

Project Name Mexico-Agricultural Development (@)...  
and Rural Poverty Project (see 1/)

Region Latin America and Caribbean

Sector Poverty Reduction

Project ID MXPA7711

Borrower Nacional Financiera, S.N.C. (NAFIN)

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## Country and Sector Background

1. Rural areas contain 41% of Mexico's population, but 84% of the extreme poor. The rate of extreme poverty is highest in the rural areas of southern states, where its incidence increased from 17% in 1989 to % in 1992. This rate of extreme poverty is over three times the national average. The welfare of the extreme rural poor in the south depends principally on agriculture, as 83% of their monetary income comes from agricultural production (63%) and agricultural wages (20%). Of the 1.9 million producers in seven of the poorest states in the south and center regions (Chiapas, Guerrero, Hidalgo, Michoacan, Oaxaca, Puebla, and Veracruz), 67% have five or less hectares of cultivable land. Of that land, 60% is devoted to maize production, with an average yield of only one ton per hectare. The conditions of road infrastructure and access to drinking water are extremely poor in this region; 36% of the population in rural areas in these states are without access to water.

2. Government macro-economic policies have affected negatively the agricultural sector. An overvalued exchange rate supported by high interest rates undermined growth, as the sector produces mainly tradables, and reduced investments. Moreover, government price and trade policy for agriculture has favored larger commercial farmers who are net sellers of grains and oilseeds, as well as commercial livestock producers. Until the December 1994 devaluation, there were subsidized prices for maize, wheat, rice, soybeans, beans, and sorghum. To compensate for the higher producer prices, the Government subsidized tortillas (through targeted and untargeted subsidies) and maize grain. However, net rural purchasers of maize

have had limited access to these subsidies, which were mainly for urban consumers and commercial livestock producers. Moreover, the protection afforded basic grains and oilseeds undermined the expansion of horticulture crops, which are more labor intensive and would have expanded the rural labor market. Finally, the lack of basic physical and institutional infrastructure for transport, marketing and finance has prevented most of the rural poor from taking advantage of trade liberalization and their proximity to domestic and foreign markets. The devaluation of the peso further undermined the welfare of low income rural producers by raising prices of maize and other consumables even further for poor rural consumers and reducing demand for rural labor and the value of wages. All these factors have reduced margins in subsistence agriculture to the point where farmers can no longer invest in their farms, and are increasingly obliged to adopt unsustainable farming practices just to survive.

3. During the past six years, government agricultural programs aimed at poor producers have diminished in scope and in effectiveness. Agricultural services such as research and extension have been brought to a near standstill as budgets have been cut radically and funding left only to cover recurrent personnel costs.

Government is currently reviewing these programs in order to clarify the appropriate public sector role in each and identify how these responsibilities may be at least partially devolved to the states. Other efforts to address the problems of the rural poor have included investments in basic social and economic infrastructure through the Solidarity program (for example, through Municipal Funds) and targeting of poor rural areas for improvements to health and basic education services with the support of sector ministries. While these programs have achieved some success in expanding social infrastructure and services and, in some cases, increasing community participation, they have done little to increase the productive potential and income generation of small farmers or generate other sources of employment.

4. Investments in rural roads and rural water supply have been undertaken in poor states and municipalities with financing from the Solidarity program and the first and Second Decentralization and Regional Development (DRD and DRD2) Projects (Lns. 3310-ME and 3790-ME). The use of these funds for rural roads and water supply, however, often must compete with other state and municipal priorities, leaving insufficient financing for the poorest regions.

The first DRD project also financed basic education and health programs in the Selva Lacandona, Chiapas, where community teachers and health promoters are used to provide basic services. This successful effort in reaching the poor in inaccessible, indigenous communities, may be used as a model to help promote similar programs in the project's target areas.

#### Objectives

5. The objective of the project is to improve living standards

for poor small-scale farmers and landless rural poor in priority regions of the poorest states by developing, testing, and introducing sustainable agricultural technologies and rational resource management practices, and institutionalizing improved strategies for the delivery of agricultural services and poverty-targeted investments by state governments, producer organizations and other nongovernmental organizations (NGOs). The project would specifically target participation of indigenous peoples, as they make up a significant percentage of the extreme rural poor in the southern states, and women, as they play a key role in both agriculture and in family nutrition. The project would finance:

- (a) on-farm adaptive research, extension, and technical assistance for appropriate agriculture-related technologies;
- (b) grants to community managed funds which would provide partial financing to groups and producer organizations for small investments in agriculture, natural resource management and other income-generating activities; and
- (c) technical assistance and training focused on strengthening producer organizations and state rural development agencies participating in the project.

6. Activities supported by the project would include helping small farmers and rural groups to: (a) increase yields, profitability and long term sustainability by introducing, among other things, land use and soil and water conservation practices; (b) improve variety of foods available to the home for family nutrition; (c) increase the value of agricultural production through improved storage, processing, marketing, and other activities; and (d) identify and develop alternative sources of farm and non-farm income.

#### Description

7. The precise components and implementation mechanisms of the proposed project would be developed during project identification and preparation, involving federal, state and local officials, as well as rural poor producers and producer organizations. Project financing would be geographically targeted to areas of greatest need within the poorest states, which would include highly indigenous areas.

8. Possible areas of project financing would include:

- (a) On-farm investments. Through a municipal trust fund or similar mechanism, the project would co-finance on-farm investments by groups of producers in natural resource management activities such as soil and water conservation, small scale irrigation or drainage works, agroforestry, crop diversification and improvements in post harvest processing and storage. These activities and investments would improve the sustainability of the agricultural production systems, increase on-farm employment opportunities, increase the value of family nutrition, exploit marketing opportunities, and increase the value-added of products.

(b) Adaptive agricultural research and technology. The project would finance on-farm adaptive research and extension activities, designed to introduce improved sustainable agricultural technology to participating groups of farmers.

(c) Institutional development assistance to producer organizations. Since producer organizations would be the beneficiaries as well as active participants in the identification and implementation of (a) and (b), the project would finance activities to strengthen these organizations' capacity to assist members in areas such as marketing, access to credit, and adoption of technology.

(d) Institutional development assistance to state agencies of agriculture and rural development (SDRs). In support of the objective of strengthening provision of services to small farmers, the project would finance institutional development activities aimed at assisting in the devolution of responsibilities from the national (i.e., SAGAR) to its counterpart state government organizations, the SDRs. Assistance would especially focus on the development of strategy, approach and staffing of the SDRs to undertake its role in financing adaptive research, extension, and related investment focused on poor agricultural areas.

(e) Support to women's groups. The project would finance programs which would provide technical assistance and small grants to specifically to women's groups for improvements in agricultural production and processing technologies, economic infrastructure and micro-enterprises.

(f) Link roads. In the marginal areas that the project will serve, poor communications are a major constraint. The project would therefore finance the rehabilitation of rural (unpaved) roads which provide essential links among communities and markets. It would also assist in developing a municipal-based road maintenance program. These efforts would supplement other funds that already exist in the DRD2 project for small local level road improvements.

#### Project Costs, Financing and Sustainability

9. The estimated project cost is US\$200 million, of which US\$100 million would be financed by a World Bank Loan, and the balance by federal and state governments and benefiting organizations and groups. The quality and sustainability of the individual investments would be safeguarded by a process of analysis and selection which incorporated both technical reviews and the participation of local organizations in prioritizing and making final decisions regarding such funding.

#### Project Implementation

10. The national level, the Agriculture, Livestock and Rural Development Secretariat (SAGAR) would be responsible for overall

project guidance and coordination. The project would be limited to identified poor regions of a limited number of states. The project would finance technical assistance, training, and a menu of alternative investments, with the selection of priority investments left to a decision-making process at the local level, most likely using a special substate, regional or municipal council with community representation. Producers would be responsible for maintaining the investment in the post-project period.

#### Lessons

11. Experience from other rural development efforts in Mexico and elsewhere has shown that the most effective strategy for the identification, planning and implementation of discrete project investments is through the full participation of local groups, leading to a project which is demand-driven rather than supply-driven. Specific investments within each of the proposed components would be identified and managed by local producer or community groups with government resources matched by financial and other contributions of group members.

#### Environmental and Social Aspects

12. The project is classified under Category B and would have minimal environmental consequences. Project investments would be limited to small scale productive, economic and social infrastructure. As part of the social assessment to be conducted during project preparation, an Indigenous Development Plan would be developed.

#### Poverty and Program Objective Categories

13. The project would be designated as belonging to the Project Objective Code of PA (poverty alleviation) and would be in the Program of Targeted Intervention. The project belongs primarily to the Environmentally Sustainable Development and Poverty Reduction and Human Resource Development program objective categories.

1/ Formerly called the "Southern States Agricultural Development Project."

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Note: This is information on an evolving project. Certain components may not necessarily be included in the final project.