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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Sixty-Ninth Session

Rome, 3-4 May 2000

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

NACIONAL FINANCIERA

GUARANTEED BY THE

UNITED MEXICAN STATES

FOR THE

RURAL DEVELOPMENT PROJECT FOR RUBBER-PRODUCING REGIONS OF MEXICO

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CURRENCY EQUIVALENTS

Currency Unit	=	Mexican Nuevo Peso (MXN)
USD 1.00	=	MXN 9.20
MXN 1.00	=	USD 0.11

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m^2)	=	10.76 square feet (ft^2)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

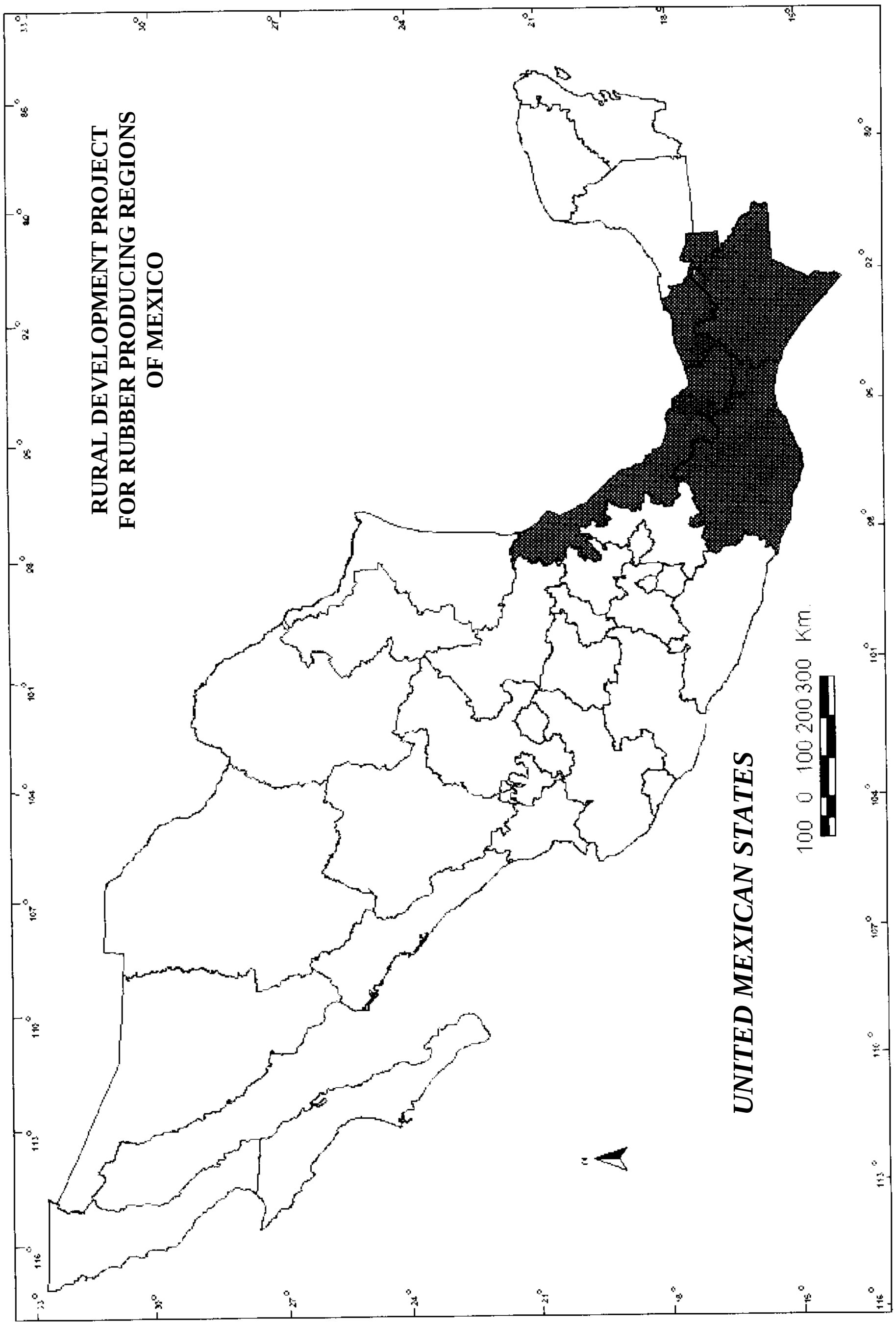
M&E	Monitoring and evaluation
NAFIN	Nacional Financera
NGOs	Non-governmental organizations
NRP	SAGAR/SSDR's National Rubber Programme
PMU	Project Management Unit
SAGAR	Secretaría de Agricultura, Ganadería y Desarrollo Rural (Secretariat of Agriculture, Livestock and Rural Development)
SSDR	Subsecretaría de Desarrollo Rural (Under-Secretariat of Rural Development of SAGAR)
UNOPS	United Nations Office for Project Services

UNITED MEXICAN STATES

Fiscal Year

1 January - 31 December

MAP OF THE PROJECT AREA



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UNITED MEXICAN STATES

RURAL DEVELOPMENT PROJECT FOR RUBBER-PRODUCING REGIONS OF MEXICO

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Nacional Financiera (NAFIN)
GUARANTOR:	United Mexican States
EXECUTING AGENCY:	Secretariat for Agriculture, Livestock and Rural Development (SAGAR)
TOTAL PROJECT COST:	USD 55.0 million
AMOUNT OF IFAD LOAN:	SDR 18.6 million (equivalent to approximately USD 25.0 million)
TERMS OF IFAD LOAN:	18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum, as determined by the Fund annually
COFINANCIERS:	None
CONTRIBUTION OF THE BORROWER:	USD 25.0 million
CONTRIBUTION OF BENEFICIARIES:	USD 5.0 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)

PROJECT BRIEF

Who are the beneficiaries? Out of a total of 96 million inhabitants, Mexico has a rural population of 21 million people. By 1997 there were 2.5 million rural households living under extreme poverty, affecting 60% of the rural population. The IFAD target group for rural poverty alleviation strategies in Mexico consists of approximately 2 million rural families, comprising small and landless men and women farmers, who are members of *ejidos* (a legal form of communal land ownership), indigenous communities or independent producers. Sixty-five per cent of them are of indigenous origins. In the project area, total of 158 479 families are devoted to rubber and other agricultural and livestock-producing activities in the states of Chiapas, Oaxaca, Tabasco and Veracruz. Their income is below the poverty line and they are settled under the *ejido* type of land ownership.

Why are they poor? There are two major causes of poverty in rural Mexico: structural and transitional. Families affected by structural poverty are primarily of indigenous origins, generally located in semi-arid marginal areas. Their income is derived from the traditional rainfed cultivation of the *milpa* and very small livestock-raising, primarily for self-consumption; it is complemented by off-farm salaried labour. Poverty arises from no or a very low educational level, lack of productive skills and resources, a low level of capitalization and a lack of access to production support and financial services. Households affected by transitional poverty include those small and landless men and women farmers that are particularly vulnerable to external macroeconomic, social and political instability. Their on and off-farm income is affected by cyclic national economic crises, structural reform processes and the reduction in government support services. Because of their indigenous extraction, most of project beneficiaries belong to the structural rural poor of Mexico.

What will the project do for them? Lack of capitalization is an outstanding characteristic of the rural poor. Thus, permanent crops provide one of the entry points for stimulating and consolidating permanent on-farm or long-term investments. Rubber plantations clearly fulfil the role of a capitalization crop. Its advantages include daily production of latex as a permanent source of cash; a 30-year period of sustained production; the capacity to combine and intercrop with other annual and permanent crops and animal production; and a general, positive regional effect on the environment. The project is oriented to improving the productive and managerial capacities of the local human resources in the rubber-producing regions. It will also increase agricultural income through better productive transformation-marketing links of the small farmer’s product, rubber, with existing, albeit, imperfect relationships with national industrial markets. Project strategy is consistent with the rationale of local peasant farming systems which are based on a combination of rubber with other annual and perennials crop and livestock production: these are risk-reduction alternatives in the case of seasonal declining prices and/or demand. The project will provide market and operational links with local and international rubber industries. International tire industries located in Mexico are defining their participation in project activities, considering the financial support of technical and managerial assistance to small rubber farmers.

How will beneficiaries participate in the project? The strategy of the project provides for the participation of beneficiaries in councils at the national, state, municipal and local levels. It will strengthen farmer organizations to ensure sustainability and empower groups to trigger the identification and evaluation of extension-service providers, and the monitoring and evaluation of project activities and impact.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO NACIONAL FINANCIERA GUARANTEED BY THE UNITED MEXICAN STATES FOR THE RURAL DEVELOPMENT PROJECT FOR RUBBER-PRODUCING REGIONS OF MEXICO

I submit the following Report and Recommendation on a proposed loan to Nacional Financiera for SDR 18.6 million (equivalent to approximately USD 25.0 million) on ordinary terms to help finance the Rural Development Project for Rubber-Producing Regions of Mexico. The loan, guaranteed by the United Mexican States, will have a term of 18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY[1]

A. The Economy and Agricultural Sector

1. With 1.96 million km^2 of territorial land, Mexico is the third largest country in Latin America, after Brazil and Argentina. It comprises the region's second largest population, after Brazil, with 96 million inhabitants in 1998. The rural population was estimated at 21 million inhabitants, accounting for 22% of the country total. Mexico's indigenous population represents 11% of the country total, with 70% of them living in rural areas.

2. Current economic developments in Mexico are centred on the financial crisis that unfolded in 1994. In early 1995, the Government implemented an economic programme oriented towards stabilizing the economy, restoring international confidence and creating conditions for sustainable economic growth. It included a floating exchange rate, a substantial tightening of monetary and fiscal policies, wage restraint, steps to deal with the problems of the banking system and the initiation of further structural reforms. Since the adoption of the programme, Mexico has progressed substantially on adjustment. Compared with a deficit of USD 18.5 billion in 1994, it achieved a trade surplus of USD 7.4 billion in 1995, USD 6.5 billion in 1996 and USD 624 million in 1997. Fueled by the large depreciation of the peso (close to 50%), exports rose 31% in 1995, while imports declined by 8.5%. Annual inflation was reduced from a peak of 35.0% in 1995, to 15.3% by the end of 1998. GDP fell 6.2% by 1995, with domestic investment dropping 30%. By 1996 and 1997, however, the GDP grew at annual rates of 5.2 and 7.0%, respectively. Industrial production rose by 21% and open unemployment in the formal sector dropped from a peak of 7.6% in 1995 to 5.5% in December 1997. There are increasing signs that the recession has bottomed out and that recovery is underway.

3. In spite of its geographical size, Mexico is not a country well-endowed for agricultural production. From a total area close to 196 million ha, only 10% or 19 million ha have agricultural potential, with deserts covering close to half the territory. The area under irrigation comprises

[1] See Appendix I for additional information.

6 million ha, with an additional 2 million ha that has a potential for irrigation. Agricultural sector productivity is below the national average, with 8% of the GDP generated by 20% of the national, economically active population.

4. From 1989 to 1998, the growth of the gross agricultural product trailed behind GDP (the clear exception was 1995). By 1997, annual and perennial crops furnished 66% of the value of agricultural production, livestock 26% and forestry and fisheries the remainder. The low and uneven evolution of the agricultural sector is reflected in the pervasive incidence of rural poverty. During the last decade, the annual average rural income was close to 30% of urban-generated income.

5. The Mexican Revolution of the beginning of the last century completely transformed land-tenure patterns in the country, evolving from extensive individual properties to small and medium-size individual farms, to primarily communal and *ejidal* landholdings. Close to half of Mexico's agricultural land (100 million ha) is owned by 26 000 *ejido* organizations that comprise 2.9 million *ejidatarios*. By 1990, laws related to *ejido* land ownership were liberalized, freeing the selling or renting of land, and allowing the smallest farmers to sell and/or rent out and engage in other income-generating activities. Furthermore, it gave *ejido* members greater flexibility in participating in off-farm activities and migration without the threat of losing land rights.

6. Mexico's crop production structure is highly oriented towards traditional crops. In 1998, 60% of total agricultural land (118 million ha) was devoted to basic grains. Of those, corn and beans were planted over 8.5 and 2.3 million of ha, respectively. Other grains (wheat, rice, barley and sorghum) and oil-producing crops (cotton, sesame, soybeans, etc.) comprised 15% of the cropland. Mexico continues to be a net importer of agricultural products, buying about 20% of the country's main staple food, corn, from abroad.

B. Lessons Learned from Previous IFAD Experience

7. IFAD has approved four projects in Mexico, with loans totalling USD 87.4 million. Projects have been located in the semi-arid regions of the South-Pacific and Central regions, as well as in the sub-humid area of the Yucatan Peninsula. Ongoing projects are oriented towards strengthening local participatory and autonomous organizations, institution-building, management of water and natural resources, targeting rural women's needs and improving income opportunities. Ongoing projects are under the Secretariat of Social Development umbrella, with the Ixtlera project implemented by the National Commission for Arid Zones, and two projects inflected towards indigenous communities (Puebla and Yucatan). These are implemented by the National Indigenous Institute.

8. The principal lessons from IFAD projects include the following: (i) interventions should define a simple and clear institutional frame where possible, at the federal and local levels, creating a space for the participation of base organizations; (ii) definition and agreement with the Government on counterpart allocations and the project flow-of-funds schemes; (iii) all IFAD projects were severely limited in implementing rural credit activities oriented to peasant economic activities; as an alternative, implementation of communal, social, investment and productive funds, with participatory mechanisms should be included; (iv) pre-terminal evaluation of the Ixtlera project highlighted a significant improvement in productive impact and income when participative mechanisms allowed beneficiaries to select types of investments and activities; and (v) IFAD projects should support decentralization efforts through its operational scheme and systematic training of local government officials and technical staff.

C. IFAD's Strategy for Collaboration with Mexico

9. Operations and experiences in Mexico over the past decade confirm the general conclusions and proposed thrusts of IFAD's country strategy. Present strategy will strengthen the empowerment of base organizations as an initial step to income increments through gains in agricultural production and market linkages.

10. IFAD's strategy will strengthen demand-led participative methodologies in rural and agricultural development. It will stimulate and promote coordinated actions between the Secretariat of Agriculture, Livestock and Rural Development (SAGAR) and the agricultural production/rural development-oriented programmes of the Under-Secretariat of Rural Development of SAGAR (SSDR) with other government agencies involved in rural poverty alleviation. Finally, IFAD's country strategy will stimulate private-sector participation in the provision of rural development services, such as agricultural extension, training and marketing services, and be a strong link between peasant production and markets.

11. Major strategic thrusts will take into consideration gender concerns and issues that will be articulated and implemented within the mainstream of rural development policies and project activities. Issues of importance for rural women are: (i) supporting improvements in the role of rural women, participation and decision-making capacities within the *ejido*, indigenous communities and small farmer organizations, and in the Government's local rural development programmes; (ii) strengthening gender balance assistance and training programmes; (iii) including domestic time-saving works for women in social investment funds; and (iv) including small-scale, agro-processing, handicraft production and trading/marketing within training, extension and credit programmes.

PART II - THE PROJECT

A. Project Area and Target Group

12. The project area is located in the south-east region of Mexico, under the climatic influence of the Atlantic Ocean and the Caribbean Sea (see project area map). It comprises 46 municipalities located in the states of Chiapas (12) Oaxaca (14), Tabasco (6), and Veracruz (14), in which small farmers and indigenous communities cultivate rubber (*hevea brasiliensis*) within traditional farming systems. The area comprises flat lands, hilly and mountainous terrain in the states of Oaxaca and Chiapas, and plains and lowland valleys in Veracruz and Tabasco.

13. The project area is located over the Isthmus of Tehuantepec, a particularly important ecological and geographical zone where the bio-diversity of the Northern and the Southern hemisphere converge and interact. In this area, plant, animal and insect diversity overlap, combining all the natural biological richness of the American continent. It is estimated that there are over 1 000 plant species, 129 mammals and 272 bird species. Due to its geographically transitional location, unique and endemic native flora and fauna are located in the remnants of the original vegetation.

14. Rubber plantations are an ecologically sustainable option for the region. Current legislation forbids rubber plantation in newly cleared forest areas: plantation is allowed only in former crop or pasture areas with adequate soil and topographic conditions. Furthermore, mature rubber plantations provide a forest structure that contributes to preventing further soil degradation: they enhance nutrient cycling and water harvest, and the recovery of natural plant and animal diversity. The expansion of rubber plantations could also help in the Global Carbon Sequestration Initiative. Currently, there is limited information on carbon sequestration by rubber plantations in Mexico, but research on the topic will be supported by the project and SAGAR.

15. Land uses in the project area include annual and perennials crops and forage areas for hair sheep and dual-purpose cattle. Corn and beans present the largest planted area with 2.2 and 0.2 million ha oriented for family consumption and markets. Coffee has the largest planted area among perennial crops with 563 000 ha, followed by sugar cane with 334 000 ha. The SAGAR/SSDR's National Rubber Programme (NRP) estimated that the rubber plantations included 18 000 ha in their programme total. Rubber industrial and peasant plantations not supported by the NRP represent an additional 2 000 ha.

16. The project's rural population is estimated at 7.6 million inhabitants, comprising 1.3 million families. The incidence of poverty varies in the rural areas of the four states, affecting 73% of the rural population of Oaxaca, 71% in Chiapas, 60% in Veracruz and 56% in Tabasco. A total of 900 000 families live in poverty. The rural poverty line has been estimated at a per capita daily income of MXN 11.25 (USD 1.18). In the 46 municipalities that comprise the project area, there are a total of 156 000 families living in poverty.

17. Reflecting the characteristics of Mexico rural poverty, poverty and indigenous populations occupy the same geographical spaces in the project area. Thus, Chiapas, Guerrero and Oaxaca, states with the largest incidence of rural poverty, are at the same time those with the largest indigenous populations. The project area comprises over 100 000 families of indigenous extraction, with a large majority located in Chiapas and Oaxaca. Local ethnic groups include the Chinantecos, Zoques, Mixes, Lacandones and Zapotecas. Census information indicates that 80% of indigenous families live under extreme poverty, with less than two minimum salaries as family income. A total of 67% of indigenous families are located in rural areas and small towns of less than 2 500 inhabitants, aggravating their limited income with a lack of basic education and sanitation services.

18. The project target group is composed of men and women who are small poor farmers. They are located in rubber-producing agro-ecological areas, with a family income below the poverty line of two minimum salaries per capita/day (MXN 11.25 or USD 1.18). In the project area, a total of 158 479 families devoted to rubber and other agricultural and livestock producing activities (with family income below the poverty line) are settled under *ejido* land ownership, with at least 65% of families of indigenous extraction. Women head 14% of these households, with the total responsibility for agricultural and livestock-production activities. The project target group and beneficiaries were estimated at 39 094 and 20 000 families, respectively. The distribution of beneficiaries by state is as follows: Chiapas 22.50%, Oaxaca 33.75%, Tabasco 12.50% and Veracruz 31.25% (Table 1).

TABLE 1: TARGET GROUP AND PROJECT BENEFICIARIES

(Number of families)

State	Rural Families Total State	Poor Rural Families Total State	Poor Rural Families in Project Area	Target Group	Project Beneficiaries
Chiapas	411 058	294 729	40 525	9 118	4 650
Oaxaca	326 220	236 835	36 144	12 198	6 300
Tabasco	134 889	76 077	37 869	4 733	2 400
Veracruz	487 137	292 795	41 747	13 045	6 650
Total	**1 359 304**	**900 436**	**156 285**	**39 094**	**20 000**

19. **Gender Situation**. In the project area, as in the rest of rural Mexico, migration of men to urban areas and out of the country has led to the growing trend of women-headed rural households. In poor rural areas, as is the case in the state of Oaxaca, the migration of men has caused the largest proportion of women-headed households of the country, comprising 19% of the rural families. In the project area, women head at least 14% of rural households. Data from the National Dynamic Demographic Survey indicate that the average size of Mexico's rural families reaches 5.6 members.

20. In the rural areas of Mexico, prejudice and discrimination against women still prevail, despite favourable land tenure, social security and equal opportunities legislation enacted few years ago. A prevalent and strong form of *machismo* is still common in rural areas. Consequently, women-headed households are among the poorest due to restricted production and labour opportunities.

B. Objectives and Scope

21. The project's general strategy and rationale is framed within SAGAR/SSDR's current policies and priorities for Mexico's rural development and poverty-alleviation programmes, as well as IFAD's country strategy and operational guidelines. Thus, the project's general approach is oriented to improving the productive and managerial capacities of local human resources, as well as increasing agricultural income through better productive transformation-marketing links of the small farmer's product, rubber, with existing, albeit, imperfect relationships with national industrial markets. The proposed strategy is consistent with the rationale of local peasant farming systems, which are based on a combination of rubber with other annual and perennials crop and livestock production, as risk reduction alternatives in the case of seasonal declining prices and/or demand. The project will provide market and operational links with local and international rubber industries. International tire industries located in Mexico are defining their participation in project activities, considering the financial support of technical and managerial assistance to small farmers.

22. Current rubber production levels in Mexico cover only 10% of national industrial sector requirements. Thus, the industrial and private sector views with interest the expansion of local production as foreign exchange savings and reduction of transportation costs and import taxes. To date, poor peasant farmers of the project area produce 85% of the country's rubber consumption. Local prices are levelled with international markets, and local production presents comparable quality with imported rubber. Thus, current and medium-term market opportunities are clearly favourable[2] for peasant produced rubber, with a gradual strengthening of producers and industries links.

23. The project's operational design is based on: (i) systematic education and training of beneficiaries in production, organization and marketing matters; (ii) privatization of support services through competitive selection of private organizations; (iii) systematic training and quality control of contracted service organizations; (iv) demand-led and participatory extension and training programmes; and (v) close coordination with state/regional rural development programmes. The operational structure of the project is designed to create and promote balanced gender participation and access to services and components. Procedures will ensure that rural women participate at all levels of productive and organizational activities.

24. The overall project goal is the sustainable improvement of economic and social conditions of poor small farmers from *ejidos* and indigenous communities of the rubber-producing regions of the states of Chiapas, Oaxaca, Tabasco and Veracruz. The project's general objective is to improve the productive and social management capabilities of beneficiary families, achieving efficient links to local/national markets and to manage productive transformation and marketing activities in agriculture efficiently and sustainably.

25. Specific objectives include: (i) developing and strengthening the management and organizational capabilities of beneficiary families, and doing the same for local, private, technical demand-led support services with a whole-farm, income, market and natural resource conservation-oriented approach to rubber and small farm system development; (ii) developing financial support mechanisms to provide small farmers with capital resources for rubber and related crops/livestock development; (iii) elaborating and reinforcing links and coordinating mechanisms between organized beneficiaries and local and national rubber-processing industries; and (iv) strengthening local rural development mechanisms, integrating beneficiaries' civil, economic and social organizations with federal, state and municipal governments and the private sector.

[2] See Appendix V, Perspectives for the World and Mexican Rubber Market.

C. Components

26. Project execution will entail the implementation of two components: (i) human resource development; and (ii) production-processing-marketing development. A project management unit (PMU) will also be established, which will include a monitoring and evaluation (M&E) unit.

Human Resource Development

27. The human resource development component's general objective is to develop and strengthen the beneficiaries' productive, entrepreneurial and organizational skills, and their capacity for participating in local rural development actions. Component activities will be implemented through contracted government and private institutions, including quality control of education and training programmes. Activities included in this component are the following:

(i) **Beneficiaries' basic education programme.** Implemented through an agreement between SAGAR and the Secretariat of Public Education, the basic adult education programme – with the participation of municipal governments – will be a one-year programme, comprising reading, writing and basic mathematics.

(ii) **Training of beneficiaries for entrepreneurial and productive/labour skills.** Through participative training methodologies, sequential training sessions in entrepreneurial and productive/labour skills will be established. Training will include participative rural development methodologies to enhance beneficiaries' participation in local programmes.

(iii) **Training of trainers.** The field staff of contracted development organizations (government, private, and local) will be trained by second-level institutions, as will state personnel. Two general training courses are planned per year to the newly incorporated field staff of contracted institutions.

(iv) **Gender sensibilization and training.** This will be conducted at the levels of men and women beneficiaries, contracted development organizations, personnel and PMU staff. Gender training will be conducted by a gender-specialized institution that will undertake a systematic training and quality-control service on gender aspects. For participating organizations field staff, intensive gender oriented training will be conducted for social extensionists and trainers, who will later be responsible for the sensibilization and gender training of beneficiaries.

(v) **Support and consolidation of beneficiaries' economic and civil organizations.** The component will stimulate the creation and consolidation of beneficiaries' economically oriented rural enterprises and civil organizations. It will implement democratic mechanisms to elect beneficiaries' representatives to project committees. Beneficiaries' organizations and groups will be formed, based on common economic activities of families within small geographical areas, and could later evolve into production cooperatives and/or small formal enterprises.

Production-Processing-Marketing Development

28. The objective of the component is the sustainable increment of beneficiary income through improvements in agricultural production, transformation and marketing. It also aims at improving production and productivity at the farming systems' level of rubber plantations and complementary and intercalated cash, subsistence crops and livestock. The component will strengthen the production-transformation-marketing links of rubber producers through an innovative, efficient and participative demand-led extension service. It will also strengthen systematic relations with rubber industries. The component will operate through contracted local private-service providers. Specific activities include:

(i) **Technology generation and validation.** The project will contract the services of national/local universities to provide systematic information on technologies for rubber, selected, marketable agricultural products, while improving current subsistence crops production. Technologies will be tested and validated with beneficiaries' cooperation and participation. In addition, research on carbon sequestration by rubber plantations will be supported with project financial resources.

(ii) **Extension and technical assistance services.** The project will promote and strengthen the participation of local private organizations to provide technical assistance services to project beneficiaries. Service providers include private organizations owned and operated by former SAGAR/National Training and Extension System extension agents and private and peasant rubber-processing enterprises. Technical support will be oriented towards rubber production as a primary target; the improvement of local farming systems is a close second objective. State and regional operative units, in association with beneficiaries groups, will be responsible for the monitoring of contracted service providers.

(iii) **Processing-marketing, small agro-industries and small rural enterprise support.** Operative actions will be oriented to linking beneficiaries with market opportunities. This activity encompasses the training of beneficiaries for on-farm processing of rubber, market-oriented production activities and the financial support for studies and local diagnosis to identify current and potential market opportunities for rubber and other agricultural and microenterprise products. It will promote the formation of beneficiaries economic groups for production and marketing purposes, providing timely market information.

(iv) **Productive investment fund.** This fund will include financial support resources from SAGAR's rubber, crop and livestock development subsidies currently operating through the *Alianza para el Campo* programme. These resources will be used to support crop and livestock productive investments, including rubber plants and the plantation maintenance costs for three years, pastures and fencing, and livestock. Beneficiaries will provide counterpart contributions in labour, local materials and cash.

Project Management and Monitoring and Evaluation

29. The functions of the PMU will be executed by NRP, with the support of SAGAR/SSDR programmes involved in the project. The PMU will be responsible for overall management and supervision of day-to-day operations. It will be responsible for executing project activities; and will have the roles of planning, technical and methodological support, administration of human and financial resources and M&E. The PMU will be located in Mexico City and will establish operative units in each of the participating states.

D. Costs and Financing

30. Total project costs were estimated at USD 55.0 million. The cost structure by component is presented in Table 2. The disbursement period is estimated at eight years, which is divided into two periods of four years each, with a SAGAR/SSDR-IFAD project review by the end of year three. Base costs for the human resource development component is USD 5.5 million (11%), the production-processing-marketing development component is USD 39.9 million (77%) and the PMU, including M&E costs, totals of USD 6.5 million (12%) (see Table 2). The proposed project financial structure, which is presented in Table 3, follows: IFAD loan of USD 25.0 million, representing 45% of total project costs; Government counterpart contribution of USD 25.0 million (45%); and beneficiaries in-kind contribution of USD 5.0 million (10%).

TABLE 2: SUMMARY OF PROJECT COSTS[a]
(USD '000)

Components	Local	Foreign	Total	% Foreign Exchange	% Total Base Cost
A. Human resource development					
1. Basic education programme	427	22	449	5	1
2. Training of trainers	1 611	85	1 696	5	3
3. Gender training	1 340	71	1 411	5	3
4. Training of beneficiaries	579	30	610	5	1
5. Strengthening of organizations	1 259	66	1 325	5	3
Subtotal human resource development	**5 216**	**275**	**5 490**	**5**	**11**
B. Production-processing-marketing development					
1. Technology generation and validation	1 545	81	1 626	5	3
2. Extension and technical assistance services	12 142	639	12 781	5	25
3. Marketing and managerial support	1 349	71	1 420	5	3
4. Productive investment fund					
Production support fund	21 047	-	21 047	-	41
Risk capital fund	3 000	-	3 000	-	6
Subtotal productive investment fund	**24 047**	**-**	**24 047**	**-**	**46**
Subtotal production-processing-marketing development	**39 083**	**791**	**39 874**	**2**	**77**
C. Project management and M&E					
1. Project central management unit	1 459	113	1 572	7	3
2. State operative units	3 714	318	4 032	8	8
3. M&E	815	45	860	5	2
Subtotal project management and M&E	**5 988**	**476**	**6 464**	**7**	**12**
Total base cost	**50 286**	**1 542**	**51 828**	**3**	**100**
Physical contingencies	1 458	18	1 476	1	3
Price contingencies	1 601	95	1 696	6	3
Total project cost	**53 346**	**1 655**	**55 000**	**3**	**106**

[a] Discrepancies in totals are due to rounding.

TABLE 3: FINANCING PLAN [a]
(USD '000)

Components	Government		IFAD		Beneficiaries		Total		Foreign Exchange	Local (Excluding Taxes)	Duties and Taxes
	Total	%	Total	%	Total	%	Total	%			
A. Human resource development											
1. Basic education programme	75	15	425	85	--	--	500	1	25	400	75
2. Training of trainers	272	15	1 542	85	--	--	1 814	3	91	1 451	272
3. Gender training	233	15	1 319	85	--	--	1 552	3	78	1 242	233
4. Training of beneficiaries	103	15	583	85	--	--	686	1	34	549	103
5. Strengthening of organizations	225	15	1 274	85	--	--	1 499	3	75	1 199	225
Subtotal human resource development	**908**	**15**	**5 143**	**85**	**--**	**--**	**6 051**	**11**	**303**	**4 841**	**908**
B. Production-processing marketing development											
1. Technology generation and validation	270	15	1 530	85	--	--	1 800	3	90	1 440	270
2. Extension and technical assist. services	437	3	10 864	85	1 480	12	12 781	23	639	10 225	1 917
3. Marketing and managerial support	102	6	1 353	85	137	9	1 592	3	80	1 274	239
4. Productive investment fund											
. Production support fund	19 346	88	--	--	2 753	13	22 099	40	--	22 099	--
Risk capital fund	--	--	2 520	80	630	20	3 150	6	--	3 150	--
Subtotal productive investment fund	**19 346**	**77**	**2 520**	**10**	**3 383**	**13**	**25 249**	**46**	**--**	**25 249**	**--**
Subtotal production-processing marketing Development	**20 155**	**49**	**16 267**	**39**	**5 000**	**12**	**41 422**	**75**	**809**	**38 188**	**2 426**
C. Project management and M&E											
1. Project central management unit	861	48	943	52	--	--	1 804	3	125	1 420	260
2. State operative units	2 704	57	2 041	43	--	--	4 744	9	367	3 665	712
3. M&E	372	38	606	62	--	--	978	2	51	781	147
Subtotal project management and M&E	**3 937**	**52**	**3 590**	**48**	**--**	**--**	**7 527**	**14**	**544**	**5 866**	**1 118**
Total disbursement	**25 000**	**45**	**25 000**	**45**	**5 000**	**10**	**55 000**	**100**	**1 655**	**48 894**	**4 452**

[a] Discrepancies in totals are due to rounding up of figures.

E. Procurement, Disbursement, Accounts and Audit

31. **Procurement.** Procurement of goods and services financed by the IFAD loan will be made in accordance with the Fund’s procurement guidelines and the procurement clauses of the loan agreement. Private rural development agencies and technical assistance will be contracted in line with the procedures of the cooperating institution. All contracts and procurement carried out by the beneficiaries will be undertaken in accordance with operational procedures promulgated by the Government of Mexico.

32. **Disbursements.** All disbursements will be made against statements of expenditure (SOEs). Payment to local contractors involved in development activities and technical assistance will require detailed documentation. A special account in United States dollars, with an initial deposit of USD 2.5 million, will be opened and maintained in the Bank of Mexico. Nacional Financiera (NAFIN) will act as the Government’s financial agent. The SAGAR/SSDR will submit documentation of project expenses to NAFIN and the cooperating institution (UNOPS), which will verify eligible expenses and request disbursements to IFAD.

33. **Accounts, audits and reports.** Immediately upon loan effectiveness and prior to initial deposit in the Special Account, the project will set up its integrated accounting and internal control systems. These will be installed by a specialized accounting firm. Accounting will integrate the IFAD and UNOPS component categories and the Government’s expense classification procedures. An audit firm, selected in accordance with procedures and criteria agreed by IFAD, will undertake annual financial and management audits. Contracted agencies will keep separate accounts for project-related expenditures. The audit report for all project expenditures, including separate opinion on the SOEs and the Special Account, will be submitted to IFAD and UNOPS no later than six months after the closing of each project's financial year. The project’s annual operative and financial report will be prepared by the PMU and presented to NAFIN, which will submit it annually to IFAD three months after the end of each fiscal year. By agreement between NAFIN, SAGAR, the PMU and IFAD, mid-year progress reports will be elaborated and presented to IFAD and UNOPS.

F. Organization and Management

34. The SAGAR will be the institution responsible for project implementation through SSDR. The project will be located within the NRP. While the NRP will continue its development and promotion activities related to rubber production in predominantly medium-size operations, the project will have the responsibility for developing rubber-farming systems for poor small farmers, *ejidos* and indigenous communities.

35. Project activities in the four participating states will be under the responsibility of the state’s Rubber Development Programme, which is in turn supervised by each state’s Rubber Development Committee. State committees will consolidate regional plans into annual working plans and supervise project activities. In each rubber-producing region, a regional committee will be established with the participation of project beneficiaries, state representatives, mayors of participating municipalities, the private sector and peasant-operated rubber industries, local non-governmental organizations (NGOs) and representatives of rubber producers’ organizations.

36. Regional committees will be responsible for the preparation and supervision of the project’s annual regional working plan. In order to provide technical backstopping, a project regional supervisor will be located in each regional committee and will be responsible for monitoring contracted private training and technical support organizations, and for coordinating with other regional public and private institutions and programmes.

37. **Gender considerations.** A PMU project specialist will implement and monitor gender-related experiences and recommendations raised and analysed in IFAD's regional seminars. In all opportunities created by the project, gender parity will be observed. Among contracted private training and technical support organizations, at least 20% of social and extension field staff will be women. A specialized institution will undertake a training programme in gender-related matters for the project and contracted private support-service providers.

G. Economic Justification

38. **Beneficiaries.** The project will strengthen the sustainable development of 46 rural municipalities in the states of Chiapas, Oaxaca, Tabasco and Veracruz located in south-east Mexico. These areas will have trained leaders that are actively involved in local development efforts, utilizing improved rubber and non-rubber production systems technologies, and having strong links to local and national industries and markets.

39. It is estimated that at least 20 000 families, encompassing 13 000 of indigenous origin, will directly benefit from agricultural technical assistance programmes and agricultural productive investments. At least 2 800 will be women-heads of households. Additionally, 2 600 smallholders' wives that are responsible for the family agricultural production processes will benefit from productive economic activities; they will be supported by training, extension, on-farm investments and marketing support. A total of 3 000 families will benefit from technical assistance, productive investments and marketing in non-rubber producing farming systems. By project end, at least 3 000 men and women beneficiaries will have completed a year-long basic education programme, developing reading, writing and mathematical skills.

40. **Benefits.** A total of 17 000 beneficiary families will have established a total of 34 000 ha in rubber plantations, with 60% of them under production. Rubber, permanent and annual crop on-farm management will improve the conservation of natural resources and the bio-diversity of the rubber-producing regions. A total of 1 500 agricultural and non-agricultural small rural enterprises will be established. Market and operational links will be set up between small rubber producers and local and international/private rubber industries located in Mexico.

41. **Gender impact**. All project actions will have a gender-balanced focus and approach. Gender training and sensitisation will stimulate and promote rural women self-esteem. The project will emphasize facilitating and enabling productive roles and activities for rural women , incorporating them into all project activities. Particular attention will be given to rubber and non-rubber centred agricultural production farming systems development. The project will also improve the, technical, financial and managerial capacity of women-operated small businesses and microenterprises. At least 2 400 rural women will benefit from the basic education programme. A total of 1 000 peasant leaders, 50 professionals from private-extension service, plus project and state government personnel will be trained in gender-oriented rural development methodologies.

42. **Small farmers' organizations.** The project will develop and strengthen existing and newly created rural organizations will participate in the planning, management and evaluation of productive project activities for the family; and strengthen their role in the regional development process. Formal economic-oriented legal entities will be created for agricultural and non-agricultural production, marketing, small rural industries and services. Beneficiaries will be linked and actively participate in regional rural development councils. At the end of the project, sustainable links will be developed between farmers' organizations and the rubber industry for production, quality control and marketing purposes.

43. **Economic and financial analysis[3].** The aggregated economic analyses for the project indicate an adequate economic rate of return (ERR) that is estimated at 24%, with a net present value of USD 95.8 million and a benefit/cost ratio of 1:1.20. The main assumptions were: (i) only incremental benefits were used, aside from extraneous benefits; (ii) a 20-year analysis period; and (iii) an 8% discount rate. Project results were submitted to sensitivity analysis to identify situations that could affect the ERR. The ERR calculated for the project is 24%. Should benefits decrease by 10%, the ERR would be 15%; if costs increase by 15%, the ERR would yield 10%. Delays in project implementation of one, two and three years would yield ERRs of 23%, 23% and 22%, respectively.

44. It should be remarked that rubber reference prices used for the project economic analyses are at their lowest point in the past ten years. The current fresh rubber price paid in Mexico to small farmers is at MXN 2.20/kg (USD 0.24/kg), compared with 1995 prices of MXN 3.50/kg (USD 0.38/kg). Thus, results are sensitive to reductions in benefits and increments in costs. However, a foreseeable increment of rubber prices in the near future, due to the rapid recovery of Asian economies, are sufficient to improve the project's current economic indicators[4].

H. Risks

45. Rural development and poverty alleviation for small poor farmers using a whole-farm agricultural production systems approach (based on rubber production) presents limited biological, productive, market and environmental risks. Project risks are associated with the Government's rural development policy changes and restrictions of institutional, administrative and financial nature that can occur during implementation.

46. A shift in rural development policies could affect the operational priority and financial resources currently allocated to the NRP. The creation of the SSDR in 1995 and its sustained priority within SAGAR programmes assure that during the present administration no changes in policies and/or financial priorities will occur.

47. Decentralization policies implemented by the Government require negotiations and consensus in federally financed programmes implemented by state governments in a process that is far from perfect. Further adjustments may be required. A fine-tuning process for the operational and financial relations of the federal and state governments will continue to improve, assured by the priority state and federal governments give to rubber development and NRP, respectively, as instruments for agricultural and rural development of rubber-producing regions. The priority of SAGAR's agricultural and rural development programmes, joined to Mexico's sustained economic recovery, will assure stable annual budgetary allocations in the Government's counterpart budgetary allocations.

I. Environmental Impact

48. The expansion of over 34 000 ha of rubber plantations will have a long-term positive impact on the project area. Reduction of soil erosion, better watershed management and restoration of bio-diversity are among the expected environmental benefits. Investments and actions made under the project's rubber plantation and complementary crops establishment proposed technologies will alleviate and recover some of the areas in danger of degradation. The project has been tentatively classified as Category B, based on the fact that potential impacts identified can be addressed through environmentally sensitive recommendations and interventions.

[3] See Appendix VI, Economic and Financial Analysis.
[4] See Appendix V, Perspectives for the World and Mexican Rubber Market.

J. Innovative Features

49. The project was designed with a participatory, demand-driven annual planning process of project and activities, and with a private-sector delivery of training, organizational and technical services. Innovations introduced in the project's design and operational scheme are related to the use of a permanent crop, rubber, as a long-term (30 years) capitalization vehicle for the assets of small farmers. Linking small farmers with private local and international rubber processing industries is an additional innovative feature. Another sector of innovations include bio-diversity conservation at the small farmers' farm-land level; important effects will be registered at the regional and state levels, coupled with the rational use of natural resources and financial support to carbon-sequestration research in rubber plantations.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

50. A guarantee agreement between the United Mexican States and IFAD and a loan agreement between Nacional Financiera and IFAD constitute the legal instruments for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan and guarantee agreements is attached as an annex.

51. Nacional Financiera is empowered under the laws of the United Mexican States to borrow from IFAD.

52. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

53. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

> RESOLVED: that the Fund, on the guarantee of the United Mexican States, shall make a loan to Nacional Financiera in various currencies in an amount equivalent to eighteen million six hundred thousand Special Drawing Rights (SDR 18 600 000) to mature on and prior to 1 August 2018 and to bear an interest rate equal to the reference interest rate per annum, as determined by the Fund annually and to be upon such other terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AND GUARANTEE AGREEMENTS

(Loan negotiations concluded on 7 April 2000)

1. **Availability of loan proceeds**. For the purpose of financing the execution of the project, NAFIN will make loan proceeds available to the Government of Mexico (hereinafter "the Government"), in a timely manner, in accordance with a fund-transfer agreement in form and substance acceptable to IFAD.

2. **Project financing**. During the project execution period, the Government will make available to SAGAR/SSDR the necessary funds for proper implementation of the project.

3. **Mid-term review**. NAFIN, SAGAR/SSDR, IFAD and the cooperating institution will undertake a joint review of project execution during the fourth year, pursuant to the terms of reference prepared by the PMU and agreed to by IFAD and the cooperating institution. Among other items, the review will examine the achievement of project objectives and the constraints and difficulties encountered, and propose any adjustments necessary in order to accomplish the objectives and eliminate such constraints and difficulties. NAFIN will ensure that the recommendations resulting from the review are implemented within a reasonable period and to the satisfaction of IFAD. It is understood and agreed that those recommendations may cause modifications to the loan documents.

4. **Operational Procedures**. The project will be implemented substantially in accordance with the operational procedures – to the extent that they are applicable to the project – of the programmes of *Alianza para el Campo*, published annually in the *Official Bulletin of the Federation*, which establish the norms and general procedures for the implementation of those programmes by state governments. The operational procedures will be applied, *inter alia*, particularly to preparation of annual work plans, operation of the productive investment fund and procurement and contracts executed by beneficiaries within the project framework.

5. **Equal access**. SAGAR/SSDR will ensure that equal access to project benefits is guaranteed to weaker and more marginal groups such as the landless, indigenous peoples, women and youth. Similarly, activities will be implemented that favour equal access to benefits for various communities, diverse families within the communities and individual members of family groups.

6. **Cooperation with other rural development projects**. NAFIN and SAGAR/SSDR will ensure that project activities will take place in a framework of cooperation and coordination with other projects and programmes sharing common objectives within the country and in Latin America – with a view to incorporating successful experiences and methodologies. This cooperative effort should be particularly intense among IFAD-financed projects.

7. **Gender focus**. SAGAR/SSDR will ensure that the project contributes to gradually reducing existing gender inequalities in its area of influence. To that end, NAFIN will make sure that, among others, the following activities and strategies are implemented:

(a) gender focus will be built into all project activities;

(b) training activities will include a gender sensitivity programme at the levels of the PMU, all project personnel, grass-roots organizations and the state offices concerned;

(c) the principle of gender equality will be adhered to in all project activities;

(d) every effort will be made to ensure that 15-20% of the extension agents in state offices and other, private organizations involved in training and technical assistance are women; and

(e) project components will benefit women producers.

8. **Environmental impact**. In order to realize its responsibility to employ adequate environmental practices within the project framework, and without limiting the general application of this responsibility, SAGAR/SSDR will ensure that:

(a) project parties adopt appropriate pest-control methods and, to this end, SAGAR/SSDR will ensure that pesticides procured under the project do not include any proscribed by the International Code of Conduct on the Distribution and Utilization of Pesticides of the Food and Agriculture Organization of the United Nations (FAO), as amended from time to time, or listed in Tables 1 (extremely hazardous) and 2 (highly hazardous) of the World Health Organization (WHO) Recommended Classification of Pesticides by Hazard and Guidelines to Classification, 1996-1997, as amended from time to time;

‘ (b) the project supports sound environmental practices such as biological controls, cultivation of leguminous ground cover, living fences and agroforestry techniques; and

(c) the project does not finance community microprojects that would have a negative impact on the environment.

9. **FIDAMERICA network.** SAGAR/SSDR will facilitate project access to the FIDAMERICA network, which links – via the Internet – all IFAD-financed projects in Latin America and the Caribbean.

10. **Conditions precedent to effectiveness**. Effectiveness of the loan agreement will be subject to fulfilment of the following conditions precedent:

(a) the loan agreement has been duly signed, and NAFIN’s signature and performance of its obligations thereunder have been duly authorized and ratified through all the institutional, administrative and governmental procedures necessary in its case;

(b) the guarantee agreement has been duly signed, and the Government’s signature and performance of its obligations thereunder have been duly authorized and ratified through all the institutional, administrative and governmental procedures necessary in its case;

(c) the fund-transfer agreement, in form and substance acceptable to IFAD, has been duly signed, and the signature of NAFIN and the Government and performance of their obligations thereunder have been duly authorized and ratified through all the institutional, administrative and governmental procedures necessary in this case; and

(d) NAFIN has presented IFAD with a favourable opinion, issued by the legal counsel of NAFIN and the Government, in form and substance acceptable to IFAD.

COUNTRY DATA

MEXICO

Land area (km^2 thousand) 1996 1/	**1 909**	**GNP per capita (USD) 1997 2/**	**3 700**
Total population (million) 1997 1/	**94.3**	**Average annual real rate of growth of GNP per capita, 1990-97 2/**	**0.2**
Population density (people per km^2) 1996 1/	**49**	**Average annual rate of inflation, 1990-97 2/**	**19.3**
Local currency	**Mexican Peso (MXN)**	**Exchange rate: USD 1 =**	**MXN 9.20**
Social Indicators		**Economic Indicators**	
Population (average annual population growth rate) 1980-97 1/	2.0	GDP (USD million) 1997 1/	402 963
Crude birth rate (per thousand people) 1997 1/	25	Average annual rate of growth of GDP 1/	
Crude death rate (per thousand people) 1997 1/	5	1980-90	0.7
Infant mortality rate (per thousand live births) 1997 1/	31	1990-97	2.2
Life expectancy at birth (years) 1997 1/	72		
		Sectoral distribution of GDP, 1997 1/	
Number of rural poor (million) (approximate) 1/	n.a.	% agriculture	5
Poor as % of total rural population 1/	n.a.	% industry	26
Total labour force (million) 1997 1/	38	% manufacturing	20
Female labour force as % of total, 1997 1/	32	% services	69
Education		Consumption, 1997 1/	
Primary school gross enrolment (% of relevant age group) 1996 1/	*115*	General government consumption (as % of GDP)	8
Adult literacy rate (% of total population) 1995 3/	90	Private consumption (as % of GDP)	65
		Gross domestic savings (as % of GDP)	26
Nutrition			
Daily calorie supply per capita, 1995 3/	3 116	**Balance of Payments (USD million)**	
Index of daily calorie supply per capita (industrial countries=100) 1995 3/	99	Merchandise exports, 1997 1/	109 890
Prevalence of child malnutrition (height for age % of children under 5) 1992-97 1/	n.a.	Merchandise imports, 1997 1/	111 847
Prevalence of child malnutrition (weight for age % of children under 5) 1992-97 1/	14	Balance of merchandise trade	-1 957
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 1990-97 1/	4.7	before official transfers, 1997 1/	-12 698
Physicians (per thousand people) 1990-97 1/	1.3	after official transfers, 1997 1/	-7 451
Percentage population without access to safe water 1990-96 3/	17	Foreign direct investment, 1997 1/	12 477
Percentage population without access to health services 1990-95 3/	7		
Percentage population without access to sanitation 1990-96 3/	28	**Government Finance**	
		Overall budget surplus/deficit (including grants) (as % of GDP) 1996 1/	-0.2
Agriculture and Food		Total expenditure (% of GDP) 1996 1/	15.5
Food imports as percentage of total merchandise imports 1997 1/	6	Total external debt (USD million) 1997 1/	149 690
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	538	Present value of debt (as % of GNP) 1997 1/	37
Food production index (1989-91=100) 1995-97 1/	120.6	Total debt service (% of exports of goods and services) 1997 1/	32.4
Land Use		Nominal lending rate of banks, 1997 1/	24.5
Arable land as % of land area, 1996 1/	13.2	Nominal deposit rate of banks, 1997 1/	14.7
Forest area (km^2 thousand) 1995 1/	554		
Forest area as % of total land area, 1995 1/	29.0		
Irrigated land as % of cropland, 1994-96 1/	23.1		

n.a. not available.
Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1999
2/ World Bank, *Atlas*, 1999
3/ UNDP, *Human Development Report*, 1998

PREVIOUS IFAD LOANS TO MEXICO

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/ Grant Amo unt	Disbursement (as % of approved amount)
Oaxaca Rural Development Project	IFAD	World Bank: IBRD	O	06 May 80	07 Sep 80	30 Jun 88	L - I - 36 - ME	SDR	17 450 000	79.2%
Development Project for Marginal Rural Communities in the Ixtlera Region	IFAD	UNOPS	O	03 Oct 90	18 Oct 91	31 Mar 01	L - I - 270 - ME	SDR	21 650 000	82.6%
Rural Development Project for the Indigenous Communities of the State of Puebla	IFAD	UNOPS	O	15 Apr 92	17 Jul 93	31 Dec 00	L - I - 303 - ME	SDR	18 250 000	60.0%
Rural Development Project of the Mayan Communities in the Yucatan Peninsula	IFAD	UNOPS	O	07 Dec 95	04 Nov 97	30 Jun 02	L - I - 405 - MX	SDR	6 950 00	22.6%

LOGICAL FRAMEWORK

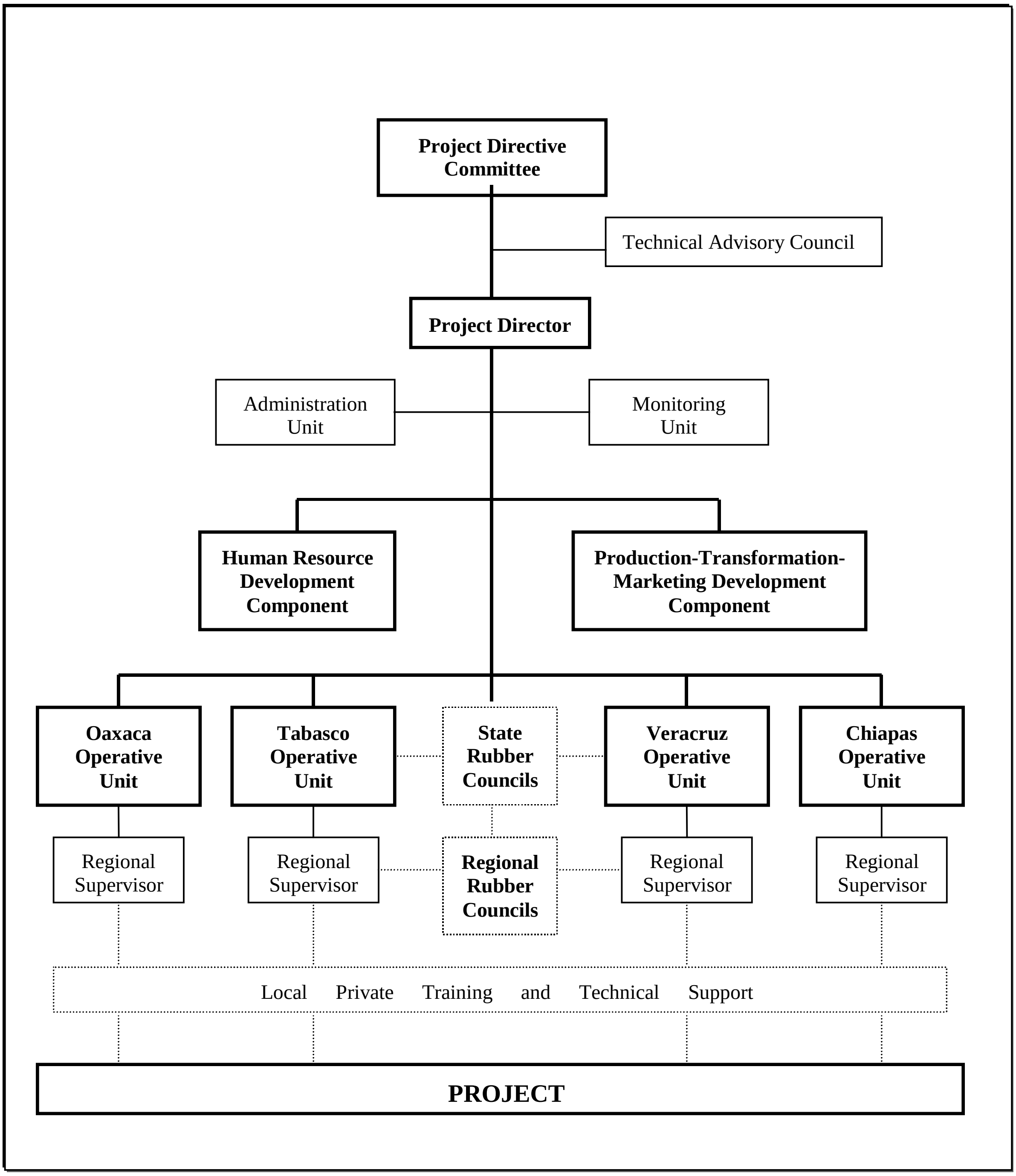
NARRATIVE SUMMARY	Gender-specific indicators	Means of Verification	Assumptions and External Risks
Development Objective Sustainable improvement of the rural poor's social and economic conditions in the production zones of rubber in the four states of Chiapas, Oaxaca, Tabasco and Veracruz.	- Increased monetary income (men/women) - Degree of capitalization of family farm enterprise or micro-enterprise (men-managed/women managed) - Rural employment created (i.e., seasonal), for women/men - Decrease in percentage of families headed by men/headed by women below the poverty line - Fewer unmet basic needs	- Mid-term, final and ex-post evaluations	
Project Objective Poor beneficiary families of the project with improved social and organizational management capabilities have build up profitable, competitive links to local/national markets and manage productive activities and transformation processes for rubber and associated products in an efficient and sustainable manner.	- Number of beneficiaries (men/women) with improved production and productivity of rubber - Improvement of the quality of processed rubber and the processing facilities - Degree of diversification of the production system - Number of grass-roots organizations for production, transformation and marketing built up or consolidated - Number of women-household heads and women-producers with increased production of rubber - Increased price margins negotiated by producer (men/women) - Increased microenterprises profits (men-managed/women-managed) - Percentage of beneficiaries (men/women) in new economic pursuits - Percentage of productive investment - Degree of management skills of beneficiary families (men/women-headed) and organizations - Degree in the social and economic development process of municipal territories - Number and amount of financing activities by third partners - Degree of power of negotiation with development agencies - Percentage of women in management positions of responsibility, beneficiary organizations and municipality organizations, development councils, unions or associations - Degree of power of negotiation of the rubber farmers organizations with the rubber industry	- Mid-term, final and ex-post evaluations - Participatory rural appraisal - Process documentation by the planning and monitoring unit - Specific studies	1. The Government of Mexico continues support to the production of rubber. 2. The Government continues the development strategy for the states and the municipalities 3. World market price of rubber allows further competitive of the rubber production

Outputs			
1. Management, organizational and technical capabilities of beneficiary families, farmers' organizations and rural development organizations are strengthened.	- Number of beneficiaries (men/women) assisted to built up production and commercial organizations - Number of beneficiaries (men/women) with reading and writing skills - Number of beneficiaries (men/women) trained in productive, farming-systems approach, entrepreneurial, organizational and management skills - Number of staff members (men/women) of the rural development organizations trained in management aspects - Number of development agents *despachos* and beneficiaries (men/women) trained in gender aspects - Degree of articulation of beneficiary groups in the regional committees - Degree of articulation on beneficiary groups made up of men in the regional committees - Degree of articulation of beneficiary women groups in the regional committees	- Information systems of the planning and monitoring unit - Database of the training programme and technical assistance	1. Community initiatives are not negatively interfered by political leaders or local authorities. 2. Political change does not negatively impact PMU 3. The State Government and the municipalities support project strategy 4. The distance between the areas of intervention (five states) has no negative effect on the efficient execution of the project activities. 5. Private-support agencies identify themselves with the project philosophy and development strategy.
2. A farming systems oriented extension service and a processing-marketing and rural enterprise support are providing environmentally suitable and tested technologies for the rubber production and interrelated production activities, reflecting the demand and potentiality of the poor families and their organizations.	- Number of producers (men/women) familiarized with new technical agricultural innovations for rubber production and marketable agricultural products - Number of rural enterprises created by men/women beneficiaries, supported and trained - Degree of knowledge of the messages spread by the extension or support services - Number, type and quality of the rural development services - Availability of information about technology and tested rubber production - Availability of market information for rubber and other agricultural and non agricultural production - Degree of integration of gender-related activities and socio-cultural issues within the services - Availability of instruments, materials and mechanisms referred to gender promotion for the rural communities and organizations	- Information systems of the planning and monitoring unit - Information and documentation by the extension and support services	

Outputs			
3. A productive investment fund, including a rubber-production support fund and a risk fund is operating.	- Number of ha of new rubber plantations or/and associated products with approved technologies on men-headed/women-headed farms - Number and type of productive investments - Number and type of complementary investment activities with the risk fund - Annual amount of funds disbursed versus programmed	- Reports of the national rubber - programme - Information systems of the planning and monitoring unit	
4. The relationship and coordination structures between the beneficiaries and their organizations and the rubber industry with their organizations is strengthened.	- Number and type of contacts and long-term agreements between rubber producer and rubber industry established - Number and type of meetings between beneficiaries associations and rubber industry - Average of participants (men/women)	- Information systems of the planning and monitoring unit	
5. A multi-level management system for the project is functioning, integrating the beneficiaries and their organizations, the rural development organizations, the municipalities and the state organizations.	- The annual plan of operation agreed by consensus at the end of each year - Planning and implementation gap decreased 10% annually - Number of agreement signed with executing institutions - Governmental and non-governmental institutions involved in planning, implementation and evaluation of project activities complete 90% of signed contracts - Number of staff (men/women) trained in gender issues - Degree of gender orientation of the project services - Baseline study and evaluations successfully realized, with consistent gender disaggregation of data	- M&E formats - Agreements - Minutes of meetings - Documentation of the planning and monitoring unit	

Principal activities	Principal activities	Principal activities
Output 1: Training and Organization	**Output 3: Investment Fund**	**Output 5: Project Management**
1.1 To promote the creation and consolidation of beneficiary civil and productive organizations	3.1 To establish rules and procedures for the funds	5.1 To establish agreements about administrative procedures with SAGA and the national rubber programme
1.2 To transfer reading and writing skills	3.2 To carry out studies about investment opportunities	5.2 To select and contract public and private entities to support communities and beneficiary groups to develop their own initiatives and to carry out the services needed
1.3 To elaborate and provide techniques, modalities and methodological instruments for the training	3.3 To carry out activities/projects etc., financed by the funds	5.3 To prepare the annual operation plan
1.4 To train beneficiaries in management, entrepreneurial and other relevant related aspects	3.4 To supervise the investment activities and recuperate the financed funding	5.4 To implement a M&E system
1.5 To train beneficiaries according to their needs in productive issues, marketing, microenterprise, business administration, etc.	3.5 To establish procedures for continuation as a revolving fund	5.5 To implement an administrative and financial system for the different components of the project and the state co-ordination offices
1.6 To transfer negotiation and empowerment techniques and knowledge		5.6 To establish coordination and cooperation mechanisms with public and private agencies
1.7 To support the capability of articulation for participating actively in the rural development process of the municipalities and the states		5.7 To realize coordination meetings and procedures with the public and private entities participating in the project
1.8 To provide training programmes for all involved parties to incorporate gender issues		5.8 To design and execute project coordination with the municipality and state government organizations
1.9 To organize exchange of knowledge between rubber producer organizations, etc.		5.9 To establish a coordination and communication system with the state and rural development organization offices
Output 2: Provision of services	**Output 4: Relationship rubber industry and producer**	5.10 To take action for improving the technical and methodological skills of all involved parties
2.1 To proof rubber technologies and complementary activities	4.1 To establish commercial contacts between producer and industry	5.11 To provide technical and methodological instruments for all involved parties to face gender issues
2.2 To provide innovations for rubber production and complementary activities	4.2 To establish coordination between the different interest groups	5.12 To provide favourable conditions for the integration of women into project activities
2.3 To select, supervise and evaluate the rural development organizations	4.3 To provide exchange of information about rubber production, quality standards, processing requirements, and prices between producer and industry	5.13 To extensively document and publish at appropriate levels the project development through an interactive process documentation service
2.4 To identify and promote entrepreneurial activities	4.4 To discuss environmental relevant aspects and the production of CO2 with the rubber industry	
2.5 To inform rubber producers about marketing possibilities and prices		
2.6 To open marketing channels for rubber and complementary products		
2.7 To provide instruments, techniques and methodologies for considering gender-related issues		
2.8 To carry out environmental studies for rubber production and processing		
2.9 To provide women with time-saving activities		

ORGANIZATION AND MANAGEMENT



PERSPECTIVES FOR THE WORLD AND MEXICAN RUBBER MARKET

The outlook for international prices of rubber shows that the downward turn of the last two years will be ending. Available studies indicate that a significant recovery is likely, beginning this year, driven by the steady growth in world demand and the relative stagnation of supply in the main producing countries. The rubber world market will be boosted, with improvements in the economy of consuming countries and the currency appreciation of the main producers: they are emerging from the economic crisis begun in 1997. Additionally, the lack of land and higher labour costs seem to hinder supply in South-East Asia in the medium-term, thus shifting world prices upward.

The Fourth Annual Asia Rubber Market Conference, held in Colombo on 17-19 November 1999[*], carried out a study indicating that prices would recover this year and duplicate current levels for 2001. This paper, prepared with the support of the International Rubber Study Group, forecasted a steady growth in prices until the end of this decade, reaching a level of USD 2 per kg for TSR-20 in 2003. The increase in rubber prices will reduce the proportion of natural rubber relative to synthetic rubber in overall consumption, declining from the current 40 to approximately 35%.

This paper simulated several scenarios so as to analyse the incidence of certain variables in world prices. It found that an increase in production in Indonesia would result in more moderate shifts in prices after 2003, but would keep values above levels prevailing in the 1990s. The variable with the greatest incidence is the growth rate of the world economy: if the increase in global production maintains an average performance of 3% per annum, rubber prices would multiply by four in the next decade. If the growth rate of world output were 2% per annum, prices of TSR-20 would be slightly above USD 1.5 per kg in year 2005, and USD 2 per kg by 2010.

These forecasts for international prices provide quite an optimistic perspective for rubber production in Mexico. Domestic prices change according to the evolution of the world market, so that rubber prices in Mexico would show a significant increase in the short and medium-term. The high productivity of new plantations in Mexico allowed farmers and primary processing industry to compete throughout one of the worst crisis in international prices. In the forecasted scenario, it is therefore expected that domestic production will be able to compete successfully with Asian rubber, and that plantation profits will increase significantly in the following years. The fact that some primary processing plants are planning to plant 2 000 ha in Chiapas and 2 500 ha in Veracruz and Tabasco clearly reflects the confidence of private agents in the market's recovery in the medium-term.

In addition, domestic industry imports show a regular pattern in the past years. Production estimates for 2010 represent nearly 35% of the total imports of the rubber industry, indicating that Mexican production is far from oversupply with regard to internal consumption.

[*] "Natural Rubber in the New Millennium", Dr. Kees Burger, Head Economic Research and Dr. Hidde P. Smit, Managing Director Economic and Social Institute, Free University, The Netherlands. Paper prepared for the Fourth Annual Rubber Markets Conference, Colombo, 17-19 November 1999.

ECONOMIC AND FINANCIAL ANALYSIS

		ERR	NPV (USD 000)	B/C
1. Full project		24%	97 862	1.20
2. Reduction of benefits in:				
	10%	15%	38 832	1.08
	15%	10%	9 317	1.02
3. Increases in costs of:				
	10%	15%	48 619	1.09
	15%	12%	23 997	1.04
4. Project delays:				
	1 year	23%	83 284	1.19
	2 years	23%	70 421	1.18
	3 years	22%	58 970	1.16