 450 | Consulting services | IPI | 2/II |
| Incorporating the PROCEDE database | 250 | Consulting services | IPI | 2/II |
| Satellite images and computer equipment | 1,500 | Procurement of goods and services | IB | 2/II |
| SUBCOMPONENT 2.2: RESTRUCTURING PROGRAM | | | | |
| Assessment of PROCAMPO 's environmental impacts | 350 | Consulting services | IPI | 1/IV |
| Design of sustainable production restructuring program | 250 | Consulting services | IPI | 2/II |
| SUBCOMPONENT 2.3: REVIEW OF OPERATING APPROACH OPTIONS PROCAMPO | 100 | Consulting services | LS | 2/II |
| SUBCOMPONENT 2.4: IDENTIFICATION OF USES OF SUPPORT PAYMENTS | 100 | Consulting services | LS | 2/I |
| TOTAL | 3,000 | | | |
| IB = International bidding LB = Local bidding IPI = International invitation to submit CVs or proposals IPN = Local invitation to submit CVs or proposals LS = Local shopping | | | | |

**MEXICO. LOAN ____/OC-ME TO "NACIONAL FINANCIERA, S.N.C."
(Project to Support Small Farmers through PROCAMPO)**

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 "Nacional Financiera, S.N.C.", as Borrower, and the "Estados Unidos Mexicanos", as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of a project to support small farmers through PROCAMPO. Such financing will be for the amount of up to US\$500,000,000, which are part of 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.