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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

UNITED MEXICAN STATES

FOR THE

**SUSTAINABLE DEVELOPMENT PROJECT FOR RURAL AND INDIGENOUS
COMMUNITIES OF THE SEMI-ARID NORTH-WEST**

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CURRENCY EQUIVALENTS

Currency unit	=	Mexican nuevo peso (MXN)
USD 1.00	=	MXN 10.50
MXN 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

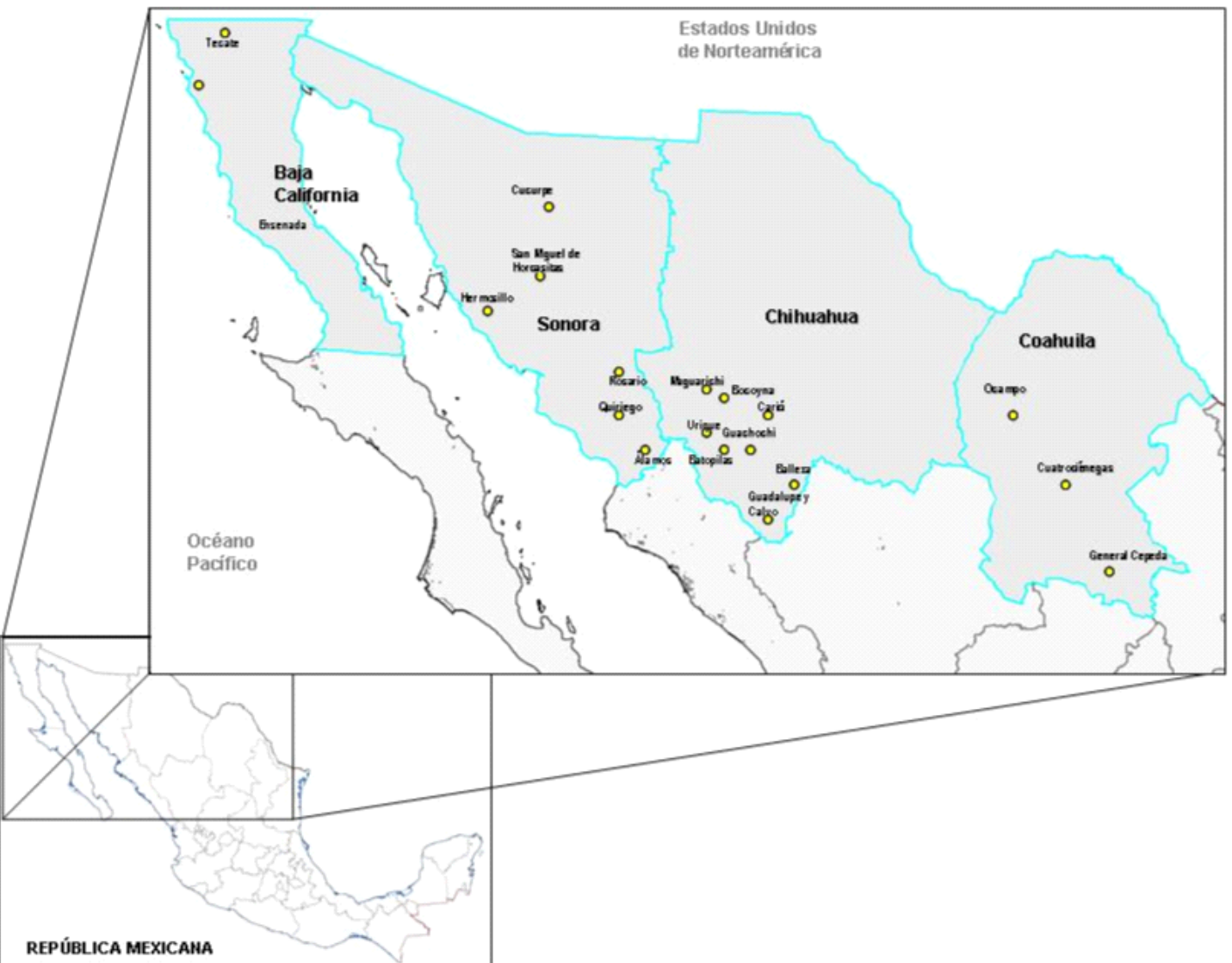
ABBREVIATIONS AND ACRONYMS

CONAFOR	National Forestry Commission
M&E	monitoring and evaluation
NAFTA	North American Free Trade Agreement
SEMARNAT	Environmental Affairs and Natural Resources Secretariat
UNCCD	United Nations Convention to Combat Desertification in Those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa

GOVERNMENT OF THE UNITED MEXICAN STATES
Fiscal Year

1 January – 31 December

MAP OF THE PROJECT AREA



Source: Geographical Information System, National Forestry Commission.
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**SUSTAINABLE DEVELOPMENT PROJECT FOR RURAL AND INDIGENOUS
COMMUNITIES OF THE SEMI-ARID NORTH-WEST****LOAN SUMMARY**

INITIATING INSTITUTION:	IFAD
BORROWER:	United Mexican States
EXECUTING AGENCY:	National Forestry Commission
TOTAL PROJECT COST:	USD 32.9 million
AMOUNT OF IFAD LOAN:	SDR 17.25 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
CONTRIBUTION OF BORROWER:	USD 7.0 million
CONTRIBUTION OF BENEFICIARIES:	USD 971 000
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROJECT BRIEF

Who are the beneficiaries? The target population consists of 57 300 potential beneficiaries from 19 municipalities and 57 micro-watersheds in four states of Mexico's semi-arid north-west: Baja California, Chihuahua, Coahuila and Sonora. The project's 35 500 direct beneficiaries comprise: small poor farmers (communal-land farmers and smallholders); landless farmers and rural labourers; rural microentrepreneurs, including people from communities that have the potential to develop small businesses from nature-based tourism activities; and rural and indigenous women and youth. It has been estimated that at least 30% of the direct and indirect beneficiaries will be from indigenous communities, namely the Cucapah, Guajios, Kiliwa, Kumiai, Pai Pai, Pimas, Raramuri, Seri, Tepehuano and Yaqui groups.

Why are they poor? Mexico's semi-arid north-west region has a high incidence of localized rural poverty, that is caused – and worsened – by its environment and constrained natural-resource base. Rural populations survive under conditions of social, economic and environmental vulnerability, using traditional technologies and production practices in environmentally degraded territories. These target groups have to contend with limited coverage and poor-quality social services, including severe limitations in education, health and nutrition, and, over recent decades, food insecurity. Rural poverty is associated with lack of access to land, extreme fragmentation of land holdings, deterioration of natural resources and limited access to productive resources.

What do they expect from the project? The project will aim to improve the productive capacity of land and natural resources in the target areas by undertaking selected fieldworks and introducing new production and conservation technologies at the micro-watershed level, while facilitating enhanced community control of assets, including lands, agro-biodiversity and the natural landscape. The project will also seek to achieve social capitalization and institutional development by promoting the decision-making and implementation capacity and self-reliance of communities, individuals and trained, local development teams, and to enhance operational and technical support from the executing agency. The beneficiaries will derive greater incomes and employment from environmental-service payments, and from rural and nature-based tourism microenterprises to be established through project-sponsored microenterprise business plans. These latter initiatives will be financed by ongoing government programmes and formal and emerging microfinancial systems. Through inter-institutional coordination and concurrent investments by other government entities – at the local, municipal and micro-watershed levels – the project will catalyse the provision of health, nutrition and other services and investments in rural infrastructure and housing.

How will the beneficiaries participate in the project? The project will promote participatory action by rural and indigenous communities and the latter's cooperation with the diverse government institutions dealing with social, economic and natural resources management at the local, municipal, state and federal levels, and encourage involvement of the private sector and civil society. These actions will result from investments and development activities triggered, at the local level, by micro-watershed master plans for production and conservation, at the same time as interventions for the different target groups are discussed and acted upon. Since formal planning, project selection and decisions regarding priorities and resource allocation will take place in the context of formal meetings of state and municipal councils for rural development and of micro-watershed organizations, beneficiary and civil-society participation is guaranteed by the national law governing sustainable rural development. To that effect, the project will promote and support the organization and consolidation of community, producer and rural and indigenous women's groups and associations, and will ensure that sufficient capacity for participatory planning and monitoring and evaluation is built up in each state.

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COMMUNITIES OF THE SEMI-ARID NORTH-WEST**

I submit the following report and recommendation on a proposed loan to the United Mexican States for SDR 17.25 million (equivalent to approximately USD 25.0 million) on ordinary terms to help finance the Sustainable Development Project for Rural and Indigenous Communities of the Semi-Arid North-west. 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 the Agricultural Sector

1. Mexico is the third largest country of Latin America, after Brazil and Argentina, and, with 100 million inhabitants (2001), has the second largest population in the region. The rural population has been estimated at 26 million, with 63 indigenous groups accounting for 12% of that total. Despite the financial crisis of 1994, Mexico is now firmly established as a middle-income country and its economy has made substantial progress although there are significant differences between the northern and southern regions and the urban and rural sectors. While there has been some progress in building a more modern and diversified economy, and improving physical and institutional infrastructure, large segments of the population have not benefited from the economic growth.

2. 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) has agricultural potential, with deserts covering almost half of the national territory. Approximately 20% of the economically active population is employed in agriculture, generating less than 8% of gross domestic product. Almost 50% of Mexico's agricultural land is owned by 26 000 *ejido* organizations (a form of communal ownership), which comprise 2.9 million *ejido* members. Mexico's crop production structure is highly oriented towards traditional crops. In 2001, a total of 13.8 million ha, or close to 57% of all agricultural land, was devoted to basic grains.

3. The present Government's economic policy is mainly focused on trade liberalization, deregulation and privatization. The constitutional reform relating to Article 27 of the Mexican Constitution was enacted in 1991-92 for the purpose of creating a land market and thus freeing up the productive potential of *ejido* lands. The impact of the North American Free Trade Agreement (NAFTA) on the agricultural sector has varied among regions and production segments. While in-depth studies are currently under way, it has been reported that at least 3 million families will be expelled from their land due to collapse of the local basic-grain market following introduction of maize from the United States of America. At the same time, the expansion of economic activities

¹ See Appendix I for additional information.

through NAFTA liberalization will be reflected in increased demand for agricultural labourers and specialized technical services in agribusinesses and export enterprises.

4. **Rural poverty and vulnerable groups.** Poverty and extreme poverty in the rural areas of Mexico have varied according to the state of the economy, showing a sharp increase in 1992-96 and a slow decline from 1998 to 2002. According to government estimates, of a total of 2 400 municipalities, 810 were considered very poor and 340 extremely poor. In the latter category, more than 40% of households have no access to water or sewerage facilities, 60% lack primary school education, 50% live in dwellings with dirt floors and 30% of the population over the age of 15 is illiterate. The rural poor are mostly engaged in agriculture, with over 50% involved in small-scale production, seasonal labour or more permanent legal and/or undocumented migration to the United States as agricultural labourers. Thus, the agricultural sector still has a limited capacity to generate adequate income levels for small producers and workers, while the national economy is widely supported by high levels of migrant remittances. It is estimated that 1.5 million households depend on these cash inflows, which totalled USD 16 billion in 2004 and, as income, is second only to that from oil exports. Rural poverty mostly affects territories populated by indigenous people; an estimated 80% of these populations live in extreme poverty. Of the more than 12 million rural inhabitants of forestry- and biodiversity-rich but marginalized territories, almost half are indigenous people. Some 17% of all rural households are headed by women, who are particularly vulnerable due to their lack of education and very limited access to labour and production resources.

B. Lessons Learned from Previous IFAD Experience

5. IFAD has thus far approved six projects in Mexico, with loans totalling USD 125 million. The principal lessons learned from implementing these interventions include:

- **Institutional context.** IFAD projects should establish a clear and simple institutional framework for intervention at the federal and local levels, creating a space for the participation of NGOs and grass-roots organizations.
- **Government resources.** Early definition and agreement with the Government on budgetary allocations is a key element in achieving early loan effectiveness.
- **Rural credit.** IFAD projects have met with severe limitations in terms of implementing rural credit; an alternative would be to establish community-based social, investment and productive funds, and support local microfinance services.
- **Beneficiary participation.** Significant increases have been made in production and incomes when participatory mechanisms have allowed beneficiaries to select the types of investments and activities to be financed.
- **Government decentralization.** IFAD projects should support decentralization efforts and offer training for local government technical staff.
- **Executing agency.** Projects directly implemented by a public-sector entity – as opposed to the traditional project executing unit – have proved effective while implementation remains within the same institutional structure.
- **Monitoring and evaluation (M&E).** This should include impact evaluation and dissemination of lessons and experience, thus going beyond solely the measurement of targets achieved.
- **Gender equity.** For IFAD projects, consideration should also be given to supporting productive initiatives for (and with) rural women so as to contribute to their effective capitalization and social and economic empowerment.

C. IFAD's Strategy for Collaboration with Mexico

6. **Policies for poverty reduction.** The Government's social development policies and strategies aim at bringing about a broad improvement in human welfare, equal opportunities and sustained poverty reduction. Two main thrusts are involved: the first is geared to benefiting the entire population; the second focuses on populations living in extreme poverty. Therefore, the practical agenda comprises both social and welfare programmes and productive, income-generating investments, with particular emphasis on the development of poor, extremely poor and marginalized micro-regions and with a stated commitment to achieving the Millennium Development Goals.

7. **Rural development strategy.** The Government has also focused on the rural poor through an intervention strategy targeting regions and producers that have the potential to achieve sustained economic growth but have been hampered by limited access to land, technology, markets and financing. This strategy supports the implementation of the national micro-watershed programme and the law governing sustainable rural development. These initiatives place emphasis on the rehabilitation, conservation and rational use of natural resources, delegate responsibility for decisions on investments and programmes to the states and municipalities, including promotion of beneficiary organizations, on-farm and infrastructure investments, and provision of agricultural inputs and subsidies. By law, the strategy should be implemented by joint inter-institutional actions and investments at the municipal level. The National Agreement for the Development of Rural Society and Food Security and Sovereignty, signed by the President of Mexico with representatives of the main producer and peasant organizations in April 2003, embodies the Government's commitment with regard to executing key structural and institutional reforms and increasing sectoral and social investments.

8. **Poverty eradication activities of other major donors.** A number of multilateral, bilateral and regional donors are providing financial and development assistance to Mexico. The large lending portfolios of the World Bank and Inter-American Development Bank (IDB) are oriented to health, education, technological and communications infrastructure, and modernization of the Government's institutional framework. They also cover agricultural production, rural development and the environment, inclusive of community forestry for the development of the country's southern states. In addition, the Global Environment Facility has provided support for the establishment of biosphere reserves and other environment-related initiatives, while the Global Mechanism of the United Nations Convention to Combat Desertification (UNCCD) has provided technical assistance and resources for the process of public-policy harmonization. The World Bank and IDB are primary donors to the NAFTA free trade initiative, together with the United States Agency for International Development (USAID). Other bilateral donors providing development assistance to Mexico include France, Germany, Japan, Spain and the United Kingdom of Great Britain and Northern Ireland.

9. **IFAD's strategy in Mexico.** Operations and experience in Mexico over the past decade have led to changes in the Fund's intervention strategy in the country, which presently focuses on strengthening the decision-making and participation capacities of communities and grass-roots organizations as part of a broader social and economic capitalization strategy to increase incomes and employment through: a diversified regional economy, expanded agricultural production, consolidation of rural businesses and market linkages, and the involvement of both public and private institutions. Defined IFAD action thrusts include: (i) promoting and strengthening the capabilities of communities and grass-roots organizations for local, community-driven development; (ii) supporting rural and indigenous communities, individual smallholders and *ejido* members to increase their agricultural production for markets, incomes and employment opportunities. This includes support for technology validation and dissemination, linkages with local markets, development of microenterprises, and natural resources management and conservation; and (iii) continuing current efforts to promote the active participation of rural and indigenous women in decision-making and in the social and economic activities of their communities.

10. **Project rationale.** Mexico's semi-arid north-west region has a high incidence of localized rural poverty and is socially, economically and environmentally vulnerable. The region's communities, however, have a common patrimony of rich cultural traditions, important natural resources and a deep-rooted indigenous knowledge of their natural environment. Their collective patrimony also encompasses widespread natural, unspoiled landscapes and territories that produce (without explicit compensation) environmental services for the benefit of society at large.

11. The project rationale therefore has to do with the need to support community capitalization and development (as opposed to continuing with subsidy-based programmes), concentrating on key economic activities and the active use of selected assets. While the project design process capitalizes on IFAD's project/programme implementation experience in Mexico, the Latin America and Caribbean region and elsewhere, the proposed project will serve as an innovative learning instrument within the country. Key areas for field action-research will include: consolidation of the micro-watershed participatory planning and investment approach now being executed in participating states; assessment of poor people's natural assets; community-based rural development; and nature-based tourism. Finally, the rationale for the project rests on its expected contribution to achieving – through targeted investments and development action – the objectives of the UNCCD.

12. The project will set in motion an innovative, participatory and community-based development process aimed at ensuring the effective social and economic capitalization of communities and their entrepreneurial individuals; and at supporting the implementation of the Government's integrated, multisectoral rural development strategy at the municipal and micro-watershed levels. Project interventions will focus on key investments and activities under its specific components and facilitate the mobilization and judicious use of resources from other sectors and programmes. These types of investments (in health, education, rural housing, etc.) and the intensity of their application in the target areas may not be successful if government programmes are implemented as separate interventions, i.e. without intersectoral planning and coordination.

PART II - THE PROJECT

A. Project Area and Target Group

13. The project area covers 19 municipalities in four states of the semi-arid north-west region of Mexico: Baja California, Chihuahua, Coahuila and Sonora. The criteria for the selection of these states were: (i) specific areas and municipalities with a high concentration of poor and extremely poor rural people, and zones populated by poor agricultural labourers; (ii) presence of distinct indigenous populations living under conditions of social and economic vulnerability and food insecurity; (iii) identified priority areas for rehabilitation, conservation and rational management of natural resources or micro-watersheds already covered by a master plan for production and conservation; and (iv) areas with special natural and cultural endowments that would enable their communities to launch and/or consolidate nature-based tourism microenterprises. The project will be executed in 57 micro-watersheds; initial action-research will focus on one model micro-watershed for each of the 19 municipalities involved.

14. **Target groups.** The target population has been estimated at 57 300 people, 35 500 of whom will benefit directly from the project. These direct beneficiaries will include small poor farmers (*ejido* members and smallholders); landless farmers and rural labourers; rural microentrepreneurs, including people from communities with the potential to develop small businesses from nature-based tourism activities; and rural and indigenous women and youth. Rural women in the project area account for approximately 50% of the population; accordingly, project investments and activities will guarantee differentiated action and proportional allocation of resources. It has been estimated that at least 30% of the direct and indirect beneficiaries will be members of indigenous communities, namely the Cucapah, Guajios, Kiliwa, Kumiai, Pai Pai, Pimas, Raramuri, Seri, Tepehuano and Yaqui groups.

B. Objectives and Scope

15. The project's overall objective is to raise the quality of life and thus reduce the levels of poverty and marginality affecting rural and indigenous communities in the project area. The project will support project-area communities and grass-roots organizations in developing capacity to participate in local, social and economic development processes, increase their production, employment opportunities and incomes, and ensure the sustainability of natural resources. Specific objectives include: (i) improving the productive capacity of land and natural resources while facilitating better community control over assets, including land, agro-biodiversity and natural landscapes; (ii) developing the human and social resources of poor rural communities and indigenous populations while strengthening the management and decision-making capacity of communities and their organizations, with care to ensure gender equity and respect for ethnic diversity; (iii) boosting employment and income levels of beneficiary families through the receipt of payment for environmental services and from rural and nature-based tourism microenterprises; and (iv) strengthening the inter- and intra-institutional coordination capacity of the executing agency and project-related institutions at the municipal, state and federal levels.

C. Components

16. Based on its strategic framework, expected outcomes and corresponding operational design, the project will be structured around four components: (i) rehabilitation and conservation of natural resources; (ii) strengthening of local development capability; (iii) development of rural and nature-based tourism microenterprises; and (iv) institutional strengthening. These components will be executed with participatory planning and with an eye to gender equity, with specific activities in support of rural and indigenous women.

17. **Rehabilitation and conservation of natural resources.** This component is founded on a comprehensive approach to the territorial rural space (social, economic, environmental aspects), derived from a participatory planning process culminating in micro-watershed master plans for production and conservation that trigger broad-based social and economic investments and actions. Beneficiaries in the micro-watersheds will adopt improved processes and technologies for sustainable production and for the rehabilitation and conservation of natural resources (water, soil, vegetation, biodiversity). Component activities include: (i) training and sensitization of rural populations and schoolchildren on the rational use and management of natural resources; improved technologies; and selected environmental/natural resource management themes targeted to technical staff of the National Forestry Commission (CONAFOR) and other public, non-governmental and private institutions; (ii) establishment of demonstration units and execution of selected fieldworks for natural resources rehabilitation and conservation; (iii) reforestation and establishment of improved agrosilvopastoral production systems; and (iv) promotion and expansion of ongoing environmental service-payment schemes pioneered by CONAFOR.

18. **Strengthening of local development capability.** The objective here is to strengthen the participation and decision-making capacity of rural people, their organizations and other stakeholders – at the local, municipal and state levels – to actively participate in community-based, self-managed development processes. The component will seek to promote and support the organization and consolidation of community, producer and rural and indigenous women's groups and associations. Principal activities include: (i) participatory diagnosis of current development conditions and the updating/consolidation of micro-watershed master plans; (ii) establishment of interdisciplinary development promotion teams; (iii) specific training, development and empowerment plans for rural women aimed at assuring both their participation in economic activities and their direct involvement in community and project decision-making; (iv) training programmes for strengthening community organizations and rural economic and production units, and for technical project staff; and (v) rural and indigenous (bilingual) communications.

19. **Development of rural and nature-based tourism microenterprises.** Support will be provided to entrepreneurial communities, organizations, groups and individuals to develop and consolidate rural microenterprises in general as well as other microenterprises associated with various types of nature-based tourism. These will be established on the basis of project-sponsored microenterprise business plans and will serve as vehicles for increasing incomes and employment opportunities. Investment projects will be financed under ongoing government programmes and formal and emerging microfinance systems in participating states. Specific activities will include: (i) ensuring access to markets and business management services, including training, for entrepreneurs, technicians and business executives; (ii) providing support for the formulation of business plans and coaching, as required, for implementation of new microenterprises; (iii) helping to identify potential tourist areas and attractions (landscapes, archaeological sites, areas of ecological interest) and to develop new nature-based tourism microenterprises; (iv) ensuring access to public and private funding from different sources and programmes; and (v) strengthening local, municipal and state microfinance entities.

20. **Institutional strengthening.** The objective of this component is to strengthen the operational structures, technical capacity and inter-institutional coordination capability of CONAFOR (the project executing agency) and the implementation capacity of other institutions and organizations involved in the project. The required competencies include: participatory planning methodologies, M&E, and gender equity and development, among others. To that end, the project will also facilitate political and policy dialogue between the Government and civil society on relevant rural development themes.

21. A gender perspective will guide all project investments, while explicit activities will aim at guaranteeing that rural and indigenous women actively participate (through local development committees and municipal councils for rural development) in microenterprise development, access to financial resources, nature-based tourism and other economic and commercial activities, as well as in the allocation of resources and decision-making that affects their communities. Support will also be provided for promoting gender perspectives and action within the communities, the executing agency and other institutions involved in the project.

D. Costs and Financing

22. The total cost of the project over its six-year implementation period has been estimated at USD 32.9 million, distributed by project component as follows: (i) rehabilitation and conservation of natural resources – USD 7.5 million (23% of total costs); (ii) strengthening of local development capability – USD 7.2 million (22%); an amount of USD 1.3 million has been allocated for explicit gender-related investments under this component; (iii) development of rural and nature-based tourism microenterprises – USD 13.8 million (42%); and (iv) institutional strengthening – USD 4.3 million (13%). Project financing consists of: an IFAD loan of USD 25.0 million; a Government contribution of USD 7.0 million, of which USD 3.2 million will be used to cover duties and taxes; and an in-kind contribution from the beneficiaries estimated at the equivalent of USD 971 000.

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

Components	Local	Foreign	Total	% of Foreign Exchange	% Total of Base Costs
A. Rehabilitation and conservation of natural resources	4 498	2 746	7 244	38	23
B. Strengthening of local development capability					
Strengthening of local development capability	4 769	671	5 440	12	18
Gender-related activities	1 046	282	1 328	21	4
Subtotal	5 815	953	6 767	14	22
C. Development of rural and nature-based tourism microenterprises					
Access to markets and business management services	3 728	97	3 825	3	12
Rural development plans	7 580	-	7 580	-	24
Development of nature-based tourism	1 254	302	1 556	19	5
Subtotal	12 563	399	12 961	3	42
D. Institutional strengthening					
Planning, M&E	1 677	9	1 686	1	5
Project executing structure	2 344	22	2 365	1	8
Subtotal	4 021	31	4 052	1	13
Total base costs	26 897	4 128	31 025	13	100
Physical contingencies	189	-	189	-	1
Price contingencies	1 631	116	1 747	7	6
Total project costs	28 716	4 244	32 960	13	106

^a Discrepancies in totals are due to rounding.

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

Components	Government		IFAD		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
A. Rehabilitation and conservation of natural resources	1 044	14	5 516	73	971	13	7 531	23	2 821	3 667	1 044
B. Strengthening of local development capability											
Strengthening of local development capability	2 121	36	3 783	64	-	-	5 904	18	695	4 568	641
Gender-related activities	181	13	1 173	87	-	-	1 355	4	285	888	181
Subtotal	2 303	32	4 956	68	-	-	7 259	22	980	5 456	822
C. Development of rural and nature-based tourism microenterprises											
Access to markets and business management services	1 497	36	2 615	64	-	-	4 112	13	99	3 762	252
Rural development plans	810	10	7 290	90	-	-	8 101	25	-	7 290	810
Development of nature-based tourism	407	25	1 238	75	-	-	1 646	5	312	1 177	157
Subtotal	2 715	20	11 144	80	-	-	13 859	42	410	12 230	1 218
D. Institutional strengthening											
Planning, M&E	891	48	981	52	-	-	1 872	6	9	1 767	96
Project executing structure	63	3	2 377	97	-	-	2 439	7	23	2 354	63
Subtotal	954	22	3 358	78	-	-	4 312	13	32	4 120	159
Total project costs	7 015	21	24 974	76	971	3	32 960	100	4 244	25 473	3 243

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

23. The procurement of goods, works and services to be financed under the project will be in accordance with government regulations and procedures for procurement programming, purchasing and control, as stipulated in the law governing procurement, leasing and public-sector services. Such government norms are explicit with regard to: advance programming and establishment of procurement committees; procedures for local and international competitive bidding; and ceilings on contracts to be awarded through local shopping and direct contracting – all of which will be specified in the loan agreement.

24. A special account will be opened at the Bank of Mexico, with an authorized allocation of USD 1.5 million. Withdrawals will be made against statements of expenditure for expenditures not exceeding USD 50 000 equivalent. Nacional Financiera will act as financial agent for the Government under an agency agreement acceptable to IFAD. Funds to finance project expenditures will be made available by CONAFOR and other project entities on the basis of yearly budgetary allocations and in accordance with the project's annual programme of work and budget and with national regulations and procedures. Provision has been made for retroactive financing to be available up to USD 580 000 starting 1 July 2005.

25. Six months 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 performed by component and category of expenditure in accordance with public-sector accounting norms.

26. An audit firm satisfactory to IFAD will be selected to undertake annual financial and management audits, to be financed by the project. Each project entity will keep separate accounts for project-related expenditures, which will be consolidated by the project executing structure.

F. Organization and Management

27. The project executing agency will be CONAFOR, a decentralized entity of the Federal Government under the Environmental Affairs and Natural Resources Secretariat (SEMARNAT). Its mandate is to develop forestry policies and strategies and to promote and support both productive activities and others relating to the conservation/rehabilitation of natural resources, and to formulate plans and programmes for community-based rural development. The presidential decree that created CONAFOR is explicit with regard to its focus on and approach to natural resources management and responsibility for promoting subsistence forestry production systems by supporting viable projects that generate employment opportunities and income for communities in forest regions. CONAFOR is also a member of the National Working Group on Ecotourism Development, which aims at promoting the conservation and rational use of natural resources, development of rural and indigenous communities, and viability of eco-tourism enterprises and other nature-based tourism activities. It has a wide field presence, with 13 regional offices and operational offices in all 32 states of the country, thus covering all agro-ecological zones.

28. As part of the institutional strategy for ensuring the sustainability of project operations (entry-consolidation-exit), responsibility for project implementation will be entrusted to the present CONAFOR structure. This approach is in line with the Government's current policy of avoiding the duplication of administrative or implementation structures, and also with lessons drawn from IFAD projects in the country with regard to the inadvisability of creating alternative structures that may be terminated at the conclusion of donor-financed investments.

29. The **project executing structure** will be headed by CONAFOR's director-general and managed by a coordinator-general, a function that will be assumed by CONAFOR's coordinator-general of production and productivity in accordance with the present organizational structure. The function of manager for planning and M&E will be assumed by CONAFOR's current manager for

planning and evaluation, while, in a similar fashion, the strengthening of local development capabilities component will be overseen by CONAFOR's manager of education and training. The development of rural and nature-based tourism microenterprises component will be supervised by CONAFOR's manager of the production chains programme; and the management of administration and communication will be entrusted to CONAFOR's present manager of administration and social communication.

30. In practice, the project executing structure will coordinate overall project implementation through the micro-watershed approach, for which an inter-institutional agreement will be established with the Mexican Government's Trust Fund for Shared Risk. Similarly, specific agreements will be established as required by each project component: (i) between CONAFOR and SEMARNAT and other secretariats and entities within the federal and state governments, e.g. the Secretariat for Agriculture, Rural Development, Fisheries and Food, the National Commission for the Development of Indigenous Peoples, the Secretariat of Tourism, the National Women's Institute, etc.; and (ii) between CONAFOR and states and municipalities in the project area. These agreements will be formalized during the first 12 months of project implementation.

31. **Project implementation.** Field-level implementation will be executed by the state coordinators for Baja California, Chihuahua, Coahuila and Sonora, who will assign responsibilities at this level to technical staff for planning and M&E, natural resources management, and the development of rural and nature-based tourism microenterprises. In addition, in each state, interdisciplinary development promotion teams will include an officer responsible for gender equity as well as local development agents and municipal rural promoters. Project execution will be guided by a six-year implementation plan and a project implementation manual, which will be prepared within six months after loan effectiveness.

32. Formal planning, subproject selection and decisions regarding priorities and resource allocation will take place (under a multisectoral and multidisciplinary approach) at formal meetings of micro-watershed organizations and of state and municipal councils for sustainable rural development, where beneficiary and civil-society participation will be assured by the national law governing sustainable development. The project will also support community and producer organizations, in response to proper implementation of the above-mentioned law, and will ensure that capacity is built up in each state for participatory planning and M&E.

33. **Planning, M&E and learning.** The project will establish and consolidate a central planning and M&E unit, with mirror units in each state. The functions of the unit will be to facilitate decisions on resource allocation and closely follow up on project implementation at the state, micro-watershed and municipal levels. The unit will establish an M&E and learning system consisting of four components: planning-support system; continuous M&E; evaluation and studies; and experience systematization. The project will be linked to IFAD's Results and Impact Management System (RIMS) and will maintain key monitoring indicators, adapting the existing geographical information systems of CONAFOR and the Trust Fund for Shared Risk to the project's social and economic requirements.

G. Economic Justification

34. **Expected results.** Project outputs and results will comprise: (i) **natural resources management:** improved productive capacity of land and natural resource assets, including the natural landscape; newly-developed/adopted conservation technologies; community control of productive and tangible/non-tangible assets, including agro-biodiversity; effective schemes for environmental-service payments; awareness and safeguard mechanisms for the natural landscape and cultural patrimony, etc.; (ii) **rural microenterprises:** increased incomes and employment from newly created rural microenterprises; networking and commercialization mechanisms for alternative agro-products and artisanal handicrafts; new products, services and markets, etc.; and (iii) **social capitalization/institutional development:** new and enhanced skills and capacities; self-reliance of communities and

individuals; political and policy dialogue (civil society and the three levels of government), leading to improved implementation of the existing legal framework for rural development; access to funds from ongoing interventions and promotion of emerging microfinancial services; trained local development agents and enhanced technical support systems; action-research case studies and best practices; and inter-institutional mechanisms and agreements for project implementation.

35. **Project benefits.** The project is expected to lead to higher production of agricultural and non-agricultural products; increased employment and incomes; better capacity to offer nature-based tourism products and services, thus capturing key segments of national and international demand that might otherwise be absorbed elsewhere; reduced levels of environmental degradation; enhanced conservation of biodiversity and other natural assets, with community incomes derived from environmental-service payment schemes; social capitalization, mainly in terms of community organization, improved education, health and nutrition; and reduced vulnerability of targeted communities. The 35 500 direct beneficiaries include rural men, women, children and vulnerable populations in the project area. Approximately 30% of the direct beneficiaries are from indigenous communities.

36. **Incremental impact.** Project benefits will originate from both direct project investments and overall incremental investment resources at the local level in terms of multisectoral and micro-watershed master plans, and from funds channelled by other programmes and government entities. The increased local concentration, multisectorality and intensity of complementary investments and actions (e.g. community sanitation, water, social services, feeder roads, etc.) should accelerate the generation of social and economic benefits, which would not take place without the project's catalysing effect. Baseline studies in conjunction with the M&E and learning systems should facilitate the assessment of benefits and social and economic impact.

H. Risks

37. Principal risks are related to: (i) political and institutional difficulties that may arise between the municipal and state governments and between entities of the latter and those of the Federal Government. These risks may be reflected in a lack of inter-institutional coordination in local rural development planning and implementation, but will be mitigated by inter-institutional agreements between CONAFOR and key entities involved in project implementation; (ii) the importance of timely allocation and transfers of budgetary resources from federal and state programmes in general, and from the federal and municipal governments in particular, required to maintain the operations of key field-level operators; and (iii) doubts regarding CONAFOR's effectiveness in implementing organizational changes to adapt its normal operations to the requirements of the project. Action to be undertaken under an action plan for the initial 18-month implementation period, now being formulated by CONAFOR, should minimize all potential risks.

I. Environmental Impact

38. The project has been tentatively classified as Category B, in view of its focus on sustainable production and natural resource conservation and rehabilitation and the fact that implementation will involve environmentally sensitive recommendations, preventive interventions and mitigating investments. Technical assistance for the rehabilitation of natural resources and for agricultural and microenterprise development will be consistent with sound practices in terms of soil, water and vegetation conservation, and controlled use of pesticides and chemicals. Reduced soil erosion, better overall watershed management and restoration of biodiversity are among the expected direct environmental benefits, which will in turn facilitate the promotion and expansion of ongoing environmental-service payment schemes (carbon sequestration, soil and water management, biodiversity). The country's strict environmental norms will be applied in all project-related activities and the development of tourism will take account of the "limits of acceptable change" (i.e. carrying capacity) for existing cultural and physical conditions and for which this type of assessment will form part of micro-watershed master plans.

J. Innovative Features

39. The principal innovative features of project design and operational structure include: (i) the establishment of participatory planning and investment processes (at the micro-watershed level) originating from the rural and indigenous communities themselves hand in hand with the implementation of a strategy of local development, production diversification and capitalization based on community-run, nature-based tourism microenterprises and related businesses, and agricultural and non-agricultural production; (ii) the catalytic role of the project in consolidating the Government's decentralization and rural development policies and investment mechanisms at the municipal level; and (iii) the implementation approach that entrusts execution and coordination responsibilities within CONAFOR's existing structure while setting up specific mechanisms and resources for its operational strengthening.

40. Key areas for project learning, networking and field action-research will include: (i) the micro-watershed participatory planning and investment approach, with a view to consolidating its integrated intervention methods and leading to wider replication and scaling up; (ii) valuation of the natural assets of and for the poor in community-based rural development (inclusive of branding, certification and denomination of origin for local products and services); and (iii) knowledge-management and commercial networking in support of rural and indigenous women and communities and for the development of nature-based tourism microenterprises. The project will establish learning and experience-sharing linkages with IFAD's thematic programmes in the region and with key research universities and specialized NGOs.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

41. A loan agreement between the United Mexican States and IFAD will constitute 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.

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

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

PART IV - RECOMMENDATION

44. 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 seventeen million two hundred and fifty thousand special drawing rights (SDR 17 250 000) to mature on or prior to 1 August 2023 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 31 August 2005)

1. **Agency and implementation agreement.** The Government, through the Finance Ministry [Secretaría de Hacienda y Crédito Público], undertakes to forward to IFAD an agreement among the Ministry, Nacional Financiera S.N.C. (NAFIN) and CONAFOR, specifying the responsibilities and duties of the parties with regard to implementation and supervision of the project and administration of the loan. Under said agreement, NAFIN will undertake to administer the loan and to supervise the project, in its capacity as financial agent of the Government, and CONAFOR will agree to be the executing agency of the project and to perform all such actions as are incumbent upon it under the loan agreement.
2. **Special account.** The Government, through NAFIN, may open and maintain at Banco de México a special account in United States dollars for the financing of the project, on terms and conditions acceptable to IFAD.
3. **Financing of the project.** The Government will make the necessary funds available to CONAFOR, through NAFIN, including the counterpart funds, during the project implementation period.
4. **Additional circumstances of suspension.** IFAD may suspend, in full or in part, the right of the Government to request withdrawals from the loan account if the operations manual or agency agreement, or any of their respective provisions, has been assigned, waived, suspended, revoked, amended or otherwise modified without the prior agreement of IFAD and this has had adverse consequences for the project and/or compliance with the provisions of the loan agreement. IFAD will suspend, subject to prior notification, the right of the Government to request withdrawals from the loan account if the required audit is not conducted satisfactorily in the time frame indicated or if satisfactory remedial measures have not been taken.
5. **Mid-term review.** The Government, NAFIN, CONAFOR and IFAD will jointly conduct a review of project implementation before the 36th month following the date of effectiveness, in accordance with the terms of reference prepared.
6. **Operations manual.** CONAFOR will prepare a draft operations manual that will be forwarded through NAFIN to IFAD for comment and its no objection. The manual will be deemed approved if, within the 30 days following receipt, IFAD has not made any comment on the draft.
7. **Participation by beneficiaries.** The project parties will promote participation by rural and indigenous populations and the linkage of these entities with the various institutions of the Government related with the administration of economic, social and natural forestry resources at the local, municipal, federal and state level. Similarly, they will foster participation by the private sector and civil society.
8. **Conditions precedent to effectiveness.** The following are conditions precedent to effectiveness of the loan agreement:
 - (a) the loan agreement has been duly signed, and all conditions precedent to its effectiveness have been fulfilled;

ANNEX

- (b) the Government has forwarded to IFAD a duly signed copy of the agency and implementation agreement; and
- (c) the Government has forwarded to IFAD favourable legal opinions in form and substance acceptable to IFAD

APPENDIX I

COUNTRY DATA

MEXICO

Land area (km² thousand), 2003 1/	1 909	GNI per capita (USD), 2003 1/	6 230
Total population (million), 2003 1/	109.29	GDP per capita growth (annual %), 2003 1/	- 0.2
Population density (people per km²), 2003 1/	54	Inflation, consumer prices (annual %), 2003 1/	5
Local currency	Mexican Peso (MXP)	Exchange rate: USD 1 =	MXP 10.50
Social Indicators		Economic Indicators	
Population (average annual population growth rate), 1997-2003 1/	1.4	GDP (USD million), 2003 1/	626 080
Crude birth rate (per thousand people), 2003 1/	19	Average annual rate of growth of GDP 1/ 1983-1993	2.4
Crude death rate (per thousand people), 2003 1/	5	1993-2003	3.2
Infant mortality rate (per thousand live births), 2003 1/	23	Sectoral distribution of GDP, 2003 1/	
Life expectancy at birth (years), 2003 1/	74	% agriculture	4
Number of rural poor (million) (approximate) 1/	n/a	% industry	26
Poor as % of total rural population 1/	n/a	% manufacturing	18
Total labour force (million), 2003 1/	43.59	% services	70
Female labour force as % of total, 2003 1/	34	Consumption, 2003 1/	
Education		General government final consumption expenditure (as % of GDP)	13
School enrolment, primary (% gross), 2003 1/	110 a/	Household final consumption expenditure, etc. (as % of GDP)	69
Adult illiteracy rate (% age 15 and above), 2003 1/	9 a/	Gross domestic savings (as % of GDP)	18
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	n/a	Merchandise exports, 2003 1/	165 396
Malnutrition prevalence, height for age (% of children under 5), 2003 2/	18 a/	Merchandise imports, 2003 1/	178 503
Malnutrition prevalence, weight for age (% of children under 5), 2003 2/	8 a/	Balance of merchandise trade	-13 107
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP), 2003 1/	6 a/	before official transfers, 2003 1/	-22 831
Physicians (per thousand people), 2003 1/	2 a/	after official transfers, 2003 1/	-8 936
Population using improved water sources (%), 2003 2/	88	Foreign direct investment, net 2003 1/	10 783
Population with access to essential drugs (%), 1999 2/	80-94	Government Finance	
Population using adequate sanitation facilities (%), 2003 2/	74	Cash surplus/deficit (as % of GDP), 2003 1/	-1 a/
Agriculture and Food		Total expenditure (% of GDP), 2003 1/	n/a
Food imports (% of merchandise imports), 2003 1/	7	Total external debt (USD million), 2003 1/	140 004
Fertilizer consumption (hundreds of grams per ha of arable land), 2003 1/	690 a/	Present value of debt (as % of GNI), 2003 1/	25
Food production index (1989-91=100), 2003 1/	107	Total debt service (% of exports of goods and services), 2003 1/	21
Cereal yield (kg per ha), 2003 1/	2 806	Lending interest rate (%), 2003 1/	7
Land Use		Deposit interest rate (%), 2003 1/	3
Arable land as % of land area, 2003 1/	13 a/		
Forest area as % of total land area, 2003 1/	29 a/		
Irrigated land as % of cropland, 2003 1/	23 a/		

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

1/ World Bank, *World Development Indicators* CD ROM 2005

2/ United Nations Development Programme, *Human Development Report*, 2004

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
Strengthening Project for the National Micro-Watershed Programme	IFAD	UNOPS	O	18 Dec 03		30 Jun 11	L - I - 626 - ME	SDR	10 500 000	

LOGICAL FRAMEWORK AND RESULTS AND IMPACT MANAGEMENT SYSTEM (RIMS) REPORTING

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
<p>Development goal</p> <p>Levels of poverty and marginality faced by rural poor communities (indigenous and non-indigenous) of states of Baja California, Chihuahua, Coahuila and Sonora are reduced.</p>	<ul style="list-style-type: none"> • Percentage of households that increase their index of household assets ownership (RIMS anchor indicator) • Percentage reduction of children malnutrition (RIMS anchor indicator) 	<ul style="list-style-type: none"> • Baseline study • Evaluation reports • Reports from United Nations Children’s Fund 	
<p>Project objectives (six-year investment)</p> <p>Communities and organizations of the project area develop capacity to participate in local social and economic development processes, expand their productive and employment opportunities, and increase their incomes, while enhancing the sustainability of natural resources.</p>	<ul style="list-style-type: none"> • Estimated 35 525 rural poor (indigenous and non-indigenous) (of which 51% are women) participate in project actions and investments • Organized rural poor communities trigger off a participative, community-centred, self-managed rural development process in 57 micro-watersheds, based on specific master plans for production and conservation (MPPCs) • 70% of beneficiaries represented in corresponding (local-, municipal-, state-level) decision-making councils; these bodies are thus strengthened as expected in practice under the law governing sustainable rural development • 80% of targeted beneficiaries become aware of environmental degradation problems and adopt adequate practices and technologies for proper management and use of natural resources • At least 100 microenterprises (farm production-related and otherwise) consolidate competitive and sustainable business activities, of which 30% are managed by women and 30% by indigenous entrepreneurs • At least 3000 families of microentrepreneurs make sustainable increases in income; of these, 30% are indigenous families • 20 nature-based tourism microenterprises operate services and offer products in a competitive and sustainable business manner. At least 30% of these operations are run by indigenous communities/entrepreneurs • 60% of microenterprises in operation gain access to financing • Rural women’s participation increases by 25%, i.e. organization membership, decision-making in community affairs, access to services and financial resources • CONAFOR improves its operational, coordination and resource allocation ability (i.e. human, material, technical) in project execution and related activities • No. of households that improve their food security (RIMS indicator) 	<ul style="list-style-type: none"> • Baseline study • Mid-term and final evaluation reports • Regular M&E reports • Comparative studies and census data • Sectoral policy evaluation reports from the performance-based allocation system (PBAS) 	<ul style="list-style-type: none"> • Resources from federal and state programmes are properly budgeted and allocated/ channelled in timely manner

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
<p>Output 1: Natural resources rehabilitation and conservation</p> <ul style="list-style-type: none"> The beneficiary rural populations of selected micro-watersheds take on project's improved processes and technologies, applying adequate systems for sustainable production and for the proper rehabilitation and conservation of natural resources 	<ul style="list-style-type: none"> At least 57 MPPCs are formulated/reviewed, implemented and monitored, of which 19 (i.e. one for each municipality) are participatory model showcases of integral rural development The beneficiaries of 57 micro-watersheds implement actions and investments for rehabilitation of natural resources, production and rural development At least three natural-resource conservation/ production technological packages are designed and applied in each model micro-watershed 13 000 beneficiaries and 50 technicians (men and women) are trained in themes related to rehabilitation, conservation and rational use of natural resources No. of environmental service payment projects in execution Fifty-seven nursery-level and elementary schools implement environmental education pilot programmes No. of households with legal long-term tenure of land, water and other natural resources (RIMS indicator) 	<ul style="list-style-type: none"> Master plan documents (MPPCs) Baseline study Evaluation reports Regular reports from the project's M&E system Social audit reports 	<ul style="list-style-type: none"> The rural population and public and private institutions become aware that integral and perennial development can happen only if natural resources are managed in a rational manner
<p>Output 2: Strengthening of local development capability</p> <ul style="list-style-type: none"> The beneficiary rural populations and participating local-, municipal-, and state-level agents strengthen their participation, decision-making and managerial capacities, triggering off an integral community-centred and self-managed development process. 	<ul style="list-style-type: none"> Ninety-six communities become organized and define priorities of key projects, starting with participatory and gender-sensitive formulation or updating of 57 MPPCs Six-hundred organizations improve their management and decision-making capacities, as related to the integral development of their micro-regions 48% of beneficiaries receive training in organizational management and decision-making Around 220 local, municipal and state development agents take part in management and participatory method-related training; of these, 30% are women 100% of the municipal councils for sustainable rural development participate in training activities, and coordinate project-related activities in their own municipalities No. of organized groups operative/functioning, by type (RIMS indicator) Number of women in management committees (RIMS indicator). 	<ul style="list-style-type: none"> Baseline study Evaluation reports Regular reports from the project's M&E system Social audit reports 	<ul style="list-style-type: none"> Municipal and federal governments assign the required resources to maintain the operations of the local development agents
<p>Output 3: Rural microenterprise development</p> <ul style="list-style-type: none"> Organized beneficiaries develop and strengthen their entrepreneurial capacities, establishing and operating competitive and sustainable rural microenterprises (agricultural and otherwise). 	<ul style="list-style-type: none"> Five-hundred rural microenterprises (agricultural and non-agricultural) formulate and implement business plans linked to markets. At least 60% are new enterprises Close to 1 800 poor rural families participate in the development of rural microenterprises, of which 30% involve rural women and 30% indigenous entrepreneurs Approximately 500 beneficiary leaders (men and women) participate in training in microenterprise development and management By the end of PY1, a system of market information/market access and enterprise management services is implemented for rural and nature-based tourism microenterprises At least one local microfinancing entity agrees to provide rural financial services to project-related microentrepreneurs Two-hundred operational enterprises set up by the third year (RIMS indicator) No. of jobs created by small enterprises (RIMS indicator) 	<ul style="list-style-type: none"> Baseline study Evaluation reports Business plan documents Regular reports from the project's M&E system Social audit reports 	<ul style="list-style-type: none"> The private sector links its activities to the commercial processes resulting from project-induced microenterprise activity

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
<p>Output 4: Development of nature-based tourism microenterprises</p> <ul style="list-style-type: none"> Organized communities holding tourism-related assets (natural landscape, archaeological sites, etc.) capitalize on these natural, historical and cultural resources by establishing nature-based tourism microenterprises. 	<ul style="list-style-type: none"> At least 20 nature-based (NB) tourism microenterprises created in the four states, of which 30% by women and 30% by indigenous communities/ entrepreneurs One pilot NB project established/consolidated in each state 1 000 beneficiaries participate in NB training programmes, involving at least 30% women and 30% participants from indigenous communities One business opportunities system is implemented in each participating state 	<ul style="list-style-type: none"> Baseline study Tourism-attraction inventory Tourism development plans Evaluation reports Regular M&E system reports Social audit reports 	<ul style="list-style-type: none"> Macroeconomic and social stability
<p>Output 5: Institutional strengthening</p> <ul style="list-style-type: none"> CONAFOR and its partner institutions and organizations (public and private) strengthen their technical and operational structures and capabilities to act in a coordinated manner in rural development. 	<ul style="list-style-type: none"> Approx. 300 management and technical staff from CONAFOR and its project-partner entities are trained in various rural development themes, i.e. gender, rural business management, M&E, etc. At least ten entities (partners of CONAFOR) and 19 municipalities reach agreement on joint investments and action as relevant to project objectives By end-PY2, CONAFOR improves its inter-institutional coordination and M&E mechanisms At least ten seminars and public policy dialogue workshops for rural development and poverty reduction are organized with the participation of government, civil society, the private sector and beneficiaries. 	<ul style="list-style-type: none"> Baseline study Evaluation reports Regular M&E system reports 	<ul style="list-style-type: none"> CONAFOR implements organizational changes to adapt its normal operations to new project requirements

Activities		
<p>Natural resources rehabilitation and conservation</p> <ul style="list-style-type: none"> • Selection and training of specialized and operational technical staff • Coordination of actions and investments of state and municipal governments with other public and private entities • Training and awareness-raising among the target population • Formulation/review and implementation follow-up of 57 MPPCs • Field (micro-watershed) investments in improved management and rehabilitation/conservation of natural resources: <ul style="list-style-type: none"> - Rehabilitation, conservation and increased sustainable production (basic and integral projects) - Natural resource management-related works: reforestation, terrace construction, forestry nurseries, etc. - Field demonstration modules (soil management, field working days, etc.) • Practical training for beneficiary producers in model farms and exchanges of experience among technical staff and community beneficiaries • Formation of community promoters for improved natural resources management • Environmental training in local schools • Environmental-service valuation and payment-scheme development and promotion, i.e. carbon sequestration, water valuation and supply, nature-based tourism and landscape services, etc. <p>Strengthening of local development capability <u>Community organization for local development</u></p> <ul style="list-style-type: none"> • Organization and training of interdisciplinary development promotion team • Pre-identification of municipalities and selection of communities • Community promotion and sensitization (rural communication campaigns; Spanish and indigenous languages) • Formulation of community diagnostics and updating of MPPCs • Strengthening of organizations and communities: <ul style="list-style-type: none"> - capability diagnostic and strengthening of groups and organizations - participatory formulation of projects - channelling for financing and participatory management of projects - formation of second-level organizations <ul style="list-style-type: none"> • Formulation and follow-up of projects • Experience systematization, dissemination and exchange 	<p>Rural microenterprise development</p> <ul style="list-style-type: none"> • Access to markets and business management services <ul style="list-style-type: none"> - Training of business executives, technicians and beneficiaries: training courses; scholarships to leaders; workshops - Support to market access: formulation of business opportunities system; commercial promotion; studies; participation in commercial fairs and business round tables - Initial capitalization fund • Formulation of business plans: rural microenterprises and nature-based tourism: (i) formulation of business plans; (ii) support to business plan implementation; (iii) specialized technical assistance (follow-up and continued business coaching) • Support for access to existing financing sources and programmes: (i) facilitation of access to financial services; (ii) formation and reconstitution of rural microfinance services • Support to the strengthening of microfinance systems <p>Nature-based tourism microenterprise development</p> <ul style="list-style-type: none"> • Identification of potential tourism zones, key attractions and sites (landscapes, archaeological and ecological sites, etc.) and of ongoing community-based projects <ul style="list-style-type: none"> - inventory of potential tourism zones/sites by type (rural, ecological, adventure, etc.) - valuation and categorization of zones/ sites and existing infrastructure and facilities - valuation of agro-biodiversity resources with potential for attracting tourism • Community awareness on potential benefits of nature-based tourism • Inter-institutional agreements with sectoral entities, the private sector and municipal and state governments • Support for development of nature-based tourism microenterprises <ul style="list-style-type: none"> - selection of projects and business leaders - design and implementation of new microenterprises - review and support to existing projects/ microenterprises • Training for technical staff, business leaders and community beneficiaries • Implementation of quality assurance and management programmes 	<p>Institutional strengthening</p> <ul style="list-style-type: none"> • Workshops and seminars for political dialogue: government-civil society • CONAFOR institutional strengthening <ul style="list-style-type: none"> - training of technical staff on key rural development themes - seminars and workshops on mechanisms and tools for inter-institutional coordination - specialized consultancies, national and international • Development of strategies and instruments for sectoral and inter-institutional coordination; and among public, private and civil-society entities <p>Gender-related action</p> <ul style="list-style-type: none"> • Design and application of methodologies for rural women's productive projects • Training and sensitization on gender equity: (i) communities; (ii) CONAFOR; (iii) authorities and institutions participating in the project • Design and dissemination of community- and state-level gender-equity and gender-solidarity materials • Design and implementation of business plans and projects for and with women; investments related to reducing household workloads; artisanal products promotion, etc. • Technical assistance and training • Linkages with Mexican women abroad • State-level promotion of gender solidarity • Design and training for the promotion of community-level microfinance services • Technical assistance and training to enhance competitiveness of rural women's productive projects • Induction of social and private business support to replace current assistance from public and philanthropic institutions

Activities		
<ul style="list-style-type: none"> • Establishment of autonomous local systems for rural communication <p>Training programme</p> <ul style="list-style-type: none"> • Training of project team: (i) project management; (i) rural development diploma; (iii) intercultural awareness and integral rural development • Workshops for groups, organizations and communities • Participatory community diagnostics; project identification; micro-regional social development and micro-history and native language registry and learning • Strengthening of local organizations and municipal councils of sustainable rural development 	<ul style="list-style-type: none"> • Implementation of a sectoral business opportunities system 	

Results and Impact Management System								
Project	Impact Indicators	Unit	Benchmark	Mid-term	Completion	Target		
	Households with improvement in household assets ownership index	Number	0			18 000		
	Prevalence of child malnutrition (weight for age)	Percentage	0			-		
Component/Output	Level Indicators	Unit	Period: First Year			Cumulative		
			AWP/B ^a	Actual	% of AWP/B	Appraisal	Actual	% of Appraisal
C1: Rehabilitation and conservation of natural resources	<i>First-level indicators</i>							
	Output 1	Micro-watershed resource management plans enacted	Number			57		
		Number of people accessing technical advisory services facilitated by project	Number			13 000		
		Land improved through soil and water conservation measures	Number/women			3 900		
			Ha.			19 000		
		<i>Second-level indicators</i>						
	Households provided with long-term security of tenure of natural resources, including land and water	Number				18 000		
	Common property resources (under improved management practices)	Ha.				15 000		
C2: Strengthening local development capacity	<i>First-level indicators</i>							
	Output 2	Interest groups formed by type	Number			600		
		Community management groups formed/strengthened	Number			97		
		Number of people belonging to groups, by types of groups	Number			12 000		
		Number of groups with women in leadership positions	Number			150		
		Village/community action plans (CAPs) prepared	Number			96		
		Community projects implemented (by type)	Number			500		
		<i>Second-Level Indicators</i>						
		Groups operational/functional, by type	Number			360		
		CAPs included in local government plans	Number			96		
		Women on management committees	Number			150		
		Projects where new/changed pro-poor legislation or regulations are enforced at the local or national levels	Number			500		

Component/Output	Level Indicators	Unit	Period: First Year			Cumulative		
			AWP/B	Actual	% of AWP/B	Appraisal	Actual	% of Appraisal
C 3: Development of rural microenterprises								
Output 3	<i>First-level indicators</i>							
	Enterprises established/strengthened	Number				500		
	People trained in productive skills	Number				9 000		
	<i>Second-level indicators</i>							
	Enterprises operating after three years	Number				200		
	Jobs generated by small and medium enterprises	Number				3 000		
General	<i>General Indicators</i>							
	Persons receiving project services (direct, total project)	Number				35 525		
	Households with improved food security	Number				18 000		
	Value of gross loan portfolio	USD				25 000 000		

^a Annual workplan and budget.

PROJECT STRATEGY, ACTIONS AND RESULTS

1. The project's strategy and action approach are in line with Mexico's policies for poverty eradication and natural resources management, which offer priority to micro-regional development as a tool for social and economic capitalization of the rural poor. In support of the country's implementation of the national law governing sustainable rural development – which takes the micro-watershed as the basic territorial unit for planning, investment and coordinated development, and the municipality as the decentralized entity for local decision-making – the project will promote the active participation of rural and indigenous communities in microenterprise development and other income- and employment-generation activities. These activities include nature-based tourism as part of the project's support to community-based capitalization, business development and production diversification.
2. Taking the **micro-watershed** as the basic territorial planning unit for rural development – and the strengthening of local capacities as the pivot for community-based development – the project will promote the participatory planning and action of rural and indigenous communities and the articulation of entities with the diverse government institutions dealing with social/economic and natural resources/environmental management at the local, municipal, state and federal levels (political dialogue/policy development) as well as involvement of the private sector and civil society. This action will result from investments and development action implemented at the local level, triggered by micro-watershed master plans for production and conservation MPPCs while targeting differentiated action for diverse target groups is transparently discussed and acted upon.
3. The project's operational strategy aims at obtaining medium- and long-term sustainable management of local rural development in its key environmental, social and economic dimensions. This implies the use of methodologies (derived from best theory and practice) to promote viable economic/financial activities, based on effective and closely supported business plans. This strategy is to be implemented by a decentralized government agency (CONAFOR) that will both execute direct field activities and coordinate the participation of other public and private entities, in their concurrent actions and investments at the municipal level.
4. Promotion of nature-based tourism is seen as a key component of a wider production-diversification and capitalization strategy for the communities involved, and one that will 'add value' to – and generate income and employment – from local physical assets, i.e. historical, archaeological and cultural sites, landscape, etc. The overall strategy will be applied within a gender perspective and with due respect for ethnic, cultural and social diversity in a context of intercultural dialogue that seeks the integration of rural and indigenous communities into the country's social and economic mainstreams.
5. The following action and results matrix is based on IFAD's Strategic Framework 2002-2004, country strategy for Mexico and the project's operational model.

APPENDIX IV

Action and Results Matrix

Project Components	IFAD Strategic Framework 2002-2006			Outputs
	Human and Social Assets	Productive Assets and Technology	Financial Assets and Markets	
Rehabilitation and conservation of natural resources	Environmental and natural resource conservation awareness	Environmentally-sustainable production and knowledge. Improved value of land and assets	Access to payments for environmental services	Improved productive capacity of land and natural-resource assets. Better living conditions. Sustainable development.
Strengthening of local development capabilities	Strengthening the capacity of the rural poor and their organizations to participate in the planning of local development	Improved access to agricultural and non-agricultural production-related training	Improved access to Government's social investment programmes	Social capitalization Self-reliance
Development of rural and nature-based tourism microenterprises	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 rural marketing support and financial services. Improved access to Government's productive investment programmes and financial services	Improved income. Better living conditions. Economic capitalization.
Institutional strengthening	Strengthening the capacity of CONAFOR and project-related entities to apply local planning processes			Political dialogue. Development of policies for local development and poverty reduction.
Gender perspective and rural women's participation (transversal action)	Strengthening rural women's decision-making capacity and participation	Access to technical support and development of innovative/specialized methodologies for 'rural women's productive activity support'	Access to integral financial services and advanced commercialization systems	Gender awareness in society. Women's social and economic capitalization.

ORGANIZATION AND MANAGEMENT

