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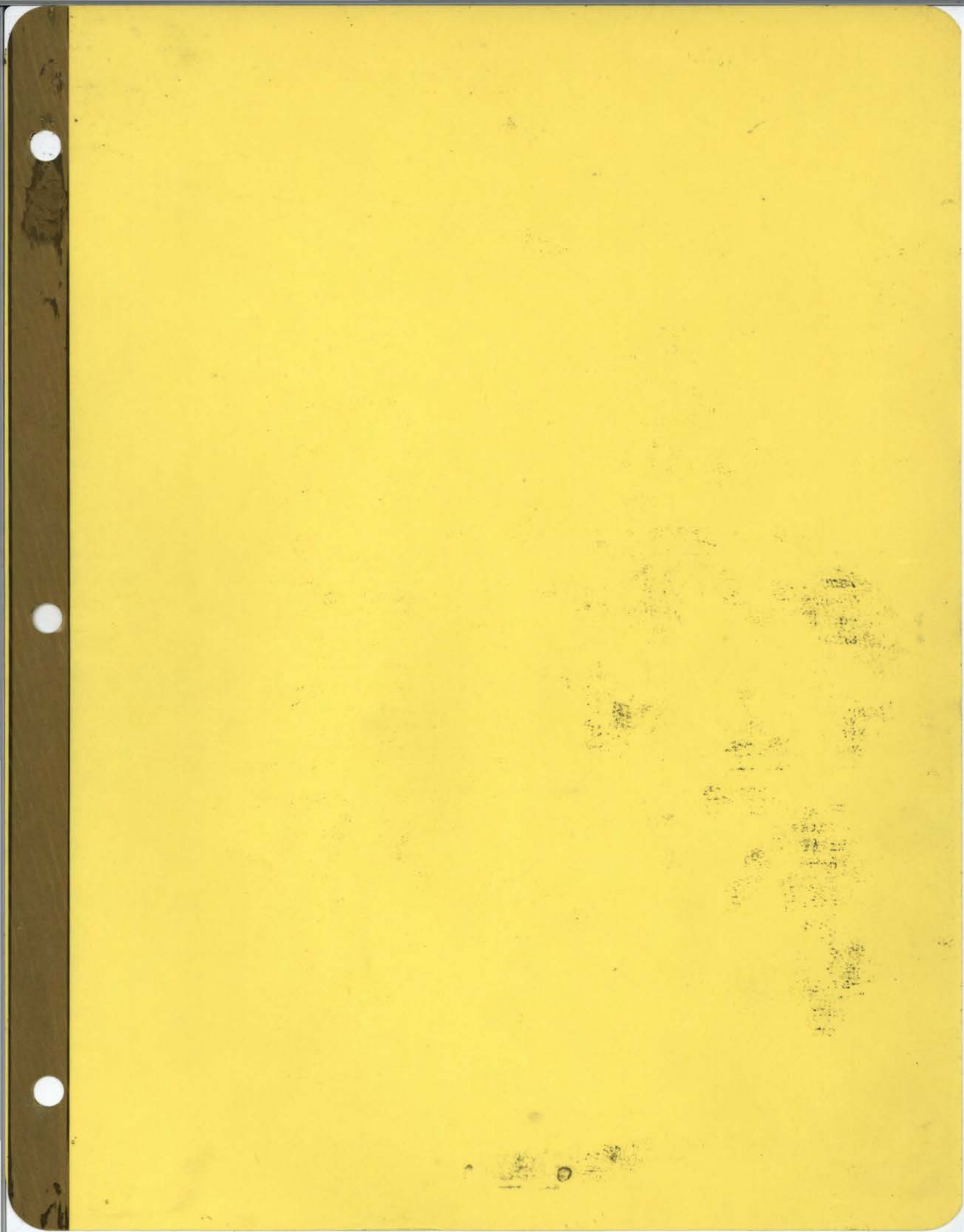
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MEXICO

RURAL DEVELOPMENT PROJECTS - PIDER

This Briefing Book contains the following:

1. PIDER Briefing Paper for Mr. McNamara
2. Mid-Term Evaluation Report - PIDER I Project, Executive Summary (Draft)
3. Micro-region Summaries
  - a) Yucatan - Overview of Performance
    - 1) Ejidos: Justica Social  
Catmis  
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Tixmeuac
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Zunu y Patastal
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Palo Alto  
Chrisostomo  
Montoya
4. Recent Supervision Reports
5. Mr. Yudelman's Report to Mr. McNamara on PIDER



MEXICO

RURAL DEVELOPMENT PROJECTS - PIDER

MICRO-REGION PERFORMANCE

Introduction

Assessing PIDER Performance at the Micro-region Level. Given the complexity and the regional dispersion of the PIDER programs, the PIDER I appraisal mission selected six of the original 30 micro-regions included in PIDER I for in-depth appraisal. You will be visiting two of these evaluated regions, Yucatan and Aguascalientes. These were subsequently supervised closely and in May 1978 were evaluated in some depth by the Bank CIDER also evaluated three of these regions. The six regions were originally selected as being representative of the main ecological conditions prevalent in the bulk of the original 30 regions agreed to by the Bank in 1974. Given the diversity of these regions (table below) performance varied greatly, from very good to poor. By and large, the range of performance on these six is representative of the range on the overall program.

<u>Microregion</u>	<u>Population</u>	<u>Annual Rainfall (mm)</u>	<u>Performance Assessment</u>
Zacapoaxtla, Puebla	74,000	1,200	very good
<u>Llano, Aguascalientes</u> <sup>1/</sup>	75,000	600	very good
<u>Sur, Yucatan</u> <sup>1/</sup>	25,000	1,200	very good
Noreste, Guanajato	71,000	650	adequate
Cosola/Elota, Sinaloa	55,000	850	below average
Sur, Nuevo Leon	113,000	500	below average

In making a preliminary performance assessment, we are referring to the period of direct Bank investment, from 1975 to 1978, a period of four years. The key indicators examined were managerial innovation at the state level, extent of participation of beneficiaries and the early impact of the actual projects completed and put in operation during this period.

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<sup>1/</sup> To be visited during Mr. McNamara's trip.



## MEXICO

### RURAL DEVELOPMENT PROJECT, PIDER I

#### Yucatan - Overview of Performance

Overview. There are many "lessons" to be drawn from PIDER's experience in Sur de Yucatan. Overall, the achievements of PIDER in Sur de Yucatan are impressive when set against the technical difficulty and poverty of initial conditions. Yet, mistakes were made (they are discussed below). PIDER has been able to set in motion, test and evaluate a variety of investments; a situation which has eluded several other "easier" micro-regions. Also noteworthy is the fact that Government agencies have succeeded in establishing fairly successful working relationships with a largely indigenous (Maya) population.

#### Background

Sur de Yucatan is a small micro-region. There were about 25,000 persons (11,000 economically active) in the original region. In 1977, three municipios were added, thereby doubling the population (to about 55,000). The large majority of region inhabitants are Maya. Many do not understand Spanish. The population has been growing fast (31% in the intercensal decade 1960 to 1970) but there is significant emigration (especially to Quintana Roo where large projects required manual labor). Over 80% of the economically active population are engaged in farming.

The region suffers from a few ironies of fate. The poorest lands happen to be relatively well connected by roads, have shallow aquifers (cheap to draw water for drinking and irrigation) and are heavily populated. The better lands were, until recently, inaccessible by road (and consequently not populated nor well supplied in social services). They tend to have rather deeper aquifers which make even the pumping of drinking water expensive.

The agricultural practices of the present day Maya inhabitants have not changed since introduced by their ancestors 1,000 years ago. However, yields declined as the natural environment went through many crises (total deforestation, decline of erosion control measures and abandonment of terrace agriculture) and continue to decline as the demand for land has reduced the fallow period for lands under slash and burn cultivation.

At the beginning of PIDER (1973), the region appeared to be the poorest in the whole state (i.e., in comparison with the cities and with the ejidos of the Henequen zone). Except for INI, which had been active for about a decade (albeit with few resources) in the region, the people were not exposed to government activities (except, possibly, the tax collector).



Development Objectives, Strategy and Investment Program

PIDER identified land and labor as the underemployed resources that could profit from an infusion of funds. Since the better lands were in a lightly populated area in the southern part of the region, part of PIDER's strategy would be to encourage people to move to where they could be helped more easily, i.e., where exploitable resources are located. In the already populated area, the general strategy was to "intensify" economic activities so that more people could be employed and at higher incomes. To do this, PIDER felt that supplementary irrigation would be required during the long dry season. Also, the strategy was to concentrate on directly productive investment, of which the most important were to be cattle unit infrastructure, irrigated and rainfed pastures, and orchards. Beekeeping and pig raising were also included among the productive activities. Four "growth points" were identified, two hinged on Peto, the main urban center of the region, one in the extreme southern area, and one in the west.

Investment Plan

The region was seen as very poor. The popularity of previous small-scale programs conducted by INI (beekeeping and credit for breeding stock) indicated the population's major preoccupation for increasing income, even if in modest amounts. Accordingly, the investment program initially proposed for the region was split as follows: out of a total of M\$98.1 million, 55% went for directly productive investment, 33% for production support (including technical assistance for new activities), 9% for social infrastructure and 3% for program coordination. The table below gives a summary of the investment program.

Sur de Yucatan: Summary of PIDER Investment

(million M\$)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>Total</u>
<u>Programmed in 1973</u>	17.5	30.5	24.0	19.8	91.8
<u>Investment</u> (Active)	11.8	18.5	17.9	8.5	56.7
<u>Investment</u> (Deflated to 1973 prices)	118.	15.0	12.4	5.0	44.2



Beekeeping has been very successful. This is due to the fact that this activity was known in the region, that it uses little land and that its fruits accrue within a year. However, the expansion of land clearing and establishment of pastures is conflicting with beekeeping by reducing the flora available (the creation of orchards does not have this drawback but orchards have not expanded very fast). Investment in roads has been plentiful and the region is now basically accessible and interconnected. Investment in the social sectors, except water supply, has barely begun, especially in the newly opened southern areas.

Some lessons from five years of activity in the region imply changes in emphasis in future actions for the development of the region.

- a. Beef cattle development, as currently understood, should be reconsidered with dairying meriting some consideration.
- b. Traditional maize culture (milpa) needs to be improved through better agricultural extension and research leading to higher production.
- c. Several processable cash crops are grown in small quantities in the area. Their potential should be investigated.
- d. There is some scope for forestry in the southern most area.
- e. There are many Maya ruins in the region (including a spectacular arch near Tekax and a pyramid near Peto); tourism potential should be addressed.

It should be noted that the region was poorly connected and that roads accounted for 50% of the productive support investments while Agricultural Extension, Technical Assistance and Farmer Organization and Training largely accounted for the rest.

#### Actual Expenditures

Through 1977, PIDER invested M\$93 million in the region. The distribution of investment is skewed with 28% of the communities accounting for 65% of total investment. The municipios of Peto (with 34%) and Tzucacab (with 31%) account for 65% of investments while, at the other extreme, 3 municipios (Chacsinkin, Oxxutzcab, and Tahdziu) account for only 5.3% of investment. Overall, 48% of investment went into productive, 39% in support and 13% in social investments. However, these averages hide large variations; for example, 74% of investments made in Chacsinkin were productive, while 85% of those in Tahdziu were social and 93% of those in Tekax were support (roads).

Of the 17 sectors financed by PIDER, 4 account for 77% of total investment; roads (27.6%), livestock development (2.8%), irrigation (17.4%) and electrification (10.2%). The most important investments financed with the remaining 23% were classrooms, drinking water and orchards.



### Evaluation of Project Progress

The main conclusions of the micro-region evaluation report are that beneficiary incomes have increased as the result of temporary employment creation during the construction period of the investments, but that the project has not made much progress in solving the widespread problem of under-employment. Livestock units are less labor-intensive than was estimated <sup>1/</sup> and though they do employ casual labor, employment increases have been very limited. Also, both PIDER and Bank staff agree that the usage of the 15 (or so) irrigation units in the region needs to be rethought.

Livestock Units and Irrigation. Livestock units have not worked as well as expected. Irrigation has been used primarily for pasture (African-Star) development. For fodder, it may be more advantageous however to cultivate other forages (sugar cane, maize/silage, Leucaena bushes) as has been begun by the ejido Catmis. Although livestock development appears to be consistent with the region's factor endowment, the land-wise efficiency of traditional shifting agriculture is such that the traditional milpa (subsistence maize) and livestock rearing are in greater direct competition for land than appeared to be the case a priori in 1974. It is in this context that many PIDER beneficiaries are raising questions about the advisability of using the irrigation units for irrigating pastures and fodder for beef cattle. Many ejidos are already using land in these units for producing vegetables that are consumed on the farm.

### Quantification of Benefits

An in-depth evaluation done by CIDER in May 1978 gives some clues on the nature and extent of the benefits engendered by PIDER. Four communities<sup>2/</sup> were studied to evaluate the effects of major PIDER productive investments (livestock units and irrigation). Two other communities<sup>3/</sup> were studied to determine the impact of the largest support investment, namely, roads. These six communities account for 27% of PIDER investments in the period 1973-77 and for 33.1% of total investment in the three activities studied (i.e., livestock, irrigation, roads). The benefits from livestock units accrued to 204, 20 received high benefits, 94 received "average" benefits and 90 received "low" benefits. The level of benefits is derived by taking into account temporary and permanent employment and participation in other PIDER-financed programs. The study shows that the beneficiaries are essentially the poorer ejidatarios (although non-ejidatarios living on ejidos are usually poorer, they have no land rights and therefore benefit only marginally from PIDER investments, except through temporary labor during the construction period). Richer ejidatarios were almost entirely absent because of the necessity of participating in "faginas" (i.e., unpaid, self-help labor) which they would not do (high shadow price of time).

### Ejidos and Villages to be Visted on the Itinerary

Yucatan. Four villages are scheduled for visits on the afternoon of January 17. All four have been closely studied by the Bank and CIDER and there is a detailed CIDER report on each village which has been reviewed in the Bank.

<sup>1/</sup> CIDER estimates the cost of one permanent job in livestock in the region at between US\$50,000 and \$65,000 compared to irrigated crops at \$5,000.

<sup>2/</sup> Chacsinkin, Dzonotchel, Tixmehuac, and Catmis.

<sup>3/</sup> NohBec and Tigre Grande (in Tzucacab), and Chican (in Tixmehuac).



Santa Rosa

BASIC DATA

<u>Type of Work</u>	<u>Unit of Measurement</u>	<u>Date Terminated</u>	M\$	
			<u>Total<sup>1/</sup> Investment</u>	<u>No. of Beneficiaries</u>
Cattle Unit (CU)	1,020 ha	IV '76	1,500,900	282
Irrigation Unit for CU	40 ha	VIII '77	529,412	282
Internal Roads for CU	32 ha	V '74	1,690,693	282
Airstrip	1,200 m	I '74	282,861	282
Rural Electrification	67 households	IX '75	251,300	199
Fruit Unit	30 ha	V '76	151,300	282
Three Schoolrooms	3 rooms	V '74	199,649	140
Potable Water	3,900 m	V '77	1,924,391	199

Santa Rosa. The agricultural lands of this village were owned by American and Mexican entrepreneurs who developed the land to export fresh, high valued vegetables by air to the U.S. in the winter. They built the airstrip, many of the buildings and much of the irrigation system. This enterprise went bankrupt in the early sixties. In 1965 the government turned it into an ejido. The ejido leadership is considered "traditional and conservative". Prior to PIDER, the ejido was provided with considerable funds for productive programs by the Rural Bank. PIDER's subsequent investment (1973-1977) is shown in the table above. It is widely considered a "snowplace ejido".

Catmis

BASIC DATA

<u>Type of Work</u>	<u>Unit of Measurement</u>	<u>Date Terminated</u>	M\$	
			<u>Total<sup>1/</sup> Investment</u>	<u>No. of Beneficiaries</u>
Cattle Unit (CU)	850 ha	XII '75	5,032,609	32
Road to CU	2 km	XI '75	992,700	32
Well for CU	.5 km	XII '75	32,000	32
Irrigation for CU	40 ha	XI '75	810,500	32
Fruit Unit (FU)	80 ha	NT (17%)	212,449	67
Irrigation for FU	40 ha	NT (94%)	1,062,714	40
Potable Water	160 drinking holes	I '78	664,724	160
3 New Schoolrooms	1 schoolhouse	XI '76	366,830	160
School Dormitories	1 school dorm.	XI '76	335,181	50
Wells	3.5 km	NT (40%)	400,611	50

Catmis. CIDER considers the leadership in the Catmis ejido "modern and aggressive". It encompasses some 6,060 ha, was formed in 1971, and is run collectively by 210 families (1,565 persons). Productive investments include mango cultivation and cattle production. CIDER believes that this latter investment, which was built with PIDER funds, has returned US\$500 per member in increased "value" per year since 1976. The ejidatarios are particularly proud of these cattle units.

<sup>1/</sup> Exchange rates to 1976: M\$12.5 = US\$1; 1976 to present: M\$23 = US\$1.



CACALNÁ  
BASIC DATA

<u>TYPE OF WORK</u>	<u>UNIT OF MEASUREMENT</u>	<u>DATE TERMINATED</u>	<u>TOTAL INVESTMENT</u>	<u>NO. OF BENEFICIARIES</u>
Cattle Unit	300 ha.	XII 75	621,600	32
Irrigation Unit	40 ha.	XII 75	781,489	32
Housing	24 houses	VIII 75	779,600	24
Well for Cattle Units	0.7 km.	X 75	25,900	32
Road	1.5 km.	X 75	123,200	32
School	1 class-room	XI 74	49,326	40
Electrification	18 posts	IX 76	84,747	24
Fruit Unit	40 ha.	NT (35%)	1,027,356	32
Well for Fruit Units	1.8 km.	NT (75%)	156,829	40

Ejido Cacalná is an example of coordination between PIDER investment in infrastructure and support for the credit system, in this case FIRA. Some of the FIRA-supported livestock investments were made in 1973 prior to PIDER activities in the zone.

FIRA-financed investments include establishment of pastures, machinery, and breeding livestock as well as a beekeeping unit. The 42 ejidatarios who sought the loan are the majority of the members of the ejido. With the loan, 650 ha of the 1,800 ha ejido were brought under cultivation. FIRA reports that incomes of the beneficiaries of the livestock unit average US\$1,000 per annu. This seems a little high.

Chacsinkin

BASIC DATA

<u>Type of Work</u>	<u>Unit of Measurement</u>	<u>Date Terminated</u>	<u>M\$ Total Investment</u>	<u>No. of Beneficiaries</u>
Cattle Unit (CU)	600 ha	NT (70%)	1,312,905	115
Irrigation Unit for CU	40 ha	XII '75	834,343	115
Well for CU	1.0 km	XI '74	37,000	115
Pig Units	52	NT (70%)	215,800	10
Apiculture Unit 1	60 hives	IX '73	17,600	6
" 2	60 "	IX '73	17,600	6
" 3	60 "	IX '73	17,600	6
" 4	60 "	XII '74	20,500	6
Rural Store	1 store	II '75	41,268	220
Housing Improvement	169 houses	XI '76	458,000	169
Sandal Making Shop	1 workshop	IX '77	139,317	23

Chacsinkin. With 1,047 persons (220 families) the Chacsinkin ejido's area is 7,168 ha. Of interest here is the small shoemaking enterprise (huaracheria), the rural store and their housing improvement program. Although they have both pork and cattle units, neither are operating. Due to the effective monitoring and evaluation systems, PIDER staff locally and nationally are well aware of the problems encountered by these units. Steps presently being taken to more effectively channel credit to the small scale ranches should help solve many of them.



Tixmeuac

BASIC DATA

<u>Type of Work</u>	<u>Unit of Measurement</u>	<u>Date Terminated</u>	<u>Total Investment</u>	<u>No. of Beneficiaries</u>
Cattle Unit (CU)	300 ha		3,348,091	65
Irrigation Unit for CU	40 ha	VI '76	794,810	60
Road to CU	.76 km	XII '75	70,000	65
Well for CU	.4 km	V '75	14,400	65
Fruit Unit (FU)	23 ha	NT (44%)	311,570	26
Irrigation Unit for FU	23 ha	NT (91%)	875,132	26
Road to FU	.97 km	XII '75	64,700	26
Apiculture Unit #1	60 hives	XI '73	17,600	6
Apiculture Unit #2	60 "	XI '73	17,600	6
Apiculture Unit #3	60 "	XI '73	20,500	6
Apiculture Unit for School	60 "	XI '74	17,600	50
2 Schoolrooms	2 schoolrooms	XI '73	45,169	100
1 Rural Store	1 store	IX '77	29,965	100
1 Well for FU	2 km	NT (75%)	219,045	26

Tixmeuac. The Tixmeuac ejido was founded in 1923. Its total population is 1,543, of which, 343 are ejido members. Although they collectively own 4,199 ha most of the land is of poor quality. PIDER has made a substantial effort (US\$158,000) in this village in a variety of productive (livestock, beekeeping, and fruit production) investments. Only the beekeeping investment is presently in operation. The fruit production unit is still under construction. The livestock unit has suffered from various travails (poor coordination, lack of credit on time, technical problems with pastures). It might be worthwhile to discuss these problems with the villagers.









MEXICORURAL DEVELOPMENT PROJECTSPIDER I AND PIDER IISUMMARY

PIDER (Program for Investment in Rural Development) is the acronym for a new system of coordination of public investment directed at the rural poor. PIDER has no legal status; it is not a rural development authority. PIDER performs a programming and finance role leaving physical execution to the government secretariats and agencies. To these agencies, PIDER represents a separate source of finance above the normal budget allocation for their ordinary programs. PIDER staff are located within the Secretariat of Programming and Budgeting at both the federal and state levels. Some 80 professionals work at federal level, about 350 are located in Mexico's 31 states.

Since PIDER's start in 1973, the government invested over US\$1.3 billion in 106 micro-regions located throughout Mexico. Some 5 million of Mexico's 11 million rural poor live in these micro-regions. A micro-region is a contiguous zone of three to seven "counties" located within a state comprising an average of 50,000 persons. Within a micro-region, PIDER targets villages with populations no less than 300 persons and no more than 3,000.

The Bank has committed US\$230 million to PIDER, with loans in 1975 and 1977 benefiting 50 micro-regions. Disbursements to date amount to US\$75 million. The IDB committed US\$40 million in 1976, and IFAD may also provide some US\$30 million in support of PIDER. The Bank is considering a third PIDER operation for FY1980.

The Bank-financed projects consist of directly productive, productive support and social infrastructure components designed to raise the income and improve the standard of living of poor rural families in 50 selected micro-regions spread throughout Mexico (please see the map at Tab A). About 70 percent of the project funds are to be channeled into productive investments in livestock, irrigation, rural industries, fruit production, soil and water conservation, and associated farm development credit; 20 percent to productive support investment for the development of feeder roads, markets, extension services, electrification, and farmer organization efforts; 9 percent to investment in social infrastructure, such as construction of primary education and drinking water facilities, and materials for self-help projects on a local initiative basis; and 1% to project evaluation, applied research and training.



### THE PROGRAM OF VISITS

The program includes substantive visits to three PIDER micro-regions. The first, Yucatan, is representative of tropical areas of PIDER involvement; the second, Tabasco, of more mountainous regions; and third, in Aguascalientes, of dry temperate regions. In all, visits to some ten ejidos are planned in these regions. These ejidos include a total population of nearly 5,000 people (about 100 families per ejido). Details on each region and on the individual ejidos are contained in a separate PIDER Briefing Book.

In addition, senior officials will brief Mr. McNamara on the national program following his arrival at the FONATUR guest home in Can-Cun. The Directors of the Center for Research in Rural Development (CIDER) and the Director of the Indian Institute (INI) plan to summarize their activities in relation to PIDER at a "coke and sandwich" break in the village of Cacalna, located in the Sur de Yucatan micro-region.

The Bank committed US\$110 million to the first project, scheduled for full disbursement by mid-1980. This project supports 30 micro-regions. An in-depth mid-term evaluation of this project was undertaken in 1978. The various reports prepared by Bank staff and staff of the Mexican evaluation agency (CIDER) are nearly complete. Drafts will be discussed in a joint seminar in Mexico on January 24, 1979. An Executive Summary of the Bank Report is included in the PIDER Briefing Book. The second PIDER loan, supporting 20 micro-regions, was made in May 1977 for US\$120 million. Disbursements are on schedule. A third PIDER loan is currently under consideration for FY80. The Government is requesting a loan in excess of US\$200 million to support investments in 45 micro-regions. In addition, the Bank is acting as agent for IFAD and will be appraising Mexico's application for \$30 million to support PIDER activities in two micro-regions in the state of Oaxaca. In all, our operations will involve external loans of about \$560 million from FY75-FY80.

### BACKGROUND

The Mexican Government is proud of the PIDER program, which has invested US\$1.2 billion in some 100 micro-regions since 1973. For 1979, Mexico budgeted US\$340 million for PIDER regions. The program is massive, widespread (PIDER funds at least one region in every state) and continues to enjoy state and local political support. During 1978, the Secretary of Programming and Budgeting reorganized the program in order to "expedite the decentralization of federally supported programs further to the state levels."

### THE DEVELOPMENT OF PIDER

PIDER's launching in 1973 was an open admission by Mexico that the "trickle down" strategy of rural development had failed over the past 30 years. Rural poverty worsened despite a small entrepreneurial farming class whose efforts enabled Mexico to achieve one of the highest agricultural growth rates in Latin America over the past three decades.



### NEW POLICY DIRECTIONS

Mexico realized in the early 1970s that different "strategies" were needed to assist the rural poor. The objectives had to be refined and a new set of strategies developed and put into practice - strategies specially tailored to the needs of the rural poor. PIDER's strategists decided then to invest directly in the rural poor. These strategists adopted a policy of locating the poor spatially. One hundred micro-regions containing some five million poor were initially identified. Once located, a productive as opposed to a welfare transfer strategy of assisting the poor was adopted. This meant that under PIDER Mexico is trying to assist its poor by raising their capacity to expand output rather than by subsidizing other basic needs via budget transfers for food, shelter and health needs.

### SUCCESS AND PROBLEMS: PIDER PERFORMANCE (1973-1977)

Assessing PIDER's productive impact three years from PIDER I loan signing (May 1975) can only provide guidance in a few areas. It is too early to make judgments on the overall impact of project investments on farmer incomes. In some regions, however, CIDER studies indicate irrigation investment has often tripled farmer income. Yet, livestock investment in beef cattle to date has had only a limited marginal income impact.

### THE TARGET GROUP

PIDER defines its "target group" (people living in villages of 300 to 3,000) within the selected regions fairly narrowly. The 30 regions (of some 70 then in operation) financed by the Bank in PIDER I contain 3.5 million persons. Yet, over 60% of the population in these regions were basically ineligible, as they lived either in villages below 300 persons (1 million), or in towns above 3,000 persons (1.1 million). This left a specific target group of 1.3 million persons, or 230,000 families. It was towards this carefully selected target population that PIDER directed its efforts. Particularly, people living in small villages (below 300) benefit only marginally from PIDER. One of PIDER's major future challenges will be to develop low-cost community and productive technical packages to assist these small communities.

### PHYSICAL AND FINANCIAL PERFORMANCE

For the 1.3 million persons living in the PIDER I target villages, PIDER's physical impact through 1977 is as follows:



Category	Benefiting Persons to 1977	% of Persons in Target Villages
<u>Directly Productive</u>		
Irrigation	160,600	12
Soil and Water Conservation	52,000	4
Cattle Units	4,400	-
Beekeepers	24,750	2
Fruit Production and Forestry	126,500	9
<u>Productive Support</u>		
Roads	234,000	18
Electrification	225,000	18
Marketing	1,100,000	86
<u>Social Infrastructure</u>		
Schools	120,000	9
Health Centers	194,000	15
Water Supply	326,700	25
Self-Help Project	94,000	7

Physically, PIDER constructed 5,400 separate works in the Bank-supported 30 regions from 1973 to 1977 of which 4,400 are currently complete and in operation. These works were built in the 1,540 villages in the target selected (300 to 3,000), roughly 3.5 works per village.

Financially, PIDER invested slightly over Mex\$3 billion in the PIDER I regions from 1973 to 1977, with Mex\$2.5 billion from 1975 to 1977. This was an average of Mex\$100 million per micro-region since inception, roughly Mex\$20 million per year. Adjusted for changing exchange rates, PIDER invested US\$205 million in these PIDER I regions, US\$6.8 million in each region. This was equivalent to investment of US\$38,000 per work, US\$136,000 per eligible village and roughly US\$880 per family in eligible villages.

Actual performance by sectors varied. As is so often the case, the construction sectors generally exceed expectations, while the productive services lagged substantially in some cases, such as credit. Construction of rural roads, water supply, primary schools and electrification schemes were done to schedule. In the case of rural roads, expectations both on construction and community participation were exceeded. Also, some 90% of the productive support and social infrastructure works are operating, while only 65% (1,200) of the 1,875 productive works completed are operating.

#### INSTITUTIONAL

The PIDER program and the PIDER I project have institutionalized an administrative and organizational apparatus that permits the rural poor to both increase their incomes and to improve the quality of their lives. Thus, PIDER has created a mechanism, which will no doubt require continuous adjustment as the program continues, that has already made and can continue to make, an impact on Mexico's rural poor.



## SUCSESSES

Projects staff have kept very closely involved with PIDER and their recent reports basically indicate the program enjoys the highest political support. This support is certainly indicated by the large budget increase (38%) received by PIDER for 1978, compared to the average increase of some 18% for the investment budget in general for this year. This commitment to rural development by high level government officials, has contributed to the "institutionalization" of the program.

Additional successful aspects of PIDER are:

- the decentralization of program funds to the state level;
- the beginning of effective coordination of the various public sector executing agencies at the local level;
- the beginning of a meaningful community and village participation in the execution, operation and maintenance of public investments and services;
- the reform and redirection of various executing agencies in dealing with the rural poor;
- the training of a large group of new rural development technicians; and
- the construction of program infrastructure, the provision of program services, the creation of temporary employment and the raising of income levels for a portion of Mexico's rural poor.

## PROBLEMS

Projects staff report areas of concern as:

### Organization

- a) The Secretary of Programming and Budgeting reorganized his Ministry in September 1978. This change divided the PIDER staff of this Secretariat in two parts, Operational and Policy. The change was decided by the Secretary, Lic. Garcia Saenz, and engendered considerable controversy within Mexico and also concern within the Bank's Projects Department. It was done reportedly to expedite the decentralization process.

Our Projects staff are following the impact closely as they are concerned that the uniqueness and innovative character of the PIDER program may be diluted over time by this division. We suggest the President mentions the Bank's concern to the President of Mexico and to Garcia Saenz and ask them their opinion as to the likely future impact of this organization on rural development in general and on PIDER in particular.



- b) Rainfed Extension Program. Projects staff worked hard to obtain improvements of the delivery system for rainfed research and extension within the PIDER program. A new methodology, called PRONDAAT, was devised specifically for application to PIDER regions. It worked well in two states. In addition, the LAC Projects Department has started discussions on a separate, specific Bank loan to support general extension system reforms in rainfed areas. Staff have made little progress to date. We intend to pursue this actively in 1979.
  
- c) Development and Seasonal Credit. Projects staff have been trying for five years to link the provision of credit into the programming process of the PIDER budgeting system. Only recently has some success been obtained, with Dr. Miguel Cuadra (who will be accompanying the President on his PIDER section visits). The Bank is following developments closely, as the timely provision of credit is crucial to making investment in productive infrastructure such as livestock and irrigation function to their potential and to ensure cost recovery.
  
- d) Participation. To date, farmer participation has been negligible in investment programming at the village level. This problem with participation is reflective of wider issues of how Mexican officials perceive government efforts at rural development. As mentioned earlier, investment in physical works has proceeded fairly well, while investment in development services (extension, farmer organization, health, nutrition, training, etc.) has not achieved equivalent results. While the PIDER program has been more sensitive than most Government programs, even PIDER has considerable progress to make in converting a coordinated rural development construction program into an integrated process of rural development - in simple terms, developing sustainable "software" to support the new "hardware".

#### ISSUES

The Government may raise the following issues in relation to current and future Bank activities with PIDER.

- a) Size of PIDER III loan. While no specific amounts have as yet been discussed with the Government regarding the PIDER III loan, Secretariat of Hacienda and Programming and Budgeting staff indicated during 1978 that they would be applying for a large loan, in excess of US\$200 million. Projects staff consider that such a loan would be justified and would be disburseable over three to four years.
  
- b) Basic Needs Component in PIDER III. The Sub-secretary of Programming and Budgeting indicated in November that his

Secretariat would like to develop a pilot Basic Needs component in three to four states as part of the PIDER III project, with a possible separate Basic Needs project possibly emerging later in light of this evaluated experience. A senior Mexican mission visited the Bank in December to further explore Bank thinking in general on Basic Needs.

Additional information is contained in the separate Briefing Book on PIDER.



Micro-Region Summary  
Aguascalientes

## MEXICO

### RURAL DEVELOPMENT PROJECT - PIDER

#### El Llano Aguascalientes - Overview of Performance

##### Summary

In the El Llano micro-region, PIDER has succeeded in its 1974 strategy in focusing on the chief problems of unemployment (and consequent seasonal/permanent migration), low incomes and the paucity of social infrastructure. PIDER has also learned some lessons, especially with respect to "what works". Briefly put, "what works" is a productive investment which is labor-intensive (such as grape cultivation) and has an output of sufficient value to bear the cost of servicing the debt and pay farmers a return on their labor which is 20% above the minimum wage in the area. Fortunately, the crop chosen for cultivation in the region is well-known in the area (grapes) and has a ready market (ingredients not often found together in other PIDER regions). Since there are constraints (such as water and money) that limit the size of this productive investment and farmers do not wish to abandon family (subsistence) agriculture, access to credit for other agricultural pursuits must be secured. Purely rainfed agriculture (in rainfall of only 500 mm) is too risky for credit but risks can be markedly reduced through using a water conservation works (small dams) for supplementary irrigation. Such works provide a guarantee of crop security in all but totally rainless years.

For the future, the strategy of small scale-irrigation supplemented by water retention works (either for individual or collective fields) seems a way to reduce unemployment and migration. On the other hand, one can hardly underestimate the importance of the "software" components of investment such as organization, technical assistance and credit.

In short, there seems to be scope for investing another M\$100 million (at 1973 prices) in El Llano in integrated ejido investment packages. Some Mex\$85 million (US\$5.5 million) was invested in this region from 1973-1978. However, PIDER investments in larger ejidos (such as Palo Alto or San Antonio) appears to have been insufficient (in size) to have markedly improved the average employment/income level. These larger ejidos may need special attention in the second phase.

Background. Located almost at the geographical center of Mexico, Aguascalientes is one of the four smallest states in the country. The entire state's 5,590 square kilometers are in the semi-arid ecological zone; average annual rainfall ranges from 400 mm to nearly 600 mm. The state population in 1970 was 338,000, of which 200,000 live in the state capital of Aguascalientes, the state's only city.

The Micro-Region. The El Llano micro-region has four municipalities and 75,000 rural inhabitants. Over 75% of this area's economically active population is involved in agricultural-related activities. This orientation may also account for El Llano's relatively low standard of living, whereby 77% of the working population earn less than US\$500 per year, well below Mexico's poverty level of 1600 per family annually.



El Llano's Resource Base. The micro-region's relative poverty is explained primarily by underutilized natural and human resources. Only 122,000 ha, or 22% of the micro-region's total land surface is under cultivation -- primarily by corn, beans, alfalfa, and fruit-trees (i.e. grapes). Though the northern areas are classified as "semi-desert" with little possibility for increasing the amount of arable land and crop yields, the central and southern portions of the micro-region offer substantial potential for increasing the crop area and yields.

A mismanaged resource is El Llano's 170,000 head of bovine cattle, of which 40% represent dairy cattle. There are cattle on almost all of the ejidos, but only 43% of the ejidatarios own cattle, and on only about one-half the ejidos does livestock represent an important part of the economy. However, serious overgrazing, insufficient supplemented feeding, and inadequate technical service constrains the area's livestock activity.

El Llano's second underutilized factor of production is its labor force. Approximately 80% are principally subsistence farmers, with an average of 17 ha per farmer. In terms of employment levels, this population is productively active only for an annual average of 120 days per farmer, with the remainder of the year remaining almost entirely idle. However, given El Llano's relatively abundant off-farm employment opportunities and its good road network, the labor resources can be more fully utilized through appropriate labor mobilization measures. These could be coordinated through SRA personnel. The micro-region is endowed with a relatively literate population (85% of the population more than ten years of age) and a high primary school enrollment ratio (75% of school age children). Furthermore, an agricultural secondary school in the El Llano sub-region promises to be of substantial benefit to a wide area.

#### PIDER Objectives and Strategy

The PIDER objectives set in 1974 in El Llano were to:

- a) increase permanent employment in agriculture and industry;
- b) raise labor productivity and hence income levels of its rural population;
- c) make technicians, and subsequently the farmers, aware of the need to embark on a novel and more flexible approach to development.

Despite the micro-region's small overall size, the strategy to accomplish the above objectives was tailored to the specific characteristics and problems of each of the three sub-regions:

- a) Sub-region 1 (Pabellon irrigation district): The plan in this area was to introduce more yield increasing technology and water-saving practices, and to create more agricultural employment opportunities, among both subsistence farmers and entrepreneurial producers. Specifically, this high resource potential area is suitable for greater shifts to labor-intensive, high value crops, such as peaches and grapes, peppers, potatoes and garlic, as well as alfalfa for expanding the already important dairy industry. Furthermore, it is



appropriate to increase industrial and handicraft employment in agro-industries and clothesmaking and embroidery, for which the latter already has a sizeable pool of skills, to be augmented by special training programs.

- b) Sub-region 2 (El Llano): Efforts in this area were concentrated on raising rainfed crop and livestock yields to provide something more than subsistence levels to those farmers who will not benefit from irrigation to be achieved through (i) further water exploration and well drilling; (ii) soil and water conservation works and small earth dams to store rain-water for cattle and irrigation; and (iii) constructing the missing social infrastructure through providing primarily drinking water and electricity.
- c) Sub-region 3 (Tepazala, Cosio and Asientos): A similar strategy applies here as in sub-region 2, but where the potential results are constrained by lesser knowledge regarding underground water and by poorer soils and climate. Some hope is expressed for the development of mineral resources for the benefit of the ejidos on which they are located.

In general, the above situation is suitable to achieving the PIDER objectives through a careful consideration of the micro-region's varied needs and potential. However, two important strategy questions remain to be resolved: (i) the equity aspects of the irrigation development; and (ii) the relative long-run economies of dairying as compared with tree fruit and grape production. <sup>1/</sup>

#### PIDER Investment Program and Expected Results

The strategy described above is presently being implemented through the PIDER investment plan. It calls for the investment of Mex\$85 million over the period 1973-1977. Of this total:

- a) Fifty-five percent will be invested in directly productive infrastructure whereby irrigation and livestock-related projects comprise 85% of this amount. The remainder of this category will be allocated for soil and water conservation works and rural industries.
- b) Twenty-two percent will be allocated for productive support items, primarily for agricultural extension and demonstration.
- c) Thirty-one percent of the investment allotment is earmarked for social infrastructure, distributed evenly among electrification, drinking water, and materials for self-help projects.
- d) Program coordination will require 2% of the total.

Overall, this investment program is consistent with its stated strategy and has a favorable spatial distribution within El Llano and a logical phasing of infrastructural works. The key component missing during the June 1974 appraisal was a strong input from SRA, which is concerned with promoting farmer management and decision-making. SRA never really provided this support which other agencies had to undertake.

<sup>1/</sup> These strategy questions are still being discussed by PIDER four years after the program started.



An ejido model was developed on the basis for projecting the project's micro-regional benefits and costs. Under varying cost assumptions, the financial rate of return was projected to range from 24.4% to 21.2%, while the economic rate of return from 23.0% to 21%.

Summary of El Llano's Projected Rate of Return Analysis (%)

	<u>+10% for Investment Costs</u>	<u>+20% for Investment Costs</u>
<u>Financial Rate of Return</u>		
24.4	22.7	21.2
<u>Economic Rate of Return</u>		
Directly Productive and Productive Support		
22.85	21.60	20.50

Furthermore, this investment program was to directly benefit 10,700 families living in 100 communities.

The project was expected to increase the incomes of approximately 4,000 families living in over 40 communities. In addition, incremental employment creation is estimated to be about 1,400 man-years of temporary employment (over the four-year project) and 500 man-years per year of permanent employment. Incremental production benefits will include beef and dairy products, grapes and corn.

Early Results

In early 1978, PIDER conducted an inventory of works in the region. Half way to the full development period (8 years), the physical accomplishments and estimated numbers of beneficiaries are listed in the following table. The table does illustrate the overwhelming importance placed on water (irrigation, water conservation and drinking water systems) as the program evolved. PIDER did appear to recognize the difficulties with beef cattle development and limited investment to only 4 units, in effect "cutting their losses".

Table 3. Ll Llano - Inventory of Results (1973-1977 investments)

			Target pop. = 54,000 <sup>1/</sup>
<u>Productive</u>			
<u>Irrigation</u>	<u>Works</u>	<u>Physical Benefits</u>	<u>Beneficiaries (No. of Persons)</u>
Tubewells	41	1,136 ha	6,000
Gravity Systems	11	456 ha	2,100
<u>Livestock</u>			
Cattle Units	4	n.i.	n.i.
Beekeeping	2	25 hives	100
Soil Conservation	16	4,999 ha	3,200
Rural Industries	4	n.i.	n.i.
<u>Productive Support</u>			
Rural Roads	9	64 km	19,977
Electrification	12	12 villages	1,534
Marketing (stores)	1	n.i.	n.i.
<u>Social</u>			
Schools	28	55 rooms	2,877 students
Water Supply	29	29 works	16,699
Self-Help Village Improvement	10	10 villages	3,000
Health Centers	8	8 health posts	2,874

Note: n.i. = no information

Source: PIDER Inventory. Not checked by CIDER

<sup>1/</sup> Target population in villages 300 to 3,000.



Examining the early results, it appears that PIDER investments so far have provided significant income increases to some 2,200 families, virtually all those benefiting from irrigation. At the half way point in the development period, PIDER has thus reached 55% of the projected families to benefit. Permanent employment achieved, primarily from this irrigation, however, is already "at target" of 500 man-years, assuming a full man-year of work from 3 hectares of new irrigation. The main lacunae were on the beef cattle investment and the software (especially rainfed extension and farmer organization services).

Aguascalientes

Ejido Palo Alto

Palo Alto, an old Hacienda, has a population of 2,500 persons. This large size makes it difficult to organize and operate as an ejido. As a result, PIDER has not been especially effective in this ejido on the "software" side, extension (farmer organization, etc.). PIDER has concentrated on various types of works, mostly hardware; some of which work better than others.

Agriculture. The main investment is in mini-dams ("borditos") to provide irrigation for corn. PIDER is building one small dam for each 6 ha. The dam takes up 1 ha and normally provides enough water for a one irrigation per corn crop. The program is simple, effective and in great demand in the area.



In one part of the ejido, PIDER has helped to expand a Vocational Agricultural School. A tubewell was drilled and practice fields were established to carry out research on various crops which are potentially grown in the area.

Rural Industries. Palo Alto has a successful textile plant, owned by the ejido and managed by a large private maker of children's clothing. It was originally built by INDECO, a government agency. It was to be operated and managed by the ejido. It failed and the ejido asked the private company to manage it. It now employs over 150 persons and seems well run. Virtually all the employees are from the Ejido.

Palo Alto also received a Woodworking Unit via the PIDER program. While still operating, the Unit has basically failed as the executing agency (SSA) did not help with marketing, working capital or follow-up technical assistance.

#### Ejido Chrisostomo

The 50 families on this ejido operate on a collective basis. It is a new ejido, formed after a quarrel, some four years ago. The new housing is provided by the Government (not under PIDER). The families are enthusiastic and dynamic. They are keen to develop their newly obtained lands. They have received two tubewells from PIDER and have dug the distribution system with their own labor. Their idea is to develop their irrigation for alfalfa production and obtain finance and credit for establishing a dairy unit on the ejido. They also are interested in obtaining more credit for mechanization.

#### Ejido Montoya

This is a collectively run ejido of some 50 families (420 persons). It is an advanced ejido, operating collectively some 35 ha of table and wine grapes with "trickle" irrigation. The farmers had problems the first year with the Government extension officer. So they turned to a private extensionist specializing in grapes. He purportedly visits every Friday during the season at 10 a.m., receives M\$ 100 pesos in cash on each visit and advises the members in detail on technical and marketing problems.

In addition, the ejido operates 365 ha of rainfed maize and beans collectively, using four tractors and seasonal credit provided by the Banrural. There is also 300 ha of common pasture stocked with sheep and goats as well as their work animals (horses, oxen, mules and donkeys).

The Banrural was reported to play a major role as this ejido, directed in large part to the organizational issues which were a requirement for creditworthiness. The Ministry of Agrarian Reform was said to be ineffective here.



With the irrigation unit and the collective operation of rainfed cropping areas, the leader of the ejido said they have now work all year round and need to hire extra labor in the peak grape and corn harvest period.

Tanque de los Jimenez No. 1

The principal PIDER investment in this ejido was the tubewell. Twelve members of the ejido organized themselves collectively and cultivate furrow irrigated grapes (10 ha) and chilies (3 ha). The grapes were well maintained during a previous visit. The actual development of the grapes was financed by a private/public bank (Banco Internacional) who also provided some technical assistance to the farmers on grape cultivation. The farmers said they could not plant beans because of the "all the local jack rabbits who ate the bean plants."

The participants in this irrigation unit paid themselves a wage of M\$ 50 (US\$2.00) per day. They paid their casual labor M\$ 60/day (US\$2.50) (the going wage in rural Agr.) while the legal minimum wage is about M\$ 72.50 (US\$2.90). The farmers employed casual labor to a considerable extent because of the cyclical nature of agricultural tasks. But they also worked their rainfed subsistence parcels in the slack periods. This was universal in the micro-region. Particularly at peak grape harvest and pruning periods, extra hired labor was needed and landless persons, especially ejidatario sons provided employment.

San Antonio de Penuelas

This ejido has a population of some 75 families. PIDER has provided a series of investments, principally tubewell irrigation (two wells for 32 ha), small dam rehabilitation, electrification and a livestock unit of 250 ha.

The reactions of the families to these investments are a micro-cosm of the problems and successes of PIDER in this region.

Irrigation Tubewells. Some 24 families banded together to operate a tubewell irrigation unit collectively. Growing high value crops (chilies, beans, onions and maize) the farmers in this unit are enthusiastic and have made money especially from chilies and onions, the latter a new crop for them. Some of the crops are double-cropped. The members pay themselves US\$2.50/day, the local prevailing wage.

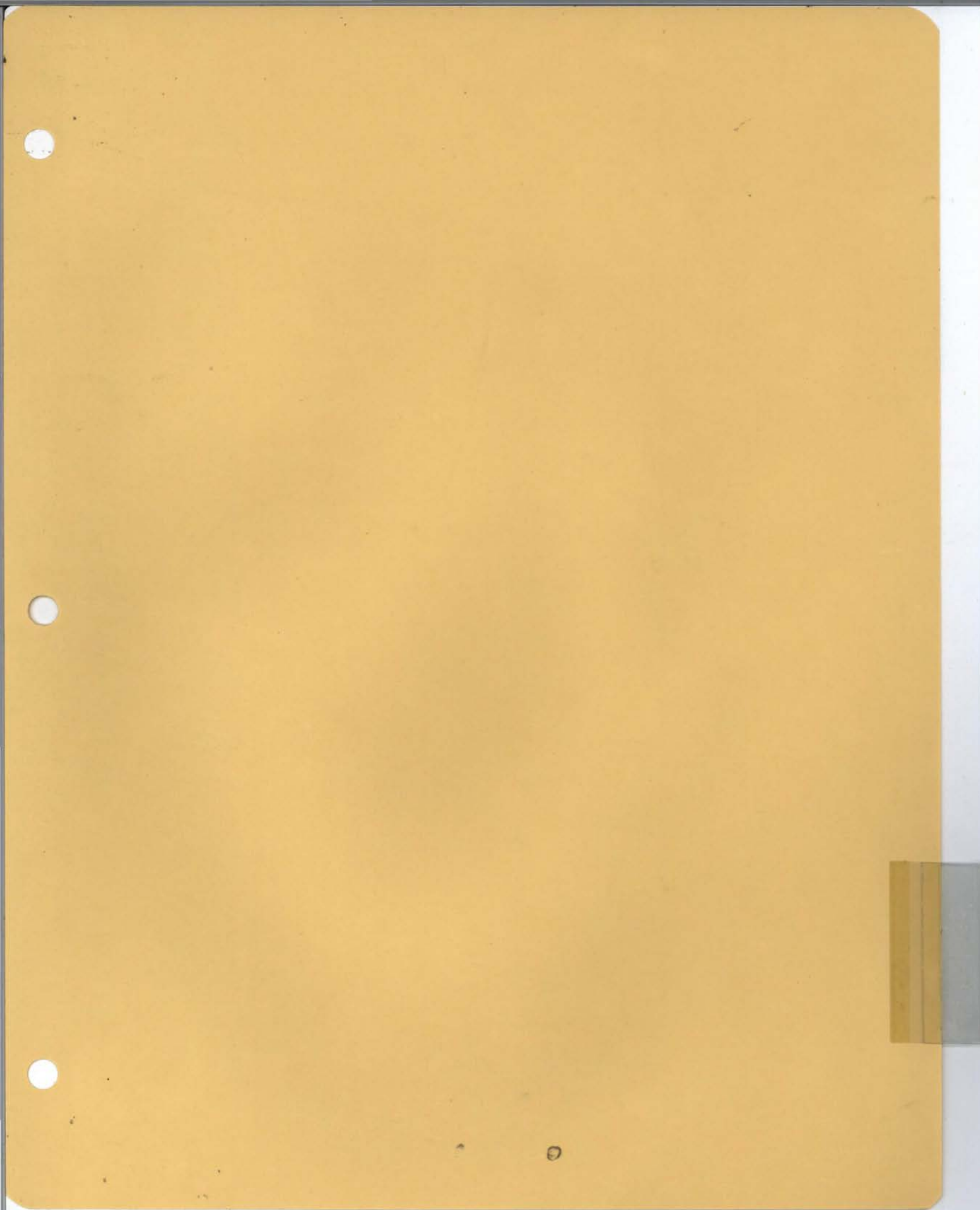
Irrigation - Gravity. Other families who did not join the collective unit operate their rainfed parcels individually. Some of these are now irrigated from a small dam. Rehabilitation and distribution was financed by PIDER.

Livestock. Some 20 families in this ejido without cattle grouped together to form a beef cattle unit in 1974. Nearly 250 ha was cleared, fenced, and planted to improved pasture. After the pastures had grown well, they hoped to obtain credit to buy cattle to stock the unit. However, PIDER failed in coordinating the Ministry of Agriculture, the Ministry of Agrarian



Reform and credit agencies. A severe drought occurred and other cattle owning members of the ejido who did not belong to the Unit, cut the fences and let their cattle destroy the carefully developed pastures. The Unit is now not functioning and the members are discouraged.

Beekeeping. The ejido successfully operates several beekeeping units.





IBRD AND IDA - SUPERVISION SUMMARY

This summary is  the initial summary  
 part of a mission report  
 a semi-annual update  
 the completion summary

Regional Office: LAC	Project Name: Integrated Rural Dev. - PIDER I	Project Code: 6MXCAD02	Loan <input checked="" type="checkbox"/> Credit <input type="checkbox"/> No.: 1110-ME	L/C Amount (\$xx.xm): 110.0
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Country: Mexico	Borrower/Beneficiary: Nacional Financiera	Board Date: 5/8/75	Signing Date: 5/22/75	Effective Date: 10/29/75
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Projects Dept./Div. Name: AGR/AGRRD	Org. Code No.: 302/20	Projects Officer: A. Schumacher	Loan Officer: V. Freeman
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**SECTION 1: SUMMARY PROJECT DESCRIPTION** The project assists the execution of investment plans in 30 micro-regions. Directly productive investments comprising mainly development credit, livestock, fruit, rainfed grain farming and irrigation are supported. Assistance is provided for productive support (roads, electrification, extension, etc.) and social investments (health, education, drinking water, and self-help).

**SECTION 2: PERFORMANCE RATING**

STATUS: 1 - Problem-free or Minor Problems; 2 - Moderate Problems; 3 - Major Problems

TREND: 1 - Improving; 2 - Stationary; 3 - Deteriorating

TYPES OF PROBLEMS: F - Financial; M - Managerial; T - Technical; P - Political; O - Other (Explain in Section 5)

If more than one type of problem, enter most critical factor first.

This Summary	Last Summary
2	2
2	1

M P    M

Designated a "problem project" in most recent SVP review? Y - Yes; N - No

**SECTION 3: PROJECT DATA**

Estimated/Actual:	Project Completion (Mo./Yr.)	Loan/Credit Closing (Mo./Day/Yr.)	Total Project Cost (\$xx.xm)	of which:		Cumulative Disbursements through most recent Quarter ended ( 9 / 30 / 78 ) (\$xx.xm)
				Foreign Currency (\$xx.xm)	Local Currency (\$xx.xm)	
Appraisal Est.	5,78	12,31,78	294.5	50.0	244.5	110.0 (Est.)
Last Summary ( / / )	12,78	6,30,79	294.5	50.0	244.5	
Current	12,79	6,30,80	294.5	50.0	244.5	60.9 (Actual)

**SECTION 4: MISSION SCHEDULE**

	No. of Staff on Mission	No. of Days in Country	Return to HQ (Mo./Day/Yr.)	Final Report Date (Mo./Day/Yr.)
Latest/Present Mission	3 1/2	12 1/2	12, 8, 78	12, 22, 78 (FS)
Previous Mission	2	10	6, 2, 78	6, 30, 78 (FS)

Next Mission Departure (Mo./Yr.) 6, 79

Recommended interval between missions (Months) 6

End of period covered by latest progress report (Mo./Day/Yr.) 6, 30, 78

\* Type of Report: FS = Full Supervision; CS = Combined Full/B-T-O; C = Completion; A = Appraisal; O = Other (explain below)

**SECTION 5: COMMENTS** (Explain "other" in Section 2 and clarify, if necessary, data in Sections 3 and 4)

1/ Total of PIDER I Supervision, PIDER II Supervision. The mission was done in two parts October 22-November 6 and December 4-8.

**SECTION 6: SUMMARY OF PROJECT STATUS, TREND, AND MAJOR PROBLEMS:**

- The September reorganization of the Secretariat of Programming and Budgeting (SPB) has slowed project progress. Clear lines of responsibility still had not been demarcated in early December. Bank staff will continue to closely monitor developments.
- The mission held full discussions with CIDER on their evaluation report of PIDER as well as the Bank's own assessment of the PIDER I project. Agreement to hold a seminar in January in Mexico was reached to discuss Bank and CIDER findings.
- Despite the organizational confusion at central levels, SPB continues to expand funding for PIDER, from US\$240 million in 1978 to US\$340 million in 1979, a 38% increase. This is substantially above the increase (18%) for most agency investment budgets.

Action Taken and Recommended

- The Bank should closely monitor organizational developments in SPB as they impact on the operations of PIDER.

Preparing Officer: A. Schumacher Initials: (AS) Date: 12/22/78



ANNEX 1

MEXICO - LOAN NO. 1110-ME

INTEGRATED RURAL DEVELOPMENT - PIDER I

Draft for President's Report

Mexico continues to increase budget resources for the PIDER program. A 38% rise was authorized for 1979 to US\$340 million. However, a major reorganization of the Secretariat of Programming and Budgeting (SPB) in September 1978 may slow project progress. While performance in integrating the credit component has improved somewhat, progress on the extension and farmer organization components remains unsatisfactory. Priority is also being given to ensuring the completion, proper operation and maintenance of PIDER investments.

A mid-term evaluation of PIDER activities has been undertaken jointly by the Bank and Government. The project closing date was extended to June 1980.



MEXICORURAL DEVELOPMENT PROJECT - PIDER IAssumptions on Current Disbursement Estimates

Disbursements to December 31, 1978 were estimated to be US\$65 million. As of November 30, \$64.5 million was disbursed. Thus, the earlier estimate should be easily reached. Disbursement on the credit component, however, continues slow and below average PIDER performance. Recently, there has been some improvement on this component. As of November 30, 1978, total disbursements represented 58.6% of the loan amount (US\$110 million). The credit component disbursement was 51.5% (US\$12.3 million of \$23.9 million). This is an improvement from mid-1978 when overall disbursements represented 54% of the loan amount, while the credit component lagged behind (US\$9.6 million of \$23.9 million) at only 40%. Full disbursement by mid-1980 should be feasible as counterpart budgetary resources for PIDER were increased for 1979 to US\$340 million, 38% over the 1978 authorization. This is a real increase (adjusted for current and expected inflation rate in Mexico averaging 15-17%) of over 20%. With PIDER involving the credit agencies more closely, the overall result should be to keep relatively close to the disbursement schedule set out in the attachment.

MEXICO - LOAN NO. 1110-MEINTEGRATED RURAL DEVELOPMENT PROJECT - PIDER IEstimated Disbursement ScheduleAccumulated Disbursements  
(US\$'000 equivalent)

<u>Bank Fiscal Year and</u> <u>Quarter, ending:</u>	<u>Appraisal Estimate</u> <u>(March 1975)</u>	<u>Actual</u> <u>Disbursement</u> <u>(Nov. 30, 1978)</u>	<u>Current Estimate</u> <u>(Dec. 22, 1978)</u>
<u>1975</u>			
March 31, 1975			
June 30, 1975	7,500		
<u>1976</u>			
September 30, 1975	16,900		
December 31, 1975	27,200		
March 31, 1976	38,000		
June 30, 1976	49,200	21,245	
<u>1977</u>			
September 30, 1976	60,800		
December 31, 1976	72,800		
March 31, 1976	83,000		
June 30, 1977	89,900	33,600	
<u>1978</u>			
September 30, 1977	96,200	41,200	
December 31, 1977	102,000	48,000	
March 31, 1978	106,500		
June 30, 1978	110,000	59,300	
<u>1979</u>			
September 30, 1978	110,000	60,880	
December 31, 1978	110,000	<u>1/</u>	65,000
March 31, 1979	110,000		74,000
June 30, 1979	110,000		84,700
<u>1980</u>			
September 30, 1979	110,000		87,000
December 31, 1979	110,000		92,000
March 31, 1980	110,000		100,000
June 30, 1980	110,000		110,000

1/ Disbursements at November 30, 1978 were US\$64.5 million.

Source: Mission estimates based on (i) current disbursements in SPB; and  
(ii) future SPR budget estimates.



IBRD AND IDA - SUPERVISION SUMMARY

This summary is  the initial summary  
 part of a mission report  
 a semi-annual update  
 the completion summary

Regional Office: LAC	Project Name: Integrated Rural Dev. - PIDER II	Project Code: 6MXCAD03	Loan <input checked="" type="checkbox"/> Credit <input type="checkbox"/> No.: 1462-ME	L/C Amount (\$xx.xm): US\$120.00
Country: Mexico	Borrower/Beneficiary: Nacional Financiera	Board Date: 6/16/77	Signing Date: 7/5/77	Effective Date: 10/28/77
Projects Dept./Div. Name: AGR/RD	Org. Code No.: 302/20	Projects Officer: A. Schumacher	Loan Officer: V. Freeman	

**SECTION 1: SUMMARY PROJECT DESCRIPTION** The project assists the execution of investment plans in 20 micro-regions. Directly productive investments comprising rural industries, development credit, livestock, fruit, rainfed grain farming and irrigation are supported. Assistance is provided for productive support (roads, electrification, extension, etc.) and social investments (health, education, drinking water, and self-help).

**SECTION 2: PERFORMANCE RATING**

STATUS: 1 - Problem-free or Minor Problems; 2 - Moderate Problems; 3 - Major Problems TREND: 1 - Improving; 2 - Stationary; 3 - Deteriorating TYPES OF PROBLEMS: F - Financial; M - Managerial; T - Technical; P - Political; O - Other (Explain in Section 5) If more than one type of problem, enter most critical factor first. Designated a "problem project" in most recent SVP review? Y - Yes; N - No <input type="checkbox"/>	This Summary	Last Summary
	<input type="text" value="2"/> <input type="text" value="2"/>	<input type="text" value="1"/> <input type="text" value="2"/>
	<input type="text" value="M"/> <input type="text" value="P"/> <input type="text" value=""/> <input type="text" value=""/>	<input type="text" value="M"/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/>

**SECTION 3: PROJECT DATA**

Estimated/Actual:	Project Completion (Mo./Yr.)	Loan/Credit Closing (Mo./Day/Yr.)	Total Project Cost (\$xx.xm)	of which:		Cumulative Disbursements through most recent Quarter ended 9/30/78 (\$xx.xm)
				Foreign Currency (\$xx.xm)	Local Currency (\$xx.xm)	
Appraisal Est.	1,81	7,31,81	255.0	46.0	209.0	14.0 (Est.)
Last Summary ( / / )	1,81	7,31,81	255.0	46.0	209.0	
Current	1,81	7,31,81	255.0	46.0	209.0	12.8 (Actual)

**SECTION 4: MISSION SCHEDULE**

Latest/Present Mission	No. of Staff on Mission	No. of Days in Country	Return to HQ (Mo./Day/Yr.)	Final Report Date (Mo./Day/Yr.)
Previous Mission	3 1/2	12 1/2	12, 08, 78	12, 22, 78 (FS)
	2	10	6, 05, 78	7, 20, 78 (FS)
Next Mission Departure (Mo./Yr.)	Recommended interval between missions (Months)	End of period covered by latest progress report (Mo./Day/Yr.)	6 30, 78	

\* Type of Report: FS = Full Supervision; CS = Combined Full/B-T-O; C = Completion; A = Appraisal; O = Other (explain below)

**SECTION 5: COMMENTS** (Explain "other" in Section 2 and clarify, if necessary, data in Sections 3 and 4)

1/ Time includes supervision of PIDER I and PIDER II.

- SECTION 6: SUMMARY OF PROJECT STATUS, TREND, AND MAJOR PROBLEMS:**
- The reorganization of SPB at the federal level should be closely monitored by the Bank to determine the impact on PIDER operations.
  - PIDER staff are working closely with a Bank Rural Enterprise consultant to assess progress on this component. Detailed surveys are nearly complete of some 60 enterprises and a joint report containing recommendations for improvement of this component is under preparation.
  - Little improvement in the farmer extension component (expansion of PRONDAAT system) was evident to the mission. A draft letter to Sub-Secretary A. Cebreros on this issue is attached.
  - Some progress in PIDER coordination with the credit system was evident. FIRA now has a full-time PIDER coordinating office and PIDER management meet regularly with the official bank (BANRURAL) and the private banks to work out specific annual credit allocations to PIDER regions.
  - Disbursements at \$12.8 million are close to appraisal estimates of \$14 million.

(cont.)



Action Taken and Recommended

6. A letter to A. Cebreros should be sent outlining the Bank's concern with lack of progress on improving farmer extension services in PIDER regions. (Draft Letter 1)

7. The next supervision mission is recommended for April 1979 to follow up on the impact of the recent SPB reorganization.



MEXICO - LOAN NO. 1462-ME

INTEGRATED RURAL DEVELOPMENT PROJECT - PIDER II

Draft Paragraph for President's Report

Project disbursements have been close to appraisal estimates, at US\$12.8 million currently. However, a recent major reorganization of Secretariat of Programming and Budgeting (SPB) may delay progress on PIDER in 1979, despite a 38% increase in Government budget allocations to this program. With the assistance of a Bank consultant, PIDER is making a strong effort to improve the functioning of its rural industries investments. Recent progress was achieved in improving progress on the credit component by better coordination. However, much remains to be done to ensure effective delivery of farmer extension and ejido organization services.

MEXICO

RURAL DEVELOPMENT PROJECT - PIDER II

Assumptions on Disbursement Estimates

Disbursements to December 29, 1978 are estimated to be at some US\$13 million. As of November 30, US\$12.9 million had been disbursed. Total disbursements were 10.8% of the loan amount (US\$120.0 million). Farm credit component was 8.4% (US\$2.0 million of 23.9) and the Rural Industry credit component was zero percent. Overall disbursement in the credit component represented 7% of the loan amount of those items. Analyzing the projections made by the Regional Programming Department in SPB, full disbursement of PIDER II loan by 1981 seems to be feasible, particularly in light of the current and projected increases in PIDER's overall real levels of funding for 1979, 1980 and 1981.



MEXICO: LOAN NO. 1462-ME

INTEGRATED RURAL DEVELOPMENT PROJECT - PIDER II

Estimated Disbursement Schedule

Accumulated Disbursements

(US\$'000 equivalent)

<u>Bank Fiscal Year and Quarter, ending:</u>	<u>Appraisal Estimate (May 1977)</u>	<u>Actual Disbursements (Nov. 30, 1977)</u>	<u>Current Estimate (Dec. 22, 1978)</u>
<u>1977/1978</u>			
September 30, 1977			
December 31, 1977			
March 31, 1978			
June 30, 1978	7,000	9,453	
<u>1978/1979</u>			
September 30, 1978	14,000	12,813	
December 31, 1978	21,000	<u>1/</u>	12,921
March 31, 1979	27,000		16,145
June 30, 1979	34,000		25,214
<u>1979/1980</u>			
September 30, 1979	46,000		25,950
December 31, 1979	58,000		32,298
March 31, 1980	70,000		43,384
June 30, 1980	82,000		71,214
<u>1980/1981</u>			
September 30, 1980	94,000		71,995
December 31, 1980	106,000		78,728
March 31, 1981	118,000		90,485
June 30, 1981	120,000		120,000

1/ Disbursements up to November 30, 1978 were US\$12.8 million.

Source: Mission estimates based on: (i) current disbursements in SPB:  
(ii) future SPB budget estimates.

MEXICO: Loan No. 1110-ME

INTEGRATED RURAL DEVELOPMENT PROJECT - PIDER I

Disbursement by Category

(US\$ million)

	<u>Loan Amount</u>	<u>November 30, 1978 Disbursed</u>	<u>% Disbursed</u>
1) Irrigation	18.7	9.3	49.7
2) Soil and Water Conservation	5.2	3.6	69.2
3) Infrastructure for Livestock and Beekeeping Development	11.8	5.1	43.2
4) Agricultural Development Loans	23.9	12.3	51.5
5) Fruit Production, Forestry, Fisheries	4.2	2.0	47.6
6) Feeder Roads	6.6	8.6	130.3
7) Rural Electrification	6.4	5.2	81.2
8) Farmer Organization	3.2	3.3	103.1
9) Extension, Field Demonstration	7.9	5.2	65.8
10) Rural Marketing	0.7	0.4	57.1
11) Educational Facilities	3.1	2.3	74.2
12) Health Facilities	1.8	1.0	55.6
13) Rural Water Supply	6.6	4.8	72.7
14) Self-help Programs	1.9	1.4	73.7
15) Unallocated	8.0	-	-
	<u>110.0</u>	<u>64.5</u>	<u>58.6</u>
TOTAL	110.0	64.5	58.6



## MEXICO: LOAN NO. 1462-ME

## INTEGRATED RURAL DEVELOPMENT PROJECT - PIDER II

Disbursement by Category  
(US\$ million)

	November 30, 1978		
	<u>Loan Amount</u>	<u>Disbursed</u>	<u>% Disbursed</u>
1) Irrigation	21.1	1.9	9.0
2) Soil and Water Conservation	6.5	1.3	20.0
3) Livestock Development	11.0	1.5	13.6
4) Agriculture and Livestock Development loans	23.9	2.0	8.4
5) Rural Industry Development loans	4.3	-	-
6) Small Industries	1.5	0.1	6.7
7) Technical Assistance and Industrial Training	1.0	0.0	0.0
8) Fruit, Production, Forestry, and Fisheries	5.7	0.7	12.3
9) Feasibility Studies	1.8	-	-
10) Feeder Roads	9.9	1.9	19.2
11) Extension, Field Demonstration	6.2	1.1	17.7
12) Farmers Organization	3.4	0.5	14.7
13) Rural Electrification	4.5	0.6	13.3
14) Marketing	0.5	0.1	20.0
15) Educational Facilities	3.3	0.5	15.2
16) Rural Water Supply	6.4	0.6	9.4
17) Self-Help Projects	2.4	0.1	4.2
18) Unallocated	6.6	-	-
	<u>120.0</u>	<u>12.9</u>	<u>10.8</u>

MEXICO

RURAL DEVELOPMENT PROJECTS - PIDER I AND II

ORGANIZATION AND MANAGEMENT CHANGES

The New Organizational System

1. The Government has introduced major changes in the Secretariat of Programming and Budgeting (PSB) which include both reallocation of functions and creation of new organizational units. The attached Chart I shows the new structure in SPB. This Secretariat comprises three sub-secretariats and a new department called "Coordinacion General de Delegaciones Estatales" (Coordination) headed by Mr. Murillo. This coordination department reports directly to the Minister, Lic. Garcia Saenz. Its hierarchy is about the same as the sub-secretariats.
2. The major changes affecting PIDER have occurred mainly in the Sub-Secretariat of Programming, specifically in the Regional Programming Department which has transferred the operative power to Coordination. Formerly, PIDER was totally under the auspices of Lic. A. Cebberos, number two man in the SPB, and run on a day-to-day policy and operational basis by the Director for Regional Programming, Lic. Carlos Vidali. Lic. Vidali resigned over the principle of splitting policy formulation from operational responsibilities.
3. Only one of the three directorates in the Coordination Department is organized and operating "the State Delegation Support Department." This office is headed by a Mr. Leyva. Dr. Oyarzabal reports to Mr. Leyva as the PIDER Coordinator (see Chart I).
4. The Regional Programming Department headed by Dr. Cuadra is supposed to have only "normative" or policy formulation responsibilities. However, in some cases there is not a clear delimitation between normative and operative functions. It remains to be seen how this separation will work. Even in early December there was continued confusion of "who" was to do "what."
5. The Regional Programming Department continues to maintain the responsibility for liaising with international financial agencies (Bank, BID, IFAD).
6. The purpose of the reorganization was to reinforce the decentralization of SPB managed programs to the states. Concomitant with the central changes was the upgrading of the SPB "representative" at the state to a stronger position of delegate ("delegado") of SPB. However, many aspects of the reorganization are still unclear, but since these changes have been taking place in the same Secretariat, the mission hopes that clear guidelines and regulations will be rapidly established. But these are "hopes" and reality may be different. Future missions should monitor this situation carefully.



7. Mission concerns about the new organizational system are shared by a by a CIDER evaluation report which states that "The fact that operative and normative functions are the same hierarchical level, but in different departments, can be dangerous for PIDER's future. It is necessary to review PIDER's organizational scheme to assure its integration and to put its normative and operative functions in the top hierarchical levels with clear work responsibility but, at the same time with ability to interact and to encourage an integrated action."

#### Flow of Funds under new PIDER Organization

8. The new organizational system has not introduced extensive changes in funding flows. The "Manual de Procedimientos" regulating the monitoring and authorization of PIDER is unchanged. However, Dr. Cuadra's office is currently considering changes proposed by the State PIDER Delegates. Currently, the main steps in monitoring PIDER funding to villages are:

- (i) The Secretary of Programming and Budgeting decides the budget for each executing agency. This decision is based on recommendations made by the Investment Department in SPB and also on specific suggestions on each region from Dr. Cuadra's office;
- (ii) Each executing agency makes projections of the seasonal use of the budgeted money for the year. The Delegaciones check those projections at regional level, Coordination checks them at national level;
- (iii) The Payment Office in Sub-Secretariat of Budgeting transfers the budgeted funds to the regional branches in each state of the Banco de Mexico in charge of the payments;
- (iv) The Banco de Mexico pays the contractors and beneficiaries. Before payment is made, an authorization ("Autorizacion de Pago") must be signed by the state delegate of SPB, the authorized representative of the executing agency and the beneficiary himself. This authorization must be in agreement with the specific allocation of money in the original budget or in further reallocations made according to the regulations; and
- (v) The Auditing Department in Sub-Secretariat of Evaluation is in charge of the auditing (see Auditing);
- (vi) As already mentioned, the Regional Program Department is still in charge of relations with international financial institutions. This office submits the quarterly report and certifies PIDER's investment to the World Bank.

#### Extension

9. The mission observed continued difficulties in coordinating and expanding the rainfed extension system in PIDER regions. The new SARH extension leadership (Ing. Castilla, in particular) expressed a very different concept of rainfed extension than was developed laboriously over five years by the PRONDAAT teams in Puebla state. Basically, Ing. Castilla



felt that with sufficient credit and fertilizer, rainfed maize and beans production could be substantially increased. He said sufficient information as to application already existed in the field so that a 1979 campaign of fertilizing about one million hectares could be effectively carried out.

10. He spoke of the PRONDAAT system as being beyond the financial and technical capabilities of the Government to replicate beyond a pilot scheme. He felt it was extremely costly for the results it had produced so far. However, he understood that the Government had legally committed itself to the Bank to undertake a PRONDAAT type system and he intended to respect those Agreements. The mission obtained the distinct impression though that he didn't particularly agree with this approach and wouldn't be using it in non-PIDER regions. This issue will likewise need to be closely observed by forthcoming Bank supervision missions and by LAC missions attempting to develop a lending program to improve the rainfed extension system.

#### Farmer Organization

11. The situation with the Farmer Organization Sub-Secretariat of the Secretariat of Agrarian Reform (SRA) is currently confused. The SRA Sub-Secretariat for Farmer Organization has apparently been transferred to SARH, but as a Sub-Department, a very substantial demotion. The status of their staff was unclear; however, as state level field checks turned up no knowledge of this change, especially among the SPB delegados, persons normally who follow such changes closely. The next mission will closely examine this situation.

#### Credit

12. Some improvement in credit coordination appears to have taken place. FIRA has now formed a full-time unit solely dealing with PIDER programs. In addition, BANRURAL and the private banks appear to be making annual credit allocations (annual and long-term) to the PIDER regions. In 1979, BANRURAL was proposing M\$800 million and the private banks, M\$200 million, in total about US\$45 million. The mission met with Ing. Raul B. Gil, Manager of Rural Investment Credits at BANRURAL. Mr. Gil briefed the mission on the organization of the bank and investment credit procedures relevant to PIDER I and PIDER II. Mrs. Maria del Carmen Gonzales of Regional Programming Department participated in the meeting. Some managers at BANRURAL are very concerned about: (i) financing by BANRURAL of the money they lend to borrowers during the month prior to reimbursement by FIRA; and (ii) continuing problems of the weak extension services which could threaten the participation of private banks in PIDER programs. The mission also met with the private bankers and found them quite knowledgeable about the PIDER program. This was a substantial change from even two years ago.

#### Feasibility Studies

13. A feasibility studies component of US\$4.1 million was introduced in the PIDER III project. PIDER staff presented the objectives and policies of this effort (formally to the Bank in June 1978). Called PEPP (Programas Estudios de Proyectos Productivos), the program developed rapidly in some ten



states. However, progress slowed during the past three months following the internal reorganization with SPB. The Coordination section of SPB has not as yet appointed a new head of PEPP. They apparently have decided to recast the program substantially, with a new chief (as yet unnamed) and new policies (as yet undetermined). They informed the mission that in reviewing the PEPP studies supported by the previous managers of PIDER, they found a "mixed bag" of studies, some good, others sub-standard. Another problem that arose in mid-1978 was SPB's insistence that only studies done by and on behalf of Federal agencies qualified for PEPP funding. This determination ran contra to Government-Bank understanding and also contra to late 1977 PIDER practice of funding small consulting groups working at the state level in undertaking a range of studies, some which cut across agency boundaries. The draft letter to Lic. Cebrenros includes a mention of this problem and the mission recommends that the next supervision mission look into this problem in some detail.

#### Rural Industries

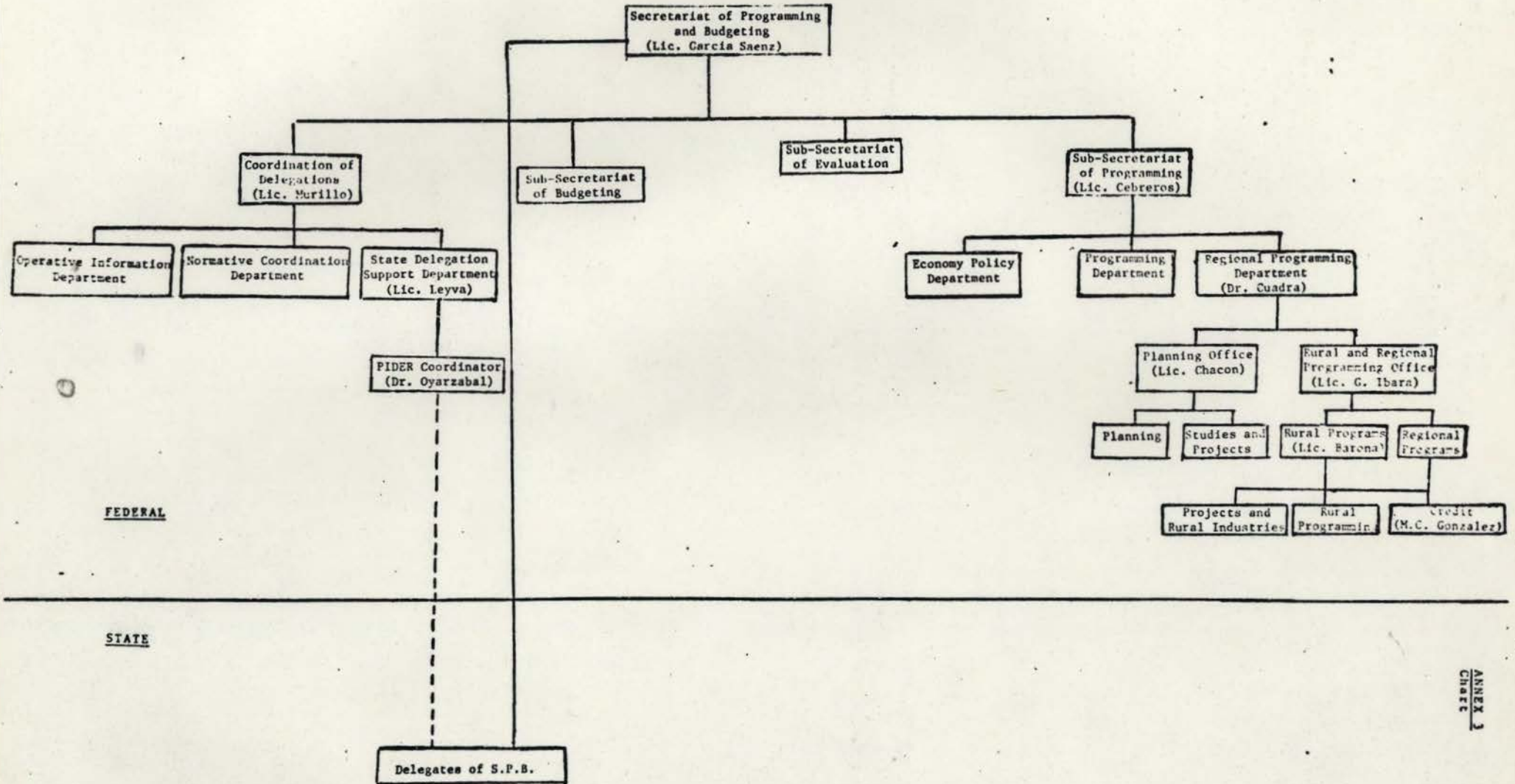
14. PIDER took considerable interest in the Bank proposal to undertake detailed supervision of PIDER-funded rural industries. The Bank consultant on small-scale enterprises drafted a questionnaire and undertook some 60 studies of randomly selected industries earlier supported by PIDER in eight states. PIDER staff were provided as counterpart on all visits. Most of the interviewing has now been completed and a draft PIDER/Consultant report is being prepared.

#### Auditing

15. Since the PIDER program has been keeping good accounts of "how, where and for what" Federal money has been spent, SPB auditors have begun to undertake detailed audits on a statewide basis. The first to be audited was Yucatan. In the past, such audits were difficult as the accounts were spread over some 16 agencies and invoices proved difficult to trace. Under PIDER, copies of invoices are kept in the state office of PIDER and are much easier to audit.

MEXICO - Chart 1

THE SECRETARIAT OF PROGRAMMING AND BUDGETING





DRAFT LETTER

Lic. Alfonso Cebreros  
Sub-Secretaria  
Secretariat de Programming y Presuepuesto  
Palacio Nacional  
Mexico City, D.F.  
MEXICO

Estimado Lic. Cebreros:

Re: Rural Development Project - PIDER I and II

Our recent mission informed us of the excellent discussions they had with you and Dr. Cuadra concerning the current status of these projects. As they mentioned to you, we will be following the impact on PIDER of the recent reorganization of your Secretariat with considerable interest and some concern. The mission mentioned that the Government's decision on World Bank liaison with the Secretariat is to continue through you and Dr. Cuadra. We are thus writing you about several important matters raised by the mission.

Extension. The mission mentioned that the expansion of the PRONDAAT rainfed extension system has not proceeded at the pace laid forth in your earlier Plan agreed with the Bank. In fact, the SARH Department responsible for implementing the expansion of this program has raised several substantive questions about the costs of replicating the PRONDAAT systym to all PIDER regions. Given the agreement reached between the Government and the Bank in Section 3.09 of Loan 1110-ME, could you let us know how this issue of improving extension in the PIDER regions is to be resolved?

Credit. The mission reported that Dr. Cuadra has made good progress in liaising centrally with FIRA, BANRURAL and with the private banks. We are pleased with these developments, given the critical importance of development credit to the success of PIDER.

Farmer Organization. This component is critical to effective operation of many of PIDER's ejido level productive investments. Yet its effectiveness



seems to have deteriorated in recent years. Currently the farmer organization section of the Secretariat of Agrarian Reform (SRA) seems to be in limbo, somewhere between SRA and a new sub-department in SARH. Could you let us know how Government proposes to resolve this apparent confusion in the reorganization of this important sub-secretariat of SRA?

Mid-Term Evaluation of the PIDER I Project. The mission reported that their discussions and relations with CIDER regarding the completion of this evaluation work had gone well. We understand a seminar has now been proposed for January 24, where the CIDER report and a summary Bank report would be compared and discussed. We understand that this seminar has your support and we look forward to cooperating with you to make it a success.

Rural Enterprise Surveys. We welcome the excellent cooperation the PIDER staff gave to our rural enterprise consultant. She and PIDER have jointly worked together for over eight weeks examining a random selection of some 50 small enterprises to determine successes and problems. We would hope a joint report could be completed by late January. However, the SPB's insistence that only studies done by and on behalf of federal agencies qualified for PEPP funding ran contra to Government-Bank understanding and also contra to late 1977 practice of funding small consulting groups working at the state level in undertaking a range of studies, some which cut across agency boundaries.

PIDER III. The mission discussed with you the prospects for Bank support to a large third PIDER operation in 1979, an operation that could include a pilot basic needs component in key states. We understand Mr. Schumacher discussed this important operation with Dr. Cuadra and his programming staff in early December and agreed on a timetable for its preparation and appraisal. As a result, we hope to mount a pre-appraisal mission by late March/early April, followed by a full appraisal in June.



We would hope to present the loan to our Board of Directors early in 1980.

Again, I thank you for your cooperation with our mission and we look forward to continuing our excellent arrangements with you on this vital Rural Development program.

Sincerely,

D. V. Dutt

cc: Dr. Cuadra, PIDER

MEXICO

RURAL DEVELOPMENT PROJECT - PIDER I AND II

Project Impact to Date

From PIDER's founding in 1973, Bank staff have worked closely with all layers of the Government of Mexico (Federal, State and local) through the identification, preparation and subsequent appraisal of the two PIDER projects. Supervision of these two projects has been intensive, with virtually all 50 micro-regions visited, some five or six times.

The Bank has committed US\$110 million to the first project, which is scheduled for full disbursement by mid-1980. An in-depth mid-term evaluation of this project was undertaken in 1978. The various reports prepared by Bank staff and staff of the Mexican evaluation agency (CIDER) have nearly been completed and drafts will be discussed in a joint seminar in Mexico on January 24, 1979. The second PIDER loan was made in May 1977 for US\$120 million. Disbursements are on schedule. A third PIDER loan is currently under consideration for FY80. In addition, the Bank is acting as agent for IFAD and will be appraising Mexico's application for \$30 million to support PIDER activities in two micro-regions in the state of Oaxaca.

The Mexican Government is proud of the PIDER program, which has invested US\$1.2 billion in some 100 micro-regions since 1973. Mexico is now budgeting US\$340 million annually for PIDER regions. The program is massive, widespread (PIDER funds at least one region in every state) and continues to enjoy state and local political support. During 1978, the Secretary of Programming and Budgeting reorganized the program in order to "expedite the decentralization of federally supported programs further to the state levels."

The Development PIDER

PIDER's launching in 1973 was an open admission by Mexico that the "trickle down" strategy of rural development over the past 30 years had failed. Rural poverty in fact worsened despite a small entrepreneurial farming class whose efforts enable Mexico to achieve one of the highest agricultural growth rates in Latin America over the past three decades.

New Policy Directions

Mexico realized in the early 1970s that different "tools" were needed to assist the rural poor. The objectives had to be refined and a new set of strategies developed and put into practice -- strategies specially tailored to the needs of the rural poor. PIDER's strategists decided then to invest directly in the rural poor. These strategists adopted a policy of locating the poor spatially. One hundred micro-regions containing some five million poor were initially identified. Once located, a productive as opposed to a welfare transfer strategy of assisting the poor was adopted. This meant that Mexico is trying to assist its poor by raising their capacity to expand output rather than by subsidizing other basic needs via budget transfers for food, shelter and health needs.



Success and Problems: PIDER Performance (1973-1977)

Assessing PIDER's performance after three years from PIDER I loan signing (May 1975) can only provide guidance in a few areas. It is certainly far too early to make judgments on its farmer income impact and possibly premature to judge execution and managerial performance. Clearly, any assessment of PIDER requires an examination of the overall PIDER 106 region effort, of which the Bank's support of 30 regions is only a time slice.

The Target Group

PIDER defines its "target group" fairly narrowly. The 30 regions (of some 70 then in operation) financed by the Bank in PIDER I contained 3.5 million persons. Yet, over 60% were basically ineligible as they lived either in villages below 300 persons (1 million), or in towns above 3,000 persons (1.1 million). This left a specific target group of 1.3 million persons, or 230,000 families. It was towards this carefully selected target population that PIDER directed its efforts. The people particularly living in small villages (below 300 people) benefited only marginally. One of PIDER's major future challenges will be to develop low-cost community and productive technical packages to assist these small communities.

Physical and Financial Performance

For the 232,000 (1.3 million persons) families living in the target villages, PIDER's physical impact through 1977 is as follows:

Category	Benefiting Families to 1977	% of Target Families
<u>Directly Productive</u>		
Irrigation	29,200	12
Soil and Water Conservation	9,400	4
Cattle Unit	800	-
Beekeepers	4,500	2
Fruit Production and Forestry	23,000	9
<u>Productive Support</u>		
Roads	42,600	18
Electrification	41,000	18
Marketing	200,000	86
<u>Social Infrastructure</u>		
Schools	21,800	9
Health Centers	35,200	15
Water Supply	59,400	25
Self-Help Project	17,000	7



To 1977, PIDER constructed 5,400 separate works in these 30 regions, of which 4,400 are currently complete and in operation. These works were built in the 1,540 villages in the target selected (300-3,000), roughly 3.5 works per village.

Financially, PIDER invested slightly over Mex\$3 billion (US\$205 million) in the PIDER I regions from 1973 to 1977, with Mex\$2.5 billion from 1975-1977. This was an average of Mex\$100 million per micro-region since inception, roughly Mex\$20 million per year. Adjusted for changing exchange rates, PIDER invested US\$205 million in these PIDER I regions, US\$6.8 million in each region. This was equivalent to investment of US\$38,000 per work, US\$136,000 per eligible village and roughly US\$880 per family in eligible villages.

Actual performance by sectors varied, the construction sectors often exceeding expectations, while the productive services lagged substantially in some cases, such as credit. Construction of rural roads, water supply, primary schools and electrification schemes were done to schedule. In the case of rural roads, expectations both on construction and community participation were exceeded. Also, some 90% of the productive support and social infrastructure works are operating, while only 65% (1,200) of the 1,875 productive works completed are operating.

#### Institutional

The PIDER program and the PIDER I project have institutionalized an administrative and organizational apparatus that permits the rural poor to both increase their incomes and to improve the quality of their lives. Thus, PIDER has created a mechanism, which will no doubt require continuous adjustment as the program continues, that has already made and can continue to make, an impact on Mexico's rural poor.

The successful impact of PIDER programs include:

- the commitment to rural development by high level government officials, which have contributed to the "institutionalization" of the program;
- the decentralization of program funds to the state level;
- the beginning of effective coordination of the various public sector executing agencies at the local level;
- the beginning of a meaningful community and village participation in the programming, execution, and operation and maintenance of public investments and services;
- the establishment of a monitoring and evaluation system for rural development programs;
- the reform and redirection of various executing agencies;
- the training of a large group of new experienced rural development technicians; and



- the construction of program infrastructure, the provision of program services, the creation of temporary employment, and the increase of self-sustaining employment and income levels for a portion of Mexico's rural poor.

Problems

Continuing problems include the major uncertainty created by the reorganization of the Secretariat of Programming and Budgeting, the difficulties in reforming the extension and farmer organization services operating in PIDER regions, the need to decentralize programming as well as expenditure to the state and micro-region level and above all, to preserve the concept of PIDER as an "innovative" element in the Mexican bureaucracy. With the amounts projected for PIDER investment, PIDER could become just another "allocative" mechanism and lose much of its early uniqueness.

MEXICORURAL DEVELOPMENT PROJECT - PIDER I AND PIDER IIPersons MetSPB

A. Cebreros	Sub-secretary
M. Quadra	Director
A. Murrillo	Coordinator
J. Leyva	Deputy Coordinator
L. Barona	Director
M. Chacon	Director
M. del Carmen Gonzalez	Sector Head
M. Ibarra	Director
F. Oyarzabal	Sub-Director
Lic. E. Rosales	Sector Head
Lic. F. Zuloaga	Sector Head
Prof. J. Rodriguez	Representative in Tlaxcala
Ing. J. Fraga	Sector Head in Tlaxcala

CIDER

A. Warman	Director
A. Palerm	Deputy Director
J. Echinnique	Adviser

SARH

Ing. Castilla	Distrito Temporal
Ing. Romero Chavez	Distrito Temporal

FIRA

D. Horacio Aguilar	Director
Lic. Roman	PIDER Section
P. Zepeda	Rural Industries Section

INI/Coplomar

Arturo Diaz Camacho	Head
Ing. Larios	INI

BANRURAL

Lic. Gil	PIDER Sections Head
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BANAMEX/BANCOMAR

Ing. Aguilar	Agricultural Chief
Ing. Hoscos	Agricultural Chief







IBRD AND IDA - SUPERVISION SUMMARY

This summary is  the initial summary  
 part of a mission report  
 a semi-annual update  
 the completion summary

Regional Office: C	Project Name: Integrated Rural Dev. - PIDER I	Project Code: 6MXCADO2	Loan <input checked="" type="checkbox"/> Credit <input type="checkbox"/> No.: 1110-ME	L/C Amount (\$xx.xm): 110.0
Country: Mexico	Borrower/Beneficiary: Nacional Financiera	Board Date: 5/8/75	Signing Date: 5/22/75	Effective Date: 10/29/75
Projects Dept./Div. Name: AGR/AGRRD	Org. Code No.: 302/20	Projects Officer: A. Schumacher	Loan Officer: V. Freeman	

SECTION 1: SUMMARY PROJECT DESCRIPTION The project assists the execution of investment plans in 30 micro-regions. Directly productive investments comprising mainly development credit, livestock, fruit, rainfed grain farming and irrigation are supported. Assistance is provided for productive support (roads, electrification, extension, etc.) and social investments (health, education, drinking water, and self-help).

SECTION 2: PERFORMANCE RATING

	This Summary	Last Summary
STATUS: 1 - Problem-free or Minor Problems; 2 - Moderate Problems; 3 - Major Problems	<input type="checkbox"/> 1 <input checked="" type="checkbox"/> 2 <input type="checkbox"/> 3	<input type="checkbox"/> 1 <input checked="" type="checkbox"/> 2 <input type="checkbox"/> 3
TREND: 1 - Improving; 2 - Stationary; 3 - Deteriorating	<input type="checkbox"/> 1 <input checked="" type="checkbox"/> 2 <input type="checkbox"/> 3	<input type="checkbox"/> 1 <input checked="" type="checkbox"/> 2 <input type="checkbox"/> 3
TYPES OF PROBLEMS: F - Financial; M - Managerial; T - Technical; P - Political; O - Other (Explain in Section 5)	<input checked="" type="checkbox"/> M <input type="checkbox"/> T <input type="checkbox"/> P <input type="checkbox"/> O	<input checked="" type="checkbox"/> M <input type="checkbox"/> T <input type="checkbox"/> P <input type="checkbox"/> O
Designated a "problem project" in most recent SVP review? Y - Yes; N - No	<input type="checkbox"/> Y <input checked="" type="checkbox"/> N	

SECTION 3: PROJECT DATA

Estimated/Actual:	Project Completion (Mo./Yr.)	Loan/Credit Closing (Mo./Day/Yr.)	Total Project Cost (\$xx.xm)	of which:		Cumulative Disbursements through most recent Quarter ended ( 6 /30 /78 ) (\$xx.xm)
				Foreign Currency (\$xx.xm)	Local Currency (\$xx.xm)	
Appraisal Est.	5.78	12, 31, 78	294.5	50.0	244.5	110.0 (Est.)
Last Summary ( 1, 12, 78 )	12.78	6, 30, 79	294.5	50.0	244.5	-
Current	12.79	6, 30, 80	294.5	50.0	244.5	59.3 (Actual)

SECTION 4: MISSION SCHEDULE

	No. of Staff on Mission	No. of Days in Country	Return to HQ (Mo./Day/Yr.)	Final Report Date (Mo./Day/Yr.)
Latest Present Mission	2 <sup>1</sup> / <sub>1</sub>	10 <sup>1</sup> / <sub>1</sub>	6, 2, 78	6, 30, 78 (O)*
Previous Mission	4	11 (average)	12, 12, 77	1, 12, 78 (FS)*
Next Mission Departure (Mo./Yr.)	9, 78	Recommended interval between missions (Months)	6	End of period covered by latest progress report (Mo./Day/Yr.)
* Type of Report: FS = Full Supervision; CS = Combined Full/B-T-O; C = Completion; A = Appraisal; O = Other (explain below)				

SECTION 5: COMMENTS (Explain "other" in Section 2 and clarify, if necessary, data in Sections 3 and 4)

1/ Total of PIDER I Supervision, PIDER II Supervision.

SECTION 6: SUMMARY OF PROJECT STATUS, TREND, AND MAJOR PROBLEMS:

- The mission gave priority to attempting to resolve a number of outstanding issues: (i) the Mexican request to waive the requirement of a minimum of US\$26.3 million through ICB; (ii) the need to extend the closing date of the loan; and (iii) to review activity on each of the project components.
- Government has completed the report containing details of purchases and all contracts over US\$5,000 mentioned in previous reports. It appears to be carefully prepared and indicates that, with a few special exceptions, ICB is not an appropriate requirement for a project such as PIDER.
- The mission is recommending an extension of the closing date from December 31, 1978 to June 30, 1980, an extension of 18 months. A six-month extension is necessary to allow for disbursement against all 1978 expenditures; the additional 12 months' extension is required to fully disburse the Loan due to: (i) the effects of the devaluation (lowering the dollar amounts needed to complete the project); (ii) the change in administration, including the re-organization of the principal ministries involved with PIDER, which lowered the level of activity undertaken in 1976 and 1977; and (iii) modifications of the original four-year investment program resulting from the annual reprogramming process. (continued)



4. Considerable 1978 investment activity is now taking place following the customary annual slow start. Emphasis is being given to providing complementary investments to ensure the operation of such investments. A large number of investments are reaching about 95% completion but due to cost overruns, various shortages, and related problems, are not yet functioning. This is now beginning to be corrected with the major efforts planned for 1978 once the detailed inventories now being completed are ready. While good progress is being made on project construction, various problems continue regarding extension, agrarian reform, and credit activities, though actions taken following the mission's departure could result in major improvements.

5. Both PIDER and CIDER are implementing the agreed upon mid-term evaluation work program. The following information is expected for August: (i) a detailed listing of all investments financed through PIDER all 30 of the Bank-financed PIDER I micro-regions including a description of their present operational status; and (ii) a reasonably detailed, though subjective, analysis of beneficiary perceptions regarding the principal PIDER investments as well as an analysis of the early impacts of such investments.

6. A preliminary mid-term evaluation report is under preparation.

Action Taken and Recommended

1. The mission recommends acceptance of the Government request to eliminate the ceiling on expenditure not subject to ICB.

2. The mission recommends, subject to formal Government request, an extension of the closing date from 12/78 to 6/80 to include disbursement against 1978 and 1979 expenditures.

3. A follow-up mid-term review mission should be scheduled for early Fall 1978 to provide a detailed assessment of progress to date and to provide the basis for discussions with Government regarding necessary improvements.

cc: Messrs. van der Tak (2), Yudelman, Lari, Turnham, Goffin, Dutt, Kirpich, Morse, J.Elliott, Freeman, Kendall, Mole, Rigo, Schumacher

DLindheim:po

MEXICO - LOAN NO. 1110-ME

INTEGRATED RURAL DEVELOPMENT - PIDER I

Draft Paragraph for President's Report

Good progress continues on the construction of project investments, But progress on the extension, farmer organization, and credit components, remains slow. PIDER management has given special attention recently to these components and improvements are expected. Priority is also being given to ensuring the completion, proper operation and maintenance of PIDER investments. A mid-term evaluation of PIDER activities is being undertaken jointly by the Bank and Government. An extension of the project closing date to June 1980 is recommended.



MEXICO - LOAN NO. 1110-MEINTEGRATED RURAL DEVELOPMENT PROJECT - PIDER IRevised Disbursement Estimates

The mission is recommending an extension of the closing date from December 31, 1978 to June 30, 1980, an extension of 18 months. A six-month extension is necessary to allow for disbursement against all 1978 expenditures; the additional 12 months' extension is required to fully disburse the Loan due to: (i) the effects of the devaluation (lowering the dollar amounts needed to complete the project); (ii) the change in administration, including the reorganization of the principal ministries involved with PIDER, which has lowered the level of activity undertaken in 1976 and 1977; and (iii) modifications in the original four-year investment program resulting from the annual reprogramming process. Disbursements against expenditures through the end of 1978 are estimated to be about US\$68 million. The remaining US\$18 million (of the US\$86 million loan amount exclusive of credit) would be disbursed against 1979 expenditure. Credit component disbursements continue low with only US\$9 million of the US\$24 million loan amount disbursed. Disbursements should increase sharply as complement to the 1977 and 1978 PIDER productive investment activity. PIDER estimates of credit demand indicate that full disbursement would be possibly this year assuming cooperation on the part of FIRA (i.e., in indicating their willingness to rediscount the first-floor bank loans for these purposes). Full disbursement by 1980 should nonetheless be feasible, especially as counterpart budgetary resources may be substantially increased in 1979 (M\$11.3 billion estimated), up from M\$5.5 billion in 1978).

MEXICO - LOAN NO. 1110-MEINTEGRATED RURAL DEVELOPMENT PROJECT - PIDER IEstimated Disbursement ScheduleAccumulated Disbursements  
(US\$'000 equivalent)

<u>Bank Fiscal Year and</u> <u>Quarter, ending:</u>	<u>Appraisal Estimate</u> <u>(March 1975)</u>	<u>Actual</u> <u>Disbursement</u> <u>(June 30, 1978)</u>	<u>Current Estimate</u> <u>(June 30, 1978)</u>
<u>1975</u>			
March 31, 1975			
June 30, 1975	7,500		
<u>1976</u>			
September 30, 1975	16,900		
December 31, 1975	27,200		
March 31, 1976	38,000		
June 30, 1976	49,200	21,245	
<u>1977</u>			
September 30, 1976	60,800		
December 31, 1976	72,800		
March 31, 1976	83,000		
June 30, 1977	89,900	33,600	
<u>1978</u>			
September 30, 1977	96,200	41,200	
December 31, 1977	102,000	48,000	
March 31, 1978	106,500		
June 30, 1978	110,000	59,300	
<u>1979</u>			
September 30, 1978	110,000		62,000
December 31, 1978	110,000		67,000
March 31, 1979	110,000		74,000
June 30, 1979	110,000		84,700
<u>1980</u>			
September 30, 1979	110,000		87,000
December 31, 1979	110,000		92,000
March 31, 1980	110,000		100,000
June 30, 1980	110,000		110,000



MEXICO - LOAN NO. 1110-ME

INTEGRATED RURAL DEVELOPMENT PROJECT - PIDER I

Disbursement by Category

(US\$ million)

	<u>Loan Amount</u>	<u>June 30, 1978</u>	
		<u>Disbursed</u>	<u>% Disbursed</u>
(1) Irrigation	18.7	9.0	48
(2) Soil and Water Conservation	5.2	3.4	65
(3) Infrastructure for Livestock and Bee-keeping Development	11.8	4.6	39
(4) Agricultural Development Loans	23.9	9.6	40
(5) Fruit Production, Forestry, Fisheries	4.2	1.9	45
(6) Feeder Roads	6.6	8.1	123
(7) Rural Electrification	6.4	5.0	78
(8) Farmer Organization	3.2	2.9	91
(9) Extension, Field Demonstration	7.9	5.1	65
(10) Rural Marketing	0.7	0.4	57
(11) Educational Facilities	3.1	2.2	71
(12) Health Facilities	1.8	0.9	50
(13) Rural Water Supply	6.6	4.8	73
(14) Self-help Programs	1.9	1.4	74
(15) Unallocated	8.0	-	-
<b>TOTAL</b>	<b>110.0</b>	<b>59.3</b>	<b>54</b>



MEXICO - LOAN NO. 1110 - ME

INTEGRATED RURAL DEVELOPMENT PROJECT - PIDER I

Project Execution

A. General Remarks

3.01 Construction of basic infrastructure is proceeding well following the customary annual slow start in the January to April period. The mission again noted, however, that some of the directly productive investments (i.e., from 1977 and from prior years) are as yet operating efficiently to the benefit of target farmers. While many such investments are near completion, irrigation works, for example, sometimes lack pumps and cattle units do not have credit for the purchase of cattle. At the moment, information on the number of units in actual operation is not readily available. Information is adequate regarding the amount of infrastructure constructed, but information is poor regarding the operational status of the investments. To begin to correct this situation, a detailed inventory of all PIDER-financed investments has been undertaken. This inventory, now expected in August, is to provide a listing of those investments in fact operating properly as well as a detailed indication of what measures must be taken (e.g., supplementary investment, services, etc.) to make non-complete and/or non-functioning infrastructure operational.

3.02 Implementation of the interagency agreements regarding the development credit, agricultural extension, and farmer organization components has slowed relative to earlier expectations. Modifications are now being made in these agreements and considerable change is expected; however, the implications of these changes are not yet clear: (i) the Agrarian Reform Agency (SRA), responsible for farmer organization, is being merged into the Secretariat of Agriculture and Water Resources (SARH) to create a super-agency for the sector; (ii) the PRONDAAT extension reforms are being subsumed under the new Distritos de Temporal (Rainfed Districts); and (iii) while various meetings have very recently been held to improve PIDER/FIRA relations regarding development credit, component progress prior to the arrival of the mission was quite poor.

B. Development Credit

3.03 Development credit activity in relation to PIDER-financed productive investments has been exceedingly slow. Agreements between FIRA and PIDER were reached last year and a cooperative program established; nevertheless, credit disbursements remain low. Field level relationships between PIDER and the banking sector appear greatly improved; coordination at the central level is however inadequate. Meetings were held with both groups regarding the credit issue; in rhetoric, intentions are excellent; in actions, few credit operations are being pushed. PIDER frustrations with FIRA led PIDER to consider the possibility of having loans discounted through FICAR (a new second-floor bank located within BNCR and supported by the IDB). The mission was informed that this will be tried out in some of the IDB-supported micro-regions and that if successful, a similar arrangement would be requested for Bank-supported areas. In recent weeks,



interest in FICAR has apparently diminished, however this should be seen as an indication of component problems to date, especially FIRA reluctance to rediscount loans for poor farmers.

3.04 The mission attempted to bring FIRA and PIDER Directors together to try to resolve the various bottlenecks. Due to various political sensitivities, this was not possible, however two weeks after the mission's departure, a meeting was held between Lic. Carlos Vidali, the Director General in the Secretariat of Programming and Budgeting (SPP), responsible for PIDER, and with Ing. Horacio García Aguilar, the Director of FIRA. Reports of that meeting indicate that FIRA and PIDER will try to work together and will implement the earlier drafted agreement of understanding. Specifically, various points were agreed: (i) a central level commission will be established to set norms, policies, and specific actions for increasing credit activity in PIDER micro-regions; (ii) a FIRA representative will participate in all PIDER state-level sub-committees; (iii) PIDER/FIRA credit resources will be channeled to all low income producers in PIDER zones, but preferential support will be given to PIDER-assisted productive infrastructure works; (iv) FIRA will review all proposed PIDER productive investments for their financial and technical viability, thus improving the quality of projects and reducing the time needed for the formal evaluation, appraisal, and authorization of the FIRA-trained PIDER credit evaluators and will also request the training of an additional 31 such persons; (v) PIDER will inform FIRA of all communities where PIDER productive investments have been made in the past so that they might be supported with credit; (vi) in the 41 PIDER regions without external support, normal FIRA low-income produces credit resources will be used; and (viii) meetings will be held between FIRA, PIDER, and BNCR to facilitate BNCR participation in the PIDER credit activities.

3.05 The last Supervision Report mentioned that "The creation of Distritos de Temporal (Rainfed Districts) is apparently having some beneficial effects regarding the coordination of the various extension staff..." However, there is now concern that the implementation of the District program is conflicting with efforts to expand the PRONDAAT type extension service in PIDER micro-regions. A Documento de Entendimiento (Minute of Understanding) was recently signed by all relevant parties of the Secretariat (SARH), including the Secretary; this basically subsumes all extension programs (PRONDAAT specifically) under the new Distritos structure. Specifically, the Documento provides that: (i) where PRONDAAT programs are already active they are to remain essentially as is, only modifying their boundaries to conform with those of the respective Unidades and Distritos; (ii) PRONDAAT Divulgadores (local program heads) are to now be the heads of the respective Unidad where they have been working; (iii) that other PRONDAAT staff (e.g., Promotores) are to pass over to the Distrito administrative structure; and (iv) where no PRONDAAT programs exist, the areas are to be covered by the normal DGEA extension service. So as to minimize disruptions, the change-over is to take place gradually over the 1978 calendar year with the new system to be fully in effect as of 1979. The Documento argues that PRONDAAT is basically the coordinated activity of the Dirección General de Producción y Extensión Agrícola (DGEA), INIA (National Research Institute), and the Chapingo Post-Graduate School for carrying out research, training, technical assistance, and mass communication in 16 designated rainfed areas; that the Distrito program has no substantial differences with PRONDAAT, only that these same functions are carried out through the various specialized departments of the Secretariat (SARH) under the coordination of the designated Distrito heads throughout the country.



3.06 The subject is complex -- some of the elements are the following: (i) the PIDER II legal documents provide that by end of 1980 all PIDER I and PIDER II micro-regions are to have PRONDAAT extension services in operation; (ii) Government wants to establish a system applicable to the entire country and not one applicable only to a selected area or set of areas such as the PIDER micro-regions; (iii) the Distrito structure has recently been established and is trying to gain control and legitimacy; and (iv) Distrito representatives are under pressure to provide extension coverage to the entire Distrito and the only alternative they see is to take PRONDAAT personnel working in other areas of the District (PIDER micro-regions are sub-areas within the Districts). A further issue is that there is a fight for control between the SARH and the SPP for determining the direction of policy in rural areas. PIDER, under the SPP, argues that rural development is more than just the development of the agriculture sector (which is to be coordinated by the SARH under the regulations of the Distritos de Temporal) and that PIDER micro-region programs should not be subsumed under the Distrito structure.

3.07 The Distrito concern to establish and implement a program applicable nationwide is a proper concern. The main mission concern, however, is that in the Distrito attempt to provide coverage to all areas without sufficient trained staff there will be a de facto return to the "one extensionist per X thousand hectares" system which has proven so inadequate. What is important is to continue to expand the reforms in the extension service brought about under the PRONDAAT program. Whether this expansion occurs under the banner of PRONDAAT or Distritos is not crucial, but it must continue. It appears, however, that PRONDAAT trained staff operating in the PIDER micro-regions are being reassigned to other areas of the region and as such, the improvements in the quality of extension services provided within the micro-regions could rapidly deteriorate. Mission concern was strongly expressed to most all relevant parties and this issue bears close watching by the next mission.

#### Farmer Organization

3.08 Real farmer organization is indispensable for project success. It is necessary for improving the marketing (both buying and selling) situation of small farmers; it is necessary for obtaining credit; it is also important for the operation and maintenance of productive and social infrastructure provided through PIDER. Past SRA (Secretariat of Agrarian Reform, responsible for farmer organization services) performance has been very inadequate. Staff have been used for other than programmed functions -- at times out of PIDER areas -- and even when in the designated micro-regions, have been ineffective in assisting project farmers. In an attempt to change this situation, PIDER management felt forced to cancel SRA participation in PIDER for the first months of 1976. This brought about the first real SRA/PIDER discussions. Meetings continued and agreements were finally signed at the undersecretary level regarding SRA participation in PIDER.

3.09 The joint agreements apparently had little impact on 1977 SRA activities. Detailed work programs were drafted by joint SRA/PIDER task forces to direct SRA activities in each of the PIDER micro-regions in 1978 and relations between the two agencies are now improved. In most of the micro-regions visited, it appeared that SRA interest and involvement in PIDER was significantly



increased; and, of particular importance, it also appeared that SRA relations with the various executing agencies were much improved. Moreover, the areas where productive investments seemed to be most effectively operating were those areas where the SRA was most active.

3.10 Despite the above, the SRA has not been providing an adequate service. Farmer organization activities continue to be inadequate and as such are compromising the success of the program. Meetings were held with high level SRA officials, but no satisfactory result was obtained. We have now learned that the SRA is to be incorporated into the SARH, thus creating a super-super-Ministry for the sector (the merger of the SAG and the SRH into SARH was the first super-Ministry). This is probably a change for the better, however whether this will result in removing obstacles to farmer credit eligibility, improving marketing relations, and increasing farmer participation in the construction and operation of PIDER investments any better than under the previous SRA structure remains to be seen. For such services to be effective, they require the support of PIDER, of the executing agencies, and the respective political authorities. Given that organizational activities are often seen as intensely political, support is often withheld from them so as to not disturb the local socio-economic relations of the respective PIDER areas. It will be interesting to see if the new organizational structure provides better results than those to date.

#### Small-Scale Irrigation

3.11 The small-scale irrigation program has become an increasingly important component of PIDER-financed productive activities. While in 1976 PIDER financing contributed only about 5% to the total budget of the small-scale irrigation construction program, 1978 budget allocations of MEX\$448 million, so far, account for some 14% of the total. Negotiations are underway to double the PIDER-financed 1978 budget (to about Mex\$900 million). PIDER financing would then account for some 25% of the agency's budget target of Mex\$3.7 billion (US\$164 million).

3.12 Cost limits detailed in the legal agreements are apparently being followed; however, analysis of these costs is presently being undertaken. Annual investment authorizations are within the legal limits; what requires study is determining whether the total amount spent on a specific work over various years (due to problems, delays, etc.) is still within the appropriate limit. The total area eventually irrigated often differs from initial estimates and to the extent that fewer than anticipated hectares receive water, the respective unit costs rise. The information being gathered by PIDER as part of the mentioned investment inventory is indispensable for determining the real extent of compliance and of implementation. Information already submitted to the Bank is also being studied.

3.13 Data have been obtained the mission which will provide estimated actual costs per hectare for the 1975 and 1976 budget years. These can be compared with the value of output of representative crop compositions to estimate overall internal rates of return. Extensive data were also obtained from the Inter-American Development Bank, which has financed the small-scale irrigation program for many years. These data will make it possible to estimate likely trends in yields, crop compositions and net benefits of new, small-scale irrigation works in various parts of the country. However, it was not possible to obtain separate data for World Bank-financed PIDER projects, because of



difficulties of separating these data out of a central data bank containing some 8,000 individual projects. The problem was compounded by the recent switch-over to a central agricultural data bank in the division of agricultural economics of SARH. Recommendations were made to the PIDER management, to devise a simple computer data retrieval program which would make it possible to trace annual production statistics for the various PIDER-financed projects. This is already done for a large number of BID-financed projects.

3.14 Substantial differences still exist between the financial contributions payable for different types of irrigation works by beneficiaries. While all have to cover operating and maintenance expenses, in earlier years (at least until 1975) little or no contributions were required towards capital costs on most PIDER-financed projects. Since then, rules have been adjusted to reflect general SARH policies. For deep-well pumping projects, users have to cover the costs of the pumping sets through bank credit. This amounts to about 30% of project costs. For storage dam surface projects, on the other hand, contributions are limited to labor and material contributions amounting to approximately 10% of total project costs. This means that the latter types of projects are more subsidized than the former. According to SARH officials, negotiations are underway to try to eliminate these inequities.

3.15 User acceptance of new irrigation works appears to be enthusiastic. Works appear to be well maintained, and beneficiaries reported on field visits that agricultural extension services provided through the SARH small-scale irrigation division are competent and helpful. However, some difficulties were cited by the SARH division directorate about occasional problems with unsolved land tenure problems and unanticipated engineering difficulties such as uneven land surfaces in formerly wooded areas which force the exclusion of higher-level land from irrigation.

3.16 All soil and water conservation activities are now centralized in the Soil and Water Conservation Directorate of SARH. The present unit has been formed by attaching to it the former watershed protection sub-directorate of the former SRH. The overall program of the Directorate is quite small relative to the pervasiveness of erosion problems in Mexico. In 1977 for example, total budget expenditures amounted to only about Mex\$282.6 million, of which 161.3 million were supplied by PIDER. Directorate activities include terrace construction and the installation of gully checkdams; the planting of maguey and nopal for border protections and in larger plantations form; reforestation, planting of fruit orchards; land clearing; subsoiling; destoning of rock-saturated fields; construction of earthdams for water collection, and the seeding of pastures.

3.17 A major problem confronting the Department is the lack of funds. PIDER financing is generally available only for the actual construction of works, but not for studies, evaluations, promotion among potential beneficiaries, and supervision and follow-up control of completed works. (This is changing as a result of the PEPP program.) <sup>1/</sup> Traditionally, salary scales in the Department were very low. New staff members transferred from the former SRH watershed protection unit, for example, have salary levels some two to three times higher than their colleagues of the former SAG Department.

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<sup>1/</sup> Programa de Elaboracion de Proyector Productions (Productive Project Feasibility Study Program).



According to the executive staff of the Department, what is needed is a much more regular and predictable flow of funding. Higher allocations for studies, evaluations, promotion, and supervision of completed works must be made in order to select the most promising sites, and in order to make sure that beneficiaries recognize the importance of the works for their own, long-term well-being. At present, many of the works completed only recently have been subsequently destroyed by inattention, ignorance, and the lack of understanding of their importance for maintaining soil productivity.

3.18 The efficiency of the works program is also compromised by the inopportune budgeting process of PIDER. In many cases, funding is not made available until mid-year. Because of the seasonality of Mexican agriculture, protective works on agricultural land should be constructed between the end of harvest time (i.e., November) and the beginning of planting time (i.e., May). This is also the period of greatest rural unemployment. However, funds generally do not become available until May, and projects have to be completed by the end of December. This flow of funds is totally counter-cyclical, and hence counterproductive. Provisions will be made at the end of 1977 to overcome this budgeting problem, though recent successes have been mixed.

3.19 Major programs are underway for in Zacatecas for the subsoiling and destoning of potentially highly productive land in areas of low rainfall. In 1977 some 50,000 has. are to be affected by these works which are undertaken by heavy machinery (fully paid for by PIDER). Potentially, some one million hectares of land could be treated in this way in Zacatecas alone. Detailed data about costs etc. were obtained which will make it possible to assess the likely economic value of this program.

3.20 Data were obtained from the Department about its activities in recent years including information about labor production functions, costs per unit depending on a wide variety of physical factors. On the basis of these data, evaluations can be made about the economic feasibility of the various programs undertaken. Potentially, the various programs by the Department could be used as a major, and economically viable program for the creation of seasonal employment in many of the rural areas of Mexico.

#### Rural Electrification

3.21 Under the PIDER program, in 1977 some 251 population centers with 144,253 inhabitants were connected. Investments for productive uses, mainly for the electrification of irrigation pumps, amounted to some 20% of the PIDER-financed budget. Few technical difficulties seem to arise in the execution of the works, and projects are generally completed on time and within budget limits.

3.22 According to the central offices of C.F.E.'s marketing division, few problems are encountered in collecting bills. Overall payment records show 96% as the countrywide average, with lower records usually in low-income urban suburbs. Rural areas are claimed to have an above average repayment record. Some two to four years ago, significant difficulties were encountered in rural areas when the former system of fixed, unmetered charges based on number of outlets per household was replaced by the installation of individual meters. It was found that in many cases illegal connections had been added. When actual consumption was metered, charges to many increased by several



hundred percent. These difficulties have been overcome, however. Of the some eight million individual customers, only some 20,000 are presently without individual meters, and that only because of a shortage of equipment.

3.23 More detailed investigations about rural payment records show, however, a different picture than the one obtained from central office records. In Zacatecas it was found that the overall average monthly payment record of domestic customers is about 96%. Customers in arrears are cut off as a consequence of non-payment, and their initial deposit is used to cover the amount of the arrears. As a result, the apparent payment record is high. However, of the average of 4% of customers disconnected every monthly payment period, only about one-half ask for reconnection. The other 2%, or some 24% per year, remain permanently disconnected. Nevertheless, because of the continuous expansion of the overall network, the overall number of customers in Zacatecas increased by some 6% in 1977.

3.24 Serious and persistent difficulties are being encountered in attempts to collect due bills for public lighting systems. Municipal tax systems are so undeveloped that municipalities (villages as well as some of the largest urban centers) are unable to pay the bills. To overcome these problems, C.F.E. has signed agreements with some 23 states which gives the company the right to charge an additional premium of varying percentage (depending on the individual agreement) to individual customers, in order to cover the costs of public lighting in their place of residence. Similar agreements are under negotiation with the remaining states.

#### Rural Water Supply

3.25 PIDER-Financed water supply projects are now all undertaken by the water supply construction division of the Department of Human Resources and Public Works (SAHOP). In 1977, some Mex\$200 million was spent on PIDER projects, Mex\$20 million consisting of user contributions. This total amounts to about 8% of the overall SAHOP water supply construction budget. The SAHOP construction offices consider themselves to be contractors to PIDER. Few difficulties seem to be encountered in the construction phase of the works. After termination, installations are turned over to local committees (juntas) that are responsible for operation and maintenance. Some brief training is given to the actual operators. However, no follow-up service is provided by the SAHOP construction division. User charges, which vary widely from project to project, typically range around Mex\$5 - 7 per month per family for standpipe services, and about Mex\$2 more for house connections. Collection and administration of water charges is a village responsibility.

3.26 While SAHOP maintains a substantial operating and administrative division for local water works, the activities of this division are limited to the administration of about 1,200 larger, mostly urban, installations in the country that are partially financed on a long-term credit basis, with user charges covering operating and maintenance, as well as capital costs. The division, at present, does not accept responsibility for any of the rural installations in the country. To fill this void, a number of states have formed state committees to supervise the operation and maintenance of existing water supply installations not operated and maintained by SAHOP. In the State of Zacatecas, however, the lack of budgetary funds, equipment, and trained personnel prevent the committee from doing an effective job. At present, there are about 330 rural waterworks in the state. Of these, about 50% are completely inoperative. Of the remaining 50%, one-half operate badly, and only



about 80 installations are in reasonably good working conditions. Of the PIDER-financed installations that could be seen on field visits, all seem to be in operating condition. However, all seemed to be leaking at the outlets, which indicates some lack of proper maintenance. Given the poor record of existing rural water supply works throughout the country, it is clear that the lack of proper operation and maintenance represents a serious problem that should be addressed as soon as possible.

### Health

3.27 The mission met with the Directors of the Servicios Coordinados of the Ministry of Health (SSA). General discussions were held regarding the new policies of the SSA regarding rural health services and data on the staffing of the health posts and centers located in the PIDER I micro-regions was obtained. According to the SSA authorities, there has been a strengthening of the programs to provide basic rural health services including a major new program to train voluntary village level health workers. Thus far, most of these persons are in areas served by the INI (Indian Institute). There has also been a major change in vocabulary (i.e., casas de salud are now consultorios rurales; centros "C" are now hospitales rurales, etc.); however, the general impression of the mission in its various field visits was that health services delivery continues relatively unchanged and continues to be a real problem, and that the only way to try to bring about improvements would be through a major Bank (or other) effort in this area. The subject is too large, and the component too small, for significant changes to be brought about through regular supervision missions.



MEXICO - LOAN NO. 1110-ME

INTEGRATED RURAL DEVELOPMENT PROJECT - PIDER I

Organization and Management

A. Overview

4.01 The major organization and management points of concern to the mission were the following:

- (i) the Mexican request to waive the requirement of a minimum of US\$26.3 million through ICB;
- (ii) the need to extend the closing date of the loan;
- (iii) PIDER, CIDER implementation of mid-term evaluation work program;
- (iv) the PIDER II requirement to present a rural industries plan by June 1978; and
- (v) the creation of a feasibility studies category for PIDER I.

B. ICB

4.02 Government has now completed the report containing details of all purchases and all contracts over US\$5,000 mentioned in previous reports. This report was presented to the mission for its perusal and then sent through appropriate channels for its formal submission to the Bank. It appears to be carefully prepared and indicates that, with a few special exceptions, ICB is not an appropriate requirement for a project such as PIDER. Previous missions have recommended waiving the ICB requirement pending receipt of the final report; now that this has been submitted, such a waiver of the ICB requirement should be approved. A separate memo is being prepared on this point.

C. Closing Date

4.03 The mission is recommending an extension of the closing date from December 31, 1978 to June 30, 1980, an extension of 18 months. A six-month extension is necessary to allow for disbursement against all 1978 expenditures; the additional 12 months' extension is required to fully disburse the Loan due to: (i) the effects of the devaluation (lowering the dollar amounts needed to complete the project); (ii) the change in administration, including the reorganization of the principal ministries involved with PIDER, which has lowered the level of activity undertaken in 1976 and 1977; and (iii) modifications in the original four-year investment program resulting from the annual reprogramming process. Disbursements against expenditures through the end of 1978 are estimated to be about US\$68 million. The remaining US\$68 million (of the US\$86 million loan amount exclusive of credit) would be disbursed against 1979 expenditure.



Credit component disbursements continue low with only US\$9 million of the US\$24 million loan amount disbursed. Disbursements should increase sharply as complement to the 1977 and 1978 PIDER productive investment activity. PIDER estimates of credit demand indicate that full disbursement would be possible this year assuming cooperation on the part of FIRA (i.e., in indicating their willingness to rediscount the first-floor bank loans for these purposes). Full disbursement by 1979 should nonetheless be feasible.

D. Mid-term Evaluation Work Program Implementation

4.04 Mexican Government. As agreed at the time of the last mission, and subsequently confirmed, the Mexican Government was to undertake two activities as their contribution to the mid-term evaluation exercise: (i) PIDER was to carry out a detailed inventory of all investments financed through PIDER in the 30 PIDER I micro-regions, including a review of the operational status of each of these investments; and (ii) CIDER was to carry out sectoral studies of the principal PIDER productive investments in these regions. Thus far, PIDER has done the field work for most of these micro-regions' inventories. They are now in the process of analyzing and writing up their findings. Presentation to the Bank is expected in late July. While in the field, the mission was shown one completed inventory for the Sur de Yucatan micro-region, the quality of which was excellent and will be a useful tool in undertaking future investment programming for that area. It is hoped that the remaining 29 inventories will be of similar quality.

4.05 CIDER has to some extent modified the original approach and is now doing analyses of the principal PIDER investments of the 30 PIDER I micro-regions (irrigation, livestock development, and feeder roads) in a four micro-region sample (Sur, Nuevo Leon; Sur, Yucatan; Oriente, Morelos; Noreste, Guanajuato). Teams have been located in each of these micro-regions and on the order of 200 detailed interviews are being carried out with beneficiaries (and other local persons) of the investments being analyzed. The 200 figure represents about a 10% sample of the direct beneficiaries of these investments. CIDER expects to have a draft finished by July 15. Between the two PIDER and CIDER efforts, the following information is expected: (i) a detailed listing of all investments financed through PIDER in all 30 of the Bank-financed PIDER I micro-regions including a description of their present operational status; and (ii) a reasonably detailed, though subjective, analysis of beneficiary perceptions regarding the principal PIDER investments as well as an analysis of early impacts of such investments.

4.06 Bank. To complement the above, the mission undertook reviews of project activity in six of the micro-regions most closely reviewed during the 1974 appraisal <sup>1/</sup>. While also focusing on the principal PIDER investments, these reviews seek to give an overview of all PIDER activity in the micro-regions and to provide some perspective on accomplishments over the four-year timeframe, including seeing how appraisal expectations have been met, programs altered, etc. As such, two mission groups assisted by various Mexican personnel (including PIDER, CIDER and executing agency staff) visited three regions each. The Bank staff were the same persons who participated in the detailed reviews of these regions at the time of appraisal. Their knowledge of the regions as well as their impressions of the changes will be additional inputs to the mid-term evaluation process.

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<sup>1/</sup> El Llano, Aguascalientes; Zacapoaxtla, Puebla; Sur, Nuevo Leon; Cosala-Elota, Sinaloa; Noreste, Guanajuato; Sur, Yucatan.



These reviews are presently being written up and will be presented as part of the mid-term evaluation.

E. Rural Industries Plan

4.07 The requisite plan specified in the PIDER II legal documents was discussed with the mission. It was subsequently formally presented to the Bank by a special Mexican delegation on June 5. The plan is presently under Bank review. It appears to be well thought out and should constitute a satisfactory compliance with the PIDER II requirement. Once the plan is reviewed, a mission should be scheduled to discuss its implementation and its relationship to the FIRA sections of the rural industry component.

F. Feasibility Studies Category - PIDER I

4.08 During earlier supervision work, various differences between the legal agreements of PIDER I and PIDER II were reviewed. Rural Industries was resolved by having disbursements on PIDER II also cover rural industries investments in PIDER I. We neglected during PIDER II negotiations to do the same for Feasibility Studies, which are increasingly important to ensure adequate project preparation at the micro-region level. We suggested that Government formally apply for such a category under PIDER I. An application with supporting documentation has now been presented to the Bank. As Messrs. Turnham and Yudelman reported in their note to Mr. McNamara, considerable use of this category is being effectively made under PIDER II. We have also seen the benefits of this during PIDER II supervision. It is, therefore, recommended that we make the necessary alterations to allow for disbursement for such studies in the PIDER I micro-regions. The amount requested seems about right. Disbursements from the date of signing of PIDER II should apply to PIDER I investments for this new category (on a no objection basis).



MEXICO - LOAN NO. 1110-ME

INTEGRATED RURAL DEVELOPMENT PROJECT - PIDER I

Compliance with Legal Agreements

5.01 In the attached three appendices, the specific content of each of the Guarantee, Loan, and Project Agreements is itemized and comment is made on the present status of compliance with these Agreements. In certain cases, references are made to more detailed sections of this report.

Attachments

Guarantee Agreement

<u>Section</u>	<u>Description</u>	<u>Comment</u>
<u>Article I</u>	<u>General Conditions; Definitions</u>	None.
<u>Article II</u>	<u>Guarantee; Provision of Funds</u>	
2.01	Prompt loan repayment.	First payment due: 9/15/80.
2.02	Adequacy of funds for credit.	Satisfactory.
<u>Article III</u>	<u>Execution of the Project</u>	
3.01 (a)	"Due diligence... sound practice".	Satisfactory.
(b)	Agreement as to project area.	Satisfactory.
(c) (i)	Minimum of 70% of investment in productive, productive support.	Satisfactory (about 82% in these categories).
(ii)	Minimum of 10% estimated rate of return.	Satisfactory initial estimates.
(iii)	30% change in social investment requires Bank approval.	Satisfactory.
(d)	Representative ejido budgets for each micro-region.	Was satisfactory, however, budgets need to be revised due to various changes.
3.02	Project implementation per Organization Annex to Schedule 1.	Major government reorganizations have invalidated the Annex; the changes are satisfactory.
3.03 (a)	Irrigation per national criteria.	Satisfactory.
(b)	Irrigation investment cost, beneficiary criteria.	Apparently satisfactory; annual authorizations are satisfactory; actual expenditures are under review (Annex 3, para. 3.12).
(c)	Water charges to cover O&M.	Performance is mixed in line with national policy.
3.04	Soil and water conservation.	
(i)	Detailed watershed conservation plans.	Poor compliance; some progress being made.
(ii)	Beneficiary maintenance of works.	Poor compliance, despite assurances.
3.05	Livestock facility construction per economic design standards.	Satisfactory (generally).
3.06 (a)	Timely availability of credit, fertilizer, improved seeds.	Satisfactory (generally).
(b)	Guarantor to ensure Banxico credit component implementation.	Slow implementation; many recent improvements (Annex 3, paras. 3.03, 3.04).
(c) (i)	Guarantor to transfer funds to Borrower to repay IBRD.	
(ii)	Borrower to transfer funds to Banxico per disbursements.	Satisfactory.
3.07	Adequate CONASUPO operation.	Mixed CONASUPO performance.



<u>Section</u>	<u>Description</u>	<u>Comment</u>
3.08	Agrarian Reform activities.	
(i)	Team composition.	Team concept abandoned; re-programming of activities being undertaken.
(ii)	Team training (minimum).	One month minimum now being enforced.
3.09	Extension activities per Operational Plan satisfactory to IBRD/Government.	Plan prepared; implementation now beginning.
3.10	Health facilities: minimum 10% village cost contribution.	Satisfactory (generally).
3.11	Health/education: adequate staffing/operation.	Schools generally staffed; health performance often poor.
3.12	Electrification.	
(a)	Maximum investment costs: US\$150 per capita equivalent.	Satisfactory (per annual authorizations).
(b)	Charges per national rates	Satisfactory.
3.13	Rural water supply.	
(i)	Minimum 15% beneficiary contribution.	Satisfactory (generally, but contributions vary in amount).
(ii)	Maximum investment cost exclusive of beneficiary contribution: US\$100 per capita equivalent.	Satisfactory (per annual authorizations).
3.14	Self-help costs.	Satisfactory (generally).
3.15	Project works to be maintained per standards.	Satisfactory (generally); potential future problem.
3.16 (a)	Procurement per Schedule 2.	Government request to waive non-ICB ceiling (Annex 4, para. 4.02).
(b)	Economic/efficient labor intensive methods in works construction.	Tendency to reduce use of labor intensity for "efficiency" reasons.
3.17 (a)	Safe delivery of imports.	Few imports.
(b)	Exclusive use of loan proceeds for project works/services.	Satisfactory.
3.18 (a)	IBRD access to plans, specifications.	Satisfactory.
(b)	Adequate project records/IBRD access to records.	Satisfactory access; records need improvement.
3.19	Sound accounts/audits.	Satisfactory accounts.
3.20	Obtain/keep information for evaluation of project results.	Monitoring/evaluation being improved.

<u>Section</u>	<u>Description</u>	<u>Comment</u>
<u>Article IV</u>	<u>Other Covenants</u>	
4.01	Liens.	None.
4.02 (i)	No government interference in Banxico credit performance.	Satisfactory.
(ii)	Government aid to Banxico credit performance.	Unsatisfactory until recently; major progress being made.
<u>Article V</u>	<u>Representatives of the Guarantor</u>	None.
<u>Schedule 1</u>	<u>Description of Project</u>	Satisfactory.
<u>Annex</u>	<u>Organization Plan</u>	Major changes: satisfactory.
<u>Schedule 2</u>	<u>Procurement</u>	Government request to waive non-ICB ceiling (Annex 4, para. 4.02).



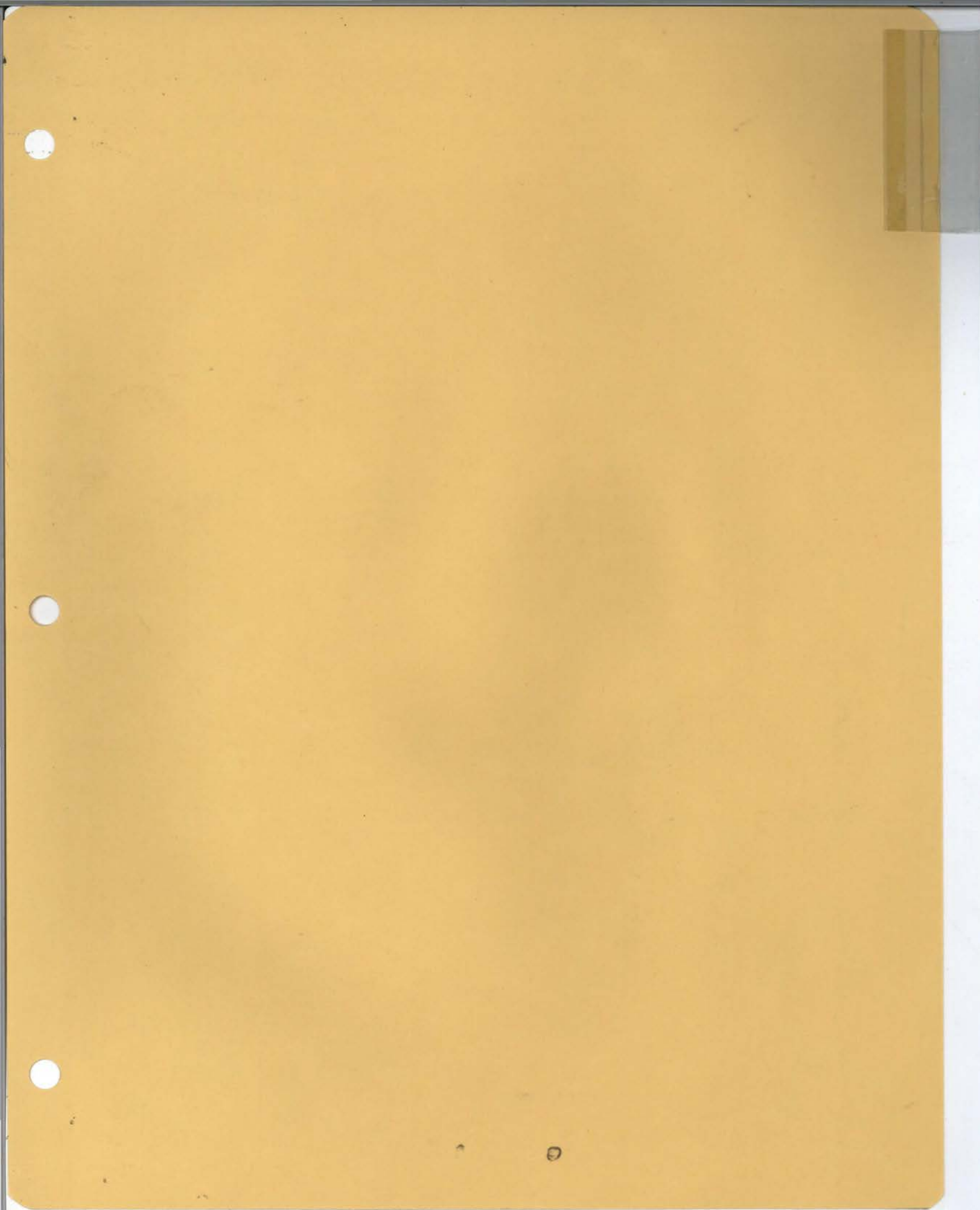
Loan Agreement

<u>Section</u>	<u>Description</u>	<u>Comment</u>
<u>Article I</u>	<u>General Conditions; Definitions</u>	Satisfactory.
<u>Article II</u>	<u>The Loan</u>	
2.01	Loan amount.	Satisfactory.
2.02	(i) Loan withdrawals per Schedule 1.	Possible minor amendments in future (Annex 4, para. 4.02)
	(ii) No withdrawals without joint IBRD/Government agreement to investment plan.	Satisfactory.
2.03	Closing date: 12/31/78.	Will require extension to 6/30/80 (Annex 4, para. 4.03).
2.04	Commitment charge: 3/4 of 1%.	No change.
2.05	Interest rate: 8-1/2%.	No change.
2.06	Interest payments.	No change.
2.07	Principal repayments per Schedule 2.	First payment due 9/15/80
<u>Article III</u>	<u>Transfer of Loan Proceeds</u>	
3.01 (a)	Borrower/Banxico arrangements.	Previous problems resolved.
(b)	Borrower/Guarantor arrangements	Satisfactory.
<u>Article IV</u>	<u>Financial Covenants</u>	
4.01	Liens	No change.
<u>Article V</u>	<u>Remedies of the Bank</u>	No change.
<u>Article VI</u>	<u>Effective Date; Termination</u>	Loan declared effective 10/29/75.
<u>Article VII</u>	<u>Addresses</u>	No change.
<u>Schedule 1</u>	<u>Withdrawal of the Proceeds of the Loan</u>	
(i)	Allocation among categories; financing percentages.	No change (see Annex 2, Table 2 for actual withdrawals).
(ii)	No disbursements for taxes.	Satisfactory.
(iii)	(1) no retroactive financing.	Satisfactory.
	(2) maximum of US\$60 million withdrawals for non-ICB.	Government request to waive the maximum (Annex 4, para. 4.02).
(iv)	Reallocation among categories.	Possible minor reallocations in future.
(v)	No Bank expenditures for procurement inconsistent with agreed procedures.	Under review for minor expenditures.
<u>Schedule 2</u>	<u>Amortization Schedule</u>	First payments due 9/15/80.

Project Agreement

<u>Section</u>	<u>Description</u>	<u>Comment</u>
<u>Article I</u>	<u>Definitions</u>	No change.
<u>Article II</u>	<u>Execution of Part IV of the Project</u>	
2.01 (a) (i)	"Due diligence and efficiency".	Performance lagging (paras. 3.03-3.04).
(ii)	Banxico provision of funds to FONDO.	Satisfactory.
(b) (i)	Credit terms satisfactory to the IBRD.	
(ii)	Credit terms/conditions for farmers to fully utilize available resources.	Relatively few farmers have received credit.
(iii)	Banxico to protect interests of IBRD, Banxico, FONDO in use of loan proceeds.	Overly protective.
2.02	Banxico/Borrower arrangements for transfer of loan proceeds.	Recent problems resolved.
2.03	Banxico shall:	
(a)	Rediscount up to 90% of loans.	Satisfactory (note change in banks' names, organization; creation of BNCR).
(b)	Minimum interest rate: 7.6% 3-15 year maturities 1-3 year grace periods	Satisfactory.
(c)	Refinancing interest rate: 4.6% minimum	Satisfactory.
2.04	Banxico to cause participating banks to:	
(a)	Maintain separate accounts.	Satisfactory.
(b)	Enable IBRD access to accounts.	Satisfactory.
2.05	Adequate project records available to IBRD.	Satisfactory.
2.06 (a)	Banxico/IBRD exchange of views regarding project implementation.	Satisfactory.
(b)	Banxico to inform IBRD of problems.	Satisfactory.
2.07	Banxico audits of FONDO; submission to IBRD.	No submissions received.
<u>Article III</u>	<u>Effective Date; Termination; Cancellation and Suspension</u>	
3.01	Agreement effective on effective date.	Satisfactory.
3.02	Agreement terminates per Loan Agreement termination.	No change.
<u>Article IV</u>	<u>Miscellaneous Provisions</u>	
4.01	Notices, requests to be in writing.	Satisfactory.





## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. W.C. Baum) <sup>WS</sup>

DATE: March 21, 1978

FROM: Montague Yudelman, Director, AGR <sup>MY</sup>SUBJECT: MEXICO: The PIDER Program - Impressions from a Field Visit

1. I joined a project officer and Mr. Turnham for eight days in the field looking at PIDER projects in five states which covered a wide range of conditions. The trip was extremely well organized by the Government of Mexico and with tight scheduling we were able to visit upwards of 100 field sites, covering a broad spectrum of the programmed investments. We were joined in the field at various times by the Director of the Program and by the Sub-secretary (Deputy Minister) responsible for PIDER. He is one of the group of high level Mexican officials who will be visiting the Bank March 30-April 1. On return to Mexico City we discussed our findings and impressions with the responsible Minister (Garcia-Saenz).

Background

2. You will recall that the Bank has thus far made two loans in support of this large rural development program, one for US\$110 million in April 1975 and a second in May 1977 for US\$120 million. The first project became effective in November 1975 and at the end of February 1978, US\$50 million has been disbursed. Combined with PIDER II, it is expected that disbursements under the two loans for calendar 1978 will be about US\$50 million. Public sector resources allocated for the entire PIDER (excluding a substantial element for incremental credit requirements) are programmed at some US\$230 million this year, and are expected to increase to over US\$300 million by 1980. While suffering a decline in real terms in 1976 and 1977 in common with other public sector programs, PIDER's share in public sector investment since its inception in 1973 has increased from about 1.5% to 2.3% in 1978 and it now accounts for about 18% of total public sector investment in agriculture and rural development. An early decision of President Lopez Portillo's administration was confirmation of PIDER and strengthening of the resources and management for the program.

3. PIDER provides financing for poverty-oriented development programs in designated micro-regions. Micro-regions of about 50,000 rural population (urban populations within a micro-region area are excluded for investment purposes) are designated on the basis of productive potential and poverty; typical incomes in the designated zones fall within the range US\$80-120 per capita, between 15% and 25% of the national average. PIDER is now active in about 100 micro-regions; the Bank supports development in 50 of them, 30 under PIDER I and 20 under FIDER II. All 31 states have at least one micro-region; in some of the poorer states coverage of rural areas is virtually complete. The programs include on-farm and support infrastructure as well as service development and social infrastructure. Credit is available for agriculture and livestock and for rural industries.

Impressions on the Program

4. Overall, my judgement is that, after a lengthy gestation, the PIDER program is moving ahead, though there are continuing problems. I was particularly impressed by the following:



a. The quality of PIDER management, both at central level and in the individual states. Historically, in Mexico, small farmer development especially has suffered from an overly centralized service structure, leading to extreme fragmentation of agency efforts at the local level. We saw several instances of the fruits of improved coordination of agency efforts in specific project settings brought about by PIDER. E.g., ejido livestock projects, combining electrification (for pasture, irrigation/cattle watering points); pump and other water-related infrastructure; extension and land development services (for pasture improvement/animal husbandry); infrastructure for fencing, corrals and dips; and development credit (for purchase of animals, dairying equipment, etc.) together with work of the Agrarian Reform services in promoting formation of ejido associations to manage the investments and take responsibility for repayment of the investments. Potentially of great significance in the longer term, the PIDER program has been used as a launching pad for more comprehensive efforts at state level programming of investments and activities. An early result of these activities is a more systematic use of local resources and institutions - such as the Universities - to prepare projects and undertake feasibility studies for the PIDER program; in some cases the result is a project portfolio that in terms of numbers of projects and financing requirements now exceeds by a comfortable margin the programmed resources immediately available.

b. We were also greatly impressed in several instances by the quality and determination of the ejido leadership in managing and planning further development of the projects. In many cases, the projects represent substantial ventures, that combine a range of inputs and activities new to those owning and operating them. The beneficiary groups are responding well to the opportunities and challenges and we saw several instances in which ejido participants pay to themselves very low wages (well below the minimum wage) and are actively reinvesting and paying back the loans. The combination of effective management with sensible local delegation on one side and a responsive ejido leadership on the other, also results in an extraordinary wide range of investments funded through PIDER and is indicative of the broad span of activities that can be promoted and improved in rural areas. Let me simply list the different PIDER-supported investments we saw in the field: small scale drainage, pump groundwater and surface irrigation systems for vegetables, tree crops, pasture improvement and field crops; livestock units for beef and dairying; beekeeping; banana, coconut, small orchard (mango, guava, etc.) plantation developments; soil conservation, cattle watering points, afforestation works; coastal fisheries cooperative development; an 8,000 ha integrated land development/settlement scheme where the ejido had developed a social security contributory scheme to pay for a medical service and was building its own center for training its young people as agricultural technicians; a 28,000 ha land drainage scheme; small textile factories for making up shirts and cotton suits; coconut and crude sugar processing units; a local tourist project, including construction of a restaurant; schools, classrooms, health centers, village water supply points; roads and marketing outlets (including a ship for mobile marketing along waterways); and village electrification schemes.



c. Substantial progress has been made in improved follow-up with supervision and technical advice during the operation and maintenance phase, after the investments are made. This is a problem we have consistently emphasized through project supervision and the improvement is, apparently, quite recent; PIDER, as an investment funding agency has in the past tended to stress construction/fund disbursement, with little attention to O&M. The improvement stems from the developing framework for coordination at local level, and the greater participation of the credit agencies in the productive investment packages. Farmers need these technical advisory services, particularly where - as in many cases - the investments represent new ventures outside the frame of their direct experience. Continuing technical services is, by all accounts, quite a revolutionary change from previous small farmer experience in Mexico.

d. The social and productive support investments - primarily in roads, electrification, water supply and education - are generally progressing well and to reasonable standards. They appear to meet important needs in these backward areas and provide a wide spread of benefits, including employment benefits. In total, outlays under these categories are 50% and 40% respectively of the PIDER I and PIDER II loans.

e. Finally, I am pleased to report my impression of a very excellent relationship between PIDER management (at state as well as at the central level) and the Bank staff working on these and other projects. It was evident to us that our project officers are well respected and trusted by PIDER management; dialogue is conducted in a very frank and open spirit; our recommendations are listened to and acted upon. In sum, we have had an important influence in shaping the PIDER program and approach - no mean achievement in the context of such a large and complex national program, to which our direct financial contribution, while large in absolute terms, is nevertheless relatively small (about 10% of total PIDER program expenditures to date).

5. Among aspects more difficult to weigh up, I would include the following:

a. Extension services and spread of benefits from productive projects: The most visible results of PIDER to date in terms of income generation relate to specific investment packages, for example, in irrigation, livestock development and plantation crops. These efforts certainly warrant support and further development. Nevertheless, the numbers likely to be reached are relatively small, because the ejido group benefited is generally limited to between 10 and 50 families. Our estimates for the Bank-supported micro-regions are that ultimately some 20-30,000 families would benefit from such investments - about 10% of the total population in those micro-regions. On the assumption that a similar result can be achieved in all the 100 PIDER micro-regions and recognizing that the area covered by the programs includes only one-third of Mexico's rural poor (totaling 4.5 million families according to the Bank's latest estimates), the arithmetic shows a quite modest spread of benefits through these investments, i.e., 10%



of 33% is about 3%. Hence, the importance of effective extension systems for the much larger numbers of traditional, semi-subsistence farmers, a concern we have emphasized and must continue to emphasize with the Mexican authorities. The extension approach we are supporting through PIDER involves a modification of the 10-year Puebla experiment, primarily to broaden that system to include crops other than maize. Specifically, PIDER is supporting the retraining of technicians and supervisors in a system that emphasizes field-level adaptive research in the micro-region, tailoring technical recommendations to farmer's economic circumstances and possibilities, and the use of more low-level workers at the village-level. The program appears to be well organized and has produced significant results in the areas of early adoption. The spread however is slowed by the speed at which senior staff can be retrained and by the need to develop improved packages in the more marginal areas. The latter is likely to be the more difficult problem to deal with in the longer term; there are very clearly large areas of rural Mexico with low and uncertain rainfall and poor soils where improvements over the next several years will be strictly limited. So far this improved system is limited to only 12 micro-regions (with another 16 to be added this year); in other areas extension work - except in conjunction with the specific investment packages described earlier - remains rather ineffective, so far as we could judge. The management and effectiveness of the rainfed extension program will continue to receive high priority in our forward supervision program for the project.

b. A second concern is the high staff inputs required for the success of the ejido-level productive projects, both at the planning stage and during implementation, mainly because the projects require coordinated inputs from a variety of agencies and continuing close attention from staff. Some economies may result from increasing familiarity with the procedures and as standard models are further developed; nevertheless with further expansion one may expect that the availability of experienced technical staff will become a major constraint, with availability of finance a secondary consideration. Improved credit procedures and follow-up during implementation will need continuing high priority; while overall we were impressed with the quality of work being done, we also saw a number of instances where initial operation was delayed by lack of a critical input - for example, the supply of pumps for irrigation has been a serious problem that is only now being resolved.

c. In the context of improving the forward programming of investments, we discussed with the Minister making greater use of more experienced and better equipped consulting agencies for feasibility work than those available to the individual state authorities (though use of the local institutions is an encouraging feature as noted in para 4). Provision for this was included under the PIDER II project, but the resources are not yet being used. There also seems to be scope for (i) intensifying efforts in those regions and states where productive potential is relatively good, both through the selection of new micro-regions and through additional resource allocations to existing micro-regions and (ii) through formulation of larger projects, involving groups of ejidos.



March 21, 1978

d. While control of expenditure, accounts and audit appear to be in excellent shape, a disappointing aspect of the program to date is the continuing weakness of efforts at ongoing evaluation of productive impact. CIDER, the independent agency charged with this task, has until recently emphasized work on institution building and community participation, primarily through observation of the process of project preparation: as a result they have made significant contributions to program and policy design, in which process they have been an active participant. However, they have done little work on economic aspects of program performance. Following considerable discussion of the current deficiencies by recent supervision missions with the new CIDER Director and with PIDER staff, a new effort to prepare a substantial package is underway as an input into the planned (July/August) mid-term evaluation of the first Bank project. I look forward to reviewing the results of this study.

6. Finally, an important caveat is that we by no means saw everything that is going on under PIDER and that some of the weaker aspects are those where little activity has thus far taken place, so that there was little to see - including the potentially important soil and water conservation programs.

#### Conclusions

- a. PIDER is among the most effective programs for multi-sectoral rural development which the Bank is supporting.
- b. The technical and policy contributions to the program through the involvement of Bank staff have been a significant and positive influence on the program.
- c. There is considerable progress in the social sectors. The challenge will be increasingly to find more income generating projects which have a broader impact than at present; staff and technical constraints are likely to take precedence over financial problems in meeting this challenge.
- d. Future fine tuning of the program would probably involve (i) greater emphasis on larger productive investments in the better potential areas and further expansion into such areas through the creation of new micro-regions; (ii) intensified efforts to develop sound technologies for the backward, more difficult areas; in the interim it will be appropriate to continue to emphasize the basic needs aspects of the program in such areas, including health and nutrition aspects.

cc: Messrs. Krieger, Lari, van der Meer, Goffin, Dutt, Kirpich, Thoolen, Schumacher

DT/MY:lcm



## OFFICE MEMORANDUM

TO: Mr. Robert  McNamara  
FROM: Montague Yudelman *MY*  
SUBJECT: MEXICO: PIDEF. I and II - Appraisal and Current Expectations:  
Beneficiaries and Rates of Return

DATE: March 27, 1978

1. You asked for information about rates of return and beneficiaries under these two projects. Under PIDER I (30 micro-regions) appraisal estimates were that 120,000 farm families would benefit with significantly increased income and the weighted average rate of return was 16%. Under PIDER II (20 micro-regions) 46,000 farm families were expected to benefit and the weighted return was 24%.

2. During my recent visit I focused largely on the irrigation and livestock elements in PIDER I and II; my impression is:

- 2/27
- a) The number of beneficiaries from these two directly productive components can be estimated to number around 25,000 to 30,000 families or between 150,000 to 180,000 individuals - about as originally expected.
  - b) In many instances, incomes of these beneficiaries will be higher than projected and so the economic rate of return for these components may well be higher than originally projected.
  - c) We will only know more about the benefits of the very substantial component of rain-fed, non-irrigated crop production after the forthcoming mid-term evaluation.
  - d) As I wrote in my earlier memorandum, there are also widespread benefits from the supporting infrastructure and social investments; these are difficult to quantify, but will be included in the mid-term evaluation.
  - e) I would prefer not to make claims beyond this at the present; my overall impression is that the project is progressing satisfactorily and may well meet many of its ambitious objectives.

cc: Messrs. Baum  
Krieger

DTurnham:MYudelman:lkt