Public Disclosure Authorized

Public Disclosure Authorized

PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB4952

Project Name	MX PROCAMPO
Region	LATIN AMERICA AND CARIBBEAN
Sector	General agriculture, fishing and forestry sector (100%)
Project ID	P113764
Borrower(s)	MINISTRY OF FINANCE
Implementing Agency	
	Secretaria de Agricultura, Ganaderia, Desarrollo Alimenticio y Pesca Municipio Libre No. 377, 9no Piso Ala A, Col. Santa Cruz Atoyac Mexico 03310 Tel: (52-55) 9183-1355 dgeneral@sagarpa.gob.mx
Environment Category	[ ] A [X] B [ ] C [ ] FI [ ] TBD (to be determined)
Date PID Prepared	July 24, 2009
Estimated Date of Appraisal Authorization	September 28, 2009
Estimated Date of Board Approval	December 17, 2009

1. Key development issues and rationale for Bank involvement

1. The World Bank has a long history of support for Mexico's efforts to reform agricultural support policies. The principal ARD policies currently implemented in Mexico originated in the context of a broad, market-orientated reform effort to modernize the agricultural sector and the broader economy in the late eighties and early and mid-nineties, catalyzed in part by accession to the General Agreement on Tariffs and Trade (GATT) in August 1986. The initial agricultural sector structural reforms undertaken in this period were aimed, inter alia, at targeting food subsidies, deregulating markets, streamlining state agricultural enterprises (including eliminating the monopoly position of the gigantic state enterprise, *Compañía Nacional de Subsistencias Populares*), eliminating some trade restrictions, and restructuring the ministry of agriculture[1]. These were accompanied in 1992 by constitutional reform of the land tenure system designed to liberate agricultural land markets. These reforms began the evolution of agricultural policy from a strongly interventionist system in which incentives were heavily distorted by price controls, untargeted subsidies, and trade restrictions towards a more efficient,

[1] See "Mexico: Adjustment and Stabilization" J. Nash, ch. 22 in Restructuring Economies in Distress: Policy Reform and the World Bank, V. Thomas, A. Chhibber, M. Dailami, and J. de Melo, eds.,Oxford University Press, 1991.

equitable, and modern system of support for agriculture. This early wave of reform was supported by the First Agricultural Sector Adjustment Loan (AgSECAL) in 1988. This was followed in 1992 by an Agriculture Technology Project which supported important reforms of the research system, and in 1995 by the Second AgSECAL, which supported a deepening of the reforms begun earlier.

2. These early policy-based lending operations were underpinned by a strong analytical base, including a sector study in advance of the first AgSECAL, and another sector review focused on adjustment to the upcoming free trade agreement in 1992. More recently, other AAA related to agricultural policies have kept the Bank continuously involved in the ongoing dialogue on agricultural policy. These AAA products have included a study on rural finance (2004); an Infrastructure Public Expenditure Review (2005), which addressed water policy issues very relevant to agriculture; a report on options for decentralization of rural development programs (2006); a policy note on rural development to inform the incoming administration (2007); a water sector public expenditure review (2007); a set of policy notes on sensitive products (maize, beans, and sugar) in the context of the final phase of the NAFTA (2007)[2]; and the recently completed Agricultural and Rural Development Public Expenditure Review.

3. Mexico's accession to the WTO -- and especially is later accession to the NAFTA -- required revolutionary changes in the mechanisms of agricultural support. As a result of these reforms and others undertaken and supported by the Bank over the last 20 years, Mexico now has in place a much more efficient agricultural policy regime than it had before the reform program began. For both political and social reasons, farmers were partly compensated for the gradual reduction of the distortionary pre-reform programs through three principal support programs: (i) the Programa de Apoyos a la Comercialización (hereafter Apoyos)3, an output-based subsidy program introduced in 1991, (ii) the Programa de Apoyos Directos al Campo (hereafter PROCAMPO), a per hectare direct transfer program decoupled from production and prices, introduced in 1994, and (iii) Alianza para el Campo (hereafter Alianza), a family of investment support programs offering matching grants and support services, introduced in 1996. The expectation was that these programs would not only play a compensatory role in the face of growing external competition but, in the case of PROCAMPO and Alianza, would also

[2] World Bank in collaboration with the Instituto Mexicano para la Competitividad, "United Mexican States: Integration of the North American Market for Sensitive Agricultural Products", LCSAR, December 2007.
[3] The *Programa de Apoyos a la Comercialización* and *PROCAMPO* are both managed by *Apoyos y Servicios a la Comercialización Agraria* (ASERCA), an agency within SAGARPA. *Apoyos* includes a number of sub-programs, the most important of which is *Ingreso Objetivo.*

provide the necessary support for farmers to modernize production and switch to higher value crops in the context of the newly liberalized land and product markets.

4. Relative to previous support policies, the decoupled design of PROCAMPO made this program revolutionary in terms of efficiency and equity. By decoupling transfers from production and prices and setting entitlements according to historical area, the program was not only expected to minimize distortions in productive decisions, but also to directly transfer resources to farmers, including subsistence ones, for the first time in Mexico's history. Not the whole reform package, however, shared such novelties. In particular, Ingreso Objetivo, the main sub-program of Apoyos, is a market price support mechanism for basic crops such as rice, corn, wheat, sorghum and others, and is essentially no different from the policies of the pre-reform period.

5. The reform in agricultural support policies was accompanied by another reform in rural development and anti-poverty policies. The principal anti-poverty program introduced was the *Programa de Educación, Salud y Alimentación* (*Progresa*, in 1997; renamed *Oportunidades* in 2001), offering direct cash transfers to poor rural households conditional on human capital investment (attending basic education and using health services).[4] Three other important targeted rural development programs were introduced in this period: (i) the *Fondo de Aportaciones para Infraestructura Social* (FAIS, in 1996), a large decentralized fund for basic infrastructural investment replacing the *Programa Nacional de Solidaridad* (PRONASOL) of the Salinas administration (1988-1994), (ii) the *Programa de Empleo Temporal* (1995), a multi-agency, self-targeted temporary employment program[5] and (iii) the *Programa de Desarrollo Rural* (PDR, in 1996), the principal *Alianza* program targeted to small producers.

6. As a consequence of the reforms, the use of the most distortionary instruments fell in the 1990s, as a share of overall spending, while the use of the least distortionary instruments rose. Overall, the reforms led to a sharp reduction in the participation of the most distortionary instruments (market price support, output and variable input payments) with the combined share of the latter two in APE declining from 50 to 20 percent between

[4] In 2001 the program was extended to urban areas and upper-secondary education and renamed *Oportunidades.*
[5] Originally, Programa de Empleo Temporal (PET) included the participation of *Secretaria de Desarrollo Social* (SEDESOL), *Secretaria de Medio Ambiente y Recursos Naturales* (SEMARNAT), *Secretaria de Comunicacion y Transportes* (SCT), and SAGARPA, but the SAGARPA component has recently been discontinued.

1990 and 1996 (see Figure V-1 in Annex 3).[6] On the other hand, the share of the least distortionary instruments (public goods and payments based on historical entitlements, like Procampo) increased from 30 to 70 percent in the course of the decade. Since 2000, however, these trends have been reversed, with the more distortionary instruments gradually gaining ground and the least distortionary losing it. Notwithstanding these recent trends, support programs remain substantially more balanced toward less distortionary mechanisms than they were in the pre-reform period.

7. In the context of the new priority accorded to climate change, it is noteworthy that some of the current ARD programs are incompatible with Mexico's far-reaching and ambitious goals as represented in the National Climate Change Strategy adopted in 2007.[7] Mexico is the only developing country to have submitted three National Communications to the United Nations Framework Convention on Climate Change, demonstrating a strong commitment and leadership role in the international climate change agenda. However, certain major ARD programs undermine these goals, for example the electricity subsidy for farmers to pump groundwater (*tarifa* 9), which has led to overexploitation in many of the country's aquifers in water scarce regions, as well as the *Ingreso Objetivo* program, which encourages farmers to produce low value crops using scarce water resources and even crops that are water intensive, such as fodder.

8. In overall levels of total agricultural support as a percentage of GDP[8], Mexico is on a par with the US, slightly below the OECD average, and above other developing countries in the region such as Chile and Brazil. The country stands out among regional comparators as having by far the greatest agricultural orientation in its public expenditure, with an index in the period 1996-2000 of 1.8[9], more than 4 times the size of the index in the next-in-line countries. Spending relative to agricultural GDP in Mexico is more than twice the regional average (See Figure V-2 in Annex 3).

---

[6] The sharp fall in payments based on variable inputs in 1997-2000 may be due to inconsistencies in the OECD data. The fall in 1997 corresponds to a drop in the electricity subsidy for groundwater pumping for irrigation, while the sharp increase in 2001 corresponds to the introduction of large agricultural diesel subsidies. The new output-based payments in 2001 correspond to the introduction of *Ingreso Objetivo* (ASERCA), with large subsidies for grains and other crops in 2001.

[7] The National Climate Change Strategy was formulated in 2007 and identifies opportunities for emissions reductions on a voluntary basis, as well as measures for the development of necessary national and local capacity for response and adaptation. The strategy proposes concrete adaptation and mitigation measure for all sectors, including agriculture, covering all the main aspects of climate change policy. Climate change strategies and action plans have also been developed at the sub-national level for Mexico City, the states of Veracruz and Nuevo Leon (World Bank, 2008b).

[8] Based on the OECD's Total Support Estimate.

[9] The index is defined as (Agricultural public expenditure as a % of Total public expenditure)/ (Agricultural GDP as a % of Total GDP)

9. The results from this high spending level have not been as positive as hoped. The relationship between spending as a percentage of agricultural GDP and sectoral growth rates across countries indicates that Mexico stands out as an under-performer, with high spending and low growth (See Figure V-3 in Annex 3).

10. With respect to equity of different programs, the analysis in the Agricultural PER indicates that PROCAMPO is far more progressively distributed than are some other agricultural support programs such as Ingreso Objetivo, and is somewhat more progressively distributed than is current income. Nonetheless, both programs are regressive in absolute terms, whereas other programs such as Oportunidades are strongly progressive (See figure V-4 in Annex 3).

11. In summary, the PROCAMPO program was very successful in meeting its primary objective, which was to give the Mexican government a politically sustainable way to accede to the NAFTA and undertake a far-reaching reform of agricultural support policy. There is clearly room for improvement in the efficiency, effectiveness, and equity of Mexico's agricultural public spending as a whole, and a reformed PROCAMPO program would play a key role in this. With the proposed operation, the Bank would have the opportunity to support the on-going reforms of PROCAMPO and to continue and deepen the long-standing dialogue on broader issues of expenditure policy, using the results of the recent Agricultural Public Expenditure Review and the analytical work to be undertaken as part of this project and the IDB's parallel operation. Several reform proposals for PROCAMPO are currently under consideration, opening a window of opportunity to seriously re-examine the program and propose major reforms. ASERCA has invited the Bank to contribute to this process, in particular by helping to deepen the strategic evaluation of the program, but also by helping to contextualize PROCAMPO through an analysis of the overall strategic objectives of the sector. It is expected that this sustained engagement will lead to preparation of additional investment loans once the future of PROCAMPO becomes clear.

2. Proposed objectives

12. The development objective of the project is to provide income support during the current economic crisis to some 2.3 million farmers, while supporting the move towards more

sustainable agriculture. A secondary objective is to remain engaged with the Government of Mexico in their effort to reform the PROCAMPO program.

3. Preliminary description

13. Component 1: Financing of PROCAMPO payments: This component would be about US$500 million and would finance a portion of the transfer payments to farmers under the PROCAMPO program. It would not finance any in-kind support to families nor provide any direct services to the recipients. Under the program, bi-annual transfers totaling to US$1.1 billion, are made to some 2.3 million farmers cultivating some 14 million hectares.

Component 2: Technical Assistance: This component will consist mostly of consultancies - individual (possibly for some experts in the PIU), and firms (possibly for M&E, and for policy oriented studies to assist with the reform of PROCAMPO). The details of the TA component have not yet been defined.

4. Safeguard policies that might apply

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies Triggered	Yes	No	TBD
Environmental Assessment (OP/BP 4.01)	X		
Natural Habitats (OP/BP 4.04)			X
Forests (OP/BP 4.36)			X
Pest Management (OP 4.09)	X		
Physical Cultural Resources (OP/BP 4.11)		X	
Indigenous Peoples (OP/BP 4.10)	X		
Involuntary Resettlement (OP/BP 4.12)		X	
Safety of Dams (OP/BP 4.37)		X	
Projects on International Waterways (OP/BP 7.50)		X	
Projects in Disputed Areas (OP/BP 7.60)		X	

Environmental Category**:** B - Partial Assessment

14. The specific studies and their timing[10] will be specified in the PAD-stage ISDS.

[10] Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in-country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.

15. Regarding Indigenous Peoples, PROCAMPO has been providing cash transfers to farmers who currently farm or own land that was used before the program began for growing crops that were expected to be adversely affected by NAFTA. The eligible land remains basically the same since the program began in 1993-94. There was no special provision to target or assist indigenous peoples. Because the list of beneficiaries cannot be modified, the IPP to be prepared under the project will have the following objectives: (i) to assess the extent to which the project can benefit indigenous population; (ii) to identify barriers that may be preventing indigenous peoples to receive benefits; and (iii) to propose an action plan to address identified barriers and propose alternatives to ensure their participation. A social assessment will be prepared using as much as possible recent studies and focusing on the states where the majority of the indigenous population live; consultation will be conducted at national level with participation of indigenous peoples' leaders and other key stakeholders. PROCAMPO operational rules will be modified as necessary to ensure indigenous peoples benefit to the maximum extent feasible from the proposed project.

5. Tentative financing

Source:	($M)
Borrower	950M
International Bank for Reconstruction and Development	500-750M
Inter-American Development Bank	500M
Total	1,950-2,100M

6. Contact point

Contact: John D. Nash
Title: Lead Economist
Tel: (202) 473-8000
Fax: (202) 614-0159
Email: Jnash1@worldbank.org