

a

IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eightieth Session
Rome, 17-18 December 2003

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

UNITED MEXICAN STATES

FOR THE

**STRENGTHENING PROJECT FOR THE NATIONAL MICRO-WATERSHED
PROGRAMME**

TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ABBREVIATIONS AND ACRONYMS	iii
MAP OF THE PROJECT AREA	iv
LOAN SUMMARY	v
PROJECT BRIEF	vi
PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY	1
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	2
C. IFAD's Strategy for Collaboration with Mexico	2
PART II - THE PROJECT	4
A. Project Area and Target Group	4
B. Objectives and Scope	4
C. Components	5
D. Costs and Financing	6
E. Procurement, Disbursement, Accounts and Audit	9
F. Organization and Management	9
G. Economic Justification	10
H. Risks	10
I. Environmental Impact	11
J. Innovative Features	11
PART III - LEGAL INSTRUMENTS AND AUTHORITY	11
PART IV – RECOMMENDATION	12
 ANNEX	
SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT	 13

APPENDIXES

I. COUNTRY DATA	1
II. PREVIOUS IFAD FINANCING IN MEXICO	2
III. LOGICAL FRAMEWORK	3
IV. POVERTY AND GENDER IN MEXICO	6
V. PROJECT STRATEGY AND DESIGN	8
VI. ORGANIZATION AND MANAGEMENT	10

CURRENCY EQUIVALENTS

Currency Unit	=	Mexican Nuevo Peso (MXP)
USD 1.00	=	10.50 MXP
MXP 1.00	=	USD 0.09

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

CONABIO	National Commission for the Knowledge and Use of Biodiversity
FIRCO	<i>Fideicomiso de Riesgo Compartido</i> (Shared Risk Trust Fund)
GEF	Global Environment Facility
MMPCP	Master Micro-Watershed Plan of Conservation and Production
NAFTA	North American Free Trade Agreement
NMWP	National Micro-Watershed Programme
PEU	Project Executing Unit
SAGARPA	Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food
SEDESOL	Secretariat of Social Development

GOVERNMENT OF THE UNITED MEXICAN STATES**Fiscal Year**

1 January–31 December

MAP OF THE PROJECT AREA



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

UNITED MEXICAN STATES**STRENGTHENING PROJECT FOR THE NATIONAL MICRO-WATERSHED
PROGRAMME****LOAN SUMMARY**

INITIATING INSTITUTION:	IFAD
BORROWER:	United Mexican States
EXECUTING AGENCY:	Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food
TOTAL PROJECT COST:	USD 28.0 million
AMOUNT OF IFAD LOAN:	SDR 10.5 million (equivalent to approximately USD 15.0 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
COFINANCIER:	Global Environment Facility
AMOUNT OF COFINANCING:	USD 4.0 million
TERMS OF COFINANCING:	Grant
CONTRIBUTION OF BORROWER:	USD 7.0 million
CONTRIBUTION OF BENEFICIARIES:	USD 2.0 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROJECT BRIEF

Who are the beneficiaries? The target group comprises 176 000 people (44 000 direct and 132 000 indirect beneficiaries) living in poor rural areas spread across eight Mexican states. Direct beneficiaries include rural poor small or landless farmers and microentrepreneurs (both men and women), in addition to young men, women and children. An estimated 45% of the target population are of indigenous origin and 19 800 of these people will directly benefit from the project. A further 13 200 of the direct beneficiaries will be woman heads of household, 30% of whom will be involved in economic organizations (dealing with agriculture and microenterprise) in the watershed areas.

Why are they poor? Historically, a legacy of prejudice, discrimination and exclusion from the social, economic and political mainstream is responsible for the intense poverty and inequality that prevail among Mexico's rural indigenous communities. Within these groups, rural poverty is chiefly associated with lack of access to land, extreme fragmentation of land holdings, inefficient marketing systems, limited access to productive resources and the deterioration of the natural resource base mainly through deforestation, soil erosion and fertility loss. Rural women are generally more liable to fall into poverty than either rural men or urban women. Women are highly involved in agricultural production both as individual producers and members of the family workforce; however they seldom participate in local economic associations due to social restrictions, illiteracy, low educational levels and a very high birth rate.

What do they expect from the project? The project will promote the economic development of rural areas in eight selected states in Mexico. It will use the micro-watershed as the territorial unit for planning and implementing medium to long-term social, productive and environmental initiatives for federal, state and municipal government investments. The project will support the participation of base organizations and consolidate beneficiaries' economic activities in order to raise the self-esteem of the rural poor (particularly those of indigenous origin) and empower their local organizations. It will strengthen participatory diagnostic and planning tools to promote a shared vision of long-term social, economic and environmental development. Project field services will support local communities and economic organizations in the implementation of their social, productive and environmental activities using peasant extension agents (*promotores campesinos*) trained in environmental issues and agricultural production. These agents will undertake all direct technical support activities, with technical backstopping from project staff.

How will the beneficiaries participate in the project? The project will involve beneficiaries in the planning, management and supervision of community and micro-watershed development activities as a way of empowering rural civil society, particularly its indigenous organizations. The project will assist, through training, groups of beneficiary representatives capable of expressing their views and negotiating their demands with micro-watershed and municipal development programmes. Feedback mechanisms will be established for small farmers, contracted support organizations and technical staff from the project executing unit. Furthermore, beneficiary representatives will be supported so that they can participate in micro-watershed and municipal planning councils, which are to be implemented as part of Mexico's Sustainable Rural Development Law, recently enacted by the Government. Beneficiaries will also participate in the project monitoring and evaluation system.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO
THE UNITED MEXICAN STATES
FOR THE
STRENGTHENING PROJECT FOR THE NATIONAL MICRO-WATERSHED
PROGRAMME

I submit the following Report and Recommendation on a proposed loan to the United Mexican States for SDR 10.5 million (equivalent to approximately USD 15.0 million) on ordinary terms to help finance the Strengthening Project for the National Micro-Watershed Programme. The loan 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 as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. With a land coverage of 1.96 million km², Mexico is the third largest country in Latin America. It has the second largest population in the region, with over 98 million inhabitants in 2000. Rural inhabitants are estimated at 25 million, representing 26% of the national population. Mexico's indigenous population accounts for 11% and is settled predominantly (70%) in rural areas.
2. Notwithstanding the financial crisis of 1994, Mexico is now firmly established as a middle-income country. In early 1995, the Government proposed an economic programme aimed at stabilizing the economy, restoring international confidence and creating the conditions for sustainable economic growth. Since adoption of this programme, the country has made substantial progress, although huge gaps remain between rich and poor, north and south, and urban and rural. Private sector expansion and membership of the North American Free Trade Agreement (NAFTA) have helped Mexico benefit from the expanding export market, while sound macroeconomic management has kept the Mexican economy resilient even during the world market recession. However, large segments of the population have not benefited from the economic expansion, particularly indigenous populations, peasant farmers and rural inhabitants of the southern states.
3. Despite its geographical size, Mexico is not 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 of the territory. Agricultural productivity is below the national average with 20% of the national economically active population employed in agriculture, generating less than 8% of the gross domestic product (GDP). The uneven evolution of the agricultural sector is reflected in the pervasive incidence of rural poverty.
4. Contradictory scenarios have been reported on the effects of NAFTA on peasant agriculture. While one report² concluded that three million families will be forced to leave rural areas as a result of

¹ See Appendix I for additional information.

² Calva, J.L. 1992. *Probables Efectos de un Tratado de Libre Comercio en el Campo*. Fontamara, Mexico City. p. 35.

the collapse in the market for basic grains, another study³ argues that these figures are exaggerated, as the diversified nature of the peasant economy will cushion the negative effect of a fall in the price of corn. On the other hand, the expansion of export crops and related agro-industries has increased the demand for labour and generated a growing seasonal agricultural labour market, creating income opportunities in rural areas.

B. Lessons Learned from Previous IFAD Experience⁴

5. IFAD has approved five projects in Mexico, with loans totalling USD 112 million. Ongoing projects are carried out under the Secretariat of Social Development (SEDESOL), and are oriented towards indigenous communities of the Yucatan Peninsula. The Rural Development Project for Rubber-Producing Regions of Mexico is implemented by the Secretariat of Agriculture (SAGARPA). Main lessons⁵ from IFAD projects include that: (i) IFAD interventions should define the simplest institutional frame possible at the federal and local level, creating a space for the participation of base organizations and non-governmental organizations; (ii) the implementation of communal social and productive investment funds, operated with participatory allocation mechanisms, has been successful in improving the rural poor's social and productive capital base; (iii) there is a significant improvement in productive impact and income when participatory mechanisms allow beneficiaries to select the type of investment and activity to be financed and supported by projects; and (iv) IFAD projects should promote decentralization efforts through their design and operational scheme, and the systematic training of base organizations, local government officials and project staff.

C. IFAD's Strategy for Collaboration with Mexico

6. **Mexico's policy for poverty eradication.** In 2001, the Government, (under President Fox Quesada) redefined Mexico's social development and poverty reduction strategies. The Government's central development objective is to achieve a broad-based improvement in the quality of human welfare, equality of opportunities and a significant sustained reduction in poverty levels, particularly among extremely poor, vulnerable and marginalized groups.

7. The present Government has given priority to micro-regional development as a tool for poverty reduction and for social and economic advancement of the rural poor. SEDESOL has focused its attention on 155 poor micro-regions throughout the country, located in 18 states and comprising a total of 539 municipalities classified as extremely poor and predominantly settled by indigenous communities. The total target population is estimated at 6.8 million inhabitants. Under the same principles of territorial planning for rural development and poverty reduction, micro-watersheds have been the territorial unit used by SAGARPA since 2001 for rural and agricultural development, and also for natural resource conservation and management. In 2001, the National Micro-Watershed Programme (NMWP) started its operations under the Shared Risk Trust Fund⁶ (FIRCO). To date it operates over 350 micro-watersheds and has over 800 000 beneficiaries throughout Mexico. While the ultimate aim of the plan is the reduction of rural poverty and marginalization,⁷ an important objective is also to articulate within a single planning framework activities implemented by federal, state and municipal governments.

³ De Janvry, A. et al. 1994. NAFTA and Mexico's Corn Producers. Paper presented at the XVIII LASA (Latin American Studies Association) International Congress, Atlanta, Georgia, United States, 10-12 March 1994.

⁴ See Appendix II for additional information.

⁵ Based on: (i) the Ex-Post Evaluation Report of the Oaxaca Rural Development Project (1991); (ii) Pre-Terminal Evaluation Report of the Development Project for Marginal Rural Communities in the Ixtlera Region (1998); and (iii) the United Nations Office for Project Services Annual Supervision Reports.

⁶ *Fideicomiso de Riesgo Compartido*.

⁷ See Appendix IV.

8. **The poverty eradication activities of other major donors.** A number of multilateral, regional and bilateral donors are providing financial and development assistance to Mexico through more than 700 projects. The current World Bank portfolio includes 24 operations totalling USD 2.9 billion. The Inter-American Development Bank (IDB) portfolio includes operations and programmes of over USD 3.5 billion. Under 15% of World Bank and IDB resources are targeted at either agricultural production or rural social development programmes. Health, education, rural infrastructure and modernization of the Government's institutional and operative framework are areas of major investment by both financial institutions. The IDB is financing the modernization of agricultural services, natural resource management and rural development. The World Bank is also providing financial resources through the Global Environment Facility (GEF), which is currently funding several Biosphere Reserve⁸ and other special environmental and natural resource conservation programmes. Other bilateral donor countries providing assistance to social development programmes include France, Germany, Japan, Spain and the United Kingdom.

9. **IFAD's strategy in Mexico.** Current IFAD strategy⁹ aims to empower base organizations as an initial step in raising income through gains in agricultural production and market linkages. IFAD strategic thrusts include: (i) promoting active and strong base organizations for small farmers, women, members of *ejido* (a legal form of communal ownership) and indigenous communities to achieve decentralized community-driven development, and also as part of the process to encourage a viable civil society in rural areas; and (ii) helping raise agricultural production among indigenous communities, individual smallholders and *ejido* members so as to increase family income and to encourage import substitution and export expansion. Major strategic thrusts will take into account environmental conservation and gender issues, considerations that need to be addressed in mainstream rural development policies and project activities.

10. IFAD's policy dialogue and catalytic role are concerned with strengthening demand-led participatory methodologies in decentralized rural and agricultural development, promoting coordination among SAGARPA, SEDESOL, and state and municipal governments for poverty reduction and sustainable rural development. IFAD's country strategy will also stimulate private sector participation in the provision of rural services, and strengthen links between farmers and industrial/export markets.

11. **Project rationale.** The project's general strategy and rationale are framed by the Government's current rural development and poverty reduction policies and priorities, and also by the Strategic Framework for IFAD 2002-2006 and its country strategy and operational guidelines. The project's general approach is to support the social and economic development of rural poor communities located in selected micro-watersheds, using a holistic approach. It therefore addresses the need for local human and social capital investment, social and economic development, and the conservation and management of natural resources. Project component design is based on FIRCO's conceptual and strategic development framework for NMWP (see Appendix V), and on the Strategic Framework for IFAD 2002-2006.

12. The strategic framework of both NMWP and the project is based on three conceptual elements: (i) selection of micro-watersheds as the basic planning and development territorial unit; (ii) participatory natural resource conservation and management as the starting point for local development; and (iii) participatory (in the widest sense¹⁰) local social and economic development.

⁸ A protected geographical area due to its biodiversity importance.

⁹ IFAD. 1999. Mexico: Country Strategic Opportunities Paper (COSOP). Confidential Report No. 1123 MX, April 1999.

¹⁰ Includes the coordinated and active participation of micro-watershed communities' base organizations, indigenous organizations, municipal government and state and federal social and economic development programmes.

13. The selection of micro-watersheds has an important set of advantages for project operation and the achievement of project objectives, including: (i) the small size of the hydrological unit (maximum 6 000 ha) increases the possibility of comprehensive actions for natural resource conservation and management, and for social and economic development; (ii) as rural communities live in the micro-watershed area, this increases the possibility of the local population's familiarity with its topographic and biological characteristics, direct ownership of land (as individual, *ejidal* or communal owners) and the maintenance of cultural and religious bonds with geographical landmarks; and (iii) the limited population of the area and the corresponding small-scale investment in social, productive and environmental programmes make it suitable for the application of pilot conservation activities, as well as for productive investments.

14. The main operational axis of the project is the Master Micro-Watershed Plan of Conservation and Production (MMPCP), which will be prepared in a democratic and participatory way to ensure that all concerned parties share a long-term social and economic vision. The MMPCP should become the key micro-watershed planning instrument for rural communities and federal, state and municipal governments, and represent the basic mechanism for coordinating and articulating public investment. On completion of the MMPCP, the annual budgets and operational plans of federal, state and municipal governments should be based on or adapted to a long-term planning scenario, so as to avoid institutional overlapping or dispersive and uncoordinated unilateral investments and actions.

PART II – THE PROJECT

A. Project Area and Target Group

15. The project area covers nine states: Chiapas, Guanajuato, Guerrero, Jalisco, Nayarit, Oaxaca, San Luis Potosí, Veracruz and Zacatecas. The nine states constitute a representative sample of the country's major life zones.¹¹

16. The project will operate in 220 micro-watersheds, phased over a period of five years. The sixth year will be used for the consolidation of conservation and development activities. These micro-watersheds will provide pilot experience for the NMWP and will be used for methodological innovations in participatory planning, institutional coordination, micro-watershed natural resource rehabilitation, conservation and management techniques, in addition to social, economic and environmental impact evaluation.

17. The target population is estimated at 176 000 persons, including 44 000 direct and 132 000 indirect beneficiaries. Direct beneficiaries include small or landless farmers and microentrepreneurs (both men and women) in addition to young men, women and children. An estimated 45% of the target population are of indigenous origin and 19 800 of these people will directly benefit from the project. A further 13 200 of the direct beneficiaries will comprise woman heads of household, 30% of whom will be involved in economic organizations (dealing with agriculture and microenterprise) in the watershed areas.

B. Objectives and Scope¹²

18. The overall project goal is a significant reduction in poverty, marginalization and discrimination among the poorest indigenous and non-indigenous groups in rural communities located in micro-watersheds in the eight selected states. This will be achieved through the socio-economic development of micro-watershed areas in a comprehensive, economically and environmentally sustainable manner. Specific objectives include: (i) strengthening human and social resources in poor

¹¹ Life zone is an international classification of world ecological zones based on geography, location, vegetation, animal life and climatic conditions.

¹² See Appendix IV for additional information.

rural communities; (ii) improvements in soil, water and vegetation conservation and management using the territorial definition of the micro-watershed as the basic intervention unit; (iii) increased income levels for beneficiaries' families through improvements in the production and marketing of forestry, crop, livestock and microenterprise products, achieved in an economically and environmentally sustainable way; and (iv) strengthening of NMWP capacity for participatory planning and implementation of local development and natural resource conservation actions, and increasing municipal, state and federal institutional coordination capacity.

C. Components

19. Based on the strategic framework and operational design, the project will implement four components: (i) human and social capital development; (ii) natural resource management; (iii) agricultural and non-agricultural development; and (iv) institutional development. The project will also include a project executing unit (PEU) including administrative, gender, planning, and monitoring and evaluation units.

20. The **human and social capital development** component's general objective is to enhance the capacity of beneficiaries' grass-roots organizations to participate effectively in social and economic development processes at the local, micro-regional and municipal level. Grass-roots organizations and other formal and informal groups will be encouraged as vehicles for participatory involvement in rural and micro-regional development. Empowerment of the rural poor and their grass-roots organizations is the ultimate goal of this component. Particular attention will be paid to strengthening women's social and economic organizations through leadership training and support services.

21. The component will implement the following activities: (i) support for micro-watershed communities in the preparation of the MMPCP, and strengthen its methodological and operative basis; (ii) implementation of a formal training programme (*diplomado*)¹³ for *promotores campesinos*; (iii) implementation of a *diplomado* for field professionals involved in micro-watershed natural resource conservation and development planning; (iv) a programme for strengthening micro-watersheds' community organizations and municipal governments; (v) a continuous training programme for micro-watershed technical assistants; and (vi) implementation of a rural communication programme.

22. **Natural resource management.** The objective of this component is to contribute to enhancing the quality of life of the target population through activities aimed at improving soil, water, vegetation and biodiversity management and conservation, using the functional unit of the micro-watershed as the basic intervention medium. This will be undertaken through: (i) strengthening NMWP strategies for more integrated and sustainable management of the watershed as an intervention unit; (ii) improving the existing relationship between natural resource management and conservation and the productivity of agricultural activities; (iii) contributing to the environmental awareness of natural resource users and decision-makers at the local, municipal, state and federal level; and (iv) implementing a geographic information system to be used by project staff updating data at the micro-watershed level.

23. This component will include the following interventions: (i) awareness-raising and capacity-building of the target group; (ii) capacity-building of project, state and municipal staff; (iii) investments in natural resource management and conservation, including the provision of basic structures for soil conservation and water-harvesting, the implementation of water and soil-conserving productive practices and reforestation activities; (iv) adequate land use and demonstration of

¹³ In Mexico, a formal training programme with an approved pre-established curriculum and a completion certificate is called a *Diplomado*. The completion certificate helps raise the self-esteem of those who under take and complete the training cycle.

production systems; and (v) systematization and diffusion of best practices in natural resource management.

24. **Agricultural and non-agricultural development.** This component aims to support the watershed peasant population so that they can successfully implement profitable and sustainable economic proposals. The implementation strategy is two-fold. First, it will target assistance at a limited number of agribusiness chains in each watershed, which have been identified as the most promising in terms of market potential. Second, it will deliver project services and support using a comprehensive approach. Focusing on interrelated agricultural and non-agricultural activities may increase market potential by diversifying supply, thereby opening up new markets. The use of a comprehensive approach encompassing training or technical assistance, infrastructure funding, input provision and marketing assistance will allow for the complete and coordinated implementation of beneficiaries' proposals, and will minimize the risks associated with small enterprises.

25. The component will implement two major activities: (i) marketing support, designed to facilitate access to local, regional and national markets; and (ii) a micro-business programme, designed to support clusters of small businesses in each watershed using a comprehensive approach.

26. **Institutional development.** This component has been designed to provide the project's catalytic actions with a formal framework. The objective of this component is to support the NMWP in the development, testing and diffusion of methodologies and instruments for local micro-watershed participatory planning and for the implementation of social, productive and environmental initiatives in the community. This component will also support the NMWP in strengthening intra and inter-institutional coordination, and planning and budgeting of federal, state and municipal rural development programmes.

27. Activities included in this component are: (i) contracting private providers of technical support services in the areas of social and economic development and natural resource conservation; (ii) implementation of a geographic information system; (iii) annual seminars and workshops (to be held in each of the participating states) to discuss and present tested methodologies and instruments for local micro-watershed participatory planning and development; and (iv) national and international consultants to support the NMWP in the quest for tested methodologies and to stimulate cross-fertilization with IFAD and the natural resource-oriented projects of other donors.

D. Costs and Financing

28. The total cost of the project is estimated at USD 28.0 million (Tables 1 and 2). Financing of project costs is broken down as follows: an IFAD loan of USD 15.0 million (54% of total costs); a government counterpart contribution of USD 7.0 million (25%); a grant from the GEF of USD 4.0 million (14%); an in-kind beneficiary contribution of USD 2.0 million (7%). The GEF grant is under preparation by its Latin America Regional Office in cooperation with the NMWP. The human and social capital development component accounts for a total of USD 4.8 million, representing 17% of total project costs; natural resource management USD 9.7 million (35%); agricultural and non-agricultural development USD 5.9 million (21%) and institutional development USD 4.0 million (14%). The PEU has a total cost of USD 3.5 million (13%), including monitoring and evaluation, and gender activities.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Human and social capital development					
1. Training and rural communications	2 163	176	2 339	8	9
2. Participatory planning	2 024	111	2 136	5	8
Subtotal	4 187	288	4 475	6	17
B. Natural resource management					
1. Technical support	3 383	366	3 749	10	14
2. Conservation investments	5 779	-	5 779	-	22
Subtotal	9 162	366	9 528	4	36
C. Agricultural and non-agricultural development					
1. Marketing	778	8	786	1	3
2. Micro-business support	4 572	487	5 059	10	19
Subtotal	5 351	495	5 845	8	22
D. Institutional development	3 473	232	3 705	6	14
E. Project executing unit					
1. Management unit	1 937	50	1 987	2	7
2. Planning, monitoring and evaluation unit	759	45	804	6	3
3. Gender activities	382	26	408	6	2
Subtotal	3 078	120	3 199	4	12
Total base costs	25 252	1 501	26 752	6	100
Physical contingencies	144	21	165	13	1
Price contingencies	1 034	49	1 083	5	4
Total project costs	26 429	1 571	28 000	6	105

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	Government		IFAD		GEF		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Human and social capital development													
1. Training and rural communications	369	15	2 065	83	-	-	56	2	2 491	9	187	1 996	307
2. Participatory planning	130	6	2 231	95	-	-	-	-	2 362	8	124	2 197	41
Subtotal	500	10	4 297	89	-	-	56	1	4 852	17	311	4 193	348
B. Natural resource management													
1. Technical support	214	6	1 025	27	2 093	55	494	13	3 825	14	373	3 376	76
2. Conservation investments	1 884	32	1 290	22	1 907	33	757	13	5 838	21	-	5 726	113
Subtotal	2 098	22	2 315	24	4 000	41	1 251	13	9 663	35	373	9 102	189
C. Agricultural and non-agricultural development													
1. Marketing	704	82	155	18	-	-	-	-	859	3	9	721	129
2. Micro-business support	971	19	3 426	67	-	-	693	14	5 090	18	489	4 528	73
Subtotal	1 675	28	3 581	60	-	-	693	12	5 949	21	499	5 249	202
D. Institutional development	620	15	3 401	85	-	-	-	-	4 022	14	253	3 165	603
E. Project executing unit													
1. Management unit	1 555	72	613	28	-	-	-	-	2 167	8	55	1 788	325
2. Planning, monitoring and evaluation unit	345	39	541	61	-	-	-	-	886	3	51	702	133
3. Gender activities	208	45	253	55	-	-	-	-	460	2	30	361	69
Subtotal	2 107	60	1 406	40	-	-	-	-	3 513	13	135	2 851	527
Total project costs	7 000	25	15 000	54	4 000	14	2 000	7	28 000	100	1 571	24 560	1 869

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

29. Procurement of goods and works to be financed under the project will be made in accordance with IFAD procedures while the procurement of consultant services will be made in accordance with cooperating institution procedures that are acceptable to IFAD. Goods will be procured through local competitive bidding as stipulated in the loan agreement. Rural development agency technical assistance will be contracted through local bidding, in accordance with procedures acceptable to the cooperating institution and IFAD and in agreement with the Government's regulations for the purchasing of services.

30. A special account will be opened in Nacional Financiera with an authorized allocation of USD 1.5 million. Disbursements for operating costs, salaries, and small contracts and agreements costing less than USD 10 000 will be made against statements of expenditure. Payment to local contractors involved in development activities and technical assistance will require detailed documentation. Nacional Financiera will act as the financial agent for the Government of Mexico.

31. After loan effectiveness the project will set up its accounting and internal control systems, which will be installed by a specialized accounting firm. Accounting will be by component and category of expenditure and according to government expense classification procedures. This will be carried out six months after making the initial deposit to the special account.

32. An audit firm, satisfactory to IFAD, will be selected to undertake annual financial and management audits and will be financed by the project. Contracted agencies will keep separate accounts for project-related expenditures.

F. Organization and Management¹⁴

33. SAGARPA will be the sector institution responsible for general project implementation, under the direct implementation of FIRCO. The project will be located within the administrative structure of the NMWP. The NMWP national coordination office will act as the PEU, while FIRCO's NMWP state offices will have the functions of decentralized management units. The PEU will have normative and methodological responsibilities, overseeing the whole project operation. The state offices will have the decentralized responsibility of the implementation and supervision of project activities.

34. While the NMWP will continue to operate at the national level under standard administrative and implementing procedures, the eight selected states for the project will be considered a pilot operation, improving local participatory diagnostic planning, implementation and supervision procedures, in addition to testing new participatory diagnostic tools for these processes. Furthermore, the project monitoring process will be much more intense (than the current standard process) at the state, municipal and micro-watershed level. This will ensure proper targeting and active participation by local rural poor indigenous and non-indigenous communities.

35. At the micro-watershed level, the project and the responsible municipal government will share the costs (on a 50/50 basis) of a municipal technical assistant who will be responsible for supporting rural communities in their undertaking of the participatory diagnosis and development plans¹⁵. Each municipal technical assistant will cover an average of two watersheds and eight communities. These professionals will assist rural communities for three years of the project. After this period, trained *promotores campesinos* (backstopped by project field monitoring technicians and the state interdisciplinary team) will support the identification, planning and implementation of rural communities' social, economic and natural resource initiatives. Over the duration of the project, a

¹⁴ See Appendix VI.

¹⁵ See Appendix V.

total of 75 municipal training assistants and 150 *promotores campesinos* will be hired for the eight participating states.

36. The project will have a two-level beneficiary participation structure: (i) community organizations; and (ii) micro-watershed organizations. Based on the National Sustainable Rural Development Law, community organizations will participate in Municipal Rural Development Committees, while micro-watershed organizations will be part of the Provincial Rural Development Committee. Using these mechanisms, the project will strengthen the participatory capacity of rural organizations, within the frame of existing local government development mechanisms.

37. At the project level and within its operational structure, the proposed gender approach aims to create the conditions for: (i) the equitable access by rural men and women to all productive, training and investment opportunities; and (ii) full participation of rural women in community, social and economic organizations. As a result of its gender-oriented actions, the project should achieve a significant improvement in rural women's self esteem, productive/entrepreneurial capacities and income-generating capacity.

G. Economic Justification

38. The project will strengthen human and social capital and promote natural resource conservation and sustainable social and economic development for 176 000 inhabitants of 220 micro-watersheds located across eight states. The human resource capacity of the project area (particularly of rural women and grass-roots organizations) will be enhanced through systematic training. A total of 44 000 direct beneficiaries will be assisted in the conservation of their natural resource base, and trained in small farming, livestock production, forestry and microenterprise management, and marketing. Through the mobilization of existing government social and rural development financial support programmes, the project will concentrate annually over USD 8 million in social and productive investments in selected micro-watersheds.

39. Grass-roots organization and community leaders will be keenly involved in local development efforts through project-sponsored community and micro-watershed organizations. These organizations will participate in Mexico's current rural development actions. Overall, community and micro-watershed organizations are expected to be active in Municipal and Provincial Rural Development Committees.

40. A total of 132 000 people will indirectly benefit from project activities, through access to investments in soil and water conservation, social services (education and health), water, sewage and electrification works and rural roads, among other factors that will significantly improve both the living conditions and the transportation and communication network of the micro-region. They will also benefit from investments in watershed management, and land and natural resource conservation efforts, to be implemented by the project in association with a GEF grant.

H. Risks

41. Project risks are related to: (i) the consistency of effective federal, state and municipal pro-poor policies and the effectiveness of institutional coordination mechanisms for rural development; (ii) adequate provision of financial resources at the federal, state and municipal levels; and (iii) willingness of productive and social sectoral institutions/secretariats of the federal government to coordinate effectively actions and investments at the micro-watershed level. The formulation mission has obtained the commitment of SAGARPA and FIRCO, and also that of state and municipal governments to implement effective coordination mechanisms, in addition to establishing yearly planning mechanisms for allocation and transfer of budget resources to the project areas.

I. Environmental Impact

42. The project has been tentatively classified as Category B, based on its focus on natural resource conservation and the fact that potential environmental impact will be addressed with environmentally sensitive recommendations, interventions and investments. Activities conducted under the project's natural resource management and agricultural and non-agricultural development components will rehabilitate some of the areas in danger of degradation, alleviate risks and promote the rational use of micro-watershed natural resources. Reduction of soil erosion, better watershed management and restoration of biodiversity are among the expected environmental benefits of the project.

43. NMWP environmental policies and recommendations for landscape conservation and management will be applied in the project areas and these will be reinforced by extension recommendations and technologies. Thus, caution will be observed when providing assistance in annual and perennial crop cultivation and livestock management in order to prevent deforestation, overgrazing, soil compaction and erosion. Technical advice provided to small-scale agricultural and non-agricultural enterprises will mitigate environmental damage caused by pollution.

J. Innovative Features

44. Four innovative features included in project design and operation include: (i) a catalytic role by IFAD in consolidating government decentralization and rural development policies, processes and mechanisms as tools for empowering the rural poor, through the use of the micro-watershed as the basic intervention unit; (ii) linking policy dialogue and institutional strengthening to rural development/natural resource conservation instruments and field operations; (iii) supporting federal, state, municipal, private sector, civil society and base organizational planning activities through a long-term development approach; and (iv) using focused targeting instruments among the target group, to match the characteristics, limitations and local requirements of each subgroup to a specific menu of project actions and activities, with due attention to differences in cultural background and agro-ecological settings.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

45. A loan agreement between the United Mexican States and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

46. The United Mexican States is empowered under its laws to borrow from IFAD.

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

PART IV – RECOMMENDATION

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

RESOLVED: that the Fund shall make a loan to the United Mexican States in various currencies in an amount equivalent to ten million five hundred thousand Special Drawing Rights (SDR 10 500 000) to mature on or prior to 1 February 2022 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 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.

Lennart Båge
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Loan negotiations concluded on 12 November 2003)

1. **Special account.** The Government of the United Mexican States (the Government), by way of Nacional Financiera S.N.C. (NAFIN), will open and thereafter maintain at Banco de México, or such other bank as may be agreed by the Government and IFAD, a special account in United States dollars for financing the project under terms and conditions satisfactory to IFAD.
2. **Financing of the project.** The Government will make available to SAGARPA and to FIRCO all necessary funds, including counterpart funds, during the project implementation period so as to ensure proper implementation of the project.
3. **Mid-term review.** IFAD will conduct – jointly with the Government, SAGARPA, NAFIN and FIRCO – a review of project implementation at the end of project year three.
4. **Additional circumstances for suspension.** IFAD may suspend, in whole or in part, the right of the Government to request withdrawal from the loan account in the event the implementation manual or the mandate agreement, or any of their provisions, has been transferred, waived, suspended, revoked, amended or otherwise modified without the prior consent of IFAD, and the latter has determined that such transfer, waiver, suspension, revocation, amendment or other such modification has had, or is likely to have, a substantial negative impact on the project.
5. **Implementation manual.** The PEU will prepare a draft implementation manual and will submit it to NAFIN, for the latter to forward to IFAD for its no objection. The PEU will adopt the manual in the form approved by IFAD.
6. **Mandate agreement (*contrato de mandato*).** The Government, SAGARPA and NAFIN will sign an agreement whereby NAFIN undertakes to administer the loan and supervise the project in its capacity as financial agent of the Government with regard to the loan, and SAGARPA agrees to be the agency responsible for the project and undertakes to perform the actions incumbent upon it under the loan agreement.
7. **Executing agency.** SAGARPA will assume general responsibility for project implementation, through the Under-Secretariat of Agriculture, which will in turn delegate direct execution of the project to FIRCO.
8. **Pest management practices.** The parts of the project addressing the provisions of chapter VIII, article 91, of the Rural Sustainable Development Act will be geared towards reducing the risks to agricultural production and public health, and will adopt appropriate pest management methods under the project.
9. **Gender focus.** In accordance with articles 2 and 4 of the Rural Sustainable Development Act, SAGARPA will ensure that the project contributes to reducing gender inequalities existing in the project's area of influence.

10. **Conditions for 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 such signature and compliance by the Government have been duly authorized and ratified by all the necessary institutional, administrative and governmental procedures;
- (b) the Government has delivered to IFAD a signed copy of the mandate agreement; and
- (c) the Government has delivered to IFAD favourable legal opinions, in form and substance acceptable to IFAD.

APPENDIX I

COUNTRY DATA

MEXICO

Land area (km² thousand) 2001 1/	1 909	GNI per capita (USD) 2001 1/	5 530
Total population (million) 2001 1/	99.42	GDP per capita growth (annual %) 2001 1/	- 1.8
Population density (people per km²) 2001 1/	52	Inflation, consumer prices (annual %) 2001 1/	6
Local currency	Mexican Peso (MXN)	Exchange rate: USD 1.00 =	MXN 0.09
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1995-2001 1/	1.4	GDP (USD million) 2001 1/	617 820
Crude birth rate (per thousand people) 2001 1/	24	Average annual rate of growth of GDP 1/ 1981-1991	1.3
Crude death rate (per thousand people) 2001 1/	5	1991-2001	3.1
Infant mortality rate (per thousand live births) 2001 1/	24	Sectoral distribution of GDP 2001 1/	
Life expectancy at birth (years) 2001 1/	73	% agriculture	4
Number of rural poor (million) (approximate) 1/	n/a	% industry	27
Poor as % of total rural population 1/	n/a	% manufacturing	19
Total labour force (million) 2001 1/	41.32	% services	69
Female labour force as % of total 2001 1/	34	Consumption 2000 1/	
Education		General government final consumption expenditure (as % of GDP)	12
School enrolment, primary (% gross) 2001 1/	113 a/	Household final consumption expenditure, etc. (as % of GDP)	70
Adult illiteracy rate (% age 15 and above) 2001 1/	9	Gross domestic savings (as % of GDP)	18
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 2/	1 917	Merchandise exports 2001 1/	158 547
Malnutrition prevalence, height for age (% of children under 5) 2001 3/	18 a/	Merchandise imports 2001 1/	176 162
Malnutrition prevalence, weight for age (% of children under 5) 2001 3/	8 a/	Balance of merchandise trade	-17 615
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2001 1/	5 a/	before official transfers 2001 1/	-27 046
Physicians (per thousand people) 2001 1/	2 a/	after official transfers 2001 1/	-17 683
Population using improved water sources (%) 2000 3/	86	Foreign direct investment, net 2001 1/	21 023
Population with access to essential drugs (%) 1999 3/	80-94	Government Finance	
Population using adequate sanitation facilities (%) 2000 3/	74	Overall budget deficit (including grants) (as % of GDP) 2001 1/	-1 a/
Agriculture and Food		Total expenditure (% of GDP) 2001 1/	16 a/
Food imports (% of merchandise imports) 2001 1/	5	Total external debt (USD million) 2001 1/	158 290
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	739	Present value of debt (as % of GNI) 2001 1/	29
Food production index (1989-91=100) 2001 1/	138	Total debt service (% of exports of goods and services) 2001 1/	27
Cereal yield (kg per ha) 2001 1/	2 817	Lending interest rate (%) 2001 1/	14
Land Use		Deposit interest rate (%) 2001 1/	5
Arable land as % of land area 2000 1/	13		
Forest area as % of total land area 2000 1/	29		
Irrigated land as % of cropland 2000 1/	24		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* CD ROM 2003

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2003

PREVIOUS IFAD FINANCING IN MEXICO

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	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
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	100
Rural Development Project for the Indigenous Communities of the State of Puebla	IFAD	UNOPS	O	15 Apr 92	17 Jul 93	30 Jun 01	L - I - 303 - ME	SDR	18 250 000	87
Rural Development Project of the Mayan Communities in the Yucatan Peninsula	IFAD	UNOPS	O	07 Dec 95	04 Nov 97	30 Jun 04	L - I - 405 - MX	SDR	6 950 000	67
Rural Development Project for Rubber-Producing Regions of Mexico	IFAD	UNOPS	O	03 May 00	21 Dec 01	30 Jun 10	L - I - 534 - ME	SDR	18 600 000	10

Note: IBRD = International Bank for Reconstruction and Development
O = Ordinary
UNOPS = United Nations Office for Project Services

LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Development objective To reduce significantly poverty, marginalization and discrimination among poor rural communities of the micro-watersheds.</p>			
<p>Purpose</p> <p>To establish an inclusive environmentally sustainable social and economic development process to benefit poor rural communities and strengthen the National Micro-Watershed Programme of FIRCO, which aims to:</p> <ul style="list-style-type: none"> • Enhance the social and human resources of rural and indigenous communities. • Improve natural resource management and preservation in a sustainable way. • Stimulate income-generation through increased rural productivity in areas of agriculture, cattle-raising, forestry and small enterprises • Strengthen the operational and inter - institutional coordination capacities of the National Micro-Watershed Programme (NMWP). • Generate pilot experience of replicable methodologies for rural development in the country under NMWP's micro-watershed approach. 	<ul style="list-style-type: none"> • At least 220 micro-watersheds will be incorporated into the rural development process through the implementation of 220 production and conservation master plans during the first six years of project execution. • Until the fourth year the systematization of experiences and methodological processes consolidates the replicability of the micro-watershed approach for rural development. • Around 44 000 rural poor (45% indigenous and 30% women) will benefit from project. • Men and women participate in the planning and the decision-making of their organizations. • Growing number of women participating at managerial levels in organizations. • The planning, management and technical capacities of the municipalities are greater. • Some 80% of rural inhabitants are using better natural resource management practices, which safeguard against degradation. • Agricultural and non-agricultural rural activities are increasing in terms of productivity and profitability. • Number of newly established micro-business and number of business operating after their second year • The NMWP improves the quality of rural development support instruments. • Number of executed projects and cofinancing amounts increasing. • Gender equity promoted with regard to participation in organizations, decision-making power and access to services and resources. • The rural organizations of the micro-watersheds participate in the environmental services market. 	<ul style="list-style-type: none"> • Base line study. • Evaluation reports. • Impact studies. • Systematization reports. • Records. 	<p>SAGARPA and FIRCO approve the project's development framework</p> <ul style="list-style-type: none"> • Project likely to have public and private inter-institutional coordination • State and municipal governments are involved in the project. • Resources are budgeted and assigned efficiently.
<p>Result 1: Human & Social Capital Development</p> <ul style="list-style-type: none"> • Base organizations, municipalities and technicians strengthen their planning, management, participation and decision-making capacities for the development of the micro-watersheds. 	<ul style="list-style-type: none"> • Master plans are being elaborated and executed in 180 micro-watersheds across eight states. • At least 200 organizations are reinforcing their capacities and becoming part of production and market chains. • Organizations in 330 communities manage and execute cultural, social, economic and conservation projects. • 90 municipalities are improving their technical and management skills for development and also receive technical support for the micro-watersheds. • At least 90 tripartite agreements (municipality, state and national) are signed to execute the NMWP in a coordinated way. 	<ul style="list-style-type: none"> • Monitoring reports. • Evaluation reports. • Agreements. • Community records. 	<ul style="list-style-type: none"> • Men and women effectively participate within the planning methodology • The municipalities and the states commit to participating in the project.
<p>Result 2: Natural Resource Management</p> <ul style="list-style-type: none"> • The beneficiary population of the micro- 	<ul style="list-style-type: none"> • At least the 80 % of the target population are environmentally aware and therefore improving their natural resource management and conservation 	<ul style="list-style-type: none"> • Monitoring reports. • Evaluations reports. 	<ul style="list-style-type: none"> • Awareness among beneficiaries of the

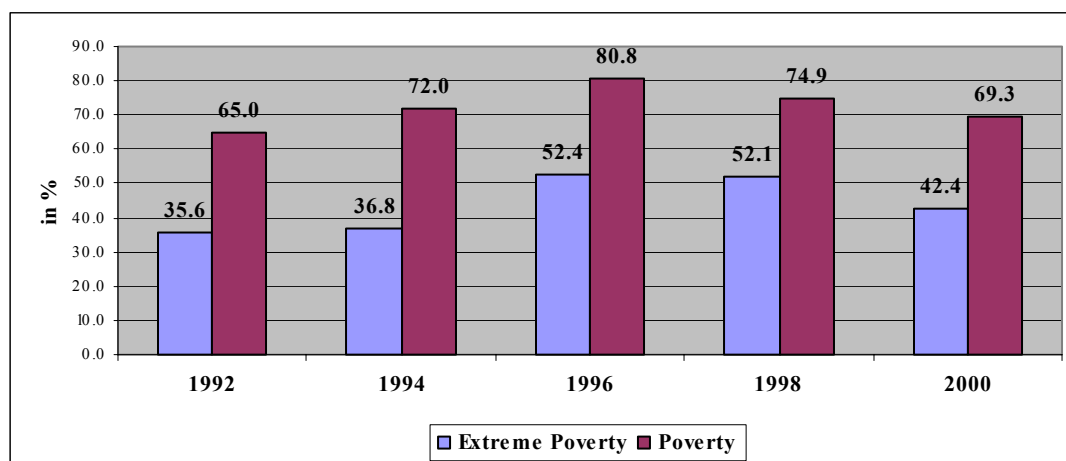
watersheds sustainably improve their methods of water, soil, vegetation and biodiversity conservation.	<p>methods.</p> <ul style="list-style-type: none"> • Positive change in relationship between natural resource management and conservation, and economic activities in rural areas. • Number of technicians (men and women) trained to manage and preserve natural resources. • Number of beneficiaries (men and women) trained. • The number of natural resource conservation initiatives established and the amount of financial resources invested. 	<ul style="list-style-type: none"> • Systematization reports. • Community records. 	importance of good ecosystem management to development.
<p>Result 3: Agricultural and Non-Agricultural Development.</p> <ul style="list-style-type: none"> • Beneficiaries transform their labour activities into profitable, sustainable and market-oriented activities that increase the rural income-generation capacity. 	<ul style="list-style-type: none"> • Approximately 1 100 rural micro-businesses are started and strengthened. • USD 0.6 paid as pre-investment funds. • Women increasingly integrated into sustainable economic activities, increasing incomes by 25%. • At least 30% of the micro-businesses are run by women. • Around USD 2.3 assigned to shared risk investment. • Number and type of studies-performed by consultants. • Number and type of stable micro-businesses. • New connections and commercial relationships are established. 	<ul style="list-style-type: none"> • Monitoring reports. • Consultants' report. • Case study reports. • Systematization reports. • Community records. 	<ul style="list-style-type: none"> • Resources are allocated for specialized technical assistance. • The private sector participates in commercial processes.
<p>Result 4: Institutional Development of the National Micro-Watershed Programme.</p> <ul style="list-style-type: none"> • The National Micro-Watershed Programme (NMWP) strengthens its capacity and instruments for a planning process that involves beneficiary participation, district development, natural resource conservation and coordination within and among the institutions. 	<ul style="list-style-type: none"> • Elaborated elements in the institutional strengthening of the NMWP. • Number and type of instruments developed to promote inter-institutional coordination. • Number of workshops aimed at promoting negotiations between the Government and the population. • At least five specialized consultancies are hired for NMWP institutional strengthening. • The Geographical Information System is implemented in the first year. • Two private technical agencies deliver rural development services in the micro-watersheds. 	<ul style="list-style-type: none"> • Monitoring reports. • Evaluation reports. • Records. • Contracts. 	<ul style="list-style-type: none"> • The NMWP executives and technicians are willing to incorporate adjustments. • Both government and society participate in the process.
<p>Result 5: Gender Focus</p> <ul style="list-style-type: none"> • Equitable participation of men and women is achieved in all project interventions. 	<ul style="list-style-type: none"> • Almost 30% women beneficiaries (13 000 women) run rural projects and participate actively in the social and economic organizations of the micro-watersheds. • Approximately 60% women beneficiaries improve and diversify their rural activities, thereby gaining access to markets. • In 70% of economic organizations, at least 30% of the membership is made up of women and the directive bodies have at least one woman member. • Housework is reduced for adult women (both in terms of time and work) • Almost 30% of men perform housework formerly done by women. 	<ul style="list-style-type: none"> • Monitoring reports. • Evaluation reports. • Records. • Case study reports. 	<ul style="list-style-type: none"> • The stakeholders are willing to apply a gender focus.

ACTIVITIES		
<p>Human and Social Capital Development</p> <ul style="list-style-type: none"> • Elaboration of master plans and projects. • Organization and development of training programmes. <ul style="list-style-type: none"> - Training courses for rural promoters. - Training courses for technicians in micro-watershed rehabilitation. - Formal training update (for technical assistants). • Capacity-building and strengthening programmes. <ul style="list-style-type: none"> - Community organizations. - Municipal governments. - Technical advisers. • Establishment of a rural communication programme. <ul style="list-style-type: none"> - Diffusion. - Socio-cultural activities. <p>Natural Resource Management</p> <ul style="list-style-type: none"> • Training and awareness-raising. • Support for technical assistance. • Investments for management and conservation in model micro-watersheds and others: <ul style="list-style-type: none"> - Support for conservation projects, rehabilitation and agricultural productivity increases (integral and basic). - Forestry nurseries. - Other. • Assistance through demonstrations on soil use and production systems. <ul style="list-style-type: none"> - Demonstration plots. - Field days. • Information exchange among micro-watersheds (technical assistants and beneficiaries). • Systematization of best practices. • Environmental services. <ul style="list-style-type: none"> - Capacity-building for beneficiaries. - Environmental actions: <i>carbon sequestration, water harvesting and retention, soil conservation and retention, biodiversity conservation and ecotourism.</i> - Coordination of payments for environmental services. 	<p>Agricultural and Non-Agricultural Development</p> <ul style="list-style-type: none"> • Capacity-building, assistance and consultancies for productive activities. • Trading: <i>Contact identification and market opportunities.</i> <ul style="list-style-type: none"> - Studies and technical advice. - Tours and participation in trade fairs. - Business promotion: Business boards. • Programme for micro-business. <ul style="list-style-type: none"> - Creation and organization of micro-business - Establishment of pre-investment funds. - Training and technical assistance for micro-businesses. - Advisory services for micro-businesses. - Monitoring of micro-businesses. - Equipment and investment supply for micro-businesses. - Shared-risk investment. <p>Strengthening of the National Micro-Watershed Programme</p> <ul style="list-style-type: none"> • Strategy and instrument development for intra and inter-sectoral public and private institutional coordination. • Negotiation between the Government and the civil population: <i>seminars and workshops.</i> • Institutional strengthening of the NMWP. <ul style="list-style-type: none"> - Inter-institutional coordination seminars and workshops. - Training for executives and technicians. - National and international consulting. - Geographic Information System. - Contracting of technical services agencies. 	<p>Gender-related project activities</p> <ul style="list-style-type: none"> • Gender equity in the PEU. <ul style="list-style-type: none"> - Mechanisms for applying a gender focus. - Appointment of staff in charge of gender issues and selection of technical team. - Promotion of women's participation and provision of information. - Relation with Pro-Gender (IFAD's Technical Assistance Grant). - Support to gender-oriented studies. - Coordination with Monitoring and Evaluation. • Gender-related actions to identify inequity issues. • Gender-related activities in the Components. <p><i>Human and Social Capital Development.</i></p> <ul style="list-style-type: none"> - Promotion of women's participation in meetings or assemblies. - Rural diagnostic plans include gender focus. - Capacity-building plan for gender issues: <i>i) awareness-raising of gender issues; and ii) capacity-building for promoting gender issues in development.</i> <p><i>Natural Resource Management.</i></p> <ul style="list-style-type: none"> - Training and awareness-raising of gender issues present in aspects of the components. <p><i>Agricultural and Non-Agricultural development.</i></p> <ul style="list-style-type: none"> - Women's participation in the activities. - Study of women involved in micro- businesses. - Gender action programme.

POVERTY AND GENDER IN MEXICO

1. Over the last decade, poverty and extreme poverty levels in rural Mexico have followed trends in the country's economy. A recent poverty evaluation study¹ conducted by the Secretariat of Social Development showed a significant increase in poverty and extreme poverty between 1992 and 1996 and a slow decline in these levels from 1998 to 2000 (graphic below).

EVOLUTION OF POVERTY AND EXTREME POVERTY IN RURAL AREAS 1992–2000
(in % of individuals)



Source: Based on data from: Córtez, F., Hernández, D., Hernández, E., Székeli, M, and Vera, H. *ibid*

2. Poverty and extreme poverty levels in rural areas reached a peak in 1996, one year after the Tequila Crisis that affected Mexico from 1994 to 1995. In 1992 Mexico's rural areas had a poverty level of 65% and an extreme poverty level of 35.6%. By contrast in 1996, these levels reached 80.8% and 52.4%, respectively. The recovery of the Mexican economy brought only a small reduction in poverty and extreme poverty levels. In 2000 poverty still affected 69.3% of the rural population, while extreme poverty affected 42.4% (graphic above).

3. According to government estimates, out of a total of 2 400 municipalities, 810 are considered very poor and 340 extremely poor. In the latter category, more than 40% of households have no water or sewage services, 60% lack primary school education, 50% live in homes with dirt floors and 30% of the population over 15 are illiterate. The rural poor are mostly engaged in agricultural activities, with over 50% of them related to either small-scale production or seasonal labour. The weak and uneven performance of the agricultural sector is reflected in its limited capacity to generate adequate income for small-scale producers and workers.

4. The incidence of poverty is highest in the southern states² (68% compared with a national average of 32% in 2000), and continues to rise. While these states account for only 15% of Mexico's population, they contain over half of those classified as extremely poor. One of the characteristics of rural poverty incidence and geographical distribution in Mexico is the consistent overlap with indigenous populations. States with the lowest living standards and highest incidence of extreme poverty are also those with the largest concentration of indigenous people (41% of its population). These ethnic groups are located at the lowest social and economic strata of each state.

¹ Cortez, F., Hernández, D., Hernández, E., Székeli, M, and Vera, H. 2000. *Evolución y Características de la Pobreza en México en la Última Década del Siglo XX. Serie Documentos de Investigación 2.* SEDESOL, Agosto, 2002.

² Oaxaca, Chiapas, Guerrero, Hidalgo, Puebla and Veracruz.

APPENDIX IV

5. Poverty levels among indigenous communities are alarmingly high with an estimated 80% of the population living in conditions of extreme poverty³. The Zapatista National Liberation Army (EZLN) uprising of 1994 is one of the consequences of indigenous groups' social and economic claims. The EZLN have repeatedly returned to international headlines since then, as the conflict has continued to simmer and periodically erupt. Despite relatively high levels of public expenditure in recent years, deficiencies in the design and implementation of government programmes have led to limited results, failing to stimulate social and economic development in these states, and among their poor populations.

6. Women head 17% of rural households. Rural women represent 12% of the economically active population, 15% of the *ejidatarios*⁴ and more than 50% of the labour input in crops such as coffee. In those households where there is seasonal or permanent migration, women assume *de facto* full responsibility for economic and productive decisions. Due to traditional biases, they face special constraints on access to financial and extension services, land and other productive resources. Historical prejudices and systematic exclusion of women from the mainstream of the country's social and economic development arise from the patriarchal nature of rural society. Thus, rural women are consigned to the lowest rung of the income ladder. Women are among the most vulnerable groups in rural areas. Low educational levels and very limited access to labour and productive resources are among the perpetuating causes of poverty among rural women.

³ The World Bank. 1996. CAS, Mexico. October 1996.

⁴ *Ejido* members

PROJECT STRATEGY AND DESIGN

PROPOSED PROJECT OPERATIONAL MODEL

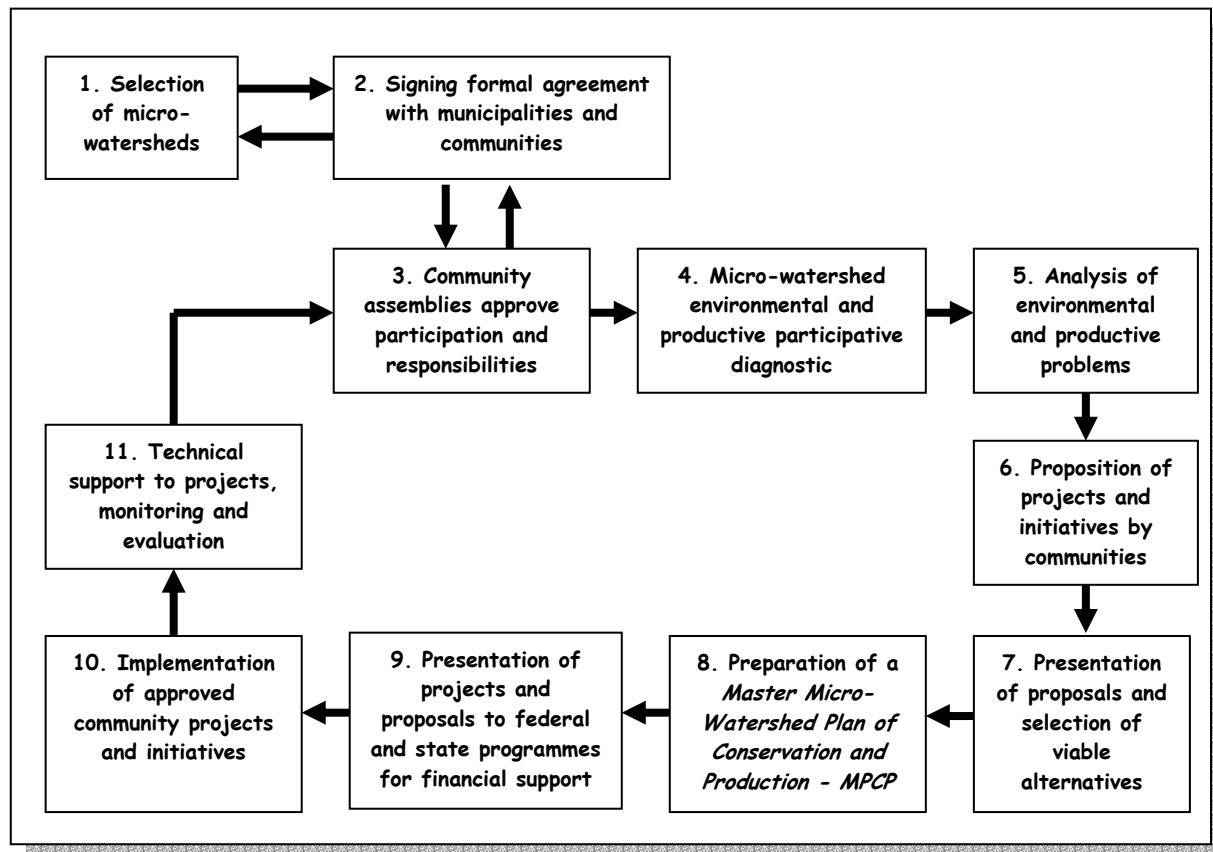


TABLE 1: PROGRAMME DESIGN MATRIX

Project Components	Strategic Framework for IFAD 2002–2006			Outputs
	Human and Social Assets	Productive Assets and Technology	Financial Assets and Markets	
Human and Social Capital Development	Strengthening the capacity of the rural poor and their organizations to participate in planning local development	Improved access to agricultural and non-agricultural productive training	Improved access to government social investment programmes	Empowerment Self-reliance
Natural Resource Management	Environmental and natural resource conservation consciousness	Environmentally sustainable productive knowledge Improved value of land assets		Improved productive capacity of land and natural resource assets Better living conditions Sustainable development
Agricultural and Non-Agricultural Development	Strengthening the income-generating capacity of the poor	Access to local rural technical agricultural and non-agricultural support services, productive investments and markets	Access to local rural marketing support services and financial services Improved access to government productive investment programmes and financial services	Improved income Better living conditions Empowerment

APPENDIX V

TABLE 2: ECONOMIC DEVELOPMENT OPPORTUNITIES FOR THE TARGET POPULATION

Beneficiaries	Current Activities	Change factors	Products
1. Subsistence agricultural producers (men and women, indigenous and non-indigenous) (with irrigation or potential access to irrigation).	Inefficient production. Disorganized and fragmented production and marketing. Climatic risks. Inefficient marketing.	Efficient irrigation systems. Focus on high-income, high-demand crops (fruits, vegetables and aromatic herbs). Marketing support. Organization and training. Innovative production technologies.	Produce and fruits such as tomatoes, onions, bell peppers, chilli, garlic, strawberries, water melon, cantaloupe, etc. Aromatic herbs. Medicinal herbs.
2. Subsistence permanent crop producers (men and women, indigenous and non-indigenous) (coffee, cocoa, rubber, avocado, other fruits, etc.).	Inefficient production. Disorganized and fragmented production and marketing. Low quality products. Climatic risks. Inefficient marketing.	Crop diversification and support for organic production. Marketing support. Organization and training. Innovative production technologies.	Produce and fruits such as tomatoes, onions, bell peppers, chilli, garlic, strawberries, water melon, cantaloupe, etc. Aromatic herbs.
3. Subsistence agricultural producers (men and women, indigenous and non-indigenous) (without access to irrigation).	Inefficient Production. Disorganized and fragmented production and marketing. Climatic risks. Inefficient marketing.	Focus on fruit production and improved technologies for current crop production. Organization and training. Innovative production technologies.	Organic coffee and cocoa. Papaya, citrus, jamaica, palma camedor, etc.
4. Subsistence micro-entrepreneurs and traditional handicraft makers (men and women, indigenous and non-indigenous).	Inefficient Production. Disorganized and fragmented production and marketing. Low quality products. Climatic risks. Inefficient marketing.	Focus on high quality handicrafts and food processed products (fruits, jams, preserves, cheese and milk derivatives, etc.). Improved design of traditional handicrafts. Organization and training. Innovative production and processing technologies.	Pottery, fabrics, wood, stone and metal handicrafts. Preserves of traditional fruits and vegetables, chilli sauces, cheese and traditional candies.

ORGANIZATION AND MANAGEMENT

